

LOUISIANA LOTTERY CORPORATION

HOUSE CONCURRENT RESOLUTION No. 116  
2014 REGULAR SESSION



PERFORMANCE AUDIT SERVICES  
ISSUED MARCH 11, 2015

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AT 225-339-3800.**

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LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

March 11, 2015

The Honorable John A. Alario, Jr.,  
President of the Senate  
The Honorable Charles E. "Chuck" Kleckley,  
Speaker of the House of Representatives

Dear Senator Alario and Representative Kleckley:

This report provides the results of our performance audit on the Louisiana Lottery Corporation (Lottery) as required by House Concurrent Resolution 116 of the 2014 Regular Legislative Session. This resolution requested that we determine if the Lottery's operations and expenditures are efficient and effective and maximize the amount of lottery proceeds dedicated to education.

The report contains our findings, conclusions, and recommendations. Appendix A contains the Lottery's response to this report. I hope this report will benefit you in your legislative decision-making process.

We would like to express our appreciation to the management and staff of the Lottery for their assistance during this audit.

Sincerely,

Daryl G. Purpera, CPA, CFE  
Legislative Auditor

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# Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE, Legislative Auditor



March 2015

Audit Control # 40140012

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## Introduction

This report provides the results of our performance audit on the Louisiana Lottery Corporation (Lottery) as requested by House Concurrent Resolution (HCR) 116 of the 2014 Regular Legislative Session. The purpose of the audit was to determine if the Lottery's operations are efficient and effective and maximize the amount of lottery proceeds (i.e., revenue) dedicated to the state for elementary and secondary (K-12) education. Article 12, Section 6 of the Louisiana Constitution (1990) requires that lottery proceeds only be used for the purposes of the Minimum Foundation Program and no more than \$500,000 for services related to compulsive and problem gaming. The Lottery currently employs approximately 125 staff and contracts with approximately 2,900 retailers to sell lottery tickets.

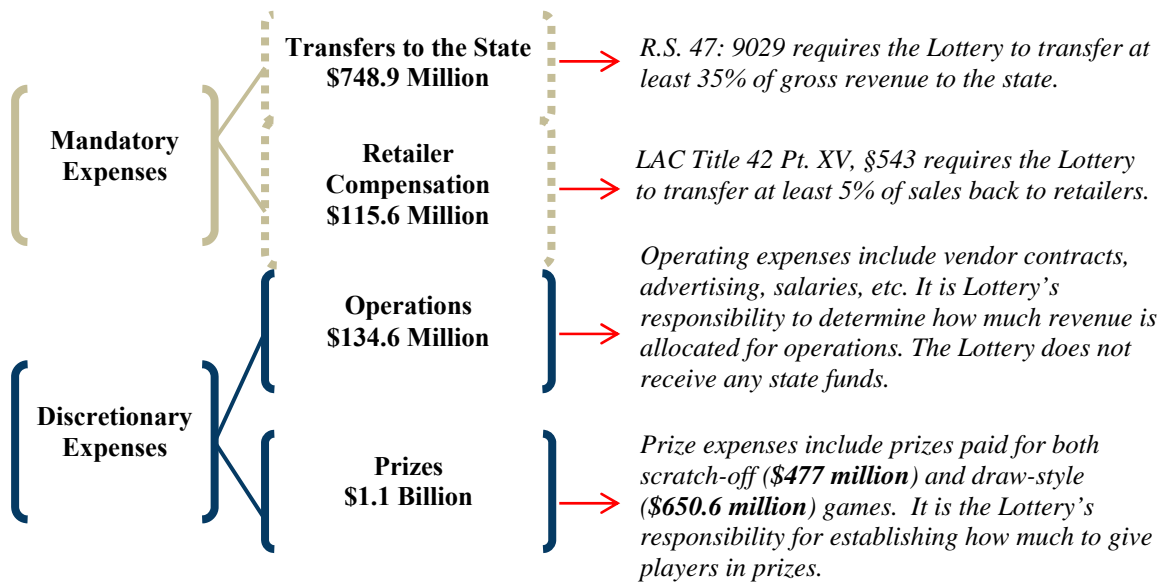
The Lottery's mission is to generate maximum revenue for the state. Over the last five years, Lottery has increased revenue by 20%, from \$375.6 million in fiscal year 2010 to \$450.5 million in fiscal year 2014. Lottery revenue is generated mainly through the ticket sales of both scratch-off games, such as "I Love My Saints," and draw-style games, such as "Powerball." From fiscal years 2010 to 2014, Lottery received \$2.1 billion in revenue and paid \$134.6 million for operations and \$1.1 billion for prizes.

Lottery has mandated expenses, such as transferring at least 35% of gross revenue to the state each year for education and at least 5% of gross revenue to retailers. However, state law does not stipulate how Lottery is to use the remaining 60% of its funds. As a result, Lottery has the discretion<sup>1</sup> to determine how much of its revenue to spend on operations, such as salaries, contracts, and advertising, as well as how much to spend on prizes in order to maximize revenue for the state. Exhibit 1 summarizes the Lottery's expenditures from fiscal years 2010 through 2014.

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<sup>1</sup> R.S. 47:9010 A (7) requires the Lottery to submit its proposed annual budget to the Joint Legislative Committee on the Budget for review and approval.

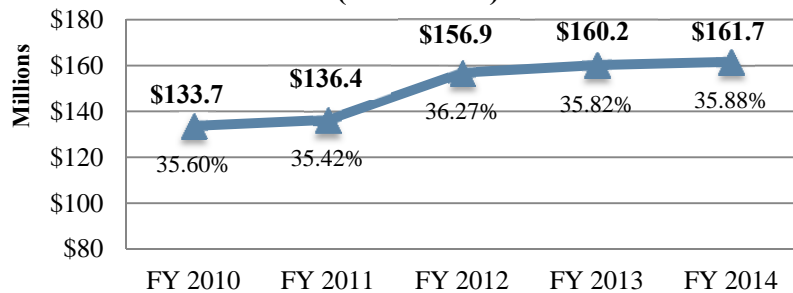
**Exhibit 1**  
**Lottery Expenditures: Fiscal Years 2010-2014**  
**Total Revenue: \$2.1 Billion**



**Source:** Prepared by legislative auditor's staff using information obtained from the Lottery.

From fiscal years 2010 to 2014, the Lottery transferred more than 35% of its revenue every year for a total of \$748.9 million, or \$17 million above the mandated transfer percentage as shown in Exhibit 2.

**Exhibit 2**  
**Transfers to the State**  
**Fiscal Years 2010 through 2014**  
**(in millions)**



**Source:** Prepared by legislative auditor's staff using information obtained from the Lottery.

To fulfill the request of HCR 116, we conducted work to answer the following objective:

**Determine if the Louisiana Lottery Corporation's operations are efficient and effective and maximize the amount of revenue dedicated to the state for education.**

The Lottery has been effective in generating additional revenue for the state from fiscal years 2010 through 2014 primarily because it increased the prize payout percentage<sup>2</sup> on scratch-off games by using a combination of funds from unclaimed prizes and from operational efficiencies. However, we found that the Lottery could further maximize revenue to the state for K-12 education by incrementally increasing the prize payout percentage from the fiscal year 2015 level of 62.8% to 70% and transferring the current unclaimed prize balance (projected to be \$27.6 million by June 30, 2015) and all future unclaimed prizes to the state.

In turn, the legislature would need to reduce the mandated transfer percentage<sup>3</sup> from 35% to at least 25%. If the Lottery transfers unclaimed prizes to the state without the state reducing the 35% mandate to 25%, the state can expect to lose \$16 million a year in recurring revenue for K-12 education. In addition, decreasing the Lottery's mandate to 25% would also allow the Lottery to increase the prize payout percentage for scratch-off games to 70%, which increases overall sales revenue and would allow the state to receive an additional \$3.8 million in annual recurring revenues (once the Lottery reaches 70%).

Appendix A contains the Lottery's response to the report, Appendix B details our scope and methodology, Appendix C breaks down Lottery revenue by game, Appendix D shows all Lottery expenses since fiscal year 2005, and Appendix E summarizes the amounts that other lotteries give to their state or beneficiary.

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<sup>2</sup> The prize payout percentage is the percentage of sales returned to the players as prizes or how much the Lottery gives in prizes for every dollar earned (i.e. if the prize payout percentage is 62.6%, the Lottery dedicates 62.6 cents for every dollar earned from ticket sales to prizes).

<sup>3</sup> The mandated transfer percentage is the percentage of gross revenue the Lottery is required to transfer to the state for K-12 education.

**Objective: Determine if the Louisiana Lottery Corporation's operations are efficient and effective and maximize the amount of revenue dedicated to the state for education.**

The Lottery has been effective in generating additional revenue for the state from fiscal years 2010 through 2014 primarily because it increased the prize payout percentage on scratch-off games by using a combination of funds from unclaimed prizes and from operational efficiencies. However, we found that the Lottery could further maximize revenue to the state for elementary and secondary (K-12) education by incrementally increasing the prize payout percentage from the fiscal year 2015 level of 62.8% to 70% and transferring the current unclaimed prize balance (projected to be \$27.6 million by June 30, 2015) and all future unclaimed prizes to the state.

The prize payout percentage is the percentage of sales returned to the players as prizes or how much the Lottery gives in prizes for every dollar earned.

In turn, the legislature would need to reduce the mandated transfer percentage from 35% to at least 25%. If the Lottery transfers unclaimed prizes to the state without the state reducing the 35% mandate to 25%, the state can expect to lose \$16 million a year in recurring revenue for K-12 education. In addition, decreasing the Lottery's mandate to 25% would also allow the Lottery to increase the prize payout percentage for scratch-off games to 70%, which increases overall sales revenue and would allow the state to receive an additional \$3.8 million in annual recurring revenues (once the Lottery reaches 70%).

The mandated transfer percentage is the percentage of gross revenue the Lottery is required to transfer to the state for K-12 education.

**Lottery generated increased revenue from fiscal years 2010 through 2014 by using \$27.2 million from administrative contract savings and \$35.1 million from unclaimed prizes to increase prize payouts.**

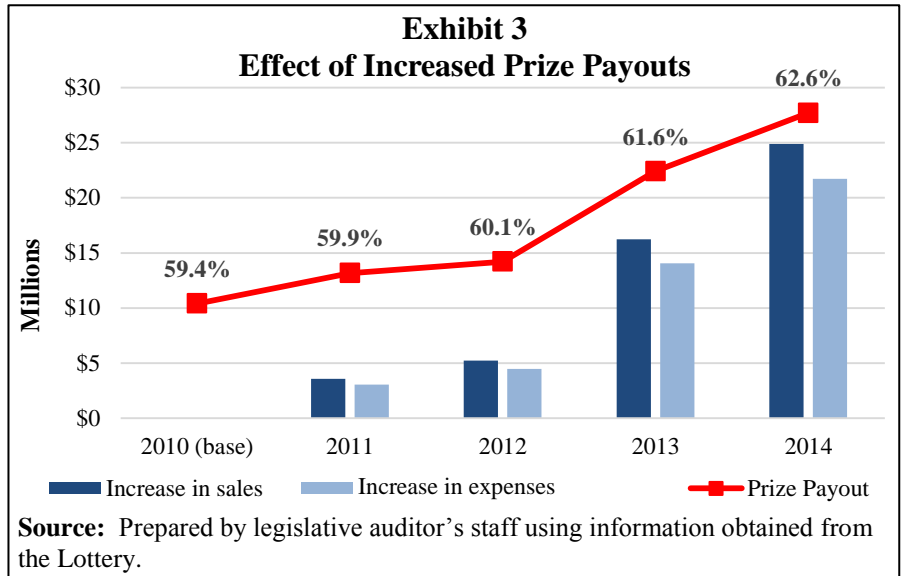
Lottery has increased the revenue generated from games by 20%, from \$375.6 million in fiscal year 2010 to \$450.5 million in fiscal year 2014 primarily because it has increased the prize payout percentage each year for scratch-off games.<sup>4</sup> Since fiscal year 2010 the Lottery has increased the prize payout percentage by 3.2%, from 59.4% in fiscal year 2010 to 62.6% in fiscal year 2014. Increasing the prize payout percentage increased sales for scratch-off games by \$49.9 million, which equated to \$1.22 in sales for every dollar Lottery spent on prizes. Exhibit 3 shows how much scratch-off ticket sales increased each year as a result of Lottery increasing the prize payout percentage for scratch-off games.<sup>5</sup>

<sup>4</sup> Some of the increase could have resulted from other factors such as changes in players' tastes and the Lottery improving how it manages the inventory of its tickets. However, these variables are not quantifiable.

<sup>5</sup> Appendix B, Section 1 summarizes our scope and methodology for determining the impact of increasing the prize payout percentage for scratch-off games.



In order to increase the prize payout percentage for scratch-off games, the Lottery used \$27.2 million in administrative contract savings and \$35.1 million in unclaimed prizes (winning tickets that are not claimed after 90 days for scratch-off games and 180 days for draw-style games) to cover increased variable expenses such as prizes, retailer commissions, ticket printing, and shipping expenses while still being able to pay the state the mandated transfer



percentage of 35%. Exhibit 4 breaks down the amount of unclaimed prize money and administrative contract savings used to increase the prize payout percentage for scratch-off games during fiscal years 2010 through 2014.

Exhibit 4 Prize Payout Percentage Funded by Unclaimed Prizes and Contract Savings			
Fiscal Year	Prize Payout Percentage	Funded from Unclaimed Prizes	Funded from Administrative Contract Savings*
2010	59.4%	\$9.1 million	\$0
2011	59.9%	5.6 million	6.4 million
2012	60.1%	3.6 million	6.9 million
2013	61.6%	6.8 million	7.1 million
2014	62.6%	10 million	6.9 million
<b>Total</b>		<b>\$35.1 million</b>	<b>\$27.2 million**</b>
*Contract savings did not start until fiscal year 2011. **The calculations in this exhibit are based on rounded numbers. Source: Prepared by legislative auditor's staff using information obtained from the Lottery.			

**Administrative Contract Savings.** The \$27.2 million in administrative contract savings resulted from a new vendor contract with IntraLot, signed at the end of fiscal year 2010, that offered the administration of draw-style games at a lower price than the previous vendor. This new contract reduced Lottery's operational costs from 8.29% of total revenue in fiscal year 2010 to 5.87% in fiscal year 2014, for an average of \$6.8 million of total savings annually. According to Lottery management, it determined that using this money to increase the prize payout percentage had greater long-term benefits than immediately giving this savings as surplus to the state. Increasing the prize payout percentage increased scratch-off ticket sales by \$49.9 million. However, if the Lottery had deemed this money to be surplus, R.S. 47:9029(A)(3) would have required it to be transferred to the state.

**Unclaimed Prizes.** The \$35.1 million in unclaimed prizes resulted from players not claiming their prizes within required timeframes. R.S. 47:9025 requires that Lottery use unclaimed prizes for the payment of future prizes or prize promotions. However, because the Lottery used funds from administrative contract savings to increase the prize payout percentage, it was able to reduce the amount of funds it used from unclaimed prizes, resulting in the unclaimed prize balance increasing. As shown in Exhibit 5, the unclaimed prize balance has grown \$18.6 million (173%) from \$10.8 million in fiscal year 2010 to \$29.4 million in fiscal year 2014.

<b>Exhibit 5</b>					
<b>Unclaimed Prize Balance</b>					
<b>Fiscal Years 2010 through 2014</b>					
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Starting Balance	\$8,715,132	\$10,778,961	\$13,640,537	\$22,227,679	\$29,411,709
Unclaimed Prizes Generated	11,165,515	8,563,383	12,188,142	14,022,363	9,933,720
Unclaimed Prizes Invested	9,101,686	5,701,807	3,601,000	6,838,333	9,971,429
<b>Balance at Year-End</b>	<b>\$10,778,961</b>	<b>\$13,640,537</b>	<b>\$22,227,679</b>	<b>\$29,411,709</b>	<b>\$29,374,000</b>
<b>Source:</b> Prepared by legislative auditor's staff using information obtained from the Comprehensive Annual Financial Report (CAFR).					

The Lottery projects the unclaimed prize balance to be \$27.6 million by June 30, 2015. According to Lottery management, the unclaimed prize balance decreased during fiscal year 2015 because the Lottery had to draw from this fund to maintain growth in prizes. The Lottery has complete discretion over how much unclaimed prize money is used for prizes, as well as the amount retained in the balance. According to Lottery management, this balance is retained to increase future scratch-off prizes. Lottery management plans to use this balance over a 10-year period to gradually increase the prize payout percentage. In fiscal year 2014, Lottery received approximately \$10 million in unclaimed prizes.

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**The state could receive \$27.6 million immediately if the legislature also lowered the mandated transfer percentage from 35% to at least 25%. In addition, the state could receive an additional \$3.8 million annually for K-12 education if the Lottery incrementally increased the prize payout percentage from 62.8% to as high as 70% for scratch-off games.**

**Using historical sales data from fiscal years 2010 through 2014, we found that incrementally<sup>6</sup> increasing the prize payout percentage from 62.8% to as high as 70% for**

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<sup>6</sup> According to Lottery management, the increase would have to be over time because there is, on average, an 18-month implementation period for each new scratch-off game, and an increase in the prize payout percentage would be more impactful if introduced gradually because it takes time for players to respond to increased prizes.

**scratch-off games<sup>7</sup> would provide the state with the greatest return on the Lottery's investment of how much it gives in prizes.** Based on our projection analysis, this would potentially result in an additional \$76.7 million in scratch-off ticket sales (once the Lottery reaches 70%). In addition, of the 44 states with a lottery, 32 (73%) have a prize payout percentage for scratch-off games at or above 66% (66%-76% range). However, while increasing the prize payout percentage would result in additional revenue transferred to the state each year, the current mandated transfer percentage of 35% currently prevents the Lottery from increasing the prize payout percentage to 70%<sup>8</sup>.

**If the state decreased the mandated transfer percentage to at least 25%, the Lottery could incrementally increase the prize payout percentage to 70% for scratch-off games, and the state could receive \$27.6 million in unclaimed prizes immediately.**

Based on our projection analysis, we found that reducing the 35% mandate would enable the Lottery to increase the prize payout percentage in the future while still covering the variable costs associated with increasing the prize payouts. In addition, if the state decreased the 35% mandated transfer percentage, the Lottery could then afford to transfer its current unclaimed prize balance immediately to the state and potentially any additional unclaimed prizes generated in the future, depending on how low the state decreases the mandated transfer percentage. However, the state would need to decrease the mandate before the Lottery could transfer the unclaimed prize balance. This would enable Lottery to fund scratch-off games that have already been distributed to retailers.

#### Assumptions Used in Projection Analysis

Projections are based on the Lottery's FY 2016 budget:

- State receives \$151 million in revenue for K-12 education.
- Scratch-off ticket sales are up 9% from fiscal year 2014 levels.
- Draw-style ticket sales are down 13% from fiscal year 2014 levels.
- The Lottery loses approximately \$1 million in annual revenue from the loss of interest on assets held in the unclaimed prize liability.

Also, the conclusions of our analysis depend primarily upon this estimate of the prize elasticity of demand. Our regression indicates that our point estimate (i.e., best estimate) of 2.9 could be subject to statistical error, but this number is consistent with conventional wisdom that the ideal prize structure for instant games is close to 70%, and most states' Lotteries have scratch-off game prize payout percentages between 66% and 76%.

**Note:** We gave Lottery management our analysis and they agreed with our assumptions used in the option analysis.

Exhibit 6 summarizes the option where Lottery can give all of unclaimed prizes to the state and still reach the 70% prize payout percentage to maximize transfers to the state (Option 1). The exhibit also summarizes what the potential effect would be to the state if the mandated transfer percentage is not decreased, but Lottery is mandated to transfer all of its unclaimed prize balance to the state (Option 2). If the state chooses this option, the state can expect to lose approximately \$16 million in annual recurring revenue for K-12 education. In addition, according to Lottery management, a decrease in the prize payout percentage may cause

<sup>7</sup>Appendix B, Section 2 summarizes our scope and methodology for calculating the prize payout percentage for scratch-off games that maximizes transfers to the state.

<sup>8</sup> Even though this projection analysis is an estimate, it is based on consistent patterns in Lottery's actual sales data during fiscal years 2010 through 2014.

an even larger decrease in sales than the corresponding increase in sales resulting from increasing the prize payout percentage. As a result, Option 2 could result in even higher losses.

<b>Exhibit 6</b>				
<b>Summary of Options For Lottery and Legislative Consideration</b>				
	<b>Description</b>	<b>What State Mandate Would Need to Be</b>	<b>Prize Payout Percentage for Scratch-Off Games</b>	<b>Additional Recurring Revenue to State from Increased Sales (by Fiscal Year 2020)</b>
<b>Option 1</b>	State receives <b>\$27.6 million from unclaimed prize balance immediately</b> , State <u>receives new</u> unclaimed prize revenue	Decreased to 25%	Increased to 70%*	\$3.8 million gain in annual recurring revenue for K-12 education
<b>Option 2<sup>9</sup></b>	State receives <b>\$27.6 million from unclaimed prize balance immediately</b> , State <u>receives new</u> unclaimed prize revenue, State does not decrease 35% mandate	Remains at 35%	Decreased to 50.7%	<b>(\$16 million)** loss in annual recurring revenue for K-12 education</b>
<p>*In order to maximize transfers to the state, the Lottery would need to increase the prize payout percentage incrementally along with the decrease in the state's mandated transfer percentage. Our analysis is based on incrementally increasing the prize payout percentage to 70% over a 5-year period.</p> <p>**If the state takes the \$27.6 million the Lottery projects to have in unclaimed prizes by June 30, 2015, the Lottery would then have to decrease the prize payout percentage because it would not have the money to cover all of the variable costs associated with its current percentage or any increase in percentage.</p> <p><b>Source:</b> Prepared by legislative auditor's staff using information obtained from the Lottery.</p>				

Of the nine states we surveyed,<sup>10</sup> eight allocate all or a portion of unclaimed prizes to their respective state or beneficiary. Seven of the eight, Arizona, Washington, Minnesota, Arkansas, New Hampshire, Wisconsin, and Oklahoma, are legislatively mandated to transfer unclaimed prizes to the state or their beneficiary. Colorado, the eighth state, is not mandated to transfer unclaimed prizes to its beneficiary but does so by its own policy. These states may still allocate a portion of unclaimed prizes into reserves for future prizes; however, the unclaimed prize balance is not mandated for future prizes exclusively. The ninth state, Iowa, dedicates all of unclaimed prizes toward future promotional prizes. Because Louisiana currently mandates that 35% of all revenue be transferred to the state, as shown in Exhibit 6 above, the Lottery would need to retain the unclaimed prize balance to continue to maximize transfers to the state if the state does not decrease the mandated transfer percentage.

<sup>9</sup>Appendix B, Section 3 summarizes our scope and methodology for identifying these two options and shows how much in additional revenue the state could receive/lose each year while incrementally increasing the prize payout percentage for scratch-off games.

<sup>10</sup>Lottery management recommended we survey these states because of comparable transfers, sales revenue, and state population.

In addition, of the 44 states with a lottery, the percentage of total revenue these lotteries transferred ranged from 20% to 39% during fiscal year 2013, excluding those states with video poker and casino proceeds transferred to their state, making Louisiana one of the highest states for percentage of lottery revenue that is transferred to the state. Louisiana and Oklahoma are the only two states that have a mandated 35% transfer percentage. Appendix E summarizes the amounts that other lotteries give to their state or beneficiary.

**Recommendation 1:** The Lottery should work with the Legislature to determine the best option to use to maximize revenue to the state for education.

**Summary of Management's Response:** Lottery agrees with this recommendation to work with the Legislature to continue to generate maximum revenue for the state of Louisiana while upholding the highest standards of integrity and public trust. See Appendix A for Lottery's full response.



## APPENDIX A: MANAGEMENT'S RESPONSE







March 13, 2015

Mr. Daryl G. Purpera, CPA, CFE  
Louisiana Legislative Auditor  
P. O. Box 94397  
Baton Rouge, LA 70804-9397

RE: Performance Audit on the Louisiana Lottery Corporation

Dear Mr. Purpera:

The Louisiana Lottery Corporation's response to the report issued for the performance audit conducted pursuant to House Concurrent Resolution No. 116 of the 2014 Regular Session is included below:

The Louisiana Lottery Corporation's mission states, "**To generate maximum revenue for the state of Louisiana while upholding the highest standards of integrity and public trust**". Lottery management agrees that increasing the prize payout percentage for scratch-off games typically results in increased sales which generates more revenue for the state. Therefore, to support the mission, we developed a long-range plan to gradually increase prize payouts to the current rate of 62.75% of sales and sustain this level of prizes through the combination of operating budget funds and the use of unclaimed prizes. Prior to the implementation of this strategy, scratch-off sales were \$136 million in fiscal year ending June 30, 2010. Current fiscal year scratch-off sales are projected to reach \$192 million at June 30, 2015. This 41% increase represents the most successful scratch-off sales growth in the Lottery's twenty-four year history. The additional sales of \$56 million generates another \$19.6 million of annual recurring revenue for the state.

To realize the full benefit of this strategy, adequate financial resources are necessary to sustain the momentum in future years. The unclaimed prize balance of \$27.6 million is an essential component of the funding of scratch-off prizes. The balance is reserved for the long-range plan's future prize obligations. If these funds are no longer available to support the plan, the Lottery cannot afford the future higher annual prize costs. Scratch-off prize payouts would decrease to balance our annual operating budget and sales would probably revert to pre-2010 levels of less than \$136 million.

Mr. Daryl G. Purpera, CPA, CFE

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March 13, 2015

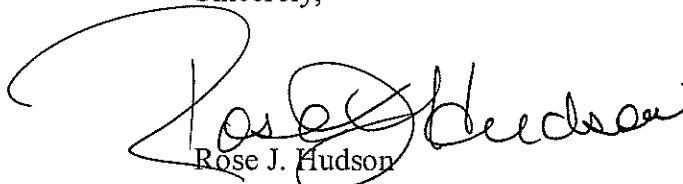
The Legislative Auditor suggests a change in the Lottery statute to transfer future unclaimed prizes to the state and use the \$27.6 million balance as non-recurring revenue for the upcoming budget year. As discussed above, this action would remove a significant portion of the funding for the proven long-range plan that has resulted in a 41% increase in scratch-off sales. The proposed alternative funding method of lowering the mandated transfer rate may be a viable solution but, the long-term risk may outweigh the potential benefits because this method is based on assumptions and estimates.

However, if the Legislature decides to use the \$27.6 million balance as one-time funds for current budget needs, we agree that a reduction in the mandated transfer rate to 25% is crucial for the Lottery's future ability to potentially sustain the current level of annual recurring revenue for the state. This scenario is included in Option 1 in Exhibit 6 on page 8. As noted in Option 2, the unclaimed prizes statutory change without a corresponding mandated rate change would cause a substantial decline in annual recurring revenue for the state.

We will work with the Legislature to continue to generate maximum revenue for the state of Louisiana while upholding the highest standards of integrity and public trust.

Please let us know if you have any questions or need any additional information.

Sincerely,



Rose J. Hudson  
President & CEO

## APPENDIX B: SCOPE AND METHODOLOGY

We conducted this performance audit under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. We conducted this audit in response to House Concurrent Resolution 116 of the 2014 Regular Legislative Session. Our audit focused on determining if the Louisiana Lottery Corporation's (Lottery) operations and expenditures were efficient and effective and maximized the amount of lottery revenue dedicated to education. We covered the time period of fiscal year 2005 through fiscal year 2014. The audit objective was:

**Determine if the Louisiana Lottery Corporation's operations are efficient and effective and maximize the amount of revenue dedicated to the state for education.**

We conducted this performance audit in accordance with generally-accepted *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. To answer our objective, we reviewed internal controls relevant to the audit objective and performed the following audit steps:

- Researched state laws relating to the creation and operation of the Lottery.
- Reviewed the Lottery's mission, goals, and structure.
- Interviewed Lottery management and reviewed policies and procedures regarding Lottery's operations. This included an understanding of the Lottery's prize expenses, retailer compensation, transfer expenses, operating expenses, and unclaimed prizes.
- Obtained and reviewed the Lottery's budget documents and Comprehensive Annual Financial Reports from fiscal years 2005 through 2014 to evaluate the Lottery's expenses, and noted any trends.
- Determined the percent of total revenue each type of expense represented and noted any trends.
- Obtained Lottery information on the Unclaimed Prize Balance.
- Analyzed how the Lottery generates and utilizes unclaimed prizes each year.
- Used the LaFleur's 2014 *World Lottery Almanac* to identify information on the Lottery's operations in comparison to other states.

- Conducted best practice research to determine how the Lottery operates in nine other states comparable to Louisiana (Arizona, Washington, Colorado, Minnesota, Arkansas, Wisconsin, Oklahoma, New Hampshire, and Iowa). These states were suggested and confirmed with the Lottery.
- Requested and obtained all Lottery sales transaction data for fiscal years 2010 through 2014.

In addition, the following sections summarize the methodology we used to determine the Lottery's sales return to the state for fiscal years 2010 through 2014 (Section 1), calculate the prize payout percentage for scratch-off games that maximizes transfers to the state (Section 2), and how we calculated the mandatory transfer rate analysis (Section 3).

### **Section 1: Fiscal Years 2010 through 2014 Sales Return to the State**

To determine whether the Lottery increased sales by increasing the prize payout percentage for scratch-off prizes from fiscal years 2010 through 2014, we obtained from Lottery all daily retailer sales data for scratch-off and draw-style games. We summarized all transactions that took place at each retailer, for each game, and on each day during this time period. Specifically, we conducted the following steps:

- Aggregated data by parish, month, and game, and looked at the relationship between a game's sales per capita (net of free tickets and returns) and its prize payout percentage.
- Incorporated other factors that might affect ticket sales, such as seasonal effects, gasoline prices, wages, unemployment rates, and the number of retailers per capita in each parish.
- Controlled for life-cycle variation in a game's sales to allow for a game's first few months to have consistently more in sales than subsequent months.
- Controlled for general time trends between fiscal years to capture changes for each fiscal year that may have resulted from other factors such as improvements in Lottery's inventory management and/or changes in players' tastes.
- Controlled for variation in sales between different price points by allowing each price point to have its own intercept.
- Allowed for the possibility that major draw-style jackpots and advertising spending may have affected scratch-off ticket sales but found that these variables were insignificant and difficult to measure in this context, so we eliminated them from our final analysis.

Using our analysis on the sales data, we conducted the following two steps to determine whether the Lottery increased sales by increasing the prize payout percentage for scratch-off prizes.

### Step 1: Analyzed Demand for Scratch-Off Tickets

The goal of our demand analysis was to estimate how an increase in the prize payout percentage affected the demand for scratch-off tickets from fiscal years 2010 through 2014. We refer to this relationship between prizes and demand as the **prize elasticity of demand**, which shows the percentage change in demand for scratch-off tickets that results from a 1% increase in the prize payout percentage. For example, a “large” prize elasticity of demand means that a large increase in sales would result from a given increase in the prize payout percentage, and the Lottery’s net income would increase; a “small” prize elasticity of demand means that a small increase in sales would result from a given increase in the prize payout percentage, and the Lottery’s net income would decrease. We formatted Lottery’s data as panel data, with each game-parish combination representing an individual, and used a random-effects Poisson regression to estimate coefficients.

We estimated that the prize elasticity of demand for scratch-off tickets is approximately 2.9, which means that a 1% increase in the prize payout percentage (e.g., from 60% to 60.6%) would result in a 2.9% increase in demand for scratch-off tickets. We also identified other factors that impact sales and controlled for these in our regression. Taking into consideration all factors, we determined the following:

- There is evidence of seasonality, with February and March sales 13% and 10% higher than in January, falling in August to 9% below January sales before rebounding to 17% above January levels in December. Games steadily decline throughout their life cycles, with sales one year out being about 82% below first-month sales.
- Economic factors are all significant predictors. The cross-price elasticity with gasoline appears to be approximately -0.40, consistent with the notion that some lottery ticket purchases are funded from disposable income remaining after gasoline expenses have been paid. Income exhibits an inverse relationship with demand.
- Smaller dollar tickets have a positive relationship with unemployment, but \$3 and higher value tickets show a negative relationship.
- The number of retailers per capita in each parish is a strong predictor of sales; a 1% increase in the number of retailers per capita is associated with a 0.80% increase in sales per capita in each parish.

The full results of our regression analysis including all coefficient estimates can be found in the Regression Coefficients from Demand Analysis table on the following page.

Regression Coefficients from Demand Analysis				
Variable	Coefficient	Std. error	Z	P value
ln (prize payout percentage)	2.880	0.607	(4.74)	0.000
Price point dummy variables				
\$2	0.009	0.071	0.13	0.897
\$3	0.889	0.098	9.05	0.000
\$5	1.018	0.114	8.89	0.000
\$10	2.029	0.156	13	0.000
Fiscal year dummy variables (2010 base)				
2011	0.117	0.014	8.65	0.000
2012	0.115	0.019	6.2	0.000
2013	0.076	0.026	2.89	0.004
2014	0.119	0.032	3.77	0.000
Month dummy variables (January base)				
2	0.134	0.008	17.05	0.000
3	0.102	0.010	10.08	0.000
4	(0.036)	0.011	(3.17)	0.002
5	0.032	0.011	2.77	0.006
6	0.020	0.010	1.98	0.047
7	(0.038)	0.012	(3.27)	0.001
8	(0.086)	0.011	(7.87)	0.000
9	(0.057)	0.010	(5.64)	0.000
10	0.094	0.009	11.06	0.000
11	0.070	0.009	7.77	0.000
12	0.168	0.008	20.21	0.000
Months open dummy variables (0 base)				
1	0.361	0.006	57.31	0.000
2	0.032	0.007	4.9	0.000
3	(0.342)	0.008	(44.62)	0.000
4	(0.628)	0.009	(69.6)	0.000
5	(0.831)	0.010	(81.15)	0.000
6	(1.052)	0.013	(84.18)	0.000
9	(1.242)	0.014	(88.06)	0.000
12	(1.713)	0.024	(72.16)	0.000
15	(2.111)	0.054	(39.13)	0.000
16	(4.549)	0.173	(26.37)	0.000
ln (price of gasoline)	(0.404)	0.050	(8.02)	0.000
ln (unemployment rate), by price point				
\$1	0.332	0.016	20.12	0.000
\$2	0.165	0.018	9	0.000
\$3	(0.113)	0.039	(2.91)	0.004
\$5	(0.131)	0.027	(4.91)	0.000
\$10	(0.385)	0.047	(8.24)	0.000
ln (wages)	(0.694)	0.016	(43.74)	0.000
ln (retailer count per capita)	0.800	0.014	56.5	0.000
Constant term	9.325	0.404	23.06	0.000
<b>Notes:</b> Dependent variable is net activations per capita, calculated as activations times the percentage of scratch-off tickets for a particular game in a particular parish that were not returned or claimed as free tickets. The model was fit using a random-effects Poisson regression with 146,560 observations in 18,688 groups. Standard errors were computed to be consistent with overdispersion and panel clustering.				

## Step 2: Calculated Sales Return to the State (i.e. Counterfactual Analysis)

As stated on page 4 of this report, after realizing contract savings at the end of fiscal year 2010, the Lottery began increasing the prize payout percentage for scratch-off tickets starting in fiscal year 2011. Using our estimated prize elasticity of demand, we estimated the impact of the Lottery's decision to begin increasing the prize payout percentage from 59.4% in fiscal year 2010 to 62.6% in fiscal year 2014. To do this, we compared actual Lottery sales from the Comprehensive Annual Financial Report (CAFR) with what would have happened had the prize payout percentage remained constant at fiscal year 2010 levels. We found that Lottery's decision to increase the prize payout percentage by 3.2% increased scratch-off ticket sales by \$49.9 million, while prize expense and other variable costs grew by \$43.3 million, in comparison to a counterfactual scenario in which the Lottery held prizes at 59.4% for all five years.

### Section 2: Calculating Prize Payout Percentage that Maximizes Transfers to the State

We used our estimate of the prize elasticity of demand for scratch-off lottery tickets to estimate what percentage the Lottery should increase the prize payout percentage to (optimal prize payout percentage) and still maximize returns to the state. We used differential calculus to find the profit-maximizing prize payout by solving the Lottery's profit maximization problem and obtained the following formula for the optimal prize payout percentage, which we denote as:

$$\xi^* = \frac{-\epsilon}{-\epsilon - 1} (1 - c_a - c_c + u)$$

Based on our projection, we estimated that the Lottery's optimal prize payout percentage for scratch-off games is approximately 70%. We estimated this 70% by projecting at what prize payout percentage growth in the Lottery's costs would overtake growth in sales. For example, because we estimated that the optimal prize payout percentage is approximately 70%, and the current percentage is beneath this level, standard economic theory predicts that an increase in prizes would result in an increase in sales revenue greater than the corresponding increase in variable costs. However, if the Lottery increased prizes beyond the optimal prize payout percentage of 70%, the increase in variable costs would exceed the increase in sales revenue, and the Lottery's net income would start to decrease. We selected the optimal payout so as to maximize revenues minus expenses, even though under current law (R.S. 47:9029) the state receives 35% of revenues, because our analysis shows that the Lottery could sustainably increase the amount of transfers to the state if this mandate were decreased to a lower percentage.

#### Variable Key

- $\xi^*$  = Profit maximizing prize payout percentage (estimated at 70%)
- $\epsilon$  = Prize elasticity of demand (estimated at 2.9)
- $c_a$  = Variable administrative and operating expenses ("Cost of Instant Tickets" and "Courier Service" in the CAFR, 1.82% on average)
- $c_c$  = Variable commissions cost (5.55% on average)
- $u$  = Unclaimed prizes resulting from scratch-off ticket sales, expressed as an overall percentage of scratch-off ticket sales (2.22% on average)

### **Section 3: Mandatory Transfer Rate Analysis**

As discussed on page 6 of this report, the mandated 35% (R.S. 47:9029) of revenue the Lottery is required to transfer to the state may limit the Lottery's ability to increase the prize payout percentage for scratch-off games to actually maximize transfers to the state. The mandated transfer percentage is one of several factors that determine how high the Lottery can afford to set the scratch-off game prize payout percentage. Other factors include the relative percent of sales owing to draw-style and scratch-off games, fixed and variable operating expenses, availability of net assets, and the balance of unclaimed prizes. We used our analysis of demand for scratch-off games (see Appendix E) to study the relationship between the mandated transfer percentage and the Lottery's ability to increase the prize payout percentage for scratch-off games.

Our goal was to find the maximum sustainable prize payout percentage for scratch-off games. Lottery's future revenues and expenses are uncertain, but we incorporated conservative assumptions into this analysis that would be financially stressful for the Lottery. We began with the Lottery's budget for FY 2016, which is based on year-to-date performance in FY 2015. We then assumed that the trend from FY 2014 to FY 2015 would continue, and adjusted the budgeted FY 2016 levels accordingly. We used these adjusted, more stressful assumptions to analyze the maximum sustainable prize payout percentages and mandatory transfer percentages under each scenario. Thus, our assumptions were as follows:

- The Lottery can make no net additions to or subtractions from its net assets or unclaimed prizes. Thus, the Lottery does not depend on these sources of revenue, and the scenarios we describe would be unaffected if the unclaimed prize fund becomes unavailable.
- Sales of scratch-off game tickets are up 23.6% from FY 2014 levels; this reflects a scenario in which the growth in scratch-off ticket sales from FY 2014 to FY 2015 continued into FY 2016. An increase in scratch-off ticket sales strains the Lottery's finances because scratch-off games generally require the Lottery to incur more than 65 cents in costs for each dollar of tickets sold. Thus, less than 35 cents remains to be transferred to the state. The Lottery must make up for this deficiency elsewhere in its budget. An increase in scratch-off sales increases this deficiency.
- Draw-style game revenues are down 24.6% from FY 2014 levels; this reflects a scenario in which the decline in draw-style sales from FY 2014 to FY 2015 continued into FY 2016. A decrease in draw-style revenues strains the Lottery's finances because draw-style tickets generally require the Lottery to incur less than 65 cents for every dollar of tickets sold. As a result, each dollar returns more than 35 cents in net income. Any surplus can be used to cover fixed costs, and to cover the deficits produced by scratch-off sales.
- The Lottery encounters a persistent \$4.2 million increase in costs each year.



Under the assumptions listed above, we estimated the highest feasible mandatory transfer percentage that would allow the Lottery to increase prize payout percentage for scratch-off games to 70%. We also calculated the highest feasible prize payout percentage for scratch-off games if the mandate were left at 35%.

Using these mandates and prize payout percentages, we then projected revenues and costs over fiscal years 2016 through 2020 under three scenarios. These scenarios take the Lottery's fiscal year 2016 budget as their baseline, which does not include the \$4.2 million increase in costs or the continuation of FY 2014-15 trends described above.

- **The baseline scenario** reflects the Lottery's fiscal year 2016 budget, which anticipates no change in the law. The mandated transfer percentage remains at 35%, and all newly-generated unclaimed prizes are transferred to the unclaimed prize balance, as is the Lottery's current practice.
- **Option 1:** the mandated transfer percentage decreases to 25% to allow the Lottery to increase scratch-off prize payouts to 70% over five years, and the state keeps all newly-generated unclaimed prizes.
- **Option 2:** the mandated transfer percentage remains at 35%, but the state takes all newly-generated unclaimed prizes. The Lottery is forced to reduce the prize payout percentage for scratch-off games to 50.7%.

Under the baseline scenario, the Lottery returns \$150.9 million to the state annually.<sup>11</sup> Option 1 ultimately shows a \$3.8 million increase in annual recurring revenues from the baseline, and Option 2 ultimately shows a \$16 million reduction in annual recurring revenues from the baseline. In addition, since the Lottery would have to increase the prize payout percentage for scratch-off games incrementally, the chart below shows the fiscal impact of increasing prize payouts to 70% over five years. Option 2 requires the Lottery to significantly curtail scratch-off prize payout percentages in order to transfer the required 35% to the state without relying on unclaimed prizes, which go directly to the state in this scenario and cannot be used to offset prize expense.

In conclusion, revenues to the state could be increased if the state reduces Lottery's mandatory transfer percentage, and if the Lottery uses this additional flexibility to increase the overall prize payout percentage for scratch-off games. The following exhibit shows how much in additional recurring revenue the state could receive for education if the mandate was lowered and the lottery increased the prize payout percentage. This exhibit also shows how much the state will lose in recurring revenue if the mandate was not lowered but the state takes all unclaimed prizes.

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<sup>11</sup> This is consistent with the Lottery's proposed budget for fiscal year 2016.

Scenario	Item	2016	2017	2018	2019	2020	Total
Option 1	Total revenue to the state, including interest	\$28.7	\$2.1	\$2.9	\$3.4	\$3.5	\$40.5
	<i>recurring</i>	\$1.3	\$2.4	\$3.1	\$3.6	\$3.8	\$14.2
	<i>non-recurring</i>	\$27.3	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	\$26.3
Option 2	Total revenue to the state, including interest	\$11.4	(\$16.2)	(\$16.3)	(\$16.3)	(\$16.3)	(\$53.7)
	<i>recurring</i>	(\$16.9)	(\$17.0)	(\$17.0)	(\$17.0)	(\$16.0)	(\$83.8)
	<i>non-recurring</i>	\$27.3	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	\$26.3

The following exhibit shows the estimated amount transferred to the state for each option.

Scenario		2016	2017	2018	2019	2020	Total
Baseline	<b>Total revenue to the state, including interest</b>	<b>\$150.9</b>	<b>\$150.9</b>	<b>\$150.9</b>	<b>\$151.0</b>	<b>\$151.0</b>	<b>\$754.7</b>
	<i>recurring revenue, excluding interest</i>	\$149.7	\$149.7	\$149.7	\$149.7	\$149.7	\$748.6
	<i>recurring interest revenue</i>	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$4.8
	<i>non-recurring revenue</i>	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$1.3
	Mandatory transfer percentage	35%	35%	35%	35%	35%	
	Prize payout percentage for scratch-offs	62.8%	62.8%	62.8%	62.8%	62.8%	
Option 1	<b>Total revenue to the state, including interest</b>	<b>\$179.6</b>	<b>\$153.0</b>	<b>\$153.8</b>	<b>\$154.3</b>	<b>\$154.5</b>	<b>\$795.2</b>
	<i>recurring revenue, excluding interest</i>	\$151.0	\$152.1	\$152.9	\$153.3	\$153.5	\$762.8
	<i>recurring interest revenue</i>	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$4.8
	<i>non-recurring revenue</i>	\$27.6	\$0.0	\$0.0	\$0.0	\$0.0	\$27.6
	Mandatory transfer percentage	25.7%	25.7%	25.7%	25.7%	25.7%	
	Prize payout percentage for scratch-offs	64.3%	65.8%	67.3%	68.9%	70.4%	
Option 2	<b>Total revenue to the state, including interest</b>	<b>\$162.3</b>	<b>\$134.7</b>	<b>\$134.7</b>	<b>\$134.7</b>	<b>\$134.7</b>	<b>\$701.1</b>
	<i>recurring revenue, excluding interest</i>	\$132.8	\$132.8	\$132.8	\$132.8	\$133.7	\$664.8
	<i>recurring interest revenue</i>	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$4.8
	<i>non-recurring revenue</i>	\$27.6	\$0.0	\$0.0	\$0.0	\$0.0	\$27.6
	Mandatory transfer percentage	35%	35%	35%	35%	35%	
	Prize payout percentage for scratch-offs	50.7%	50.7%	50.7%	50.7%	50.7%	

**APPENDIX C: LOTTERY REVENUE BY GAME**  
**FISCAL YEARS 2005 THROUGH 2014**  
(in millions)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Revenue by Game</b>										
Scratch-Off	\$104.10	\$118.86	\$134.65	\$132.05	\$141.39	\$136.01	\$148.08	\$158.03	\$163.11	\$178.93
Powerball	91.36	108.54	102.79	107.81	103.89	105.77	98.51	106.85	129.94	102.27
Mega Millions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	32.82	28.23	38.97
Lotto	32.83	30.22	34.79	32.00	33.48	30.46	32.91	31.01	25.56	28.24
Easy 5	0.00	0.00	0.00	13.89	14.51	14.56	14.95	13.42	11.61	10.99
Pick 3	47.79	43.60	46.34	49.94	49.09	46.52	49.01	48.96	49.51	49.98
Pick 4	25.57	26.12	30.51	34.03	36.16	36.07	37.38	38.51	39.46	39.59
Raffle Game	0.00	0.00	0.00	3.00	0.00	3.00	2.75	0.00	0.00	0.00
Cash Quest	5.36	4.77	5.12	0.97	0.00	0.00	0.00	0.00	0.00	0.00
<b>Other Revenue</b>										
Interest income	1.75	2.31	2.69	2.28	1.86	1.70	1.61	1.81	2.09	2.04
Net increase in fair value	(0.25)	(1.01)	0.03	0.67	0.74	1.14	(0.19)	0.60	(2.19)	(0.51)
Retailer license fees	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Retailer deposits	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Miscellaneous revenue	0.01	0.06	0.00	0.07	0.00	0.32	0.00	0.52	0.00	0.03
Gain-asset disposals	0.02	0.04	0.02	0.02	0.03	0.07	0.01	0.04	0.00	0.03
<b>Total Revenue</b>	<b>\$308.55</b>	<b>\$333.52</b>	<b>\$356.95</b>	<b>\$376.75</b>	<b>\$381.17</b>	<b>\$375.62</b>	<b>\$385.04</b>	<b>\$432.59</b>	<b>\$447.33</b>	<b>\$450.52</b>

**Source:** Prepared by legislative auditor's staff using information obtained from the CAFR.



**APPENDIX D: LOTTERY EXPENSES**  
**FISCAL YEARS 2005 THROUGH 2014**  
**(in millions)**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Scratch-Off Prizes	\$52.93	\$60.47	\$71.06	\$68.43	\$74.30	\$71.70	\$83.13	\$91.38	\$93.65	\$102.00
Draw-Style Prizes	100.33	107.77	108.36	124.37	119.03	118.05	119.77	134.90	142.51	135.39
<b>Total Prizes</b>	<b>\$153.26</b>	<b>\$168.24</b>	<b>\$179.41</b>	<b>\$192.80</b>	<b>\$193.33</b>	<b>\$189.75</b>	<b>\$202.90</b>	<b>\$226.28</b>	<b>\$236.16</b>	<b>\$237.39</b>
<b>Total Retailer Commission and Incentives</b>	<b>\$16.86</b>	<b>\$18.50</b>	<b>\$19.66</b>	<b>\$20.91</b>	<b>\$21.06</b>	<b>\$20.63</b>	<b>\$21.37</b>	<b>\$23.79</b>	<b>\$24.79</b>	<b>\$25.02</b>
Lottery system vendor fees	\$9.21	\$9.67	\$9.94	\$10.91	\$10.72	\$10.65	\$4.05	\$5.10	\$5.50	\$5.07
Cost of instant tickets	2.10	1.95	2.14	2.17	2.30	2.18	2.17	1.92	2.13	2.35
Courier service	0.47	0.37	0.43	0.49	0.58	0.65	0.76	0.68	0.63	0.76
Communication Costs	0.00	-0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total Direct Expenses</b>	<b>\$11.78</b>	<b>\$11.97</b>	<b>\$12.51</b>	<b>\$13.57</b>	<b>\$13.60</b>	<b>\$13.49</b>	<b>\$6.99</b>	<b>\$7.71</b>	<b>\$8.27</b>	<b>\$8.17</b>
Advertising	\$7.69	\$6.23	\$6.92	\$7.22	\$7.05	\$7.03	\$7.48	\$7.47	\$7.22	\$7.34
Contract Labor	0.20	0.23	0.19	0.15	0.13	0.15	0.16	0.21	0.26	0.19
Depreciation	0.60	0.63	0.70	0.56	0.50	0.47	0.49	0.47	0.44	0.47
Equipment Lease	0.04	0.03	0.03	0.03	0.02	0.04	0.05	0.05	0.05	0.04
Insurance	0.44	0.40	0.37	0.44	0.50	0.52	0.53	0.46	0.50	0.53
Loss on Assets	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Postage	0.07	0.06	0.07	0.08	0.08	0.07	0.08	0.08	0.06	0.06
Professional Fees	0.22	0.28	0.29	0.38	0.42	0.41	0.45	0.34	0.49	0.37
Rent	0.21	0.20	0.23	0.23	0.22	0.22	0.22	0.22	0.23	0.23
Repairs and Maintenance	0.31	0.27	0.27	0.28	0.27	0.31	0.28	0.34	0.38	0.33
Salaries and Benefits	6.80	6.67	6.72	6.95	7.08	7.07	6.66	6.64	6.56	7.16
Supplies	0.33	0.39	0.43	0.47	0.49	0.35	0.46	0.51	0.40	0.39
Communications network	0.00	0.00	0.00	0.00	0.00	0.00	0.12	0.14	0.15	0.18
Telephone	0.19	0.19	0.22	0.22	0.21	0.20	0.17	0.18	0.20	0.20
Travel	0.12	0.08	0.12	0.13	0.11	0.11	0.07	0.10	0.10	0.09
Uncollectable Accounts	0.06	0.13	0.01	0.01	0.02	0.02	0.02	0.01	0.05	0.00
Utilities	0.14	0.20	0.21	0.22	0.22	0.18	0.19	0.16	0.15	0.18
Other general and Admin	0.30	0.25	0.25	0.30	0.42	0.50	0.44	0.54	0.95	0.52
<b>Total Admin</b>	<b>\$17.73</b>	<b>\$16.24</b>	<b>\$17.02</b>	<b>\$17.65</b>	<b>\$17.76</b>	<b>\$17.67</b>	<b>\$17.87</b>	<b>\$17.94</b>	<b>\$18.18</b>	<b>\$18.28</b>
<b>Total Operating</b>	<b>\$29.51</b>	<b>\$28.21</b>	<b>\$29.53</b>	<b>\$31.22</b>	<b>\$31.36</b>	<b>\$31.16</b>	<b>\$24.86</b>	<b>\$25.64</b>	<b>\$26.44</b>	<b>\$26.45</b>
<b>Transfers to the State</b>	<b>\$110.39</b>	<b>\$119.43</b>	<b>\$128.26</b>	<b>\$131.86</b>	<b>\$135.91</b>	<b>\$133.70</b>	<b>\$136.36</b>	<b>\$156.91</b>	<b>\$160.21</b>	<b>\$161.66</b>

**Source:** Prepared by legislative auditor's staff using information from the CAFR.



## APPENDIX E: LOTTERY TRANSFERS BY STATE FISCAL YEAR 2013 (in millions)

State*	2013 Population	FY 2013 Sales	Transfers	Percentage Transfers of Sales Revenue
1. South Dakota**	0.8	\$151.28	\$107.70	71.2%
2. Oregon**	3.9	\$1,069.20	\$546.92	51.2%
3. Rhode Island**	1.1	\$775.99	\$379.22	48.9%
4. Delaware**	0.9	\$635.26	\$277.80	43.7%
5. West Virginia**	1.9	\$1,328.38	\$571.60	43.0%
6. New Jersey	8.9	\$2,821.40	\$1,085.01	38.5%
7. Maryland**	5.9	\$2,444.20	\$921.76	37.7%
<b>8. Louisiana</b>	4.6	\$447.42	\$160.22	35.8%
<b>9. Oklahoma</b>	3.9	\$200.21	\$70.61	35.3%
10. New York**	19.7	\$8,934.29	\$3,045.77	34.1%
11. Ohio**	11.6	\$2,863.45	\$898.13	31.4%
12. New Mexico	2.1	\$141.76	\$43.69	30.8%
13. Michigan	9.9	\$2,476.40	\$739.85	29.9%
14. Pennsylvania	12.8	\$3,699.67	\$1,067.38	28.9%
15. North Dakota	0.7	\$27.84	\$7.92	28.5%
16. Florida	19.6	\$5,013.00	\$1,424.31	28.4%
17. California	38.3	\$4,445.87	\$1,262.06	28.4%
18. North Carolina	9.8	\$1,689.80	\$479.51	28.4%
19. Connecticut	3.6	\$1,122.69	\$316.94	28.2%
20. District of Columbia	0.6	\$242.46	\$68.31	28.2%
21. Texas	26.4	\$4,376.29	\$1,214.10	27.7%
22. Kentucky	4.4	\$810.84	\$223.81	27.6%
<b>23. Wisconsin</b>	5.7	\$566.10	\$155.90	27.5%
24. Virginia	8.3	\$1,689.24	\$464.33	27.5%
25. Kansas**	2.9	\$605.30	\$161.70	26.7%
26. Tennessee	6.5	\$1,275.27	\$339.71	26.6%
<b>27. New Hampshire</b>	1.3	\$279.34	\$74.34	26.6%
<b>28. Arizona</b>	6.6	\$692.94	\$177.81	25.7%
29. Georgia	10.0	\$3,635.93	\$927.48	25.5%
30. South Carolina	4.8	\$1,199.21	\$305.21	25.5%
<b>31. Iowa</b>	3.1	\$339.25	\$84.89	25.0%
32. Nebraska	1.9	\$160.75	\$40.01	24.9%
33. Missouri	6.0	\$1,140.83	\$280.01	24.5%
34. Idaho	1.6	\$197.45	\$48.28	24.5%
<b>35. Washington</b>	7.0	\$569.59	\$139.23	24.4%
<b>36. Minnesota</b>	5.4	\$560.40	\$135.59	24.2%
37. Indiana	6.6	\$934.03	\$224.66	24.1%
<b>38. Colorado</b>	5.3	\$566.29	\$135.63	24.0%
39. Maine	1.3	\$227.72	\$53.52	23.5%
40. Montana	1.0	\$56.80	\$13.08	23.0%
41. Vermont	0.6	\$102.09	\$22.93	22.5%
<b>42. Arkansas</b>	3.0	\$439.55	\$90.46	20.6%
43. Massachusetts	6.7	\$4,839.27	\$955.80	19.8%

\*Illinois also has a state lottery but they did not report their information to LaFleur's 2014 *Almanac*.

\*\*Includes video poker and casino proceeds transferred to their beneficiary or state.

**Note:** Review states used for comparison to Louisiana highlighted in gray.

**Source:** Prepared by the legislative auditor's staff using LaFleur's 2014 *Almanac* data.