
Introduction

Since its inception in 1990, the Minnesota State Lottery has provided \$1.1 billion for state-financed programs, including about \$312 million for the Environment and Natural Resources Trust Fund. But, during the 2003 legislative session, an environmental group criticized the Lottery's financial record. The Minnesota Center for Environmental Advocacy (MCEA) said the Minnesota State Lottery had high administrative expenses and a low return to the state compared with other state lotteries. The Center also claimed that Minnesota's Lottery had a high number of employees and spent more than other lotteries on advertising and promotions.

Although Minnesota Lottery officials disputed the MCEA's claims, the 2003 Legislature placed a cap on the lottery's annual operating expenses for FY 2004 and subsequent years. The cap limits the Lottery's operating expenses to no more than \$43.5 million, or about 5 percent less than the Lottery planned to spend in FY 2004. In addition, the Legislative Audit Commission directed the Office of the Legislative Auditor to conduct an in-depth study of the Lottery's financial practices. In this report, we address the following questions:

- **How have sales and expenses changed over the Lottery's 13-year history?**
- **How do the expenses and profits of the Minnesota State Lottery compare with those of similar state lotteries?**
- **Is the Lottery operated efficiently? Does the Lottery make prudent financial decisions?**
- **How effective are the Lottery's advertising and promotion efforts?**
- **Is there sufficient oversight of the Lottery's finances? Are the Lottery and its top officials sufficiently accountable to the people of Minnesota and their elected officials?**

To conduct the evaluation, we examined the Lottery's financial records, the Lottery's process for awarding major procurement contracts, the job descriptions of Lottery staff, and mileage logs for Lottery vehicles. We also interviewed the Lottery's managers and staff, inspected the Lottery's office and warehouse space, and visited three of the Lottery's six regional offices. In addition, we viewed the Lottery's recent television advertisements and recent airings of its Environmental Journal television program and listened to recent radio advertisements and radio broadcasts of the Environmental Journal. To provide a comparative perspective, we talked with officials from lotteries in other states and collected data from them on lottery finances in their states. We also used financial, staffing, and other data on state lotteries from national and international sources. Data on other

Minnesota state agencies were used for some staffing, salary, and rental comparisons.

Chapter 1 of this report describes the Lottery's history and finances. In addition, we discuss other forms of legal gambling in Minnesota. Chapter 2 presents information on how the Minnesota State Lottery compares with other state lotteries across the country. We provide a detailed comparison of the Minnesota Lottery's sales and expenses with eight state lotteries that are similar to ours in size and products. In Chapter 3, we examine the Minnesota State Lottery's advertising and promotional expenses in detail and highlight areas of concern. Chapter 4 discusses a wide range of Lottery expenses including prizes, tickets, personnel, rent, vehicles, and other expenses. Chapters 3 and 4 present recommendations for action by the Lottery, and Chapter 5 offers recommendations to the Legislature and Governor. An appendix provides more detailed information on the sales revenues, expenses, and operating profits of all state lotteries operating in the United States.