

Ohio Lottery Commission

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- The Ohio Lottery is self-sustaining and funded through the State Lottery Fund
- Am. Sub. H.B. 66 creates the Charitable Gaming Oversight Fund

OVERVIEW

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 from net operating profits. In FY 2005, the Ohio Lottery started the oversight of charitable gaming, taking over certain duties previously performed by the Attorney General. This new activity will continue in FY 2006 and 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 Lottery operates a variety of on-line and instant ticket games. The on-line games are Pick 3, Pick 4, Rolling Cash 5, Super Lotto, Kicker, and Mega Millions.¹⁹ These games generated approximately 43.6% of total sales in FY 2005. The Lottery sells a wide variety of instant games, including special games that coincide with major holidays. Instant games receipts were approximately 56.4% of total sales revenue in FY 2005. Of the \$2.15 billion of total ticket sales generated in FY 2005, 58.6% was awarded to players as prizes, 29.8% was transferred to the Ohio Department of Education, 6.2% was paid to agents as commissions and bonuses, 4.6% was spent on operations, and 0.8% was transferred to the Deferred Prize Trust Fund.

The enacted budget transfers \$1.28 billion to the LPEF in the next biennium, \$637.9 million each year. These transfers are based on estimated sales of \$2.2 billion in each year of the biennium. The appropriation for all budget fund groups for FY 2006 is \$416.82 million. This amount is \$12.47 million higher than FY 2005 appropriations, a 3.08% increase. Funding for FY 2007 is \$404.10 million. This amount is \$12.72 million lower than FY 2006, a 3.05% decrease. The Ohio Lottery is self-sustaining and funded through the State Lottery Fund, except for the charitable gaming oversight activities. Funds for the oversight of charitable gaming are transferred from appropriations of the Attorney General.

¹⁹ 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.

Agency in Brief

Agency In Brief					
Number of Employees*	Total Appropriations-All Funds		GRF Appropriations		Appropriation Bill(s)
	2006	2007	2006	2007	
349	\$416.82 million	\$404.10 million	\$0	\$0	Am. Sub. H.B. 66

*Employee count obtained from the Department of Administrative Services (DAS) payroll reports as of June 2005

ANALYSIS OF THE ENACTED BUDGET

Program Series 1

Instant and On-line Ticket Sales

Purpose: To generate net profits through the sale of instant and on-line tickets to be transferred to the Lottery Profits Education Fund.

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

Fund	ALI	Title	FY 2006	FY 2007
State Lottery Fund				
044	950-100	Personal Services*	\$24,920,554	\$25,411,138
044	950-200	Maintenance*	\$17,642,894	\$17,954,156
044	950-300	Equipment	\$2,517,533	\$2,494,718
044	950-402	Game and Advertising Contracts	\$70,524,000	\$70,024,000
044	950-601	Prizes, Bonuses and Commissions	\$150,952,466	\$147,716,286
044	950-602	Annuity Prizes	\$148,680,031	\$138,918,557
Total Funding: Instant and On-line Ticket Sales			\$415,237,478	\$402,518,855

*Amount does not reflect total funding because line item is used to fund Programs in other Program Series.

FY 2006 appropriations for the Instant and On-line Ticket Program are about \$8.0 million (1.9%) below spending for FY 2005. Amounts for FY 2007 are \$12.4 million (3.0%) lower than appropriations for FY 2006. Decreases in appropriations each year are primarily due to the decline in estimated appropriations needed for payments of annuity prizes because more winners are choosing the cash option.

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

- **Instant Ticket Sales**
- **On-line 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. To reach this goal, the Ohio Lottery must provide the instant tickets, make prize payments to winners, conduct ticket and machine testing, and warehouse and distribute the tickets. The program supports the purchase, warehousing, and distribution of instant tickets, and includes the vendors' commissions that are based on a percent of sales. The program also funds the cash and noncash (trips, cars, merchandise) prize payouts to winners, and makes the annual payments 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 2006	FY 2007
State Lottery Fund				
SLF	950-402	Game and Advertising Contracts	\$25,119,686	\$25,126,207
SLF	950-601	Prizes, Bonuses, and Commissions	\$52,884,104	\$53,346,020
SLF	950-602	Annuity Prizes	\$2,472,628	\$3,128,627
Total Funding: Instant Ticket Sales			\$80,476,418	\$81,600,854

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

Implication of the Enacted Budget: Appropriations for FY 2007 are \$1.1 million (1.4%) higher than appropriations for FY 2006. An increasing number of instant tickets with higher prize points and payouts may require higher prize payments in FY 2007. Appropriations for annuity prizes increase \$0.6 million (26.5%) in FY 2007. The increase is due to an expected increase in the number of instant games with higher prices and prizes, some with the option to receive payment over a period of time rather than in one lump sum.

On-line Ticket Sales

Program Description: As with instant ticket sales, the primary goal of this program is to maximize on-line 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 on-line terminal paper for the lottery tickets and 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 payments 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 2006	FY 2007
State Lottery Fund				
SLF	950-402	Game and Advertising Contracts	\$22,812,314	\$22,305,793
SLF	950-601	Prizes, Bonuses, and Commissions	\$98,068,362	\$94,370,266
SLF	950-602	Annuity Prizes	\$146,207,403	\$135,789,930
Total Funding: On-line Ticket Sales			\$267,088,079	\$252,465,989

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

Implication of the Enacted Budget: The funding for the on-line ticket sales program for FY 2007 is \$14.6 million (5.5%) lower than FY 2006 appropriations. The Ohio Lottery anticipates lower on-line ticket sales, resulting in lower spending levels for game and advertising contracts (2.2%) and outlays for prizes (3.8%). Also, more winners than in the past are choosing the cash option for large winnings, thus decreasing the appropriations for annuity prizes by \$10.4 million (7.1%). However, with the entry of California into Mega Millions in June 2005, and the announced restructuring of the Super Lotto game, overall ticket sales for the biennium might be higher than anticipated during the budget process. If substantially higher ticket sales occur, the level of appropriations may become inadequate.

Marketing

Program Description: The goal of the marketing program is to increase sales through product promotions to increase 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 Cash Explosion television game show and associated prizes. The program finances the contracts with vendors to purchase and produce creative advertising and TV, radio, and print media placement. The program also supports the purchase of merchandise and promotional items, and provides resources for about ten staffing positions.

Fund	ALI	Title	FY 2006	FY 2007
State Lottery Fund				
SLF	950-100	Personal Services	\$672,911	\$686,369
SLF	950-200	Maintenance	\$2,079,800	\$2,079,800
SLF	950-402	Game and Advertising Contracts	\$19,442,000	\$19,342,000
Total Funding: Marketing			\$22,194,711	\$22,108,169

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

Implication of the Enacted Budget: The funding for the marketing program in FY 2007 is \$0.08 million (0.4%) lower than FY 2006 spending. Game and advertising contracts amounts are expected to decline \$0.1 million (0.5%), and personal services costs are expected to increase slightly.

Program Management

Program Description: This program supports the administrative, financial, information technology, sales support, and executive oversight functions of the Lottery Commission. The program funds approximately 336 full-time positions that implement and oversee the Lottery's other programs, and provides for the general operational costs that include telecommunications, data processing and systems maintenance, and facility rental and maintenance.

Fund	ALI	Title	FY 2006	FY 2007
State Lottery Fund				
SLF	950-100	Personal Services	\$24,247,643	\$24,724,769
SLF	950-200	Maintenance	\$15,563,094	\$15,874,356
SLF	950-300	Equipment	\$2,517,533	\$2,494,718
SLF	950-402	Game and Advertising Contracts	\$3,150,000	\$3,250,000
Total Funding: Program Management			\$45,478,270	\$46,343,843

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

Implication of the Enacted Budget: Funding for program management for FY 2007 is \$0.8 million (1.9%) higher than amounts for FY 2006. Increased costs for personal services (\$0.5 million, 2%) and maintenance (\$0.3 million, 2%) are expected.

Program Series 2

Problem Gambling Subsidy

Purpose: 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 following table shows the line items that are used to fund the problem gambling subsidy program.

Fund	ALI	Title	FY 2006	FY 2007
State Lottery Fund				
044	950-100	Personal Services*	\$48,868	\$45,878
044	950-200	Maintenance*	\$335,000	\$335,000
Total Funding: Problem Gambling Subsidy			\$383,868	\$380,878

*Amount does not reflect total funding because line item is used to fund Programs in other Program Series.

Problem Gambling Subsidy

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 Enacted Budget: Appropriations for the program in FY 2007 are about the same as for FY 2006, although a 6% decrease in appropriations charged to the personal services line item is anticipated.

Program Series 3

Charitable Gaming

Purpose: To perform specific duties delegated by the Ohio Attorney General related to oversight of Ohio's charitable gaming activities.

Fund	ALI	Title	FY 2006	FY 2007
General Services Fund				
231	950-604	Charitable Gaming Oversight	\$1,200,000	\$1,200,000
Total Funding: Charitable Gaming			\$1,200,000	\$1,200,000

Licensing and Monitoring

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 new duties requires the Lottery to incur costs associated with the conversion of the existing manual application to an on-line system in order to license applicants, conduct site visits, complete audits, and standardize reports. The program funds the staff working for the licensure and monitoring of charitable gaming organizations.

Funding Source: General Services Fund (231)

Implication of the Enacted Budget: The Lottery expects the recommended appropriations to be sufficient for this program.

Permanent Law Provisions: The enacted budget creates the Charitable Gaming Oversight Fund (R.C. 3770.061). The State Lottery Commission must deposit monies it receives from the Attorney General under an agreement between the two agencies into the Charitable Gaming Oversight Fund. The new permanent law provision also authorizes monies in the Fund not necessary for the Ohio Lottery Commission to perform its charitable gaming oversight, licensing, and monitoring functions to be transferred by the Office of Budget and Management to the Lottery Profits Education Fund.