



May 2002

Wisconsin Lottery

We have completed a financial audit and a biennial program evaluation of the Wisconsin Lottery, which is administered by the Department of Revenue, and have issued an unqualified independent auditor's report on its financial statements for fiscal years (FYs) 2000-01 and 1999-2000. We also reviewed the incentive-based compensation program for retailers, which was implemented in January 2000 under authority granted in 1999 Wisconsin Act 9. The program has three components: sales incentives, winning ticket incentives, and various short-term incentives associated with particular games or sets of games.

The Retailer Performance Program Was Implemented to Address Declining Sales

Since its creation in 1988, the Wisconsin Lottery has provided approximately \$1.8 billion in property tax relief. However, lottery sales have generally declined in recent years. In FY 1994-95, they totaled \$518.9 million. By FY 2000-01, they were \$401.1 million, a decline of 22.7 percent. The Retailer Performance program was implemented to address declining sales and to increase retailer participation. In addition to the basic commission rates, the program provides up to an additional 1.0 percent of total sales as compensation to eligible retailers. In FY 2000-01, lottery retailers earned \$28.3 million in total compensation: \$24.4 million through basic commissions, and \$3.9 million through the Retailer Performance program.

The Retailer Performance Program Has Not Increased Sales as Expected

Based on other states' experiences, the Retailer Performance program was expected to increase Wisconsin Lottery sales by \$8.3 million in FY 1999-2000, and an additional \$16.6 million in FY 2000-01. However, the program has not generated additional sales as projected: total lottery sales declined by \$21.6 million in FY 1999-2000, and by \$5.6 million in FY 2000-01.

As of April 2002, three short-term incentives that were intended to increase sales for specific games had been implemented and completed. Two incentives appear to have increased overall lottery sales somewhat; however, payments to retailers were greater than the increase in sales generated by a third short-term incentive. Moreover, the number of retailers willing to sell lottery tickets has not increased since the Retailer Performance program was implemented. In December 2001, the Wisconsin Lottery contracted with 4,239 retailers, the smallest number since 1992.

Retailer Compensation Costs Have Increased

Before the Retailer Performance program was implemented, Wisconsin ranked fifth among seven midwestern states in lottery retailer compensation by paying retailers, on average, 5.9 percent of sales. In FY 2000-01, participating Wisconsin retailers earned 7.1 percent of sales, the highest rate among seven midwestern states. In the last quarter of FY 2000-01, 3,404 retailers earned sales incentives under the Retailer Performance program, and 2,015 earned winning ticket incentives.

The Lottery Plans to Modify the Retailer Performance Program

Additional costs associated with any lottery initiative, including the Retailer Performance program, reduce the net proceeds available for property tax relief. Therefore, sufficient additional revenues must be generated to make the initiative worthwhile. Although additional revenue has not been generated and the original sales projections for the Retailer Performance program have not been realized, it is difficult to determine whether the program mitigated a larger decline in sales than would otherwise have occurred.

The Wisconsin Lottery plans to revise the Retailer Performance program in 2003 and will likely focus on short-term incentives, which lottery staff believe have the greatest potential to affect sales. To increase the program's effectiveness and reduce costs, we provide recommendations that the Wisconsin Lottery continue to analyze the effectiveness of short-term incentives, limit the potential for retailers to earn sales incentives when their overall sales decline, and report planned modifications to the Joint Legislative Audit Committee by January 2003.

[full report, PDF file \(718KB\)](#)