Options Exist for Increasing Lottery Proceeds for Education

A presentation to the Joint Legislative
Oversight Committee on the North Carolina State Lottery
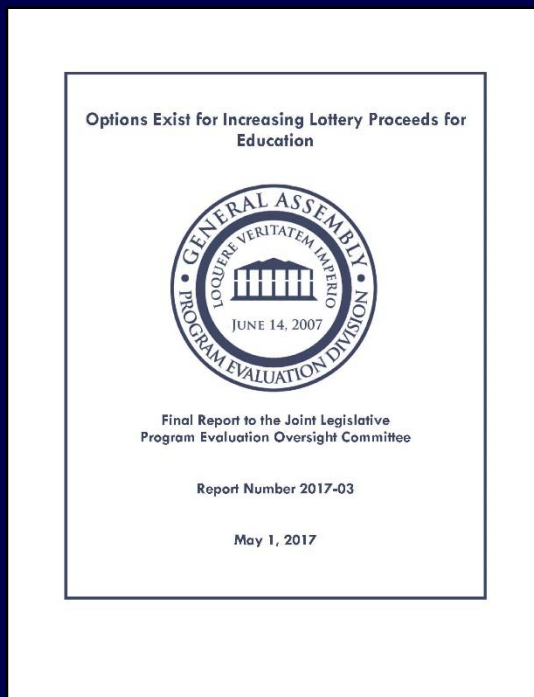
February 15, 2018

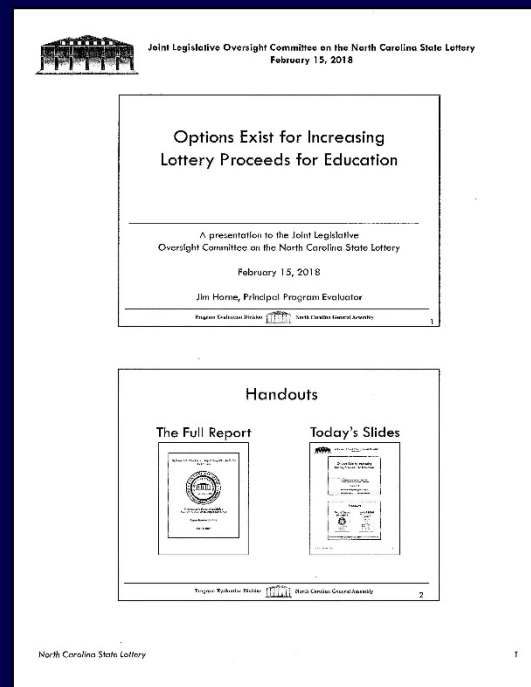Jim Horne, Principal Program Evaluator

Handouts

The Full Report

Today's Slides

Our Charge

Determine if the Lottery is providing the maximum benefit to the State by examining its operations, existing revenue-generating strategies, and efforts to reduce costs

Background

Background

- NC Lottery is a $2 billion business

- Ticket sales have grown every year

- Fiscal Year 2017 sales were $2.4 billion

- Proceeds to education were $622.5 million

Program Evaluation Division   **North Carolina General Assembly**

Background

Lottery sales are based on two types of games:

- Instant scratch-off games (68%)

- Draw games (32%)

Background

Background
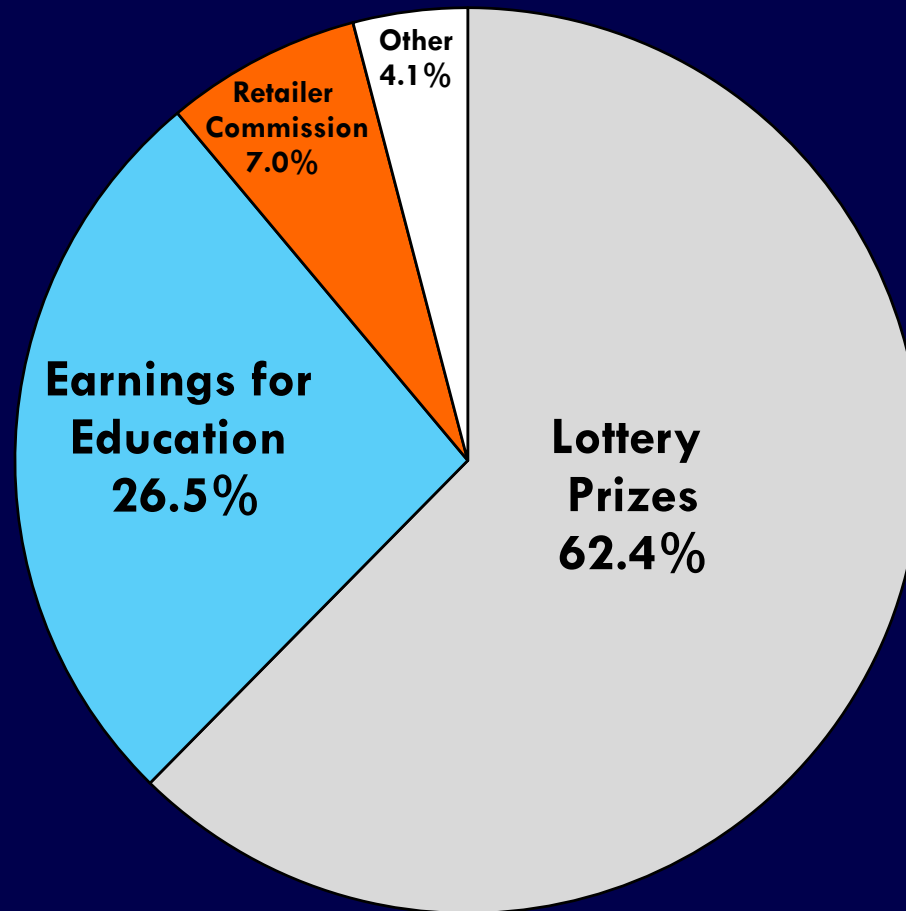

Pie chart:
- Lottery Prizes 62.4%
- Earnings for Education 26.5%
- Retailer Commission 7.0%
- Other 4.1%

Findings

Finding 1

NC Lottery's performance is slightly above average when compared with other states

Finding 1: Performance

Per capita sales:
- NC Lottery $197
- National average $185

Per capita returns to the State:
- NC Lottery $52
- National average $48

Finding 1: Performance

NC Lottery ranks:

- 18th out of 44 in per capita sales
- 14th out of 34 in per capita returns to the State

Goal is to be ranked among the top 12 lottery states in next five years

Finding 1: Performance

Among six neighboring states, NC Lottery ranks last in:

- per capita sales

- per capita returns to the State

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Finding 2

Expanding the retailer network could increase lottery revenue

Finding 2: Retailer Density

- Best practice: 1 per 1,200 residents

- NC retailer density: 1 per 1,455 residents

- Top 10 states with highest per capita sales averaged 1 per 1,173 residents

- Massachusetts Lottery ranks 1st in per capita sales and 1st in retailer density (1 per 825 residents)
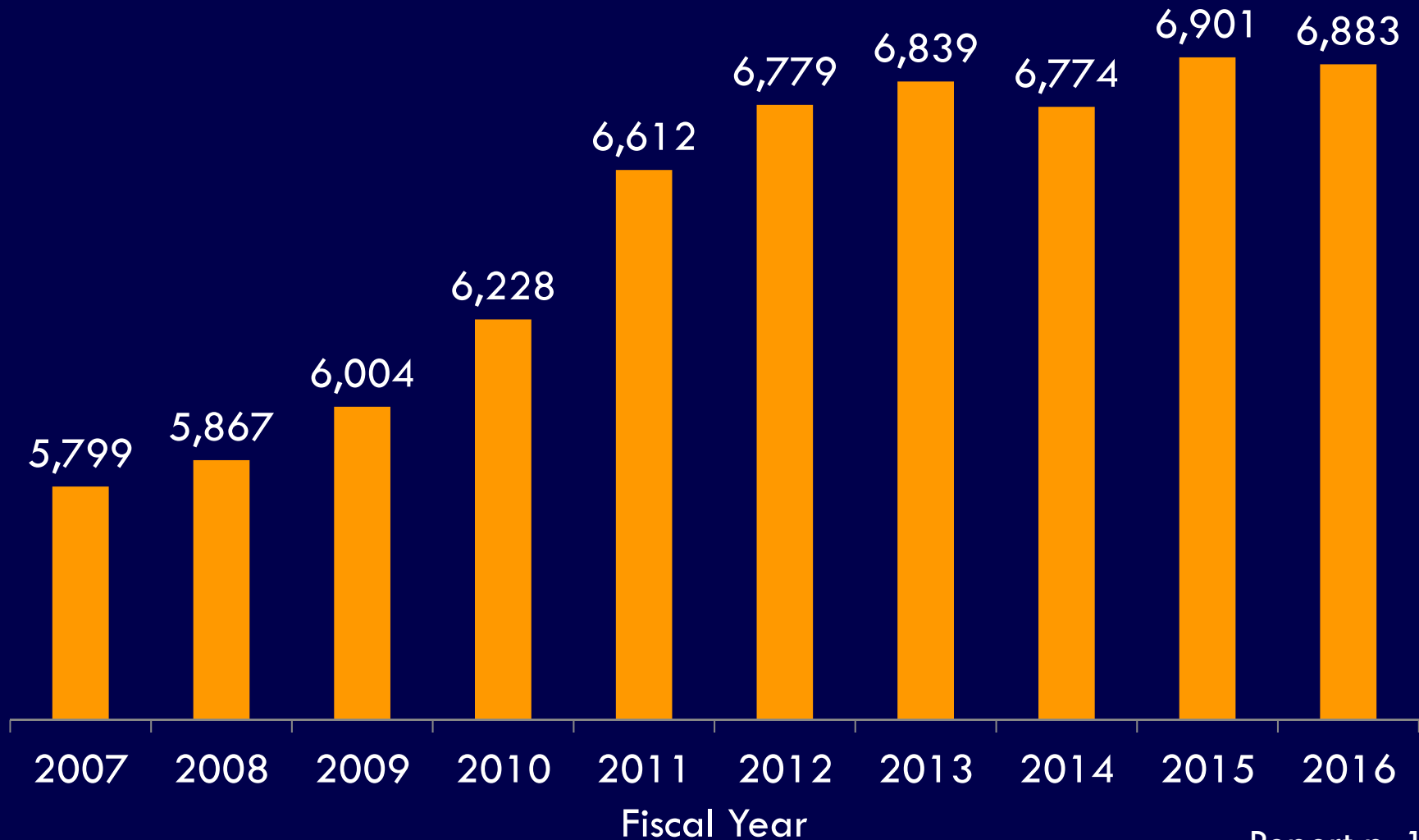
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Finding 2: Retailer Density

- Overall, North Carolina ranks 26th out of 44 lottery states in retailer density

- Among six neighboring states, NC Lottery ranks next to last in retailer density

Finding 2: Retailer Density

Bar chart showing retailer density by fiscal year:

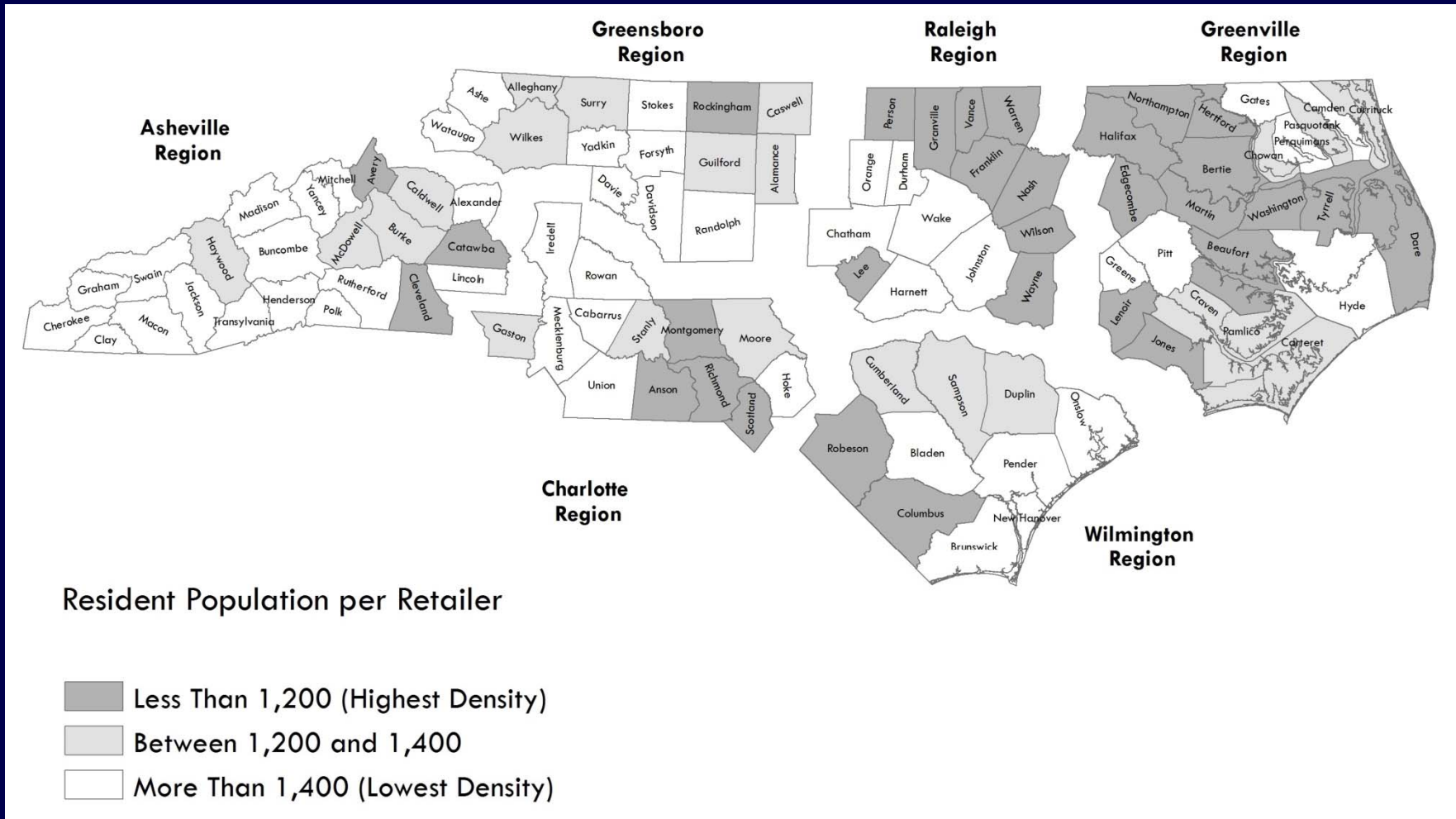| Fiscal Year	Value
2007	5,799
2008	5,867
2009	6,004
2010	6,228
2011	6,612
2012	6,779
2013	6,839
2014	6,774
2015	6,901
2016	6,883

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Finding 2: Retailer Density

- Install lottery machines in ABC stores

- Expand to other retail locations such as airports

- Increase use of self-service vending machines

- Focus on recruiting new retailers in counties that have lowest retailer density

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Finding 2: Retailer Density

Resident Population per Retailer

Less Than 1,200 (Highest Density)
Between 1,200 and 1,400
More Than 1,400 (Lowest Density)

Finding 3

Alternative approaches to structure and amount of retailer compensation could yield additional proceeds for education

Finding 3: Retailer Compensation

- Lottery retailers in North Carolina receive a 7% commission set by statute

- Retailer incentives have been added, boosting actual compensation rate to 7.04%

Finding 3: Retailer Compensation

- Lottery states differ in how they reward retailers

- Most states have a sales commission rate as a base and then add incentives

- Average retailer compensation rate among the 44 lottery states is 6.28%, ranging from 4.89% to 8.44%

- At 7.04%, North Carolina is tied with Tennessee for the 7th highest compensation paid to lottery retailers

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Finding 3: Retailer Compensation

North Carolina's compensation paid to its lottery retailers is above the average paid in other states

7.04% is higher than:

- national average of 6.28%

- average paid in adjacent states of 6.48%

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Finding 3: Retailer Compensation

- Amount of compensation retailers receive directly influences how much money is available to be transferred to the State for education

- If the retailer commission rate had been 6% instead of 7%, an additional $157 million would have been available for Lottery Education Fund

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Finding 3: Retailer Compensation

State	Instant Game Commission %	Draw Game Commission %
Colorado	7.00	6.00
Maine	7.00	5.00
Nebraska	5.00	5.50
Rhode Island	5.00	8.00
Vermont	5.75	5.75-6.00
Wisconsin	6.25	5.50

Finding 4

Additional options to promote sales of lottery tickets could result in increased transfers to the Education Lottery Fund

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Finding 4: Keno

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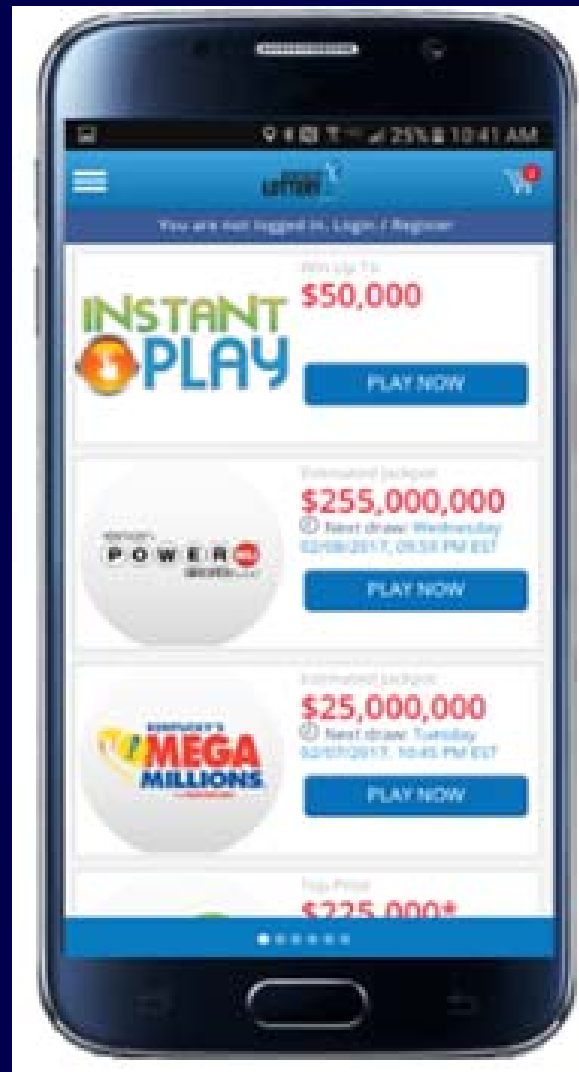# Finding 4: Options

Finding 4: Options

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Finding 5

NC Lottery could improve how it measures effectiveness of its advertising expenditures

Finding 5: Advertising Expenditures

- $20 million spent on advertising in FY 2016

- $20 million spent on advertising in FY 2017

- Question of whether the optimal amount is being spent on advertising is unresolved

- Relationship between advertising expenditures and ticket sales needs to be measured at a more granular level over time

Finding 5: Advertising Expenditures

- Good financial and performance management requires that every operating expense be measured in order to determine its contribution to organization's mission and return on investment

- If you can't measure it, you can't manage it
  – Peter Drucker

Finding 5: Advertising Expenditures

- Measuring advertising effectiveness is challenging

- PED attempted regression analysis to measure the relationship of advertising expense to sales

- NC Lottery's raw advertising and sales data are incompatible for analytical review

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Finding 5: Advertising Expenditures

Measuring relationship between advertising and lottery ticket sales is difficult but possible

Studies in other states:

- Florida (OPPAGA)

- Washington State (JLARC)

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Recommendations

Recommendation 1

The General Assembly should require the Lottery to establish targets for retailer growth and to annually report on its achievement in meeting these targets

Recommendation 1 (cont'd.)

- All efforts to expand retailer network should be included in annual report to General Assembly

- First report submitted to the Lottery Oversight Committee by December 1, 2018

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Recommendation 2

The General Assembly should direct the Lottery to examine the retailer compensation structure for all games and develop alternatives for rewarding the performance of retailers

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Recommendation 2 (cont'd.)

- Lottery should hire independent contractor

- Comment on why retailers participate in selling lottery tickets

- Results submitted to the Lottery Oversight Committee by December 1, 2018

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Recommendation 3

The General Assembly should direct the Lottery to provide a business case for options to increase sales of lottery tickets

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Recommendation 3 (cont'd.)

- If interested in an option, direct Lottery to provide a detailed business case to the Lottery Oversight Committee by December 1, 2018

- Include time frames for implementation and needed statutory changes, if any

Program Evaluation Division   **North Carolina General Assembly**

Recommendation 4

The General Assembly should require the Lottery to develop tools to measure the increase in sales resulting directly from advertising expenditures and to annually report on its efforts

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Recommendation 4 (cont'd.)

- All efforts to measure the effectiveness of advertising should be included

- First report submitted to the Lottery Oversight Committee by December 1, 2018

- Include impact of specific advertising campaign expenditures on sales

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Report available online at
www.ncleg.net/PED/Reports/reports.html