

Greenbook

LBO Analysis of Enacted Budget

Ohio Lottery Commission

Lin Kong, LSC Fellow
August 2023

TABLE OF CONTENTS

Quick look.....	1
Agency overview	1
Analysis of FY 2024-FY 2025 budget	1
Operating Expenses (ALI 950321) and Problem Gambling (ALI 950605)	2
Direct Prize Payments (ALI 950601) and Annuity Prizes (ALI 950602)	3
Advertising Contracts (ALI 950402) and Gaming Contracts (ALI 950403)	4

Attachment:

Appropriation Spreadsheet

LBO Greenbook

Ohio Lottery Commission

Quick look...

- The Ohio Lottery is a self-sustaining non-GRF agency funded through the State Lottery Fund.
- The agency is supported by the sale of traditional lottery tickets, revenue from video lottery terminals (VLTs) at seven Ohio horse racetracks (or racinos), and revenue from lottery sports gaming.
- Net profits from those operations are transferred to the Lottery Profits Education Fund (LPEF) for use in programs benefiting primary, secondary, vocational, and special education. The budget requires \$2.86 billion in net profits to be transferred to the LPEF during the FY 2024-FY 2025 biennium.
- The Ohio Lottery is governed by a nine-member commission. Daily administration is the responsibility of an executive director appointed by the Governor.

Fund Group	FY 2022 Actual	FY 2023 Actual	FY 2024 Appropriation	FY 2025 Appropriation
State Lottery Fund Group	\$423,309,089	\$573,337,844	\$427,378,841	\$443,228,238
% change	--	35.4%	-25.5%	3.7%

Agency overview

The Ohio Lottery (LOT) operates a variety of draw-based games and instant ticket games, and regulates video lottery terminals (VLTs) at racinos. The agency exists primarily to create operating net profits to be transferred to the Lottery Profits Education Fund (LPEF, or Fund 7017).

The enacted budget requires transfers of \$2,864 million in the next biennium (\$1,424 million in FY 2024 and \$1,440 million in FY 2025) to the Lottery Profits Education Fund (LPEF, Fund 7017). The required total for the biennium would be a decrease of \$5.6 million (0.2%) relative to total transfers of \$2,869 million during the last biennium (\$1,405 million in FY 2022 and \$1,464 million in FY 2023), though historically actual biennial transfers differ from budgeted transfers.

Analysis of FY 2024-FY 2025 budget

The Ohio Lottery Commission’s (LOT) budget consists of six appropriation line items (ALIs) made from the State Lottery Fund (SLF) group. The enacted budget appropriates \$427.4 million in FY 2024 and \$443.2 million in FY 2025, or a total of \$870.6 million for the biennium. Appropriations for the FY 2024-FY 2025 biennium represent a decrease of \$126.0 million (12.6%) compared to actual expenditures of \$996.6 million in the previous biennium. This decrease is a result of assumed declines in spending for direct and annuity prize payments to winners; the two line items that pay out such prizes account for slightly over half the LOT budget.

LOT appropriations support 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, expenditures for the regulation of the Video Lottery Terminal (VLT) Program, and commissions and bonuses to over 10,300¹ Lottery retailers.

Operating Expenses (ALI 950321) and Problem Gambling (ALI 950605)

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Appropriation	FY 2025 Appropriation
Fund 7044 ALI 950321, Operating Expenses					
\$49,313,420	\$49,465,623	\$55,178,324	\$53,818,622	\$61,967,164	\$64,686,040
% change	0.3%	11.5%	-2.5%	15.1%	4.4%
Fund 7044 ALI 950605, Problem Gambling					
\$3,055,119	\$3,348,096	\$3,977,694	\$4,370,396	\$4,850,000	\$4,850,000
% change	9.6%	18.8%	9.9%	11.0%	0.0%

ALI 950321, Operating Expenses, provides funds for staff payroll and benefits, maintenance and supplies, and equipment. The appropriation in FY 2024 is \$8.1 million above spending in FY 2023. Costs are expected to rise for items funded by this line item, due mainly to growing staff numbers, such as the hiring of additional personnel to support lottery sports gaming following its launch on January 1, 2023. The appropriation for FY 2025 is \$2.7 million more than the FY 2024 funding. Though appropriation amounts are specified in the budget act for this line item, uncodified language authorizes the Controlling Board, at the request of the State Lottery Commission, to authorize additional expenditures in excess of appropriations for operating expenses from the State Lottery Fund, up to a maximum of 10% of the amount appropriated in the line item in each year.

The enacted budget made statutory changes that will allow LOT to adopt operating procedures concerning the conduct of lottery games, instead of adopting rules under the Administrative Procedure Act or under section 111.15 of the Revised Code, and publish those operating procedures on the LOT website. The budget also eliminated references in the Revised Code to an obsolete paper-based process that LOT was required to follow for withholding past due child or spousal support from lottery winnings; LBO expects no fiscal effect from this provision.

ALI 950605, Problem Gambling, is funded by a share of commissions (0.5%) received by Lottery sales agents operating VLTs at racinos (section 3769.087 of the Revised Code). If revenue from this source exceeds the amount appropriated, an uncodified provision of the budget would appropriate the excess, upon certification by the Lottery Director to the Office of Budget and Management (OBM) Director, and upon the approval of the latter. This line item funds expenditures related to problem gambling identification and treatment programs, including the training of treatment counselors, and supports the Ohio for Responsible Gambling initiative. The appropriation in each year of the biennium is \$4.85 million, \$0.5 million above FY 2023 spending.

¹ Over 10,300 Lottery retailers as of February 2023.

Direct Prize Payments (ALI 950601) and Annuity Prizes (ALI 950602)

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Appropriation	FY 2025 Appropriation
Fund 7044 ALI 950601, Direct Prize Payments					
\$403,100,846	\$220,830,191	\$195,690,873	\$351,928,390	\$179,366,000	\$182,106,000
% change	-45.2%	-11.4%	79.8%	-49.0%	1.5%
Fund 8710 ALI 950602, Annuity Prizes					
\$57,998,217	\$52,939,470	\$48,096,197	\$43,163,800	\$42,243,000	\$40,946,000
% change	-8.7%	-9.1%	-10.3%	-2.1%	-3.1%

ALI 950601, Direct Prize Payments, funds 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 draw games. Expenditures supported by direct prize payments appropriations may also include cash payouts from Instant games, and noncash prizes payouts to winners.

This line item had outsized spending relative to its appropriation in FY 2023 due to high jackpots in the Ohio Lottery's largest games: Classic Lotto, Powerball, and Mega Millions. However, LOT generally does not try to forecast such outsized spending when determining budgeted levels for this line item. Thus, in the enacted budget, the amount appropriated for direct prize payments in FY 2024 is decreased by \$172.6 million from FY 2023 expenditures. This is under the assumption that the high sales experienced this last biennium will not be repeated, and sales levels will return back to historical trend growth. The appropriation for FY 2025 for this line item is \$2.7 million above that of FY 2024.

Appropriations for ALI 950602, Annuity Prizes, 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. The appropriation for FY 2024 is \$0.9 million below FY 2023 spending. The appropriation in FY 2025 is an additional decrease of \$1.3 million from that of the previous year. The decreases in this line item follow the general trend for appropriations related to annuity prizes, as an increasing number of players over the years have chosen the cash option after winning large prizes.

Though appropriation amounts are specified in the budget for both of the above line items, uncodified language in the act appropriates additional amounts if the Director of the Ohio Lottery Commission determines that additional amounts are needed to pay out prize winnings.

Advertising Contracts (ALI 950402) and Gaming Contracts (ALI 950403)

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Appropriation	FY 2025 Appropriation
Fund 7044 ALI 950402, Advertising Contracts					
\$25,625,729	\$23,879,854	\$28,441,933	\$27,864,001	\$29,755,000	\$29,955,000
% change	-6.8%	19.1%	-2.0%	6.8%	0.7%
Fund 7044 ALI 950403, Gaming Contracts					
\$70,245,686	\$77,820,535	\$91,924,068	\$92,192,634	\$109,197,677	\$120,685,198
% change	10.8%	18.1%	0.3%	18.5%	10.5%

LOT spending for advertising expenses covers the production of print, radio, internet, and television advertisements and the cost of post-production media placement of those advertisements. The appropriation for FY 2024 is \$1.9 million above FY 2023 spending. The appropriation for FY 2025 is \$0.2 million above that of FY 2024.

Spending on gaming contracts is directly related to the level of sales, which are expected to rise in the biennium. Funding within this line item also accounts for additional gaming equipment necessary to support the retailer base. The enacted budget provides an increase of \$17.0 million for this appropriation item in FY 2024. The appropriation for FY 2025 is \$11.5 million higher than in FY 2024. High jackpots of multistate games (Powerball and Mega Millions) generally boost gaming contracts spending.

FY 2024 - FY 2025 Final Appropriations

All Fund Groups

Line Item Detail by Agency			Appropriations			FY 2023 to FY 2024	Appropriations	FY 2024 to FY 2025
			FY 2022	FY 2023	FY 2024	% Change	FY 2025	% Change
Report For: Main Operating Appropriations Bill			Version: As Enacted					
LOT	Ohio Lottery Commission							
7044	950321	Operating Expenses	\$ 55,178,324	\$ 53,818,622	\$ 61,967,164	15.14%	\$ 64,686,040	4.39%
7044	950402	Advertising Contracts	\$ 28,441,933	\$ 27,864,001	\$ 29,755,000	6.79%	\$ 29,955,000	0.67%
7044	950403	Gaming Contracts	\$ 91,924,068	\$ 92,192,634	\$ 109,197,677	18.45%	\$ 120,685,198	10.52%
7044	950601	Direct Prize Payments	\$ 195,690,873	\$ 351,928,390	\$ 179,366,000	-49.03%	\$ 182,106,000	1.53%
7044	950605	Problem Gambling	\$ 3,977,694	\$ 4,370,396	\$ 4,850,000	10.97%	\$ 4,850,000	0.00%
8710	950602	Annuity Prizes	\$ 48,096,197	\$ 43,163,800	\$ 42,243,000	-2.13%	\$ 40,946,000	-3.07%
State Lottery Fund Group Total			\$ 423,309,089	\$ 573,337,844	\$ 427,378,841	-25.46%	\$ 443,228,238	3.71%
Ohio Lottery Commission Total			\$ 423,309,089	\$ 573,337,844	\$ 427,378,841	-25.46%	\$ 443,228,238	3.71%