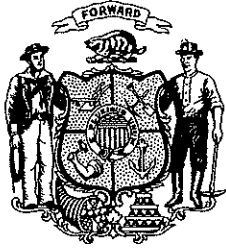


# State of Wisconsin

SENATE CHAIR  
**Howard Marklein**

316 East, State Capitol  
P.O. Box 7882  
Madison, WI 53707-7882  
Phone: (608) 266-0703



ASSEMBLY CHAIR  
**Mark Born**

308 East, State Capitol  
P.O. Box 8592  
Madison, WI 53708-8953  
Phone: (608) 266-2540

## Joint Committee on Finance

### MEMORANDUM

To: Members  
Joint Committee on Finance

From: Senator Howard Marklein  
Representative Mark Born

Date: February 25, 2022

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 February 25, 2022.

Please review the material and notify **Senator Marklein** or **Representative Born** no later than **Wednesday, March 16, 2022**, 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

HM:MB:jm



**State of Wisconsin • DEPARTMENT OF REVENUE**

2135 RIMROCK ROAD • P.O. BOX 8933 • MADISON, WISCONSIN 53708-8933  
FAX (608) 266-5718 • <http://www.revenue.wi.gov>

February 25, 2022

FEB 25 2022

*J. Fingace*

The Honorable Howard Marklein, Co-Chair  
Member, Joint Committee on Finance

The Honorable Mark Born, Co-Chair  
Member, Joint Committee on Finance

Dear Senator Marklein and Representative Born:

Section 565.02(7), Wis. Stats., requires a report to the Joint Committee on Finance no later than March 1 of each year, containing the following information:

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

The report, which is attached, recommends a prize payout of 62.93% for FY22 and proposes a payout of 63.11% for FY23.

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

Sincerely,

Peter Barca  
Secretary of Revenue

Enclosure

# **Lottery Sales and Prize Payout**

**Report to the  
Joint Committee on Finance**

**Wisconsin Department of Revenue  
Lottery Division**

**February 25, 2022**



## 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. The Lottery's sales outlook and ability to generate funds for property tax relief remain positive, with continued historically high levels of ticket sales.

Since the start of the Lottery on September 14, 1988, the Lottery returned more than \$5.1 billion in property tax relief for Wisconsin homeowners, over \$1.0 billion in compensation for Wisconsin businesses and more than \$9.7 billion in prizes for players.

- In Fiscal Year (FY) 2021, the Lottery had its fourth record sales year in a row.
- Sales of instant scratch tickets were the highest ever, and lotto ticket sales were the second highest in Wisconsin history.
- Pull-tab ticket sales, notably smaller than the other two product lines, were lower compared to recent fiscal years.

Sales may slightly decline in FY22 and FY23, after record sales in FY21 due in part to the COVID-19 pandemic. One of the primary ways the Wisconsin Lottery has prevented, and going forward will prevent, further decline is by improving its game mix in all product categories. Projected breakdowns for FY22 and FY23 are as follows:

Game Type	FY22	FY23
Instant Scratch	\$574,120,260	\$574,120,260
Pull-tab	\$711,387	\$711,387
Lotto	\$256,180,021	\$256,180,021
<b>Total</b>	<b>\$831,011,668</b>	<b>\$831,011,668</b>

For FY23, the Lottery proposes an overall prize payout of 63.11 percent, consistent with the projected 62.93 percent payout in FY22. The projected breakdown for FY23 is as follows:

- Instant scratch prize payout of 68.73 percent, to meet growing consumer demand for higher price-point games
- Pull-tab payout of 62.71 percent
- Lotto game payout of 50.53 percent

Operating expenses, as a percentage of gross revenues, remain low. In FY21, administrative expenses were \$43.1 million, 4.82 percent of gross Lottery revenue, far below the 10 percent cap set by state statute. The Wisconsin Lottery continues to be one of the most efficient lotteries in the country, with the nation's fifth lowest per capita expenses compared to 37 traditional lotteries in FY20, the latest year for which national figures are available.

The Lottery continues to maximize funds available for property tax relief. The proposed prize payouts will result in significant revenues for that purpose.

## WISCONSIN LOTTERY PRIZE PAYOUT REPORT 2022

### LOTTERY SALES

Fiscal Year (FY) 2021 sales were \$894.5 million, the highest in Wisconsin Lottery history. Instant tickets (scratch and pull-tab combined) achieved the highest year of sales, at \$635.2 million. Sales of lotto tickets (e.g., *Powerball* and *Badger 5*) were \$259.4 million, the second highest in Wisconsin Lottery history.<sup>1</sup>

The Lottery's sales outlook and ability to generate funds for property tax relief remain consistent. The Lottery projects gross revenues of \$831.0 million from the sale of lottery tickets in FY22. Gross revenues are also projected at \$831.0 million in FY23.<sup>2</sup>

Lottery sales are difficult to project due to the volatility of jackpot game sales. These sales are largely driven by the size and frequency of the jackpots. Additionally, media coverage can affect sales when these games have high jackpots. Approximately 19 percent of all Lottery sales in FY21 came from these games.<sup>3</sup> The Lottery has established a range to forecast future jackpot game performance based upon past performance, but that range is broad. Jackpot game sales from year to year can be tens of millions of dollars different from estimates.

The Lottery continues to enhance its Wisconsin-only lotto games, such as *Badger 5*, through improvements to the games and limited time offers.

Much of the growth in instant scratch ticket sales has come from consumer demand for higher priced tickets which generally have higher top prizes, better overall odds of winning, and higher payouts. 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. Players see increased entertainment value in a higher risk-reward proposition.

Sales by game type for the past three years, and projected sales for the next two years, are shown on Table 1.

<sup>1</sup> FY21 sales data is from the Wisconsin Lottery's FY21 Unaudited Financial Statements as of December 30, 2021. These financial statements are preliminary and subject to change.

<sup>2</sup> Lottery Fund Condition Statement, September 21, 2021, used in certifying the amount of Lottery and Gaming Credit for property taxes levied in 2021.

<sup>3</sup> Includes *Powerball*, *Mega Millions*, *Megabucks*, and the daily game *Badger 5*.

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

<b>Game Type</b>	<b>FY19 Sales Final*</b>	<b>FY20 Sales Final*</b>	<b>FY21 Sales Preliminary**</b>	<b>FY22 Sales Projection***</b>	<b>FY23 Sales Projection***</b>
<b>Instant Scratch</b>	\$450,364,292	\$512,986,222	\$634,653,960	\$574,120,260	\$574,120,260
<b>Pull-tab</b>	\$978,975	\$755,460	\$525,015	\$711,387	\$711,387
<b>Lotto</b>	\$261,789,507	\$211,698,030	\$259,362,390	\$256,180,021	\$256,180,021
<b>Total</b>	<b>\$713,132,774</b>	<b>\$725,439,712</b>	<b>\$894,541,365</b>	<b>\$831,011,668</b>	<b>\$831,011,668</b>

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

\* Source: Legislative Audit Bureau Report 21-10, June 2021: Financial Audit of the Wisconsin Lottery. Figures rounded to the nearest dollar.

(<https://legis.wisconsin.gov/lab/media/3245/21-10full.pdf>)

\*\* Source: Wisconsin Lottery FY21 Unaudited Financial Statements, rounded to the nearest dollar, as of December 30, 2021. These financial statements are preliminary and subject to change.

\*\*\* Source: Lottery Fund Condition Statement, September 21, 2021, used in certifying the amount of Lottery and Gaming Credit for property taxes levied in 2021, rounded to the nearest dollar.

## **PRIZE PAYOUT**

Each individual game has a unique prize structure that represents the value of its prizes and the odds of winning those prizes. The prize payout is the percentage of Lottery revenue that is returned to players in the form of prizes.

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 instant scratch game are discontinued before all the tickets are sold, as is done when the last top prize in that game 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.

It is also difficult to project the annual prize payout of lotto games because, unlike scratch and pull-tab 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 Lottery can estimate the future aggregate annual prize payout percentages for each of its three main product types, by examining current market trends, evolving consumer preferences, and forecasted sales figures from the Lottery Fund Condition Statement. This statement is used to certify the amount of Lottery and Gaming Credit for property taxes.

## **Scratch Tickets**

Much of the growth in instant scratch ticket sales has come from consumer demand for higher priced tickets which generally have higher top prizes, better overall odds of winning, and higher payouts. 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. This strategy has been the driving force behind increased sales, not just here in Wisconsin, but around the lottery industry. Players see increased entertainment value in a higher risk-reward proposition. Wisconsin, however, continues to trend behind the industry in overall scratch game payout percentages.

Price points at or above \$10 accounted for 61.3 percent of scratch sales in FY21, compared to 50.1 percent in FY18. This increase in higher price-point sales has driven overall sales significantly higher in recent years; instant scratch game sales have posted ten consecutive record-setting years, trending steadily up from \$320.1 million in FY12 to \$634.7 million in FY21.<sup>4</sup> Much of the strength in FY21 was due to the continued strength of sales during the pandemic. We anticipate sales will continue to be very strong, albeit lower at \$574.1 million in FY22.

Table 2 depicts the shift in sales from lower priced tickets to higher priced tickets.

**Table 2. Percentage of Total Net Sales by Price Point**

Price Point	FY18 % of Total Net Sales	FY19 % of Total Net Sales	FY20 % of Total Net Sales	FY21 % of Total Net Sales	FY22 YTD % of Total Net Sales**
\$1	4.3%	3.9%	3.6%	2.9%	2.8%
\$2	12.0%	11.4%	10.2%	8.3%	7.7%
\$3	10.2%	9.4%	8.7%	8.0%	7.7%
\$5	23.3%	22.4%	21.0%	19.5%	20.2%
\$10	18.5%	21.8%	21.6%	24.0%	22.6%
\$15*	1.3%	1.2%	1.4%	1.2%	2.5%
\$20	21.9%	21.6%	23.1%	24.7%	25.0%
\$30	8.4%	8.2%	10.3%	11.4%	11.6%

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

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

\*\* Through December 25, 2021.

Ten years ago, 13 of the Lottery's 68 instant scratch games were higher price-point games (\$10 and higher). In FY22, the Lottery anticipates introducing 92 new instant scratch games, 35 at the \$10 price-point and higher (Table 3). The total number of games launched has increased due to the incremental nature of game sales at higher price-points and the strong, growing demand for \$10, \$20, and \$30 games. We anticipate launching slightly fewer individual \$10 and \$20 games in FY22 compared to FY21 due to increased print runs on some of our most popular offerings, resulting in a longer time on the market before sell-through.

<sup>4</sup> FY12 data is from Legislative Audit Bureau Report 15-9, July 2015: Financial Audit of the Wisconsin Lottery. (<https://legis.wisconsin.gov/lab/media/1188/15-9full.pdf>)

**Table 3. Historical Perspective: Number of New Game Launches**

Price Point	FY12 Number of Games	FY19 Number of Games	FY20 Number of Games	FY21 Number of Games	FY22 Anticipated Number of Games	FY23 Anticipated Number of Games
\$1	14	10	10	10	10	10
\$2	14	13	14	13	13	13
\$3	12	12	12	14	14	14
\$5	15	17	17	20	20	20
\$10	8	14	14	18	16	16
\$15	0	1	1	1	1	1
\$20	5	8	11	12	11	10
\$30	0	3	7	7	7	6
\$50	0	0	0	0	0	1
<b>Total Number of Games</b>	<b>68</b>	<b>78</b>	<b>86</b>	<b>95</b>	<b>92</b>	<b>91</b>
<b>Overall Scratch Prize Payout</b>	<b>64.81%</b>	<b>66.59%</b>	<b>67.67%</b>	<b>68.28%</b>	<b>68.46%</b>	<b>68.73%</b>

The Lottery estimates continued strong sales of higher price-point (higher prize payout) games will result in marginally higher aggregate scratch ticket payout rates over the next two fiscal years. Payouts are expected to be accompanied by continued robust sales of \$574.1 million per year. A potential introduction of a \$50 priced scratch game in FY23 is in-line with lottery industry trends and will help generate incremental sales.

Prize payout for instant scratch tickets was 68.28 percent in FY21. Consistent with industry trends, sales of higher price-point games are continuing to grow, and sales of low price-point games are gradually declining as a percent of total scratch sales. The Lottery estimates aggregate instant scratch game prize payout will be 68.46 percent in FY22 and 68.73 percent in FY23. This payout percentage will allow the Lottery to continue its strategy of meeting the growing market demand for higher price-point tickets and maximizing sales growth and funds available for property tax relief.

The Wisconsin Lottery's planned prize payout is lower than the lottery industry's average at all price-points (Table 4). The average instant prize payout for U.S. lottery jurisdictions was 68.65 percent in FY21, which is 0.37 percentage points higher than Wisconsin. Wisconsin's payout is the 18<sup>th</sup> lowest of the 38 jurisdictions reporting aggregate payout in FY21. Nonetheless, the Wisconsin Lottery payout for FY22 is anticipated to be 68.46 percent, which is on par with the projected national average of 68.67 percent.<sup>5</sup>

The trend towards stronger sales of higher price-point 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.

<sup>5</sup> La Fleur's Magazine: Vol. 28 No. 6, July / August 2021, TLF Publications.



**Table 4. Average Payout Rate by Price Point**

Price Point	U.S. Lotteries' FY21 Average Payout Rate*	Wisconsin's Designed Payout Rate
\$1	60.7%	59.0%
\$2	64.1%	62.0%
\$3	65.0%	63.0%
\$5	68.1%	64.5%
\$10	72.0%	70.0%
\$15	N/A	72.0%
\$20	74.4%	74.0%
\$30	76.7%	75.0%

\* Based on data presented in La Fleur's Magazine: Vol. 28 No. 6, July / August 2021, TLF Publications.

### **Pull-tab Tickets**

The Lottery continues to offer traditional pull-tab tickets without validation barcodes. Prize payout for pull-tab tickets was 62.67 percent in FY21. Prize payout of 62.71 percent is expected for FY22 and FY23.

Wisconsin Lottery pull-tab ticket sales decreased to \$525,015 in FY21 due largely to the ongoing impact of the pandemic. Most Wisconsin Lottery pull-tabs are sold by taverns, fraternal organizations, and at social events and fundraisers, and this source of revenue has been significantly impacted by the pandemic. Total pull-tab sales are projected to rebound to \$711,387 in FY22. Total sales for all pull-tab tickets were \$525,015 in FY21 and \$755,460 in FY20. For-profit retailer sales were \$97,455 in FY20 and \$105,090 in FY21. Non-profit sales were \$658,005 in FY20 and \$419,925 in FY21.

The Lottery had annual pull-tab sales of more than \$20 million when it was the exclusive vendor of pull-tabs in Wisconsin. However, the Lottery's market share has been eroded by unregulated private vendors operating either illegally or under sec.100.16(2), Wis. Stats. This law was designed to allow limited-term games of chance by retailers (e.g., McDonald's Monopoly game) but 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. The Lottery does not expect pull-tab ticket sales to increase significantly unless illegal private games cease and the statutory exemption allowing legal pull-tab games is modified.<sup>6</sup>

### **Lotto Tickets**

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

The prize payout for lotto games was 48.60 percent in FY21, ranging from 40.52 percent (*SuperCash!*) to 59.73 percent (*EZ Match*). Table 5 lists the lotto games and associated designed prize payouts that

<sup>6</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. (<https://legis.wisconsin.gov/lab/media/1564/08-13full.pdf>)

were offered in Wisconsin during FY21. 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 that the Lottery uses to enhance its Wisconsin-only lotto games, such as *Badger 5*.

At the end of FY20 the Lottery launched Midday Draw on June 14, 2020 as a 1:30 pm daily draw time for the following games: *All or Nothing*, *Daily Pick 3*, and *Daily Pick 4*. Performance in FY21 was positive with increased sales in all three games. *All or Nothing* had the highest sales recorded in the game's history. *Daily Pick 4* also had a record year, while *Daily Pick 3*'s sales were the third highest to date.

**Table 5. Lotto Games and Corresponding Start Dates and Prize Payout Rates**

Lotto Games	Start Date	Designed Payout*
SuperCash!	2/4/1991	52.80%
Powerball	4/19/1992	50.00%
Megabucks	6/18/1992	53.50%
Daily Pick 3	9/21/1992	48.20%
Daily Pick 4	9/15/1997	48.40%
Badger 5	2/17/2003	50.00%
Special Draw (Raffle)	3/4/2007	50.00%
Mega Millions	1/31/2010	50.00%
EZ Match	4/3/2011	63.15%
All or Nothing	4/7/2019	55.34%

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

Lotto games experienced a lower prize payout in FY21. The decreased payout for *SuperCash!* is the most noteworthy. This can be attributed to the lower number of *SuperCash!* top prize winners during this timeframe. In FY20, there were fourteen top prize winners, while only seven in FY21. On average *SuperCash!* had sixteen top prize winners each year from FY17 to FY21.

The Lottery believes it can manage the lotto product line at this time without a significant change to prize payout in the coming fiscal years. The overall lotto game payout is anticipated to be 50.53 percent in FY22 and 50.53 percent in FY23.

### Total Prize Payout and Prize Expense

Wisconsin law requires that at least 50 percent of Lottery gross sales be returned to players as prize payments.<sup>7</sup> In FY20, the Lottery's prize payout was 62.52 percent. By comparison, the overall prize payout for U.S. lottery jurisdictions was 64.88 percent.<sup>8</sup> In FY21, 62.57 percent of Wisconsin Lottery gross sales were returned to players as prize payments. From FY15 through FY19, instant scratch sales on average accounted for 62.5 percent of total sales. In FY20, this figure jumped to 70.7 percent and

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

<sup>8</sup> Based on data from reporting lotteries as presented in La Fleur's 2021 World Lottery Almanac, p. 243. FY20 is the latest year for which national figures for traditional ticket sales and prize payout are available.

remained consistent in FY21 at 71.0 percent. This is due to increased performance during the pandemic as previously discussed. Over the next two fiscal years, the prize payout for Wisconsin Lottery games will continue to be below industry averages.

Fiscal Year 2022: The Lottery expects to pay \$522.9 million in prizes. Total prize payout for all Lottery games is estimated to be 62.93 percent.

Fiscal Year 2023: The Lottery expects to pay \$524.5 million in prizes. Total prize payout is estimated to be 63.11 percent.

Prize payout increases have contributed to record sales. In FY11, the prize payout was 58.22 percent; sales were \$502.7 million.<sup>9</sup> Last year (FY21), the prize payout was 62.57 percent; sales were \$894.5 million.

Going forward, the Lottery should continue to achieve its sales goals with only slight adjustments to its current prize payout percentages. The Lottery proposes an instant scratch game prize payout of 68.46 percent in FY22 and 68.73 percent in FY23. This marginal increase from FY20 will allow the Lottery to maintain the successful higher price-point strategy to satisfy growing market demand. Pull-tab prize payout is expected to be 62.71 percent in FY22 and FY23. Total lotto game prize payout is also projected to go from 48.60 percent in FY21 to 50.53 percent in FY22 and FY23.

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 6. A weighted average is used to more accurately reflect the performance of games with higher sales.

**Table 6. Weighted Average Prize Payout Percentages by Fiscal Year and by Game Type\* (Percentages are rounded)**

Game Type	FY19** Prize Payout	FY20** Prize Payout	FY21*** Prize Payout Preliminary	FY22**** Prize Payout Estimated	FY23**** Prize Payout Estimated
Instant Scratch	66.59%	67.67%	68.28%	68.46%	68.73%
Pull-tab	62.66%	62.58%	62.67%	62.71%	62.71%
Lotto	50.20%	50.03%	48.60%	50.53%	50.53%
<b>Total</b>	<b>60.57%</b>	<b>62.52%</b>	<b>62.57%</b>	<b>62.93%</b>	<b>63.11%</b>

\* Data in Tables 1 and 6 have been rounded and may not exactly match data in Table 7.

\*\* Based on data in Legislative Audit Bureau Report 21-10, June 2021: Financial Audit of the Wisconsin Lottery. (<https://legis.wisconsin.gov/lab/media/3245/21-10full.pdf>)

\*\*\* Source: Wisconsin Lottery FY21 Unaudited Financial Statements as of December 30, 2021. The financial statements are preliminary and subject to change.

\*\*\*\* Based on Lottery sales estimates, Lottery Fund Condition Statement, September 21, 2021.

Table 7 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 FY22 and FY23 are calculated by multiplying the sales projection for each game by its prize payout percentage.

<sup>9</sup> Legislative Audit Bureau Report 13-11, July 2013: Financial Audit of the Wisconsin Lottery. (<https://legis.wisconsin.gov/lab/reports/13-11full.pdf>)

**Table 7. Prizes Paid or Expected to be Paid by Fiscal Year and by Game Type\***

<b>Game Type</b>	<b>FY19** Prize Expense (Final)</b>	<b>FY20** Prize Expense (Final)</b>	<b>FY21*** Prize Expense (Preliminary)</b>	<b>FY22**** Projected Prize Expense</b>	<b>FY23**** Projected Prize Expense</b>
<b>Instant Scratch</b>	\$299,919,079	\$347,129,054	\$433,319,594	\$393,042,730	\$394,592,855
<b>Pull-tab</b>	\$613,439	\$472,782	\$329,033	\$446,111	\$446,111
<b>Lotto</b>	\$131,413,329	\$105,920,550	\$126,042,780	\$129,447,765	\$129,447,765
<b>Total</b>	<b>\$431,945,847</b>	<b>\$453,522,386</b>	<b>\$559,691,407</b>	<b>\$522,936,605</b>	<b>\$524,486,730</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 21-10, June 2021: Financial Audit of the Wisconsin Lottery. Figures rounded to the nearest dollar.

(<https://legis.wisconsin.gov/lab/media/3245/21-10full.pdf>)

\*\*\* Source: Wisconsin Lottery FY21 Unaudited Financial Statements, rounded to the nearest dollar, as of December 30, 2021. These financial statements are preliminary and subject to change.

\*\*\*\* Based on Lottery sales estimates and Lottery Fund Condition Statement, September 21, 2021.

## **PRIZE PAYOUT IMPACT ON OPERATING COSTS**

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 experienced positive results while being conservative in its use of prize payout to drive sales.

The Lottery carefully manages payout, to maximize net operating income. This also ensures healthier property tax relief, which is the prize for homeowners. In FY11, the overall prize payout was 58.22 percent; in FY21, it was 62.57 percent.<sup>10</sup> During the same period, annual sales increased \$391.9 million, from \$502.7 million to \$894.5 million. Net operating income increased from \$142.7 million to \$229.9 million (preliminary).

Prize payout has had little effect on administrative costs. Total administrative expenditures as determined in accordance with sec. 25.75(3)(b), Wis. Stats. for FY21 were \$43.1 million (preliminary), up from \$39.1 million the previous fiscal year. This amount represents 4.82 percent of gross Lottery revenues in FY21, far within the 10 percent limitation set by statute.<sup>11</sup>

The Wisconsin Lottery continues to operate at highly efficient levels relative to other jurisdictions. Per capita administrative expenses in Wisconsin are the fifth lowest among traditional lotteries in the United States, as illustrated in Exhibit 1. Administrative expenses, as defined in sec. 25.75(3)(b), Wis. Stats., do not include retailer compensation and transfers to the Department of Justice for law enforcement.

In the upcoming fiscal year, the Wisconsin Lottery will continue fulfilling its mission to provide property tax relief to Wisconsin homeowners while operating with security, integrity, and social responsibility.

<sup>10</sup> FY11 data is from Legislative Audit Bureau Report 13-11, July 2013: Financial Audit of the Wisconsin Lottery.

(<https://legis.wisconsin.gov/lab/reports/13-11full.pdf>)

<sup>11</sup> Expense and Revenue figures are from the Wisconsin Lottery's FY21 Unaudited Financial Statements as of December 30, 2021. These financial statements are preliminary and subject to change.

## Exhibit 1. Fiscal 2020 U.S. Lottery Per Capita Administrative Expenses

Rank	Lottery <sup>1</sup>	Population <sup>2</sup> (Million)	Expense <sup>3</sup> (\$ Million)	Expense Per Capita
1	Oklahoma	3.98	19.73	4.96
2	Louisiana	4.65	26.26	5.65
3	New Mexico	2.11	12.17	5.78
4	Colorado	5.81	37.23	6.41
<b>5</b>	<b>Wisconsin</b>	<b>5.83</b>	<b>38.49</b>	<b>6.60</b>
6	North Dakota	0.77	5.07	6.63
7	Mississippi	2.97	20.39	6.87
8	Arizona	7.42	54.18	7.30
9	Minnesota	5.66	45.08	7.97
10	California	39.37	316.63	8.04
11	Texas	28.36	240.32	8.47
12	Washington	7.69	66.42	8.63
13	Florida	21.73	190.76	8.78
14	Wyoming	0.58	5.16	8.87
15	Missouri	6.15	55.12	8.96
16	South Carolina	5.22	47.04	9.02
17	Montana	1.08	10.24	9.47
18	Iowa	3.16	30.74	9.72
19	Tennessee	6.89	67.51	9.80
20	Nebraska	1.94	20.39	10.52
21	Indiana	6.76	72.50	10.73
22	Idaho	1.83	20.87	11.42
23	North Carolina	10.60	123.95	11.69
24	Illinois	12.59	153.64	12.21
25	New Jersey	8.88	113.39	12.77
26	Kentucky	4.48	59.27	13.24
27	Virginia	8.59	116.95	13.61
28	Arkansas	3.03	44.45	14.66
29	Massachusetts	6.89	104.04	15.09
30	Vermont	0.62	9.71	15.58
31	Maine	1.35	21.54	15.95
32	Georgia	10.71	178.18	16.64
33	New Hampshire	1.37	23.26	17.03
34	Connecticut	3.56	63.55	17.87
35	Pennsylvania	12.78	231.18	18.09
36	Michigan	9.97	186.72	18.73
37	District of Columbia	0.71	34.77	48.76
<b>Total</b>		<b>266.08</b>	<b>2866.90</b>	<b>10.77</b>

Source: La Fleur's 2021 World Lottery Almanac, pp. 251-258.

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

<sup>1</sup> Delaware, Kansas, Maryland, New York, Ohio, Oregon, Rhode Island, South Dakota, and W. Virginia are not listed due to traditional lottery expenses not being separated out.

<sup>2</sup> U.S. Bureau of the Census, July 1, 2020.

<sup>3</sup> Lottery administrative and operational expenses as stated in La Fleur's 2021 World Lottery Almanac.

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

Note: Population, Expense, and Expense Per Capita are rounded to the hundredths place.