



# PROGRAM EVALUATION DIVISION

## NORTH CAROLINA GENERAL ASSEMBLY

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# Options Exist for Increasing Lottery Proceeds for Education

## Summary

As directed by the Joint Legislative Program Evaluation Oversight Committee, the Program Evaluation Division evaluated whether the North Carolina State Lottery is providing the maximum benefit to the State by examining its operations, existing revenue-generating strategies, and efforts to reduce costs.

**Annual lottery revenues have steadily grown and performance is slightly above average compared with other states.** In Fiscal Year 2016, the NC Lottery produced total operating revenues of almost \$2.4 billion with a net income of \$634 million transferred to the Education Lottery Fund. Ticket sales and revenue returns to the State have increased in each of the Lottery's 10 years of complete operations. North Carolina ranks 18<sup>th</sup> (out of 44) in per capita sales and 14<sup>th</sup> (out of 34) in per capita net revenues returned to the state from traditional lottery ticket sales.

**Expanding the retailer network could increase lottery revenue.** Increasing the number of retailers that sell lottery tickets has the potential to increase revenue by making lottery products more readily available for purchase. The NC Lottery ranks 26<sup>th</sup> in retailer density among the 44 lottery states.

**Reducing the compensation paid to NC Lottery retailers could yield additional revenue.** North Carolina provides the 7<sup>th</sup> highest compensation paid to its lottery retailers among the 44 lottery states.

**Additional options with the potential to increase sales revenue and subsequent increased transfers to the NC Education Lottery Fund include authorizing Video Lottery Terminals and offering iLottery games online.** These actions would create more retailers resulting in more opportunities for purchasing lottery tickets and could boost sales among younger generations of players.

**Improved data collection and analysis methods could help the NC Lottery more effectively measure the influence of advertising on sales.** Presently, the Lottery does not have a model that measures or predicts the relationship between sales and advertising expenditures.

**To address these findings, the General Assembly should** (1) require the NC Lottery to establish targets for retailer growth and annually report on its performance in meeting these targets; (2) direct the Lottery to examine the retailer compensation structure for all games and consider developing alternatives to the current compensation structure; (3) direct the Lottery to provide a business case for options to increase lottery ticket sales; and (4) require the Lottery to annually report on the effectiveness of advertising expenditures on ticket sales.