

Minnesota State Lottery

Update to 2004 Evaluation Report

Problems Identified

- **High Operating Expenses and Low Profits.** In 2002, the Minnesota Lottery's operating expenses as a percentage of sales were 63 percent higher than expenses for comparable lotteries in other states. As a result, the state proceeds from operating the Lottery were only 21 percent of sales revenues compared with 27 percent for similar lotteries.
- **Questionable Promotional Expenses and Business Relationships.** The Lottery supported a number of promotional activities of questionable value, including a bass fishing tour, an environmental exhibit vehicle, and the production and distribution of television and radio programs. Payments for these items went to one firm that did not have to compete with other companies to obtain contracts from the Lottery.
- **Falling Sales.** We questioned the effectiveness of the Lottery's advertising strategy since inflation-adjusted ticket sales fell 17 percent between 1996 and 2003.
- **Lack of Accountability.** The Lottery was not required to submit its budget to the Legislature for approval. In addition, existing law made it difficult for the Governor to remove a lottery director for substandard performance.

Changes Implemented

- **Expenses Reduced and Profits Increased.** Through a combination of expense reductions and sales increases, the Lottery increased the profits paid to the state from \$79 million in 2003 to \$121 million in 2006. The 2006 figure includes \$2.2 million in unclaimed prize money, which we recommended be returned to the state.
- **Questionable Promotions and Relationships Terminated.** As we recommended, the Lottery terminated the questionable promotions and business relationships.
- **Accountability Improved.** The 2004 Legislature implemented our recommendations that the Lottery director serve at the pleasure of the Governor and that the Legislature review the Lottery's operating and capital budgets.

Action Needed

- **Continued Oversight of the Lottery's Budget.** The Lottery is projecting a decline in returns to the state from \$121 million in 2006 to \$112 million in 2008 and 2009. The decline is the result of a number of factors including increased operating expenses. The 2007 Legislature should review the Lottery's budget to ensure that the increased expenses have a sound business purpose.