



Ohio Lottery Commission Budget Testimony for Fiscal Years 2024 and 2025

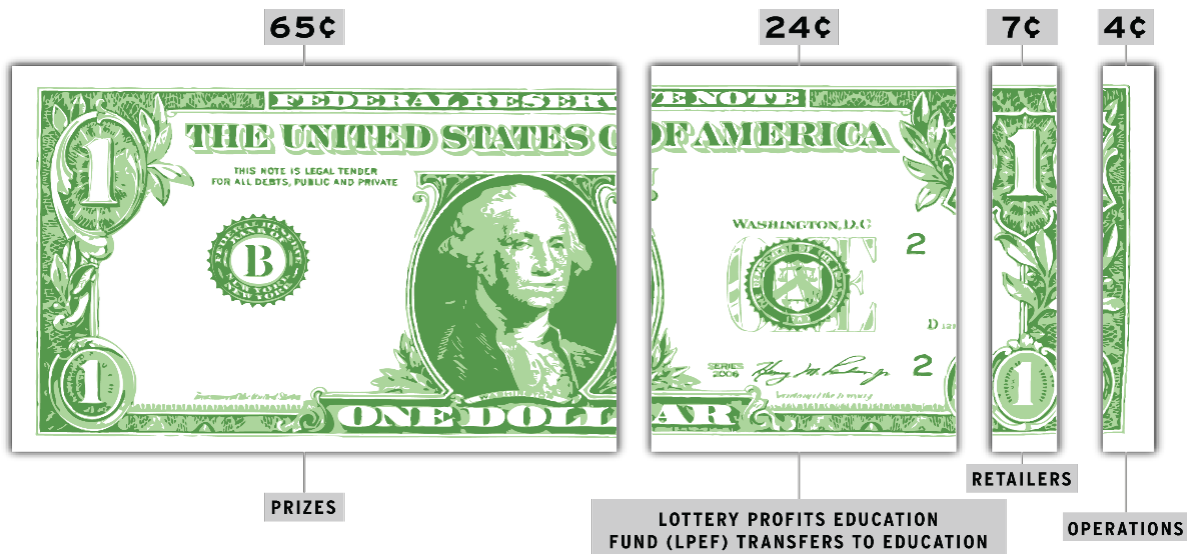
Delivered to the Ohio Senate Education Committee on Tuesday, April 25th, 2023

Introduction

The Lottery is a self-sufficient, non-General Revenue Fund (GRF) agency that operates on approximately 4% of sales which is lower than the industry average. The mission of the Lottery is to support funding for education in Ohio by offering entertaining gaming experiences. Profits from the sale of lottery games are transferred to the Lottery Profits Education Fund (LPEF) to provide funding for primary, secondary, vocational, and special education programs for Ohio’s students.

Since our first ticket was sold in 1974, we have transferred more than \$30 billion to the LPEF. Our annual transfers have exceeded \$1 billion since 2016, and in the most recent fiscal year, we transferred a record \$1.4 billion.

On average, for every dollar spent on lottery products, approximately 65 cents are paid out in prizes to players; 24 cents are transferred to the LPEF; 7 cents go to retailers in the form of commissions and bonuses; and only 4 cents—or 4 percent of lottery sales—are required for our operating expenses.



In addition to our revenue-generating mission, the Lottery plays an important regulatory role in Ohio’s gaming landscape. Since 2012, we have regulated the Video Lottery Terminals (VLTs) at the seven racinos in Ohio. This includes licensing of the properties, their employees, and the equipment providers; establishing and enforcing regulations, operating standards, and minimum internal controls; and collecting 33.5 percent of VLT net revenue.

As of this year, the Lottery is also responsible for regulating “type C” lottery sports gaming, which is currently offered at over 900 retail locations across the State.

Budget Request

For the next biennium, the Lottery is requesting a total appropriation of \$427.4 million for FY 2024 and \$443.2 million for FY 2025. These amounts represent annual increases of 4.8 percent and 3.7 percent, respectively. The Lottery’s budget consists of six line-items. Below is a brief overview of the trends within each line item, as well as the major challenges and highlights of our budget submission.

Fund	ALI	ALI Name	Actual			Estimated	Recommended			
			FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	% Change	FY 2025	% Change
7044	950321	Operating Expenses	49,313,420	49,465,623	55,178,324	60,053,317	61,967,164	3.2%	64,686,040	4.4%
7044	950402	Advertising Contracts	25,625,729	23,879,854	28,441,933	27,925,000	29,755,000	6.6%	29,955,000	0.7%
7044	950403	Gaming Contracts	70,245,686	77,820,535	91,924,068	94,157,570	109,197,677	16.0%	120,685,198	10.5%
7044	950601	Direct Prize Payments	403,100,846	220,830,191	195,690,873	162,809,344	179,366,000	10.2%	182,106,000	1.5%
7044	950605	Problem Gambling	3,055,119	3,348,096	3,977,694	4,652,104	4,850,000	4.3%	4,850,000	0.0%
8710	950602	Annuity Prizes	57,998,217	52,939,470	48,096,197	58,328,775	42,243,000	-27.6%	40,946,000	-3.1%
		Total State Lottery	609,339,016	428,283,769	423,309,089	407,926,110	427,378,841	4.8%	443,228,238	3.7%
		Grand Total - Lottery Commission	609,339,016	428,283,769	423,309,089	407,926,110	427,378,841	4.8%	443,228,238	3.7%

Operating Expenses: Our Operating Expenses line item includes funding for nearly 400 employees as well as facilities charges for our headquarters, warehouse, and nine regional offices. Increases of three and four percent in this line item are driven primarily by cost-of-living adjustments, inflation assumptions, and rising health care costs.

Advertising Contracts: The Lottery’s Advertising Contracts line item includes modest increases to support and expand marketing efforts that drive sales growth and profits for the LPEF. These increases will ensure the Lottery remains competitive amid rising marketing costs, especially in the digital marketing arena.

Direct Prize Payments and Annuity Prizes: Appropriations for the Direct Prize Payments line item and the Annuity Prize Payments line item fluctuate across the biennium, and primarily reflect current trends in how lottery players are cashing their winnings.

Problem Gambling: The appropriation request of \$4.85 million for the Problem Gambling line item represents a four percent increase compared to FY 2023 projections. We have significantly expanded our funding for these programs over the past four years. In the next biennium, we will continue working closely with our partner agencies such as Ohio Mental Health and Addiction Services (OMHAS), the Racing Commission, and the Casino Control Commission to effectively expand our responsible gambling services.

Gaming Contracts: Finally, our Gaming Contracts line item includes contracts for the Lottery’s central gaming system, scratch off ticket printing, and other gaming-related consumables, services, equipment, and maintenance. Historically, increases in this line item are generally driven by both investments in additional self-service terminals to generate profits as well as revenue-share agreements tied to sales growth. Revenue-share agreements are standard within the lottery industry and help incentivize vendor innovation and strategic alignment. While that is also true for this biennium, a portion of the increase within this line item stems from a new contract authorizing sports gaming on Lottery terminals.

Challenges

Sports Gaming: As you know, with the passage of House Bill 29 in 2021, the Lottery was tasked with the implementation and regulation of type C sports gaming at retail locations. The legislation allows for up to 20 sportsbooks—or “proprietors”—to sell limited sports gaming products with Lottery retailers who hold certain type D liquor permits. On January 1st, we successfully launched the type C sports gaming program with three proprietors at over 700 retail locations. Since then, two more proprietors have entered the market, and lottery sports gaming is now offered at more than 900 retail locations across 68 counties.

The effort to launch this new sports gaming framework has required significant time and resources from the Lottery over the past year and will continue to do so in the next biennium. Additionally, profits from sports gaming are a fraction of what is typically derived from traditional lottery games. Therefore, ongoing program costs combined with low profit margins and a nascent marketplace will result in minimal revenue compared to other major Lottery products and programs. Through March, for example, the Lottery had only collected approximately \$75,000 in revenue from type C sports gaming. Throughout the biennium, the Lottery will continue to face the unique challenge of ensuring the integrity and responsiveness of multiple systems and proprietors while also promoting profitability and competition.

Aging Gaming System and Infrastructure: FY 2024 will mark the fourteenth year of the Lottery’s central gaming system contract. Much of this system and related infrastructure, including a large portion of our self-service terminals, have been in place since the beginning of the original contract term in 2009. As the industry has advanced over the years, the Lottery and its vendor partners have added more components and features to the system to keep up with evolving consumer and industry trends and expectations. While our current contract has renewal options through FY 2027, system conversions in the lottery industry are generally a multi-year process involving procurement, design, testing, and implementation. Therefore, the Lottery has already begun that process by working with a consultant and issuing a Request for Information (RFI) last October for information on a new comprehensive lottery gaming system. We anticipate releasing a Request for Proposal (RFP) in the second half of calendar year 2023.

Revenue Forecast

The Lottery’s budget submission and LPEF commitment rely on revenue forecasts for FY 2024 and FY 2025. While we anticipate positive revenue growth over the next two years, we expect this growth will be very modest.

From an industry perspective, lottery sales have largely cooled since the double-digit growth in 2020 and 2021, and we’ve seen the same trends in Ohio. For example, our FY 2022 sales ended slightly behind the previous year by less than one percent. And while our FY 2023 sales through Q3 are five percent ahead of last year, this is largely due to an unprecedented streak of billion-dollar jackpots for Mega Millions and Powerball. The rest of our draw-game portfolio is down by two percent and our scratch-off sales are only up by one percent.

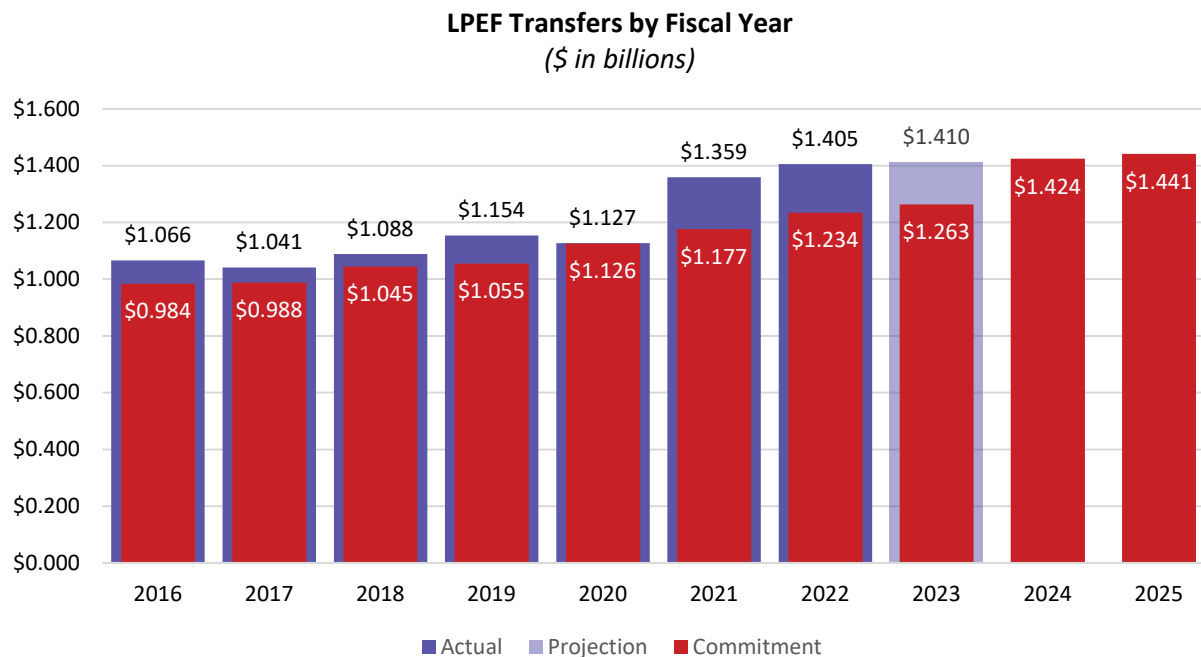
To an extent, nationwide inflationary pressures may be impacting consumer discretionary spending on forms of entertainment such as gambling. The legalization in Ohio of electronic bingo in 2022 and sports gaming in 2023, particularly mobile sports betting, has also led to a more competitive gaming marketplace that may hinder future lottery sales growth.

Despite these new challenges, the Lottery will utilize multiple strategies to promote steady sales growth in the next biennium. Retailer recruitment will continue to be a priority, and we’re pleased with the recent addition of 150 United Dairy Farmers locations; the gradual expansion of our self-serve footprint will increase convenience

and accessibility to our players; leveraging data analytics to ensure a diverse product mix and distribution will help us match the right products to the right customers; and creative and innovative marketing campaigns, second-chance promotions, and player loyalty rewards will engage and incentivize our players.

LPEF Profit Transfers

With the conservative revenue forecast and budget appropriation request, the Lottery believes it can continue supporting increased profit transfers for education. We project total annual transfers of \$1.42 billion in FY 2024 and \$1.44 billion in FY 2025. These levels represent increases of 1.4 percent and 2.6 percent compared to our record FY 2022 transfer.



Since 2016, the Lottery has transferred at least \$1 billion annually to the LPEF and has met or exceeded its commitment each year.

Responsible Gambling

In conclusion, we want to highlight several aspects of our responsible gambling program. The Lottery is very proud of its history and partnership with problem gambling stakeholders across the State and country. In 2021, we were the first lottery in the nation to receive an “exceeds standards” rating for our responsible gambling program from the National Council on Problem Gambling. Last October, we received two awards from the North American Association of State and Provincial Lotteries for best responsible gambling digital media campaign and best coordinated campaign. And in December, in partnership with Casino Control, we launched an online portal for our Voluntary Exclusion Program. This portal allows problem gamblers the ability to ban themselves from Ohio’s casinos, racinos, and sports gaming platforms for one year, five years, or for life. Additionally, this update coincided with rebranding the program as “Time Out Ohio” to help reach a broader audience.

Over the next biennium, the Lottery intends to build upon this success and expand its responsible gambling program as new forms of gambling enter the Ohio market. Our increased funding will allow the Lottery to financially support Ohio Department of Mental Health and Addiction Services’ efforts for the establishment of telehealth services specifically to treat gambling disorder, pathological gambling, and co-occurring disorders. Funding will also support expansion of the Ohio for Responsible Gambling (ORG) consortium’s new “Pause

Before You Play” awareness campaign, which was created specifically to combat problem gambling caused by the recent launch of sports betting. Finally, our funding request will enable the Lottery to expand its own “Keep It Fun Ohio” campaign through the utilization of new marketing strategies to reach at-risk demographics. These efforts will complement our ongoing support of OMHAS, which utilizes our funds to operate gambling disorder treatment centers, hold an annual problem gambling conference, and provide training for gambling disorder counselors throughout Ohio.

Conclusion

The Ohio Lottery is recognized as an industry leader throughout the country, particularly for its responsible gambling programs, marketing efforts, cashless payment options, mobile cashing options, and data analytics. The budget request for fiscal years 2024 and 2025 leverages these and other strengths of the agency to address the challenges we will face. We are confident that our request will provide for the successful attainment of our goals and objectives, as well as continued growth in profits for education.