

Redbook

LBO Analysis of Executive Budget Proposal

Ohio Lottery Commission

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Attachment:

Appropriation Spreadsheet

LBO Redbook

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 is governed by a nine-member commission. Daily administration is the responsibility of an executive director appointed by the Governor.
- The Ohio Lottery had a full-time staff of 359 in 2020.

Fund Group	FY 2020 Actual	FY 2021 Estimate	FY 2022 Introduced	FY 2023 Introduced
State Lottery Fund Group	\$609,339,016	\$367,694,362	\$388,363,072	\$402,002,345
% change	--	-39.7%	5.6%	3.5%

Agency overview

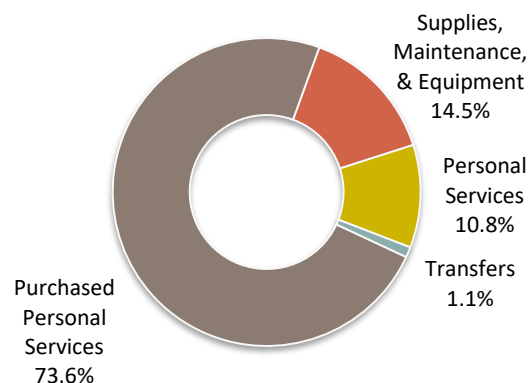
The executive budget proposes transfers of \$2,497.0 million in the next biennium (\$1,234.0 million in FY 2022 and \$1,263.0 million in FY 2023) to the Lottery Profits Education Fund (LPEF, Fund 7017). This recommendation would be an increase of \$192.9 million (8.4%) relative to total transfers of \$1,127.1 million in FY 2020, and budgeted transfers of \$1,177.0 million for FY 2021 (H.B. 166 of the 133rd General Assembly).

Analysis of FY 2022-FY 2023 budget proposal

Summary of executive recommendations

The Ohio Lottery Commission's (LOT) budget consists of six appropriation line items (ALIs) made from the State Lottery Fund (SLF) group. The executive budget recommendations total \$388.4 million in FY 2022 and \$402.0 million in FY 2023. Chart 1 summarizes the executive recommendations for the biennium by expense category. The large share for purchased personal services is primarily due to the fact that nearly 99% of the proposed appropriations for paying prize winners, under line items 950601, Direct Prize Payments, and 950602, Annuity Prizes, are classified under that object of expense.

Chart 1: LOT Budget by Expense Category
FY 2022-FY 2023 Biennium



LOT appropriations support 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, expenditures for the regulation of the Video Lottery Terminal (VLT) Program, and commissions and bonuses to over 9,800 Lottery agents. Table 1 below provides the agency's staffing level in recent years.

Office	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Communications	7	7	6	6	6
Executive	2	2	1	5	5
Finance	22	22	22	20	21
General Services	19	16	21	19	19
Human Resources	7	7	7	7	7
Information Technology	44	43	41	35	37
Internal Audit	4	4	4	5	5
Legal Counsel	5	6	6	4	4
Marketing	5	7	7	7	7
Product Development/Strategic Planning/Analytics	N/A	N/A	N/A	2	3
Sales	159	158	158	161	161
Security	16	16	16	15	15
Operations Management	7	7	8	8	8
Government & Community Relations	2	3	2	3	3
VLT Management	55	58	58	55	58
Total	354	356	357	352	359

*Excludes part-time, LOT Commissioners, and interns.

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

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Estimate	FY 2022 Introduced	FY 2023 Introduced
Fund 7044 ALI 950321, Operating Expenses					
\$46,845,178	\$48,744,538	\$49,313,420	\$56,241,063	\$57,344,482	\$58,581,656
% change	4.1%	1.2%	14.0%	2.0%	2.2%
Fund 7044 ALI 950605, Problem Gambling					
\$2,952,309	\$3,397,505	\$3,055,119	\$3,400,000	\$4,000,000	\$4,000,000
% change	15.1%	-10.1%	11.3%	17.6%	0.0%

ALI 950321, Operating Expenses, provides funds for staff payroll and benefits, maintenance and supplies, and equipment. About 74% of planned expenses are for staff compensation, with 24% for supplies and equipment. The recommended appropriation in FY 2022 is \$1.1 million above estimated spending in FY 2021. Costs are expected to rise for items funded by this line item, due mainly to raises in compensation of staff. The recommended appropriation for FY 2023 is \$1.2 million above FY 2022 recommended funding. Though appropriation amounts are specified in the budget bill for this line item, uncodified language authorizes the Controlling Board, at the request of the State Lottery Commission, to authorize additional expenditures in excess of appropriations for operating expenses from the State Lottery Fund up to a maximum of 10% of anticipated total revenue from the sale of lottery products.

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). This line item funds expenditures related to problem gambling identification and treatment programs, including the training of treatment counselors, and supports the Ohio for Responsible Gambling initiative. The recommended appropriation in each year of the biennium is \$4.0 million, \$0.6 million above expected FY 2021 spending. The Ohio Lottery works with the Ohio Department of Mental Health and Addiction Services to help provide treatment and counseling services for gamblers by providing funds for the treatment of lottery players that also are addicted to alcohol and drugs. The program's goals are 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.

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

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Estimate	FY 2022 Introduced	FY 2023 Introduced
Fund 7044 ALI 950601, Direct Prize Payments					
\$237,777,568	\$141,764,106	\$403,100,846	\$157,390,000	\$158,700,369	\$162,809,344
% change	-40.4%	184.3%	-61.0%	0.8%	2.6%
Fund 8710 ALI 950602, Annuity Prizes					
\$71,906,369	\$64,663,059	\$57,998,217	\$52,723,717	\$56,311,050	\$58,328,775
% change	-10.1%	-10.3%	-9.1%	6.8%	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; first installments of deferred Powerball and Mega Millions prizes; and prize payments of high-tier winners of other draw games. Expenditures supported by direct prize payments appropriations may also include cash payouts from Instant games, and noncash prizes payouts to winners.

Winners of some of the largest Mega Millions and Classic Lotto jackpots chose the cash options in FY 2020, resulting in an outsized spending level for the fiscal year.¹ LOT generally does not attempt to forecast such outcomes, particularly for multistate games, when determining budgeted levels for this line item. So, spending for direct prize payments is assumed to decrease by 61% in FY 2021, but budgeted to rise by \$1.3 million in FY 2022. (However, actual spending at the end of the current fiscal year may be higher than the estimate in the executive budget due to high levels of sales experienced for several weeks in December 2020 and into January 2021.) The recommended appropriation for FY 2023 is \$4.1 million above that of FY 2022, as LOT projects sales increases in the next two years. 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 Ohio Lottery Commission determines that additional amounts are needed to pay out prize winnings.

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. 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 Ohio Lottery Commission determines that additional amounts are needed to pay out prize winnings. The recommended appropriation for FY 2022 is \$3.6 million above FY 2021 estimated spending. The executive recommendation in FY 2023 is an increase of \$2.0 million from that of the previous year. Appropriations related to annuity prizes have generally decreased, as an increasing number of players over the years have chosen the cash option after winning large prizes. For example, actual spending for annuity prizes was \$79.4 million in FY 2010 and LOT traditional sales were \$2.49 billion. In FY 2020 when those sales totaled \$3.47 billion, spending for annuity prizes was \$58.0 million.

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

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Estimate	FY 2022 Introduced	FY 2023 Introduced
Fund 7044 ALI 950402, Advertising Contracts					
\$24,395,404	\$25,272,893	\$25,625,729	\$26,700,000	\$27,925,000	\$27,925,000
% change	3.6%	1.4%	4.2%	4.6%	0.0%
Fund 7044 ALI 950403, Gaming Contracts					
\$70,201,028	\$62,464,282	\$70,245,686	\$71,239,582	\$84,082,171	\$90,357,570
% change	-11.0%	12.5%	1.4%	18.0%	7.5%

¹ Powerball and Mega Millions jackpots at the end of January were the fourth-largest and the second-largest, respectively, for those multistate games, after long jackpot rolls.

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 recommended appropriation for FY 2022 is \$1.2 million above FY 2021 estimated spending. No appropriation increase is recommended in FY 2023.

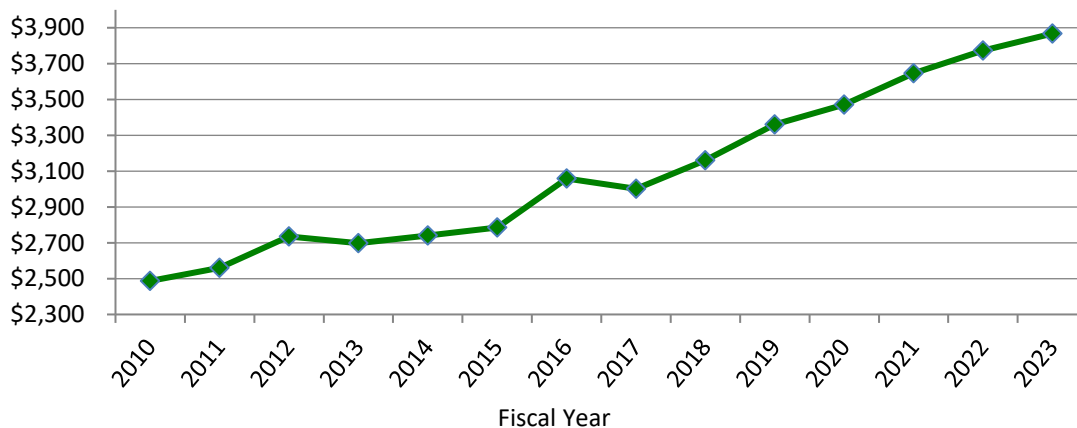
Spending on gaming contracts is directly related to the level of sales, which are expected to rise in the biennium. Funding within this line item also accounts for additional gaming equipment necessary to support the retailer base. The executive recommends an increase of \$12.8 million for this appropriation item in FY 2022. The recommended spending for FY 2023 is \$6.3 million higher than in FY 2022. High jackpots of multistate games (Powerball and Mega Millions) generally boost gaming contracts spending. Thus, at the end of the current fiscal year, FY 2021 spending for gaming contracts will likely be higher than the amount included in the executive budget.

Lottery sales, profits, and transfers to education

Traditional lottery sales

The Ohio Lottery operates a variety of draw games² and Instant ticket games at more than 9,900 retailers. The draw games are Pick 3, Pick 4, Pick 5, Rolling Cash 5, Classic Lotto, Raffle (occasional), Kicker, Keno, EZ Play, EZ Play Tap, EZ Play Touch and Win, The Lucky One, Lucky for Life, Powerball, and Mega Millions. Occasionally, LOT offers raffle games. The traditional lottery ticket sales were \$3.47 billion in FY 2020, and are likely to exceed \$3.65 billion in FY 2021; draw games provided \$1.60 billion (46.0%) of the total in FY 2020. Instant games sales, including special theme games, were \$1.87 billion (54.0%) of sales revenue in FY 2020. Traditional lottery ticket sales have experienced solid growth over the years. The rise in receipts is due to the introduction of new draw games, additional drawings for existing games, and new Instant games. The graph below shows annual sales from traditional ticket sales from FY 2010 to FY 2020, and estimated sales in FY 2021. LOT forecast sales of about \$3.77 billion in FY 2022 and \$3.87 billion in FY 2023.

Chart 2: Annual Traditional Lottery Sales
(\$ in millions)



² These draw games are played via a terminal at a Lottery sales agent. Those terminals are linked to Ohio Lottery headquarters computers. Draw games (also known as "On-line" games) do not refer to internet lottery sales.

Ticket sales for “mature” lotteries such as the Ohio Lottery are usually flat or decline, unless new games are introduced, changes to existing games are made, or increases in the number of drawings boost sales. Sales may also increase if additional states enter the multistate games. Although incomes continue to grow, attitudes toward gaming remain generally favorable, and total gaming 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, internet-based gaming, including sports betting, and charitable gaming have all affected the growth of LOT sales. LOT suggests that none of the draw or scratch-off games not currently offered will bring in significant revenue.

Video lottery terminals

The VLT Program at horse racetracks has operated at seven Ohio racinos since September 2014. Table 2 below provides wagered amounts, VLT income, and revenue to the Racing Commission (for distribution to racino owners), LOT, and for problem gambling services in recent years. Revenue from the VLT Program is shared by the racetrack owners (66.5%) and LOT (33.5%). Racinos experienced the partial or full closure of facilities from March through June due the Governor’s emergency order related to the COVID-19 pandemic, resulting in a reduction of about 22% in gross income from the program in FY 2020. The yield was \$820.9 million (after payout to players) on total wagers of \$9.03 billion.³ Of that amount, LOT received \$275.0 million. The Racing Commission received \$543.2 million, the substantial majority of which was distributed to racino owners, and \$2.7 million in VLT revenue was directed toward problem gambling services.

Fiscal Year	Wagers	Gross Revenue	Number of VLTs	Daily Income per VLT	Racing Commission	Lottery Commission	Problem Gambling
2016	\$9,472.9	\$868.9	10,587	\$224	\$574.9	\$291.1	\$2.9
2017	\$10,201.3	\$926.6	10,963	\$232	\$613.1	\$310.4	\$3.1
2018	\$10,780.2	\$987.3	11,207	\$242	\$653.3	\$330.7	\$3.3
2019	\$11,588.0	\$1,058.6	11,375	\$255	\$700.5	\$354.6	\$3.5
2020	\$9,032.3	\$820.9	11,556	\$268	\$543.2	\$275.0	\$2.7

LOT estimates VLT gross revenue of about \$1,066.3 million in FY 2021, and forecasts such revenue to be \$1,090.4 million in FY 2022, and \$1,123.1 million in FY 2023. Those amounts imply wagers of nearly \$12.0 billion in FY 2022, and about \$12.3 billion in FY 2023.

³ Promotional play credits to players totaled \$155.0 million in FY 2020, down from \$189.4 million in FY 2019.

Transfers to education

The executive budget is recommending transfers to the LPEF of \$1,234.0 million in FY 2022 and \$1,263.0 million in FY 2023. This recommendation would be an increase of \$192.9 million (8.4%) relative to total transfers of \$1,127.1 million in FY 2020, and budgeted transfers of \$1,177.0 million for FY 2021 (H.B. 166 of the 133rd General Assembly). Table 3 below provides actual transfers in FY 2020, estimated transfers in FY 2021, and budgeted transfers in FY 2022 and FY 2023. Estimated transfers for FY 2021 were based on the LOT budget request to the executive,⁴ and budgeted transfers in the biennium are specified in the executive budget bill.

Table 3. Actual and Estimated Transfers to LPEF, FY 2020-FY 2023 (\$ in millions)				
	FY 2020	FY 2021 Estimated	FY 2022	FY 2023
Traditional Lottery Profits	\$846.3	\$827.6	\$876.9	\$895.1
VLT Profits	\$280.8	\$349.4	\$357.6	\$368.6
Total Transfers	\$1,127.1	\$1,177.0	\$1,234.5	\$1,263.7

LOT/lb

⁴ Traditional lottery sales in the last few months have exceeded estimated sales both at the time of H.B. 66 deliberations and when LOT's budget request to OBM was made in the fall of 2020. Thus, it is probable actual transfers in FY 2021 would also exceed the budgeted FY 2021 amount.

FY 2022 - FY 2023 Appropriations - As Introduced

All Fund Groups

Line Item Detail by Agency			FY 2020	OBM Estimate FY 2021	Introduced FY 2022	FY 2021 to FY 2022 % Change	Introduced FY 2023	FY 2022 to FY 2023 % Change
Report For: Main Operating Appropriations Bill			Version: As Introduced					
LOT	Ohio Lottery Commission							
7044	950321	Operating Expenses	\$ 49,313,420	\$ 56,241,063	\$ 57,344,482	1.96%	\$ 58,581,656	2.16%
7044	950402	Advertising Contracts	\$ 25,625,729	\$ 26,700,000	\$ 27,925,000	4.59%	\$ 27,925,000	0.00%
7044	950403	Gaming Contracts	\$ 70,245,686	\$ 71,239,582	\$ 84,082,171	18.03%	\$ 90,357,570	7.46%
7044	950601	Direct Prize Payments	\$ 403,100,846	\$ 157,390,000	\$ 158,700,369	0.83%	\$ 162,809,344	2.59%
7044	950605	Problem Gambling	\$ 3,055,119	\$ 3,400,000	\$ 4,000,000	17.65%	\$ 4,000,000	0.00%
8710	950602	Annuity Prizes	\$ 57,998,217	\$ 52,723,717	\$ 56,311,050	6.80%	\$ 58,328,775	3.58%
State Lottery Fund Group Total			\$ 609,339,016	\$ 367,694,362	\$ 388,363,072	5.62%	\$ 402,002,345	3.51%
Ohio Lottery Commission Total			\$ 609,339,016	\$ 367,694,362	\$ 388,363,072	5.62%	\$ 402,002,345	3.51%