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**REPORT  
OF THE**

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**NEW JERSEY  
STATE LOTTERY PLANNING COMMISSION**

**(Established pursuant to  
Joint Resolution No. 11,  
Adopted November 20, 1969.)**

**FEBRUARY 9, 1970**



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REPORT

185 W. State Street  
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OF THE

*New Jersey,*  
STATE LOTTERY PLANNING COMMISSION.

(Established pursuant to Joint Resolution No. 11,  
Adopted November 20, 1969)  
February 9, 1969

MEMBERS OF COMMISSION

1. HARRY L. SEARS (*Senator, 10th Senate District*)  
*Chairman*
1. WILLIAM V. MUSTO (*Senator, 12th Senate District*)
2. JAMES M. COLEMAN (*Assemblyman, District 5B*)
2. THOMAS H. KEAN (*Assemblyman, District 11F*)
3. RALPH F. BATCH (*Millburn*)
3. HUGH BOYD (*Princeton*)
4. JOHN A. KERVICK, *State Treasurer, ex officio*  
JOSEPH M. McCRANE, JR., *State Treasurer, ex officio*

1. Appointed by President of Senate.
2. Appointed by Speaker of General Assembly.
3. Appointed by Governor.
4. Served until January 20, 1970.

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LETTER OF TRANSMITTAL

February 9, 1970.

GOVERNOR WILLIAM T. CAHILL  
MEMBERS OF THE LEGISLATURE

*Gentlemen:*

The State Lottery Planning Commission, established pursuant to Joint Resolution November 11, of 1970 "to formulate a report, including legislation and an administrative program for the conduct of a State Lottery, for submission to the Governor and the Legislature", herewith respectfully submits its final report.

/s/HARRY L. SEARS  
HARRY L. SEARS  
*Chairman*

/s/WILLIAM V. MUSTO  
WILLIAM V. MUSTO

/s/JAMES M. COLEMAN  
JAMES M. COLEMAN

/s/THOMAS H. KEAN  
THOMAS H. KEAN

/s/RALPH F. BATCH  
RALPH F. BATCH

/s/HUGH BOYD  
HUGH BOYD

/s/JOSEPH M. McCRANE, JR.  
JOSEPH M. McCRANE, JR.

## SUMMARY OF FINDINGS AND RECOMMENDATIONS

The New Jersey State Lottery Planning Commission, established pursuant to Joint Resolution No. 11 of 1969, was directed by the Legislature in said resolution to formulate a report, including legislation and an administrative program for the conduct of a State lottery, for submission to the Governor and the Legislature. In accordance with the specific directives of said resolution, the Commission has studied lottery legislation and operating procedures in other jurisdictions, within the United States and abroad. The full report details the findings which resulted from this study.

Summarized briefly, the Commission finds and recommends the following:

(1) There exists a substantial amount of available information on the operation of state lotteries. Nevertheless, this information is not adequate at the present time to define clearly the optimal lottery structure for New Jersey. To do so will ultimately require actual operating experience in this State. The structure of this lottery, and the legislation which is to govern its operation, must be adaptable to such new information as may become available in the years ahead.

(2) Excessively optimistic projections of the net revenues to be provided to the State by the lottery should be avoided. A considerable amount of evidence has been accumulated which indicates that the amount spent on lottery tickets can be expected to be only moderately sensitive to those aspects of the lottery which the State can control while adhering to the traditional State lottery form and to Federal law.

(3) Accordingly, the gross receipts for the first full year of the State lottery are quite unlikely to exceed 30 million dollars, and the net revenues thus made available for State institutions and aid to education are unlikely to be greater than 9 million dollars. It is reasonable to anticipate a moderate increase in these amounts in subsequent years.



(4) It is unlikely that the New Jersey State lottery can commence full operation any earlier than the latter part of 1970. Thus, the net revenues to the State in fiscal year 1970-71 may well be no more than 3 to 4 million dollars. There is virtually no possibility that the lottery can take advantage of the full 1970 summer tourist season.

(5) Even these projections may be difficult to realize unless the lottery is operated with sound business procedures and approaches. In particular, promotion, marketing, and public confidence will be major determinants of its success, and these factors should be considered carefully in the selection of a lottery director.

(6) Federal law sets some rather severe constraints on the manner of operating a state lottery. While relaxation of these constraints is unlikely to occur in the near future, the structure and governing legislation of the New Jersey State lottery should remain adaptable to such changes in Federal law as may at some time occur.

(7) The major goal of the initial New Jersey State lottery effort should realistically be taken to be the obtaining of State revenues. Effective competition with illegal organized gambling is improbable without significant deviations from the traditional forms of state-operated lotteries. Nevertheless, serious investigation of various possible means of establishing such competition, and the possibilities of public acceptance thereof, warrant very serious consideration and investigation. The undertaking of such investigation and recommendations for such legislation as may be required should be the specific responsibility of the lottery division established by the proposed legislation.

On the basis of its findings, the Commission hereby proposes legislation which will:

(1) Establish a lottery division in the Department of the Treasury, to be administered by a five-man commission and a full-time operating director. These officials will be appointed by, and accountable to, the Governor of this State, who shall have veto power over the decisions of said commission. This administrative structure is designed to ensure the complete integrity of, and full public confidence in, the operation of the State lottery.

(2) Provide sufficient flexibility to the lottery division so that it may make and implement those decisions which appear necessary to best ensure that the lottery will succeed in achieving its goals.

(3) Provide procedures for the proper administration of lottery division funds.

(4) Require the State Auditor to conduct an annual post-audit of the procedures and transactions of the State lottery division and other special post-audits as directed, and to submit these post-audit reports to the Governor, the Treasurer, the lottery commission, and the Legislature.

(5) Guarantee that a *minimum* of thirty percent of gross revenues from the lottery will be directed toward State institutions and State aid to education. This guarantee is set sufficiently low so that all extraordinary expenses of establishing the lottery may ultimately be met from lottery receipts. The proportional amount of these net revenues to the State may be expected to increase significantly over time.

(6) Provide an initial appropriation by the Legislature of 1½ million dollars to enable the lottery division to commence operations. While additions to this amount may subsequently be required, this sum should be adequate until such time as detailed cost estimates can be provided. After the lottery becomes self-sustaining, all sums so appropriated will be repaid to the general fund by the division. The appropriation may therefore be regarded as a loan.

(7) Prohibit lottery division personnel and their immediate families from purchasing tickets in the State lottery. Such persons will also be ineligible for all prizes.

(8) Prohibit individuals under eighteen years of age from purchasing State lottery tickets. However, tickets may be purchased by eligible persons as gifts for such individuals.

(9) Protect the State from involvement in disputes over claims to prize money.

(10) Protect lottery ticket vendors from prosecution under other laws of this State resulting from their sale of lottery tickets pursuant to the provisions of this legislation and the rules and regulations of the lottery division.

(11) Provide procedures for the licensing of vendors of New Jersey State lottery tickets. No person under the age of 21 years may be licensed as a vendor.

## PROPOSED LEGISLATION

AN ACT concerning the establishment and operation of a State lottery, creating the Division of the State Lottery in the Department of the Treasury, prescribing its functions, powers and duties, and providing for an appropriation therefor.

1 BE IT ENACTED *by the Senate and General Assembly of the State*  
2 *of New Jersey:*

1 1. This act shall be known and may be cited as the "State Lottery  
2 Law."

1 2. This act is enacted to implement the amendment of Article IV,  
2 Section VII, paragraph 2, of the Constitution of New Jersey, ap-  
3 proved by the people in the general election of November, 1969, and  
4 to carry out the mandate thereof by establishing a lottery to be  
5 operated by the State, the entire net proceeds of which are to be  
6 used for State institutions and State aid for education.

1 3. For the purposes of this act:

2 a. "Commission" shall mean the State Lottery Commission  
3 established by this act.

4 b. "Division" shall mean the Division of the State Lottery  
5 created by this act.

6 c. "Lottery" or "State lottery" shall mean the lottery estab-  
7 lished and operated pursuant to this act.

8 d. "Director" shall mean the Director of the Division of the  
9 State Lottery.

1 4. There is hereby established in the Department of the Trea-  
2 sury a Division of the State Lottery, which shall include a State  
3 Lottery Commission and a director.

1 5. The commission shall consist of five members, all of whom  
2 shall be citizens and residents of this State and all of whom shall  
3 be appointed by the Governor by and with the advice and consent  
4 of the Senate. No more than three of the five members shall be  
5 members of the same political party. The members shall be ap-  
6 pointed for terms of 5 years, except that of the members first ap-  
7 pointed, one shall be appointed for a term of 1 year, one for a term  
8 of 2 years, one for a term of 3 years, one for a term of 4 years, and  
9 one for a term of 5 years, commencing as of the date of appointment

10 by the Governor. The term of each of the members first appointed  
11 shall be designated by the Governor. The members shall, annually,  
12 elect one of them as chairman of the commission.

13 Any vacancy in the commission occurring for any reason other  
14 than the expiration of term, shall be filled for the unexpired term in  
15 the same manner as the original appointment.

16 Any member of the commission may be removed from office by the  
17 Governor, for cause, upon notice and opportunity to be heard at a  
18 public hearing.

19 The members of the commission shall receive no salaries but shall  
20 be allowed reasonable expenses incurred in the performance of  
21 their official duties in an amount not exceeding \$5,000.00 per annum  
22 in the case of the chairman, and \$3,500.00 in the case of each of the  
23 other commissioners.

1 6. The division shall be under the immediate supervision and  
2 direction of a director, who shall be a person qualified by training  
3 and experience to direct the work of such division. The director  
4 shall be appointed by the Governor, by and with the advice and  
5 consent of the Senate, and shall serve at the pleasure of the  
6 Governor.

7 Any vacancy occurring in the office of the director shall be filled  
8 in the same manner as the original appointment.

9 The director of said division shall devote his entire time and  
10 attention to the duties of his office and shall not be engaged in any  
11 other profession or occupation. He shall receive such salary as  
12 shall be provided by law.

1 7. The commission shall have the power, and it shall be its duty:

2 a. After full and thorough study of the report and recommenda-  
3 tions of the State Lottery Planning Commission established pur-  
4 suant to Joint Resolution Number 11, approved November 20, 1969,  
5 and such other pertinent information as may be available, to promul-  
6 gate such rules and regulations governing the establishment and  
7 operation of a State lottery as it deems necessary and desirable in  
8 order that the mandate of the people expressed in their approval of  
9 the amendment to Article IV, Section VII, paragraph 2, of the  
10 Constitution in the general election of November, 1969, may be fully  
11 implemented, in order that such a lottery shall be initiated at the  
12 earliest feasible and practicable time, and in order that such lottery  
13 shall produce the maximum amount of net revenues for State in-  
14 stitutions and State aid for education consonant with the dignity  
15 of the State and the general welfare of the people. Such rules and  
16 regulations may include, but shall not be limited to, the following:

- 17 (1) The type of lottery to be conducted.
- 18 (2) The price, or prices, of tickets or shares in the lottery.
- 19 (3) The numbers and sizes of the prizes on the winning tickets
- 20 or shares.
- 21 (4) The manner of selecting the winning tickets or shares.
- 22 (5) The manner of payment of prizes to the holders of winning
- 23 tickets or shares.
- 24 (6) The frequency of the drawings or selections of winning
- 25 tickets or shares, without limitation.
- 26 (7) Without limit as to number, the type or types of locations at
- 27 which tickets or shares may be sold.
- 28 (8) The method to be used in selling tickets or shares.
- 29 (9) The licensing of agents to sell tickets or shares, provided
- 30 that no person under the age of 21 shall be licensed as an agent.
- 31 (10) The manner and amount of compensation, if any, to be paid
- 32 licensed sales agents necessary to provide for the adequate avail-
- 33 ability of tickets or shares to prospective buyers and for the con-
- 34 venience of the public.
- 35 (11) The apportionment of the total revenues accruing from the
- 36 sale of lottery tickets or shares and from all other sources among
- 37 (a) the payment of prizes to the holders of winning tickets or
- 38 shares, (b) the payment of costs incurred in the operation and
- 39 administration of the lottery, including the expenses of the division
- 40 and the costs resulting from any contract or contracts entered into
- 41 for promotional, advertising or operational services or for the
- 42 purchase or lease of lottery equipment and materials, (c) for the
- 43 repayment of the moneys appropriated to the State Lottery Fund
- 44 pursuant to section 23 of this act, and (d) for transfer to the general
- 45 fund for State institutions and State aid for education; provided,
- 46 however, that no less than 30% of the total revenues accruing from
- 47 the sale of lottery tickets or shares shall be dedicated to (d), above.
- 48 (12) Such other matters necessary or desirable for the efficient
- 49 and economical operation and administration of the lottery and for
- 50 the convenience of the purchasers of tickets or shares and the hold-
- 51 ers of winning tickets or shares.
- 52 b. To amend, repeal, or supplement any such rules and regula-
- 53 tions from time to time as it deems necessary or desirable.
- 54 c. To advise and make recommendations to the director regard-
- 55 ing the operation and administration of the lottery.
- 56 d. To report monthly to the Governor and the Legislature the
- 57 total lottery revenues, prize disbursements and other expenses for
- 58 the preceding month, and to make an annual report, which shall

59 include a full and complete statement of lottery revenues, prize dis-  
60 bursements and other expenses, to the Governor and the Legisla-  
61 ture, and including such recommendations for changes in this act  
62 as it deems necessary or desirable.

63 e. To report immediately to the Governor and the Legislature  
64 any matters which shall require immediate changes in the laws of  
65 this State in order to prevent abuses and evasions of this act or  
66 rules and regulations promulgated therunder or to rectify undesir-  
67 able conditions in connection with the administration or operation  
68 of the lottery.

69 f. To carry on a continuous study and investigation of the lottery  
70 throughout the State (1) for the purpose of ascertaining any defects  
71 in this act or in the rules and regulations issued thereunder by  
72 reason whereof any abuses in the administration and operation of  
73 the lottery or any evasion of this act or the rules and regulations  
74 may arise or be practiced, (2) for the purpose of formulating rec-  
75 ommendations for changes in this act and the rules and regulations  
76 promulgated thereunder to prevent such abuses and evasions, (3) to  
77 guard against the use of this act and the rules and regulations  
78 issued thereunder as a cloak for the carrying on of organized  
79 gambling and crime, and (4) to insure that said law and rules and  
80 regulations shall be in such form and be so administered as to  
81 serve the true purposes of this act.

82 g. To make a continuous study and investigation of (1) the op-  
83 eration and the administration of simliar laws which may be in  
84 effect in other states or countries, (2) any literature on the subject  
85 which from time to time may be published or available, (3) any  
86 Federal laws which may affect the operation of the lottery, and  
87 (4) the reaction of New Jersey citizens to existing and potential  
88 features of the lottery with a view to recommending or effecting  
89 changes that will tend to serve the purposes of this act.

1 8. The director shall have the power, and it shall be his duty to:

2 a. Supervise and administer the operation of the lottery in ac-  
3 cordance with the provisions of this act and with the rules and  
4 regulations of the commission.

5 b. Subject to the approval of the commission, appoint such  
6 deputy directors as may be required to carry out the functions and  
7 duties of the division, which deputy directors shall be in the un-  
8 classified service of the civil service.

9 c. Subject to the approval of the commission and Title 11 of the  
10 Revised Statutes, Civil Service, appoint such professional, technical

11 and clerical assistants and employees as may be necessary to per-  
12 form the duties imposed upon the division by this act.

13 d. Act as secretary and executive officer of the commission.

14 e. In accordance with the provisions of this act and the rules and  
15 regulations of the commission, to license as agents to sell lottery  
- 16 tickets such persons as in his opinion will best serve the public con-  
17 venience and promote the sale of tickets or shares. The director  
18 may require a bond from every licensed agent, in such amount as  
- 19 provided in the rules and regulations of the commission. Every  
20 licensed agent shall prominently display his license, or a copy  
21 thereof, as provided in the rules and regulations of the commission.

22 f. Shall confer regularly as necessary or desirable and not less  
23 than once every month with the commission on the operation and  
24 administration of the lottery; shall make available for inspection  
25 by the commission, upon request, all books, records, files, and other  
26 information and documents of the division; shall advise the commis-  
27 sion and recommend such matters as he deems necessary and advis-  
28 able to improve the operation and administration of the lottery.

29 g. Suspend or revoke any license issued pursuant to this act or  
30 the rules and regulations promulgated thereunder.

31 h. Subject to the approval of the commission and the applicable  
32 laws relating to public contracts, to enter into contracts for the  
33 operation of the lottery, or any part thereof, and into contracts for  
34 the promotion of the lottery. No contract awarded or entered into  
35 by the director may be assigned by the holder thereof except by  
36 specific approval of the commission.

37 i. To certify monthly to the State Treasurer and the commission  
38 a full and complete statement of lottery revenues, prize disburse-  
39 ments and other expenses for the preceding month.

1 9. No action of the commission shall be binding unless taken at a  
2 meeting at which at least three of the five members are present and  
3 shall vote in favor thereof. The minutes of every meeting of the  
4 commission, including any rules and regulations promulgated by  
5 the commission or any amendments, revisions, supplements or re-  
6 peal thereof, shall be forthwith transmitted, by and under the  
- 7 certification of the secretary thereof, to the Governor at the Exeu-  
8 tive Chamber, State House, Trenton. The Governor shall, within 10  
9 days after said minutes shall have been so delivered, cause the same  
- 10 to be returned to the commssion either with or without his veto on  
11 any action therein recited as having been taken by the commission.  
12 If the Governor shall not return the minutes within said 10 days,

13 any action recited therein shall have force and effect according to  
14 the wording thereof.

1 10. The commission shall have the power to issue subpoenas to  
2 compel the attendance of witnesses and the production of docu-  
3 ments, papers, books, records and other evidence before it in any  
4 matter over which it has jurisdiction, control or supervision. The  
5 commission shall have the power to administer oaths and affirma-  
6 tions to persons whose testimony is required. If a person sub-  
7 poenaed to attend in any such proceeding or hearing fails to obey  
8 the command of the subpoena without reasonable cause, or if a per-  
9 son in attendance in any such proceeding or hearing refuses, with-  
10 out lawful cause, to be examined or to answer a legal or pertinent  
11 question or to exhibit any book, account, record or other document  
12 when ordered so to do by the commission, the commission may  
13 apply to any Judge of the Superior Court, upon proof by affidavit  
14 of the facts, for an order returnable in not less than 2 nor more than  
15 10 days, or as the court shall prescribe, directing such person to  
16 show cause before the court why he should not comply with such  
17 subpoena or such order.

18 Upon return of the order, the court before whom the matter shall  
19 come on for hearing shall examine such person under oath, and if  
20 the court shall determine, after giving such person an opportunity  
21 to be heard, that he refused without legal excuse to comply with  
22 such subpoena or such order of the director, the court may order  
23 such person to comply therewith forthwith and any failure to obey  
24 the order of the court may be punished as a contempt of the  
25 Superior Court.

1 11. No license as an agent to sell lottery tickets or shares shall be  
2 issued to any person to engage in business exclusively as a lottery  
3 sales agent. Before issuing such license the director shall consider  
4 such factors as (a) the financial responsibility and security of the  
5 person and his business or activity, (b) the accessibility of his place  
6 of business or activity to the public, (c) the sufficiency of existing  
7 licenses to serve the public convenience, and (d) the volume of  
8 expected sales.

9 For the purposes of this section, the term "person" shall be con-  
10 strued to mean and include an individual, association, corporation,  
11 club, trust, estate, society, company, joint stock company, receiver,  
12 trustee, assignee, referee, or any other person acting in a fiduciary  
13 or representative capacity, whether appointed by a court or other-  
14 wise, and any combination of individuals. "Person" shall also be  
15 construed to mean and include all departments, commissions,



16 agencies and instrumentalities of the State, including counties and  
17 municipalities and agencies and instrumentalities thereof.

1 12. Notwithstanding any other provision of law, any person  
2 licensed as provided in this act is hereby authorized and empowered  
3 to act as a lottery sales agent.

1 13. No right of any person to a prize drawn shall be assignable,  
2 except that payment of any prize drawn may be paid to the estate  
3 of a deceased prize winner, and except that any person pursuant to  
4 an appropriate judicial order may be paid the prize to which the  
5 winner is entitled. The director shall be discharged of all further  
6 liability upon payment of a prize pursuant to this section.

1 14. No person shall sell a ticket or share at a price greater than  
2 that fixed by rule or regulation of the commission. No person other  
3 than a licensed lottery sales agent shall sell lottery tickets or shares,  
4 except that nothing in this section shall be construed to prevent  
5 any person from giving lottery tickets or shares to another as a gift.

6 Any person convicted of violating this section shall be guilty of a  
7 misdemeanor.

1 15. No ticket or share shall be sold to any person under the age  
2 of 18, but this shall not be deemed to prohibit the purchase of a  
3 ticket or share for the purpose of making a gift by a person 18 years  
4 of age or older to a person less than that age. Any licensee who  
5 knowingly sells or offers to sell a lottery ticket or share to any  
6 person under the age of 18 is a disorderly person.

1 16. No ticket or share shall be purchased by, and no prize shall be  
2 paid to any of the following persons: any officer or employee of the  
3 division or to any spouse, child, brother, sister or parent residing  
4 as a member of the same household in the principal place of abode  
5 of any of the foregoing persons.

1 17. Unclaimed prize money for the prize on a winning ticket or  
2 share shall be retained by the director for the person entitled  
3 thereto for 1 year after the drawing in which the prize was won.  
4 If no claim is made for said money within such year, the prize money  
5 shall be allocated to State institutions and State aid for education  
6 in the same manner as lottery revenues are allocated for such  
7 purposes under this act.

1 18. The director may, in his discretion, require any or all lottery  
2 sales agents to deposit to the credit of the State Lottery Fund in  
3 banks, designated by the State Treasurer all moneys received by  
4 such agents from the sale of lottery tickets or shares, less the  
5 amount, if any, retained as compensation for the sale of the tickets  
6 or shares, and to file with the director or his designated agents

7 reports of their receipts and transactions in the sale of lottery  
8 tickets in such form and containing such information as he may  
9 require. The director may make such arrangements for any person,  
10 including a bank, to perform such functions, activities or services  
11 in connection with the operation of the lottery as he may deem  
12 advisable pursuant to this act and the rules and regulations of the  
13 commission, and such functions, activities or services shall con-  
14 stitute lawful functions, activities and services of such person.

1 19. No other law providing any penalty or disability for the sale  
2 of lottery tickets or any acts done in connection with a lottery shall  
3 apply to the sale of tickets or shares performed pursuant to this act.

1 20. If the person entitled to a prize or any winning ticket is  
2 under the age of 18 years, and such prize is less than \$5,000.00, the  
3 director may direct payment of the prize by delivery to an adult  
4 member of the minor's family or a guardian of the minor of a check  
5 or draft payable to the order of such minor. If the person entitled  
6 to a prize or any winning ticket is under the age of 18 years, and  
7 such prize is \$5,000.00 or more, the director may direct payment to  
8 such minor by depositing the amount of the prize in any bank to the  
9 credit of an adult member of the minor's family or a guardian of  
10 the minor as custodian for such minor. The person so named as  
11 custodian shall have the same duties and powers as a person  
12 designated as a custodian in a manner prescribed by the "New  
13 Jersey Uniform Gifts to Minors Act," P. L. 1963, chapter 177 (C.  
14 46:38-13 et seq.) and for the purposes of this section the terms  
15 "adult member of a minor's family," "guardian of a minor" and  
16 "bank" shall have the same meaning as in said act. The director  
17 shall be discharged of all further liability upon payment of a prize  
18 to a minor pursuant to this section.

1 21. There is hereby created and established in the Department of  
2 the Treasury a separate fund, to be known as the "State Lottery  
3 Fund," to be deposited in such depositories as the State Treasurer  
4 may select. Such fund shall consist of all revenues received from  
5 the sale of lottery tickets or shares, and all other moneys credited  
6 or transferred thereto from any other fund or source pursuant to  
7 law.

1 22. The moneys in said State Lottery Fund shall be appropriated  
2 only (a) for the payment of prizes to the holders of winning lottery  
3 tickets or shares, (b) for the expenses of the division in its opera-  
4 tion of the lottery, (c) for State institutions and State aid for educa-  
5 tion as shall be provided by law, and (d) for the repayment to the  
6 general treasury of the amount appropriated to the fund pursuant  
7 to section 23 of this act.

1 23. There is hereby appropriated to the State Lottery Fund from  
2 the general fund the sum of \$1,500,000.00 and such other moneys as  
3 shall be appropriated by the general or any supplemental appro-  
4 priations act, or so much thereof as may be necessary, in the first  
5 instance, for the purposes of the division in carrying out its func-  
6 tions and duties pursuant to this act. Such appropriation shall be  
7 repaid to the general fund as soon as practicable from the net  
8 revenues accruing in the State Lottery Fund after the payment of  
9 prizes to holders of winning tickets or shares and expenses of the  
10 division.

1 24. The prizes received pursuant to the provisions of this act  
2 shall be exempt from the "Emergency Transportation Tax Act"  
3 (P. L. 1961, c. 32).

1 25. The State Auditor shall conduct an annual post-audit of all  
2 accounts and transactions of the division and such other special  
3 post-audits as he may be directed to conduct pursuant to chapter 24  
4 of Title 52 of the Revised Statutes.

1 26. If any clause, sentence, paragraph, subdivision, section, pro-  
2 vision or other portion of this act or the application thereof to any  
3 person or circumstances is held to be invalid, such holding shall not  
4 affect, impair or invalidate the remainder of this act or the applica-  
5 tion of such portion held invalid to any other person or circum-  
6 stances, but shall be confined in its operation to the clause, sentence,  
7 paragraph, subdivision, provision or other portion thereof directly  
8 involved in such holding or to the person and circumstances therein  
9 involved. If any provision of this act is inconsistent with, in con-  
10 flict with, or contrary to any other provision of law, such provision  
11 of this act shall prevail over such other provision and such other  
12 provision shall be deemed to have been amended, superseded or  
13 repealed to the extent of such inconsistency, conflict and con-  
14 trariety.

1 27. This act shall take effect immediately.

LAWS OF NEW JERSEY 1969  
JOINT RESOLUTION No. 11  
STATE OF NEW JERSEY  
Adopted November 20, 1969

A JOINT RESOLUTION creating a commission to prepare for the implementation of the proposed constitutional amendment to authorize a State lottery.

WHEREAS, A constitutional amendment to authorize the Legislature to enact legislation for a State lottery will be submitted to the people at the 1969 general election; and

WHEREAS, The Legislature should be in a position to receive, consider and act upon appropriate legislation therefor promptly if the people approve the constitutional amendment; and

WHEREAS, The type, scope, controls and administration of a State lottery should be carefully prescribed in such legislation that the lottery may to the maximum extent achieve the desired results therefrom; now, therefore,

BE IT RESOLVED *by the Senate and General Assembly of the State of New Jersey:*

1. There is hereby created a commission to consist of the State Treasurer or his designated representative and 2 citizens of the State to be appointed by the Governor and 2 members of the Senate to be appointed by the President thereof and 2 members of the General Assembly to be appointed by the Speaker thereof, to be known as the State Lottery Planning Commission. Vacancies in the membership of the commission shall be filled in the same manner as the original appointments were made.

2. The commission shall organize as soon as may be after the appointment of its members and shall select a chairman from among its members and a secretary who need not be a member of the commission.

3. It shall be the duty of said commission to formulate a report, including legislation and an administrative program for the conduct

of a State lottery, for submission to the Governor and the Legislature immediately following the 1969 general election in the event the Constitutional amendment authorizing a State lottery shall be adopted at said election. In formulating such legislation the commission is authorized to study the lottery legislation and operating procedures employed in other jurisdictions with the ends in view of devising a lottery system of broad appeal with frequent drawings, effective controls and such other features which will achieve, to the maximum practicable extent, the objectives of the constitutional amendment.

4. The commission shall be entitled to call to its assistance and avail itself of the services of such employees of any department, board, bureau, commission or agency of this State or of other jurisdictions as it may require and as may be available to it for said purpose, and to employ such consultants, stenographic and clerical assistants and incur such traveling and other miscellaneous expenses as it may deem necessary, in order to perform its duties, and as may be within the limits of funds appropriated or otherwise made available to it for said purposes.

5. The commission may meet and hold hearings at such place or places as it shall designate during the sessions or recesses of the Legislature.

6. This joint resolution shall take effect immediately.

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**CONSTITUTIONAL AMENDMENT**  
**NOVEMBER, 1969**

Article IV, Section VII, paragraph 2 (sub-paragraph C) added:

C. It shall be lawful for the Legislature to authorize the conduct of State lotteries restricted to the selling of rights to participate therein and the awarding of prizes by drawings when the entire net proceeds of any such lottery shall be for State institutions, State aid for education.

(Adopted at the general election on November 11, 1969, by a vote of 1,593,239 to 362,947.)

## ACKNOWLEDGMENTS

The State Lottery Planning Commission expresses its appreciation to all the State officials and citizens of this state and elsewhere who provided valuable information, advice and assistance to the members of the Commission and its staff. The Commission is particularly grateful for the advice and assistance of Ernest J. Bird, Director of the New York Division of the Lottery; Edward J. Powers, Executive Director of the New Hampshire Sweepstakes Commission; Sidney Glaser, Acting Director of the New Jersey Division of Taxation; and Vincent J. Miller, public information officer in the New Jersey Department of the Treasury.

It expresses its special thanks to Mathematica, Inc., of Princeton, N. J., which was engaged as consultant to the Commission and particularly to Dr. Bruce W. Morgan, senior economist and project director, and Dr. Bernard J. Hamilton, senior consultant of Mathematica, for their assistance in the Commission's study and investigation and in the preparation of this report; and to Samuel A. Alito, Research Director, Law Revision and Legislative Services, who served as its secretary.

The Commission is indebted to the numerous individuals who voluntarily appeared before it in closed meetings and at its public hearing and shared their knowledge and views with the Commission.

## I

### INTRODUCTION

The specific task of the New Jersey State Lottery Planning Commission was to draft legislation for governing the conduct of a State lottery, this to be done in such a manner as to best promote the welfare of the citizens of this State. The establishment of a State lottery in New Jersey represents a venture onto new and largely untried ground. While experiences with state lotteries elsewhere, combined with opinion surveys in this State, have provided substantial amounts of evidence pertaining to successful lottery operation, many uncertainties remain. The legislation which is hereby proposed attempts to take advantage of the information which is now available, yet avoids commitments to courses of action whose consequences cannot now be predicted.

The purpose of this report may, therefore, be viewed as being twofold. First, it is to make available to the Governor and the Legislature the considerable amount of evidence which was considered in drafting the legislation which is now being proposed by this Commission. Second, it is to make this evidence available to those who will be responsible for the actual establishment and operation of a State lottery system.

#### HISTORICAL BACKGROUND

Lotteries of various kinds have existed throughout most of recorded history.\* The Bible records many instances in which decisions were made by the casting of lots, and it is clear from the Old Testament that the intent was often to invoke Divine intervention in these decisions. Indeed, lotteries long had associated with them a mystical quality which extended beyond the mathematical laws of probability. Nevertheless, by Roman times, they had become primarily a form of entertainment. A frequent feature of lavish Roman banquets was a lottery conducted by the host.

The lottery in America dates from the very earliest Colonial times. The first recorded instance was a lottery conducted in

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\* See John Samuel Ezell, *Fortune's Merry Wheel: The Lottery in America*, (Cambridge: Harvard University Press, 1960) for a history of lotteries.

London in 1612 by the Virginia Company to support its settlement at Jamestown. Lotteries were a frequent feature of the American Colonial period, the proceeds typically being used for charitable and educational purposes and for government financing. Such personages as George Washington, Benjamin Franklin, and John Hancock are known to have conducted lotteries for their communities. In New Jersey, the beneficiaries of lotteries in the eighteenth century included Queens College, later to be Rutgers University, and the College of New Jersey, later to be Princeton University.

Lotteries continued to be a feature of public financing of states and municipalities until well into the nineteenth century. However, they gradually declined in importance until, by the Civil War, official state lotteries had become nearly extinct. There appear to be two main reasons for this decline. First, the importance of lotteries during the Colonial period was partly due to difficulties in establishing local systems of taxation. By the nineteenth century, these difficulties had diminished somewhat as the frontier moved further west. Perhaps at least as important is the disrepute into which these lotteries fell. This, in turn, can be traced largely to the common practice of franchising lottery operations. State lotteries became essentially such in name only. They were conducted by private franchised businesses with a minimum amount of official supervision. In return for the franchise, part of the proceeds were paid to government.

The infamous Louisiana State Lottery of the latter part of the nineteenth century resulted in the disappearance of government-sanctioned lotteries for well over half a century. A licensed monopoly with business extending over much of the country, it was highly profitable and became a major power in the politics of Louisiana.\* Its abuses became so manifest as to cause public alarm

\* In a speech in Congress in 1890 Representative Orrin C. Moore of New Hampshire estimated the annual income and expenses of the Louisiana Lottery Company as follows:

<i>Income</i>	
Ten drawings, 1,000,000 tickets at \$20 each .....	\$20,000,000
Two drawings, 200,000 tickets at \$40 each .....	8,000,000
<i>Expenses</i>	
Prizes, ten drawings .....	\$10,548,000
Prizes, two semi-annual drawings .....	4,219,200
Commissions to agents .....	2,000,000
Advertising .....	2,000,000
All other expenses .....	1,000,000
Net profit .....	8,232,800

Source: Congressional Record, 51st Congress, 1st Session (1889-1890), XXI, 8706-8713, cited by Ezell, p. 253.



across the nation. It was finally outlawed in Louisiana in 1893 and, failing to find a sanctuary in another state, the last lottery of its kind came to an end. Meanwhile, the abuses for which it was responsible resulted in Federal legislation for the prevention of lottery operations in interstate commerce, and many of the legal constraints imposed on the conduct of a state lottery today can be traced to this.

The modern revival of state lotteries, as is well known, began with the New Hampshire Sweepstakes, in 1963, followed by New York on a much larger scale in 1967 and the lottery referendum in New Jersey in 1969. Much will be said in what follows about the New Hampshire and New York lotteries. The latter is of particular interest for several reasons. First, the lottery in New Jersey will probably be established in a fashion more similar to New York than to New Hampshire. Second, there are lessons to be learned from the New York experience, particularly to the extent that the initial expectations about the revenue potential of the lottery have been so badly disappointing. Third, the majority of tickets purchased in New Hampshire are bought by out-of-state residents, which is rather unrepresentative of the New York experience and is likely to be so for New Jersey. Finally, the social and economic characteristics of New Jersey are more similar to those of New York than to those of New Hampshire.

#### GOALS OF A STATE LOTTERY

The traditional goal of state lotteries has been the provision of public funds. As already pointed out, the use of lotteries in Colonial times was a common instrument for this purpose, partly because of the inadequacy of other instruments. Indeed, there is an analogy here with modern problems, for the increasing difficulty of the states and municipalities in obtaining the funds required for the provision of public services is well known. Government is largely a provider of services. Services, by the very nature of their technology, do not lend themselves to modern mass-production techniques. This being so, the labor costs, and thus the total costs, of their provision have tended to rise in relative as well as absolute terms. Moreover, this can be expected to continue to be true. Consequently, state and local governments have been forced to find new techniques by which to obtain the funds required to meet public demands.

There is, however, a new goal which many view as a possibility for state lotteries. This is to compete with illegal organized gambling and to thereby loosen its grip on the State. Remarkably little evidence exists on the basis of which to judge the extent to which this is possible. Indeed, there is very little evidence on the amount of revenue accounted for in this or any other state by illegal organized gambling. Nevertheless, over time, decisions will have to be made on whether the lottery can and should be used for such purposes. For example, it may be discovered that the type of system which yields maximum net revenues to the State is not the system which can compete most successfully for the gambling dollar. Variety and excitement are important components of decisions to take chances, and these can be provided only at some cost.

This Commission views the primary goal of the New Jersey State lottery to be the obtaining of public funds. To some extent, this is a pragmatic decision, for only after the lottery is in operation will it be possible to determine, largely by means of experimentation, the potential for competition with illegal gambling.

#### MAJOR ISSUES

The issues which must be resolved before a state lottery can be put into operation are of two basic types. The first general issue is that of the administrative structure of the lottery operation, and this is discussed in some detail in Chapter II, which is addressed to the provisions of the legislation which is hereby proposed. There are two major criteria which must be met by the administrative organization of the lottery. First, it must, to the greatest extent possible, attract the confidence of the public. As such, it must forever be untainted by any suspicion of unethical conduct. In this regard, the Commission strongly recommends that the personnel of the lottery division proposed in this report and all persons doing business with the division be carefully screened through regular security checks. Second, it must be such as to achieve the goals of the lottery operation, as set by collective public opinion, to the fullest extent possible.

The second general set of issues involves the operating structure of the lottery. A number of decisions must be made before a lottery can be put into operation, and these are discussed in some detail throughout this report. At this point, it is sufficient simply to list them. Such decisions include the frequency with which drawings should take place, the manner of determining winners, the prices of lottery tickets, the structure of prizes, the form of ticket distribu-

tion, the types and amounts of promotion and advertising, and how winners shall be notified and paid. These decisions will affect both the willingness of the public to participate in the lottery and the costs of its operation. Moreover, as will be discussed in Chapter III, many of these decisions are constrained by Federal law.

It is on these matters that experiences elsewhere yield substantial amounts of information. Nevertheless, this information is not sufficient at the present time to allow determination of an optimal operating structure for the New Jersey State lottery. Only experience and experimentation in this State can provide the information which is required, and it is for this reason that this Commission recommends most strongly that the permanent commission and director which it proposes be allowed the maximum possible flexibility commensurate with preserving the full trust and confidence of the citizens of this State. In particular, it is important to avoid unnecessary rigidities in the legislation which will inhibit the lottery commission's ability to modify the lottery so as to increase public interest and participation. On this, there is much to be learned from New York, where the lottery law prescribes ticket prices, drawing frequency, and certain characteristics of the distribution system, thereby inhibiting experimentation and change.

#### **OUTLINE OF THE REMAINDER OF THE REPORT**

The remainder of this report is organized into four main sections. Chapter II is specifically addressed to the legislation proposed by this Commission, while Chapter III discusses the impacts of Federal law on the manner of conducting a state lottery. Much of the evidence which has been considered by this Commission in its deliberations is discussed in detail in Chapter IV. This chapter also attempts to suggest some guidelines for the structure of the State lottery and to make clear those issues which remain to be resolved and the information which will be required for doing so. Chapter V presents some estimates of the revenue yields which the State can anticipate from the lottery operation, and a few rather general conclusions are discussed in Chapter VI. Finally, some of the detailed information which is available, particularly the opinion survey data collected for this Commission in New Jersey and New York, is discussed in an Appendix.

## II

### THE PROPOSED LEGISLATION

The legislation which is hereby proposed by this Commission results from the efforts of many individuals in obtaining the evidence required to make informed judgments. The members of the Commission have themselves devoted a substantial amount of time in investigating lottery legislation and organization in other states. Further evidence has been generously supplied on a voluntary basis by a number of individuals and organizations. Finally, Mathematica, Inc., was retained as consultant to the Commission and, in this capacity, assisted in the evaluation of information and in obtaining additional evidence. With this background, this chapter is addressed to the specific reasons for the present form of the proposed legislation.

#### ADMINISTRATIVE ORGANIZATION

The proposed administrative organization for the State lottery takes into account a number of important considerations. The most important of these is that it can command the full trust and confidence of the citizens of this State; in particular, the operation of the lottery must be free of any possible suspicion of improper conduct. It is for this reason that it is proposed that the appointments of those individuals who will be responsible for policy decisions on the conduct of the lottery be made directly by the Governor. In this manner, the success and integrity of the lottery is ultimately the responsibility of the Governor.

The proposed legislation thus provides for a five-man bipartisan commission, which will be the policy-making body of the lottery division. The members of this commission are to be appointed by the Governor with the advice and consent to the Senate. Decisions of this commission will be subject to veto by the Governor. By means of this structure of responsibility, it is assured that the members of the lottery commission are ultimately responsible to the citizens of New Jersey.

This Commission recommends that the members of the Lottery Commission receive no salaries but be allowed reasonable expenses

incurred in the performance of their duties in the amount not exceeding \$5,000 per year in the case of the chairman and \$3,500 per year in the case of the other commissioners. (This is consistent with the compensation now being paid members of the New Jersey Racing Commission.)

The lottery division is to be a division of the Department of the Treasury. Very simply, this reflects the fact that the lottery will be a source of State revenue, and other major sources of revenue are already contained within this Department. There is a substantial difference, however, between the collection of taxes and other activities of the Department of the Treasury and the operation of a state lottery. If the lottery is to attain its full potential as a source of revenue for the State, it must be operated as a public business enterprise. In particular, promotion and advertising will be required. The lottery division as it is recommended here would therefore be a separate division within this Department, including a policy-making lottery commission and a director. However, to insure the integrity of the lottery, this Commission recommends that the State Auditor be required to conduct an annual post-audit of the transactions and accounts of the lottery division and such other special post-audits as it may be directed to conduct pursuant to R. S. 52:24-1 et seq.

A full-time operating director will likewise be appointed by the Governor, with the advice and consent of the Senate. To a large extent, the task of implementing a successful lottery system in the State will be his. The director must, of course, be an able administrator. However, he must be an able businessman in other respects as well, particularly to the extent that a successful lottery will require successful marketing. This Commission recommends that, in accordance with the November, 1969, report of the New Jersey Commission on State Administrative and Professional Compensation (the Vieser report), the director should be paid a salary in the range of \$27,514 to \$35,770 per year.

The importance of these considerations has been suggested to this Commission by the experience of New York State. There, the lottery is operated by personnel in the Treasury Tax Division, and most of the promotional effort appears to be aimed at inducing retail enterprises to act as vendors for the lottery. As a consequence, public interest in the lottery has not been sustained and gross revenues from the New York lottery have declined steadily and show every evidence of continuing to do so. The goals of the

lottery in New Jersey have no hope of realization unless it is professionally administered.

The proposed administrative organization of the New Jersey lottery thus attempts to meet two criteria, namely, maximum accountability to the public by the officials of the lottery division and maximum probability of success in achieving the goals of the lottery. While other possible administrative organizations have been considered seriously by this Commission, none appeared to meet these criteria as satisfactorily as the organizational structure which is here proposed.

#### **OPERATING STRUCTURE**

Just as the New York experience contains lessons on administrative organization, it also contains lessons on what features of the operating structure should be prescribed by legislation. The danger which must be avoided is the establishment of unnecessarily stringent conditions on the operation of the lottery.

For example, no one can know in advance that any specified ticket price will in fact be the ticket price which best achieves the goals of the New Jersey State lottery. Therefore, the authority to specify and modify as required the operating structure and characteristics of the lottery should be delegated to the lottery commission rather than specified in detail by the legislation.

The approach taken by this Commission has been to examine other legislation in detail in order to take advantage of the best features available in each. With this background, the appropriate objectives of the legislation to be proposed were considered at some length.

The first, and most important objective is, as discussed previously, the assurance of public trust and confidence in the system. This is primarily relevant to the administrative organization of the lottery division. In addition to this, it clearly seems appropriate to prohibit the personnel of this division and their immediate families from purchasing tickets and to further specify that such individuals be ineligible for all prizes. Some consideration was also given to broadening these provisions to include other State employees. However, it was decided that doing so would be unnecessarily prohibitive and would serve no useful purpose in protecting the interests of the citizens of this State.

The question of the minimum age at which individuals shall be eligible for purchase of lottery tickets was considered quite extensively. Again, the problem is to determine what is reasonable and realistic. With this in mind, the Commission recommends that this minimum age be set at eighteen. However, it also recommends that eligible persons be allowed to purchase tickets as gifts for ineligible minors, as currently permitted under New York law. A related issue is the minimum age at which individuals may be granted licenses for the vending of lottery tickets. The proposed legislation establishes this at 21.

There is, however, a problem here which can be resolved only when the structure of the lottery is specified more precisely. This arises in the payment of prizes on tickets purchased for ineligible minors. The problem is preventing the State from becoming a party to disputes over the parent or guardian to whom the prize shall be paid. If names and addresses are to be required on lottery tickets, a possible solution is simply to have the person to whom the money is to be paid specified as well. Other possibilities may be considered by the commission and director at the appropriate time. Meanwhile, instances in which such problems arise can be expected to be quite rare.

It is also desirable to define clearly the liability of the State with respect to unclaimed prizes. The decision of the Commission is to recommend that claims on prize money be exercisable for one year after the drawing in which the prize was won. After this time, such money will be added to the net proceeds of the division, to be allocated to State institutions and State aid to education in the same manner as other such net proceeds.

A standard provision of legislation in other states is to exempt vendors of lottery tickets from prosecution under any other State statute resulting from their sale thereof in accordance with the provisions of the lottery legislation. This simply exempts the vending of State lottery tickets from such other statutes as may exist which are directed toward illegal gambling. A similar standard provision is the prohibition on resale of lottery tickets at a premium above the price established by the State.

The administration of the funds must be clearly defined prior to the commencement of operations. To some extent, this can be prescribed by legislation, but some of the operating details thereof must await a more precise specification of the structure of the lottery operation. Meanwhile, it seems reasonable and proper to

place the primary responsibility upon the Department of the Treasury and to require the State Auditor to conduct annual post-audits and such other more frequent post-audits as he may be directed to conduct.

#### FINANCIAL CONSIDERATION

There are two somewhat related financial items which are treated explicitly in the proposed legislation. One of these is the amount of an initial appropriation required in order to cover the costs of the lottery division until such time as this division becomes self-supporting. The second item is the minimum proportion of the gross revenues from the lottery operation which is to be guaranteed to State institutions and State aid to education. This latter figure must be set at a level that allows the lottery division not only to meet its normal operating costs but also to meet any extraordinary start-up expenses. Moreover, the legislation being proposed by this Commission specifies that all funds allocated to the division by legislative appropriation are to be repaid to the general fund. Some allowance must therefore be made in the lottery division budget so as to allow repayment to the general fund of the sums so appropriated within a reasonable period of time after the lottery becomes self-sustaining.

It is impossible to do more than guess at the lottery operating and administrative costs until the structure of the lottery is determined more precisely. Nevertheless, some rough guidelines can be obtained from experiences elsewhere. Costs in New Hampshire, as stated by the lottery commission of that state, tend to be about 12 percent of gross revenues.\* However, it should be pointed out that drawings are held in this lottery only twice a year. Moreover, most of the distribution of tickets is accomplished through State liquor stores. While a commission of 4 percent of gross sales by these outlets is paid to the New Hampshire State Liquor Commission, there is no way in which to determine if this commission fully covers the costs of ticket distribution.\*\* The other outlets in New Hampshire are the two licensed race tracks in the State, some information and parking areas located on toll highways and a few private retail outlets.

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\* This excludes the contribution by the New Hampshire lottery to the Sweepstakes Races, which accounts for some five percent of gross lottery receipts.

\*\* The commissions are higher for the privately-operated retail outlets which are now being used in New Hampshire.



Operating costs are about 15 percent of gross revenue for the New York lottery, where drawings are held more frequently and a substantially greater volume of tickets are sold than in New Hampshire. Here, there are two factors to consider. On one hand, it appears to this Commission that, given the benefit of New York's experience, New Jersey should be able to administer its lottery more efficiently than New York. However, the promotional effort in New York appears to be quite minimal, as already suggested. If the lottery in New Jersey is to succeed in achieving the goals set for it, considerably more attention and money must be given to promotion than is the case in New York.

With these considerations in mind, it is the estimate of this Commission that the annual operating costs of the New Jersey lottery will be between 4 and 5 million dollars per year, about one-third of which will be accounted for by promotional expenses.\* It might be pointed out that estimates of gross revenues for the first full year of operation will be about 30 million dollars, although there is a substantial amount of possible error in this figure. The potential revenues, of course, may be somewhat higher, but some margin must be allowed for errors and experimentation in the initial stages; moreover, it may take as much as six months or more after the first sale of tickets before the system is fully implemented. In any case, the cost estimate given above is about 15 percent of this figure.

With this as a starting point, several factors must be accounted for. First, it will probably take at least four months from the time at which the lottery division commences operation until the time when the first tickets go on sale. During this start-up period, personnel must be hired and trained, and it will undoubtedly be necessary to acquire some equipment. Moreover, promotional expenses during this period, which will be an extremely important element in the success of the lottery, are likely to be substantial. Finally, in addition to those costs incurred prior to the initial sale

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\* If a number of assumptions are allowed, cost estimates can be obtained by another route. First, it is understood that the New York State lottery has about 150 employees on its staff. Assume, then, that New Jersey, being a smaller and more compact state, can operate its system with about 60 employees, and assume that these are paid an average salary of \$10 thousand per year. Wage and salary costs would then be some \$600 thousand per year. Second, promotional expenditures might amount to some \$1.5 million per year (this figure being lower than some estimates which have been made). Third, if a 5-percent vendor commission is paid, as in New York, and gross revenues are \$30 million per year, commission expenses would be about \$1.5 million per year. These three items, summed, account for annual expenses of \$3.6 million per year, to which must then be added the costs of materials and supplies, including the tickets themselves, and equipment leasing or amortization costs.

of lottery tickets, it can be anticipated that a minimum of several months will be required before lottery receipts reach their initial potential, and promotion expenses are likely to remain high during this phase.

These considerations make it clear that a considerable amount of start-up expense will be incurred before the lottery costs can be covered fully by receipts. The difficulty at the present time is that the total amount which will be required from the general fund cannot be determined until the structure of the lottery is defined more precisely and the consequent expenses and cash flows can be documented more fully. This Commission thus recommends an initial appropriation of 1.5 million dollars for the lottery division to commence operations. The responsibility is, therefore, placed on the division director and commission to plan the lottery in sufficient detail by May of this year so that any further appropriation which may be required can be considered by the Legislature prior to adjournment. All unused sums so appropriated would be returned to the general fund immediately after the lottery becomes self-sustaining, with the remainder to be repaid from lottery revenues when feasible.

The proportion of gross revenues to be guaranteed to State institutions and aid to education must allow some margin for the start-up costs of the lottery. Ultimately, the gross revenues of lottery are to be divided three ways: prizes, operating costs, and State aid to institutions and education. The proportion to be paid in prizes should remain flexible until such time as it is possible to determine more precisely the effect of this amount on ticket sales. Prizes in New York State are only 30 percent of gross revenues, a fact which has resulted in some criticism. Prizes at about 45 percent of gross revenue would make the New Jersey lottery reasonably competitive in these particular terms with certain forms of illegal organized gambling.\* Also, the promotional aspects of the amount paid in prizes should not be overlooked. It is thus recommended that sufficient flexibility be allowed the lottery commission so that prizes up to this amount can be paid if this should be considered desirable.

To this 45 percent should be added another 15 percent for normal operating costs. However, in the early stages, allowance should be

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\* This is a rough estimate of the proportion paid in prizes, after commissions, in the "numbers". It should be noted, however, that there are other dimensions to illegal organized gambling which will make effective competition quite difficult—variety, excitement, personal contacts, and the possibility of tax avoidance being some of these.

made for repayment of the initial appropriation to the general fund, which might be as much as 5 percent of gross revenues during the first few years, and for acquisition of equipment. In particular, this Commission has investigated various possibilities for the use of computers in the operation of the lottery, including that of computer-linked distribution terminals. While no recommendation is being made at this time on the extent to which the lottery should be automated, some allowance should be made for these possibilities in the budget. If an amount equal to 5 percent of gross revenue is allowed for capital outlays during the start-up stages, this leaves 30 percent of gross revenues which may be guaranteed for State institutions and State aid for education. It should be emphasized that this is a minimum amount and that it can be anticipated that a substantially greater amount should become available after all start-up expenses are paid. Similarly, it should be emphasized that it is the feeling of this Commission that excessive economy during the initial stages of lottery operation may well jeopardize the chances of the lottery meeting the goals set for it.

### III

## FEDERAL LEGAL ASPECTS OF STATE LOTTERIES

This chapter summarizes rather briefly those Federal statutes which appear to affect the manner in which state lotteries can be operated. Some of the constraints imposed by Federal law are rather severe, and the net effect will be both a reduction in lottery revenues and an increase in costs of operation. Moreover, if the 1967 statute prohibiting the sale of state lottery tickets by banking institutions insured by the Federal government is indicative of Congressional thinking, relaxation of the present Federal constraints on state lotteries is unlikely to occur in the near future. Nevertheless, it is the view of this Commission that sufficient flexibility should be allowed in any lottery legislation in New Jersey so that full advantage can be taken of any future relaxation of Federal law. Also, New Jersey might well take the lead in bringing this about.

Five such Federal statutes are considered in this chapter. The order in which they are treated is their apparent order of importance, although whether this is actually so depends upon the particular type of lottery finally adopted in New Jersey.

### THE MAILING OF LOTTERY TICKETS AND RELATED MATTER

The mailing of any matter related to a lottery, regardless of whether it is state-operated, is prohibited (18 U.S.C. 1302). One effect of this is the inability of out-of-state residents to purchase state lottery tickets legally without travel to the state which operates the lottery. This will, of course, result in less state revenue than otherwise, although it is doubtful that this will be a major consideration for New Jersey. In particular, this effect will become of less importance as more states establish their own lottery systems. Indeed, through sufficient care in structuring its own lottery, New Jersey may well become a model for other states.

Of considerably greater importance is that the statute, which explicitly prohibits the mailing of lists of winners or any part of such lists, appears quite clearly to prohibit the use of the mails for the notification of winners and for payment of prizes. Neither

New York nor New Hampshire uses the mails for these purposes. Winners in the lotteries of those states are notified by telephone or telegraph, and prize payments are made by establishing bank deposits within these states in the names of the winners. The necessity of employing such procedures will clearly add to the costs of lottery operation. In particular, these costs may be such as to rule out of consideration the possibility of large numbers of smaller prizes, a device which might otherwise be employed to promote public interest in the lottery and, therefore, the sale of lottery tickets.\*

It may be noted that pari-mutuel betting materials are specifically exempted from these prohibitions (18 U.S.C. 1953), but there is no apparent technique by means of which a state-operated lottery can take advantage of this exemption.

Finally, post offices are explicitly prohibited from acting as sales outlets for lottery tickets. This warrants noting in that some individuals have suggested the possibility of post offices as lottery sales outlets.

#### RESTRICTIONS ON ADVERTISING

No advertisement of a lottery may be transmitted across state boundaries (18 U.S.C. 1301 and 1304). Consequently, information pertaining to a state lottery cannot be included in news media extending beyond the state in question. Thus, for example, no newspaper published in New Jersey can cross state lines if it contains information about a lottery in this state. If circulation extends to other states, lottery information can be included only with a special printing arrangement by which this is removed from the out-of-state circulation. Similarly, lottery information cannot be broadcast by any radio or television station whose range of transmission extends beyond the state boundaries. However, it should be pointed out that in practice, at least, there is an exception to these prohibitions; namely, such information can be so transmitted if it represents "news". Precise interpretation of this exception is difficult to come by, a matter which tends to place the news media in a difficult position.\*\*

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\* Somewhat ambiguous is the application of the statute to the use of the mails for other aspects of state lottery administration, such as the placing of orders for materials and supplies.

\*\* However, it appears that even this interpretation is being questioned by the Federal Communications Commission, which is responsible for the application of the statute to radio and television broadcasting.

The costs to the State of such restrictions are extremely difficult to estimate. One factor which is unknown is the extent to which the New Jersey news media will be willing to test their interpretation. Also, the value of these media in publicizing the lottery is uncertain, at best.\* While other forms of publicity do exist—billboard advertising, for example—and have been employed extensively in New York and New Hampshire, the costs in terms of reduced lottery ticket revenues will clearly be significant.

It should be noticed, too, that these restrictions may serve to increase the costs of lottery operation in another way, for it reduces the extent to which the news media can be relied upon as a means of notifying lottery winners.

#### **INTERSTATE TRANSPORT OF LOTTERY TICKETS**

Quite clearly prohibited is the transportation of any potential claim to a lottery prize across state boundaries (18 U.S.C. 1301). Thus, in New York and New Hampshire, names and addresses of purchasers are recorded on the tickets at the time of purchase and these tickets then remain deposited within that state. Prizes are paid to the persons so named on these tickets and, while receipts are issued as records of the numbers on the tickets, these receipts in no way represent claims to prizes.

The recording of names and addresses on the lottery tickets will add to the costs of lottery operation. Furthermore, some of the more mechanical and computerized systems of lottery operation which have been suggested to this Commission may be difficult to adapt to this requirement; at the very least, some of the cost-saving features of such systems could be lost in attempting to make this adaptation. Of course, some of these difficulties could be circumvented by making the recording of names and addresses an optional feature of the system. However, without the recording of names and addresses, notification of out-of-state winners may be sufficiently difficult and uncertain as to deter out-of-state residents from purchasing New Jersey lottery tickets. Indeed, even if publication of winning numbers in other states were allowed, their publication would require sufficient public interest in these other states. Since a large number of out-of-state residents visit or travel through New Jersey each year and these people represent a sizeable potential market for New Jersey lottery tickets, some

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\* New York officials indicate that they believe that these restrictions result in very substantial revenue losses.

consideration should be given to the relative costs and benefits of designing the lottery so as to appeal to the potential non-resident market.

#### FEDERAL TAXES ON WAGERING

A Federal excise tax of 10 percent of gross receipts must be paid on wagers *except* in the cases of parimutuel betting, certain types of coin-operated machines for which an occupational tax is paid, and, of particular importance here, in the cases of state-conducted sweepstakes in which the ultimate winners are in some way determined by the results of horse races (26 U.S.C. 4401 to 4402). The wording is quite specific that it is the order of finish of the horses in the races which must be employed in this manner.

This statute apparently can be interpreted quite liberally for purposes of conducting a state lottery. The horse races employed to determine the ultimate winners can be races run many years prior to the drawing, and they need not have been run in the same state. For example, there can be a drawing from a pool of results of many past races. Moreover, the specification that it is the ultimate winners who must be so determined is important, for it is only the winners of the very largest prizes that need be determined in this manner. Many "consolation" prize winners can be selected by some other technique which is totally unrelated to horse racing, as is done in New Hampshire and New York.

While a great deal of flexibility is possible in conducting a lottery system so as to take advantage of this exemption from the Federal excise tax, it may eventually be desirable for this State to conduct drawings which do not attempt to do so. It was, indeed, an initial presumption of this Commission that advantage should be taken of the exemption, and the New Jersey lottery as it is initially established will, and should, undoubtedly do so. However, it has been suggested that gambling on sports events other than horse races accounts for hundreds of millions of dollars in New Jersey alone, thereby dwarfing the "numbers games" in terms of gross receipts. Two elements are clearly of importance in wagering on sports events. One is the flexibility in the forms of the wagers, while a second is the current excitement involved. Although it is altogether unclear how some of these revenues can be tapped for legitimate public use, it is the belief of this Commission that there exist a number of possibilities which warrant investigation and that such investigation should be the responsibility of the lottery division.

### BANK PARTICIPATION IN LOTTERIES

All banks which are members of the Federal Reserve System or are insured by the Federal Deposit Insurance Corporation and all other depositories, such as savings and loan associations which are insured by other Federal agencies are prohibited from participating in any lottery except that they may accept deposits of funds by state-operated lottery agencies (12 U. S. C. 25a, 339, 1730, and 1829a). Specifically prohibited is the use of such banks as sales outlets for lottery tickets, and the effect of these provisions thus depends upon the sales effectiveness of this type of outlet. It might be well to point out that all but three commercial banks and all of the mutual savings banks in New Jersey are insured by the Federal Deposit Insurance Corporation; thus, this statute effectively rules out such institutions from consideration as sales outlets. Fortunately, it appears at the present time that there is a sufficient number of equally satisfactory alternative types of outlets so that these provisions may be of rather minimal importance.

These restrictions on the use of banks date back only to 1967 and were specifically directed toward New York, where most of the tickets sold in the early months of that State's lottery were sold through banks. Several issues are suggested by the experience. Until the initiation of these restrictions, New York had about 4,000 lottery ticket sales outlets, most of them being banking offices. Currently, there are about 12,000 sales outlets, none of which are banks, and gross revenue from lottery ticket sales has actually declined since the earlier period. While the major reasons for this revenue decline probably lie elsewhere, it is known that some people do prefer that lottery tickets be sold through banks.\*

A second issue involves the possibility of future relaxation of the Federal restrictions. As already suggested, the outlook for this does not appear to be promising at the present time. Moreover, in seeking this, some care must be taken that doing so does not have consequences which are the opposite of those desired.

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\* Lottery officials in New York have expressed the belief that the prohibition of banking outlets has been a major cause of their declining lottery revenues, basically because banks appear to convey an image of integrity.



## IV

### EVIDENCE ON LOTTERY STRUCTURE

It has been indicated at several points in this report that a large variety of sources of information was consulted during the deliberations of this Commission. However, it should be pointed out that much of this information is in the form of opinions of informed individuals rather than strictly factual evidence, and many of these opinions are somewhat contradictory. Consequently, a major task of this Commission and its consultants has been to evaluate the reliability of its information. By piecing together the results of this evaluation, certain general impressions have emerged. Nevertheless, further study and experimentation will be required in order to suggest an optimal structure for the lottery in New Jersey.

This chapter is organized into three sections. The first of these examines the factors which determine the demand for lottery tickets. Some of the evidence pertaining to this is discussed at greater length in the Appendix to this report. The second section turns to questions involving the relationship between the structure of the lottery and its operating costs, while the final section discusses a few miscellaneous issues which are not logically included in the demand and cost categories.

#### THE DETERMINANTS OF THE DEMAND FOR LOTTERY TICKETS

There are a number of different elements involved in the operation of a lottery which can be expected to relate to the amount of public interest in a state lottery and the willingness to purchase tickets. A number of these factors are discussed in what follows.

An element which may be of considerable importance is the amount of promotion and publicity given to the lottery. However, little factual evidence exists on the extent to which this is so. This, then, is an element which must be left open to some degree of experimentation by the lottery division once it is established. At a minimum, the public must be made aware of the existence of the lottery and the locations at which tickets may be purchased. Particularly to be avoided is a situation similar to that which has been observed in New York; namely, that there are some residents

of that state who know very little about the state lottery and, in fact, a few who do not know where tickets may be purchased should they wish to do so. While such persons are unlikely to be major purchasers of tickets, there nevertheless is undoubtedly some loss of revenue as a result of such lack of awareness.

One element which emerges as an important factor in the decisions of many individuals to purchase state lottery tickets—probably between 20 and 30 percent of those who purchase them—is the use to which the funds are to be put. Specifically, the fact that the net proceeds are to be used for educational purposes appears to have a significant positive impact on gross revenues. The use of the funds therefore warrants wide publicity.

The confidence of the public in the lottery system established by the State is of very considerable importance. The ethical standard of its conduct is an obvious element in this, but the problem to be considered extends somewhat beyond this. For example, some of the people interviewed for this Commission in the New York survey commented that they were not sure that their tickets were being turned in properly for the drawings.\* This distrust of the reliability of the system was particularly prevalent among the lower income groups. Moreover, in asking questions about attitudes toward the use of automatic vending devices for the sale of tickets, some of the individuals surveyed expressed skepticism that they could be relied upon to function properly. This is undoubtedly at least one reason why some persons—roughly 30 percent of those sampled in New Jersey who indicated that they expect to purchase State lottery tickets—expressed some objection to the possibility of using automatic vending machines as lottery ticket distribution devices.

The element of public trust also turns up in the form of the frequency with which people tend to suggest banks, post offices, and state and municipal offices as lottery ticket sales outlets. Again, while the frequency of these responses was relatively small, there does exist some possible marginal effect on sales volume. While such outlets are either prohibited altogether by Federal law or are unlikely to be viable in economic terms, there does exist here a segment of public opinion which warrants consideration.

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\* Two public opinion surveys of about 300 persons each were conducted by Mathematica for the Commission. One survey was conducted in New Jersey while the second was in New York. The purpose of the New York survey was to sample opinions of people already familiar with a state lottery system. These surveys will be referred to rather frequently in this chapter, while some of the details are relegated to the Appendix.

The New York survey suggested that some loss of lottery ticket sales occurs because of the inconvenience of sales outlets. The New Jersey survey, conducted concurrently with the New York survey, suggests that two-thirds of those sampled viewed supermarkets as being among the most convenient sales outlets. Other outlets which were suggested as convenient included news stands, gasoline service stations and drug stores. These findings should not be viewed as definitive, however, in that the majority of the survey interviews were conducted in shopping centers. While the bias in the New Jersey resident population sampled is believed to be relatively small, the operating officials of the lottery division should give consideration to other types of outlets as well. In particular, resort areas and locations frequented by travelers passing through the State are totally unrepresented in the surveys. Major transportation terminals, turnpike service areas, and shore resort areas, such as the Atlantic City Boardwalk and Seaside Park, are clearly prime potential sales outlets.

Meanwhile, it should be recognized that the convenience and lottery ticket sales potential of alternative possible outlets are not the only variables to consider here. It has, for example, been suggested that turnpike toll booths be utilized for the sale of lottery tickets. However, the potential social costs in terms of congestion and delays may be substantial and more than offset the advantages of such locations in the sale of lottery tickets. Somewhat the same problem may occur at State motor vehicle offices, many of which are already plagued by problems of congestion.

The frequency of lottery drawings has been a matter of considerable debate and widely varying opinions. On the basis of the popularity of the "numbers," which is conducted daily, many have argued that the New Jersey lottery should be conducted on a system of daily drawings if maximum net revenues to the State are to be realized. Quite aside from the cost aspects of daily drawings, which are discussed below, the surveys discovered very little interest in this degree of frequency. Indeed, when asked about their attitudes towards daily as opposed to weekly drawings, more of the respondents who indicated that this difference would affect their frequency of ticket purchase indicated that their frequency would decrease rather than increase. In other words, the surveys indicated that daily drawings might well decrease,

rather than increase, lottery gross revenues as compared to a lower degree of frequency.\*

These surveys further suggest that drawings more frequently than once each month, as is the case in New York, would tend to increase interest in the lottery. For now, the evidence appears to indicate that a frequency of twice per month to once each week would attract the most interest and maximize sales. However, it should be noted here that some slight bias may exist in the survey data to the extent that the lower income groups tended to be the least cooperative in the questionnaire survey. There is some evidence that low-income groups tend to have the most interest in rapid payment, and these may be slightly less than fully represented in these samples. However, on the basis of the income data contained in these surveys, any such bias is likely to be of minimal importance. Consequently, the Commission believes that drawings should be more frequent than monthly, but that daily drawings should be approached with caution.

Perhaps more important are the results of asking whether the individuals questioned would consider "knowing immediately whether they were lottery winners" an important factor in their decisions to purchase lottery tickets. Here, the issue to be examined is the promotional value of the "instant winner" approach employed in many commercial games, such as those conducted by some of the major oil companies. A surprisingly large number of respondents indicated that they would consider this important, despite the fact that many of these had previously expressed disinterest in daily as opposed to weekly drawings. There may or may not be some inconsistency here, and further investigation of this issue may be required.

Everyone, of course, likes both more and bigger prizes. Treated separately, both options received a large number of favorable responses. The apparent optimal prize structure thus appears to consist of a few very large prizes plus a large number of relatively small ones. Both types seem to have substantial promotional value, for it is the very large prizes which tend to capture the public imagination whereas knowing someone who has won a prize tends both to publicize the existence of the lottery and to affect the attitudes of individuals toward their own chances of

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\* This would seem to reflect the importance to many people of the "dignity" with which the lottery is conducted.

winning.\* Prizes of intermediate value appear to have somewhat less promotional impact. The New York survey evidence suggests that many people have only a very vague idea of their chances of being a winner, although most viewed these chances as being poor and a number commented that they personally knew no one who had been a winner. Some indicated that they would purchase more tickets if the largest prizes were even larger.

Very large prizes, of course, result in a substantial tax liability. One way in which these can be made more attractive may be to pay them over a period of years. For example, a "million-dollar winner" might be paid a sum of 50 thousand dollars a year for twenty years. Since the State would be earning interest on the money not paid out, its actual cost would be something less than a million dollars.

One of the most difficult issues to resolve at the present time is the price to be charged for lottery tickets. The survey data are quite inconclusive, and the hypothesis that lottery gross revenues are relatively quite insensitive to the price of tickets cannot be rejected. However, if any sensitivity of revenues to price does exist, it does appear likely that there will be some revenue gain from charging a price lower than that in New York, which is currently one dollar per ticket. However, some people appear to regard a price as low as 25 cents as undignified and believe that the prizes would be too small at such a price. Thus, a possibility which warrants serious consideration is a price of 50 cents, which may still be sufficiently low as to attract the expenditure of "loose change". Another such possibility is the sale of tickets at this price with the requirement that a minimum of two be purchased each time. In any case, the various possibilities will require further investigation after the lottery operation is established.

One question included in the survey which drew particularly surprising results was whether the respondents would prefer to choose their own lottery ticket numbers to an extent that this would induce them to purchase more tickets. The ability to choose one's own number has often been cited as one of the attractions of the "numbers." However, very few respondents indicated any interest in such an option, a result which is important in that the provision of this option would tend to increase the costs of operating the lottery.

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\* It is likely that knowing someone who has won even a small prize tends to promote an attitude of confidence and trust in the integrity of the lottery.

In addition, certain other operating problems would arise with the inclusion of this option. Nevertheless, there remains some question as to whether this indifference to choosing one's own number is only apparent rather than real. Too many respondents required explanation of the meaning of such an option for full confidence to be placed on the survey results.

The manner of determining winners is to a large extent prescribed by the Federal excise tax on wagering and by the necessity of clearly maintaining an image of unimpeachable ethical conduct. Aside from these factors, the major issues respecting the selection of winners involve the operating costs of the lottery rather than the demand for tickets.

Many have criticized the requirement in New York and New Hampshire that names and addresses be recorded on lottery tickets. The basis for these criticisms has been that such requirements are deterrent to ticket sales; i.e., it is claimed that many people object to this to such an extent that they will refuse to purchase tickets. Virtually no evidence of such objections appeared in the survey results. On the contrary, many people positively favored this device as a convenience for notifying lottery winners.

A final issue which deserves substantially more attention than time has allowed this Commission to give it is the extent to which variations might be introduced into the lottery as among different drawings. A considerable amount of precedent for this exists abroad. Mexico, for example, operates eight different lotteries, each with a different structure of prizes and a different ticket price. Tickets may be available for three or four of these at any given time. Meanwhile, there is some variation in the prize structures of different monthly drawings in New York, although the ticket price is the same for all drawings. One thing which is clear is that different people are attracted by different features of lotteries. Variations in the types of lotteries conducted may thus increase their overall attraction, although some amount of experimentation will be required to determine the extent of such possibilities. In the initial stages of the New Jersey lottery, it would appear wise to establish a single structure, introducing variations when it becomes clear that the system is functioning smoothly.

## **COST FACTORS**

The assurance of public trust in the State lottery system will affect costs as well as the demand for tickets. Sales agents must be screened, licensed, and supervised, and there must be careful accounting of all receipts. Special measures must be taken to assure the public of both the honesty and the mechanical reliability of the system.

Also relevant to costs are the expenditures on publicity and promotion. These may be on direct advertising of the lottery, or they may be on other forms of promotion. One scheme suggested to the Commission was the use of special coins which show New Jersey landmarks, minted especially for the State lottery, to be enclosed in packets along with the lottery tickets.\* The cost of these coins was estimated to be 1.5 cents each. Other devices which have been suggested include the use of punchboards, sale of fractions of tickets (which is common abroad), and choice of one's own lottery ticket number. Of these, the use of punchboards can be ruled out immediately as being excessively costly. Meanwhile, the permanent lottery commission to be established by the proposed legislation will undoubtedly have suggested to it a number of new promotional concepts.

Probably the most important of the cost issues to be examined is the extent of the mechanization, or "automation", of the State lottery system. The rapid rates of increase in wages in the economy suggest that, in order to be cost-effective, the system must take advantage of some of the modern technology which is now available. The question to be resolved is basically a matter of degree.

There are essentially three possible types of outlets for the sale of lottery tickets. At one extreme, they may be sold over the counter by human vendors, as in New York, where the use of vending machines is prohibited by law. Because of the fact that the vending machines are attended at all times, New Hampshire's sales can be viewed as a human vending operation. A commission of five-percent of gross receipts is paid to vendors in New York, but it should be noted that there have been pressures for increasing this amount. In New Hampshire, a commission of four percent of gross receipts is paid to the State Liquor Commission for tickets sold by state liquor stores and an eight percent commission

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\* Presentation to the Commission by the Franklin Mint.

is paid for tickets sold by private retail establishments. In Puerto Rico, the commission is 13 percent and in Mexico it is ten percent. In France the basic commission is five percent for the sale of a full ticket and 2.25 percent commission plus an additional 16 percent mark-up when the ticket is sold in dixiemes (tenths).\*

In terms of the technology involved, an intermediate system would employ coin-operated vending machines of the conventional type as outlets. These machines would require placement in locations where there would be supervision and where someone could be responsible for reloading or calling for service when required. Thus, they would presumably be placed inside various retail outlets, transportation terminals, and so on. Some rental, perhaps a few hundred dollars per year per machine, would have to be paid for the space and supervision. The machines themselves can probably be acquired at a cost of less than 500 dollars each, and possibly as low as 100 dollars. The exact amount will depend upon the precise design specifications, which will in turn depend upon the structure of the system. The design must, of course, be such as to take every possible precaution against tampering and vandalism.\*\*

Both the completely manual system and the vending machine system would require a pick-up and delivery network. For the most part, then, the costs may be compared at the retail level alone. Thus, simply as an example, suppose that a given retail outlet accounts for gross receipts of ten thousand dollars per year. At a five percent commission rate, the vending cost of a manual system would then be 500 dollars. If the rental and amortization costs of a vending machine were less than this, the vending machine would seem to be preferred. It should be kept in mind from the demand analysis, however, that there may be some modest effect on sales, and comparisons on the basis of cost alone would therefore be open to some question. Also, the specific design of the tickets sold may be different for the two types of system, and this may involve some, albeit quite small, element of cost.

The most mechanized vending system which has been proposed involves coin-operated, computer-linked vending terminals.† The

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\* It should be kept in mind that the amount of labor involved in selling a ticket is independent of its price. Sales costs thus tend to be a higher proportion of sales receipts with lower-priced tickets.

\*\* New Hampshire officials indicate that the machines used in that state, which are partly operated by the attendants, cost the state 500 dollars apiece. Extensive precautions were taken to ensure that these machines were tamper-proof and highly reliable.

† Systems of this general type were proposed in some detail to this Commission by Ticket Reservation Systems, Inc., and by Computer Sciences Corporation.



terminals themselves, which are essentially vending machines, would be linked by telephone lines to a central computer. Each terminal can be expected to cost a minimum of two thousand dollars, and thus the vending outlet costs are substantially greater than in the case of alternative systems. Moreover, the costs per terminal of transmission to the central computer are likely to be substantial. While estimates of this are extremely rough, these costs may easily amount to 100 to 200 dollars per year per terminal. However, if lottery tickets are to involve numbers only, the receipts being the claims to prizes, the pick-up and delivery network could be altogether eliminated by such a system, thus eliminating a substantial component of operating costs. Moreover, an automatic bookkeeping and accounting system can be incorporated quite easily, providing further operating cost reductions.

Some of these advantages, such as an automatic accounting of receipts, would remain if ticket purchasers were required to record their names and addresses (plus, perhaps, their telephone numbers). However, this requirement, while it has a number of advantages, as previously outlined, would probably require a pick-up and delivery network. A principal cost advantage of a computerized terminal system would thus be lost.

There is, nevertheless, an additional element of full computerization which should be recognized. A completely computerized system may be the only possible way in which a lottery with daily drawings can be operated. Officials in New York, with its manual system, suggest that the maximum frequency of drawings which their lottery operations could accommodate is, on technical grounds, about once every two weeks. New Jersey is, of course, a more compact and urbanized state, and there is no reason to believe that a system could not be structured so as to allow weekly drawings with a basically manual operation. Weekly drawings, however, appear to represent a maximum frequency without full computerization.

Somewhat more promising in the view of this Commission is computerization of other stages of the lottery operation. There are a number of possibilities for computerization of accounting procedures and for identification of winning tickets.\* One possibility is to have tickets with the numbers punched or electromagnetically printed on them. Drawing could be from pools of

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\* A proposal oriented along these lines was submitted to the Commission by ITT Data Services, and other suggestions were provided by Advanced Technology, Inc.

single-digit numbers, from which the winning numbers could be constructed, rather than from large drums containing the actual tickets purchased. Winning tickets could then be identified at relatively little cost by means of machine-sorting. Here, of course, there are a number of possible techniques by which winning numbers could be chosen, but it should be kept in mind that the winners of the largest prizes must be determined by results of horse races if the 10 percent Federal excise tax is to be avoided.

It should be noted that the implication of increasing mechanization of the lottery is to increase the share of lottery operations which might be performed more efficiently by a private contractor than by the State. Thus, for a completely manual lottery system, the State lottery division could operate the lottery relatively efficiently compared to a contractor. However, more sophisticated systems are likely to require that the State contract a major portion of the lottery operation to private enterprises. Moreover, such commitments will tend to be relatively long-term due to the production lead time for the equipment and the substantial capital outlays involved.

As pointed out in Chapter III, Federal law sets some rather severe constraints on the ways in which lottery winners may be notified. For the most part, this problem can be expected to be common for all of the alternative possible operating systems; thus the extra costs involved are unlikely to be a consideration in choosing among these alternatives.

#### **OTHER OPERATING FACTORS**

There are several elements of the lottery operation which warrant attention yet are not explicitly elements of either demand or cost. One general question is the manner of structuring prizes in terms of the gross receipts of the lottery in order to ensure that the desired proportion of these receipts are actually allocated for prizes. The problem arises because of the desirability of stating in advance of ticket sales the chances of purchasers winning prizes of particular dollar amounts.\* Thus, for example, New York specifies a particular set of prizes for each one million dollars of receipts,

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\* The legal aspects of this are currently rather unclear. However, it has been suggested that clear statements of prizes and chances of winning each prize may eventually be required by Federal law. Such statements are already the practice in New Hampshire and New York.

and thus ties the total prize money to gross receipts. Undoubtedly a system of this sort will be required in New Jersey.

Indeed, in some respects, the problem becomes even more manageable if the frequency of drawings is defined in terms of the number of tickets sold rather than in terms of calendar time. Thus, for example, a drawing could be held after each one million dollars of tickets sold. Under present revenue projections, this would be about once every one to two weeks. Alternatively, a system of this sort could be employed on one basis for smaller prizes and on another for the largest prizes. For example, a drawing for smaller prizes could be held for each one thousand tickets and for each one million tickets for the large prizes. These suggestions are intended only as illustrations of the various possibilities, not as recommendations. Nevertheless, a problem does exist here which will require resolution by the permanent operating body of the lottery.

A problem of a somewhat different sort arises if ticket purchasers are allowed complete freedom to choose their own ticket numbers. Experience indicates that betting tends to be very uneven among different numbers, and if the prizes are stated in fixed dollar amounts, this can result in quite uneven prize payouts from drawing to drawing. This can be a rather serious difficulty if numbers of, say, two or three digits are to be selected. As the number of digits to be selected increases, the problem tends initially to diminish. However, a point is eventually reached, say beyond five digits, at which so few ticket-holders are likely to have a given number that the relative variation in the number of holders with a given number becomes greater. Consequently, it is difficult to construct a system with individual number selection in which the prize payout on a particular draw is predictable. Of course, as the number of drawings increases, the amount paid in prizes tends to approach a stable proportion of total receipts.

## V

### REVENUE POTENTIAL AND TIMING

Any estimate of the revenue potential of a state lottery in New Jersey is inevitably rather precariously based. Nevertheless, such estimates are required for proper State budgetary planning. Equally important is an estimate of the time at which the lottery can commence operation, and thus of the timing of the anticipated revenues. Clearly to be avoided is a budget based on unrealistically high estimates of the future revenues from this source.

#### REVENUE ESTIMATES

The most complete study of the revenue potential of a state-operated lottery in New Jersey was performed for the Economic Policy Council of the State of New Jersey in 1967.\* This study examined the state lotteries in New Hampshire and New York, and, after adjusting for population and tourism in these states, derived estimates of what these same lottery systems would yield in New Jersey. The basic assumption of the study is that the propensity of people to purchase lottery tickets with a given lottery system is the same in New Jersey as in these other states. On this basis, it was estimated that a New Hampshire-type lottery would yield approximately 22 million dollars of gross revenue per year while a New York-type system might yield roughly 32 million dollars per year.

One point which should be noticed here is the effect of the differences between the systems in New Hampshire and New York. The two lotteries are quite different, with drawings only twice each year in New Hampshire as opposed to monthly in New York, and a ticket price of three dollars in New Hampshire as opposed to one dollar in New York.\*\* Moreover, New York has a higher per-capita income level than New Hampshire and, at the time the above study was made, had more flexibility in the selection of distribution outlets. Yet, despite all of these various factors, which one would expect to favor New York, the increase in gross receipts as a result

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\* Alvin K. Klevorick, "Likely Revenues from a New Jersey Lottery," First Annual Report of the Economic Policy Council and Office of Economic Policy, Department of the Treasury, State of New Jersey (April 1968), pp. 15-23.

\*\* Drawings for small prizes are now conducted more frequently in New Hampshire, but the major prizes are awarded only in the biannual drawings.

of the change in the system is estimated as being less than fifty percent.

This relative degree of insensitivity of demand to alterations in the lottery system is somewhat confirmed by the survey data discussed in Chapter IV. These data indicate that there is no alteration in a conventional state lottery system which can be expected to produce dramatic increases in gross revenues. While significant results apparently can be achieved through a number of alterations combined with one another, the total order of magnitude is probably somewhat less than fifty percent. Moreover, it should be pointed out that some decrease in gross revenues has occurred in New York since the above estimates were made.

Still another factor to consider arises from the fact that the above estimate did not fully account for New York lottery ticket sales to New Jersey residents. In the case of New Jersey, the existence of a competing lottery on its borders should not be overlooked. Then, too, there exists the possibility of lotteries being introduced in other neighboring states.

On the basis of this body of evidence, an extremely rough figure of 30 million dollars appears to be a reasonable estimate of the gross revenues that can be anticipated for the first complete year of lottery operation in New Jersey. This figure assumes that the initial structure of the system is carefully planned and that the system becomes fully operative relatively smoothly and quickly. At the same time, this estimate is intended to reflect the fact that the specification of the best possible system will require operating experience, experimentation, and further information. Clearly, if smooth and efficient operation is not quickly achieved, this gross revenue estimate will be too high.

As time passes and experience is accumulated, it is likely that improvements will be made in the lottery operation and that a higher gross revenue can be achieved. Gross revenues for the State of 40 million dollars per year should be attainable by means of a conventional, yet well-designed lottery system.\* On the other hand,

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\* Very roughly, there are some 2.1 million households in New Jersey, thus annual gross lottery revenues of \$30 million would require average ticket purchases of about \$14 per household, and revenues of \$40 million would require these average purchases to be about \$19. However, adjustments must be made for the fact that not all households will purchase tickets while some tickets will be purchased by out-of-state residents. Thus, for example, if it is assumed that 50 percent of all households will actually purchase tickets and that 20 percent of revenues come from purchases by out-of-state residents, the average annual lottery expenditure per household purchasing tickets would have to be some \$23 in order to yield \$30 million gross revenue, and over \$30 per year would be required to yield \$40 million.

it should be noted that both New Hampshire and New York have experienced declines rather than increases in revenues. It is, of course, to be hoped that even this figure proves to be somewhat modest, but present information suggests that projections very far above this level are in danger of severe disappointment. Probably the primary means of increasing revenues beyond these projections is to establish imaginative systems which are more directly competitive with illegal gambling. In the short run, however, severe problems of legal constraints and public acceptance of such systems will inhibit their development.

#### **TIMING OF REVENUES**

Even to achieve the first complete-year revenues of 30 million dollars, much careful planning for the State lottery operation must be performed prior to its implementation. Here, the attempt is to project a timetable for this process and its consequent effects on State revenue. As in the case of the revenue projections, the projections of timing rest on a number of assumptions which may or may not be realized. Even assuming that the lottery bill is passed by the New Jersey Legislature during February, it is highly unlikely that a lottery commission and division director can be appointed before the beginning of March, 1970. Accounting for some unforeseen delays, it can be assumed more safely that this commission will take up its duties no earlier than the end of March. From this point, a minimum of two months should be allowed solely for planning the general structure of the lottery operation. The full-time lottery division director will presumably assume his duties during this period. In addition, the promotion and publicity planning process can begin during the latter stages of this general planning phase.

The promotion and publicity element itself determines a minimum time horizon for the commencement of operations. From the time at which the publicity planning begins, it can be expected to take at least four months before it begins to have an impact on the public. Thus, if the planning for publicity and promotion can begin by the beginning of May, the earliest feasible date for the commencement of lottery ticket sales would be about the beginning of September. Since this date assumes away all possibility of unforeseen delays, and also assumes that virtually no time is required for the publicity to take effect after initial impact, a more reasonable date set on this basis for the commencement of ticket sales would be the beginning of October.

After the initial planning phase is completed, say by the beginning of June, the process of hiring division employees, selecting and licensing eligible vendors, procuring equipment, and letting any necessary contracts may begin.\* The timetable for equipment procurement is particularly difficult to estimate since it depends upon the equipment required, which depends in turn on the structure of the lottery operation. If a strictly manual system with over-the-counter ticket sales is to be implemented, at least initially, the equipment requirements are quite modest. Presumably, in addition to the tickets themselves, trucks for pick-up and delivery would be all that is required. Even this can be handled on a leasing or contract basis, and a few months should be sufficient.

However, if the equipment requirements include vending machines with particular specifications, a somewhat longer lead time will be required. It is highly probable that such machines will have to be designed for their particular use before manufacture can begin. For vending machines of the conventional types, this process might well require a minimum of four to six months. For computer-linked vending terminals, it can be expected that at least two years will be required. In this case, of course, it is probable that an interim manual system would be employed.

If the lottery can be put into operation by the beginning of October, gross revenues for the remaining nine months of fiscal 1970-71 are very unlikely to exceed some 20 million dollars. Notice that the full annual rate of 30 million dollars is not being projected for this period. There are two reasons why it would be unwise to do so. First, it will probably be three to six months before the lottery operation can be depended upon to function smoothly. Thus, it will probably take some time for the initial revenue potential to be realized. Second, and probably at least as important for budgetary purposes, an October starting date means that the summer tourist season will be missed altogether. Since sales to out-of-state residents can be expected to be particularly great during this summer period, the loss of these sales will be proportionately greater than the amount of calendar time lost.

Suppose, however, that operation does not begin until the beginning of January, 1971, this being quite possible due to equipment procurement delays. Should this occur, gross revenues may be estimated reasonably at some 12 million dollars. Again, this

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\* Much of the planning must be completed before the end of May if an additional appropriation from the general fund will be required.

attempts to allow for some build-up period and, of course, for the loss of summer sales.

It was recommended in Chapter II that 30 percent of gross revenues be guaranteed to State institutions and State aid for education. There, it was suggested that no more than this net revenue amount should be expected during the first two years of lottery operation. Thus, applying this proportion to the above gross revenue estimates suggests that a maximum net revenue expectation for the State for fiscal 1970-71 which is in any way reasonable would be some 6 million dollars. If the commencement of operation is delayed until the beginning of calendar year 1971, yet implementation proceeds from that point with relatively few setbacks and delays, net state revenue might be between 3 and 4 million dollars. A later starting date or major setbacks and delays could reduce the appropriate figure even lower. The picture should, of course, be somewhat brighter for fiscal 1971-72, by which time the net proceeds of the lottery may be some 9 million dollars. After experience with the lottery is acquired and all start-up expenses are met, 12 to 15 million dollars of net revenue may be realized.

In summary, then, a successful lottery operation will require a substantial initial investment, not only in dollars but in time as well. To attempt to establish the New Jersey lottery too hurriedly, in the hopes of substantial immediate revenues for the State, may jeopardize both its short-run and its long-run success. Specifically, relatively little net revenue should be anticipated, or sought, from this source for the coming fiscal year. It would be preferable to anticipate a modest figure, say 3 million dollars, with the possibility of pleasant surprise, than to set a somewhat higher figure with a large probability of disappointment.



## VI

### CONCLUSIONS

It becomes clear in surveying the information on state lotteries which is currently available that more will be required before that lottery system, which will be best for the public welfare of New Jersey can be clearly defined. Some of this required information can be obtained only through operating experience and experimentation. It is therefore important that sufficient flexibility be allowed the lottery commission and operating director of the lottery division so that they can take advantage of this experience. The New Jersey lottery will be a public business enterprise, operated for the benefit of the citizens of this State. To the extent commensurate with the public trust, it must be allowed the freedom to implement business decisions. In particular, promotion and marketing will be key elements in its success, and this will require a thorough understanding of the market for this particular type of product and the ability to respond to this market.

It is believed that the revenue estimates discussed in this report are reasonable and realistic, but many may find them disappointing. Experience in New York illustrates the dangers of excessive optimism—when revenues realized in that state fell far short of expectations and budgets required drastic revision.

While the revenues from illegal forms of gambling in New Jersey probably run into the hundreds of millions of dollars, it appears that the ability of conventional forms of state-operated lotteries to compete effectively for these revenues is quite limited. One reason is the set of constraints imposed upon state lottery operations by Federal law, as discussed in Chapter III. Moreover, the State must exercise sufficiently tight control over its lottery so as to ensure full public confidence in its integrity. The mandate of this Commission has been interpreted by it as confining its range of considerations to lotteries as such, i.e., to games of chance in which the prizes are awarded in some manner involving the drawing of lots. Thus, such forms of wagering as off-track betting, sports pools, and the like were interpreted as being beyond the direct purview of this commission, even though the variety, excite-

ment, and revenue potential which might be generated by these alternate forms of wagering may be far greater than for lotteries.

Nevertheless, as a result of having examined these possibilities, it is the opinion of this Commission that alternate forms of wagering should not be disregarded. On the contrary, both the revenue potential for the State and the possibilities for control of illegal gambling suggest strongly that these alternatives be subjected to further investigation. It is therefore the recommendation of this Commission that the permanent commission and the lottery division established by the proposed legislation undertake such investigation and propose such legislation as may be required. Meanwhile, changes which can be made in conventional state lottery systems seem unlikely to have more than relatively modest effects on the potential revenues.

Finally, realistic projections of the potential of the State lottery are important from another point of view. Excessive projections will lead to disappointment; disappointment, in turn, may itself bring about a loss of interest in the lottery, and thus jeopardize the chances of its success. At the present time, any additional source of state and local revenue is important, and the fullest possible advantage must be taken of such sources.

**APPENDICES**

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## INTRODUCTION

This appendix contains the results of two opinion surveys conducted in New York and New Jersey and information describing the characteristics of the New York and New Hampshire lotteries and the Puerto Rican, Mexican and French lotteries. This information is provided as a starting point for determining the most appropriate characteristics for the New Jersey lottery. Some of the highlights of this research effort are discussed here; a more detailed report of the findings is provided in the remainder of this appendix.

There are several significant differences between the American lotteries and the three "foreign" lotteries. In general, the foreign lotteries are conducted weekly (although Mexico operates three per week), tickets are sold in pieces,\* purchasers have some freedom to select their ticket number, the top prizes range from \$1,125 to \$40,000 per piece of a ticket and the likelihood of winning some prize ranges from 15 to 30 percent. By comparison, the New York and New Hampshire lotteries operate monthly and biannually, tickets are sold individually with no choice of numbers provided, the top prizes range from \$50,000 to \$250,000, and the likelihood of winning some prize ranges from 0.11 percent to 2.4 percent. The ticket prices per piece in the three foreign lotteries examined range from \$0.25 for the weekly Puerto Rican lottery to about \$4.80 per ticket for the special Mexican Magno lottery, which is held quarterly. By comparison, New York tickets sell for \$1.00 and New Hampshire tickets sell for \$3.00 each. The sales commissions are higher and the operating costs lower for foreign lotteries than for American lotteries. Particularly noteworthy is New Hampshire's 18 percent operations, promotion, and commission cost for last year.\* Finally, all the foreign lotteries offer some variety in their lottery structure, with Mexico holding eight different classes of lotteries each year. Although New York and New Hampshire started with a single lottery, they now offer some variety, with New York holding three special lotteries a year and New Hamp-

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\* By this, it is meant that fractions of tickets may be purchased. Most purchases are of this sort.

\*\* This percentage includes the state's contribution to the purses for the New Hampshire Sweepstakes races.

shire holding monthly "bonus" drawings with small prizes. The foreign lotteries are not subject to the same restrictions as the American lotteries and advertise and provide listings of winners *via* the commercial communications media. All lotteries examined were publicly-operated.

One result of the opinion surveys is that New Jersey respondents indicated very strong support for a State lottery—80 percent of the respondents indicated they favored a State lottery and 84 percent expected to purchase State lottery tickets. This 84 percent figure is considerably higher than the New York survey result; only 48 percent of the respondents in that State indicating that they had purchased any New York State lottery ticket at any time during the more than two years that the lottery has been in existence. Both New York and New Jersey respondents indicated that they would prefer lottery drawings to be held more frequently than monthly, but less frequently than daily. Finally, the survey results tended to indicate that over the range of ticket prices under consideration (from \$0.25 to \$2.00), gross revenue was relatively insensitive to the price of the lottery ticket.

The research contained in this appendix was limited in scope and depth. The findings should, therefore, be used with caution.

### CHARACTERISTICS OF OTHER LOTTERIES

This section provides a summary and discussion of the characteristics of the Mexican, Puerto Rican, and French lotteries and those in New York and New Hampshire in the United States. Tables 1 and 2 provide a summary of the characteristics of the Puerto Rican, Mexican, and French lotteries. Table 3 describes the characteristics of the New York and New Hampshire lotteries.\*

### VARIETY OF LOTTERIES

France, Mexico and Puerto Rico all offer some variety in their lotteries. France offers two different lotteries, and Mexico offers eight different lottery structures. The main differences in each country relate to the size of the grand prize, the price of a ticket, and the frequency of drawings. The special lotteries with larger prizes and higher ticket prices are usually held in connection with a major holiday, such as Christmas or Easter, or a major event,

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\* Information for these tables was collected by on-site investigators, from official literature and personal interviews with lottery officials.

such as a sweepstakes race in France. Thus, these national lotteries try to offer variety to the public and promote the sale of tickets and special drawings. The variety of the lottery structures is further enhanced by the fact that an individual player can select his own number (if he can, in fact, locate the number he wants) and can purchase either a full ticket or pieces of a ticket.\*

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\* Each ticket is divided into a standard number of pieces. The purchaser can purchase a whole ticket or purchase one or more pieces of a ticket at some proportionately lesser price. The prize is also paid in proportion to the number of pieces held by the winners. Thus, to purchase a whole ticket for a Mexican minor lottery one pays \$10.00. To purchase a piece (one twenty-fifth) of a ticket for this lottery, one pays \$0.40. If one purchases a whole ticket and wins, he receives the complete prize of \$100,000. If he purchases one piece only, he receives one twenty-fifth of the prize, or \$4,000.

TABLE 1  
COMPARATIVE TABLE FOR FOREIGN LOTTERIES

	MEXICO			FRANCE		PUERTO RICO		
	<i>Minor</i>	<i>Superior</i>	<i>Magno</i>	<i>Ordinary</i>	<i>Specials</i>	<i>Ordinary</i>	<i>Extra-ordinary (Semi.)</i>	<i>Extra-ordinary</i>
Largest Prize .....	\$100,000	\$300,000	\$1,200,000	\$200,000	\$400,000	\$1,000,000	\$200,000	\$400,000
Price (Number of Pieces) .....	\$10 (25)	\$30 (25)	\$120 (25)	\$5.20 (10)	>\$5.20	\$20 (80)	\$40 (80)	\$80 (80)
Price per Piece .....	\$0.40	\$1.20	\$4.80	\$0.60	>\$0.60	\$0.25	\$0.50	\$1.00
Probability of Winning a Prize .....	31%	22%	21%	25%	25%	15.2%	15.8%	15.8%
Frequency .....	three per week			Quarterly	Weekly	Semi-Month	Weekly	two per annum
Tickets each Lottery .....	50,000	50,000	40,000	<i>Maximum</i> 600,000		90,000	.....	.....
				<i>Normal Sales</i> 400,000				
Estimated Gross Income (1969)	200 Million Dollars (Up From 71 Million in 1958)			144 Million (1966) Stabile		22 Million (Up From 15 Million in 1967)		
Cost Structure—								
Prizes .....		65%		60%			38%	
Commission .....		10%		5% on Full Ticket				
				2.25% + 16% markup on tenths			13%	
Operating Costs .....		3%		8% (including commission)			5.1%	
Profit .....		22%		32%			43%	
Estimated GNP .....		\$25.8 Billion		\$120 Billion			\$4 Billion	
Total Population .....		49 Million		50 Million			2,800,000	
Distribution .....	Miscellaneous Establishments			Miscellaneous Establishments and Vendors		Miscellaneous Establishments and Vendor		
Vending Machines .....		NO		NO			NO	



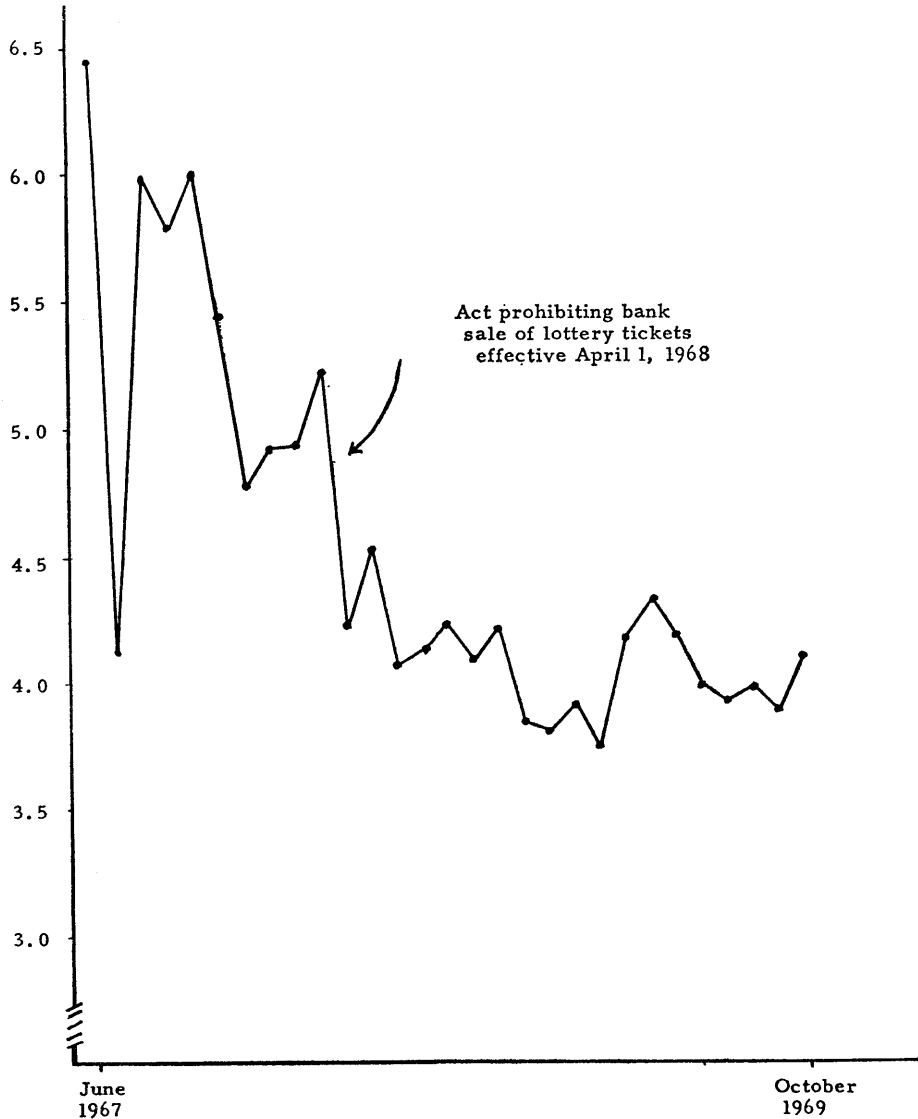


Table 3

COMPARATIVE TABLE FOR AMERICAN LOTTERIES

	NEW YORK		NEW HAMPSHIRE
	<i>Monthly</i>	<i>Super Prize</i>	<i>Sweepstakes</i>
Largest Prize .....	\$100,000	\$250,000	\$50,000
Price (No. of Pieces)....	\$1 (1)	\$1 (1)	\$3 (1)
Price per Piece .....	\$1	\$1	\$3
Prob. of Winning a Prize.	0.111%—0.143%		0.4%
Frequency .....	Monthly	3 per Year	2 per Year
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ESTIMATED GROSS INCOME	49 MILLION DOLLARS (1968) DOWN 21% FROM YEAR EARLIER		3.9 MILLION—STABLE BUT DOWN FROM 5.7 MILLION IN 1964
Cost Structure—			
Prizes .....	30%		35%
Commission .....	5.5%		4% to State Stores 8% to Private Vendors
Operating Costs .....	9.5%		11%
Profit .....	55%		50%
Total Population .....	20 MILLION		0.7 MILLION
Distribution .....	Miscellaneous Establishments and Vendors		Liquor Stores, Race Tracks, Toll Road Plazas, Other Miscellaneous Establishments
Vending Machines .....	NO		YES
Participation .....	NO		NO
Winner Selection .....	Public Drawing		Horse Race and Public Drawing
Operated by .....	Public Commission		Public Commission
Tickets by Lot .....	YES		YES
Prizes Taxable .....	YES		YES
Refund Prizes .....	NO		NO
Illegal Lotteries .....	?		?
Gross Revenue per Capita	2.45		5.60

FIGURE 1



GROSS RECEIPTS OF NEW YORK STATE LOTTERY,  
BY MONTH (Millions of Dollars)

### PROBABILITY OF WINNING

A second characteristic worth noting is the relatively large number of prizes offered by the three foreign lotteries examined. Compare the probability of winning at least a refund prize in these lotteries (Mexico 21-31 percent, France 25 percent, and Puerto Rico 15-16 percent) with the probability of winning a prize in the New York lottery (approximately 0.12 percent) and the probability of winning in the New Hampshire lottery (2.4 percent). This relatively high probability of winning a prize in the foreign lotteries is possible primarily because of the extensive use of "refund prizes", which in effect simply refund the price of the ticket to the purchaser. Another factor is that France and Mexico pay out 60 and 65 percent of the gross revenue as prizes, compared to 30 percent for New York and 35 percent for New Hampshire.

### TICKET PRICES

For the three foreign lotteries examined, the price for a piece of a lottery ticket ranged from a low of \$0.25 for an ordinary weekly Puerto Rican lottery drawing to a maximum price of \$4.80 for a piece of a ticket for the quarterly Mexican Magno lottery. Considering the relative difference in per-capita income in the U. S. compared to France, Mexico and Puerto Rico, the price of one dollar for a ticket on the New York lottery does not seem excessive.

### FREQUENCY OF LOTTERIES

The French and Puerto Rican lotteries are held weekly with special lotteries held several times a year. The Mexican lottery is held three times a week throughout most of the year. When one of the large special lotteries is scheduled, the number of lotteries will be reduced to two or one for that week. Despite the fact that the Mexican lottery is not mechanized, it is possible to hold thrice-weekly drawings by issuing three different weekly sets of tickets, so that in effect three different weekly lotteries are conducted each week. Using this administrative arrangement, more frequent drawings are feasible without the necessity of using highly sophisticated communication equipment.

### COSTS OF LOTTERIES

The foreign lotteries all pay relatively higher commissions for the sale of lottery tickets than do the New Hampshire and New

York lotteries. Puerto Rico pays 13 percent and Mexico pays a 10 percent commission. France pays a 5 percent commission on the sale of whole tickets and 2.25 percent for the sale of pieces, or dixiemes, of tickets. This 2.25 percent figure substantially understates the actual commission received by the French vendors, however, for the retail price for the dixiemes of tickets includes a 16 percent markup. Thus the actual commission received by the vendor is substantially higher than 5 percent since over 80 percent of the French lottery tickets are sold as dixiemes. In Italy, no commission is paid to the vendor, but it is customary for lottery winners to give the vendor some percentage of his prize. In comparison with the foreign commissions, the New Hampshire lottery pays 4 percent and the New York lottery pays 5 percent commissions.\*

The operating cost for the Mexican lottery is approximately 3 percent of gross revenue while the operating cost for the Puerto Rican lottery is 5.1 percent. If we assume that the average commission paid by the French government (as distinct from received by the vendor) is about 2.25 percent, then the estimated operating costs, including commissions, are 5.75 percent. By comparison, excluding commissions, New York's operating costs are 10 percent and New Hampshire's operating costs are about 11.5 percent.\*\*

On discussing operating costs and commission costs, two points should be made. The basic costs associated with operating a manual lottery are for wages and salaries. Since wages and salaries are substantially higher in the United States than in other countries, it is almost inevitable that operating costs for any lottery in the United States will be higher than for those in foreign countries unless the lottery is relatively mechanized. The second point worthy of note is that in determining the size of commission to be paid, one must consider its absolute value as an incentive or to cover the costs of selling a lottery ticket as well as its relative share of gross revenue. Thus, while a 4 percent commission on sales of three-dollar tickets may be adequate to cover the cost of making the transaction, it is highly unlikely that a 4 percent commission would be adequate if the price of a ticket were \$0.25.

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\* New Hampshire has recently started selling tickets through private establishments and pays these vendors an 8% commission.

\*\* Including commissions, New York operating costs are approximately 15%. The Director of the New Hampshire lottery indicates that, including commissions, operating costs over the six years of operation averaged 15%, but increased to 18% in 1969.

## LOTTERIES AND OTHER FORMS OF GAMBLING

Although the French national lottery has an annual gross income of approximately 144 million dollars, the French Government also operates an even more popular form of gambling called "tierce." To win at this game, the bettor must pick the win, place, and show horses in a designated Sunday race at one of the French tracks. Bets can only be placed at off-track parimutuel booths. Tierce has experienced a rapid growth rate and gross revenues in 1966 amounted to \$680 million dollars.\*

In Mexico, it is well known that numerous illegal lotteries, or "insurance" lotteries, are operated on the basis of the results of the official lottery. Such illegal lotteries appear to be common wherever state lotteries exist. In fact, it is well established that even the infamous Louisiana Lottery gave rise to numerous localized illegal lotteries.

## SURVEYS OF ATTITUDES TOWARDS LOTTERIES

The Commission's purpose for conducting opinion surveys was to gain some information about how the New Jersey public would react to certain alternative design characteristics of the New Jersey State lottery. Since New Jersey does not have an operating lottery, only hypothetical answers could be obtained from New Jersey residents, most of whom have not had first hand experience with a state lottery. On the other hand, residents of New York State have had two and a half years experience with a state lottery and could therefore provide more valid and less hypothetical answers to survey questions about purchasing behavior and public attitudes. Furthermore, there are many basic demographic and socio-economic similarities between New York and New Jersey. Consequently, it was decided to conduct two surveys: one in New York, where presumably more valid information on purchasing behavior could be obtained, and one in New Jersey to determine preferences, objections, and attitudes of the New Jersey residents towards different possible characteristics of the New Jersey lottery.

## THE NEW YORK STATE LOTTERY SURVEY

Respondents to the New York State Lottery Survey were classified into two different classes: non-purchasers—those who have never purchased a ticket on the New York State lottery, and pur-

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\* New York Times, May 7, 1967.

chasers—those who have purchased at least one ticket on the New York State lottery. The purchasers were divided into occasional purchasers—those who have purchased tickets no more than four times over the past year, and frequent purchasers—those who have purchased lottery tickets five or more times in the last year.

total respondents	non-purchasers	purchasers	occasional	frequent
303	157 (52%)	146 (48%)	60 (19.9%)	86 (28.4%)

The purchaser to non-purchaser percentages are rather consistent with the results of a more extensive survey conducted in October of 1967, which indicated that approximately 49 percent of the population were actual buyers as of that date.\*

Surveys results were computed for all lottery ticket purchasers (including both frequent and non-frequent purchasers) and for the frequent purchasers only. Survey results were also tabulated for the non-purchaser class in an effort to determine to what extent changes in the design characteristics of the lottery might induce non-purchasers to purchase tickets.

Summarizing the results, 48 percent of the respondents indicated having purchased a New York lottery ticket at least once. The respondents favor a weekly lottery. Over a ticket price range from \$2.00 to \$0.25, it appears that the estimated gross revenue is relatively insensitive to changes in the price of the lottery ticket. Lottery ticket purchasers indicated that they would purchase somewhat more tickets if the probability of winning a prize were greater or if the value of the top prize were raised to a million dollars, but it is hardly clear that the increase in expected sales would be sufficient to warrant the increased costs that would be incurred to effect either change.

\* Political Surveys and Analyses, Inc., "The Public's View of the New York State Lottery," October 1967, Princeton, New Jersey. The study was performed for Ticket Reservation Systems, Inc.

New York Survey Results For All  
Lottery Ticket Purchasers

Q. How many *times* did you purchase N. Y. Lottery tickets in the *last year*?

	People Responding	Number of times purchased			
		0	1-4	5-12	over 12
All Purchasers	146	3%	38%	37%	22%
Frequent Purchasers	86	—	—	63%	37%

Answers to this question provided the basis for breaking out the responses of *frequent* lottery ticket purchasers from the larger groups of all lottery ticket purchasers. Throughout the remainder of this presentation of survey results, the responses of frequent purchasers will be indicated in addition to the responses for all purchasers. The responses for frequent purchasers tend to be very similar to the responses of all purchasers.

Q. When you buy tickets do you buy more than one ticket at a time?

	NO	YES	If YES, how frequently?			
			Seldom	About half	Usually	Always
All Purchasers (146)*	55%	45%	22%	17%	26%	35%
Frequent Purchasers (86)	44%	56%	18%	20%	29%	33%

Frequent purchasers tend to purchase more tickets each time they buy than do non-frequent lottery ticket purchasers. Thus, frequent purchasers are relatively more important contributors to lottery ticket sales both because they buy tickets more often and because when they buy tickets they buy slightly more of them than lottery ticket purchasers in general.

\* Number of respondents answering the question. This is indicated throughout the presentation of the results.



Q. When you do buy lottery tickets, how many do you normally buy for each monthly drawing?

	Number of tickets					
	0	1	2	3	4	more than 4
All Purchasers (146) .....	0%	61%	27%	5%	1%	6%
Frequent Purchasers (87) .....	0%	49%	38%	5%	2%	6%

Q. Which one of the following reasons *best* describes why *you* buy lottery tickets?

	Chance at the big prize	To win some prize	Because its a worthy cause
All Purchasers (161)	27%	48%	25%
Frequent Purchasers (100)	23%	49%	28%

Q. When do you usually purchase lottery tickets?

	Going to and from work	On grocery shopping trips	On other shopping trips	Special trips to purchase tickets	Other
All Purchasers (146)	21%	22%	29%	3%	25%
Frequent Purchasers (86)	24%	20%	29%	3%	23%

Q. How do you feel about having to write your name and address when you buy a lottery ticket?

	Strongly dislike	Mildly dislike	Don't mind	Like it for its convenience in notifying winners
All Purchasers (143)	3%	4%	73%	20%
Frequent Purchasers (85)	4%	2%	72%	22%

The requirement to record the purchaser's name and address at the time of purchasing a lottery ticket does not appear to be a significant inconvenience or to adversely affect the sale of tickets.

Q. How do you feel about purchasing lottery tickets from automatic vending machines?

	Favor	Indifferent	Mildly oppose	Strongly oppose
All Purchasers (144)	38%	36%	13%	13%
Frequent Purchasers (87)	37%	35%	14%	14%

Q. If the New York State Lottery were held once a week instead of once a month, how would this affect your buying habits?

	Buy a great many more tickets	Buy somewhat more tickets	Buy about the same number of tickets	Buy fewer tickets
All Purchasers (142)	11%	37%	45%	7%
Frequent Purchasers (86)	13%	43%	40%	5%

These results show considerable support for holding weekly lotteries.

Q. If a lottery drawing were held each day, how would this affect your buying habits?

	Buy more than once a week	Buy once a week	Buy less than once a week
All Purchasers (140)	11%	34%	55%
Frequent Purchasers (84)	19%	39%	42%

The response to this question indicates quite strongly that New York lottery ticket purchasers do not favor a daily lottery.

Q. If you could purchase lottery tickets and know immediately if you win a prize, how would this affect your buying habits?

	Many more tickets	A few more tickets	About same number of tickets	Fewer tickets
All Purchasers (139)	18%	25%	52%	5%
Frequent Purchasers (82)	18%	20%	57%	5%

The purpose for asking this question was to determine how people would react to the concept of “instant winners” (or “instant losers”). This concept is basic to many gas station games and to slot machine play. In effect, the concept of “instant winners” is equivalent to holding extremely (infinitely) frequent private lottery drawings. The responses to this question indicate considerable support for the concept—even though the responses to holding daily public lottery drawings were strongly unfavorable.

Q. If the price of a New York State Lottery ticket were reduced from one dollar (\$1.00) to 50 cents (\$.50), how would this affect the number of tickets you would buy over the next year?

	Many more tickets	A few more tickets	About the same number of tickets	Fewer tickets
All Purchasers (145)	23%	50%	21%	6%
Frequent Purchasers (85)	28%	49%	25%	0%

Q. If the price of New York Lottery tickets were reduced from one dollar (\$1.00) to 25 cents (\$.25), how would this affect the number of tickets you would buy over the next year?

	Many more tickets	A few more tickets	About the same number of tickets	Fewer tickets
All Purchasers (143)	41%	37%	15%	7%
Frequent Purchasers (85)	49%	32%	16%	2%

The response to the two questions concerning reducing the price of lottery tickets indicates that considerably more tickets would

be sold if the price per ticket were reduced. However, the response is not so favorable as to indicate that the reduction in ticket price would result in an increase in gross revenue. Consequently, it seems that, over the range of prices under consideration, gross revenue appears to be rather insensitive to changes in the price of lottery tickets.

Q. If the price were increased to two dollars (\$2.00), how would this effect the number of tickets you would buy over the next year?

	More tickets	About the Same number of tickets	Fewer tickets
All Purchasers (143)	1%	40%	59%
Frequent Purchasers (85)	0%	48%	52%

The response to this question tends to support the belief that over the range of prices under consideration in this report, the lottery's gross revenue is relatively insensitive to changes in the price of lottery tickets.

Q. What is the biggest prize in the New York State Lottery?

	\$10,000	\$50,000	\$100,000	\$250,000	\$500,000
All Purchasers (140)	4%	4%	50%	38%	4%
Frequent Purchasers (83)	1%	4%	52%	37%	6%

The biggest prize in the New York State lottery is \$100,000 for monthly drawings and \$250,000 for drawings held every four months. Consequently most people gave a correct answer.

Q. If the biggest prize in the New York State Lottery were raised to one million dollars (\$1,000,000), how would this affect your ticket purchases?

	More tickets	About the Same number of tickets	Fewer tickets
All Purchasers (143)	29%	65%	6%
Frequent Purchasers (86)	35%	63%	2%

While a million dollar top prize represents a four-fold increase in the value of the top prize (and a considerable increase in cost), it would appear to elicit a significant but not a particularly impressive response in terms of ticket sales. It is worth noting that only the Mexican Magno lotteries held twice each quarter offer a first prize equal to or greater than a million dollars. In these two cases it is customary to sell the tickets in twenty five pieces so the prize per piece is not a million dollars but \$40,000 and the price per piece is \$4.80.

Q. Very roughly, what do you think are the chances of a ticket winning some prize in the New York State Lottery?

	GOOD	POOR	VERY POOR	FOR EXAMPLE					
				Better than 1 in 10	Less than 1 in 10 but better than 1 in 100	Less than 1 in 100 but better than 1 in 1,000	Less than 1 in 1,000 but better than 1 in 5,000	Less than 1 in 5,000 but better than 1 in 10,000	Less than 1 in 10,000 but better than 1 in 100,000
All Purchasers (140)	19%	29%	52%	1%	3%	12%	28%	52%	4%
Frequent Purchasers (84)	19%	29%	52%	3%	3%	10%	32%	48%	5%

The actual probability of winning at least some prize in the New York Lottery is approximately  $\frac{1}{700}$  to  $\frac{1}{900}$ , depending on the volume of tickets sold.\* The odds are therefore less than 1 in 100 but better than 1 in 1,000. Contrast these odds with those for the foreign lotteries with probabilities of 15 to 30 percent of winning at least some prize.

Q. If you could choose your own lottery ticket number, how would this affect your ticket purchasing?

	Buy many more	Buy a few more tickets	Buy about same number of tickets
All Purchasers (140)	3%	9%	88%
Frequent Purchasers (82)	2%	11%	87%

In most foreign lotteries, the ticket purchaser can select his ticket number from among the ticket numbers available. Many people feel that the capability to select a preferred ticket number would be a stimulant to lottery ticket sales. In many foreign countries, different numbers are associated with different objects, days, people or emotions, and people will develop a great deal of sentiment toward particular numbers primarily for superstitious reasons. Consequently, the present apparent lack of interest in choosing one's number is somewhat surprising. It is probably explained on two counts—the vast majority of New York lottery players have never participated in lotteries where they could choose their own ticket and consequently the option has little appeal to them. Also, it is likely that the New York public is far less superstitious or number association conscious than foreign peoples are. In either event, without a considerable investment in promotion, it is unlikely that the capability or lack thereof to select one's ticket number will have a significant effect on the demand for lottery tickets in the short run.

\* Conversation with Mr. E. Bird, Director of New York State Lottery Division.

Q. If one ticket in every 50 won at least a small prize, how would this affect your ticket purchasing?

	Buy many more	Buy a few more tickets	Buy about same number of tickets
All Purchasers (140)	22%	39%	39%
Frequent Purchasers (84)	26%	33%	40%

Since the current likelihood of winning at least a small prize in the New York lottery is between  $\frac{1}{700}$  and  $\frac{1}{900}$ , a 1 in 50 chance of winning represents a great increase in the likelihood of winning a prize. The necessary increase in the number of prizes can be brought about by reducing the number and size of the large prizes and channeling the funds into more smaller prizes and by returning a larger share of gross revenue in the form of prizes. The responses to the question indicate that for the better odds significantly more tickets will be sold. These results are consistent with the results of an earlier question where 41 percent of the lottery ticket purchasers indicated that the chance "to win some prize" best described why they purchased lottery tickets. However, the effect of the various legal constraints on announcing and making payment to winners is to raise the cost of awarding a prize. For example, New York indicates that the cost of each telegram sent to notify a ticket purchaser that his ticket has won a prize will cost about \$1.50. It is not clear that the sensitivity of gross revenue to increased probability of winning a prize is sufficient to offset the added costs associated with awarding numerous small prizes.

#### DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

The purpose of requesting the following demographic information was to provide a basis for identifying any significant bias of survey respondents in comparison with the adult people of the State of New York. No serious bias was detected in the composition of survey respondents.



Q. *Age*

	Under 18	18-40	40-65	Over 65
All Purchasers (124)	0%	51%	40%	9%
Frequent Purchasers (71)	0%	44%	46%	10%

Q. *Sex*

	Male	Female
All Purchasers (125)	74%	26%
Frequent Purchasers (72)	72%	28%

Q. Is the head of your household employed?

	Yes	No
All Purchasers (124)	89%	11%
Frequent Purchasers (72)	86%	14%

Q. Are you a resident of New York State?

	Yes	No
All Purchasers (124)	98%	2%
Frequent Purchasers (72)	99%	1%

Q. The community in which you live can be described as?

	City	Suburb	Town	Rural Area
All Purchasers (125)	27%	47%	23%	3%
Frequent Purchasers (71)	24%	46%	28%	1%

Q. Family income for last year?

	Under \$5,000	\$5,000- \$10,000	\$10,000- \$20,000	Over \$20,000
All Purchasers (120)	14%	36%	35%	15%
Frequent Purchasers (68)	13%	40%	38%	9%

### New York Survey

#### Results For All Who Have Not Purchased Lottery Tickets

Q. Do you think that you might buy lottery tickets?

If there were more prizes? (157)

Yes	30%
No	70%

If there were bigger prizes? (156)

Yes	29%
No	71%

If the tickets had a lower price? (156)

Yes	34%
No	66%

If drawings were held more frequently? (155)

Yes	26%
No	74%

If you could choose your own lottery ticket number?  
(157)

Yes	17%
No	83%

If tickets were available in more convenient locations?  
(156)

Yes	40%
No	60%

If you did not have to write your name and address on  
the ticket? (156)

Yes	8%
No	92%

What is your age? (157)

Under 18	3%
18 - 40	64%
40 - 65	29%
Over 65	4%

Many non-purchaser respondents indicated that none of the indicated changes would induce them to purchase lottery tickets. The composition of individuals responding "yes" to a particular design characteristic differed considerably from characteristic to characteristic so that in the aggregate considerably more than 40 percent of the non-purchasers indicated that they could be induced to purchase lottery tickets if one or more changes in the characteristics of the lottery were made.

Q. Sex (157)

Male	58%
Female	42%

Q. Is the head of your household employed? (157)

Yes	85%
No	15%

Q. Are you a resident of New York State? (156)

Yes	90%
No	10%

Q. The community in which you live can be described as: (157)

City	33%
Suburb	38%
Town	19%
Rural Area	10%

Q. Would you mind indicating, very roughly, your family's income last year? (141)

Under \$5,000	21%
\$5,000 - \$10,000	34%
\$10,000 - \$20,000	30%
Over \$20,000	15%

#### **DESIGN OF THE NEW YORK LOTTERY SURVEY**

In order to obtain information from a cross section of the population of New York State, three different survey areas were selected on the basis of such features as population density and per capita income. The areas were:

- Westchester County
- Richmond Borough in the New York City area
- Monroe County in upstate New York

For each of these areas, interviewers were instructed to attempt to obtain responses from a cross section of the population in terms of sex, age, estimated income and residential area. Most of the interviews were conducted in shopping centers located in the specified areas. Three hundred and three interviews were conducted—75 each in Westchester County and Richmond Borough and 153 in Monroe County.

No claim is made that the survey constitutes a random sample of this population of New York. Rather, it represents a conscious effort to obtain timely information and insight about the attitudes toward lotteries of a representative cross-section of New York adult residents.

#### **The New Jersey State Lottery Survey**

Respondents to the New Jersey State Lottery Survey were classified into two different classes: non-purchasers (those who indicated that they did not expect to purchase lottery tickets) and

purchasers (those who indicated that they do expect to purchase lottery tickets). The purchasers were divided into expected occasional purchasers and expected frequent purchasers. Survey results were computed for non-purchasers, all purchasers (including both frequent and occasional purchasers) and frequent purchasers only.

Eighty-four percent of those surveyed indicated they expect to buy New Jersey State lottery tickets while eighty percent indicated they favored New Jersey having a state lottery. As already indicated, the eighty-four percent appears high in light of the New York experience. The eighty percent corresponds to the percentage of favorable votes in the New Jersey lottery referendum in November, 1969. Supermarkets, drug stores, gas stations and newsstands were favored as the most convenient locations for purchasing lottery tickets. New Jersey respondents appeared to favor weekly lotteries over monthly lotteries, but only by a narrow margin. As in the New York results, weekly lotteries were preferred over daily lottery drawings. Approximately fifty percent of the respondents classified as purchasers felt that the determination of "instant winners" would be an important consideration in determining whether or not they would purchase lottery tickets. Although 25 percent of the purchasers favored the use of automatic lottery ticket vending machines, 30 percent were opposed. There was little concern over the possible requirement to record the purchaser's name and address at the time of purchasing lottery tickets.

**Results for "Purchasers" of New Jersey  
State Lottery Tickets**

Q. How do you feel about New Jersey having a state lottery?  
(248)

Strongly favor	55%
Mildly favor	38%
Indifferent	5%
Mildly oppose	1.6%
Strongly oppose	.4%

Q. If yes, and if the tickets are priced at \$1.00 or less, do you think you will buy tickets? (248)

Frequently	54%
Occasionally	42%
Seldom	4%

Q. How do you feel about purchasing lottery tickets from automatic vending machines?

	Favor	Indifferent	Mildly Oppose	Strongly Oppose
All Purchasers (248)	25%	45%	21%	9%
Frequent Purchasers (134)	27%	44%	19%	10%

Although the majority of potential New Jersey lottery purchasers either favor or are indifferent to the use of automatic lottery ticket vending machines, many potential New Jersey lottery purchasers oppose the use of such machines. On this question the New Jersey respondents are more negative than the New York respondents.

Q. Which of the following locations would you find convenient for purchasing lottery tickets?

	All Purchasers (248)	Frequent Purchasers (135)
Location		
Supermarkets	74%	68%
Drug stores	40%	44%
Gas stations	42%	47%
Newsstands	37%	35%
Airports, railroad and bus stations	14%	11%
Liquor stores	7%	10%
Bars and lounges	7%	7%
Restaurants	14%	14%
Hotels and motels	6%	7%
State motor vehicle offices	8%	8%
Other state and municipal offices	11%	9%
Turnpike service plazas	3%	3%
Race tracks	9%	10%
Bowling alleys	8%	9%
Movie theatres	8%	8%
Others (please note)	6%	6%

The preferences of respondents strongly favor the sale of lottery tickets at supermarkets, drug stores, gas stations and newsstands. However, in order to promote sales to out-of-state visitors, the sale of tickets at such places as transportation terminals, turnpike service plazas, hotels and motels would appear to be desirable, even though the respondents did not rate these locations as highly.

Q. If the drawings were held weekly as opposed to monthly, and the ticket price were the same, do you think you would, in the course of a year,

	Buy more tickets?	Buy about same number of tickets?	Buy fewer tickets?
All Purchasers (247)	29%	46%	25%
Frequent Purchasers* (110)	39%	46%	15%

Q. If the drawings were held daily instead of weekly, and the ticket price were the same, do you think you would, in the course of a year,

	Buy more tickets?	Buy about same number of tickets?	Buy fewer tickets?
All Purchasers (246)	12%	51%	37%
Frequent Purchasers (109)	17%	55%	28%

In these two questions, it was attempted to determine how the frequency of lottery drawings will affect the demand for lottery tickets. The results indicate that a weekly lottery would result in greater ticket sales than a monthly lottery. The results also tend to indicate that a weekly lottery would receive greater support than a daily lottery. These results are consistent with the responses

\* Due to apparently inconsistent results and manner in which these two questions were presented to respondents in Asbury Park and Freehold, these respondents have been omitted from the population of "frequent purchasers" for this and the following three questions. This omission, however, had no effect on the general direction of the results.

obtained in New York. These results are also consistent with what is observed in the foreign lotteries—with the exception of Mexico which holds drawings three times a week for three different lotteries, the foreign countries which were examined all hold weekly lotteries.

Q. If you could choose the number of your lottery ticket, would you,

	Buy more tickets?	Buy about same number of tickets?	Buy fewer tickets?
All Purchasers (248)	16%	82%	2%
Frequent Purchasers (110)	17%	82%	1%

Q. Suppose you could find out immediately if you have purchased a winning lottery ticket. In deciding whether to purchase a ticket, would this be important or not important?

	Important	Not Important
All Purchasers (245)	41%	59%
Frequent Purchasers (108)	50%	50%

Q. In order that winners can be notified, New York and New Hampshire lottery ticket purchasers must record their names and addresses. How do you feel about recording your name and address when purchasing a ticket?

	Favor	Indifferent	Oppose	Strongly Oppose
All Purchasers (246)	39%	55%	6%	0%
Frequent Purchasers (132)	37%	57%	6%	0%



Q. Age (247)

Under 18	3%
18 - 40	64%
40 - 65	30%
Over 65	3%

Q. Sex (245)

Male	56%
Female	44%

Q. Is the head of your household employed?

Yes	94%
No	6%

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Q. Are you a resident of New Jersey? (248)

Yes	97%
No	3%

Q. The community in which you live can be described as (245)

City	10%
Suburb	25%
Town	44%
Rural area	21%

Q. Would you mind indicating, very roughly, your family's income last year?

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	Under \$5,000	\$5,000 - \$10,000	\$10,000 - \$20,000	Over \$20,000
All Purchasers	9%	51%	34%	6%
Frequent Purchasers (133)	8%	50%	36%	6%

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Results for "Non-Purchasers" of the New Jersey State  
Lottery Survey

Q. How do you feel about New Jersey having a state lottery? (54)

Strongly favor	9%
Mildly favor	11%
Indifferent	33%
Mildly oppose	30%
Strongly oppose	17%

Q. Age (54)

Under 18	4%
18 - 40	63%
40 - 65	33%
Over 65	0%

Q. Sex (54)

Male	46%
Female	54%

Q. Is the head of your household employed? (51)

Yes	92%
No	8%

Q. Are you a resident of New Jersey?

Yes	100%
No	0%

Q. The community in which you live can be described as (52)

City	2%
Suburb	23%
Town	58%
Rural area	17%

Q. Would you mind indicating, very roughly, your family's income last year? (53)

Under \$5,000	10%
\$5,000 - \$10,000	47%
\$10,000 - \$20,000	32%
Over \$20,000	11%

## Design of the New Jersey State Lottery Survey

In order to obtain information from a cross section of the people of New Jersey, several different survey areas were selected. These areas were selected as providing a representative cross section of the socio-economic and demographic characteristics of the people of New Jersey. In selecting the particular areas, assistance was provided by personnel from the Urban Opinion Surveys Division of Mathematica who are familiar with conducting surveys in New Jersey. Approximately 25 interviews were conducted primarily at shopping centers, in each of the following areas of New Jersey:

Asbury Park City  
Bergenfield  
Cranbury  
Freehold City  
Hackensack  
Hoboken  
Jamesburg  
Kearney  
New Brunswick City  
Red Bank  
Ridgewood  
West New York

No claim is made that this survey constitutes a random sample of the population of New Jersey. Rather, it represents a conscious effort to obtain timely information and insight about the attitudes toward a state lottery of a cross section of the adult people of New Jersey.

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