

# Lottery Marketing & Incentive Pay

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STATE OF WASHINGTON  
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## REPORT SUMMARY

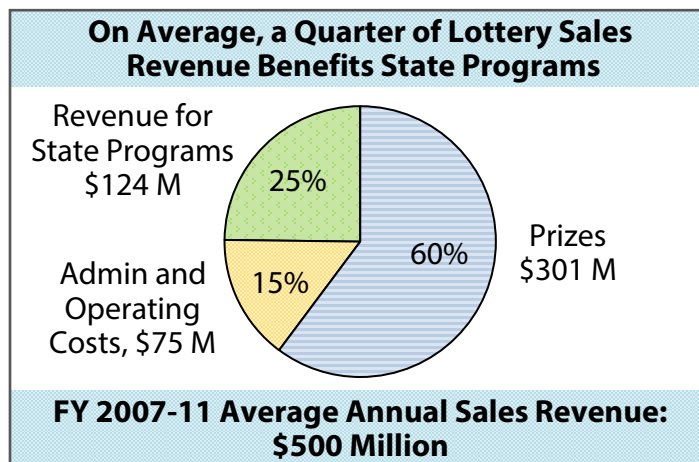
### Lottery Offers Several Games to Generate \$500 Million in Revenue Each Year

Washington's Lottery is a state agency created by the Legislature in 1982. The Legislature authorized the creation of the Lottery in order to "produce the maximum amount of net revenues for the state consonant with the dignity of the state and the general welfare of the people" (RCW 67.70.040(1)).

Lottery generates revenue by selling tickets for a variety of games, each of which offers players a chance to win monetary prizes. Depending on the game, ticket prices range from \$1 to \$20 per play, and potential prizes range from \$1 to hundreds of millions of dollars.

While Lottery sells some tickets directly, the large majority of ticket sales come from licensed retailers such as grocery and convenience stores. Over the past five fiscal years, Lottery has generated ticket sales of \$500 million per year on average. Sixty percent of this revenue has returned to players as prizes, and 15 percent has gone to operating and administrative expenses.

The remaining 25 percent funds a variety of state programs, which are called the "beneficiaries" of lottery revenue. Beginning in Fiscal Year (FY) 2011, the Legislature changed the primary beneficiary from school construction to the Washington Opportunity Pathways Account (WOPA), which funds higher education scholarships and early childhood education. WOPA received \$112 million in FY 2011.



## **Legislature Mandated Review of Lottery Marketing and Incentive Pay**

In the 2011-13 Biennial Operating Budget (2011 2ESHB 1087), the Legislature directed the Joint Legislative Audit and Review Committee (JLARC) to analyze the Lottery's marketing activities, as well as the impact of the recent change in the primary beneficiary of lottery revenue. Additionally, the Legislature directed JLARC to describe incentive payment programs available to Lottery's employees.

The remainder of this report addresses this directive by answering the following three questions:

### ***1. To What Extent Has Advertising Impacted Lottery Ticket Sales?***

JLARC found that jackpot amounts and economic conditions are the strongest predictors of Lottery ticket sales. In contrast, **Lottery's advertising expenditures in the 2009-11 Biennium did not appear to increase weekly ticket sales.** To determine this, JLARC used statistical techniques to evaluate the impact advertising expenditures had on ticket sales during the 2009-11 Biennium.

Lottery contracts with a private vendor for advertising services, which include producing television, radio, print, and online advertisements. The current contract is for \$12 million per year. Lottery complied with statute and OFM policies by securing this contract through competitive solicitation.

### ***2. To What Extent Has the Change In Beneficiaries Impacted Lottery Ticket Sales?***

In 2010, the Legislature changed the primary beneficiary of Lottery revenue from school construction to higher education scholarships and early learning. **While sales increased in FY 2011 compared to FY 2010, it does not appear that the beneficiary change was responsible for the increase.** This increase is consistent with what sales would have been *without* the beneficiary change, according to JLARC's prediction models using jackpot amount and economic conditions. In addition, there was no statistically significant relationship between Lottery's new beneficiary advertising campaign and ticket sales.

### ***3. What Is Lottery's Employee Incentive Payment Program, and How Do Other State Lotteries Compare?***

Lottery's current incentive pay program is **limited to 35 district sales representatives (DSRs)** who work directly with retailers selling lottery tickets. When actual sales exceed quarterly sales goals, DSRs are eligible to earn quarterly bonuses. **Lottery paid a total of \$233,000 in incentive awards in FY 2011**, which was equivalent to 3 percent of total Lottery salaries for that year. Fifteen other state lotteries responding to a JLARC survey indicated they provide incentive pay, and, like Washington, many of those states award incentives to their lottery sales employees.

### **Recommendation**

**Washington's Lottery should report to the Lottery Commission with a plan on how to evaluate and improve the effectiveness of its advertising budget in generating ticket sales.**