

**2004-09 Budget  
Agency Fiscal Report  
(\$ in thousands)**

	<b>Actual FY2004 Audited</b>	<b>Budget FY2005</b>	<b>Budget 2006 Projected</b>	<b>Budget 2007 Projected</b>	<b>Budget 2008 Projected</b>	<b>Budget 2009 Projected</b>
<b>Revenue</b>						
Scratch Ticket Sales	\$215,696	\$220,500	\$232,000	\$240,000	\$240,000	\$240,000
Online Ticket Sales	171,224	177,700	179,400	181,400	181,400	181,400
Total Sales Revenue	386,920	398,200	411,400	421,400	421,400	421,400
Less In-Lieu-of-Sales Tax	25,150	25,883	26,741	27,391	27,391	27,391
Gross Receipts	361,770	372,317	384,659	394,009	394,009	394,009
Non-operating Income	571	698	700	704	704	704
Gross Revenue	362,341	373,015	385,359	394,713	394,713	394,713
<b>Direct Costs</b>						
Prize Expense	225,529	232,225	240,956	247,595	247,595	247,595
Unclaimed Prizes Paid to State Treasury	6,961	7,734	7,959	8,223	8,223	8,223
Compulsive Gambling from Prize Fund	1,896	1,896	1,896	1,896	1,896	1,896
Retailer Commissions and Incentives	22,924	24,368	25,176	25,788	25,788	25,788
Ticket Costs	4,650	4,512	4,747	4,911	4,911	4,911
Online/Generation 3 Vendor Expense	10,507	10,914	10,914	11,142	11,142	11,142
Total Direct Costs	272,467	281,649	291,648	299,554	299,554	299,554
<b>Operating Expense</b>						
Advertising	5,070	5,923	6,000	6,000	6,000	6,000
Promotions	2,564	2,305	2,300	2,300	2,300	2,300
Game Development/New Initiatives	0	0	1,000	1,000	1,000	1,000
Salaries and Benefits	11,004	10,363	11,000	11,600	11,600	11,600
Occupancy Costs	1,932	1,740	1,700	1,700	1,700	1,700
Communications	470	601	600	600	600	600
Purchased Services	865	1,312	1,400	1,400	1,400	1,400
Depreciation	538	582	700	700	700	700
Supplies and Materials	562	989	1,100	1,100	1,100	1,100
Contrib: Public Safety Enforcement	0	0	0	0	0	0
Other	165	977	1,000	1,000	1,000	1,000
Total Operating Expense	23,170	24,790	26,800	27,400	27,400	27,400
Net Proceeds	\$ 66,705	\$ 66,575	\$ 66,911	\$ 67,759	\$ 67,759	\$ 67,759
Total Full Time Equivalent (FTE)	<b>166</b>	<b>166</b>	<b>166</b>	<b>166</b>	<b>166</b>	<b>166</b>

LOTTERY

Agency Overview

	<b>Actual FY2004 Audited</b>	<b>Budget 2005 Projected</b>	<b>Budget 2006 Projected</b>	<b>Budget 2007 Projected</b>	<b>Budget 2008 Projected</b>	<b>Budget 2009 Projected</b>
<b>PAID TO STATE BENEFICIARY</b>						
<b>General Fund</b>						
In-Lieu-of-Sales Tax	\$ 6,934	\$ 7,136	\$ 7,372	\$ 7,552	\$ 7,552	\$ 7,552
Net Proceeds	40,022	39,945	40,147	40,655	40,655	40,655
Unclaimed Prizes	6,961	7,734	7,959	8,223	8,223	8,223
Compulsive Gambling from Prize Fund	1,896	1,896	1,896	1,896	1,896	1,896
Gambling Enforcement from Operations	0	0	0	0	0	0
Total General Fund	55,814	56,711	57,374	58,326	58,326	58,326
<b>Envir. and Natural Resources Fund</b>						
Net Proceeds	26,682	26,631	26,764	27,104	27,104	27,104
Unclaimed Prizes	0	0	0	0	0	0
Total Envir and Natural Resources Fund	26,682	26,631	26,764	27,104	27,104	27,104
<b>Game and Fish Fund</b>						
	9,108	9,374	9,684	9,920	9,920	9,920
<b>Natural Resources Fund</b>						
	9,108	9,374	9,684	9,920	9,920	9,920
<b>TOTAL PAID TO STATE BENEFICIARY</b>						
	<b>\$100,711</b>	<b>\$102,087</b>	<b>\$103,506</b>	<b>\$105,268</b>	<b>\$105,268</b>	<b>\$105,268</b>
<b>% of sales to State</b>	26%	26%	25%	25%	25%	25%

Unclaimed Prizes (formerly unclaimed prizes available for new games) Held In Trust for the State of \$2,187 not included in any of the numbers above.

## LOTTERY

Change Item: Cancel Accumulated Unclaimed Prize Funds

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	0	0	0
Transfer In	\$1,312	0	0	0
Other Fund				
Transfer In				
Environment and Natural Resources Trust Fund	875	0	0	0
Transfer Out				
Lottery Corpus Account	(2,187)	0	0	0
Net Fiscal Impact	\$0	\$0	\$0	\$0

### Recommendation

The Governor recommends that all lottery unclaimed prize money accumulated prior to 7-1-03 cancel in accordance with the allocation formula in statute at that time. After 30% of unclaimed prize funds are returned to the basic prize pool, the remaining funds are redistributed 60% to the General Fund and 40% to the environment and natural resources trust fund.

### Background

Upon initiating lottery games, a specific amount of money is set aside to pay prizes claimed against each game. People have one year from the drawing or from the final day of game sales to redeem winning tickets for prizes. After that date, all claims on prize money are forfeited. Under current law, all unclaimed prizes at the end of each fiscal year must be transferred from the lottery cash flow account to the General Fund. Because the \$2.187 million accumulated prior to the law change in 2003, the recommended redistribution is in accordance with the allocation formula in statute at that time.

### Relationship to Base Budget

This change will not affect the operating budget of the Lottery. The change will simply provide additional non-dedicated revenues to the General Fund and the environment and natural resources trust fund.

**Agency Purpose**

The Minnesota State Lottery exists to provide revenue for state programs as identified by the Minnesota Constitution and the legislature. The Lottery does so by offering games of chance to Minnesota adults in accordance with M.S. Chapter 349A.

**Core Functions**

To accomplish this purpose, the Lottery must:

- ◆ design, distribute, and promote games that will appeal to the general public in a manner consistent with statutory guidelines and the dignity of the state;
- ◆ maintain security procedures that ensure the integrity of the games will not be compromised;
- ◆ manage a large network of private sector retailers who sell lottery products; and
- ◆ accurately process numerous financial transactions, including payment of prizes to winners, commissions to retailers, proceeds to the state, and the purchase of goods and services necessary for lottery operations.

**At A Glance**

- ◆ In FY 2004, the Minnesota State Lottery generated \$100 million for state programs from sales of \$386 million.
- ◆ More than two out of three Minnesota adults have purchased a lottery ticket.
- ◆ Prizes in FY 2004 exceeded \$225 million.
- ◆ Scratch games account for 56% of lottery sales. Powerball accounts for another 30%.
- ◆ Since its inception in 1990, Minnesotans have purchased over \$5 billion in lottery tickets, returning more than \$1.2 billion to the state.
- ◆ Factors such as weather, gasoline prices, local and state economies, and competition for discretionary dollars can all affect lottery sales and proceeds.

**Operations**

Lottery tickets are sold through a network of approximately 3,000 retailers located in more than 650 Minnesota cities. These retailers earn a commission on every ticket sold and can earn additional income by redeeming winning tickets and participating in various incentive programs. Each retailer has a computer terminal that is connected to central lottery computers through a secure telecommunications network. Retailers are the primary contact for the ticket-buying public. More than two out of every three Minnesota adults have purchased a lottery ticket.

The Lottery is managed by a director appointed by the governor with the advice and consent of the senate.

The Lottery is organized into six divisions:

- ⇒ **Executive** includes the director, legislative relations, and research and planning.
- ⇒ **Finance** provides accounting and budget services.
- ⇒ **Legal** includes legal services, human resources, and purchasing and contracting.
- ⇒ **Marketing** is responsible for retailer service, promotions, advertising, customer relations, and public relations.
- ⇒ **Operations** provides computer and telecommunications services, conducts drawings, and is responsible for product design and distribution.
- ⇒ **Security** protects against internal and external lottery fraud and prevents compromise of the games.

**Key Measures**

Lottery success is primarily measured by the revenue returned to the state for the designated beneficiaries. In seeking to maximize revenue, the Lottery must also consider security, integrity, and the broader policy concerns of the state. Other measures include administrative efficiency and player participation and satisfaction.

**Budget**

The Lottery may not spend more than 15% of gross revenue on operations. For FY 2005, the Lottery's operating budget must not exceed \$27.419 million.

Major administrative expenses include salaries and benefits, payments to the online ticket vendor, advertising and promotions, scratch ticket printing, telecommunications, and computer maintenance. The Lottery has approximately 145 full-time permanent employees located at its headquarters in Roseville and its four regional offices statewide.

**Contact**

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