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RE-ORIENTING THE LOTTERY: A BETTER LOTTO FOR THE POOR

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Introduction

In November 1966, the voters of New York approved an amendment to the state's constitution that authorized the state to establish a lottery.[i] The goal of this lottery was explicitly and exclusively to fund education in the state. The lottery as it exists today has grown far from the first modern lottery established in 1967. The original game was limited in scale and scope, unlike the numerous games today that give away prizes of up to millions of dollars daily and weekly.[ii] The New York State Lottery had revenues of almost $10.3 billion in Fiscal Year 2019.[iii]

Lottery games are sold disproportionately to low-income populations. Nationally, households earning less than $30,000 per year spend an average of $412 on lottery tickets annually as compared with $105 among households earning $75,000 or more.[iv] New York State must do a better job of ensuring that the lottery does not harm the poor but instead help these communities see the most benefit from the state's lottery system.

Under the New York State Constitution, lottery revenues are required to be allocated to education. Under current law, state education aid from the lottery is allocated according to a formula that provides funding to school districts all across the state. In order to make the lottery work better for the poor, the funding formula should be altered in the following way to provide a greater proportion of the funds to schools serving poor students and specifically for the benefit of efforts to combat poverty:

1. The lottery funding should be altered to allocate some of the funds specifically to Title I eligible schools. These funds should be specifically earmarked to educational programs in these schools that are targeted directly against poverty.

Another aim in reforming the lottery system should be to prevent the lottery from further disadvantaging the poor. One way that the state could prevent that from occurring is to eliminate a nexus between the lottery and another industry that targets the poor – alternative financial service providers such as check cashers.

Alternative financial services are defined as those services that individuals use to achieve their financial access needs outside of the traditional banking system. These services include payday loans, pawn brokers, prepaid cards, nonbank money orders and retail check cashing. As of 2013, 35 percent of New York City residents used these services to either augment or outright replace their use of traditional banking services. These unbanked or underbanked individuals are more likely to be low-income and minorities. Over 25 percent of households earning less than $15,000 per year are unbanked compared with less than one percent of households earning more than $75,000 per year. Among black households, 16.9 percent are unbanked and 14.0 percent of Latino households are unbanked as compared with 3.0 percent of white households.[v] When an individual uses one of these businesses to cash a check, they suddenly have an influx of cash on hand.

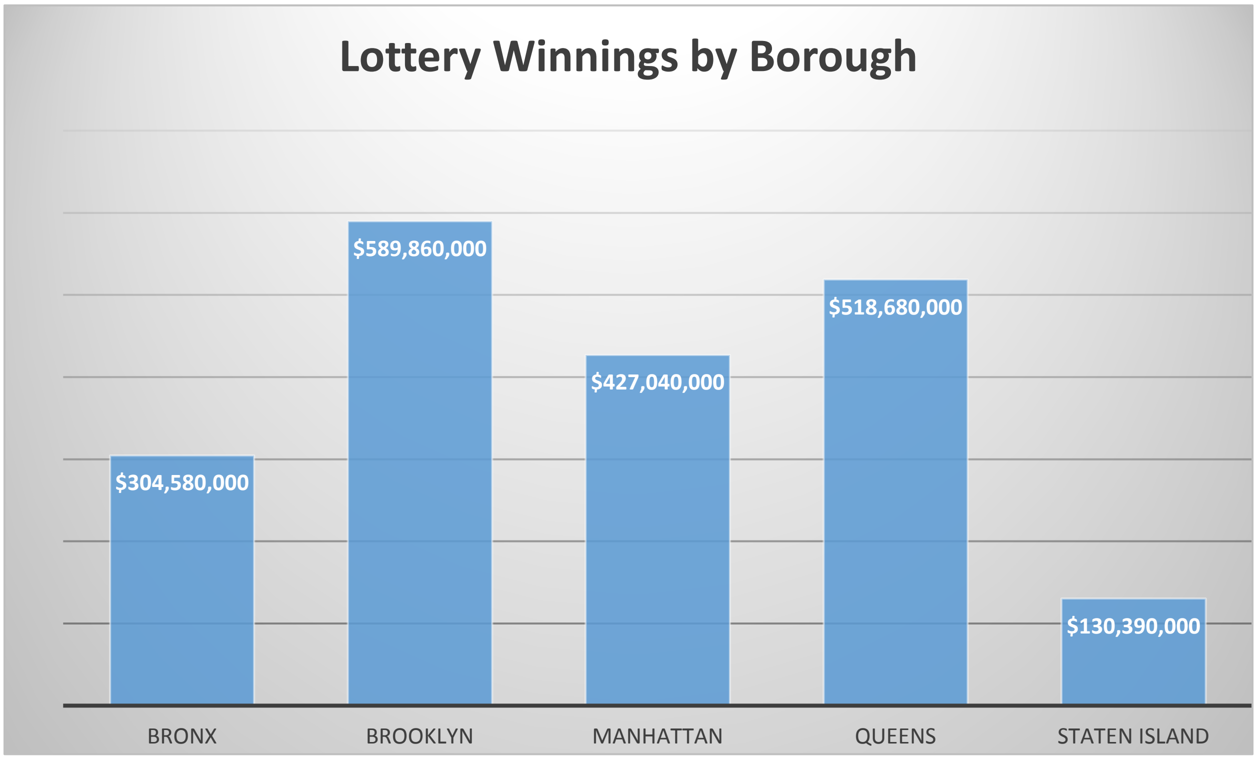
Both alternative financial services such as check cashers and the state lottery aim to profit off of low-income and minority communities. State lotteries targeting these communities has occurred for decades[vi] and has gone so far that some lottery advertising has been timed to target when people receive payments from Social Security and public assistance.[vii] The state should take a stand against these attempts by lottery systems and check cashers to take advantage of minorities and the poor. Lottery sales would never occur in a traditional bank, so they should also never occur in a similar business specifically geared towards serving the poor. Every New Yorker should be able to have access to a bank account, but for those who still rely on check cashing services, they should not at that moment have the opportunity to purchase lottery games. The state should undertake and implement the following recommendations to help limit the harm that vulnerable people in our society experience because of these industries:

2. New York State should ban retail check cashing businesses from selling lottery games.
3. New York State should also endeavor to collect information about which check cashers also have a license to sell lottery games. The state should accomplish this through the New York State Department of Financial Services amending the application for a check cashing license to include a question about lottery sales.
4. New York should educate the public about the benefits of engaging with the traditional banking system to save New Yorkers money and limit their use of more expensive alternative services.

New York Lottery

The New York State Lottery is established under the state's Tax Law Article 34[viii] and is administered and regulated through the New York State Gaming Commission.[ix] The New York Lottery was established after the voters of the state passed a constitutional amendment in 1966 that authorized the Legislature to set up a lottery to support education in the state.[x] The lottery began the following year.[xi]

In Fiscal Year 2019, the New York Lottery had about $10.29 billion in total revenue. The lottery paid out about $4.9 billion in prizes and $1.5 billion in retailer commissions.[xii] Of those prizes paid out, $1.97 billion was to winners in New York City.[xiii]



The lottery paid out $3.47 billion overall to school districts across the state in Fiscal Year 2018-2019.[xiv] This includes $1.26 billion that was paid to the New York City Department of Education,[xv] which is approximately four percent of the Department of Education's overall budget.[xvi] The amount of revenue that the lottery takes in and the amount of money that the lottery pays out in school aid has increased over time. Between 1993 and 2013, lottery revenue increased by an average of 5.2 percent per year.[xvii]

Nationally, lower income individuals are more likely to play the lottery than higher income individuals. Additionally, low-income individuals spend a disproportionate proportion of their incomes on the lottery.[xviii] White individuals are more likely to play the lottery than individuals from any other racial group, but black individuals who purchase lottery games play more frequently[xix] and spend more overall.[xx] According to a survey by Bankrate, 28 percent of individuals earning under $30,000 per year play the lottery at least weekly as compared with 18 percent of those earning over $75,000. The average American spends $17 per week on lottery tickets.[xxi] Additionally, a study about the lottery in Connecticut found that residents of poorer ZIP codes were more likely to play the lottery than resident of wealthier ZIP codes.[xxii]

Current Lottery Funding for Education

In New York, all net proceeds from the lottery are spent in support of education. According to the constitutional amendment from 1966 that originally authorized the establishment of the lottery, the state can establish a lottery, "the net proceeds of which shall be applied exclusively to or in aid or support of education..."[xxiii] This means that none of the revenue derived from the lottery can be used for other services, such as broadly supporting the communities where lottery tickets are purchased or helping people who struggle with gambling addiction or problems.

From traditional lottery sales, only approximately 30 percent of revenues go to support education in the state. About 60 percent is returned to the players as prize money, and the last 10 percent goes to retailer commissions and lottery operating expenses.[xxiv] The lottery is not a savings program – because the lottery only pays out 60 percent of its revenue as prizes, most players will lose money overall from the games that they buy. The average player is always going to lose money. New Yorkers bought $8.2 billion worth of lottery games in Fiscal Year 2019 and only received $4.9 billion back. Because low-income people purchase a disproportionate amount of the lottery games, this has the effect of pulling money away from low-income people and out of their communities. And while the education funding that the lottery provides helps support districts across the state, low-income people's disproportionate purchase of lottery games should necessitate that the revenue from lottery sales be directed more heavily towards schools in low-income communities.

The current lottery pays out its education funding to districts in a formula defined by law. The Lottery claims that the funding model "takes into account both a school district's size and its income level; larger, lower-income school districts receive proportionately larger shares of Lottery school funding."[xxv] However, the formula relies more on the value of property in the district: one of the apportionments is "a share of Lottery proceeds computed according to an equalized formula based on each school district's taxable property wealth per pupil..."[xxvi] Districts that have less taxable property wealth per pupil get a larger share of the education aid.[xxvii] Video Lottery Terminal (VLT) revenue is distributed to districts based on a formula that takes poverty into account however.[xxviii] The funding distribution from the New York City Department of Education (DOE) to some of the individual schools (largely for elementary schools) takes into account poverty as a part of the Fair Student Funding formula.[xxix]

In Fiscal Year 2019, the Lottery paid out $3.47 billion in school aid statewide. This includes $1.26 billion in funding granted to New York City, which is 36.3 percent of the total.[xxx] However, as of the 2018-2019 school year, New York City schools enrolled 994,964 of 2,577,890 students statewide, or 38.6 percent.[xxxi] This shows an inequity in the current system of allocating funding from the lottery. If the funds were simply paid on a per student basis, New York could have expected approximately an additional $80 million last year. This is unfair to New York City's students, who are not receiving their fair share of education funding from the Lottery. Overall, 12 percent of state support for education comes from state lottery revenues. This large block of funding should be better distributed for the benefit of poor students all across New York, particularly to schools in New York City.

Proposal #1: Changing the Allocation of Lottery Funds

Some of the funding derived from the lottery should be reallocated to a grant given to the schools that serve the largest populations of students living in poverty. These funds could be, for example, granted to each Title I eligible school in New York State. In the 2016-2017 school year, in New York City alone there were 1,265 Title I eligible schools.[xxxii]

Title I eligible schools refers to a category determined under the federal Elementary and Secondary Education Act (ESEA). This act provides several types of funding to schools across the country. One such category of funding is Title I which aims to improve education for students who are living in or near poverty. Schools are Title I eligible if they have at least as high a percentage of students living in poverty (as measured by eligibility for free or reduced lunch) as the whole population of students served by the local education authority (in this case New York City DOE as a whole, but determined by the school's borough) or if the school has at least 35 percent of students from low-income families.[xxxiii] This means that any school that exceeds the borough cutoff is eligible for the Title I funding. The cutoff rate for a school to be Title I eligible in the 2016-2017 school year was 60 percent in The Bronx, Brooklyn and Queens, 59.5 percent in Manhattan and 47.6 percent on Staten Island.[xxxiv]

Redirecting lottery funding to Title I eligible schools will further support students living in or near poverty. Currently, funding derived from lottery revenue is sent to all districts across the state without specific consideration of the proportion of students who are living in poverty. This change will help support low-income students who deserve greater support within the schools they attend. In New York City, these schools are located all across the city, and the funding depends on the demographics of the students and not on the location of the schools. There is a well-established pattern that children living in poverty experience worse educational outcomes than more affluent students.[xxxv] For example, low-income students have lower test scores and are less likely to graduate high school or attend college. This funding should go towards helping to improve educational outcomes in these schools.

Additionally, this funding should be spent on specific programs in the schools that are aimed at the alleviation of poverty in both the short and long terms. The nature of the programs is limited by the state constitution's requirement that the funds must be spent "in aid or support of education."[xxxvi] Any change to the lottery aid will have to keep this under consideration when making decisions of what programs should be supported.

Some of the programs that this new funding for Title I schools should support include: funding financial literacy programs in schools, funding universal test prep, more equitable purchasing of school supplies and technology, hiring more guidance and career counselors and funding more expansive English language learning programs.

Financial literacy courses, specifically for high schools, should be taught broadly but can also include information that is specifically relevant to students in the school setting. For example, they can include information about how to fill out financial aid forms and how to apply for fee waivers for standardized tests. Utah requires students to take a financial literacy course in school, and the course is required to include information about paying for college and student loans. These courses can help provide students with information that can help them overcome barriers to moving out of poverty. These courses are most effective when the teachers are well-trained,[xxxvii] so the schools should allocate some of this money to help get the teachers the training they need to provide the most benefit to the students.

One of the barriers to young people rising out of poverty is the ability to access higher education. High-income children are six times more likely to graduate college than low-income children. One of the barriers keeping children from getting into their choice of college is performance on standardized tests. There is a large gap in mean SAT scores for low-income and high-income children – over 130 points in each section between the lowest and highest income brackets.[xxxviii] Funding universal test prep courses for students who want to attend college could help these students boost their scores, enabling them to get more access to higher education and thus more easily gain access to higher paying jobs in the future. According to the College Board, 58 percent of students who took the SAT had paid for test prep.[xxxix] Providing this same opportunity to low-income students can help narrow the achievement gap and thus improve future outcomes for those students.

Using this funding to hire more career and guidance counselors can help combat poverty, providing pathways for students to determine their future prospects and goals. In the 2014-2015 school year statewide, there were 635 students for every school counselor, giving New York the seventh worst ratio in the country.[xl] New York City performs better than statewide. As of 2018, the New York City DOE employed 2,880 guidance counselors which provides a ratio of 348 students per counselor.[xli] However, there is still room for improvement. This number is still higher than the nationally recommended ratio of 250 students per counselor[xlii] and over 100 schools have counselors that serve more than one location.[xliii] Providing funding to increase the number of counselors will help students, particularly those in low-income communities, find their way into higher education or the workforce. By using lottery funding for this purpose, long-term poverty can be targeted more effectively.

Depending on how far away from direct educational services interpretation of the state constitutional language permits, this lottery funding could potentially be used for additional wraparound services that are operated out of and within schools. For example, the funding could be used to support: afterschool programs, health and mental health clinics in schools, family programming, youth summer employment, funding internships and apprenticeships out of the classroom and employing case workers to help connect children and families to services outside of the school.

These anti-poverty programs would benefit low-income children more generally by providing services to those who may have trouble accessing them on their own. Funding these programs that immediately alleviate or mitigate poverty can provide greater chance for educational success for low-income children. The research is clear that experiencing poverty – particularly persistent poverty – as a child is highly correlated with negative outcomes as an adult. Children living in poverty are less likely to graduate high school or college, less likely to maintain consistent employment, more likely to become a parent as a teenager and more likely to be arrested as a teenager.[xliv] By providing these programs at the moment when children are vulnerable, we can improve educational outcomes and help students achieve better, more prosperous futures.

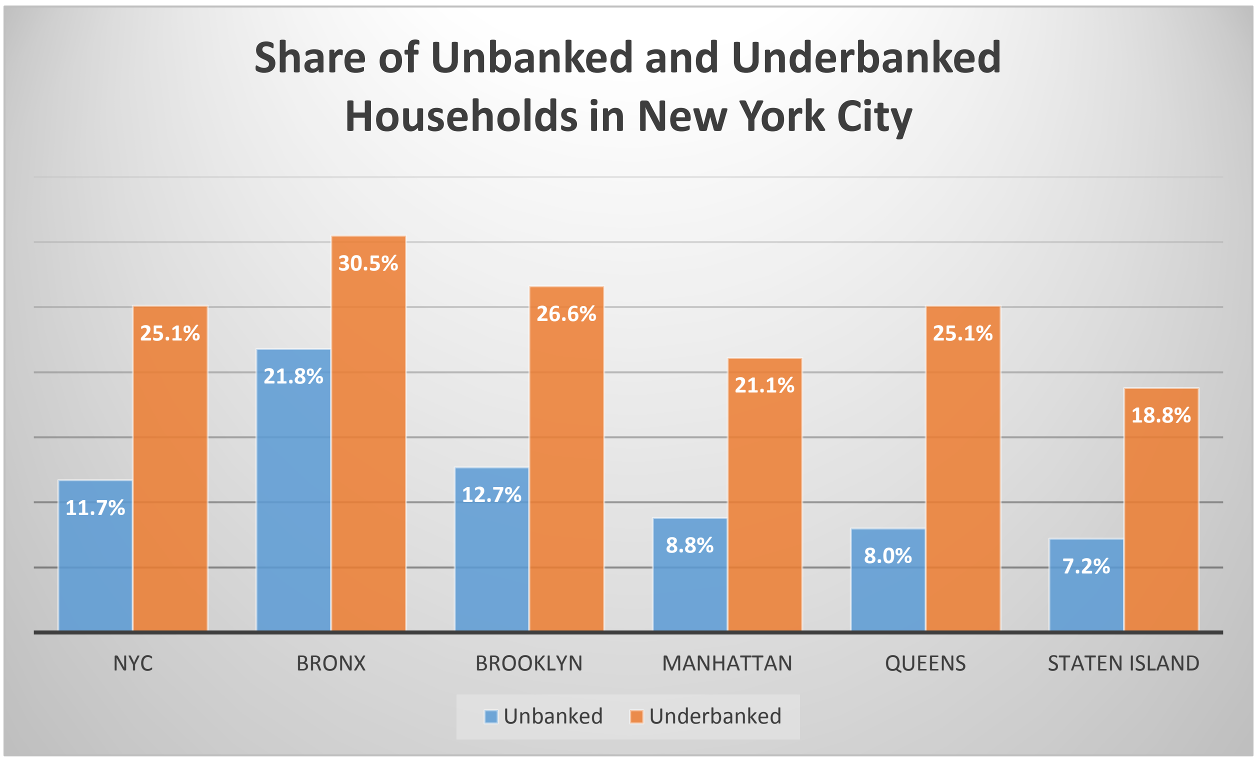
Mitigating the harms caused by poverty can help enable students achieve greater success in schools. For example, health clinics in schools can help students achieve success because students who have health issues such as asthma are more likely to miss school. If schools are better equipped to handle students' needs, then the students will be able to be more focused on their studies. In The Bronx, programs like the health and vision center at PS 18 can provide a model for what these clinics could look like.[xlv] Providing these wraparound services in schools can both improve conditions for students in the short-term and also set up students for success in the longer term. Health clinics, family programming and connecting students to services can help students stay focused on their schoolwork which will better enable them to succeed in the classroom and prepare them for post-secondary pathways in the future.

The Unbanked and Underbanked Population

As of 2013, 11.7 percent of New York City households were unbanked – meaning that they did not have access to a bank account. This is equivalent to 360,000 households.[xlvi] Additionally, 25.1 percent of New York City households were underbanked – meaning that they did have access to a traditional bank account but also used alternative financial services. This is equivalent to 780,000 households.[xlvii] This means that over 1.1 million households in New York City are relying on alternative financial services such as check cashers and pawnshops in order to make ends meet and pay their bills.[xlviii]

However, these households were not spread evenly across New York either geographically or demographically. Nationally, young people and racial minorities were less likely to have access to a bank account. In 2017, 10 percent of people under 25 were unbanked compared with less than four percent of people over 65. That year, 16.9 percent of black and 14.0 percent of Latino households did not have a bank account compared with 2.5 percent of Asian and 3.0 percent of white households.[xlix] This shows that black and Latino households are more likely to rely on alternative financial service providers such as check cashers to meet their financial needs. When banks have fewer branches in low-income and minority communities, the people that live there are often forced to turn to these more expensive alternative services.

Within New York, residents of The Bronx were far less likely to have access to a bank account and were far more likely to use alternative financial services than residents of the other boroughs. While 36.8 percent of households citywide were either unbanked or underbanked, that number rose to 52.3 percent for The Bronx. The lowest combined number was on Staten Island where 26.0 percent of households were either unbanked or underbanked. The combined unbanked and underbanked population was 39.3 percent in Brooklyn, 33.1 percent in Queens and 29.9 percent in Manhattan.[l] The Bronx in particular performs worse than any major city in the United States when it comes to the unbanked and underbanked populations. Miami has the highest rate of being unbanked or underbanked of any major city in the country, but it only has a combined rate of 41.5 percent, over 10 percentage points lower than The Bronx.[li] While the unbanked population is particularly concentrated in The Bronx, the underbanked population is more spread out across the city. The two neighborhoods with the highest proportion of households that are underbanked are East Flatbush and South Crown Heights, both in Brooklyn. Jamaica, Queens also has a high rate of underbanked households.[lii]



Being unbanked or underbanked is highly correlated with both poverty and unemployment. Looking at historical rates, the proportion of the population that lacks a bank account or uses alternative financial services went up during the Great Recession and declined afterwards. The New York City unbanked rate was 14.3 percent in 2011 but declined to 11.7 percent in 2013. Furthermore, the unbanked rate declined in every borough except Staten Island over that period.[liii] The most highly unbanked neighborhoods in New York City are Mott Haven and Hunts Point where 31 percent of households did not have a bank account. Additionally, these neighborhoods were the poorest in the city, with 40 percent of the population there living in poverty.[liv]

There are many reasons that individuals and households cannot access a bank account, choose not to use one, or continue to use alternative financial services despite having access to a bank account. When asked why their households did not have a bank account, respondents to an FDIC survey in 2017 were most likely to say that they did "not have enough money to keep in [an] account." Other responses to the survey included mistrust of banks, problems with account fees and inconvenience with regards to accessing banks.[lv] There are often many conditions that come with bank accounts, including minimum balances, an initial deposit to open the account, maintenance fees and capped numbers of withdrawals. All of these conditions impose a burden on less affluent households who often do not have consistent flows of income that make holding one of these accounts feasible. While alternative financial services often charge fees that far exceed those charged at banks, they do not require consistent income and can therefore be more attractive to these individuals and households.[lvi]

Even when an individual or household does have access to a bank account, there are pressures that cause them to use alternative financial services anyway. Many low-income people live paycheck to paycheck – they have consistent expenses but only get paid sporadically. These individuals may choose to use services such as payday lenders to make ends meet when they still have several days before being paid.[lvii] Additionally, money deposited into a bank account is generally not immediately available for withdrawal or use. This means that there can be a delay between people earning their money and having access to it. Check cashers however do not operate on this delay. An individual can cash their checks at these businesses and get their money immediately. Furthermore, many immigrants use alternative financial services to send money back to family in their countries of origin. This increases the proportion of the population considered to be underbanked.[lviii]

Poor financial literacy also contributes to lack of use of banking services among low-income households. Many individuals are put off from bank accounts because of the fees and minimums but could be better educated that the costs of alternative financial services are much greater over time. Encouraging use of banking services through financial literacy education could help reduce individuals' use of alternative financial services.[lix] Another effect of using check cashing is that individuals who partake in these services are less likely to save. Because individuals are given large amounts of cash, it is harder for those individuals to keep their money safe and protected, so it is more likely to get spent. And the immediate availability of other services in the same shop such as the sale of lottery games gives individuals an immediate way of spending their money.[lx]

Banking and Check Cashing in New York

According to the Financial Service Centers of New York, the trade association for check cashers, there are approximately 530 check cashing businesses in New York State that provide services to more than one million New Yorkers each year. The industry says it processes 30 million checks accounting for over $11 billion dollars annually and claims to employ approximately 4,000 individuals, mostly from communities of color.[lxi]

Check cashing businesses are regulated under Article 9-A of the state Banking Law.[lxii] This law gives the Department of Financial Services (DFS) regulatory control over the industry. Among its powers to regulate this industry, DFS issues licenses to all businesses that want to cash checks for a fee, sets the maximum fee that the businesses can charge and limits where check cashers can operate. For 2019, DFS set the maximum fee for the cashing of a check to be 2.11 percent of the face value of the check.[lxiii] DFS also regulates other alternative financial services such as payday loans which are illegal in New York.[lxiv]

DFS is also responsible for regulating the banking industry in New York. DFS has set rules enforcing a state law regarding what minimum services that banks must offer consumers with regards to a basic bank account. Under this regulatory scheme, basic banking accounts must have an initial deposit of no more than $25, a minimum balance of no more than $0.01, a monthly maintenance fee of no more than $3, at least eight free withdrawals from the account per month and no limits on the number of deposits allowed per month.[lxv]

These strict limits help ensure that more New Yorkers have access to a bank account should they want one. However, it is unclear that these rules are widely known among the general public. Since one of the main concerns of individuals keeping them from opening bank accounts was believing that they did not have enough money to keep one, it is clear that many New Yorkers do not know that there is functionally no minimum balance to keep a bank account. And the $3 per month fee is cheaper than the fees for cashing checks so long as the individual cashes checks worth more than $122.18 per month at the current maximum legal rate. The average low-balance bank consumer will pay $73 in maintenance and transaction fees per year for their bank accounts.[lxvi] This is cheaper than the maximum fee for cashing checks for $300 per month. Increasing financial literacy in New York as to the protections that the state offers individuals in the banking system could help individuals choose banking as opposed to alternative financial services.

However, there are also other issues preventing individuals from having access to banking services. There are many fewer banks per capita in majority-minority areas than there are in majority-white areas. Additionally, The Bronx has the lowest number of bank branches per capita among the boroughs, limiting the poorer residents of the borough from accessing these services.[lxvii] The ratio of alternative financial service providers to banks is also the highest in The Bronx. There are 1.02 alternative financial service providers per bank in the Bronx as compared with 0.49 in Brooklyn, 0.38 in Queens, 0.22 in Manhattan and 0.18 on Staten Island.[lxviii]

It is unclear how many check cashers sell lottery games. One study in 2002 in Massachusetts found that that of the 88 registered check cashers in the state at the time, 61 sold lottery games that accounted for $32 million in overall lottery sales.[lxix] When North Carolina considered a ban on check cashers selling lottery games in 2009, only "a handful" of those businesses engaged in lottery sales.[lxx]

History of Reform of Check Cashers and the Lottery Around the Country

Few states have attempted to regulate lottery sales at check cashers or similar alternative financial services providers. The national leader on the issue is Oklahoma. That state's Lottery Commission passed a ban through regulation in 2005 which banned businesses such as pawnbrokers, payday lenders and check cashers from receiving licenses to sell lottery games. In 2006, the Legislature encoded this ban into state law.[lxxi]

Specifically, the law bans anyone who has "a license to do business as a pawnbroker, supervised lender, or deferred deposit lender, also known as a payday lender, or whose primary business is categorized as a check casher" from also holding a certificate of authority to sell lottery games.[lxxii]

This effort in Oklahoma shows the wide base of support for such a measure. The lead sponsor of the measure was a Republican state senator named Kathleen Wilcoxson,[lxxiii] and the bill passed through the state senate unanimously and through the state house nearly unanimously.[lxxiv] Senator Wilcoxson argued that allowing these businesses to sell lottery games was "exploitative"[lxxv] and would be "preying on the state's poorest and most desperate citizens."[lxxvi]

North Carolina considered and rejected a similar ban in 2009. The state's House of Representatives passed the bill by a vote of 85-29; however, the state's senate defeated the measure 23-20.[lxxvii] The bill differed from Oklahoma's because North Carolina's only would have banned lottery sales from retailers who derive most of their revenue from cashing checks, drafts or money orders.[lxxviii] This bill was much less widely supported in the state. However, the voting did not break down on partisan lines with both Democrats and Republicans voting for and against the measure.[lxxix]

Supporters of the bill such as then-state Senator Josh Stein said that the aim of the bill was to discourage people in a "vulnerable financial situation" from purchasing tickets through reducing access. Opponents, however, argued that these businesses should not be singled out.[lxxx]

A proposal to ban lottery sales in check cashing businesses was considered in Massachusetts in 2003 but the proposal did not go anywhere. State Representative Barbara L'Italien, who supported such a ban, argued that allowing check cashers to sell lottery games "preys on our poorest citizens." Opponents however argued that there was no reason to single them out for such a ban when other businesses, such as liquor stores, were allowed to sell lottery games.[lxxxi]

In 1994, the New York City Public Advocate's office under Mark Green released a report discussing the decline in bank branches in poor and minority communities over the previous 15 years. In discussing this report, Green argued that selling lottery games at check cashing businesses was "dubious public policy" that hurts the poor and supported addressing the issue.[lxxxii]

Other states have not considered or enacted into law such a ban on lottery sales in check cashers or similar businesses. Some states have regulations regarding check cashing services related to video gaming that is also governed by their state's lottery authority including New York, but this is substantially different than this specific issue.[lxxxiii]

Proposal #2: New York should ban check cashers from selling lottery games

Banning check cashers from selling lottery games will help discourage the low-income populations that typically use check cashing services from purchasing those games. While the lottery does help to support education in New York, playing the lottery is generally a losing proposition. Low-income people should not be encouraged to spend their money on the lottery at businesses that already cause them to spend more money than they would from using traditional banking services. The government should not be in the business of profiting off of those individuals who have the least income and access to services.

The optimal way to make this change would be to amend the New York Tax Law Section 1605 to ban the licensure of any person to act as a lottery agent who also holds a license to cash checks. The Gaming Commission already uses several criteria to determine whether someone should be granted a license to become a lottery agent, and the Legislature should pass a law to add not having a check cashing license to that list.[lxxxiv]

Potential language for such legislation would be adding a paragraph to Section 1605 of Article 34 of the Tax Law.[lxxxv] For example: "h. The division shall not license as an agent to sell lottery tickets any person who holds a license to engage in the business of cashing checks granted under Article 9-A of the Banking Law."[lxxxvi] This language would be strict enough to completely ban overlap between the two services because it would require businesses to choose one license or the other.

It is also possible that the Gaming Commission could pass a regulation to enact such a ban without having to change state law. Section 1605 paragraph (a) says that "[t]he division may license as agents to sell lottery tickets such persons as in its opinion will best serve public convenience..."[lxxxvii] It is possible for the Gaming Commission to determine that allowing a check casher to continue to sell lottery games does not best serve the public's interest and to ban them under that provision. However, this would likely result in a court challenge, so a legislative change in the law would be the optimal outcome.

If banning simultaneous licensure for both check-cashing and lottery sales is seen as too restrictive, the state could consider less onerous requirements. For example, the state could model the law off of Oklahoma's which bans lottery sales from a company whose "primary business" is as a provider of alternative financial services such as check cashing.[lxxxviii] Or the state could follow a proposed North Carolina law which would have banned lottery licensing for businesses who have a majority of revenue from check cashing and other alternative financial services.[lxxxix]

One potential issue with this proposal is the loss of revenue that the check cashers will experience if they lose the profitable source of income of lottery sales. However, this is not a concern because the ban would not drive check cashers out of business entirely. There would still be check cashing businesses serving the individuals who want access to those services.

Proposal #3: New York should collect information about check cashers' sales of lottery games

Should the state choose not to ban check cashers from selling lottery games at this time, they should at least endeavor to collect information about which check cashers also have a license to sell lottery games and actually do sell lottery games in their stores. The state should accomplish this through DFS amending the application for a check cashing license to include a question about lottery sales. DFS would not require a change in state law for this to occur because they are the ones who design the application.[xc] This information should be collected to improve understanding of how these businesses operate within the state and to better inform future policy decisions.

Proposal #4: New York should educate the public about the benefits of engaging with the traditional banking system

New York State requires banks to offer "lifeline" bank accounts with regulations limiting minimum balances, fees and withdrawal limits.[xci] Because many people believe that they do not have enough money to have a bank account, there is undoubtedly an education gap. The state should do more to help inform low-income, unbanked populations that they have the right to a bank account with functionally no minimum balance and low fees. This would help to save New Yorkers money and limit their use of alternative services such as check cashing.

The state and city should work with local banks and credit unions to help them provide information about their basic accounts to low-income individuals. The state and city should work with low-income populations such as NYCHA residents and public benefit recipients to encourage them to open bank accounts and inform them of the opportunity to do so at low cost to them.

Gambling Concerns

In New York State, the Office of Alcoholism and Substance Abuse Services (OASAS) is in charge of programs that help people with gambling issues. An OASAS study from 2007 found that approximately five percent of New Yorkers have issues with gambling. Men, young people, racial minorities and the unmarried were more likely to deal with problem gambling.[xcii] While this data is rather old, OASAS is currently beginning a new study about statewide gambling issues and a draft report is expected in August 2020.[xciii]

This proposed check-casher lottery sales ban would also help combat problem gambling. At businesses that provide check cashing services, individuals are often given large amounts of cash all at once. Because there are possibly lottery games available for sale at the same location, this can result in people who already deal with gambling addiction spending their money feeding their addiction. There is a strong incentive for the state to step in to prevent gambling addiction from harming individuals and families, and making it even slightly more difficult for those individuals from having access to gambling opportunities makes this effort beneficial.

OASAS offers several types of programs for gambling addiction services across the state. In 2018, the state through OASAS spent $5.9 million on gambling addiction services. Some of this funding came from a $500 annual fee assessed on every slot machine or table in the state.[xciv] None of the funding came from the lottery proceeds because the state constitution requires that lottery net revenues go only to funding education.[xcv]

However, there is a large gap in the services that OASAS provides. They do not routinely collect data about gambling addiction in the state and are only engaging in a new survey this year for the first time in over a decade. The Office also plans to add questions about gambling to its county planning surveys. Among the gambling treatment programs that OASAS operates, there are none in 40 of the state's 62 counties, including The Bronx. The largest network of gambling treatment is the Queens Center for Excellence – a pilot program that OASAS has begun operating across that borough. There are two OASAS treatment centers in Brooklyn and one each in Manhattan and Staten Island. Additionally, it is unclear that the state is doing enough to attract individuals with gambling problems to these services. One upstate county did not have enough people utilizing the services to sustain their center.[xcvi]

The Gaming Commission runs a "Responsible Gaming Awareness Program" that advertising information about problem gambling to individuals who purchase lottery games. This program includes several initiatives including publicizing OASAS help services at all retailers, producing advertising about problem gambling and resources for help, and requiring age verification for the purchase of lottery games and use of video gaming terminals.[xcvii]

Conclusion

The lottery does not currently work for low-income people in New York. Despite lower disposable incomes, the poor are more likely to purchase lottery games. While net proceeds from the lottery are used to support education in the state, this funding should be distributed more to the benefit of the poorest students, schools and communities. By directing this funding to the schools that serve the poorest communities in New York, the state could help alleviate poverty both in the short term and the long term. The state should specifically fund targeted anti-poverty programs in those schools that would provide the most help to the students who have the most need.

Additionally, low-income New Yorkers are more likely to be unbanked and underbanked, leading them to use alternative financial services such as check cashing. Check cashers being allowed to sell lottery games results in money being drawn out of the pockets of low-income individuals and historically economically disadvantaged communities. Banning these businesses from selling lottery games would be a strong step towards limiting the state's unfair attempt to raise revenues from low-income people. Furthermore, the state should encourage low-income people to engage with the traditional banking system, which will help save them money, thereby mitigating long-term financial insecurity and addressing issues of income inequality.

Overall, the state needs to make sure that the lottery is best serving the interests of all New Yorkers, especially the poor, and it can do this by changing how the revenues are distributed and banning check-cashers from selling these games.

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[xxvii] The formula relies on a variable called "Pupil Wealth Ratio" which is defined in Education Law §3602 as "the number computed to three decimals without rounding obtained when actual valuation of a school district divided by the total wealth pupil units is divided by the statewide average actual valuation per total wealth pupil unit…" Functionally this is a comparison between the wealth per pupil of the district and the wealth per pupil of the state as a whole. Plugging this into the formula in the Finance Law §92-C, means that the less property wealth per pupil relative to the state a district has, the more aid they will get.
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