

# State Lottery Commission

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- The Ohio Lottery is self-sustaining and funded through the State Lottery Fund
- The Ohio Lottery oversees charitable gaming
- Since its inception in 1974, the Ohio Lottery has provided more than \$15 billion in support of the public education system

## OVERVIEW

### Duties and Responsibilities

The Ohio Lottery 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 primarily from operating net profits. In FY 2005, the Ohio Lottery started the oversight of charitable gaming, taking over certain duties previously performed by the Attorney General. The Ohio Lottery is self-sustaining and funded through the State Lottery Fund. Funds for the oversight of charitable gaming are transferred from appropriations of the Attorney General. Of the \$2.26 billion in total ticket sales generated in FY 2007, 59.5% was awarded to players as prizes, 29.6% was transferred to the Ohio Department of Education, 6.2% was paid to agents as commissions and bonuses, and 4.7% was spent on operations. The Lottery operates a variety of online and instant ticket games. The online games are Pick 3, Pick 4, Rolling Cash 5, Raffles-to-Riches, Classic Lotto, Kicker, and Mega Millions.<sup>4</sup> These games generated approximately 40.1% of total sales revenue in FY 2007. The Lottery sells a wide variety of instant games, including special games that coincide with major holidays. Instant games receipts were approximately 59.9% of total sales revenue in FY 2007.

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.

The enacted budget transfers to the LPEF \$1.33 billion in the next biennium (\$657.9 million in FY 2008 and \$667.9 million in FY 2009). The appropriation for all budget fund groups for FY 2008 is \$420,945,841. This amount is \$18,920,427 lower than FY 2007 adjusted appropriations, a 4.3% decrease. Recommended funding for FY 2009 is \$422,879,388. This amount is \$1,933,547 higher than FY 2008, a 0.5% increase.

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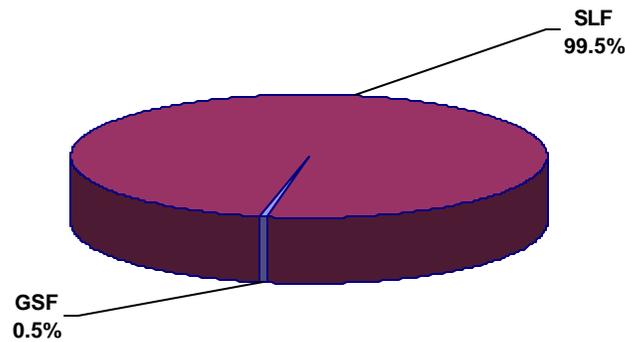
<sup>4</sup> These online games are played via a terminal at a Lottery sales agent. Those terminals are linked to Ohio Lottery headquarters computers. Online games in this report do not refer to "Internet" lottery sales.

### Agency in Brief

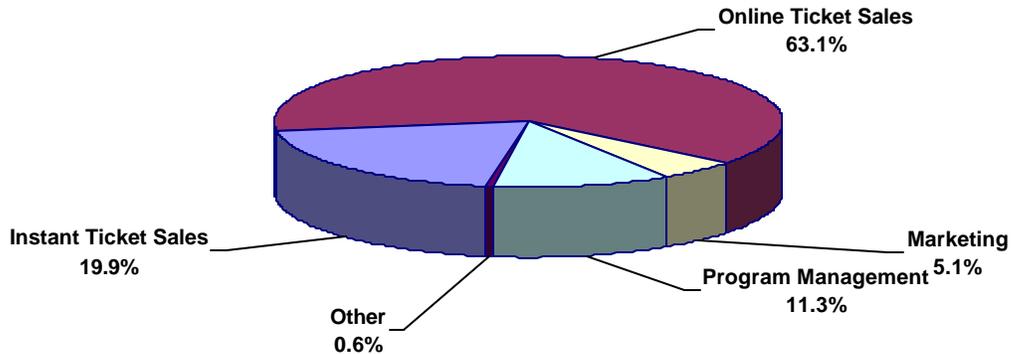
Agency In Brief					
Number of Employees*	Total Appropriations-All Funds		GRF Appropriations		Appropriation Bill(s)
	2008	2009	2008	2009	
335	\$422	\$423	\$0	\$0	Am. Sub. H.B. 119

\*Employee count obtained from the Department of Administrative Services (DAS) payroll reports as of June 2007.

#### Total Budget by Fund Group



#### Total Budget by Program Series



### Vetoed Provisions

The enacted budget vetoed a provision that prohibited the State Lottery Commission from selling individual tickets that exceed \$20 in price and limited the State Lottery Commission from marketing new games. The Governor also vetoed a restriction imposed on the State Lottery Commission from authorizing Sunday drawings on any lottery game unless the game rule was approved by an executive order of the Governor.

## ANALYSIS OF THE BUDGET

### Program Series

### 1: Instant and Online Ticket Sales

**Purpose:** The purpose of this program series is to generate operating profits through the sale of Instant and online tickets to be transferred to the Lottery Profits Education Fund for use in programs benefiting Ohio's primary, secondary, vocational, and special education. Administrative costs for the implementation of Lottery programs as well as marketing activities to enhance ticket sales are found within this program series.

The following table shows the line items that are used to fund the Instant and Online Ticket Sales Programs.

Fund	ALI	Title	FY 2008	FY 2009
<b>State Lottery Fund</b>				
044	950-100	Personal Services	\$25,945,116	\$27,085,265
044	950-200	Maintenance	\$18,748,274	\$18,693,328
044	950-300	Equipment	\$2,554,500	\$2,446,500
044	950-402	Advertising Contracts	\$21,250,000	\$21,250,000
044	950-403	Gaming Contracts	\$50,419,360	\$51,250,704
044	950-601	Direct Prize Payments	\$147,716,286	\$147,716,286
044	950-602	Annuity Prizes	\$151,724,305	\$151,724,305
<b>State Lottery Fund Subtotal</b>			<b>\$418,357,841</b>	<b>\$420,166,388</b>
<b>Total Funding: Instant and Online Ticket Sales</b>			<b>\$418,357,841</b>	<b>\$420,166,388</b>

FY 2008 appropriations for the Instant and Online Ticket program series are about \$19.4 million (4.4%) below the adjusted appropriations for FY 2007. Decreases in appropriations in FY 2008 are due to the decline in anticipated spending for payments of annuity prizes. Amounts appropriated for FY 2009 are \$1.8 million (0.4%) higher than appropriations for FY 2008, due to higher personal services and gaming contract costs.

This analysis focuses on the following specific programs within the Instant and Online Ticket Sales program series:

- **Instant Ticket Sales**
- **Online Ticket Sales**
- **Marketing**
- **Program Management**

### Instant Ticket Sales

**Program Description:** The primary goal of this program is to maximize Instant ticket sales and net profits. The Ohio Lottery provides Instant tickets, makes prize payments to winners, conducts ticket and machine testing, and warehouses and distributes the tickets. The program supports the purchase, warehousing, and distribution of Instant tickets, and includes the vendors' commissions that are based on a percentage of sales. The program also funds the cash and noncash prize (trips, cars, and merchandise) payouts to winners, and makes the annual payment for the annuity prize winnings for winners who have selected to be paid over a period of time rather than in one lump sum.

Fund	ALI	Title	FY 2008	FY 2009
<b>State Lottery Fund</b>				
SLF	950-403	Gaming Contracts	\$27,113,567	\$28,199,911
SLF	950-601	Direct Prize Payments	\$53,346,020	\$53,346,020
SLF	950-602	Annuity Prizes	\$3,128,627	\$3,128,627
<b>Total Funding: Instant Ticket Sales</b>			<b>\$83,558,214</b>	<b>\$84,674,558</b>

**Funding Source:** State Lottery Fund (044) – lottery ticket sales

**Implication of the Budget:** The funding for FY 2008 is \$1.9 million (2.4%) higher than the adjusted appropriations for FY 2007. Increased Instant ticket sales with higher payouts may require higher annuity prize payments in FY 2009. Appropriations for gaming contracts also increase \$1.1 million (1.3%) in FY 2009 because of expected higher sales of Instant games.

## Online Ticket Sales

**Program Description:** As with Instant ticket sales, the primary goal of this program is to maximize online ticket sales and net profits. The Ohio Lottery enters into contracts for the ticket paper and for the gaming system. Additionally, the Ohio Lottery must make prize payments to winners. The program supports the purchase of online terminal supplies to produce lottery tickets, and also includes the contracted vendors' commission amounts. It also funds the cash payouts to winners, including winners of the Mega Millions game, and makes the annual payment for the annuity prize winnings for winners who have selected to be paid over a period of time rather than in one lump sum.

Fund	ALI	Title	FY 2008	FY 2009
<b>State Lottery Fund</b>				
SLF	950-403	Gaming Contracts	\$23,305,793	\$23,050,793
SLF	950-601	Direct Prize Payments	\$94,370,266	\$94,370,266
SLF	950-602	Annuity Prizes	\$148,595,678	\$148,595,678
<b>Total Funding: Online Ticket Sales</b>			<b>\$266,271,737</b>	<b>\$266,016,737</b>

**Funding Source:** State Lottery Fund (044) – lottery ticket sales

**Implication of the Budget:** Funding for the online ticket sales program for FY 2008 is \$13.8 million (5.5%) higher than FY 2007 adjusted appropriations. The Ohio Lottery anticipates higher online ticket sales from the introduction of new games and increased number of drawings for existing games. The FY 2009 appropriation is \$0.3 million (0.1%) lower than FY 2008 due to a projected reduction in spending on gaming contracts.

## Marketing

**Program Description:** The goal of the marketing program is to increase sales through increased consumer awareness. This program supports the creation and placement of advertising (radio, television, signage, billboards, and promotional sponsorships), and provides the resources necessary to produce the Make Me Famous/Make Me Rich television game show and associated prizes. The program finances contracts with vendors that provide creative advertising, TV, radio, and print media placement. The program also supports the purchase of merchandise and promotional items, and provides resources for 11 staffing positions.

Fund	ALI	Title	FY 2008	FY 2009
<b>State Lottery Fund</b>				
SLF	950-100	Personal Services	\$866,896	\$912,312
SLF	950-200	Maintenance	\$2,519,940	\$2,519,940
SLF	950-402	Advertising Contracts	\$18,000,000	\$18,000,000
<b>Total Funding: Marketing</b>			<b>\$21,386,836</b>	<b>\$21,432,252</b>

**Funding Source:** State Lottery Fund (044) – Lottery ticket sales

**Implication of the Budget:** The funding for the marketing program in FY 2008 is \$0.7 million (3.3%) lower than the FY 2007 adjusted appropriations, from reduced spending on advertising contracts (\$1.3 million, 6.9% less than in FY 2007). The FY 2009 overall appropriation is slightly above the FY 2008 appropriation, because of a 5.2% increase in personal services costs.

## Program Management

**Program Description:** This program implements the administrative, financial, information technology, sales support, and executive oversight functions of the Lottery Commission. The program funds approximately 326 full-time positions that implement and oversee the Lottery's other programs. This program also provides for the general operational costs that include telecommunications, data processing and systems maintenance, and facility rental and maintenance.

Fund	ALI	Title	FY 2008	FY 2009
<b>State Lottery Fund</b>				
SLF	950-100	Personal Services	\$25,078,200	\$26,172,953
SLF	950-200	Maintenance	\$16,228,334	\$16,173,388
SLF	950-300	Equipment	\$2,554,500	\$2,446,500
SLF	950-402	Advertising Contracts	\$3,250,000	\$3,250,000
<b>Total Funding: Program Management</b>			<b>\$47,111,054</b>	<b>\$48,042,841</b>

**Funding Source:** State Lottery Fund (044) – lottery ticket sales

**Implication of the Budget:** Nearly all of the personal services spending is included in this program. The funding for the program management program for FY 2008 is \$0.7 million (1.7%) higher than the adjusted appropriations for FY 2007. Increased costs for personal services (\$0.3 million, 1.4%) and maintenance (\$0.3 million, 2.2%) are expected. FY 2009 appropriations are \$0.9 million (2.0%) higher than FY 2008 appropriations, from increased personal services costs (\$1.1 million, 4.4%).

**Program Series**

**2: Problem Gambling Subsidy**

**Purpose:** The goals of this program are to establish outpatient gambling treatment programs in Ohio for lottery clients with an alcohol and/or drug addiction and to increase the identification and referral of problem gamblers to appropriate programs and services. The program seeks to increase awareness of available services for problem gamblers and their families. The following table shows the line item that is used to fund the problem gambling subsidy program.

Fund	ALI	Title	FY 2008	FY 2009
<b>State Lottery Fund</b>				
044	950-500	Problem Gambling Subsidy	\$335,000	\$335,000
<b>Total Funding: Problem Gambling Subsidy</b>			<b>\$335,000</b>	<b>\$335,000</b>

**Program Description:** This program funds the Ohio Department of Alcohol and Drug Addiction Services for the administration of problem gambling treatment programs.

**Funding Source:** State Lottery Fund (044) – lottery ticket sales

**Implication of the Budget:** The funding for the program each year of the biennium is the same as for FY 2007.

**Program Series****3: Charitable Gambling**

**Purpose:** In accordance with an agreement (Memorandum of Understanding) with the Ohio Attorney General (AG), the Lottery performs specific duties delegated by the AG related to the oversight of Ohio's charitable gaming activities.

Fund	ALI	Title	FY 2008	FY 2009
<b>General Services Fund</b>				
231	950-604	Charitable Gaming Oversight	\$2,253,000	\$2,378,000
<b>General Services Fund Subtotal</b>			<b>\$2,253,000</b>	<b>\$2,378,000</b>
<b>Total Funding: Charitable Gambling</b>			<b>\$2,253,000</b>	<b>\$2,378,000</b>

**Program Description:** In July 2004, the AG and the Lottery entered into an agreement which requires the Lottery to perform the following duties: issue gambling licenses to charitable organizations; issue licenses to manufacturers and distributors of gambling products; and provide regulation, investigation, and audits of over 2,000 charitable organizations, manufacturers, and distributors. This program supports the requirements of this agreement. Performance of these duties requires the conversion of the previous manual application process to an online system to license applicants, conduct site visits, complete audits, and standardize reports.

**Funding Source:** General Services Fund (231)

**Implication of the Budget:** The funding for the program in FY 2008 is \$1.0 million (87.8%) higher than the FY 2007 adjusted appropriations. Appropriations for FY 2009 are \$0.1 million (5.5%) higher than FY 2008 amounts.

**FY 2008 - 2009 Final Appropriation Amounts**

**All Fund Group**

**Line Item Detail by Agency**

FY 2005:      FY 2007 Adj.      FY 2008      % Change      FY 2009      % Change  
 FY 2006: Appropriations: Appropriations: 2007 to 2008: Appropriations: 2008 to 2009:

**Report For: Main Operating Appropriations Bill**

**Version: Enacted**

**LOT Lottery Commission, Ohio**

231	950-604	Charitable Gaming Oversight	----	\$ 977,947	\$ 1,800,000	\$ 2,253,000	25.17%	\$ 2,378,000	5.55%
<b>General Services Fund Group Total</b>			----	<b>\$ 977,947</b>	<b>\$ 1,800,000</b>	<b>\$ 2,253,000</b>	<b>25.17%</b>	<b>\$ 2,378,000</b>	<b>5.55%</b>
044	950-100	Personal Services	\$ 23,371,631	\$ 23,626,293	\$ 25,457,016	\$ 25,945,116	1.92%	\$ 27,085,265	4.39%
044	950-200	Maintenance	\$ 16,303,587	\$ 17,282,680	\$ 17,954,156	\$ 18,748,274	4.42%	\$ 18,693,328	-0.29%
044	950-300	Equipment	\$ 1,251,140	\$ 2,433,784	\$ 2,494,718	\$ 2,554,500	2.40%	\$ 2,446,500	-4.23%
044	950-402	Advertising Contracts	\$ 58,089,746	\$ 65,176,541	\$ 70,024,000	\$ 21,250,000	-69.65%	\$ 21,250,000	0.00%
044	950-403	Gaming Contracts	----	----	\$ 0	\$ 50,419,360	N/A	\$ 51,250,704	1.65%
044	950-500	Problem Gambling Subsidy	\$ 329,500	\$ 324,500	\$ 335,000	\$ 335,000	0.00%	\$ 335,000	0.00%
044	950-601	Direct Prize Payments	\$ 138,244,505	\$ 149,543,296	\$ 147,716,286	\$ 147,716,286	0.00%	\$ 147,716,286	0.00%
871	950-602	Annuity Prizes	\$ 166,766,890	\$ 581,081,520	\$ 174,085,092	\$ 151,724,305	-12.84%	\$ 151,724,305	0.00%
<b>State Lottery Fund Group Total</b>			<b>\$ 404,357,000</b>	<b>\$ 839,468,614</b>	<b>\$ 438,066,268</b>	<b>\$ 418,692,841</b>	<b>-4.42%</b>	<b>\$ 420,501,388</b>	<b>0.43%</b>
<b>Lottery Commission, Ohio Total</b>			<b>\$ 404,357,000</b>	<b>\$ 840,446,561</b>	<b>\$ 439,866,268</b>	<b>\$ 420,945,841</b>	<b>-4.30%</b>	<b>\$ 422,879,388</b>	<b>0.46%</b>