



Options Exist for Increasing Lottery Proceeds for Education

A presentation to the
Joint Legislative Program Evaluation Oversight Committee

March 26, 2018

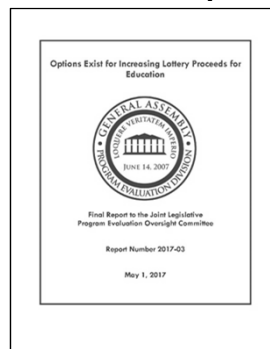
Jim Horne, Principal Program Evaluator

Program Evaluation Division  North Carolina General Assembly

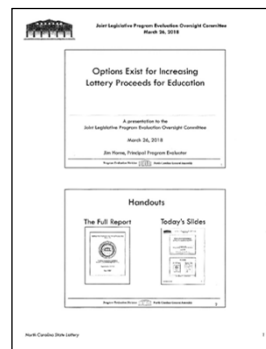
1

Handouts

The Full Report



Today's Slides



Program Evaluation Division  North Carolina General Assembly

2



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

Team included Jeff Grimes and Emily McCarthy

Report p. 2



Overview: Five Findings

1. NC Lottery's performance is slightly above average when compared with other states
2. Expanding the retailer network could increase lottery revenue
3. Alternative approaches to the structure and amount of retailer compensation could yield additional revenue returned to the State





Overview: Five Findings

4. Additional options to promote sales of lottery tickets could result in increased transfers to education
5. Lottery could improve how it measures the effectiveness of its advertising expenditures



Overview: Four Recommendations

1. Require Lottery to establish targets for retailer growth and to annually report on its achievement in meeting these targets
2. Direct Lottery to examine the retailer compensation structure and develop alternatives for rewarding retailers





Overview: Four Recommendations

3. Direct Lottery to provide a business case for options to increase the sale of lottery tickets
4. Require Lottery to develop tools to measure the increase in sales resulting directly from advertising and to annually report on its efforts to measure the effectiveness of advertising expenditures



Background





Background

- 44 states operate lotteries
- NC Lottery sold its first ticket in March 2006
- As of June 30, 2017, NC Lottery has returned \$5.2 billion to the State for education
- Ticket sales have grown every year

Report pp. 3,5



Background

- NC Lottery is a \$2 billion business
- Fiscal Year 2017 sales were \$2.4 billion
- Proceeds to education were \$622.5 million

Report p. 3





Background

Lottery sales are based on two types of games:

- Instant scratch-off games (68%)



- Draw games (32%)

Report pp. 5-6



Background



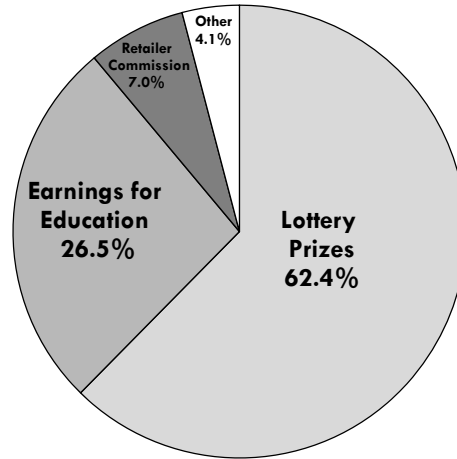
- Introduced in January 2015
- Available at approximately 200 locations

Report pp. 6-7





Background



Report pp. 3-4

Findings



Finding 1

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

Report p. 8

NC Lottery Performs Slightly Above National Average on Two Key Metrics

Per capita sales:

- NC Lottery \$197
- National average \$185

Per capita returns to the State:

- NC Lottery \$52
- National average \$48

Report p. 9



NC Lottery Ranks in the Top Half Among All States

- 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

Report p. 9

Program Evaluation Division



North Carolina General Assembly

17

NC Lottery Ranks Last Among Neighboring States

Among six neighboring states, NC Lottery ranks last in:

- per capita sales
- per capita returns to the State

Report p. 10

Program Evaluation Division



North Carolina General Assembly

18



Finding 2

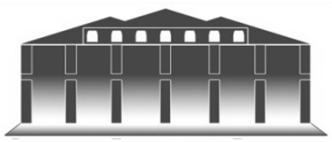
Expanding the retailer network could increase lottery revenue

Report p. 10

Best Practice for Retailer Density is 1 Retailer 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)

Report p. 11



NC Lottery Ranks in the Bottom Half of States in 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

Report p. 11

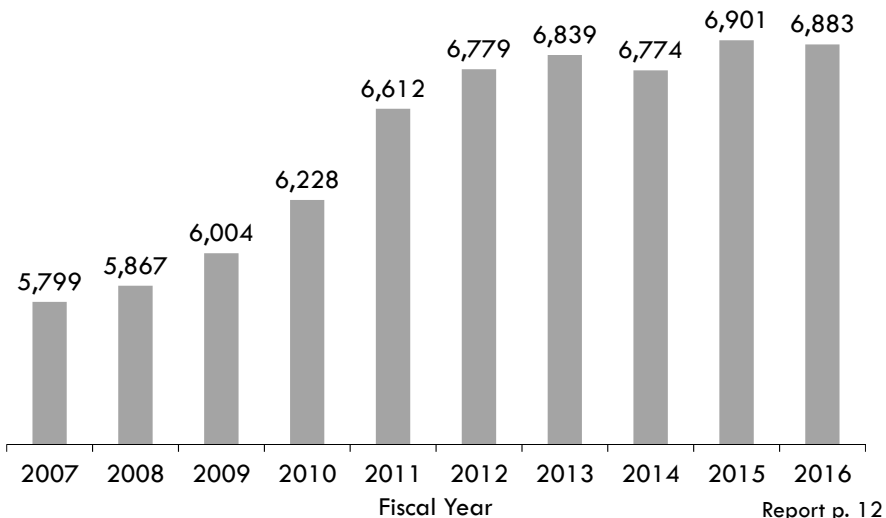
Program Evaluation Division



North Carolina General Assembly

21

Number of NC Lottery Retailers Has Not Significantly Increased During the Last Five Years



Report p. 12

Program Evaluation Division



North Carolina General Assembly

22

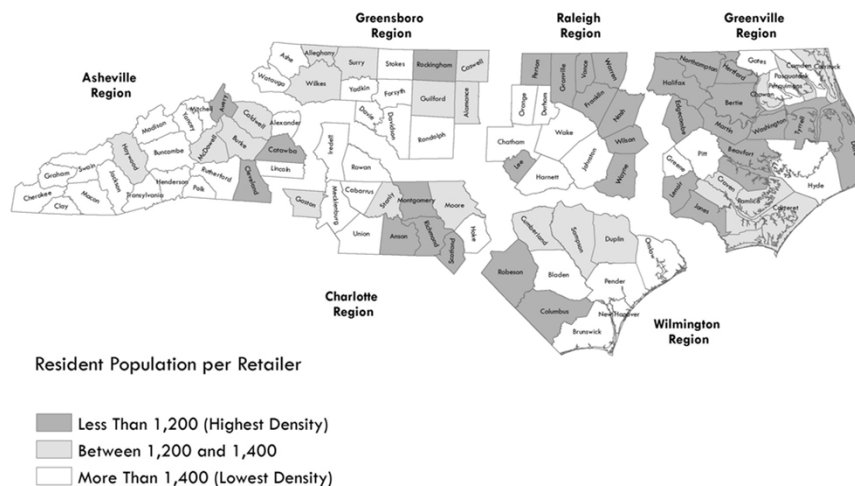


Methods Used by Other States to Boost Retailer Networks

- 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

Report pp. 13-15

Lottery Retailer Market Penetration Varies Across the State



Report p.15



Finding 3

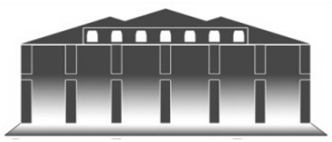
Alternative approaches to structure and amount of retailer compensation could yield additional proceeds for education

Report p. 16

NC Lottery Retailer Commission Rate is Set in Statute

- Lottery retailers in North Carolina receive a 7% commission set by statute
- Plus, retailer incentives have been added, boosting actual compensation rate to 7.04%

Report p. 16



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

Report p. 16

Program Evaluation Division



North Carolina General Assembly

27

North Carolina's Retailer Compensation is Above Average Paid in Other States

- NC Compensation Rate of 7.04% is higher than
 - national average of 6.28%
 - average paid in adjacent states of 6.48%
- Retailer compensation 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 since the Lottery's inception

Report p. 16

Program Evaluation Division



North Carolina General Assembly

28



Six States Differentiate Retailer Compensation Rate by Game Type

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



NC Lottery Began Offering Keno in October 2017

Report p. 19



Eight States Currently Offer VLTs



Report p. 19





Three States Currently Offer iLottery



Report p. 19



Finding 5

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

Report p. 20





Annual Advertising Expenditures are Slightly Less Than 1% of Ticket Sales

- \$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

Report p. 22



Measuring Advertising Effectiveness is Challenging

- 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





NC Lottery's Raw Advertising and Sales Data Are Incompatible for Analytical Review

- PED attempted regression analysis to measure the relationship of advertising expense to sales
- Measuring relationship between advertising and lottery ticket sales is difficult but it is possible
- Studies in other states:
 - Florida (OPPAGA)
 - Washington State (JLARC)

Report p. 22



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

Report p. 22

Program Evaluation Division



North Carolina General Assembly

39

Recommendation 1 (cont'd.)

- All efforts to expand retailer network should be included in annual report to General Assembly
- First report should be submitted to the Lottery Oversight Committee by December 1, 2018

Report p. 22

Program Evaluation Division



North Carolina General Assembly

40



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

Report p. 22



Recommendation 2 (cont'd.)

- Lottery should hire independent contractor
- Include comments from retailers on why they participate in selling lottery tickets
- Results should be submitted to the Lottery Oversight Committee by December 1, 2018

Report p. 23





Recommendation 3

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

Report p. 23

Recommendation 3 (cont'd)

- If the General Assembly is interested in an option, it should 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

Report p. 23



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

Report p. 23



Recommendation 4 (cont'd)

- All efforts to measure the effectiveness of advertising should be included
- First report should be submitted to the Lottery Oversight Committee by December 1, 2018
- Include impact of specific advertising campaign expenditures on sales

Report pp. 23-24





Summary: Findings

1. NC Lottery's performance is slightly above average
2. Expanding retailer network could increase revenue
3. Reducing compensation paid to retailers could yield additional revenue
4. Additional options to increase revenue include authorizing VLTs and iLottery games online
5. Improved methods could help the Lottery measure influence of advertising expenditures on sales



Summary: Recommendations

1. Require Lottery to establish targets for retailer growth and to annually report on its achievement
2. Direct Lottery to examine retailer compensation structure and consider developing alternatives
3. Direct Lottery to provide business case for options to increase lottery ticket sales
4. Require Lottery to annually report on effectiveness of advertising expenditures on ticket sales





Joint Legislative Program Evaluation Oversight Committee
March 26, 2018

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

