



**LOTTERY®**

**OHIO LOTTERY COMMISSION**

**BIENNIUM  
BUDGET  
TESTIMONY**

**FISCAL YEARS**

**2016 - 2017**

**John Kasich**

*Governor*

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Provided By:

**Dennis Berg**

*Director, Ohio Lottery Commission*

## INTRODUCTION

Chairman Hite, Ranking member Sawyer, and members of the Senate Finance Education Subcommittee, my name is Dennis Berg and I am the Director of the Ohio Lottery Commission. I would like to thank you for allowing me this opportunity to provide budget testimony on behalf of the Lottery.

Today, I present to you a fiscally responsible budget request that strategically invests in key priorities while fulfilling the Lottery's commitment to accountability in state government. This budget addresses state priorities with these guiding principles in mind: maximizing profits to education and spending prudently. To start, I would like to update the committee on the performance of the Lottery.

## STATE OF THE LOTTERY

Two years ago, I stood before the committee and spoke about the possible adverse effect of alternative gaming options on traditional Lottery sales. During that time, the Lottery anticipated a negative impact on revenues. Fortunately, the impact on sales never materialized as expected. The Lottery took a proactive approach to the impending changes in the gaming landscape by introducing new and exciting games and taking other necessary steps to help offset any potential loss in revenue.

There are 44 lotteries operating in the United States. The Lottery, which ranks tenth, is considered a well-respected leader in the industry. The Lottery has achieved significant success since its inception in 1974, generating nearly \$21 billion in profit over forty years.

| Traditional Sales (millions)   | FY 13            | FY 14            | Variance      | %           |
|--------------------------------|------------------|------------------|---------------|-------------|
| Pick 3                         | \$345.2          | \$339.0          | (\$6.2)       | -1.8%       |
| Pick 4                         | 189.8            | 185.8            | (4.0)         | -2.1%       |
| Pick 5                         | 28.0             | 27.9             | (0.1)         | -0.4%       |
| Rolling Cash 5                 | 61.5             | 63.4             | 1.9           | 3.1%        |
| Classic Lotto                  | 41.5             | 54.1             | 12.6          | 30.3%       |
| Kicker                         | 5.1              | 6.0              | 0.9           | 18.4%       |
| Mega Millions                  | 102.8            | 133.4            | 30.6          | 29.8%       |
| Powerball                      | 166.6            | 122.8            | (43.8)        | -26.3%      |
| Keno / Booster                 | 251.5            | 298.1            | 46.6          | 18.5%       |
| Raffle                         | 9.1              | 1.0              | (8.1)         | -88.7%      |
| Ten-OH!                        | 0.8              | 0.0              | (0.8)         | 0.0%        |
| EZPLAY                         | 68.0             | 84.8             | 16.8          | 24.7%       |
| Online "Draw"                  | 1,269.9          | 1,316.3          | 46.5          | 3.7%        |
| Instants                       | 1,428.1          | 1,426.8          | (1.3)         | -0.1%       |
| <b>Total Traditional Sales</b> | <b>\$2,697.9</b> | <b>\$2,743.1</b> | <b>\$45.2</b> | <b>1.7%</b> |

I am pleased to report that the Lottery's financial condition remains strong. In fiscal year 2014, the Lottery realized record traditional sales of \$2.74 billion, exceeding prior year sales by \$45.2 million. This was achieved despite four (4) casinos and five of seven (5 of 7) racinos being fully operational. In addition, the Lottery industry trade publication, LaFleur's Magazine, reported that in calendar year 2014 the Ohio Lottery realized the second largest traditional sales growth results out of 43 lotteries with an overall growth of 5%. This excludes any of the results from VLT revenues. Of the 43 Lotteries, 28 states were reported to have negative sales growth during that calendar year.

On-line Draw sales of \$1.32 billion for fiscal year 2014 were \$46.5 million more than the prior year. Keno sales continue to grow at a significant pace. Sales for this category were \$298.1 million in fiscal year 2014, or 18.5% higher than fiscal year 2013. This marked the fifth consecutive year of double-digit growth for this product category. Factors that have led to growth include increasing the

traditional Keno retailer base and offering more promotions geared toward the social engagement of the game. In fiscal year 2014, an additional 263 traditional Keno retailers were added. The EZPLAY category continued to grow in fiscal year 2014, fueled by the success of the progressive line of games.

Sales for Instant ticket games totaled \$1.42 billion, which was \$1.3 million or 0.1 percent less than sales posted in fiscal year 2013. Decreases in instant ticket sales were projected for the current biennium, as four (4) casinos and seven (7) racinos are now operational in the State of Ohio. However, sales have since outpaced those projections. This can be attributed to the release of the “40th Anniversary Millions” ticket in January 2014. The success of the instant ticket category has continued into fiscal year 2015.

Net Win generated from the Video Lottery Terminal (VLT) program in 2014 equaled \$437.6 million. This amount is \$272 million higher than 2013 revenues as only two (2) tracks were opened at the end of fiscal year 2013 compared to five (5) in 2014. VLT sales from the seven (7) racetracks will continue to provide substantial revenue to the Lottery into the next biennium. Fiscal year 2016 will mark the first complete year where all seven (7) tracks are open. The adjacent VLT chart illustrates financial activity since the opening of Scioto Downs in June 2012 along with a forecast for 2016-2017.

| Fiscal Year      | Net Win  | Lottery  | Racino   | Problem Gaming |
|------------------|----------|----------|----------|----------------|
| 2012             | \$ 11.1  | \$ 3.7   | \$ 7.4   | -              |
| 2013             | 165.5    | 55.5     | 110.1    | -              |
| 2014             | 437.6    | 146.6    | 289.5    | 1.5            |
| 2015 (Estimated) | 716.3    | 240.0    | 474.0    | 2.4            |
| 2016 (Projected) | 740.2    | 248.0    | 489.8    | 2.4            |
| 2017 (Projected) | \$ 745.5 | \$ 249.8 | \$ 493.3 | \$ 2.5         |

*\*Net Win is defined as gross wagers played less related prizes.*

This financial activity in fiscal year 2014 allowed the Lottery to transfer \$904.3 million to the Lottery Profit Education Fund (LPEF), making this the highest profit transfer in the Lottery’s 40 year history, surpassing transfers made the prior year by \$101.2 million. Of the profits realized, \$139.4 million represented net proceeds from the VLT program. The total transfer represented the ninth consecutive year of profit growth. As shown in the chart below, since fiscal year 2005, the Lottery’s profit transfer has grown by an incredible 40 percent.

Sales momentum has continued into fiscal year 2015. Through mid-April 2015, traditional Lottery sales have increased by \$113.5 million, or 5.2 percent over last year. In the second half of fiscal year 2014 and through 2015, the Instant Ticket category realized fifty-two weeks of consecutive increased sales over the prior year. This was primarily due to the release of the new “40th Anniversary Millions” ticket and the seasonal lines of instant tickets.

Several other game categories, including Keno and EZPLAY have seen significant year-over-year sales increases. From the Lottery’s newer family of instant tickets to innovative promotional programs, the Lottery’s strategic initiatives have positioned us to potentially have another record setting year for sales and profits in fiscal year 2015

After operating expenditures and prize payments are accounted for, the Lottery realizes, on average, profit of over \$2.5 million per day. Last year, core operating expenses came in at roughly 4.0 percent of each dollar sold. Lottery products are sold through a network of over 9,700 retail establishments. Last fiscal year, Lottery retailers earned over \$169.9 million in sales commissions and bonuses. The Lottery is vital to many small and large business owners.

The Lottery continued its commitment to responsible gambling awareness in 2014. Based on the

findings of the 2012 Problem Gambling Prevalence Study, the Lottery developed a public awareness campaign entitled “I Lost A Bet”. This campaign was geared toward the 18-24 year old demographic, which was found to be most at-risk for a gambling problem. The “I Lost A Bet” campaign focused primarily on social media, with television and billboard teasers to generate interest in the website, [www.ilostabet.org](http://www.ilostabet.org). The campaign was a collaborative effort on behalf of Ohio for Responsible Gambling (ORG), which is a state-wide initiative of the Lottery, the Ohio Casino Control Commission, the Ohio State Racing Commission, and the Ohio Department of Mental Health and Addiction Services to promote problem gambling awareness and advocacy. In addition the Lottery supports best practice programs at six (6) treatment centers throughout the State, training of problem gambling counselors and the annual state-wide problem gambling conference.

In this fiscal year, multi-purpose next-generation units (MPNGs) were distributed to licensed veterans and fraternal organizations in order to provide a legal gaming solution for those groups. In addition to traditional Lottery games, these units are equipped to play exclusive EZPLAY Tap games which are optimized for the new technology.

## **BIENNIUM BUDGET REQUEST**

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As previously noted, the Lottery is charged with the goal of maximizing profits to education through the sale of Lottery products. The Lottery, an enterprise fund of the State of Ohio, is self-sufficient and receives no general revenue fund support.

The budget the Lottery presents to you is one that reflects good stewardship of public money and maintains a level of funding necessary to sustain the Lottery’s business strategy of maximizing revenue potential. Please note that a large portion of the operating budget is directly tied to sales volume. As sales volume increases, percentage-based compensation levels to certain gaming vendors also increase. With that said, I would like to summarize the Lottery’s biennium budget request:

### **Appropriation Line Item 950321: Operating Expenses**

This line item essentially replaces 950100 – Personal Services, 950200 – Maintenance and ALL 950300 – Equipment, in previous budgets. Operating Expenses in this line item include such things as: payroll, employee benefits, purchased personal services, travel, rent, equipment, audit, and intra-state expenditures.

This expense category represents the most significant area of “controllable” expenses, and the Lottery’s management will continue to exercise scrutiny and due diligence in approving these types of expenses. In addition, the budget includes funding to provide the Lottery’s share of the Department of Administrative Services (DAS) IT Optimization program.

### **Appropriation Line Item 950402: Advertising Contracts**

Advertising expenses cover the production of print, radio, and television advertisements and the cost of post-production media placement of those advertisements. In addition, this line item also supports the weekly production of the Lottery’s Cash Explosion® show and the production of the daily drawings. Advertising plays a key role in the Lottery’s ability to promote its products and promotions. The Lottery believes the requested funding levels are necessary to meet its objectives of providing adequate media/ marketing coverage throughout the State. These funding levels take into consideration the changing landscape of how consumers receive and absorb information and the fact that the Lottery must be in position to combat direct and indirect competitors.

### **Appropriation Line Item 950403: Gaming Services Contracts:**

Funding within this line item accounts for gaming-related contracts, a majority of which are variable in nature and dependent upon sales activity. In developing the 2014-2015 biennium budget, the Lottery made an assumption that traditional sales would decrease as alternative gaming options in the form of casinos and racinos were introduced. Fortunately, the decrease in sales never materialized. In fact, the Lottery achieved higher sales in fiscal year 2014 than previously forecasted. In fiscal years 2016-2017, traditional Lottery sales are projected to be slightly higher. Funding within this line item also accounts for additional gaming equipment necessary to support the retailer base.

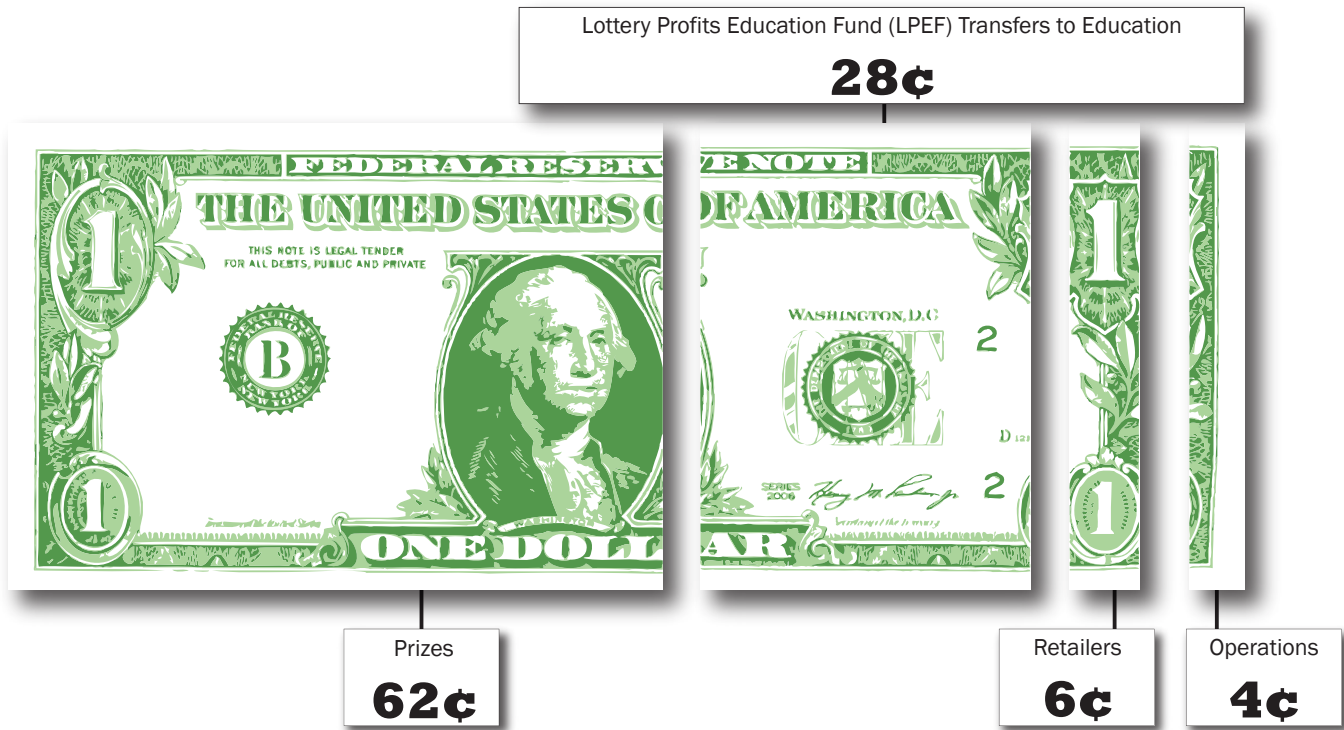
Other gaming contracts within this line include the printing of instant tickets, paper stock for on-line draw games and bet cards, and funds to operate the player loyalty program.

### **Appropriation Line Item 950601 & 950602: Direct Prize Payments & Annuity Prizes**

The request for the prize appropriation line item 950601 includes prizes that can be paid by state warrant, cashed at a retailer location, or paid at a participating bank location, depending on the prize amount. This appropriation line facilitates prize payments that are paid by a state warrant. Prize funding will vary based on sales levels and certain high-tier prizes won, which cannot be controlled nor certainly projected. The Annuity prize line item 950602 supports the annual payment for the annuity prize winnings for winners who select to be paid over a period of time rather than in one lump sum payment. This will vary based on the number of jackpot winners who elect the annuity option.

## CONCLUSION

In closing, the Lottery must now operate in a rapidly evolving marketplace with competition from alternative gaming options vying for discretionary dollars. To address these challenges in fiscal year 2016 and beyond, the Lottery must continue to develop solutions to retain and attract new players and remain relevant in an increasingly crowded marketplace. It is imperative that the Lottery continues to innovate and lead with proactive, not reactive strategies.



The Lottery understands its responsibility to meet its LPEF commitment. The Lottery strongly believes that its expected sales levels, supported by the requested appropriations within this biennium budget for fiscal years 2016 and 2017, provide for the successful achievement of its goals and objectives.

This budget proposes transfers to LPEF of \$1.97 billion in the next biennium. Specifically, the Lottery has targeted a transfer commitment of \$984.0 million in fiscal year 2016 and \$988.0 million in fiscal year 2017. This represents an increase in the Lottery's commitment for the next biennium by \$156.5 million compared to the current biennium.

Mr. Chairman, members of the committee, thank you for allowing me the opportunity to present this testimony to you and I'll be happy to answer any questions you may have.