

Executive Director: Kathleen Pushor

JLBC Analyst: Brian Cary

	FY 2003 Actual	FY 2004 Estimate	FY 2005 Approved
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	123.0	110.0	110.0
Personal Services	4,162,800	4,308,500	4,418,500
Employee Related Expenditures	942,700	1,167,900	1,237,000
Professional and Outside Services	244,200	341,600	344,400
Travel - In State	244,300	246,400	246,400
Travel - Out of State	10,400	16,700	16,700
Other Operating Expenditures	1,079,800	1,146,200	562,800
Equipment	152,100	64,500	0
OPERATING SUBTOTAL	6,836,300	7,291,800	6,825,800
SPECIAL LINE ITEMS			
Advertising ^{1/}	8,087,400	7,697,700	7,897,500 ^{2/}
Compulsive Gambling Treatment and Information	484,400	300,000	0
Instant Tickets ^{1/}	3,547,400	4,727,500 ^{3/}	5,778,000 ^{4/}
On-Line Vendor Fees ^{1/}	8,132,100	6,616,800	6,586,900 ^{5/}
Retailer Commissions ^{1/}	21,512,100	19,101,700	19,597,500 ^{6/}
Sales Incentive Program	32,800	50,000	50,000
Telecommunications	2,530,200	2,814,400	2,814,400
AGENCY TOTAL	51,162,700	48,599,900	49,550,100^{2/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
State Lottery Fund	51,162,700	48,599,900	49,550,100
SUBTOTAL - Other Appropriated Funds	51,162,700	48,599,900	49,550,100
SUBTOTAL - Appropriated Funds	51,162,700	48,599,900	49,550,100
Other Non-Appropriated Funds	177,133,600	157,800,000	162,300,000
TOTAL - ALL SOURCES	228,296,300	206,399,900	211,850,100

AGENCY DESCRIPTION — The Arizona Lottery is responsible for administering sanctioned games of chance. 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.

^{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 2005 are estimates only.

^{2/} 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 \$7,697,700 in FY 2004 and \$7,897,500 in FY 2005. (General Appropriation Act footnote)

^{3/} 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 \$4,727,500 in FY 2004. (General Appropriation Act footnote)

^{4/} An amount equal to 3.6% 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 \$5,778,000 in FY 2005. (General Appropriation Act footnote)

^{5/} 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 \$6,616,800 in FY 2004 and \$6,586,900 in FY 2005 or 4.99% of actual on-line ticket sales. (General Appropriation Act footnote)

^{6/} 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 6.7% of total ticket sales, or \$19,101,700 in FY 2004 and \$19,597,500 in FY 2005. (General Appropriation Act footnote)

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

PERFORMANCE MEASURES	FY 2003	FY 2003	FY 2004	FY 2005
	Appropriation	Actual	Appropriation	Appropriation
• Amount of estimated on-line sales (\$ in millions)	105.4	163.1	132.6	132.0
• Amount of estimated instant ticket sales (\$ in millions)	140.1	159.2	152.5	160.5
• % of active retailer accounts in good standing	99.8	99.1	99.8	99.8
• % of agency staff turnover	13.5	13.4	11.4	11.4
• Administration as a % of total cost	8.1	7.8	8.3	8.3
• Customer satisfaction rating for retailers (Scale 1-8)	6.0	6.5	6.1	6.1
• % of Lottery ticket sales distributed to state beneficiaries	--	29.70	27.95	27.95

The agency's budget was originally appropriated in Laws 2003, Chapter 262. For details on this agency's FY 2005 budget, please see the *FY 2004 Appropriations Report*. Laws 2004, Chapter 275 amended the budget to incorporate statewide salary changes and other statewide technical adjustments. (Please see the *Statewide Adjustments section at the end of this Appropriations Report for details*.) Chapter 275 also made adjustments to the agency's FY 2005 budget as discussed below.

Instant Ticket Vending Machine Funding

The approved supplemental adds \$219,100 for Instant Ticket Vending Machines (ITVMs) in FY 2005 from the State Lottery Fund. This increase represents a forecasted amount as the actual appropriation is governed by a General Appropriation Act footnote authorizing 3.6% of instant ticket sales revenue to be used for ticket printing and distribution costs. Beginning in FY 2005, rather than leasing the ITVMs from the vendor at a fixed cost per machine, the agency will pay the vendor a percentage of sales. The budget reflects this change in payment methodology by increasing the ticket sales distribution percentage from 3.1% to 3.6%, which when applied to the forecast generates an additional \$219,100.

Compulsive Gambling Treatment and Information

The approved supplemental includes a decrease of \$(300,000) for elimination of the Compulsive Gambling Treatment and Information Special Line Item in FY 2005 and transfers the program to the Department of Gaming. Prior to FY 2004, the Lottery Commission used these monies for a toll-free hot line and contracted counseling and treatment programs for compulsive gamblers. In FY 2004, the Lottery Commission stopped providing these services and transferred the monies to the Gaming Department, which operates a problem gambling program pursuant to Proposition 202. The budget formalizes this transfer and consolidates the programs for greater efficiency and to allow the program to serve more clients. (Please see the *Department of Gaming section for more information*.)

Fund Transfers

State Lottery Fund

The General Appropriation Act transfers \$2,500,000 from the State Lottery Fund to the General Fund in FY 2005. This transfer is not part of the agency's appropriation and is not reflected in the table above.

Additional Legislation

General Fund Revenue; Budget Reconciliation

The General Fund Revenue Budget Reconciliation Bill (Laws 2004, Chapter 283) includes a provision that requires the Lottery to return to the state 31.6% of total revenue accruing from the sale of multi-state lottery tickets in FY 2005. This provision is a continuation of FY 2004 session law. Current permanent law would only require that the Lottery return 29% of multi-state ticket sales. This provision will allow an estimated additional \$2,314,000 in FY 2005 to be returned to the state above the statutory minimum.

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