

# State of Wisconsin

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## Joint Committee on Finance

### MEMORANDUM

To: Members  
Joint Committee on Finance

From: Senator Alberta Darling  
Representative John Nygren

Date: March 10, 2015

Re: 14-Day Passive Review Approval – DOR

Pursuant to s. 565.02(7), Stats., attached is a 14-day passive review request from the Department of Revenue, received on March 10, 2015.

Please review the material and notify **Senator Darling** or **Representative Nygren** no later than **Friday, March 27, 2015**, if you have any concerns about the request or if you would like the Committee to meet formally to consider it.

Also, please contact us if you need further information.

Attachments

AD:JN:jm



State of Wisconsin • DEPARTMENT OF REVENUE

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Scott Walker  
Governor

Richard G. Chandler  
Secretary of Revenue

March 10, 2015

The Honorable Alberta Darling, Co-Chair  
Member, Joint Committee on Finance  
317 East, State Capitol  
Madison, WI 53708

The Honorable John Nygren, Co-Chair  
Member, Joint Committee on Finance  
309 East, State Capitol  
Madison, WI 53708

RECEIVED  
MAR 10 2015

BY: ST. FINANCE...

Dear Senator Darling and Representative Nygren:

Enclosed is a revised Prize Payout Report. The original report was sent on February 26, 2015 and contained incorrect sales figures.

The report, which is attached, recommends slight changes to the prize payout. The Lottery projects a prize payout of 59.52% for FY 15 and proposes a payout of 59.35% for FY 16.

Please feel free to contact me should you have any questions.

Sincerely,

Richard G. Chandler  
Secretary of Revenue

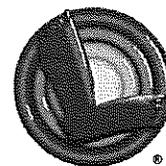
Enclosure

# Lottery Sales and Prize Payout

Report to the Joint  
Committee on Finance

Wisconsin Department of Revenue  
Lottery Division

March 10, 2015



**WISCONSIN  
LOTTERY**

## EXECUTIVE SUMMARY

The Wisconsin Lottery's mission is to provide property tax relief to Wisconsin homeowners by offering entertaining games while operating with security, integrity and social responsibility.

Since the sale of the first ticket on September 14, 1988, the Lottery has generated over \$3.71 billion in property tax relief for Wisconsin homeowners, \$726 million in commissions for Wisconsin businesses, and more than \$6.81 billion in prizes for players.

- In FY 14, the Lottery had its third record sales year in a row, while administrative expenses decreased.
- Sales of instant tickets also set a record, and lotto tickets were the second highest in Wisconsin history.
- Wisconsin's sales outlook and ability to generate funds for property tax relief remain positive with continued historically high levels of ticket sales.

In accordance with sec. 565.02(7), Wis. Stats., the Department of Revenue, Lottery Division, submits this report, detailing the following:

- An estimate of ticket sales and prize payment for the current and subsequent fiscal year.
- The prize payout percentages for each type of lottery game offered.
- An evaluation of the impact that prize payout ratios are likely to have upon ticket sales, operating costs, and the Lottery's constitutionally-mandated mission to maximize revenue for property tax relief.

### Sales Overview

Fiscal Year (FY) 2014 marked the third consecutive year of record-breaking sales for the Wisconsin Lottery. FY 14 sales were \$568.8 million, surpassing the previous year's record of \$566.1 million. Sales of instant tickets (scratch and pulltab) were \$339.0 million, yet another record. Sales of lotto tickets (e.g., Powerball and Badger 5) were \$229.9 million, the second highest in Wisconsin Lottery history.<sup>1</sup> Net operating income was \$160.2 million.

The Lottery's sales outlook and ability to generate funds for property tax relief remain strong.

Fiscal Year 2015: The Lottery projects that gross revenues from the sale of lottery tickets will be \$574.0 million.<sup>2</sup>

Fiscal Year 2016: Gross revenues are projected at \$585.8 million.

Lottery sales are difficult to project due to the volatility of jackpot game sales. Approximately 21% of all Lottery sales in FY 14 came from the two multi-state jackpot games, Powerball and Mega Millions. However, the sales of these games are driven by the size and frequency of the jackpots, which occur randomly. The Lottery has established a range to forecast future performance based upon past performance, but that range is broad and jackpot game sales from year to year can be tens of millions of dollars different from estimates.

<sup>1</sup> FY 14 sales data is from the Wisconsin Lottery's FY 14 Unaudited Financial Statements as of December 11, 2014. These financial statements are preliminary and subject to change.

<sup>2</sup> Lottery Fund Condition Statement, September 25, 2014, used in certifying the amount of Lottery and Gaming Credit for property taxes levied in 2014.



In 2014, the Lottery launched 5 Card Cash, its first new in-state lotto game since 2003. The Lottery continues to enhance its other Wisconsin-only lotto games, such as Badger 5 and SuperCash!, through improvements to the games and limited time offers.

The Lottery is engaged in a long-term growth strategy for instant scratch sales by meeting consumer demand for more games at higher price points, with strong sales continuing to build for tickets priced \$10 and higher. This increase in higher price point sales has driven the significant growth in scratch sales in recent years. In response to consumer demand for higher price point tickets, the Lottery successfully introduced a \$30 scratch ticket into its game portfolio in 2014.

### **Prize Payout**

The prize payout percentage is the amount of Lottery revenue that is returned to players in the form of prizes. Each individual game has a unique prize structure that represents the number and value of its prizes and the odds of winning those prizes. In FY 14 the prize payout was 59.19%. In FY 13 the Lottery's prize payout was 58.15%. By comparison, the overall prize payout for U.S. lottery jurisdictions was 62.17%.<sup>3</sup>

Fiscal Year 2015: The Lottery expects to pay \$341.7 million in prizes. Total prize payout for all Lottery games is estimated to be 59.52%.

Fiscal Year 2016: The Lottery expects to pay \$347.7 million in prizes. Total prize payout is estimated to be 59.35%.

### **Prize Payout Impact**

Prize payout increases have contributed to record sales and increased revenues for property tax relief. In FY 04, the prize payout was 56.98%; sales were \$482.9 million.<sup>4</sup> Last year the prize payout was 59.19%; sales were \$568.8 million.

At the same time, operating expenses, as a percentage of gross revenues, have declined. The Lottery's costs remain low. FY 14 administrative expenses decreased to \$34.3 million, 6.03% of gross operating revenue, well below the 10% cap set by state statute.<sup>5</sup> Moreover, the Wisconsin Lottery continues to be one of the most efficient lotteries in the country, with the nation's fifth lowest per capita expenses in FY 13 (Exhibit 1).

The Lottery will achieve its sales goals with only slight adjustments to its current prize payout percentages. The Lottery proposes to maintain the instant scratch game prize payout at 65.50% in FY 15 and FY 16. This marginal increase from FY 14 will allow the Lottery to maintain the successful higher price point strategy at the \$10, \$20, and \$30 levels. Pulltab prize payout is expected to be 62.80% in FY 15 and FY 16. Total lotto game prize payout is also projected to increase from 50.05% in FY 14, to 51.02% in FY 15 and FY 16.

<sup>3</sup> Based on data from reporting lotteries as presented in La Fleur's 2014 World Lottery Almanac, p. 241. FY 13 is the latest year for which national figures for traditional ticket sales and prize payout are available.

<sup>4</sup> Legislative Audit Bureau Report 05-8, May 2005: Financial Audit of the Wisconsin Lottery. (<http://legis.wisconsin.gov/lab/reports/05-8full.pdf>)

<sup>5</sup> Expense and Revenue figures are from the Wisconsin Lottery's FY 14 Unaudited Financial Statements as of December 11, 2014. These financial statements are preliminary and subject to change.



## WISCONSIN LOTTERY PRIZE PAYOUT REPORT 2015

### LOTTERY SALES

Sales have risen steadily over the last five years, from \$480.9 million in FY 10 to record sales in each of the last three years.<sup>6</sup> Lottery sales were \$568.8 million in FY 14.

Sales for FY15 are expected to remain strong at \$574.0 million. Sales by game type for the past three years and projected sales for the next two years are shown on Table 1.

**Table 1. Sales by Fiscal Year and Game Type**

Game Type	FY 12 Sales Final*	FY 13 Sales Final*	FY 14 Sales Preliminary**	FY 15 Sales Projection***	FY 16 Sales Projection***
Instant Scratch	\$320,131,401	\$324,035,688	\$337,699,578	\$336,197,807	\$336,197,807
Pulltab	\$2,350,640	\$2,690,059	\$1,261,233	\$1,012,072	\$1,012,072
Lotto	\$225,158,693	\$239,376,954	\$229,876,604	\$236,778,378	\$248,604,891
<b>Total</b>	<b>\$547,640,734</b>	<b>\$566,102,701</b>	<b>\$568,837,415</b>	<b>\$573,988,257</b>	<b>\$585,814,770</b>

Note: Totals may not equal the exact sum of the figures in each column, due to rounding.

\*Source: Legislative Audit Bureau Report 14-10, August 2014: Financial Audit of the Wisconsin Lottery. Figures rounded to the nearest dollar. (<http://legis.wisconsin.gov/lab/reports/14-10full.pdf>)

\*\*Source: Wisconsin Lottery FY 14 Unaudited Financial Statements, rounded to the nearest dollar, as of December 11, 2014. These financial statements are preliminary and subject to change.

\*\*\*Source: Lottery Fund Condition Statement, September 25, 2014, used in certifying the amount of Lottery and Gaming Credit for property taxes levied in 2014, rounded to the nearest dollar.

### TOTAL PRIZE PAYOUT AND PRIZES PAID OR EXPECTED TO BE PAID

Wisconsin law requires that at least 50% of Lottery gross sales be returned to players as prize payments.<sup>7</sup> In FY 14, 59.19% of Lottery gross sales were returned to players as prize payments. The Lottery estimates that its total prize payout for all products in FY 15 will increase slightly to 59.52%. In FY 16, the Lottery's prize payout for all game categories is projected to decrease slightly to 59.35%. The prize payout for Wisconsin Lottery games will continue to be below industry averages.

#### Scratch Ticket Prize Payout

While the Lottery carefully plans and projects aggregate annual prize payout percentages, the actual percentage of prizes paid for individual scratch games may be more or less than the planned payout. This can occur when sales of a particular game are discontinued before all the tickets are sold, as is done when the last top prize is claimed. Sales of games with drawing prizes may also accrue in one fiscal year, while the prizes are drawn and awarded in the following year. Finally, unclaimed prizes may be credited after the year in which the prize expense was accrued.

In FY 14, the Lottery introduced a \$30 scratch ticket to its game mix. This game exceeded Lottery expectations in terms of initial sales and remains a very significant part of the overall product portfolio.

<sup>6</sup> FY 10 sales data is from Legislative Audit Bureau Report 14-10, August 2014: Financial Audit of the Wisconsin Lottery. (<http://legis.wisconsin.gov/lab/reports/14-10full.pdf>)

<sup>7</sup> Sec. 25.75(3)(a), Wis. Stats.



Price points at or above \$10 accounted for 39.7% of scratch sales in FY 14, up from 34.5% in FY 12 and 36.0% in FY 13. This increase in higher price point sales has driven overall sales significantly higher in recent years; instant scratch game sales have posted three consecutive record-setting years: \$320.1 million in FY 12 and \$324.0 million in FY 13, and \$337.7 million in FY 14. Sales are expected to decline marginally, but still remain over the \$336 million mark in both FY 15 and FY 16.

The Lottery estimates that continued strong sales of high price point (higher prize payout) games will result in marginally higher aggregate scratch ticket payout rates over the next two fiscal years. However, these payouts should be accompanied by continued robust sales of over \$336 million per year.

The Lottery estimates that aggregate instant scratch game prize payout will be 65.50% in FY 15, and 65.50% in FY 16. This payout percentage will allow the Lottery to continue its strategy of meeting the market demand for higher price point tickets. The success of \$30, \$20, \$15 and \$10 scratch games has demonstrated the benefits of such a strategy.

#### **Pulltab Prize Payout**

Prize payout for pulltab tickets was 60.57% in FY 14. The expected prize payout for both FY 15 and FY 16 is 62.80%.

The difference from FY 14 to FY 15 can be attributed to game endings and the related recognition of prizes relative to sales, mainly in regard to validation-coded pulltab tickets. The Lottery ceased offering these tickets early in FY 14 due to low sales relative to scratch tickets (which use the same ticket dispensers). However, the Lottery continues to offer traditional pulltab tickets, which are printed without validation barcodes and are not sold in scratch ticket dispensers. FY 15 and FY 16 sales and prize payout projections assume no reintroduction of validation-coded pulltabs.

#### **Lotto Prize Payout**

It is difficult to project the prize payout of lotto games because, unlike scratch and pulltab games, they normally do not have a predetermined number of winners. The number of winners and the amount of the prizes won occur randomly. The overall lotto game payout is anticipated to be 51.02% in FY 15 and 51.02% in FY 16.

### Total Prize Payout

The average prize payout percentages by game type for the past three fiscal years and the estimated prize payout percentages for the next two fiscal years are shown in Table 2. A weighted average is used to accurately reflect the performance of games with higher sales.

**Table 2. Weighted Average Prize Payout Percentages by Fiscal Year and by Game Type\***  
(Percentages are rounded)

Game Type	FY 12** Prize Payout	FY 13** Prize Payout	FY 14*** Prize Payout Preliminary	FY 15**** Prize Payout Estimated	FY 16**** Prize Payout Estimated
Instant Scratch	64.81%	64.67%	65.40%	65.50%	65.50%
Pulltab	61.40%	60.78%	60.57%	62.80%	62.80%
Lotto	49.38%	49.30%	50.05%	51.02%	51.02%
<b>Total</b>	<b>58.45%</b>	<b>58.15%</b>	<b>59.19%</b>	<b>59.52%</b>	<b>59.35%</b>

\* Data in Tables 1 and 2 have been rounded and may not exactly match data in Table 3.

\*\*Based on data in Legislative Audit Bureau Report 14-10, August 2014: Financial Audit of the Wisconsin Lottery. (<http://legis.wisconsin.gov/lab/reports/14-10full.pdf>)

\*\*\*Source: Wisconsin Lottery FY 14 Unaudited Financial Statements as of December 11, 2014. The financial statements are preliminary and subject to change.

\*\*\*\* Based on Lottery sales estimates, Lottery Fund Condition Statement, September 25, 2014.

**Prizes Paid.** Table 3 shows prizes paid during the past three fiscal years and prizes expected to be paid in the next two fiscal years. Prizes expected to be paid in FY 15 and FY 16 are calculated by multiplying the sales projection for each game by its prize payout percentage.

**Table 3. Prizes Paid or Expected to be Paid by Fiscal Year and by Game Type\***

Game Type	FY 12** Prize Expense (Final)	FY 13** Prizes Expense (Final)	FY 14*** Prizes Expense (Preliminary)	FY 15**** Projected Prize Expense	FY 16**** Projected Prize Expense
Instant Scratch	\$207,479,016	\$209,550,537	\$220,871,369	\$220,214,607	\$220,214,607
Pulltab	\$1,443,366	\$1,634,993	\$763,928	\$635,581	\$635,581
Lotto	\$111,192,993	\$118,016,139	\$115,059,226	\$120,804,328	\$126,838,215
<b>Total</b>	<b>\$320,115,375</b>	<b>\$329,201,669</b>	<b>\$336,694,523</b>	<b>\$341,654,516</b>	<b>\$347,688,403</b>

Note: Totals may not equal the exact sum of the figures in each column, due to rounding.

\*Rounded to nearest dollar. Amounts shown are based on the accrual method of accounting, consistent with generally accepted accounting principles (GAAP).

\*\*Source: Legislative Audit Bureau Report 14-10, August 2014: Financial Audit of the Wisconsin Lottery. Figures rounded to the nearest dollar. (<http://legis.wisconsin.gov/lab/reports/14-10full.pdf>)

\*\*\*Source: Wisconsin Lottery FY 14 Unaudited Financial Statements, rounded to the nearest dollar, as of December 11, 2014. These financial statements are preliminary and are subject to change.

\*\*\*\* Based on Lottery sales estimates, Lottery Fund Condition Statement, September 25, 2014.



## PRIZE PAYOUT IMPACT ON REVENUES, EXPENSES AND PROPERTY TAX RELIEF

In establishing the proper prize payout, the Lottery seeks to strike a balance between maximizing profits and providing players with the rewards they expect. The Lottery has been very conservative in its use of prize payout to drive sales, with positive results.

In FY 04 the overall prize payout was 56.98%; in FY 14 it was 59.19%.<sup>8</sup> During the same period, annual sales increased nearly \$86 million, from \$482.9 million to \$568.8 million. Net operating income increased from \$140.8 million to \$160.2 million (preliminary). The Lottery carefully manages payout to maximize net operating income.

### Instant Scratch Market Trends and Prize Payout

Instant scratch ticket sales have been unprecedented in recent years. FY 14 was a third consecutive record-setting year, with \$337.7 million in instant scratch sales, eclipsing the old record of \$324.0 million set the previous year. Much of the growth has come from consumer demand for higher priced tickets which have higher top prizes, better overall odds of winning and higher payouts. Players see increased entertainment value in a higher risk-reward proposition. In 2014, the Lottery introduced its first \$30 instant scratch game to help meet the growing demand for higher price-point tickets. The Lottery expects that it will be able to maintain instant scratch ticket sales over the \$336 million mark without introducing any new price points. The Lottery projects instant sales in both FY 15 and FY 16 to be nearly \$336.2 million.

Offering higher price point tickets with higher payouts is consistent with the industry strategy of offering more in prizes as a player risks more in the purchase price of a ticket. Table 4 depicts the shift in sales from lower priced tickets to higher priced tickets. In FY 14, 39.7% of scratch sales occurred at \$10 and higher, compared to 30.8% in FY 11.

**Table 4. Percentage of Total Net Sales by Price Point**

Price Point	FY 11 - % of Total Net Sales	FY 12 - % of Total Net Sales	FY 13 - % of Total Net Sales	FY 14 - % of Total Net Sales	FY 15 YTD - % of Total Net Sales**
\$1	9.2%	7.5%	7.0%	7.2%	6.6%
\$2	21.0%	18.4%	18.2%	16.4%	16.1%
\$3	14.1%	14.2%	13.6%	12.4%	12.8%
\$5	24.9%	25.5%	25.2%	24.4%	23.8%
\$10	13.8%	14.6%	17.5%	16.2%	15.4%
\$15*	1.3%	---	1.2%	1.2%	2.4%
\$20	15.7%	19.9%	17.3%	16.6%	15.3%
\$30	---	---	---	5.7%	7.7%

Note: Percentages may not sum to 100% due to rounding.

\*\$15 price point is a seasonal (holiday) game.

\*\*Through December 31, 2014.

**New Game Launches.** Ten years ago, three of the Lottery's 69 instant scratch games were higher price-point games. In FY 15, the Lottery anticipates introducing 82 new games, 19 at the \$10 price point and higher (Table 5). The total number of games launched each year has increased due to the higher overall sales and smaller print-runs for some of the \$1 price-point games. The smaller print

<sup>8</sup> FY 04 data is from Legislative Audit Bureau Report 05-8, May 2005: Financial Audit of the Wisconsin Lottery. (<http://legis.wisconsin.gov/lab/reports/05-8full.pdf>).

runs are designed to sell out in 2-3 weeks, in order to keep the product mix fresh. The prize payout was 65.40% in FY 14, which was 0.25 percentage points higher than the projected payout of 65.15%. The Lottery estimates that the payout will be 65.50% in FY 15 (0.27 percentage points higher than last year's estimate for FY 15) and 65.50% in FY 16. The higher than expected payouts are primarily due to better than expected sales of the new \$30 price point.

**Table 5. Historical Perspective: Number of New Game Launches**

Price Point	FY 05 Number of Games	FY 12 Number of Games	FY 13 Number of Games	FY 14 Number of Games	FY 15 Anticipated No. of Games	FY 16 Anticipated No. of Games
\$ 1	21	14	17	17	17	17
\$ 2	22	14	16	16	16	16
\$ 3	12	12	14	14	14	14
\$ 5	11	15	16	16	16	16
\$10	3	8	11	11	11	11
\$15	0	0	1	1	1	1
\$20	0	5	5	5	5	5
\$30	0	0	0	1	2	2
<b>Total Number of Games</b>	69	68	80	81	82	82
<b>Overall Scratch Prize Payout</b>	63.48%	64.81%	64.67%	65.40%	65.50%	65.50%

The Wisconsin Lottery's planned prize payout is lower than the lottery industry's average at all price points (Table 6). The average instant prize payout for U.S. lottery jurisdictions was 67.79% in FY 14, on par with FY 13. The Wisconsin Lottery payout for FY 15 is anticipated to be 65.50%, which is 2.18 percentage points below the national average of 67.68%.

The trend towards stronger sales of high price-point (higher prize payout) games will allow the Lottery to continue to generate strong instant scratch sales. To support this strategy, prize payouts will rise modestly in the next two years, but will remain below industry averages.

**Table 6. Average Payout Rate by Price Point**

Price Point	U.S. Lotteries' FY 15 Average Payout Rate *	Wisconsin's Designed Payout Rate
\$1	60.6%	59.0%
\$2	64.4%	62.0%
\$3	65.4%	63.0%
\$5	68.5%	64.5%
\$10	72.3%	70.0%
\$20	74.6%	74.0%
\$30	77.1%	75.0%

\*Based on data presented in La Fleur's Magazine, July/August, 2014.



### Pulltab Market Trends and Prize Payout

Wisconsin Lottery pulltab ticket sales decreased to \$1.26 million in FY 14 due mainly to the phasing out of validation-coded pulltab games in late FY 13 and early FY 14. The Lottery continues to offer traditional pulltab tickets that are printed without validation barcodes. Total sales for all pulltab tickets were \$2.69 million in FY 13 and \$2.35 million in FY 12. For-profit retailer sales were \$1.56 million in FY 13 and \$232,465 in FY 14. The majority of the for-profit pulltab sales were comprised of validation-coded pulltabs, which were ended due to lower sales relative to scratch tickets. Nonprofit sales were \$1.13 million in FY 13 and \$1.03 million in FY 14.

At one time when the Lottery was the exclusive vendor of pulltabs in the state, the Lottery had annual pulltab sales of over \$20 million. The Lottery's market share has been eroded by private vendors operating either illegally or under sec.100.16(2), Wis. Stats., a law designed to allow limited-term games of chance by retailers (e.g., McDonald's Monopoly game) and provides few protections for those who purchase these private pull-tabs. Moreover, the playing field is uneven. Private vendors can offer retailers a higher commission, whereas the Lottery's commission is set by law.<sup>9</sup>

### Lotto Game Market Trends and Prize Payout

The prize payout ratio for lotto games was 50.05% in FY 14, ranging from 42.96% (Special Draw) to 68.14% (5 Card Cash). Table 7 lists the lotto games and associated designed prize payouts that are currently offered in Wisconsin. Actual prizes paid, as a percentage of sales, may be less than the designed prize payout for several reasons, such as winners not claiming their prizes. Prizes paid, as a percentage of sales, may also be more than the designed prize payout due to the random nature of game drawings and limited time offers.

**Table 7**  
**Lotto Games and Corresponding Start Dates and Prize Payout Rates\***

Lotto Games	Start Date	Designed Payout*
Powerball	4/19/92	50.00%
Megabucks	6/18/92	53.50%
EZ Match	4/3/11	63.15%
SuperCash!	2/4/91	52.80%
Daily Pick 4	9/15/97	48.40%
Daily Pick 3	9/21/92	48.20%
Badger 5	2/17/03	50.00%
Mega Millions	1/31/10	50.00%
5 Card Cash	4/6/14	60.29%
Special Draw (Raffle)	3/4/07	50.00%

\* Reflects anticipated rate based on game design and is approximate.

Traditionally, the prize payout for lotto games has been lower than that for instant scratch games. The primary appeal of most lotto games is the chance to win larger prizes, including large jackpot prizes.

In response to qualitative and quantitative research, the Wisconsin Lottery added a new \$2 lotto game called 5 Card Cash in April 2014. Because the game has an instant win feature, the prize payout is more similar to scratch tickets and EZ Match than the other lotto games. The game normally will

<sup>9</sup> For a fuller discussion of this issue see the November 2008 audit of the Lottery conducted by the Legislative Audit Bureau, Report 08-13, pp. 22-24. (<http://legis.wisconsin.gov/lab/reports/08-13full.pdf>)

have a prize payout of 60.29%. In FY 14, the Lottery offered a Limited Time Offer on 5 Card Cash which increased the prize payout for the game briefly. Since the game had only three months of sales during the fiscal year and one of those months included the Limited Time Offer, prize payout for the game was higher than projected. In FY 15 and beyond, it is expected to perform nearer the designed payout percentage.

The Lottery believes it can manage the lotto product line at this time without a significant change to prize payout in the coming fiscal year.

#### **Impact of Prize Payout on Operating Costs**

Prize payout has had little effect on administrative costs. Sales increased in FY 14 to \$568.8 million from \$566.1 million in FY 13. Total administrative expenditures as determined in accordance with sec. 25.75(3)(b), Wis. Stats. were \$34.3 million (preliminary), a slight decrease from \$34.6 million the previous year. This amount represents 6.03% of gross lottery revenues in FY 14 – a decrease from the previous year's 6.12% and well within the 10% limitation set by statute.

Furthermore, the Wisconsin Lottery continues to operate at highly efficient levels relative to other jurisdictions. Per capita expenses in Wisconsin were the fifth lowest among 43 reporting United States lotteries in FY 13, as illustrated by Exhibit 1.

#### **SUMMARY**

Sales will remain strong in FY 15 and FY 16 as the Wisconsin Lottery continues to improve its game mix in all product categories. The Lottery continues to work diligently to maximize funds available for property tax relief. The proposed prize payouts will result in significant revenues for that purpose.

Consistent with national trends, the introduction of higher price points to the instant scratch game mix has proved to be a successful strategy and will be further developed.

For FY 16, the Lottery proposes an overall prize payout of 59.35%, a slight decrease from the projected 59.52% payout in FY 15. The breakdown for FY 16 is as follows:

- Instant scratch prize payout of 65.50%, to meet growing consumer demand for \$10, \$20, and \$30 games.
- Pulltab payout of 62.80%.
- Lotto game payout of 51.02%.

Exhibit 1

Fiscal 2013 U.S. Lottery Per Capita Administrative Expenses

	Lottery	Pop. <sup>1</sup> (Mil)	Expense <sup>2</sup> (\$ Mil)	Expense Per Cap (\$)
1	Oklahoma	3.85	10.56	2.74
2	North Dakota	0.72	4.10	5.69
3	New Mexico	2.09	11.91	5.70
4	Oregon	3.93	22.77	5.79
5	Wisconsin	5.74	33.93	5.91
6	Louisiana	4.63	27.39	5.92
7	California	38.33	230.04	6.00
8	Arizona	6.63	43.20	6.52
9	Texas	26.45	181.97	6.88
10	Kansas	2.89	19.89	6.88
11	West Virginia	1.85	13.27	7.17
12	Washington	6.97	51.20	7.35
13	North Carolina	9.85	73.34	7.45
14	Colorado	5.27	39.83	7.56
15	Florida	19.55	147.86	7.56
16	South Carolina	4.78	37.10	7.76
17	South Dakota	0.85	6.67	7.85
18	New Jersey	8.90	70.96	7.97
19	Minnesota	5.42	44.99	8.30
20	Montana	1.02	8.53	8.36
21	Tennessee	6.50	57.07	8.78
22	Missouri	6.04	53.05	8.78
23	Kentucky	4.40	40.24	9.15
24	Nebraska	1.87	17.89	9.57
25	Indiana	6.57	63.66	9.69
26	Iowa	3.09	30.45	9.85
27	Idaho	1.61	16.21	10.07
28	Virginia	8.26	84.15	10.19
29	Rhode Island	1.05	10.78	10.27
30	Ohio	11.57	121.45	10.50
31	Pennsylvania	12.77	138.86	10.87
32	Michigan	9.90	108.03	10.91
33	Arkansas	2.96	34.95	11.81
34	New Hampshire	1.32	16.15	12.23
35	Connecticut	3.60	47.86	13.29
36	Vermont	0.63	8.62	13.68
37	Massachusetts	6.69	94.33	14.10
38	Maine	1.33	19.13	14.38
39	New York	19.65	284.38	14.47
40	Georgia	9.99	147.32	14.75
41	Delaware	0.93	18.66	20.06
42	D.C.	0.65	29.11	44.78
43	Maryland	5.93	366.40	61.79
NA	Illinois	Not Reported	Not Reported	Not Applicable
	<b>Total</b>	<b>287.03</b>	<b>2,888.3</b>	<b>10.06</b>

Source: La Fleur's 2014 World Lottery Almanac, pp. 249-256.

<sup>1</sup> U.S. Bureau of the Census, July 1, 2013.

<sup>2</sup> Lottery administrative and operational expenses as stated in La Fleur's 2014 World Lottery Almanac.

Expense figures pertain only to traditional lottery functions in each state.

Wisconsin and Montana expense figures as stated in the La Fleur's Almanac were unaudited at time of reporting.

Fiscal year ends June 30 except New York (March 31), Texas (August 31), D.C. and Michigan (Sept. 30).

