

# Legislative Finance Committee

NEW MEXICO LOTTERY  
AUTHORITY

November 13, 2018

# The Lottery Act

## 6-24-3. Purposes.

The purposes of the New Mexico Lottery Act are to:

B. provide the ***maximum amount of revenues***, without imposing additional taxes or using other state revenues, for the purpose of providing tuition assistance ....

## 6-24-6. Powers of the authority.

A. The authority shall have ***all powers necessary or convenient*** to carry out and effectuate the purposes and provisions of the New Mexico Lottery Act that are not in conflict with the constitution of New Mexico and that are generally exercised by corporations engaged in entrepreneurial pursuits, ....

## 6-24-7. Board of directors; duties.

It is the duty of the board to:

B. ***maximize the revenue*** for the public purposes of the New Mexico Lottery Act and to that end ***assure that all rules, policies and procedures adopted further revenue maximization***; ....



NEW MEXICO  
**LOTTERY**

**\$40.2**

***Million***

**FY 18 Transfer to the  
Legislative Lottery Scholarship Fund**

# HISTORICAL REVIEW

(Millions)

\*Rounded and unaudited

Fiscal Year	Gross Revenues *	Net Revenues for Education	Retailer Commissions
1996	\$28.5	\$6.3	\$1.8
1997	\$82.4	\$21.9	\$5.3
1998	\$85.4	\$20.1	\$5.9
1999	\$89.7	\$19.6	\$5.9
2000	\$111.2	\$24.5	\$7.6
2001	\$113.7	\$25.9	\$8.0
2002	\$129.5	\$29.6	\$9.2
2003	\$133.6	\$33.1	\$9.4
2004	\$142.6	\$35.9	\$10.1
2005	\$134.7	\$32.2	\$9.5
2006	\$150.6	\$36.9	\$10.6
2007	\$148.8	\$34.8	\$10.5
2008	\$147.8	\$40.8	\$9.7
2009	\$142.6	\$40.8	\$9.3
2010	\$143.6	\$43.6	\$9.4
2011	\$135.6	\$41.3	\$8.9
2012	\$133.9	\$41.3	\$8.7
2013	\$141.8	\$43.7	\$9.1
2014	\$136.1	\$40.9	\$8.8
2015	\$137.1	\$41.1	\$8.9
2016	\$154.4	\$46.3	\$10.0
2017	\$126.1	\$37.8	\$8.2
2018	\$134.1	\$40.2	\$8.7
Total	\$2.884 Billion	\$778.9 Million	\$193.6 Million

# FY 2018

\$134.1 Million in Gross Revenues

**6.3%**  
Cost of Product\*  
\$8.5 Million

**30%**  
Lottery Tuition Fund  
\$40.2 Million



**54.6%**  
Prizes  
\$73.2 Million

**6.5%**  
Retailer Commissions  
\$8.7 Million

**2.6%**  
Administrative Costs  
\$3.5 Million

Where  
The Money  
Goes

**6.8%**  
Cost of Product\*  
\$8.6 Million

**30%**  
Lottery Tuition Fund  
\$37.8 Million

\* Cost of Product includes: On-line vendor fees, advertising, ticket vendor fees, retailer equipment, promotions, shipping and postage, responsible gaming, game membership and drawing game costs. By statute, the Lottery is required to return a minimum of 50% of proceeds to players in the form of prizes and 30% to the Lottery Tuition Fund. The remaining funds are allocated to cover the cost of product as well as retailer commissions and the administrative costs. (Numbers are rounded.)



**FY 2017**  
\$126.1 Million in Gross Revenues

**53.3%**  
Prizes  
\$67.2 Million

**6.5%**  
Retailer Commissions  
\$8.2 Million

**3.4%**  
Administrative Costs  
\$4.3 Million

# Salaries and Wages, Employees, and Operating Expenses to Gross Revenues (FY13-FY18)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
GROSS REVENUES	\$ 141,814,113	\$ 136,057,414	\$137,063,592	\$ 154,402,802	\$ 126,111,773	\$134,055,256
Total Salaries and Wages	\$ 3,614,032	\$3,726,941	\$ 3,485,280	\$ 2,609,094	\$ 2,350,058	\$2,453,339
Salaries and Wages % to Gross Revenues	2.55%	2.74%	2.54%	1.69%	1.86%	1.83%
Change in Salaries & Wages from Prior FY	\$30,254	\$ 112,909	(241,661)	\$ (876,186)	\$ (259,036)	\$ 103,281
Average Number of Employees	55.5	54.5	53	38	33	34
TOTAL						
OPERATING EXPENSES	\$ 5,080,047	\$ 5,507,530	\$ 5,057,597	\$ 4,893,625	\$ 4,295,352	\$ 3,505,499
Operating Expense % to Gross Revenues	3.58%	4.05%	3.69%	3.17%	3.41%	2.61%

# FY2018: The Year of the Jackpot



## Powerball

- ★ \$758.7M (8/23/17)
- ★ \$559.7M (1/6/18)
- ★ \$456.7M (3/17/18)
- \$315.3M (5/19/18)



Among  
Powerball  
Top 10

## Mega Millions

- ★ \$393M (8/11/17)
- ★ \$451M (1/5/18)
- ★ \$533M (3/30/18)
- ★ \$522M (7/24/18)\*

(\*Mega Millions jackpot was an estimated \$232 Million on 6/29/18. The jackpot continued to roll into FY 19)



Among  
Mega Millions  
Top 10

## Lotto America

- \$12.1M  
(10/28/17 final Hot Lotto jackpot)
- \$15M  
(11/12/17)  
Lotto America starting jackpot
- \$22.8M (3/14/18)

## Roadrunner Cash

- \$333K (8/31/17)
- \$350K (4/17/18)
- \$350K (12/17/17)
- ★ \$633K (6/29/18)



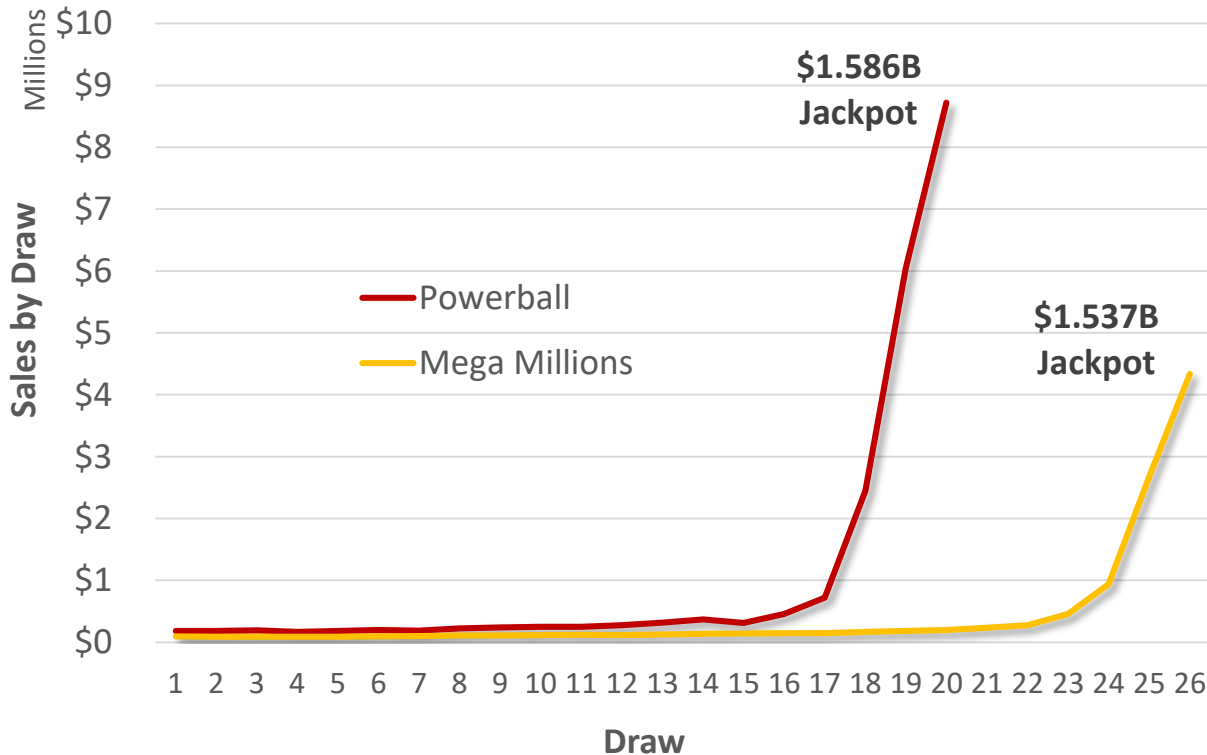
Among  
Roadrunner  
Cash  
Top 10

# FY 18 Jackpots

# Jackpot Fatigue

Powerball \$1.5 Billion (2016)	Mega Millions \$1.5 Billion (2018)
Took 20 Draws to Reach \$1.5B+ Jackpot	Took 26 Draws to Reach \$1.5B+ Jackpot
Total NM Sales: <b>\$21,841,612</b>	Total NM Sales: <b>\$7,012,179</b>

2016 Powerball vs. 2018 Mega Millions  
\$1.5B Jackpots



Took longer to reach a comparable jackpot and brought only a third of the sales as the 2016 Powerball jackpot



## **Jackpot fatigue is a real phenomenon:**

Past sales at a given jackpot level are not necessarily a good indicator of what future sales will be at the same jackpot level. This is not something new, but its intensity may have accelerated.

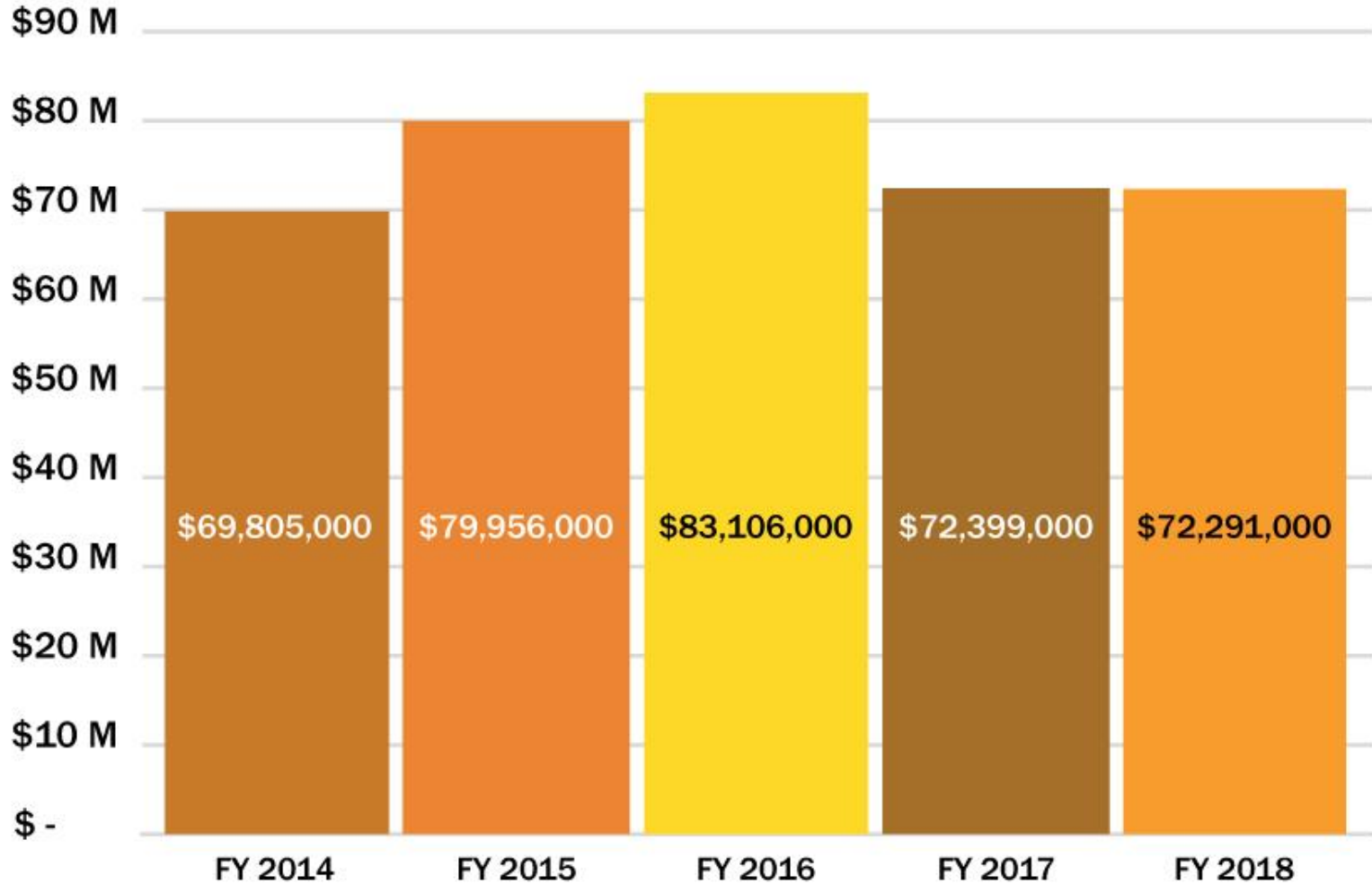
Higher jackpots are NOT bringing in the same sales and profits. The fact is higher jackpots are now producing lower sales – meaning lower profit returns to beneficiaries.

Scratchers should make up the foundation for lottery revenue growth – not jackpot games.

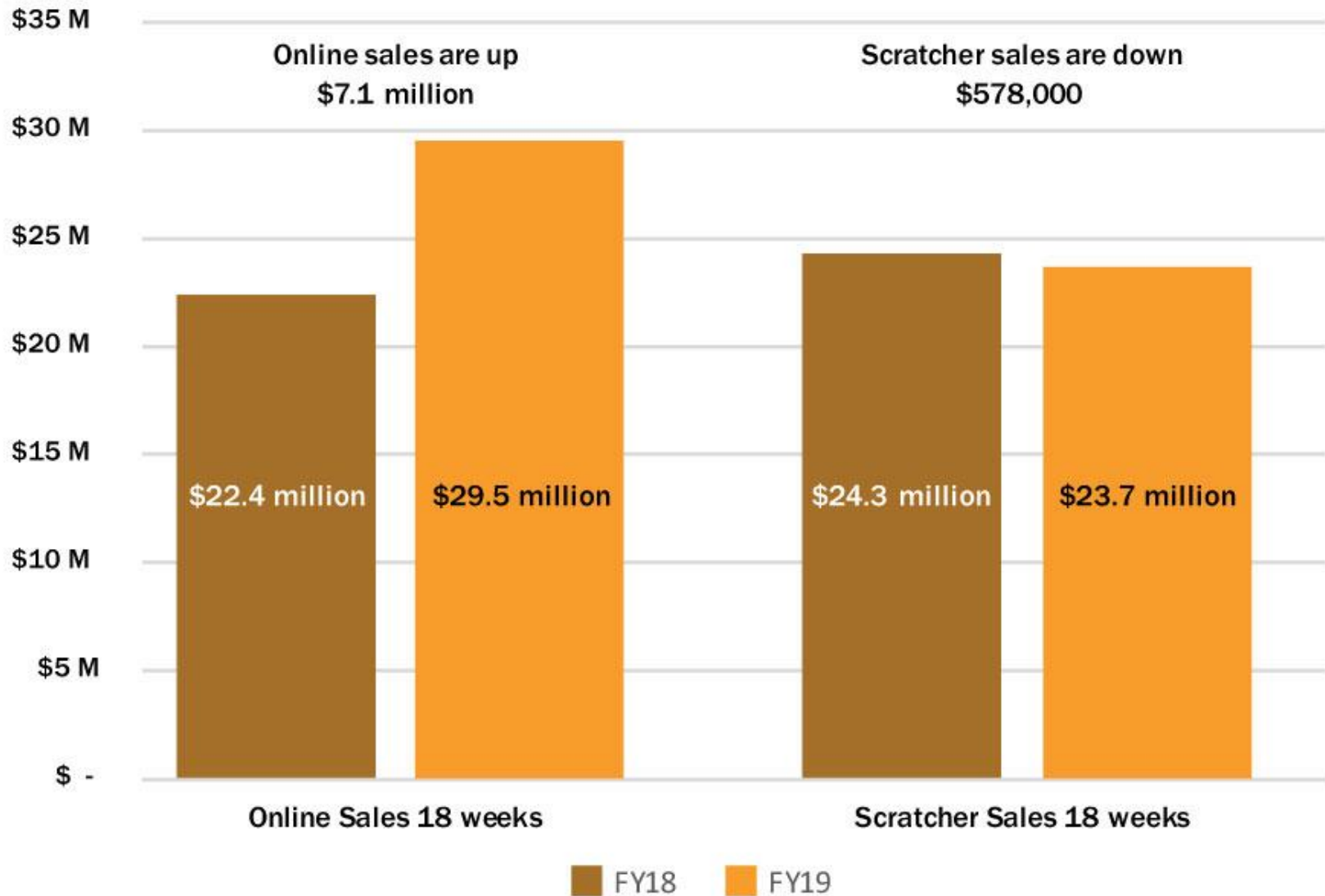
NEW MEXICO LOTTERY

# Scratchers™

## Net Sales

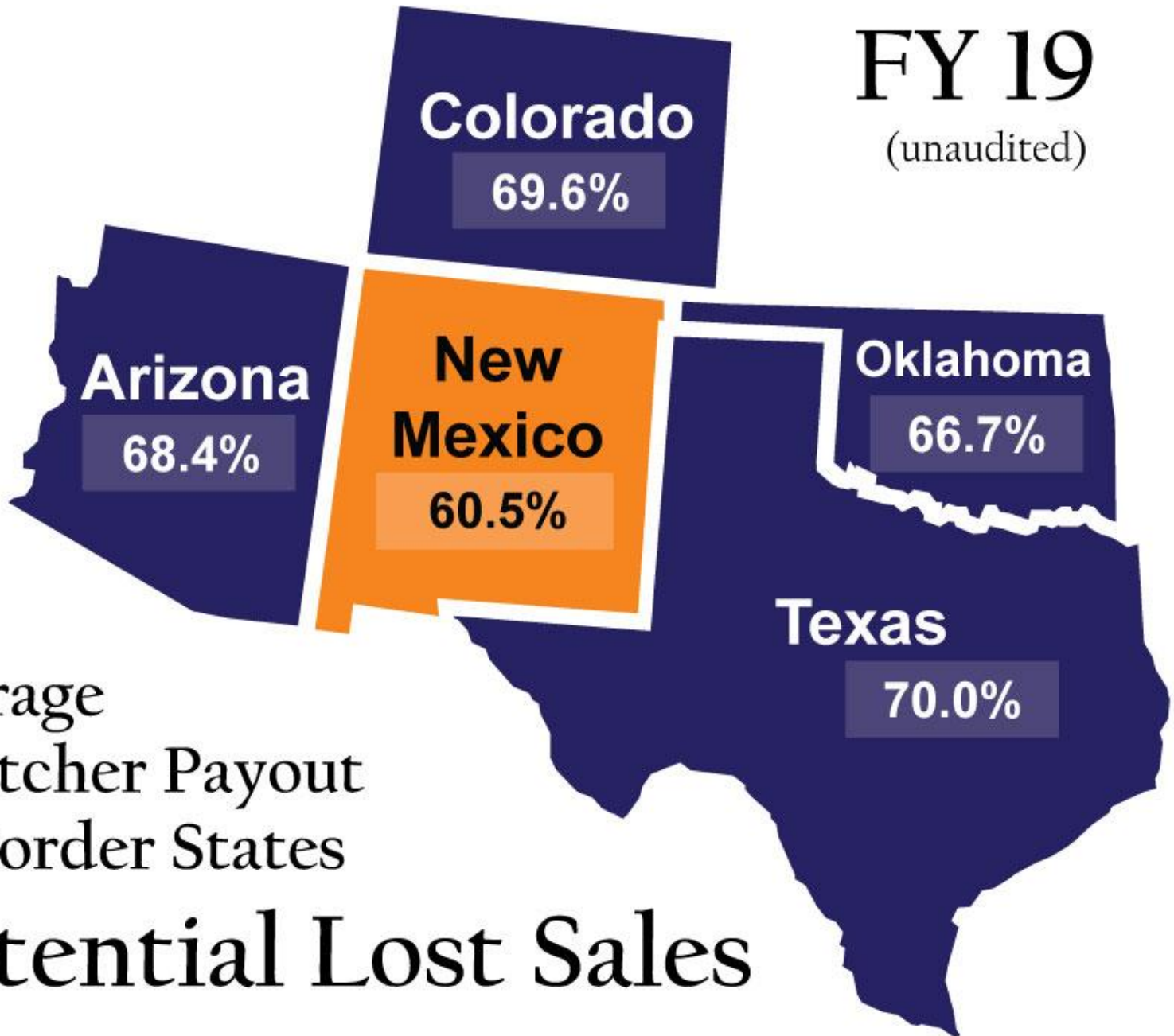


# FY 18 and FY 19 Sales Comparison for Online and Scratchers



**FY 19**

(unaudited)



Average  
Scratcher Payout  
by Border States

**Potential Lost Sales**

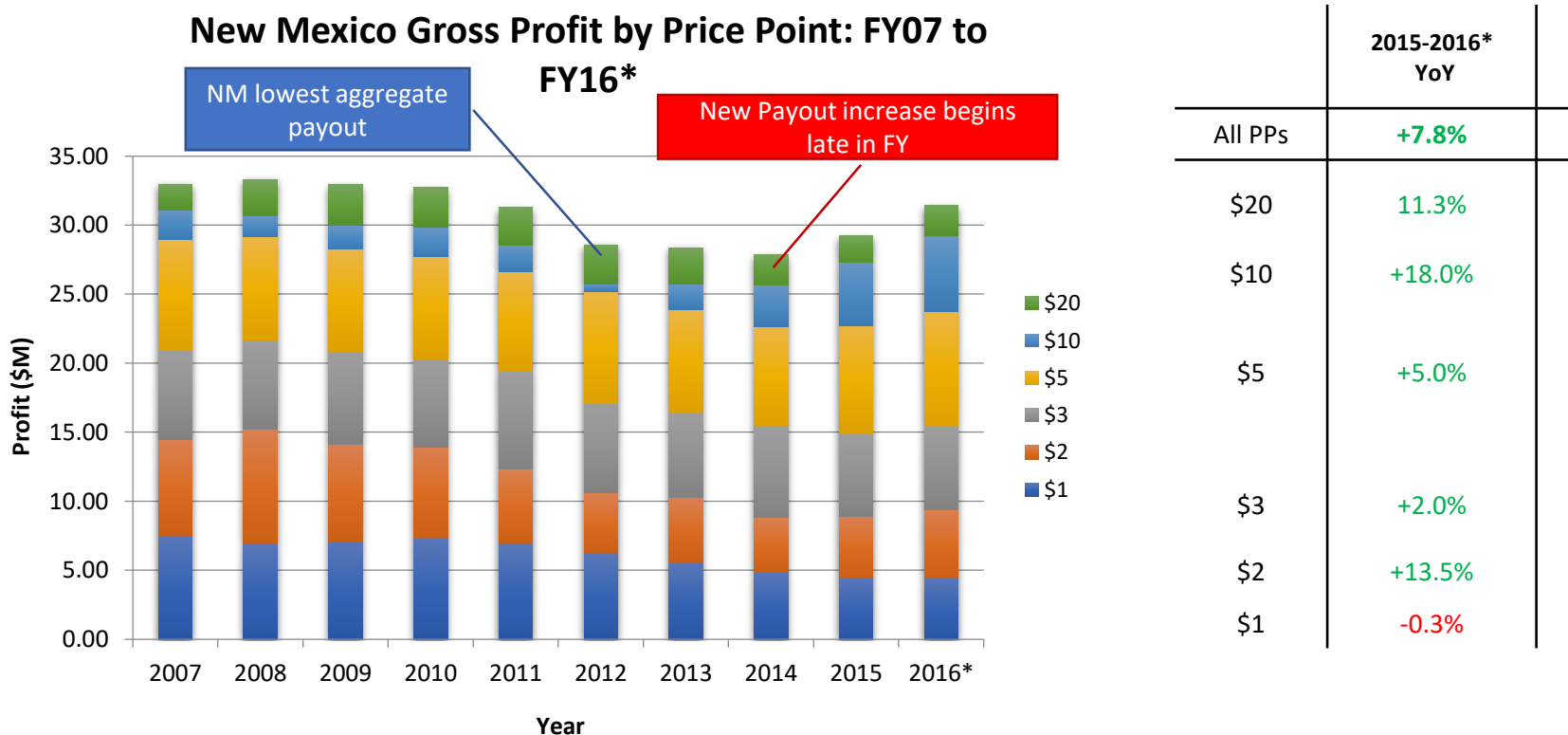
# 2018 Unaudited Scratcher Sales Growth – Top 10 States

TOTAL SALES				
Lottery	FY 17 Sales		FY 18 Sales	% Increase
OK	\$ 78,084,384		\$ 126,534,057	62.0%
MI	\$ 1,286,546,575		\$ 1,474,019,275	14.6%
MD	\$ 666,837,881		\$ 745,125,630	11.7%
SD	\$ 25,350,799		\$ 28,257,483	11.5%
CA	\$ 4,536,240,670		\$ 5,049,601,899	11.3%
AR	\$ 366,225,768		\$ 406,873,779	11.1%
TX	\$ 3,880,723,782		\$ 4,293,248,195	10.6%
WI	\$ 387,107,130		\$ 426,033,000	10.1%
FL	\$ 4,176,969,696		\$ 4,593,678,912	10.0%
WV	\$ 62,760,516		\$ 101,929,517	9.9%

- NM Lottery instant sales were slightly down in FY18 compared to FY17 (-0.1%). While this difference is fairly flat, it is out of line with the rest of the US lottery industry.
- Nine lotteries (OK, MI, MD, SD, CA, AR, TX, WI, and FL) were up more than 10% over the previous fiscal year.
- The average growth for the US lottery industry was more than 6%.
- Only four lotteries (NM, NJ, DC, and Puerto Rico) were down in instant sales compared to the previous fiscal year.
- The last 12 weeks of the fiscal year showed the discrepancy even more: NM Lottery instant sales were down (-1.2%) while the US lottery industry was up 6.0%.

# Instant Profit FY07 – FY16

- Gross profit increased in 2015 and 2016 – reversing a **six year downward trend**
- **Profit increased 2.3% for each 1% increase in payout** (FY12 basis)
- During this period, the Lottery realized an **additional \$4.6MM** in profit vs. the low-profit mark set in 2014.



\*FY2016 estimated based on 41 weeks sales

# Lottery proceeds for education top \$63 million; officials credit new law for the 19 percent jump

State officials credit key changes made by new law for 19 percent jump in proceeds

By Tim Stanley Tulsa World Jul 26, 2018

***The Oklahoma Lottery's annual education contribution rose 19 percent last fiscal year to \$63.2 million, and officials are crediting a year-old law with providing the spark.***

***Lottery officials announced Thursday that with sales up 47 percent for fiscal year 2018,*** which ended June 30, \$63.2 million will go to education — \$10 million more than the previous year. It includes \$13.2 million earmarked specifically for public school programs in reading, science, technology, engineering and math (STEM).

Making the increase possible, they say, is ***House Bill 1837***. Enacted in July 2017, the bill — sponsored by Rep. Leslie Osborn, R-Mustang, and Sen. Kim David, R-Porter — ***allowed the Lottery Commission, among other changes, to increase prizes, thus generating more sales and increasing profits going to education.***

“The Lottery (Commission) is ecstatic,” said Oklahoma Lottery spokesman Jay Finks about the increase to education. “Every education dollar is precious, and we are thankful that increased lottery sales have allowed us to contribute more than promised.”

Shawn Hime, executive director of the Oklahoma State School Board Association, said he appreciated legislators’ effort to involve him and other education leaders in the conversation on what to do about declining lottery revenues.

“I was part of (the bill planning) from the beginning, and I’m pleased to see that it looks like a success,” Hime said. “Any additional money for our schools is a big help.”

***“Revenues were continuing to decline, and we knew we needed to do something,”*** he added.

The previous fiscal year’s \$53 million contribution represented a steep decline that was projected to continue, lottery officials said.

But under the new law, they now project \$330 million will go to education over the next five years. That’s a \$110 million increase over what it would have been without the law, they added.

“It’s encouraging,” Alicia Priest, Oklahoma Education Association president, said of the initial 19 percent increase.

“Coupled with the gains from the last legislative session and an improving economy, our state is starting to make up for a decade of cuts to public education. We still have a long way to go, but this is good news for our students.”

Another lottery-related bill is set to take effect Nov. 1 and allows for further increases to education, officials added. The bill will allow the use of debit cards to purchase any lottery game.

Since its inception in 2005, the lottery has sent \$868.4 million to public education. With revenues declining, however, and in light of the state’s ongoing education-funding crisis, it has been criticized for failing to deliver as promised.

Lottery officials believe better days are ahead.

“We are really happy with how the lottery is growing and believe this new law will lead to continual growth in public education contributions in the future,” Finks said.

# UNCLAIMED PRIZES: UPDATE

Number of Months from July 1, 2007 to Current Month	FISCAL YEAR	NUMBER OF MONTHS UNCLAIMED PRIZES APPLIED AGAINST PRIZE EXPENSE	TOTAL TRANSFERRED TO SCHOLARSHIP FUND TO MEET 27%/30% RETURN
12	2008	10	\$ 3,300,000.00
12	2009	11	\$ 3,925,000.00
12	2010	11	\$ 4,000,000.00
12	2011	9	\$ 1,875,000.00
12	2012	8	\$ 1,576,000.00
12	2013	7	\$ 925,000.00
12	2014	10	\$ 2,710,750.00
12	2015	12	\$ 5,699,500.00
12	2016	11	\$ 5,815,700.00
12	2017	11	\$ 5,643,200.00
12	2018	10	\$ 3,092,700.00
3	2019 YTD	3	\$ 695,200.00
135	TOTALS FROM JULY 1, 2007 TO SEPTEMBER 30, 2018	113	\$ 39,258,050
	PERCENT OF MONTHS UNCLAIMED USED FOR TRANSFER	83.70%	
	AVERAGE PER MONTH IN THE LAST ELEVEN YEARS, THREE MONTHS		\$ 290,800.37
	AVERAGE PER FULL FISCAL YEAR		\$ 3,505,713.64



## Impact of Losing Unclaimed Prize Fund

**83% of the time since Fiscal Year 2007**, the New Mexico Lottery has had to use unclaimed prize money to supplement net revenues in order to meet its monthly legal obligation to return first 27% and then 30% of net revenues to the Lottery Tuition Fund. Without unclaimed prizes, the New Mexico Lottery's cash flow will decrease and we will have to **borrow** money to pay expenses, such as prizes to winners, retailer commissions, vendors and suppliers as well as operating expenses.

Redirecting unclaimed lottery prizes to the Lottery Tuition Fund will have a negative impact on the overall return to the fund of more than **\$6 million** per year because Scratcher sales will decline. When sales decline, the unclaimed prize fund will also decline and become an unstable source of funding for the Lottery Tuition Fund.

Unclaimed prizes help increase the prize payout in Scratcher games and therefore, increase sales. This was evident in fiscal year 2008 through fiscal year 2012 where lowering the prize payout from 63% in 2007 down to 58% by 2012 following the statutory change to meet a 27% and then a 30% return of gross revenues caused Scratcher sales to drop from a high of \$91.4 million in fiscal year 2007 down to \$68.7 million in 2012 – a **33% reduction** in Scratcher sales resulting in **tens of millions of dollars** of lost revenue to the Lottery Tuition Fund. During this period of time, the lottery industry had a four percent annual growth rate.

Without the unclaimed prize fund, the Lottery could not afford to sell a \$10 Scratcher ticket. Annual transfer estimates would also be significantly reduced.



(As of 10-20-18)

- 24 retailers in the program
  - ◊ 18 statewide Brewer Oil locations
  - ◊ 6 independents or small chains in ABQ and surrounding area
  - ◊ 228 pumps with 456 screens
- Average weekly sales \$4,048
- Average weekly transactions 434
- **Pending: 32 locations**

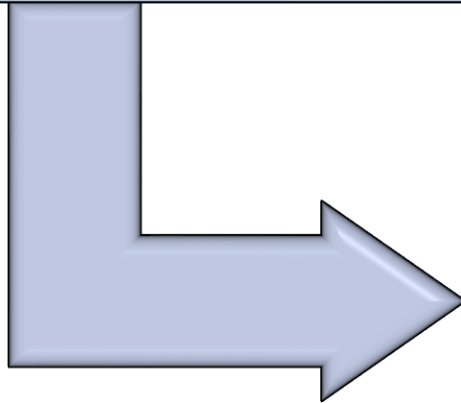
◊ includes 15 Chevron/Brewer in January 2019

## Sales Per Week



# The Future

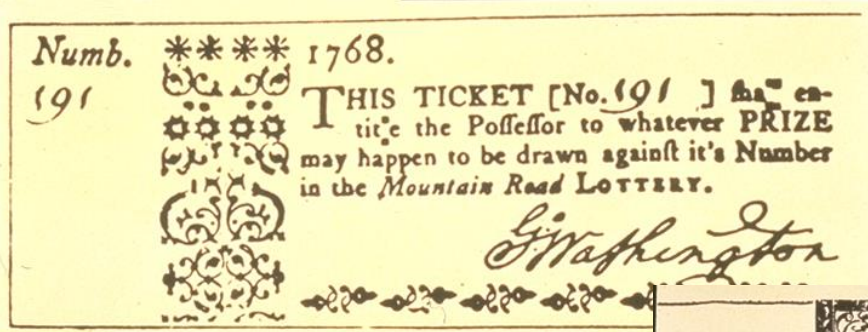
Americans have made more payments by credit/debit card than they did with cash or check every year since 2003



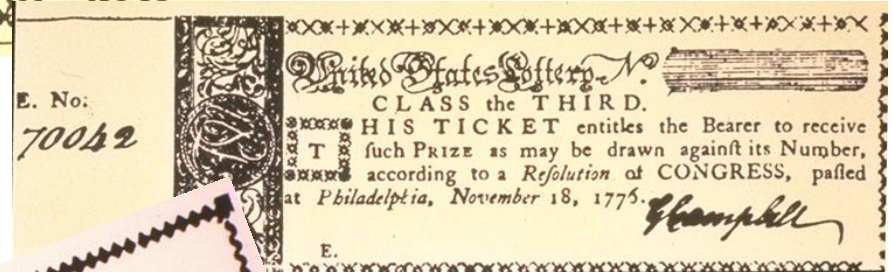
72% of consumers pay for fuel at the pump with plastic, only 41% of them also go in the store

2016 NACS Consumer Fuels Survey

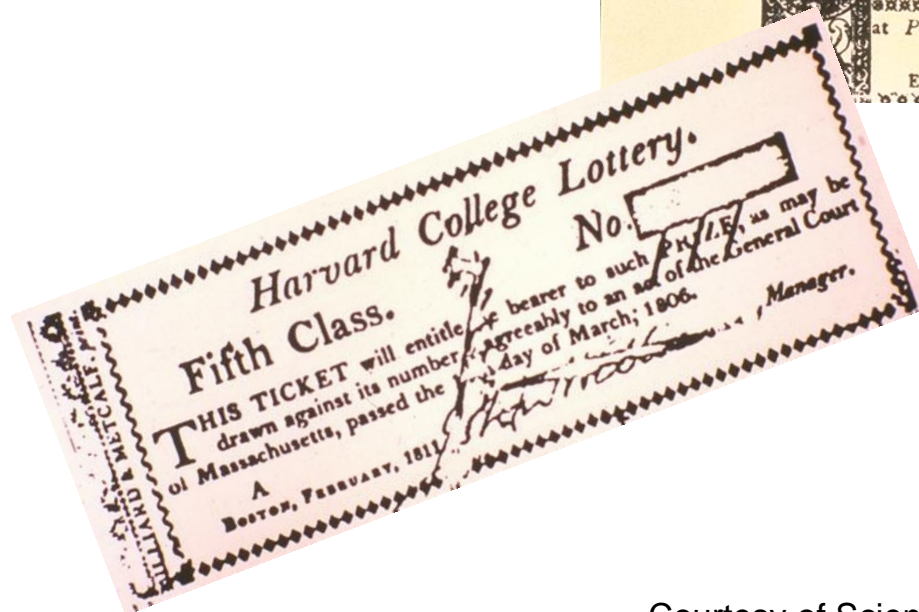
# History of Our Industry



The "Mountain Road"  
Lottery of 1768



Continental Congress  
Lottery - 1776



Courtesy of Scientific Games  
Historic Lottery Memorabilia Collection

