

Executive Director: Geoffrey E. Gonsher

JLBC Analyst: Tom Mikesell

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Approved
PROGRAM BUDGET			
Sales and Support	6,547,300	7,045,500	7,106,300
Instant Tickets SLI ^{1/}	2,231,500	4,244,300	4,343,500 ^{2/}
Advertising SLI ^{1/}	6,982,700	6,744,700	6,599,100 ^{3/}
On-Line Vendors Fees SLI ^{1/}	6,768,500	5,633,300	5,254,100 ^{4/}
Retailer Commissions SLI ^{1/}	18,007,600	16,549,400	16,257,900 ^{5/}
Sales Incentive Program SLI	11,800	50,000	50,000
Telecommunications SLI	2,070,600	2,090,500	2,814,400
Compulsive Gambling Treatment and Information SLI	474,600	500,000	500,000 ^{6/}
TOTAL APPROPRIATIONS	43,094,600	42,857,700	42,925,300
OPERATING BUDGET			
Full Time Equivalent Positions	123.0	123.0	123.0
Personal Services	4,013,600	4,141,400	4,308,500
Employee Related Expenditures	823,100	930,600	1,018,500
Professional and Outside Services	246,300	335,000	341,600
Travel - In State	259,200	246,400	246,400
Travel - Out of State	21,900	16,700	16,700
Other Operating Expenditures	1,107,800	1,110,900	1,110,100
Equipment	75,400	264,500	64,500
<i>Operating Subtotal</i>	6,547,300	7,045,500	7,106,300
Special Line Items (SLI)	36,547,300	35,812,200	35,819,000
TOTAL APPROPRIATIONS	43,094,600	42,857,700	42,925,300 ^{7/}
FUND SOURCES			
State Lottery Fund	43,094,600	42,857,700	42,925,300
<i>Subtotal - Other Appropriated Funds</i>	43,094,600	42,857,700	42,925,300
TOTAL APPROPRIATIONS	43,094,600	42,857,700	42,925,300

^{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 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 estimated to be \$4,244,300 in FY 2002 and \$4,343,500 in FY 2003. (General Appropriation Act footnote) As of June 2002 the FY 2003 amount is estimated to be \$4,343,100.

^{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 estimated to be \$6,744,700 in FY 2002 and \$6,599,100 in FY 2003. (General Appropriation Act footnote) As of June 2002 the FY 2003 amount is estimated to be \$7,222,500.

^{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 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) As of June 2002 the FY 2003 amount is estimated to be \$6,357,300.

^{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 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) As of June 2002 the FY 2003 amount is estimated to be \$17,721,900.

^{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 (Laws 2001, Chapter 236 as amended by Laws 2002, Chapter 327) 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	Est./Actual	Estimate
• Amount of estimated on-line sales (\$ in millions)	131.2/158.8	134.0/126.1	118.9/135.8	112.9/105.4
• Amount of estimated instant ticket sales (\$ in millions)	108.8/109.4	111.0/129.5	113.2/136.9	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/ 78,200	98,754/ 107,477
• % of active retailer accounts in good standing	NA	NA/99.7	99.8/99.8	99.8
• % of agency staff turnover	NA/18.5	NA/14.6	14.0/13.3	13.5
• Administration as a % of total cost	NA	6.5/ NA	6.4/NA	8.1
• Customer satisfaction rating for retailers (Scale 1-8)	NA	NA	NA	6.0

This agency’s budget was originally appropriated in Laws 2001, Chapter 236. It was amended by Laws 2002, Chapter 327 to incorporate statewide salary adjustment changes and other statewide technical adjustments. Laws 2002, Chapter 327 also included other changes to this agency’s original appropriation in Laws 2001, Chapter 236. These changes are described below. For other details on this agency’s FY 2003 budget, please see the *FY 2002 & FY 2003 Appropriations Report*.

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 approved amount includes a \$723,900 State Lottery Fund increase above FY 2002 to pay for increased charges associated with the State Carrier Services Contract.

Other Issues: Lottery Profit Forecast and Distribution — The JLBC Staff forecasts total Lottery ticket sales of \$267,500,000 in FY 2003. This represents a FY 2003 increase of \$17,700,000 from the FY 2002 estimate. The forecasted sales increase is primarily the result of increasing sales of multi-state on-line games as well as increasing instant ticket sales. The increases more than offset a forecasted decline in state-only on-line game 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.

Forecast of Lottery Revenue Distribution	
	FY 2003
Sales:	
Instant Sales	\$ 140,100,000
On-Line Sales	127,400,000
Total Sales	<u>\$ 267,500,000</u>
Less:	
Operating Budget	\$ 42,874,000
Prizes ^{1/}	<u>150,397,000</u>
Net Profit ^{2/}	<u>\$ 74,229,000</u>
Profit Transfers:	
LTAF	\$ 23,000,000
CAF	7,650,000
Heritage	15,583,200
Clean Air	0
Economic Development	2,399,800
Mass Transit	0
Health & Welfare Programs	0
General Fund	<u>25,596,000</u>
Total Transfer	<u>\$ 74,229,000</u>

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

[Click here to return to the Table of Contents](#)