

# **LSC Greenbook**

**Analysis of the Enacted Budget**

**Ohio Lottery Commission**

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## **ATTACHMENT:**

Budget Spreadsheet By Line Item

# Ohio Lottery Commission

- The Ohio Lottery is self-sustaining and funded through the State Lottery Fund
- The Ohio Lottery oversees video lottery terminal gaming at Ohio racinos

## OVERVIEW

### Agency Overview

The Ohio Lottery (LOT) operates primarily to create profits to be transferred to the Lottery Profits Education Fund (LPEF) for use in programs benefiting primary, secondary, vocational, and special education. The amount transferred comes from operating net profits from traditional lottery tickets, and more recently, video lottery terminals (VLTs) at Ohio horse racetracks (or racinos). Am. Sub. H.B. 64 requires transfers totaling \$1.97 billion over the biennium to the LPEF (\$984.0 million in FY 2016 and \$988.0 million in FY 2017). The Ohio Lottery also provides some funding to the Ohio Department of Mental Health and Addiction Services for the administration of problem gambling treatment programs.

In FY 2015, LOT transferred \$990.0 million to the Ohio Department of Education, or about 27% of total gaming revenue of \$3.66 billion. The Ohio Lottery, which employed 338 full-time employees (FTEs) in FY 2015, operates a variety of on-line<sup>1</sup> and Instant ticket games, and started regulating VLTs at Ohio racinos in FY 2012.

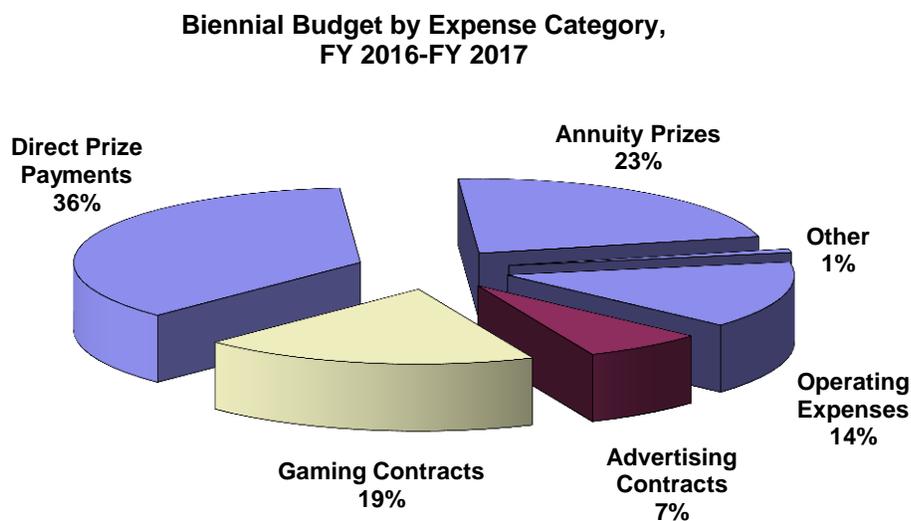
Agency Appropriations by Fund Group, FY 2016-FY 2017 (Am. Sub. H.B. 64)					
Fund Group	FY 2015	FY 2016	% change, FY 2015-FY 2016	FY 2017	% change, FY 2016-FY 2017
State Lottery Fund	\$476,224,346	\$362,302,329	-23.9%	\$364,663,457	0.7%
<b>TOTAL</b>	<b>\$476,224,346</b>	<b>\$362,302,329</b>	<b>-23.9%</b>	<b>\$364,663,457</b>	<b>0.7%</b>

<sup>1</sup> These on-line games are played via a terminal at an Ohio Lottery sales agent. Those terminals are linked to Ohio Lottery headquarters computers. "On-line" games in this report *do not refer to* Internet lottery sales.

## Appropriation Overview

The Ohio Lottery is self-sustaining and funded through the State Lottery Fund. Appropriations support the computerized gaming systems, the purchase and distribution of Instant tickets, the payment of prizes to winners, funding for programs supporting gambling and related addiction services, and regulation of the VLT program.

Am. Sub. H.B. 64 appropriates \$362.3 million for the Ohio Lottery Commission in FY 2016. This amount is \$113.9 million (23.9%) lower than FY 2015 spending.<sup>2</sup> Funding for FY 2017 is \$364.7 million, \$2.4 million (0.7%) above the appropriation in FY 2016. The chart below provides appropriations by expense category for the biennium.



## Lottery Revenues and Transfers to Education

Traditional ticket sales were \$2.89 billion in FY 2015, \$147.8 million (5.4%) above sales in FY 2014. Revenue from the VLT program is shared by the racetrack owners (66.5%) and the Ohio Lottery Commission (33.5%). The yield of the program in FY 2015 was \$772.9 million (after payout to players), \$335.4 million more than that of FY 2014. LOT received \$258.9 million of the VLT revenue, of which \$250.1 million was transferred to the Lottery Profits Education Fund (Fund 7017), and \$8.8 million was absorbed by administrative expenses. With the addition of the last two (of seven) racinos in August and September 2014,<sup>3</sup> total wagers grew about 67% to \$8.51 billion in

<sup>2</sup> Large jackpots won in multi-state games generated substantial expenditures in direct prize payments in FY 2015. The Ohio Lottery generally does not forecast the potential for such winnings in its budget.

<sup>3</sup> Hollywood Mahoning Valley and Hollywood Dayton gaming facilities, respectively.

FY 2015, up from \$5.08 billion in FY 2014. Net profits from all Ohio Lottery games are transferred to Fund 7017 in the Ohio Department of Education budget. As stated earlier, the budget act requires transfers of \$984.0 million in FY 2016, contingent on the availability of resources, and \$988.0 million in FY 2017, which would each be below the amount of \$990.0 million transferred in FY 2015.

### **Elimination of the Charitable Gaming Oversight Fund (Fund 2310)**

The budget repeals the Revised Code section that created the Charitable Gaming Oversight Fund (Fund 2310) and thus eliminates the fund. H.B. 64 also requires the Director of Budget and Management, on July 1, 2015, or as soon as possible thereafter, to transfer any cash balances from Fund 2310 to the State Lottery Fund (Fund 7044). On July 1, 2015, the cash balance in Fund 2310 was \$602,781, which would be deposited in Fund 7044.

### **Lottery Sales Agent Licensing Requirements**

Am. Sub. H.B. 64 expands the definition of person for purposes of licensing to include limited liability companies and other business entities, and removes a prohibition in prior law on issuing a license to a person who engages in the sale of lottery tickets as the person's sole occupation or business. The budget also allows, instead of requires, the Lottery Director to refuse to grant, or to suspend or revoke, a license if the applicant or licensee has committed certain violations, and specifies that the administrative sanctions applying to corporations also apply to "other business entities."

### **Qualifications of Lottery Commissioners**

The budget amends the requirement that one person appointed as a member of the State Lottery Commission must represent an organization that deals with problem gambling and assists recovering gambling addicts to a requirement that one member must have experience or training in the area of problem gambling or other addictions and in assistance to recovering gambling or other addicts.

### **Clarification of Role of Auditor of State Employee Regarding Drawings**

Am. Sub. H.B. 64 prohibits employees of the Auditor of State who "observe" rather than "certify" drawings from being awarded a lottery prize. Continuing law already prohibits employees of the Auditor of State who actively audit or coordinate drawings from being awarded a lottery prize.

## Vetoed Provision

### **Terminal-Generated Instant Lottery Games in Certain Bars and Restaurants**

The budget bill as passed by the Legislature required the State Lottery Commission to promulgate rules making EZPlay keno and EZPlay bingo terminal-generated Instant-win style lottery games available to licensed lottery sales agents, with certain criteria, including the ability to play at multiple ticket prices, the style and format of the games, the type of terminal the games must be available to play on, the manner of collecting winnings, limiting the placement of the terminals to holders of certain D liquor permits, the number of terminals to be made available, and the dates by which the terminals must be made available. These provisions were vetoed by the Governor.

## ANALYSIS OF ENACTED BUDGET

### Introduction

This section provides an analysis of the funding for each appropriation item in LOT's budget.

The Ohio Lottery is funded through the State Lottery Fund Group. Most line items are funded through the State Lottery Fund (Fund 7044) and annuity payments are funded through the Deferred Prizes Trust Fund (Fund 8710). The appropriations for these purposes in FY 2016-FY 2017 are shown in the table below. This is the same order in which the line items appear in the budget bill. Following the table, a narrative describes how the appropriation is used and any changes affecting the appropriation.

Appropriations Amounts for the Ohio Lottery Commission				
Fund	ALI and Name		FY 2016	FY 2017
<b>State Lottery Fund Group</b>				
7044	950321	Operating Expenses	\$52,218,910	\$53,320,434
7044	950402	Advertising Contracts	\$24,550,000	\$24,550,000
7044	950403	Gaming Contracts	\$68,934,057	\$69,081,749
7044	950601	Direct Prize Payments	\$131,894,037	\$132,397,721
7044	950605	Problem Gambling	\$3,000,000	\$3,000,000
8710	950602	Annuity Prizes	\$81,705,325	\$82,313,553
<b>State Lottery Fund Group Subtotal</b>			<b>\$362,302,329</b>	<b>\$364,663,457</b>
<b>Total Funding: State Lottery Fund Group</b>			<b>\$362,302,329</b>	<b>\$364,663,457</b>

### Operating Expenses (950321)

The line item provides funds for staff payroll and benefits, maintenance and supplies, and equipment. Those costs are expected to rise in the biennium. The appropriation for operating expenses in FY 2016 is \$7.3 million (16.3%) above spending in FY 2015. The appropriation for FY 2017 is \$1.1 million (2.1%) higher than FY 2016 funding. The budget appropriates additional funds for LOT's operating expenses of up to 10% of anticipated lottery revenues, upon approval of the Controlling Board.

### Advertising Contracts (950402)

Advertising expenses cover the production of print, radio, and television advertisements and the cost of post-production media placement of those advertisements. The appropriation for FY 2016 is \$24.6 million, \$0.4 million (1.6%) above FY 2015 spending, due to an expected increase in the cost of advertising, including increases for marketing on television. The appropriation for FY 2017 is the same as that for FY 2016.

**Gaming Contracts (950403)**

Spending on gaming contracts is directly related to the level of sales. Funding within this line item also accounts for additional gaming equipment necessary to support the retailer base. The appropriation in FY 2016 of \$68.9 million is \$2.4 million (3.6%) above FY 2015 spending. The appropriation for FY 2017 is about \$148,000 (0.2%) higher than appropriations for FY 2016. High jackpots of multi-state games (Powerball and Mega Millions) generally boost gaming contracts spending; and if necessary, LOT will ask the Controlling Board for an increase in spending authority for this line item.

**Direct Prize Payments (950601)**

Spending for direct prize payments includes bonuses and commissions to vendors, and payments for all nondeferred major prizes won by players. The major sources of expenditures from this line item are cash options for large jackpots in games such as Classic Lotto, Powerball, and Mega Millions; first installments of deferred Powerball and Mega Millions prizes; and prize payments of high-tier winners of other on-line games. Expenditures supported by direct prize payments appropriations may also include cash payouts from Instant games, and noncash prizes (trips, cars, and merchandise) payouts to winners. FY 2015 spending for direct prize payments was \$257.3 million, due to large jackpots in Classic Lotto and Powerball games won in Ohio. Spending for direct prize payments is set at \$131.9 million in FY 2016, \$125.4 million (48.7%) below such spending for FY 2015. The appropriation for FY 2017 is \$0.5 million (0.4%) above that of FY 2016. The budget appropriates any amounts in addition to the appropriations above that the Director of the State Lottery Commission determines to be necessary to fund prizes, bonuses, and commissions.

**Problem Gambling (950605)**

This line item is funded by a share of commissions (0.5%) received by Ohio Lottery sales agents operating VLTs at racinos (O.R.C. 3769.087).<sup>4</sup> This line item funds expenditures related to problem gambling identification and treatment programs, and supports the Ohio for Responsible Gambling initiative. Appropriation in each year of the biennium is \$3.0 million, an amount that is \$0.2 million (5.7%) above spending for FY 2015. The Ohio Lottery has outsourced the responsibility of providing treatment and counseling services for gamblers to the Ohio Department of Mental Health and Addiction Services by providing funds for the treatment of lottery players that also are addicted to alcohol and drugs. The goal is to establish outpatient gambling treatment programs, increase the identification and referral of problem gamblers to appropriate services, and to increase awareness of available services for problem gamblers and their

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<sup>4</sup>By rule, the Ohio Lottery also may require the racinos to disperse an additional amount of up to one-half of one per cent of their commissions for the same purpose.

families. Funding for the various programs started in FY 2003 and will continue in the next biennium.

### **Annuity Prizes (950602)**

Appropriations in this line item support the annual payment for the annuity prize winnings for winners who selected to be paid over a period of time rather than in one lump sum payment. The Ohio Lottery is required to set aside and transfer to the Treasurer of State for investment any annuity jackpots won in Mega Millions, Powerball, and other games. Prizes are then paid out over time as they are due to winners. The appropriation for FY 2016 of \$81.7 million is \$1.3 million (1.6%) higher than FY 2015. The appropriation for FY 2017 is \$0.6 million (0.7%) higher than in FY 2016. The budget appropriates any amounts in addition to the appropriations above that the Director of the State Lottery Commission determines to be necessary to fund deferred prizes and interest earnings on invested balances in the Deferred Prizes Trust Fund (Fund 8710).

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# FY 2016 - FY 2017 Final Appropriation Amounts

# All Fund Groups

## Line Item Detail by Agency

			FY 2014	FY 2015	Appropriation FY 2016	FY 2015 to FY 2016 % Change	Appropriation FY 2017	FY 2016 to FY 2017 % Change
<b>Report For Main Operating Appropriations Bill</b>			<b>Version: As Enacted</b>					
<b>LOT Ohio Lottery Commission</b>								
2310	950604	Charitable Gaming Oversight	\$ 1,237,270	\$ 90,517	\$ 0	-100.00%	\$ 0	N/A
7044	950100	Personal Services	\$ 241,383	\$ 0	\$ 0	N/A	\$ 0	N/A
7044	950200	Maintenance	\$ 1,300,162	\$ 0	\$ 0	N/A	\$ 0	N/A
7044	950300	Equipment	\$ 456,121	\$ 0	\$ 0	N/A	\$ 0	N/A
7044	950321	Operating Expenses	\$ 39,207,516	\$ 44,892,385	\$ 52,218,910	16.32%	\$ 53,320,434	2.11%
7044	950402	Advertising Contracts	\$ 21,063,682	\$ 24,168,173	\$ 24,550,000	1.58%	\$ 24,550,000	0.00%
7044	950403	Gaming Contracts	\$ 65,839,310	\$ 66,524,874	\$ 68,934,057	3.62%	\$ 69,081,749	0.21%
7044	950601	Direct Prize Payments	\$ 123,110,186	\$ 257,256,880	\$ 131,894,037	-48.73%	\$ 132,397,721	0.38%
7044	950605	Problem Gambling	\$ 1,543,717	\$ 2,836,948	\$ 3,000,000	5.75%	\$ 3,000,000	0.00%
8710	950602	Annuity Prizes	\$ 79,546,262	\$ 80,454,570	\$ 81,705,325	1.55%	\$ 82,313,553	0.74%
<b>State Lottery Fund Group Total</b>			<b>\$ 333,545,608</b>	<b>\$ 476,224,346</b>	<b>\$ 362,302,329</b>	<b>-23.92%</b>	<b>\$ 364,663,457</b>	<b>0.65%</b>
<b>Ohio Lottery Commission Total</b>			<b>\$ 333,545,608</b>	<b>\$ 476,224,346</b>	<b>\$ 362,302,329</b>	<b>-23.92%</b>	<b>\$ 364,663,457</b>	<b>0.65%</b>