

Redbook

LBO Analysis of Executive Budget Proposal

Ohio Lottery Commission

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TABLE OF CONTENTS

Quick look.....	1
Agency overview	1
Analysis of FY 2024-FY 2025 budget proposal.....	1
Summary of executive recommendations.....	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
Sports gaming	5
Lottery sales, profits, and transfers to education	5
Traditional lottery sales	5
Video lottery terminals	6
Transfers to education	7

Attachment:

Appropriation Spreadsheet

LBO Redbook

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 and revenue from video lottery terminals (VLTs) at seven Ohio horse racetracks (or racinos).
- 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 Ohio Lottery is governed by a nine-member commission. Daily administration is the responsibility of an executive director appointed by the Governor.
- The Ohio Lottery had a full-time staff of 351 in 2022.

Fund Group	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
State Lottery Fund Group	\$423,309,089	\$407,926,110	\$427,378,841	\$443,228,238
% change	--	-3.6%	4.8%	3.7%

Agency overview

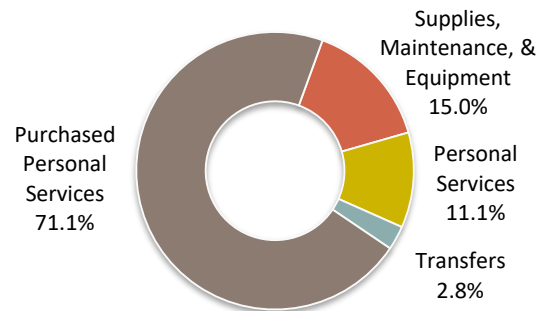
The executive budget proposes transfers of \$2,864.0 million in the next biennium (\$1,424.0 million in FY 2024 and \$1,440.0 million in FY 2025) to the Lottery Profits Education Fund (LPEF, Fund 7017). This recommendation would be an increase of \$196.0 million (7.3%) relative to total transfers of \$1,405.0 million in FY 2022, and budgeted transfers of \$1,263.0 million for FY 2023 (H.B. 110 of the 134th General Assembly).

Analysis of FY 2024-FY 2025 budget proposal

Summary of executive recommendations

The Ohio Lottery Commission's (LOT) budget consists of six appropriation line items (ALIs) made from the State Lottery Fund (SLF) group. The executive budget recommendations total \$427.4 million in FY 2024 and \$443.2 million in FY 2025. Chart 1 summarizes the executive recommendations for the biennium by expense category. The large share for purchased personal services is primarily due to the fact that nearly 99% of the proposed appropriations for paying prize winners, under line items 950601, Direct Prize Payments, and 950602, Annuity Prizes, are classified under that object of expense.

Chart 1: LOT Budget by Expense Category
FY 2024-FY 2025 Biennium



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. Table 1 below provides the agency's staffing level in recent years.

Table 1. Ohio Lottery Commission Staffing Levels (Full-Time Equivalent)*					
Office	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Communications	6	6	6	5	6
Executive	1	5	5	5	5
Finance	22	20	21	19	21
General Services	21	19	19	19	21
Human Resources	7	7	7	7	6
Information Technology	41	35	37	35	38
Internal Audit	4	5	5	5	5
Legal Counsel	6	4	4	4	5
Marketing	7	7	7	6	5
Product Development/Strategic Planning/Analytics	N/A	2	3	2	2
Sales	158	161	161	161	168
Security	16	15	15	14	17
Sports Gaming	N/A	N/A	N/A	4	8
Operations Management	8	8	8	8	8
Government & Community Relations	2	3	3	4	4
VLT Management	58	55	58	53	58
Total	357	352	359	351	377

*Excludes part-time, LOT commissioners, and interns.

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

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
Fund 7044 ALI 950321, Operating Expenses					
\$49,313,420	\$49,465,623	\$55,178,324	\$60,053,317	\$61,967,164	\$64,686,040
% change	0.3%	11.5%	8.8%	3.2%	4.4%
Fund 7044 ALI 950605, Problem Gambling					
\$3,055,119	\$3,348,096	\$3,977,694	\$4,652,104	\$4,850,000	\$4,850,000
% change	9.6%	18.8%	17.0%	4.3%	0.0%

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

ALI 950321, Operating Expenses, provides funds for staff payroll and benefits, maintenance and supplies, and equipment. About 78% of planned expenses are for staff compensation, with 22% for supplies and equipment. The recommended appropriation in FY 2024 is \$1.9 million above estimated 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 (more information about LOT and sports gaming is in a later section titled “**Sports gaming**”). The recommended appropriation for FY 2025 is \$2.7 million above FY 2024 recommended funding. Though appropriation amounts are specified in the budget bill 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 anticipated total revenue from the sale of lottery products.

The executive budget has proposed changes for the upcoming biennium 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 has proposed to exempt records concerning internal audits conducted by LOT’s staff from disclosure as public records until the final report is submitted to the LOT Director.

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, a 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 recommended appropriation in each year of the biennium is \$4.85 million, \$0.2 million above expected FY 2023 spending. The Ohio Lottery works with the Ohio Department of Mental Health and Addiction Services to help provide treatment and counseling services for gamblers by providing funds for the treatment of lottery players that also are addicted to alcohol and drugs. The program’s goals are 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.

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

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
Fund 7044 ALI 950601, Direct Prize Payments					
\$403,100,846	\$220,830,191	\$195,690,873	\$162,809,344	\$179,366,000	\$182,106,000
% change	-45.2%	-11.4%	-16.8%	10.2%	1.5%
Fund 8710 ALI 950602, Annuity Prizes					
\$57,998,217	\$52,939,470	\$48,096,197	\$58,328,775	\$42,243,000	\$40,946,000
% change	-8.7%	-9.1%	21.3%	-27.6%	-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.

Ohio Lottery officials anticipate overall sale increases for the next biennium. As sales increase, prize awards also rise. As such, spending for direct prize payments is budgeted to increase in FY 2024 by \$16.6 million above the estimated spending in FY 2023, and the recommended appropriation in FY 2025 is \$2.7 million above that of FY 2024. Though appropriation amounts are specified in the budget bill for this line item, uncodified language in the bill appropriates additional amounts if the Director of the Ohio Lottery Commission determines that additional amounts are needed to pay out prize winnings.

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. Though appropriation amounts are specified in the budget bill for this line item, uncodified language in the bill appropriates additional amounts if the Director of the Ohio Lottery Commission determines that additional amounts are needed to pay out prize winnings. The recommended appropriation for FY 2024 is \$16.1 million below FY 2023 estimated spending. The executive recommendation in FY 2025 is an additional decrease of \$1.3 million from that of the previous year. Appropriations related to annuity prizes have generally decreased, as an increasing number of players over the years have chosen the cash option after winning large prizes. For example, actual spending for annuity prizes was \$79.4 million in FY 2010 and LOT traditional sales were \$2.49 billion. In FY 2022 when those sales totaled \$4.3 billion, spending for annuity prizes was \$48.1 million.

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

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
Fund 7044 ALI 950402, Advertising Contracts					
\$25,625,729	\$23,879,854	\$28,441,933	\$27,925,000	\$29,755,000	\$29,955,000
% change	-6.8%	19.1%	-1.8%	6.6%	0.7%
Fund 7044 ALI 950403, Gaming Contracts					
\$70,245,686	\$77,820,535	\$91,924,068	\$94,157,570	\$109,197,677	\$120,685,198
% change	10.8%	18.1%	2.4%	16.0%	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 recommended appropriation for FY 2024 is \$1.8 million above FY 2023 estimated spending. The recommended 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 executive recommends an increase of \$15.0 million for this appropriation item in FY 2024. The recommended spending 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. Thus, at the end of the current fiscal year, FY 2023 spending for gaming contracts will likely be higher than the amount included in the executive budget.

Sports gaming

During the 134th General Assembly, H.B. 29 was signed into law and legalized sports betting in Ohio starting on January 1, 2023. With the passage of H.B. 29, LOT was tasked with the implementation and regulation of type C sports gaming at retail locations. Type C sports gaming proprietors offer lottery sports gaming through self-service or clerk-operated terminals located at certain host facilities, such as bars and restaurants, and are limited in the type of bets allowed (spread, money line, parlay, over/under). The legislation allows for up to 20 sportsbooks proprietors to partner with lottery retailers, and at present there are approximately 2,200+ eligible lottery retailers.

LOT officials anticipate type C sports gaming will result in minimal revenue over this upcoming biennium, due to large upfront program costs combined with low profit margins. However, revenue will increase as the industry matures, along with associated resource requirements. The newly legalized sports gaming industry, in particular mobile and brick-and-mortar sports betting that are outside the purview of LOT, will compete with traditional lottery products for Ohioans' discretionary spending on gaming. As such, LOT officials expect future impacts on revenue.

Lottery sales, profits, and transfers to education

Traditional lottery sales

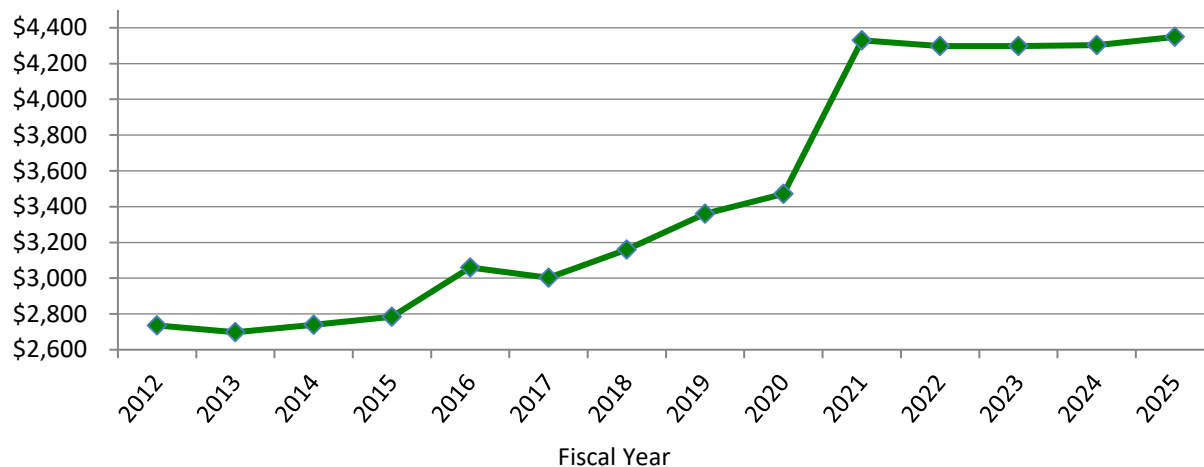
The Ohio Lottery operates a variety of draw games² and Instant ticket games at more than 10,300³ retailers. The draw games are Pick 3, Pick 4, Pick 5, Rolling Cash 5, Classic Lotto, Raffle (occasional), Kicker, Keno, EZ Play, EZ Play Tap, EZ Play Touch and Win, The Lucky One, Lucky for Life, Powerball, and Mega Millions. Occasionally, LOT offers raffle games. The traditional lottery ticket sales were \$4.30 billion in FY 2022, and are likely to stay around that amount in FY 2023; draw games provided \$2.01 billion (46.8%) of the total in FY 2022. Instant games sales, including special theme

² These draw games are played via a terminal at a Lottery sales agent. Those terminals are linked to Ohio Lottery headquarters computers. Draw games (also known as "On-line" games) do not refer to internet lottery sales.

³ Over 10,300 Lottery retailers as of February 2023.

games, were \$2.29 billion (53.2%) of sales revenue in FY 2022. Traditional lottery ticket sales have experienced solid growth over the years. The rise in receipts is due to the introduction of new draw games, additional drawings for existing games, and new Instant games. The graph below shows annual sales from traditional ticket sales from FY 2012 to FY 2022, and estimated sales in FY 2023. LOT forecast sales of about \$4.30 billion in FY 2024 and \$4.35 billion in FY 2025.

Chart 2: Annual Traditional Lottery Sales
(\$ in millions)



Ticket sales for “mature” lotteries such as the Ohio Lottery are usually flat or decline, unless new games are introduced, changes to existing games are made, or increases in the number of drawings boost sales. Sales may also increase if additional states enter the multistate games. Although incomes continue to grow, attitudes toward gaming remain generally favorable, and total gaming expenditures increase; competition in the gaming market has been increasing, which limits the upside potential of lottery ticket sales. Regular and riverboat casinos, racetrack video lottery terminals (VLTs), internet-based gaming, including sports betting, and charitable gaming have all affected the growth of LOT sales. LOT suggests that none of the draw or scratch-off games not currently offered will bring in significant revenue.

Video lottery terminals

The VLT Program at horse racetracks has operated at seven Ohio racinos since September 2014. Table 2 below provides wagered amounts, VLT income, and revenue to the Racing Commission (for distribution to racino owners), LOT, and for problem gambling services in recent years. Revenue from the VLT Program is shared by the racetrack owners (66.5%) and LOT (33.5%). In FY 2022, the gross revenue from the VLT Program was \$1,331.3 million (after payout to players) on total wagers of \$14.7 billion.⁴ Of that amount, LOT received \$446.0 million. The Racing Commission received \$880.9 million, the substantial majority of which was distributed to racino owners, and \$4.4 million in VLT revenue was directed toward problem gambling services.

⁴ Promotional play credits to players totaled \$210.7 million in FY 2022, up from \$175.8 million in FY 2021.

Table 2. VLT Program Results, FY 2018-FY 2022 (\$ in millions)

Fiscal Year	Wagers	Gross Revenue	Number of VLTs	Daily Income per VLT	Racing Commission	Lottery Commission	Problem Gambling
2018	\$10,780.2	\$987.3	11,207	\$242	\$653.3	\$330.7	\$3.3
2019	\$11,588.0	\$1,058.6	11,375	\$255	\$700.5	\$354.6	\$3.5
2020 ⁵	\$9,032.3	\$820.9	11,556	\$268	\$543.2	\$275.0	\$2.7
2021	\$12,750.7	\$1,186.2	10,648	\$307	\$784.9	\$397.4	\$3.9
2022	\$14,700.3	\$1,331.3	10,567	\$345	\$880.9	\$446.0	\$4.4

LOT estimates its share of VLT gross revenue to be about \$434.0 million in FY 2023, and forecasts such share of revenue to be \$449.9 million in FY 2024, and \$460.3 million in FY 2025.

Transfers to education

The executive budget is recommending transfers to the Lottery Profits Education Fund (LPEF) of \$1,424.0 million in FY 2024 and \$1,440 million in FY 2025. This recommendation would be an increase of \$49.0 million (1.7%) relative to total transfers of \$1,405.0 million in FY 2022, and budgeted transfers of \$1,410.0 million for FY 2023 (H.B. 110 of the 134th General Assembly). Table 3 below provides estimated transfers in FY 2023⁶ and budgeted transfers in FY 2024 and FY 2025. It is important to note that profit transfers derived from type C sports gaming are included in the recommended transfer totals for FY 2024 and FY 2025. However, because sports gaming began so recently, the amounts of profit transfers derived from type C sports gaming are not yet known, so the actual breakdown in those years will deviate somewhat from the numbers shown.

Table 3. Estimated and Budgeted Transfers to LPEF, FY 2023-FY 2025 (\$ in millions)

	FY 2023 Estimated	FY 2024	FY 2025
Traditional Lottery Profits	\$980.0	\$982.0	\$990.0
VLT Profits	\$430.0	\$442.0	\$450.0
Total Transfers	\$1,410.0	\$1,424.0	\$1,440.0

LOT/zg

⁵ Racinos experienced the partial or full closure of facilities from March through June of 2020 due to the Governor's emergency order related to the COVID-19 pandemic, resulting in a reduction of about 22% in gross income from the program in FY 2020.

⁶ Due to the recent billion dollar jackpots from both multistate jackpot games (Mega Millions, Powerball), actual transfers in FY 2023 may exceed estimates.

FY 2024 - FY 2025 Appropriations - As Introduced

All Fund Groups

Line Item Detail by Agency			FY 2022	Estimate FY 2023	Introduced FY 2024	FY 2023 to FY 2024 % Change	Introduced FY 2025	FY 2024 to FY 2025 % Change
Report For: Main Operating Appropriations Bill			Version: As Introduced					
LOT	Ohio Lottery Commission							
7044	950321	Operating Expenses	\$ 55,178,324	\$ 60,053,317	\$ 61,967,164	3.19%	\$ 64,686,040	4.39%
7044	950402	Advertising Contracts	\$ 28,441,933	\$ 27,925,000	\$ 29,755,000	6.55%	\$ 29,955,000	0.67%
7044	950403	Gaming Contracts	\$ 91,924,068	\$ 94,157,570	\$ 109,197,677	15.97%	\$ 120,685,198	10.52%
7044	950601	Direct Prize Payments	\$ 195,690,873	\$ 162,809,344	\$ 179,366,000	10.17%	\$ 182,106,000	1.53%
7044	950605	Problem Gambling	\$ 3,977,694	\$ 4,652,104	\$ 4,850,000	4.25%	\$ 4,850,000	0.00%
8710	950602	Annuity Prizes	\$ 48,096,197	\$ 58,328,775	\$ 42,243,000	-27.58%	\$ 40,946,000	-3.07%
State Lottery Fund Group Total			\$ 423,309,089	\$ 407,926,110	\$ 427,378,841	4.77%	\$ 443,228,238	3.71%
Ohio Lottery Commission Total			\$ 423,309,089	\$ 407,926,110	\$ 427,378,841	4.77%	\$ 443,228,238	3.71%