

Options Exist for Increasing Lottery Proceeds for Education

A presentation to the Joint Legislative
Oversight Committee on the North Carolina State Lottery

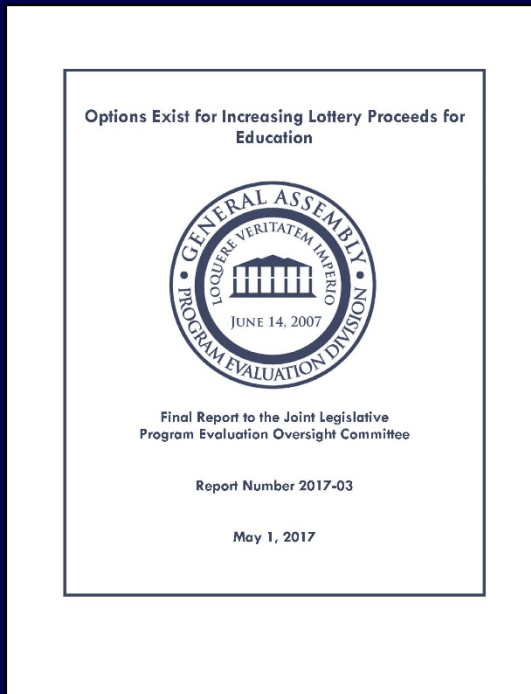
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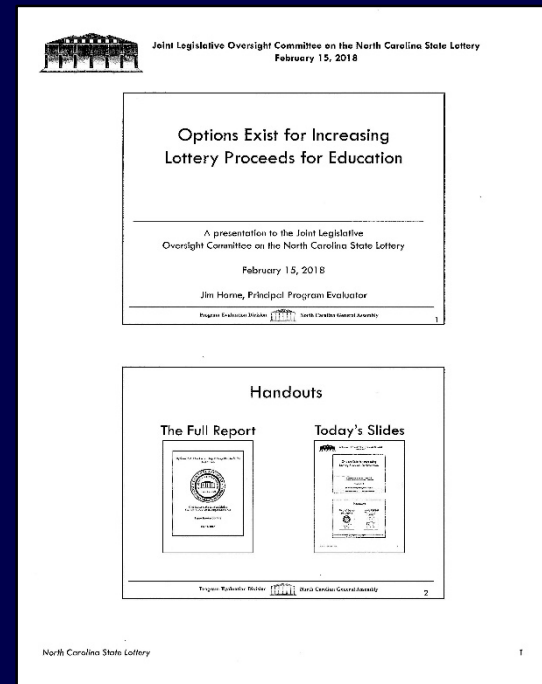


Handouts

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

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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

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Background

Lottery sales are based on two types of games:

- Instant scratch-off games (68%)



- Draw games (32%)

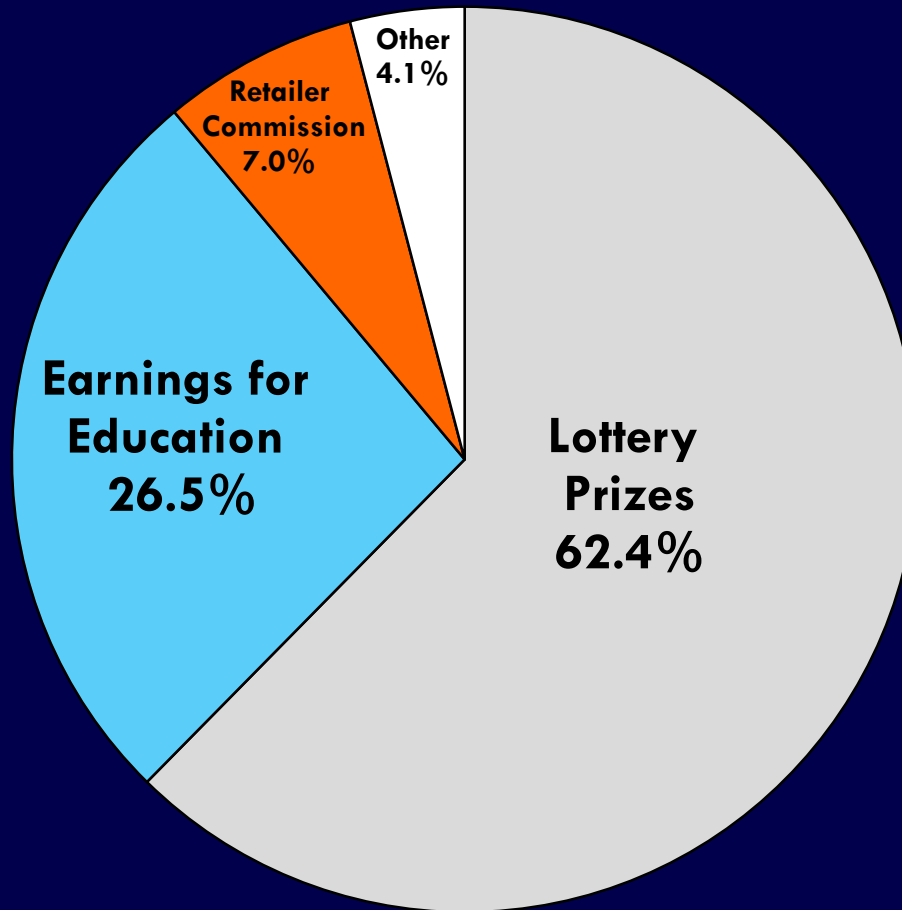
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Background



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Background



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Findings



Finding 1

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

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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

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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

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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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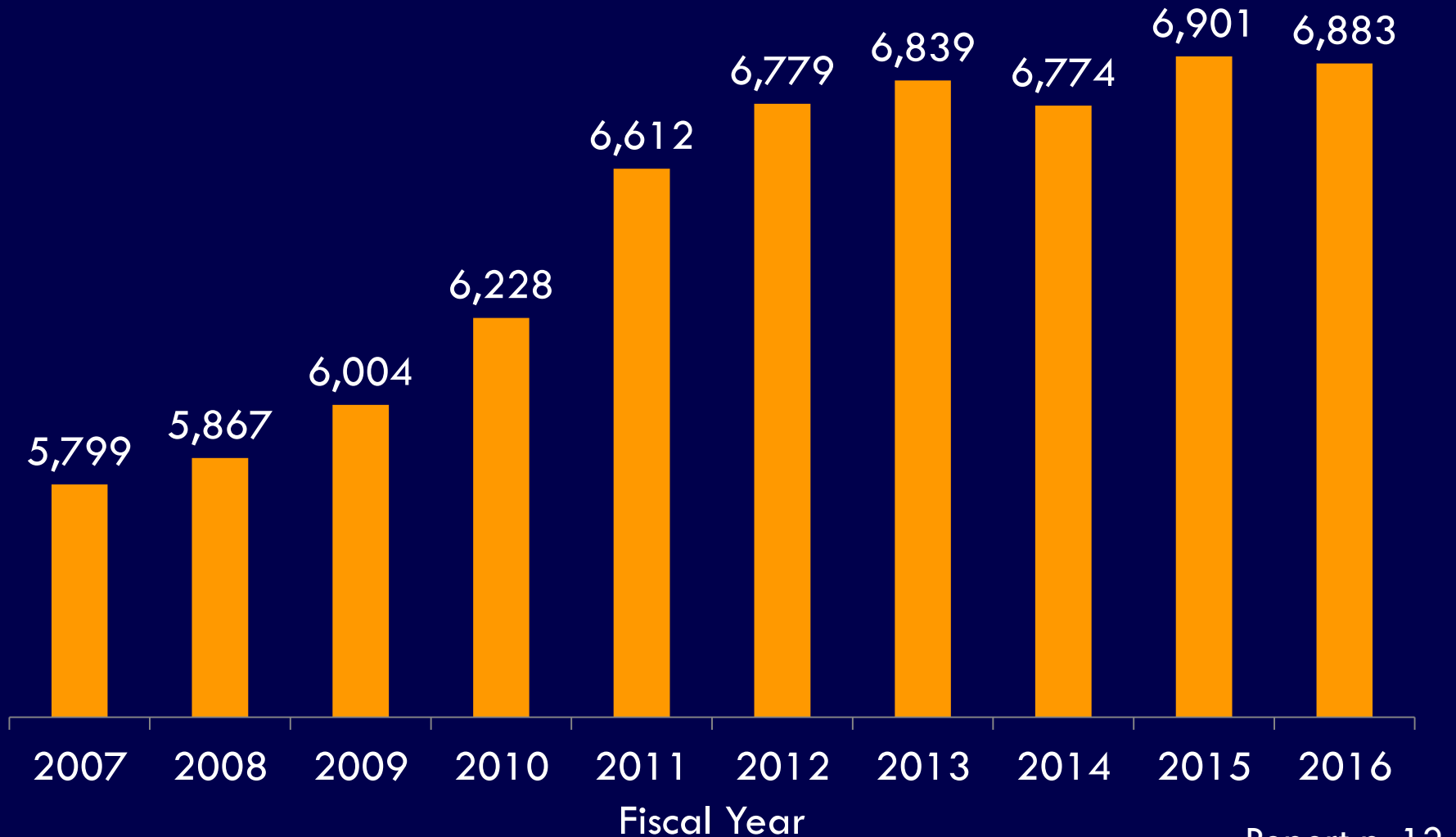


Finding 2: Retailer Density

- 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



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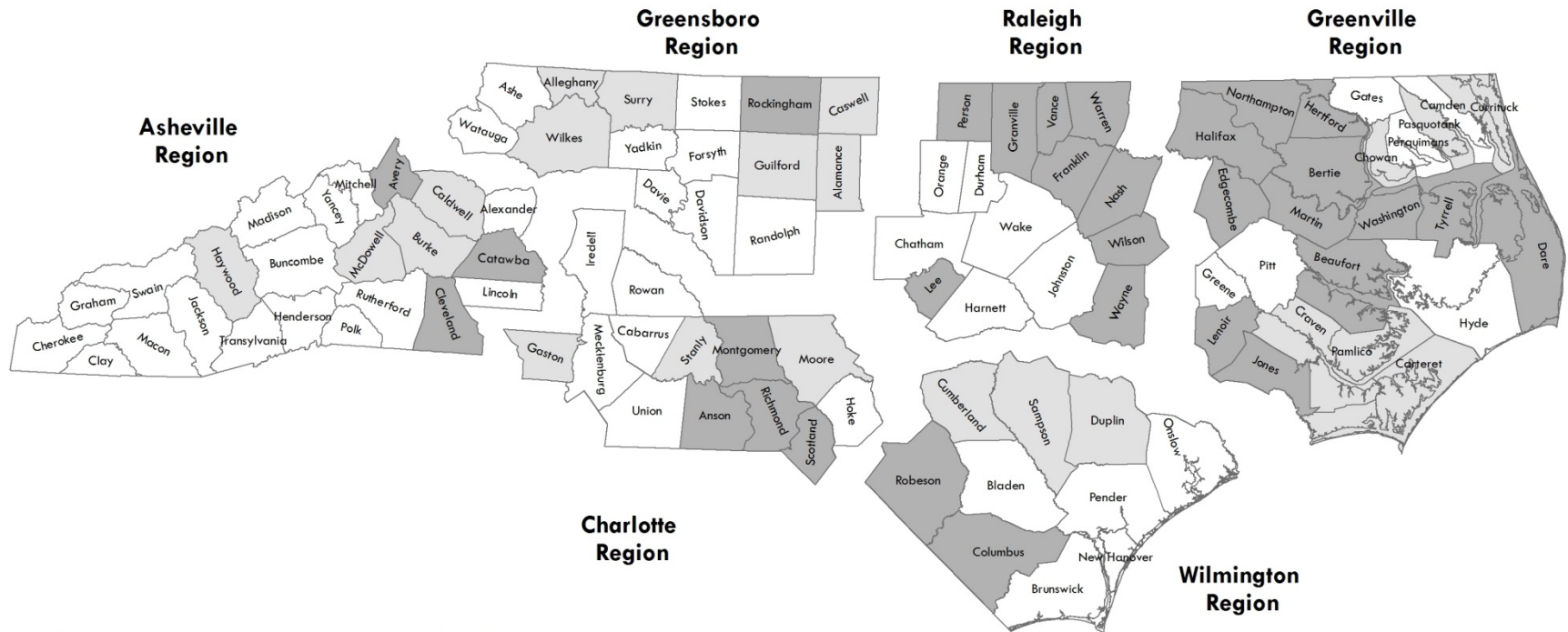
Finding 2: Retailer Density

- 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)

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Finding 3

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

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Finding 3: Retailer Compensation

- 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%

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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



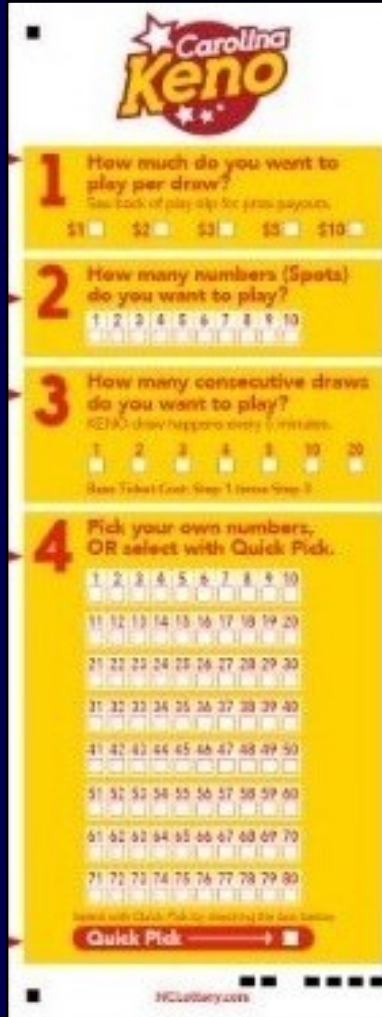
Finding 4

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



Carolina Keno

1 How much do you want to play per draw?
See back of play slip for prize payouts.

\$1 ☐ \$2 ☐ \$3 ☐ \$5 ☐ \$10 ☐

2 How many numbers (Spots) do you want to play?

1 2 3 4 5 6 7 8 9 10
☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐

3 How many consecutive draws do you want to play?
KENO draw happens every 5 minutes.

1 2 3 4 5 10 20
☐ ☐ ☐ ☐ ☐ ☐ ☐

Base Ticket Cost: Step 1 times Step 3

4 Pick your own numbers, OR select with Quick Pick.

1	2	3	4	5	6	7	8	9	10
11	12	13	14	15	16	17	18	19	20
21	22	23	24	25	26	27	28	29	30
31	32	33	34	35	36	37	38	39	40
41	42	43	44	45	46	47	48	49	50
51	52	53	54	55	56	57	58	59	60
61	62	63	64	65	66	67	68	69	70
71	72	73	74	75	76	77	78	79	80

Special Keno Club Pick for drawing the last number

Quick Pick ☐

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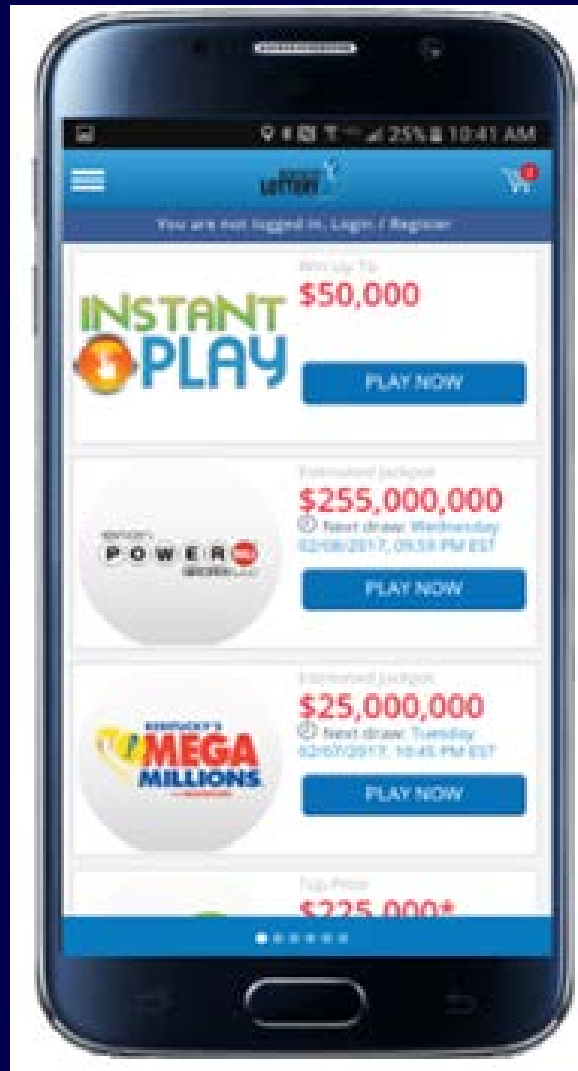


Finding 4: Options



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Finding 4: Options



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Finding 5

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

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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

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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



Finding 5: Advertising Expenditures

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

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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



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



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



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

