

# Ohio Lottery Commission

**Senate Finance and Financial Institutions Committee**

*Jean J. Botomogno, Economist*

*Legislative Service Commission*

*May 8, 2003*

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# **LSC Redbook for the Ohio Lottery Commission**

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*May 8, 2003*

# Ohio Lottery Commission

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- The Ohio Lottery is self-sustaining and funded through the State Lottery Fund
- The Ohio Lottery joined Mega Millions in May 2002
- Since its inception in 1974, the Ohio Lottery has provided more than \$11 billion in support of the public education system

## OVERVIEW

The Ohio Lottery operates 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 largely from operating profits with other transfers made from the Unclaimed Lottery Prizes Fund.

The Executive forecasts that transfers from operating profits to LPEF will be \$637.9 million in FY 2004 and in FY 2005, which is \$34.8 million or 5.2% less than estimated transfers for FY 2003. These transfers are based on estimated sales of \$2.2 billion in each year of the biennium. Unlike the Commission's practice in recent years, in FY 2004 and FY 2005 the executive proposal does not transfer additional moneys from non-operating sources such as the Unclaimed Lottery Prizes Fund to the Lottery Profits Education Fund.

The Ohio Lottery is self-sustaining and funded through the State Lottery Fund. Of the \$1.98 billion of total ticket sales generated in FY 2002, 56.4% was awarded to players as prizes, 30.7% was transferred to the Ohio Department of Education, 6.4% was paid to agents as commissions and bonuses, and 5.2% was spent on operations. The Lottery operates a variety of on-line and instant ticket games. The on-line games are Pick 3, Pick 4, Buckeye 5, Super Lotto, Kicker, and Mega Millions.<sup>1</sup> These games generated approximately 49.7% of total sales revenue in FY 2002. The Lottery sells a wide variety of instant games, including special games that coincide with major holidays. Instant games were approximately 50.3% of total sales revenue in FY 2002.

The Lottery is governed by a nine-member commission, appointed by the Governor and confirmed by the Senate. No more than five members of the Commission may be from the same political party. Daily administration of the Lottery is the responsibility of an executive director who is appointed by the Governor to oversee staff and operations.

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<sup>1</sup> These on-line games are played via a terminal at a 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.

Recommended funding for FY 2004 is \$445,701,524. This amount is \$6,613,521 lower than FY 2003 appropriations, a 1.5% decrease. Recommended funding for FY 2005 is \$445,743,556. This amount is \$42,032 greater than FY 2004, a 0.01% increase.

The Executive proposal recommends the elimination of the Unclaimed Lottery Prizes Fund.

## ANALYSIS OF EXECUTIVE PROPOSAL

### Ohio Lottery Commission

**Purpose:** The Ohio Lottery operates 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 following table shows the line items that are used to fund this agency, as well as the Governor's recommended funding levels.

Fund	ALI	Title	FY 2004	FY 2005
44	950-100	Personal Services	\$25,114,200	\$25,133,314
44	950-200	Maintenance	\$20,100,168	\$20,120,268
44	950-300	Equipment	\$3,067,250	\$3,113,259
44	950-402	Game & Advertising Contracts	\$68,683,000	\$68,683,000
44	950-500	Problem Gambling Subsidy	\$335,000	\$335,000
44	950-601	Prizes Bonuses and Commissions	\$166,173,455	\$166,173,455
871	950-602	Annuity Prizes	\$162,228,451	\$162,185,260
871	950-603	Unclaimed Prize Awards	\$0	\$0
<b>Total funding: Ohio Lottery Commission</b>			<b>\$445,701,524</b>	<b>\$445,743,556</b>

The above line items are analyzed below.

#### Personal Services

**Description:** This line item, authorized by Chapter 3770. of the Revised Code, provides funds for payroll and fringe benefits for the Ohio Lottery.

**Funding Source:** State Lottery Fund - lottery ticket sales

**Line Item:** 044 950-100

**Implication of the Executive Recommendation:** The recommended funding for FY 2004 is \$50,004 (0.2%) lower than estimated spending for FY 2003, and the recommended funding for FY 2005 is \$19,114 (0.1%) above that for FY 2004. The Ohio Lottery has indicated that the current staffing will be unchanged in the next biennium. An early retirement incentive plan implemented in FY 2002 allows expenditures for payroll and fringe benefits to slightly decrease in FY 2004.

#### Maintenance

**Description:** This line item, authorized by Chapter 3770. of the Revised Code, provides funds for maintenance and supplies for the Ohio Lottery. Approximately 80% of the charges to this line item are due to data processing, telecommunications, and promotional/printing charges.

**Funding Source:** State Lottery Fund – lottery ticket sales

**Line Item:** 044 950-200

**Implication of the Executive Recommendation:** The recommended funding for FY 2004 is \$4,263,672 (17.5%) below the estimated spending for FY 2003, and the recommended funding for FY 2005 is \$20,100 (0.1%) above that for FY 2004.

### **Equipment**

**Description:** This line item, authorized by Chapter 3770. of the Revised Code provides funds for equipment for the Ohio Lottery.

**Funding Source:** State Lottery Fund – lottery ticket sales

**Line Item:** 044 950-300

**Implication of the Executive Recommendation:** The recommended funding for FY 2004 is \$597,326 (16.3%) below estimated spending for FY 2003, and the recommended funding for FY 2005 is \$46,009 (1.5%) above that for FY 2004. The Ohio Lottery purchased a new gaming system in FY 2002, including 7,500 PC-based touch screen retailer terminals. Such a nonrecurring purchase is unlikely to occur in FY 2004. The levels of funding in the next biennium will provide for the replacement and some upgrading of older equipment, computer upgrades (both hardware and software), and continuous upgrade of the Lottery communication network.

### **Game & Advertising Contracts**

**Description:** This line item, authorized by R.C. section 3770.06, provides funding for expenditures related to the operation of the on-line and instant gaming systems and the promotion and testing of the Lottery products offered for sales through those systems. All game vendor contracts, advertising contracts, and other purchased personal services are paid through this line item. The major categories of expenditures covered by this line item are: advertising; on-line and instant gaming operation and services, procurement of traditional and special instant ticket products, lease expenses for instant ticket vending machines, and security testing for lottery products and drawing equipment.

**Funding Source:** State Lottery Fund – lottery ticket sales

**Line Item:** 044 950-402

**Implication of the Executive Recommendation:** The recommended funding for FY 2004 is \$4,058,669 (6.3%) above estimated spending for FY 2003, and the recommended funding for FY 2005 is identical to that for FY 2004.

Advertising expenses cover the production of print, radio, and television advertisements and the cost of media placement of these advertisements once they are produced. The amount spent by the Lottery for advertising was \$15.9 million in FY 2002. The estimated expense for FY 2003 is \$21.7 million, 36.5% above FY 2002 spending. The Lottery requested \$22.3 million in each year of the next biennium, which would be \$7.0 million or 18.6% above appropriations for the current biennium.

On-line and instant gaming operation and services are provided to the Lottery by GTECH Corporation. During FYs 2002-2003, the Lottery has one contract with GTECH. (The contract is renewable and LSC expects the contract to be renewed for the upcoming biennium.) For on-line games, GTECH will be compensated at the rate of 1.7853% of total on-line sales revenue and 0.3217% of total gross instant ticket sales. Total compensation was \$21.8 million in FY 2002 and is estimated at \$22.8 million in FY 2003, or \$44.6 million for the biennium. Total compensation for the next biennium is expected to be about \$46.4 million or 4.0% above expected GTECH compensation for the current biennium.

**Problem Gambling Subsidy**

**Description:** This line item, authorized by R.C. section 3770.02(g), provides funds to the Ohio Department of Alcohol and Drug Addiction Services and other providers for the treatment of co-occurring instances of gambling addiction with alcohol and drug addictions.

**Funding Source:** State Lottery Fund – lottery ticket sales

**Line Item:** 044 950-500

**Implication of the Executive Recommendation:** The Ohio Lottery has outsourced the responsibility of providing treatment and counseling services for persons affected by problem gambling, alcohol, and drug addiction. The Controlling Board authorized a pilot program in February 2002 for FY 2003. The recommended funding for FY 2004 and FY 2005 is the same as appropriations for FY 2003 for this purpose. The Legislative Service Commission assumes the program will continue in the next biennium.

**Prizes, Bonuses and Commissions**

**Description:** This line item, authorized by R.C. section 3770.06, supports payments of all non-deferred prize major obligations. Minor prizes are paid by lottery vendors and are not appropriated. The three major sources of expenditures for this line item are cash option Super Lotto Plus and Mega Millions prizes, first installments of deferred Super Lotto Plus and Mega Millions prizes, and prize payments for high-tier winners of Buckeye 5. Other expenses include prize payouts from instant games and other on-line games, non-cash prizes awarded as promotions (for example, vehicles awarded on the Cash Explosion show), and sales incentives to agents.

**Funding Source:** State Lottery Fund – lottery ticket sales

**Line Item:** 044 950-601

**Implication of the Executive Recommendation:** The recommended funding for FY 2004 is \$26,047,540 (25.4%) above estimated spending for FY 2003, and the recommended funding for FY 2005 is the same as that for FY 2004. The increase in FY 2004 corresponds to the increase in ticket sales from Mega Millions and also the increasing number of players that choose the cash option instead of the annuity method. The appropriation for FY 2005 also indicates that the Ohio Lottery does not expect ticket sales to increase in FY 2005.

**Annuity Prizes**

**Description:** This line item, authorized by R.C. section 3770.06, supports payments for all lotteries deferred prizes. The line item keeps only that amount deemed necessary for the funding of annuity prizes and is therefore influenced by current interest rates for moneys invested in the Deferred Prizes Trust Fund. The Lottery Commission is required to set aside and transfer to the Treasurer of State for investment the present value of any annuity jackpots won in the Super Lotto and Mega Millions games. Prizes are then paid out over time as they are due to winners.

**Funding Source:** State Lottery Fund – moneys transferred from the State Lottery Fund and interest earned on invested balances

**Line Item:** 871 950-602

**Implication of the Executive Recommendation:** The recommended funding for FY 2004 is \$26,047,540 (13.8%) below estimated spending for FY 2003, and the recommended funding for FY 2005 \$43,191 (0.03%) below that for FY 2004. The decrease for FY 2004 is due to lower expected expenditures from this line item for Super Lotto winners, more jackpot winners choosing the cash option, and administrative rules making it simple to choose the cash option.

**Unclaimed Prize Awards**

**Description:** Transfers from the Unclaimed Prize Awards line item, authorized by R.C. section 3770.07, are used for prize payout increases for Instant games and the augmentation of Super Lotto jackpot awards.

**Funding Source:** Unclaimed Lottery Prizes Fund – moneys from unclaimed lottery prizes

**Line Item:** 872 950-603

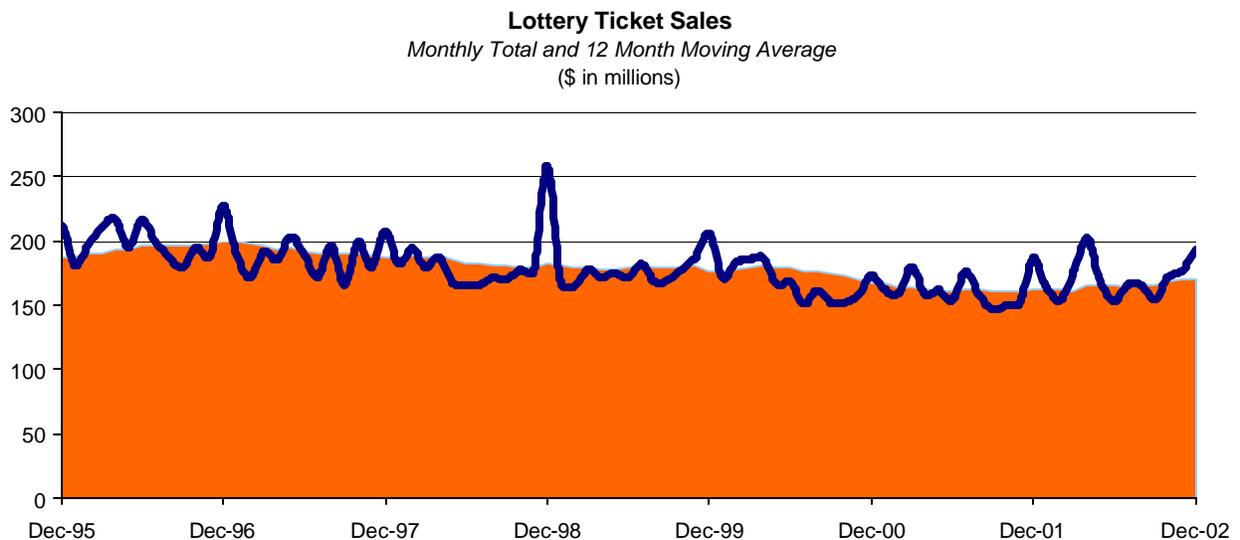
**Implication of the Executive Recommendation:** The Unclaimed Prize Awards line item is eliminated. Net cash available to the Unclaimed Lottery Prizes Fund, which funds the unclaimed prize awards, had gradually declined over the years. For example, in FY 1998 cash available in the Unclaimed Lottery Prizes Fund was \$44.4 million. In FY 2002, the amount had decreased to \$23.2 million. In FY 2003, the amount of cash balance in the Unclaimed Lottery Prizes Fund is expected to be below \$5.0 million. Any cash left over after FY 2003 will likely be returned to the State Lottery Fund. The Ohio Lottery intends to use moneys previously transferred from unclaimed lottery prizes and appropriated for the unclaimed prize awards to supplement Instant game payouts and for “specialty” games. The volume of unclaimed prizes has declined over the years. Investment income from the cash balances has decreased as well. The main implication from the elimination of the Unclaimed Lottery Prizes Fund is that supplemental transfers to LPEF from this source will not occur in future fiscal years.

## ADDITIONAL FACTS AND FIGURES

Ohio Lottery Commission Staffing Levels (full-time staff)						
Program Series/Division	2000	2001	2002	2003	Estimated	
					2004	2005
Executive	48	53	54	54	50	50
Administration	27	24	25	25	31	31
Marketing	25	18	19	19	14	14
Sales	183	181	182	182	174	174
Finance	32	30	31	31	26	26
Information Technology	37	38	43	43	42	42
Product R&D	0	0	0	0	17	17
<b>Totals</b>	<b>352</b>	<b>344</b>	<b>354</b>	<b>354</b>	<b>354</b>	<b>354</b>

The Ohio Lottery added a product research and development division in FY 2003. The staff in the new division comes primarily from the sales division. The division is comprised of the following groups: On-line and Instant products management, market research, and promotions. The overall staffing of the Lottery Commission is unchanged from the previous fiscal year. The information in the above table comes from past budget request documents of the Ohio Lottery.

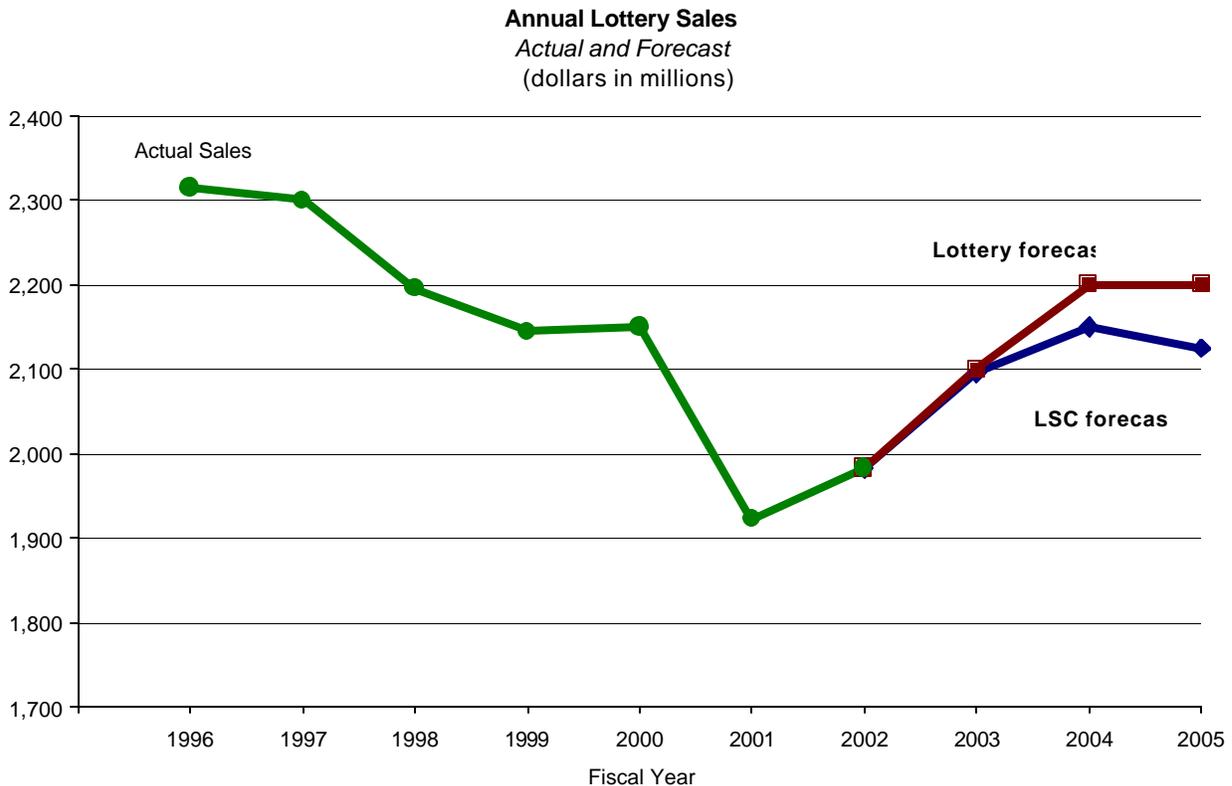
**Lottery Sales:** Lottery ticket sales grew tremendously throughout the early to mid 1990's. Sales grew from \$1.6 billion in FY 1990 to over \$2.3 billion in FY 1996. Then, sales started falling to bottom out at \$1.92 billion in FY 2001, before improving slightly to \$1.98 billion in FY 2002. The chart below shows the rise and fall of lottery ticket sales from December 1995 to December 2002.



The line in the above chart indicates monthly sales. Monthly sales have a seasonal pattern of increases during December, as well as rising with Super Lotto, and more recently, Mega Millions jackpots. A

12-month moving average of sales removes any seasonal variations and provides an indication of sales trends.

Ticket sales for “mature” lotteries such as the Ohio Lottery are usually flat or decline, unless new games are introduced, or changes to the game matrix boost sales. Although incomes continue to grow and attitudes towards gaming remain generally favorable and expenditures increase, the increased competition in the gaming market limits the upside potential of Lottery ticket sales. Regular and riverboat casinos, racetrack video lottery terminals, and more recently Internet-based and charitable gaming, such as “bingo,” have all contributed to limit increases in Lottery ticket sales. Over time, jackpot “fatigue” increases as lower levels of Lottery jackpots fail to generate excitement. The ticket sales decline, which began in 1996, has stopped. After a decline of 10.7% in FY 2001, ticket sales rose 3.3% in FY 2002. Ticket sales increased due to an increase in weekly drawings for Buckeye 5 from four to six days and the entry into the Mega Millions game in May 2002. Huge jackpots in this multi-state game are expected to boost ticket sales in the next biennium. The Lottery Commission forecasts sales to be \$2.1 billion in FY 2003, and \$2.2 billion in each of the next two years. Legislative Service Commission forecasts sales of approximately \$2.09 billion in FY 2003, \$2.15 billion in FY 2004, and \$2.12 billion in FY 2005. **Legislative Service Commission’s forecast is based on recent trends in sales and assumes no change in the current mix of games offered by the Ohio Lottery.** The Lottery’s forecast incorporates proposed changes in games, including introducing new “specialty games,” probable changes in prize payout structures of existing games, and changes in advertising that are expected to boost sales. The Legislative Service Commission has not been able to incorporate these changes into its forecast and has not reached a conclusion as to their likely impact. Recent sales, along with LSC and the executive proposal forecasts are presented in the chart below. The Executive’s estimates represent an increase of 0.2% over LSC’s estimates in FY 2003. The executive forecast for ticket sales in FY 2004 and in FY 2005 exceeds the LSC forecast by 2.3% and 3.5%, respectively.



**Lottery Profits Transfers:** Prior to Am. Sub. H.B. 94 (the Operating Budget for FYs 2002-2003) Lottery profits transfers were required by law to be at least 30% of sales. House Bill 94 changed the manner in which the Ohio Lottery transferred profits to the LPEF. A target amount for such transfers is determined for each biennium during the legislative process. The Executive forecasts that transfers from operating profits to LPEF will be \$637.9 million in both FY 2004 and FY 2005, which is a \$34.8 million or 5.2% decrease from estimated transfers for FY 2003. These transfers are based on estimated sales of \$2.2 billion in each year of the biennium. As sales grew throughout the 1990s, so did transfers to the LPEF. As sales declined starting in FY 1996, so did transfers. From \$713 million in FY 1996, transfers decreased to \$635.1 million in FY 2002, and will increase \$37.6 million to \$672.7 million in FY 2003.

The table below presents a recent history of lottery sales and profits transfers, an estimate of sales and expected profits transfers for FY 2003, and the executive forecast of sales and profits transfers for FYs 2004 and 2005. The Executive recommends transfers of \$637.9 million from operations in each of the next two years, or about 29.0% of expected ticket sales. There will be no transfers to LPEF from non-operating sources as the Unclaimed Prize Fund is eliminated.

<b>Ohio Lottery Sales and Transfers FYs 2000 – 2005</b>						
(dollars in millions)						
	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004*	FY 2005*
Sales	\$2,150.4	\$1,922.0	\$1,982.5	\$2,100.0	\$2,200.0	\$2,200.0
Profits Transfers	\$ 661.3	\$612.0	\$610.1	\$637.7	\$637.9	\$637.9
Transfers from Unclaimed Prizes	\$25.0	\$25.0	\$25.0	\$35.0	\$0	\$0
Total Transfers	\$686.3	\$637.0	\$635.1	\$672.7	\$637.9	\$637.9

\*Estimate

**Game Revisions or Additions:** The Ohio Lottery joined Mega Millions on May 15, 2002. Super Lotto ticket sales were expected to decline because its top prize would become less “exciting” to players, and some players would substitute Mega Millions tickets for Super Lotto tickets. This loss in Super Lotto sales would be more than compensated for by sales of Mega Millions. The table below provides a detailed analysis of ticket sales in the first half of FY 2003 and FY 2002 and illustrates early trends brought about by Mega Millions. Fiscal year 2002 monthly sales are sales of Kicker and Super Lotto games only. Fiscal year 2003 sales are aggregate sales of Kicker, Super Lotto, and Mega Millions games.

<b>Changes in Selected Lottery Ticket Sales from Entry into Mega Millions</b>				
(dollars in millions)				
	FY 2003	FY 2002	Dollar Variance	Percent Variance
July	\$39.2	\$45.6	-\$6.4	-14.1%
August	\$34.3	\$26.0	\$8.3	32.0%
September	\$27.6	\$25.0	\$2.6	10.3%
October	\$31.4	\$20.7	\$10.7	51.8%
November	\$28.1	\$18.9	\$9.1	48.3%
December	\$24.5	\$30.1	-\$5.6	-18.7%
Total	\$185.0	\$166.3	\$18.7	11.3%

The table shows that except for the months of July and December, monthly ticket sales for Super Lotto, Kicker, and Mega Millions in the first half of FY 2003 were generally higher than sales of Kicker and Super Lotto in the same period in FY 2002. Compared to midyear ticket sales in FY 2002, total ticket sales as of December 2002 were \$18.7 million or 11.3% higher. The payout ratio from Mega Millions

(about 50.0%) is lower than that of Super Lotto (59.7%). Whether ticket sales reach or exceed expected sales in the next biennium would largely depend on the number of long Mega Millions rolls (drawings without a winner for the top prize). Long rolls in multistate games such as Mega Millions generate frenzied ticket purchases that also increase the profitability of the Ohio Lottery. As of January 2003 in this fiscal year, Mega Millions jackpots in Ohio have not reached the high levels needed for huge ticket sales. Conversely, Powerball, another multistate game, had a five-week roll that ended with a jackpot of \$314.9 million in December 2002.

***Use of Unclaimed Prizes:*** Some individuals who win lottery prizes fail to claim their prizes. The Unclaimed Lottery Prizes Fund receives cash transfers from the Lottery Operating Fund each month, in an amount equal to the prizes unclaimed after the cashing eligibility has expired. The fund also receives any interest earnings on the fund. Due to declining balances in the fund and low interest rates, earnings have been declining. In the past, cash in the Unclaimed Lottery Prizes Fund has been transferred to ALI 950-603, Unclaimed Lottery Prizes, and has been used for transfers to education. The executive proposal eliminates the Unclaimed Lottery Prizes Fund and would use the cash for prize payout increases for instant games and “specialty games.”

***Competition in the Gaming Industry:*** Public attitudes towards gaming continue to be favorable, but the gaming market is becoming more competitive. Some lottery players visit distant gaming establishments, such as those in Las Vegas or Atlantic City. Several casinos are open within short driving distances of Ohio in Indiana, West Virginia, and Michigan. Riverboat gaming on the Ohio River is attracting patrons from Ohio. Charitable gaming such as “bingo” is growing fast and provides higher payout prizes than the Lottery games. Charitable gaming is challenging primarily instant ticket sales. Most charitable gaming operations are cash-based with low overhead costs and are able to lure players with high payouts. Internet gaming has also transformed competition from regional to global. On-line gaming sites found on the Internet have grown from about 647 in 1999 to more than 3,000 today. The Ohio Lottery is a mature lottery and is trying to maintain its existing levels of sales and profits. Joining Mega Millions allowed the Ohio Lottery to improve sales. Higher jackpots in this game directly affect the Ohio Lottery because they mitigate the drain of sales from Ohio residents who spend their gaming dollars on Powerball. Thus, Mega Millions limits ticket sales lost to border states. The game also attracts occasional players when the jackpot is high. However, the Ohio Lottery will need to constantly change the mix of games and prize structure to maintain interest and the level of sales.

## **PERMANENT AND TEMPORARY LAW**

This section describes permanent and temporary law provisions contained in the executive budget that will affect the Commission's activities and spending decisions during the next biennium. One permanent law change is contained in the executive budget for the next biennium: the elimination of the Unclaimed Lottery Prizes Fund. Cash from the Unclaimed Lottery Prizes Fund is currently transferred to ALI 950-603, Unclaimed Prize Awards, which funds increased payouts for Instant games during holidays. The Unclaimed Lottery Prizes Fund has also provided cash for occasional transfers to education. Thus, this fund may not be available for such transfers. The executive proposal eliminates the Unclaimed Lottery Prizes Fund and would instead use the money from unclaimed prizes for prize payout increases for instant games and "specialty games."

## REQUESTS NOT FUNDED

Appropriations requested for ALI 950-603 Unclaimed Prize Awards were not funded. The executive recommendation funds ALI 950-100 Personal Services, ALI 950-200 Maintenance, and ALI 950-300 Equipment at levels below those requested by the Ohio Lottery. Also, ALI 950-402 Game and Advertising Contracts was funded above levels requested by the Ohio Lottery. The table below provides the variance (both in dollar amounts and percentages) in the appropriations in the executive proposal from the original budget request from the Ohio Lottery.

<b>Variance in the Executive Budget from the Ohio Lottery Budget Request</b>				
	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2004</b>	<b>FY 2005</b>
Personal Services	(\$50,004)	(\$30,890)	-0.2%	-0.1%
Maintenance	(\$996,363)	(\$1,002,169)	-4.7%	-4.7%
Equipment	(\$597,326)	(\$551,317)	-16.3%	-15.0%
Game and Advertising Contracts	\$4,407,789	\$4,407,789	6.9%	6.9%
Problem Gambling Subsidy	\$0	\$0	0.0%	0.0%
Prizes, Bonuses and Commissions	\$0	\$0	0.0%	0.0%
Annuity Prizes	\$0	\$0	0.0%	0.0%
Unclaimed Prize Awards	(\$24,000,000)	(\$24,000,000)	-100.0%	-100.0%
State Lottery Fund Group	(\$21,235,904)	(\$21,176,587)	-4.5%	-4.5%

## State Lottery Fund Group

### 044 950-100 Personal Services

2000	2001	2002	2003 Estimate	2004 House Passed	2005 House Passed
\$21,417,075	\$21,082,266	\$23,718,456	\$25,164,204	\$25,114,200	\$25,133,314
	-1.6%	12.5%	6.1%	-0.2%	0.1%

*Source:* SLF: Lottery ticket sales

*Legal Basis:* ORC 3770

*Purpose:* This line item provides funds for payroll and fringe benefits for the Ohio Lottery Commission.

### 044 950-200 Maintenance

2000	2001	2002	2003 Estimate	2004 House Passed	2005 House Passed
\$18,173,581	\$20,357,375	\$17,553,779	\$24,363,840	\$20,100,168	\$20,120,268
	12.0%	-13.8%	38.8%	-17.5%	0.1%

*Source:* SLF: Lottery ticket sales

*Legal Basis:* ORC 3770

*Purpose:* This line item provides funds for maintenance for the Ohio Lottery Commission.

### 044 950-300 Equipment

2000	2001	2002	2003 Estimate	2004 House Passed	2005 House Passed
\$1,699,871	\$2,017,550	\$2,224,887	\$3,664,576	\$3,067,250	\$3,113,259
	18.7%	10.3%	64.7%	-16.3%	1.5%

*Source:* SLF: Lottery ticket sales

*Legal Basis:* ORC 3770

*Purpose:* This line item provides funds for equipment for the Ohio Lottery Commission.

### 044 950-402 Game and Advertising Contracts

2000	2001	2002	2003 Estimate	2004 House Passed	2005 House Passed
\$52,252,617	\$60,268,419	\$56,659,038	\$64,624,331	\$68,683,000	\$68,683,000
	15.3%	-6.0%	14.1%	6.3%	0.0%

*Source:* SLF: Lottery ticket sales

*Legal Basis:* ORC 3770.06

*Purpose:* This line item provides funding for expenditures related to the operation of the on-line and instant gaming systems, and the promotion and testing of the lottery products offered for sale through those systems. All game vendor contracts, advertising contracts, and other purchased personal services are paid through this line item.

**044 950-500 Problem Gambling Subsidy**

2000	2001	2002	2003 Estimate	2004 House Passed	2005 House Passed
\$0	\$0	\$0	\$335,000	<b>\$335,000</b>	<b>\$335,000</b>
	N/A	N/A	N/A	<b>0.0%</b>	<b>0.0%</b>

**Source:** SLF: Lottery ticket sales

**Legal Basis:** ORC 3770.02 and Controlling Board Approval on February 11, 2002.

**Purpose:** This line item provides funds to the Ohio Department of Alcohol and Drug Addiction Services for the treatment of co-occurring instances of gambling addiction with alcohol and drug addictions.

**044 950-601 Prizes, Bonuses and Commissions**

2000	2001	2002	2003 Estimate	2004 House Passed	2005 House Passed
\$130,537,087	\$129,530,896	\$169,428,927	\$132,532,127	<b>\$166,173,455</b>	<b>\$166,173,455</b>
	-0.8%	30.8%	-21.8%	<b>25.4%</b>	<b>0.0%</b>

**Source:** SLF: Lottery ticket sales

**Legal Basis:** ORC 3770.06

**Purpose:** This line item supports payment of all current (non-deferred) prize obligations. There are three major sources of expenditures from this line item: cash option Super Lotto Plus and Mega Millions prizes, first installments of deferred Super Lotto Plus and Mega Millions prizes, and prize payments for high-tier winners of Buckeye 5. Other expenses include prize payouts from instant games and other on-line games, non-cash prizes awarded as promotions (e.g.: vehicles awarded on Cash Explosion show), and sales incentives to agents.

**871 950-602 Annuity Prizes**

2000	2001	2002	2003 Estimate	2004 House Passed	2005 House Passed
\$372,297,240	\$223,556,967	\$156,088,753	\$188,275,991	<b>\$162,228,451</b>	<b>\$162,185,260</b>
	-40.0%	-30.2%	20.6%	<b>-13.8%</b>	<b>0.0%</b>

**Source:** SLF: Moneys transferred from the State Lottery Fund and interest earned by the Treasurer of State on invested balances

**Legal Basis:** ORC 3770.06

**Purpose:** This line item supports payments for all Lottery deferred prizes. The line item keeps only that amount of interest deemed necessary for funding of annuity prizes, and therefore is influenced by current interest rates. The Lottery Commission is required to set aside (and transfer to the Treasurer for investment) the present value of any annuity jackpots won in the Super Lotto Plus game. Prizes are then paid out over time as they are due to winners.

**872 950-603 Unclaimed Prize Awards**

2000	2001	2002	2003 Estimate	2004 House Passed	2005 House Passed
\$11,291,614	\$9,625,475	\$12,981,264	\$13,354,976	<b>\$0</b>	<b>\$0</b>
	-14.8%	34.9%	2.9%	<b>-100.0%</b>	<b>N/A</b>

**Source:** SLF: Moneys from unclaimed lottery prizes

**Legal Basis:** ORC 3770.07

**Purpose:** Transfers from the Unclaimed Prizes Fund are used for the following purposes: temporary prize payout increases for instant games; augmentation of Super Lotto Plus jackpot awards; to fill gaps in the Deferred Prizes Trust Fund (DPTF) when additional money is needed; to serve as a kind of reserve fund in the event of a GRF or LPEF funding shortfall for Basic Aid.

As Introduced

As Passed by the House

Subject: Electronic Lotteries at Racetracks

No provision.

R.C. **3770.02, 3770.05, 3770.06, 3770.22, 3770.23, 3770.24, 3770.26, 3770.27, Sections 145.01 through 145.03AA**

Requires the Ohio Lottery Commission to conduct lotteries using electronic gaming devices at horseracing tracks contingent upon a referendum vote on November 4, 2003. If approved by a majority of the votes, the bill specifies conditions under which such electronic lotteries would occur, the number of machines at racetracks, and the distribution of proceeds from those machines. Also, if electronic lotteries at racetracks are approved by the vote, the state sales tax rate shall be 5 percent on and after July 1, 2004.

Electronic lotteries at racetracks will increase revenues in FY 2004 and FY 2005. Electronic sales agents may install up to 2,500 machines per racetrack and are required to pay a licensing fee of \$8,000 per machine. This provision will increase revenues up to \$140 million for the biennium. Total revenue gain will depend on the total number of machines installed, the net income per machine, and the timing of construction of facilities and installation of electronic gaming devices. In FY 2004, racetrack owners will receive 49.5 percent of the net proceeds of electronic lotteries and the State Lottery Fund would receive 50.5 percent. In FY 2005 and future years, racetrack owners will receive 48 percent of the net proceeds of electronic lotteries. The remainder of net revenue from the electronic lotteries (52 percent) would be distributed to the State Lottery Fund. The Ohio Department of Alcohol and Drug Addiction Services will receive 0.5 percent of revenues in the State Lottery Fund from the electronic lotteries.

**As Introduced**

**As Passed by the House**

**Subject: Deduct debt owed to state from prizes**

No provision.

Local governments (counties, cities and townships) where racetracks are located will receive 0.05 percent of net proceeds from the electronic lotteries, from amounts received by the electronic sales agents. The bill adds \$400,000 to GRF line item 911-411 Ballot Advertising Costs in the budget of the Controlling Board, and adds \$1,500 to GRF line item 875-401 Commission Certification Costs in the budget of the Racing Commission. The bill makes no appropriations to the Ohio Lottery Commission for the various costs of acquiring the electronic gaming devices and administering the electronic lotteries.

**R.C. 3770.073**

Requires the Ohio Lottery to deduct from a lump sum or annual installment payments on prizes worth \$100 or more any tax, worker's compensation premium, unemployment contribution or other penalty owed by the prize winner until the debt is satisfied.

Fiscal effect: This provision will increase revenue. However, the fiscal impact is expected to be minimal.

**As Introduced**

**As Passed by the House**

**Subject: Elimination of the Unclaimed Lottery Prizes Fund**

**R.C. 3770.10, 3770.07, 1309.109, 3770.99**

Eliminates the Unclaimed Lottery Prizes Fund; eliminates the State Lottery Commission's power to conduct lotteries in order to disburse unclaimed prize awards and the related statutory provisions governing these lotteries; and requires all unclaimed prize awards to be returned to the State Lottery Fund.

Fiscal effect: These provisions may potentially increase ticket sales and transfers to the Lottery Profits Education Fund.

**R.C. 3770.10, 3770.07, 1309.109, 3770.99**

No change.

**As Introduced**

**As Passed by the House**

**Subject: Operating Expenses**

**Section: 67**

Authorizes the Controlling Board, at the request of the Ohio Lottery Commission, to increase appropriations for operating expenses from the State Lottery Fund up to a maximum of 15 percent of anticipated total revenue from ticket sales.

**Section: 67**

No change.

**Subject: Prizes, Bonuses, and Commissions**

**Section: 67**

Appropriates any amounts, in addition to appropriations in item 950-601, Prizes, Bonuses, and Commissions, (Fund 044) in the state lottery fund group that are determined by the Director of the State Lottery Commission to be necessary to fund prizes, bonuses, and commissions.

**Section: 67**

No change.

**Subject: Annuity Prizes**

**Section: 67**

Requires the Ohio Lottery Commission, with the approval of the Office of Budget and Management, to transfer cash from the State Lottery Fund Group (Fund 044) to the Deferred Prizes Trust Fund (Fund 871) in an amount sufficient to fund deferred prizes. The Treasurer of State shall credit the Deferred Prizes Trust Fund (Fund 871) the pro-rata share of interest earned by the Treasurer of State on invested balances. Any amounts that are determined by the Director of the Ohio Lottery Commission to be necessary to fund deferred prizes and interest earnings are hereby appropriated.

**Section: 67**

No change.

**As Introduced**

**As Passed by the House**

**Subject: Transfers to the Lottery Profits Education Fund**

**Section: 67**

Requires the Ohio Lottery Commission to transfer from operations at least \$637,900,000 in FY 2004 and \$637,900,000 in FY 2005 to the Lottery Profits Education Fund

**Section: 67**

No change

**Subject: Transfers of balances in the Unclaimed Prizes Fund to the State Lottery Fund**

**Section: 67**

Requires the transfer of all unencumbered and unallotted balances in the Unclaimed Prizes Fund (Fund 872) as of June 30, 2003, to the State Lottery Fund Group (Fund 044).

**Section: 67**

No change.

## LSC Budget Spreadsheet by Line Item, FY 2004 - FY 2005

<i>Fund ALI ALI Title</i>	Estimated 2003	As Introduced 2004	House Sub Bill 2004	% Change Est. 2003 to House 2004	As Introduced 2005	House Sub Bill 2005	% Change House 2004 to House 2005
<b>LOT Lottery Commission, Ohio</b>							
044 950-100 Personal Services	\$25,164,204	\$ 25,114,200	\$ 25,114,200	-0.2%	\$ 25,133,314	\$ 25,133,314	0.1%
044 950-200 Maintenance	\$24,363,840	\$ 20,100,168	\$ 20,100,168	-17.5%	\$ 20,120,268	\$ 20,120,268	0.1%
044 950-300 Equipment	\$3,664,576	\$ 3,067,250	\$ 3,067,250	-16.3%	\$ 3,113,259	\$ 3,113,259	1.5%
044 950-402 Game and Advertising Contracts	\$64,624,331	\$ 68,683,000	\$ 68,683,000	6.3%	\$ 68,683,000	\$ 68,683,000	0.0%
044 950-500 Problem Gambling Subsidy	\$335,000	\$ 335,000	\$ 335,000	0.0%	\$ 335,000	\$ 335,000	0.0%
044 950-601 Prizes, Bonuses and Commissions	\$132,532,127	\$ 166,173,455	\$ 166,173,455	25.4%	\$ 166,173,455	\$ 166,173,455	0.0%
871 950-602 Annuity Prizes	\$188,275,991	\$ 162,228,451	\$ 162,228,451	-13.8%	\$ 162,185,260	\$ 162,185,260	0.0%
872 950-603 Unclaimed Prize Awards	\$13,354,976	\$ 0	\$ 0	-100.0%	\$ 0	\$ 0	N/A
<b>State Lottery Fund Group Total</b>	<b>\$ 452,315,045</b>	<b>\$ 445,701,524</b>	<b>\$ 445,701,524</b>	<b>-1.5%</b>	<b>\$ 445,743,556</b>	<b>\$ 445,743,556</b>	<b>0.0%</b>
<hr style="border-top: 1px dashed black;"/>							
<b>Total All Budget Fund Groups</b>	<b>\$ 452,315,045</b>	<b>\$ 445,701,524</b>	<b>\$ 445,701,524</b>	<b>-1.5%</b>	<b>\$ 445,743,556</b>	<b>\$ 445,743,556</b>	<b>0.0%</b>