

Greenbook

LBO Analysis of Enacted Budget

Ohio Lottery Commission

Jean J. Botomogno, Principal Economist
August 2019

TABLE OF CONTENTS

Quick look	1
Agency overview	1
Analysis of FY 2020-FY 2021 budget	1
Operating Expenses (ALI 950321) and Problem Gambling (ALI 950605)	2
Direct Prize Payments (ALI 950601) and Annuity Prizes (ALI 950602)	2
Advertising (ALI 950402) and Gaming Contracts (ALI 950403)	3
Lottery revenues	4

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 (draw games and Instant 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 2018 Actual	FY 2019 Actual	FY 2020 Appropriation	FY 2021 Appropriation
State Lottery Fund Group	\$454,077,856	\$346,306,382	\$374,225,454	\$379,653,052
% change	--	-23.7%	8.1%	1.5%

Agency overview

The Ohio Lottery (LOT) operates a variety of draw-based games¹ and Instant ticket games and regulates VLTs at racinos. The agency exists primarily to create operating net profits to be transferred to the 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 \$2,303.0 million in the next biennium (\$1,126.0 million in FY 2020 and \$1,177.0 million in FY 2021) from Fund 7044 to the LPEF. These transfers would be a decrease of \$22.9 million (1.0%) relative to transfers of \$2,325.9 million in the previous biennium (\$1,172.0 million in FY 2018 and \$1,153.9 million for FY 2019), though actual biennial transfers historically differ from budgeted transfers.

Analysis of FY 2020-FY 2021 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 \$374.2 million in FY 2020 and \$379.7 million in FY 2021, or a total of \$753.9 million for the biennium. Appropriations for FY 2020-FY 2021 represent a decrease of \$46.5 million (5.8%) relative to expenditures of \$800.4 million in the previous biennium, driven down by assumed declines in spending for direct prize payments and annuity prizes. Appropriations support the

¹ Draw games are Pick 3, Pick 4, Pick 5, Rolling Cash 5, Classic Lotto, Raffle, Kicker, Keno, EZ Play, EZ Play Tap, EZ Play QuickKeno, Lucky for Life, 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.

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 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Appropriation	FY 2021 Appropriation
Fund 7044 ALI 950321, Operating Expenses					
\$46,439,848	\$49,043,723	\$46,845,178	\$48,744,538	\$59,850,383	\$60,544,470
% change	5.6%	-4.5%	4.1%	22.8%	1.2%
Fund 7044 ALI 950605, Problem Gambling					
\$3,125,311	\$2,573,524	\$2,952,309	\$3,397,505	\$3,400,000	\$3,400,000
% change	-17.7%	14.7%	15.1%	0.1%	0.0%

ALI 950321, Operating Expenses, provides funds for staff payroll and benefits, maintenance and supplies, and equipment. The appropriation in FY 2020 is \$11.1 million above spending in FY 2019. Costs are expected to rise for items funded by this line item in FY 2020, due mainly to raises in compensation of staff. The appropriation for FY 2021 is \$0.7 million above FY 2020 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). Appropriations in each year of the biennium are \$3.4 million, slightly above FY 2019 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 also addicted to alcohol and drugs.

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

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Appropriation	FY 2021 Appropriation
Fund 7044 ALI 950601, Direct Prize Payments					
\$274,655,574	\$168,372,356	\$237,777,568	\$141,764,106	\$154,333,000	\$157,440,000
% change	-38.7%	41.2%	-40.4%	8.9%	2.0%
Fund 8710 ALI 950602, Annuity Prizes					
\$82,051,215	\$75,376,988	\$71,906,369	\$64,663,059	\$59,873,000	\$60,279,000
% change	-8.1%	-4.6%	-10.1%	-7.4%	0.7%

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, first installments of deferred Powerball and Mega millions prizes, and prize payments of high-tier winners of other draw games. The appropriation for direct prize payments for FY 2020 is to rise by \$12.6 million relative to spending in FY 2019. The appropriation for FY 2021 is \$3.1 million above that of FY 2020.

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 2020 is \$4.8 million below FY 2019 expenditures. The appropriation in FY 2021 is a small increase from that of the first year of the biennium. 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.

Though appropriation amounts are specified in the budget act for these two line items, uncodified language in the act appropriates additional amounts if the Director of the Ohio Lottery Commission determines that additional amounts are needed to pay out prize winnings. Additional appropriations for ALIs 950601 and 950602 are required when sales are substantially higher than LOT forecasts.

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

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Appropriation	FY 2021 Appropriation
Fund 7044 ALI 950402, Advertising Contracts					
\$24,362,873	\$25,731,325	\$24,395,404	\$25,272,893	\$26,750,000	\$26,750,000
% change	5.6%	-5.2%	3.6%	5.8%	0.0%
Fund 7044 ALI 950403, Gaming Contracts					
\$61,628,415	\$78,015,884	\$70,201,028	\$62,464,282	\$70,019,071	\$71,239,582
% change	26.6%	-10.0%	-11.0%	12.1%	1.7%

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 FY 2020 of \$26.8 million is \$1.5 million above FY 2019 spending. The same amount is provided for FY 2021 in H.B. 166.

Spending on gaming contracts is directly related to the level of sales, which are expected to rise in the biennium. Funding within ALI 950403 also accounts for additional gaming equipment necessary to support the retailer base. The enacted budget provides an increase of \$7.6 million for this appropriation item in FY 2020 relative to FY 2019. The appropriation for FY 2021 is \$1.2 million higher than in FY 2020. High jackpots of multi-state games (Powerball and Mega millions) generally boost gaming contracts spending.

Lottery revenues

Traditional ticket sales (draw-based games and Instant tickets) were \$3.36 billion in FY 2019, \$200.3 million (6.3%) above such sales in FY 2018. At Ohio racinos, total wagers were \$11.59 billion in FY 2019, up \$807.8 million (7.5%) from FY 2018. After payout to gamblers, the VLT Program at racinos provided income of \$1.06 billion, \$71.3 million (7.2%) more than in FY 2018. Revenue from the program is shared by the racetrack owners (66.5%) and the Ohio Lottery Commission (33.5%). Thus, LOT received \$354.6 million of the VLT revenue in FY 2019, \$23.9 million (7.2%) more than in FY 2018. 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.