

# **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
- The Ohio Lottery oversees video lottery terminal gaming at Ohio racinos

## 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 from traditional lottery tickets, and more recently, revenue from video lottery terminals (VLTs) at Ohio horse racetracks (or racinos). Am. Sub. H.B. 59 transfers \$1.82 billion to the LPEF (\$841.0 million in FY 2014 and \$974.5 million in FY 2015). Of the \$2.75 billion in total gaming revenue generated in FY 2013, LOT transferred \$803.1 million, or 29%, to the Ohio Department of Education. The Ohio Lottery operates a variety of online<sup>1</sup> and instant ticket games, and employed 333 full-time employees (FTEs) in FY 2013.

**Table 1. Agency Appropriations by Fund Group, FY 2014-FY 2015  
(Am. Sub. H.B. 59)**

Fund Group	FY 2013*	FY 2014	% change, FY 2013-FY 2014	FY 2015	% change, FY 2014-FY 2015
State Lottery Fund	\$353,006,873	\$335,475,593	-5.0%	\$333,578,528	-0.6%
<b>TOTAL</b>	<b>\$353,006,873</b>	<b>\$335,475,593</b>	<b>-5.0%</b>	<b>\$333,578,528</b>	<b>-0.6%</b>

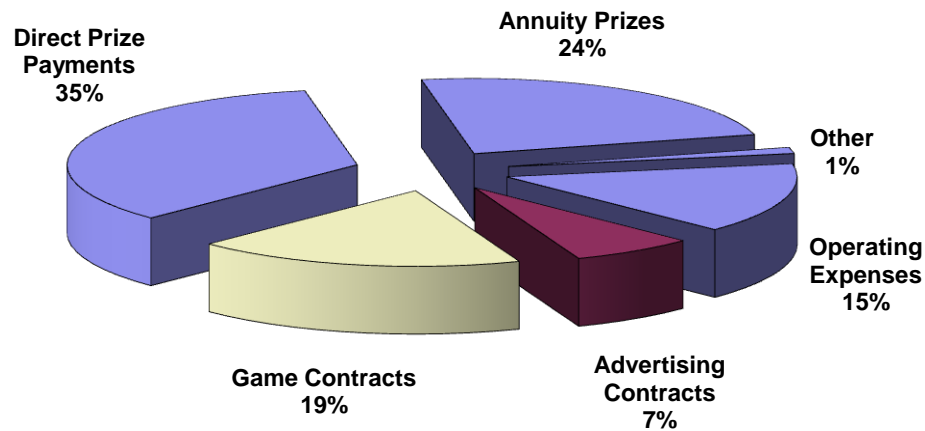
### Appropriation Overview

The Ohio Lottery 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 programs supporting gambling and related addiction services, the oversight of charitable gaming, and expenditures for the regulation of VLTs at horse racetracks.

<sup>1</sup> These online 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. 59 appropriates \$335.5 million for the Ohio Lottery Commission in FY 2014. This amount is \$17.5 million (5.0%) lower than FY 2013 spending.<sup>2</sup> Funding for FY 2015 is \$333.6 million, \$1.9 million (0.6%) below FY 2014 appropriations. The chart below provides appropriations by expense category for the biennium.

**Chart 1: Biennial Budget  
by Expense Category, FY 2014-FY 2015**



### Video Lottery Terminal Games at Ohio Horse Racetracks

The Ohio Lottery started regulating VLTs at Ohio horse racetracks in FY 2012. Scioto Downs opened its VLT facilities in June 2012, and Thistledown racino started in April 2013. According to LOT, four of the five remaining horse racetracks will open their VLT facilities at different times in FY 2014, but all seven racinos will be operational in FY 2015. Nearly \$2.0 billion was bet at the two open racinos in FY 2013, and a total of 3,229 VLTs were available to patrons at the end of June 2013. Net VLT revenue remaining after payouts to gamblers was \$165.5 million, with \$55.4 million of that amount distributed to LOT. Gross proceeds from VLTs are shared by the lottery sales agents – the horse racetracks (66.5%), and the Ohio Lottery (33.5%). Of the \$350 million in licensing fees to be paid by the owners of the horse racetracks for the privilege of operating VLTs, LOT is to receive the remaining \$225 million in FYs 2014-2015. Also, effective July 1, 2013, LOT will collect an additional 0.5% of VLT net revenue to support responsible gambling programs (as authorized by H.B. 386 of the 129th General Assembly).

<sup>2</sup> Large jackpots won in multistate games generated substantial expenditures in direct prize payments in FY 2013. The Ohio Lottery generally does not forecast the potential for such winnings in its budget.

## **Transfers to Education**

Net profits from all Ohio Lottery games are transferred to the LPEF in the Ohio Department of Education budget. The budget act transfers \$841.0 million in FY 2014 and \$974.5 million in FY 2015. Higher transfers in FY 2015 are expected as all racinos will be open for the first time for an entire fiscal year, which will provide a boost to total gaming revenue, though revenue from traditional ticket sales may decline.

## **Electronic Funds Transfers**

The budget act repeals a provision of law allowing lottery sales agents to mail checks representing net proceeds due to the Ohio Lottery Commission and requires the use of electronic funds transfers (which is current practice). H.B. 59 also removes a law provision requiring certain reports of receipts and transactions by lottery sales agents, requirements that may be impractical particularly for those transactions involving VLTs.

## ANALYSIS OF ENACTED BUDGET

### Introduction

This section provides an analysis of the funding for each appropriation item in the Ohio Lottery Commission's budget.

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 gaming. 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 2014-FY 2015 are shown in the table below. This is the same order in which the line items appear in the budget bill. LOT restructured line items for this budget, eliminating four line items from the previous budget, and creating two new line items in H.B. 59. Following the table, a narrative describes how the appropriation is used and any changes affecting the appropriation.

<b>Appropriations for the Ohio Lottery Commission</b>				
<b>Fund</b>	<b>ALI and Name</b>		<b>FY 2014</b>	<b>FY 2015</b>
<b>State Lottery Fund Group</b>				
2310	950604	Charitable Gaming Oversight	\$1,946,000	\$1,946,000
7044	950321	Operating Expenses	\$49,778,677	\$51,173,293
7044	950402	Advertising Contracts	\$23,024,080	\$23,024,080
7044	950403	Gaming Contracts	\$63,405,851	\$59,356,988
7044	950601	Direct Prize Payments	\$116,281,000	\$114,779,000
7044	950605	Problem Gambling	\$2,000,000	\$3,000,000
8710	950602	Annuity Prizes	\$79,039,985	\$80,299,167
<b>State Lottery Fund Group Subtotal</b>			<b>\$335,475,593</b>	<b>\$333,578,528</b>
<b>Total Funding: State Lottery Fund Group</b>			<b>\$335,475,593</b>	<b>\$333,578,528</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 (61.3%) above spending in FY 2013, due to potential increases in the number of audits and investigations.

### **Operating Expenses (950321)**

This line item essentially replaces ALI 950100, Personal Services, ALI 950200, Maintenance, and ALI 950300, Equipment, in previous budgets. The line item will provide funds for staff payroll and benefits, maintenance and supplies, and equipment. The appropriation for operating expenses in FY 2014 is \$6.6 million (11.8%) below combined spending in FY 2013 for personal services, maintenance and supplies, and equipment. The decrease is primarily due to the allocation of spending on equipment that supports the gaming function in this budget to ALI 950403, Gaming Contracts, and not including those expenditures in ALI 950321, Operating Expenses. The appropriation for FY 2015 is \$1.4 million (2.8%) higher than FY 2014 funding. The budget appropriates additional funds for LOT's operating expenses of up to 10% of anticipated lottery revenues, upon approval of the Controlling Board.

### **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 2014 is \$23.0 million, \$1.9 million (8.8%) above FY 2013 spending, due to expected increases in the cost of advertising, including increases for marketing on television. The appropriation for advertising contracts in FY 2015 is the same as that of FY 2014.

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

Spending on gaming contracts is directly related to the level of sales, but also includes one-time fixed costs to set up the central monitoring system at racinos. In addition, the cost of equipment to support the gaming function has been moved into this appropriation line item from ALI 950300, Equipment, as reported in previous years, thus boosting appropriations in FY 2014. Funding within this line item also accounts for additional gaming equipment necessary to support the retailer base. Also, LOT intends to expand instant ticket game products to include multiple extended-play themes which cost more to print. The budget appropriates \$14.0 million (28.5%) more in FY 2014 than FY 2013 spending for gaming contracts, and \$4.0 million (6.4%) less in FY 2015. The lower appropriation for FY 2015 reflects decreased expenditures for the central monitoring system.

**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 games. FY 2013 actual spending for direct prize payments was \$146.0 million, inflated by large jackpots in multistate games won in Ohio. The appropriation for FY 2014 is \$116.3 million, which is \$29.7 million (20.4%) below spending in FY 2013. The budgeted amount for FY 2015 is \$1.5 million (1.3%) below the FY 2014 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.

**Problem Gambling (950605)**

This is a new line item replacing ALI 950500, Problem Gambling Subsidy, in previous budgets, and is funded by a share of commissions (0.5%) received by lottery sales agents operating VLTs at racinos (O.R.C. 3769.087).<sup>3</sup> This line item will fund expenditures related to problem gambling identification and treatment programs, and support the Ohio for Responsible Gambling initiative.<sup>4</sup> The appropriation in FY 2014 for those expenditures is \$2.0 million. The funding in the second year of the biennium is increased 50% to \$3.0 million.

**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 declined, except in years when new games with large jackpots have been added to the lineup of games. LOT plans to introduce such new games in the biennium. The appropriation for FY 2014 of

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<sup>3</sup> By rule, the Ohio Lottery also may require the racinos to disperse an additional amount of up to one-half of one percent of their commissions for the same purpose.

<sup>4</sup> The other state agencies participating in this effort include: the Casino Control Commission (CAC), the Racing Commission (RAC), and the Department of Mental Health and Addiction Services (MHA) which serves as the lead agency responsible for prevention and treatment of problem gambling.



\$79.0 million is \$0.5 million (0.7%) higher than FY 2013 spending. The appropriation is \$1.3 million (1.6%) higher than that in FY 2015. The budget includes language authorizing cash transfers from the State Lottery Fund (Fund 7044) to the Deferred Prizes Trust Fund (Fund 8710) in an amount sufficient to fund deferred prizes. The budget also includes language that increases this appropriation item if the Lottery Director determines that the amount needed to pay deferred prizes exceeds the amount appropriated.

*LOT.docx/jc*

# FY 2014 - FY 2015 Final Appropriation Amounts

# All Fund Groups

## Line Item Detail by Agency

			FY 2012	FY 2013	Appropriations FY 2014	FY 2013 to FY 2014 % Change	Appropriations FY 2015	FY 2014 to FY 2015 % Change
<b>Report For: Main Operating Appropriations Bill</b>			<b>Version: Enacted</b>					
<b>LOT Ohio Lottery Commission</b>								
2310	950604	Charitable Gaming Oversight	\$ 1,500,110	\$ 1,206,442	\$ 1,946,000	61.30%	\$ 1,946,000	0.00%
7044	950100	Personal Services	\$ 29,943,653	\$ 39,493,316	\$ 0	-100.00%	\$ 0	N/A
7044	950200	Maintenance	\$ 12,471,470	\$ 13,215,579	\$ 0	-100.00%	\$ 0	N/A
7044	950300	Equipment	\$ 3,900,799	\$ 3,719,779	\$ 0	-100.00%	\$ 0	N/A
7044	950321	Operating Expenses	\$ 0	\$ 0	\$ 49,778,677	N/A	\$ 51,173,293	2.80%
7044	950402	Advertising Contracts	\$ 22,120,025	\$ 21,160,302	\$ 23,024,080	8.81%	\$ 23,024,080	0.00%
7044	950403	Gaming Contracts	\$ 47,689,819	\$ 49,361,396	\$ 63,405,851	28.45%	\$ 59,356,988	-6.39%
7044	950500	Problem Gambling Subsidy	\$ 335,000	\$ 335,000	\$ 0	-100.00%	\$ 0	N/A
7044	950601	Direct Prize Payments	\$ 201,631,652	\$ 146,016,205	\$ 116,281,000	-20.36%	\$ 114,779,000	-1.29%
7044	950605	Problem Gambling	\$ 0	\$ 0	\$ 2,000,000	N/A	\$ 3,000,000	50.00%
8710	950602	Annuity Prizes	\$ 78,558,533	\$ 78,498,852	\$ 79,039,985	0.69%	\$ 80,299,167	1.59%
<b>State Lottery Fund Group Total</b>			<b>\$ 398,151,061</b>	<b>\$ 353,006,873</b>	<b>\$ 335,475,593</b>	<b>-4.97%</b>	<b>\$ 333,578,528</b>	<b>-0.57%</b>
<b>Ohio Lottery Commission Total</b>			<b>\$ 398,151,061</b>	<b>\$ 353,006,873</b>	<b>\$ 335,475,593</b>	<b>-4.97%</b>	<b>\$ 333,578,528</b>	<b>-0.57%</b>