

98-8 Wisconsin Lottery, Department of Revenue

Summary

Since August 1995, the Department of Revenue has managed the Wisconsin Lottery. After completing a statutorily required audit, we issued an unqualified opinion on the lottery's financial statements for fiscal years (FYs) 1995-96 and 1996-97. As part of that audit, we also analyzed a continuing decline in ticket sales, the State's efforts to improve sales, and the Department's sales projections for the current fiscal year.

Neither State Efforts Nor a Large Jackpot Has Improved Overall Sales

Annual Wisconsin Lottery sales peaked in FY 1994-95 at \$518.9 million. They have since declined to \$482.1 million for FY 1995-96 and \$431.1 million for FY 1996-97.

It is typical for sales to plateau or decline as lottery markets mature: among the 30 jurisdictions with lotteries as old as or older than Wisconsin's, 26 experienced declining sales before their eighth year of operations. In an effort to improve lottery sales, the Department released more games in FY 1997-98 than it had in previous years. In addition, the Legislature has increased retailer compensation rates and provided funding for 18.0 new state positions to assist retailers in selling lottery products.

However, the strongest factor affecting on-line ticket sales appears to be large jackpots. For example, weekly sales increased dramatically when the multi-state Powerball game recently offered a jackpot of approximately \$195 million. Between July 1997 and April 1998, Powerball sales in Wisconsin had averaged \$4.0 million per month. However, in the week before the largest jackpot on record was won, Wisconsin Powerball sales increased to \$10.4 million, and total sales for May 1998 exceeded \$20 million. Nevertheless, the Wisconsin Lottery's total FY 1997-98 sales, which the Department projected last week at \$414 million, will not exceed FY 1996-97 levels.

Declining Sales Reduce the Amount Available for Property Tax Credits

According to the State's constitution, proceeds from lottery sales must be distributed as property tax relief. Since FY 1988-89, approximately \$1.3 billion has been provided for this purpose in various forms; direct distributions through property and farmland tax credits began in FY 1991-92 and ranged from \$199.9 million to \$151.9 million over the next four fiscal years.

In FY 1996-97, only farmland tax credits were distributed because a court ruled that the distribution methodology for the property tax credits was unconstitutional; as a result, lottery proceeds from two years were available in FY 1997-98. A total of \$231.1 million in property tax relief will be distributed in the two-year period ending with FY 1997-98, compared to the \$323.2 million that was distributed in the prior two-year period. In the future, lottery funds available for property tax credits are expected to decline even further because of declining lottery sales.
