



## WISCONSIN LEGISLATIVE AUDIT BUREAU AUDIT SUMMARY

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### WISCONSIN LOTTERY

From the Wisconsin Lottery's inception through fiscal year (FY) 1995-96, sales of instant and on-line game tickets have made approximately \$1.1 billion available for property tax relief. Sales increased annually from 1988, when the first tickets were sold, through FY 1994-95, when they reached \$518.9 million. However, in FY 1995-96, sales declined 7.1 percent to \$482.1 million, making Wisconsin 25th in per capita sales among 38 jurisdictions with lotteries. The decline in sales affected both on-line and instant games. Except in the case of Powerball, an on-line multi-state game for which Wisconsin sales declined 25.1 percent in FY 1995-96, the decline in sales was not part of a national trend.

#### **Lottery Sales Continue to Decline**

Sales have continued to decline through the current fiscal year. Although total sales had been projected to reach \$460.0 million, instant ticket sales were approximately \$10.3 million below projections at the end of January 1997, and continued deterioration in total sales is likely. During the next biennium, lottery sales are expected to reach only \$440.5 million each year, even with the approval of proposed initiatives intended to support sales.

Several of the causes of declining sales have been outside the control of state officials, including waning consumer interest as the Lottery ages and constitutional prohibitions on promotional advertising. Other states have introduced casino-style electronic gaming machines, such as video lottery terminals that offer games such as poker, but these options are also constitutionally prohibited to the Wisconsin Lottery. In addition, the size of jackpots and frequency of winners have affected sales. No players won the new on-line game, Daily Millions, until early February 1997, more than 20 weeks after its introduction.

Other causes of declining sales were, however, within the control of state officials. For example, in the past, the Legislature has denied some initiatives that may have helped to sustain sales, such as increasing the Lottery's informational advertising budget, which has been \$4.6 million annually since FY 1988-89 and is significantly lower than the advertising budgets of most state lotteries. The Wisconsin Lottery has also been impaired by largely unsuccessful attempts to privatize many functions.

#### **Staffing Vacancies Are Likely to Have Affected Sales**

During 1995 and 1996, when a major privatization effort was being planned, large numbers of staff resigned or were re-assigned to positions outside the Lottery, with the expectation their responsibilities would be assumed by private firms. The vacancy rate reached 63.5 percent in January 1997, even though efforts to award the contract that would have privatized many positions were suspended in October 1996. As a result of diminished staffing, certain basic functions, including informing retailers about available products, providing retailers with support and guidance on marketing lottery products, and publicizing lottery winners, have been performed by temporary employees or have not been performed at all. The Department of Revenue, which assumed management responsibility for the Lottery in August 1995, has now identified hiring for vacant positions as a top priority.

#### **The Future of the Lottery May Be Decided in the 1997-99 Biennium**

Declining sales, coupled with continuing debate over the advisability of legal gambling in general and an October 1996 court decision that found the method of distributing lottery-funded property tax credits in violation of the state constitution, raised new doubts among some as to the value of the Wisconsin Lottery. In 1992, when the property tax

credit included some lottery proceeds held over from prior years, the Lottery provided an average per-household property tax credit of \$168. Under the Department's current projections for lottery sales in FY 1997-98, the 1997 credit would be approximately \$95 to \$97 if the old distribution method were in effect.

The Governor's biennial budget recommendation includes several measures intended to improve sales over current levels or to prevent further decline. Because some of these proposals have been rejected in the past, it is uncertain whether they will be approved in the current budget. Furthermore, even with these developments and initiatives, there is no assurance that lottery sales will increase. If it is the Legislature's intention that sales recover, several additional measures could be considered. If the Legislature is not interested in providing additional lottery resources, it would appear prudent to take steps to end the Lottery or, at a minimum, provide the Department with direction regarding acceptable future sales levels.

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