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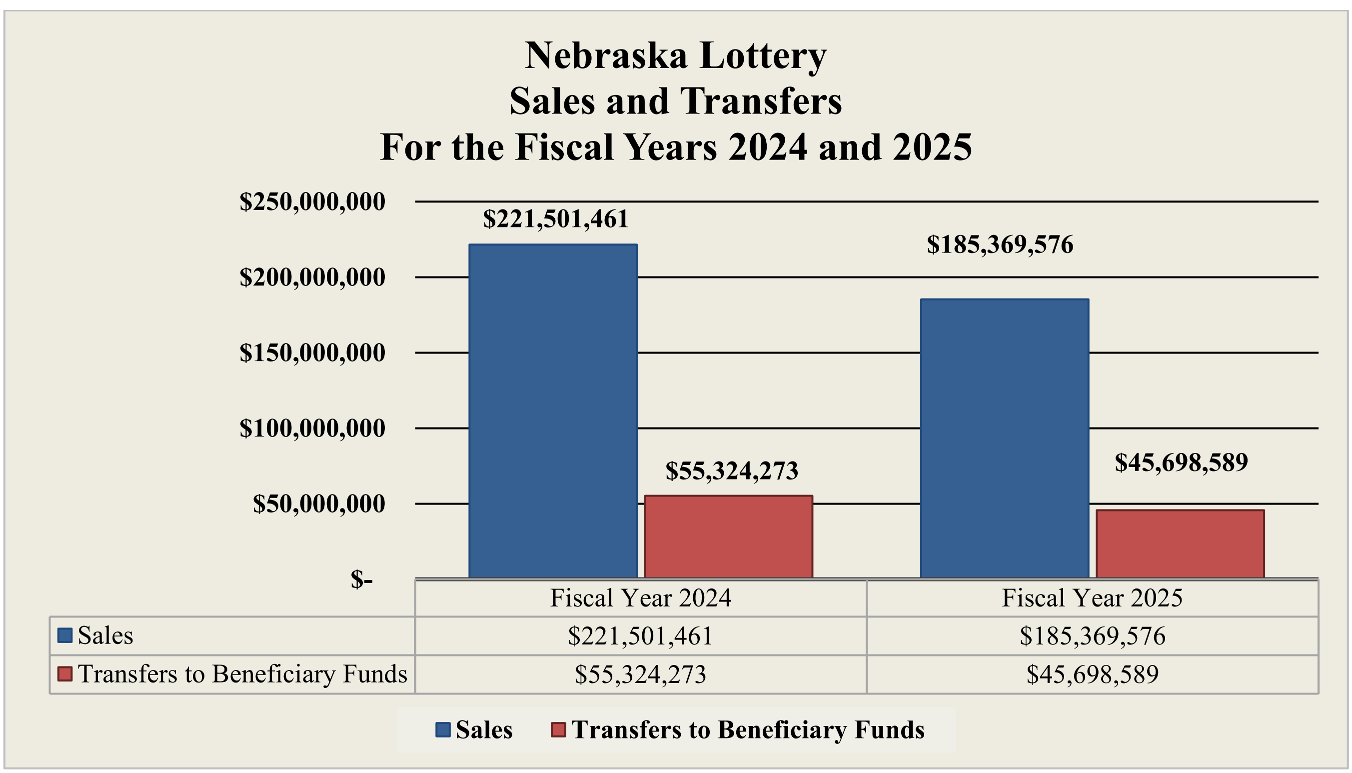
State Audit Shows Nebraska Lottery Sales Down over $36 Million Resulting in Less Revenue for Other State Efforts

State Auditor Mike Foley has released a report on his office's annual audit of the Nebraska State Lottery (Lottery). Chief among the findings therein, Lottery ticket sales were found to have declined by over $36 million dollars in the most recent fiscal year. That 16.3% drop in sales – driven partly, Foley surmises, by the increased availability of casino gambling and the growth of other gaming options – had a negative financial impact on the Lottery's statutorily mandated funding of four key State initiatives: 1) the Nebraska Environmental Trust; 2) the Nebraska State Fair; 3) the Compulsive Gambler's Assistance Fund; and 4) various educational funds, including the Nebraska Opportunity Grant Fund.

Overall, these four key State initiatives received nearly $10 million less from the Lottery due to flagging ticket sales – with possible further decreases on the horizon as alternative forms of gambling continue to gain momentum. The following table illustrates the diminished Lottery revenues and fund disbursements during the recent fiscal year:



	Fiscal Year 2024	Fiscal Year 2025
Sales	$221,501,461	$185,369,576
Transfers to Beneficiary Funds	$55,324,273	$45,698,589

The reduction in Lottery income transfers to each of the beneficiary funds over the fiscal year is detailed below:

Fund	2024 Benefit	2025 Benefit	Decline in One Year
Nebraska Environmental Trust	$ 24,396,802	$20,113,372	$ 4,283,430
Nebraska State Fair	$ 5,482,427	$ 4,519,859	$ 962,568
Compulsive Gamblers Assistance Fund	$ 1,048,242	$ 951,986	$ 96,256
Education Funds	$ 24,396,802	$20,113,372	$ 4,283,430
Totals	$ 55,324,273	$45,698,589	$ 9,625,684

Per statutory revision in 2023, the Legislature allocated many millions of Lottery dollars to 10 important educational funds – including, among others, the Excellence in Teaching Cash Fund, the Community College Gap Assistance Program Fund, and the Nebraska Opportunity Grant Fund. This was in keeping with the declared purpose of the original State Lottery Act passed in 1991, which was to raise "additional money . . . for educational and other community benefit purposes." Should the recent decline in Lottery revenues prove indicative of an overall trend, Foley cautioned, that vital legislative intent could be undermined as a result.

Noting that the Lottery's revenues surged last month when the Powerball jackpot was temporarily high, Foley pointed out, "The longer-term impact of new forms of gaming on future Lottery proceeds seems ominous. The protracted course of lottery ticket sales is what matters most, and only time will tell if it experiences a significant ongoing decline."

Competition for gambling dollars runs far beyond the expansion of casino gaming in Nebraska. Today, with a few clicks on any device connected to the internet, one can wager on everything from a myriad of sporting events to the Oscar award for best picture, the next head football coach at Penn State, or even the upcoming presidential election in Bolivia. "If I were a betting man," quipped Foley, "I'd lay odds that the increasing popularity of such online activities, some of which occur outside of the State of Nebraska's authority, will result in ever more gambling dollars being siphoned away from the Lottery and its intended beneficiary funds."

Foley's audit team addressed also the Lottery's handling of certain repeat winners. According to the report, 614 people won the Lottery more than once this past fiscal year, with their combined prizes totaling more than $4 million. One player won 43 times and pocketed $41,778. Winners of 10 or more prizes over the past year are listed in the following table:

Number of Claims	Total Won
43	$ 41,778
26	$ 32,980
22	$ 28,800
19	$ 30,092
17	$ 282
17	$ 10,800
17	$ 19,050
16	$ 22,018
16	$ 21,363
15	$ 21,259
15	$ 11,109
13	$ 250
12	$ 16,150
12	$ 92,299
10	$ 77,842

"Winning the lottery," observed Foley, "is considered by many a once-in-a-lifetime experience, not something that happens to a player multiple times in a single year." He continued, "On the average, I shudder to think how many losing lottery tickets need to be purchased to 'win' even once. For most players, the laws of probability suggest that the return on 'investment' must be deeply negative." In fact, the report notes that prize expense as a percentage of sales during the past year was 58.77% – meaning that the Lottery paid out 58.77 cents in prizes for every dollar spent on tickets.

For some repeat winners who garnered multiple prizes on identical wagers, the report explains, the Lottery did not file a Form W-2G for reporting to the Internal Revenue Service gambling winnings of at least $600 (net of wager) or withhold Federal and State taxes on payoffs over $5,000.

As an example, one player made three separate wagers on identical numbers and won a $350 prize on each, totaling $1,050. Although her winnings exceeded the $600 (net of wager) reporting threshold, the Lottery did not issue a Form W-2G. Foley's audit team found 15 other instances of a Form W-2G not being provided for identical wagers.

Likewise, the report relates 11 cases of the Lottery not collecting tax withholdings on identical wagers, risking the underwithholding of Federal and State taxes by $37,620 and $7,838, respectively. It should be understood, however, that the actual amount of underpaid taxes cannot be determined because it is unknown which players ultimately self-paid taxes due or had documented gambling losses to offset winnings. "Lottery tickets are purchased anonymously, so it is impossible to track how many are bought by any one individual in order to determine the extent of losses. This also makes it more difficult to identify and respond to early indications of compulsive gambling," Foley remarked.

"As always, I am extremely pleased with my staff's meticulous audit work," Foley commented on the report. "Their dedication and attention to detail has revealed issues with the Lottery that deserve serious consideration." He continued, "Concerns regarding issuance of the Form W-2G or withholding taxes on identical wagers are easy enough to remedy. However, the possibility of continued falling revenues may pose new challenges."

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