

MAINE STATE LEGISLATURE

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Maine State Lottery– DAFS and Commission Govern and Oversee All Key Aspects of Lottery Finances and Operations; Lottery Advertises Statewide to Adults; No Indication of Marketing Emphasis on Any Specific Demographic Group(s)

Report No. SR-LOTTERY -13

Recommendations OPEGA offers as a result of this review:

- Legislature Should Amend Reporting Requirements and Lottery Should Report as Required. (pg. 27)
- Lottery Commission Meetings and Decisions Should be Better Publicized. (pg. 28)

April
2017

a report to the
Government Oversight Committee
from the
Office of Program Evaluation & Government Accountability
of the Maine State Legislature

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ABOUT OPEGA & THE GOVERNMENT OVERSIGHT COMMITTEE

The Office of Program Evaluation and Government Accountability (OPEGA) was created by statute in 2003 to assist the Legislature in its oversight role by providing independent reviews of the agencies and programs of State Government. The Office began operation in January 2005. Oversight is an essential function because legislators need to know if current laws and appropriations are achieving intended results.

OPEGA is an independent staff unit overseen by the bipartisan joint legislative Government Oversight Committee (GOC). OPEGA's reviews are performed at the direction of the GOC. Independence, sufficient resources and the authorities granted to OPEGA and the GOC by the enacting statute are critical to OPEGA's ability to fully evaluate the efficiency and effectiveness of Maine government.

Requests for OPEGA reviews are considered by the Government Oversight Committee in accordance with a standard process. Requests must be made in writing and must be initiated or sponsored by a legislator. Individual legislators or citizens should review the process and FAQ that are posted on OPEGA's website at <http://legislature.maine.gov/opega/request-for-a-review>. There is also a form there to help facilitate the GOC's consideration of the request. Legislative committees can request reviews directly through a written communication to the Government Oversight Committee.

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Acronyms Used in This Report

AFA – Joint Standing Committee on Appropriations and Financial Affairs

BABLO - Bureau of Alcoholic Beverages and Lottery Operations

Commission – Maine State Liquor and Lottery Commission

DAFS - Department of Administrative and Financial Services

DHHS - Department of Health and Human Services

DMA - Nielsen Television Designated Market Areas

FPL – Federal Poverty Level

GEA - Government Evaluation Act

GOC – Government Oversight Committee

Lottery – Maine State Lottery

MAGI - Modified Adjusted Gross Income

MUSL - Multi-State Lottery Association

OFI - Office for Family Independence

OPEGA – Office of Program Evaluation and Government Accountability

SIGI - Scientific Games International

SNAP - Supplemental Nutrition Assistance Program

TANF - Temporary Assistance for Needy Families

Tri-State - Tri-State Lotto Commission

VLA - Joint Standing Committee on Veterans and Legal Affairs

Maine State Lottery– DAFS and Commission Govern and Oversee All Key Aspects of Lottery Finances and Operations; Lottery Advertises Statewide to Adults; No Indication of Marketing Emphasis on Any Specific Demographic Group(s)

Introduction

The Maine State Lottery is a function within the Bureau of Alcoholic Beverages and Lottery Operations, an agency of the Department of Administrative and Financial Services. It operates as a business that generates revenue for the Maine General Fund.

OPEGA's review focused primarily on oversight and governance of the Lottery, and the Lottery's advertising and marketing activities.

The Maine Legislature's Office of Program Evaluation and Government Accountability (OPEGA) has completed a review of the Maine State Lottery (the Lottery). OPEGA performed this review at the direction of the Government Oversight Committee (GOC) of the 127th Legislature.

The Maine State Lottery (Lottery) is a function within the Bureau of Alcoholic Beverages and Lottery Operations (BABLO), an agency of the Department of Administrative and Financial Services (DAFS). It operates as a business that generates revenue for the Maine General Fund.

The Lottery became the focus of public concern in October 2015 when a series of media reports about the Lottery were published. These articles focused on regions of the State with the highest lottery spending per capita which raised questions for legislators about the marketing of the Lottery. OPEGA had a review of the Lottery in progress at the time and the GOC modified the objectives for the review to encompass the new areas of concern. OPEGA gave the 127th GOC an interim briefing on the review in November 2016.

OPEGA's review focused primarily on oversight and governance of the Lottery, and the Lottery's advertising and marketing activities. We also analyzed lottery sales and winnings for the period fiscal year 2012 through fiscal year 2016, and reviewed the impact of lottery winnings on recipient's eligibility for certain public benefit programs. The scope and methods for this review are detailed in Appendix A.

Questions, Answers and Issues

1. What entities have a role in governing and overseeing the Maine State Lottery? Is there sufficient governance and oversight of the Lottery's key decisions impacting revenues, expenses and operations?

See pages 7-9 for more on this point

Responsibility for governance and oversight of the Lottery lies primarily with the DAFS and the State Liquor and Lottery Commission (Commission). The Legislature has a limited oversight role and both the Tri-State Lotto Commission (Tri-State), and the Multi-State Lottery Association (MUSL) provide some oversight of the Lottery's participation in the multi-state agreements.

DAFS' role is typical of the governance and oversight it provides of any agency within its organization with regard to finances, personnel and other resources, and

compliance with applicable regulations, policies and procedures. The BABLO Director is hired by and reports to the DAFS Commissioner. Statute specifies that the Director has a duty to confer at least monthly with the Commissioner on the operation and administration of the lottery. Statute also specifies that the BABLO Director is the chief administrative officer and supervises the operation of the lottery.

The Commission meets monthly and is responsible for adopting and amending rules, approving new instant tickets, approving multi-jurisdictional lottery agreements, and hearing appeals from retailers denied a lottery retail license. Requirements of rules adopted by the Commission are specified in statute and include details regarding tickets, prizes, retailers and apportionment of revenue. Rules promulgated and amended by the Commission are considered routine technical rules. The rules are subject to approval by the DAFS Commissioner and the Legislature is notified of any rule changes.

The Legislature's oversight of the Lottery occurs primarily through the Joint Standing Committee on Veteran's and Legal Affairs (VLA) and the Joint Standing Committee on Appropriations and Financial Affairs (AFA). VLA's primary role is to hear and process bills related to the lottery. They also review BABLO and the Commission's Government Evaluation Act report due every eight years, and receive an informational presentation from BABLO at the beginning of each Legislative session. Though the Lottery does not receive a General Fund appropriation, AFA reviews the Lottery's budget as part of the State's overall budget bill. AFA has access to monthly revenue reports and can compare Lottery revenues to revenue projections. Gubernatorial appointees to the Commission are subject to confirmation by the Maine Senate after being vetted by VLA.

The oversight and governance roles of Tri-State and the MUSL are related to the Lottery's membership in the multi-state lottery associations. These entities also make and amend association-specific rules and approve game selections. The Lottery is expected to adhere to specific agreed-upon guidelines with each organization to ensure the integrity of the collective lottery jurisdictions.

OPEGA observed that oversight and governance provided by DAFS and the Commission cover all key aspects of the Lottery's finances and operations. Additional communication to legislative committees to raise awareness of the Lottery's and Commission's activities would be beneficial given the Legislature's limited oversight role.

2. What does the Maine State Lottery consider when making decisions about games to be offered and how they will be marketed? Are any particular demographic groups or regions of the State specifically targeted in the Lottery's advertising and marketing? Who has responsibility for making and overseeing those decisions?

See pages 10-14
for more on this
point

Game selection decisions are made by Lottery and BABLO staff with the Commission having final approval. The Lottery consults with its gaming system contractor who develops options and recommendations for the Lottery to consider based on industry knowledge and market experience, including what games have been successful in other states. The Tri-State Lotto Commission develops Tri-State games jointly and all three states offer those games. MUSL offers a number of different games, and the Lottery can choose to sell all, some or none of the games offered through MUSL. In selecting games, the Lottery considers:

- the number of games overall to offer in the market;
- the price point of each of the games;
- the number of games to stock at retailers per price point; and
- the types of games various players are likely to purchase.

Marketing and advertising decisions are also made by the Lottery and the BABLO Director. The Lottery described its advertising focus as being all adults in Maine and explained that the Lottery advertises statewide, with geographic regions targeted based on population size. The advertising contractor provides creative input and advises on options for the best advertising coverage. The BABLO Director reviews and approves advertising spots which are also presented to the Commission for review.

OPEGA reviewed the Lottery's advertising and gaming system contracts, as well as marketing and advertising studies and plans. We also analyzed television and radio advertising buys and other marketing activities for the period March 2015 – December 2016. We found no indication that the Lottery puts any marketing or advertising emphasis on any specific demographic group(s).¹ For television advertisements, the spots were broadcast in all three television markets across the State in the same time periods, with more advertisements run in market areas with greater population. The same was true for radio spots in the six radio markets in which the Lottery advertises.

3. What is the breakdown of lottery ticket purchases and lottery winnings by municipality or county?

See pages 15-24
for more on this
point

OPEGA analyzed lottery tickets sales and lottery winnings for the period FY12 – FY16. Several limitations in the data available for analysis mean our breakdowns by county and municipality should be considered rough estimates of lottery activity in those locations. Additionally, we determined that using the available data to analyze activity on a per capita basis resulted in meaningless, and potentially quite misleading, results particularly on a municipal-level. Consequently, we have not reported any per capita results.

Overall, however, we observed the following from our analysis:

- Lottery ticket sales totaled over \$1.2 billion for the period and increased about 19% between FY12 and FY16. Most of the increase occurred between FY14 and FY16 when there was a corresponding increase in instant tickets sales which typically represent over 70% of annual total sales.
- Lottery winnings totaled nearly \$698 million for the period, for an overall payout percentage of 58%. Total winnings increased 28% from FY12 to FY16 with most of the increase occurring between FY14 and FY16, mirroring a similar increase in small prize winnings claimed at lottery retailers which represent about 82% of all winnings.

¹ OPEGA reviewed academic research literature and found there is general agreement that an inverse relationship exists between socio-economic status and lottery play. There is no consensus, however, on the explanations for this inverse relationship.

- Strong positive correlations exist between total sales and winnings, total sales and population, and total winnings and population at both the county and municipal level. There were several exceptions at the county level. Both Kennebec and Washington counties had notably higher percentages of total sales and winnings than they did of total population, while Cumberland and Penobscot had notably lower percentages of total sales and winnings than of total population.
- Lottery sales over the period occurred at retailers in 352 different municipalities. Of the 25 municipalities with the highest total sales for the period FY12 to FY16, 19 were among Maine's most populated municipalities. The other six were municipalities designated by the State as regional service centers.

4. How are lottery winnings considered in determining eligibility for public benefits? Are lists of lottery winners compared to lists of benefits recipients to determine continued benefit eligibility?

See pages 24-26
for more on this
point

OPEGA reviewed how lottery winnings would impact eligibility for three major public assistance programs administered by the Maine Department of Health and Human Services (DHHS). The three programs were:

- Temporary Assistance for Needy Families (TANF);
- Supplemental Nutrition Assistance Program (SNAP); and
- MaineCare.

Eligibility requirements for the three programs vary, but all have specified income and asset limits. Benefit recipients are required to report changes in income, assets, or other circumstances that would impact eligibility, including lottery winnings, to DHHS within 10 days of the change occurring. At that time, DHHS eligibility workers determine any changes to the recipient's eligibility status. DHHS eligibility workers also review recipient eligibility every 12 months.

The Lottery collects the name, address and social security number of winners of prizes over \$599 for tax purposes. The Lottery also uses a web-based application to determine if these winners have outstanding debt owed for state income tax, child support and unearned unemployment benefits. If there is outstanding debt, the Lottery reports this information to the appropriate State agency, offsets the winnings as applicable, and transfers the funds to the State agency.

In 2015, DHHS requested, and received, from the Lottery the names of those with lottery winnings of \$1,000 or more for the period of 2010-2014. From this data, DHHS published a report comparing lottery winners to households receiving TANF, SNAP and/or MaineCare. According to the Lottery, this was a one-time request. At the time of our review, lists of lottery winners were not being compared to lists of benefits recipients to determine continued benefit eligibility for these three programs.

OPEGA understands that DHHS is currently pursuing a rule revision that would allow SNAP benefits to be terminated for households in which any member wins a lottery prize of \$5,000 or more in one month. DHHS and BABLO expect to develop a Memorandum of Understanding to transfer data on winners from the Lottery to DHHS. According to DHHS, the data would also be used to determine

continued eligibility for other public assistance programs by including any additional documented income from lottery winnings in the calculations under the current asset and lump-sum income rules for those programs. Depending on the recipients' circumstances and/or the amount of the winnings, their benefits could change.

OPEGA offers the following recommendations as a result of this review. See pages 27-29 for further discussion and our recommendations.

- Legislature Should Amend Reporting Requirements and Lottery Should Report as Required.
- Lottery Commission Meetings and Decisions Should be Better Publicized.

Maine State Lottery Overview

Purpose and Organization

The Lottery was established by the Legislature and approved in a statewide referendum in 1973 for the purpose of generating additional revenues for the General Fund.

The Lottery was established by the Legislature and approved in a statewide referendum in 1973 for the purpose of generating additional revenues for the General Fund. At the time, a State Lottery Commission was also appointed to provide guidance to the agency. The Lottery was combined with the Bureau of Alcoholic Beverages in 1992 and is now a function within the Bureau of Alcoholic Beverages and Lottery Operations (BABLO). The commissions for liquor and lottery were also combined into the State Liquor and Lottery Commission.

The Lottery describes its purpose as being to generate revenue by offering entertainment to its customers through games of chance, in a socially responsible manner, while ensuring the security and integrity of the games.

The Lottery has 19 full-time positions and is headed up by the Division Director of Lottery Operations who reports to the BABLO Deputy Director. Staff include Lottery Field Representatives, a Marketing Specialist, a Lottery Security and Operations Manager and supervisory and administrative positions. The Lottery describes its purpose as being to generate revenue for the State of Maine by offering entertainment to its customers through games of chance, in a socially responsible manner, while ensuring the security and integrity of the games.

Apportionment of Lottery Revenue

The Lottery operates as a business enterprise that uses revenues to meet its expenses and additionally provide revenue for the General Fund.

The Lottery operates as a business enterprise that uses revenues to meet its expenses and additionally provide revenue to the General Fund. The original proposal to establish the Lottery directed net proceeds to municipalities and school administrative districts. However, the final version adopted by referendum directed the net proceeds to the General Fund. Currently, statute directs that the proceeds of the Lottery be known as the State Lottery Fund.

Money in the State Lottery Fund is to be appropriated:

- for prize payments to the holders of winning lottery tickets or shares;
- for lottery operating expenses;
- for payment to the General Fund; and
- for payment to the Maine Outdoor Heritage Fund.

The Lottery offers a one dollar instant game whose proceeds are specifically dedicated to the Maine Outdoor Heritage Fund.

According to BABLO, the Lottery contributed an average of \$52 million per year to the General Fund and an average of \$598,000 per year to the Outdoor Heritage Fund in FY11 – FY15.

Statute also requires that the money in the State Lottery Fund be apportioned so that at least 45% of the total ticket sales are disbursed as prizes to holders of winning tickets. All other money, less reasonable costs for the proper administration of the State Lottery, shall be the State's share. According to BABLO, the Lottery contributed an average of \$52 million per year to the General Fund and an average of \$598,000 to the Outdoor Heritage Fund for the period FY11 – FY15.

Lottery Partners

The Lottery's contracted gaming system provider and advertising agency are key partners in operating and promoting the lottery.

The Lottery's contracted gaming system provider and advertising agency are key partners in operating and promoting the lottery. The current gaming system provider is Scientific Games International (SGI) based in Alpharetta, Georgia. The advertising agency is FuseIdeas based in the Boston area with an office in Portland. Both contracts are awarded via a competitive bid process.

SGI provides and maintains the gaming system computer hardware and software and all point-of-sale electronic equipment, as well as providing draw game supplies and instant tickets. SGI also provides marketing support and research. SGI initially became the Lottery's gaming system contractor in May of 2001. The current contract with SGI has been in place since April 24, 2014 and expires on June 30, 2020. SGI is paid a percentage of ticket sales, currently at a rate of 3.521%.

FuseIdeas has been the Lottery's advertising contractor since February 1, 2015 and, by contract, is paid 17% of the Lottery's yearly advertising budget. According to the Lottery, this includes the promotional products and advertising FuseIdeas purchases on behalf of the Lottery. FuseIdeas uses numerous advertising media to support Lottery branding, promotions and product advertising campaigns throughout Maine.

The Lottery is a member of the Tri-State Lotto Commission and the Multi-State Lottery Association.

The Lottery is also a member of two multi-state lottery organizations:

The Tri-State Lotto Commission. Tri-State is an interstate body, both corporate and politic, established under the Tri-State Lotto Compact in which Maine, New Hampshire and Vermont participate. Maine's participation in the Compact is authorized in 8 MRSA Chapter 16. The Tri-State Commission operates and administers Tri-State Lotto games and promulgates rules governing the games. Each participating state lottery commission appoints one of its members to serve on the Tri-State Lotto Commission and all decisions must be unanimous. Maine's appointed member is the current chair of the State Liquor and Lottery Commission. The BABLO Director also attends Tri-State Lotto Commission meetings whenever possible. The Tri-State Commission develops Tri-State Lotto games jointly and all three states offer those games.

The Tri-State Commission determines what games to offer and all three states offer them. MUSL offers a number of games and the Lottery chooses which of these games to offer in Maine.

The Multi-State Lottery Association (MUSL). MUSL is a non-profit association owned and operated by its member lotteries to facilitate the operation of multi-jurisdictional lottery games such as Powerball. Because MUSL games are multi-jurisdictional, any proposed game changes must have unanimous approval from the lotteries offering the game. MUSL membership currently consists of 33 state lotteries, and the lotteries of the District of

Columbia, the US Virgin Islands and Puerto Rico. MUSL offers a number of different games, and the Lottery can choose to sell all, some or none of the games offered through MUSL. All profits are retained by the participating lotteries and subject to any statutory requirements related to the use of those funds.

Lottery Games and Prizes

The Lottery offers two types of games: instant games with “scratch” tickets and draw games such as Powerball and Megabucks. Lottery tickets are sold through a network of retailers licensed by BABLO, vending machines throughout the State, and through the Lottery office via an online subscription service. According to BABLO, there are currently over 1,200 licensed lottery ticket retailers in Maine and lottery ticket sales averaged \$231 million per year for the five fiscal year (FY) period FY11 – FY15.

Winning tickets of \$599 or less may be redeemed at any licensed lottery retailer. Winnings of more than \$599 must be claimed at the Lottery headquarters either in person or by mail. Lottery headquarters collects identifying information for tax purposes on customers claiming over \$599 in winnings. According to BABLO, the Lottery paid out an average of \$148 million per year to prize winners, and an average of \$15 million per year to retailers in commissions and bonuses, in the period FY11 – FY15.

According to BABLO, there are about 1,200 licensed lottery retailers in Maine and ticket sales averaged \$231 million per year for FY11 – FY15. In that same period, the Lottery paid out an average of \$148 million per year to prize winners and an average of \$15 million per year to retailers in commissions and bonuses.

Maine State Lottery Oversight and Governance

Statute assigns responsibilities for operations of the Lottery to the Director of BABLO, with oversight by the DAFS Commissioner. BABLO relies upon other DAFS agencies for various support functions such as personnel administration, budget forecasting and accounting.

The BABLO Director is statutorily responsible for the operation of the Lottery with additional Department oversight provided by the DAFS Commissioner.

The statutory powers and duties assigned to the BABLO Director include:

- acting as the chief administrative officer and supervising the operation of lottery in accordance with statute and rule;
- acting as executive secretary of the State Liquor and Lottery Commission;
- selecting and licensing lottery retailers;
- entering into contracts for the operation of the lottery;
- entering into multi-jurisdictional lottery associations for the operation, marketing and promotion of a joint lottery or joint lottery games with other jurisdictions;
- reporting lottery revenues, prize disbursements and other expenses monthly and annually, and
- regularly advising and making recommendations to the DAFS Commissioner regarding the operation and administration of the lottery and the Commission.

Consequently, all decisions impacting revenues, expenses and operations made by the Lottery Director are subject to review by the BABLO Director with additional oversight by the DAFS Commissioner. Statute specifies that the BABLO Director has a duty to confer at least monthly with the Commissioner on the operation and administration of the lottery.

State Liquor and Lottery Commission

The State Liquor and Lottery Commission also has responsibilities for governance and oversight of lottery operations. The Commission is comprised of five members appointed by the Governor and confirmed by the Legislature.

The State Liquor and Lottery Commission (Commission) has statutorily-assigned responsibilities for governance and oversight of lottery operations. Statutory provisions regarding Commission membership are found in 5 MRSA § 283-A while the Commission's powers and duties are specified in 8 MRSA § 374.

The Commission has five members appointed for three year terms. Members are appointed by the Governor, subject to confirmation by the Legislature. Statute specifies that no more than three members of the Commission may be members of the same political party. Persons with a connection to the manufacture or sale of liquor, or who have violated laws regulating the manufacture, sale or transportation of liquor, are ineligible for appointment to the Commission.

One of the Commission's primary responsibilities is to establish rules relating to the lottery. Under statute, rules set by the Commission are subject to approval by the DAFS Commissioner and must include, but are not limited to:

- the types of lotteries to be conducted;
- ticket prices, methods and promotions to be used in selling tickets, and the imprinting of the odds of winning on each ticket;
- the manner and frequency of selecting the winning ticket, and the number, size and manner of payment of prizes;
- the number and types of retailers, the selection and licensing of retailers, the license fee to be charged, and manner and amount of compensation for the retailers; and
- the apportionment of ticket sale revenue.

The Commission meets monthly to perform such tasks as review sales and profit reports, review and approve new lottery games, hear appeals from applicants that have been denied a lottery retail license and adopt and amend Rules.

Statute requires that the Commission meet at least monthly with the BABLO Director to adopt and amend rules, make recommendations and set policy for state lotteries, and to transact other business that may be properly brought before the Commission. Statute also specifies that Commission actions are not binding unless at least three members are present and vote in favor of the action.

It is through the monthly meetings that the Commission provides public oversight of BABLO's financial performance and operational activities. The Commission reviews monthly sales and profit reports, approves new instant ticket games, hears appeals from applicants that have been denied a lottery retail license, and can provide approval for the BABLO Director to enter into agreements with multi-jurisdictional lottery associations. The gaming system and advertising contractors also each present monthly updates on their activities at Commission meetings.

Commission meetings are advertised in the Kennebec Journal the day before the meeting and interested parties receive advance notice by email. Minutes of Commission meetings are routinely prepared as required by statute, which also requires that the minutes be immediately transmitted to the DAFS Commissioner and the Governor. OPEGA observed, however, that the information about the Commission's meetings has not historically been publicly available on either the Commission's or BABLO's website. This observation is discussed further in Recommendation 2.

Legislative Oversight

Legislative oversight of the Lottery is through the VLA and AFA Committees. VLA primarily processes bills related to the Lottery. AFA reviews the Lottery budget at a high level with primary interest on the revenue being generated for the General Fund.

The Lottery, as a part of BABLO, is under the jurisdiction of VLA. At the beginning of each new Legislature, BABLO briefs VLA on the agency, including an overview of its operations which incorporates a review and outlook for the Lottery business model. VLA hears and processes bills related to the Lottery and receives notifications when rules related to the Lottery are promulgated or amended.² VLA is also responsible for reviewing gubernatorial appointments to the Commission. A public hearing is held on each appointee and then the Committee makes a recommendation on confirmation to the Maine Senate.

Though the Lottery does not receive a General Fund appropriation, the AFA Committee reviews the Lottery budget at a high level as part of the State's overall budget process. AFA's primary interest is in the revenue the Lottery expects to transfer to the General Fund. AFA has access to monthly revenue reports and can compare Lottery revenues to revenue projections. BABLO is also statutorily required to submit an annual report to the Governor and the Legislature that includes a full and complete statement of lottery revenues, prize disbursements and expenses.³ However, OPEGA found this annual report was not submitted to the Legislature during the period FY12 – FY16. This issue is discussed further in Recommendation 1.

VLA also reviews BABLO in accordance with the Government Evaluation Act (GEA). In 2015, the VLA reviewed BABLO's GEA Report and recommended that the BABLO Director provide the Committee with annual reports of expenditures made to promote lottery sales through marketing and advertising.

The Lottery, as part of BABLO, is also subject to legislative oversight through the Government Evaluation Act (GEA) review process that occurs every eight years as required by 3 MRSA Chapter 35. BABLO and the Commission submitted the most recent GEA report to VLA in 2015. The GEA report, as it pertained to the Lottery, included a program description, financial summary, and other information to demonstrate how the Lottery acts within their statutory authority and meets goals and objectives. VLA reviewed the report and recommended that the BABLO Director provide the Committee with annual reports of expenditures made to promote lottery sales through marketing and advertising. This matter is discussed further in Recommendation 1.

OPEGA noted that the Legislature has a fairly limited oversight role with regard to the Lottery. This may result in BABLO developing initiatives that are inconsistent with legislative expectations. Such a scenario occurred in early 2015 as the Lottery was preparing to introduce Keno. This situation is discussed further in Recommendation 2.

² Rules promulgated by the State Liquor and Lottery Commission, and approved by the DAFS Commissioner, are routine technical rules. Though they are not subject to formal legislative review, the Legislature is notified of rule changes.

³ Title 8 Chapter 14-A §372.2.H requires the BABLO Director to make a monthly certification to the State Treasurer and an annual report to the Legislature.

Marketing and Advertising Activities

The Lottery's primary marketing activities are deciding what games to offer and promoting those games. The Lottery primarily promotes games through television and radio advertising, promotional event appearances, retailer point-of-sale displays and social media.

According to the Lottery, its target customer base is all adults 21 years of age or older living in, or visiting, Maine. Marketing and advertising goals include maintaining entertainment market share and building customer loyalty.

The Lottery is assisted in its marketing and advertising efforts by its gaming system and advertising contractors.

The Lottery's primary marketing activities are deciding what games to offer and promoting those games. The Lottery primarily promotes the games through television and radio advertising. The Lottery does not currently advertise in print media, direct marketing or other out of home advertising such as signage on park benches or bus wraps, but has recently begun running banner ads on newspaper and television websites to achieve visibility. The Lottery also has booths at promotional events, retailer point-of-sale displays and a presence on social media.

OPEGA observed that lottery promotions are generally geared towards introducing new games or highlighting aspects of existing products, such as when the Powerball jackpots get very large or promoting the 30th anniversary of Megabucks. When a new game is introduced, the advertising may focus on describing the new game and directing players how to play that game. Two recent examples of this type of advertising were the new two-sided play area of the Joker Mania instant ticket and advertising to describe how to play the new World Poker Tour draw game.

According to the Lottery, its target customer base is all adults 21 years of age and older living in or visiting Maine. Its marketing and advertising goals include:

- maintaining entertainment market share;
- building player loyalty;
- creating statewide awareness and visibility for games offered;
- communicating the features of the games, how to play and the prizes that will be paid out to winners;
- promoting and supporting Lottery retail partners; and
- reminding the audience to play responsibly and just for fun.

The Lottery is assisted with its marketing and advertising efforts by its gaming system and advertising contractors.

The gaming system contract has a provision for SGI to subcontract for an annual market research report upon the request of the Lottery. SGI subcontracted an online "segmentation study" in 2014. The purpose of this study was to identify types of players and their game preferences for the Lottery to use for strategic planning, product development, product enhancements, pricing, market positioning and communications. OPEGA observed that the study characterized lottery players that took the survey into contractor-defined groups or segments based on a mix of self-reported demographic factors and responses to questions about personal characteristics, lottery play habits and attitude toward the lottery. Given the methodology and results of the survey, OPEGA questions the study's usefulness to the Lottery. The Lottery described using this study to identify popular price points for instant tickets.

Under the current advertising contract, FuseIdeas will develop an annual marketing plan for the Lottery if requested. The Lottery and the contractor worked collaboratively to develop a marketing plan for fiscal year 2017, which includes goals, strategies, and descriptions of promotional activities, advertising markets and games. OPEGA noted that the marketing plan contained no strategies for, or references to, particular demographic groups.

Advertising campaigns are reviewed and approved by the BABLO Director. The Lottery also regularly reviews current and planned advertising campaigns with the Commission.

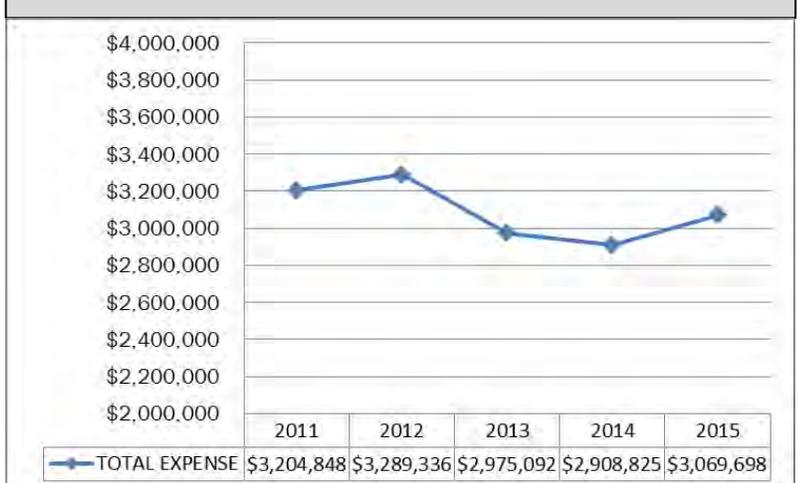
FuseIdeas also plans, develops and executes statewide advertising campaigns, and promotes the entertainment aspect of lottery games while emphasizing responsible play. FuseIdeas consults with the Lottery on what to promote in an advertisement and offers creative advertising ideas. Additionally, the contractor develops an advertising plan that specifies what media to use, when to advertise and how long to run advertisements.

Once Lottery marketing staff decide on an advertising campaign for a product, they present it to the BABLO Director for review and comments. Though Commission approval is not statutorily required, the Lottery regularly reviews current and planned advertising campaigns with the Commission.

The Lottery’s marketing and advertising expenses averaged about \$3.1 million annually over the period FY11-FY15.

The Lottery’s marketing and advertising expenses averaged about \$3.1 million annually over the period FY11-FY15. Figure 1 shows the trend in these expenses which rose slightly in FY12 and then declined

Figure 1. Lottery Marketing and Advertising Expense FY11 - FY15



Source: OPEGA analysis of Lottery financial data from Office of Fiscal and Program Review and Tri-State Lotto Commission finance reports.

notably in FY13 and FY14. FY15 expenses, though increased from FY14, were still \$135,150 less than in FY11. The Lottery explained that the agency ceased radio and television advertising shortly after February 2012 through part of FY14 pending the new BABLO Director’s review of all lottery marketing and advertising. Additionally, in FY15 the Lottery transitioned to a new advertising contractor and reduced the amount of advertising done during that transition. The current advertising contract has a higher billing rate than the previous contract.

Game Selection

In selecting games, the Lottery balances the number of games overall in the market, the ideal number of games to stock per price point, prizes per game and game play types that players will enjoy playing.

With the exception of the Tri-State Lotto games, Lottery staff is responsible for selecting the specific games that will be offered in Maine. They describe game selection as an important factor in ticket sales and they strive to offer a variety of play styles, game themes and payouts. In selecting games, the Lottery balances the number of games overall in the market, the ideal number of games to stock per price point, prizes per game and game play types that players will enjoy. SGI assists the Lottery in game selection by presenting options and recommendations that meet the Lottery’s desired specifications. These recommendations are based on industry knowledge and the contractor’s experience with similar games in other markets. Ultimately Maine’s Commission approves new instant ticket games, and approves MUSL games through rulemaking.

Currently, the Lottery offers 34 to 38 different instant games at any given time with tickets costing between \$1 and \$25 each, and eight draw games with tickets ranging in cost from \$.50 to \$2.

Currently, the Lottery offers 34 to 38 different instant games at any given time with tickets costing between \$1 and \$25 each. Instant game top prizes range in value from \$1,000 to \$2 million. Automobiles, motorcycles, trips and dinner with a sports figure have also been offered as top prizes.

Additionally, the Lottery currently offers eight draw games with tickets ranging in cost from \$.50 to \$2. Draw game winning numbers are drawn as often as twice a day, or as infrequently as twice a week, depending on the game. Draw game prizes vary by game. Some are fixed prize payout games with top prizes ranging from \$250 to \$100,000, or \$1,000 a day for life. Other draw games, such as Powerball and Megabucks, are jackpot games in which the top prizes are determined by the amount of sales during a given period.

Television and Radio Advertising

The Lottery's advertising plan is designed so that every adult sees or hears the advertisement, on average, the same number of times during an advertising campaign.

The advertising contractor, FuseIdeas, described lottery tickets as a mass market product for adults statewide, with no need to target a particular demographic. Consequently, advertising purchases are based on population, with more advertising spots purchased in higher populated market areas. The Lottery explained that the advertising plan is designed so that every adult sees or hears the advertisement, on average, the same number of times during an advertising campaign, subject to television viewing and radio listening habits.

The Lottery purchases advertising time slots and selects which advertisement runs during those time slots. For example, a particular advertisement may run when the Powerball jackpot becomes large. The Lottery may replace current advertising with Powerball advertisements until the jackpot is won. This is done across the state in all markets at the same time.

The advertisements run in any given time period are the same statewide.

Television advertisement time is purchased in 30 second "spots" but may be broken up into two 15 second "bookend" spots. A bookend is when a 15 second lottery spot is run, followed by something such a station promotion, followed by another 15 second lottery spot. The Lottery purchases television advertising time based on scheduled programming that will deliver the best value, supplemented with spots that may play at any time during the day to ensure maximum visibility. The Lottery also purchases cable advertising on channels that have high numbers of Maine viewers. The Lottery explained that the same advertisements are run statewide and the ads are distributed to match the population across the State with the goal of creating equal visibility.

The Lottery advertises in the three television Designated Market Areas in Maine and in six radio markets.

Similarly, the Lottery advertises on radio stations statewide to attempt to reach the entire adult population in Maine, but buys more radio advertising spots in regions with larger populations. Within each region, the Lottery generally purchases more spots from stations that have a larger audience. Also, as with television, the same radio advertisements are run throughout the State during the same time periods.

OPEGA analyzed the Lottery's television and radio advertising buys for calendar year 2016 by marketing area. For television, there are three Designated Marketing Areas (DMAs) in Maine as defined by the Nielsen Company: Portland, Bangor and Presque Isle. For radio, there are six markets in which the Lottery advertises: Augusta-Waterville, Bangor, Calais, Farmington, Portland and Presque Isle.

OPEGA's analysis of advertising buys for calendar year 2016 found that more advertisements were run in markets with greater population.

OPEGA's analysis of television advertising, detailed in Table 1, showed that, in calendar year 2016, the Lottery purchased approximately 19,812 television advertising spots from 14 television stations and from Time Warner Cable in all three DMAs. The proportions of total advertising spots and cost corresponded to the estimated number of television homes in each DMA.⁴

DMA	Counties	Estimated # of TV Homes	Total Spots	Total Cost	% of Spots	% of Cost
Portland	Androscoggin, Cumberland, Franklin, Kennebec, Knox, Lincoln, Oxford, Sagadahoc, York Counties in ME; and Carroll and Coos Counties in NH	383,700	9,670	\$530,681	49%	64%
Bangor	Hancock, Penobscot, Piscataquis, Somerset, Waldo, Washington	133,310	7,219	\$183,499	36%	22%
Presque Isle	Aroostook	26,880	2,923	\$110,696	15%	13%
Total		543,890	19,812	\$824,876		

Source: OPEGA analysis of Television advertising buys data provided by the Lottery.

Our analysis of radio advertising for calendar year 2016, detailed in Table 2, showed the Lottery purchased approximately 23,855 radio spots from 43 different radio stations. The majority of the total spots, 67%, were run in Portland and Bangor, the two most populated markets.

Region	Total Spots	Total Cost	% of Spots	% of Cost
Portland	8,709	\$244,387	37%	53%
Bangor	7,265	\$99,461	30%	22%
Augusta-Waterville	3,563	\$50,581	15%	11%
Presque Isle	2,239	\$36,338	9%	8%
Calais	1,446	\$16,140	6%	4%
Farmington	633	\$10,736	3%	2%
Total	23,855	\$457,642		

Source: OPEGA analysis of Radio advertising buys data provided by the Maine State Lottery.

Other Promotion Efforts

Lottery retailers are required to install and use certain point of sale equipment provided by the Lottery. These point-of-sale requirements are the same statewide for all retailers.

Lottery retailers are required, as part of the terms and conditions of their license agreement, to install and use certain point-of-sale equipment provided by the Lottery. This equipment includes a flat panel advertising monitor ("Lottery in Motion") and a wireless jackpot sign. The retailer is also required by the license agreement to post and maintain displays, notices and other materials used in conjunction with lottery ticket sales in accordance. These point-of-sale requirements are the same statewide for all retailers.

⁴ Advertising campaigns do not correspond exactly to calendar years so the calendar year numbers are approximations.

Lottery products are also promoted at sporting events, festivals and other public events and via social media.

The Lottery also sponsors sports teams such as the Portland Sea Dogs and the Maine Red Claws, and events such as Maine State Lottery Night at Oxford Plains Speedway, as a means of raising awareness of its products. The Lottery purchases sponsorship signage in the stadium, logos or ads in the event program, feature spots on video screens, or public address announcements during the event to gain exposure. Lottery products are also promoted at festivals and other public events, such as the Great Falls Balloon Festival in Auburn or at the Bangor Mall during holiday season. Table 3 lists the Lottery promotional events for the previous two calendar years.

Lastly, the Lottery has a presence on social media to interface with game players, answer questions, promote draw game jackpots, announce new games and publicize individual player winnings. One BABLO staff member is responsible for the Lottery's social media efforts, which consists of a Facebook page, a Twitter account and a YouTube Channel.

Table 3: Lottery Promotional Appearances			
Month	Promotions	Location	County
2015			
January	Snodeo	Rangeley	Franklin
January/February	Red Claws	Portland	Cumberland
February/December	Portland Pirates	Portland	Cumberland
June	Beech Ridge Speedway	Scarborough	Cumberland
July/August	Sea Dogs	Portland	Cumberland
August	Great Falls Balloon	Auburn	Androscoggin
August	Blueberry Festival	Machias	Washington
August	Oxford Plains Speedway	Oxford	Oxford
August	Crown of Maine Balloon	Presque Isle	Aroostook
August	International Homecoming	Calais	Washington
September	Pirates Festival	Eastport	Washington
September	Take Flight	Presque Isle	Aroostook
December	Bangor Mall	Bangor	Penobscot
December	Auburn Mall	Auburn	Androscoggin
2016			
January	Red Claws	Portland	Cumberland
January	Snodeo	Rangeley	Aroostook
July/August	Sea Dogs	Portland	Cumberland
August	Great Falls Balloon	Auburn	Androscoggin
August	Blueberry Festival	Machias	Washington
August	Crown of Maine Balloon	Presque Isle	Aroostook
September	Pirates Festival	Eastport	Washington
September/October	Cumberland County Fair	Cumberland	Cumberland
December	Bangor Mall	Bangor	Penobscot
December	Auburn Mall	Auburn	Androscoggin
Source: List of Lottery promotional appearances provided by the Maine State Lottery.			

Lottery Ticket Purchases and Winnings

OPEGA's Approach and Data Limitations

OPEGA analyzed lottery ticket sales and winnings data for the period FY12-FY16 using several data sets provided by the Lottery.

OPEGA analyzed lottery ticket sales and winnings for the period FY12 - FY16 to determine the breakdown by county and municipality in total and on a per capita basis. We also correlated sales and winnings with county and municipal populations. The data sets we obtained for use in our analyses were:

- sales for instant tickets and draw tickets by retailer, by fiscal year, as provided by the Lottery;
- small prize winnings of \$599 or less by retailer, by fiscal year, as provided by the Lottery;
- large prize winnings of \$600 or more by fiscal year claimed through Lottery headquarters; and
- population statistics for those aged 18 years or older in Maine municipalities and counties as per the 2010 federal census.

Limitations in the available data impacted our analysis and our results should be considered rough estimates.

Limitations in the available data impacted our analyses and, thus, our results should be considered rough estimates. Limiting factors included:

- The retailer sales data for instant tickets does not represent actual sales to consumers. Rather, it represents the cost of tickets each retailer has purchased from the Lottery, net of the value of tickets the retailer has returned to the Lottery. It is possible that retailers have purchased tickets that were not sold to consumers, nor returned to the Lottery, in which case the instant ticket sales figures used in our analysis would be higher than actual consumer sales. We believe it is unlikely, however, that retailers still have large inventories of tickets for the years in our review period and, therefore, we have used retailer sales data as an approximation of consumer sales.
- Ticket sales and small prize winnings data is only available at the retailer level. There is no data available on where the consumers actually reside. Consequently, we attributed sales and small prize winnings to municipalities and counties based on the retailers' addresses. We were unable to differentiate between sales and small prize winnings for Maine residents versus out-of-staters so any sales or small prize winnings for out-of-staters were also attributed to the retailers' municipalities.
- For large prize winners, those winning \$600 or more, the Lottery had record of the winners' addresses, but not where the tickets were purchased. We attributed these winnings to municipalities and counties based on the winners' addresses. Nearly \$4.1 million in large prize winnings were claimed by out-of-staters and we were unable to attribute these to a Maine municipality or county. Consequently, these winnings are included in our statewide analyses, but not in our county-level or municipal-level analyses.

Retailer sales data was used as an approximation of consumer sales.

Sales and small prize winnings data does not reflect where the consumers reside, only where the ticket was purchased or the winning ticket was cashed.

The Lottery had home address data for winners of \$600 or over, but no data on where the winning ticket was purchased.

Ticket sales related to subscription services are not associated with any retailer or subscriber address so were not attributable to any county or municipality.

Without knowing where lottery ticket consumers reside, OPEGA could not reasonably determine what portion of the Lottery activity is directly attributable to the population of any particular municipality or county.

We also observed that a number of different factors might impact which counties or municipalities Mainers buy and redeem their tickets in. Non-Maine residents can also impact sales and winnings at retailers along Maine's borders.

Consequently, OPEGA determined per capita analysis results using the populations of particular counties and municipalities are potentially quite misleading, especially at a municipal level.

- Since 2014, the Lottery has offered an online subscription service for draw tickets. Tickets sales data for subscribers are not associated with a retailer or a particular subscriber so we were unable to attribute them to any particular county or municipality. Consequently, \$1,029,065 in total draw ticket sales made via the Lottery's subscription service are included in our statewide analyses, but are not included in our county-level or municipal-level analyses.

Additionally, without knowing where lottery ticket consumers actually reside we could not reasonably determine what portion of the Lottery activity is directly attributable to the population of any particular municipality or county. We noted:

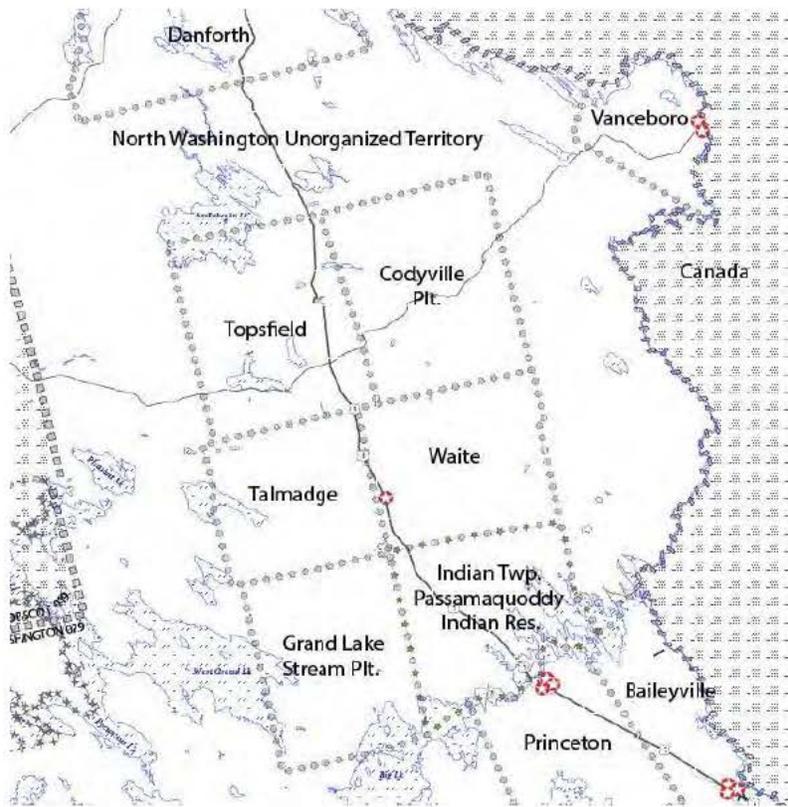
- A significant number of municipalities have no lottery retailer. Sales and small prize winnings for residents of those municipalities are captured in the municipality of the retailer they visited and this can have notable impact on per capita results. The town of Waite in Washington County is a good example of this. As described and illustrated in Figure 2, sales for Waite drop from \$1,685 per capita based on the town's adult population to \$402 per capita if adult populations for three neighboring towns are also included.
- Residents from many different municipalities may purchase or redeem tickets from retailers in the service center communities they frequent for work, shopping and an array of services, or from retailers located along their primary travel routes to these communities. Figure 3 provides a potential example of the challenges in assessing the lottery activity of a service center community and surrounding towns using the towns of Clinton, Pittsfield and Skowhegan.
- Non-Maine residents may buy tickets and redeem prizes of \$599 or less at retailers along Maine's borders or while in the State for leisure or work. In our analyses, these sales and winnings would be attributed to the retailer's municipality even though they are not generated from the population in that municipality or surrounding municipalities. This impacts the per capita results for municipalities near State and international borders, as well as municipalities visited by large numbers of tourists. The town of Waite is also a potential example of this situation given its proximity to Canada.

Given these observations, we determined per capita analysis results using the populations of particular counties and municipalities are potentially quite misleading, especially at a municipal level. Consequently, we are not reporting breakdowns by county and municipality on a per capita basis.

Figure 2. Waite and Surrounding Communities

A particularly good example of the inherent limitations in attributing lottery activity to specific municipal populations is the town of Waite in Washington County. Waite had \$682,602 in total lottery sales over the period FY12 to FY16, all occurring at the single lottery retailer in town. At the time of the 2010 census, Waite’s adult population was 81. Calculating per capita sales based on these figures results in average per capita sales of \$1,685.44 annually, the highest for any Maine municipality.

The map below plots the approximate locations of lottery retailers in and around Waite. It shows that Waite is surrounded by six communities that have no lottery retailer. For three of those communities - Talmadge, Topsfield, and Codyville Plantation – the retailer in Waite is the closest, with the next closest retailer being 10 miles away in Princeton. If we assume that the residents of these three communities purchase their lottery tickets in Waite, then the adult population associated with Waite’s sales increases to 340 and the per capita average annual sales decreases substantially to \$401.53.



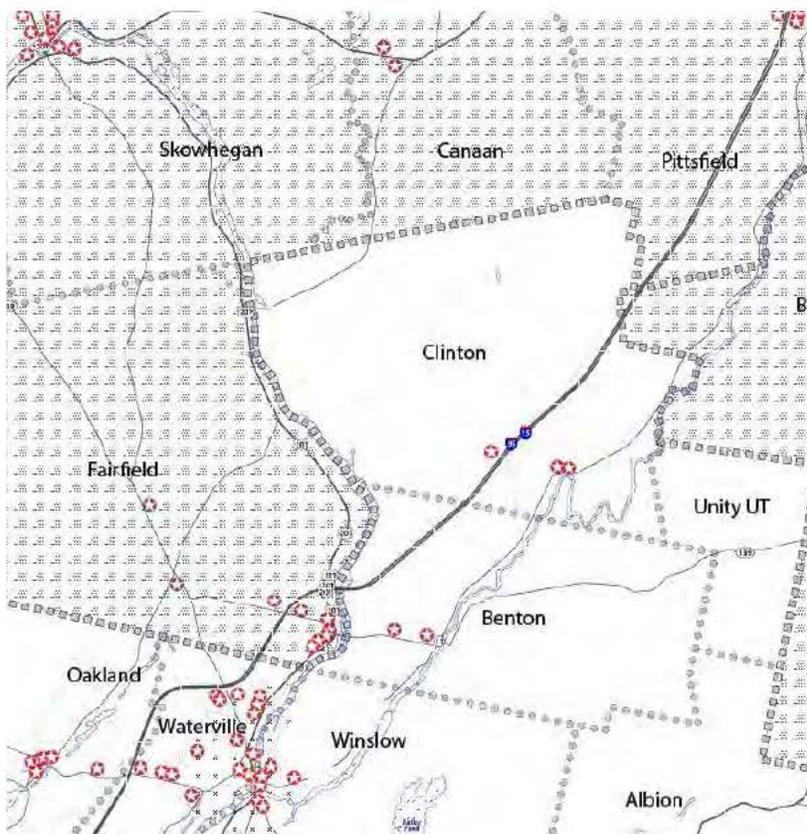
18 and Over Populations	
Municipality	Pop.
Waite	81
Talmadge	53
Topsfield	187
Codyville Plt.	19
North Washington UT	401
Indian Twp. Passamaquoddy Indian Res.	467
Grand Lake Stream Plt.	96

Figure 3. Clinton and Nearby Service Center Communities

An additional example of the limitations in attributing lottery activity to specific populations—even at a county level—can be illustrated using the towns of Clinton, Fairfield, Skowhegan and Pittsfield.

Per capita analysis directly links a given municipality’s lottery activity with its population, but this ignores the significant role of service center communities in Maine. Service center communities vary in size and appearance, but possess three attributes—they serve as employment centers and import workers, they serve as retail centers with sales exceeding the needs of the local population, and they offer an array of services to the surrounding region.

The town of Clinton’s location illustrates how per capita analysis of lottery activity at both a municipality and county level may be impacted by nearby service center communities. Clinton is the northernmost municipality in Kennebec County and is in close proximity to five municipalities identified by the State as service centers. Three of the five municipalities—Fairfield, Skowhegan and Pittsfield—are located in Somerset County. Three of the five municipalities—Fairfield, Skowhegan and Pittsfield—are located in Somerset County.



Nearby Service Center Communities	
Municipality	County
Skowhegan	Somerset
Pittsfield	Somerset
Fairfield	Somerset
Waterville	Kennebec
Winslow	Kennebec

To whatever extent residents of Clinton frequent these nearby service center communities and purchase or redeem lottery tickets, that lottery activity would be misattributed to either the service center community or, in the case of Fairfield, Skowhegan or Pittsfield, to the wrong county.

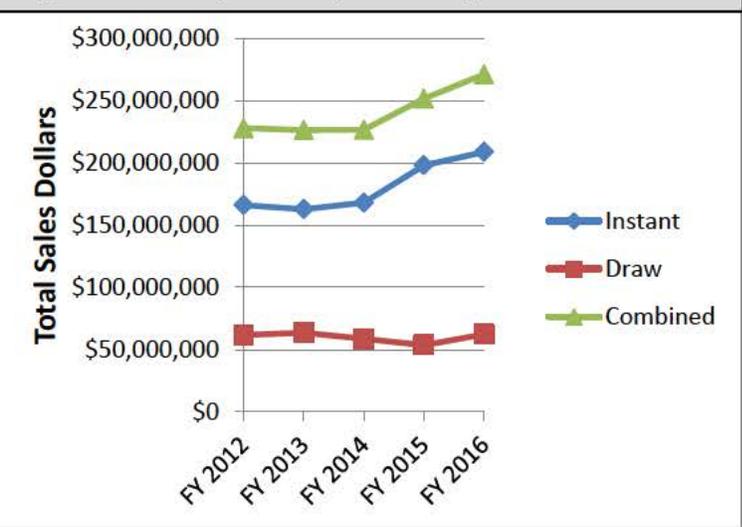
Analysis Results

Lottery sales for the period FY12 – FY16 totaled over \$1.2 billion and increased 19% between FY12 and FY16.

Lottery prize winnings for the period totaled nearly \$698 million and increased 28% between FY12 and FY16. The percentage of prize payout for the period was 58% which exceeds the statutorily required payout of 45%.

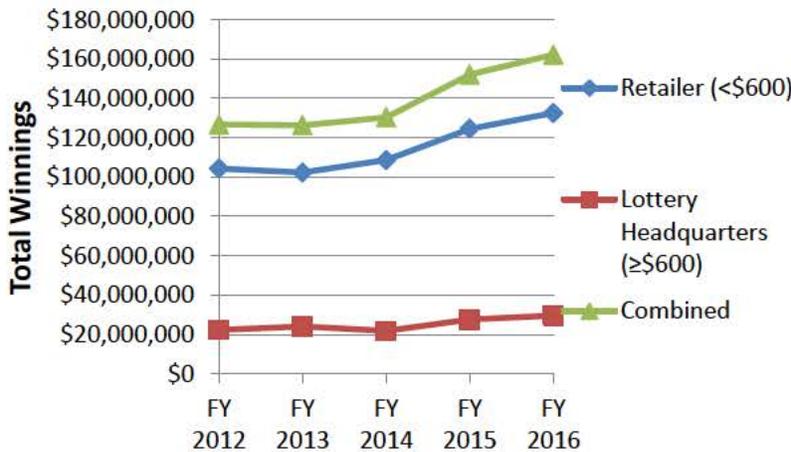
Lottery sales for the period FY12 – FY16 totaled over \$1.2 billion. Sales increased 19% over the period from nearly \$228 million in FY12 to about \$271 million in FY16. As shown in Figure 4, lottery sales were consistently around \$226 million annually from FY12 to FY14, but increased notably in FY15 and FY16. The increases in total sales for those years mirror similar increases in instant ticket sales which typically represented over 70% of annual total sales dollars. The Lottery explained that instant ticket sales increases for FY15 and FY16 may be due to the introduction of a \$25 game ticket, a new price point for the Lottery, in that time period. Additionally, draw ticket sales were stimulated by a large Power Ball jackpot in January 2016.

Figure 4. Lottery Sales by Ticket Type FY12 – FY16



Source: OPEGA analysis of sales data provided by the Lottery.

Figure 5. Lottery Winnings by Redemption Site FY12 – FY16



Source: OPEGA analysis of winnings data provided by the Lottery.

Lottery prize winnings for the period totaled nearly \$698 million and increased 28% over the period from nearly \$126.6 million in FY12 to about \$162.2 million in FY16. OPEGA calculated the payout percentage for the period as 58%, which exceeds the statutorily required payout of 45%. About \$572.5 million of the total prize dollars, 82%, were for prizes of less than \$600 claimed at participating lottery retailers. The remaining prize dollars, about \$125.4 million, were for prizes of \$600 or more claimed through the Maine State Lottery office. Figure 5 depicts annual lottery winnings by redemption site.

All counties experienced increases in total sales of at least 11% from FY12 to FY16, with several counties experiencing increases in excess of 20%. Knox County experienced the largest percentage increase (37%). At the county level, the increase in sales generally tracked the statewide trend in that the increases occurred in FY15 and FY16.

All 16 counties experienced increases in total sales of at least 11% from FY12 to FY16. Fifteen of the 16 counties also experienced increases in total winnings from FY12 to FY16.

Fifteen of the 16 counties also experienced increases in total winnings from FY12 to FY16. Percent increases ranged from 4.2% for Cumberland County to 81.7% for Knox County. All but two of the fifteen counties, Cumberland and Franklin, had increases in winnings of greater than 25%. Piscataquis County was the only county with a decrease in total winnings, the change being a 6.8% reduction from FY12 to FY16. We note that the changes in winnings totals between FY12 and FY16 were impacted by large prize winnings attributed to particular counties in FY12 or FY16.

Table 4 shows the net changes by dollar amount and percent for the sales and winnings by county from FY12 to FY16.

County	Lottery Sales		Lottery Winnings	
	FY12 to FY16 Net \$ Change	FY12 to FY16 % Change	FY12 to FY16 Net \$ Change	FY12 to FY16 % Change
Androscoggin	\$2,347,799	11.4%	\$2,829,370	25.3%
Aroostook	\$2,424,187	18.0%	\$2,019,472	29.3%
Cumberland	\$5,227,311	11.1%	\$1,200,579	4.2%
Franklin	\$1,302,362	26.4%	\$439,751	15.4%
Hancock	\$1,036,074	12.3%	\$1,899,017	42.7%
Kennebec	\$5,188,792	22.0%	\$4,145,095	32.5%
Knox	\$2,346,246	37.0%	\$2,630,120	81.7%
Lincoln	\$1,447,917	25.4%	\$1,438,831	45.0%
Oxford	\$1,471,044	16.6%	\$1,242,782	26.3%
Penobscot	\$4,273,786	17.1%	\$4,034,760	30.9%
Piscataquis	\$521,173	18.3%	(\$130,635)	-6.8%
Sagadahoc	\$1,180,636	18.3%	\$1,326,840	33.1%
Somerset	\$2,545,447	27.5%	\$2,401,938	52.1%
Waldo	\$1,413,794	27.8%	\$954,695	33.2%
Washington	\$2,090,464	25.4%	\$1,720,165	38.7%
York	\$8,019,769	25.1%	\$6,284,302	35.6%
Maine Total	\$42,836,799	18.8%	\$34,437,081	27.3%

Source: OPEGA analysis of sales and winnings data provided by the Lottery.

OPEGA calculated the average payout percentage for the each county for FY12 - FY16 and found percentages ranged from 54.2% to 69%.

OPEGA calculated the payout percentage by county for the entire period. The payout percentage is total winnings divided by total sales. As shown in Table 5, county payout percentages ranged from 54.2% to 69%, with a statewide average of 57.7%.

Table 5. Payout Percentage By County (sorted by payout percent)

County	FY12 - FY16 Total Winnings	FY12 - FY16 Total Sales	Payout Percentage
Sagadahoc	\$23,033,080	\$33,381,598	69.0%
Knox	\$21,924,183	\$35,442,530	61.9%
Kennebec	\$76,420,042	\$126,721,285	60.3%
Washington	\$27,087,338	\$45,609,802	59.4%
York	\$103,102,026	\$174,442,300	59.1%
Androscoggin	\$59,947,262	\$103,612,863	57.9%
Cumberland	\$137,037,096	\$241,179,735	56.8%
Hancock	\$24,472,626	\$43,204,922	56.6%
Lincoln	\$17,175,065	\$30,328,367	56.6%
Waldo	\$15,491,460	\$27,724,546	55.9%
Somerset	\$28,868,755	\$51,939,081	55.6%
Aroostook	\$39,520,368	\$71,190,039	55.5%
Piscataquis	\$8,505,049	\$15,327,060	55.5%
Penobscot	\$71,483,447	\$130,249,163	54.9%
Oxford	\$25,203,359	\$45,986,588	54.8%
Franklin	\$14,384,760	\$26,563,585	54.2%
Maine Total	\$693,655,912	\$1,202,903,461	57.7%

Source: OPEGA analysis of sales and winnings data provided by the Lottery.

OPEGA found a strong positive correlation between county population and lottery sales, between county population and lottery winnings, and between county sales and winnings.

Several exceptions were noted, however. Both Kennebec and Washington counties had notably higher percentages of total sales and winnings than they did of total population, while Cumberland and Penobscot had notably lower percentages of total sales and winnings than of total population.

Table 6 shows total lottery sales and winnings for FY12 – FY16 in comparison to adult population by county. As detailed in the table and illustrated in Figure 6, OPEGA found a strong positive correlation exists between county population and total lottery sales, between county population and total lottery winnings, and between county total sales and total winnings.

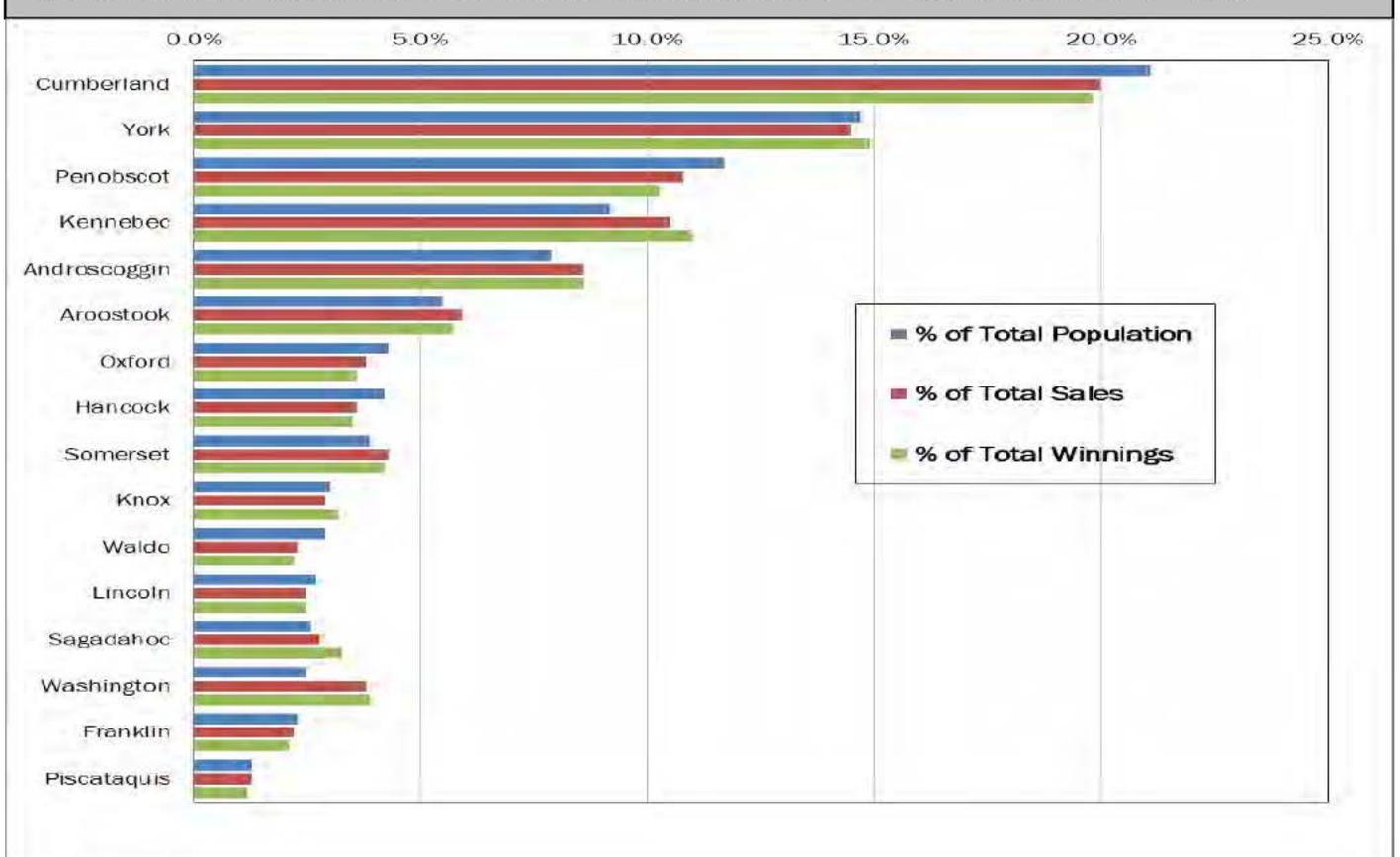
Each county's percentage of total winnings closely matched its percentage of total sales, meaning counties with higher total sales also had higher total winnings. Each county's percentage of total sales and winnings also generally mirrored its respective percentage of the total adult population for the county. Counties with larger populations generally had larger percentages of total sales and total winnings. There were, however, several notable exceptions. Both Kennebec and Washington counties had notably higher percentages of total sales and winnings than they did of total population, while Cumberland and Penobscot had notably lower percentages of total sales and winnings than of total population. These exceptions are likely due to the types of factors we describe on page 16 that limited our ability to properly attribute sales and winnings to particular geographic locations.

Table 6. Total Lottery Sales, Winnings and Population By County (sorted by Population)

County	Population			Lottery Sales			Lottery Winnings		
	18 and Over Population	% of Pop	Pop Rank	FY12 - FY16 Total Sales	% of Total Sales	Sales Rank	FY12 - FY16 Total Winnings	% of Total Win	Win Rank
Cumberland	222,780	21.1%	1	\$241,179,735	20.0%	1	\$137,037,096	19.8%	1
York	155,040	14.7%	2	\$174,442,300	14.5%	2	\$103,102,026	14.9%	2
Penobscot	123,568	11.7%	3	\$130,249,163	10.8%	3	\$71,483,447	10.3%	4
Kennebec	96,843	9.2%	4	\$126,721,285	10.5%	4	\$76,420,042	11.0%	3
Androscoggin	83,394	7.9%	5	\$103,612,863	8.6%	5	\$59,947,262	8.6%	5
Aroostook	57,486	5.5%	6	\$71,190,039	5.9%	6	\$39,520,368	5.7%	6
Oxford	45,516	4.3%	7	\$45,986,588	3.8%	8	\$25,203,359	3.6%	9
Hancock	44,441	4.2%	8	\$43,204,922	3.6%	10	\$24,472,626	3.5%	10
Somerset	41,052	3.9%	9	\$51,939,081	4.3%	7	\$28,868,755	4.2%	7
Knox	32,026	3.0%	10	\$35,442,530	2.9%	11	\$21,924,183	3.2%	12
Waldo	30,639	2.9%	11	\$27,724,546	2.3%	14	\$15,491,460	2.2%	14
Lincoln	27,989	2.7%	12	\$30,328,367	2.5%	13	\$17,175,065	2.5%	13
Sagadahoc	27,871	2.6%	13	\$33,381,598	2.8%	12	\$23,033,080	3.3%	11
Washington	26,292	2.5%	14	\$45,609,802	3.8%	9	\$27,087,338	3.9%	8
Franklin	24,721	2.3%	15	\$26,563,585	2.2%	15	\$14,384,760	2.1%	15
Piscataquis	14,170	1.3%	16	\$15,327,060	1.3%	16	\$8,505,049	1.2%	16
Maine Total	1,053,828	100.0%		\$1,202,903,461	100.0%		\$693,655,912	100.0%	

Source: OPEGA analysis of sales and winnings data provided by the Maine State Lottery.

Figure 6. Percent of Population Compared to Percent of Lottery Sales and Winnings by County for FY12 – FY16



OPEGA found there was a strong positive correlation between population and lottery sales on a municipal level as well. Of the 25 municipalities with the highest total sales, 19 were among Maine's most populous municipalities.

Over the period FY12 – FY13, 352 municipalities had lottery sales in at least one of the five years reviewed. Table 7 lists the 25 municipalities in Maine with the highest total sales dollars over the period, as well as each municipality's total winnings for the period.

Overall, there was a strong positive correlation between population and lottery sales on a municipal level. Of the 25 municipalities with the highest total sales, 19 were among Maine's most populous municipalities. Although the remaining six municipalities had smaller populations, all six have been designated by the State as regional service centers. We also noted a strong positive correlation between population and total lottery winnings at the municipal level.

Municipality	18 and Over Population	Pop Rank in Maine	FY12 - FY16 Total Sales	Total Sales Rank in Top 25	FY12 - FY16 Total Winnings	Total Winnings Rank in Top 25
Portland	54,865	1	\$54,827,989	1	\$29,033,712	1
Lewiston	28,499	2	\$42,309,256	2	\$23,433,610	2
Augusta	15,635	9	\$36,373,839	3	\$20,170,333	3
Bangor	27,169	3	\$34,658,526	4	\$18,823,497	4
South Portland	19,907	4	\$32,409,851	5	\$16,659,675	5
Biddeford	17,292	6	\$27,558,920	6	\$15,951,010	6
Auburn	17,956	5	\$24,969,827	7	\$13,311,711	8
Scarborough	14,451	10	\$24,778,660	8	\$14,634,613	7
Sanford	16,092	8	\$23,406,022	9	\$12,199,624	9
Saco	14,434	11	\$21,580,520	10	\$12,132,340	10
Brunswick	16,375	7	\$19,967,234	11	\$10,350,249	13
Waterville	12,913	14	\$19,812,403	12	\$11,506,255	11
Westbrook	13,835	12	\$18,982,875	13	\$10,704,863	12
Windham	13,170	13	\$16,002,986	14	\$9,743,608	14
Presque Isle	7,792	21	\$15,265,227	15	\$8,602,282	17
Brewer	7,568	24	\$13,930,154	16	\$7,451,200	19
Ellsworth	6,075	39	\$13,256,926	17	\$7,358,329	20
Rockland	5,965	40	\$12,968,227	18	\$6,824,053	22
Bath	6,624	30	\$12,539,740	19	\$9,343,786	15
Caribou	6,454	32	\$12,234,224	20	\$6,795,472	23
Gorham	12,679	15	\$11,994,534	21	\$8,731,546	16
Wells	7,807	20	\$11,943,089	22	\$5,917,566	26
Old Orchard Beach	7,394	25	\$11,753,357	23	\$8,312,806	18
Fairfield	5,219	47	\$11,389,788	24	\$5,897,554	27
Skowhegan	6,691	29	\$11,090,678	25	\$6,011,137	25

Source: OPEGA analysis of sales and winnings data provided by the Maine State Lottery

OPEGA found a strong positive correlation between a retailer's total lottery sales and the small prize winnings redeemed at that same retailer.

OPEGA identified the lottery retailers with the highest total sales and the highest total winnings. Over 1,600 retailers were identified in the provided data, although there were several instances in which the same store, or location, was listed more than once as a result of either a new name or ownership. Table 8 lists the 15 retailers whose total sales for the period exceeded \$3,000,000 and the total small prize winnings (less than \$600 each) that were redeemed at these retailers. Overall, we found a strong positive correlation between a retailer's total lottery sales and the small prize winnings redeemed at that same retailer.

Table 8: Retailers With Total Lottery Sales Over \$3 Million for FY12 - FY16

Retailer	Municipality	FY12 - FY16 Total Sales	FY12 - FY16 Total Winnings	Total Winnings Rank
Lisbon Street News	Lewiston	\$5,697,005	\$2,948,271	1
Hannaford Supermarket #8225	Biddeford	\$4,972,552	\$2,740,888	2
Hannaford Supermarket #8342	Scarborough	\$3,923,248	\$2,095,092	4
Broadway Variety	South Portland	\$3,706,662	\$1,681,401	9
Hannaford Supermarket #8351	Portland	\$3,675,529	\$2,262,866	3
Potvin's Market	Old Orchard Beach	\$3,520,490	\$1,801,902	7
Hannaford Supermarket #8223	Westbrook	\$3,516,073	\$1,899,898	5
Cumberland Farms #5604	Portland	\$3,466,133	\$1,594,631	12
Victor News Company	Lewiston	\$3,410,667	\$1,661,282	10
Fisherman's Friend	Vinalhaven	\$3,360,950	\$1,730,052	8
Hannaford Supermarket #8222	Falmouth	\$3,333,155	\$1,497,993	19
J & S Oil Manchester	Manchester	\$3,156,190	\$1,543,672	15
Hannaford Supermarket #8138	Saco	\$3,078,728	\$1,872,368	6
Cumberland Farms #5585	Brunswick	\$3,031,353	\$1,442,990	24
Cumberland Farms #5571	Bath	\$3,015,377	\$1,476,463	20

Source: OPEGA analysis of sales and winnings data provided by the Maine State Lottery

Lottery Winnings Impact on Public Benefits Eligibility

The Lottery determines if winners of over \$599 have outstanding debt owed for child support payments, unearned unemployment benefits, and unpaid state income tax.

When lottery ticket holders claim winnings of over \$599 at Lottery headquarters, Lottery staff collect the winner's name, address, social security number, telephone number, and email address. The Lottery uses this information in a web-based application to determine if winners have outstanding debt owed for child support payments, unearned unemployment benefits, and unpaid state income tax. If there is outstanding debt, the Lottery reports this information to the appropriate State agency, offsets the winnings as applicable, and transfers the funds to that State agency.

OPEGA reviewed eligibility requirements for three public benefit programs, TANF, SNAP and MaineCare to determine the impact of lottery winnings on benefit eligibility.

In 2015, DHHS formally requested from the Lottery a list of all individuals that had won a Maine lottery prize of \$1,000 or more for the period of 2010-2014. According to BABLO, this was a one-time request. DHHS compared the list of individuals provided by the Lottery to an internal list of those receiving three major public benefits programs at the time the winnings were cashed. DHHS aggregated the results in its 2015 report entitled “Maine Welfare Lottery Winners from 2010 – 2014”. Those programs were:

Temporary Assistance for Needy Families (TANF) - a federally authorized financial assistance program that provides cash assistance for needy families with dependent children. In order to be eligible for TANF, families must meet certain demographic requirements:

- the family must be made up of United States citizens or certain qualified aliens residing in Maine;
- have a relative child living in the home;
- any dependent children must be under the age of 18 or in high school; and
- the dependent children must be deprived of parental support because of death, continued absence, incapacity of the parent, or under employment of the principal wage earning parent.

There is a maximum of 60 months of assistance provided during one’s lifetime and the parent must comply with work requirements.

Supplemental Nutrition Assistance Program (SNAP)⁵ - a food distribution program intended for the purchase of eligible foods, including seeds and plants. DHHS administers the program in accordance with the requirements and regulations of the United States Department of Agriculture, U.S. Department of Health and Human Services, and U.S. Department of Education. Maine DHHS issues the benefits through the Electronic Benefit Transfer program.

MaineCare - provides Maine residents with access to health care and refers to a number of programs that help individuals pay for health care costs, including Medicaid. U.S. citizens residing in Maine are eligible to receive benefits and non-citizens have some coverage options available.

While eligibility requirements vary, all three programs have limits related to income and assets, and recipients must report any changes to income and/or assets within 10 days of the change occurring.

The DHHS Office for Family Independence (OFI) administers these three programs and determines eligibility for individuals and families. While the eligibility requirements vary, all three programs have limits related to income and assets. Recipients of benefits for all three programs must report any changes to income and/or assets within 10 days of the change occurring. When changes are reported, OFI Eligibility Workers reassess eligibility for any program the household is enrolled in. In general, OFI Eligibility Workers also regularly review the recipients’ circumstances every 12 months to make a redetermination of eligibility.

At the time of our review, DHHS was not routinely comparing lottery winners to beneficiaries of assistance programs administered by DHHS. OPEGA understands, however, that DHHS is anticipating doing so.

⁵ SNAP was formerly known as the Food Stamp Program.

DHHS has made a recent rule revision that permits termination of SNAP benefits when any member of the household receiving benefits has received lottery winnings of \$5,000. DHHS will coordinate with the Lottery to receive confirmation of significant lottery winnings.

DHHS revised agency Rule Chapter 301, Food Supplement Manual, effective November 21, 2016, to allow the Department, subject to adverse notice requirements, to terminate SNAP benefits when any member of the household receiving benefits has received lottery winnings of \$5,000 or more in one calendar month. The household may immediately reapply for SNAP, and DHHS will re-determine eligibility based on income and assets at that time. DHHS will coordinate with the Maine State Liquor and Lottery Commission to receive confirmation of lottery winnings.

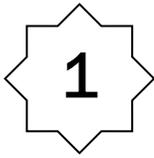
DHHS and BABLO expect to develop a Memorandum of Understanding for the Lottery to share data on winners with DHHS. According to DHHS, the data would also be used to determine continued eligibility for programs other than SNAP by including any additional documented income from lottery winnings in the calculations that take place under the current asset and lump-sum income rules in those programs. Depending on recipients' circumstances and/or the amount of the winnings, their benefits could change.

OPEGA reviewed the eligibility requirements for TANF, SNAP and MaineCare to determine how lottery winnings would impact eligibility. Table 9 describes the income and assets limits for each program and how lottery winnings would be treated in re-assessing eligibility.

Program Name	Financial Eligibility Criteria	How Lottery Winnings Impact Eligibility
Temporary Assistance for Needy Families	Income includes earned income and unearned income. Income limits vary by family size and other considerations. For example, the earnings limit for a single parent family of three earnings is \$1,023 per month for a maximum benefit of \$485 per month. Maximum countable assets for the family unit are \$2,000.	Up to \$10,000 of lump sum income, such as lottery or gambling winnings, is not considered if it is used within 30 days for the purposes of education, job training, home or vehicle purchase or repair, capital for starting a small business, or placing in certain savings accounts.
Supplemental Nutrition Assistance Program	Household gross income generally must be below 130% of the poverty line and the household's net income must be below 100% of the poverty line. Categorically eligible households generally must have income below 185% of the poverty line. Assets must be \$2,250 or less, or \$3,250 or less for households with an elderly or disabled member. Categorically eligible households without children must have countable assets of less than \$5,000.	Lottery winnings are counted as assets, not as income. The payment is counted in the month it is received. Winnings paid annually are averaged over a 12 month period. Under DHHS' recent rule change, benefits would be immediately terminated when any member of the household receiving benefits has lottery winnings of \$5,000 or more in one calendar month.
MaineCare	Individuals may be Categorically Needy, meaning the household income is within certain federal poverty level (FPL) standards, or they may be Medically Needy. MaineCare income limits are based on the applicant's federal Modified Adjusted Gross Income (MAGI). The 2017 FPL for a family of three is \$20,420. Income limits vary from a MAGI of 108% of FPL to 250% of FPL depending on recipient category. Certain coverage groups have asset limits and asset limits vary by group. For those receiving SSI-related Medicaid, the asset limit for a single individual is \$2,000. Working-disabled individuals have an \$8,000 asset limit.	Lottery winnings are treated as income in the month of receipt and as an asset in the following month (if applicable).

Source: OPEGA review of Department of Health and Human Services TANF, SNAP, and MaineCare eligibility information.

Recommendations



Legislature Should Amend Lottery Reporting Requirements and Lottery Should Ensure Those Requirements are Met

Maine statute Title 8 § 372 contains two reporting requirements for the Lottery. BABLO did not meet either requirement in the period FY12 – FY16. Current management and staff at BABLO and DAFS did not provide OPEGA any explanation for not reporting.

Statute requires the BABLO Director submit full and complete certified statements of lottery revenues, prize disbursements, and other expenses to State Treasurer, the Commission, and the DAFS Commissioner on a monthly basis. Staff in the State Treasurer's Office reported to OPEGA that the Lottery had not been providing this certification, but also explained that the Office neither requests the certified statement, nor needs it to conduct their work.

Statute also requires the BABLO Director to submit an annual report, subject to the approval of the Commission, to the Governor and the Legislature that must include a full and complete statement of lottery revenues, prize disbursements, and expenses. However, Lottery staff did not provide OPEGA any evidence of these reports, or other annual reports, being submitted to the Legislature and the nonpartisan staff for the VLA Committee, the AFA Committee, and the Legislative Council told OPEGA they were unaware of BABLO submitting any annual reports.

The DAFS Service Center that supports BABLO generates, and provides to the agency, annual financial statements that include the information statute requires be reported to the State Treasurer and the Legislature. The legislative Office of Fiscal and Program Review has, in the past, obtained these financial statements from BABLO when needing Lottery information to include in the annual State of Maine Compendium of State Fiscal Information.

In early 2016, following its review of BABLO's Government Evaluation Act report, the VLA Committee introduced legislation requiring that BABLO annually report to the Committee specifically on expenditures made to promote lottery sales through marketing and advertising, as well as the gross revenues and operating profits from the sale of spirits in the State. The purpose of the specified reporting was to ensure VLA has adequate information to facilitate its role of overseeing and monitoring the operation of the Maine State Lottery and the State's spirits business. The bill was passed by the Legislature, but vetoed by the Governor and the veto was sustained. OPEGA noted that the annual Lottery financial statements prepared by the DAFS Service Center do include some details on the Lottery's advertising expenses for the year.

OPEGA observed that the Legislature has interest in the profitability of the Lottery as a source of General Fund revenues and in the broader policy implications of Lottery activities and decisions. Annual reporting is an avenue for regularly providing information important to the Legislature's oversight and understanding of Lottery's activities and finances, as well as for generally promoting accountability and transparency for this legislatively-created entity. We suggest that annual reporting of some information beyond Lottery finances may also be beneficial. For

example, a summary of key actions and decisions by the Commission in the past year and a description of the Lottery's marketing and advertising activities.

Recommended Legislative Action:

The Legislature should amend statute to:

- Eliminate the requirement for annual certification of finances to the State Treasurer, unless some purpose for this certification is identified.
- Specify the date annual reports are due, which legislative committees they should be submitted to and what the reports should include.

The Legislature might also consider adding a requirement for the Lottery to publicly present the annual reports to the VLA.

We observe that similar annual reporting requirements exist in statute for BABLO's alcoholic beverage operations. The Legislature may want to similarly amend those requirements so that BABLO has consistent reporting requirements for its entire function. Additionally, depending on what BABLO is required to include in the annual reports, the Legislature might also consider eliminating the requirement for BABLO to submit a Government Evaluation Act report every eight years.

Recommended Management Action:

BABLO should begin submitting the statutorily required annual reports, possibly using the annual financial statements already prepared as a base. Those reports should be directly submitted to the Legislature's VLA and AFA Committees via an avenue that would also result in those reports being posted on the Legislative Calendars. Additionally, BABLO should make the annual reports publicly available on its website or that of the Liquor and Lottery Commission.



Lottery Commission Meetings and Decisions Should be Better Publicized

The State Liquor and Lottery Commission holds monthly meetings that are open to the public. The meeting date and time is advertised in the Kennebec Journal the day prior to the meeting and interested parties, including members of the Legislative Council, are notified of upcoming meetings. Commission discussion and actions taken at the meetings are also well documented in meeting minutes. However, Commission meeting dates, agendas and minutes have not historically been posted to either the Commission or BABLO websites.

OPEGA observes that Commission meetings and discussions provide an avenue for legislators and legislative committees to provide input to the Commission's decisions before they are made, particularly when the Legislature is not in session. A lack of legislative awareness of Commission deliberations and decisions could result in the Lottery developing initiatives that are not aligned with broader legislative expectations for gaming in the State.

This situation occurred in early 2015 with the near introduction of the game of Keno, a type of draw game where winning numbers are drawn every four or five minutes daily. BABLO and the Commission viewed Keno as a game that was within their statutory purview to introduce and were developing rules to

incorporate Keno as a new lottery game. Commission meeting agendas and minutes show that Keno was discussed and voted on over several public meetings. However, when BABLO briefed the Chairs and Leads of the VLA Committee on the Lottery's plan to introduce Keno, legislative concerns about the societal impact of the game emerged. An emergency bill was submitted, and passed, to prohibit Keno from being included in the lottery ticket offerings.

Recommended Management Action:

OPEGA discussed this issue with Lottery staff during the course of our review, and Commission meeting agendas and minutes are now being posted to the Commission's website. We recommend that BABLO continue to post Commission meeting notices and agendas to the Commission's website in advance of monthly meetings. Minutes of Commission meetings should also continue to be posted to the website in a timely manner.

Additionally, BABLO should directly notify members of the VLA Committee via email of upcoming meetings and agendas. This may be accomplished by ensuring current VLA Committee members are included on the Commission's interested parties email list.

Acknowledgements

OPEGA would like to thank the management and staff of the Maine State Lottery for their cooperation throughout this review. We also appreciate the assistance and information provided by management and staff of the Department of Health and Human Services.

Agency Response

In accordance with 3 MRSA § 996, OPEGA provided the Maine State Lottery an opportunity to submit additional comments after reviewing the report draft. The Lottery's response letter can be found at the end of this report. DAFS indicated it is in general agreement with OPEGA's recommendations and plans to take the following actions.

1

Legislature Should Amend Lottery Reporting Requirements and Lottery Should Ensure Those Requirements are Met

DAFS agrees with this recommendation and believes that, as OPEGA identified, opportunities might exist to provide consistent reporting requirements for both Maine's spirits operation and the state lottery.

DAFS and BABLO look forward to working with the members of the Joint Standing Committee on Veterans and Legal Affairs and other lawmakers to improve and clarify the reporting requirements that exist in law and commit to ensuring that these requirements are met.

2**Lottery Commission Meetings and Decisions Should be Better Publicized**

DAFS agrees with this recommendation, and BABLO has already begun the process of improving access to information related to the meetings of the Maine State Liquor and Lottery Commission.

In response to early discussions between OPEGA and DAFS, BABLO began posting the agenda and minutes for meetings of the liquor and lottery commission on the commission's website at: http://maine.gov/dafs/bablo/liquor_lottery/. Current agendas and minutes, as well as an archive from 2016 meetings, has been made available to the public through this platform. DAFS believes that this approach is in the public interest and will, ultimately, minimize the time necessary to respond to requests for this information in the future.

Additionally, BABLO commits to notifying members of the Maine Legislature's Joint Standing Committee on Veterans and Legal Affairs of upcoming meetings of the Commission.

Appendix A. Scope and Methods

The scope for this review, as approved by the Government Oversight Committee, consisted of several questions. To answer these questions, OPEGA:

- reviewed Maine Statute and legislative history for the Maine State Lottery;
- reviewed BABLO Annual Financial Reports;
- reviewed the 2015 BABLO/State Liquor and Lottery Commission Government Evaluation Act report;
- reviewed requests for proposals and resulting contracts for the Lottery's advertising and gaming system contractor;
- obtained, verified and analyzed data files of Lottery sales and cashes for the period FY12 - FY16;
- obtained and analyzed data files of Lottery radio and television advertising buys from when the current advertising contractor began (March 2015) through the end of calendar year 2016;
- conducted limited research regarding the relationship between socio-economic factors and lottery play;
- reviewed eligibility guidelines for the following public assistance programs:
 - Temporary Assistance for Needy Families (TANF);
 - Supplemental Nutrition Assistance Program (SNAP); and
 - MaineCare.
- conducted interviews with:
 - Management and staff of the Department of Administration and Financial Services, the Bureau of Liquor and Lottery Operations, and the Maine State Lottery;
 - Chairman of the State Liquor and Lottery Commission;
 - House Chair of the Joint Standing Committee on Veterans and Legal Affairs; and
 - Senior Vice President of FuseIdeas, the Lottery advertising contractor.

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STATE OF MAINE
DEPARTMENT OF ADMINISTRATIVE & FINANCIAL SERVICES
78 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0078

SERVING THE PUBLIC AND DELIVERING ESSENTIAL SERVICES TO STATE GOVERNMENT

PAUL R. LEPAGE
GOVERNOR

RICHARD W. ROSEN
COMMISSIONER

April 25, 2017

Beth Ashcroft
Director
Office of Program Evaluation and Government Accountability
82 State House Station
Augusta, ME 04333-0082

Dear Beth:

On behalf of the Bureau of Alcoholic Beverages and Lottery Operations (BABLO) and Department of Administrative and Financial Services (DAFS), I would like to thank you and your staff for your efforts in completing your recent review of the Maine State Lottery.

The review process was well organized and efficient, and we appreciate the effort and the professionalism demonstrated by your staff throughout the past 18 months. I trust that you found our responsiveness helpful as your staff worked to complete their review.

The lottery operation is open and transparent. A five-member commission, appointed by the governor and confirmed by the Maine Legislature, oversees the Maine Lottery. We appear before the Legislature's Veterans and Legal Affairs Committee regularly during a legislative session. A team of State of Maine employees manages the day-to-day operations of the Lottery, and does so with integrity and fairness.

However, beginning in October 2015, the integrity of the Maine State Lottery was called into question with the introduction of a series of media reports. This baseless scrutiny led to letters to the editor and editorials that appeared in media outlets throughout Maine, was ultimately acknowledged by the Maine Legislature, and consumed an inordinate amount of time within our Bureau of Alcoholic Beverages and Lottery Operations (BABLO) for more than 18 months.

The crux of the allegations focused on a supposed connection between lottery players' purchasing habits and the marketing of the lottery's games, as it relates to defined geographies and demographic groups. Despite a whirlwind of media coverage around the Maine State Lottery, OPEGA completed its review in an impartial way that reflects well upon their office and maintains the highest levels of the public's confidence.

When the Office of Program Evaluation and Government Accountability's (OPEGA) review of the Maine Lottery began, I directed my staff to refrain from commenting publicly on allegations made in the media. I made this decision because of the confidence that I have in OPEGA's ability to objectively complete their reviews. It has been my belief since the beginning that our customers, lottery retail agents, and the public deserved to have the truth about the Maine Lottery revealed. Having seen a draft of the final report, I can say with confidence that the truth came out.

I thank the OPEGA team for their diligent work on this report and their collaboration with BABLO staff and DAFS leaders during this review.

Sincerely,

A handwritten signature in black ink that reads "Richard W. Rosen". The signature is written in a cursive style with a large, stylized "R" at the beginning.

Richard W. Rosen
Commissioner