



Spectrum Gaming Group

Experience. Integrity. Independence.

BUSINESS ASSESSMENT:

Ohio Lottery: Identifying Opportunities, Generating Growth

Prepared for Ohio Department of Administrative Services
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1201 New Road, Suite 308
Linwood, NJ 08221 USA
Tel: 609.926.5100
www.spectrumgaming.com

Executive Summary

The Ohio Lottery (“Lottery”) is a strong performer that regularly ranks among the top third of lotteries in the United States in key measures such as per-capita average weekly sales, in which it outperformed all but 11 of the nation’s 45 lotteries last year. That strong track record can be further improved, as the Lottery can accelerate its growth and streamline its operations by implementing a series of recommendations.

The recommendations made in this report are not expected to require additional budget appropriations in the current fiscal year. Some recommendations require statutory approval prior to the Lottery fully effectuating them. The potential for any additional appropriation would be dependent upon the manner in which the Lottery decides to act on the recommendation, and if it decides to repurpose its current appropriation. We anticipate that the recommendations requiring changes to current policy and practice can be implemented by relying on the Lottery’s current budget, its existing management and staff talent pool.

Furthermore, unless specifically noted otherwise, Spectrum does not anticipate its recommendations will create immediate needs for changes to existing contracts, nor will such changes impact existing staffing at the Lottery.

A. Lottery Restructuring

Our core recommendation: The Ohio Lottery should be reconfigured into a quasi-public corporation, similar to lotteries in Georgia and Connecticut.

This central recommendation comports with a similar recommendation made by the Ohio Auditor in 2010. The Ohio Lottery is presently established as a state agency, making it subject to numerous generic governmental requirements that often hinder the Lottery’s business practices. Restructuring the Lottery as a quasi-public corporation – in which the executive and legislative branches of government still have approvals of key appointments and budgets – recognizes that a lottery, unlike other agencies of state government, is charged with generating revenue and developing effective marketing practices under an efficient organizational structure.

Such a structure would afford more flexibility in areas ranging from procurement to hiring, as well as some exemptions to administrative rule-making requirements imposed on other state agencies.

Appropriate models can be found at lotteries in Georgia and Connecticut, which are characterized by the following:

- Centralized management and oversight
- Autonomy by empowering the Lottery Commission as a Board of Directors and delegating certain authority to the Executive Director to allow for greater discretion in making changes to get concepts to market in a shorter period.
- Oversight, transparency and accountability.

These three principles are consistent with the 2010 findings of the Ohio Auditor.

An alternative would be to have the Office of the Governor and the Ohio General Assembly grant more authority to the Ohio Lottery Commission (“Commission”), with appointment powers resting with the Governor while the Lottery budget would still be subject to legislative oversight.

This alternative would result in a management model similar to the Massachusetts Lottery model, in which the lottery is set up as a state agency under the direction of a commission that oversees and approves all significant policy matters and purchases, while delegating day-to-day operations to the Lottery Executive Director.

Any change to the Ohio Lottery management structure should require that the internal auditor report directly to the chair of the Commission, to improve oversight of daily operations.

The Lottery presently operates under an inefficient management structure, inhibiting its ability to react quickly to changing market conditions while impeding its ability to develop and execute a strategy to maximize sales. This structure is one key reason why the Lottery – which is generally a strong performer – has missed opportunities to grow revenue.

Lottery management must satisfy a variety of governmental entities under a system in which each has some level of control and oversight over Lottery operations. Such entities include the Ohio Department of Administrative Services, the General Assembly and its Joint Committee on Agency Rule Review and the Lottery Commission.

This reporting structure makes it difficult for Lottery management to develop specific strategic goals it can set for itself. The oversight structure leads to a very real sense that the Lottery management is not in control of its own future, which impacts the Lottery’s culture, permeating through the organization and impeding efforts to implement changes or make improvements.

Lottery senior staff, along with some vendors, recognize that the Ohio Lottery is slow to change or to bring any new initiatives quickly to market. Clearly, the Lottery’s structural issues, coupled with a sense of not being in command of its course, results in underperforming sales.

B. Comprehensive Strategic Planning

Any change to the management structure should be developed with one core goal in mind: to ensure that the Lottery develops an ongoing, achievable strategic plan. Past plans have not focused on a measurable, finely tuned vision, supported by data analysis and key tracking measures. Any strategic plan needs to consider the following:

- The Lottery has historically not relied on accessible, real-time data to measure the success or failure of Lottery promotions and initiatives. Indeed, multiple vendors have complained about the difficulty of receiving such real-time data.
 - This can be corrected through a combined effort that leverages the talents and knowledge of key vendor Intralot, along with the Lottery's own Information Technology and Finance departments.
- The Lottery should use sales data, up-to-date customer segmentation studies, and focus groups in advance of launching any marketing initiative or product line.
- The Lottery is presently overly reliant on vendors and outside stakeholders – along with the data they present – and does not perform the requisite in-house analysis to determine if any proposed initiative or new product will generate net sales increases, or to what extent it might cannibalize the existing portfolio.
- The analysis of data needs to be fully leveraged to assist in developing strategic goals and the overall vision for the Lottery. More importantly, data analysis needs to be the principal means of measuring progress toward meeting those goals.
- The increased, enhanced use of data analysis should tie in to other initiatives, including improved marketing. Related to that, we recommend:
 - The Marketing Department should review the past and current effectiveness of its programs by leveraging available data to better target market segments and grow the overall customer base.
 - Revenue data should be analyzed to determine the return on investment (“ROI”) for numerous types of machines in retailer locations, as well as to conduct periodic segmentation studies.
 - All promotions and initiatives should require pre- and post-implementation ROI analysis to develop and review both projected and actual revenue, with the goal of establishing any lessons learned in each instance.

C. Staffing Review, Reconfiguration

In examining staffing at the Ohio Lottery, we note that some job descriptions date back to 2005 and clearly need re-examination. Our recommendation is that the Lottery needs to develop bright lines that provide clarity for the job duties of senior staff while creating a sensible workflow for all inter-related functions and operations. With that in mind, we recommend:

- Establishing a management structure that is guided by sales. The current structure makes distinctions between revenue-generating and non-revenue generating areas. This does not make sense in an organization where all units and all employees contribute to the bottom line.
- Revamping performance reviews for management and establish stronger quantifiable, performance goals, particularly for senior staff.
- Improving communication among senior staff and throughout the Lottery's structure. The Lottery is presently burdened by excessive bottlenecks and logjams that prevent and discourage effective decision-making.

D. Vendor Management

Ohio Lottery senior staff needs to manage and challenge its vendors more effectively. Staff members are too prone to accept vendor recommendations rather than challenge and examine them. We recommend examining whether the Lottery should de-bundle services rather than be too dependent on one vendor for multiple areas. This would provide multiple options for each type of good and service, and would provide Ohio staff more leverage when dealing with vendors.

We also note that allowing vendors to maintain long-term contracts without re-bidding is an ineffective management practice.

E. Marketing, Sales Initiatives

Our recommendations include the following:

- Ohio retailers are activating an estimated 65 percent of new releases within the critical first week of a game's debut, while lottery retailers in other states routinely activate 90 percent or more during this initial period, which represents a game's peak potential for generating revenue. Rectifying this situation is a vital component to increasing sales and generating more revenue. To overcome this issue, several things must be addressed:

- Lottery sales representatives should display point-of-sale marketing material at retailer locations two to four weeks prior to any new game release. This will build consumer anticipation and excitement for their arrival to stores.
 - Sales representatives should continue to talk to retailers and explain the importance of new game activation.
- The Lottery should implement an incentive program to further motivate retailers to promote and sell games. Examples of successful incentives include:
 - Entering retailers into drawings for cash prizes each time they activate a new book of tickets, a plan that has proven successful in Massachusetts.
 - Offering increased commissions to retailers that activate all of the new games, a plan that has proven successful in Michigan.
- The Lottery should focus-group test the entire spectrum of tickets it is considering adding to its instant ticket portfolio, and end the present system in which it tests only the licensed, branded games.
- All marketing-related visuals should be tested and ultimately determined by the players, rather than by Lottery staff or vendors. Such visuals include game design, color choices and prize/feature call-outs that are printed on each instant ticket.
- The Lottery should analyze the pace at which certain games are selling, and remove some slower-moving games from the market and replace them with new games that will generate far greater revenue.
- The number of tickets printed for each game should be increased to support more robust prize structures, especially for higher-price point games, as player excitement is heightened by bigger prizes and more plentiful prize pools.
- The position of Online Product Manager was recently eliminated, and Intralot has assumed the role of product development and promotion. This position should be re-established as a Lottery employee, working within the Marketing Department.
- The Lottery should also:
 - Create more competition among vendors by opening up to more than one qualified vendor that competes for a spot in every release. This is where the Lottery will realize its best performance from vendors.
 - Develop cross-promotional opportunities with Ohio casino operators through marketing partnerships. Such a partnership could take various

forms, from offering casino prizes to lottery players to encouraging casino visitation to offering lottery products in restaurant and bar areas of casinos.

F. Additional Recommendations

- The Ohio Lottery should complete the program started by the Internal Auditor to update its policy and procedures manual.
- The Ohio Lottery should complete its work on its business-continuity plan, including training and periodic testing of the plan.
- The Lottery should expand its Responsible Gaming program by joining a reputable national program with proven effectiveness, such as the Responsible Gaming Best Practice Verification program established by the North American Association of State & Provincial Lotteries (“NASPL”) in partnership with the National Council on Problem Gambling. As the Ohio Lottery is already a member of NASPL, it would incur no fees to apply for verification under the standards of that rigorous program.
- Expand electronic video lottery terminal offerings such as video poker and electronic table games at Ohio’s seven racetrack casinos (“racinos”). Such an expanded offering would broaden the overall appeal of the racinos while increasing overall revenue
- As more lotteries – along with other forms of gaming – develop an online presence, the Ohio Lottery needs to begin exploring such an expansion by emulating the successful Michigan model, but should do so with care and deliberation in partnership with other key stakeholders such as its retailer network, as well as with Ohio’s commercial casinos.

In a larger context, long-term planning by the Ohio Lottery needs to be developed in partnership with other forms of gaming in the state under one statewide gaming policy. This should be a long-term goal that requires developing and improving the dialogue with the Ohio Casino Control Commission, commercial operators and others under the leadership of the Office of the Governor and the General Assembly.

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Introduction

The Ohio Department of Administrative Services (“DAS”) in December 2015 retained Spectrum Gaming Group (“Spectrum,” “we” or “our”) to perform an independent assessment of the effectiveness of operations, management and governance structure of the Ohio Lottery Commission (“OLC” or “Lottery”).¹ The goal was to recommend strategies and solutions to help the Lottery operations achieve highest financial return to the State from Lottery sales and to obtain efficiencies in its operation and management structure.

A. Methodology

Spectrum identified key areas that it considered necessary to provide OLC with an accurate assessment of its operations:

- **Governance:** Spectrum met with relevant members of the OLC and all members of the Lottery’s senior staff, including the Executive Director, and staff members of the Lottery involved in any manner with communication with the Commission. We reviewed applicable statutes, rules, regulations, practices, and policies regarding oversight of Lottery operations.
- **Management Structure and Staffing:** Spectrum met with members of the Human Resources department to determine the duties and division of responsibilities of all deputy directors and the workflow between departments. Spectrum reviewed relevant workflow policies or procedures, job descriptions and organization charts to conduct this portion of the assessment. An analysis of hiring practices was conducted as well.
- **Third-Party Management Agreements:** Spectrum reviewed the gaming-system provider agreement as well as instant ticket warehousing contracts with Intralot, the Lottery’s principal vendor. We interviewed Intralot senior management and staff as well as members of the Ohio Lottery’s Information Technology (“IT”) Department including, but not limited to, the IT team in Strongsville, which is responsible for testing and approving all programming changes performed by Intralot.
- **Traditional Lottery Product Analysis:** Spectrum assessed the development and marketing of the Ohio Lottery’s traditional product portfolio. Lottery staff responsible for the development, sales and marketing of the instant ticket product met with us to discuss the game concept process, production and release practices and marketing

¹ Ohio RFP Number CSP902316, “Business Assessment of the Ohio Lottery Commission,” issued August 24, 2015. <https://procure.ohio.gov/PDF/CSP9023168242015162118CSP902316.pdf>

approach. Spectrum met with the staff of the Ohio Lottery's primary ticket manufacturer to discuss performance and future marketing plans.

- Spectrum also met with appropriate staff at Intralot and the Lottery's Sales and Marketing departments to determine the development, management and marketing of the online product portfolio.
- **Video Lottery Terminals:** Spectrum developed a spreadsheet issued to the seven operators of VLTs at racetrack casinos ("racinos"), in which each operator was asked to complete and provide the requested information. Four operators provided information. We executed non-disclosure agreements as requested and offered to meet in person or telephonically with management at each racino. Two operators participated in discussions with Spectrum; all seven properties were visited.
- **Retailers:** Spectrum reviewed the Lottery's relationship with its retailers from a contractual basis as well as from a marketing and service standpoint. We further examined how Ohio Lottery staff can better serve retailers, the types of retailers, the recruitment of new retailers and methods to maximize sales at existing retailers. We gathered relevant retailer-related information from Lottery staff including, but not limited to:
 - Commission structure and amount
 - Retailer demographics; e.g., size and types of businesses
 - Existence of non-traditional Lottery Retailers
 - Product inventory for retailers
 - Current equipment
 - Future needs
- **Marketing and Advertising:** Spectrum met with the internal marketing staff and outside advertising agencies to ascertain the methods employed by the Lottery to promote its products. We examined the various marketing channels employed by the Lottery, as well as the targeted advertising efforts, use of social media and mobile platforms that are used to promote Lottery products. We reviewed the use of point-of-sale materials, in-field promotions, and the development of cross-marketing promotional opportunities.
- **Game Platforms:** Spectrum reviewed efforts to leverage non-traditional platforms, such as online and digital platforms. We interviewed the sales and marketing staff regarding the online and digital player's club/lottery reward programs.
- **Financial Structure and Analysis:** Spectrum met with the Deputy Directors of Finance and Internal Audit to review policy and procedures for the finance department. The

teams reviewed the internal audit plan and ongoing special projects. The team reviewed the retailer settlement practices and prize cashing policies.

- **Procurement Practices:** Spectrum engaged in extensive interviews and discussions with DAS and OLC to determine the efficiency of the procurement process to achieve the best value for the Lottery through the use of competitive bidding. The team examined established best practices in the industry to enable the Lottery to make effective and value based decision in the procurement area. All procurements guidelines and specific procurement documents were reviewed as part of the review.

B. Addressing Concerns, Needs of Stakeholders

The RFP that governs this analysis makes the clear point that “the interests, concerns and needs of all forms of gaming” must be considered in developing this business assessment. Spectrum approached this engagement having completed several engagements for both the State of Ohio and private-sector clients in Ohio in recent years that afforded us significant insights from Lottery officials, the Office of the Governor, members of the General Assembly, and gaming operators.

We built upon those insights by holding a wide array of in-person and telephonic meetings with key stakeholders, as well as with outside parties that could provide a different perspective on how business is conducted with other state lotteries.

Our stakeholder interviews included:

- Staff from the Governor's office and the Department of Administrative Services
- The Lottery Commission on four occasions (with the entire commission at meetings plus four individual calls, as well as several conversations with the Commission Chair)
- Numerous meetings with the Executive Director and staff, meeting an estimated total more than 50 Lottery personnel
- Relevant staff from General Assembly on three occasions, as well as with Sen. William Coley

Discussions with other, relevant parties included:

- Three meetings with key vendor Intralot
- Three meetings with Scientific Games and various communications with IGT
- Outside advertising and marketing personnel

- Meetings and discussions with other state lotteries, including Michigan, Massachusetts, Connecticut, Georgia and New Jersey
- Discussions with National Council on Problem Gambling
- Site visits and group meetings covering more than 15 retailers
- Visits to all seven racinos, as well as a conference call with four racino participants, plus collecting confidential survey information from five racino operators

Our research provided essential guidance into all of our recommendations. For example, our final recommendation that Ohio needs to develop a statewide gaming policy is reflective of our observation that consideration of the needs of all stakeholders is an ongoing process that will require a long-term commitment. Spectrum does not suggest that all stakeholders will be necessarily supportive of all recommendations, a goal that is simply not realistic. We do, however, suggest that their views have been heard, and are reflected in our analysis, and in our recommendations.

1. Lottery Background

On May 8, 1973, Ohio approved a referendum amending the State Constitution that permitted the General Assembly to establish a lottery, run by a state agency.² The voters approved the referendum by a 2-1 margin.³ The first ticket went on sale on August 12, 1974. Initially, lottery profits were deposited into the State’s General Revenue Fund, used for any authorized government purpose.

In 1983, the Ohio General Assembly passed House Bill 797, which provided that all Lottery profits exceeding \$165,000 would be transferred into the Educational Excellence Investment Account.⁴ In 1987, voters approved a constitutional amendment that required all lottery profits to be used solely for education programs. In response to the 1987 referendum, the General Assembly created the Lottery Profits Education Fund (“LPEF”) in 1988.

The Ohio Lottery operates as a State agency. The Lottery’s LPEF transfer obligation is included in the State’s biennial budget,⁵ and the Director of the Office of Budget and Management certifies the amount to be transferred to the LPEF from Lottery revenues each fiscal year.⁶

Clearly, the Ohio Lottery and its staff have made great efforts to increase sales, and have demonstrated material success, as evidenced by the increase in the amount transferred annually to the LPEF.

The economic impact of the Lottery can be succinctly summarized as follows:⁷

- The Lottery transferred \$1.06 billion in FY 2016, \$990 million in FY 2015 and \$904.3 million in FY 2014, from the sale of online and instant tickets, in addition to VLT “racino” facilities, to the Lottery Profits Education Fund for use by primary and secondary schools in Ohio.
- The Lottery has provided nearly \$22 billion in cumulative profits to the State of Ohio since inception.

² Art. 15, § 06 of the Ohio Constitution.

³ This information along with much of the information in this background section was derived from a binder of general information provided by the Ohio Lottery staff to provide Spectrum with general background.

⁴ Ibid.

⁵ “Ohio Lottery Performance Audit,” Mary Taylor, CPA, Auditor of the State, August 31, 2010.

⁶ ORC §3770.06.

⁷ “The Ohio Lottery Economic Impacts.” <https://www.ohiolottery.com/About/Financial/Economic-Impacts> (accessed September 12, 2016). Also Email from Gregory Bowers to Bill Egan, dated September 23, 2016.

- The Lottery distributed nearly \$1.88 billion in prizes to holders of winning tickets, the majority whom reside in Ohio.
- More than 9,500 retailers sell lottery products made up of a variety chain retailers and independent stores. Lottery retailers selling lottery products received \$179.2 million in bonuses and commissions in FY 2015.
- Retailer floor traffic increases as a direct result of lottery sales. The Lottery helps draw customers into retail establishments.
- For FY 2015, the Lottery's operating budget is approximately \$150 million, which provides for a variety of goods and services that are procured from vendors here in the state of Ohio.
- The Lottery employs nearly 350 Ohioans throughout the state.
- The Lottery's major vendor, Intralot, operates out of another facility located in the state where in addition to operating the Ohio Lottery, it houses data-processing information for five other state lotteries.
- The Lottery purchases Multi Game Vending Machines from the Gaming System vendor, which are assembled in the State of Ohio.
- The Lottery contracts with Ohio-based advertising firms for radio, television, production, media placement, billboards and other marketing related services.
- Additional staff members are employed by companies such as: Northlich Advertising, Marcus Thomas Advertising, Mills James, and Hooven-Dayton strictly due to the Lottery's existence.
- The Lottery and vendor employees have a significant effect on spin-off jobs of local businesses, restaurants, etc.

The table below lists the Ohio Lottery's sales in each category of traditional Lottery products of draw and online games as well as instant games, for the most recent two-year period as posted on the Lottery's web site.

Figure 1: Traditional Ohio Lottery sales, FY 2013-2016

(\$in millions)	FY 2013	FY 2014	\$ Var.	% Var.	FY 2015	\$ Var.	% Var.	FY 2016	\$ Var.	% Var.
Pick 3	\$345.2	\$339.0	\$(6.2)	-1.8%	\$338.0	\$(1.0)	-0.3%	\$343.0	\$5.0	1.5%
Pick 4	\$189.8	\$185.8	\$(4.0)	-2.1%	\$192.8	\$7.0	3.8%	\$200.4	\$7.6	3.9%
Pick 5	\$28.0	\$27.9	\$(0.1)	-0.4%	\$33.3	\$5.4	19.4%	\$36.4	\$3.1	9.3%
Rolling Cash 5	\$61.50	\$63.4	\$1.90	3.1%	\$62.60	\$(0.8)	-1.3%	\$60.3	(2.30)	-3.7%
Classic Lotto	\$41.5	\$54.1	\$12.6	30.4%	\$31.0	\$(23.1)	-42.7%	\$31.0	\$0.0	0.1%
Kicker	\$5.1	\$6.0	\$0.9	17.6%	\$4.7	\$(1.3)	-21.7%	\$4.6	\$(0.1)	-2.1%
Mega Millions	\$102.8	\$133.4	\$30.6	29.8%	\$113.3	\$(20.1)	-15.1%	\$102.2	\$(11.1)	-9.8%
Powerball	\$166.6	\$122.8	\$(43.8)	-26.3%	\$105.0	\$(17.8)	-14.5%	\$193.5	\$88.5	84.2%
Keno/Booster	\$251.5	\$298.1	\$46.6	18.5%	\$329.5	\$31.4	10.5%	\$365.9	\$36.4	11.0%
QuickKeno								\$0.7	\$0.7	
Raffle	\$9.1	\$1.0	\$(8.1)	-89.1%	\$7.1	\$6.1	610.0%	\$-	\$(7.1)	-100.0%
Ten-OH!	\$0.8	\$-	\$(0.8)	-100.0%	\$-	\$-	0.0%	\$-	\$-	-
Lucky 4 Life								\$14.1	-	-
EZ Play	\$68.0	\$84.8	\$16.8	24.7%	\$99.8	\$15.0	17.7%	\$115.2	\$15.4	15.4%
EZ Play Tap Games	\$-	\$-	\$-	-	\$24.0	\$24.0	0.0%	\$31.5	\$7.6	31.5%
Total Online "Draw"	\$1,269.9	\$1,316.3	\$46.4	3.7%	\$1,341.0	\$24.7	1.9%	\$1,498.8	\$157.8	11.8%
Instant Tickets	\$1,428.1	\$1,426.8	\$(1.3)	-0.1%	\$1,551.0	\$124.2	8.6%	\$1,560.7	\$9.7	0.6%
Total Traditional Games	\$2,698.0	\$2,743.1	\$45.1	1.7%	\$2,892.0	\$148.9	4.5%	\$3,059.5	\$167.6	5.8%

Source: Ohio Lottery

While sales growth from FY 2013 to FY 2014 was relatively sluggish at 1.7 percent, total traditional Lottery sales for FY 2015 grew to \$2.89 billion,⁸ an increase of 4.5 percent. This was driven by increases in instant tickets sales due the introduction of a \$30 ticket, and an increase in Keno sales driven by the introduction of that product to more locations.⁹ Sales figures provided recently to Spectrum, as seen in Figure 1, show that sales growth into FY 2016 experienced a 5.4 percent growth, with the main source of that growth being unusually high Powerball jackpots.¹⁰ As we can see, in the drop in FY 2016 sales of Mega Millions, sales in the multistate are jackpot driven and can vary greatly year to year. Keno continues to experience fantastic growth in Ohio, growing 11 percent in FY 2016. The EZ Play family of games experienced good growth in FY 2016 but represented only 3 percent of total sales

Transfers to LPEF increased to record levels in FY 2015, with \$990 million being transferred for education.¹¹ The amount transferred in FY 2016 to LPEF to exceed \$1 billion for

⁸ Ohio Lottery, "The Ohio Lottery Commission: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015," p. 24.

⁹ Ibid., pp. 21, 24-25.

¹⁰ Email from Gregory Bowers to Bill Egan, September 23, 2016.

¹¹ Ibid., p. 21.

the first time. These increases are clearly driven by the \$30 price point in the instant game as well as continued Keno expansion and record jackpots in the multistate games.

The Lottery continued to add to its product portfolio by adding Lucky for Life to its multistate game portfolio on November 16, 2015.¹² Additionally, the Lottery started a pilot program designed to add 1,000 player-activated video terminals at various retailer locations to introduce a Quick Keno game that would serve as a standalone alternative to the Keno draw game presently sold at bars and restaurants.

A. Peer-Group Comparison

The most accurate, telling comparison of US lotteries for the purposes of this discussion is looking at the per-capita sales for traditional lottery products. These allow for an apples-to-apples comparison by eliminating differences in population and differences in product portfolio. We note, however, that the differences in product portfolio could be significant in cases where one state had VLTs and another did not.

The following table, which tracks data through the second quarter of 2016, provides weekly per-capita sales data for all US Lotteries for draw game and instant ticket sales. As shown, Ohio's per-capita sales from the end of FY 2015 through the first two quarters of FY 2016 have stagnated. Notably, the data indicate that the Lottery's growth rate in per-capita average weekly sales over the last five years was 2.3 percent while the average growth rate over this time for all US Lotteries was 5.1 percent. Based on 2015 data, Ohio ranks 12th among 45 lotteries. However, anemic growth in the first two quarters of this year threatens that ranking and further demonstrates that the Lottery still has room for improvement. The chart compared sales data only through the second quarter of FY 2016 due to availability of data from other state lotteries. Our discussion will focus on growth comparisons based on the chart even though full FY 2016 Ohio sales data is available the Lottery.

It should be noted that this growth is ahead of the rate of growth a Spectrum report that issued in 2011 projected in conducting an analysis of expanded gaming in Ohio.¹³ Using the Pennsylvania example, the report projected a potential Lottery sales growth of 0.6 percent in the first year of expanded gaming. Ohio has had four casinos in operation since 2013 and the seventh and final racino opened in 2014. The report's finding has limited application now since Ohio is well past the first year of operations of expanded gaming, therefore its effect should be minimal on Lottery revenues. In looking at the Pennsylvania Lottery over the last over fiscal years 2010 through 2015, its per-capita sales and growth rate of the same has consistently outpaced Ohio. For instance, the instant ticket portfolio based on the Lottery's figures grew

¹² "History and Facts." www.ohiolottery.com (accessed September 15, 2016)

¹³ "Advisory Services: Analysis of the Ohio Gaming Market and Public Policy," May 23, 2011.

only 0.6 percent in FY 2016. This stagnant growth in the primary part of the traditional product portfolio is not due to expanded gaming.

Figure 2: Five-year CAGR in per-capita average weekly sales, all US lotteries

Total Draw + Instant										
Rank	Jurisdiction	2010	2011	2012	2013	2014	2015	Q1-Q2 2016	CAGR (2010 - 2015)	Rank Change (2015 vs. 2014)
1	Massachusetts	\$12.86	\$13.10	\$14.00	\$14.00	\$14.21	\$14.26	\$14.26	2.1%	-
2	Georgia	\$6.46	\$6.58	\$7.05	\$7.06	\$7.10	\$7.80	\$8.43	3.8%	-
3	New York	\$6.58	\$6.77	\$7.15	\$7.18	\$7.08	\$7.45	\$8.01	2.5%	-
4	New Jersey	\$5.69	\$5.76	\$6.09	\$6.34	\$6.35	\$6.98	\$7.69	4.2%	-
5	Connecticut	\$5.49	\$5.55	\$6.07	\$6.20	\$6.09	\$6.36	\$6.36	3.0%	+1
6	District of Columbia	\$7.43	\$7.44	\$7.85	\$7.18	\$6.21	\$6.09	\$6.09	-3.9%	-1
7	Maryland	\$5.78	\$5.73	\$5.94	\$5.64	\$5.58	\$5.88	\$5.88	0.4%	+1
8	South Carolina	\$4.20	\$4.47	\$4.73	\$5.03	\$5.20	\$5.86	\$5.86	6.9%	+2
9	Pennsylvania	\$4.74	\$4.93	\$5.38	\$5.61	\$5.59	\$5.82	\$5.82	4.2%	-2
10	Florida	\$3.96	\$4.26	\$4.74	\$5.18	\$5.23	\$5.77	\$6.15	7.8%	-1
11	Michigan	\$4.56	\$4.55	\$4.77	\$4.94	\$5.14	\$5.72	\$6.17	4.6%	-
12	Ohio	\$4.24	\$4.37	\$4.56	\$4.40	\$4.64	\$4.76	\$4.76	2.3%	-
13	Rhode Island	\$4.22	\$4.27	\$4.87	\$4.69	\$4.47	\$4.69	\$5.08	2.2%	-
14	Virginia	\$3.52	\$3.65	\$3.90	\$4.13	\$4.21	\$4.46	\$4.87	4.8%	-
15	Tennessee	\$3.26	\$3.41	\$3.72	\$3.90	\$3.86	\$4.30	\$4.79	5.7%	+2
16	Illinois	\$3.26	\$3.58	\$4.21	\$4.23	\$4.07	\$4.30	\$4.48	5.7%	-
17	North Carolina	\$2.82	\$3.07	\$3.21	\$3.53	\$3.64	\$4.29	\$4.95	8.8%	+2
18	New Hampshire	\$3.32	\$3.44	\$4.04	\$4.15	\$4.10	\$4.18	\$4.18	4.7%	-3
19	Kentucky	\$3.40	\$3.47	\$3.74	\$3.53	\$3.73	\$4.16	\$4.54	4.1%	-1
20	Maine	\$3.17	\$3.16	\$3.38	\$3.40	\$3.48	\$3.84	\$3.84	3.9%	+1
21	Missouri	\$3.14	\$3.26	\$3.53	\$3.62	\$3.50	\$3.73	\$4.21	3.5%	-1
22	Vermont	\$3.01	\$2.95	\$3.20	\$3.19	\$3.28	\$3.56	\$3.56	3.4%	-
23	Texas	\$2.86	\$2.91	\$3.19	\$3.23	\$3.15	\$3.42	\$3.80	3.6%	-
24	Indiana	\$2.24	\$2.34	\$2.65	\$2.89	\$3.00	\$3.42	\$3.94	8.8%	-
25	Delaware	\$2.60	\$2.70	\$2.96	\$3.12	\$2.98	\$3.36	\$3.36	5.3%	-
26	California	\$1.56	\$1.92	\$2.26	\$2.41	\$2.53	\$3.00	\$3.34	13.9%	+1
27	Arkansas	\$3.04	\$3.10	\$2.91	\$2.80	\$2.60	\$2.74	\$2.74	-2.0%	-1
28	Idaho	\$1.73	\$1.77	\$2.32	\$2.39	\$2.44	\$2.61	\$2.61	8.6%	-
29	Arizona	\$1.60	\$1.77	\$1.97	\$2.08	\$2.04	\$2.38	\$2.73	8.2%	-
30	Colorado	\$1.92	\$1.98	\$2.10	\$2.07	\$1.90	\$2.11	\$2.17	2.0%	+1
31	Wisconsin	\$1.64	\$1.76	\$1.91	\$1.90	\$1.87	\$2.07	\$2.30	4.8%	+2
32	Iowa	\$1.68	\$1.80	\$2.05	\$2.08	\$1.92	\$2.01	\$2.01	3.7%	-2
33	Minnesota	\$1.83	\$1.90	\$2.04	\$1.96	\$1.85	\$1.99	\$2.23	1.7%	+1
34	Louisiana	\$1.60	\$1.68	\$1.86	\$1.90	\$1.80	\$1.96	\$1.96	4.2%	+1
35	West Virginia	\$1.93	\$2.05	\$2.08	\$2.00	\$1.88	\$1.95	\$2.12	0.2%	-3
36	Washington	\$1.41	\$1.46	\$1.57	\$1.63	\$1.60	\$1.80	\$2.04	4.9%	-
37	Kansas	\$1.52	\$1.51	\$1.59	\$1.55	\$1.54	\$1.73	\$1.94	2.6%	-
38	Oregon	\$1.58	\$1.58	\$1.62	\$1.61	\$1.48	\$1.65	\$1.87	0.9%	+1
39	Nebraska	\$1.38	\$1.45	\$1.68	\$1.69	\$1.52	\$1.64	\$1.97	3.5%	-1
40	New Mexico	\$1.36	\$1.25	\$1.30	\$1.31	\$1.22	\$1.34	\$1.34	-0.3%	-
41	South Dakota	\$1.05	\$1.15	\$1.31	\$1.32	\$1.14	\$1.24	\$1.24	3.2%	-
42	Montana	\$0.88	\$0.90	\$1.10	\$1.05	\$0.96	\$0.96	\$0.96	1.7%	-
43	Oklahoma	\$1.03	\$0.97	\$1.05	\$0.98	\$0.86	\$0.81	\$0.81	-4.7%	-
44	North Dakota	\$0.69	\$0.67	\$0.81	\$0.76	\$0.66	\$0.56	\$0.56	-4.1%	-
45	Wyoming	n/a	n/a	n/a	n/a	\$0.62	\$0.52	\$0.83	-16.5%	-

Source: IGT, LaFleur's

2. Management Structure

The management structure of the Ohio Lottery Commission is certainly a factor preventing the Lottery from maximizing its revenue.

The Lottery's management structure is diffused and unfocused. Specifically, the Lottery Executive Director and senior staff report to several groups with different requirements that frequently do not align with the Lottery's primary purpose of maximizing Lottery sales. This confusion of the mission contributes to a concern expressed by Lottery management that it is not able to react quickly to market changes and to get ideas quickly to market. Such views are not misplaced. This present structure clearly means that the Lottery's management is not sufficiently empowered to perform its task to the best of its ability, an obstacle that frequently leads to frustration that permeates throughout the organization.

A. Current Management Structure

The Ohio Lottery is administered by an Executive Director, who is appointed by and serves at the pleasure of the Governor.¹⁴ The Ohio Lottery Commission is comprised of nine members, all appointed by the Governor with advice and consent from the Senate.¹⁵

The Commission is responsible for promulgating rules governing the Lottery's games and its operations.¹⁶ The rule-making process requires the Commission to approve both draft and final rules before a game can be issued to the public.¹⁷ The Commission also has to approve existing rules that require review/re-approval every five years.¹⁸

In its original form, the Commission had significant authority over hiring, procurement and daily operation of the Lottery.¹⁹ In its first iteration, the Commission consisted of five members appointed for four-year teams, and was responsible for:

- Approving the hiring of personnel (other than the Executive Director)
- Approving contracts procured for Lottery operations
- Promulgating rules required to operate the Lottery.²⁰

¹⁴ ORC 3770.02.

¹⁵ ORC 3770.01.

¹⁶ ORC 3770.03.

¹⁷ Ibid.

¹⁸ ORC 3770.03.

¹⁹ "Ohio Lottery Commission Performance Audit," Mary Taylor, CPA Auditor of the State, August 31, 2010, p. 2-1.

²⁰ Ibid. At 2-2.

After a highly publicized scandal in the 1970s,²¹ the Ohio Highway Patrol conducted an investigation after which it determined that apparent misconduct at the Ohio Lottery “was the result of acts that were more foolish than criminal.”²² The result of these missteps was the passage of a comprehensive Lottery reorganization bill in 1980 that increased the size of the Commission to nine members and stripped the Commission of its authority and responsibility to approve hiring and contracts for Lottery operations.²³

Accordingly, since 1980 the Commission’s responsibility is limited solely to administrative rulemaking.

While the Lottery’s Executive Director and members of senior staff will brief the Commission on the Lottery’s performance, upcoming promotions and other operations matters,²⁴ the Commission has no responsibility or authority to approve any matter outside of the game and operational rules.

On June 16, 2014, the Commission approved the creation of an Audit Committee that consists of three Commissioners that meets approximately four times per year.²⁵ The Audit Committee meets with the Lottery’s Internal Auditor, other members of the Ohio Lottery staff and members of the Ohio Office of Budget and Management (“OMB”) to review ongoing audit matters.²⁶

The General Assembly and the Governor also have oversight of the Lottery.²⁷ Commission meeting minutes are sent to the Governor and leadership of the Senate and House of Representatives.²⁸ The Ohio Lottery’s Finance Department prepares an annual report detailing the Lottery’s financial performance with copies sent to the Governor and the House and Senate.²⁹ The Governor’s office and the General Assembly control Lottery spending as the result of the Lottery’s budget’s inclusion in the State’s biennial budget.³⁰ The General Assembly has additional oversight of the Commission’s administrative rule-making and its procurement

²¹ “Contract Scandal Slows Ohio Lottery,” *New York Times*, December 10, 1978.

http://www.nytimes.com/1978/12/10/archives/contract-scandal-slows-ohio-lottery-charges-of-influencebuying-that.html?_r=0

²² *Ibid.*

²³ *Ibid.*

²⁴ See e.g., “Meeting of the Ohio Lottery Commission, August 16, 2016, Agenda.”

²⁵ See e.g., “Ohio Lottery Audit Committee Schedule for the Fiscal Year 2017.”

²⁶ ORC 3770.06(E).

²⁷ “Ohio Lottery Commission Performance Audit,” p. 2-3, Mary Taylor, CPA Auditor of the State. August 31, 2010.

²⁸ *Ibid.*

²⁹ *Ibid.*

³⁰ *Ibid.*

practices through the Joint Committee on Agency Rule Review (“JCARR”) and the Controlling Board.³¹

The Lottery Commission seeks approval from the Controlling Board when it requests a waiver of competitive selection for a contract, an increase in a contract appropriation previously approved by the Board, or a transfer of funds between budget line items.³²

Additionally, the Lottery has been subject to statewide procurement laws since the 1980 reorganization of the Lottery Commission, except in cases when the Lottery has received a waiver to conduct its own procurement.³³ The Department of Administrative Services (“DAS”) oversees procurement for all state agencies.³⁴ DAS also provides services outside of procurement and include human resources, payroll and general IT services.³⁵

In recent years, the Lean Ohio Network – a group of several hundred state employees working under the guidance of DAS to improve state-government operations – has championed an effort to standardize how all Ohio state agencies, including the Lottery, conduct business by encouraging, and even requiring state agencies, to eliminate certain functions at the agency level and using the centralized services provided by DAS.³⁶

Such centralization efforts – while clearly laudable for most state agencies – could be problematic for the Lottery, as it has the rather unique public-sector mandate to maximize sales and profits. Nevertheless, Lottery management has embraced the program and cites its accomplishments in its annual financial report.³⁷

The Lottery is assigned a contact in the Office of the Governor who serves as a liaison between the two.³⁸ The Lottery’s Executive Director communicates with members of the Governor’s staff, when necessary, both in person and frequently by phone, to keep the Governor’s office informed about all Lottery developments.³⁹ The staff at the Ohio Lottery

³¹ Ibid. Interviews with the Ohio Lottery’s Executive Director, General Counsel and Director of Finance confirmed this information.

³² Ibid.

³³ ORC 3770.02(C)(2) and (G), and interviews with Director of Finance and staff, Department of Administrative Services.

³⁴ ORC 125 et. seq.

³⁵ Interviews with Ohio Human Resources and Department of Administrative Services.

³⁶ “About LeanOhio. www.lean.ohio.gov (accessed September 19, 2016); interviews with DAS staff.

³⁷ “The Ohio Lottery Commission: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015,” p. 9.

³⁸ Ibid.

³⁹ “Ohio Lottery Commission Performance Audit,” Mary Taylor, CPA Auditor of the State. August 31, 2010, p. 2-3; interviews with Executive Director and Chief of Staff and Policy.

works with the Governor's office and OMB to set the Lottery's proposed budget to be included in the Governor's proposed statewide budget.⁴⁰

B. 2010 Ohio Lottery Performance Audit

Spectrum reviewed the Lottery's operations and management structure including the results of the 2010 Performance Audit performed by the Ohio Auditor.⁴¹ The audit made the following recommendations with respect to the Ohio Lottery's operations and management structure.

That audit recommended that the Lottery should:

- Be given the authority and flexibility in its administrative operations to fulfill its mission. Such authority should include the ability of OLC to develop processes for procurement and contracting that are consistent with the goals of accountability and transparency, while also more appropriate to a business enterprise.⁴²

The audit recommended that the Governor and General Assembly should:

- Enact legislation to reorganize the Ohio Lottery Commission and its Agency as a quasi-public corporation. If the State does not adopt a corporate style of governance for OLC, the Governor or the General Assembly should consider adopting individual characteristics of such an organization.
- Provide OLC with at least a modicum of exemption from the Ohio Administrative Procedures Act for its day-to-day operations. Such an exemption would allow OLC to react to a changing market and implement legislatively-authorized online and instant games in a more timely fashion. Such exemptions would not allow OLC to implement gaming that has not been authorized by the General Assembly.
- Within the constitutional designation of Lottery profits for education purposes, examine the possibility of refining the public purpose of and more clearly targeting the State's lottery profits to be more specific and transparent. By designating lottery profits to a more specific purpose, OLC may be more successful in marketing lottery products, communicating the purpose of lottery profits, and sustaining higher levels of public support.
- Expand the duties and roles of the Commission to include the appointment and oversight of the OLC chief executive and budgetary control if Ohio adopts a

⁴⁰ Ibid. Interviews with Executive Director, Director of Finance, and Chief of Staff and Policy.

⁴¹ Request for Proposal. "Business Assessment of the Ohio Lottery Commission," RFP Number CSP902316 at §1.4(C)(1)(c), p.5.

⁴² "Ohio Lottery Commission Performance Audit," Mary Taylor, CPA Auditor of the State, August 31, 2010, p. 2-3. Interviews with Executive Director and Chief of Staff and Policy. http://blogs.dixcdn.com/capitalblog/wp-content/uploads/2010/08/1_Lottery-2Ohio_Lottery_Commission_Performance_2010.pdf (accessed August 1 through September 12, 2016)

corporate, quasi- public model for OLC. If the Ohio Lottery does not convert to a quasi-public corporation, the Commission should be eliminated, as it is duplicative in nature and does not help maximize the efficiency of the lottery or its mission of generating revenue for public education.⁴³

The 2010 Performance Audit clearly identified many of the obstacles and inefficiencies that still exist in 2016, a legacy from the 1980 Lottery reorganization that stripped the Lottery Commission of most of its administrative authority. That action may have been justified in 1980, but in 2016, it hinders the Lottery's ability to function effectively, thus further hindering its ability to maximize revenue.

The 2010 Performance Audit discussed the variety of forms of management that exists in the US Lottery industry.⁴⁴ Each state decided what level of oversight, control and autonomy was appropriate for a lottery organization in their respective state.⁴⁵ The report, which was a review of District of Columbia Lottery practices, classified the forms of Lottery management in the United States into five categories:

- Lottery is part of another government agency and does not have a board or commission.
- Lottery is part of another state agency and has a board or commission.
- Lottery is an independent government agency and does not have a board or commission.
- Lottery is an independent government agency and has a board or commission.
- Lottery is a quasi-public corporation or authority and has a board or commission.⁴⁶

The 2010 Performance Audit recommended that the Commission be reorganized as a quasi-public organization. The Audit found that, in the alternative, if it is not reorganized as a quasi-public corporation then the Governor and General Assembly should adopt some the qualities of a quasi-public to the Lottery the flexibility to behave more like a business and allow it to maximize revenue.⁴⁷ The latter option would effectively undo the 1980 lottery reorganization by again empowering the Lottery Commission with the authority it was stripped of in 1980. The Performance Report states that, if no changes are made to the Commission's structure, then the Commission should be eliminated.

⁴³ Ibid.

⁴⁴ Ibid., p. 2-09 to 2-13.

⁴⁵ Ibid.; see also "Best Practices Review of the DC Lottery, Final Report," Delehanty Consulting, February 26, 2016.

⁴⁶ Ibid., p. 9.

⁴⁷ See infra.

C. Matching Structure to Business Model

A crucial theme guiding our assessment of the Lottery is the recognition that lotteries are unique among state agencies as being revenue-driven, growth-oriented enterprises. Such recognition is rare in any state but, nonetheless, a failure to recognize that distinction amounts to a failure to allow the Lottery to realize its full revenue and profit potential.

The 2010 Performance Audit listed the qualities of corporate-style management that would be beneficial to the Ohio Lottery. Those qualities as described by the Ohio Auditor are:

- An independent board of directors, appointed by the governor, with authority to govern the operation of the lottery;
- A CEO, appointed by the board of directors or governor, who serves a set term or at the pleasure of the board of directors, rather than the governor;
- Authority by the board of directors to approve and modify the organization's budget independent of the annual (or biennial) legislative budgeting process;
- Greater flexibility, as determined by the board of directors, in the areas of procurement and contracting;
- Exemptions to the administrative rule-making requirements imposed on other state agencies;
- Other exemptions from general administrative and/or bureaucratic requirements with regard to human resource management; and
- Oversight, transparency, and accountability through a system of regular reports and audits.⁴⁸

The 2010 Performance Audit makes important recommendations that would clearly empower the Ohio Lottery Commission and management team to put the Lottery on a realistic growth path. The appropriate management structure will provide the following to the Ohio Lottery that is currently lacking in its current structure:

- Centralized management and oversight.
- Autonomy by empowering the Commission as a Board of Directors and delegating certain authority to the Executive Director to allow for greater discretion in making changes to get concepts to market in a shorter period of time.
- Oversight, transparency and accountability.

⁴⁸ "Ohio Lottery Commission Performance Audit," Mary Taylor, CPA Auditor of the State, August 31, 2010, p. 2-3. Interviews with Executive Director and Chief of Staff and Policy, p. 2-11. http://blogs.dixcdn.com/capitalblog/wp-content/uploads/2010/08/1_Lottery-2Ohio_Lottery_Commission_Performance_2010.pdf

These three principles are consistent with the 2010 findings of the Ohio Auditor.

Accordingly, Spectrum recommends that the Ohio Lottery be reorganized as a quasi-public corporation. A quasi-public corporation, with a board appointed by the Governor with consent from the Senate, would appear to qualify as an instrumentality of the State and should satisfy this constitutional requirement. Such a legal opinion, however, is within the purview of legal counsel for the Lottery and Governor's office, rather than Spectrum.

Notably, the quasi-public models in Georgia and Connecticut provide the best examples that the Ohio Lottery could emulate. Each of those lotteries, however, took a different route toward the adoption of that structure.

The Georgia Lottery was organized in 1993 as a quasi-public corporation as its original management structure.⁴⁹ The characteristics of the Georgia Lottery management model that would most benefit the Ohio Lottery are as follows:

- The Lottery is governed by a Board of Directors appointed by the Governor with the consent of the Senate.⁵⁰
- Legislative oversight is provided by the General Assembly's Georgia Lottery Corporation Oversight Committee that meets at least annually with the Chairman of the Board of Directors.⁵¹
- Chief Executive Officer of the Lottery is appointed by the Board of Directors.⁵²
- The Georgia Lottery is self-funded, in that it does not receive an appropriation from the General Assembly and is required to fund its operating costs out of lottery sales revenue prior to remitting all net proceeds to the state.⁵³
- The Board has control over procurement and retains the power to hire employees, without any apparent restrictions in the statute.⁵⁴
- The Board decided the type of games to be played, as well as price points.⁵⁵
- The Lottery CEO is required to file quarterly financial reports with the State Auditor, State Accountants Office and the Board.⁵⁶

⁴⁹ Special Examination of the Georgia Lottery Corporation, March 11, 2011. Russell Hinton, State Auditor, p.1-2.

⁵⁰ Ibid.

⁵¹ Ibid.

⁵² Ibid.

⁵³ Ibid.

⁵⁴ GA Code §50-27-9.

⁵⁵ GA Code §50-27-10.

- The Georgia Lottery Corporation is empowered to set employee standards and compensation with certain specific background and conflict of interest requirements set by statute.⁵⁷

The Connecticut Lottery was different in that it converted in 1996 to a quasi-public corporation after having existed as a state agency from its inception in 1971.⁵⁸ Connecticut converted the management structure of the Lottery for a variety of reasons, but most notably to allow it to operate with an entrepreneurial spirit, unencumbered from the standard restrictions governing state agencies. This freedom would, in turn, allow the Connecticut Lottery to react quickly to market factors.⁵⁹

As described in its governing statute, the Connecticut model has the following characteristics:

- The Board of Directors has 13 members. The Governor appoints four members, the combined House and Senate leadership appoints six members and the remaining members are other state officials serving as ex-officio members of the Board. The Board Chairman is appointed by the Governor.⁶⁰
- The President – effectively the Executive Director – is appointed by the Board of Directors.⁶¹
- The Department of Consumer Protection regulates the activities of the Lottery Corporation.⁶²
- The Connecticut Lottery is also self-funded, in that it does not receive an appropriation from the state, but rather funds its operating costs out of ticket revenue, then remits all net proceeds to the state.⁶³
- The Board has control over procurement, and is fully empowered to hire without any apparent restrictions in the statute.⁶⁴

⁵⁶ GA Code §50-27-11.

⁵⁷ GA Code §50-27-12.

⁵⁸ “Best Practices Review of DC Lottery” at 11 and “Ohio Lottery Commission Performance Audit 2010,” p. 2-11.

⁵⁹ “Ohio Lottery Commission Performance Audit” at 2-11. Conn.Gen Stat. §12-806.

⁶⁰ Conn. Gen. Stat. §12-802.

⁶¹ Ibid.

⁶² Conn. Gen. Stat. §12-806A.

⁶³ Conn. Gen. Stat. §12-802.

⁶⁴ Ibid.

- The Board makes all decisions regarding the types of games sold, although certain related issues such as the method of sale are governed to some extent by statute and by the regulatory authority of the Department of Consumer Protection.⁶⁵
- The corporation is empowered to set employee standards and compensation levels, with certain specific background and conflict-of-interest requirements set by statute.⁶⁶

As noted earlier, an alternative to a quasi-public governing structure would be to restore the authority that had been taken away from the Lottery Commission by the 1980 reorganization. The Commission, under that structure, should retain the authority to approve and control procurement and set hiring standards.

This would be similar to that model employed in Massachusetts,⁶⁷ in which the Lottery Commission sits within the Office of the State Treasurer, with the Treasurer designated as its Chairman.⁶⁸ Of the other four members of the Commission, two are gubernatorial appointees and two are ex-officio members.⁶⁹ The Commission has the right to control procurement and hiring as long as such practices are in full compliance with all state laws.⁷⁰

The Chair (the Treasurer) appoints the Executive Director with the consent of the Governor.⁷¹ The Commission decides all the games to be offered for sale, as limited by the enabling statute.⁷² At present, there is a restriction on the sale of products over the Internet.⁷³

Adopting such a model would benefit the Ohio Lottery as it would centralize its management and allow for more control, accountability and better strategic planning.

Notably, the Performance Audit of 2010 recommends the elimination of the Ohio Lottery Commission in the absence of converting the Ohio Lottery to a quasi-public corporation. An alternative approach that is arguably preferable would retain the Commission, and allow it to focus on its advisory role, providing guidance in the critically important planning process.

⁶⁵ Ibid.

⁶⁶ Ibid.

⁶⁷ The Massachusetts Treasurer is elected independently of the Governor and Legislature, a situation that grants significant autonomy to the Treasurer.

⁶⁸ Ibid.

⁶⁹ Ibid.

⁷⁰ Ibid.

⁷¹ Ibid.

⁷² Ibid.

⁷³ Ibid.

D. Financial Modeling: Understanding Returns

With respect to adopting one of the two alternative forms of management structure, Spectrum cannot realistically project a specific sales increase that would directly correlate to the management structure. Rather, we can compare average weekly per-capita sales for draw and instant products between lotteries that adopt each of the three (including the status quo) models.

For the quasi-public corporate model, we examined Georgia and Connecticut. For the model in which the lottery is set up as a state agency under the direction of a commission that oversees and approves all significant policy matters and purchases, we will examine Massachusetts. These will then be compared to the status quo, in which the Ohio Lottery serves as its own model.

As noted in Figure 2 in our report, through FY 2015, Massachusetts had, by far, the highest average weekly per-capita sales in the country at \$14.26 per week. The Georgia Lottery was next at \$7.80 per week. The Connecticut Lottery was fifth on this list at \$6.36 per week. The Ohio Lottery was 12th on the list at \$4.76 in average weekly per capita sales. Obviously, Ohio lagged behind even fifth-place Connecticut by more than \$2 per week. That may seem like a modest sum, but a \$2 increase in average weekly per capita sales in a state like Ohio, with a total population of more than 11 million people,⁷⁴ would translate into a revenue increase of more than \$1 billion.

These figures support our fundamental view that Ohio has significant room for further growth. The Ohio Lottery's growth rate in this category is 2.3 percent. The industry average growth rate is 5.1 percent. The average growth rate for the top five lotteries in this measure is 3.12 percent. That indicates that these lotteries have less opportunity for further growth, given their past success. The average growth rate of the Lotteries ranked 10 through 15, with Ohio being ranked at No. 12, is 4.5 percent. The Ohio Lottery is obviously behind the average growth overall, the top five lottery average growth rate, as well as the average for similarly ranked lotteries.

Our collective recommendations, including a different management structure, are designed to address the Ohio Lottery's otherwise limited growth. The top five lotteries have either a strong Commission (Massachusetts and New York), are structured as a quasi-public corporation (Georgia and Connecticut) or operate as a privately managed lottery (New Jersey). Each of these lotteries has a management structure that allows the lottery to act quickly and adjust to market conditions to keep with a changing economy.

⁷⁴ The traditional lottery methodology for calculating per-capita sales relies on total population, not adult population. We maintain this methodology to ensure an apples-to-apples comparison.

Additionally, we believe changing the Lottery's instant ticket development process alone could generate consider gains of \$57 million per fiscal year. Lastly, the Ohio Lottery launching a plan for a digital presence could open the avenue for considerable growth outside its traditional product portfolio.

3. Strategic Planning

Irrespective of any changes to the management structure, the Ohio Lottery needs to conduct more effective strategic planning. Past plans have not focused on measurable, finely tuned goals, nor did they encompass the ability to track progress based on solid metrics. Rather, the Ohio Lottery's strategic goals can be characterized as being overly broad and unnecessarily vague. They lack sufficient detail that would allow for the meaningful tracking of progress. The Ohio Lottery managers interviewed for this analysis indicated that the problem, again, can be attributed to the need to satisfy disparate stakeholders, thus making it difficult to establish narrowly defined goals

Accordingly, the problem is linked to decentralized oversight. A vendor made the observation that in his opinion the problem with the Lottery's strategic planning is that no one outside of the Lottery in an oversight position knows the Lottery industry sufficiently to be able to assist the Lottery in developing clear, well developed strategic goals. At least part of the issue with strategic planning rests with the lack of clear vision of where lottery, particularly the traditional lottery product line, fits in Ohio's expanded gaming landscape. Once this has been vetted, then it will be easier for Lottery management to plan more effectively.

This recommendation comports with a recommendation of the 2010 Ohio Lottery Performance Audit.⁷⁵ The performance audit states that the Ohio Lottery "should develop a comprehensive strategic plan that incorporates the long-term needs and objectives of the Agency,"⁷⁶ The plan should include detailed goals, objectives, benchmarks, and performance measures, and be regularly updated. The Ohio Lottery should establish a formal policy and procedure by which progress can be tracked and goals can be updated.

A good example of a lottery plan that has established well-developed goals with a clear and defined means to be measure the progress can be found in Texas. The Texas Lottery Comprehensive Business Plan notes the following example as its principal goal:

- **GOAL A: Operate Lottery**
 - Generate revenue for the state of Texas through the responsible management and sale of entertaining lottery products, while incorporating the highest standards of security and integrity.
- **OBJECTIVE A.1:** Promote and maintain an eligible, effective and productive retailer base in order to produce revenue for the state; maintain ticket sales and

⁷⁵ "Ohio Lottery Performance Audit 2010," p. 4-12.

⁷⁶ Ibid.

awareness of lottery products to produce revenue for the state; administer all games with the utmost security and integrity; and oversee major contractual obligations unique to a state lottery operation.

- Outcomes:
 - Percent of retailers satisfied with Lottery Commission
 - Per capita net Lottery sales
 - Percentage of net Lottery sales spent on agency administration
 - Percentage of bad debt to Lottery sales
 - Ratio of advertising expense to net Lottery sales
 - State revenue received per advertising dollar expended
 - Percent of licensees with no recent violations
 - Percent of eligible players served⁷⁷

This goal is well defined and provides a list of metrics through which the measure of progress towards the goal is tracked. Additionally, the Texas Lottery then breaks down the goals into specific strategies, tools to accomplish the goal and strategy and metrics to measure progress.⁷⁸ Additionally, the Texas Lottery frequently updates and tracks its strategic goals and progress and issues updated plans every two years.⁷⁹

The Texas Lottery identifies numerous areas to be targeted for improvement, and includes them in its Annual Report, distributed to the public. As one example from its most recent report, the Texas Lottery set the goal of expanding its retailer network:

Retail Distribution Channel Expansion

Lottery retailers represent the key delivery channel through which the agency sells tickets to generate revenue for the state. To achieve the agency's mission of generating revenue to support Texas education and veterans' assistance programs, it is critical that lottery products are conveniently and widely available at a variety of locations where a broad diversity of consumers are offered the opportunity to purchase lottery tickets.

The lottery retailer base represents a dynamic business environment where frequent business sales and acquisitions are a part of the normal operating environment. The economic climate of the state can also have a significant impact on the retailer base. The agency works to support existing retailers while recruiting new retailers to ensure a stable, but growing, product distribution channel.

⁷⁷ "Texas Lottery Comprehensive Strategic Plan-2015-2019," p. 104.

http://www.txlottery.org/export/sites/lottery/Documents/2015_2019_TexasLottery_StrategicPlan.pdf (accessed September 16, 2016)

⁷⁸ Ibid.

⁷⁹ Texas Lottery, Strategic Plans.

http://www.txlottery.org/export/sites/lottery/About_Us/Publications/Strategic_Plans.html (accessed September 16, 2016)

Convenience and grocery stores are considered to be “traditional” lottery trade styles. Although the base contains a variety of trade styles, convenience and grocery stores are the dominant trade-style segments. Together, these two trade styles comprise nearly 90 percent of licensed locations and 97 percent of Texas Lottery sales. Other common retail trade styles—such as general merchandise, pharmacy and big box (e.g., Costco, Target, Home Depot), which have not broadly incorporated the lottery category into their business models are typically categorized as “non-traditional” lottery trade styles.

In spite of a dynamically changing business environment, the agency has been able to maintain a relatively stable retailer base over its history. However, the period from FY 2000 to FY 2007 reflected a moderate decline from a peak of 16,767 licensed locations to 16,211. Beginning in 2008, the agency placed renewed emphasis on retail distribution channel expansion efforts in coordination with the lottery operator, IGT, which is primarily responsible for licensee recruitment activities under its contract with the agency. This emphasis continues in the current Lottery Operations and Services contract which began September 1, 2011. Since FY 2008, the retailer base has grown each year, surpassing 17,200 in FY 2014.

The lottery operator is required to provide key infrastructure and support for future recruitment success. Key among these is a fully refreshed equipment platform for retailers featuring state-of-the-art, player-activated, self-service equipment; dedicated personnel focused on individual and small chain business recruitment opportunities; IGT support for route sales licensing models to reduce business overhead expenses related to retailer lottery participation; and new systems that provide Texas Lottery retailers with terminal- and internet-based accounting and sales information detail surpassing previous capabilities.

These cumulative efforts resulted in expansion of the distribution channel from 16,211 retailers at the end of FY 2007 to 17,210 retailers at the end of FY 2014, representing a 6 percent increase.

Challenges and Opportunities

The Texas Lottery and IGT must continue ongoing efforts to sustain and enhance their effective relationship with retailers within traditional lottery trade styles, while actively pursuing opportunities to expand into non-traditional lottery trade styles.

There are several challenges to retail distribution channel expansion. Business (trade-style) models that do not include lottery are often focused on higher-profit-margin products that more easily correlate to bottom-line revenue. As lottery products typically produce lower profit margins than many other retail products, prospective retailers’ interest in adding the lottery category can be limited. Also, the instant product category can present operational concerns associated with inventory control/shrinkage and the potentially labor-intensive nature of managing lottery products. In addition, there are challenges specific to Texas relating to certain permits held by retailers for the sale of alcoholic beverages. These concerns can serve as a barrier to interest in licensure.

Recruiting chain establishments in non-traditional lottery trade styles presents other challenges. The Texas Lottery, lottery operator and lottery members of the North American Association of State and Provincial Lotteries (NASPL) have consistently identified the following barriers to recruiting national corporations representing new trade styles: the consistent ability to offer self-service and route sales models, lack of standardized licensing and accounting processes across all jurisdictions, and the availability of new technologies providing back-office accounting and real-time connectivity to sales information. Additionally, some retailers perceive that selling lottery products may not align with their business models.

Often, prospective retail trade styles may be best suited for player-controlled, self-service sales due to consumer traffic patterns and trade-style business models. These different sales methods require specialized equipment and support that are outside the prevalent and historic lottery industry sales model of clerk-assisted transactions.

Key Initiatives and Goals

The key strategies for licensing new Texas Lottery retailers will continue to focus on soliciting the traditional trade styles of convenience and grocery (outlets) for both independent and chain locations. In addition to expanding the traditional retailer base, there will be equal emphasis on soliciting and licensing key non-traditional trade styles. In order to successfully pursue broader distribution channels for its products, the Texas Lottery must continue to meet the needs and concerns of both traditional and non-traditional trade styles by providing innovation and services such as those included in the Lottery Operations and Services contract.

The agency and the lottery operator will continue to work together to enhance retailer recruitment efforts to increase the Texas Lottery's overall presence in a broader array of trade styles while continuing to recruit new businesses in core traditional lottery trade styles. In recent years, these efforts have shown promise as some non-traditional trade styles have engaged in pilot sales programs and discussions are ongoing with other businesses previously hesitant to embrace the lottery category.

Regardless of the trade style category, the Texas Lottery is invested in growing the licensed retailer base through sustained and strategic recruitment allowing for better product accessibility for the public and the potential for increased revenue to the state. From FY 2010 to FY 2013, the retailer base grew by an average of 115 retailers annually. Retailer expansion came in just under the 115 retailer growth target established in FY 2014 with 107 net retailers gained during the year. In coordination with the lottery operator, the agency has again set a goal of meeting the FY 2010 to FY 2013 retailer growth average of 115 for FY 2015.⁸⁰

In reviewing the last two strategic plans for the Ohio Lottery, each lacks the specificity and comprehensiveness of the Texas plan. The Ohio plan for 2013-2015 contains goals that are

⁸⁰ Texas Lottery Commission, "2016 Comprehensive Business Plan and Annual Report."
<http://www.txlottery.org/export/sites/lottery/Documents/BusinessPlanAnnualReport2016.pdf>

fairly generic, along with strategies that lack firm metrics to measure progress. The 2016 update plan was largely a list of accomplishments that did not include a redefining of any strategic goals. This can be partly attributable to lack of staffing in the strategic planning function of the Lottery. This staffing issue should be addressed in conjunction with implementing this recommendation.

4. Analytics

The Ohio Lottery has thus far failed to successfully access and leverage real-time data that could help determine the success or failure of Lottery promotions and initiatives. Our research, including interviews with key staff and stakeholders, underscores how difficult it is for analysts to receive real-time data. The insufficient and ineffective use of real-time data is linked to the aforementioned deficiencies in strategic planning, but clearly it has to be the measuring stick if real progress in achieving strategic goals can be met.

The present situation can best be characterized as an over-reliance on vendors and outside stakeholders and the data/numbers they present, with a visible absence of any in-house analysis to guide decisions. For the Ohio Lottery, this is a communication issue as well as a programming and software issue. However, it can be corrected through the combined efforts of Intralot, along with the Lottery's Information Technology and Finance departments.

In discussions with the Ohio Lottery staff, it is clear many key senior staff members share the concern over the availability of data. The Finance Department has developed a plan for a business intelligence platform that will allow the more efficient use of data.⁸¹ The Lottery is in the process of trying to implement that plan.

Successful lotteries are becoming increasingly reliant on such analytics to better reach potential consumers, among other goals.⁸² Data include more than raw sales data, but also up-to-date customer segmentation studies and focus groups that can determine the potential success (or lack thereof) of an initiative or product line prior to a launch. The use of data and analytics goes hand-in-hand with strategic planning in order to determine progress in accomplishing strategic goals. Thus, another good example in the use of analytics can be found in the Texas Lottery Strategic Plan cited above and in the FY 2014 Marketing and Sales Plan Introduction and Overview for the Oregon Lottery.⁸³

The planned introduction of the pilot program for the Quick Keno machines offers one example of the lack of sufficient pre-launch analysis. The Ohio Lottery plans to launch 1,000 Quick Keno machines this fiscal year. The selected vendor produced revenue estimates but the underlying basis for those estimates was not clear.

⁸¹ Email from Gregory Bowers to Bill Egan, September 23, 2016.

⁸² "California Lottery Plots Course for Growth Through Data Analytics," *Lotto News*, August 14, 2016. <http://www.lottonews.biz/lotto-news-california-lottery-plots-growth-data-analytics>

⁸³ Oregon Lottery, "FY 2014 Marketing and Sales Plan Introduction and Overview for the Oregon Lottery." http://media.oregonlive.com/politics_impact/other/FY%2014%20Mktg%20%20Sales%20Plan%20Final%200ct%203%2013%20blh-1.pdf

The next step should have been a predictive analysis of potential net-revenue gains along with projections of any potential cannibalization of the monitor-based Keno product that has been a steadily growing part of the Lottery's portfolio. Absent any internal analysis, the ability to ascertain if a new product or initiative cannibalizes the existing portfolio or results in net sales growth is clearly little more than educated guesswork.

Spectrum's work in Massachusetts offers a telling example of this predictive analysis in a pre-launch environment. We were retained as a consultant on behalf of the Massachusetts Online Taskforce to help determine whether the Massachusetts Lottery should offer sales over the Internet, and if so, how it should be developed.

As an early step, we commissioned SocialSphere to perform some preliminary consumer analysis.⁸⁴ SocialSphere collected data from a variety of types of Lottery players ranging from non-players to heavy players and from various demographics.⁸⁵ Based on this data collection, coupled with our own financial analysis, the report provided the Massachusetts Lottery with a realistic projection of net sales gains, should it elect to venture into the online lottery world. Specifically, the reports stated that Massachusetts could project gain between \$25.26 million and \$78.78 million in net sales should it provide lottery products over the Internet.⁸⁶

Whenever feasible, the Ohio Lottery should establish policies and procedures that require the use of analytics to analyze potential net sales growth for all proposed products and services. The data collections should include, but not be limited to focus groups and/or surveys of potential customers and retailers. Simple reliance on the number produced by the vendor proposing the idea is not sufficient analysis. The Lottery needs to access its own real-time data, and connect this data to its strategic planning efforts. The analysis of data needs to be more effectively employed to formulate strategic goals and, more importantly, to measure the progress toward those goals.

As important as it is to conduct appropriate pre-launch data analysis, it is equally important to conduct sufficient post-launch analysis to determine:

- The accuracy of the pre-launch projection
- The return on investment
- Whether specific goals have been met

⁸⁴ Spectrum Gaming Group, "Final Market Research Report to the Treasurer's Online Product Task Force," December 4, 2012. <http://masslottery.com/about/treasurers-task-force-report.html>

⁸⁵ Ibid.

⁸⁶ Ibid., p. 18.

This post-launch analysis is particularly important in the advertising and marketing areas. Our research indicates that this type of analysis is not presently performed a regular basis, largely because the real-time data has not been available.

The Ohio Lottery needs to work with its system operator and establish a policy and practice that all promotions and advertising initiatives receive a thorough post-launch analysis to determine if it accomplished its goals, such as reaching new customers or increasing sales.

Moreover, as part of this policy, the Lottery needs to establish an ongoing ROI analysis on its advertising spend. This analysis should be provided to the Commission on a regular basis.

Additionally, Lottery should conduct a new-sales analysis on all player-activated machines at retailer locations to gauge their performance and effectiveness. Currently, there are so many player-activated games with new additions coming soon, it is difficult based on the available data to determine how much net sales these machines are contributing to the bottom line. Moreover, based on our research, it does not appear that this analysis has been done.

Assuming funding is available, the Lottery should create an additional staff position in the area of data analytics to assist in the gathering of periodic segmentation studies and in the distribution and analysis of both general and specialized sales data. This new staff person would essentially double the number of professionals involved in this task, but it would be a worthwhile investment with a minimal budgetary impact.

5. Staffing and Workflow

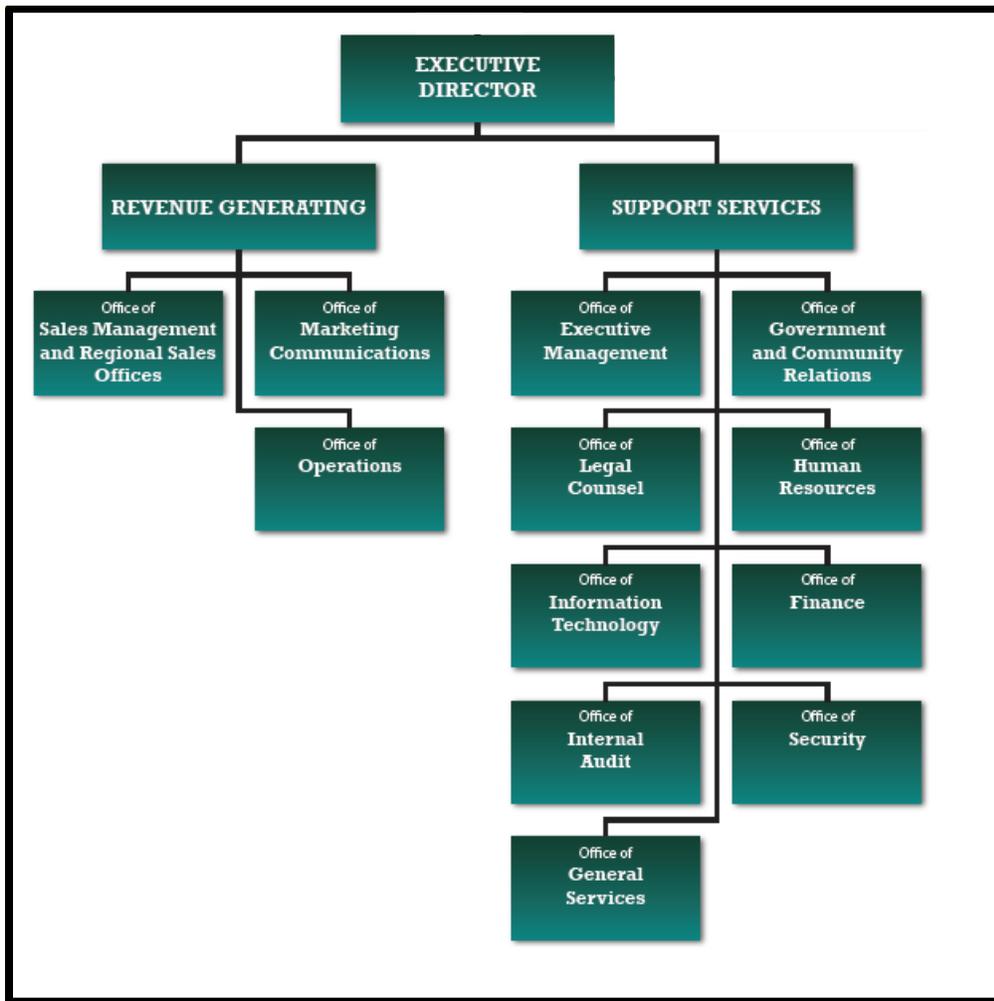
The Executive Director of the Ohio Lottery is responsible for Agency policy-setting and day-to-day Lottery operations.⁸⁷ The Director oversees and delegates specific authority to deputy directors of specific offices within the Lottery. Each deputy director oversees a major function of the Lottery.

As is common in many organizations, job descriptions and organization charts become ineffective over time and need to be reviewed and refreshed. In interviews with mid-level and senior managers, we observed the clear perception of a communication logjam among senior staff, resulting in the perception that ideas do not advance. While some of this can be attributed to perception, such perceptions are important, as they run the risk of being self-fulfilling: Ideas that would otherwise be developed and presented might not be given sufficient priority. At the same time, there are some real delays that can be addressed.

The structure of senior staff needs to be reconfigured. Currently, senior staff is divided into revenue and non-revenue generating groups. Such distinctions offer no relevance, and could actually have a negative effect by blocking the empowerment of staff, particularly in areas that are deemed to be non-revenue generating. The current structure is reflected in the following table of organization:

⁸⁷ ORC 3770.02.

Figure 3: Current Ohio Lottery table of organization



Source: Ohio Lottery Commission

Additionally, many of the job descriptions for senior staff have not been updated since 2005, and lottery operations – in Ohio and elsewhere – have changed dramatically since then. With that in mind, the Lottery should review and update all job descriptions, as it is highly likely that this decade-long period between reviews extends beyond senior staff. During this review, the Ohio Lottery should look for eliminating any overlaps in duties, with the goal of creating more efficient workflows between senior staff.

The Deputy Director/Chief of Staff position is position that needs to be fulfilled as it has been vacant for a number of year. This is particularly important in light of our recommendation for an enhanced focus on strategic planning. The job description for this position should include overseeing and facilitating communication between staff, as well as tracking and developing strategic goals for the Lottery. Empowering the holder of this key position to focus on strategic planning will advance the larger goal.

A revised organizational structure would effectively have all departments – regardless of their direct or indirect role in generating revenue – report directly to the Executive Director and Deputy Director/Chief of Staff:

Figure 4: Recommended Ohio Lottery table of organization



Source: Spectrum Gaming Group

Some of the following recommendations should be considered as part of the possible reorganization of the Lottery into a quasi-public corporation, or by centralizing management and oversight of the Lottery Commission. If either of these organizational changes do not occur, the Lottery needs to explore possibly seeking an exemption from the effort to standardize all state services under DAS pursuant to LeanOhio. There are a number of instances with Human Resources functions that complying with general requirements for all state agencies runs counter to the sales-driven goals of the Lottery.

With this in mind, Spectrum recommends that the Ohio Lottery:

- Design its own performance-management system to better track performance with updated job descriptions.
- With updated job descriptions, establish quantifiable performance goals for the Executive Director and Senior Staff. Explore placing performance appraisal responsibilities with the Lottery Commission should management structure changes come to fruition.
- Explore seeking to allow the Lottery control its own hiring process to allow for the recruitment of specialized skills required in the operation of a lottery.
- Explore establishing separate unit for unionized Lottery employees to allow for more flexibility with titles and salary structure finely tuned for specialized lottery operations.
- Establish an online product manager, and move both this new position and instant ticket product manager to marketing.
- Create a full-time trainer within the Human Resources Department to assist in training staff in various areas of the operation; e.g., introduction of new games.
- With a reorganization of the Lottery Commission, the Internal Auditor should report directly to the Chairman of the Commission to better assist the Commission in its new oversight role of the day-to-day operation of the Lottery.

6. Procurement

As presently constituted, the procurement process for the Ohio Lottery is somewhat ineffective and inefficient. The Lottery is required in most instances to employ the services of the state procurement office within the Department of Administrative Services to purchase goods and services. This appears to be another example of how a state Lottery – a sales- and marketing-driven entity – cannot function effectively under the general application of rules that govern all administrative agencies.

By its very nature, the Lottery needs to operate under finely tuned procurement rules that comply with the principles of state-wide procurement policy, but yet allow the Lottery to achieve the best value, while maintaining a competitive edge in the marketplace. Quite simply, administrative procurement procedures established for government agencies are not designed to get initiatives quickly to market.

For a lottery, procurement is more than a routine process. If handled well, it can be a key determinant of the overall success of the lottery, particularly in the ability to serve as a relevant entertainment option for consumers. A nimble procurement process can advance the critical goal of offering fresh product options to its customer base.

Additionally, the very nature of most goods and services required by the Lottery is vastly different from that of other public agencies. The Lottery is in a constant search for new offerings that will resonate with consumers, and with that in mind, the Lottery needs greater control over its purchasing processes and decisions.

Under current rules, DAS is involved for all purchases that exceed \$50,000.⁸⁸ The DAS process varies, depending on the type of purchase and the potential availability of previously procured goods and services by DAS. Under these rules, the Lottery is required to go through a series of steps prior to drafting a substantive RFP.⁸⁹

First, the Lottery must submit a purchase order request to DAS to initiate the process.⁹⁰ If the requested purchase is for an IT-related product, then the request is forwarded to a specified unit that handles that type of purchase. For all other purchases, the request is handled by a different department at DAS. DAS, in discussion with the Lottery, determines if there are statewide services available, or if there is an existing DAS procured good or service under contract to satisfy the request.

⁸⁸ Interview with Therese Gallego, July 18, 2016.

⁸⁹ Ibid. and interviews with Greg Bowers and Gwen Penn, January 26, 2016; “State of Ohio Procurement Handbook for Supplies and Services,” revised 10/2012 at 1.0 and 2.0.

⁹⁰ Interview with Therese Gallego, July 18, 2016; interview with Greg Bowers and Gwenn Penn, January 26, 2016.

If no statewide resources are available to satisfy the request, then DAS considers possibly purchasing the good or service from vendors on a DAS State Term Contract.⁹¹ If that is the case, DAS will assist the Lottery in drafting a statement of work and evaluation criteria that would be submitted to these qualified vendors to determine if they can satisfy the request. If neither of these options is available, then the Lottery can seek a waiver to conduct its own procurement process to purchase the good or service.

An example of a purchase request in which the Lottery was required to consider available state services involved a request for instant ticket design and production.⁹² Our understanding is that a discussion took place about the potential for using state printing services to print the instant tickets, rather than relying on the instant ticket vendors who work in the Lottery industry.⁹³

To an experienced Lottery professional, such a plan would not meet several critical needs, such as the development of the prize structure, game design and marketing and release support, all of which are integrally related to the manufacturer of instant ticket games.

While such a discussion is clearly justified and necessary for most administrative agencies, it would be counter-productive for the sales-driven Lottery. Indeed, if such requirements become routine, they would stymie the creativity of the Lottery professionals who would repeatedly be required to engage in discussions regarding procurement that are not tailored to Lottery goals.

With that in mind, streamlining the procurement workflow in Ohio comports with overall statewide policy, and can be justified as a plan to streamline all state services under the LeanOhio effort.⁹⁴

If the Lottery receives a waiver to conduct its own procurement process, then the awarding of the contract under that RFP is subject the approval of the Controlling Board.⁹⁵ The Controlling Board consists of key legislators, the Director of the Office of Budget and Management, and other appointees who collectively⁹⁶ approve requests and extensions of any

⁹¹ Ibid.

⁹² Ibid.

⁹³ Ibid

⁹⁴ Supra.

⁹⁵ Interview with Therese Gallego, July 18, 2016; interview with Greg Bowers and Gwenn Penn, January 26, 2016.

⁹⁶ Office of Budget and Management, "Controlling Board."
<https://ecb.ohio.gov/public/default.aspx??MSG=1&ReturnUrl=%2f> (accessed September 15, 2016)

previously approved contracts.⁹⁷ This effectively constitutes another layer of oversight that hinders the Lottery's ability to quickly react to changing market conditions.

Accordingly, if the Lottery is reorganized as quasi-public corporation, or the Lottery Commission is given additional authority to operate independently, then can centralize, focus and streamline its procurement process

The Connecticut and Georgia lotteries set their own procurement procedures and policies pursuant to their enabling statutes.⁹⁸ Each of these lotteries is subject to oversight from another agency that reviews their practices.⁹⁹ Each lottery is required to set policies that are in line with the principles set forth in state statute and its underlying intent, but yet recognize the unique nature of a lottery as a different type of government agency.

Similarly, if Ohio elects to empower the Lottery Commission in a manner similar to the Massachusetts model, then it must revise the enabling statute to allow the Commission to control its own procurement practice.

The Massachusetts Lottery is considered a Category II agency that allows the agency to either submit to the statewide procurement requirements or design its own.¹⁰⁰ If the Massachusetts Lottery elects to design its own procedures, then those procedures must comply with the requirements for competitive procurement found in state statute.¹⁰¹ Massachusetts has adopted to conduct its own procurement process using the state established procedures as its guideline.

Under any revised structure, the Lottery clearly needs to work with the Office of the Governor and General Assembly to establish its own procurement practices and procedures that are designed to advance the goals of a sales-driven organization, while still maintaining the necessary safeguards to ensure that the public interest is protected.

The Ohio Lottery should refer to the documentation of best practices by such organizations as NASPL and the World Lottery Association as a guide in the development of its own practices.¹⁰² For example, those two organizations led an effort in 2007 to suggest best

⁹⁷ "About the Controlling Board." <https://ecb.ohio.gov/Public/About.aspx>

⁹⁸ GA Code §50-27-9; Conn.Gen.Stat. §12-802.

⁹⁹ Ibid.

¹⁰⁰ Overview of OSD Roles and Responsibilities," Operational Services Division. <http://www.mass.gov/anf/budget-taxes-and-procurement/procurement-info-and-res/conduct-a-procurement/overview-of-osds-departments-roles-and-responsibilities.html> (accessed September 15, 2016)

¹⁰¹ Ibid.

¹⁰² World Lottery Association, et al, "Best Practice: Guide to the Standard Request For Proposal (RFP) Template," April 2007. <http://www.naspl.org/img/standards/BP0501a.pdf>

practices in procurement. Among those suggestions was the need to shift from building RFPs around technical requirements, and instead focus on “business requirements,” a key difference that recognizes the core nature of lotteries. Their recommendation noted:

Publishing business requirements instead of detailed technical requirements makes it the Bidder’s responsibility to determine the most responsive, innovative, and effective ways to meet the Lottery’s business requirements. This approach also relieves the Lottery of the need to invent or inadvertently limit solutions for technology, systems, and operations. Finally, business objectives provide the Lottery with more quantifiable measurements against which the value of proposed solutions can be evaluated.

In defining business requirements, the Lottery can describe the work they want to do or must do, the business process improvements they seek, what their revenue, product, and operational goals are, and what they would like to be able to do but have been limited in doing by systems, operational constraints, or legislative and regulatory requirements.

Types of business requirements include, for example, the need for solutions that attempt to:

- Take advantage of retailing or technical trends for distributing and managing the Lottery product mix
- Satisfy performance goals that the Lottery is determined to meet
- Allow Lottery staff to perform their jobs more efficiently
- Allow retailers to perform their jobs more efficiently • Increase player convenience and satisfaction
- Bring new products to market more effectively
- Attract new customer segments
- Accelerate the application, approval, and set-up processes for new retailers
- Adhere to government objectives that affect the Lottery, such as improved service and responsiveness to citizens

Note that business requirements need to be clearly defined, with specific objectives. The examples above indicate general areas only, and in practice the business requirements would have measurable objectives associated with them.¹⁰³

Moreover, the Ohio Lottery will need to review staffing, current job duties and the possible addition of staff should it take on greater responsibility for procurement.

As part of the review of the Lottery’s procurement and contracting practices, we have concluded that the Lottery needs to establish a procedure to determine when contracts should be re-bid and when exercising the option to extend will achieve a better value. As discussed below, extending contracts for too long of a period will not ensure the best value for Ohio.

¹⁰³ Ibid., p. 16.

Massachusetts adopted a similar procurement policy in 2012 requiring that at a minimum of six months prior to the expiration of a contract that discussions on which option would achieve the best value take place.¹⁰⁴ The discussion would center on such questions as which avenue would likely attain the best price and service and any possible disruption to the service should a new RFP be issued and a different vendor selected would be discussed.

Additionally, Spectrum recommends that after a sufficient period has passed allowing the current instant ticket production contract to build a history, the Lottery engage in a best value analysis of the contract. Based on the team's experience in other states, instant ticket production contracts that pay the vendor based on a percentage of sales possibly result in a higher per ticket cost in states with larger populations. There is not sufficient data to conduct this analysis but when the time is appropriate we recommend the analysis be completed looking at total costs and per ticket sold costs as compared to the amount Ohio previously paid and the amount paid per ticket sold by other state lotteries.

Furthermore, Spectrum recommends that when examining contracts and procurement the Lottery continue to look to ways to foster more competition. For example, the instant ticket production contract designates one vendor as the primary vendor and the RFP states that the vendor will receive approximately 90 percent of the business.¹⁰⁵ We suggest the Lottery move away from such arrangements. If it is a service that allows for more than one qualified vendor to compete for the business, then the Ohio Lottery should allow that competition to achieve the best value. Guarantees of business inhibit competition. In the instant ticket production realm, Massachusetts and Connecticut qualify three vendors who compete for spots in each instant ticket launch. Each state has had great success in selling instant tickets.

Lastly, the Lottery should look toward unbundling services whenever possible and when it makes logistical sense. This decision as with all procurement and contracting decisions should be made based on what achieves the best value in terms of price and service for the Ohio Lottery.

A. Gaming System Contract Review

The Lottery staff solicited Spectrum's views on extending the Gaming System contract. The current contract term with Intralot expires on June 30, 2017.¹⁰⁶ Intralot has held its fairly low blended rate of 0.82 percent of lottery sales for the last several years.¹⁰⁷ The Lottery plans

¹⁰⁴ "Minutes of the January 31, 2012 Meeting of the Massachusetts State Lottery Commission," p. 2. <http://masslottery.com/lib/downloads/leadership/pdfs/commission-meeting-minutes-2012/january31-2012.pdf>

¹⁰⁵ "Request for Proposals: Instant Ticket Products and Services," RFP Lot 124, February 18, 2015.

¹⁰⁶ Untitled document from Ohio Lottery, dated April 2016.

¹⁰⁷ Ibid.

to extend the final two two-year options extending the current contract until June 30, 2021.¹⁰⁸ The Lottery is seeking an opinion as to whether it makes sense to extend that contract beyond that date, particularly given the \$35 million capital investment in equipment the Lottery has made over the last 18 months.¹⁰⁹

Our response is guided in large measure by our longstanding observation of overall procurement practices, and in our belief that a well-managed competitive bidding process can advance the public interest and produce the optimal results.

Extending the current contract without a competitive bid does not ensure that the Lottery is receiving its best value. We clearly recognize that, in matters such as the operation of a gaming system, significant resources and capital investment are required, and that requirement justifies a long-term contract, with built-in potential for extensions. Such procedures are not uncommon. Note, for example, that IGT – which has been the principal vendor to the Florida Lottery since 2005 – recently won a competitive bid to provide, in its words, “a wide array of lottery solutions and services.”¹¹⁰ The 10-year contract includes a provision that allows the Florida Lottery to exercise three three-year extensions, and it has already exercised the first of those three, giving IGT a 13-year extension on its current contract.¹¹¹

In 2007, NASPL and WLA noted the following in a report on procurement practices: “Online lottery system contracts are typically long-term (five to ten years). Closed-system solutions often proposed in response to RFPs tie lotteries to a single vendor for a long period of time.”¹¹²

In addition to the length of time of initial contracts, extensions are also fairly routine. Any extensions, however, must have reasonable limits. Quite simply, competition in public procurement tends to boost value, and we note that IGT was required to put forth a bid to secure its most recent Florida arrangement. With that in mind, Spectrum recommends extending the gaming system contract through 2023 if the vendor is willing to hold its current rate during that time. Intralot’s current rate is 0.82 percent of sales.¹¹³ This rate is compared to rates being paid by New Jersey (1.05 percent), Illinois (1.78 percent) and Texas (2.20

¹⁰⁸ Interview with Dennis Berg, Michael Petro, Connie Miller, April 13, 2016.

¹⁰⁹ Interview with Dennis Berg, August 9, 2016.

¹¹⁰ “IGT Signs Contract With The Florida Lottery To Provide Wide Array Of New Lottery Solutions And Ongoing Services For 13 Years, Through 2031,” September 8, 2016. <http://www.igt.com/en/explore-igt/news/news?id=2200445>

¹¹¹ Ibid.

¹¹² World Lottery Association, et al., p. 12.

¹¹³ Interview with Berg, Petro, Miller.

percent).¹¹⁴ During that extended period, the Lottery should begin the process of deciding where to re-bid the contract by first examining potential alternatives and the costs to issue a new bid for this service such as the likelihood of receiving a better rate, saving potential of de-bundling services, and potential sales increases from improved equipment and services.

7. Third-Party/Vendor Management

Based on Spectrum experience, most state lotteries do not maintain a separate department that documents vendor compliance with all contract requirements and performance expectations. Generally, this function falls to the department manager who oversees a particular contract.

The Ohio Lottery, however, hired a manager to design and implement a contract compliance program,¹¹⁵ and that decision is laudable. To date, the details of contract compliance program have not been finalized but the manager has managed to perform a variety of tasks in this area and has worked with department managers to help ensure that vendors are fulfilling contract obligations.

The Lottery's vendors generally meet all expectations. However, based on interviews conducted with staff, we note the need for more consistent checks on vendor performance requirements, as non-compliance on a minor level does occur in every Lottery. Staff members need to challenge vendors to maximize performance.

A completed contract compliance program is the type of vehicle that will help staff more effectively challenge vendors to maximize the value of each contract. Even minor issues of strict compliance with a contract can lead to lost revenue opportunities.

As part of its overall compliance effort, the Lottery should review the contract performance of the gaming system provider, Intralot.¹¹⁶ The Lottery has to work toward holding Intralot to a tight schedule for improvement, particularly in the quality assurance testing issue detailed below, and Intralot has made it clear to us that it shares this goal.

The Gaming System Provider contract has generally served the Lottery well. Down times are at a minimum and we cannot glean any loss in sales attributable to Intralot's performance. Two issues that need to be addressed are:

- Testing and quality control

¹¹⁴ Untitled document prepared by Ohio Lottery, dated April 2016.

¹¹⁵ Interview with Greg Bowers and Gwenn Penn, January 26, 2016.

¹¹⁶ Interviews with Intralot, May 6, 2016.

- Absence of real-time sales data

Lottery operations are hampered by the time it takes to upload changes to the gaming system. The sales staff indicates that it takes more than one year to successfully upload a new promotion on the system.¹¹⁷ This can be attributed in some measure to programming and quality control issues that have led to a 35 percent failure rate at the Ohio Lottery's quality assurance stage.¹¹⁸ In part, the problem centers on the location of Intralot's programmers (who are based outside of Ohio, at offices in Atlanta and Athens, Greece, which are the respective headquarters for Intralot's US and global headquarters), coupled with the location of Intralot's quality control staff (who are in Ohio,) along with insufficient documentation and release notes, which lead to improper and ineffective testing by Intralot.¹¹⁹

The Lottery quality assurance team is testing the program based on actual need.¹²⁰ However, the Intralot quality assurance staff is testing the program based on the documentation in the release notes, which sometimes do not reflect the actual functional need of the program.

We recommend relocating Intralot's programmers to Ohio to better coordinate the Lottery's work with the work of Intralot's internal quality control staff. Additionally, Intralot and the Lottery need to standardize the quality assurance process to allow for more efficient testing, which would lead to a lower failure rate.

We recognize that both Intralot and the Lottery are working toward resolving this issue, which is inhibiting the Lottery's use of analytics. Spectrum recommends exploring programming and training to provide Lottery staff with the ability to access sales data in real time, which would also allow the staff to sort the data as needed.

Lottery staff provided drafts of potential contract compliance documents. Upon review, the draft documents appeared to be sufficiently comprehensive, covering all necessary areas.

This contract compliance program should be finalized as soon as possible. Additionally, we encourage the staff to look at the procurement policies and practice of the Ohio State University as a potential model.¹²¹ In that model, the Board of Trustees delegates purchasing authority to a specific purchasing department, which works with other departments to purchase goods and services. An important proviso in the university's purchasing model is the stated mandate that, "It is the responsibility of each member of the University staff and the

¹¹⁷ Interviews with Sales staff, January 26, 2016.

¹¹⁸ Interview with IT Quality Control staff, March 7, 2016.

¹¹⁹ Ibid.

¹²⁰ Ibid.

¹²¹ "Purchasing," The Ohio State University. <http://purchasing.osu.edu/> (accessed September 15, 2016).

Purchasing Department to assure that the University does not knowingly enter into any purchase commitment which could result in a conflict of interest.”¹²² The Lottery should also examine its procurement practices to introduce more opportunities to compete for work, for instance by de-bundling to allow for more competitive bidding. Competitive bidding lead to better performance by vendors desiring to retain the business.

8. Traditional Products Analysis

A. Instant Tickets

Sales in the Ohio Lottery’s instant ticket portfolio have been relatively flat in recent years, with the only major sales bump emanating from the introduction of a \$30 price point in January 2014. Targeted changes aimed at how the Lottery selects and designs its instant tickets would yield sales increases similar to those of Michigan, and could emulate the longstanding success in instant ticket sales in market leader Massachusetts.

The instant tickets product represents 53 percent of total Ohio Lottery sales.¹²³ Sales growth in this product category for Ohio has been modest at best. Between FY 2012 and FY 2015, the Ohio Lottery experienced a 2.9 percent increase in gross instant ticket sales. Recent figures obtained from the Ohio Lottery indicate the increase of instant ticket sales in FY 2016 has slowed to .6 percent.

As noted, FY 2015 was the only fiscal year that experienced a significant sales increase, and that could be attributed to introductions of the \$30 price point games in January 2014, followed by a similar release in January 2015. Therefore, for at least part of FY 2015, the Ohio Lottery had two \$30 instant tickets selling at the same time. This led to the first increase of any significance in several fiscal years, after experiencing decreases in the two previous fiscal years.¹²⁴ According to sales data provided by the Ohio Lottery, the sale of instant tickets grew by 8.6 percent in FY 2015. Spectrum’s belief that this growth is due largely to the sale of two \$30 tickets in parts of FY 2015 is supported by the same data that show a troubling growth rate of 0.6 percent in FY 2016. This fact further supports the need to implement the changes in the development.

¹²² Ibid.

¹²³ “The Ohio Lottery Commission: An Enterprise Fund for the State of Ohio, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015,” p. 50.

¹²⁴ Ibid., p. 51.

While growth in the bottom line is a critical measure of success, true growth in this product must also be viewed through the prism of per-capita sales, as compared to the industry.

Figure 5: Average per-capita weekly instant ticket sales by state, ranked by 2015 data

Rank	Jurisdiction	2010	2011	2012	2013	2014	2015	Q1-Q2 2016	CAGR (2010 - 2015)	Rank Change (2015 vs. 2014)
1	Massachusetts	\$ 8.82	\$ 9.02	\$ 9.61	\$ 9.64	\$ 10.00	\$ 10.11	\$ 10.11	2.8%	-
2	Georgia	\$ 4.19	\$ 4.34	\$ 4.56	\$ 4.62	\$ 4.79	\$ 5.23	\$ 5.47	4.6%	-
3	South Carolina	\$ 2.74	\$ 3.01	\$ 3.15	\$ 3.41	\$ 3.69	\$ 4.20	\$ 4.20	8.9%	+1
4	Pennsylvania	\$ 2.80	\$ 3.04	\$ 3.33	\$ 3.57	\$ 3.79	\$ 4.02	\$ 4.02	7.5%	-1
5	New Jersey	\$ 2.93	\$ 2.97	\$ 3.12	\$ 3.27	\$ 3.44	\$ 3.96	\$ 4.17	6.2%	+3
6	Florida	\$ 2.17	\$ 2.40	\$ 2.79	\$ 3.19	\$ 3.46	\$ 3.84	\$ 3.92	12.1%	+1
7	Connecticut	\$ 3.32	\$ 3.35	\$ 3.52	\$ 3.59	\$ 3.54	\$ 3.83	\$ 3.83	2.9%	-1
8	New York	\$ 3.52	\$ 3.50	\$ 3.69	\$ 3.63	\$ 3.62	\$ 3.80	\$ 3.88	1.5%	-3
9	Tennessee	\$ 2.53	\$ 2.69	\$ 2.89	\$ 3.05	\$ 3.14	\$ 3.43	\$ 3.60	6.3%	-
10	New Hampshire	\$ 2.31	\$ 2.45	\$ 2.68	\$ 2.78	\$ 2.99	\$ 3.03	\$ 3.03	5.6%	-
11	Maine	\$ 2.26	\$ 2.31	\$ 2.35	\$ 2.39	\$ 2.63	\$ 3.01	\$ 3.01	5.9%	-
12	North Carolina	\$ 1.64	\$ 1.86	\$ 1.90	\$ 2.18	\$ 2.39	\$ 2.88	\$ 3.25	11.9%	+5
13	Illinois	\$ 1.80	\$ 2.10	\$ 2.56	\$ 2.65	\$ 2.62	\$ 2.79	\$ 2.77	9.1%	-2
14	Vermont	\$ 2.23	\$ 2.22	\$ 2.26	\$ 2.27	\$ 2.45	\$ 2.71	\$ 2.71	3.9%	-
15	Texas	\$ 2.12	\$ 2.17	\$ 2.33	\$ 2.38	\$ 2.40	\$ 2.56	\$ 2.71	3.8%	-
16	Ohio	\$ 2.39	\$ 2.45	\$ 2.48	\$ 2.28	\$ 2.54	\$ 2.56	\$ 2.56	1.4%	-3
17	Missouri	\$ 2.11	\$ 2.18	\$ 2.32	\$ 2.40	\$ 2.38	\$ 2.53	\$ 2.74	3.7%	-
18	Kentucky	\$ 2.08	\$ 2.15	\$ 2.25	\$ 2.09	\$ 2.27	\$ 2.53	\$ 2.57	4.0%	+1
19	Indiana	\$ 1.45	\$ 1.53	\$ 1.72	\$ 1.91	\$ 2.16	\$ 2.50	\$ 2.75	11.6%	+1
20	Virginia	\$ 1.77	\$ 1.89	\$ 2.02	\$ 2.18	\$ 2.36	\$ 2.46	\$ 2.56	6.8%	-2
21	Arkansas	\$ 2.55	\$ 2.61	\$ 2.36	\$ 2.21	\$ 2.12	\$ 2.24	\$ 2.24	-2.5%	-
22	Michigan	\$ 1.53	\$ 1.49	\$ 1.61	\$ 1.74	\$ 1.95	\$ 2.22	\$ 2.33	7.7%	-
23	California	\$ 0.87	\$ 1.18	\$ 1.48	\$ 1.54	\$ 1.74	\$ 2.12	\$ 2.19	19.7%	+1
24	Maryland	\$ 1.66	\$ 1.62	\$ 1.67	\$ 1.53	\$ 1.69	\$ 1.97	\$ 1.97	3.4%	+1
25	Idaho	\$ 1.12	\$ 1.13	\$ 1.51	\$ 1.61	\$ 1.78	\$ 1.84	\$ 1.84	10.5%	-2
26	Rhode Island	\$ 1.40	\$ 1.45	\$ 1.56	\$ 1.53	\$ 1.60	\$ 1.74	\$ 1.76	4.4%	-
27	Arizona	\$ 1.01	\$ 1.15	\$ 1.23	\$ 1.33	\$ 1.46	\$ 1.68	\$ 1.75	10.7%	-
28	Colorado	\$ 1.25	\$ 1.35	\$ 1.35	\$ 1.35	\$ 1.32	\$ 1.46	\$ 1.35	3.1%	+1
29	Iowa	\$ 1.10	\$ 1.22	\$ 1.31	\$ 1.35	\$ 1.32	\$ 1.45	\$ 1.45	5.6%	-1
30	Minnesota	\$ 1.27	\$ 1.33	\$ 1.35	\$ 1.26	\$ 1.28	\$ 1.36	\$ 1.43	1.4%	-
31	Wisconsin	\$ 0.96	\$ 1.06	\$ 1.10	\$ 1.10	\$ 1.16	\$ 1.28	\$ 1.32	6.0%	-
32	Delaware	\$ 0.81	\$ 0.91	\$ 0.99	\$ 1.03	\$ 1.07	\$ 1.20	\$ 1.20	8.1%	+2
33	Washington	\$ 0.85	\$ 0.88	\$ 0.93	\$ 1.02	\$ 1.07	\$ 1.20	\$ 1.22	7.1%	-
34	District of Columbia	\$ 1.70	\$ 1.80	\$ 1.85	\$ 1.70	\$ 0.96	\$ 1.12	\$ 1.12	-8.0%	+1
35	West Virginia	\$ 1.11	\$ 1.24	\$ 1.17	\$ 1.09	\$ 1.09	\$ 1.08	\$ 1.07	-0.6%	-3
36	Nebraska	\$ 0.73	\$ 0.80	\$ 0.88	\$ 0.90	\$ 0.93	\$ 1.01	\$ 1.07	6.8%	-
37	Kansas	\$ 0.79	\$ 0.79	\$ 0.80	\$ 0.76	\$ 0.87	\$ 1.00	\$ 1.06	4.8%	-
38	Louisiana	\$ 0.62	\$ 0.63	\$ 0.66	\$ 0.72	\$ 0.78	\$ 0.86	\$ 0.86	6.8%	-
39	New Mexico	\$ 0.76	\$ 0.71	\$ 0.64	\$ 0.66	\$ 0.70	\$ 0.77	\$ 0.77	0.1%	-
40	Oregon	\$ 0.58	\$ 0.57	\$ 0.59	\$ 0.56	\$ 0.54	\$ 0.64	\$ 0.62	2.0%	+1
41	South Dakota	\$ 0.47	\$ 0.55	\$ 0.56	\$ 0.60	\$ 0.57	\$ 0.60	\$ 0.60	5.2%	-1
42	Oklahoma	\$ 0.51	\$ 0.49	\$ 0.48	\$ 0.43	\$ 0.42	\$ 0.39	\$ 0.39	-5.2%	-
43	Montana	\$ 0.28	\$ 0.30	\$ 0.33	\$ 0.32	\$ 0.32	\$ 0.33	\$ 0.33	3.1%	-
	Average	\$ 2.05	\$ 2.18	\$ 2.36	\$ 2.44	\$ 2.56	\$ 2.80	\$ 2.88	5.8%	

Source: IGT, LaFleur's

The Ohio Lottery experienced growth in average per-capita weekly sales from FY 2010 through FY 2015 of 1.4 percent.¹²⁵ We saw no evidence of growth from FY 2015 through the first two quarters of 2016.¹²⁶ This is in contrast to the performance in Michigan, which saw 7.9 percent growth during the same time period.¹²⁷ The Massachusetts Lottery has average weekly per capita instant ticket sale of nearly double the next closest state, and four times that of Ohio and it experienced 2.8 percent growth in that time.¹²⁸ The median growth rate for all lotteries in average per-capita weekly instant ticket sales was 5.8 percent.

Per-capita sales figures provide a window into a lottery's ability to attract new customers, as well as to increase play from the existing player base. Accordingly, Ohio does not appear to be growing interest from existing players, nor is it attracting new players to the instant ticket portfolio. This is evidenced by a stagnant average per-capita sales rate over the last several fiscal years. Therefore, the growth in gross instant sales is largely attributed to the same player base purchasing a higher price-point ticket.

The Ohio Lottery needs to focus on reaching new players while maintaining the interest of its existing player base. Currently, the Ohio average per-capita weekly sales figure is \$0.32 lower than national average of \$2.88.¹²⁹ With that in mind, even modest improvements in the instant ticket player base will result in significant increase in sales. Specifically, every 10-cent increase in per capita weekly sales represents more than \$57 million in sales, so even a modest improvement will result in dramatic returns. Based on FY 2015 sales, a \$57 million increase in annual instant tickets sales would represent an almost 4 percent increase. We believe if the Ohio Lottery follows our recommendation it would experience at least at the median growth rate of 5.8 percent over the next several fiscal years and beyond.

Looking to the Michigan and Massachusetts examples, each state focus-group tests every ticket concept, and carefully designs each launch to maximize sales. The success of these states can be found in the development, timing and marketing of their instant ticket games. Moreover, these lotteries will remove instant ticket games that are not selling, and replace them with games that are more likely to sell.

The Ohio RFP for Instant Ticket Products and Service provides that the selected contractor will perform market research to support instant ticket concepts, style, and game

¹²⁵ "US Lottery Per Capita Ranking Report," prepared by IGT Marketing, July 2016.

¹²⁶ Ibid.

¹²⁷ Ibid.

¹²⁸ Ibid.

¹²⁹ Ibid.

design.¹³⁰ The market research can include, but is not limited to, focus group testing, web-based research, panel studies, segmentation data and industry trend research.¹³¹

The Lottery presently focus-group tests licensed properties (branded games) it is considering adding to its instant ticket portfolio, but does not test other games presented to them.¹³² To best ensure that it is producing game themes and play styles that the lottery-playing public desires and will buy, the Lottery should test the entire spectrum of tickets it is considering. This is the practice in Connecticut (which experienced 2.9 percent per capita growth), as well as Massachusetts and Michigan, among other states. These states have found great success with their instant ticket portfolio, as each consistently conducts focus-group testing of ticket concepts.

The visuals – including game design, colors used and prize/feature call outs printed on each instant ticket – should be determined by player research, not by lottery staff or game vendors. Historically, there is too much deference within the Ohio Lottery to a vendor’s launch ideas when staff should be challenging vendors to ensure the best instant ticket product.

The Ohio Lottery has begun to implement some of the recommended changes, including shifting their game releases from a four-week to a six-week launch schedule to allow the new tickets to establish a presence, and grab greater market share. Additionally, the shift is enabling the Lottery to better coordinate the distribution of in-store, point-of-sale (“POS”) advertising materials with its paid media/advertising schedule. This strategy amplifies the advertising messages in the marketplace, increases visibility and serves to generate more sales.

The current activation rate for new ticket releases is around 65 percent by the retailers in the first week of the game’s debut in market.¹³³ This is a significant issue that needs to be rectified as soon as possible, as our experience shows that a 90 percent activation rate is the norm. The first several weeks in market is a game’s peak potential for generating revenue. Accordingly, the Lottery is missing out on a tremendous opportunity to generate revenue due to retailers not activating and displaying new tickets immediately upon their release. Such early activation is a vital component to increasing sales and generating more revenue.

To overcome this issue, several areas need to be addressed:

¹³⁰ “Request for Proposals: Instant Ticket Products and Services,” RFP Lot 124, p. 52, February 18, 2015.

¹³¹ Ibid.

¹³² Interview with Ron Fornaro, January 26, 2016.

¹³³ Information received from Scientific Games.

- Lottery sales representatives must hang/display POS at retailer locations two to four weeks prior to new game releases to build consumer anticipation and excitement for their arrival to stores.
- Sales representatives must continue to talk to retailers and explain the importance of new-game activation. The conversations must emphasize the importance of activating games as soon as they arrive at their store and must make clear that doing so helps them by drawing in customers seeking these new games, and such visitation will, in turn, generate more income for their stores.
- The Lottery must also continue to implement an incentive programs to further motivate retailers to promote and sell games.

An example of an effective incentive program would be entering retailers into drawings for cash prizes each time they activate a new book of ticket. This method has proven to be successful in Massachusetts. Another example can be found in Michigan, which rewards retailers with an increased commission when they activate all of the new games.

The Ohio Lottery could also spur increased sales by analyzing the pace at which certain games are selling and pulling some of the slower-moving games, and replacing them with new games that will generate far greater revenue.

Once a game's sales stagnate, they can rarely be resurrected. The actual cost of printing an instant game is minuscule, particularly in contrast to the potential revenue a successful game could generate.

This need to continually provide fresh product only strengthens the argument for comprehensive focus-group testing. If the Lottery has better information from consumers on the type of games they desire, it increases the likelihood of putting forth tickets with more appeal that won't become stagnant, therefore selling better than their predecessors and generating more revenue.

It is no secret that lottery player excitement is heightened by bigger prizes and more plentiful prize pools. Players nationwide chase "mega" prizes. Creating games that offer such features and generate an added level but are still profitable requires printing larger ticket runs. The more tickets in a game, the more prizes can be offered. And more tickets also means more sales potential. Accordingly, the Ohio Lottery should increase the number of tickets it prints for each game so it can offer/support more robust prize structures, especially for its higher-price point games.

B. Online Products

Sales in the online products category have experienced steady growth over the last several years. Industrywide, the traditional online product is driven by the multistate jackpot games, e.g. Powerball and Mega Millions, and more consistently in Keno. The Ohio Lottery is no different in this respect. In FY 2015, Keno represented 11.4 percent of total Lottery sales and has experienced significant growth of the last several fiscal years, including 11 percent in FY 2016.¹³⁴ The multistate jackpot games are jackpot-driven and, as such, sales growth varies year to year depending on jackpot growth, with some years experiencing sales declines.¹³⁵

As compared to the Instant Ticket products, the online products portfolio is 47 percent of total sales, with Instant Tickets representing 53 percent of total sales. In reviewing other states, the Ohio Lottery's online sales as a percentage of total sales is higher than the states we have used as a comparison. In Georgia, Instant Ticket products represent 65 percent of total sales¹³⁶ and Massachusetts's Instant Tickets at 70 percent of its total sales.¹³⁷

In reviewing the per-capita average weekly sales for online products in Figure 6, it is evident that the Ohio Lottery is performing much stronger than the Instant Ticket products compared to other US lotteries in terms of growth in the category and ranking. Based on 2015 sales, the Ohio Lottery is ranked 10th among US lotteries while Massachusetts is 2nd and Connecticut and Georgia are 8th and 9th respectively. It should be noted that Connecticut just started selling the Keno game in April 2016.¹³⁸ The average growth rate of the average weekly per capita sales for online sales including Keno from 2010 to 2015 nationally was 4.4 percent. The Ohio Lottery has had a 4.0 percent growth rate in this product category over the same period. Therefore, the Ohio Lottery growth rate in online products appears to be close to the norm. This fact supports Spectrum's opinion that while all product categories could experience significant growth, the Instant Ticket category may have the potential for greater growth in the near future. With that being said, Spectrum still believes changes need to be made to the online product development and promotion functions at the Ohio Lottery.

¹³⁴ "The Ohio Lottery Commission: An Enterprise Fund for the State of Ohio, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015," p. 50; email from Gregory Bowers to Bill Egan, September 23, 2016.

¹³⁵ Ibid.

¹³⁶ Georgia Lottery Corporation, "Management Discussion and Analysis for the Years Ended June 30, 2014 and June 30, 2015," "Financial Statements for the Years Ended June 30, 2014 and June 30, 2015," and Independent Auditor's Report. <https://www.galottery.com/content/dam/portal/pdfs/about-us/2015-glc-financial-statements.pdf>

¹³⁷ Massachusetts Lottery Statement of Operations, June 2015. <http://www.masslottery.com/lib/downloads/about/June2015financialYTD.pdf>

¹³⁸ Connecticut Lottery, "About CT Lottery." <http://www.ctlottery.org/Modules/Timeline/default.aspx>

The Ohio Lottery has an online product portfolio that includes the standard multistate jackpot games, Mega Millions and Powerball, other draw games, Keno and an online Raffle.¹³⁹ The Ohio Lottery has done a good job in recruiting and developing interest in the Keno game, and it has become one of the fastest-growing games in the portfolio. The Lottery also sells EZ Play and EZ Play Tap games that offer electronic games that a player can play at a player operated machine at retailer locations.¹⁴⁰ The EZ Tap category was introduced in FY 2015. The EZ Plays are operated and developed with Intralot and Ohio Lottery staff.¹⁴¹ Game styles and concepts are changed four or five times per year to keep the game fresh.

Other online games developments include a multistate progressive jackpot Keno game with Michigan, Georgia and Maryland.¹⁴² This offers great potential, given the success of Keno in Ohio. We do caution, however, that the Ohio Lottery should gather and analyze data on this progressive game's impact on the existing Keno game as well as the interplay of the Quick Keno machines that are being added to the portfolio.

Another product the Ohio Lottery should explore is the online product that offers a hybrid experience, in which the player purchases a ticket at the lottery terminal. The ticket provides that player to win a prize instantly. Whether the player wins an instant prize or not, the ticket is entered into a daily drawing offering the player a chance to win a substantial prize in the drawing. This is an idea that Spectrum believes is worth exploring and testing in Ohio.

The Online Product Manager position at the Ohio Lottery was recently eliminated.¹⁴³ Since that time, Intralot has assumed the role of product development and promotion. Based on discussions with Ohio Lottery staff, the promotion of the online product portfolio has been fairly minimal. This failure to promote online products can profoundly impact sales, particularly if the Lottery is not sufficiently focused on maintaining the interest of existing customers while reaching new customers. With that in mind, we recommend that this position be re-established as a Lottery employee, working within the Marketing Department. Similarly, the Instant Ticket Product Manager should be moved to the Marketing Department. Both functions, in our opinion, are best suited in the Marketing Department. The Online Product Manager positions duties should be focused on constant and varied promotion of the online products.

¹³⁹ "The Ohio Lottery Commission: An Enterprise Fund for the State of Ohio, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015," p. 50.

¹⁴⁰ Ibid. at p. 7.

¹⁴¹ Interview with Michael Petro, January 26, 2016.

¹⁴² "The Ohio Lottery Commission: An Enterprise Fund for the State of Ohio, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015," p. 10.

¹⁴³ Interview with Michael Petro, January 26, 2016.

Figure 6: Average per-capita draw sales including Keno, by state, ranked by 2015 data

Rank	Jurisdiction	2010	2011	2012	2013	2014	2015	Q1-Q2 2016	CAGR (2010 - 2015)	Rank Change: '15 vs. '14
1	District of Columbia	\$5.72	\$5.65	\$6.00	\$5.48	\$5.25	\$4.99	\$4.99	-2.7%	-
2	Massachusetts	\$4.04	\$4.08	\$4.39	\$4.36	\$4.20	\$4.35	\$4.35	1.5%	-
3	Maryland	\$4.12	\$4.11	\$4.27	\$4.11	\$3.90	\$3.96	\$3.96	-0.8%	-
4	New York	\$3.05	\$3.27	\$3.46	\$3.55	\$3.46	\$3.65	\$4.13	3.6%	-
5	Michigan	\$3.03	\$3.06	\$3.15	\$3.20	\$3.19	\$3.50	\$3.84	2.9%	-
6	New Jersey	\$2.76	\$2.79	\$2.98	\$3.07	\$2.91	\$3.02	\$3.52	1.8%	-
7	Rhode Island	\$2.82	\$2.81	\$3.31	\$3.16	\$2.87	\$2.95	\$3.32	0.9%	-
8	Connecticut	\$2.17	\$2.20	\$2.55	\$2.61	\$2.55	\$2.61	\$2.61	3.7%	-
9	Georgia	\$2.27	\$2.24	\$2.49	\$2.44	\$2.31	\$2.56	\$2.96	2.5%	-
10	Ohio	\$1.84	\$1.91	\$2.09	\$2.12	\$2.10	\$2.24	\$2.24	4.0%	-
11	Delaware	\$1.79	\$1.79	\$1.97	\$2.09	\$1.91	\$2.18	\$2.18	4.1%	-
12	Virginia	\$1.75	\$1.76	\$1.88	\$1.95	\$1.86	\$1.99	\$2.31	2.6%	-
13	Florida	\$1.80	\$1.86	\$1.95	\$1.98	\$1.77	\$1.93	\$2.23	1.5%	+1
14	Pennsylvania	\$1.94	\$1.88	\$2.05	\$2.04	\$1.80	\$1.87	\$1.87	-0.7%	-1
15	South Carolina	\$1.46	\$1.47	\$1.58	\$1.62	\$1.51	\$1.74	\$1.74	3.6%	-
16	Kentucky	\$1.32	\$1.31	\$1.49	\$1.44	\$1.47	\$1.63	\$1.97	4.3%	-
17	Illinois	\$1.46	\$1.48	\$1.65	\$1.58	\$1.44	\$1.51	\$1.71	0.7%	-
18	North Carolina	\$1.18	\$1.22	\$1.31	\$1.35	\$1.25	\$1.41	\$1.70	3.7%	-
19	Missouri	\$1.07	\$1.08	\$1.21	\$1.23	\$1.12	\$1.25	\$1.47	3.1%	-
20	New Hampshire	\$1.01	\$0.99	\$1.35	\$1.37	\$1.11	\$1.21	\$1.21	3.7%	-
21	Louisiana	\$0.98	\$1.05	\$1.20	\$1.18	\$1.01	\$1.12	\$1.12	2.8%	-
22	Oregon	\$1.00	\$1.00	\$1.03	\$1.05	\$0.94	\$1.02	\$1.25	0.3%	-
23	Indiana	\$0.80	\$0.81	\$0.93	\$0.98	\$0.84	\$0.92	\$1.19	2.9%	+1
24	Vermont	\$0.77	\$0.74	\$0.94	\$0.91	\$0.83	\$0.90	\$0.90	3.2%	+1
25	Maine	\$0.91	\$0.84	\$1.02	\$1.00	\$0.85	\$0.88	\$0.88	-0.7%	-2
26	California	\$0.70	\$0.74	\$0.78	\$0.87	\$0.79	\$0.88	\$1.15	4.7%	-
27	West Virginia	\$0.83	\$0.81	\$0.91	\$0.91	\$0.79	\$0.87	\$1.05	1.1%	-
28	Tennessee	\$0.73	\$0.72	\$0.83	\$0.85	\$0.72	\$0.87	\$1.19	3.6%	+1
29	Texas	\$0.74	\$0.75	\$0.87	\$0.85	\$0.75	\$0.86	\$1.09	3.0%	-1
30	Idaho	\$0.61	\$0.64	\$0.81	\$0.79	\$0.66	\$0.81	\$0.81	5.8%	+3
31	Wisconsin	\$0.68	\$0.70	\$0.81	\$0.81	\$0.71	\$0.80	\$0.98	3.2%	-1
32	Kansas	\$0.73	\$0.73	\$0.79	\$0.79	\$0.67	\$0.75	\$0.92	0.6%	-1
33	Arizona	\$0.59	\$0.62	\$0.74	\$0.75	\$0.58	\$0.70	\$0.98	3.4%	+6
34	Colorado	\$0.66	\$0.63	\$0.75	\$0.72	\$0.58	\$0.65	\$0.82	-0.3%	+4
35	Minnesota	\$0.56	\$0.57	\$0.69	\$0.70	\$0.57	\$0.64	\$0.80	2.5%	+5
36	South Dakota	\$0.59	\$0.60	\$0.75	\$0.71	\$0.57	\$0.63	\$0.79	1.5%	+5
37	Montana	\$0.60	\$0.60	\$0.77	\$0.74	\$0.64	\$0.63	\$0.63	0.9%	-3
38	Nebraska	\$0.65	\$0.64	\$0.80	\$0.79	\$0.59	\$0.62	\$0.91	-0.8%	-1
39	Washington	\$0.56	\$0.58	\$0.63	\$0.62	\$0.53	\$0.60	\$0.81	1.2%	+3
40	New Mexico	\$0.60	\$0.55	\$0.66	\$0.65	\$0.52	\$0.59	\$0.59	-0.3%	+3
41	North Dakota	\$0.69	\$0.67	\$0.81	\$0.76	\$0.66	\$0.56	\$0.56	-4.1%	-9
42	Iowa	\$0.57	\$0.58	\$0.74	\$0.73	\$0.60	\$0.55	\$0.55	-0.9%	-6
43	Wyoming	n/a	n/a	n/a	n/a	\$0.62	\$0.52	\$0.83	-16.5%	-8
44	Arkansas	\$0.49	\$0.50	\$0.56	\$0.58	\$0.48	\$0.50	\$0.50	0.4%	-
45	Oklahoma	\$0.52	\$0.48	\$0.57	\$0.56	\$0.44	\$0.42	\$0.42	-4.1%	-

Source: IGT, LaFleur's

9. Assessing Video Lottery Terminal Performance

The July 2009 Ohio legislation to allow video lottery terminals (“VLTs”) to be placed at the seven state racetracks positioned the Lottery as a partner of the tracks, both pursuing the common goal of maximizing revenue. The Lottery took on an advisory/regulatory role, which is in contrast to how lotteries and racetrack casinos (or “racinos”) operate in many other states, such as Delaware and West Virginia, where the state lotteries function primarily as a regulatory agency and not as advisors. The Lottery, similar to others, mandated an independent Central Monitoring System (“CMS”) for real-time monitoring. This provides compliance of the approved and certified software installed in the VLTs and insures the pay tables are configured to Lottery requirements. The financial data provided by the CMS allows real-time audit process to compare to racino system reports. This streamlines the audit process and minimizes the need for manual audits that are time consuming, costly and error prone. The CMS also supplies data to the Lottery of chronic operational issues regarding the VLTs such as memory loss, bill jams, etc. Spectrum found that the business relationship between the Lottery and the operators is professional and mutually appreciative. The Ohio model has helped the racinos develop into successful operations, as the Lottery provided guidelines and structure and worked with the operators to ensure that the maximum number of manufacturers could provide equipment, and allowed operators to make decisions in the following critical areas:

- Game placement
- Game mix
- Denomination mix
- Volatility and payout

Clearly, concepts such as game mix, denominational mix, volatility and payout are interconnected when a gaming floor is initially setup, and adjustments are made as operating philosophies change or as competition is introduced.

It is important to note that the State of Ohio benefits from having six strong, experienced, multi-jurisdictional operators of its seven racinos:

- Churchill Downs/Delaware North
- Eldorado Resorts¹⁴⁴
- Hard Rock
- Jack Entertainment
- Penn National Gaming (two properties)

¹⁴⁴ Eldorado Resorts Inc. on September 19, 2016, announced it will acquire Isle of Capri Inc., further strengthening the company, giving it 20 gaming properties in 10 states. The transaction is expected to close in the second quarter of 2017.

- Pinnacle Entertainment

Each company operates gaming properties in at least two other states and each operates in other jurisdictions in the Midwest, with six also operating in a state adjacent to Ohio, and thus each is attuned to the regional mores. Moreover, Penn National also operates two commercial casinos in Ohio, in addition to its racinos. In Spectrum’s opinion, each company is well respected within the gaming industry and by the financial/investment community.

To help assess the efficacy of Ohio’s racino operations, Spectrum sent out questionnaires to all seven operators and received data back from five. (The data were provided to Spectrum in confidence and thus we cannot identify the properties.) The data provided was a snapshot of calendar year 2015. While we found that the properties are well managed, we are offering ideas that could enhance revenue.

A. Game Placement

The five racinos that responded to our survey are professionally managed and clearly are maximizing gross gaming revenue (“GGR” or “win”) per square foot. The average win per square foot for the five is \$2,002, with average daily win per unit of \$281.

The table below reflects the percentage of units per property as a group, and how their floors perform. It clearly shows as far as percentage of machines vs. percentage of coin-in and win generated as a whole the operators are maintaining the product and continue to update the floor. Properties B and D as a percentage of units are slightly underperforming in the percentage of coin-in and win generated.

Figure 7: Key performance indicators for five participating Ohio racinos

Property	% of total units	Coin-in (amount wagered)	Win	Hold %	% of total coin-in	% of total win	Win per sq. ft.	Daily win/unit
A	23%	\$1,434,276,655	150,947,210	10.52%	25.75%	26.56%	\$1,755	\$344
B	19%	\$750,169,198	\$80,051,900	10.67%	13.47%	14.09%	\$1,668	\$300
C	14%	\$906,781,711	\$100,476,852	11.08%	16.28%	17.68%	\$2,871	\$281
D	31%	\$1,585,992,569	\$138,723,046	8.75%	28.47%	24.41%	\$1,671	\$189
E	13%	\$893,309,326	\$98,070,751	10.98%	16.04%	17.26%	\$3,503	\$392
Total		\$5,570,529,458	\$568,269,759	10.20%			\$2,022	\$281

Source: Spectrum Gaming Group, participating Ohio racinos

Compared to the gaming operations in surrounding states and Ohio as a whole, the five participating properties are competitive and operate their facilities effectively and efficiently.

Figure 8: Ohio vs. casinos in neighboring states, 12 months ending June 2016

State	Average Daily win/unit	No of machines	Gross slot Revenue (M)
Indiana	\$266	19,505	\$1,896
Pennsylvania	\$314	26,366	\$3,027
West Virginia	\$248	6,528	\$600
Ohio (casinos + racinos)	\$246	18,524	\$1,934
Five responding Ohio racinos	\$281	6,946	\$568

Source: Spectrumatrix, Spectrum Gaming Group

Relying on public data, we also developed the following, which shows the average daily win per unit for each Ohio racino for the past 12 months.

Figure 9: Average daily win per unit for Ohio racinos, 12 months ending July

Average daily win/unit, Each of last 12 months ending July	Scioto Downs	Jack Thistledown	Hard Rock Rocksino	Miami Valley Gaming	Belterra Park	Hollywood Dayton	Hollywood Mahoning Valley	State-wide
July	\$192	\$232	\$265	\$215	\$150	\$241	\$309	\$225
August	\$188	\$219	\$268	\$211	\$153	\$234	\$294	\$221
September	\$175	\$216	\$259	\$203	\$148	\$236	\$283	\$214
October	\$179	\$231	\$246	\$212	\$148	\$234	\$272	\$214
November	\$183	\$217	\$239	\$205	\$136	\$228	\$260	\$208
December	\$193	\$217	\$268	\$226	\$145	\$245	\$268	\$223
January	\$176	\$205	\$257	\$214	\$142	\$221	\$276	\$212
February	\$202	\$245	\$263	\$245	\$158	\$265	\$304	\$236
March	\$202	\$247	\$286	\$242	\$162	\$256	\$305	\$241
April	\$204	\$239	\$288	\$240	\$180	\$262	\$318	\$244
May	\$203	\$221	\$277	\$243	\$168	\$248	\$291	\$235
June	\$183	\$207	\$265	\$221	\$157	\$233	\$273	\$218
Over/under state average, 12 months ending July	Scioto Downs	Jack Thistledown	Hard Rock Rocksino	Miami Valley Gaming	Belterra Park	Hollywood Dayton	Hollywood Mahoning Valley	
July	\$(33)	\$7	\$40	\$(10)	\$(75)	\$16	\$84	
August	\$(33)	\$(2)	\$47	\$(10)	\$(68)	\$13	\$73	
September	\$(39)	\$2	\$45	\$(11)	\$(66)	\$22	\$69	
October	\$(35)	\$17	\$32	\$(2)	\$(66)	\$20	\$58	
November	\$(25)	\$9	\$31	\$(3)	\$(72)	\$20	\$52	
December	\$(30)	\$(6)	\$45	\$3	\$(78)	\$22	\$45	
January	\$(36)	\$(7)	\$45	\$2	\$(70)	\$9	\$64	
February	\$(34)	\$9	\$27	\$9	\$(78)	\$29	\$68	
March	\$(39)	\$6	\$45	\$1	\$(79)	\$15	\$64	
April	\$(40)	\$(5)	\$44	\$(4)	\$(64)	\$18	\$74	
May	\$(32)	\$(14)	\$42	\$8	\$(67)	\$13	\$56	
June	\$(35)	\$(11)	\$47	\$3	\$(61)	\$15	\$55	

Source: Ohio Lottery, Spectrum Gaming Group

A review of the data from the five survey respondents shows a total of 12 suppliers of gaming equipment. Two properties have utilized eight of the suppliers to populate their floors, one property has nine equipment suppliers and two have ten suppliers. Offering machines from as many approved suppliers ensures the properties have the products that players have come expect.

By any reasonable measure, the Ohio racino operators are experienced, proven professionals that effectively monitor and maintain the performance of their floors. The data

show that each operator continually monitors and updates the configuration/mix of its gaming floor; this is supported by the quantity of conversions that are completed during the 12 months of data, as derived by the number of days that some models are in play on the gaming floor

The percentage of each supplier’s machines on the floors vs. the percentage of coin-in and win generated shows a suitable concentrate of revenue producing products. The suppliers with the larger quantity of machines have much larger library of content to support the machines.

The following table can assist in understanding the capabilities of the suppliers when selecting new equipment, as players vote daily with their money (in the form of coin-in) and the properties select the hold percentage that produces the win. The percentage of the total coin-in generated shows the popularity of the models selected.

Figure 10: Measuring performance of Ohio VLT providers at five participating racinos

Supplier	No. of Machines	% of total machines	Coin-in (amount wagered)	Win	Hold %	% of coin-in	% of win
A	23	0.33%	\$3,292,643	\$393,190	11.94%	0.06%	0.07%
B	110	1.58%	\$85,285,463	\$9,183,209	10.77%	1.56%	1.64%
C	881	12.68%	\$757,206,294	\$79,238,201	10.46%	13.84%	14.17%
D	48	0.69%	\$123,886,543	\$14,063,519	11.35%	2.26%	2.51%
E	1,473	20.89%	\$1,387,545,167	\$138,589,301	9.99%	25.36%	24.78%
F	16	0.23%	\$13,320,371	\$1,737,184	13.04%	0.24%	0.31%
G	2,385	34.22%	\$1,720,230,754	\$163,502,665	9.54%	29.62%	27.63%
H	766	11.03%	\$560,765,678	\$59,163,532	10.55%	10.25%	10.58%
I	163	2.35%	\$233,748,965	\$24,629,910	10.54%	4.27%	4.40%
J	8	0.12%	\$3,520,441	\$481,943	13.69%	0.06%	0.09%
K	30	0.43%	\$22,304,717	\$2,737,644	12.27%	0.41%	0.49%
L	1,088	0.154477397	\$659,422,422	\$74,549,461	11.31%	12.05%	13.33%
Total	6,991		\$5,570,529,458	\$568,269,759	10.22%		

Source: Spectrum Gaming Group, participating Ohio racinos

In this analysis, suppliers C, E and I are clearly outperformers, as their percentage of the win exceeds their share of the machines on the floors.

Recommendation

The Ohio Lottery should continue to encourage racino operators to identify underperforming models and replace with new models. If operators can improve the traffic flow that interconnects sections of the floor, it becomes easier to micro-market these sections, and it provides guests with some points of reference. By establishing a mini-gaming floor within a gaming floor, operators can create a customizable analyses for identifying underperforming sections and assists in understanding variations in unit-level performance. We recommend that operators and the Lottery continue to encourage new suppliers of gaming equipment to

participate in the Ohio market. The more suppliers, the larger the library of products available, which peaks customers interest and produces return trips.

B. Game Mix

Providing racino operators with the liberty to manage the content of their floor is critical to their success. Analyzing, selecting and purchasing new content is a costly endeavor, but the investment must be made to yield the maximum win per square foot. Setting up an equitable payback percentage model to the players is essential to develop credibility for the Lottery and the properties, as well as in building a cadre of loyal customers.

Ohio operators have structured clear methods for determining the optimal mix of VLTs on their floor. Managers rely on a variety of factors in determining the mix of games, including:

- Customer feedback
- Operator intuition
- Performance data from their systems
- Supplier data from other jurisdictions

These are all valid factors to consider, and the data to Spectrum provided were consistent with what would be expected from veteran, professional operators.

The mix of participation/lease machines – in which suppliers share in the revenue – to machines that are owned by the operator shows an acceptable ratio; the average property, depending on the operating philosophy, will have a range of 3 percent to 6 percent of the total machine count as participation games.

The industry average has gradually declined over the years, as operators elect to minimize the number of these games on their floor and keep the revenue themselves. Successful participation games are well advertised by the suppliers, and shrewd operators utilize them to drive play into difficult areas of the gaming floor.

Participation machines have been developed by suppliers as an effective way of generating recurring revenue to provide a return on their investment of designing, developing and marketing the machines. These games have a hold percentage range of 10 percent to 14 percent, and typically a sizable jackpot that make them appealing to the players. A percentage of either the win or of the coin-in goes to the supplier that pays the large jackpot, normally in the form of an annuity, and the supplier keeps the rest. Wide-area progressives like Megabucks and Wheel of Fortune are participation slots. Sometimes slots based on a popular theme will also be available only on a participation basis or a flat rate per day as opposed to being offered for outright sale.

The assumption is that these machines are “choice” machines — that is, some players will visit casinos seeking them out to play. Gaming operators should have an acceptable presence of these machines or otherwise risk losing those players and the potential accompanying players. Many players seek out these games due to the marketing, sign package and the large jackpots associated with them. In addition, because players will seek out these machines, as stated above, shrewd operators determined that they can put the machines in the least desirable locations on the casino floor and save the high-traffic, high-visibility locations for the casino’s owned machines.

The table below validates the knowledge of the operators in using these games for marketing purposes and their revenue-generating ability. These games should generate between two or three times the house average in win per unit per day. The percentage of total machines range should be between 3 percent and 5 percent of a gaming floor.

Figure 11: Measuring participation/leased VLT performance, five participating Ohio racinos

Property	% of the total machines among respondents	Number of participation machines on each floor	% of total machines	Avg coin-in per unit/day	Daily Win/unit	Average hold percentage
A	23%	69	4.26%	\$9,054	\$993	10.97%
B	19%	52	3.93%	\$9,321	\$1,030	11.05%
C	14%	34	3.43%	\$6,459	\$724	11.21%
D	31%	83	3.87%	\$6,012	\$536	8.92%
E	13%	36	3.83%	\$6,240	\$640	10.26%
Total		274	3.94%	\$7,417	\$785	10.58%

Source: Spectrum Gaming Group, participating Ohio racinos

Recommendations

Video poker and electronic table games (“ETGs”) should be expanded into the Ohio market, as these would add materially to the overall mix of offerings. Video poker machines, which have lower house advantages, are popular in many markets across the country, in large measure because local, repeat gamblers are more experienced and sophisticated, and are aware of the lower house advantage. This added element to the floor will offset some of the underperforming video reel slots and increase overall revenue.

Video poker and electronic table games are popular in the surrounding markets and would clearly increase revenue for the operators and the lottery. Operators are interested in ETGs to help transition their casino floors toward the next generation of players and provide comparable outlet to the table games player. Such products enable players to have a table games experience in the absence of true, live table games.

The benefit to the Lottery and the operators can be found in the labor savings (as ETGs do not require dealers or supervisors) and an environment free of the intimidation that can often be found in the live table-games experience. Players enjoy the gaming and entertainment

that games provide, but can take comfort in the individualized experience that ETGs provide over live table games.

ETGs would allow Ohio's racinos to better compete with gaming properties in neighboring states, all of which offer live table games, although the two racinos in central Indiana are limited to slots and ETGs, and cannot offer live tables. On the other hand, allowing ETGs at Ohio racinos would likely cannibalize some undetermined level of live table game revenue from the state's four commercial casinos.

Note that video poker is far different from traditional poker in that video poker players bet against the house, and not against other players. Similarly, electronic table games are different from traditional table games in that each position at an ETG has its own random-number generator, and decisions made by one player do not impact others. As such, ETGs are formally classified as a slot machine in those states that allow them.

C. Denomination Mix

The denominational mixes from the properties that participated in our survey are an essential part of their overall competitive posture and comport to their operating philosophy and marketing strategy. Our analysis leads to the clear conclusion that Ohio operators are professionals who know how to maintain and monitor the denominational mix to maximize performance. Note that, in the following table, certain denominations and other data were merged in order to protect the identity of participating properties.

The table below is used to view the efficiency of the denominational selections made by the operators, by selecting their particular operating philosophy you can see how the decision performs as far as popularity (i.e., coin-in) to the percent of win generated. For example, the \$0.01 - \$0.02 section of the table shows that Property A has 23.08 percent of the total denomination amongst the five participants, generating 25.02 percent of the coin-in and 26.42 percent of the total win with an average hold of 11.82 percent. This confirms their selections are efficient and over performing.

Property C has 14.16 percent of the total denomination amongst the five participants, generating 14.71 percent of the coin-in and 16.06 percent of the total win. This confirms their selections are efficient, but choose to have a tighter hold of 12.21 percent to generate more revenue.

Figure 12: Ohio racino slot performance analysis by denomination – by participating property

	% of total units	Coin-in (Amount wagered)	Win	Hold %	% of total coin-in	% of total win
\$0.01 and \$0.02 slots						
Property A	23.80%	\$893,290,858	\$105,583,838	11.82%	25.02%	26.42%
Property B	17.78%	\$521,225,618	\$60,254,342	11.56%	14.60%	15.08%
Property C	14.16%	\$525,089,429	\$64,135,141	12.21%	14.71%	16.05%
Property D	29.23%	\$1,036,791,208	\$98,707,108	9.52%	29.04%	24.70%
Property E	15.03%	\$594,392,755	\$70,925,988	11.93%	16.65%	17.75%
Total		\$3,570,789,867	\$399,606,416	11.19%		
\$0.05 slots						
Property A	24.05%	\$37,231,798	\$3,938,624	10.58%	24.14%	24.73%
Property B	19.85%	\$17,511,418	\$1,856,793	10.60%	11.36%	11.66%
Property C	16.03%	\$21,903,417	\$2,373,133	10.83%	14.20%	14.90%
Property D	22.52%	\$37,977,250	\$3,392,142	8.93%	24.63%	21.30%
Property E	17.56%	\$39,589,656	\$4,368,267	11.03%	25.67%	27.42%
Total		\$154,213,538	\$15,928,958	10.33%		
\$.25 and \$.50 slots						
Property A	24.03%	\$181,213,620	\$17,215,271	9.50%	29.19%	29.67%
Property B	19.93%	\$98,488,848	\$9,471,684	9.62%	15.87%	16.33%
Property C	14.12%	\$100,532,095	\$9,974,607	9.92%	16.20%	17.19%
Property D	29.27%	\$159,187,900	\$12,433,549	7.81%	25.65%	21.43%
Property E	12.64%	\$81,299,165	\$8,921,785	10.97%	13.10%	15.38%
Total		\$620,721,628	\$58,016,896	9.35%		
\$1 and \$2 slots						
Property A	19.90%	\$229,844,586	\$18,714,903	8.14%	25.03%	25.70%
Property B	17.69%	\$91,679,895	\$7,056,445	7.70%	9.98%	9.69%
Property C	14.56%	\$182,627,079	\$16,745,401	9.17%	19.89%	23.00%
Property D	39.14%	\$291,394,936	\$19,698,639	6.76%	31.73%	27.05%
Property E	8.71%	\$122,836,144	\$10,596,346	8.63%	19.79%	18.26%
Total		\$918,382,640	\$72,811,734	7.93%		
\$5 slots						
Property A	28.57%	\$72,518,904	\$4,612,339	6.36%	39.75%	35.88%
Property B	34.52%	\$16,925,970	\$1,127,582	6.66%	9.28%	8.77%
Property C	9.52%	\$33,457,020	\$2,669,947	7.98%	18.34%	20.77%
Property D	17.86%	\$29,660,430	\$2,242,038	7.56%	16.26%	17.44%
Property E	9.52%	\$29,882,045	\$2,204,215	7.38%	16.38%	17.15%
Total		\$182,444,369	\$12,856,122	7.05%		
High-denomination slots (above \$5)						
Property A	12.20%	\$18,528,185	\$874,555	4.72%	19.54%	16.26%
Property B	29.27%	\$4,337,450	\$285,055	6.57%	4.58%	5.30%
Property C	9.76%	\$15,797,375	\$933,686	5.91%	16.66%	17.36%
Property D	34.15%	\$30,980,845	\$2,249,569	7.26%	32.68%	41.81%
Property E	14.63%	\$25,156,960	\$1,037,050	4.12%	26.54%	19.28%
Total		\$94,800,815	\$5,379,915	5.67%		

Source: Spectrum Gaming Group, participating Ohio racinos

D. Volatility and Payout

Volatility can be thought of as risk, and it is used to describe how “risky” a game is based on the mathematical set up of the model. Regular patrons will notice that some games pay out regular wins while others seem to go through extended periods when there are seemingly no winners. This is not due to solely luck but rather to the volatility and the cycle of the game. High-volatility slot machines have very few payouts – but when they do hit they have larger wins. Progressive jackpot machines are an example of high-volatility machines. However, high-volatility games generally feature large jackpots and offer the thrill of playing for a life-changing event. Low-volatility games are the exact opposite: They pay out regular wins and bonus games are activated frequently. Wins on these types of slot tend to be small and often, which is effective for keeping the players in the seats – but they rarely feature life-changing jackpots and usually only pay out modest amounts.

A VLT’s hold percentage is defined as the percentage of money wagered that the house – in this case, the racino – holds. In the example listed above, note that hold percentages tend to be less than 10 percent, on average. This percentage equates to the opposite of the payout percentage, which is the percentage of money wagered that is paid back to players.

The potential gains associated with even a half-percent increase in the existing hold percentage would be substantial for many operations, as typically there would be a short-term revenue increase. However, there are long-term risks associated with aggressive changes in the payback percentage to players, particularly local customers who visit frequently. If such changes are detected and sensed by the existing clientele, or if employees inform the players there has been a “tightening” of the floor, loyalty – and attendant revenue – would suffer as a result. A loss of market share resulting from making aggressive changes in models and hold can be equally devastating to an operation’s profits, as well as its reputation.

Spectrum’s review indicates that operators fully understand the impacts of volatility and adjusting hold percentages, and are operating efficiently.

The table below examines the efficiency of denominations of the five participants, it shows the total units and how they perform as a group. It shows the selections made by the operators are working in a very proficient manner.

To clarify, in examining the penny denomination as a whole there are 69.8 percent of the units generating 63.5 percent of the coin-in and 69.7 percent of the total win, with an average hold of 11.2 percent. Even though the coin-in is a slightly low, the hold percentage keeps the efficiency. This could indicate a saturation in the penny denomination as a whole. Some of the traditional denominations such as nickels and quarters struggle, but this is an industry trend. One denomination to note are the dollars, in which 10.7 percent of the total

units generate 15.9 percent of the coin-in and 12.4 percent of the win. Depending on the property and the operating model, a small percentage of dollars could be added.

Figure 13: Ohio racino slot performance analysis by denomination – collective

Denomination	Total units	% of total units	Coin-in (amount wagered)	Win	Hold %	% of total coin-in	% of total win	Avg coin-in /unit/day	Avg win/unit /day
\$0.01	4,877	69.8%	\$3,556,099,602	\$398,327,115	11.19%	63.54%	69.69%	\$2,090	\$234
\$0.02	60	0.9%	\$43,866,866	\$4,949,019	11.28%	0.79%	0.87%	\$2,113	\$238
\$0.05	256	3.7%	\$146,820,976	\$15,359,964	10.46%	2.65%	2.71%	\$1,658	\$173
\$0.10	23	0.3%	\$7,392,562	\$568,995	7.70%	0.13%	0.10%	\$929	\$71
\$0.25	804	11.5%	\$561,884,728	\$52,633,017	9.37%	10.12%	9.29%	\$2,020	\$189
\$0.50	74	1.1%	\$58,836,900	\$5,383,879	9.15%	1.06%	0.95%	\$2,298	\$210
\$1	751	10.7%	\$882,996,500	\$70,343,953	7.97%	15.91%	12.42%	\$3,398	\$271
\$2	18	0.3%	\$35,386,140	\$2,467,781	6.97%	0.64%	0.44%	\$5,682	\$396
\$5	84	1.2%	\$182,444,369	\$12,856,122	7.05%	3.29%	2.27%	\$6,277	\$442
\$10	20	0.3%	\$38,326,515	\$2,264,287	5.91%	0.69%	0.40%	\$5,539	\$327
\$25	17	0.2%	\$47,065,200	\$2,632,193	5.59%	0.85%	0.46%	\$8,002	\$447
\$100	7	0.1%	\$9,409,100	\$483,435	5.14%	0.17%	0.09%	\$3,885	\$200
	6,991		\$5,570,529,458	\$568,269,759	10.19%				

Source: Spectrum Gaming Group, participating Ohio racinos

10. Retailers/Licensees

As part of our analysis of the Lottery's relationship with its retailers, we benchmarked the Ohio Lottery against the industry leader, the Massachusetts Lottery. In many respects, Massachusetts is an outlier, as noted earlier, which leads its peer group by wide margins in key measures. That status, however, makes it a particularly ambitious benchmark, offering important lessons.

The Ohio Lottery presently has more than 9,800 retailers selling its product throughout Ohio.¹⁴⁵ All 9,800 retailers sell the Keno game, with the majority selling the Keno without television monitors for the player to watch the game. Approximately 1,400 retailers sell the Keno game in a bar or and restaurant-type of establishment that have monitors allowing the player to watch the game.¹⁴⁶ By comparison, Massachusetts – the industry leader, as noted earlier – has more than 8,000 retail locations selling its products, with more than 5,000 of those retailers selling the Keno game of which approximately 2,400 bars and restaurants sell the game with monitors allowing the player to watch the game on premises.¹⁴⁷

Massachusetts has significantly larger per-capita amount of sales with significantly fewer retailers. Massachusetts, with 6.8 million people, is significantly less populous than Ohio, which has 11.6 million people,¹⁴⁸ as well as a smaller geographic area to cover.

Still, despite those differences in size, Massachusetts generated \$5.01 billion¹⁴⁹ in overall sales in FY 2015, compared to \$2.8 billion¹⁵⁰ for Ohio. Those differences become even more telling when examined on a per-capita basis:

- Massachusetts average weekly per-capita sales for all draw and instant games were \$14.26 for FY 2015.
- Ohio average weekly per-capita sales for all draw and instant games were \$4.76 for FY 2015.¹⁵¹

¹⁴⁵ "History and Facts," Ohio Lottery Commission. <https://www.ohiolottery.com/Find-A-Retailer.aspx> (accessed September 13, 2016)

¹⁴⁶ Ibid.

¹⁴⁷ "Massachusetts State Lottery Commission: Information Packet," April 2016. <http://masslottery.com/lib/downloads/MSLC%20Info%20Pack%200416.pdf>

¹⁴⁸ "Annual Estimates of the Resident Population: April 1, 2010 to July 1, 2015 2015 Population Estimates," United States Census Bureau-American Factfinder. <http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=bkml>

¹⁴⁹ "Massachusetts State Lottery Commission: Information Packet."

¹⁵⁰ "The Ohio Lottery Commission: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015," p. 24.

Clearly, the Massachusetts Lottery's figures are not within the statistical norm, but those differences beg the question: Why do such stark differences exist, and can the Ohio Lottery learn some lessons from Massachusetts? Our analysis suggests that one key area in which the Ohio Lottery can better emulate Massachusetts is in retailer relations. Improving critical relations with such an important stakeholder group should result in capturing new sales opportunities.

With that in mind, Spectrum examined the following:

- The recruitment and licensing of brick-and-mortar retailers and the product portfolio they offer
- The service provided to the existing retailer base from the Ohio Lottery's sales staff
- The different sales strategies employed to sell Lottery product at retail locations

A. Licensing and Recruitment

The Ohio Lottery has done an excellent job of automating its licensing process by converting the whole process from a paper application to an online application accessible through the Lottery's website.¹⁵² Since that change occurred in May 2015, the time from application to set up dropped from an average wait time of 79 days to 32 days.¹⁵³

Notably, in FY 2012, the Lottery expanded the keno game to include retailers that sell what is known as keno-to-go, in which the retailer sells the customer a ticket to play but does not have a monitor to view the drawing.¹⁵⁴ Massachusetts and other state lotteries have expanded their Keno games to include the keno-to-go aspect as well.¹⁵⁵

The Ohio Lottery also offered an incentive to its sales representatives to recruit new keno retailers and to quickly set the new retailer up to sell the game starting in FY 2010.¹⁵⁶ The result of the Ohio Lottery's effort has been significant growth in keno sales over the last several years (a 10.5 percent increase from FY 2014 to FY 2015).¹⁵⁷

¹⁵¹ See Figure 2.

¹⁵² Ohio Lottery, retailers information. <https://www.ohiolottery.com/Retailers/Index>.

¹⁵³ Interview with Jim Bonnette, July 6, 2016.

¹⁵⁴ "The Ohio Lottery Commission: Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2013 and June 30, 2012," p. 9.

¹⁵⁵ "Find a Lottery Agent," Massachusetts State Lottery Commission. <http://masslottery.com/where-to-play/> (accessed September 13, 2016)

¹⁵⁶ Interviews with sales staff, February 25, 2016.

¹⁵⁷ "The Ohio Lottery Commission: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015," p. 24.

In reviewing some raw numbers on retailers, it appears the Ohio Lottery could improve on its number of retailers per capita, also known as its “retailer penetration rate.” Massachusetts in FY 2015 had 8,215 total retailers or one retailer per 825 people. Ohio in FY 2015 had 9,801 retailers or one retailer per 1,185 people. Accordingly, Spectrum recommends that the Ohio Lottery devise plans to recruit lottery retailers in areas of the state that may be under-represented to improve its retailer penetration rate, which should result in increased sales.

B. Servicing Retailer Base

One area of concern with respect to marketing and sales of the product at retailer locations is the delay that the Lottery is experiencing in posting point-of-sale (“POS”) materials regarding new instant ticket games and other promotions. The sales staff will frequently wait several weeks after receiving the materials before placing them in retailer locations.¹⁵⁸ The staff informed Spectrum that it delays this task because of past errors on these materials requiring them to take them down shortly after posting them in retail locations. We have been told by management that there was only one error in the past. Regardless, this perception with some of the sales representatives has caused a delay in POS being delivered and posted in a timely fashion. This delay has a profound effect on sales, particularly in the instant games where the sales are usually the highest immediately at the launch. If the public does not know about a ticket for three to four weeks after its launch, valuable sales opportunities are missed.

The Lottery should establish a policy and procedure to produce and provide checks and balances for the production of POS materials, and to do so in a timely fashion to avoid any of the past errors. At the same time, the Lottery must establish a workplace policy requiring sales representatives to place POS materials holding the sales representative accountable.

The Lottery has done a very good job at implementing a retail makeover program. The retail makeover program is designed to remarket the product at the retail location by giving it a fresh look.¹⁵⁹ The regional managers we talked to all set goals for sales representatives to conduct a certain number of makeovers in the district each year.¹⁶⁰

The Lottery has developed sales data on individual agents, and the numbers clearly demonstrate an increase in sales after that makeover. When this program started, the Lottery contracted with a vendor to start the program and for ongoing sales training for staff and retailers.¹⁶¹ That initial expenditure was justified, however, given the experience and

¹⁵⁸ Interviews with sales staff, May 5, 2016.

¹⁵⁹ Ibid.

¹⁶⁰ Interviews with regional sales managers, May 5, 2016.

¹⁶¹ Scientific Games presentation.

enthusiasm of the sales representatives to run this program, we recommend continuing this program using primarily in-house resources.

The Lottery's Human Resources department and the union representing the sales representatives should work in coordination to establish a clear process by which sales representatives meet with their managers can alter work schedules to service retailers who may have primarily night operations. Our research indicated a significant lack of clarity on this issue, which could be addressed through such coordinated efforts. Lottery senior staff correctly point out that this process and ability already exists but now they need to make clear to the sales representatives. In some cases, this lack of clarity is causing the sales representatives missing key decision makers at retail locations who only work during the evening.

Sales Strategies

The Ohio Lottery could further increase sales by examining the product portfolio of bars and restaurants that sell keno. Currently, the majority of this type of retailer sell only keno and online games and do not offer instant tickets.¹⁶² Approximately 552 of these 2,226 keno agents sell instant tickets.¹⁶³ We recommend the Ohio Lottery expanding the keno retailers' product portfolio to offer instant tickets or draw game for sale at the location.

We realize that, when keno was introduced in Ohio, it was originally required that the keno retailers sell all products.¹⁶⁴ We believe the keno game has been clearly established as viable in Ohio and it is time to implement this expansion. The expansion will be largely dependent on available space at the individual retailers.

The Ohio Lottery has done an excellent cross promoting the traditional product portfolio with the operation of racinos and VLTs. Similarly, the Lottery has engaged the four casinos to develop cross promotional opportunities. We recommend the Lottery continue these effort going forward.

Retailer Incentives

The Ohio Lottery should further develop retailer incentives as an effective sales strategy. Incentives, if designed and managed correctly, can effectively motivate retailers to help ensure they are carrying all products. Moreover, incentives are an effective means to ensure that retailers display the product and the POS materials and they and that they are properly merchandising the products. In Massachusetts, a robust retailer incentive program has been in place for many years, and is a cornerstone of that lottery's longstanding success.

¹⁶² Interview with Dennis Berg, August 9, 2016.

¹⁶³ Information from Connie Miller, September 23, 2016.

¹⁶⁴ Ibid.

In 2008, the Massachusetts Lottery suspended the incentive program. The Lottery saw a drop in sales in FY 2008, followed by flat sales in FY 2009 and FY 2010.¹⁶⁵ While the elimination of the retailer incentive program was not the sole factor behind the sales drop followed by flat sales, (the Great Recession, which impacted various forms of discretionary spending, occurred concurrently) but we believe it was a contributing factor. In 2011, the program was reinstated after discussions with retailers in an effort to improve retailer relations and motivate them sell all Lottery products but specifically the instant ticket. The program was a contributing factor to the Massachusetts Lottery experiencing record sales and/or for five consecutive – FY 2011 through FY 2015.

The Connecticut Lottery employs a retailer incentive program that focuses on improvement in a specific product or game in order to earn the incentive. In discussing this program with Connecticut Lottery officials, they firmly believe this program has been successful and contributed to increasing sales.

In Michigan, the Lottery used retailer incentive programs to fuel the growth of sales in instant tickets. The Michigan program rewards retailers when the retailer activates new games promptly upon release. The program also rewards retailers when they follow a planogram in displaying instant tickets and when the retailers add instant tickets bins or ensures all existing bins remained stocked at all times.

Given the success in these other states, the Ohio Lottery needs to develop more effective retailer incentive programs. We realize the Lottery began a new-game activation incentive for retailers to activate new games promptly in 2015 and are working on a program similar to that of Michigan's program.¹⁶⁶ The Lottery should look to the Connecticut program with respect to increasing instant ticket sales by incentivizing the retailer to:

- Increase the number of instant bins
- Keep the instant ticket bins stocked
- Display tickets properly.

The Ohio Lottery should provide retailers with an additional incentive to activate newly released instant ticket games promptly to address the issue of lost sales at the beginning of a launch due to late activations. These types of incentives are common in the convenience store segment, since there is tremendous competition for counter space.

The Ohio Lottery should start having retailer meetings in all regions on a regular basis. The purpose of these meetings is to open the lines of communications with retailers so the

¹⁶⁵ "As the recession stalls, so does the Massachusetts Lottery," Lane Lambert, *Patriot Ledger*, August 25, 2010.

¹⁶⁶ Information from Connie Miller.

Lottery will know issues retailers face with selling the Lottery product, such as ticket issues, customer concerns, or equipment problems.

Retailers are the direct link with the customer and will have a better idea as to what will help increase lottery sales and keep their customers happy. The Connecticut Lottery and the Massachusetts Lottery have used these meetings to improve their overall retailer satisfaction, thus improving the lottery player satisfaction.

11. Finance and Audit

Following our meetings with staff from the Finance and Audit departments of Lottery operations, we have identified areas where appropriate change would foster greater efficiencies. Some changes would be revenue-neutral while other changes would lead to a direct increase in revenue.

A. Policy and Procedures

The most significant operations issue in which the Audit Department is now engaged is reviewing the policy and procedures for the entire organization. In interviews with the Finance Department, we learned that there is a lack of a current policy and procedures manual for staff.¹⁶⁷ Internal controls are not consistently updated, leading to concerns expressed by staff that the execution of certain tasks, such as reconciliation of accounts, is not being carried out in a consistent fashion. The absence of up-to-date finance policies and procedures presents an audit risk in that the standards by which an audit would test the Lottery's operations do not presently exist in an accurate form. We recommend the Audit Department continue to work with the Finance Department and the entire organization to update all policies and procedures.

There was some confusion about the status of the Lottery's business continuity plan. A business continuity plan, which includes a disaster-recovery plan, is critical for an organization such as a lottery that needs to continue operations following a disaster.

The components of a business continuity plan for a lottery operation would include, but not necessarily be limited to, the following:

- Maintaining a separate gaming and corresponding finance systems in a separate utility grid;
- Verified continuity plan with key vendors for replacement tickets, supplies and other goods and services to allow for sales at retail locations to continue; and
- A staffing plan that provides alternative means to complete work assignments both from a geographic and functional standpoint.

The Ohio Lottery appears to be ahead of most agencies in that its business continuity plan is 95 percent complete.¹⁶⁸ We recommend this plan be completed and staff be educated and trained on the plan.

¹⁶⁷ Interviews with Greg Bowers and Jennifer Wilson January 26, March 7 and July 6, 2016.

¹⁶⁸ Email from Connie Miller to Bill Egan, September 23, 2016.

Related to the lack of updated finance procedures, the concern was expressed that certain roles and job duties may be antiquated and obsolete at times.¹⁶⁹ The result of this lack of up-to-date job duties is an uneven spread of workflow between staff members.

The Finance Department should update its policy and procedures manual. Moreover, as part of the update and review process, the Finance Department should review all job descriptions and actual workflows to ensure that all job descriptions are accurate and that there are not duties and functions missing from descriptions. Such a review would likely result in new job descriptions and an altered workflow that will require the assistance and input of the Human Resources department as well as consultation with the Lottery's union.

Moreover, the Ohio Lottery employs a highly experienced Internal Auditor who works with the Office of Management and Budget and the Lottery Commission to set and present an annual audit plan for the Lottery each year.¹⁷⁰ Some of these recommendations have been made by the Auditor in the past and she has deep familiarity with these issues. Accordingly, Spectrum recommends that the Finance Department consult with the Internal Auditor, to the extent allowable pursuant to applicable conflict-of-interest standards, on:

- The update of the finance policies and procedures
- The review of staff duties and functions
- The completion of a business-continuity plan

These recommendations should be acted upon forthwith.

Retailer Billing

The Lottery is in the process of changing the manner in which it bills its retailers for instant tickets. There are currently four methods the retailer will be billed for a book of instant tickets:¹⁷¹ (1) the retailer can mark the book as sold immediately upon activation; (2) the retailer can mark the book sold via the terminal once the last ticket has been sold; (3) the Lottery can automatically bill the retailer 65 days after the retailer activates the book; and (4) the retailer can be billed when the Lottery sales representative manually designated the book as sold based upon a review of the retailer's inventory that determines the book has been sold.¹⁷² It is the involvement of the sales representative in the billing process we recommend be changed.

¹⁶⁹ Interviews Bowers and Wilson.

¹⁷⁰ Ohio Lottery Commission Audit Committee minutes, April 18, 2016.
<https://www.ohiolottery.com/getattachment/About/Lottery-Commission/Audit-Meetings/April-18,-2016-Audit-Committee-Minutes.pdf>

¹⁷¹ Interview with Connie Miller, September 23, 2016.

¹⁷² Interviews with sales staff, May 5-6, 2016.

It appears the Lottery sales staff works well, for the most part, in reviewing the inventory list and ensuring that the instant ticket books are billed to the retailer promptly.¹⁷³ Still, the sales staff recognizes that this task can involve requests from retailers, at times, to wait two weeks to bill for a book of instant tickets. Adding this element to the relationship between the sales representative and retailer is counterproductive and distracting for representatives, whose primary duty is marketing the product at the retail location to maximize sales.

The Lottery is transitioning from the current billing system to an automated system based on what the industry calls the “guaranteed low-end prize structure” (“GLEPS”). GLEPS is process in which the instant ticket manufacturer programs the game that each book of instant tickets offers on average the same aggregate amount of smaller prizes for each book.

The Lottery will automatically bill the retailer for the book of tickets if either one of two conditions is met:

- When a certain percent of the lower-end prizes are cashed,
- Or when the book has been activated for the designated number of days.

The Indiana Lottery describes its GLEPS practice this way, in a report produced by GTECH Indiana:

Another element that is used to ensure the even distribution of prizes throughout each game is the use of Guaranteed Low End Prizes Structures (GLEPS). GLEPS is a process for specifying that each pack of tickets contain a specific assortment of small prizes that has an equivalent value.

There are usually between 3 and 5 specific GLEPS patterns used in programing an instant ticket game, though other amounts can be established for specific games. Each pattern contains a different combination of small prizes that total to an equivalent (or near equivalent) value of small prizes. The GLEPS patterns are specified as part of the Prize Structure for each game. The Lottery can be assured that the distribution of prizes across tickets, regardless of strip, pack, lot, shipping box, or pool location, for any game is randomly distributed according to the game requirements established by the Working Papers and Client Standards documents.¹⁷⁴

The process presently in place at the Ohio Lottery bills requires either the retailer or the Lottery sales representative to manually designate an instant ticket book at sold so it will be billed to the retailer. The only automated billing the Lottery has for instant books occurs 65 days after the book was activated. Otherwise, the billing process is requires a manual entry from the retailer’s lottery terminal.

¹⁷³ Ibid.

¹⁷⁴ GTECH Indiana Consumer Protection, January 15, 2013.
https://www.hoosierlottery.com/media/2781819/consumer_protection_final.pdf

By way of comparison, the Massachusetts Lottery bills under the GLEPS structure as described above: Once the instant book has been activated and a certain percentage of the guaranteed low end prizes are sold in the book, or when the book has been activated for a designated number of days.¹⁷⁵ In 1999, the Massachusetts State Auditor described the guaranteed low end prize structure (GLEPS) billing system as follows:

Since tickets are not scanned at the time of sale, the relevant interaction with our system is at the time winning tickets are scanned for verification by the agent. Since the ticket books are printed with a guaranteed low-end prize structure (GLEPS), the system can determine the percentage of a book sold based on the amount of cash of GLEPS tickets. Using these percentages, certain parameters were established defining a “sold” book. Every two weeks, the system captures all of the “sold” books of a particular agent and bills that agent, net of prizes paid, commissions, bonuses and other various credits via a summary report (detailed information is mailed to the agent) and automatically triggers an EFT [Electronic Fund Transfer] transaction from the agent’s bank to the Commonwealth’s bank.¹⁷⁶

Massachusetts bills a retailer for the instant ticket book generally when 85 percent of the GLEPS in the book are cashed or 180 days from activation of the book.¹⁷⁷ The Ohio Lottery is looking to implement this system going forward with billing occurring at 120 days from activation or when 90 percent of the GLEPS are cashed in the book.

Spectrum recommends that the GLEPS billing system for instant tickets be completed as soon as possible, and that all instant ticket games going forward be programmed to allow for GLEPs billing. This will allow the Lottery to realize instant ticket revenue faster, and allows the sales representatives to focus on the sale and marketing of Lottery products.

Payment Methods at Vending Machines

At the suggestion of the Executive Director, Spectrum considered the possibility of allowing for players to purchase Lottery products at vending machines using a bank debit card. In further discussions with the Lottery staff, they believe this option should be expanded to all cashless forms of payment including debit and credit cards and cashless payment apps.

The Michigan Lottery offers a window into the use of cashless purchases at retail locations. The Michigan Lottery provided the following data to Spectrum, which contrasts

¹⁷⁵ Massachusetts State Lottery Sales Agent Guidebook, updated January 2015.

<http://www.masslottery.com/lib/downloads/agents/guidebook/SalesAgentGuide0815.pdf>

¹⁷⁶ “Independent State Auditor’s Interim Transition Report on Certain Activities of the Massachusetts State Lottery Commission,” January 20, 1999, p. 26.

¹⁷⁷ Ibid.

lottery sales at retailers that accepted cashless transactions and those that did not, over a seven-month period between December 2015 and July 2016.¹⁷⁸

Figure 14: Michigan Lottery cashless vs. cash sales, 2016

Cashless	Previous Sales	Current Sales	Change % (+/-)
No	\$861,610,249.00	\$945,750,123.00	9.77%
Yes	\$750,848,001.50	\$894,148,889.50	19.09%
Total	\$1,612,458,250.50	\$1,839,899,012.50	14.11%

Source: Michigan Lottery

These data offer compelling insights, in that retailers that offered electronic transactions enjoyed a growth rate 10 points higher than their cash-only counterparts. However, while this is illustrative and illuminating, this was not set up as a legitimate experiment, and cannot be viewed as such. There were no control or variable groups established, nor is there any way to account for what might be essential variables, such as the type of retailer, location, population density or other relevant factors.

At the same time, it should be no surprise that retailers benefit from offering cashless transactions, as that benefit is evident across the entire retail spectrum, explaining why the acceptance of cashless payment methods is the rule, not the exception, in most retail industries. These data, however, are sufficiently compelling that we encourage the Ohio Lottery to consider implementing a cashless payment strategy to boost sales.

¹⁷⁸ Email from Glenn Strong, Michigan Lottery, September 2, 2016.

12. Game Platforms: Moving Online

The US Department of Justice issued a landmark opinion on December 23, 2012,¹⁷⁹ that concluded that the sale of lottery tickets online did not violate the longstanding federal Wire Act. Since that ruling, state lotteries across the country have, to varying degrees, explored developing an online presence and expanding their accessibility to a mobile platform. States that have elected to sell products online or via a mobile platform have taken two basic different approaches:

- In 2014, Illinois was one of the first states to take its products online by selling subscriptions of its multistate and other draw game offerings.¹⁸⁰ Sales through these platforms have produced modest results with cumulative sales reaching approximately \$17 million through May 2016.¹⁸¹
- Michigan started its Internet offering in August 2014 with games not in existence in its land-based portfolio by offering distinct style of online instant tickets.¹⁸² In 2016, Michigan expanded the products sold on this platform by adding its traditional draw and jackpot games for sale. Michigan's sales in FY 2016 alone topped \$350 million in ticket sales and attracted more than 90,000 new online players that fiscal year.

The Ohio Lottery has offered multiple ways for customers and retailers to interact with the Lottery via both its websites and digitally.¹⁸³ The Lottery currently offers MyLotto Rewards to customers to register non-winning tickets to garner points to purchase merchandise on the website.¹⁸⁴ MyLotto Rewards affords customers other ways to earn more points as well. The goal behind this effort is to acclimate customers to interacting with the Lottery, both on the Internet and on their mobile platform.

¹⁷⁹ "Whether Proposals By Illinois And New York To Use The Internet And Out-Of-State Transaction Processors To Sell Lottery Tickets To In-State Adults Violate The Wire Act," USUS Department of Justice, September 20, 2011. https://www.justice.gov/sites/default/files/olc/opinions/2011/09/31/state-lotteries-opinion_0.pdf

¹⁸⁰ "Frequently Asked Questions," Illinois Lottery. <http://www.illinoislottery.com/en-us/Faq.html#PL> (accessed September 13, 2016)

¹⁸¹ Mary Hansen, "Online lottery sales continue, despite program expiration," *The Daily Herald*, May 13, 2016. <http://www.dailyherald.com/article/20160513/news/160519316/>

¹⁸² "iLottery Two Year Performance Review," Michigan Lottery, August 31 2016.

¹⁸³ "Ohio Lottery Digital Initiatives." (accessed September 13, 2016)

¹⁸⁴ Ibid.

As part of this digital initiative, the Lottery has offered an Ohio Lottery Mobile App, ePlayslip, and multiple instant tickets that offer extend play opportunities digitally.¹⁸⁵ Additionally, the Lottery has also established a strong social media presence reaching its customers and the public through numerous social media platforms.¹⁸⁶ The Lottery uses this to establish a digital presence with the public and educate them on the Lottery’s offerings.

Based on the difference in sales results, Michigan’s strategy has far outperformed the Illinois model. Accordingly, we are recommending the Ohio Lottery adopt a similar strategy that has proven successful in Michigan.

In 2014, the Michigan Lottery began the process by contracting with an outside vendor to manage the development of its digital presence.¹⁸⁷ The vendor, NeoPollard Interactive LLC, took on the responsibility to develop both web and mobile portals, game styles and graphics, and to include geo-location technology, identity-verification technology and player single-sign-on.¹⁸⁸ NeoPollard is also responsible for the physical portions of the operation, such as the data centers, hardware, call center, and banking agreements.¹⁸⁹

In a 2015 press release, NeoPollard effectively summarized the early success of Michigan’s online effort:

NeoPollard Interactive LLC (“NeoPollard Interactive”) congratulates the Michigan Lottery on the successful launch of its online game services portfolio. The online game services—developed, implemented, and supported by NeoPollard Interactive—allow Michigan residents to play interactive instant games and a version of Keno over the internet on personal computers, tablets, and smart phones. The Michigan Lottery estimates the online games will increase the revenues it provides to the state’s schools by approximately \$480 million over the next eight years.

A soft launch ... came after a “beta test” period that began in August. The testing wasn’t supported by traditional media, promotions, or incentives. Rather, visitors to the Lottery’s website were introduced to the online games option by a “buy online” tab added to the Michigan Lottery’s homepage. The soft launch included a variety of promotional programs. Since the soft launch, online game services sales have grown steadily with February sales contributing \$0.30 per capita per week on average to overall Lottery sales. Online game sales in February represented approximately 10% of comparative retail category sales of instant tickets and club games. That level is more

¹⁸⁵ Ibid.

¹⁸⁶ Interview with Danielle Frizz-Babb, March 7, 2016.

¹⁸⁷ “iLottery Two Year Performance Review,” Michigan Lottery, August 31 2016.

¹⁸⁸ Ibid.

¹⁸⁹ Ibid.

than triple the percentage representation expected in the Lottery's first year projections.

Currently, Michigan Lottery players may choose from 15 online games with eight games optimized for mobile device play. NeoPollard Interactive champions the importance of having an omni-channel presence and the growing positive response to the Michigan Lottery's online games portfolio supports this strategy. Preliminary results show the average online game player in Michigan is younger than the average player who buys instant games at retail. Also, about 40% of the online game players use mobile devices, underscoring the importance of offering multiple sales channels. While online games broaden the Michigan Lottery's player base, retail channels are experiencing concurrent growth.

"NeoPollard Interactive is proud to be a part of the online game services initiative in Michigan," said Doug Pollard, Co-Chief Executive Officer, NeoPollard Interactive. "In addition to increased revenues for the state's School Aid Fund, the new services also have created 40 new jobs for Michigan residents, and this number is expected to grow."

"We are delighted to be a part of the most successful online gaming venture in the United States to date. The Michigan Lottery's beta test strategy followed by a soft launch and their combined success demonstrate how a strategic approach and a strong vendor relationship can propel sales forward," noted Ilan Rosen, Co-Chief Executive Officer, NeoPollard Interactive. "We look forward to continuing to work with the Lottery to further optimize sales across all available channels by offering Michigan residents more entertainment opportunities to support public education in the state."¹⁹⁰

Michigan Lottery's online effort was successful in integrating this digital portal into its existing website as a new content area.¹⁹¹ Players could access either Internet or mobile portals by registering online. Existing members of the Player's Club loyalty program could access the online ticket purchase features.

Michigan's online sales program launched in August 2014 as a soft launch without marketing support.¹⁹² An initial set of nine scratch games and one Keno game were offered on the Internet portal. Additionally, five instant games and the one Keno game were offered on the mobile platform at the time of launch.

Starting on August 11, 2014, the Michigan Lottery launched one new game per month. This rollout strategy was designed to maintain interest from existing players, while also

¹⁹⁰ World Lottery Association, "NeoPollard Interactive congratulates the Michigan Lottery on successful launch of online games," March 18, 2015. http://www.world-lotteries.org/cms/index.php?option=com_content&view=article&id=5334%3Aneopollard-interactive-congratulates-the-michigan-lottery-on-successful-launch-of-online-games&catid=21&Itemid=100215&lang=en

¹⁹¹ "iLottery Two Year Performance Review," Michigan Lottery, August 31 2016.

¹⁹² Ibid.

attracting new players.¹⁹³ Following the soft launch, the Michigan Lottery used the monthly releases to collect play pattern data to prepare for the full launch. Mobile sales grew each month, with nearly 30 percent of digital sales coming through the mobile platform. During the period leading up to the full launch, Michigan registered between 1,200 and 2,000 new online players per month, while sales remained under \$5 million per month.

The Michigan Lottery incurred expenses of approximately \$6.5 million in FY 2015 related to launching its new digital platform. There were additional costs incurred with respect to the re-design of the digital platform to transform it into an e-commerce platform.¹⁹⁴ Other costs leading up to the full launch included paid media aimed at both general and target audiences. Michigan engaged in other marketing efforts, including direct mail campaigns, to attract more players.

In an effort to offer a new payment method and to drive business to brick-and-mortar retailers, the Michigan Lottery launched an Online Game Card sold through its retailer network.¹⁹⁵ Retailers earn commissions from online sales stemming from the Online Game Card.

The Michigan Lottery launched the online game card program in the summer of 2015. When the program launched, online games relied on traditional retail price points between \$1 and \$20 per ticket.¹⁹⁶

Smaller price points were introduced such as \$.05, \$.10 and \$.25 on the majority of online games.¹⁹⁷ The Michigan Lottery closed out FY 2015 with approximately \$147 million in ticket sales and a database of approximately 40,000 online players.

In January, 2016, Michigan added to its digital product portfolio by offering four draw based games: Lotto 47, Fantasy 5, Mega Millions and Powerball.¹⁹⁸ This product offering generated more than \$6 million in sales, accounting for about 2.5 percent of total dollars wagered online.¹⁹⁹ As fiscal year 2016 ended, Michigan's sales on this platform reached \$350 million in ticket sales, \$58 million in deposits, with nearly 90,000 depositing online players.²⁰⁰

¹⁹³ Ibid.

¹⁹⁴ Michigan Lottery, "iLottery Two Year Performance Review," August 31 2016.

¹⁹⁵ Ibid

¹⁹⁶ Ibid.

¹⁹⁷ Ibid.

¹⁹⁸ Ibid

¹⁹⁹ Ibid.

²⁰⁰ Ibid.

With this record of success in a similar market, the team recommends that the Ohio Lottery study the Michigan success to draft a similar plan in Ohio. Notably, Michigan’s combined FY 2015 and FY 2016 online sales to date are approximately \$500 million.²⁰¹ Michigan’s success is summarized in the following table:

Figure 15: Michigan online gaming expense and profit analysis

(\$ thousands)	Digital Operations	Marketing	Portals	Games	Payments	Promotions	Vendor Fees	Lottery Operations	Total Expenses	Net Win	Profit	Operating Margin
FY 2015	\$819	\$950	\$460	\$0	\$178	\$267	\$3,637	\$261	\$6,572	\$18,556	\$11,984	65%
FY 2016*	\$1,311	\$5,000	\$250	\$250	\$280	\$4,200	\$8,604	\$617	\$20,513	\$46,418	\$25,905	56%

Source: Michigan Lottery. * FY 2016 totals are estimated, based on data from July-September. The operating margin is expected to decline by 1 percent, once the fiscal year is complete.

The return on investment is clear in such an approach. This approach also offers the opportunity for the Ohio Lottery to expand its existing demographic base to capture more business from Millennials (defined roughly as those born after 1980) and other consumers whose primary mode of commerce is their smart phone.

This success can be duplicated in Ohio, a neighboring Midwestern state with a similar demographic and economic makeup. The Ohio Lottery has estimated that sales from a digital platform would equate to approximately 1 percent of the current sales of traditional lottery products.²⁰² Based on FY 2015 sales, that would equate to \$13.41 million. A digital platform that is properly planned and marketed would likely far exceed that estimate, as evidenced by the Michigan experience.

Moreover, the Michigan approach comports with recommendations Spectrum made to the Massachusetts Lottery and its Massachusetts Online Taskforce. Specifically, we recommended the phased approach offering products and game not offered at retailers that Michigan did with great success with its soft and full launches.²⁰³ The report’s recommendations regarding retailer cards, player restrictions and limits, and marketing and promotions are in agreement with the Michigan model.²⁰⁴ The one distinction between our report in 2012 and the Michigan model appears to be the implementation costs. Michigan

²⁰¹ Ibid.

²⁰² “Ohio Lottery Digital Initiatives,” undated.

²⁰³ Spectrum Gaming Group, “Facing the Future: Implications and Strategies Regarding Internet Sales,” December 14, 2012, p. 17-21.
<http://www.masslottery.com/lib/downloads/leadership/pdfs/SpectrumGamingGroupFinalReport12-4-12Ammended.pdf>

²⁰⁴ Ibid.

implementation costs were far less than the reported costs incurred by the British National Lottery and the British Columbia Lottery Corporation, as noted in the report:

International lotteries that have successfully entered this market have approached it as a startup venture and spent heavily to launch online product sales. Camelot was allocated a total of \$141 million when taking the UK National Lottery online in 2002, including \$72 million for operations and technology, \$45 million for advertising, and \$25 million for rebranding retail locations. The British Columbia Lottery Corporation's capital spending, most of which supported the eGaming venture, exceeded 10 percent of total ticket sales during the most intense phases of online product implementation, approaching \$100 million in expenditures.²⁰⁵

We can attribute Michigan's lower costs to its later start, which gave it access to improved technology at a lower cost. Michigan was also quite careful and deliberate in implementing a phased rollout.

Working with Retailers

Our experience in Michigan, which we confirmed in interviews with Michigan Lottery officials, is that the state saw no evidence of cannibalization of retail products, largely because the demographics of the online customer were significantly different, particularly in age, as online players tend to be noticeably younger. This is precisely the outcome we predicted. As we noted in our Massachusetts report:

Spectrum's research leads us to the clear conclusion that ... retailers should be considered an asset that can help generate increased online and physical sales, in part by leveraging their locations. That conclusion is based on a number of observations developed during the course of our research, including:

- In various industries, online purveyors increasingly view land-based operations as strategic marketing assets that, if leveraged properly, can increase online sales.
- More and more industries are developing multi-channel marketing strategies. Indeed, state lotteries – often because of concerns regarding legality – are largely an exception to this trend, with most clinging to the traditional single-channel strategy.

Lotteries have much in common with other retail industries that have traditionally relied solely on brick-and-mortar sales, even though a lottery ticket does not fall into the categories of either goods or services, but is rather the purchase of an opportunity. Yet, despite that clear difference, the concerns expressed by retailers who do not want to alter the present arrangement are clearly parallel with concerns expressed by other

²⁰⁵ Ibid, p. 20.

retailers at a similar point in their evolution from brick-and-mortar to a combination of online and store sales, or what is often referred to as “bricks and clicks.”

Notably, the suggestion that a significant physical presence in the retail world is an asset for online sales is growing in acceptance, but is not universally accepted. In one sense, that suggestion is counter-intuitive: Why bother with physical locations, and their relatively high attendant costs, when customers can be reached easily and broadly online? The practical reality, however, shows that a marriage between online and brick-and-mortar can be mutually beneficial by increasing sales in both channels. ...

That sentiment should resonate with lottery retailers. Similarly, lottery retailers are hardly alone in expressing their concerns about the impact of online sales on physical sales. In April 2005, Harvard Business School hosted a Retail and Luxury Goods Conference. Speakers at that event noted the same sentiment that is involved in the issue of online lottery sales: Is it competition or cooperation? Susan Vobejda, senior director of brand management at Gap Inc., told a panel on multi-channel retailing that new online efforts by organizations that previously relied on physical stores are “seen as a competitor by the store merchants.” She said, however, that the reality is that, over time, the Internet can drive sales at physical stores.

Lottery retailers – who are understandably concerned about the impact of online lottery sales on their present business model – should ultimately embrace this concept as well, in part because their existing business model faces multiple threats. Such threats range from a general aging of current lottery players to the potential growth of online sales for other products that are now staples for convenience stores and other lottery retailers.²⁰⁶

²⁰⁶ Ibid., p. 48.

13. Responsible Gambling

As the Ohio Lottery grows, it needs to ensure that it grows responsibly. As every lottery and, indeed, every gaming operator has learned, the issue of responsible gaming is constant, and demands an unblinking, unwavering and very real commitment on the part of those who profit from gambling revenue.

Pursuant to its enabling statute, the Ohio Lottery has entered into an agreement with the Department of Mental Health and Addiction Services to operate a program to treat gambling addiction, with the Lottery providing the funds to run the program.²⁰⁷ The Lottery publicizes these programs, including listing the names and contact information of the services under this program on its website and other literature it distributes.²⁰⁸ The Ohio Lottery has been an active supporter of responsible gaming programs since the 1980s, when it added the position of Problem Gambling Coordinator to its hotline.

The website also provides details of how a player can reach out for help and receive written materials or arrange for speakers to visit to discuss problem gambling.²⁰⁹ This type of operation and financial support, mandated by statute, is very common in the lottery industry.²¹⁰

The website also provides a direct link to the Ohio for Responsible Gambling initiative.²¹¹ The Ohio for Responsible Gambling initiative is a joint initiative between the Ohio State Lottery Commission, the Ohio Casino Control Commission, the Ohio State Racing Commission and Department of Mental Health and Addiction Services.²¹² The Initiative has run the “I Lost A Bet” program over the last several years to raise awareness of problem gambling.²¹³ The program has sent its message out in different forms of media to make the public aware of its resources. Some of its message can be seen the I Lost A Bet website operated by the Initiative.²¹⁴

²⁰⁷ ORC §3770.020(K).

²⁰⁸ Ohio Lottery, “Outreach Programs.” <https://www.ohiolottery.com/Resources/Play-Responsibly/Outreach-Programs> (accessed September 10, 2013)

²⁰⁹ Ibid.

²¹⁰ “Encouraging Responsible Play.” http://www.nc-educationlottery.org/info_play-responsibly.aspx (accessed September 15, 2016).

²¹¹ “Outreach Programs.”

²¹² Ohio for Responsible Gambling. <http://www.org.ohio.gov/> (accessed September 1, 2016)

²¹³ “The Ohio Lottery Commission: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015,” p. 9.

²¹⁴ I Lost A Bet. <http://www.ilostabet.org/>

While the Ohio Lottery’s efforts in responsible gambling have been successful, a more formalized approach should be adopted as it grows and offers differing methods of play to the customer.

Extensive programs have been developed by both the North American Association of State & Provincial Lotteries (“NASPL”) and the World Lottery Association (WLA). Spectrum suggests that the NASPL initiative should be a first choice, as it is rigorous, has a proven track record, and does not involve any application fees, as Ohio is already a NASPL member.

A. NASPL Initiative

NASPL has joined with the National Council on Problem Gambling (“NCPG”) to put forth an initiative titled “Responsible Gaming Best Practice Verification.”²¹⁵ As a member of NASPL, the Ohio Lottery would incur no costs in applying for verification, and it would have two opportunities per year to apply.²¹⁶

NCPG Executive Director Keith Whyte notes: “To our knowledge, this is the first time a gaming trade group has teamed up with NCPG – or a group like us – to create a standard, and then uses third-party assessors to verify participation. This is a much stronger model than a “code of conduct” which is both voluntary, vague and unverified.”²¹⁷ According to White, the “most important” aspect of the program is that it requires applicants “to have a Responsible Gaming plan with measurable goals, and to be able to track process to those goals. The assessment is an individualized look at their plan. It’s not a set of standards.”²¹⁸

The initiative has three levels of verification, and applicants need to meet some rigorous standards. The program is summarized here by NASPL and NCPG:

The NASPL/NCPG responsible gaming verification program will be comprised of three levels:

- **Plan Verification:** This is for lottery organizations that have not yet launched a robust responsible gambling initiative. By submitting an application for verification at this level, a lottery would look for the assessment panel to review the plan prior to launch to make sure it is adhering to accepted responsible gambling standards. This verification will be awarded for a two-year period, with the expectation that

²¹⁵ “Responsible Gaming Verification Best Practice,” NASPL. http://www.naspl.org/img/standards/Responsible_Gambling_Verification_FINAL.pdf (accessed September 14, 2016)

²¹⁶ Ibid.

²¹⁷ September 13, 2016, email from Keith Whyte.

²¹⁸ September 18, 2016, email from Whyte.

the lottery will actively move toward the Implementation level during that time frame.

- **Implementation Verification:** This is for lottery organizations that already have a responsible gambling program in place. Tangible results and efforts in the specific areas of assessment will be the hallmark of an application at this level. This verification level will be awarded for a three year period.
- **Sustaining Verification:** This level will be available for lotteries three years after they complete the implementation verification process. Their application will show the plan submitted at the implementation level continues to be executed as outlined.
- **Areas of Assessment:**²¹⁹
 - Research
 - Employee Training
 - Retailer Training
 - Education and Awareness
 - New/Existing Product Oversight
 - Budget
 - Advertising

Independent Assessment Panel: All verification documents will be assessed by a four-member panel under the guidance of the NCPG. One assessor will be appointed by NASPL, with emphasis given to members of the NASPL responsible gambling subcommittee. Three assessors will be appointed by the NCPG. Assessors must be of the highest possible quality, and will be subject to approval by NASPL, the NASPL RG subcommittee and the NCPG. A pool of assessors will be submitted to NASPL from NCPG for approval. Once the list is approved, NCPG will randomly assign assessors to the project. This list will be reviewed by NASPL for changes prior to each new assessment period. All panelists will only have direct contact with NCPG while evaluating submitted documents – they will not have any contact with NASPL during the verification process, but will be available for follow-up commentary and insights once the assessment timeframe window has closed. As is the model in academia, the assessors will not be identified in the final report.

Criteria: Each area of the verification submission will be evaluated by the independent assessment panel to determine whether the lottery is, in their opinion, either proficient or non-proficient. This category proficient status will only be granted when the

²¹⁹ These areas are assessed at all levels of verification.

lottery is deemed to have a minimum pass/fail score of 70 percent of each criteria in the particular category. To achieve the verification standard, the member lottery must be judged to be proficient in six of the seven categories. Three or more of the assessment panel members must find the lottery to be proficient before the verification standard is awarded²²⁰

Within each of the three levels of verification, each of the identified standards has its own subset of criteria that lotteries seeking verification must provide. For example, to achieve Implementation Verification in the area of Education and Awareness, the published criteria to be met are:

- What awareness and education programs does your lottery offer?
- What efforts have been made to work with appropriate state and national organizations that provide responsible gambling services?
- What education and awareness policies and procedures are in place?
- What are your objectives in this area, and how are they measured?
- Describe any findings/accomplishments in this category.
- How is resource referral addressed?
- Title(s) of staff member(s) responsible for this part of the program.
- What opportunities exist to improve or enhance this program?²²¹

The program, as developed by NASPL and NCPG, is rigorous, and is clearly designed to achieve results. The Ohio Lottery should apply for Verification.

B. WLA Initiative

An alternative program is offered by the World Lottery Association, which has developed its Responsible Gaming Framework.²²² The WLA offers seven principles for responsible gambling that it asks its members to follow.²²³ The principles center on responsible development and design of lottery games, the design and provision of resources to problem gamblers and the monitoring and updating the provision of those resources.²²⁴ The WLA

²²⁰ Ibid., p. 8.

²²¹ Ibid., p. 15.

²²² "Responsible Gaming Framework," World Lottery Association. http://www.world-lotteries.org/cms/index.php?option=com_content&view=article&id=393&Itemid=100191&lang=en (accessed September 13, 2016)

²²³ Ibid.

²²⁴ "Seven Principles of Responsible Gaming," World Lottery Association. http://www.world-lotteries.org/cms/index.php?option=com_content&view=article&id=3894&Itemid=100192&lang=en (accessed September 13, 2016)

provides four levels of certification worldwide to assist lotteries in formalizing and keeping their responsible gaming programs current.²²⁵ The four levels of certification are as follows:

1. **Commitment:** All WLA members qualify for this certification.
2. **Self Assessment and Gap Analysis:** The WLA assists members in determining the programs necessary to satisfy its responsible gaming principles.
3. **Planning and Implementation:** The WLA provides guidance on planning and implementing the programs identified at Level 2.
4. **Continuous Improvement:** Lotteries are encouraged to implement its designed programs with constant updating with changing market conditions.²²⁶

Currently, eight US Lotteries have reached Level 3 and Level 4 certifications: California and Hoosier (Indiana) have reached Level 4 and Missouri, New Jersey, New York, Illinois, North Carolina and Tennessee have reached Level 3.²²⁷

C. Ohio's Responsibility

The Ohio Lottery needs to view every new initiative from a responsible-gambling perspective. For instance, the Lottery is considering a Play at the Pump initiative at gas stations in Ohio.²²⁸ This initiative should include self-exclusion provisions, following the model in North Carolina, which heavily publicizes its self-exclusion features in its Play at the Pump program.²²⁹

Most importantly, as Ohio explores Internet and mobile-based sales, appropriate responsible-play features need to be in place. Michigan, as it has launched sales in this platform over the last two fiscal years, has provided responsible play safeguards. As per its program, the Michigan Lottery:

- Monitors customers and their play while allowing customers to monitor themselves.²³⁰

²²⁵ "Responsible Gaming Framework."

²²⁶ Ibid.

²²⁷ "Certified Lotteries," World Lottery Association. http://www.world-lotteries.org/cms/index.php?option=com_content&view=article&id=3855&Itemid=100189&lang=en (accessed September 13, 2016)

²²⁸ "Play at the Pump," Ohio Lottery Commission, April 19, 2016.

²²⁹ "Encouraging Responsible Play," North Carolina Education Lottery. http://www.nc-educationlottery.org/info_play-responsibly.aspx (accessed September 13, 2016)

²³⁰ "Play Responsibly Keeping Its Fun and Safe," Michigan Lottery. http://www.nc-educationlottery.org/info_play-responsibly.aspx. (accessed September 13, 2016)

- Allows players to self-exclude should they feel they have a gambling problem and to set daily limits on play.²³¹

Players also can monitor their playing history, and any amounts won and lost, to allow them to self-assess their own playing habits.²³²

Spectrum recognizes that the Ohio Lottery has expressed a clear commitment to provide problem gambling resources to its players and making them aware of its availability. This commitment extends to key vendors as well. Intralot has developed some rather ambitious initiatives in this area, which serve the Ohio Lottery well, as Intralot is its principal vendor. Note the following from Intralot, which includes specific solutions:

Over the last years, Lotteries, which aim to benefit all citizens by channeling the desire of gaming in a responsible manner, are forced to diversify from their competition by introducing new and exciting games and by expanding in alternative sales channels in order to increase sales and contributions to local communities.

However, increased sales and easier access to games, emphasize the need for greater commitment to social responsibility by the gaming industry, which, now more than ever, must provide adequate solutions to protect the players by reducing the likelihood of any problems associated with excessive gaming. This is an equally important challenge for both Lotteries and Technology providers.

INTRALOT offers exactly that, solutions for enabling responsible gaming.

Solutions for the Retail Environment

In the effort to enable responsible gaming practices to be applied in the POS environment, INTRALOT has developed sophisticated technologies that Lotteries can adopt as part of their overall responsible gaming strategies.

From LOTOS™ O/S, our central gaming platform, to our complete range of POS terminals, age verification methods, gaming control features and a wealth of other responsible gaming capabilities are available and can be parametrically activated in order to provide ongoing or ad-hoc measures for informing and “protecting” the players.

In the critical area of player awareness and “play responsibly” education, INTRALOT makes available a variety of methods, from text messages displayed at the marketing displays of the POS or printed on the receipts, to streaming promotional videos, focusing on responsible gaming. All these features are provided through LOTOS™ Horizon, the unique content delivery, display and management system of INTRALOT, supporting high-definition multimedia content, in multiple monitors, in dispersed locations and with optimized utilization of network resources. With this platform the

²³¹ Ibid.

²³² Ibid.

Lottery can schedule and deliver customized rich multimedia content and eye-catching messages to the whole retail network, to individual retailers or clusters of retailers selected according to multiple criteria, like geographic region, sales levels, etc.

Such measures have an effect on all players across the retail network, while for players who have chosen the benefits of registering and using membership play cards, individualized responsible gaming measures can be applied as well using LOTOS™ Club, our system for integrated player management over multiple access channels. Various spending and time limits can be set to any registered player, either by the players themselves or by the Lottery. Gaming data can be processed by our LOTOS™ Data Analyst business intelligence applications, for analyzing factors such as amounts spent, playing frequency, preference to specific games, and providing the Lottery with all necessary reports for their responsible gaming strategy. Moreover, players are grouped in low, medium and high-risk categories according to their predisposition to excessive gambling; thus enabling the Lottery to diversify their responsible gaming activity according to each player profile. Finally, using LOTOS™ Messenger, personalized messages, customized according to each player's gaming profile, can be broadcasted to each player individually.

Solutions for New Media

For Lotteries that want to enter the increasingly attractive market of e-gaming (internet, mobile phones, i-TV, PDAs, etc.), INTRALOT has developed the B-On platform that incorporates a variety of features that effectively support responsible gaming. To enter the games, all players need first to register and go through an age and location verification and authorization process. In addition, B-On allows players to easily define self-regulation rules and operators to apply rule-based exclusion policies. For example, a player can specify the maximum amount of money allowed to bet or spent each day, set a minimum wait period between consecutive bets or even temporarily be excluded from participating in certain games. B-On also enables the use of interactive information related to responsible gaming through banners, pop-ups, SMS messages, among others, while personalized messages can also be delivered.

Future Perspective

INTRALOT's commitment in "Responsible Gaming" is evident considering its rich portfolio of responsible gaming solutions, and through its continuous R&D efforts, evaluating emerging technologies and adopting those that can be of real benefit to the Lotteries, the Players and the Society at large.

Being both a lottery operator and a technology provider INTRALOT can also support Lotteries in finding the optimum responsible gaming strategy, tailored to their individual needs, which will achieve the right balance in "protecting" the player while maintaining profitability, increasing contributions to good causes and respecting players' rights.²³³

²³³ "Solutions for Enabling Responsible Gaming," Intralot. <http://www.intralot.com/content/143/solutions-enabling-responsible-gaming> (accessed September 13, 2016)

Lastly, the Ohio Lottery needs to continue to train and educate its employees and retailers on the availability of resources to its customers. This is particularly important, as the Lottery considers expanding its portfolio into new platforms.

14. Implementation Support

The RFP states as follows:

Implementation support. As part of the Business Assessment, the Contractor shall describe how it could participate in the implementation of recommendations. At the State's option, the Contractor may provide support to the OLC to assist with the implementation of the Business Plan and approved initiatives over the duration of the Contract. The Contractor shall provide personnel who have implemented similar projects and initiatives as identified in the Business Plan and Implementation to work with and provide coaching for corresponding OLC staff. The State will decide whether or not to exercise this option after the Business Plan (item F above) is received.

Accordingly, Spectrum is providing detail on how its experienced team members could assist in the implementation of various recommendations. Spectrum states unequivocally that it has fully complied with section 1.4(c)(1) of the RFP in that all recommendations were made in the best interests of the State of Ohio and not to benefit Spectrum Gaming Group.

A. Lottery Restructuring

Our core recommendation: The Ohio Lottery should be reconfigured into a quasi-public corporation, similar to lotteries in Georgia and Connecticut. If such a change is not politically tenable, an alternative would be to have the Office of the Governor and the Ohio General Assembly grant more authority to the Ohio Lottery Commission with appointment powers resting with the Governor, while the Lottery budget would still be subject to legislative oversight; e.g., the Massachusetts Lottery model.

With any state entity, whether it be a quasi-public corporation or a commission with contracting and hiring powers, a hierarchy of rules will govern its operation. This hierarchy starts with constitutional provisions, then a governing statute, then appropriate regulation, followed by policy and procedures. Each level must stay within the confines and restrictions established by the higher applicable authority.

Exercising either option will require an amendment to the current statute. Once an amendment is enacted – which is itself a significant task involving drafting, possible committee hearings and other steps – then the Lottery Commission would need to develop operating rules in the form of bylaws and/or regulations to set its standards of operation and practice. The bylaws would cover a range of issues, including but not limited to:

- The conduct of meetings
- Subcommittees of the Commission
- Required reporting
- Approval processes for game initiatives and changes to operations

- Contract and procurement procedures
- Oversight of senior staff

At the final level, the Lottery Commission and Executive Director will require that policies and procedures be in place to set day-to-day standards as to when a matter requires Commission approval. Similarly, under either option, the Executive Director will be provided greater discretion over the day-to-day operation and there will be a need for documentation of standards when the director's authority is delegated to senior staff.

This layered documentation of standards appears to be complex, but in reality represents a streamlining of the focus on the Lottery rather than on multiple agencies with different sets of generic requirements. With this change, the Commission will be provided with greater authority and discretion, and the regulatory and bylaw framework will provide bright lines on the standards the Commission needs to meet and what the public in Ohio can expect. Similarly, the reporting structure and discretion of the Executive Director and senior staff will be defined, and bright lines will be established. A lack of clarity and frustration will be replaced with clarity of the newly granted discretion, meaning that inefficiency will be replaced by efficiency.

The extent of the changes under this recommendation will depend on which option the State of Ohio chooses. If the State chooses the quasi-public corporation option, then all functions will have to report to the Lottery Commission as a newly established board of directors. Key areas will have to be documented and new procedures to be established would include budgeting, procurement, and human resources, particularly hiring and payroll functions.

The models in Georgia and Connecticut would be used to design any required changes, when Ohio law allows for such a practice. As appropriate, the JobsOhio model would be reviewed for provisions that are applicable to the quasi-public model.

If the State chooses the Massachusetts model, then the number of practices and standards would be fewer but would still be significant. Specifically, Spectrum would advise the Lottery Commission to adopt bylaws in accordance with its new authority. Similarly, new procurement standards and human resources practices would be drafted, presuming the newly empowered Lottery Commission has been granted that authority to better tailor those functions to the sales-driven Lottery.

Spectrum would provide the necessary consulting services to both the form and nature of the recommended changes to this area. The team brings extensive experience in Lottery governance and operations. We could assist in the formulation and drafting of legislation, regulations, bylaw and the practices and procedures to effectuate either option under this recommendation. Our team would work with the Office of the Governor, the Lottery

Commission and the Executive Director and senior staff to complete this documentation and establish all necessary workflows going forward. The team would need the assistance of counsel at the Office of the Governor and the Ohio Lottery to ensure that all documentation is in compliance with Ohio law.

With respect to procurement, Spectrum can advise and help develop procurement practices, procedures and documentation that are better designed to meet the needs of the sales-driven Lottery. We would rely on the models in Massachusetts, Connecticut and Georgia as guideposts in developing the Lottery-specific set of guidelines. We would also look to the best practices established by NASPL and the World Lottery Association to assist in this research.

Spectrum believes this consultation would be for a finite period. Once the changes are documented and made, the Lottery Commission, Executive Director and senior staff would be empowered and able to operate without outside assistance. Based on our experience and observations in Ohio, we believe that there is sufficient management talent in the Lottery, Office of the Governor and other state agencies to quickly and effectively carry this out, and operate effectively in the long term.

B. Comprehensive Strategic Planning and Analytics

As noted, any change to the management structure should be developed with one core goal: to ensure that the Lottery develops an ongoing, achievable strategic plan. Past plans have not focused on a measurable, finely tuned vision, supported by data analysis and key tracking measures.

Data analytics and strategic planning are complementary. With that in mind, improving data analytics will allow for significant improvement in strategic planning. The Ohio Lottery needs to fully leverage its analysis of data to assist in developing strategic goals and carrying out the overall vision for the Lottery. Currently, this function is very limited due to a dearth of accessible, useful data. Data analysis needs be the principal means of measuring progress toward meeting those goals.

Spectrum would assist the Lottery in achieving these goals by providing the following consulting services:

- Working with the current systems vendor to improve the availability sales and game data in a form that is readily usable for the Lottery staff and vendors;
- Assisting in the drafting of policy and procedures to require to document the availability of data analysis of the anticipated net sales and return of investment for any new product, game or promotion idea prior to adoption of the same;

- Advising on the restructuring of the data analytics function at the Lottery, exploring adding staff and altering reporting structure to maximize efficiency;
- Establishing criteria for the updating of segmentation studies and other customer data and retailer including when it is appropriate to use outside vendors accomplish these goals;
- Advising and documenting steps on the vetting of all analytics presents by current and prospective vendors of data presented in conjunction with proposed products and services; and
- Advising the Lottery on redrafting its current strategic goals adopting defined goals with clear measurable criteria; e.g., increases in per capita sales for a product.

This consultation would also be for a finite period that would end once the structure, policy and procedure and practices are defined and fully tested. The Ohio Lottery possesses the in-house talent to perform the function internally, with the exception in certain instances when an outside vendor may be required to collect data.

C. Staffing Review, Reconfiguration

We recommend a review and update of job descriptions that presently date back, in certain instances, to 2005. Additionally, this review should establish bright lines that provide clarity for the job duties of senior staff, while creating a sensible workflow for all inter-related functions and operations. Specifically, we recommend:

- Establishing a management structure that is guided by sales. The current structure makes distinctions between revenue-generating and non-revenue generating areas. This does not make sense in an organization where all units and all employees contribute to the bottom line.
- Revamping performance reviews for management and establish stronger quantifiable, performance goals, particularly for senior staff.
- Improving communication among senior staff and throughout the Lottery's structure. The Lottery is presently burdened by excessive bottlenecks and logjams that prevent and discourage effective decision-making.

Spectrum has also made specific recommendations regarding:

- The re-establishment of the Chief of Staff position
- Altering certain reporting lines
- Exploring the possibility of the Lottery controlling its own hiring and labor relations under a new management structure.

We recognize the wealth of existing talent that rests with the Executive Director, senior staff and management. Accordingly, carrying out this task is going to rest largely on that experience and ability. Spectrum would provide ongoing consulting service on a number of topics in this area, including, but not limited to:

- Creation of senior staff job descriptions and structure;
- Development of chief of staff and online product manager job descriptions;
- Creation of criteria to be used in a Lottery-focused performance appraisal system;
- Criteria to be used in regular compensation reviews;
- Advise on in house training programs that needs to be established and conducted regularly; and
- Policies to establish better communication and workflows.

D. Vendor management

Ohio Lottery senior staff needs to manage and challenge its vendors more effectively. This can be accomplished through steps that include the development of a contract-compliance program. Spectrum recommends examining whether the Lottery should un-bundle services and other options to create more competition, rather than be too dependent on one vendor for multiple areas.

We also note that allowing vendors to maintain long-term contracts without re-bidding is not the most effective management practice. Spectrum can assist the Ohio Lottery to accomplish these goals by offering consulting services in the following areas:

- Developing the contract-compliance program and establishing time frames for periodic reviews of contracts in areas key to Lottery operations.
- Assisting the Lottery in drafting a contract policy to establish timelines as to when internal discussions need to take place for contracts in their final year, or as to whether an existing contract option should be exercised and when a new RFP should be issued to achieve the best value for the Lottery. A policy of this type would determine the criteria to be discussed and documented in advance of any such determination.

E. Marketing, Sales Initiatives

Spectrum would provide consultation in the follow areas:

- Devising performance metrics for Lottery sales representatives to encourage and work with retailers with the goal of activating new instant game launches on the first day the game launches.
- Drafting policies regarding when Lottery point-of-sale materials should be distributed and when sales representatives should be displaying the same at retailer locations.

1. Instant Tickets

We recommend dramatic changes to the manner in which the Ohio Lottery develops and manages its instant-ticket product line, as such changes should generate significant revenue growth. Spectrum would provide consulting services in the following areas:

- Designing a practice to focus-group all instant tickets as well as the criteria for when an instant ticket should be included in future launches;
- Advising on and developing criteria for game design and structure, including, but not limited to, game types, price point mix, number of tickets per game, prize structure, game design features such as call-outs and second chance play; and
- Improving future processes by examining how instant ticket production is procured and how Ohio may benefit from competition in the future.

2. Casinos

We recommend the Ohio Lottery explore cross-promotional opportunities with casinos to develop a mutually beneficial partnership. Spectrum brings a wealth of experience in this area, having worked for casino operators in Ohio and elsewhere, as well as our previous service helping to establish the Ohio Casino Control Commission. Accordingly, Spectrum could provide consultation on what types of cross-promotions have worked in other jurisdictions while exploring other ways the casinos and the Lottery can become effective partners to grow revenues, while expanding their geographic and demographic reach.

3. Online/Digital Gaming

We recommend that the Ohio Lottery follow the Michigan approach in developing an online sales presence. Michigan soft launched its i-gaming initiative with a new portfolio of products. This launch, followed by a slow introduction of traditional Lottery products, proved to be quite successful in Michigan. Spectrum could assist the Ohio Lottery in developing this plan and specifically assist in the following areas:

- Designing a project plan and timeline once the Ohio Lottery receives the requisite approvals to launch this program;

- Assessing the internal resources to determine what resources are available and can be repurposed, as well as what resources may be need to be procured at what stage of the process;
- Advising on the development of regulations, policies and procedures for the games and the new platform;
- Developing and ensuring the effectiveness of responsible-gaming safeguards that need to be in place; and
- Assisting in the data analysis of the specific plan devised to project an adequate return on investment as part of the pre- and post-launch analysis.

4. Responsible Gaming

Spectrum recommends that the Ohio Lottery apply for NASPL verification for its responsible-gaming efforts. Our team members are experienced and active in responsible gaming efforts across the country. Accordingly, the team would provide consulting services assisting the Ohio Lottery in the NASPL certification process and devising programs to ensure that all growth by the Ohio Lottery is done responsibly. We would assist the Ohio Lottery in developing training and education programs to ensure that Lottery employees, retailers and the general public are informed of the signs of problem gaming and the resources available to those people who suffer from it. We also note that, as a member of NASPL. The Ohio Lottery can apply for this verification program at no cost.

15. Looking Ahead: Ohio Needs Unified Gaming Policy

Spectrum was tasked with performing a business assessment for the Ohio Lottery. This report summarizes that effort. The Lottery is but one segment of the Ohio gaming industry. Looking ahead, such analyses must focus on the broader industry because all aspects of gaming are evolving and to varying extents are converging.

This is particularly true with respect to online wagering, but the Internet is not the only arena in which differing forms of gaming have common interests. Spectrum's work in multiple markets over the years supports the following principles:

- Casinos and lotteries do not compete
- By adopting creative strategies, they can support each other

Spectrum is not recommending a consolidation of state agencies, or any shifts in organizational structure or reporting lines. Rather, we recognize that all tables of organization and all responsibilities have one common point: They are all guided by the policies established by elected officials, and those responsible for drafting and communicating those policies – whether in the Governor's Office or the General Assembly – need to develop a unified policy that accounts for all forms of legalized gambling in Ohio.

This need is hardly unique to Ohio, and the absence of a statewide policy is clearly the norm throughout the United States. Ohio is in a position, however, to lead by example.

In many interviews we conducted with various stakeholders in Ohio, we sensed a concern as to the absence of a statewide gaming policy. Such concerns were often expressed quietly, in the form of questions: Are we competitors or colleagues? Do casinos and lotteries compete for the same discretionary dollars?

Typical casino customers are in search of an entertainment experience, while typical lottery players are seeking opportunities to win. While there is some overlap in the operation of video lottery terminals, and potentially online, we suggest that a clear state policy encouraging creative cooperation can boost both lottery and commercial casinos in Ohio. We base that statement, in part, on the historic success that casinos have had as lottery retailers. For example, we reported the following in a 2008 report for the Governor of Massachusetts:

In May 2000,²³⁴ the New Jersey Lottery reported that its top 1,200 agents – the top 20 percent of its network – generated \$18.7 million in average weekly sales during a 13-

²³⁴ "Top 1,200 Agents," New Jersey Lottery. May 11, 2000. These data were considered public at the time. The New Jersey Lottery has subsequently determined that sales by individual lottery agents is confidential and has not publicly released data since that time.

week period. Annualized, that means that the top 1,200 agents generated about half of all lottery sales that year.

Atlantic County – which hosts the casino industry in New Jersey – was home to 29 of the top agents, and those agents combined sold an average \$450,436 in weekly tickets. This amounted to 2.4 percent of the total generated by all 1,200 top agents.

Atlantic County was home to about 3 percent of New Jersey’s population in 2000. That discrepancy – 3 percent vs. 2.4 percent – might indicate that per capita lottery sales were relatively weak in Atlantic County. That does not tell the entire story, however.

The Atlantic County economy had clearly been growing significantly during that period, and its population growth was twice the state’s average. Still, Atlantic County, which has long been dependent on agriculture and seasonal tourism, had a lower per capita income – \$44,782 – than New Jersey overall – \$57,338, and lagged in other economic indicators as well. Since lottery sales are dependent on a healthy economy and relative levels of disposable income, this disparity would have accounted for the difference in lottery sales.

What is particularly interesting about the 2000 data is that four of the top five lottery agents in Atlantic County, as well as five of the top seven, were casinos. At the time, Atlantic City hosted 12 casino hotels. Trump Taj Mahal averaged \$30,379 in weekly sales during that period.

Of the 1,200 top-performing lottery agents, the average weekly sales per agent at the time was \$15,613. Five casinos exceeded that average.²³⁵

Since that time, the New Jersey Lottery and the New Jersey casino industry have forged tighter bonds, and have become more creative. The New Jersey Lottery, for example, hosts player parties at casinos that attract loyal lottery players. One such casino-based promotion is known as Cash Cube. Theresa Luzano, Senior Manager, Advertising & Promotions for the New Jersey Lottery, provided enthusiastic support for promotions such as Cash Cube:

The crowds love it. The team loads it with fake \$1 bills, and turns it on. There is a fan at the bottom that blows the cash around while the player tries to grab as many of the bills as he/she can. We provide the player with a pocketed money apron that they can easily stuff with the dollars they grab.

The number of dollars they collect determine the level of prize they are awarded. For instance, if they collect \$20-\$30 they will get a t-shirt or blue tooth speaker. If they collect \$10-\$20 it may be a tote bag or hat instead... and so on.”²³⁶

²³⁵ Spectrum Gaming Group, “Comprehensive Analysis: Projecting and Preparing for Potential Impact of Expanded Gaming on Commonwealth of Massachusetts,” August 1, 2008, p. 137.
<http://www.mass.gov/hed/docs/eohed/ma-gaming-analysis-final.pdf>

²³⁶ Email from New Jersey Lottery Director Carole Hedinger, April 27, 2016, forwarding email from Theresa Luzano.

While games such as Cash Cube are creative and fun for players, they are also representative of what can take place when lotteries and gaming operators identify common ground and a common goal: Expanding their respective customer bases.

Ohio has the potential to develop a comprehensive, effective overall gaming policy as it has the chief ingredients: Successful gaming industries in the form of casinos, racinos and a lottery. At the same time, however, it has some of the conditions that make such a policy difficult to develop and implement. Casinos and racinos are regulated by different agencies, and the lottery and the casinos have no obligation to cooperate fully. That situation is quite common, as evidenced in New Jersey and other states, but can be overcome.

Consider the example of New York, which in February 2013 became the first state to put all forms of legal gambling under an umbrella agency. The New York State Gaming Commission was a merger of the New York Lottery and the State Racing and Wagering Board, putting lottery (including the lottery's lucrative racetrack casino operations), Indian casinos, pari-mutuel wagering, and charitable gaming under one regulatory authority. The commission will further oversee the full-service commercial casinos that have been authorized and are under development in the state.

The State of New York recognized that while each form of gambling is different, they all have a common core – the activity of gambling – and that there are benefits to having a unified regulatory structure – financial and otherwise – as noted in its Mission Statement:

By consolidating various regulatory functions into one oversight body with broad powers, the Commission seeks to ensure fair and strict regulation of all gaming activity while reducing costs and regulatory burdens to the gaming industry. The Commission aspires to provide the regulatory structure necessary for New York gaming activity to operate effectively in a global, evolving and increasingly competitive marketplace to generate revenue for aid to education and for the support of government, and to contribute to overall economic development and job creation in New York.²³⁷

Ohio does not necessarily need to fully emulate that consolidation of responsibilities to effect a unified policy. Improved communication between agencies with each other, and with key stakeholders such as retailers, gaming operators and racino operators, under the leadership of elected officials could also be a pathway toward improved results.

Our research supports the conclusion that Ohio – which has developed initiatives such as JobsOhio and the Lean Ohio Network – has a business-friendly culture, and would be amenable to developing a statewide gaming policy that takes into account the interests of all forms of wagering.

²³⁷ New York State Gaming Commission, "About." <https://www.gaming.ny.gov/about/> (accessed September 15, 2016)

At the same time, however, we recognize that a statewide policy would do more than maximize revenue, but would also help coordinate responsible-gaming and other policies. That commitment is evidenced by the “Ohio for Responsible Gaming” initiative, which requires buy-in on that important policy from all relevant state agencies. That initiative can be the cornerstone of a much wider commitment to a unified gaming policy in Ohio.

About This Report

This report was prepared by Spectrum Gaming Group, an independent research and professional services firm founded in 1993 that serves private- and public-sector clients worldwide. Our principals have backgrounds in operations, economic analysis, law enforcement, regulation and journalism.

Spectrum holds no beneficial interest in any casino operating companies or gaming equipment manufacturers or suppliers. We employ only senior-level executives and associates who have earned reputations for honesty, integrity and the highest standards of professional conduct. Our work is never influenced by the interests of past or potentially future clients.

Each Spectrum project is customized to our client's specific requirements and developed from the ground up. Our findings, conclusions and recommendations are based solely on our research, analysis and experience. Our mandate is not to tell clients what they want to hear; we tell them what they need to know. We will not accept, and have never accepted, engagements that seek a preferred result.

Our public-sector clients have included 15 US state and territory governments, six national governments, 14 Native American governments, and numerous gaming companies (national and international) of all sizes, both public and private. In addition, our principals have testified or presented before the following government bodies:

- British Columbia Lottery Corporation
- California Assembly Governmental Organization Committee
- Florida House Select Committee on Gaming
- Florida Senate Gaming Committee
- Georgia Joint Committee on Economic Development and Tourism
- Illinois Gaming Board
- Illinois House Executive Committee
- Indiana Gaming Study Commission
- Indiana Horse Racing Commission
- International Tribunal, The Hague
- Iowa Racing and Gaming Commission
- Louisiana House and Senate Joint Criminal Justice Committee
- Massachusetts Gaming Commission
- Massachusetts Joint Committee on Bonding, Capital Expenditures, and State Assets
- National Gambling Impact Study Commission
- New Hampshire Gaming Study Commission
- New Jersey Assembly Regulatory Oversight and Gaming Committee
- New Jersey Assembly Tourism and Gaming Committee
- New Jersey Senate Legislative Oversight Committee
- New Jersey Senate Wagering, Tourism & Historic Preservation Committee
- New York Senate Racing, Gaming and Wagering Committee
- Ohio House Economic Development Committee

- Ohio Senate Oversight Committee
- Pennsylvania Gaming Control Board
- Pennsylvania House Gaming Oversight Committee
- Puerto Rico Racing Board
- US House Congressional Gaming Caucus
- US Senate Indian Affairs Committee
- US Senate Permanent Subcommittee on Investigations
- US Senate Select Committee on Indian Gaming
- US Senate Subcommittee on Organized Crime
- World Bank, Washington, DC

Disclaimer

Spectrum Gaming Group (“Spectrum,” “we” or “our”) has made every reasonable effort to ensure that the data and information contained in this study reflect the most accurate and timely information possible. The data are believed to be generally reliable. This study is based on estimates, assumptions, and other information developed by Spectrum from its independent research effort, general knowledge of the gaming industry, and consultations with the Client and its representatives. Spectrum shall not be responsible for any inaccuracies in reporting by the Client or its agents and representatives, or any other data source used in preparing or presenting this study. The data presented in this study were collected through the cover date of this report. Spectrum has not undertaken any effort to update this information since this time.

Some significant factors that are unquantifiable and unpredictable – including, but not limited to, economic, governmental, managerial and regulatory changes; and acts of nature – are qualitative by nature, and cannot be readily used in any quantitative projections. No warranty or representation is made by Spectrum that any of the projected values or results contained in this study will actually be achieved. We shall not be responsible for any deviations in the project’s actual performance from any predictions, estimates, or conclusions contained in this study.

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This study is qualified in its entirety by, and should be considered in light of, these limitations, conditions and considerations.