

Agency Purpose

The Minnesota State 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.

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 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.
- ◆ **Security** protects against internal and external lottery fraud, oversees ticket and equipment distribution, and prevents compromise of the games.

Key Goals

The Lottery strives to increase the revenue returned to the state for the designated beneficiaries. Short-term economic and market fluctuations may cause revenues to drop in one year or increase disproportionately in others, but the long term trend should be one of revenue growth. The Lottery has set a long term goal of \$250 million in annual revenue by 2024.

Key Measures

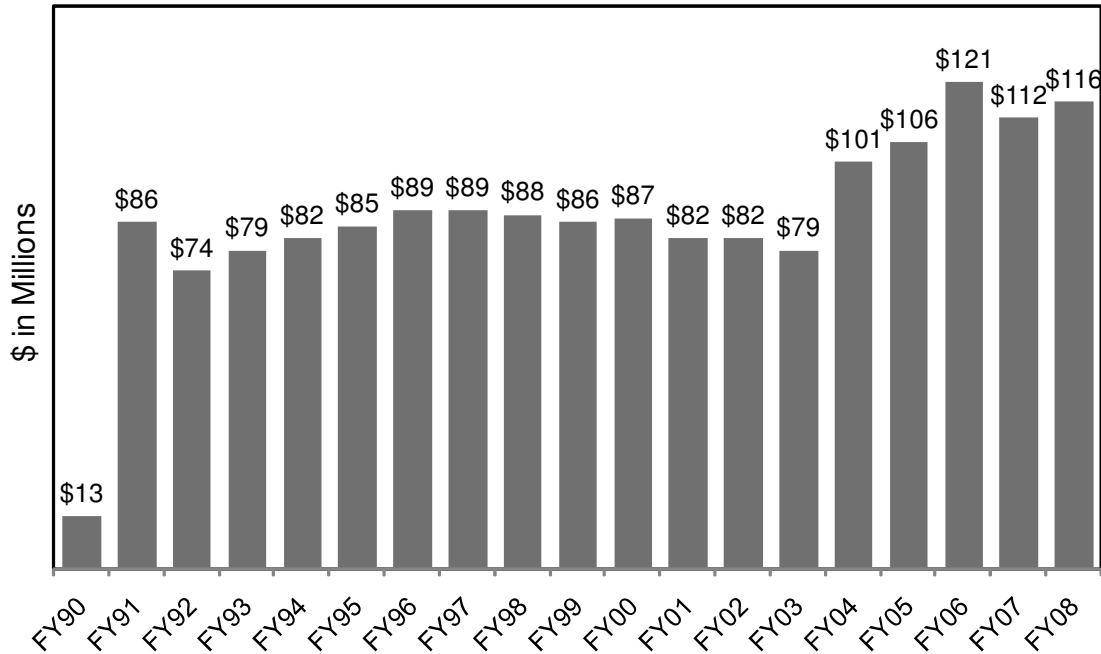
Lottery success is primarily measured by the revenue returned to the state for the designated beneficiaries. In seeking to maximize revenue, the Lottery must also consider security, integrity, social responsibility, and the broader policy concerns of the state. Other measures include administrative efficiency and customer participation and satisfaction.

At A Glance

- ◆ In FY 2008, the Minnesota State Lottery generated \$116 million for state programs from sales of \$462 million.
- ◆ Beneficiaries include the general fund, Environment and Natural Resources Trust Fund, Game and Fish Fund, and Natural Resources Fund.
- ◆ More than two out of three Minnesota adults have purchased a lottery ticket.
- ◆ Scratch games account for 65% of lottery sales. Powerball accounts for another 21%.
- ◆ Since its inception in 1990, Minnesotans have purchased almost \$7 billion in lottery tickets, returning almost \$1.7 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.

The Lottery was able to increase revenues from \$79 million in FY 2003 to \$101 million in FY 2004 due to a number of major changes in operations. Since that time, revenues have grown from \$101 million to \$116 million, an annual increase of 3.7%.

Annual Lottery contributions to State



Beneficiaries

In accordance with the Minnesota Constitution, 40% of net lottery proceeds are dedicated to the Environment and Natural Resources Trust Fund through 2024. The remaining 60% of net proceeds is currently allocated to the general fund. In addition, a 6.5% in-lieu-of-sales tax on lottery sales is divided between the general fund, the Game and Fish Fund, and the Natural Resources Fund. The general fund also receives any unclaimed prizes. Finally, the legislature appropriates money from the Lottery Prize Fund to finance the Department of Human Services compulsive gambling program.

Lottery revenues were distributed as follows in FY 2008:

- ◆ General Fund \$63.9 million
- ◆ Environment and Natural Resources Trust Fund \$30.6 million
- ◆ Game and Fish Fund \$10.9 million
- ◆ Natural Resources Fund \$10.9 million

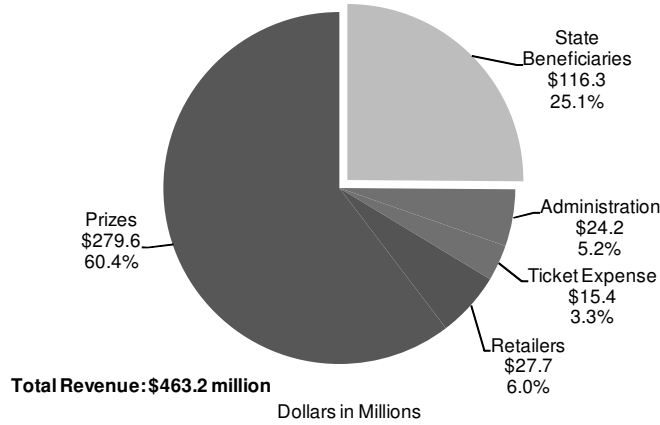
Budget

The Lottery may not spend more than 9% of gross revenue on operations. For FY 2009, the Lottery's operating budget must not exceed \$28.14 million. Lottery operating expenses are not part of the general fund.

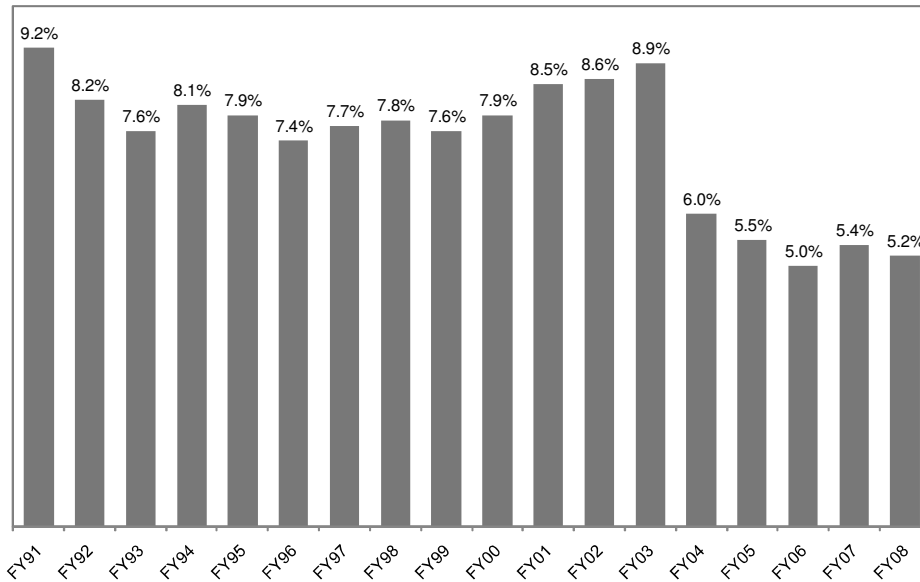
Major administrative expenses include salaries and benefits, advertising and promotions, telecommunications, and computer maintenance. In addition, the cost of goods, including the printing and distribution of tickets, is not included within the budget restrictions mentioned above as these expenses are proportional to sales.

The Lottery has approximately 145 full-time permanent employees located at its headquarters in Roseville and its four regional offices in Detroit Lakes, Marshall, Owatonna, and Virginia.

FY08 Lottery Revenue Distribution



Administrative Expense as % of Total Income



Administrative expense does not include Scratch Ticket or Online Vendor expenses.

Contact

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**Preliminary Agency Budget Brief
(\$ in thousands)**

| | Actual FY2008 | Budget 2009 | Projected 2010 | Projected 2011 | Projected 2012 | Projected 2013 |
|---|--------------------------|------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Revenue | | | | | | |
| Scratch Ticket Sales | \$297,973 | \$310,000 | \$314,000 | \$319,000 | \$319,000 | \$319,000 |
| Online Ticket Sales | 163,550 | 173,000 | 173,700 | 178,700 | 178,700 | 178,700 |
| Total Sales Revenue | 461,523 | 483,000 | 487,700 | 497,700 | 497,700 | 497,700 |
| Less In-Lieu-of-Sales Tax | 29,999 | 31,395 | 31,701 | 32,351 | 32,351 | 32,351 |
| Gross Receipts | 431,524 | 451,605 | 456,000 | 465,350 | 465,350 | 465,350 |
| Non-operating Income | 1,660 | 1,333 | 1,548 | 1,548 | 1,548 | 1,548 |
| Gross Revenue | 433,183 | 452,938 | 457,548 | 466,898 | 466,898 | 466,898 |
| Direct Costs | | | | | | |
| Prize Expense | 279,635 | 292,852 | 295,702 | 301,765 | 301,765 | 301,765 |
| Unclaimed Prizes Paid to State Treasury | 7,154 | 7,181 | 7,100 | 7,100 | 7,100 | 7,100 |
| Compulsive Gambling from Prize Fund | 2,525 | 2,130 | 2,005 | 2,005 | 2,005 | 2,005 |
| Retailer Commissions and Incentives | 27,746 | 29,038 | 29,318 | 29,920 | 29,920 | 29,920 |
| Ticket Costs | 5,338 | 4,689 | 4,700 | 4,700 | 4,700 | 4,700 |
| Online/Print-N-Plan(Generation 3) Expense | 10,031 | 10,611 | 10,654 | 10,961 | 10,961 | 10,961 |
| Total Direct Costs | 332,431 | 346,501 | 349,479 | 356,450 | 356,450 | 356,450 |
| Operating Expense | | | | | | |
| Advertising | 6,355 | 6,628 | 6,850 | 6,850 | 6,850 | 6,850 |
| Promotions | 1,985 | 2,163 | 2,200 | 2,200 | 2,200 | 2,200 |
| Game Development/New Initiatives | 0 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Salaries and Benefits | 10,482 | 11,100 | 11,600 | 12,100 | 12,600 | 12,600 |
| Occupancy Costs | 1,347 | 1,384 | 1,457 | 1,508 | 1,558 | 1,558 |
| Communications | 496 | 514 | 529 | 545 | 545 | 545 |
| Purchased Services | 1,333 | 1,610 | 1,621 | 1,621 | 1,621 | 1,621 |
| Depreciation | 519 | 794 | 800 | 800 | 800 | 800 |
| Supplies and Materials | 933 | 918 | 920 | 948 | 948 | 948 |
| Other | 716 | 903 | 1,134 | 1,168 | 1,168 | 1,168 |
| Total Operating Expense | 24,166 | 27,014 | 28,111 | 28,740 | 29,289 | 29,289 |
| Net Proceeds | \$ 76,587 | \$ 79,423 | \$ 79,957 | \$ 81,707 | \$ 81,158 | \$ 81,158 |
| Total Full-Time Equivalent (FTE) | 139.7 | 147 | 147 | 147 | 147 | 147 |

LOTTERY

Agency Overview

| | Actual FY2008 | Budget 2009 | Projected 2010 | Projected 2011 | Projected 2012 | Projected 2013 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| PAID TO STATE BENEFICIARY | | | | | | |
| General Fund | | | | | | |
| In-Lieu-of-Sales Tax | \$ 8,271 | \$ 8,656 | \$ 8,740 | \$ 8,919 | \$ 8,919 | \$ 8,919 |
| Net Proceeds | 45,952 | 47,654 | 47,974 | 49,024 | 48,695 | 48,695 |
| Unclaimed Prizes | 7,154 | 7,181 | 7,100 | 7,100 | 7,100 | 7,100 |
| Compulsive Gambling from Prize Fund | 2,524 | 2,130 | 2,005 | 2,005 | 2,005 | 2,005 |
| Gambling Enforcement from Operations | 0 | 0 | 0 | 0 | 0 | 0 |
| Total General Fund | 63,901 | 65,620 | 65,819 | 67,049 | 66,719 | 66,719 |
| Envir. and Natural Resources Fund | | | | | | |
| Net Proceeds | 30,635 | 31,769 | 31,983 | 32,683 | 32,463 | 32,463 |
| Unclaimed Prizes | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Envir and Natural Resources Fund | 30,635 | 31,769 | 31,983 | 32,683 | 32,463 | 32,463 |
| Game and Fish Fund | 10,864 | 11,370 | 11,480 | 11,716 | 11,716 | 11,716 |
| Natural Resources Fund | 10,864 | 11,370 | 11,480 | 11,716 | 11,716 | 11,716 |
| TOTAL PAID TO STATE BENEFICIARY | \$ 116,264 | \$ 120,129 | \$ 120,763 | \$ 123,163 | \$ 122,613 | \$ 122,613 |
| % of sales to State | 25% | 25% | 25% | 25% | 25% | 25% |