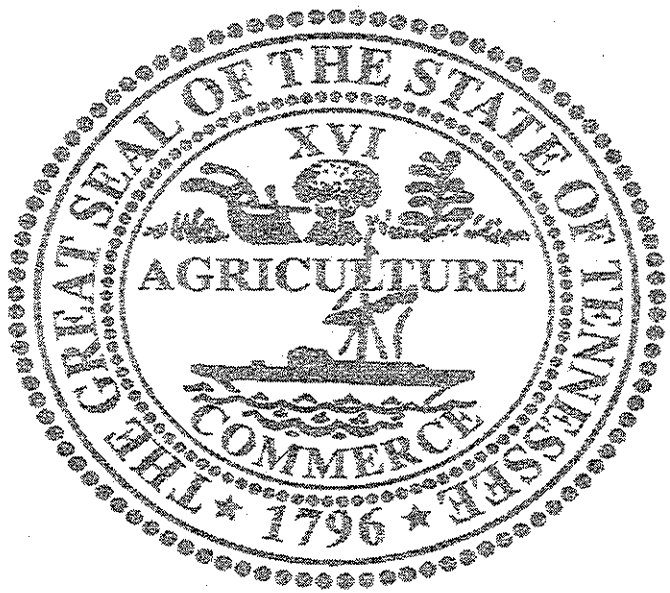
Tennessee Education Lottery

Estimates for Net Lottery Proceeds and After-School Program Funding



Presented to: The State Funding Board

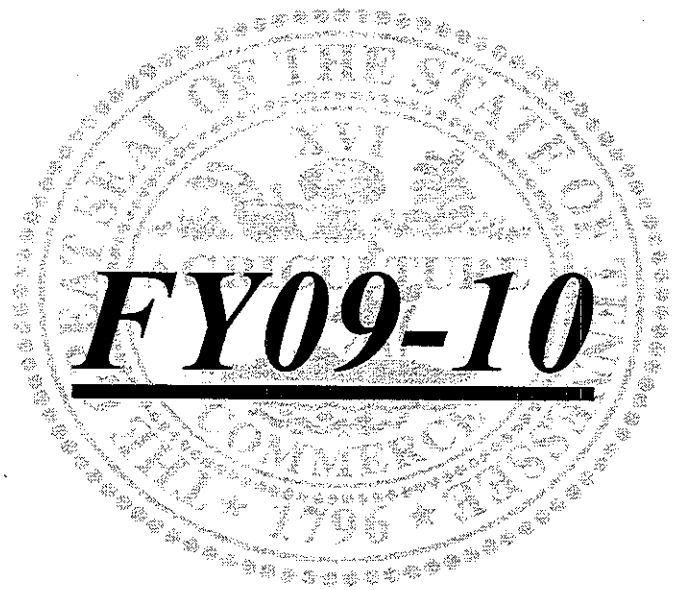
Presented by: Robert N. Currey, Fiscal Review Committee

Friday, March 19, 2010

- **FY08-09:**
  - *Actuals – Point of Reference*
- **FY09-10:**
  - *Estimates from December 2009*
  - *Changes since December*
  - *Revised Estimates (March 2010)*
- **FY10-11:**
  - *Estimates from December 2009*
  - *New Assumptions*
  - *Revised Estimates (March 2010)*
- **Subsequent Years:**
  - *FY11-12, FY12-13, and FY13-14*
- **Addendum: Charts & Graphs**

	TOTALS	GROWTH Over FY07-08
Total Net Revenue (TNR)	$1,020,570,844	2.4%
Total Expenses (TE)	$755,084,716	4.3%
Net Lottery Proceeds (NLP)	**$265,486,128**	**(2.5%)**
After-School Funding	$14,666,222	6.9%
Total State Proceeds	**$280,152,350**	**(2.1%)**

Revenue Source	Amount
Instant Games (Net)	$768,918,741
Cash 3 & Cash 4	$81,704,613
Pick 5 & Lotto Plus	$37,274,065
Powerball	$126,741,268
HotTrax Champions	$792,807
Misc. Revenue	$5,139,350
Total Net Revenue	$1,020,570,844
Total Expenses (74.0%)	$755,084,716
NET LOTTERY PROCEEDS (26.0%)	$265,486,128
After-School Proceeds	$14,666,222
TOTAL STATE PROCEEDS	$280,152,350


FY09-10

	TOTALS	GROWTH Over FY08-09
Total Net Revenue (TNR)	$1,039,200,000	1.8%
Total Expenses (TE)	$771,086,000	2.1%
Net Lottery Proceeds (NLP)	**$268,114,000**	**1.0%**
After-School Funding	$13,250,000	(9.7%)
Total State Proceeds	**281,364,000**	**0.4%**

Revenue Source	Low	Median	High
Instant Games (Net)	$774,000,000	$784,000,000	$794,000,000
Cash 3 & Cash 4	$74,000,000	$75,000,000	$76,000,000
Pick 5 & Lotto Plus	$24,000,000	$25,000,000	$26,000,000
Powerball & Mega Millions	$140,000,000	$150,000,000	$160,000,000
Misc. Revenue	$5,000,000	$5,200,000	$5,400,000
Total Revenue	$1,017,000,000	$1,039,200,000	$1,061,400,000
Total Expenses (74.2%)	$754,614,000	$771,086,000	$787,559,000
NET LOTTERY PROCEEDS (25.8%)	$262,386,000	$268,114,000	$273,841,000
After-School Proceeds	$12,500,000	$13,250,000	$14,000,000
TOTAL STATE PROCEEDS	$274,886,000	$281,364,000	$287,841,000

- Many questions surrounded introduction of Mega Millions (MM).
- When would the game be launched?
- How much revenue would it generate?
- When would Lotto Plus be discontinued?
- How much revenue would Lotto Plus generate before it was discontinued?
- Would launch of MM cannibalize sales for Powerball given they are similar games? If so, to what extent?
- Would launch of MM cannibalize sales for other games, namely Pick 5? If so, to what extent?

- All these were unanswered questions in December because PB and MM had never been cross-sold in the same jurisdictions.
- In December, we knew there was going to be a new spotlight instant game ticket introduced in early 2010...but we didn't know when TELC would launch the game or the extent of revenue that would be generated.
- As a result of the unknowns, and the fact that the economy was the worst any state lottery has had to confront, a conservative approach was utilized in the December estimates.

- Instant ticket sales during holiday season were better than expected (and better than the 2008 holiday season).
- The new spotlight instant game ticket (Millionaire Jumbo Bucks) was introduced on February 1st and has generated more incremental sales than expected in early December.
- Instant game growth forecasted at 2.0% in December.
- Year-to-date growth is approximately 6.7% (through 03/06/2010).
- Instant game growth forecasted at 4.5% in March.

- In December...Cash 4 had started to show some positive signs of growth...but sustainability for the growth was uncertain. Year-to-date growth is approximately 5.5% (through 03/06/2010).
- In December...about 2.0 percent negative growth was expected for Cash 3. Year-to-date growth is approximately negative 1.25% (through 03/06/2010).
- In December...Pick 5 sales were expected to be cannibalized due to Mega Millions launch. So far, no significant change to Pick 5 revenue.

- In December...we were expecting between $140.0m and $160.0m from Powerball and Mega Millions combined...$150.0 mid-point...wider range due to more uncertainty and longer forecasting horizon.
- That range is now projected to be from $139.4m to $147.2m...with a mid-point of $143.3m...more narrow range...because shorter forecasting horizon and we have six weeks of MM sales data.
- Lotto plus was discontinued on January 30th...in December we didn't know exactly when the game would end...the assumption was mid-February. As a result, a couple of weeks of sales did not occur that were expected.

- In December 2009:
  - *Sales growth: 1.8%*
  - *Expense ratio: 74.2%*
  - *Net Lottery Proceeds ratio: 25.8%*
  - *Net Lottery Proceeds growth: 1.0%*
  - *Total State Proceeds growth: 0.4%*

- In March 2010:
  - *Sales growth: 3.4%*
  - *Expense ratio: 74.4%*
  - *Net Lottery Proceeds ratio: 25.6%*
  - *Net Lottery Proceeds growth: 1.7%*
  - *Total State Proceeds growth: 1.1%*

	TOTALS	GROWTH Over FY08-09
Total Net Revenue (TNR)	$1,055,080,000	3.4%
Total Expenses (TE)	$784,980,000	4.0%
Net Lottery Proceeds (NLP)	**$270,100,000**	**1.7%**
After-School Funding	$13,000,000	(-11.4%)
Total State Proceeds	**$283,100,000**	**1.1%**

Revenue Source	Low	Median	High
Instant Games (Net)	$795,860,000	$803,430,000	$811,000,000
Cash 3 & Cash 4	$81,600,000	$82,240,000	$82,870,000
Pick 5 & Lotto Plus	$21,450,000	$21,640,000	$21,830,000
Powerball & Mega Millions	$139,350,000	$143,270,000	$147,180,000
Misc. Revenue	$4,000,000	$4,500,000	$5,000,000
Total Revenue	$1,042,260,000	$1,055,080,000	$1,067,880,000
Total Expenses (74.4%)	$775,441,000	$784,980,000	$794,503,000
NET LOTTERY PROCEEDS (25.6%)	$266,819,000	$270,100,000	$273,377,000
After-School Proceeds	$12,500,000	$13,000,000	$13,500,000
TOTAL STATE PROCEEDS	$279,319,000	$283,100,000	$286,877,000

FY10-11

	TOTALS	GROWTH Over FY09-10
Total Net Revenue (TNR)	$1,052,160,000	1.2%
Total Expenses (TE)	$782,810,000	1.5%
Net Lottery Proceeds (NLP)	**$269,350,000**	**0.5%**
After-School Funding	$13,500,000	1.9%
Total State Proceeds	**282,850,000**	**0.5%**

Revenue Source	Low	Median	High
Instant Games (Net)	$791,840,000	$795,760,000	$799,680,000
Cash 3 & Cash 4	$73,500,000	$74,500,000	$75,500,000
Pick 5	$18,000,000	$19,000,000	$20,000,000
Powerball & Mega Millions	$150,000,000	$157,500,000	$165,000,000
Misc. Revenue	$5,200,000	$5,400,000	$5,600,000
Total Revenue	$1,038,540,000	$1,052,160,000	$1,065,780,000
Total Expenses (74.4%)	$772,670,000	$782,810,000	$792,940,000
NET LOTTERY PROCEEDS (25.6%)	$265,870,000	$269,350,000	$272,840,000
After-School Proceeds	$13,000,000	$13,500,000	$14,000,000
TOTAL STATE PROCEEDS	$278,870,000	$282,850,000	$286,840,000

- Instant game growth of 2.0%.
- Cash 3 & Cash 4 growth of 0.5%.
- Flat growth for Pick 5.
- Combined growth of 6.0% for Powerball and Mega Millions.
- Slight, gradual increases to prize payout ratios.
- No matrix changes to Powerball, Mega Millions, or Pick 5.
- No legislative changes.
- One spotlight instant game introduction in early 2011.
- Total Expenses = 74.6% of Total Net Revenue.
- Net Lottery Proceeds = 25.4% of Total Net Revenue.

	TOTALS	GROWTH Over FY09-10
Total Net Revenue (TNR)	$1,070,516,000	1.5%
Total Expenses (TE)	$798,605,000	1.7%
Net Lottery Proceeds (NLP)	**$271,911,000**	**0.7%**
After-School Funding	$13,000,000	0.0%
Total State Proceeds	**284,911,000**	**0.6%**

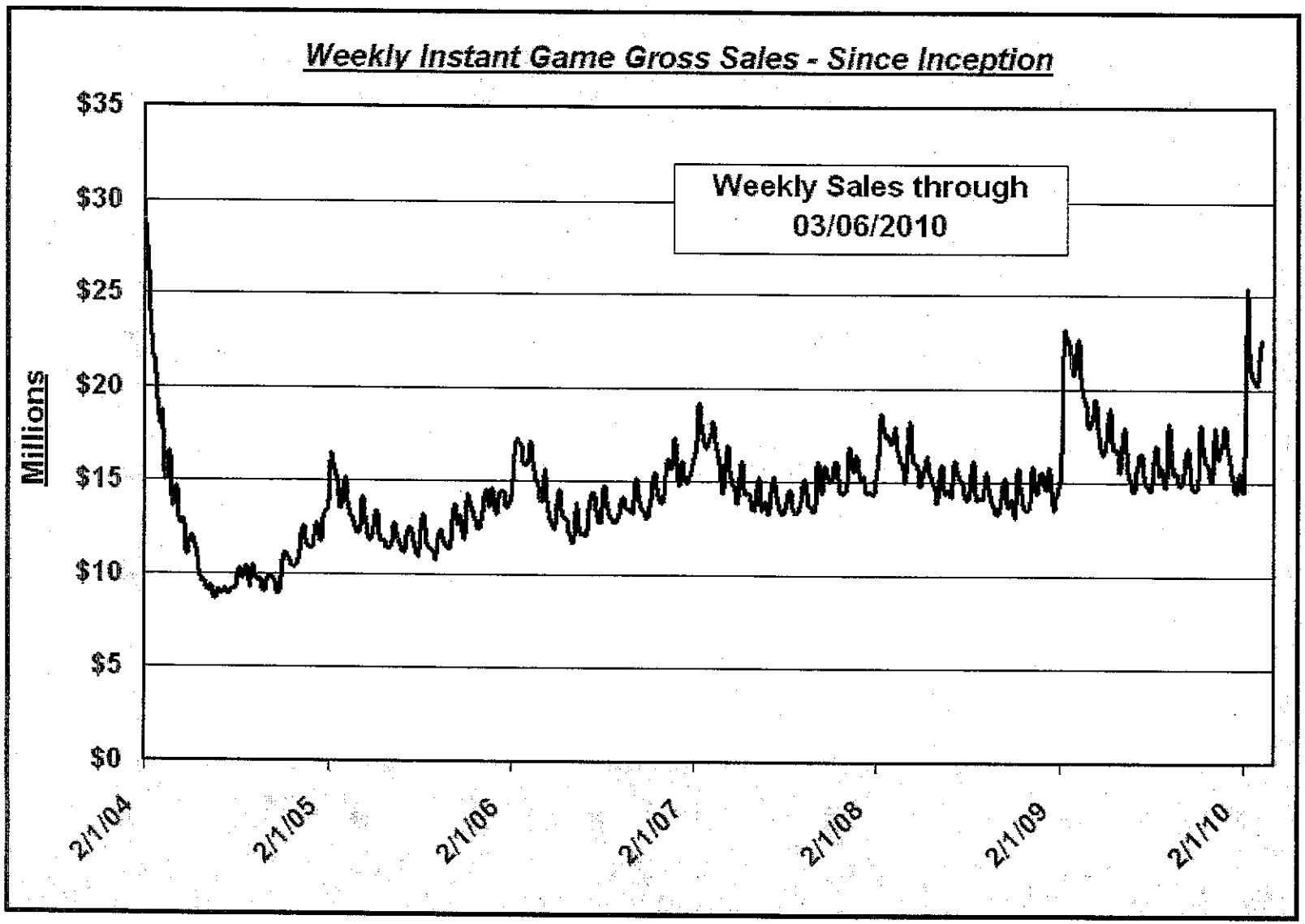
Revenue Source	Low	Median	High
Instant Games (Net)	$811,464,000	$819,499,000	$827,533,000
Cash 3 & Cash 4	$82,240,000	$82,651,000	$83,062,000
Pick 5	$11,500,000	$12,000,000	$12,500,000
Powerball & Mega Millions	$149,001,000	$151,866,000	$154,732,000
Misc. Revenue	$4,000,000	$4,500,000	$5,000,000
Total Revenue	$1,058,205,000	$1,070,516,000	$1,082,827,000
Total Expenses (74.6%)	$789,421,000	$798,605,000	$807,789,000
NET LOTTERY PROCEEDS (25.4%)	$268,784,000	$271,911,000	$275,038,000
After-School Proceeds	$12,500,000	$13,000,000	$13,500,000
TOTAL STATE PROCEEDS	$281,284,000	$284,911,000	$288,538,000

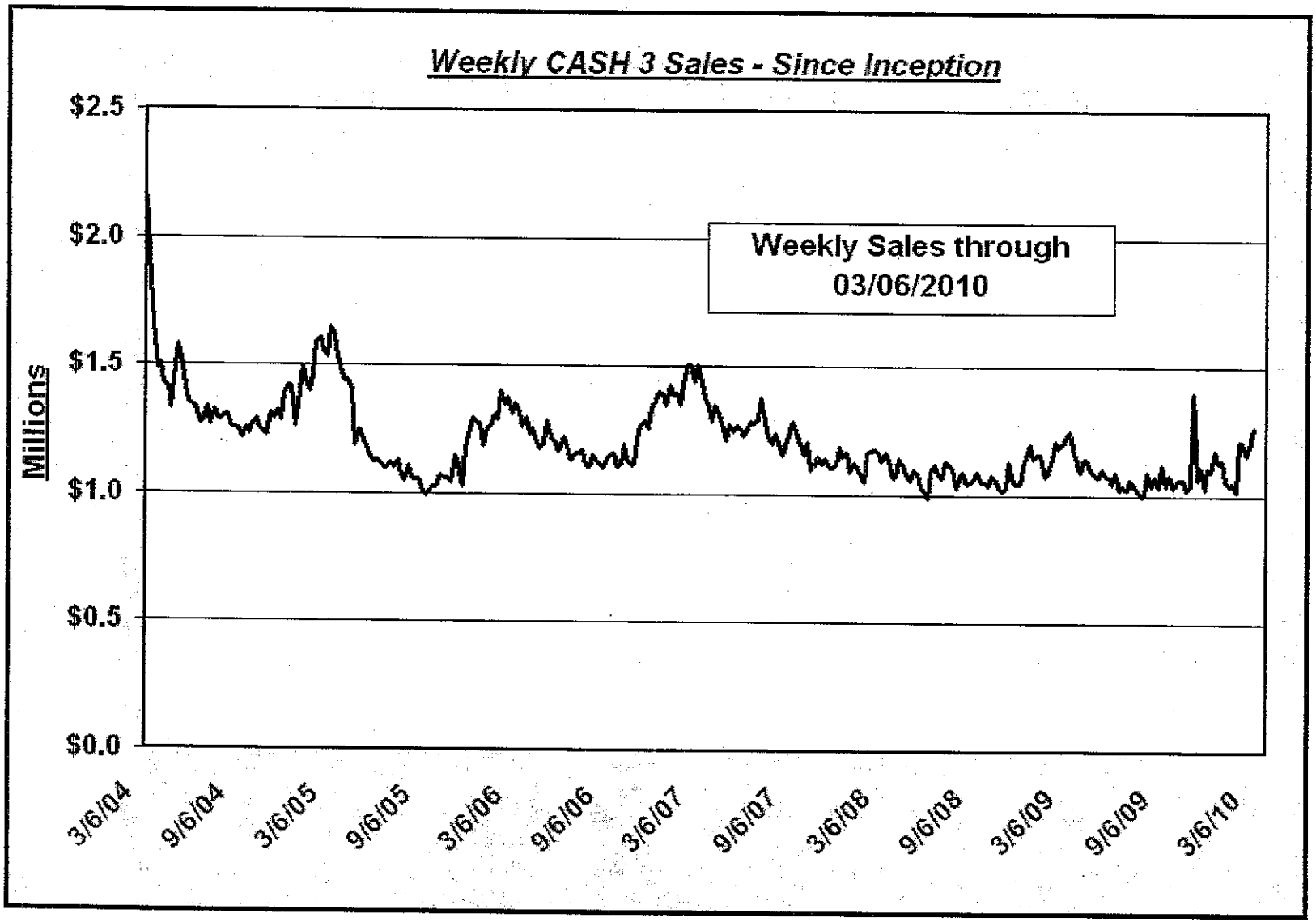
- FY11-12, FY12-13, and FY13-14

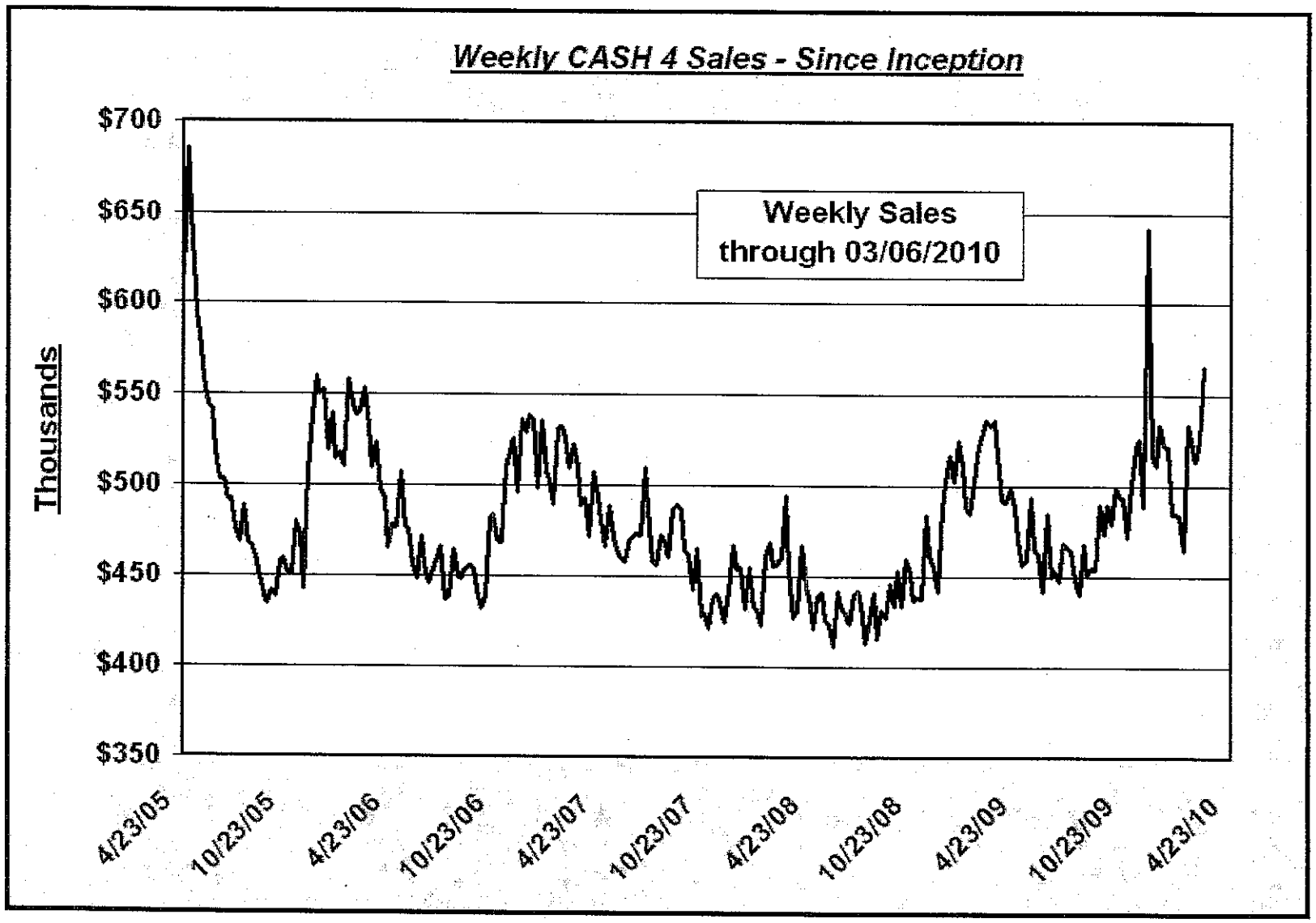
- Sales growth is difficult to forecast due to the following:
  - *Changes to payout ratios*
  - *Matrix changes to jackpot based games*
  - *Structure changes to other online games*
  - *Legislative changes*
  - *Introductions of new instant games and/or new online games*
  - *Changes to retailer base*
  - *Changes to budgeted advertising*

- Due to high level of uncertainty, projections for net lottery proceeds and after-school funding for the three out years remain fixed at FY10-11 levels.

Charts & Graphs


Weekly Instant Game Gross Sales - Since Inception
Weekly Sales through 03/06/2010
Millions
$35
$30
$25
$20
$15
$10
$5
$0
2/1/04
2/1/05
2/1/06
2/1/07
2/1/08
2/1/09
2/1/10


Weekly CASH 3 Sales - Since Inception
Weekly Sales through
03/06/2010
Millions
$2.5
$2.0
$1.5
$1.0
$0.5
$0.0
3/6/04
9/6/04
3/6/05
9/6/05
3/6/06
9/6/06
3/6/07
9/6/07
3/6/08
9/6/08
3/6/09
9/6/09
3/6/10


Weekly CASH 4 Sales - Since Inception
Weekly Sales
through 03/06/2010
Thousands
$700
$650
$600
$550
$500
$450
$400
$350
4/23/05
10/23/05
4/23/06
10/23/06
4/23/07
10/23/07
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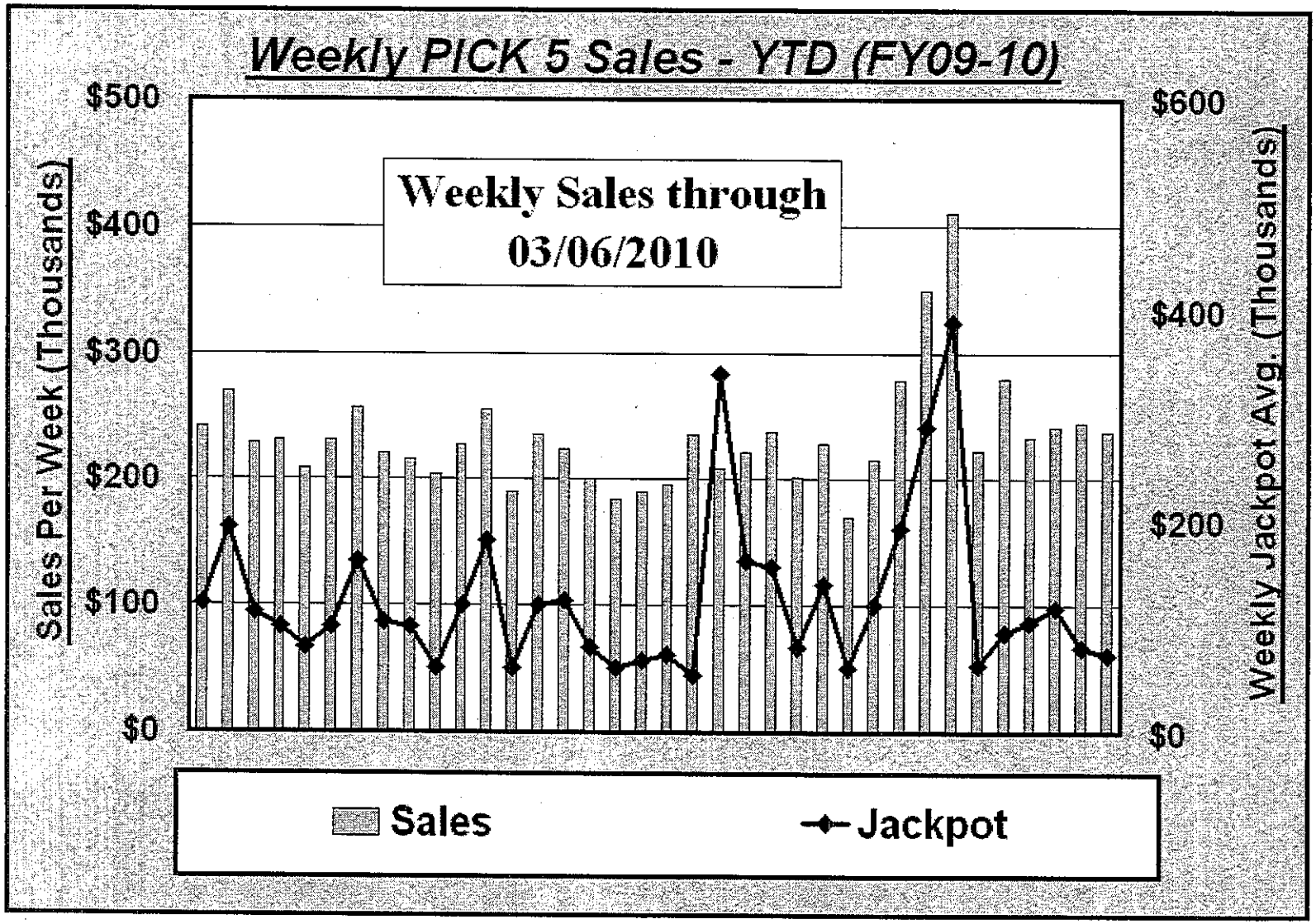
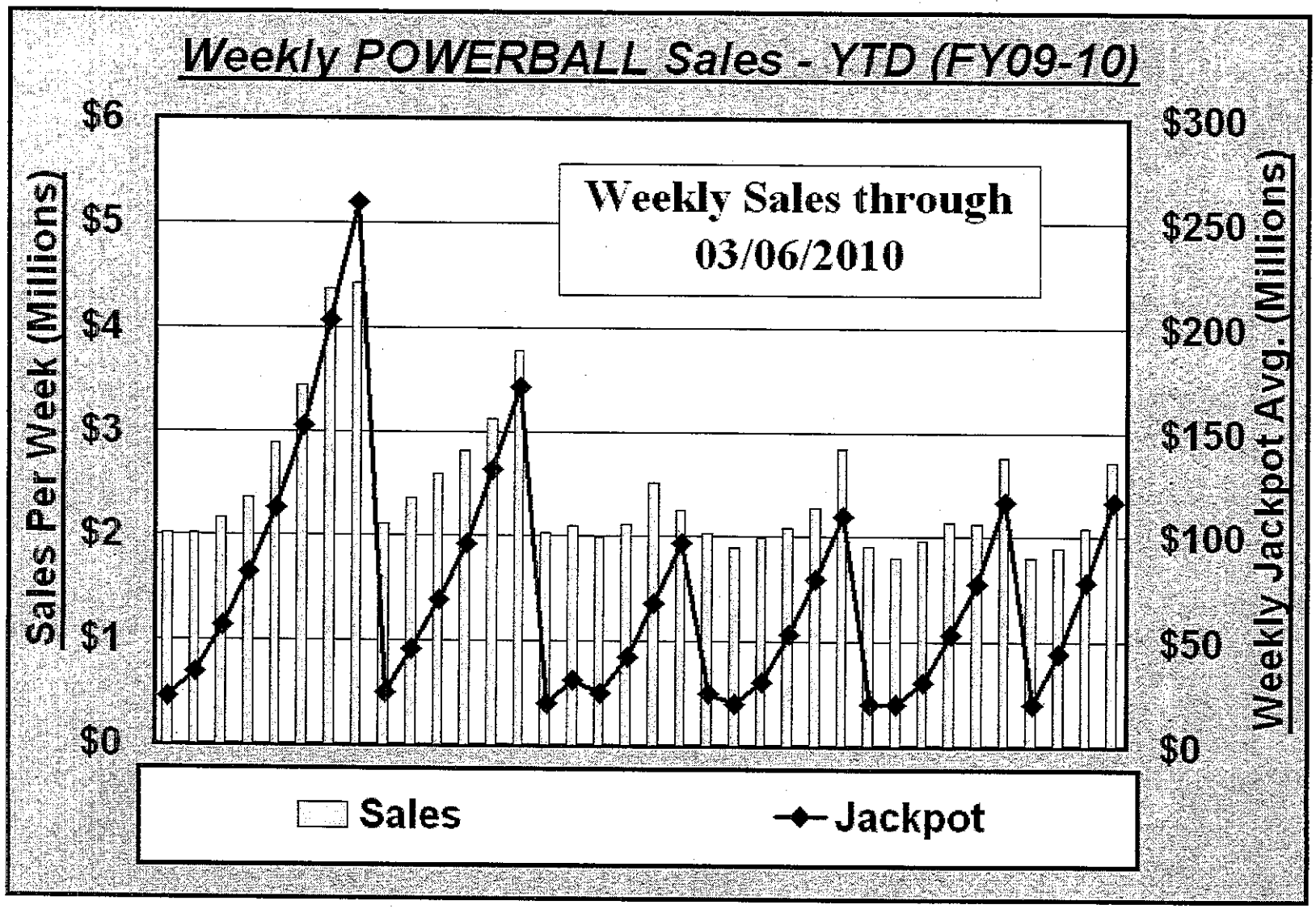
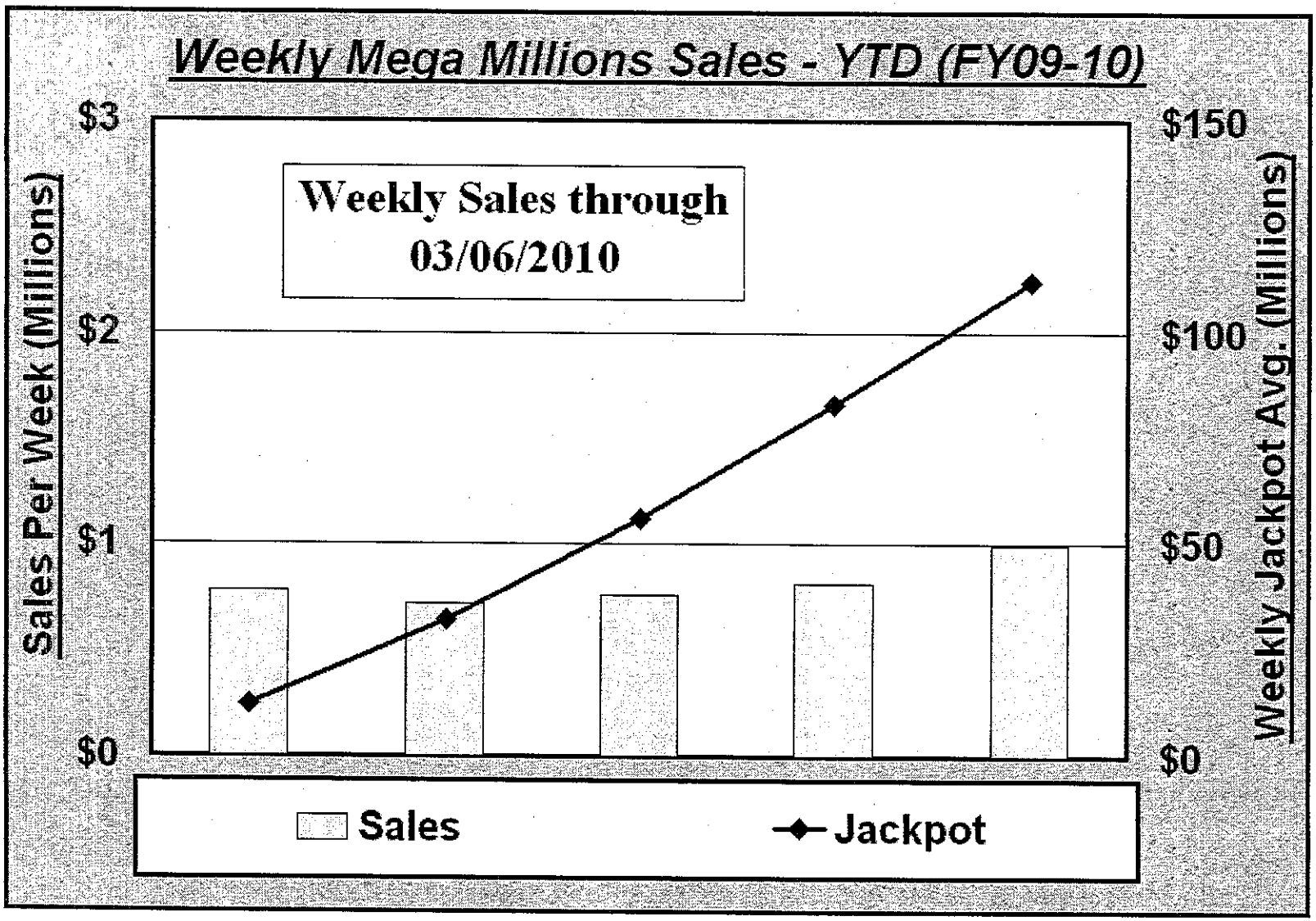
10/23/09
4/23/10

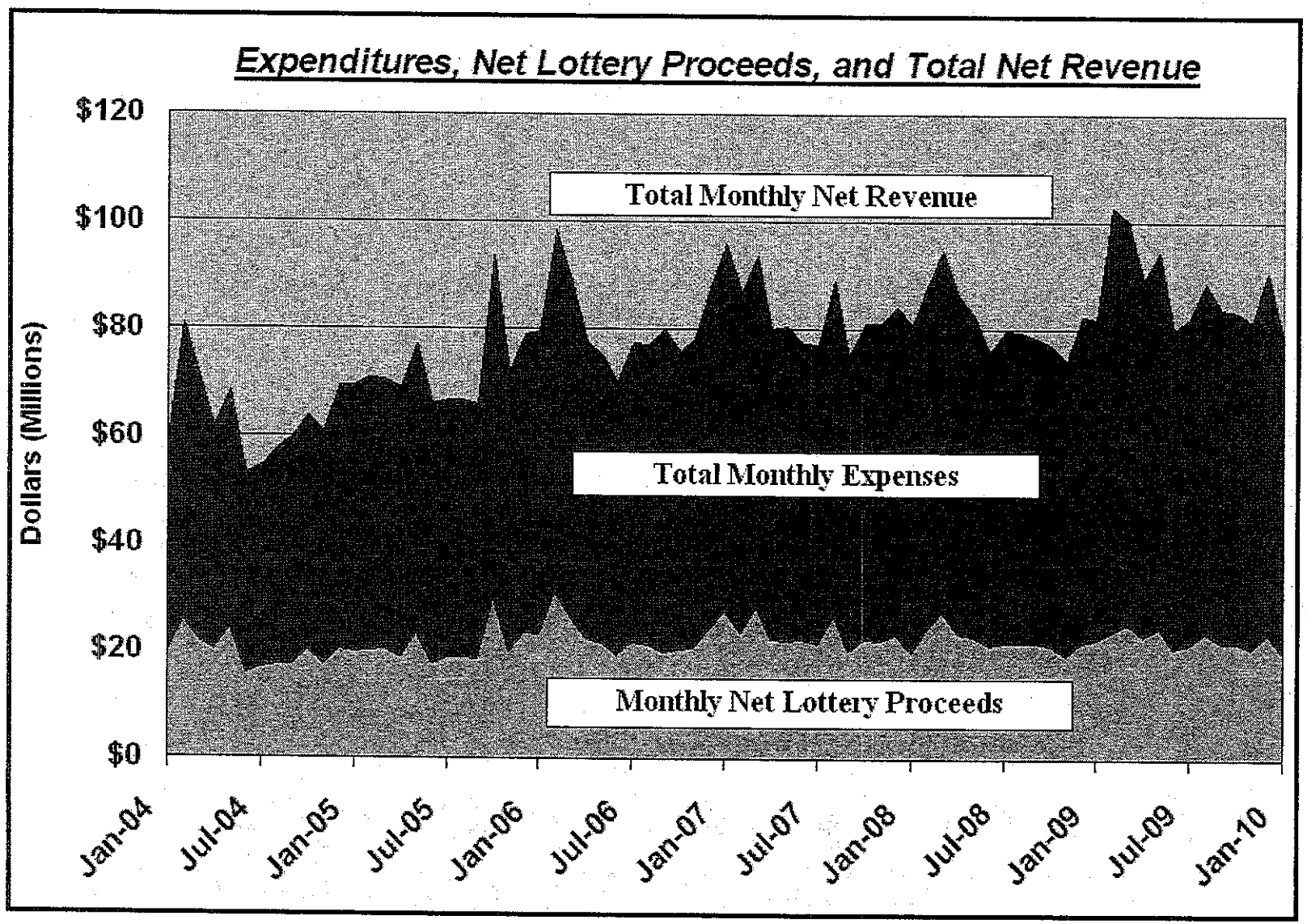

Weekly PICK 5 Sales - YTD (FY09-10)
Weekly Sales through
03/06/2010
Sales Per Week (Thousands)
$500
$400
$300
$200
$100
$0
Weekly Jackpot Avg. (Thousands)
$600
$400
$200
$0
Sales
Jackpot


Weekly POWERBALL Sales - YTD (FY09-10)
Weekly Sales through
03/06/2010
Sales Per Week (Millions)
$6
$5
$4
$3
$2
$1
$0
Weekly Jackpot Avg. (Millions)
$300
$250
$200
$150
$100
$50
$0
Sales
Jackpot

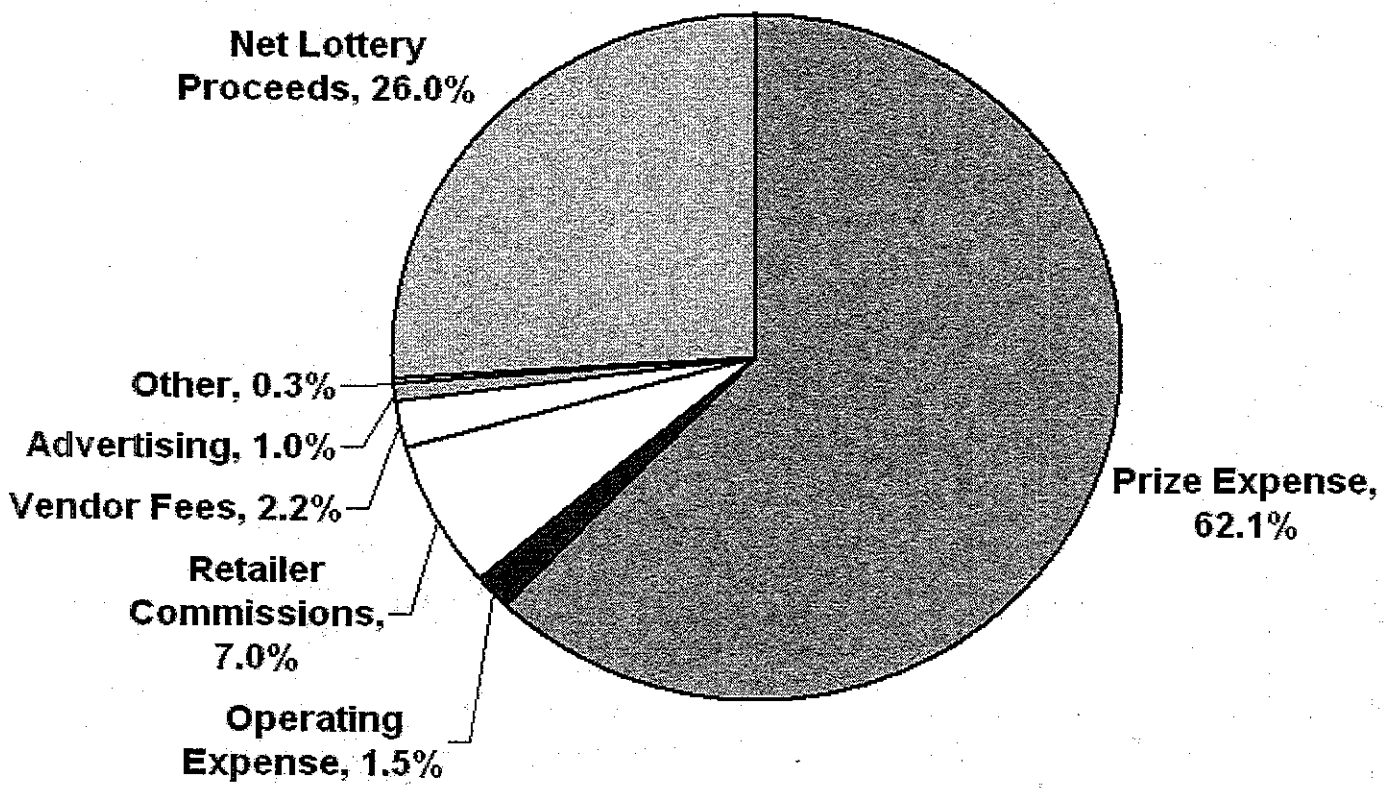

Weekly Mega Millions Sales - YTD (FY09-10)
Weekly Sales through
03/06/2010
Sales Per Week (Millions)
$3
$2
$1
$0
Weekly Jackpot Avg. (Millions)
$150
$100
$50
$0
Sales
Jackpot

	FY04-05	FY05-06	FY06-07	FY07-08	FY08-09
Net Revenue	$787,997,704	$933,439,051	$991,024,026	$996,573,536	$1,020,570,844
Prize Expense	$455,940,205	$545,656,187	$597,230,932	$602,283,577	$633,327,819
Operating Expense	$15,610,877	$15,530,559	$14,526,653	$14,620,429	$15,595,907
Retailer Commissions	$54,878,104	$64,949,927	$69,159,074	$69,568,160	$71,032,366
Vendor Fees	$16,510,578	$19,406,357	$20,971,168	$21,352,154	$21,999,447
Advertising	$14,673,792	$14,110,779	$13,015,185	$11,680,873	$10,482,818
Other	$2,960,936	$3,922,967	$4,152,523	$4,652,776	$2,646,359
Total Expenses	$560,574,492	$663,576,776	$719,055,535	$724,157,969	$755,084,716
Net Lottery Proceeds	$227,423,212	$269,862,275	$271,968,491	$272,415,567	$265,486,128
After-School	$6,872,556	$7,392,700	$10,436,394	$13,724,640	$14,666,222
Total Proceeds	$234,295,768	$277,254,975	$282,404,885	$286,140,207	$280,152,350

	FY03-04	FY04-05	FY05-06	FY06-07	FY07-08	FY08-09
Prize Expense	55.2%	57.9%	58.5%	60.3%	60.4%	62.1%
Retailer Commissions	7.1%	7.0%	7.0%	7.0%	7.0%	7.0%
Vendor Fees	2.3%	2.1%	2.1%	2.1%	2.1%	2.2%
Advertising	1.3%	1.9%	1.5%	1.3%	1.2%	1.0%
Other Gaming Expenses	0.4%	0.4%	0.4%	0.4%	0.5%	0.3%
Operating Expenses	2.5%	2.0%	1.7%	1.5%	1.5%	1.5%
Net Lottery Proceeds	31.4%	28.9%	28.9%	27.4%	27.3%	26.0%
Total Net Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

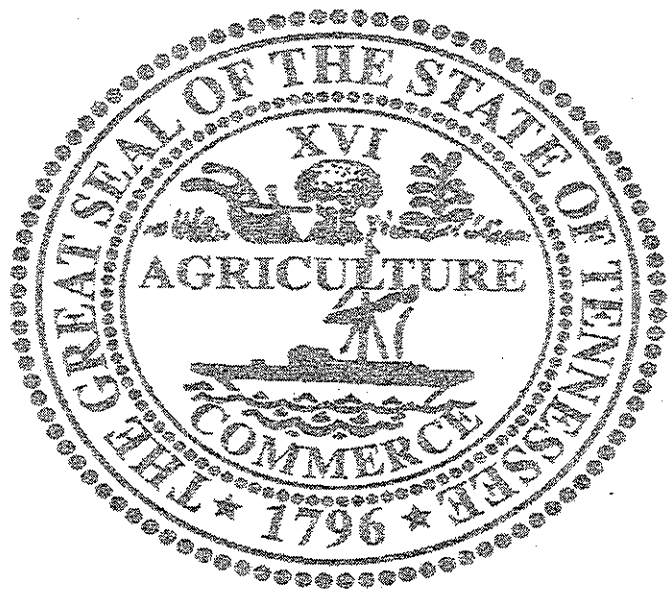

Expenditures, Net Lottery Proceeds, and Total Net Revenue
Dollars (Millions)
$120
$100
$80
$60
$40
$20
$0
Total Monthly Net Revenue
Total Monthly Expenses
Monthly Net Lottery Proceeds
Jan-04
Jul-04
Jan-05
Jul-05
Jan-06
Jul-06
Jan-07
Jul-07
Jan-08
Jul-08
Jan-09
Jul-09
Jan-10

Net Revenue Breakdown for FY08-09



Prize Expense | Operating Expense | Retailer Commissions | Vendor Fees
Advertising | Other Expenses | Net Lottery Proceeds

QUESTIONS?



COMMENTS?