



OHIO LOTTERY COMMISSION

**BIENNIUM
BUDGET
TESTIMONY**

FISCAL YEARS
2018 - 2019

John Kasich
Governor

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Provided By:

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Director, Ohio Lottery Commission

Introduction

Chairman Cupp, Ranking member Miller, and members of the Primary and Secondary Education Sub-Committee, the Ohio Lottery Commission is pleased to present a fiscally responsible budget that addresses priorities with these guiding principles in mind: maximizing profits to education and spending prudently.

State of the Lottery

Beginning with the first ticket sold in 1974 through the end of the most recent fiscal year, the Lottery has generated more than \$22 billion for the State of Ohio. The Lottery currently offers both draw and instant ticket games, as well as regulates Video Lottery Terminal (VLT) games at the seven (7) racetracks throughout the State.

The Lottery is unique among other state agencies in that its operations combine for-profit performance expectations with fiscal accountability and regulatory oversight. Through its administration of Lottery games and VLT oversight, the Lottery has a significant fiscal impact in our State.

Traditional Lottery

In fiscal year 2016, the Lottery realized record traditional lottery sales of \$3.06 billion, exceeding prior year sales by \$167.1 million, or 5.8 percent. The record sales for traditional Lottery products in fiscal year 2016 were the result of several factors:

- Draw sales were \$1.5 billion in fiscal year 2016 compared to \$1.34 billion in fiscal year 2015, representing a \$157.8 million increase over the prior year. The draw games in this category that contributed to our growth include daily draw games, EZPLAY®, multi-state games, and Keno.
- When compared to the prior fiscal year, the multi-state category, specifically Mega Millions® and Powerball®, grew by \$77.5 million or 36.0 percent. On January 13, 2016, the Powerball® jackpot grew to a record breaking \$1.58 billion. Cumulative sales during this sequence of nineteen (19) draws were \$96.4 million. The profits generated from this record jackpot were approximately

Gross Traditional Sales

Rounded Millions

	2016	2015	Variance	%
Daily Draw	\$579.8	\$564.2	\$15.6	2.8%
Pick 3	343.0	338.0	5.0	1.5%
Pick 4	200.3	192.8	7.5	3.9%
Pick 5	36.4	33.3	3.1	9.4%
Lotto	\$95.9	\$98.3	\$(2.4)	-2.4%
Rolling Cash 5	60.3	62.6	(2.3)	-3.7%
Classic Lotto	31.0	31.0	0.0	0.0%
Kicker	4.6	4.7	(0.1)	-1.6%
Multistate	\$309.9	\$218.3	\$91.6	42.0%
Mega Millions	102.2	113.3	(11.0)	-9.7%
Powerball	193.5	105.1	88.5	84.2%
Lucky for Life	14.1	-	14.1	-
Keno	\$366.6	\$329.5	\$37.1	11.3%
Keno	365.9	329.5	36.3	11.0%
QuickKeno	0.7	-	0.7	-
Other	\$146.7	\$130.8	\$15.9	12.2%
EZPlay	115.2	99.8	15.4	15.5%
EZPlay Tap	31.5	24.0	7.5	31.4%
Raffle	-	7.1	(7.1)	-
Draw	\$1,498.9	\$1,341.1	\$157.8	11.8%
Instant	1,560.7	1,551.0	9.8	0.6%
Total Traditional	\$3,059.6	\$2,892.0	\$167.6	5.8%

\$39.8 million, which was over \$30 million more than expected during this period. Please take into consideration that this windfall is unprecedented and thus cannot be expected to occur on a regular basis.

- Keno sales continue to grow at a robust pace. Sales for this game category were \$366.6 million in fiscal year 2016, or 11.3 percent higher than fiscal year 2015. This marked the seventh consecutive year of double-digit growth for this product category. Factors that have led to growth include increasing our Keno retailer base in 2016 by 209 locations and offering more promotions geared toward the social engagement of the game.
- Finally, sales for Instant ticket games totaled \$1.56 billion, which was \$9.5 million or 0.6 percent more than sales posted in fiscal year 2015.

Video Lottery

Fiscal year 2016 marked the first complete year the Lottery had all seven (7) VLT racinos in operation. Hollywood Gaming at Dayton Raceway and Hollywood Gaming at Mahoning Valley Race Course opened in fiscal year 2015, and joined the Lottery's existing racinos which include Scioto Downs, JACK Thistledown Racino, Hard Rock Rocksino, Miami Valley Gaming and Racing, and Belterra Park Gaming and Entertainment Center. In fiscal year 2016, gross gaming revenue was \$868.9 million, which represented an increase of \$96.0 million over fiscal year 2015. The Lottery's net revenue increased from \$258.9 million to \$291.1 million, or 12.4 percent in fiscal year 2016.

Distribution of Net Win <i>In Millions</i>				
Fiscal Year	Net Win	Racino	Lottery	Problem Gaming
2012	\$11.1	\$7.4	\$3.7	-
2013	165.5	110.1	55.5	-
2014	437.6	289.5	146.6	1.5
2015	772.9	511.4	258.9	2.6
2016	\$868.9	\$574.9	\$291.1	\$2.9

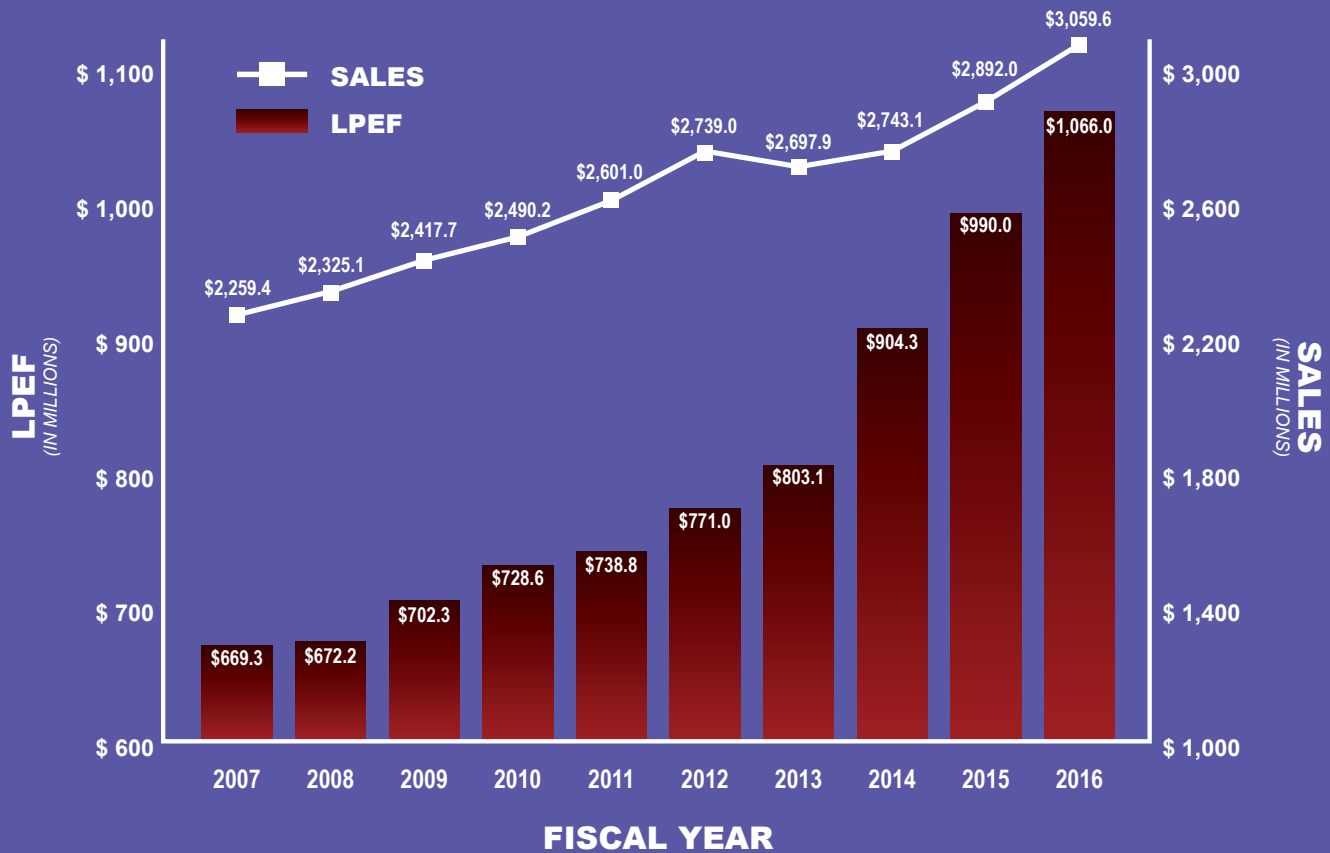
Net win, or gross gaming revenue, is distributed between the Video Lottery Sales Agent (VLSA's) as commissions earned (66.5 percent) and the Lottery (33.5 percent) as revenue. Additionally, 0.5 percent of the VLSA commission earned is earmarked for responsible gaming programs.

The combination of traditional and VLT financial activity in fiscal year 2016 allowed the Lottery to transfer an unprecedented \$1.06 billion to the Lottery Profits Education Fund, making it the highest transfer in Lottery history surpassing the prior year by \$76.1 million. It also represented the eleventh (11) consecutive year of profit growth, making the Ohio Lottery one of only two Lotteries that can make that claim. Of the profits realized, \$282.0 million represented net proceeds from the video lottery program.

Achieving the Lottery's mission is not possible without maintaining excellence in our workforce, organization, services and products, through adherence to quality principles. The Lottery is committed to ensuring that it operates with the utmost integrity, security, honesty and fairness.

Historic Sales and Lottery Profits Education Fund (LPEF) Transfers

(Last 10 Fiscal Years)



Problem Gambling

The Lottery expanded its collaboration with Ohio for Responsible Gambling (ORG), the statewide initiative of the Lottery, the Casino Control Commission, the Racing Commission, and the Ohio Department of Mental Health and Addition Services to promote problem gambling awareness and advocacy by funding the media portion of the “Be the 95%” campaign which has won numerous national awards. In addition, the Lottery developed an educational campaign entitled, “It’s Your Chemistry, not Your Character” to explain the underlying causes of problem gambling addiction.

The Lottery continued its support for the six best practice treatment programs throughout the state, training of problem gambling counselors and the annual problem gambling conference. To improve the administration of voluntary exclusion programs, the Lottery has requested that the identity of participants remain confidential similar to the provision in the Casino Control implementing statute Revised Code Sec 3772.03(D) (10) (d).

Challenges for the 2018-2019 Biennium

Ohioans now have a wide variety of gaming alternatives on which to use their discretionary dollars. Sales from traditional products may be constrained by these added pressures, therefore, the Lottery must continue to evolve to compete in this new gaming environment.

With mobile technology transforming purchasing habits, lotteries must transform their business to become more consumer-oriented. Furthermore, lotteries must innovate to reach multiple important goals: competitiveness to draw in new players, differentiation by developing creative products and marketing methodologies, and adaptability to new technology to ensure a continued sustainable growth.

In addition, the lottery industry has evolved considerably over the last several years, as the emphasis has shifted toward multi-state collaborative games and higher payout products. These products have been designed to respond to consumer demand for higher prize payouts and more opportunities to win.

A decade ago, lottery products consisted of only a few draw and instant products. Furthermore, players were easier to reach via network television and radio advertising. Today, the Lottery's portfolio consists of eleven different draw games with three unique add-on features and approximately 65 instant games each year. In addition, the advertising industry has been segmented through the proliferation of new media choices for consumers. A few examples of new media include the internet, social media and mobile applications. Cable channels and streaming media have also played a significant role in the increasingly fragmented media landscape. As a result of the continual expansion of the product mix and distribution network, including self-service machines, the internal challenge is to execute annual marketing plans that meet the changing needs of customers.

Multi-state games like Mega Millions® and Powerball® are capable of generating billion dollar jackpots, creating excitement for players and retailers alike, and also driving sales. While the Lottery enjoys the benefits of these large jackpots and the strong sales associated with them, they can create a phenomenon known in the lottery industry as "jackpot fatigue," which causes players to become desensitized to smaller jackpot amounts. Thus larger jackpots are required to garner the attention and excitement of players and the media. The lottery industry, including Ohio, has relied on the jackpot-style games to reach large jackpot amounts in an effort to increase sales. However, due to jackpot fatigue and as evidenced by the recent \$1.58 billion jackpot sequence, sales for this type of game have generally decreased over time.

Biennium Budget Request

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 Lottery compiled its biennium budget submission using conservative sales forecasts, considering market conditions and competition for discretionary dollars. VLT revenues from Ohio's racetracks and associated VLT operating expenses have also been considered in this budget. The Lottery has made concerted efforts to minimize costs and evaluate operating expenses solely on the basis of their contribution to producing profits for education, and has made every effort to evaluate and improve operational efficiency.

These appropriation requests reflect the Lottery's continued emphasis on effective management and good stewardship of Lottery funds. The requested funding levels are required to sustain Lottery operations and allow the Lottery to remain a viable contributor towards the State's education budget.

Appropriation Line Item 950321: Operating Expenses

Operating expenses in this appropriation line item (ALI) include such accounts as: payroll, employee benefits, personal services, telecommunications, facility leases, audit fees, other State agency expenditures, and equipment. In addition, the budget includes funding to provide the Lottery's share of the Department of Administrative Services (DAS) IT Optimization program and State printing program.

Appropriation Line Item 950402: Game and Advertising Contracts

Advertising plays a key role in the Lottery's ability to promote its products and promotions. The budget requested represent 0.7 percent of total traditional sales, which are lower than the industry standard, and are necessary to meet the 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. Our goal within this program is to create and retain customers by pushing out relevant content across the State of Ohio. This is achieved by using a variety of channels, including, but not limited to: broadcast/cable TV, video on demand, radio, internet radio, mobile, billboards, web, social, sponsorships and partnerships. The advertising budget requested is essential for the Lottery to achieve its sales targets and maximize its contributions to the Lottery Profits Education Fund.

In addition, this line item also supports the weekly production of the Lottery's Cash Explosion® show and the production of the daily drawings.

Appropriation Line Item 950403: Gaming Services Contracts:

Funding for gaming-related contracts, a majority of which are variable in nature and dependent upon sales activity, will increase when compared to the current biennium, due to projected increases in traditional sales and VLT revenue. Other gaming contracts within this line include the printing of instant tickets, paper stock for draw games and bet cards, the operating of the VLT program and funds to operate the player loyalty program.

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

Prizes 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 through a state warrant. Prize funding within this ALI will vary based on sales levels and certain high-tier prizes won, which cannot be controlled nor 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 winners who elect the annuity option.

Appropriation Line Item 950605: Problem Gambling

Funding for this line item is derived from Lottery revenue and from a portion of commissions (0.5 percent) received by the Lottery from Video Lottery sales agents pursuant to Revised Code Sec. 3769.087. This line item funds programs related to problem gambling treatment

and prevention, by the Lottery itself and in conjunction with the Ohio for Responsible Gambling initiative. In conjunction with the Department of Mental Health and Addiction Services pursuant to Revised Code Sec.3770.02(K), the Lottery supports awareness campaigns, training of problem gambling counselors, six (6) treatment centers throughout the State and an annual problem gambling conference.

Conclusion

In closing, the Lottery understands its responsibility to meet commitments to the Lottery Profits Education Fund in the State of Ohio. The Lottery strongly believes that its expected sales levels, supported by the requested appropriations within this biennium budget for fiscal years 2018-2019, provide for the successful attainment of the its goals and objectives.

This budget proposes transfers to the Lottery Profits Education Fund of \$2.1 billion in the next biennium. Specifically, the Lottery has targeted a transfer commitment of \$1.045 billion in fiscal year 2018 and \$1.055 billion in fiscal year 2019.