



Arizona State Senate **Issue Brief**

August 19, 2010

Note to Reader:

The Senate Research Staff provides nonpartisan, objective legislative research, policy analysis and related assistance to the members of the Arizona State Senate. The *Research Briefs* series, which includes the *Issue Brief*, *Background Brief* and *Issue Paper*, is intended to introduce a reader to various legislatively related issues and provide useful resources to assist the reader in learning more on a given topic. Because of frequent legislative and executive activity, topics may undergo frequent changes. Additionally, nothing in the *Brief* should be used to draw conclusions on the legality of an issue.

ARIZONA'S STATE LOTTERY

AGENCY MISSION AND HISTORY

The State Lottery (Lottery) was established as a result of an initiative petition and the approval of the voters in the November 1980 general election. The Lottery is responsible for administering state-sanctioned games of chance to generate monies for the state, subject to sufficient revenue. The Lottery offers games in both an on-line and instant ticket format. On-line means the numbers are selected on a machine, as opposed to scratching a ticket.

The Arizona State Lottery Commission (Commission) was also established in 1980 to oversee the Lottery, in order to produce the maximum amount of net revenue consonant with the dignity of the state.

Lottery Re-authorization

In November 2002, the Legislature asked voters to decide if the Lottery should be extended for an additional ten years. Citizens voted 73 percent in favor of keeping the Lottery operating through July 1, 2013. The Lottery was subsequently re-established by Laws 2010, Sixth Special Session, Chapter Two, beginning July 1, 2012 and terminating July 1, 2035.

ORGANIZATION

An Executive Director is appointed by the Governor, subject to Senate confirmation, to administer the Lottery.

The Arizona State Lottery Commission consists of five members appointed by the Governor to five-year terms, subject to Senate confirmation. The members of the Commission represent law enforcement, a certified public accountant, marketing or advertising, and convenience store or grocery retailing. Commission members are eligible to receive compensation of not more than \$30 per day. The Commission must meet at least quarterly to make recommendations and set policy, receive reports from the Executive Director and transact other business properly brought before the Commission.

The Lottery receives monies annually from the State Lottery Fund, which consists of all revenues received from the sale of lottery tickets or shares, and licensing fees for agents to sell lottery tickets or shares. This includes the sale of multi-state games like

PowerBall and MegaMillions. The Lottery is restricted by statute to spending no more than 18.5 percent of its revenues on administrative expenses. Administrative expenditures are subject to legislative appropriation.

LOTTERY BENEFICIARIES

At least 50 percent of lottery revenues are dedicated to payment of prizes to the holders of winning tickets or shares. Statute also contains a funding distribution formula that allocates monies to designated beneficiaries. The current beneficiaries are: the State Lottery Revenue Bond Debt Service Fund, the state General Fund (GF), various health and welfare programs, homeless shelters, the University Capital Improvement (UCI) Fund and the Commerce and Economic Development Fund. Thirty percent of unclaimed prize money benefits the Court Appointed Special Advocate Program.

The Joint Legislative Budget Committee (JLBC) reported actual Lottery sales for FY 2009 at \$484.5 million, with \$126 million of that amount available for distribution to the beneficiaries. The FY 2010 JLBC estimate for lottery sales is \$527.9 million and \$554.4 million for FY 2011. The JLBC also reports that the percentage of ticket sales for beneficiary distribution dropped from 30 percent prior to FY 2009 to 26 percent in FY 2009.

Recent Changes to Lottery Beneficiaries

The FY 2011 Budget Reconciliation Bill for Revenues (Laws 2010, Seventh Special Session, Chapter 12) made several changes to the beneficiary distribution formula. Specifically, for FY 2010, the lottery distributions to the Local Transportation Assistance Fund (LTAF), the Mass Transit Fund (also known as LTAF II), the County Assistance Fund and the State Parks Heritage Fund are, after February 1, 2010, redirected to the state GF. And, beginning in FY 2011, these funds and their distributions are statutorily repealed with the proceeds permanently redirected to the state GF.

University Capital Improvement (UCI) Fund

The FY 2009 Budget Reconciliation Bill for Education (Laws 2008, Chapter 287) authorized state universities to enter into \$1 billion of capital lease-purchase projects. Then, in February of 2009 the decline in state revenues necessitated a revision to the state's FY 2009 enacted budget. As part of the package, Laws 2009, First Special Session, Chapter Six, reduces the \$1 billion bonding authority cap to \$800 million and prohibits the Arizona Board of Regents (ABOR) from authorizing projects or issuing debt for \$632 million of that amount. This restriction excludes \$168 million in debt authority already favorably reviewed by the Joint Committee on Capital Review (JCCR).

Additionally, the FY 2010 Budget Reconciliation Bill for Higher Education (Laws 2009, Third Special Session, Chapter Nine) restricts lottery distributions for FY 2010 and FY 2011 into the UCI by limiting the revenues to 80 percent of the required annual debt service for the \$168 million approved by the JCCR. Beginning in FY 2012, this debt cap is lifted allowing ABOR to make debt payments on any outstanding lease-to-own and bond agreements.

STATE LOTTERY REVENUE BONDS

In order to address the ongoing state budget deficit, the Forty-Ninth Legislature convened a sixth special session. In that session, the Legislature authorized the Arizona Department of Administration to issue a 20-year lottery revenue bond in the amount of \$450 million. The bonds are to be issued by December 31, 2010 and the proceeds deposited into the state GF.

Statute further provides for the payment of the bonds. Specifically, these payments are made from Lottery revenues that would otherwise have been deposited in the state GF. Beginning in FY 2011, the first lottery proceeds are distributed to the newly established State Lottery Revenue Bond Debt Service Fund for the bond payments. The JLBC estimates the FY 2011 bond payment at \$21.6 million. This initial payment is an interest-only payment (Laws 2010, Sixth Special Session, Chapter Two).

INSTANT TICKET GAMES FOR CHARITABLE ORGANIZATIONS

Laws 2010, Chapter 126 requires the Commission to establish instant ticket games for charitable, non-profit organizations. These organizations are allowed to collect 20 percent of these instant ticket sales, and use up to 15 percent of the total annual ticket sales for operating expenses. An organization must have operated within the state of Arizona for a minimum of two years to participate. The JLBC estimates that approximately 300 organizations may qualify to participate in the instant ticket games.

ADDITIONAL RESOURCES

- Arizona Lottery
4740 E. University Dr.
Phoenix, AZ 85034
480-921-4400
www.arizonalottery.com
- Arizona State Lottery Annual Report
- *FY 2011 Appropriations Report*, Prepared by the Joint Legislative Budget Committee, www.azleg.gov/jlbc
- “Arizona State Lottery Commission,” Office of the Auditor General, March 2010, Report No. 10-03
- Publicity Pamphlet for November 5, 2002 General Election, prepared by the Arizona Secretary of State www.azsos.gov
- Arizona State Lottery and Arizona State Lottery Commission Statutes; Arizona Revised Statutes, Title 5, Chapter 5