

# Greenbook

## LBO Analysis of Enacted Budget

### Ohio Lottery Commission

Jean J. Botomogno, Principal Economist  
July 2021

#### TABLE OF CONTENTS

<b>Quick look</b> .....	<b>1</b>
<b>Agency overview</b> .....	<b>1</b>
<b>Analysis of FY 2022-FY 2023 budget</b> .....	<b>1</b>
Operating Expenses (ALI 950321) and Problem Gambling (ALI 950605) .....	2
Direct Prize Payments (ALI 950601) and Annuity Prizes (ALI 950602) .....	2
Advertising Contracts (ALI 950402) and Gaming Contracts (ALI 950403) .....	3
<b>Lottery revenues</b> .....	<b>4</b>

Attachment:

Appropriation Spreadsheet

# LBO Greenbook

## Ohio Lottery Commission

---

### Quick look...

- The Ohio Lottery is a self-sustaining non-GRF agency funded through the State Lottery Fund.
- The agency is supported by the sale of traditional lottery tickets and revenue from video lottery terminals (VLTs) at seven Ohio horse racetracks (or racinos).
- Net profits from those operations are transferred to the Lottery Profits Education Fund (LPEF) for use in programs benefiting primary, secondary, vocational, and special education.
- The Ohio Lottery provides some funding to the Ohio Department of Mental Health and Addiction Services for problem gambling treatment programs.

Fund Group	FY 2020 Actual	FY 2021 Actual	FY 2022 Appropriation	FY 2023 Appropriation
State Lottery Fund Group	\$609,339,016	\$428,283,769	\$388,363,072	\$402,002,345
% change	--	-29.7%	-9.3%	3.5%

### Agency overview

The Ohio Lottery (LOT) operates a variety of draw-based games<sup>1</sup> and Instant ticket games, and regulates video lottery terminals (VLTs) at racinos. The agency exists primarily to create operating net profits to be transferred to the Lottery Profits Education Fund (LPEF) (Fund 7017). LOT is self-sustaining and all revenue is deposited in the State Lottery Fund (Fund 7044).

The enacted budget requires transfers of \$2,497.0 million in the next biennium (\$1,234.0 million in FY 2022 and \$1,263.0 million in FY 2023) to Fund 7017. These transfers would be an increase of \$25.2 million (1.0%) relative to transfers of \$2,471.8 million in the previous biennium (\$1,127.1 million for FY 2020 and \$1,344.7 million for FY 2021), though actual biennial transfers historically differ from budgeted transfers.

### Analysis of FY 2022-FY 2023 budget

The Ohio Lottery Commission's budget consists of six appropriation line items (ALIs) made from the State Lottery Fund (SLF) group. The enacted budget appropriates \$388.4 million in FY 2022 and \$402.0 million in FY 2023, or a total of \$790.4 million for the biennium. Appropriations for FY 2022-FY 2023 represent a decrease of \$247.3 million (23.8%) relative to expenditures of \$1,037.6 million in the previous biennium, driven down by assumed declines in spending for direct

---

<sup>1</sup> Current draw games are Pick 3, Pick 4, Pick 5, Rolling Cash 5, Classic Lotto, Keno, EZ Play, EZ Play Tap, EZ Play Touch&Win, Lucky for Life, The Lucky One, Powerball, and Mega millions. They are played via a terminal linked to Ohio Lottery headquarters computers at a Lottery sales agent and do not refer to internet lottery sales.

prize payments (the largest spending category). 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 expenditures for the regulation of the VLT Program.

## Operating Expenses (ALI 950321) and Problem Gambling (ALI 950605)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Appropriation	FY 2023 Appropriation
<b>Fund 7044 ALI 950321, Operating Expenses</b>					
\$46,845,178	\$48,744,538	\$49,313,420	\$49,465,623	\$57,344,482	\$58,581,656
% change	4.1%	1.2%	0.3%	15.9%	2.2%
<b>Fund 7044 ALI 950605, Problem Gambling</b>					
\$2,952,309	\$3,397,505	\$3,055,119	\$3,348,096	\$4,000,000	\$4,000,000
% change	15.1%	-10.1%	9.6%	19.5%	0.0%

ALI 950321, Operating Expenses, provides funds for staff payroll and benefits, maintenance and supplies, and equipment. Costs are expected to rise for items funded by this line item, due mainly to raises in compensation of staff. The appropriation in FY 2022 is \$7.9 million above spending in FY 2021, and the appropriation for FY 2023 is \$1.2 million above FY 2022 funding.

ALI 950605, Problem Gambling, is funded by a share of commissions (0.5%) received by Lottery sales agents operating VLTs at racinos (R.C. 3769.087). The appropriation in each year of the biennium is \$4.0 million, an amount \$0.7 million above FY 2021 spending. This line item funds expenditures related to problem gambling identification and treatment programs, and supports the Ohio for Responsible Gambling initiative. The Ohio Lottery provides funds to the Ohio Department of Mental Health and Addiction Services for the treatment of lottery players that also are addicted to alcohol and drugs.

## Direct Prize Payments (ALI 950601) and Annuity Prizes (ALI 950602)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Appropriation	FY 2023 Appropriation
<b>Fund 7044 ALI 950601, Direct Prize Payments</b>					
\$237,777,568	\$141,764,106	\$403,100,846	\$220,830,191	\$158,700,369	\$162,809,344
% change	-40.4%	184.3%	-45.2%	-28.1%	2.6%
<b>Fund 8710 ALI 950602, Annuity Prizes</b>					
\$71,906,369	\$64,663,059	\$57,998,217	\$52,939,470	\$56,311,050	\$58,328,775
% change	-10.1%	-10.3%	-8.7%	6.4%	3.6%

ALI 950601, Direct Prize Payments, funds 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, and first installments of deferred Powerball and Mega millions prizes. This line item had outsized spending in FY 2021, due to high jackpots for Mega millions, Powerball, and Classic Lotto, though they were less than record-breaking jackpots in FY 2020. However, LOT generally does not try to forecast such outcomes when determining budgeted levels for this line item. In the enacted budget, the amount appropriated for direct prize payments in FY 2022 is decreased by \$62.1 million from FY 2021 expenditures, under the assumption that high sales experienced in the last two fiscal years would not be repeated, and sales levels would return back to historical trend growth. The appropriation for FY 2023 is \$4.1 million above that of FY 2022. Additional appropriations for this line item are required when sales are substantially higher than LOT forecasts.

Appropriations for ALI 950602, Annuity Prizes, 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 2022 is \$3.4 million above FY 2021 spending. The enacted budget provides an increase of \$2.0 million in the FY 2023 appropriation, from the appropriation level in FY 2022. Though the enacted budget provides increases for this line item, actual spending related to annuity prizes have generally decreased over the years, as an increasing number of players over the years have chosen the cash option after winning large prizes.

Though appropriation amounts are specified for these two line items, uncodified language in the budget act appropriates additional amounts if the Director of the Ohio Lottery Commission determines that additional amounts are needed to pay out prize winnings. The enacted budget also modified a withholding requirement in ongoing law for lottery winners that owe certain types of debt to the state or a political subdivision: previous law required LOT to withhold from a payout to such an individual if winnings exceeded \$5,000. The budget act changed the threshold to the reportable winnings amount in federal law, specifically in 26 United States Code 6041; that amount is currently \$600.

## Advertising Contracts (ALI 950402) and Gaming Contracts (ALI 950403)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Appropriation	FY 2023 Appropriation
<b>Fund 7044 ALI 950402, Advertising Contracts</b>					
\$24,395,404	\$25,272,893	\$25,625,729	\$23,879,854	\$27,925,000	\$27,925,000
% change	3.6%	1.4%	-6.8%	16.9%	0.0%
<b>Fund 7044 ALI 950403, Gaming Contracts</b>					
\$70,201,028	\$62,464,282	\$70,245,686	\$77,820,535	\$84,082,171	\$90,357,570
% change	-11.0%	12.5%	10.8%	8.0%	7.5%

LOT spending for advertising expenses covers the production of print, radio, internet, and television advertisements and the cost of post-production media placement of those advertisements. The appropriation for each year of the biennium is \$27.9 million, an amount \$4.0 million above FY 2021 spending. The increase in spending in FY 2022 is due, in part, to expenditures encumbered but not paid by June 30, 2021.

Spending on gaming contracts is directly related to the level of sales, which are expected to rise in the biennium. Funding within this line item also accounts for additional gaming equipment necessary to support the retailer base. The enacted budget provides an increase of \$6.3 million for this appropriation item in FY 2022. The appropriation for FY 2023 is also \$6.3 million higher than in FY 2022. High jackpots of multistate games (Powerball and Mega millions) generally boost gaming contracts spending.

## Lottery revenues

Traditional ticket sales (draw-based games and Instant tickets) were \$4.33 billion in FY 2021, \$858.6 million (24.7%) above such sales in FY 2020 (which were reduced by business closures from mid-March to mid-June in 2020 due to the COVID-19 pandemic). At Ohio racinos, total wagers were \$12.75 billion in FY 2021, up \$3.72 billion (41.2%) from the previous fiscal year. After payout to gamblers, the VLT Program at racinos provided income of \$1.19 billion, \$365.3 million (44.5%) more than in FY 2020. Revenue from the program is shared by the racetrack owners (66.5%) and the Ohio Lottery Commission (33.5%). Thus, LOT received \$397.4 million of the VLT revenue in FY 2021, \$122.4 million more than in FY 2020. As stated earlier, net profits from all Ohio Lottery games are transferred to the LPEF (Fund 7017) in the budget of the Ohio Department of Education.

# FY 2022 - FY 2023 Final Appropriations

# All Fund Groups

Line Item Detail by Agency			Appropriations			FY 2021 to FY 2022	Appropriations	FY 2022 to FY 2023
			FY 2020	FY 2021	FY 2022	% Change	FY 2023	% Change
<b>Report For: Main Operating Appropriations Bill</b>			<b>Version: As Enacted</b>					
<b>LOT</b>	<b>Ohio Lottery Commission</b>							
7044	950321	Operating Expenses	\$ 49,313,420	\$ 49,465,623	\$ 57,344,482	15.93%	\$ 58,581,656	
7044	950402	Advertising Contracts	\$ 25,625,729	\$ 23,879,854	\$ 27,925,000	16.94%	\$ 27,925,000	
7044	950403	Gaming Contracts	\$ 70,245,686	\$ 77,820,535	\$ 84,082,171	8.05%	\$ 90,357,570	
7044	950601	Direct Prize Payments	\$ 403,100,846	\$ 220,830,191	\$ 158,700,369	-28.13%	\$ 162,809,344	
7044	950605	Problem Gambling	\$ 3,055,119	\$ 3,348,096	\$ 4,000,000	19.47%	\$ 4,000,000	
8710	950602	Annuity Prizes	\$ 57,998,217	\$ 52,939,470	\$ 56,311,050	6.37%	\$ 58,328,775	
<b>State Lottery Fund Group Total</b>			<b>\$ 609,339,016</b>	<b>\$ 428,283,769</b>	<b>\$ 388,363,072</b>	<b>-9.32%</b>	<b>\$ 402,002,345</b>	
<b>Ohio Lottery Commission Total</b>			<b>\$ 609,339,016</b>	<b>\$ 428,283,769</b>	<b>\$ 388,363,072</b>	<b>-9.32%</b>	<b>\$ 402,002,345</b>	