

Greenbook
LSC Analysis of Enacted Budget

Ohio Lottery Commission

Jean J. Botomogno, Principal Economist
Legislative Service Commission

August 2017

TABLE OF CONTENTS

OVERVIEW	1
Agency Overview.....	1
Appropriation Overview	1
Lottery Revenues.....	2
Elimination of the Permanent Joint Committee on Gaming and Wagering	2
Appointment of Specific Deputy Directors.....	3
Voluntary Exclusion Program.....	3
Vetoed Provision.....	3
Lottery Ticket Purchase with a Credit Card Prohibited.....	3
ANALYSIS OF ENACTED BUDGET	4
Introduction	4
Operating Expenses (950321)	4
Advertising Contracts (950402).....	4
Gaming Contracts (950403).....	5
Direct Prize Payments (950601)	5
Problem Gambling (950605)	6
Annuity Prizes (950602)	6
 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 a variety of online¹ and Instant ticket games, and regulates video lottery terminals (VLTs) at Ohio horse racetracks (or racinos). LOT exists primarily to create operating net profits to be transferred to the Lottery Profits Education Fund (LPEF) for use in programs benefiting primary, secondary, vocational, and special education. 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. The Ohio Lottery is self-sustaining and funded through the State Lottery Fund.

The enacted budget requires transfers totaling \$2.18 billion over the biennium to LPEF (\$1,082.6 million in FY 2018 and \$1,093.6 million in FY 2019). In FYs 2016-2017, total transfers were \$2.11 billion, including \$1.07 billion in FY 2016 and \$1.04 billion in FY 2017, about \$25 million (2.4%) less than in the previous year. Those transfers were, respectively, about 32% and 31% of LOT revenue.

Appropriations by Fund Group, FY 2018-FY 2019 (Am. Sub. H.B. 49)					
Fund Group	FY 2017*	FY 2018	% change	FY 2019	% change
State Lottery	\$399,113,801	\$370,665,982	-7.1%	\$371,967,152	0.4%
TOTAL	\$399,113,801	\$370,665,982	-7.1%	\$371,967,152	0.4%

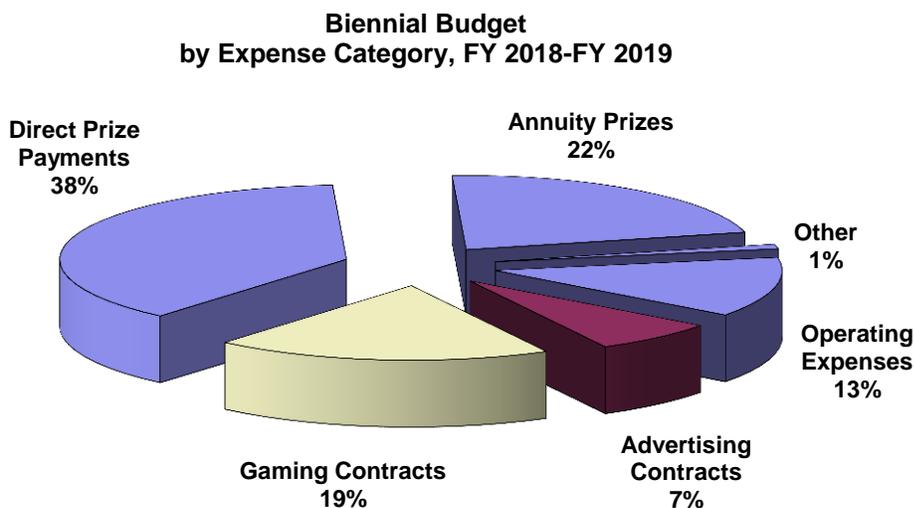
*FY 2017 figures represent actual expenditures.

Appropriation Overview

Appropriations in LOT's budget 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 expenditures for the regulation of the VLT program.

¹ These online games are played via a terminal at an Ohio Lottery sales agent. Those terminals are linked to Ohio Lottery headquarters computers. "Online" games in this report do not refer to Internet lottery sales.

The enacted budget appropriates \$370.7 million to the Ohio Lottery Commission for FY 2018. This amount is \$28.4 million (7.1%) lower than FY 2017 actual expenditures.² Appropriations for FY 2019 are \$1.3 million (0.4%) above the FY 2018 appropriations. The chart below provides appropriations by expense category for the biennium.



Lottery Revenues

Traditional ticket sales (online and Instant) were \$3.00 billion in FY 2017, \$58.8 million (1.9%) below such sales in FY 2016. At Ohio racinos, total wagers were \$10.20 billion in FY 2017, up \$19.3 million (7.7%) from FY 2016. After payout to gamblers, the VLT Program at racinos provided income of \$926.6 million, \$57.7 million (6.6%) more than in FY 2016. Revenue from the program is shared by the racetrack owners (66.5%) and the Ohio Lottery Commission (33.5%). Thus, LOT received \$310.4 million of the VLT revenue in FY 2017, \$19.3 million (6.6%) more than in FY 2016. As stated earlier, net profits from all Ohio Lottery games are transferred to the LPEF (Fund 7017) in the Ohio Department of Education budget.

Am. Sub. H.B. 49 makes the following statutory changes that have no fiscal effect on the Commission.

Elimination of the Permanent Joint Committee on Gaming and Wagering

The enacted budget eliminates the Permanent Joint Committee on Gaming and Wagering and makes conforming changes in law related to the abolishment. The Committee was created by Am. Sub. H.B. 519 of the 128th General Assembly to review,

² Record jackpots won in multi-state games generated substantial expenditures on direct prize payments and gaming contracts in FY 2016 and FY 2017. The Ohio Lottery generally does not forecast the potential for such jackpots in its budget.

study, and submit recommendations and make an annual report to the Governor and the General Assembly on various items related to gaming, including reviewing license fees and penalties under the Casino Law. The Committee produced its only report in December 2015.

Appointment of Specific Deputy Directors

H.B. 49 repeals law mandating the appointment of specific deputy directors³ by the Director of the State Lottery Commission and specifies that an assistant director or designated deputy director must act as director in the absence or disability of the Director. This provision should allow greater flexibility in managing LOT operations.

Voluntary Exclusion Program

H.B. 49 authorizes the Commission to establish rules governing voluntary exclusion programs for VLT players. Comparable to a program for casinos operated by the Casino Control Commission, an individual with a gambling problem may elect to join LOT's exclusion program and be excluded from gambling at Ohio racinos. The enacted budget also provides that identities of participants in the program would be confidential information not subject to public release.

Vetoed Provision

Lottery Ticket Purchase with a Credit Card Prohibited

The budget bill as passed by the legislature precluded the State Lottery Commission from adopting rules to allow the purchase of a lottery ticket (online and Instant) with a credit card, except at a VLT machine. This provision was vetoed by the Governor.

³ Prior law specified that the Director must hire deputy directors of Marketing, Operations, Sales, Finance, Public Relations, Security, and Administration.

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 self-sustaining through ticket sales and VLT income, and funded through the State Lottery Fund Group. Most line items are funded through the State Lottery Fund (Fund 7044) and annuity payments are funded from the Deferred Prizes Trust Fund (Fund 8710). Appropriations for these purposes in FYs 2018-2019 are shown in the table below. Following the table, a narrative describes how each appropriation is used and any changes affecting the appropriations. This is the same order in which the line items appear in the budget bill. Amounts are specified in H.B. 49 for each of the line items shown below, but the act includes a provision in uncodified law that appropriates additional amounts from Fund 7044, if approved by the Controlling Board, up to 10% of anticipated total revenue accruing from sales of lottery products.

Appropriation Amounts for the Ohio Lottery Commission				
Fund	ALI and Name		FY 2018	FY 2019
State Lottery Fund Group				
7044	950321	Operating Expenses	\$50,000,000	\$50,000,000
7044	950402	Advertising Contracts	\$25,800,000	\$25,800,000
7044	950403	Gaming Contracts	\$68,258,704	\$68,917,884
7044	950601	Direct Prize Payments	\$142,307,278	\$142,949,268
7044	950605	Problem Gambling	\$3,300,000	\$3,300,000
8710	950602	Annuity Prizes	\$81,000,000	\$81,000,000
State Lottery Fund Group Subtotal			\$370,665,982	\$371,967,152
Total Funding: Ohio Lottery Commission			\$370,665,982	\$371,967,152

Operating Expenses (950321)

This appropriation item provides funds for staff payroll and benefits, maintenance and supplies, and equipment. The appropriation for operating expenses in each year of the biennium is \$50.0 million. That amount is \$1.0 million (1.9%) above actual spending in FY 2017, from expected increases in staff compensation. Also, LOT expects the costs of purchased personal services and maintenance to be flat or decrease in FY 2019.

Advertising Contracts (950402)

Advertising expenses cover the production of print, radio, and television advertisements, the cost of post-production media placement of those advertisements, and the production of the Cash Explosion Game show. The appropriation for FY 2018 is

\$25.8 million, \$0.07 million (0.3%) above FY 2017 spending, due to an expected small increase in the cost of marketing on television. The appropriation for FY 2019 is the same as funding for FY 2018.

Gaming Contracts (950403)

Spending on gaming contracts is directly related to the level of sales. Funding within this appropriation item also accounts for additional gaming equipment necessary to support the retailer base. The enacted budget appropriates \$68.3 million in FY 2018, \$9.8 million (12.5%) less than FY 2017 actual spending, on the expectation that sales would fall back to historical trends. FY 2017 spending included the purchase and operation of hundreds of Multi-Purposed Quick-Keno machines, which may not be repeated in FY 2018. Also, though sales of multistate games fell below the levels of FY 2016, they were still relatively high in FY 2017. (The Ohio Lottery generally does not forecast the proceeds or additional expenses of larger than usual jackpots.) The funding for FY 2019 is \$0.7 million (1.0%) higher than appropriations for FY 2018, from expected increases in ticket sales. Though appropriation amounts are specified in the budget bill for this line item, if needed, LOT will request the Controlling Board's approval for an increase in appropriations.

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 online games. Expenditures supported by direct prize payments appropriations may also include cash payouts from Instant games, and noncash prizes payouts to winners.

Appropriations for direct prize payments are \$142.3 million in FY 2018, \$26.1 million (15.5%) below actual spending for FY 2017, for the same reasons provided for the appropriation item on gaming contracts. Funding is increased by \$0.6 million (0.5%) in FY 2019, due to anticipated sales increases from the addition of higher price point games and other multistate games. Though appropriation amounts are specified in the budget bill for this line item, uncodified language in the bill appropriates additional amounts if the Director of the State Lottery Commission determines that additional amounts are needed to pay out prize winnings.

Problem Gambling (950605)

This appropriation item is funded by a share of commissions (0.5%) received by Lottery sales agents operating VLTs at racinos (R.C. 3769.087).⁴ This line item funds expenditures related to problem gambling identification and treatment programs, and supports the Ohio for Responsible Gambling initiative. The appropriation in each year of the biennium is \$3.3 million, \$0.7 million (28.2%) above FY 2017 spending. 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 generally 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 families.

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 cash and transfer from the State Lottery Fund to the Deferred Prize Trust Fund (Fund 8710) an amount sufficient to fund deferred prizes won in Mega Millions, Powerball, and other games. In addition, the Treasurer of State from time to time credits to the fund interest earned on invested balances.

The appropriation for FY 2018 of \$81.0 million is \$5.6 million (7.5%) above FY 2017 spending. The funding in FY 2019 is the same as in FY 2018. The deferred prize appropriations are derived using the known schedule of existing annuities and an estimate of future games offering annuity prize payouts. Though appropriation amounts are specified in the budget bill for this line item, uncodified language in the bill appropriates additional amounts if the Director of the State Lottery Commission determines that additional amounts are needed to pay out prize winnings.

LOT.docx/lb

⁴By rule, the Ohio Lottery also may require the racinos to disperse an additional amount of up to one-half of 1% of their commissions for the same purpose.

FY 2018 - FY 2019 Final Appropriation Amounts

All Fund Groups

Line Item Detail by Agency

			Appropriation	FY 2017 to FY 2018	Appropriation	FY 2018 to FY 2019		
			FY 2016	FY 2017	FY 2018	% Change	FY 2019	% Change
Report For Main Operating Appropriations Bill			Version: As Enacted					
LOT Ohio Lottery Commission								
7044	950321	Operating Expenses	\$ 46,439,848	\$ 49,043,723	\$ 50,000,000	1.95%	\$ 50,000,000	0.00%
7044	950402	Advertising Contracts	\$ 24,362,873	\$ 25,731,325	\$ 25,800,000	0.27%	\$ 25,800,000	0.00%
7044	950403	Gaming Contracts	\$ 61,628,415	\$ 78,015,884	\$ 68,258,704	-12.51%	\$ 68,917,884	0.97%
7044	950601	Direct Prize Payments	\$ 274,655,574	\$ 168,372,356	\$ 142,307,278	-15.48%	\$ 142,949,268	0.45%
7044	950605	Problem Gambling	\$ 3,125,311	\$ 2,573,524	\$ 3,300,000	28.23%	\$ 3,300,000	0.00%
8710	950602	Annuity Prizes	\$ 82,051,215	\$ 75,376,988	\$ 81,000,000	7.46%	\$ 81,000,000	0.00%
State Lottery Fund Group Total			\$ 492,263,237	\$ 399,113,801	\$ 370,665,982	-7.13%	\$ 371,967,152	0.35%
Ohio Lottery Commission Total			\$ 492,263,237	\$ 399,113,801	\$ 370,665,982	-7.13%	\$ 371,967,152	0.35%