

LSC Greenbook

Analysis of the Enacted Budget

Ohio Lottery Commission

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ATTACHMENT:

Budget Spreadsheet By Line Item

Ohio Lottery Commission

- The Ohio Lottery is self-sustaining and funded through the State Lottery Fund.
- H.B.1 authorizes the Ohio Lottery to start a video lottery terminal program.
- Since its inception in 1974, the Ohio Lottery has provided more than \$16 billion in support of the public education system.

OVERVIEW

Agency Overview

The Ohio Lottery Commission 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 operating net profits. The budget transfers to LPEF \$1.42 billion in the next biennium (\$705.0 million in FY 2010 and \$711.0 million in FY 2011) from lottery ticket sales. Of the \$2.42 billion in total ticket sales generated in FY 2009, 29% was transferred to the Ohio Department of Education. The Ohio Lottery Commission operates a variety of On-line¹ and Instant ticket games, and employed 333 full-time equivalent employees (FTEs) in FY 2009.

Appropriation Overview

The Ohio Lottery Commission is self-sustaining and funded through the State Lottery Fund. Appropriations support the computerized gaming systems, the purchase and distribution of Instant tickets, the payment of prizes to winners, funding for the prevention of problem gambling, and the oversight of charitable gaming. The following table presents the appropriations by fund group for the Ohio Lottery Commission for the FY 2010-FY 2011 biennium.²

¹ 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.

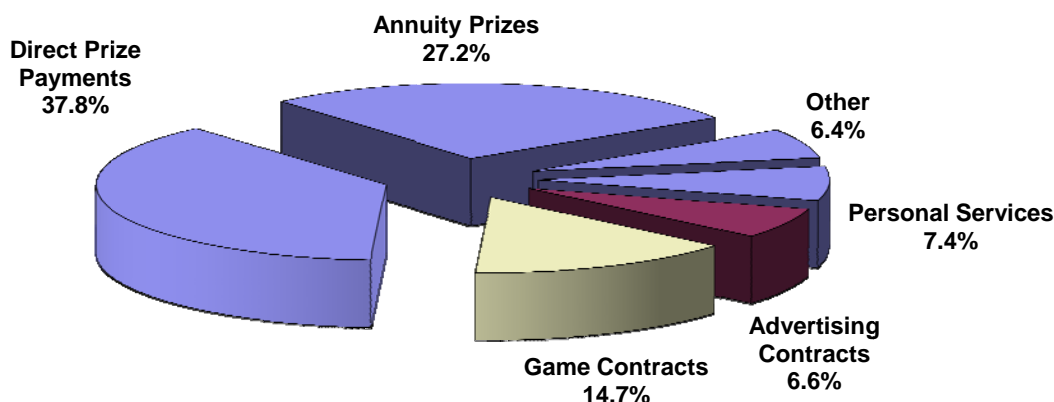
² On July 27, 2009, the Controlling Board approved requests from the Ohio Lottery Commission to increase its spending authority by \$10.6 million (3.2%) in FY 2010 and \$8.6 million (2.6%) in FY 2011.

Fund Group	FY 2009*	FY 2010	% change, FY 2009-FY 2010	FY 2011	% change, FY 2010-FY 2011
State Lottery Fund	\$539,334,994	\$329,840,036	-38.8%	\$330,175,079	0.1%
TOTAL	\$539,334,994	\$329,840,036	-38.8%	\$330,175,079	0.1%

*FY 2009 figures represent actual expenditures.

FY 2010 appropriations are below FY 2009 expenditures mainly as a result of steep drops in expected spending for equipment and for annuity payments. As indicated in Chart 1, the payment of prizes to lottery players, consisting of direct and annuity payments, accounts for 65% of budgeted expenditures.

Chart 1: Biennial Budget by Expense Category, FY 2010-FY 2011



Major Initiatives

New Gaming Vendor Starting on July 1, 2009

The Ohio Lottery awarded a new gaming contract to a vendor named Intralot, which brings different gaming systems and communications technologies for the ten-year period commencing on July 1, 2009. The new gaming equipment is expected to improve back-office information technology processing systems, prize payment claims systems, and retailer web interface for retrieving information. Additionally, the cost of the gaming contracts, per dollar of ticket sales, is less than the previous contracts.

Authority to Conduct Video Lottery Terminal Games

H.B. 1 specifically authorizes the Ohio Lottery Commission to operate video lottery terminal (VLT) games and to adopt rules necessary for the operation of these games, including the establishment of any fees, fines, payment schedules, and the level of minimum investments that must be made in the buildings and grounds in which VLTs will be located. The budget also specifies that Chapter 2915. of the Revised Code

(generally gambling laws) does not apply to, affect, or prohibit the operation of VLTs by the Ohio Lottery Commission. H.B. 1 grants the Ohio Supreme Court exclusive original jurisdiction over any claim that provisions dealing with VLTs, or rules adopted under those provisions, are unconstitutional. In order to comply with the constitutional requirement regarding the use of lottery net proceeds, all net proceeds of VLTs are to be deposited and utilized to benefit education programs in Ohio in the same manner as all other lottery net proceeds, i.e., net income from the operation of the VLT program would be distributed to the Lottery Profits Education Fund (LPEF).

The Governor's Directive

Governor Strickland issued a directive on July 13, 2009 to implement a VLT program at Ohio's seven horse racetracks. The Ohio Lottery Commission will issue rules through the regular Joint Commission on Agency Rule Review process. Those rules will establish the application, licensing, and contracting requirements for VLT agents and their employees, including background check procedures. The rules will also establish the amount of a nonrefundable application fee (\$100,000), the length of the VLT licenses (ten years), the limitations on the number and location of facilities, and the number of VLTs per facility (up to 2,500).

The executive's directive also included the following:

1. A \$65 million licensing fee for each of the seven VLT agents, to be paid in five equal installments, with four made in FY 2010 (of which the first payment is to be made by September 15, 2009).
2. A requirement that 50% of all net revenue from VLTs be retained by the state, with certain net revenue used to cover VLT lease costs, programs for problem gamblers, and other related lottery expenses, and the remainder for education programs.
3. A requirement that licensed VLT agents will make expenditures to improve and assure adequate security at the facilities at which VLTs will be operated, including at least \$80 million within the first five years of operation, and at least \$20 million within the first year of operation.
4. Procedures for the testing, approval, leasing, certification, maintenance, and verification of VLTs; auditing; financial reporting and bonding procedures regarding VLT-related funds and agents; compliance with competitive bidding/Controlling Board procedures with regard to all VLT-related purchases of goods and services; and procedures to assure that the VLT agents and horse racing operators avoid conflicts of interest with employees of the Ohio Lottery Commission.

5. All technical details and definitions associated with the operation of VLTs, and any other provisions necessary to the implementation of VLTs at Ohio horse racetracks.

Transfers to Education

Net profits from all Ohio Lottery games are transferred to the Ohio Department of Education. The budget transfers \$705.0 million in FY 2010 and \$711.0 million in FY 2011 from sales of regular lottery tickets. The executive expects the VLT program to yield net revenues of \$295.8 million in FY 2010 and \$637.4 million in FY 2011 for a total of \$933.2 million for the biennium. Thus, total transfers to the LPEF would be \$1.0 billion in FY 2010 and \$1.35 billion in FY 2011, for a total of \$2.35 billion for the biennium.

Actual net revenue gain from the VLT program would be dependent on the pace of implementation of the program and associated revenues and expenses. Amounts transferred to the LPEF may be affected by implementation delays (including those that may arise from legal challenges to the VLT program itself). Amounts transferred may also be affected by a potential reduction in projected VLT net revenues from a proposed amendment to Ohio's Constitution that would permit construction of four full-service casinos statewide; the proposed amendment is expected to be on the ballot in November 2009. The casinos would likely reduce net revenues from the Ohio Lottery Commission's VLT program (and projected transfers to LPEF) if they were approved and operational during this biennium. Starting and managing a VLT program will increase expenditures for most appropriation items of the Ohio Lottery Commission. Those potential increases in appropriations from the VLT program are undetermined and are not included in the budget.

ANALYSIS OF ENACTED BUDGET

Introduction

This section provides an analysis of the funding for each appropriation item in the Ohio Lottery Commission's budget. This analysis does not include the potential budgetary impact of a VLT program organized and managed by the Ohio Lottery Commission. Spending needs will increase as the VLT program is implemented. The budget appropriates additional funds for the Ohio Lottery Commission operating expenses up to 15% of anticipated lottery ticket sales revenues, upon approval of the Controlling Board.

The Ohio Lottery Commission is self-sustaining and funded through the State Lottery Fund Group. Most line items are funded through the State Lottery Fund (Fund 7044) which receives proceeds from lottery ticket sales. The charitable gaming oversight is funded through the Charitable Gaming Oversight Fund (Fund 2310) and annuity payments are funded through the Deferred Prizes Trust Fund (Fund 8710). Appropriations for these purposes in FY 2010-FY 2011 are shown in the table below. Following the table, a narrative describes how the appropriation is used and any changes affecting the appropriation. This is the same order in which the line items appear in the budget bill.

Ohio Lottery Commission Appropriations for FY 2010 and FY 2011				
Fund	ALI and Name		FY 2010	FY 2011
State Lottery Fund Group				
2310	950604	Charitable Gaming Oversight	\$2,378,000	\$2,378,000
7044	950100	Personal Services	\$24,378,979	\$24,378,979
7044	950200	Maintenance	\$14,578,155	\$14,652,155
7044	950300	Equipment	\$4,058,420	\$3,603,920
7044	950402	Advertising Contracts	\$21,756,000	\$21,756,000
7044	950403	Gaming Contracts	\$47,978,749	\$48,756,010
7044	950500	Problem Gambling Subsidy	\$350,000	\$350,000
7044	950601	Direct Prize Payments	\$124,426,168	\$124,884,039
8710	950602	Annuity Prizes	\$89,935,565	\$89,415,976
State Lottery Fund Group Subtotal			\$329,840,036	\$330,175,079
Total Funding: State Lottery Fund Group			\$329,840,036	\$330,175,079

Charitable Gaming Oversight (950604)

An agreement with the Attorney General requires the Ohio Lottery Commission 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 line item supports the requirements of this agreement. Performance of these duties requires maintaining an on-line application process to license applicants, conduct site visits, complete audits, and standardize reports. The funding for this oversight function of \$2.4 million is the same in each year of the biennium and is \$0.6 million (32.0%) above spending in FY 2009.

Personal Services (950100)

Appropriations in this line item provide funds for staff payroll and fringe benefits. Funding for item 950100 each year of the biennium is \$1.9 million (7.1%) below that of FY 2009. Personal services spending increased about 8.8% in FY 2009 with the implementation of the Keno game. The magnitude of the budget reduction for FY 2010 and FY 2011 would likely make it difficult to realize such savings without layoffs and/or reduction in benefits.³

Maintenance (950200)

This line item provides funds for maintenance and supplies. Approximately 80% of the charges to this line item are for data processing, telecommunications, promotional, and printing charges. Appropriations for FY 2010 are \$3.2 million (18.1%) below spending for FY 2009 due to expected reduced charges for data processing and communications from the new gaming vendor. Funding for FY 2011 is slightly above appropriations for FY 2010.

Equipment (950300)

Appropriations for this line item primarily fund information technology equipment. Funding for FY 2010 is \$12.0 million (74.8%) below spending for FY 2009. The Keno equipment and the installation of the new gaming systems required outsized expenditures on equipment in FY 2008 and FY 2009. Those expenditures will not be required in FY 2010, and the new gaming and communications technologies are expected to yield cost savings starting in FY 2010. Those savings are expected to continue in FY 2011. Appropriations for FY 2011 are \$0.5 million (11.2%) below the FY 2010 levels.

Advertising Contracts (950402)

Advertising expenses cover the production of print, radio, and television advertisements and the cost of post-production media placement of those advertisements. The funding for item 950402 for FY 2010 is \$1.2 million (5.8%) above

³ The Controlling Board on July 27, 2009 restored spending authority of \$7.1 million for FY 2010 and \$6.9 million for FY 2011. Those amounts were included in the executive budget for this appropriation item.

FY 2009 spending due to higher costs of media production. The same amount as in FY 2010 would be spent for advertising in FY 2011.⁴

Gaming Contracts (950403)

The Ohio Lottery Commission converted to a new operating computerized transaction activity for both its On-line and Instant gaming systems. The gaming system contract with the previous vendor expired at the end of FY 2009. A new contract, which required a complete system conversion, was awarded to Intralot for the ten-year period starting on July 1, 2009. The new vendor replaced a variety of items, including retailers' touch screen terminals, player activated vending machines, ticket verifiers for players, retail advertising displays, Keno monitors, and wager transaction display devices. Spending on gaming contracts is generally based on ticket sales which are projected to increase each year of the biennium. Funding for item 950403 is \$0.6 million (1.3%) higher for FY 2010 than FY 2009 spending, and \$0.8 million (1.6%) more in FY 2011.⁵

Problem Gambling Subsidy (950500)

The Ohio Lottery Commission has outsourced the responsibility of providing treatment and counseling services for gamblers to the Department of Alcohol and Drug Addiction Services by providing funds for the treatment of lottery players that also are addicted to alcohol and drugs. The goal is to establish outpatient gambling treatment programs, increase the identification and referral of problem gamblers to appropriate services, and to increase awareness of available services for problem gamblers and their families. Funding for the various programs started in FY 2003 and will continue in the next biennium. Appropriations are \$350,000 per fiscal year, \$15,000 (4.5%) more than spending in FY 2009.

Direct Prize Payments (950601)

Spending for direct prize payments includes 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 in games such as Classic Lotto and Mega Millions, first installments of deferred Mega Millions prizes, and prize payments of high-tier winners of other On-line games. Expenditures supported by direct prize payments appropriations also include cash payouts from Instant games, and noncash prizes (trips, cars, and merchandise) payouts to winners.

⁴ The Controlling Board on July 27, 2009 increased the spending authority on direct prize payments by \$1.8 million for FY 2010 and the same amount for FY 2011.

⁵ The Controlling Board on July 27, 2009 increased this appropriation by \$1.2 million for FY 2010.

Appropriations for FY 2010 are \$0.2 million (0.2%) below spending for FY 2009. Appropriations for FY 2011 are \$0.5 million (0.4%) above FY 2010 due to a slight expected increase in ticket sales.⁶

Annuity Prizes (950602)

Appropriation item 950602 supports 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 Commission is required to set aside and transfer to the Treasurer of State for investment any annuity jackpots won in Mega Millions and other games. Prizes are then paid out over time as they are due to winners. As the number of jackpot winners choosing annuity payments has declined over the years, expenditures for annuity prizes have also declined, except in years when new games with large jackpots have been added to the lineup of games. Funding for item 950602 for FY 2010 is \$194.6 million (68.4%) lower than FY 2009 spending. Appropriations for item 950602 are \$0.5 million (0.6%) lower in FY 2011.

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⁶ The Controlling Board on July 27, 2009 increased this appropriation by \$0.5 million for FY 2010.

FY 2010 - 2011 Final Appropriation Amounts

All Fund Groups

Line Item Detail by Agency			FY 2008	FY 2009	FY 2010 Appropriations	% Change FY09 - FY10	FY 2011 Appropriations	% Change FY10 - FY11
Report For: Main Operating Appropriations Bill			Version: Enacted					
LOT Ohio Lottery Commission								
2310	950604	Charitable Gaming Oversight	\$ 1,822,863	\$ 1,801,975	\$ 2,378,000	31.97%	\$ 2,378,000	0.00%
7044	950100	Personal Services	\$ 24,378,979	\$ 26,252,658	\$ 24,378,979	-7.14%	\$ 24,378,979	0.00%
7044	950200	Maintenance	\$ 17,347,972	\$ 17,794,394	\$ 14,578,155	-18.07%	\$ 14,652,155	0.51%
7044	950300	Equipment	\$ 1,861,740	\$ 16,086,213	\$ 4,058,420	-74.77%	\$ 3,603,920	-11.20%
7044	950402	Advertising Contracts	\$ 23,964,806	\$ 20,552,866	\$ 21,756,000	5.85%	\$ 21,756,000	0.00%
7044	950403	Gaming Contracts	\$ 44,789,213	\$ 47,353,291	\$ 47,978,749	1.32%	\$ 48,756,010	1.62%
7044	950500	Problem Gambling Subsidy	\$ 353,000	\$ 335,000	\$ 350,000	4.48%	\$ 350,000	0.00%
7044	950601	Direct Prize Payments	\$ 110,727,762	\$ 124,627,356	\$ 124,426,168	-0.16%	\$ 124,884,039	0.37%
8710	950602	Annuity Prizes	\$ 103,813,494	\$ 284,531,240	\$ 89,935,565	-68.39%	\$ 89,415,976	-0.58%
State Lottery Fund Group Total			\$ 329,059,829	\$ 539,334,994	\$ 329,840,036	-38.84%	\$ 330,175,079	0.10%
Ohio Lottery Commission Total			\$ 329,059,829	\$ 539,334,994	\$ 329,840,036	-38.84%	\$ 330,175,079	0.10%