

Oklahoma Lottery Commission (#435)

Lead Administrator: Rollo Redburn, Executive Director

FY'17 Projected Division/Program Funding By Source

	Appropriations	Federal	Revolving	Local	Other*	Total
Oklahoma Lottery*					\$147,810,000	\$147,810,000
Total		\$0	\$0	\$0	\$147,810,000	\$147,810,000

*Estimated net revenues from sales of Lottery products across 1,900 retail locations throughout the State. 35% of all net revenues (estimated at \$51.7m) to be contributed to Oklahoma Education. Board of Equalization certified 95% of that number (\$49.1m) in January 2016.

FY'16 Carryover and Refund by Funding Source

	Appropriations	Federal	Revolving	Local	Other*	Total
FY'16 Carryover*					\$7,721,780	\$7,721,780
FY'16 GR Refund**						\$0

Defined as the total amount of unclaimed prizes available to the Oklahoma Lottery. Current law calls for first \$750,000 each year to be provided to the Department of Mental Health. The remainder, by law, can be utilized for prizes. These unclaimed funds are re-invested into the Instant Games to provide players with a better playing experience, resulting in better sales and profits. The loss of these funds would require a reduction in prize payouts, resulting in lower sales and would create a catastrophic negative impact in contributions to Oklahoma Education. The target balance for the end of each fiscal year is about \$5 million dollars. Fluctuations in the balance do occur if a large prize goes unclaimed; the Lottery had 2, \$1 million tickets expire in March and June of 2016. A five year projection of estimated Lottery revenues, without any Legislative changes to the current law, reduce the unclaimed balance to around \$3 million. If Legislative relief from the minimum mandated profit is granted in 2017, sales and profits will be expected to increase at a substantial rate. The unclaimed prize fund will be instrumental in driving those required sales levels in the first 5 years of sales growth.

**Indicate how the FY'16 General Revenue refund was budgeted N/A

What Changes did the Agency Make between FY'16 and FY'17?

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

Due to the restrictive nature of the Lottery law (35% profit requirement), the Lottery has been forced to reduce many of its core operations to maintain its commitment to Oklahoma Education. Over the past 6 years administrative and operations costs have been reduced more than 40%, including a reduction in full time employees (from a high of 40, to a current total of 28). Advertising and marketing costs have also been reduced by 50% during that same time.

2.) What services are provided at a higher cost to the user? N/A

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

In order to run this operation, the Lottery must contract with a "Gaming Vendor" to help provide a wide variety of resources, including gaming equipment, sales and field personnel, technology and printing and shipping services for instant tickets. During a recent contract renewal period the rate for these services increased from 2.84% of sales to 3.99% of sales. In order to minimize the impact of this increase, the number of vendor-provided field personnel was reduced, including both field technicians and retail sales representatives. This increased the workload on OLC personnel to maintain required operational needs.

4.) Did the agency provide any pay raises that were not legislatively/statutorily required? If so, please provide a detailed description in a separate document.

Any changes in pay are only provided in accordance with State laws and are approved by the Cabinet Secretary for Finance and Revenue. When positions are vacated, the positions are reviewed to see if duties can be absorbed and pay increases provided to employees getting additional duties. Since September of 2015, the Lottery has replaced (7) different positions due to departures, and restored 2 vacant positions previously filled and left vacant (refilled due to workload requirements) all at a net reduction in payroll costs in the approved FY17 budget.

FY'18 Expected Division/Program Funding By Source

	Appropriations	Federal	Revolving	Local	Other	Total	% Change
Oklahoma Lottery*						\$142,857,364	-3.35%
Total		\$0	\$0	\$0		\$142,857,364	-3.35%

*Estimated net revenues from sales of Lottery products across 1,900 retail locations throughout the State. 35% of all net revenues (estimated at \$50m) to be contributed to Oklahoma Education. Board of Equalization certified 95% of that number (\$47.5m) December 21, 2016..

FY'18 Top Five Budget Adjustments

	\$ Amount
Request 1: Current FY18ff estimates show a continued reduction in net revenues and contributions to Oklahoma Education. Legislative relief from the 35% minimum mandated profit has the potential to drive incremental revenues to the State for Oklahoma education programs. The current 5-year projection estimates a potential increment of \$110 million or more.	
Request 2: Current administrative and operational costs would be held in check as the majority of funds would need to be re-invested in the prize funds for better performing games. The increase in sales would dictate the need for a slight increase in personnel (2 to 4 people max).	
Request 3: Advertising and Marketing expenses would see a slight increase as the need to raise awareness of the law change and inform lottery players of changes to the games are necessary in the efforts to increase sales and profits for the State.	

How would the agency handle a 5% appropriation reduction in FY'18?

How would the agency handle a 7.5% appropriation reduction in FY'18?

How would the agency handle a 10% appropriation reduction in FY'18?

Is the agency seeking any fee increases for FY'18?

	\$ Amount
N/A	\$0

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

No capital requests. The Lottery is working with OMES/CIO to better utilize their hardened IT facility in order to protect our critical IT infrastructure which includes gaming equipment and systems as well as to ensure continual operations of the gaming systems.

Federal Government Impact

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

N/A (not applicable to OLC operations)

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

Board of Equalization

Revenues to cover appropriations made by the Legislature from the Lottery Trust Fund are sent to the State Treasurer monthly and ALL PROFIT, a minimum of 35% of sales, is sent each year to cover appropriations and to provide cash for the next legislative session for appropriation to education.

Retailer and Gaming Vendor Commissions

A Lottery retailer (a contracted Oklahoma business that sells Lottery tickets) receives 6% of every dollar sold as a sales commission and a .75% cashing bonus for all prizes cashed by the retailer. As described above, the Oklahoma Lottery retains the services of a gaming vendor to provide the gaming system and state-wide terminals at 3.99% of sales, with the potential for a 1% bonus on sales increases over previous averages.

Executive

Includes costs associated with the Executive Director's salary.

Operations and Administration

Includes payroll costs associated with prize claims processing personnel; procurement personnel; office coordinators / personnel; accounting personnel; agency travel; contracts with: AG, OMES (non-IT), external auditors, internal controls auditors, drawing auditors; rent; office supplies; memberships.

Marketing

Includes all costs associated with media, production, promotions, and special events partnerships, and advertising and payroll for Marketing personnel.

Sales

Includes payroll costs associated with sales personnel.

Security

Includes payroll costs associated with security personnel, OMES leased vehicles, security-related expenditures.

IT

Includes all costs associated with copiers, printers, telephone, personal computers, servers, communications equipment and payroll for IT personnel.

FY'17 Budgeted FTE

	Supervisors	Classified	Unclassified	\$0 - \$35 K	\$35 K - \$70 K	\$70 K - \$\$\$
Executive Administration	1		1			1
Accounting	1		4	1	3	
IT	1		4		4	
Marketing	2		2		2	
Security	1		6		4	2
Sales	2		3		3	
Total	8	0	28	1	23	4

FTE History*

	2017 Budgeted	2016	2013	2010	2006
Oklahoma Lottery Commission	30	28	28	44	44
* as of June 30, EOY (FT / PT)	(28 / 2)	(28 / 0)	(27 / 1)	(37 / 7)	(40 / 4)
Total	30	28	28	44	44

Performance Measure Review

	FY'16	FY'15	FY'14	FY'13	FY'12
Measure I Increase in Lottery profits deposited to OELTF (Oklahoma Education Lottery Trust Fund)	\$66.4m	\$60.1m	\$66.9m	\$70.1m	\$70.0m
Measure II Continued excellence in customer service, security, integrity, responsible gambling principles and public accountability	Clean Financial Statements, GFOA certificate of excellence award 0, yes	Clean Financial Statements, GFOA certificate of excellence award 0, yes	Clean Financial Statements, GFOA certificate of excellence award 0, yes	Clean Financial Statements, GFOA certificate of excellence award 0, yes	Clean Financial Statements, GFOA certificate of excellence award 0, yes
Measure III Development and marketing of fun and innovative lottery products	Maintain sales levels 10%	Maintain sales levels -10%	Maintain sales levels -4%	Maintain sales levels 0%	Maintain sales levels 0%

Revolving Funds

	FY'14-16 Avg. Revenues	FY'14-16 Avg. Expenditures	June '16 Balance
Revolving Fund 200* OK Education Lottery Commission Fund Statutory Authority OS 3A, Sec. 713 (G) Source of Funds: Proceeds from Lottery sales, interest income What is the fund spent on? Payment to OK Education, Prizes, Lottery Ops, Payment to Dept of Mental Health Is there a cap on the fund? NO	\$184,434,044	\$183,371,745	\$7,771,827
Revolving Fund 205 Fidelity Revolving Fund Statutory Authority? OS 3A, Sec. 719 Source of Funds: Retailer App Fees, App Renewal Fees, Interest Income on Bank Account Balance What is the fund spent on? External Audits, OSBI Investigations, Uncollectible Accounts, 35% of App Fee Reimbursement Is there a cap on the fund? YES (\$500k)	\$108,585	\$93,219	\$200,943
*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. Encumbrances for the 200 fund will vary based on the number of outstanding games / level of prizes yet to be purchased or redeemed in the marketplace. Without a change in the current law, the balance of these unclaimed funds is projected to fall below \$3 million dollars in the next five years. The use of the these funds for prizes will vary based on the product mix as determined by current market demand for the product.			