

# **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
- The Ohio Lottery oversees charitable gaming
- Since its inception in 1974, the Ohio Lottery has provided more than \$17 billion in support of the public education system

## OVERVIEW

### Agency 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 operating net profits. The budget act transfers to LPEF \$1.40 billion in the next biennium (\$717.5 million in FY 2012 and \$680.5 million in FY 2013). Of the \$2.60 billion in total ticket sales generated in FY 2011, 28% was transferred to the Ohio Department of Education. The Ohio Lottery operates a variety of On-line<sup>1</sup> and Instant ticket games, and employed 333 full-time employees (FTEs) in FY 2011.

### 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 2012-FY 2013 biennium.

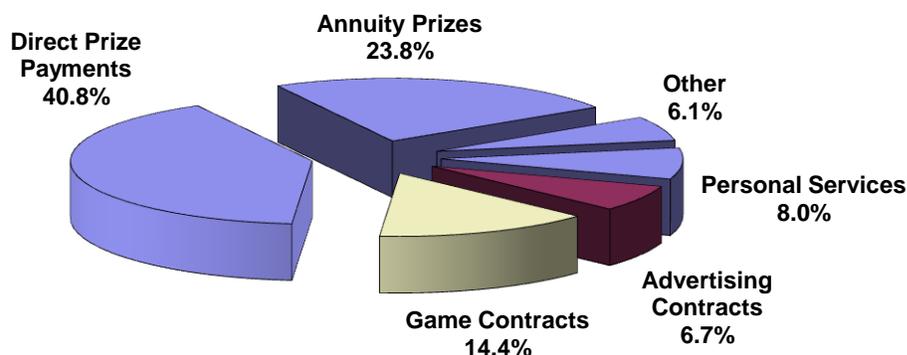
Table 1. Agency Appropriations by Fund Group, FY 2012-FY 2013 (Am. Sub. H.B. 153)					
Fund Group	FY 2011*	FY 2012	% change, FY 2011-FY 2012	FY 2013	% change, FY 2012-FY 2013
State Lottery Fund	\$465,559,471	\$324,099,006	-30.4%	\$326,048,311	0.6%
<b>TOTAL</b>	<b>\$465,559,471</b>	<b>\$324,099,006</b>	<b>-30.4%</b>	<b>\$326,048,311</b>	<b>0.6%</b>

\*FY 2011 figures represent actual expenditures.

<sup>1</sup> 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.

Am. Sub. H.B. 153 appropriates \$324.1 million for the Ohio Lottery Commission in FY 2012. This amount is \$141.5 million (30.4%) lower than FY 2011 spending.<sup>2</sup> Funding for FY 2013 is \$326.0 million, \$1.9 million (0.6%) higher than FY 2012 appropriations. The chart below provides appropriations by expense category for the biennium.

**Chart 1: Biennial Budget  
by Expense Category, FY 2012-FY 2013**



## Recent Major Initiatives

### Potential Video Lottery Terminal Games at Ohio Horse Racetracks

H.B. 1 of the 128th General Assembly authorized 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. H.B. 1 also specified 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. In order to comply with the constitutional requirement regarding the use of lottery net proceeds, all net proceeds of VLTs would 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 LPEF.

Efforts to start VLTs at Ohio's seven commercial horse racetracks in 2009, under the previous administration, met with considerable controversy and delay, and were dropped. The current administration in June 2011 announced its intent to allow VLTs at the seven horse racetracks. VLT sales could not begin until either licensees agreed with the horse racing industry on funding to benefit horse racing, or the state imposed terms

<sup>2</sup> Large jackpots won in multistate games generated substantial expenditures in direct prize payments in FY 2011. The Ohio Lottery does not forecast the potential for such winnings in its budget.

of such funding, according to the administration's announcement. Licensing of the VLTs would be under the Ohio Lottery Commission. Under provisions of H.B. 277 of the 129th General Assembly, the State Racing Commission would approve or deny applications to relocate racetracks, which was sought by casino gambling interests, but could not adopt rules governing the VLTs at those locations. If VLTs are licensed at the horse racetracks, overall sales and net profits for the Ohio Lottery will increase, though it is uncertain how quickly the machines may be installed and the extent of the decline in "traditional" lottery sales resulting from both the VLT program and the new casinos.

### **Transfers to Education**

Net profits from all Ohio Lottery games are transferred to the Ohio Department of Education. The budget act transfers \$717.5 million in FY 2012 and \$680.5 million in FY 2013. Lower transfers in FY 2013 are due to the anticipated negative impact of casinos on ticket sales. If a VLT program is implemented during the biennium, actual net revenue to LPEF is likely to increase, though this would be dependent on the pace of implementation of the program and associated revenues and expenses. Timing of receipts and additional amounts transferred to the LPEF may be affected by implementation delays (including those that may arise from legal challenges to the VLT program itself).

### **Problem Gambling Hotline**

The budget act requires the Ohio Casino Control Commission, in conjunction with the Ohio Lottery Commission and the Department of Alcohol and Drug Addiction Services, to establish, operate, and publicize an in-state hotline Ohio residents may call at any time to obtain problem gambling information. The budget also specifies that the moneys in the Problem Casino Gambling and Addictions Fund, used by the Casino Control Commission, are to be used to fund the hotline.

### **Lottery Agent License Fees**

The budget act authorizes the Ohio Lottery Commission to charge an applicant fees for a lottery sales agent license, rather than a fee, but makes it permissive for the Commission to charge those fees or to charge license renewal fees.

### **Vetoed Provision**

The Governor vetoed a provision that added to the list of topics for rules promulgated by the Ohio Lottery Commission a requirement that certain notices appear on a lottery ticket, including one that must appear if the word "education" is used in any advertising for a statewide lottery, which must include information on the percentage that lottery profits contribute to all education funding in Ohio. The provision required this notice to appear on any television advertising for the Ohio Lottery and on the first page of the web site for the Ohio Lottery.

## **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 budgetary impact of a potential VLT program organized and managed by the Ohio Lottery Commission. Starting and managing such a program would increase expenditures for most appropriation items of the Ohio Lottery Commission. Those potential increases in expenditures are not included in this budget.

The budget appropriates additional funds for Ohio Lottery Commission operating expenses up to 15% of anticipated lottery ticket sales revenues, upon approval of the Controlling Board.

The Ohio Lottery 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). The appropriations for these purposes in FY 2012-FY 2013 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.

<b>Appropriations for the Ohio Lottery Commission</b>				
<b>Fund</b>	<b>ALI and Name</b>		<b>FY 2012</b>	<b>FY 2013</b>
<b>State Lottery Fund Group</b>				
2310	950604	Charitable Gaming Oversight	\$1,946,000	\$1,946,000
7044	950100	Personal Services	\$26,000,000	\$26,000,000
7044	950200	Maintenance	\$13,558,000	\$13,266,150
7044	950300	Equipment	\$4,810,440	\$4,465,690
7044	950402	Advertising Contracts	\$21,756,000	\$21,756,000
7044	950403	Gaming Contracts	\$46,476,608	\$47,359,732
7044	950500	Problem Gambling Subsidy	\$350,000	\$350,000
7044	950601	Direct Prize Payments	\$131,995,700	\$133,263,456
8710	950602	Annuity Prizes	\$77,206,258	\$77,641,283
<b>State Lottery Fund Group Subtotal</b>			<b>\$324,099,006</b>	<b>\$326,048,311</b>
<b>Total Funding: State Lottery Fund Group</b>			<b>\$324,099,006</b>	<b>\$326,048,311</b>

**Charitable Gaming Oversight (950604)**

In FY 2005, the Ohio Lottery expanded its core activities to include the oversight of charitable gaming. An agreement with the Attorney General requires the Ohio 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. The Ohio Lottery has implemented a comprehensive database to track licenses and license applications. The agency also visits license holders, determines compliance with recordkeeping requirements, audits licensees' financial records, and verifies that contributions are properly distributed to charitable organizations. This line item supports the requirements of this agreement and the source of funding is appropriations from the Attorney General. Funding for this oversight function of \$1.95 million is the same in each year of the biennium, \$0.7 million (53.4%) above spending in FY 2011, due to a planned increase in the number of audits and investigations.

**Personal Services (950100)**

Appropriations in this line item provide funds for staff payroll and fringe benefits. The budget appropriation for FY 2012 is \$0.8 million (3.0%) below actual expenditures in FY 2011, and the funding for FY 2013 is the same as that of the first year of the biennium. Unsure how to deal with the reduction in appropriations for personal services in the budget, the Ohio Lottery suggests the agency may request increases in spending authority for personal services from the Controlling Board.

**Maintenance (950200)**

This line item provides funds for maintenance and supplies for the Ohio Lottery. Most of the charges to this line item are for data processing, telecommunications, promotional, and printing charges. The appropriation for FY 2012 is \$2.5 million (22.8%) above spending for FY 2011. Funding in FY 2013 is \$0.3 million (2.2%) below the appropriation for FY 2012.

**Equipment (950300)**

Appropriations for this line item primarily fund information technology equipment. Funding for FY 2012 is \$2.4 million (96.2%) above spending for FY 2011 due to planned purchases of additional gaming-related equipment to increase the sales base. The appropriation for FY 2013 is \$0.3 million (7.2%) below the FY 2012 level.

**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 appropriation for FY 2012 is \$1.4 million (6.0%) below FY 2011

spending. The budget appropriates the same amount in each fiscal year of the biennium. Unsure how to deal with the reduction in appropriations for advertising contracts in the biennium budget, the Ohio Lottery suggests the agency may request increases in spending authority for advertising contracts from the Controlling Board.

### **Gaming Contracts (950403)**

Spending on gaming contracts is directly related to the level of ticket sales. The appropriation in FY 2012 is \$5.4 million (13.3%) more than FY 2011 spending for gaming contracts, and \$0.9 million (1.9%) more in FY 2013 than in FY 2012.

### **Problem Gambling Subsidy (950500)**

The Ohio Lottery 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 program establishes outpatient gambling treatment services, increases the identification and referral of problem gamblers to appropriate services, and increases 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 FY 2011 spending.

### **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, Powerball, and Mega Millions; first installments of deferred Powerball and Mega Millions prizes; and prize payments of high-tier winners of other On-line games. Expenditures supported by direct prize payments appropriations may also include cash payouts from Instant games, and noncash prize (trips, cars, and merchandise) payouts to winners. The appropriation for FY 2012 is \$149.6 million (53.2%) below spending for FY 2011. Large jackpots in multistate games won in Ohio last year inflated prize payments that year. The FY 2013 budgeted amount is \$1.3 million (1.0%) above the FY 2012 appropriation. The budget includes language that increases this appropriation item if the Lottery Director determines that the amount needed to pay prize winners exceeds the amount appropriated.

### **Annuity Prizes (950602)**

Appropriations in this line item support 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 is required to set aside and transfer to the Treasurer of State for investment any annuity jackpots won in Mega Millions,

Powerball, 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 generally declined, except in years when new games with large jackpots have been added to the lineup of games. The appropriation for FY 2012 is \$0.6 million (0.8%) lower than FY 2011 spending. The budget appropriates \$0.4 million (0.6%) more in FY 2013 than in FY 2012. The budget includes language that increases this appropriation item if the Lottery Director determines that the amount needed to pay prize winners exceeds the amount appropriated.

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# FY 2012 - FY 2013 Final Appropriation Amounts

# All Fund Groups

Line Item Detail by Agency			FY 2010	FY 2011	Appropriations FY 2012	FY 2011 to FY 2012 % Change	Appropriations FY 2013	FY 2012 to FY 2013 % Change
<b>Report For Main Operating Appropriations Bill</b>			<b>Version: Enacted</b>					
<b>LOT</b>	<b>Ohio Lottery Commission</b>							
2310	950604	Charitable Gaming Oversight	\$ 1,498,500	\$ 1,268,816	\$ 1,946,000	53.37%	\$ 1,946,000	0.00%
7044	950100	Personal Services	\$ 24,910,085	\$ 26,807,644	\$ 26,000,000	-3.01%	\$ 26,000,000	0.00%
7044	950200	Maintenance	\$ 9,942,862	\$ 11,038,517	\$ 13,558,000	22.82%	\$ 13,266,150	-2.15%
7044	950300	Equipment	\$ 1,525,169	\$ 2,451,946	\$ 4,810,440	96.19%	\$ 4,465,690	-7.17%
7044	950402	Advertising Contracts	\$ 19,333,045	\$ 23,155,255	\$ 21,756,000	-6.04%	\$ 21,756,000	0.00%
7044	950403	Gaming Contracts	\$ 50,718,827	\$ 41,037,503	\$ 46,476,608	13.25%	\$ 47,359,732	1.90%
7044	950500	Problem Gambling Subsidy	\$ 335,000	\$ 335,000	\$ 350,000	4.48%	\$ 350,000	0.00%
7044	950601	Direct Prize Payments	\$ 125,215,526	\$ 281,631,834	\$ 131,995,700	-53.13%	\$ 133,263,456	0.96%
8710	950602	Annuity Prizes	\$ 79,427,779	\$ 77,832,955	\$ 77,206,258	-0.81%	\$ 77,641,283	0.56%
<b>State Lottery Fund Group Total</b>			<b>\$ 312,906,794</b>	<b>\$ 465,559,471</b>	<b>\$ 324,099,006</b>	<b>-30.39%</b>	<b>\$ 326,048,311</b>	<b>0.60%</b>
<b>Ohio Lottery Commission Total</b>			<b>\$ 312,906,794</b>	<b>\$ 465,559,471</b>	<b>\$ 324,099,006</b>	<b>-30.39%</b>	<b>\$ 326,048,311</b>	<b>0.60%</b>