

# Arizona State Lottery Commission

JLBC: Leatta McLaughlin  
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DESCRIPTION	FY 2006 ACTUAL	FY 2007 ESTIMATE	FY 2008 JLBC	FY 2009 JLBC
<b>OPERATING BUDGET</b>				
<i>Full Time Equivalent Positions</i>	110.0	110.0	110.0	110.0
Personal Services	4,148,300	4,787,400	4,815,600	4,815,600
Employee Related Expenditures	1,366,500	1,616,700	1,628,500	1,628,500
Professional and Outside Services	272,900	366,800	366,800	366,800
Travel - In State	265,900	246,400	250,900	250,900
Travel - Out of State	18,000	16,700	16,700	16,700
Other Operating Expenditures	567,000	622,700	633,000	633,000
Equipment	346,400	102,700	242,400	69,100
<b>OPERATING SUBTOTAL</b>	<b>6,985,000</b>	<b>7,759,400</b>	<b>7,953,900</b>	<b>7,780,600</b>
<b>SPECIAL LINE ITEMS</b>				
Advertising	10,777,700	11,000,000	11,000,000	11,000,000
Instant Tickets	7,697,700	9,403,500	9,565,000	9,645,700
On-Line Vendor Fees	9,849,000	8,361,400	8,072,200	8,269,100
Retailer Commissions	30,858,000	31,371,300	32,029,500	32,526,900
Sales Incentive Program	21,300	50,000	50,000	50,000
Telecommunications	2,705,500	2,814,400	654,400	654,400
<b>AGENCY TOTAL</b>	<b>68,894,200</b>	<b>70,760,000</b>	<b>69,325,000</b>	<b>69,926,700</b>

## FUND SOURCES

### Other Appropriated Funds

State Lottery Fund	68,894,200	70,760,000	69,325,000	69,926,700
SUBTOTAL - Other Appropriated Funds	68,894,200	70,760,000	69,325,000	69,926,700
<b>SUBTOTAL - Appropriated Funds</b>	<b>68,894,200</b>	<b>70,760,000</b>	<b>69,325,000</b>	<b>69,926,700</b>

Other Non-Appropriated Funds

	261,849,000	260,818,900	269,089,700	273,538,400
<b>TOTAL - ALL SOURCES</b>	<b>330,743,200</b>	<b>331,578,900</b>	<b>338,414,700</b>	<b>343,465,100</b>

## CHANGE IN FUNDING SUMMARY

	FY 2007 to FY 2008 JLBC		FY 2007 to FY 2009 JLBC	
	\$ Change	% Change	\$ Change	% Change
Other Appropriated Funds	(1,435,000)	(2.0%)	(833,300)	(1.2%)
Total Appropriated Funds	(1,435,000)	(2.0%)	(833,300)	(1.2%)
Non Appropriated Funds	8,270,800	3.2%	12,719,500	4.9%
Total - All Sources	6,835,800	2.1%	11,886,200	3.6%

**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.

PERFORMANCE MEASURES	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2008 JLBC
• Increase in on-line sales from prior year (\$ in millions) Comments: On-line sales are largely jackpot driven, impacting sales in any given year.	20.3	(5.4)	41.0	2.6
• Increase in instant ticket sales from prior year (\$ in millions)	24.0	36.4	30.1	1.7
• Customer satisfaction rating for retailers (Scale 1-8)	7.0	7.6	7.8	7.5



on-line vendor contract. The FY 2009 decrease is smaller than FY 2008 because of increased sales in FY 2009. (See "Other Issues for Legislative Consideration – Lottery Forecast" for more information.)

Monies in this line item are used to pay the vendor that operates the on-line game computer system. The actual appropriation is equal to a percentage of on-line ticket sales specified in the Lottery's contractual agreement with the vendor. The new contract, which took effect September 2006, specifies that the contractor will be paid 3.8012% of on-line ticket sales. The prior contract was for 4.99% of on-line ticket sales. The new contractor will incorporate network-related telecommunication costs for the first time, which will result in a decreased appropriation for the Telecommunications Special Line Item (SLI). (See the Telecommunications Special Line Item for more information.)

The displayed amount is derived by applying the approved percentage to the forecasted sales total. The old contract rate of 4.99% was applied to the first 2 months of FY 2007, while the new 3.8012% rate is applied to the remaining 10 months of FY 2007 and all of FY 2008 and FY 2009.

#### **Retailer Commissions**

The JLBC includes \$32,029,500 from the State Lottery Fund for Retailer Commissions in FY 2008 and \$32,526,900 in FY 2009. These amounts would fund the following adjustments:

**Sales Increase                      OF            658,200      1,155,600**

The JLBC includes an increase of \$658,200 from the State Lottery Fund in FY 2008 and \$1,155,600 in FY 2009 for Retailer Commissions due to higher projected sales. (See "Other Issues for Legislative Consideration – Lottery Forecast" for more information.)

Monies in this line item are used to compensate retailers for selling lottery tickets. The actual appropriation 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. Since 40% of retailers are estimated to meet these objectives, this would result in an additional 0.2% in retailer commissions and a total retail commission rate of 6.7%. The displayed amount is derived by applying the approved percentage to the forecasted sales total.

#### **Sales Incentive Program**

The JLBC includes \$50,000 from the State Lottery Fund for the Sales Incentive Program in FY 2008 and FY 2009. This amount is unchanged from FY 2007. 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**

The JLBC includes \$654,400 from the State Lottery Fund for Telecommunications in FY 2008 and FY 2009. This amount would fund the following adjustment:

#### **New Vendor**

**Contract                              OF    (2,160,000)    (2,160,000)**

The JLBC includes a decrease of \$(2,160,000) from the State Lottery Fund in FY 2008 and FY 2009 for Telecommunications due to a new on-line vendor contract. A new on-line vendor contract took effect September 2006, and for the first time, the new contractor will incorporate network-related telecommunication costs. The Telecommunications SLI will still require an appropriation for non-network related telecom costs. (See the On-Line Vendor Fees Special Line Item for more information.)

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.

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**FORMAT** —Operating Lump Sum with Special Line Items by Agency

#### **FOOTNOTES**

##### *Standard Footnotes*

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, which states that not more than 4% of the annual gross revenues shall be expended for Advertising. BASED ON PROJECTED SALES, this amount is estimated to REACH THE \$11,000,000 CAP in FY 2008 and FY 2009.

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 \$9,565,000 in FY 2008 and \$9,645,700 in FY 2009.

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 or \$8,072,200 in FY 2008 and \$8,269,100 in FY 2009, or 3.8012% of actual on-line ticket sales.

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 \$32,029,500 in FY 2008 and \$32,526,900 in FY 2009.

**OTHER ISSUES FOR LEGISLATIVE CONSIDERATION**

**Lottery Forecast**

The JLBC forecasts a slight decrease in overall Lottery sales for FY 2007, followed by increases in FY 2008 and FY 2009. For FY 2007, total Lottery sales are forecast to be \$468,200,000. For FY 2008 and FY 2009, the JLBC Staff forecasts Lottery sales of \$478,100,000 and \$485,500,000, respectively.

The largest single contributor to the FY 2007 forecasted decrease is the multi-state Powerball game. In FY 2006, this game reached its highest historical sales level due to several large jackpots. Due to the uncertainty of predicting when large jackpots will accumulate, the forecast calls for a decrease in FY 2007, followed by modest growth in FY 2008 and FY 2009.

Among the state-only games that the Lottery administers, instant tickets have been the most successful, posting a 12.9% average annual increase over the last 5 years. The JLBC Staff forecasts continued growth in instant ticket sales over the next 3 years fueled by growth in the retailer base and population.

The JLBC Staff forecasts decreased state-only on-line sales in FY 2007, with modest growth in FY 2008 and FY 2009 as players are drawn to instant ticket games and the potential of large jackpots offered by Powerball.

The General Fund’s share of Lottery profits includes \$37 million from Powerball sales in both FY 2006 and FY 2007 as a result of Budget Reconciliation Bills (BRBs) enacted for those years. By statute, however, the General Fund is to receive \$31 million each year from Powerball sales. The FY 2008 and FY 2009 General Fund amounts reflect a \$31 million allocation from Powerball.

Once the General Fund receives its monies from Powerball sales, Mass Transit Fund (otherwise known as the Local Transportation Assistance Fund II) may receive up to \$18 million from Powerball. The JLBC is forecasting that the Mass Transit Fund will reach this \$18 million cap in both FY 2008 and FY 2009.

After other statutory fund distributions have been made, the General Fund is forecast to receive an additional \$10.0 million in FY 2007, \$14.7 million in FY 2008, and \$16.6 million in FY 2009.

	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Sales:</b>				
Instant Sales	\$249.8	\$261.2	\$265.7	\$267.9
On-Line Sales	218.9	207.0	212.4	217.5
Total Sales	\$468.7	\$468.2	\$478.1	\$485.5
<b>Less:</b>				
Operating Budget	\$ 68.9	\$ 70.8	\$ 69.3	\$ 69.9
Prizes <sup>1/</sup>	261.8	260.8	269.1	273.5
Net Profit <sup>2/</sup>	\$138.0	\$136.6	\$139.6	\$142.0
<b>Profit Transfers:</b>				
LTAf	\$ 23.0	\$ 23.0	\$ 23.0	\$ 23.0
CAF	7.7	7.7	7.7	7.7
Heritage	20.0	20.0	20.0	20.0
Econ. Development	4.0	4.1	4.2	4.2
Mass Transit	18.0	14.2	18.0	18.0
Health & Welfare Programs	20.0	20.7	21.1	21.5
General Fund	45.3	47.0	45.7	47.6
<b>Total Transfer <sup>3/</sup></b>	<b>\$138.0</b>	<b>\$136.6</b>	<b>\$139.6</b>	<b>\$142.0</b>

<sup>1/</sup> Prizes are estimated by subtracting net profit and operating budget expenditures from total Lottery sales.  
<sup>2/</sup> To derive the profit transfer amounts, we applied the actual FY 2006 rate of return for each game to the current forecast.  
<sup>3/</sup> Total Transfers might not add due to rounding.

**Sources and Uses of Lottery Profit Distributions**

Table 1 shows the sources of forecasted Lottery profits by revenue stream and illustrates the actual distributions to fund beneficiaries for FY 2006 and the projected distributions through FY 2009. A brief description of each beneficiary and its Lottery-generated revenue sources follows.

Local Transportation Assistance Fund (LTAf)

LTAf receives shares of the proceeds from the Pick, Fantasy 5, and Instant Tickets games. The funds are distributed to counties, cities, and towns. The uses include road building, traffic signals, sidewalk and alley repair, general maintenance, and Dial-a-Ride operating expenses.

County Assistance Fund (CAF)

Shares of the proceeds from 3 games – The Pick, Fantasy 5, and Instant Tickets – are directed to CAF, which receives a maximum of \$7,650,000 each fiscal year. The monies are distributed to the General Funds of each of the counties to be used at their discretion.

Heritage Fund

The Heritage Fund receives a portion of the proceeds from the Pick, Fantasy 5, and Scratch Bingo games up to a maximum of \$20,000,000. Monies are divided equally between the Game and Fish Commission Heritage Fund and the State Parks Board Heritage Fund. The funds are used to promote wildlife habitat and education programs, rehabilitate historic buildings, acquire and develop parkland, and renovate trail systems, among other purposes.

**Commerce and Economic Development (CEDC) Fund**

Administered by the Arizona Department of Commerce, CEDC receives its funds from the sales of 2 Arizona Lottery Scratchers games. The funds are used to support the state’s community and economic development goals, initiatives, and strategic plans as defined and developed by the CEDC.

**Mass Transit Fund**

The Mass Transit Fund (otherwise known as LTAF II) receives its monies from Powerball ticket sales after obligations to the General Fund are met. The funds are used by the counties to enhance existing public transportation systems.

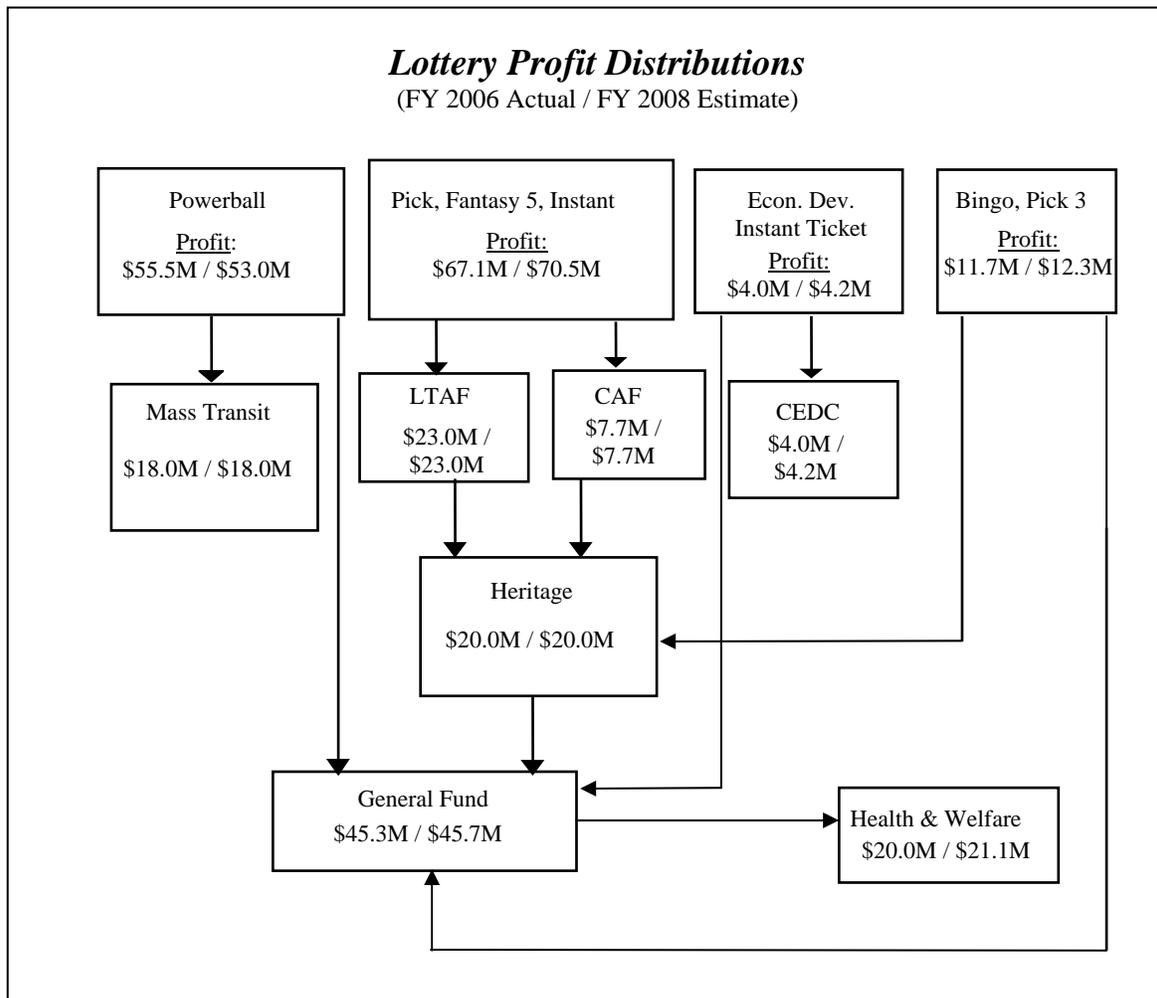
**Health and Welfare Programs**

Once Healthy Arizona Funds reached the \$17,000,000 statutory limit in FY 2005, annual adjustments for inflation are to be made to the cap in each subsequent fiscal year. The amount is pro-rated and distributed among the following agencies:

- 29.4% to the Department of Economic Security for the Healthy Families program.
- 23.5% to the Board of Regents for the Arizona Health Education Center program.
- 17.6% to the Department of Health Services (DHS) for teenage pregnancy prevention.
- 11.8% to DHS for the Disease Control Research Center.
- 11.8% to DHS for the Health Start program.
- 5.9% to DHS for the Women, Infants and Children food program.

**General Fund**

The General Fund derives most of its Lottery proceeds from the sale of multi-state (Powerball) tickets. It also receives additional funds that are remaining after the statutory funding obligations have been met.



<b>SUMMARY OF FUNDS</b>	<b>FY 2006</b>	<b>FY 2007</b>
	<b>Actual</b>	<b>Estimate</b>
<b>State Lottery Fund (LOA2122/A.R.S. § 5-521)</b>		<b>Partially-Appropriated</b>
<b>Source of Revenue:</b> Sales of lottery tickets, retailer license fees, and interest earnings.		
<b>Purpose of Fund:</b> A portion of the fund is appropriated to pay for all costs of the Arizona State Lottery Commission. After all expenses are paid including the prize monies displayed below in the Non-Appropriated Funds Expended line, Lottery profits are distributed to the Local Transportation Assistance Fund, the County Assistance Fund, the Heritage Fund, the Arizona Clean Air Fund, the Economic Development Commission, various health and welfare programs, the General Fund, and the Local Transportation Assistance Fund-Mass Transit, revenues permitting.		
<b>Appropriated Funds Expended</b>	68,894,200	70,760,000
<b>Non-Appropriated Funds Expended</b>	261,849,000	260,818,900
<b>Year-End Fund Balance</b>	13,957,900	13,242,900