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2016-17 Governor's Budget, Lottery

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www.mnlottery.com

AT A GLANCE

- Minnesota voters approved a Constitutional amendment to authorize a lottery in 1988.
- Sales began in April of 1990.
- Since then, the Lottery has raised more than \$2 Billion dollars for the State, including:
- \$1.4 Billion for the General Fund,
- \$650 Million for the Environment and Natural Resources Trust Fund,
- \$155 Million for the Game and Fish Fund, and,
- \$155 Million for the Natural Resources Fund.
- During the past year, 46% of Minnesota adults chose to purchase a Lottery ticket, making it the most popular form of gambling in the state.

PURPOSE

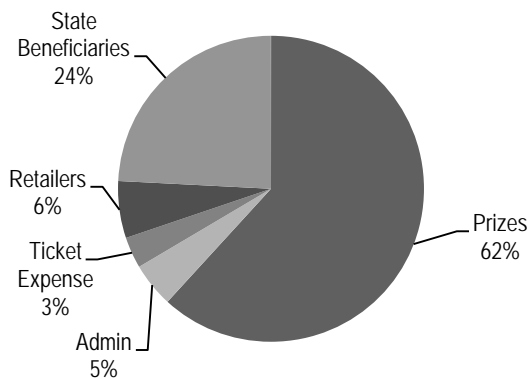
The Minnesota Lottery exists to provide revenue for state programs as identified by the Minnesota Constitution and the legislature. We do this by offering fun, innovative and secure games of chance to adults living in and visiting Minnesota.

We contribute to a **thriving economy that encourages business growth and employment opportunities** by designing and marketing a mix of lottery games each year. We partner with more than 3,000 grocery stores, convenience stores and other retail locations to sell these games to the public. Last year our retail partners earned more than \$32 million in commissions and incentives.

We contribute to a **clean, healthy environment with sustainable uses of natural resources** by fulfilling our constitutional mandate as a funding mechanism for the Environmental and Natural Resources Trust Fund as well as the Game and Fish Fund and the Natural Resources Fund.

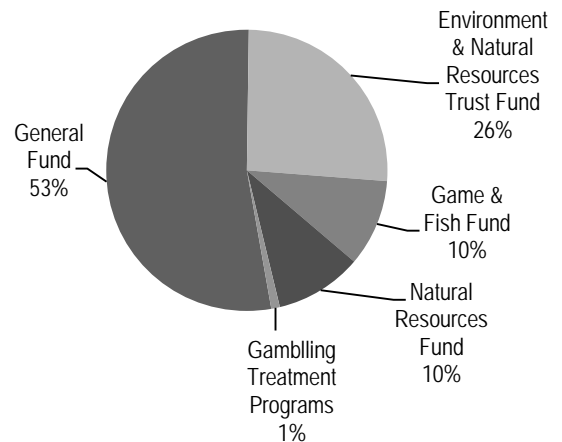
We provide **efficient and accountable government services** by keeping our expenses below the limit set by the legislature and answering directly to our customers' preferences for game design and product mix. Since we are an entirely self-funded agency – we do not receive an annual funding appropriation – sales of lottery tickets provide our operating revenue

FY2014 Lottery Revenue Distribution



Source: Minnesota State Lottery

FY2014 Lottery Beneficiaries



Source: Minnesota State Lottery

FINANCIAL INFORMATION

In accordance with the Minnesota Constitution, 40 percent of net lottery proceeds are dedicated to the Environment and Natural Resources Trust Fund. The remaining 60 percent is dedicated to the General Fund by statute. In addition, revenue from a 6.5% in-lieu-of-sales tax on lottery tickets is divided by statute between the General Fund, the Game and Fish Fund, and the Natural Resources Fund.

Last year, the Lottery generated \$532 million in total sales and other revenue. Of that amount, \$328 million (62%) was paid to players winning prizes; retailers earned \$32 million (6%); the cost of producing and distributing tickets was \$17 million (3%); administrative expenses totaled \$27 million (5%) and lottery beneficiaries received \$128 million (24%). Of that \$128 million, the General Fund received \$70 million (55%), including \$2 million designated for compulsive gambling treatment programs; the Environment and Natural Resources Trust Fund received \$33 million (26%), and the Natural Resources Fund and the Game & Fish Fund each received \$12.5 million (10% apiece).

STRATEGIES

As a self-funded enterprise, we work to:

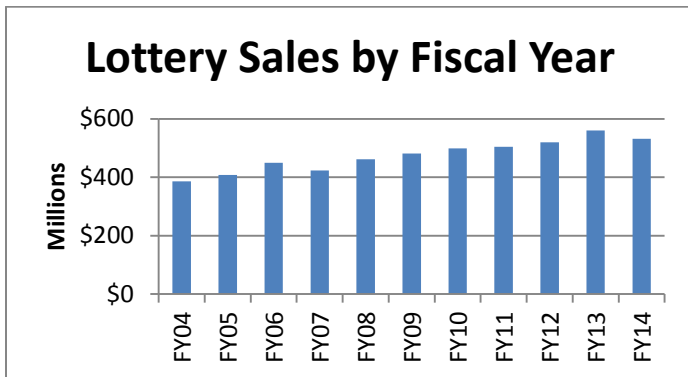
Understand our customers by investing in market research, monitoring sales results of our products, talking with our business partners and listening to players and others who have questions, suggestions or concerns.

Design lottery games that appeal to adults living in or visiting Minnesota who choose to play.

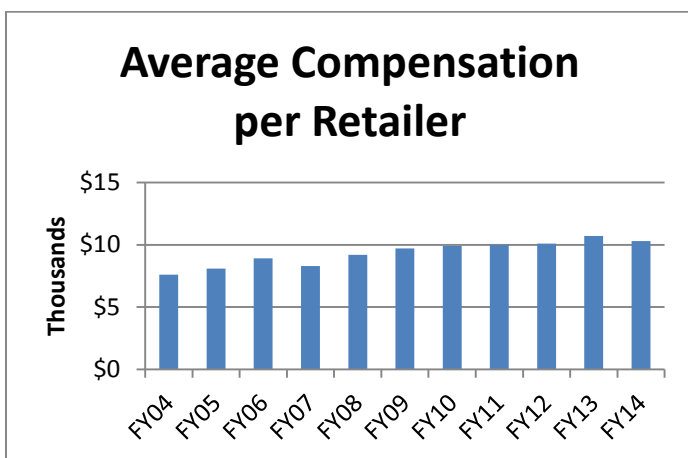
Distribute those games by working with our retail business partners to sell our product.

Support those products with appropriate advertising, promotions and incentives

RESULTS

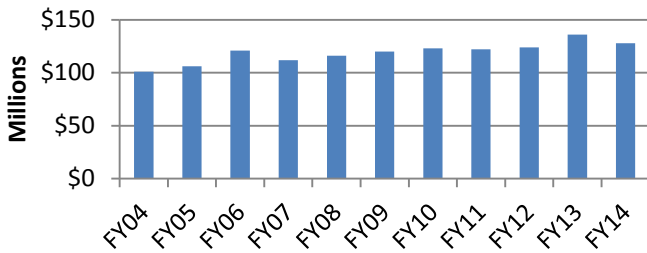


Sales have increased from about \$400 million a year in FY04 to more than \$500 million over the past ten years



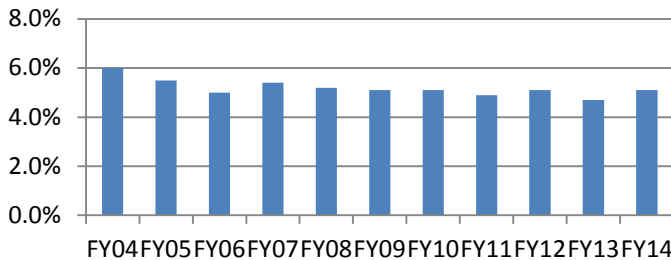
Retailer compensation has also been growing. In FY14, Lottery retailers earned \$32 million in commissions and incentives, an average of \$10,200. In FY13, they earned \$34 million or, on average, \$10,800

Revenue Raised for Minnesota



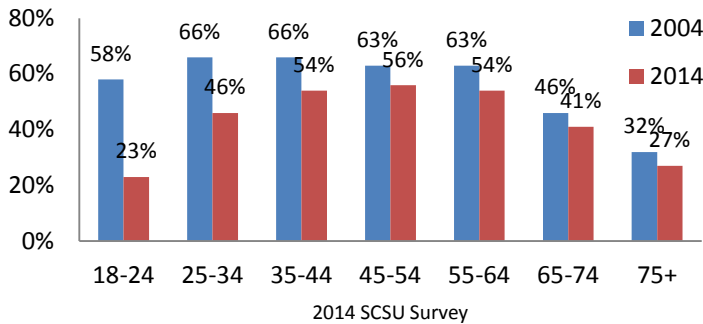
Our most important measure of success, of course, is contributions to the state. Revenue to the state has exceeded \$100 million every year since FY05. FY14 saw the second highest contributions to state programs in the Lottery's history

Administrative Expense as a Percent of Total Income



We have been able to increase sales and revenue while keeping our administrative expense close to five percent of total income.

Past Year Lottery Play by Age



We have been able to increase sales and revenue while keeping our administrative expense close to five percent of total income.

Statutes governing the Minnesota Lottery are found in M.S. 349A <https://www.revisor.mn.gov/statutes/?id=349A>.

Minnesota State Lottery
(\$ in thousands)

	<i>Actual FY2012</i>	<i>Actual FY2013</i>	<i>Actual FY2014</i>	<i>Budget FY2015</i>	<i>Budget FY2016</i>	<i>Budget FY2017</i>
Revenue						
Instant Sales:						
Scratch Ticket Sales	\$355,261	\$363,835	\$351,590	\$363,000	\$369,200	\$369,200
EIT Sales			322	700	700	700
Total Instant Sales	\$355,261	\$363,835	\$351,912	\$363,700	\$369,900	\$369,900
Lotto Sales:						
Daily 3	12,844	13,892	14,374	14,000	14,000	14,000
Northstar Cash	9,941	11,040	10,041	11,000	11,000	11,000
Powerball	70,516	104,154	77,427	78,000	92,000	92,000
Power Play	3,141	2,970	2,485	2,700	2,500	2,500
Gopher 5	19,612	20,028	17,066	18,500	18,500	18,500
Hot Lotto	8,604	11,889	11,499	12,000	12,000	12,000
Hot Lotto Sizzler	823	1,077	1,156	1,000	1,000	1,000
Raffle Game	5,994	5,992	6,000	6,000	6,000	6,000
Print-N-Play	7,054	10,400	8,957	10,000	10,000	10,000
Mega Millions	24,679	14,019	25,408	14,000	14,000	14,000
Megaplier	1,564	1,102	1,537	1,100	1,100	1,100
All or Nothing			3,652	5,000	5,000	5,000
Monopoly Millionaires' Club				3,000	3,000	3,000
Total Online Sales	164,773	196,562	179,604	176,300	190,100	190,100
Total Sales Revenue	520,034	560,398	531,516	540,000	560,000	560,000
Less In-Lieu-of-Sales Tax	33,802	36,426	34,549	35,100	36,400	36,400
Gross Receipts	486,231	523,972	496,967	504,900	523,600	523,600
Non-operating Income	295	464	941	301	301	301
Gross Revenue	486,526	524,436	497,908	505,201	523,901	523,901
Direct Costs						
Prize Expense	320,609	347,073	327,993	334,634	345,768	345,768
Unclaimed Prizes Paid to State Treasury	10,251	11,115	9,589	9,124	9,293	9,293
Compulsive Gambling from Prize Fund	2,075	1,872	1,848	2,230	2,230	2,230
Retailer Commissions and Incentives	31,554	33,566	31,939	32,477	33,645	33,645
Ticket Costs	8,635	8,077	7,483	6,585	6,691	6,691
Lotto Vendor Expense	9,506	10,681	9,924	10,071	10,444	10,444
Total Direct Costs	382,630	412,385	388,776	395,121	408,071	408,071
Operating Expense						
Advertising	7,475	6,877	7,260	7,549	7,549	7,549
Promotions	1,882	1,562	1,385	1,816	1,816	1,816
Game Development/New Initiatives						
Brand/Beneficiary Awareness	0	0	0	0	0	0
Salaries and Benefits	10,264	11,212	12,010	13,086	13,586	14,000
Occupancy Costs	1,395	1,455	1,354	1,654	1,654	1,654
Communications	552	560	617	678	678	678
Purchased Services	1,751	1,644	1,768	1,660	1,660	1,660
Depreciation	893	836	686	821	821	821
Supplies and Materials	948	1,150	1,157	1,394	1,394	1,394
Other	1,212	931	982	1,181	1,181	1,181
Total Operating Expense	26,372	26,228	27,219	29,839	30,339	30,753
Net Proceeds	\$77,525	\$85,823	\$81,914	\$80,242	\$85,491	\$85,077
Total Full-Time Equivalent (FTE)	145	149	153	153	153	153
PAID TO STATE BENEFICIARY						
General Fund						
In-Lieu-of-Sales Tax	\$9,319	\$10,043	\$9,525	\$9,677	\$10,035	\$10,035
Net Proceeds	46,515	51,494	49,148	48,145	51,295	51,046
Unclaimed Prizes	10,251	11,115	9,589	9,124	9,293	9,293
Unclaimed Prizes Held in Trust for State						
Compulsive Gambling from Prize Fund	2,075	1,872	1,848	2,230	2,230	2,230
Total General Fund	68,160	74,524	70,111	69,176	72,853	72,605
Envir. and Natural Resources Fund						
Net Proceeds	31,010	34,329	32,766	32,097	34,197	34,031
Unclaimed Prizes						
Total Envir and Natural Resources Fund	31,010	34,329	32,766	32,097	34,197	34,031
Game and Fish Fund						
Net Proceeds	12,241	13,192	12,512	12,711	13,182	13,182
Natural Resources Fund	12,241	13,192	12,512	12,711	13,182	13,182
TOTAL PAID TO STATE BENEFICIARY	\$123,652	\$135,237	\$127,901	\$126,696	\$133,414	\$133,000
	23.78%	24.13%	24.06%	23.46%	23.82%	23.75%