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2017 Joint Committee on Finance Paper #551

Lottery Advertising (Revenue -- Lottery Administration)

[LFB 2017-19 Budget Summary: Page 390, #3]

CURRENT LAW

The general program operations appropriation of the lottery is provided $21,915,100 SEG in 2016-17. Of this amount, $7.5 million is allocated for the lottery's product information (advertising) budget. Constitutional and statutory provisions (discussed below) limit the manner in which lottery advertising is conducted. The Lottery is administered by the Department of Revenue.

GOVERNOR

Provide $3,000,000 SEG annually to be used on current and additional informational activities to maintain and increase overall ticket sales. Lottery estimates a 4:1 return ratio in 2017-18 and a 5:1 return ratio on sales in 2018-19. Lottery's sales estimate, fund condition and property tax relief estimates incorporate these estimated increases in sales. [This item is included in the lottery fund condition statement general program operations expenditure, but was inadvertently excluded from DOR expenditures. This issue was addressed in the administration's errata letter.]

DISCUSSION POINTS

1. The following condition statement shows the portion of the condition statement in the bill associated with increasing the lottery's product information budget. In addition to the additional revenue assumed by the administration, sales include increases from game multipliers.

	Projected 2017-18	Projected 2018-19
Fiscal Year Opening Balance	$0	$240,400
OPERATING REVENUES		
Total Ticket Sales	$12,021,500	$15,026,900
Retailer Fees and Miscellaneous	0	0
GROSS REVENUES	$12,021,500	$15,026,900
EXPENDITURES		
Prizes	$7,213,800	$9,017,200
Retailer Compensation	835,400	1,044,300
Vendor Fees	309,800	387,200
General Program Operations	3,000,000	3,000,000
Gaming Law Enforcement	0	0
Lottery Credit Administration	0	0
Program Reserves	0	0
TOTAL EXPENDITURES	$11,359,000	$13,448,700
NET PROCEEDS	$662,500	$1,578,200
INTEREST EARNINGS	$21,800	$43,200
Total Available for Tax Relief *	$684,300	$1,861,800
APPROPRIATIONS FOR TAX RELIEF		
Lottery and Gaming Credit	$444,000	$1,561,200
Late Lottery and Gaming Credit Applications	0	0
Total Appropriations for Tax Relief	$444,000	$1,561,200
Gross Closing Balance	$240,400	$300,600
Reserve (2% of Gross Revenues)	$240,400	$300,600
Net Closing Balance	$0	$0

*Opening balance, net proceeds, interest earnings, and gaming-related revenue.

2. The prize payout report submitted subsequent to the introduction of the bill slightly decreased the percentage of sales going to prizes. This reduction in the prize payout percentage reduces the amount paid out in prizes due to projected sales due to increased revenue from increasing the product information budget by $6,800 SEG in 2017-18 and $8,400 SEG in 2018-19.

3. The amount of funding available for the lottery and gaming property tax credit is related to the sale of lottery tickets. Under the 2017-19 biennial budget bill the Governor has recommended a $3 million annual increase in Lottery's advertising budget in order to generate increased lottery ticket sales. This paper addresses: (a) statutory and constitutional limitations on advertising for the lottery; (b) lottery's prior and current advertising budget; (c) Wisconsin and other state's advertising budgets and sales figures; (d) Legislative Audit Bureau (LAB) and other reviews of lottery sales and advertising; (e) the "return on investment" (ROI) (increased sales) from advertising; and (f) the final impact of increased advertising funding, the impact on the lottery's sum

sufficient appropriations, and the impact on the lottery and gaming credit. Each of these items is discussed below.

Statutory and Constitutional Limitations on Lottery Advertising

4. The Wisconsin Constitution allows the creation of a state lottery, the proceeds of which must be used for property tax relief. The Constitution prohibits the expenditure of any public funds or lottery proceeds for promotional advertising of the lottery and stipulates that "any advertising of the state lottery shall indicate the odds of a specific ticket to be selected as the winning ticket for each prize amount offered." This language appears to allow the state to engage in informational advertising to inform potential participants about lottery games, but precludes the state from conducting advertising that is promotional in nature.

5. Further, Wisconsin statutes define "promotional advertising" as advertising which is for the purpose of inducing persons to purchase lottery tickets. However, the statutes specify that promotional advertising does not mean advertising which is designed to provide the public with information on any of the following: (a) the fact that this state has a state lottery or participates in a multijurisdictional lottery; (b) the locations where lottery tickets or lottery shares are sold; (c) the price of lottery tickets or lottery shares; (d) the prizes or prize structure of the lottery; (e) the type of lottery game and an explanation of how it works; (f) the time, date and place of conducting the lottery; (g) the winning numbers, lottery tickets or lottery shares or the identity of winners and the amounts won; and (h) how the lottery is operated or how the net proceeds of the lottery are to be used.

Lottery's Prior and Current Advertising Budget

6. The $7.5 million allocated for lottery advertising was established in 2008. Before that, $4.5 million was allocated for lottery advertising (this amount was established in 1990-91). Lottery indicates that the lack of increases in lottery spending since 2008 has had the effect of reducing the capacity of the lottery to advertise because the purchasing power of $7.5 million has declined over the years. Lottery indicates that an increase of $3.0 million would be needed in order to have the same buying power now as in 2008.

7. The Wisconsin Lottery primarily contracts with Hoffman York (HY) to provide informational advertising services. Hoffman York has been lottery's informational advertising service since 1991. The Wisconsin Lottery has most recently signed a two-year contract with HY that will run from July 12, 2015, through June 30, 2017, with four one-year options for renewal. Payments to HY were approximately $7.3 million during both 2013-14 and 2014-15 and total spending on product information costs was approximately $7.5 million during both 2013-14 and 2014-15.

8. Lottery meets with HY before each fiscal year to discuss priorities for the year and produce an annual plan for the year's advertising plans. Lottery indicates that it has discussed how to spend the current budget with HY, but has not formally included any addition of funding in their annual plan. Table 1 shows which media outlets were used for product information in 2013-2015 and the planned spending for 2015-16.

TABLE 1

Wisconsin Lottery Media Ad Budget

	2013-14		2014-15		2015-16	
	Amount	Percent	Amount	Percent	Amount (Budgeted)	Percent
Television	$3,340,572	45%	$3,131,472	42%	$3,150,000	42%
Radio	720,107	10	532,626	7	700,000	9
Printed media	116,426	2	154,134	2	150,000	2
Internet	881,452	12	748,029	10	900,000	12
Production	1,179,220	16	1,499,258	20	1,200,000	16
Billboards/Transit	843,851	11	1,016,955	14	1,050,000	14
Point of Sale	175,711	2	175,711	2	180,000	2
Other	226,384	3	208,262	3	170,000	2
Total	$7,483,723	100%	$7,466,447	100%	$7,500,000	100%

*Based on sales and advertising budget data reported in La Fleur's World Lottery Almanac -- 2016.

Wisconsin and Other State's Advertising Budgets and Sales Figures

9. In 2007, DOR estimated that increasing the Wisconsin Lottery's annual product information budget to $7.5 million would result in $15.0 million in additional sales or a return on investment (ROI) of 5:1 in each year of the 2007-09 biennium. Table 2 identifies Wisconsin lottery sales and national lottery sales over a 10-year period. As the table indicates, subsequent to the increase in advertising budget in Wisconsin, sales gains did not increase by $15 million. This may be, in large part, the result of economic issues at the time. When looking at the overall national change in lottery sales nationwide, the Wisconsin Lottery's performance has generally maintained a similar pattern, but has performed below the national change in six of the years between 2006-07 and 2014-15.

TABLE 2

Comparison of Percentage Change Between Wisconsin and US Lottery Sales

Fiscal Year	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Wisconsin	$509.1	$492.8	$494.7	$473.4	$481.1	$502.7	$547.7	$566.1	$568.8	$574.6
WI % change		-3.20%	0.39%	-4.31%	1.63%	4.49%	8.95%	3.36%	0.48%	1.02%
US Total	$49,067.2	$49,270.0	$50,080.3	$49,544.5	$50,104.0	$51,211.0	$55,683.5	$57,951.3	$59,796.2	$61,348.0
US % Change		0.41%	1.64%	-1.07%	1.13%	2.21%	8.73%	4.07%	3.18%	2.60%

*US total excludes Wyoming, Tennessee, Oklahoma, South Carolina, North Carolina, North Dakota, and Arkansas because these states did not operate a lottery in the same years shown in the table.
Source: Based on sales and advertising budget data reported in La Fleur's World Lottery Almanac -- 2016.

10. In 2010, Lottery conducted an analysis of the 2008 increase in product information effect on sales during 2009. The study looked at a sample of six out of 30 games and found that the additional product information budget had an average ROI of 5:1 and concluded that the positive effect on sales could be attributed to the increase in product information funding. However, the study did not account for any natural growth in the lottery nor control for any other variables that may have affected lottery sales. For example, the study did not "calculate ROI to include other fixed expenses associated with each product, only the estimated sales return on product information expense."

11. The Governor is recommending a $3.0 million annual increase in funding for advertising and includes an additional $12.0 million in 2017-18 and $15.0 million in 2018-19 revenue in the lottery sales estimates under the bill. Base funding for advertising is currently $7.5 million. The $3.0 million provided under the bill represents a 40% increase in advertising funding. Revenue has generally indicated that the additional $3.0 million in advertising funding provided under the bill would be used as follows: (a) $1.8 million would be budgeted for instant game advertising; and (b) $1.2 million for on-line game advertising. These amounts are further allocated by $0.8 million to ad production and $1.2 million to the purchase television rating points (the number of times an ad is viewed).

12. Revenue indicates that in order to "return to FY08 buying power, the Lottery would need an additional $3.0 million." This number was calculated by HY. The Lottery provided an example of the erosion of advertising through the cost of the Holiday Countdown flight, an instant game, which was $160,340 in 2008-09 and $191,715 in 2016-17, an increase of 20%.

13. The premise underlying the recommendation to increase advertising spending is that additional advertising will produce higher sales. The Lottery's advertising spending remained constant between 1990-91 and 2007-08 (at $4.5 million annually) as well as since 2007-08 ($7.5 million). Table 3 identifies instant, lotto, and total sales over the period. While sales have grown over the period, significant annual variability also is indicated.

TABLE 3

Wisconsin Lottery Ticket Sales

Fiscal Year	Instant Games	Instant Games % Change	Lotto Games	Lotto % Change	Totals	% Change
1989-90	$182,674,800		$126,923,100		$309,597,900	
1990-91	230,724,800	26.30%	160,672,200	26.59%	391,397,000	26.42%
1991-92	289,685,900	25.55	159,370,500	-0.81	449,056,400	14.73
1992-93	310,951,800	7.34	184,180,100	15.57	495,131,900	10.26
1993-94	285,317,800	-8.24	210,203,500	14.13	495,521,300	0.08
1994-95	320,356,100	12.28	198,558,900	-5.54	518,915,000	4.72
1995-96	310,401,700	-3.11	171,722,300	-13.52	482,124,000	-7.09
1996-97	273,413,600	-11.92	157,677,500	-8.18	431,091,100	-10.59
1997-98	252,915,500	-7.50	165,724,800	5.10	418,640,300	-2.89
1998-99	230,817,600	-8.74	197,378,500	19.10	428,196,100	2.28
1999-00	241,040,900	4.43	165,629,300	-16.09	406,670,200	-5.03
2000-01	237,944,200	-1.28	163,244,400	-1.44	401,188,600	-1.35
2001-02	238,214,000	0.11	189,336,300	15.98	427,550,300	6.57
2002-03	249,467,400	4.72	185,570,400	-1.99	435,037,800	1.75
2003-04	270,286,700	8.35	212,633,600	14.58	482,920,300	11.01
2004-05	269,904,800	-0.14	181,967,200	-14.42	451,872,000	-6.43
2005-06	285,757,700	5.87	223,299,700	22.71	509,057,400	12.66
2006-07	284,131,800	-0.57	208,646,800	-6.56	492,778,600	-3.20
2007-08	287,429,300	1.16	207,297,800	-0.65	494,727,100	0.40
2008-09	276,797,700	-3.70	196,616,600	-5.15	473,414,300	-4.31
2009-10	273,271,700	-1.27	207,670,300	5.62	480,942,000	1.59
2010-11	302,521,100	10.70	200,130,700	-3.63	502,651,800	4.51
2011-12	322,482,000	6.60	225,158,700	12.51	547,640,700	8.95
2012-13	326,725,700	1.32	239,377,000	6.31	566,102,700	3.37
2013-14	338,960,800	3.74	229,876,600	-3.97	568,837,400	0.48
2014-15	357,463,500	5.46	217,167,900	-5.53	574,631,400	1.02
2015-16	379,931,000	6.29	247,234,000	13.84	627,165,000	9.14

14. An analysis of national lottery data identifies further examples of the varied relationship between sales and advertising. The attachment to this paper contains data on 44 lotteries operated in the United States (43 state lotteries and the District of Columbia). The data is for 2014-15 (the latest data available) and includes: (a) total population; (b) total lottery sales; (c) per capita lottery sales; (d) advertising budgets; (e) per capita advertising spending; (f) advertising as a percent of sales; and (g) the sales generated for each $1 of advertising.

15. Many anomalies are present in this data. For example, two of the leading states in sales are New York ($7,251 million in 2014-15) and Massachusetts ($4,466 million). Massachusetts, however, had per capita sales ($737), twice that of New York's ($366). However, New York's advertising budget of $92.2 million ($4.66 per capita) was more than ten times the Massachusetts' budget of $8.0 million ($1.18 per capita). For each advertising dollar spent, Massachusetts produced $626 in revenue, compared to New York's $79. Wisconsin, spending $1.29 per capita for advertising produced $77 in revenue in 2014-15 for each advertising dollar spent.

16. Wisconsin's $1.29 per capita advertising budget is the eighth lowest in the nation, with Texas ($1.16 per capita) and Massachusetts ($1.18 per capita) being some of the lower. However, Massachusetts takes in $626 in revenue for each $1 in advertising, highest in the country, while Texas makes $142, ninth in the country. Wisconsin's $77 in revenue for each advertising dollar spent ranks 25th by this measure.

17. Looking at sales based on advertising describes just one of the factors that can affect lottery sales. Sales may also be affected by such factors as: (a) the effectiveness of advertising spending; (b) the media market peculiar to each state; (c) overall lottery management; (d) the culture in each state with respect to the gambling behavior of consumers; (e) the economy; (f) the degree to which competitive forms of gambling exist in or near a given state; and (g) other ways in which states promote lottery sales.

Reviews of Lottery Sales and Advertising

18. In examining Legislative Audit Bureau (LAB) financial audits and program evaluations and Lottery research memoranda of the state lottery for recent years, various strategies have been identified to increase sales. These strategies are: (a) new products and licensed products; (b) retailer incentives; (c) product information, including earned media; and (d) limited time offers. In addition, several of these strategies may be used at the same time.

19. *New Products*. The Lottery indicates that:

> "after the initial dip in sales during the 2008-09 recession, steady growth in instant game sales was driven in part by increased offerings at higher price points. In March of 2009, the Lottery added a $10 crossword game to the standard mix, increasing total scratch game sales by $150,000/week, on average ($7.8 million per year). In March of 2011, the Lottery added a second concurrent $20 game to the standard game mix, increasing total scratch game sales by $583,000/week, on average ($30 million per year). In February of 2014, the Lottery added a $30 price point game to the standard portfolio, increasing total scratch game sales by $675,000 per week ($35 million per year). These are the major price point initiatives that have had the largest overall impact on scratch game sales since the budget increase of 2008. Several other factors have contributed to strong scratch sales over the past several years including licensed property games (e.g. Packers, Pac-man), successful holiday-themed games, retailer short-term incentives (programs that are utilized to drive specific games at the retailer level), and overall portfolio management."

20. *Effectiveness of Retailer Incentives*. Under 1999 Wisconsin Act 9, Revenue was authorized, effective January 1, 2000, to establish by rule a program to pay additional compensation

to retailers who meet certain performance goals identified by the Department. The additional compensation paid to retailers under the program may not exceed 1% of gross lottery sales revenue in a fiscal year. The retailer performance program is composed of three components: (a) a winning ticket bonus component; (b) a sales goal incentive component; and (c) a short-term incentive component. The winning ticket and sales goal components are viewed by Revenue as the major components of the program, while the short-term incentives are characterized as a lesser component of the program. The intent of providing short-term incentives is to support certain lottery products or strengthen sales during certain periods of the year through a flexible incentive mechanism that has a limited life cycle. For example, short-term incentives may be used to help reduce the ticket inventory for certain games or to support seasonal lottery products. In 2015-16, retailer performance payments totaled $5,989,100 ($1,145,700 for the winning ticket component, $4,402,500 for sales goal incentives, and $440,900 for short-term incentives).

21. In a 2013 LAB report it was indicated that:

> "Although it is difficult to quantify the effect of winning ticket bonuses and sales incentives on Wisconsin Lottery sales, each short-term incentive is developed with specific goals and estimates for return on expense. Wisconsin Lottery officials calculate the return on expense as the increase in sales above what would have been expected if an incentive had not been offered. They indicated that a return on expense ratio of 3:1 is the minimum return a short-term incentive must generate for it to recover its costs and not affect the proceeds available for property tax relief. The Wisconsin Lottery offered five short-term incentives in 2011-12 and estimated that these incentives significantly exceeded the 3:1 return on expense ratio, with an overall ratio of 43:1. However, we determined that Wisconsin Lottery officials overestimated the return ratio for at least two of the incentives."
>
> "First, all sales from the Packers Raffle were attributed to the short-term incentive because no similar game had been offered in the past to be used as a basis for comparison. This greatly overestimated the effect of the incentives because the Wisconsin Lottery used a base of zero when calculating sales performance. Second, the increase in Powerball sales of $2.2 million occurred during the same time as a large Powerball jackpot. Because sales increase when large jackpots are available, it is difficult to identify what, if any, sales increase resulted from the incentive rather than the size of the jackpot. In the future, the Wisconsin Lottery should exclude these types of cases when calculating the return on expense ratio."

22. *Product Information*. The 2011 LAB audit reported that:

> "as a management tool, the Wisconsin Lottery calculates ticket sales for each instant game for the first 12 weeks after its introduction, as well as each game's net sales, which reflect both ticket sales and the costs of production and prizes paid, but not product information expenditures. When we included product information expenditures, we found that net sales for 12 instant games that were introduced in FY 2008-09 were lower than net sales for 36 unpublicized games introduced during the same period."

23. In a 2013 LAB report it was indicated that:

> "In report 11-6, we recommended the Wisconsin Lottery report to the Joint Legislative Audit Committee on how it will measure the effects of its product information expenditures. As a result, and in conjunction with staff from DOR's Division of Research and Policy, the

Wisconsin Lottery developed a model to assess the effect of product information expenditures on total lottery sales. The model is based on preliminary work by the Lottery's product information contractor that reviewed the effects of economic variables on Wisconsin Lottery instant ticket sales. Lottery staff believe the model may be helpful in evaluating the effect of product information expenditures on sales, but its eventual usefulness as a management tool is unknown because of limited experience with the model to date. Lottery staff indicated the model will be reviewed and updated on an annual basis."

24. *Earned Media*. Lottery indicates that:

"in addition to the product information budget, growth in lotto sales was driven in part by product changes and improved jackpots. In January of 2015, the Lottery increased Powerball tickets from $1.00 to the current $2.00 price point and offered increased jackpot prizes. With this change there was a 30% increase in Powerball sales after the first year. In October of 2015, the Lottery changed the Powerball number matrix and for the first time the Jackpot was over a billion dollars. Sales recorded during this period were the highest ever in Wisconsin Lottery history. The Megabucks jackpot reached a record high of over $22 million in FY2015. During this jackpot run (the jackpot continues to increase until the winning number combination is played) that started in early FY2014 the average weekly sales were $201,612 per week. When comparing sales during the five previous year's the average sales were $178,248 per week. On average Megabucks weekly sales were $23,364 higher with a total increase in sales of $4.67 million during the jackpot run."

25. *Halo Effect*. Lottery has noticed that when one product does well, other products do better as well. Lottery calls this the "halo effect" which may be seen between games and as residual increases in sales on games for which a limited time offer or other promotional work is done. In addition, it may be a type of brand recognition, where when someone looks for a product from a particular brand they buy other products because they are of that same brand.

26. *Licensed Games*. The 2011 LAB audit reported that:

"the cost of licensing fees for the use of trademarked or copyrighted properties varies. The license fees paid by the Wisconsin Lottery for these eight trademarked or copyrighted games introduced from FY 2007-08 through FY 2009-10 totaled $710,900 and ranged from $22,100 for "Tetris" to $260,000 for the "Packers" game. As shown in Table 13, six of eight instant games for which the Wisconsin Lottery paid a license fee generated less net sales revenue than the average net sales revenue generated by games that sold for the same price during the same fiscal year but for which no license fee was paid."

Legislative Audit Bureau, Report 13-11 "TABLE 13"

Comparison of Licensed and Non-licensed Instant Game Sales [1]

Instant Game	Price per Ticket	Fiscal Year Introduced	License Fee Paid	Non-licensed Games: Per Licensed Game Net Sales Revenue[2]	Non-licensed Games: Average Net Sales Revenue[3]	Difference
Pac Man Cash	$3	2007-08	$28,800	$875,800	$1,145,200	-$269,400
Tetris	3	2007-08	22,100	1,049,500	1,145,200	-95,700
Monopoly	3	2007-08	36,000	1,272,000	1,145,200	126,800
Deal or No Deal	5	2007-08	254,600	1,849,600	1,874,900	-25,300
Pink Panther	2	2008-09	24,000	973,300	850,500	122,800
Space Invaders	3	2008-09	28,800	733,700	1,214,700	-481,000
Scrabble	3	2008-09	56,600	917,000	1,214,700	-297,700
Packers	10	2009-10	260,000	2,059,900	2,100,700	-40,800

[1] Excludes those games for which the amount of fees paid was minimal.
[2] Net sales revenue is the amount of revenue remaining for each game after expenses, such as the game's production costs, prize expenses, and license fees, have been deducted.
[3] Represents the average net sales for instant games that sold for the same price during the same fiscal year, but for which no license fees were paid.

27. In response, Lottery indicated that licensed games were used for their "halo effect" and that they saw increases in instant ticket sales when offering licensed products. However, Lottery's 2014 research memo on the impact of licensed products indicated that while the presence of licensed products increased sales it could not determine by how much as several other factors such as the season and gas prices were also shown to have significant impacts on the sale of three dollar instant scratch sales.

28. In addition to limitations on product information, there are the difficulties of evaluating the effectiveness of product information investments. On top of these limitations and difficulties, the amount invested in product information is no longer available to be used towards the tax credit which means that sales must increase enough to make back the amount invested. This return on investment must be not just in sales but in the amount appropriated for tax relief.

29. Statutorily, the amount paid annually for state lottery administrative expenses (including general program operations, product information, vendor payments for equipment, and data processing) may not exceed 10% of yearly gross lottery revenues. Retailer compensation, and monies appropriated from the lottery fund to the Department of Justice (for criminal enforcement) are not included as lottery expenses under the limitation. Administrative expenses, as reported in the Legislative Audit Bureau's July, 2016, report, totaled 6.0% of gross revenues in 2013-14 and 5.9% in 2014-15. If the provisions of the bill are passed as introduced, the percent of administrative expenses will remain approximately the same. Given this information, the Committee may, within the confines of statutory provisions, provide up to $20 million more in product information funding per year above the Governor's recommendation. Lottery has indicated that as more money for product information is received, increased sales by the same ROI may result.

Return on Investment

30. The relationship between sales and amount available for property tax relief is complex. Any increase in Lottery's advertising budget increases expenses in the general program operations appropriation. In addition, any increase in sales increases expenses associated with prizes, retailers, and vendors.

31. The amount of lottery sales is dependent on a number of factors. While sales can be affected by multiple variables at any time, the gaming credit is a calculation made from a snapshot in time. By October 1 of each year, current law requires DOA to provide the Joint Committee on Finance with an estimate of total funds available for distribution under the lottery and gaming credit for property taxes levied in that calendar year and paid in the following year. If the Committee chooses to accept the DOA estimate, no Committee action is required. If the Committee chooses to revise the DOA estimate, it must do so at a meeting that takes place prior to October 16. The Department of Revenue must be notified of the total amount available for distribution under the lottery and gaming credit by October 16 of each year. This estimate provides DOR with the basis for calculating the fair market value, termed the credit base, necessary to distribute the lottery and gaming credit.

32. Revenue expects a 4:1 return on investment (ROI) in in 2017-18 and a 5:1 ROI in 2017-18. As discussed above, following the product information budget increase in 2007-08, the Wisconsin Lottery indicates they "analyzed six advertising campaigns that were implemented in CY 2009. The data from this analysis suggests that the increase in budget had a positive effect on Wisconsin Lottery sales. The average ROI of these six advertising campaigns was 5:1."

33. Lottery indicates that "the Wisconsin Lottery recently executed a marketing mix analysis. This analysis collected data from over 50 sources accounting for hundreds of variables (both internal and external to the Lottery). The data included, but was not limited to; sales, ticket validations, media spend, limited time offers, point-of-sale materials, weather, seasonality, and macro-economic factors. The research determined that, on average, during FY15 the ROI for advertising spend was 4:1. This research also estimated how profitable each media type is compared to the other types. Using this information in future media planning will potentially offer greater effectiveness to increase ROI." Lottery indicates that the information is proprietary and was completed by an independent contractor. Therefore, these numbers and analysis cannot be independently verified.

34. As previously discussed and shown in Table 3, sales in recent years continued to grow after from the dip experienced between 2008-09 and 2009-10 with no corresponding increase in the advertising budget.

35. The average of the percent of gross revenues appropriated for tax relief from 2011-12 to 2014-15 after current expenses is 26.6%. Therefore, for every dollar in sales approximately $0.27 is appropriated in tax relief. When looking at additional sales expected from increased advertising, expenses including advertising, retailer compensation, prize payout, and vendor compensation are increased as well. Therefore, the percent of gross revenues that are then appropriated for tax relief is approximately 4% ($0.04) at 4:1 ROI and 10% ($0.10) at 5:1 ROI due to the increase in advertising expenses.

Fund Condition Impact

36. Including the Governor's recommendation to provide $3,000,000 SEG annually and expecting the 4:1 ROI in the first year and 5:1 in the second would have the following effect on the condition statement:

	Projected 2017-18	Projected 2018-19
Fiscal Year Opening Balance	$0	$240,400
OPERATING REVENUES		
Total Ticket Sales	$12,021,500	$15,026,900
Retailer Fees and Miscellaneous	0	0
GROSS REVENUES	$12,021,500	$15,026,900
EXPENDITURES		
Prizes	$7,207,000	$9,008,800
Retailer Compensation	835,400	1,044,300
Vendor Fees	309,800	387,200
General Program Operations	3,000,000	3,000,000
Gaming Law Enforcement	0	0
Lottery Credit Administration	0	0
Program Reserves	0	0
TOTAL EXPENDITURES	$11,352,200	$13,440,200
NET PROCEEDS	$669,400	$1,586,700
INTEREST EARNINGS	$21,800	$43,200
Total Available for Tax Relief *	$691,100	$1,870,200
APPROPRIATIONS FOR TAX RELIEF		
Lottery and Gaming Credit	$450,700	$1,569,700
Late Lottery and Gaming Credit Applications	0	0
Total Appropriations for Tax Relief	$450,700	$1,569,700
Gross Closing Balance	$240,400	$300,600
Reserve (2% of Gross Revenues)	$240,400	$300,600
Net Closing Balance	$0	$0

*Opening balance, net proceeds, interest earnings, and gaming-related revenue.

37. If provided with $3.0 million annually, Revenue expects a $12.0 million increase in 2017-18 and $15.0 million increase in 2018-19 in sales revenue, offset by the $3.0 million in additional advertising expenditures. This gain would produce an additional $450,700 in 2017-18 and $1,569,700 in 2018-19 in appropriations available for tax relief. This would not result in a significant increase in the annual, average lottery and gaming credit provided to primary homeowners in 2017-18 and is estimated to result in a $1 increase in the annual, average lottery and gaming credit in 2018-19. Given the information from Lottery, the Committee may wish to provide

the additional funding for product information and update the fund condition statement to reflect the 4:1 ROI in 2017-18 and 5:1 ROI in 2018-19. [Alternative 1] As a result, the Committee would provide $3,000,000 SEG annually.

38. Acknowledging that lottery product information budget has not been increased since 2007-08, the Committee may wish to provide the difference between the value of $7.5 million in 2007-08 and 2016-17 according to the consumer price index, which is approximately $1 million. Using the Lottery's ROI rate, this would not result in an increase in the annual, average lottery and gaming credit provided to primary homeowners in 2017-18 and less than $1 in 2018-19, but would allow for increased advertising. [Alternative 2] As a result, the Committee could provide $1,000,000 SEG annually.

	Projected 2017-18	Projected 2018-19
Fiscal Year Opening Balance	$0	$80,100
OPERATING REVENUES		
Total Ticket Sales	$4,007,200	$5,009,000
Retailer Fees and Miscellaneous	0	0
GROSS REVENUES	$4,007,200	$5,009,000
EXPENDITURES		
Prizes	$2,402,300	$3,003,000
Retailer Compensation	278,500	348,100
Vendor Fees	103,200	129,100
General Program Operations	1,000,000	1,000,000
Gaming Law Enforcement	0	0
Lottery Credit Administration	0	0
Program Reserves	0	0
TOTAL EXPENDITURES	$3,784,100	$4,480,100
NET PROCEEDS	$223,100	$528,900
INTEREST EARNINGS	$7,300	$14,400
Total Available for Tax Relief *	$230,400	$623,400
APPROPRIATIONS FOR TAX RELIEF		
Lottery and Gaming Credit	$150,300	$523,200
Late Lottery and Gaming Credit Applications	0	0
Total Appropriations for Tax Relief	$150,300	$523,200
Gross Closing Balance	$80,100	$100,200
Reserve (2% of Gross Revenues)	$80,100	$100,200
Net Closing Balance	$0	$0

*Opening balance, net proceeds, interest earnings, and gaming-related revenue.

39. Given the length of time since the last increase to lottery advertising funding, the Committee may wish to increase funding to acknowledge that costs have increased since 2007-08 but not assume any increase in sales. As a result, the Committee would increase general program operations expenditure by either $3 million annually [Alternative 3a] or $1 million annually [Alternative 3b], decrease the amount available for the credit by the same amount, and maintain estimated sales.

40. Some might question the need for additional funding for advertising. While providing specific lottery related information to the public is an important component of a successful lottery program, the interconnectedness of advertising and other factors identified previously are also important. Regarding advertising effectiveness, Wisconsin's lottery advertising budget per capita ranks 8th and its sales per capita ranks 32nd. As noted previously, the Wisconsin lottery ranked 25th in sales revenue generated for each dollar of advertising. For comparison purposes, according to 2006 La Fleur's data, Wisconsin ranked 3rd in advertising budget per capita, 29th in sales per capita, and 14th in sales revenue generated for each dollar of advertising.

41. It could also be argued that no advertising increase be provided at this time because any sales increase attributable to advertising is uncertain. In addition, if the current level of funding for product information is considered adequate, the projected net sales gain of $12 million and the associated $1 increase in the average lottery and gaming credit could be viewed as too small to justify a budget change.

42. Given the above concerns, the Committee could choose to maintain current law and the level of funding for product information. [Alternative 4]

ALTERNATIVES

1. Approve the Governor's recommendation to provide $3,000,000 SEG annually for the lottery's general program operations to increase funding for advertising. Include additional sales in the condition statement in the ratio of 4:1 in 2017-18 and 5:1 in 2018-19 associated with the funding increase. Modify the appropriation estimates for retailer compensation and vendor fees to reflect this sales estimate. [An increase in the advertising funding was not initially included in the bill, but was requested in an errata from the administration.]

2. Provide $1,000,000 SEG annually for the lottery's general program operations to increase funding for advertising (-$2,000,000 SEG annually to the bill). Reduce sales by -$8,014,300 SEG in 2017-18 and -$10,017,900 SEG in 2018-19.

Reestimate the lottery and gaming credit by -$300,400 SEG in 2017-18 and -$1,046,500 SEG in 2018-19.

Retailer Compensation. Delete $556,900 SEG in 2017-18 and $696,200 SEG in 2018-19 to adjust funding for retailer compensation to reflect projected lottery sales in the 2017-19 biennium.

Vendor Fees. Delete $206,600 SEG in 2017-18 and $258,100 SEG in 2018-19 to adjust

funding for vendor fees to reflect projected lottery sales in the 2017-19 biennium.

ALT 2	Change to Bill	
	Revenue	Funding
SEG	- $18,032,000	- $7,064,700

3. Provide additional funding under either of the following for lottery advertising but do not assume any ROI.

a. **$3,000,000 SEG annually.** Provide $3,000,000 SEG annually. Lottery sales estimates would be reduced by $12,021,500 SEG in 2017-18 and $15,026,900 SEG in 2018-19.

Reestimate the lottery and gaming credit by -$3,000,000 SEG annually associated with the increased product information expenses.

Reestimate the lottery and gaming credit by -$450,700 SEG in 2017-18 and -$1,569,700 SEG in 2018-19 associated with decreased estimated lottery sales.

Retailer Compensation. Delete $835,400 SEG in 2017-18 and $1,044,300 SEG in 2018-19 to adjust funding for retailer compensation to reflect projected lottery sales in the 2017-19 biennium.

Vendor Fees. Delete $309,800 SEG in 2017-18 and $387,200 SEG in 2018-19 to adjust funding for vendor fees to reflect projected lottery sales in the 2017-19 biennium.

ALT 3a	Change to Bill	
	Revenue	Funding
SEG	- $27,048,400	- $10,597,100

b. **$1,000,000 SEG annually.** Provide $1,000,000 SEG annually (-$2,000,000 SEG annually change to the bill). Lottery sales estimates would be reduced by $12,021,500 SEG in 2017-18 and $15,026,900 SEG in 2018-19.

Reestimate the lottery and gaming credit by -$1,000,000 SEG annually associated with the increased product information expenses.

Reestimate the lottery and gaming credit by -$450,700 SEG in 2017-18 and -$1,569,700 SEG in 2018-19 associated with decreased estimated lottery sales.

Retailer Compensation. Delete $835,400 SEG in 2017-18 and $1,044,300 SEG in 2018-19 to adjust funding for retailer compensation to reflect projected lottery sales in the 2017-19 biennium.

Vendor Fees. Delete $309,800 SEG in 2017-18 and $387,200 SEG in 2018-19 to adjust funding for vendor fees to reflect projected lottery sales in the 2017-19 biennium.

ALT 3b	Change to Bill	
	Revenue	Funding
SEG	- $27,048,400	- $10,597,100

4. Delete provision. [Program operation expenses would be reduced by $3,000,000 SEG annually. This alternative would maintain current funding for lottery advertising at $7,500,000 SEG annually. Lottery sales estimates would be reduced by $12,021,500 SEG in 2017-18 and $15,026,900 SEG in 2018-19.]

Reestimate the lottery and gaming credit by -$450,700 SEG in 2017-18 and -$1,569,700 SEG in 2018-19 associated with decreased estimated lottery sales.

Retailer Compensation. Delete $835,400 SEG in 2017-18 and $1,044,300 SEG in 2018-19 to adjust funding for retailer compensation to reflect projected lottery sales in the 2017-19 biennium.

Vendor Fees. Delete $309,800 SEG in 2017-18 and $387,200 SEG in 2018-19 to adjust funding for vendor fees to reflect projected lottery sales in the 2017-19 biennium.

ALT 4	Change to Bill	
	Revenue	Funding
SEG	- $27,048,400	- $10,597,100

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Attachment

ATTACHMENT

2014-15 Lottery Sales and Advertising

		Population (In Millions)	Audited Ticket Sales ($M)	Per Capita Sales	Ad Budget ($M)	Per Capita Ad Budget	Ad Budget as % of Sales	Sales Per $1 Advertising	Rank: Per Capita Sales	Rank: Ad Budget as % of Sales
1	Arizona	6,828,065	$749,974,340	109.84	$13,304,130	1.95	1.77%	$56	29	34
2	Arkansas	2,978,204	408,663,380	137.22	5,032,317	1.69	1.23	81	27	21
3	California	39,144,818	5,524,850,593	141.14	78,200,000	2.00	1.42	71	26	28
4	Colorado	5,456,574	538,025,144	98.60	10,812,027	1.98	2.01	50	33	37
5	Connecticut	3,590,886	1,143,973,444	318.58	11,290,950	3.14	0.99	101	5	16
6	Delaware	945,934	149,817,606	158.38	3,500,000	3.70	2.34	43	24	39
7	D.C.	672,228	212,495,000	316.11	6,434,350	9.57	3.03	33	6	42
8	Florida	20,271,272	5,583,330,878	275.43	37,550,453	1.85	0.67	149	11	8
9	Georgia	10,214,860	3,903,467,000	382.14	21,113,000	2.07	0.54	185	2	3
10	Idaho	1,654,930	210,194,748	127.01	3,646,882	2.20	1.74	58	28	31
11	Indiana	6,619,680	1,040,663,874	157.21	19,665,133	2.97	1.89	53	25	36
12	Iowa	3,123,899	324,767,416	103.96	6,766,994	2.17	2.08	48	30	38
13	Kansas	2,911,641	250,025,840	85.87	4,462,000	1.53	1.78	56	36	35
14	Kentucky	4,425,092	886,930,000	200.43	9,321,808	2.11	1.05	95	18	17
15	Louisiana	4,670,724	452,453,116	96.87	7,083,533	1.52	1.57	64	35	30
16	Maine	1,329,328	253,072,043	190.38	3,560,000	2.68	1.41	71	20	27
17	Maryland	6,006,401	1,760,866,028	293.16	11,459,111	1.91	0.65	154	8	5
18	Massachusetts	6,794,422	5,005,698,000	736.74	8,000,000	1.18	0.16	626	1	1
19	Michigan	9,922,576	2,771,928,317	279.36	18,622,000	1.88	0.67	149	10	7
20	Minnesota	5,489,594	546,867,969	99.62	7,550,000	1.38	1.38	72	31	26
21	Missouri	6,083,672	1,127,354,806	185.31	12,747,776	2.10	1.13	88	21	19
22	Montana	1,032,949	52,323,910	50.65	787,599	0.76	1.51	66	42	29
23	Nebraska	1,896,190	159,967,949	84.36	5,549,058	2.93	3.47	29	37	43
24	New Hampshire	1,330,608	281,131,994	211.28	3,585,000	2.69	1.28	78	15	24
25	New Jersey	8,958,013	3,027,301,254	337.94	12,288,253	1.37	0.41	246	4	2
26	New Mexico	2,085,109	137,016,723	65.71	2,400,000	1.15	1.75	57	40	33
27	New York	19,795,791	7,251,027,000	366.29	92,250,000	4.66	1.27	79	3	23
28	North Carolina	10,042,802	1,972,220,000	196.38	18,969,873	1.89	0.96	104	19	15
29	North Dakota	756,927	27,010,263	35.68	633,695	0.84	2.35	43	44	40
30	Ohio	11,613,423	2,892,043,000	249.03	22,738,533	1.96	0.79	127	12	10
31	Oklahoma	3,911,338	171,633,476	43.88	1,600,000	0.41	0.93	107	43	13
32	Oregon	4,028,977	318,281,749	79.00	11,460,000	2.84	3.60	28	39	44
33	Pennsylvania	12,802,503	3,819,642,911	298.35	44,000,000	3.44	1.15	87	7	20
34	Rhode Island	1,056,298	243,091,774	230.14	2,227,887	2.11	0.92	109	13	12
35	South Carolina	4,896,146	1,401,661,140	286.28	8,447,808	1.73	0.60	166	9	4
36	South Dakota	858,469	51,179,867	59.62	644,738	0.75	1.26	79	41	22
37	Tennessee	6,600,299	1,368,471,000	207.33	8,988,000	1.36	0.66	152	17	6
38	Texas	27,469,114	4,529,700,425	164.90	32,000,000	1.16	0.71	142	23	9
39	Vermont	626,042	111,754,881	178.51	1,251,298	2.00	1.12	89	22	18
40	Virginia	8,382,993	1,843,876,103	219.95	16,347,000	1.95	0.89	113	14	11
41	Washington	7,170,351	600,348,148	83.73	10,439,944	1.46	1.74	58	38	32
42	West Virginia	1,844,128	180,000,000	97.61	4,401,782	2.39	2.45	41	34	41
43	Wisconsin	5,771,337	574,631,382	99.57	7,466,447	1.29	1.30	77	32	25
44	Wyoming	586,107	17,531,435	29.91	3,961,000	6.76	22.59	4	45	45
	Total	305,510,709	$63,877,265,926	$209.08	$612,560,379	$2.01	0.96%	$104	16	14

*Based on sales and advertising budget data reported in La Fleur's World Lottery Almanac -- 2016.