

# Oklahoma Lottery Commission

Lead Administrator: Rollo Redburn

Lead Financial Officer: Jay Finks

FY'15 Projected Division/Program Budget By Source						
	Appropriations	Federal	Revolving	Local	Other*	Total
Please see charts on page 3			Please see charts on page 3			
<b>Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	

\*Source of "Other" and % of "Other" total for each.

FY'14 Carryover by Funding Source						
	Appropriations	Federal	Revolving	Local	Other*	Total
FY'14 Carryover#	\$0	\$0	\$0	\$0	\$0	\$0

\*Source of "Other" and % of "Other" total for each.

#All profits as identified in the annual, audited financial statements is turned over to the State per existing law. Profits must equal a minimum of 35%. The lottery is not allowed to have "carryover" as such. The Lottery is allowed by statute to carry a balance in the 205 fund equal to the estimated expenses in the next year plus \$500,000. This fund comes from retailer application and renewal fees and is used to keep the Trust Fund "whole" as it relates to retailer bad debts; pay costs of OSBI investigations on employees and vendors; contributes 35% minimum profit to the

Lottery Trust Fund; and pays for costs associated with external audits. The Lottery also has restricted funds in the unclaimed prize pool. These funds are used to enhance prizes as allowed by law. These funds are used to enhance payouts each year and the balance of these funds is budgeted to decline. Instant sales are in the fourth year of decline and the decline would be even more dramatic if the prizes were not enhanced with these unclaimed funds. The Lottery also maintains restricted funds in MUSL (Multi-state Lottery Association) accounts. These reserves

are required to participate in the multi-state games PowerBall, MegaMillions and Hot Lotto. These funds are accessible by withdrawing from the multi-state games and after state liabilities have all been addressed.

## What Changes did the Agency Make between FY'14 and FY'15

**1.) Are there any services no longer provided because of budget cuts?**

We still operate a lottery, sell tickets, pay vendors; no services to users were eliminated.

**2.) What services are provided at a higher cost to the user?**

A new contract for a gaming system was competitively bid resulting in a new contract effective 8/1/13 at 3.99% versus previous 2.84%. This is a cost to the lottery, impacting the user through reduced payouts and resulting in lower sales and profits.

**3.) What services are still provided but with a slower response rate?**

n/a

**4.) Did the agency provide any pay raises that were not legislatively/statutorily required?**

There have been no legislatively / statutorily required pay raises impacting the Lottery of which we are aware. Pay raises have been provided in accordance with existing law and each is approved pursuant to Executive Orders regarding freeze exceptions as follows: when new employees are hired, they may be placed on a 6 month to one year trial period at the end of which they may receive a boost in pay. The same practice may be used in the case of promotions. All adjustments have been more than covered by savings achieved in payroll, through eliminating the advertising agency contract and renegotiation of the office lease, along with other savings achieved. Total savings exceed \$400,000 annually.

## FY'16 Expected Division/Program Budget By Source

	Appropriations	Federal	Revolving	Other	Total	% Change
Please see charts on page 3			Please see charts on page 3			
<b>Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.0%</b>

\*Source of "Other" and % of "Other" total for each.

## FY'16 Top Five Budget Adjustments/Needs (if applicable)

	\$ Amount
1. eliminate existing 35% minimum mandated profit requirement to allow the lottery to raise more \$ for education.	
2. authority to grant pay increases to cover the changes in benefits costs when they increase.	
3. costs for additional tech equipment and other costs as may be required to move IT equipment and services to OMES.	
4. update of 9-year old sales force automation system.	

**Total Increase above FY-15 Budget**

0

## How would the agency handle a 3% appropriation reduction in FY'16?

**How would the agency handle a 5% appropriation reduction in FY'16?**

**Is the agency seeking any fee increases for FY'16?**

		\$ Amount
Increase 1	n/a	\$0
Increase 2	n/a	\$0
Increase 3	n/a	\$0

**What are the agency's top 2-3 capital or technology (one-time) needs, if applicable?**

1. depends on recommendation we receive from OMES / CIO regarding possibility of consolidating IT equipment in the data center. could mean that new servers are required, or some other equipment. This is the top capital need.
2. newer equipment / systems in the field would be great, however the anticipated benefit compared to the cost doesn't justify it given our current restricted environment. All funds possible are invested in prize payouts to get a better return for education.

**Federal Government Impact**

**1.) How much federal money received by the agency is tied to a mandate by the Federal Government?**

n/a

**2.) Are any of those funds inadequate to pay for the federal mandate?**

n/a

**3.) What would the consequences be of ending all of the federal funded programs for your agency?**

n/a

**4.) How will your agency be affected by federal budget cuts in the coming fiscal year?**

n/a

**5.) Has the agency requested any additional federal earmarks or increases?**

n/a

**Division and Program Descriptions**

**Administration**

Accounting; accounts payable; accounts receivable; payroll & HR (both under contract with OMES); coordinate with external financial auditors (contracted out) and with internal controls auditor (contracted out); procurement; contracts; budget & projections; processing of prize claims and payments; gate-keeper for incoming calls; maintenance of complaint tracking system.

**Executive Office**

Consists of the Executive Director: management of the agency; legislative relations; PR; legal; representation of multi-state game controlling boards; Finance and Audit chair of Multi-state Lottery Association; representation on Responsible Gaming Committee of national organization.

**Security Unit**

Lottery ticket security; player problem resolution; retailer problem resolution; fraud investigations (retailers and/or players); coordination of security related investigations with local law enforcement and prosecution; management of ticket and terminal paper destruction.

**Sales**

Coordination and monitoring of field sales efforts with gaming vendor; supervision of sales force; development and delivery of promotions in the field; implementing sales policies at retail; placement of POS materials; management of lottery presence in retail locations.

**Marketing**

Development of marketing strategies; POS materials (posters; banners; playstation inserts; ticket dispensers and inserts; etc.); advertising contracts; ticket design and production coordination; participation in events around the state; development and maintenance of partnerships with vendors.

**Operations**

Includes transfers to the State; gaming system contract costs; licensed property costs; production of instant tickets; retail contract costs.

**IT**

OLC computer operations; coordination with Scientific Games International (SGI), the gaming system vendor, regarding gaming system, required system changes and updates; necessary interfaces; coordination of data exchanges with SGI and with ICS vendor (backup control data for gaming systems; maintenance of field sales force automation system and office IT needs; management of UAT (user acceptance testing for all game changes, in-state games and multi-state games; ensuring proper functioning of draw systems; back-office systems.

**Prizes**

This is a category to capture prize expense.

FY'16 Budgeted FTE						
	Supervisors	Classified	Unclassified	\$0 - \$35 K	\$35 K - \$70 K	\$70 K - \$\$\$
Administration	1	0	7	0	8	0
Executive Office	1	0	0	0	0	1
Security Unit	1	0	2	0	3	0
Sales	3	0	4	0	6	1
Marketing	2	0	4.8	0.8	5	1
Operations	0	0	0	0	0	0
IT	1	0	1	0	1	1
Prizes	0	0	0	0	0	0
<b>Total</b>	<b>9</b>	<b>0</b>	<b>18.8</b>	<b>0.8</b>	<b>23</b>	<b>4</b>

FTE History					
	2015 Budgeted	2014	2010	2009	2004
Administration	8.0	8.0	16.0	16.0	N/A
Executive Office	1.0	1.0	2.0	2.0	N/A
Security Unit	3.0	3.0	3.0	3.0	N/A
Sales	7.0	7.0	7.0	7.0	N/A
Marketing	7.8	7.8	9.0	9.0	N/A
Operations	0.0	0.0	0.0	0.0	N/A
IT	2.0	2.0	4.0	4.0	N/A
Prizes	0.0	0.0	0.0	0.0	N/A
<b>Total</b>	<b>28.8</b>	<b>28.8</b>	<b>41.0</b>	<b>41.0</b>	<b>0.0</b>

Performance Measure Review					
	FY'13	FY'12	FY'11	FY'10	FY'09
<b>Measure I</b>	\$ in millions	\$ in millions	\$ in millions	\$ in millions	\$ in millions
Long-term sustained growth in profits	\$ 70.114	\$ 69.991	\$ 69.396	\$ 69.974	\$ 69.227
funding for Oklahoma education programs; measured by growth in profits provided by the Lottery	<i>\$ chg from PY</i> \$ 0.123	<i>\$ chg from PY</i> \$ 0.595	<i>\$ chg from PY</i> \$ (0.578)	<i>\$ chg from PY</i> \$ 0.747	<i>\$ chg from PY</i> \$ (2.382)
	<i>% chg from PY</i> 0.18%	<i>% chg from PY</i> 0.86%	<i>% chg from PY</i> -0.83%	<i>% chg from PY</i> 1.08%	<i>% chg from PY</i> -3.33%
<b>Measure II</b>	\$	\$	\$	\$	\$
Increase in projected sales to support increases in profits	200.209	199.854	198.154	199.747	193.165
	<i>\$ chg from PY</i> \$ 0.355	<i>\$ chg from PY</i> \$ 1.700	<i>\$ chg from PY</i> \$ (1.593)	<i>\$ chg from PY</i> \$ 6.582	<i>\$ chg from PY</i> \$ (11.346)
	<i>% chg from PY</i> 0.18%	<i>% chg from PY</i> 0.86%	<i>% chg from PY</i> -0.80%	<i>% chg from PY</i> 3.41%	<i>% chg from PY</i> -5.55%

Revolving Funds (200 Series Funds)			
	FY'12-14 Avg. Revenues	FY'12-14 Avg. Expenditures	June '14 Balance
<b>Revolving Fund 200*</b>			
OK Education Lottery Commission Fund	\$197,388,310	\$195,417,675	\$5,248,351
<b>Revolving Fund 205*</b>			
Fidelity Revolving Fund	\$109,004	\$111,946	\$229,144

\* These represent the assets minus liabilities at the end of FY'2014 as identified in our financial statements. The balance in the 200 Revolving Fund is the amount of money carried over in unclaimed prize funds. Use of these funds is restricted by law to augment prize payouts. The balance in the 205 fund is restricted as to use and is the cash balance as of the end of the fiscal year. Projected balances for each fund for the end of FY'2015 are: Unclaimed Prize Funds \$4,300,000; 205 Fidelity Revolving Fund \$120,944.06. Encumbrances for each fund will vary depending on outstanding games in the market. Projected ending balances for the Unclaimed Prize Funds for the following fiscal years are: FY'16 \$3,253,351; FY'17 \$2,103,351; FY'18 \$1,003,351. The use of these funds will vary on the product mix of game sales during the year and on the rise and fall of multi-state game sales in relation to Scratch game sales.

Lottery Revenues by Year and Source						
	FY'2011	FY'2012	FY'2013	FY'2014	FY'2015 proj.	FY'2016 est.
Instant (Scratchers)	\$102,969,295	\$95,978,562	\$89,393,668	\$85,876,010	\$81,800,000	<b>\$80,200,000</b>
On-line games:						
Instate Online Games	\$10,563,117	\$10,904,714	\$10,353,034	\$9,895,762	\$11,350,000	<b>\$10,900,000</b>
Hot Lotto game	\$9,514,730	\$7,407,098	\$8,306,635	\$8,858,804	\$9,000,000	<b>\$8,800,000</b>
MegaMillions	\$20,954,777	\$27,328,981	\$16,108,965	\$27,674,261	\$23,000,000	<b>\$22,100,000</b>
Powerball game	\$54,152,013	\$58,235,023	\$76,046,572	\$58,822,255	\$51,200,000	<b>\$48,100,000</b>
Total Online Game Revenues	\$95,184,637	\$103,875,816	\$110,815,206	\$105,251,082	\$94,550,000	\$89,900,000
Lottery Game Revenues	\$198,153,932	\$199,854,378	\$200,208,874	\$191,127,092	\$176,350,000	\$170,100,000
Retailer application fees	\$112,380	\$112,375	\$108,637	\$106,000	\$105,000	<b>\$105,000</b>
Other	\$8,234	\$6,600	\$6,848	\$7,250	\$5,000	<b>\$5,000</b>
<b>Total</b>	<b>\$198,274,546</b>	<b>\$199,973,353</b>	<b>\$200,324,359</b>	<b>\$191,240,342</b>	<b>\$176,460,000</b>	<b>\$170,210,000</b>
Lottery Game Related Expenses by Year and Source						
	FY'2011	FY'2012	FY'2013	FY'2014	FY'2015 proj.	FY'2016 est.
Commissions and incentives to retailers	\$13,219,310	\$13,233,747	\$13,114,765	\$12,647,675	\$11,767,556	<b>\$11,358,750</b>
Prize expenses:						
Instant games	\$60,780,047	\$54,410,671	\$50,727,284	\$47,973,892	\$47,295,153	<b>\$46,055,828</b>
Online games:						
Instate Online Games	\$5,017,454	\$5,138,173	\$5,430,443	\$4,916,180	\$5,675,000	<b>\$5,450,000</b>
Hot Lotto game	\$4,411,148	\$3,575,998	\$3,942,229	\$4,236,867	\$4,500,000	<b>\$4,400,000</b>
MegaMillions	\$10,436,364	\$13,445,425	\$7,218,111	\$13,263,233	\$11,500,000	<b>\$11,050,000</b>
Powerball game	\$25,955,811	\$26,482,543	\$37,145,357	\$27,106,383	\$25,600,000	<b>\$24,050,000</b>
Total online game prize exp.	\$45,820,777	\$48,642,139	\$53,736,140	\$49,522,663	\$47,275,000	\$44,950,000
Total lottery game prize exp.	\$106,600,824	\$103,052,810	\$104,463,424	\$97,496,555	\$94,570,153	\$91,005,828
Instant and on-line costs	\$5,895,707	\$6,081,715	\$5,948,626	\$7,798,373	\$7,572,072	<b>\$7,341,426</b>
<b>Total</b>	<b>\$125,715,841</b>	<b>\$122,368,272</b>	<b>\$123,526,815</b>	<b>\$117,942,603</b>	<b>\$113,909,781</b>	<b>\$109,706,004</b>
Lottery Operations Expenses by Year and Source						
	FY'2011	FY'2012	FY'2013	FY'2014	FY'2015 bud.	FY'2016 est.
Advertising (incl. Promos. & Spec.Events)	\$3,023,269	\$1,652,640	\$1,623,715	\$1,520,686	\$1,900,000	<b>\$1,963,426</b>
Salaries, wages and benefits	\$2,888,869	\$2,661,825	\$2,419,342	\$2,345,767	\$2,495,000	<b>\$2,463,003</b>
Contracted and professional services	\$158,711	\$122,459	\$162,144	\$167,068	\$173,000	<b>\$171,579</b>
Depreciation & Amortization	\$100,964	\$52,823	\$37,817	\$37,985	\$36,000	<b>\$38,000</b>
Equipment	\$27,449	\$702	\$17,291	\$11,562	\$35,000	<b>\$40,700</b>
Rent expense	\$205,136	\$194,901	\$199,791	\$193,862	\$196,000	<b>\$159,705</b>
Office supplies	\$33,024	\$35,127	\$34,872	\$17,774	\$20,000	<b>\$23,793</b>
Travel	\$15,338	\$22,269	\$17,102	\$11,426	\$25,000	<b>\$28,875</b>
Other gen & admin.(incl. Bad Debt Exp.)	\$143,369	\$118,015	\$103,061	\$180,827	\$120,000	<b>\$119,026</b>
<b>Total</b>	<b>\$6,596,129</b>	<b>\$4,860,761</b>	<b>\$4,615,135</b>	<b>\$4,486,957</b>	<b>\$5,000,000</b>	<b>\$5,008,107</b>
Transfers to DMHSAS for treatment of gambling addiction	\$ 500,000	\$ 500,000	\$ 500,000	\$ 750,000	\$ 750,000	\$ 750,000

**Lottery Contributions to the Oklahoma Education Lottery Trust  
Fund by Year**

Fiscal Year	\$millions
FY'06	\$68.949
FY'07	69.378
FY'08	71.609
FY'09	69.227
FY'10	69.974
FY'11	69.396
FY'12	69.991
FY'13	70.114
FY'14	<u>66.934</u>
Total thru '14	625.572
FY'15 proj.	59.258
FY'16 est.	<u>57.200</u>
<b>Est. thru '16</b>	<b>\$742.030</b>