How to Fix the Unfair Distribution of Revenue Collected By the Massachusetts State Lottery

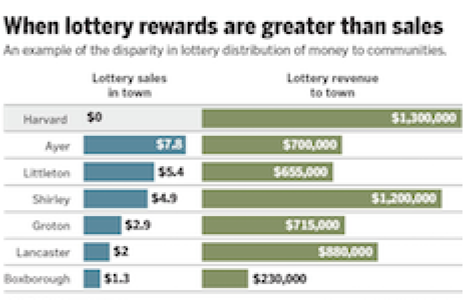
Jonathan Cohen, University of Virginia

Harvard is a town of about 7,000 residents in central Massachusetts. With a median family income of nearly $140,000, the town boasts one the state's best public school systems. But this town also symbolizes economic inequity. Massachusetts is the only U.S. state that allocates all of the revenue taken in by its lottery to local governments. Each year, every city and town in the state receives money from the lottery to spend as it deems fit. Harvard gets its share, more than one million dollars annually, even though not a single convenience store, gas station, or supermarket within the town limits sells lottery tickets. Residents of other places, disproportionately lower income people, are subsidizing the Harvard town government.

For decades, the Massachusetts Lottery has proven one of the most successful and innovative legalized sweepstakes in the United States. Last year, the state lottery grossed five billion dollars for the third straight year, approximately one billion of which flowed directly into the coffers of local governments. Although this revenue represents an important source of income for cities and towns, the Massachusetts state legislature should undertake major steps to reform the outdated and unfair distribution formula for lottery revenue.

The History and Consequences of the Massachusetts State Lottery

In 1972, the Massachusetts legislature enacted the Commonwealth's lottery bill. Other states devote lottery revenue to education or general expenditures, but, to ensure broad public support, the Bay State chose to divide its lottery income among the state's 351 cities and towns to spend as they wish. Shares of lottery funding are allocated based on a complicated, population-based formula devised by the League of Women Voters. In the twenty-first century, most Massachusetts cities and towns receive about five percent of their budget from state lottery revenue.



This formula aids Massachusetts's richest cities at the expense of the poorest ones. In 2013, 189 municipalities spent more on lottery tickets than they received from the state. Residents of Chelsea, for instance, bought $8.2 million worth of lottery tickets, though the city collected only $6.9 million in lottery funds. Meanwhile, towns like Harvard receive windfalls from the lottery fund, even though their residents contribute very little.

This distribution formula adds to the damage the lottery already inflicts on the state's poorest residents. Studies by academics and journalists have found that low-income lottery players buy more tickets and play more often than better-off gamblers. To create five billion dollars in lottery sales last year, the average Bay State adult spent, on average, over $900 on lottery tickets. This number is especially troubling because a 2016 survey found that 59 percent of state residents have less than $1,000 in their bank account, including 25 percent who have no savings whatsoever. As they lose money buying lottery tickets that rarely pay off, many of these low-income families are effectively subsidizing property taxes and public services in the state's richest areas.

Lottery tickets also take money out of local economies. The $8.2 million spent on lottery tickets in Chelsea could otherwise have been saved or spent on goods that raise sales tax revenue for the state and help create local jobs. Instead, the money spent on lottery tickets is pooled and distributed unevenly across the state.

Making the Massachusetts Lottery More Equitable

In recent months, Massachusetts State Treasurer Deborah Goldberg and Lottery Commission Executive Director Michael R. Sweeney have discussed the possibility of major changes to the state lottery. In particular, they have proposed the expansion to online games and the end of long-standing regulations that dictate that lottery tickets may only be purchased with cash. Yet prior to instituting such changes to increase sales, Goldberg and Sweeney should first propose major modifications to state formulas for allocating lottery revenues.

What kinds of reforms are possible? The state legislature could revise the outdated 1972 formula that governs the allocation of lottery funds. Assuming lottery income would still flow to local governments, two alternative changes in the allocation formula could be considered – with a slow phase-in of implementation to allow local governments to adjust:

- **Distribute lottery revenue based on local lottery sales.** If residents of Chelsea buy the most lottery tickets, then their city should receive the most lottery funds. If Harvard residents do not buy tickets, their town should not receive any lottery revenue.

- **Distribute half of lottery revenues based on sales, while the other half continues to be distributed according to population**. For example, $500 million of last year's lottery revenue could be distributed under the 1972 formula, while the remaining $500 million is allocated based on local ticket sales. Some funding would still go to Harvard, but places like Chelsea, where many tickets are sold, would also benefit.

A lottery in place since 1972 is not going to be eliminated, and Massachusetts residents are going to keep buying lottery tickets because many see the lottery not just as entertainment but as a way to take a chance, however slight, on dramatically bettering their life circumstances. Allocating lottery collections based on local sales will not put money back into purchasers' pockets, but a reform of this sort would make the state lottery more equitable. Places like Chelsea could use the extra allocations to improve local schools and other institutions that boost chances for upward mobility for all residents – not just the very occasional lottery player who happens to hit the jackpot. In short, before Massachusetts looks for ways to further expand sales of lottery tickets, it should reform its financial system into a more equitable means of raising and allocating public revenue.

Read more in Jonathan Cohen and David G. Schwartz, *All in: The Spread of Gambling in the Twentieth-Century United States* (University of Nevada Press, 2018).