

Lottery Operations and Charitable Gaming

Evaluation Report
February 2012

Office of Performance Evaluations
Idaho Legislature



Report 12-03

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Rakesh Mohan, Director
Office of Performance Evaluations

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Office of Performance Evaluations

954 W. Jefferson St., 2nd Fl.

P.O. Box 83720, Boise, Idaho 83720-0055



Office of Performance Evaluations Idaho Legislature

954 W. Jefferson Street
10th Street Entrance, 2nd Floor
P.O. Box 83720
Boise, ID 83720-0055

Phone: (208) 332-1470
Fax: (208) 332-1471
Website: www.idaho.gov/ope

Rakesh Mohan
Director

**Joint Legislative
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February 9, 2012

Members
Joint Legislative Oversight Committee
Idaho Legislature

In March 2011, you directed us to evaluate the Idaho State Lottery. We focused our evaluation in two areas: Lottery operations and charitable gaming regulations.

We made one recommendation to the Lottery that will increase efficiencies and five recommendations to the Legislature to update or clarify statute for the Lottery and for the regulation of charitable gaming.

We thank the Lottery and its commissioners for their cooperation and assistance throughout this study. The report includes responses from the Governor, the Lottery Commission, and the Lottery.

Sincerely,

A handwritten signature in blue ink that reads "Rakesh Mohan".

Rakesh Mohan

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Executive Summary

Lottery Operations and Charitable Gaming

The Idaho State Lottery was established in 1988 for the purpose of generating revenue for the state at the least possible expense. The Lottery is a self-governing agency that is overseen by a five-member commission. The Lottery not only manages the distribution and sale of lottery games, but it also regulates charitable gaming and monitors class III gaming on Indian reservations.¹

The Lottery generates revenue from games sold at more than 1,000 retail locations. The retailers are compensated five percent of their ticket sales and are eligible for bonuses. Proceeds from lottery games are distributed to the state's public schools and the permanent building fund. In fiscal year 2011, lottery revenue was \$147.8 million and \$37 million was distributed to the state.

We found that operations of the Lottery generally aligned with the framework set in Idaho Code. However, several sections of code regarding lottery operations and charitable gaming are vague and could benefit from some clarity. In addition, we found that some of the charitable gaming regulations need restructuring because they create an unnecessary burden for nonprofits as well as additional work for Lottery staff.

Advertising, Marketing, and Promotional Costs Should Be Defined in Idaho Code

The Lottery is statutorily required to keep advertising costs below 3.5 percent of its annual revenue. Idaho Code does not, however, provide a definition for advertising costs nor does it clarify whether marketing or other costs related to advertising should be counted toward the advertising cap.

Advertising, marketing, and promotional costs are closely related terms used interchangeably in Idaho Code Title 67, Chapter 74. The Lottery defines an advertising cost as advertising and marketing products and services, including sponsorships and mass media advertisements. The Lottery does not include salary, travel, or overhead costs associated with its internal marketing division.

¹ A review of class III gaming on Indian reservations was beyond the scope of this evaluation.

Using the Lottery's definition of an advertising cost, we found that advertising costs were 2.1 percent of revenue in fiscal year 2011. If all in-house marketing personnel and operating costs were added to the advertising cap, the cap would increase to 2.4 percent of revenue; well below the statutory limit of 3.5 percent.

Because Idaho Code does not provide definitions of advertising, marketing, or promotional costs, we recommend that the Legislature provide definitions.

Charitable Gaming Regulations Are Outdated

Charitable gaming regulations were established in 1992 to protect the public from fraudulently conducted games. Charitable gaming is overseen by the Lottery and receives support from the Bingo-Raffle Advisory Board. In 2011, 196 licensed organizations conducted charitable gaming. These organizations indicated in their annual reports, as submitted to the Lottery, that they allocated over \$3.7 million for charitable purposes.

Nonprofit organizations with a charitable purpose are allowed to conduct charitable gaming of bingo, raffles, duck races, and holiday Christmas tree fundraisers. Except those that conduct gaming under specified thresholds, nonprofits are required to be licensed by the Lottery. In order to be licensed, nonprofits must pay an annual license fee and submit an annual report to the Lottery that demonstrates compliance with regulations. Statute does not, however, clearly define the length of time records must be retained.

Nonprofits that conduct bingo games are required to use 20 percent of the *gross* revenue for charitable purposes. Nonprofits that conduct raffles are required to use 90 percent of the *net* revenue for charitable purposes.

During our review of charitable gaming, we found that reporting processes could be modernized to reduce the workload of Lottery staff. We recommend the Lottery implement online forms and allow for the electronic submission of annual reports.

Idaho Code sets prize amounts for raffles but allows the Lottery Commission to determine prizes for bingo. We found that Idaho Code requires nonprofit organizations to acquire a license when conducting Christmas tree fundraisers even though the fundraisers are not gambling. Therefore, to reduce the unnecessary regulatory burden on nonprofits and the workload of Lottery staff, we have four recommendations for the Legislature to modernize various sections of Idaho Code.

- Provide clarification on the time needed for record retention of organizations that conduct bingo games
- Allow the Lottery to offer licenses for more than one year

- Allow the Lottery to determine prize amounts for raffles
- Remove holiday Christmas tree fundraising from charitable gaming

For purposes of disclosure, the director of the Office of Performance Evaluations serves as a volunteer on the public policy committee of the Idaho Nonprofit Center and the board of directors of the Learning Lab, a nonprofit organization based in Boise. His involvement with these nonprofits did not affect the office's independence or objectivity in making recommendations.

Acknowledgements

We appreciate the assistance of the Idaho State Lottery, the Idaho State Lottery Commission, the Bingo-Raffle Advisory Board, the Office of the Attorney General, and the legislative Reference Library and Budget and Policy Analysis.

We also appreciate the information provided by staff from the Division of Financial Management, Idaho school districts and charter schools, the Idaho Nonprofit Center, the nonprofit organizations that participated in our survey, and Lottery retailers.

Jared Tatro of the Office of Performance Evaluations conducted this study. Margaret Campbell was the copy editor and desktop publisher.

Dr. Kathleen Sullivan, professor and former director of the Center for Education Research and Evaluation at the University of Mississippi, conducted the quality control review.

Chapter 1

Lottery Operations

In March 2011, the Joint Legislative Oversight Committee directed us to evaluate the operations of the Idaho State Lottery, including the regulation of charitable gaming. Appendix A lists the specific evaluation questions and the methodology we used to conduct the study.

How Does the Lottery Operate?

The Idaho Lottery was established in 1988 to generate revenue for the state through the sale of games. Net revenue from lottery sales is distributed to the public schools building fund, the permanent building fund, and the bond levy equalization support program. The Lottery has distributed more than \$510 million to these funds since its inception.¹

The Lottery has distributed more than \$510 million to the state since its inception.

A self-governing agency, the Lottery operates with dedicated funds from the revenue it generates. At the time of our study, the Lottery had 44.3 full-time equivalent staff managed by an executive director and a chief operating officer with oversight from a five-member commission.² The bipartisan commissioners are appointed by the Governor with Senate confirmation to a five-year term. The Lottery also regulates charitable gaming, as discussed in chapter 2, and monitors class III gaming on Indian reservations.³

The Lottery creates and manages four types of games: draw, scratch ticket, pull tab, and raffle. These games can be purchased from retailers in more than 1,000 locations throughout the state. Retailers are compensated five percent of sales and are eligible for bonuses. A detailed description of each lottery game is in appendix B, and information about lottery retailers and our survey of retailers is in appendix C.

¹ Idaho State Lottery, *Annual Report* (fiscal year 2011).

² The Lottery's director is also the director for the Idaho State Liquor Division.

³ A review of class III gaming on Indian reservations was beyond the scope of this evaluation.

The Lottery contracts with a local advertising company for advertising development, and Lottery marketing staff oversee the contract. Lottery games are promoted through advertising methods such as television, billboards, and radio. In the past, advertising methods had been questioned by legislators because children appeared in the advertisements and advertising implied that all revenue went to public schools. We reviewed advertising efforts from 1998 to 2011 and found that children have not appeared in advertisements since 2006. We also found that the Lottery has always recognized public schools as a revenue recipient. However, it was not until 2009 that the Lottery began recognizing the permanent building fund as a net revenue recipient; before 2009 the Lottery only recognized “buildings” in its advertisements and promotional materials.

How Does the Lottery Define Advertising Expenses?

Advertising, marketing, and promotional costs are interrelated terms. Idaho Code Title 67, Chapter 74 uses all three terms, but it is not clear whether these terms are meant to be synonymous. Idaho Code lists advertising and marketing costs as an expense, but it does not separately define which expenses are considered advertising, marketing, or promotional costs.

Idaho Code § 67-7404. Definitions. (4) “Expenses” means all costs of doing business including, but not limited to, prizes, commissions and other compensation paid to retailers, **advertising and marketing costs**, personnel costs, capital outlay, reasonable expenses incurred by other state agencies to effectuate the purposes of this chapter, depreciation of property and equipment, and other operating costs, all of which are to be recorded on the accrual basis of accounting in accordance with generally accepted accounting principles [emphasis added].

Idaho Code § 67-7449. Cap on Administrative Costs. During the first year of operation, administrative costs shall not exceed twenty percent (20%) of lottery revenue. Thereafter, administrative costs shall not exceed fifteen percent (15%) of lottery revenue during any fiscal year. **Advertising and promotional costs shall not exceed three and one-half percent (3 1/2%) of lottery revenue during any fiscal year** [emphasis added].⁴

Lottery has interpreted Idaho Code to include all advertising and marketing products and services (mass media advertising, promotions, sponsorships, point

⁴ In our review of Idaho Code and session laws, we found the 1988 enabling legislation included advertising and marketing as an administrative cost. Advertising and marketing were removed from the definition in 1989 to clarify that the advertising and marketing cap was not to be counted as part of the administrative cap. This statutory change, however, did not define an advertising or marketing cost.

of sale materials, signage, etc.) in its advertising cap calculation. It does not include salary, travel, or overhead costs associated with the Lottery's internal marketing division. The marketing division manages the contract with the advertising vendor, handles public relations, and oversees the effectiveness of the advertisements.

We found two state documents by the Lottery that include marketing activities as a part of advertising and promotion. In its fiscal year 2012 budget submission, the Lottery indicated that "the marketing division is responsible for all advertising of lottery products...marketing creates and produces nearly all promotional materials in house." Additionally, Idaho Administrative Code notes that "advertising and promotional contracts involve unique marketing strategies for Lottery games."

Clarifying Legislative Intent

Our review of the Lottery's financial statements from fiscal years 1991 to 2011 found that advertising costs, as defined by the Lottery, averaged 2.8 percent. The expenditures fall well within the statutory cap of 3.5 percent. However, these expenditures do not reflect the in-house personnel and operating costs associated with advertising. Lottery officials believe that the intent of the Legislature was to limit the dollars invested for advertising lottery products in the marketplace.

Legislative intent is unclear about which costs should be included in the 3.5% advertising cap.

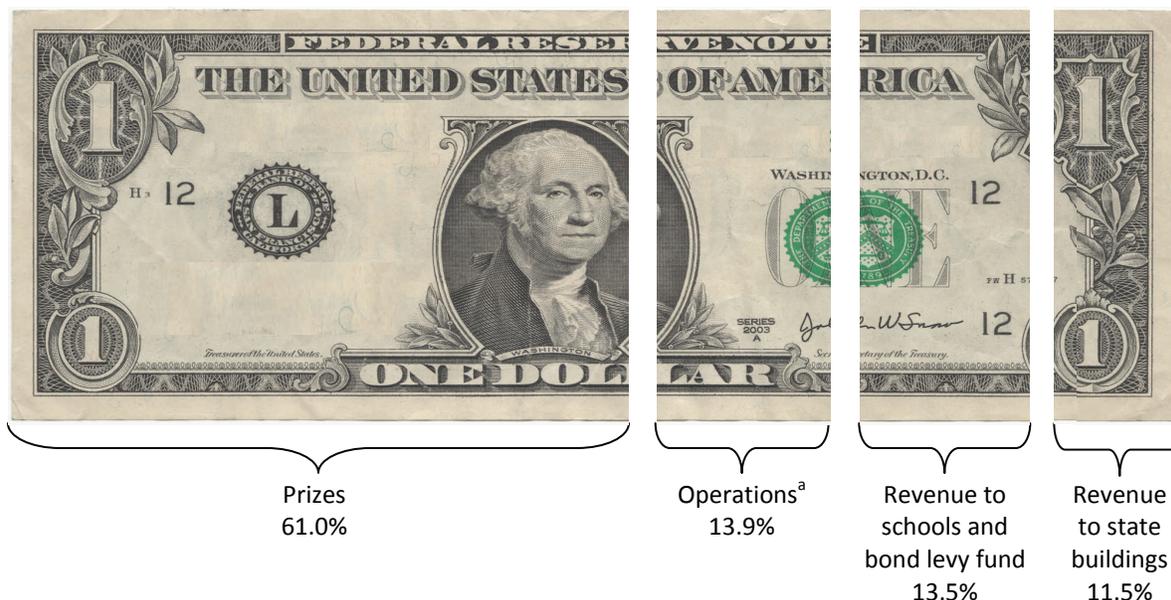
If the intent of the Legislature was to include all costs associated with the advertising process and not only the actual advertisements, then the Lottery should include all costs related to advertising, including costs from its marketing division. If the marketing division costs were included in fiscal year 2011, advertising costs would have increased from 2.1 to 2.4 percent.⁵ Even though the addition of the marketing division costs does not push the advertising costs above the cap, we recommend the Legislature clarify these costs to ensure future Lottery administrations follow the legislative intent.

How Are Lottery Dollars Distributed?

As shown in exhibit 1.1, in fiscal year 2011, 61 percent of revenue went to players in the form of prizes, 13.9 percent went to Lottery operations, and 25 percent was distributed to the state. During each of the past five fiscal years (2007 to 2011), the distribution of these costs as a percentage of revenue has been relatively unchanged. In fiscal year 2011, the Lottery generated more than \$147.8 million in revenue.

⁵ Because data was not readily available, we did not calculate costs associated with the in-house marketing division from 1991 to 2010.

EXHIBIT 1.1 DISTRIBUTION OF LOTTERY FUNDS FOR EACH DOLLAR GENERATED, FISCAL YEAR 2011



Source: Analysis of fiscal year 2011 data from the Idaho State Lottery.

Note: Percentages may not sum to 100 because of rounding.

^a Operations comprise 6.1 percent retailer compensation, 2.1 percent advertising, and 5.8 percent of other administrative costs.

Distribution of Prizes

Lottery officials determine the prize amount for scratch and draw games through research and analysis of data such as current market trends, historical performance of similar games, and industry trends. An average of 60 cents from every dollar played in the past five years was returned to players in prizes.⁶

The largest dollar amount winners were from north and southeast Idaho.

We examined the number of players in Idaho who won \$500 or more playing lottery games from 2008 to 2011. Exhibit 1.2 shows that although region 3 (southwest Idaho) had the greatest number of winners, the largest dollar amounts were won in region 1 (north Idaho) and region 5 (southeast Idaho).

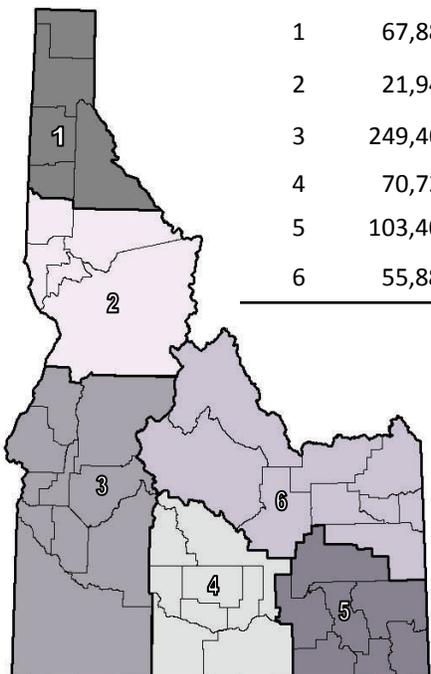
Distribution of Net Revenue

After accounting for and paying all prize monies and operating costs, the Lottery distributes an average of 25 percent of its net revenue to the state each year. In fiscal year 2011, the Lottery distributed \$37 million to the state.

⁶ Prize amounts for multistate games are determined by the Multi-State Lottery Association.

EXHIBIT 1.2 LOTTERY WINNERS OF \$500 OR MORE BY REGION, FISCAL YEARS 2008–2011

Region ^a	Total Sales (\$)	Number of Winners ^b	Total Winnings (\$)	Largest Single Prize (\$)	Number of \$1 Million or More Winners
1	67,883,982	272	132,494,028	120,025,269	7
2	21,947,253	115	1,169,207	200,000	0
3	249,406,112	1,231	22,442,650	1,000,000	4
4	70,733,455	335	4,389,857	1,000,000	1
5	103,408,052	454	23,554,490	2,785,000	15
6	55,887,361	164	2,467,668	250,000	0



Source: Analysis of data from the Idaho State Lottery.

Note: We analyzed four years of data because before fiscal year 2008, the Lottery used a software program that is no longer in use.

^a The Lottery tracks sales and winnings information by sales representatives and retail locations. However, these criteria do not align with specific boundaries. Therefore, we used regions as defined in Idaho Code § 67-7704 for the Bingo-Raffle Advisory Board.

^b We found that 143 winners won more than one time, and these winners accounted for 15 percent of the total large prize winning tickets claimed from 2008 to 2010.

School District Building Account

The school district building account receives funds from two sources: lottery revenue and interest earned from the public schools facilities cooperative fund. Lottery revenue in 2011 was \$17 million and accounted for 99 percent of the funding in the building account. Funds are distributed according to average daily attendance. School districts and charter schools are required in statute to use funds from the account for the maintenance and repair of their facilities.⁷

In fiscal years 2010, 2011, and 2012, the Legislature temporarily removed the requirement for the use of funds so districts and charter schools could spend the funds at their discretion. We surveyed 152 school districts and charter schools to identify their current use of the funds and received responses from 72 percent. We found that the two largest school districts used the lottery funds for supplies and compensation. The medium and small districts reported using the lottery funds for maintenance, but the number of districts using funds for this purpose declined from 2010 to 2012. At the same time, the medium districts reported an increase in the amount of lottery funds being used for instructional and non-instructional compensation. Appendix D shows the detailed results of the survey.

⁷ IDAHO CODE § 33-1019.

Permanent Building Fund

The permanent building fund was created for constructing, renovating, repairing, and remodeling of state facilities.⁸ The permanent building fund is overseen by an advisory council and receives funding from six sources in addition to lottery revenue. The amount of lottery revenue varies from year to year as a percentage of the total building fund balance. In fiscal year 2011, Lottery revenue to the program was \$17 million and was used in part to complete several maintenance projects for multiple state agencies including Idaho’s higher education institutions, the Department of Correction, the Department of Health and Welfare, and the Department of Veterans Affairs.

Bond Levy Equalization Support Program

In 2009, the Legislature added the bond levy equalization support program to the list of lottery revenue recipients. The program receives lottery support only when the Lottery’s net revenue exceeds \$34 million.⁹

The bond levy program is designed to help school districts with annual bond interest and redemption payments.¹⁰ Lottery revenue to the program was \$3 million in fiscal year 2011 and accounted for approximately 18 percent of the total bond levy program. As of July 15, 2011, 45 school districts were receiving support. Lottery revenue to the program is scheduled to sunset in 2014.

How Does the Lottery Compare with Other States?

The Lottery has identified nine peer states for comparison to Idaho’s lottery programs.¹¹ As shown in exhibit 1.3, we used data from most of those peer states and data from Washington, a neighboring state, to compare sales, prizes, operating costs, and net revenue for fiscal years 2008–2010. We did not include South Dakota (a peer state) and Oregon (a neighboring state) because these states offer games that are not legal in Idaho.¹² We found that Idahoans 18 years

⁸ IDAHO CODE § 57-1108.

⁹ IDAHO CODE § 67-7434 requires that the permanent building fund and the school district building account receive the same amount of net revenue that was received in fiscal year 2008, or \$17 million each. However, if the dividend is less than \$34 million, then these two programs each get half. If the dividend is greater than \$34 million, then each program will get $\frac{3}{8}$ of the total, and the bond levy equalization fund will receive up to $\frac{1}{4}$ of the total net revenue.

¹⁰ IDAHO CODE § 33-906. Funds from the bond levy program are for bonds passed by Idaho school districts on or after September 15, 2002.

¹¹ The Lottery determined its peer states by comparing “mean and median percentage change in retailers per capita, dividend change, dividend to sales, advertising to sales, sales per capita, administration costs to sales, overall sales, draw-style game sales, Scratch Games sales, prize expense to sales, and product mix.” Idaho State Lottery, *Strategic Plan* (Fiscal Years 2011–2014).

¹² Both states offer video lottery terminals as a lottery game choice. The sales, expenses, and prize information for these games are not consistent with other lottery game offerings.

and older spent more dollars per capita on average than most of the peer states from fiscal years 2008 to 2010. For prizes, operating costs, and net revenue, Idaho ranked in the middle.

Idahoans 18 years and older spent an average of \$126 per person playing the lottery in 2011.

Also shown in exhibit 1.3, Idaho spent an average of 14.8 percent of lottery sales on operating costs.¹³ In comparison, Minnesota operated its lottery at 8.3 percent of sales and Montana operated at 23.1 percent of sales. Kansas distributed the most net revenue to the

EXHIBIT 1.3 AVERAGE SALES AND EXPENSE PERCENTAGES OF OTHER SELECT STATES’ LOTTERY PROGRAMS, FISCAL YEARS 2008–2010

State	Average Population 18 and Older	Average Sales (\$)	Average Sales Per Capita (\$)	Average Amounts as a Percentage of Sales		
				Prizes (%)	Operating Costs (%)	Net Revenue (%)
Idaho	1,125,432	141,242,815	126	60.1	14.8	25.1
Peer States ^a						
Kansas	2,113,875	234,195,769	111	56.4	14.2	29.3
Maine ^b	1,050,477	213,851,372	204	61.6	14.2	24.2
Minnesota	3,997,009	449,390,999	112	65.3	8.3	26.5
Montana	756,032	44,850,870	59	53.4	23.1	23.5
Nebraska	1,349,512	125,247,031	93	57.5	17.7	24.8
New Mexico	1,507,282	146,974,072	98	53.8	17.8	28.4
Tennessee	4,796,467	1,021,806,000	213	60.6	11.5	27.9
Vermont	494,778	98,479,519	199	63.2	14.8	22.1
Neighboring States ^c						
Washington	5,081,946	499,947,587	98	60.5	13.2	26.2

Source: Analysis of data from the Idaho State Lottery, US Census Bureau population estimates (2008–2010), and annual reports from each state.

Note: Percentages may not sum to 100 because of rounding.

^a The Lottery identified nine states as peer states. Criteria for peer states are in the Lottery’s 2011–2014 Strategic Plan. We did not include South Dakota because it offers a lottery game that is not legal in Idaho.

^b Does not include financial information for fiscal year 2008.

^c We did not include Oregon because it offers games that are not legal in Idaho. Nevada, Utah, and Wyoming do not have state lotteries. Montana is listed as a peer state.

¹³ Operating costs include retailers’ compensation, advertising costs, and other administrative expenses.

state with an average distribution of 29.3 percent, while Vermont distributed the least at 22.1 percent; Idaho distributed 25.1 percent to the state.

Promoting Responsible Play

We compared how Idaho promotes the responsible playing of lottery games with its peer states and Washington and found that all ten states provide information on their websites to help players and families that might be having issues with gambling. We also found that three of the ten states statutorily distribute a portion of their net revenue each year to problem gambling programs.

- Kansas distributes \$80,000 to a problem gambling grant
- Nebraska distributes \$500,000 and one percent of sales to a gamblers' assistance fund (in fiscal year 2011 distribution was \$815,554)
- Washington distributes 0.13 percent of net receipts to a problem gambling account (in fiscal year 2011 the distribution was \$279,892)

The Idaho State Lottery is not required to provide net revenue for problem gambling but lists information on its website for the National Council on Problem Gambling and the 2-1-1 Idaho CareLine.¹⁴ Lottery advertisements remind consumers to play responsibly.

Recommendation

Recommendation 1.1: The Legislature should define advertising, marketing, and promotional costs in Idaho Code. This definition should clarify whether internal activities related to advertising should be a part of the advertising and promotional cost cap.

The Legislature may also wish to redirect this recommendation to the Lottery and have the definition incorporated into Idaho Administrative Code, subject to legislative review.

¹⁴ The 2-1-1 Idaho CareLine is a free statewide community information and referral service program managed by the Idaho Department of Health and Welfare.

Chapter 2

Charitable Gaming

During the 1992 extraordinary legislative session, charitable gaming regulations were established in part to protect the public from fraudulently conducted bingo games and raffles. The regulations also ensured that charitable organizations received allocations from the revenue of these games.¹ These regulations were placed under the direction of the Idaho State Lottery with legal oversight from the Idaho State Lottery Commission.

To assist the Lottery, legislators also created the Bingo-Raffle Advisory Board, which is made up of six regional members appointed by the Governor and confirmed by the Senate for three-year terms.² Each member is appointed because of his or her knowledge, interest, and experience with charitable gaming. The board must meet at least three times each year. The board is required to review the operation and regulation of bingo games and raffles in Idaho and, as needed, provide recommendations to policymakers and the Lottery Commission.

Which Types of Charitable Gaming Activities Are Allowed in Idaho?

Idaho's constitution clearly states which gaming activities are allowed in Idaho and which gaming activities are prohibited.³ Nonprofit organizations with a charitable purpose are allowed to conduct bingo games, raffles, duck races, and holiday Christmas tree fundraisers.

Bingo

Nonprofit organizations are allowed to conduct no more than three sessions of bingo per week with each session capped at eight hours. Cash and merchandise prizes for bingo games are set in Idaho Administrative Code by the Lottery and cannot exceed \$3,000 per game and \$25,000 per session. Each nonprofit is allowed to

Nonprofits conducting bingo games must use 20 percent of their *gross* proceeds for a charitable purpose.

¹ IDAHO CODE § 67-7701.

² IDAHO CODE § 67-7703–04.

³ IDAHO CONST. art. III § 20.

account for certain expenses, but those expenses cannot exceed 15 percent of gross revenue. Additionally, a minimum 20 percent of *gross* revenue must be used for a charitable purpose.

Raffles

With the exception of elementary and secondary schools, nonprofit organizations are allowed to conduct up to 12 raffles per year.⁴ Total prizes for each raffle are

Nonprofits
conducting raffles
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percent of their *net*
proceeds for a
charitable purpose.

set in statute. If prizes consist of *merchandise* that is not redeemable for cash, the merchandise can have an unlimited value. However, if the prize is *cash* or *merchandise that is redeemable for cash*, then the amount cannot exceed \$1,000. Net proceeds are calculated by taking the gross receipts less the cost of prizes. All nonprofits conducting raffles are required to use 90 percent of their *net* proceeds for charitable purposes.

Duck Races

A duck race is a raffle using floatable toys, often ducks, that are released into a body of moving water. The ducks are numbered, and the individual with the same number as the first duck to cross the finish line wins the raffle. Duck races are subject to the same restrictions as other raffles with the exception of cash prize amounts and net proceeds. Cash prizes for duck races are not limited if the race is underwritten by insurance. Nonprofit organizations can deduct the cost of renting the ducks and the cost of prizes from gross revenue before calculating the 90 percent that must be used for charity.

Holiday Christmas Tree Fundraisers

A holiday Christmas tree fundraiser is an auction whereby individuals bid on decorated holiday trees and the proceeds are used for senior citizen centers or hospitals and hospital auxiliaries. Statute defines this fundraiser as a raffle, making it subject to the licensing regulations of charitable gaming. However, the definition of gambling requires an event to have a prize, a chance, and a cost to participate.⁵ We found Christmas tree fundraisers do not meet this criteria. The winner of each tree is not determined by chance but rather by the highest bidder. Because Christmas tree fundraisers are considered and reported as raffles, Lottery officials were uncertain whether nonprofit organizations are conducting these fundraisers. Organizations are only required to report their charitable gaming activity as either raffle or bingo.

⁴ Public and private elementary and secondary schools are not subject to a maximum number of raffles that can be conducted each year.

⁵ IDAHO CODE § 18-3801.

How Is Charitable Gaming Regulated?

Charitable gaming in Idaho is limited to certain types of nonprofit organizations that serve a specified charitable purpose, such as fraternal and religious organizations. Participating nonprofit organizations are required to allocate a percentage of their charitable gaming revenue to a religious, educational, social, or civic charitable purpose. As shown in exhibit 2.1, 196 organizations in Idaho were licensed to conduct charitable gaming activities in fiscal year 2011. They self-reported contributing more than \$3.7 million to charitable purposes.

EXHIBIT 2.1 CHARITABLE GAMING PROCEEDS AND CHARITABLE ALLOCATION INFORMATION, FISCAL YEAR 2011

Charitable Gaming Activity by Gross Revenue Amounts	Number of Licenses	Total Proceeds ^a (\$)	Average Proceeds (\$)	Amount Given to Charity (\$)	Proceeds Given to Charity ^b (%)
Raffles					
Less than \$25,000	122	937,859	7,687	904,154	96.4
\$25,001 to \$75,000	20	509,389	25,469	492,584	96.7
More than \$75,000	11	1,311,862	119,260	1,233,382	94.0
Bingo^c					
Less than \$25,000	17	671,914	39,524	167,825	25.0
\$25,001 to \$75,000	14	632,513	45,179	202,917	32.1
More than \$75,000	12	3,270,470	272,539	739,293	22.6
Total	196	7,334,007	37,418	3,740,155	51.0

Source: Analysis of data from the Idaho State Lottery.

Note: Amounts are from organizations that submitted an annual report and made a charitable allocation greater than one percent. Percentages may not sum to 100 because of rounding.

^a Amounts for bingo games are calculated on gross revenue. Amounts for raffles are calculated on net revenue.

^b Charitable allocations for raffles must be a minimum of 90 percent of net proceeds. Charitable allocations for bingo games must be a minimum of 20 percent of gross proceeds.

^c Organizations have the option to conduct bingo and raffle games on one license. In these cases, we included the combined proceeds under the bingo category.

Licensing Requirements

In order to conduct charitable gaming activities in Idaho, organizations with a charitable purpose must be registered as a nonprofit with the Secretary of State. These nonprofits do not need to be federally recognized as tax-exempt; they only need to be in existence for one year and meet several statutory requirements. Most nonprofits are required to have a Lottery-issued charitable gaming license; however, some nonprofits can conduct bingo games and raffles without a license, as outlined in statute:

Idaho Code § 67-7713. Licensure Requirements. A charitable or nonprofit organization conducting a bingo game shall be required to obtain a license if the gross annual bingo sales are ten thousand dollars (\$10,000) or more. A charitable or nonprofit organization conducting a raffle shall be required to obtain a license if the maximum aggregate value of **merchandise** exceeds one thousand dollars (\$1,000) [emphasis added].

Nonprofit organizations requiring a license must submit a nonrefundable fee of \$100 with their initial license application. Appendix E outlines the steps of the application. Each year thereafter, nonprofits must reapply for their license to continue conducting charitable gaming. License renewal fees are outlined in Idaho Code and are based on the previous year’s gross revenue as submitted to the Lottery in the organization’s annual report.

License Renewal Fees

Charitable Gaming Gross Revenue	License Renewal Fee
\$25,000 or less	\$100
\$25,000 to \$75,000	\$200
More than \$75,000	\$300

According to Lottery officials, license fees help cover some of the Lottery’s costs associated with the license and reporting process. Lottery staff estimate that license fees cover approximately 62 percent of costs—the remaining costs are subsidized by other Lottery funds. Charitable gaming is overseen by staff equivalent to one full-time position; the enforcement division director indicated that she spends approximately 25–30 percent of her time on charitable gaming and one staff member spends 70 percent of her time.

Annual Reporting

All nonprofit organizations that conduct charitable gaming with a license are required to submit an annual report to the Lottery. Lottery staff review the annual reports for completeness, but staff are unable to verify whether all the information is correct because the Lottery does not have the legal authority to obtain certain pieces of information.

Lottery officials are unable to verify self-reported information of charitable gaming.

Lottery staff review annual raffle reports to ensure the amount used for charity was 90 percent of net revenue; officials do not have the authority to verify accuracy. Staff conduct a more detailed review of bingo operators by reviewing financial ledgers, donation receipts, bank account deposits, and the accuracy of game slips. Lottery staff also conduct on-site reviews of bingo operators every two years or as needed.

If Lottery officials find issues during an organization's review, they will first work with the nonprofit to fix the solution. However, if the issue is too complex, the nonprofit is placed on probation for six months until another review can be conducted. If no resolution is found, the nonprofit's license is revoked. The Lottery revoked four licenses in fiscal year 2011.

Organizations that have more than \$200,000 in annual gross revenue are also required to contract for an independent audit. Audit results are to be reported to the Lottery.

The biggest concern raised by Lottery officials is their inability to verify the legitimacy of a charitable organization which receives gaming revenue.

Licensing and Reporting Process

Our review of charitable gaming licenses found that the current process for receiving and reviewing license information could be modernized to reduce staff time. For instance, license applications and annual reports are paper based and stored in numerous file cabinets, with select data manually entered into a database. This process could be streamlined by placing portions of the application and annual report online, although not all of the process could be completed online because certain documents must be notarized.

The Lottery could streamline its work by offering an online submission of forms and annual reports.

In addition, to help alleviate the amount of paperwork for nonprofits, licenses could be valid for more than one year. This process would be similar to what the Idaho State Liquor Division has done with its contracted liquor stores. Instead of having the nonprofit organizations submit the same information each year, they would only have to submit organizational changes and their required annual report.

We discussed modernizing the process with Lottery officials to allow for online submissions of annual reports. Lottery officials agreed and said the process should be done in phases starting with nonprofit organizations that conduct raffles.

Record Retention

Idaho Code requires all nonprofit organizations that conduct bingo games to keep accurate business records ready within the organization's filing system for review by Lottery officials, but it does not provide a clear definition for how long the organization needs to keep these records. Idaho Code § 67-7709 references two different time frames: (1) three years, and (2) permanently.

Requirements for record retention are confusing for nonprofit organizations and the Lottery.

A Lottery official said that the Lottery does not require records for more than three years. The official further stated that the Lottery had spoken with the Office of the Attorney General and the word “permanent” could cause legal issues especially if a license is revoked.⁶

Unlike requirements for bingo games, Idaho Code does not require nonprofit organizations to keep detailed records on raffle events.

Restriction of Raffle Prizes

Because of statutory restrictions, the Lottery cannot currently increase prize amounts for raffles to keep up with inflation. Without this flexibility, charitable organizations will get less value for the money over time. Cash prize amounts for raffles are defined in statute that was written in 1992. The amounts are limited to \$1,000 or the equivalent value of \$623 today. To achieve the same \$1,000 value in 2011 dollars, the prize limit for raffles would need to be increased to \$1,600. Changing the prize amounts for raffles aligns with comments we received from the members of the Bingo-Raffle Advisory Board and nonprofit organizations that conduct charitable gaming. This change would also align with how prize amounts for bingo games are authorized.

Which States Have Charitable Gaming Regulated by a State Lottery?

Idaho is one of only four states with charitable gaming regulated by a state lottery agency. Forty-eight states allow for charitable gaming activities and the majority of states have regulation and oversight conducted by law enforcement, tax agencies, or a separate commission.⁷

- 4 states are regulated by a state lottery.
- 9 states are regulated by a commission or board.
- 10 states are regulated by a revenue or tax agency.
- 12 states are regulated by a law enforcement agency.
- 13 states are regulated by a local entity, a secretary of state, or other government entity.

⁶ Lottery officials introduced legislation during the 2010 session to clarify record retention, but the proposed legislation was held in committee.

⁷ The Arizona Lottery oversees pull tab games for nonprofits but does not regulate bingo games. For the purposes of this report, we counted Arizona with the revenue and tax agency group.

Like Idaho, most states limit charitable gaming activities to certain nonprofit organizations. Some states have no charitable gaming activities and others govern their activities with stronger restrictions than Idaho:

- Kansas does not allow raffles of any kind when all three components of gambling (prize, chance, and cost to participate) are present.
- Tennessee does not allow bingo games and only allows one raffle per organization per year.
- Ohio considers raffles to be a form of bingo.
- Oregon restricts charitable gaming to only nonprofit organizations that are federally recognized as tax exempt.
- Washington requires a nonprofit organization to have at least 15 active members.
- Hawaii and Utah do not allow gambling of any kind.

Recommendations

To reduce the unnecessary regulatory burden on nonprofit organizations and the workload of Lottery staff, we have one recommendation for the Lottery and four recommendations for the Legislature.

Recommendation 2.1: The Lottery should create and implement an online form for licensed nonprofit organizations to submit their annual reports. An online form will minimize staff resources and time spent on regulating charitable games.

Recommendation 2.2: The Legislature should provide clarification on record retention for nonprofit organizations that conduct bingo games and define “permanent record” in Idaho Code. Alternatively, the Legislature could remove the word “permanent” from Idaho Code and require the State Lottery Commission to provide a consistent timeframe for record retention in Idaho Administrative Code.

Recommendation 2.3: The Legislature should amend Idaho Code and allow the State Lottery Commission to offer licenses that would be valid for more than one year. The amendment would reduce paperwork for both nonprofit organizations and the Lottery. To ensure that licensed nonprofit organizations continue to allocate the required amounts for charitable purposes as outlined in Idaho Code, the Legislature should continue the statutory requirement for nonprofit organizations to submit annual reports.

Recommendation 2.4: The Legislature should remove prize maximums for raffles from Idaho Code and charge the State Lottery Commission with setting maximum prize amounts for raffles in Idaho Administrative Code. The amendment would align with how prizes are determined for bingo games.

Recommendation 2.5: The Legislature should remove references to holiday Christmas tree fundraisers as charitable gaming in Idaho Code since they are an auction and do not fall under the criteria of gambling.

For purposes of disclosure, the director of the Office of Performance Evaluations serves as a volunteer on the public policy committee of the Idaho Nonprofit Center and on the board of directors of the Learning Lab, a nonprofit organization based in Boise. His involvement with these nonprofits did not affect the office's independence or objectivity in making recommendations.

Appendix A

Study Scope and Methodology

Scope

1. **Agency Purpose and Operations:** What is the purpose of the Lottery? How is it managed? How much is spent on administration, and how are these costs classified? What gaming activities and events does the Lottery participate in or oversee? How are activities marketed and advertised? How is the Lottery meeting statutory and constitutional mandates? What efforts have been taken by the Lottery to mitigate gambling problems? How does Idaho's operations compare with other states?
2. **Gaming Activities for Nonprofit Organizations and Charitable Events:** Why does the Lottery regulate activities for nonprofit organizations and charitable events? What gaming activities are allowed in Idaho and subject to regulations for nonprofit organizations and charitable events by the Lottery? What are the fees and reporting requirements for gaming activities associated with charitable events and nonprofit organizations? How does Idaho compare with other states in regulating gaming activities for nonprofit organizations and charitable events?
3. **Lottery Dollars:** How is revenue distributed? What effect has net revenue had on the bond levy equalization fund? What permanent building fund projects has net revenue been used for? How are school districts using their net revenue? How does Idaho compare with other states in distributing revenue? Do interstate compacts for sales of lottery draw games affect revenue distribution amounts?

Methodology

We used a variety of research methods to evaluate Lottery operations and to examine charitable gaming regulations.

Surveys

- Conducted a survey of all lottery retailers and gave them two options for completing the survey: (1) use a traditional paper-based survey, or (2) complete an online survey. The survey questioned retailers about their relationship with the Lottery, compensation rates, and overall perceptions of the Lottery. We surveyed 812 retailers and received a 40 percent response rate.¹
- Using an online survey tool, surveyed all 152 public (K–12) school districts and charter schools about their recent use of lottery net revenue dollars. We had a 72 percent response rate.
- In collaboration with the Idaho Nonprofit Center, conducted an online survey of nonprofit organizations in Idaho. The Idaho Nonprofit Center distributed the survey link and a reminder e-mail message to about 3,400 nonprofit organization members. However, because we did not distribute the e-mails and were not privy to the distribution list, we were unable to identify how many unique nonprofit organizations received the survey link. We received responses from 49 different nonprofit organizations.

Literature and Statutory Reviews

- Reviewed Idaho’s Constitution, statutes, and Administrative Code for compliance, history, and overall purpose of the Lottery.
- Researched operations of other state lotteries for operational differences, net revenue payouts, and games offered. These states were recognized by the Lottery as peer states: Kansas, Maine, Minnesota, Montana, Nebraska, New Mexico, Tennessee, and Vermont. We also included Idaho’s other neighboring state Washington. We did not include one peer state, South Dakota, and a neighboring state, Oregon, because of differences in the games offered. These two states offer games not legal in Idaho. We did not look at other neighboring states because Nevada, Utah, and Wyoming do not have state lotteries.
- Researched charitable gaming regulations in all 50 states for differences in games offered, number of events allowed in a given year, and requirements for conducting charitable gaming.

¹ The number of contracted retailers in operation varied during the course of the study—812 retailers were active at the time we conducted the survey. We did not survey retailers who sell only pull tab games because they work directly with a contracted vendor. Pull tab games are defined in appendix B.

Data Analysis

- Analyzed growth of the Lottery for revenue, operating costs, and net revenue in the past five fiscal years (2007 to 2011).
- Analyzed the value of the dollar for the maximum raffle prize amount by adjusting for inflation using Idaho fiscal year 2007 as the base year. We used the Consumer Price Index-Urban: West Region (CPI-U), all items as our index.²
- Reviewed more than 100 video, radio, and print advertisements from 1998 to 2011. The review identified what beneficiaries were identified as receiving lottery proceeds and whether children were used in current advertisements.

Interviews and Meetings

- Interviewed staff from the Office of the Attorney General, the Division of Financial Management, and legislative Budget and Policy Analysis.
- Interviewed Lottery commissioners, officials, central office personnel, and warehouse staff to understand different perspectives on operations.
- Interviewed a Lottery vendor, International Gamco, Inc., to understand its role as the state's partner for pull tab and touch tab games. These games are described in appendix B.
- Observed and participated in the game ticket distribution from the warehouse.
- Participated in a "ride along" with a sales representative, visiting retailers in the Boise area.
- Attended Lottery Commission meetings.
- Interviewed members of the Bingo-Raffle Advisory Board to understand the level of involvement it has with setting policy for charitable gaming.
- Attended a meeting of the Bingo-Raffle Advisory Board in October 2011.

² The US Consumer Price Index (CPI) may not be the best tool for calculating amounts over time. However, an analysis of specific raffle cost drivers in relation to CPI inflation was beyond the scope of this study.

Appendix B

Types of Lottery Games

Games are created and managed by the Idaho State Lottery. It offers four types of games: draw, scratch ticket, pull tab, and raffle.

Draw Games. Players select a set of numbers and pay to register those numbers with a retailer—winning numbers are announced at a later date, at which time winners have 180 days to claim their prize. The draw games offered in Idaho include multistate games conducted in partnership with other states.

Scratch Tickets. Players purchase and scratch off the covering of a ticket to determine whether they are a winner. In Idaho, each scratch ticket game is typically offered for approximately seven months. Winners of scratch games have 180 days to claim their prize after the game has ended.

Pull Tabs. One of the oldest games offered, pull tabs are most commonly sold in bars and restaurants. Players purchase and pull open a perforated ticket to reveal a set of symbols.¹ Certain combinations of symbols are assigned a winning value that the player must claim on the same day of purchase.

Raffles. One or more players purchase a chance to win a prize from the random drawing of names or numbers. Idaho offers one to two raffles each year.

¹ Pull tabs are managed by one of the Lottery's vendors. In fiscal year 2010, the Lottery introduced electronic machines called touch tabs that are played like a pull tab, but instead of dispensing a paper ticket, the machine displays an electronic version of the game. Touch tabs are compliant with the Americans with Disabilities Act (ADA) and easier for security to monitor.

Appendix C

Lottery Retailers and Survey Results

The Lottery contracts with retailers for the sale of games and compensates retailers with five percent of sales. Retailers are also eligible for bonuses as decided by the Lottery director. Games are sold by retailers at more than 1,000 locations:

- 60 percent are convenience stores and gas stations
- 17 percent are grocery stores
- 10 percent are restaurants and bars
- 5 percent are smoke shops
- 8 percent include state liquor stores, bowling alleys, and fraternal organizations

Most of these retailers receive sales support from 13 regional Lottery sales representatives. Regional sales representatives act as liaisons between the retailer and the Lottery's central office. They help ensure that retailers have adequate game materials and are aware of current and upcoming games. They also help facilitate in-store promotions for players.

We surveyed the owners or managers of Lottery's retail outlets in August about their perceptions of the Lottery, its advertising efforts, and retailer compensation amounts. We received responses from 40 percent of lottery retail outlets in operation at the time of the survey. Because more than half of the retailers are associated with a corporate account, we allowed the corporations to provide input on behalf of all their retail outlets; we received responses from two corporate accounts.

Overall Survey Responses

Retail Outlets Associated with Lottery Sales Representative Number by Approximate Region	Number of Responses	Number Surveyed	Percentage of Responses
Region 1: 101, 102	71	150	47.3
Region 2: 201	30	71	42.3
Region 3: 301, 302, 303, 304, 305	91	249	36.5
Region 4: 401, 402	42	132	31.8
Region 5: 501	28	69	40.6
Region 6: 601, 602	61	139	43.9
Corporate	2	2	— ^a
Total survey respondents	325	812	40.0

Note: The Lottery tracks sales and winnings information by sales representatives and retail locations. However, these criteria do not align with specific boundaries. Therefore, we used regions as defined in Idaho Code § 67-7704 for the Bingo-Raffle Advisory Board. See the map on page 5 for the location of the regions.

^a Each corporate response represents all its retail outlets in Idaho. The two companies responding for all of their stores represent 120 retail locations in Idaho.

What do you like most about selling lottery games in your store? (Select all that apply.)

	Responses (N=316)	Percentage of Responses
Generating money for public schools	208	65.8
Generating revenue from other store items	195	61.7
Receiving revenue from lottery sales	148	46.8
Generating money for the permanent building fund	93	29.4
Other	21	6.6

Note: Respondents could select more than one response.

What do you like least about selling lottery games in your store? (Select all that apply.)

	Responses (N=264)	Percentage of Responses
Paying winners during busy hours	88	33.3
Providing display space that could be used for other products	65	24.6
Staying current with lottery games	56	21.2
Keeping lottery information stocked	33	12.5
Other ^a	103	39.0

Note: Respondents could select more than one response.

^a The top three answers in the “other” category were time involved, machine difficulties, and compensation amounts.

	Strongly Disagree (%)	Disagree (%)	Agree (%)	Strongly Agree (%)	Don't Know (%)
My Idaho Lottery sales representative is easy to work with. (N=325)	2.8	0.6	25.5	70.8	0.3
My Idaho Lottery sales representative provides suggestions for improving lottery sales. (N=325)	1.2	8.3	41.2	47.7	1.5
I am satisfied with the marketing and advertising done by the Idaho Lottery for my store. (N=325)	3.4	8.9	55.1	31.7	0.9
I am satisfied with the current sales commission rate of five percent. (N=324)	17.9	26.2	36.1	8.3	11.4
I am satisfied with the current bonus structure for selling winning tickets. (N=324)	7.4	17.6	46.6	12.0	16.4
Overall, I am satisfied with my relationship with the Idaho Lottery. (N=325)	0.9	4.0	62.8	31.1	1.2

Note: Percentages may not sum to 100 because of rounding.

Please provide any additional lottery-related comments. (N=117)

	Number of Times Stated	Percentage of Times Stated
Positive comments about sales representative	30	25.6
Inadequate commission amounts	28	23.9
Type, difficulty, price of games	26	22.2
General agency-related dissatisfaction	19	16.2
Lottery ticket machine problems	17	14.5
Not enough winners	14	12.0
Inadequate supplies	13	11.1
Unsatisfied with marketing/advertising	11	9.4
Other ^a	20	17.1

Note: Respondents could provide more than one comment.

^a Comments for the “other” category were the inability to void tickets for online games, billing procedures, increased business, insufficient training, employee theft, and net revenue distribution.

Appendix D

District and Charter School Use of the Building Account

School districts and charter schools are required in statute to use funds from the School District Building Account for the maintenance and repair of facilities. Funds are distributed according to average daily attendance. In fiscal years 2010, 2011, and 2012, the Legislature temporarily removed the requirement so districts and charter schools could spend the funds at their discretion. We surveyed 152 school districts and charter schools to identify their current use of the funds and received responses from 109 (72 percent).

All data in the following tables was self-reported by the districts and charters and was not audited for accuracy. To better understand how the districts and charters were using lottery funds, we analyzed responses by school district size and school type applying average daily attendance as reported by the Idaho Department of Education for the school year 2009–2010, the most recent year that data was available.

School Districts and Charter Schools, Self-Reported Lottery Fund Uses (N=109)

	FY2010 (%)	FY2011 (%)	Planned for FY2012 (%)
School building maintenance	59.6	55.0	56.0
Technology	32.1	33.9	40.4
School supplies	26.6	31.2	33.0
Classroom supplies	26.6	31.2	31.2
Instructional compensation	26.6	30.3	28.4
Non-instructional compensation	18.3	21.1	20.2
School grounds improvement (i.e., playground equipment)	17.4	16.5	16.5
Extra-curricular activities	5.5	7.3	9.2
Don't know	4.6	3.7	1.8
Other	11.0	15.6	17.4

Note: Lottery funds were designated as discretionary funds for fiscal years 2010–2012. Respondents could select more than one option.

Very Large School Districts, Self-Reported Lottery Fund Uses (N=2)

	FY2010 (%)	FY2011 (%)	Planned for FY2012 (%)
School building maintenance	0.0	0.0	0.0
Technology	0.0	0.0	0.0
School supplies	50.0	50.0	50.0
Classroom supplies	50.0	50.0	50.0
Instructional compensation	50.0	50.0	50.0
Non-instructional compensation	50.0	50.0	50.0
School grounds improvement (i.e., playground equipment)	0.0	0.0	0.0
Extra-curricular activities	0.0	0.0	0.0
Don't know	0.0	0.0	0.0
Other	50.0	50.0	50.0

Note: Very large school districts had 15,000 or more students as calculated by average daily attendance from the 2009–2010 school year and reported by the Idaho Department of Education. Respondents could select more than one option.

Large School Districts, Self-Reported Lottery Fund Uses (N=8)

	FY2010 (%)	FY2011 (%)	Planned for FY2012 (%)
School building maintenance	25.0	12.5	12.5
Technology	25.0	25.0	37.5
School supplies	37.5	37.5	37.5
Classroom supplies	37.5	37.5	37.5
Instructional compensation	50.0	50.0	50.0
Non-instructional compensation	50.0	50.0	50.0
School grounds improvement (i.e., playground equipment)	12.5	12.5	0.0
Extra-curricular activities	12.5	12.5	25.0
Don't know	0.0	0.0	0.0
Other	25.0	25.0	25.0

Note: Large school districts had 5,000–14,999 students as calculated by average daily attendance from the 2009–2010 school year and reported by the Idaho Department of Education. Respondents could select more than one option.

Medium School Districts, Self-Reported Lottery Fund Uses (N=20)

	FY2010 (%)	FY2011 (%)	Planned for FY2012 (%)
School building maintenance	70.0	65.0	60.0
Technology	45.0	50.0	50.0
School supplies	25.0	35.0	35.0
Classroom supplies	30.0	40.0	40.0
Instructional compensation	35.0	45.0	50.0
Non-instructional compensation	30.0	35.0	40.0
School grounds improvement (i.e., playground equipment)	30.0	30.0	25.0
Extra-curricular activities	10.0	15.0	15.0
Don't know	0.0	0.0	0.0
Other	15.0	20.0	20.0

Note: Medium school districts had 1,500–4,999 students as calculated by average daily attendance from the 2009–2010 school year and reported by the Idaho Department of Education. Respondents could select more than one option.

Small School Districts, Self-Reported Lottery Fund Uses (N=27)

	FY2010 (%)	FY2011 (%)	Planned for FY2012 (%)
School building maintenance	81.5	74.1	74.1
Technology	37.0	37.0	48.1
School supplies	29.6	37.0	33.3
Classroom supplies	18.5	29.6	29.6
Instructional compensation	25.9	29.6	25.9
Non-instructional compensation	18.5	22.2	14.8
School grounds improvement (i.e., playground equipment)	25.9	22.2	22.2
Extra-curricular activities	3.7	7.4	7.4
Don't know	0.0	0.0	0.0
Other	7.4	14.8	18.5

Note: Small school districts had 500–1,499 students as calculated by average daily attendance from the 2009–2010 school year and reported by the Idaho Department of Education. Respondents could select more than one option.

Very Small School Districts, Self-Reported Lottery Fund Uses (N=34)

	FY2010 (%)	FY2011 (%)	Planned for FY2012 (%)
School building maintenance	55.9	52.9	52.9
Technology	32.4	32.4	41.2
School supplies	29.4	29.4	35.3
Classroom supplies	29.4	29.4	29.4
Instructional compensation	23.5	26.5	20.6
Non-instructional compensation	11.8	14.7	14.7
School grounds improvement (i.e., playground equipment)	5.9	8.8	11.8
Extra-curricular activities	2.9	2.9	5.9
Don't know	5.9	2.9	2.9
Other	5.9	11.8	14.7

Note: Very small school districts had 1–499 students as calculated by average daily attendance from the 2009–2010 school year and reported by the Idaho Department of Education. Respondents could select more than one option.

Charter Schools, Self-Reported Lottery Fund Uses (N=18)

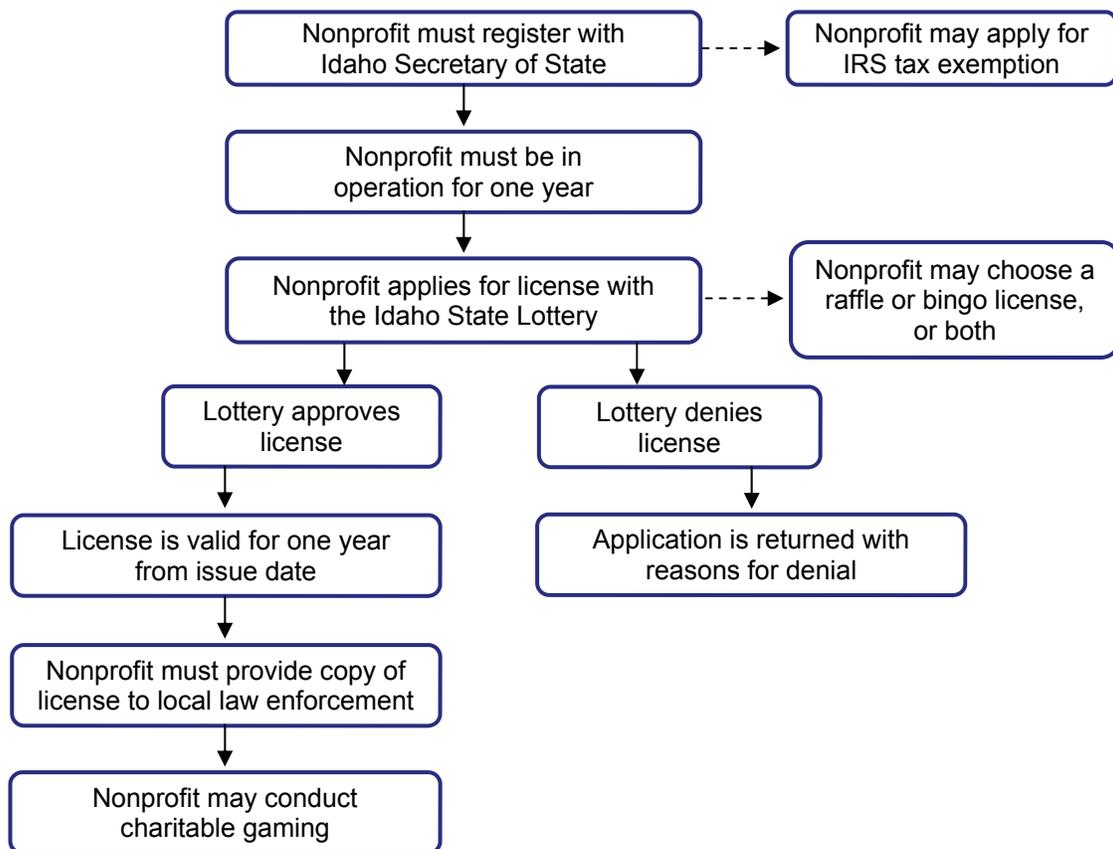
	FY2010 (%)	FY2011 (%)	Planned for FY2012 (%)
School building maintenance	44.4	44.4	55.6
Technology	16.7	22.2	22.2
School supplies	11.1	16.7	22.2
Classroom supplies	22.2	22.2	22.2
Instructional compensation	11.1	11.1	11.1
Non-instructional compensation	0.0	0.0	0.0
School grounds improvement (i.e., playground equipment)	16.7	11.1	16.7
Extra-curricular activities	5.6	5.6	5.6
Don't know	16.7	16.7	5.6
Other	11.1	11.1	11.1

Note: Charter schools had a range of 54–2,987 students as calculated by average daily attendance from the 2009–2010 school year and reported by the Idaho Department of Education. Respondents could select more than one option.

Appendix E

The Licensing Process of Charitable Gaming

Nonprofit organizations needing a license from the Idaho State Lottery to conduct charitable gaming activities must follow the steps outlined in Idaho Code § 67-7711.



Responses to the Evaluation



C.L. "BUTCH" OTTER
GOVERNOR

February 8, 2012

Dear Director Mohan,

Twenty-two years ago, Idaho voters authorized establishment of a State Lottery for the benefit of Idaho public schools and the Permanent Building Fund. Our Lottery sold its first ticket on the steps of the State Capitol on July 19, 1989.

Ever since then the Idaho Lottery has been providing a great return on investment – empowering Idahoans and helping to grow our state's economy through the sale of more than \$2.1 billion in products.

My office has reviewed the findings of the OPE report.

I have great confidence in Director Jeff Anderson and his team, and commend them for their commitment to excellence. By successfully fulfilling their mission, the citizens of Idaho – present and future – will benefit for years to come.

As Always – Idaho, "Esto Perpetua"

CLO/sp

C.L. "Butch" Otter
Governor of Idaho



Benefiting Idaho Public Schools and the Permanent Building Fund.

February 8, 2012

Mr. Rakesh Mohan
Office of Performance Evaluations
Idaho Legislature
P.O. Box 83720
Boise, ID 83720

Dear Director Mohan:

I have had the great fortune to be a part of the Idaho Lottery Commission for the past 14 years and the Chairman since 2003. I've seen first-hand the Lottery responsibly grow their dividend and each of the eight years as Chairman I've had the great pleasure to return a record dividend to the people of Idaho for the improvement of our classrooms and Idaho's state facilities.

On behalf of the Idaho Lottery Commission, I have had the opportunity to review the findings of the Office of Performance Evaluation (OPE). Their analysis of the Idaho Lottery's operations and charitable gaming responsibilities reflects the work ethic that we've come to appreciate - that the Lottery's success is founded in the strict adherence to responsible government practices.

To ensure the public's confidence, for over two decades the Idaho Lottery has responsibly provided entertaining games with the highest degree of integrity and security. Furthermore, the innovations continually implemented by the Idaho Lottery, their commitment to fiscal accountability and responsible play, and the commitment of our retailer network have led to tremendous success. That success reaches to every corner of the Gem State. Idaho's communities and local businesses benefit economically every time someone plays the Lottery. Whether its players who are winning prizes, retailers that are earning commissions, or dividends that are returned for local school projects, the Idaho Lottery has been a successful enterprise for Idahoans.

It is a strong testament to Director Anderson's leadership and the dedication of his team to continually strive for excellence in their industry. We are confident this dedication will continually translate into positive financial resources to invest into Idaho's future. Empowering Idahoans to improve our public schools, to renovate our public facilities and to care for our historic buildings is the greatest dividend the Lottery could provide.

Sincerely,

Roger L. Jones, Chairman
Idaho Lottery Commission

C. L. "Butch" Otter
Governor

Jeffrey R. Anderson
Director

1199 Shoreline Ln, Ste 100
Boise, ID 83702
P 208.334.2600
F 208.334.2610
idaholottery.com



Benefiting Idaho Public Schools and the Permanent Building Fund.

February 8, 2012

Mr. Rakesh Mohan
Office of Performance Evaluations
Idaho Legislature
P.O. Box 83720
Boise, ID 83720

Dear Director Mohan:

Thank you for the opportunity to respond to your final report concerning Lottery Operations and Charitable Gaming in Idaho.

We are very thankful to Jared Tatro and your entire behind-the-scenes team. They were thorough, thoughtful, and professional in researching what we do, how other states do the same, and ensuring our information and statistics were completely accurate.

Team Lottery is proud of the work we do on behalf of the citizens of Idaho, our ongoing attention to best practices, and for being a leader in the lottery industry when it comes to technical advances, new game ideas, and cross promotion opportunities. We work responsibly and diligently to improve our dividend each year.

Again, we'd like to offer our appreciation to the Office of Performance Evaluations for their thorough research and investigation into the operations of the Idaho Lottery.

Sincerely,

Jeffrey R. Anderson
Director – Idaho Lottery

C: Shoni Pegram – Office of Governor C.L. “Butch” Otter
David Hensley – Chief of Staff, Office of the Governor
Idaho Lottery Deputy Directors

C. L. “Butch” Otter
Governor

Jeffrey R. Anderson
Director

1199 Shoreline Ln, Ste 100
Boise, ID 83702
P 208.334.2600
F 208.334.2610
idaholottery.com

IDAHO LOTTERY RESPONSE TO OPE REPORT RECOMMENDATIONS
February 8, 2012

Chapter One – Lottery Operations

Recommendation 1.1: Define Advertising/Marketing and Promotional Costs in Idaho Code

We appreciate the recommendation for clarification of what defines these costs. However, we believe our understanding of legislative intent is clear and we work diligently to adhere to not only the letter but the spirit of the law. Additionally, we’ve consistently remained well under the 3.5% of sales expense limit currently defined in Idaho Code.

Our past and current practice is to account for all costs associated with communications methods to reach our players, retail partners, and stakeholders. These costs include, but may not be limited to:

*traditional media placement and related production (television, radio, billboards, print)	*e-mail and text communication to players, website and related digital advertising
*advertising agency fees	*public relations
*consumer research	*annual reports
*promotions	*events
*VIP Club	*sponsorships
*permanent signage	*promotional coupons
*temporary signage	*premiums
*point of sale materials	*ambassadors

As you can see from the list above, we include all costs for communicating our value proposition. Defining specific items in code would be problematic. The tools we use in the future may not have been invented and brought to market yet.

Should policymakers require clarification, we suggest it may make more sense to define what *isn't* included. If that were the case, we suggest referencing only the costs we do *not* include when calculating the expenses towards the 3.5% limit: (a) employee wages and benefits; (b) travel for continuing education and conferences; and (c) general office overhead. However, parsing out the percentages of employee time and overhead would, in our opinion, be unproductive. Many of our associates are involved in “marketing” and “promotion” since we are essentially a sales and marketing driven enterprise.

Nevertheless, as you accurately note, even if percentages of wages and overhead were somehow able to be accurately calculated we would still be under our statutory limit.

Chapter Two- Charitable Gaming

Recommendation 2.1 – Implement Online Form for Organizations to Submit Annual Reports

We concur with the recommendation as a way to streamline the transfer of data between non-profit organizations and the Lottery. We will begin work on a specification and implement the changes as soon as possible.

Recommendation 2.2 – Record Retention Clarification

We agree and already have language prepared for consideration by the Lottery Commission, the Governor, and the Legislature.

Recommendation 2.3 – Amend Code to Offer Multi-Year Licensing

We agree with two-year licensing for raffles. Since raffles are 75% of the licenses we process, we agree this would significantly reduce paperwork and personnel time. However, we recommend against multi-year licensing for bingo due to the complexity of regulation, reporting requirements, and the amount of cash involved when licensees conduct bingo games.

Recommendation 2.4 – Remove Prize Maximums for Raffle

We support this recommendation and will prepare changes to Administrative Code for Legislative review and approval.

Recommendation 2.5 – Remove Holiday Christmas Tree Fundraisers

We support the recommendation. “Christmas Tree Fundraisers” are actually auctions and do not meet the legal criteria (prize, chance, and consideration) to be considered gambling in Idaho.

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Office of Performance Evaluations PO Box 83720 Boise, ID 83720-0055
Phone: (208) 332-1470 Fax: (208) 332-1471