

Executive Director: Geoffrey E. Gonsler

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	FY 2000 Actual	FY 2001 Estimate	FY 2002 Approved	FY 2003 Approved
PROGRAM BUDGET				
Sales and Support	6,147,000	6,511,800	7,085,000	7,086,100
Instant Tickets SLI ^{1/}	2,142,600	4,129,600	4,244,300 ^{2/}	4,343,500 ^{2/}
Advertising SLI ^{1/}	8,063,300	6,806,800	6,744,700 ^{3/}	6,599,100 ^{3/}
On-Line Vendors Fees SLI ^{1/}	6,264,800	5,932,700	5,633,300 ^{4/}	5,254,100 ^{4/}
Retailer Commissions SLI ^{1/}	16,610,800	16,701,800	16,549,400 ^{5/}	16,257,900 ^{5/}
Sales Incentive Program SLI	21,100	50,000	50,000	50,000
Telecommunications SLI	2,210,200	2,090,500	2,090,500	2,090,500
Compulsive Gambling Treatment and Information SLI	317,800	500,000	500,000 ^{6/}	500,000 ^{6/}
TOTAL APPROPRIATIONS	41,777,600	42,723,200	42,897,200	42,181,200
OPERATING BUDGET				
Full Time Equivalent Positions	123.0	123.0	123.0	123.0
Personal Services	3,686,300	4,056,600	4,182,200	4,392,900
Employee Related Expenditures	748,900	874,600	935,400	917,800
Professional and Outside Services	224,900	210,800	328,900	337,700
Travel - In State	172,500	246,400	246,400	246,400
Travel - Out of State	42,400	16,700	16,700	16,700
Other Operating Expenditures	1,134,600	1,106,700	1,110,900	1,110,100
Equipment	137,400	0	264,500	64,500
<i>Operating Subtotal</i>	6,147,000	6,511,800	7,085,000	7,086,100
Special Line Items (SLI)	35,630,600	36,211,400	35,812,200	35,095,100
TOTAL APPROPRIATIONS	41,777,600	42,723,200	42,897,200 ^{7/}	42,181,200 ^{7/}
FUND SOURCES				
General Fund	1,500,000	0	0	0
Other Appropriated Funds				
State Lottery Fund	40,277,600	42,723,200	42,897,200	42,181,200
<i>Subtotal - Other Appropriated Funds</i>	40,277,600	42,723,200	42,897,200	42,181,200
TOTAL APPROPRIATIONS	41,777,600	42,723,200	42,897,200	42,181,200

^{1/} Instant Tickets, Advertising, On-line Vendor Fees, and Retailer Commissions are appropriated as a percentage of sales. Therefore, the amounts shown for those line items in FY 2002 and FY 2003 are estimates only.

^{2/} An amount equal to 3.1% of actual instant ticket sales is appropriated for the printing of instant tickets or for contractual obligations concerning instant ticket distribution. This amount is currently estimated to be \$4,244,300 in FY 2002 and \$4,343,500 in FY 2003. (General Appropriation Act footnote)

^{3/} An amount equal to 2.7% of gross lottery game sales, but no more than \$11,000,000, is appropriated for Advertising in accordance with A.R.S. § 5-505, that states that not more than 4% of the annual gross revenues shall be expended for Advertising. This amount is currently estimated to be \$6,744,700 in FY 2002 and \$6,599,100 in FY 2003. (General Appropriation Act footnote)

^{4/} An amount equal to a percentage of actual on-line game sales as determined by contract is appropriated for payment of on-line vendor fees. This amount is currently estimated to be \$5,633,300 in FY 2002 and \$5,254,100 in FY 2003 or 4.99% of actual on-line ticket sales. (General Appropriation Act footnote)

^{5/} An amount equal to 6.5% of gross lottery game sales is appropriated for payment of sales commissions to ticket retailers. In accordance with Laws 1997, Chapter 214, an additional amount of not to exceed 0.5% of gross lottery game sales is appropriated for payment of sales commissions to ticket retailers. The combined amount is currently estimated to be 6.625% of total ticket sales, or \$16,549,400 in FY 2002 and \$16,257,900 in FY 2003. (General Appropriation Act footnote)

^{6/} Of the amount appropriated for Compulsive Gambling Treatment and Information, 50% shall be used to contract for a statewide toll free crisis hotline to promote public education and awareness about compulsive gambling problems and to provide public information on gambling addiction. The remaining 50% of the appropriated amount shall be used to contract for the treatment of individuals who are compulsive gamblers. (General Appropriation Act footnote)

^{7/} General Appropriation Act Funds are appropriated as a Lump Sum by Agency with Special Line Items.

AGENCY DESCRIPTION — *The Arizona Lottery is responsible for administering sanctioned games of chance to generate monies for the state subject to sufficient revenue. Arizona-specific games include instant tickets, the Pick, Pick 3 and Fantasy 5 on-line games. Arizona also participates in the multi-state Powerball on-line game. The beneficiary funds are the Local Transportation Assistance Fund (LTAF), the County Assistance Fund (CAF), the Heritage Funds, the Commerce and Economic Development Commission (CEDC), the Arizona Clean Air Fund (ACAF), the LTAF specifically for mass transit uses, various health and welfare programs, and the General Fund. A portion of unclaimed prizes benefits the Court Appointed Special Advocate (CASA) program.*

PERFORMANCE MEASURES	FY 1999	FY 2000	FY 2001	FY 2002-03
	Est./Actual	Est./Actual	Estimate	Estimate
• Amount of estimated on-line sales (\$ in millions)	131.2/158.8	134.0/126.1	118.9	112.9/105.4
• Amount of estimated instant ticket sales (\$ in millions)	108.8/109.4	111.0/129.5	113.2	136.9/140.1
• Average amount of sales per Instant Ticket Vending Machine (ITVM) (in \$)	83,700/ 77,828	79,185/ 91,855	79,128	98,754/ 107,477
• % of active retailer accounts in good standing	NA	NA/99.7	99.8	99.8
• % of agency staff turnover	NA/18.5	NA/14.6	14.0	13.5
• Administration as a % of total cost	NA	6.5/ NA	6.4	8.1
• Customer satisfaction rating for retailers (Scale 1-8)	NA	NA	NA	6.0

Sales and Support Program — This program provides for the Lottery’s operations including sales, marketing, administration, and personnel management.

- *Computer Upgrades* — The approved amount includes a FY 2002 increase of \$264,500 above FY 2001 and a FY 2003 increase of \$64,500 above FY 2001 for desktop computer replacements and the replacement of an AS/400 mid-level computer. The FY 2003 amount is lower due to the elimination of one-time equipment.
- *Auditing Services* — The approved amount includes an FY 2002 increase of \$80,000 above FY 2001 and an FY 2003 increase of \$84,000 above FY 2001 for the financial auditing and game drawing oversight contracts.
- *Attorney General Legal Services* — The approved amount includes an increase of \$34,500 in both FY 2002 and FY 2003 above FY 2001 for increases in the charges for Attorney General legal services. The approved amount also includes funding for an additional part-time legal assistant to assist with Lottery legal issues.
- *OAH Cost Allocation Plan* — The approved amount includes a FY 2002 increase of \$1,400 above FY 2001 and a FY 2003 increase of \$1,500 above FY 2001 for increased Office of Administrative Hearings (OAH) charges based on the new OAH cost allocation plan. (See the OAH section for further information).

Instant Tickets Special Line Item — Monies in this line item are used to pay for instant ticket printing and distribution costs. The approved amount includes an estimated FY 2002 increase of \$114,700 above FY 2001

and an estimated FY 2003 increase of \$213,900 above FY 2001. The actual appropriation is for 3.1% of instant ticket sales. The JLBC forecasts FY 2002 instant ticket sales growth of \$3,700,000 above FY 2001 and FY 2003 instant ticket sales growth of \$6,900,000 above FY 2001. The displayed increases are derived by applying the forecasted sales amounts to the approved spending percentages. (See *Other Issues for a discussion of the JLBC Staff forecast of Lottery ticket sales.*)

Advertising Special Line Item — Monies in this line item are used to market Lottery games. The approved amount includes an estimated FY 2002 decrease of \$(62,100) below FY 2001 and an estimated FY 2003 decrease of \$(207,700) below FY 2001. The actual appropriation is for 2.7% of total ticket sales. The JLBC Staff forecasts a FY 2002 total ticket sales decline of \$(2,300,000) below FY 2001 and a FY 2003 total ticket sales decline of \$(6,900,000) below FY 2001. The displayed reductions are derived by applying the forecasted sales amounts to the approved spending percentage. (See *Other Issues for a discussion of the JLBC Staff forecast of Lottery ticket sales.*)

On-Line Vendor Fees Special Line Item — Monies in this line item are used to pay the vendor that operates the on-line game computer system. The approved amount includes an estimated FY 2002 decrease of \$(299,400) below FY 2001 and an estimated FY 2003 decrease of \$(678,600) below FY 2001. The actual appropriation in FY 2002 and FY 2003 is equal to the percentage in the Lottery’s contractual agreement with the vendor. This is currently estimated to be 4.99% of on-line ticket sales. The JLBC Staff currently forecasts a FY 2002 on-line ticket sales decline of \$(6,000,000) below FY 2001 and a FY 2003 on-line ticket sales decline of \$(13,600,000) below FY 2001. The displayed reductions are derived by

applying the forecasted sales amounts to the estimated approved spending percentage. *(See Other Issues for a discussion of the JLBC Staff forecast of Lottery ticket sales.)*

Retailer Commissions Special Line Item — Monies in this line item are used to compensate retailers for selling lottery tickets. The actual appropriation in FY 2002 and FY 2003 is equal to 6.5% of total ticket sales. Pursuant to statute, an additional 0.5% of total ticket sales may be paid to retailers based on their attainment of specified sales and marketing objectives. It is estimated that 25% of the retailers will meet these objectives, resulting in an additional 0.125% in retailer commissions and a total retailer commission rate of 6.625% of total ticket sales. The JLBC Staff forecasts a FY 2002 total ticket sales decline of \$(2,300,000) below FY 2001 and a FY 2003 total ticket sales decline of \$(6,900,000) below FY 2001. The displayed reductions are derived by applying the forecasted sales amounts to the approved spending percentage. *(See Other Issues for a discussion of the JLBC Staff forecast of Lottery ticket sales.)*

Sales Incentive Program Special Line Item — Monies in this line item are used to provide monetary incentives to employees in the Lottery's Marketing Division for working with retailers to increase sales.

Telecommunications Special Line Item — Monies in this line item are used to pay for all costs related to the Lottery's telecommunications network. The Lottery provides telecommunications services to retailers who sell on-line game tickets through a contract with private vendors. The previous contract to provide these services expired on December 2000. Information on the new contract charges was not provided with sufficient time for inclusion in the approved budget. The current estimates from the Lottery indicate that the new contract will cost an additional \$935,000 in FY 2002 above FY 2001 and an additional \$1,200,000 in FY 2003 above FY 2001.

Compulsive Gambling Treatment and Information Special Line Item — Monies in the line item are used to pay for programs related to gambling addiction. Each year, \$250,000 shall be used to contract for a compulsive gambling toll-free crisis hotline, and \$250,000 shall be used to contract for treatment of individuals who are compulsive gamblers.

Capital Outlay Appropriations: Chapter 237 — This bill appropriates \$34,700 from the State Lottery Fund in FY 2002 and \$38,300 from the State Lottery Fund in FY 2003 for building renewal. The stated appropriations represent 100% funding of the building renewal formula.

Additional Legislation: Omnibus Budget Reconciliation: Public Finances (Chapter 238) — This act includes a provision that requires the Lottery to return to the state 31.6% of the total revenues accruing from the sale of

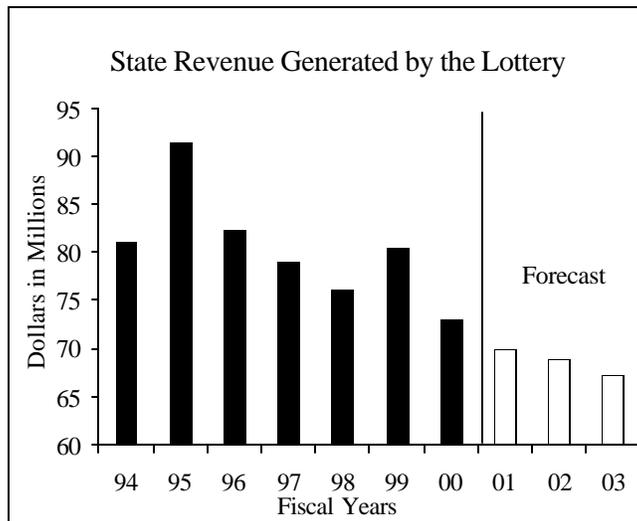
multi-state lottery tickets. Current permanent law would only require that the Lottery return 29% of multi-state ticket sales. This provision will allow an estimated additional \$1,635,600 in FY 2002 and an estimated additional \$1,532,600 in FY 2003 be returned to the state above the statutory minimum.

Other Issues: Lottery Profit Forecast and Distribution — The JLBC Staff forecasts total Lottery ticket sales of \$249,800,000 in FY 2002 and total sales of \$245,500,000 in FY 2003. This represents a FY 2002 decrease of \$(2,300,000) from the FY 2001 estimate and a FY 2003 decrease of \$(6,900,000) from the FY 2001 estimate. The forecasted sales decline is primarily the result of decreasing on-line ticket sales. The decrease among the on-line sales categories is only partially offset by a forecasted increase in instant ticket sales.

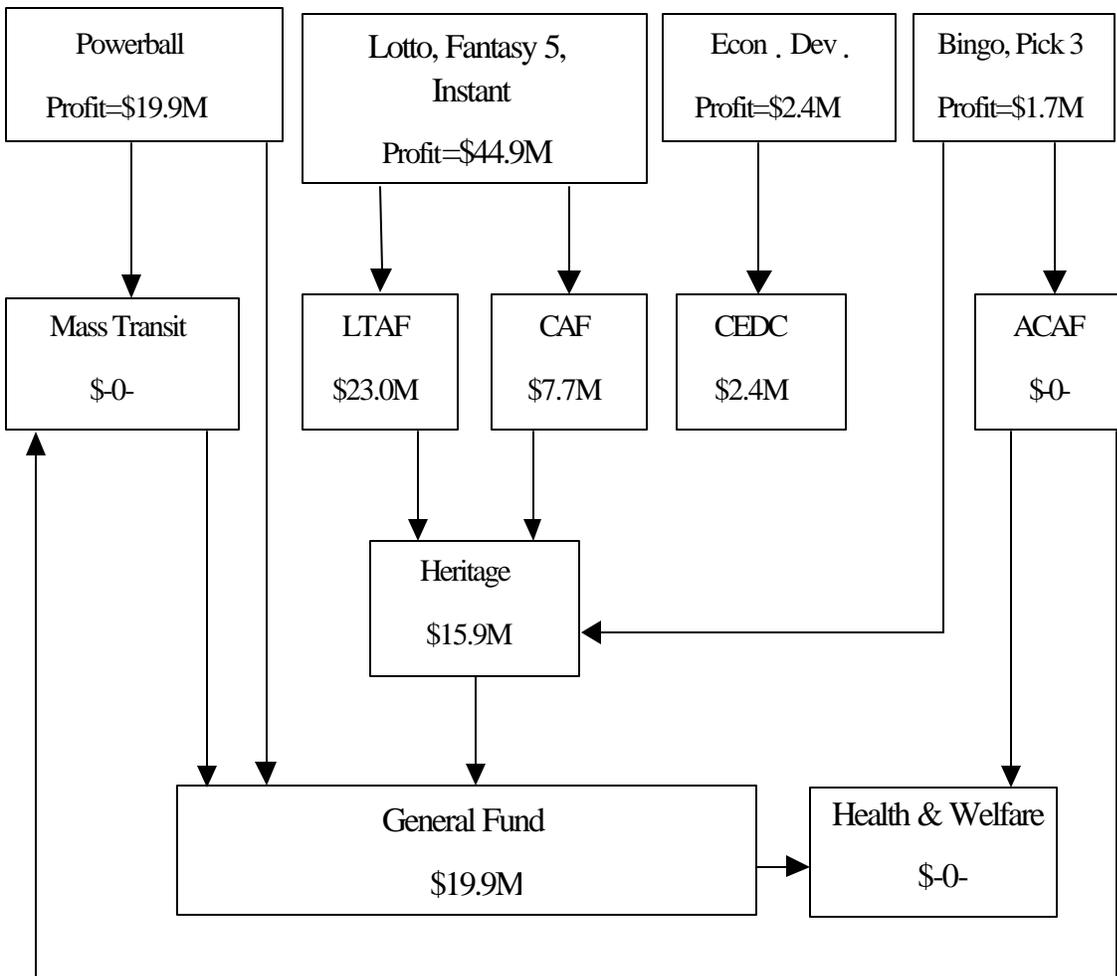
The following table displays the JLBC Staff forecast of Lottery ticket sales and the corresponding profit distribution. Included in the table are total ticket sales amounts, on-line ticket sales amounts, and instant ticket sales amounts. These forecasted amounts were used to derive the estimates for the budget line items derived through statutory rates. The graph on the next page depicts the recent downward trend in Lottery profit collections. Following the graph is a visual representation of the statutory profit distribution and associated revenue flows for FY 2002.

Forecast of Lottery Revenue Distribution^{1/}		
	FY 2002	FY 2003
Sales:		
Instant Sales	\$136,900,000	\$140,100,000
On-Line Sales	112,900,000	105,400,000
Total Sales	\$249,800,000	\$245,500,000
Less:		
Operating Budget	\$42,691,600	\$41,779,700
Prizes ^{2/}	138,232,700	136,474,900
Net Profit^{3/}	\$68,875,700	\$67,245,400
Profit Transfers:		
LTAf	\$23,000,000	\$23,000,000
CAF	7,650,000	7,650,000
Heritage	15,949,500	15,583,200
Clean Air	0	0
Econ. Development	2,399,800	2,399,800
Mass Transit	0	0
Health & Welfare Programs	0	0
General Fund	19,876,400	18,612,400
Total Transfer	\$68,875,700	\$67,245,400

^{1/} See flow chart at the end of this recommendation.
^{2/} Prizes are estimated by subtracting net profit and operating budget expenditures from total Lottery sales.
^{3/} To derive the profit transfer amounts, we applied the actual FY 2000 rate of return for each game to the current forecast.



FY 2002 Lottery Profit Distribution



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