

Redbook

LBO Analysis of Executive Budget Proposal

Ohio Lottery Commission

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Attachment:

Appropriation Spreadsheet

LBO Redbook

Ohio Lottery Commission

Quick look...

- The Ohio Lottery Commission (LOT) 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 sports gaming kiosks at over 700 retail locations.
- 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.
- LOT is governed by a nine-member commission. Daily administration is the responsibility of an executive director appointed by the Governor.
- LOT had a full-time staff of 371 in 2024.

Fund Group	FY 2024 Actual	FY 2025 Estimate	FY 2026 Introduced	FY 2027 Introduced
State Lottery Fund Group	\$441,504,179	\$443,228,238	\$450,971,904	\$458,199,325
% change	--	0.4%	1.7%	1.6%

Agency overview

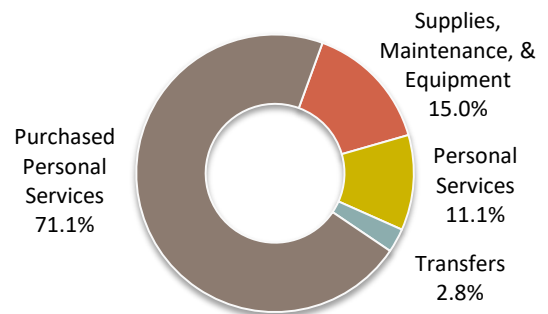
The executive budget proposes transfers of \$2,929.0 million in the next biennium (\$1,462.0 million in FY 2026 and \$1,467.0 million in FY 2027) to the Lottery Profits Education Fund (LPEF, Fund 7017). This recommendation would be a decrease of \$25.0 million (0.8%) relative to total transfers of \$1,514.0 million in FY 2024, and budgeted transfers of \$1,440.0 million for FY 2025.

Analysis of FY 2026-FY 2027 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 \$451.0 million in FY 2026 and \$458.2 million in FY 2027. 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 96% 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 2026-FY 2027 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 10,500 Lottery retailers.

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

FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Introduced	FY 2027 Introduced
Fund 7044 ALI 950321, Operating Expenses					
\$55,178,324	\$53,818,622	\$56,446,085	\$64,686,040	\$73,138,202	\$75,729,884
% change	-2.5%	4.9%	14.6%	13.1%	3.5%
Fund 7044 ALI 950605, Responsible Gambling					
\$3,977,694	\$4,370,396	\$4,843,042	\$4,850,000	\$5,000,000	\$5,000,000
% change	9.9%	10.8%	0.1%	3.1%	0.0%

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, equipment, and purchased personal services. The recommended appropriation in FY 2026 is \$8.5 million above estimated spending in FY 2025. Costs are expected to rise for items funded by this line item, due primarily to the state of Ohio’s new collective bargaining contract, and growing staff numbers. The recommended appropriation for FY 2027 is \$2.6 million above recommended funding for FY 2026.

Though appropriation amounts are specified in the budget bill for this line item, uncodified language authorizes the Controlling Board, at the request of the Ohio 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 that fiscal year.

ALI 950605, Responsible Gambling, is funded by a share of commissions (0.5%) received by Lottery sales agents operating VLTs at racinos and surrendered funds from the Ohio Voluntary Exclusion Program.¹ If revenue from these sources 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 for ALI 950605 in each year of the biennium is \$5.0 million, nearly \$0.2 million above expected FY 2025 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,

¹ Refer to R.C. 3769.087 and Ohio Administrative Code (O.A.C.) 3770:2-8-03 for additional details.

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 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Introduced	FY 2027 Introduced
Fund 7044 ALI 950601, Direct Prize Payments					
\$195,690,873	\$351,928,390	\$205,288,580	\$182,106,000	\$183,030,000	\$183,282,000
% change	79.8%	-41.7%	-11.3%	0.5%	0.1%
Fund 8710 ALI 950602, Annuity Prizes					
\$48,096,197	\$43,163,800	\$40,249,404	\$40,946,000	\$35,637,000	\$34,737,000
% change	-10.3%	-6.8%	1.7%	-13.0%	-2.5%

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 modestly increase in FY 2026 by \$0.9 million above the estimated spending in FY 2025, and the recommended appropriation in FY 2027 is \$0.3 million above that of FY 2026. 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, the present value of 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 2026 is \$5.3 million below FY 2025 estimated spending. The executive recommendation in FY 2027 is an additional decrease of \$0.9 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.

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

FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Introduced	FY 2027 Introduced
Fund 7044 ALI 950402, Advertising Contracts					
\$28,441,933	\$27,864,001	\$28,895,438	\$29,955,000	\$30,811,375	\$30,811,375
% change	-2.0%	3.7%	3.7%	2.9%	0.0%
Fund 7044 ALI 950403, Gaming Contracts					
\$91,924,068	\$92,192,634	\$105,781,630	\$120,685,198	\$123,355,327	\$128,639,066
% change	0.3%	14.7%	14.1%	2.2%	4.3%

LOT spending for advertising contracts from ALI 950402 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 2026 is \$0.8 million above FY 2025 estimated spending. The recommended appropriation for FY 2027 is unchanged from that of FY 2026.

Spending on gaming contracts is directly related to the level of sales, which are expected to rise in the biennium. LOT recently awarded a contract for monitoring and controlling all video lottery terminals at the seven racinos. The rates necessary to pay vendors has increased with the overall price level, causing the expected expenditures to be greater than under the previous contract. The executive recommends an increase of \$2.7 million for this appropriation item in FY 2026. The recommended spending for FY 2027 is \$5.3 million higher than in FY 2026.

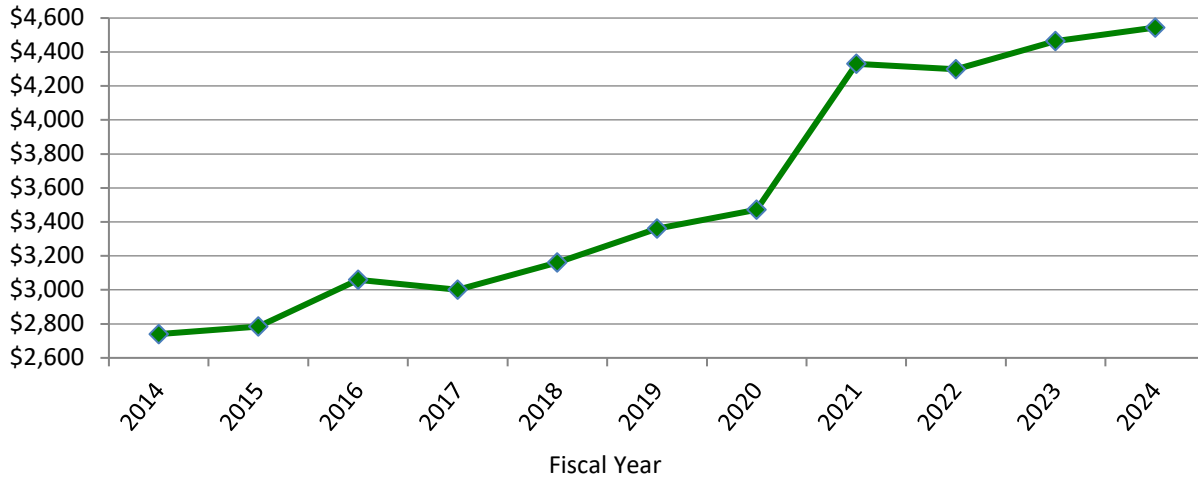
Lottery sales, profits, and transfers to education

Traditional lottery sales

The Ohio Lottery operates a variety of draw games and Instant “scratch-off” ticket games at more than 10,500 retailers.² The draw games include multi-state games Powerball, Mega Millions, and Lucky for Life and in-state games such as Pick 3, Keno, and Classic Lotto among others. Occasionally, LOT will offer raffle games. The traditional lottery ticket sales were \$4.54 billion in FY 2024, with draw games providing \$2.16 billion (47.5%) and scratch-off sales accounting for \$2.38 billion (52.5%) of the total. 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 scratch-off games. The graph below shows annual revenues from traditional ticket sales from FY 2014 to FY 2024.

² Draw games are played via terminals that are hosted by Lottery sales agents and linked to Ohio Lottery headquarters computers.

**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 progressive jackpots become relatively large. The latter occurs whenever additional states enter the multistate games. On the other hand, 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 gaming, and charitable gaming have all affected the growth of traditional lottery sales.

Video lottery terminals

The VLT Program at horse racetracks has operated at seven Ohio racinos since September 2014. Table 1 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 2024, the gross revenue from the VLT Program was \$1,367.3 million (after payout to players) on total wagers of \$15.4 billion.³ Of that amount, LOT received \$458.1 million. The Racing Commission received \$904.7 million, the substantial majority of which was distributed to racino owners, and \$4.5 million in VLT revenue was directed toward problem gambling services.

Fiscal Year	Wagers	Gross Revenue	Number of VLTs	Racing Commission	Lottery Commission	Problem Gambling
2021	\$12,750.7	\$1,186.2	10,648	\$784.9	\$397.4	\$3.9
2022	\$14,700.3	\$1,331.3	10,567	\$880.9	\$446.0	\$4.4
2023	\$15,119.0	\$1,354.6	10,471	\$896.3	\$453.8	\$4.5
2024	\$15,413.2	\$1,367.3	10,319	\$904.7	\$458.1	\$4.5

³ Promotional play credits to players totaled \$227.4 million in FY 2024, up from \$218.8 million in FY 2023.

Sports gaming

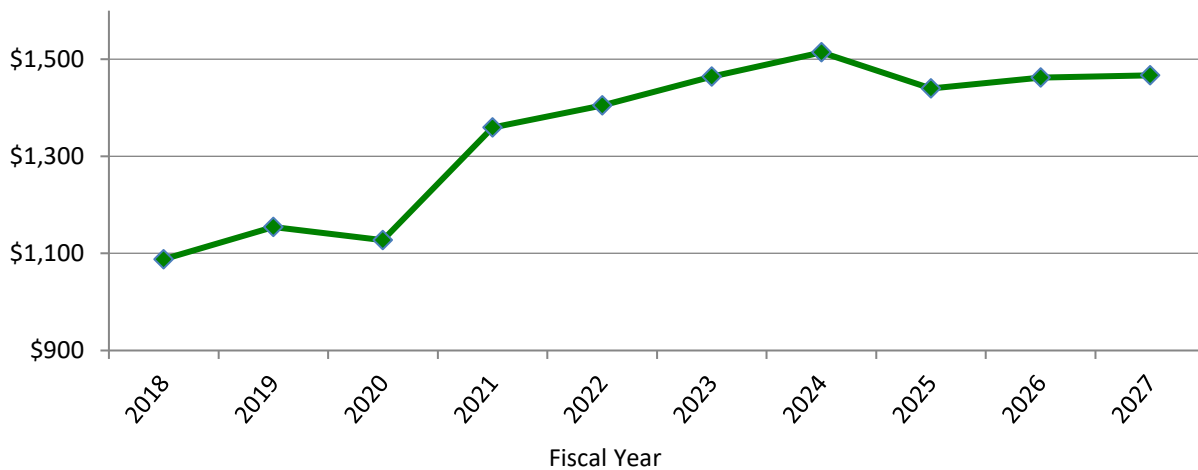
During the 134th General Assembly, H.B. 29 was signed into law and legalized sports betting in Ohio starting on January 1, 2023. With the passage of H.B. 29, LOT was tasked with the implementation and regulation of type C sports gaming at retail locations. Type C sports gaming proprietors offer lottery 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). Table 2 below provides the total amount wagered, gross revenue, number of host locations, and share of revenue accruing to proprietors, LOT, and unclaimed winnings. Funds unclaimed after 180 days are distributed to the State Lottery Fund.

Fiscal Year	Wagers	Gross Revenue	# of Host Locations	Proprietors	Lottery Commission	Unclaimed Funds
2023	\$6.5	\$0.6	445	\$0.5	\$0.1	\$0.0
2024	\$12.8	\$1.2	860	\$0.9	\$0.3	\$0.2

Transfers to education

The executive budget recommends transfers to the Lottery Profits Education Fund (LPEF) of \$1,462.0 million in FY 2026 and \$1,467.0 million in FY 2027. This recommendation would be a decrease of \$25.0 million (0.8%) relative to total transfers of \$1,514.0 million in FY 2024, and budgeted transfers of \$1,440.0 million for FY 2025. Chart 3 below provides the total amount transferred to the LPEF since FY 2018, as well as current estimated and budgeted amounts for FY 2025-FY 2027.

Chart 3: Annual Transfers to Lottery Profits Education Fund (\$ in millions)



**FY 2026 - FY 2027 Appropriations - As Introduced
All Fund Groups - Detail**

Main Operating Appropriations Bill

Detail by Agency			FY 2024	Estimate FY 2025	Introduced FY 2026	Introduced FY 2027	FY 2025 to FY 2026 % Change	FY 2026 to FY 2027 % Change
LOT Lottery Commission								
7044	950321	Operating Expenses	\$56,446,085	\$64,686,040	\$73,138,202	\$75,729,884	13.07%	3.54%
7044	950402	Advertising Contracts	\$28,895,438	\$29,955,000	\$30,811,375	\$30,811,375	2.86%	0.00%
7044	950403	Gaming Contracts	\$105,781,630	\$120,685,198	\$123,355,327	\$128,639,066	2.21%	4.28%
7044	950601	Direct Prize Payments	\$205,288,580	\$182,106,000	\$183,030,000	\$183,282,000	0.51%	0.14%
7044	950605	Responsible Gambling	\$4,843,042	\$4,850,000	\$5,000,000	\$5,000,000	3.09%	0.00%
8710	950602	Annuity Prizes	\$40,249,404	\$40,946,000	\$35,637,000	\$34,737,000	-12.97%	-2.53%
State Lottery Fund Group Subtotal			\$441,504,179	\$443,228,238	\$450,971,904	\$458,199,325	1.75%	1.60%
Lottery Commission Total			\$441,504,179	\$443,228,238	\$450,971,904	\$458,199,325	1.75%	1.60%
Main Operating Appropriations Bill Total			\$441,504,179	\$443,228,238	\$450,971,904	\$458,199,325	1.75%	1.60%