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**2014-15 Governors Budget - Lottery**

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**Mission:**

The Lottery offers fun, innovative and secure games that create excitement, reflect Minnesota values and maximize contributions to the State.

**Statewide Outcome(s):**

Lottery supports the following statewide outcome(s).

A thriving economy that encourages business growth and employment opportunities.

A clean, healthy environment with sustainable uses of natural resources.

**Context:**

The Minnesota State Lottery exists to raise revenue for state programs as determined by the legislature and governor. It does so through the sale of lottery tickets at over 3,100 retail outlets. Lottery customers include the approximately two million adults who purchase a lottery ticket in an average year.

Lottery beneficiaries include the General Fund, Environment and Natural Resources Trust Fund, Game and Fish Fund, and Natural Resources Fund. In addition, a portion of the General Fund revenue is appropriated by the legislature to programs to assist those affected by problem gambling. The Minnesota Constitution requires that 40 percent of net lottery revenue is dedicated to the Environment and Natural Resources Trust Fund. All other beneficiaries are determined by statute.

The Lottery has three priorities.

- Maximize revenues through the design and marketing of products that customers wish to purchase,
- Ensure the security and integrity of its products,
- Design and market products in a manner consistent with the values of Minnesota citizens.

The Lottery receives no state appropriation; operating expenses are provided through ticket sales. The Legislature sets an annual limit on operating expenditures but does not approve an operative budget.

**Strategies:**

In fiscal 2012, the Lottery designed and marketed 75 scratch or instant games in addition to continuing to market seven "lotto" games (such as Powerball) offered through computer terminals. These games are offered in the context of an overall sales and marketing plan that also determines advertising and promotional strategies. The Lottery also reviews operations to ensure that it carries out these strategies in the most efficient manner possible.

The Lottery contributes to statewide outcomes by helping to finance state initiatives in critical areas.

Key partners include the 3,100 retail stores that sell lottery products, other state lotteries with whom Minnesota cooperates on multi-state games, and vendors in critical areas such as product manufacture and design, information technology, advertising, promotional partners, and market research.

**Results:**

Compared with most other agencies, lottery outcomes are relatively easy to measure. The most direct measure is revenues contributed to state programs. In this regard the Lottery has been quite successful. FY 2012 revenues of \$123.6 million were the highest ever in the lottery's 22-year history and have grown by 56 percent since FY 2003.

The Lottery cannot, of course, guarantee record revenues every year. Several key factors will always be beyond the organization's control. Jackpots for games such as Powerball drive sales—a year with multiple high jackpots will easily outsell a year with none, all things being equal—but jackpot generation is a random process and the

Lottery cannot be certain how many, if any will occur. Other external factors affect lottery sales as well, including the economy, weather, gas prices, and other external events.

Performance Measures	Previous	Current	Trend
Lottery proceeds returned to state	\$122.1 million	\$123.6 million	Increasing
Percent of adults purchasing lottery ticket in past year	44.3%	47.1%	Increasing
Percent believing that the lottery is a well-run organization	57.9%	60.0%	Stable
Percent believing that lottery makes a positive contribution to the state	57.7%	64.7%	Increasing

Performance Measures Notes:

It should be noted that record FY 2012 revenues happened despite the loss of three weeks of sales due to the July, 2011 government shutdown. Once the shutdown ended, it took several weeks for sales to regain their previous levels due to the difficulties in restarting operations and the need to “reintroduce” the Lottery to retailers and customers.

Data on public opinion is based on surveys of 2000 Minnesota adults conducted annually by the Minnesota State Lottery and the survey research center at St. Cloud State University and published in February/March in 2011 and 2012.

**Minnesota State Lottery**  
(\$ in thousands)

	Actual FY2012	Projected FY2013	Projected FY2014	Projected FY2015	Projected FY2016	Projected FY2017
<b>Revenue</b>						
Scratch Ticket Sales	\$355,261	\$358,000	\$363,000	\$369,600	\$369,600	\$369,600
Lotto Ticket Sales	164,773	182,000	187,000	190,400	190,400	190,400
Total Sales Revenue	520,034	540,000	550,000	560,000	560,000	560,000
Less In-Lieu-of-Sales Tax	33,802	35,100	35,750	36,400	36,400	36,400
Gross Receipts	486,231	504,900	514,250	523,600	523,600	523,600
Non-operating Income	295	301	301	301	301	301
Gross Revenue	486,526	505,201	514,551	523,901	523,901	523,901
<b>Direct Costs</b>						
Prize Expense	320,609	332,257	338,410	344,563	344,563	344,563
Unclaimed Prizes Paid to State Treasury	10,251	8,336	8,640	8,800	8,960	8,960
Compulsive Gambling from Prize Fund	2,075	2,230	2,230	2,230	2,230	2,230
Retailer Commissions and Incentives	31,554	32,296	33,360	33,967	33,967	33,967
Ticket Costs	8,635	8,410	8,410	8,410	8,410	8,410
Lotto Vendor Expense	9,506	9,965	9,900	10,080	10,080	10,080
Total Direct Costs	382,630	393,494	400,950	408,050	408,210	408,210
<b>Operating Expense</b>						
Advertising	7,475	7,623	7,623	7,623	7,623	7,623
Promotions	1,882	1,738	1,738	1,738	1,738	1,738
Game Development/New Initiatives						
Brand/Beneficiary Awareness	0	0	0	0	0	0
Salaries and Benefits	10,264	11,458	12,187	12,553	12,930	13,317
Occupancy Costs	1,395	1,547	1,599	1,647	1,696	1,747
Communications	552	575	575	575	575	575
Purchased Services	1,751	1,859	1,859	1,859	1,859	1,859
Depreciation	893	811	811	811	811	811
Supplies and Materials	948	1,215	1,215	1,215	1,215	1,215
Other	1,212	1,476	1,476	1,476	1,476	1,476
Total Operating Expense	26,372	28,302	29,083	29,497	29,923	30,362
Net Proceeds	\$77,525	\$83,405	\$84,518	\$86,354	\$85,768	\$85,329
<b>Total Full-Time Equivalent (FTE)</b>						
	149	153	153	153	153	153
<b>PAID TO STATE BENEFICIARY</b>						
<b>General Fund</b>						
In-Lieu-of-Sales Tax	\$9,319	\$9,677	\$9,856	\$10,035	\$10,035	\$10,035
Net Proceeds	46,515	50,043	50,711	51,813	51,461	51,198
Unclaimed Prizes	10,251	8,336	8,640	8,800	8,960	8,960
Unclaimed Prizes Held in Trust for State						
Compulsive Gambling from Prize Fund	2,075	2,230	2,230	2,230	2,230	2,230
Total General Fund	68,160	70,286	71,437	72,878	72,686	72,423
<b>Envir. and Natural Resources Fund</b>						
Net Proceeds	31,010	33,362	33,807	34,542	34,307	34,132
Unclaimed Prizes						
Total Envir and Natural Resources Fund	31,010	33,362	33,807	34,542	34,307	34,132
<b>Game and Fish Fund</b>						
	12,241	12,711	12,947	13,182	13,182	13,182
<b>Natural Resources Fund</b>						
	12,241	12,711	12,947	13,182	13,182	13,182
<b>TOTAL PAID TO STATE BENEFICIARY</b>	<b>\$123,652</b>	<b>\$129,071</b>	<b>\$131,138</b>	<b>\$133,784</b>	<b>\$133,358</b>	<b>\$132,920</b>
	23.78%	23.90%	23.84%	23.89%	23.81%	23.74%