

Agency Purpose

The Minnesota State Lottery (Lottery) exists to provide revenue for state programs as identified by the Minnesota Constitution and the legislature. The Lottery does so by offering games of chance to Minnesota adults in accordance with M.S. Chapter 349A.

Core Functions

To accomplish this purpose, the Lottery must:

- ◆ design, distribute, and promote games that will appeal to the general public in a manner consistent with statutory guidelines and the dignity of the state;
- ◆ maintain security procedures that ensure the integrity of the games will not be compromised;
- ◆ manage a large network of private sector retailers who sell lottery products; and
- ◆ accurately process numerous financial transactions, including payment of prizes to winners, commissions to retailers, proceeds to the state, and the purchase of goods and services necessary for lottery operations.

At A Glance

- ◆ In FY 2006, the Minnesota State Lottery generated \$121 million for state programs from sales of \$450 million.
- ◆ More than two out of three Minnesota adults have purchased a lottery ticket.
- ◆ Prizes in FY 2006 exceeded \$267 million.
- ◆ Scratch games account for 60% of lottery sales. Powerball accounts for another 26%.
- ◆ Since its inception in 1990, Minnesotans have purchased almost \$6 billion in lottery tickets, returning more than \$1.4 billion to the state.
- ◆ Factors such as weather, gasoline prices, local and state economies, and competition for discretionary dollars can all affect lottery sales and proceeds.

Operations

Lottery tickets are sold through a network of approximately 3,000 retailers located in more than 650 Minnesota cities. These retailers earn a commission on every ticket sold and can earn additional income by redeeming winning tickets and participating in various incentive programs. Each retailer has a computer terminal that is connected to central lottery computers through a secure telecommunications network. Retailers are the primary contact for the ticket-buying public. More than two out of every three Minnesota adults have purchased a lottery ticket.

The Lottery is managed by a director appointed by the governor with the advice and consent of the senate.

The Lottery is organized into six divisions:

- ⇒ **Executive** includes the director, legislative relations, and research and planning.
- ⇒ **Finance** provides accounting and budget services.
- ⇒ **Legal** includes legal services, human resources, and purchasing and contracting.
- ⇒ **Marketing** is responsible for retailer service, promotions, advertising, customer relations, and public relations.
- ⇒ **Operations** provides computer and telecommunications services, conducts drawings, and is responsible for product design and distribution.
- ⇒ **Security** protects against internal and external lottery fraud and prevents compromise of the games.

Key Measures

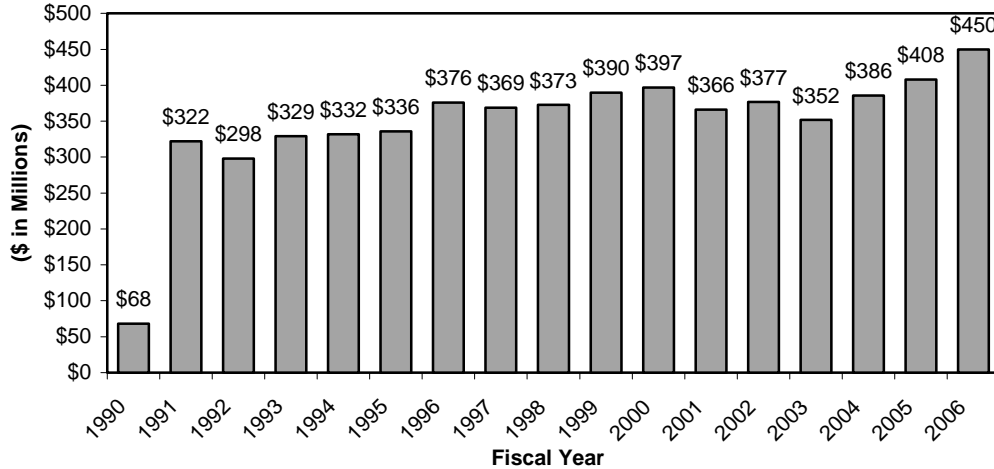
Lottery success is primarily measured by the revenue returned to the state for the designated beneficiaries (see agency fiscal report). In seeking to maximize revenue, the Lottery must also consider security, integrity, and the broader policy concerns of the state. Other measures include administrative efficiency and player participation and satisfaction.

Budget

By law, the Lottery may not spend more than 9% of gross revenue on operations. For FY 2007, the Lottery's operating budget must not exceed \$27.419 million.

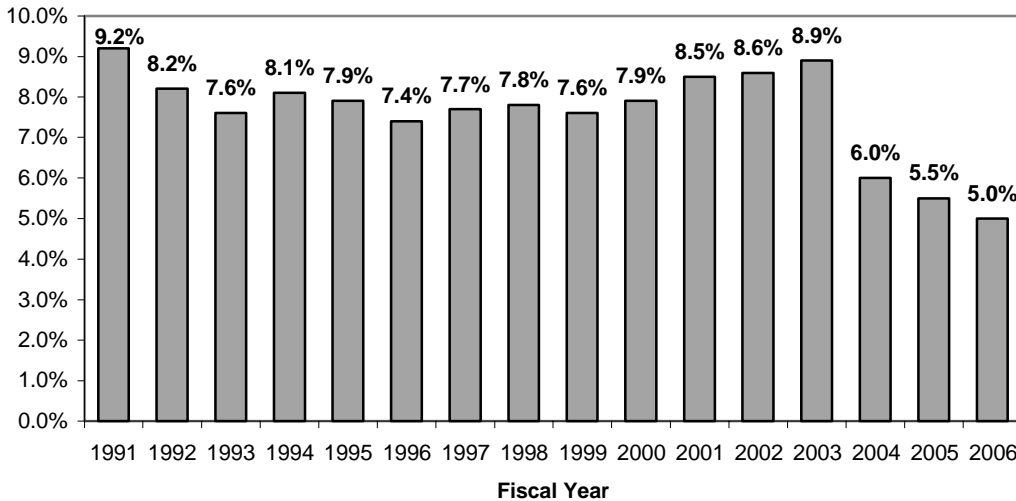
Major administrative expenses include salaries and benefits, advertising and promotions, rent, telecommunications, and computer maintenance. The Lottery has approximately 144 full-time permanent employees located at its headquarters in Roseville and its four regional offices statewide.

**Minnesota State Lottery
Sales by Fiscal Year**



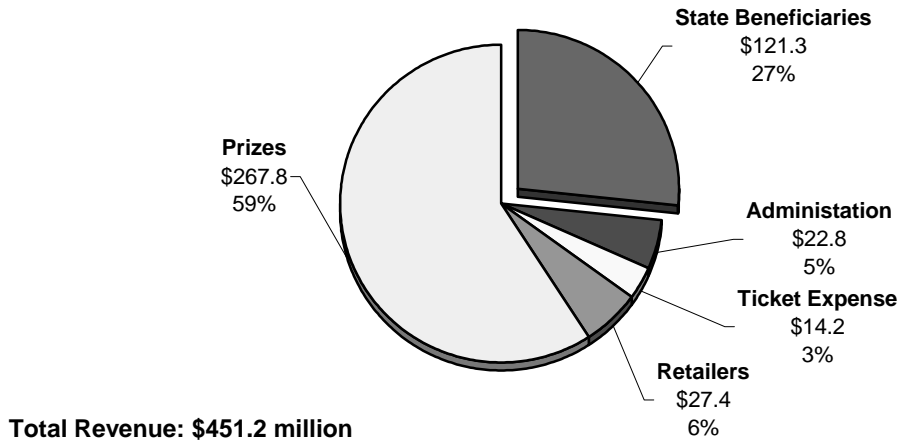
The Lottery set a new sales record of \$450 million in FY 2006. In addition, the \$42 million increase from FY 2005 was by far the greatest ever in raw dollars. In terms of percentages, the 10% sales growth from FY 2005 to FY 2006 represents the third biggest increase on record, behind the 12% increase from FY 1995 to FY 1996 and fractionally behind the 10% from FY 1992 to FY 1993.

Administrative Expense as Percent of Total Income



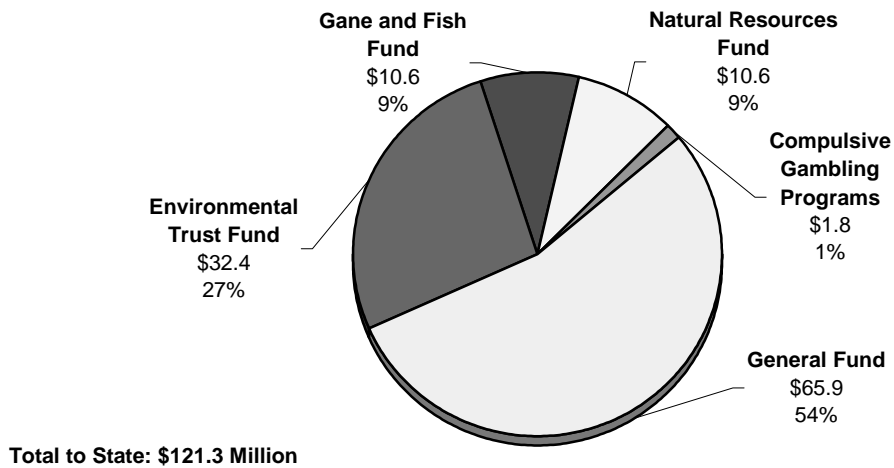
From FY 2003 to FY 2004 lottery administrative expense dropped from 9% of revenue to 6%. This was made possible in large part by a 24% cut in its operating budget. Since that time administrative expense has continued to decline to 5.5% in FY 2005 and 5.0 percent in FY 2006. The lottery budget, however, has not significantly changed since FY 2004, remaining at approximately \$23 million a year. Efficiency can be improved not only by cutting costs but by increasing revenue.

FY06 Lottery Revenue Distribution
(\$ in Millions)



Two years ago the Lottery celebrated contributing \$100 million to the state for the first time. Since then revenues exceeded that level by more than 20%. Since the first ticket was sold in April 1990, the Lottery has contributed \$1.4 billion to our beneficiaries. Ticket expense includes the cost of printing and distributing scratch tickets along with vendor commissions on online tickets. All other operating costs are included under administration.

FY06 Distribution of Lottery Proceeds
(\$ in Millions)



Contact

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**2007-11 Budget
Preliminary Agency Budget Brief
(\$ in thousands)**

	Actual FY2006	Budget 2007	Projected 2008	Projected 2009	Projected 2010	Projected 2011
Revenue						
Scratch Ticket Sales	\$267,794	\$260,000	\$262,600	\$265,000	\$266,000	\$266,000
Online Ticket Sales	181,917	167,900	173,500	174,300	176,300	176,300
Total Sales Revenue	449,711	427,900	436,100	439,300	442,300	442,300
Less In-Lieu-of-Sales Tax	29,231	27,814	28,347	28,555	28,750	28,750
Gross Receipts	420,479	400,087	407,754	410,746	413,551	413,551
Non-operating Income	1,701	1,365	1,526	1,538	1,548	1,548
Gross Revenue	422,180	401,452	409,280	412,283	415,099	415,099
Direct Costs						
Prize Expense	267,797	253,432	258,081	259,950	261,580	261,518
Unclaimed Prizes Paid to State Treasury	7,008	8,862	7,924	8,095	8,151	8,213
Compulsive Gambling from Prize Fund	1,821	1,946	2,000	2,000	2,000	2,000
Retailer Commissions and Incentives	27,380	25,630	26,113	26,305	26,480	26,480
Ticket Costs	3,038	3,433	3,703	3,737	3,751	3,751
Online/Generation 3 Vendor Expense	11,122	10,320	10,656	10,706	10,828	10,828
Total Direct Costs	318,166	303,623	308,477	310,792	312,789	312,789
Operating Expense						
Advertising	6,091	6,741	6,800	6,900	7,000	7,000
Promotions	1,479	2,340	2,400	2,500	2,600	2,600
Game Development/New Initiatives	5	1,000	1,000	1,000	1,000	1,000
Salaries and Benefits	9,944	10,700	11,100	11,500	12,075	12,679
Occupancy Costs	1,778	1,849	1,360	1,405	1,457	1,508
Communications	407	484	499	513	529	545
Purchased Services	1,210	1,504	1,483	1,528	1,574	1,621
Depreciation	368	524	800	800	800	800
Supplies and Materials	788	842	867	893	920	948
Other	713	974	1,069	1,101	1,134	1,168
Total Operating Expense	22,782	26,958	27,378	28,141	29,088	29,868
Net Proceeds	\$ 81,232	\$ 70,871	\$ 73,425	\$ 73,351	\$ 73,221	\$ 72,441
 Total Full-Time Equivalent (FTE)	 146	 146	 146	 146	 146	 146

LOTTERY

Agency Overview

	Actual FY2006	Budget 2007	Projected 2008	Projected 2009	Projected 2010	Projected 2011
PAID TO STATE BENEFICIARY						
General Fund						
In-Lieu-of-Sales Tax	\$ 8,059	\$ 7,668	\$ 7,815	\$ 7,872	\$ 7,926	\$ 7,926
Net Proceeds	48,739	42,522	44,055	44,010	43,933	43,465
Unclaimed Prizes	7,008	8,862	7,924	8,095	8,151	8,213
Unclaimed Prizes Held in Trust for State	2,187	0				
Compulsive Gambling from Prize Fund	1,821	1,946	2,000	2,000	2,000	2,000
Compulsive Gambling to Prize Fund	(195)					
Gambling Enforcement from Operations	0	0	0	0	0	0
Total General Fund	67,619	60,998	61,794	61,978	62,009	61,604
Envir. and Natural Resources Fund						
Net Proceeds	32,493	28,348	29,370	29,340	29,288	28,976
Unclaimed Prizes	0	0	0	0	0	0
Total Envir and Natural Resources Fund	32,493	28,348	29,370	29,340	29,288	28,976
Game and Fish Fund						
	10,586	10,073	10,266	10,341	10,412	10,412
Natural Resources Fund						
	10,586	10,073	10,266	10,341	10,412	10,412
TOTAL PAID TO STATE BENEFICIARY	\$ 121,284	\$ 109,491	\$ 111,694	\$ 111,999	\$ 112,120	\$ 111,402
% of sales to State	27%	26%	26%	25%	25%	25%