Arizona State Lottery Commission

	FY 2010 ACTUAL	FY 2011 ESTIMATE	FY 2012 APPROVED
OPERATING BUDGET			
Full Time Equivalent Positions	104.0	104.0	104.0
Personal Services	4,238,700	4,617,300	4,617,300
Employee Related Expenditures	1,725,800	1,737,200	1,681,600
Professional and Outside Services	337,300	384,300	384,300
Travel - In State	218,600	269,800	269,800
Travel - Out of State	0	16,700	16,700
Other Operating Expenditures	520,600	1,173,900	1,156,600
Equipment	30,900	0	0
OPERATING SUBTOTAL	**7,071,900**	**8,199,200**	**8,126,300**
SPECIAL LINE ITEMS			
Advertising	12,334,000	15,500,000	15,500,000
Charitable Commissions	0	0	2,400,000 1/
Instant Tickets 2/	10,848,900	13,610,100	14,608,700 3/
On-Line Vendor Fees 2/	7,991,500	7,027,800	7,054,700 4/
Retailer Commissions 2/	36,935,000	37,586,900	39,159,100 5/
Telecommunications	384,100	0	0
AGENCY TOTAL	**75,565,400**	**81,924,000**	**86,848,800** 6/7/
FUND SOURCES			
Other Appropriated Funds			
State Lottery Fund	75,565,400	81,924,000	86,848,800
SUBTOTAL - Other Appropriated Funds	75,565,400	81,924,000	86,848,800
SUBTOTAL - Appropriated Funds	**75,565,400**	**81,924,000**	**86,848,800**
Other Non-Appropriated Funds	336,595,400	344,338,900	361,880,200
TOTAL - ALL SOURCES	412,160,800	426,262,900	448,729,000

AGENCY DESCRIPTION — The Arizona Lottery is responsible for administering sanctioned games of chance. Arizona-specific games include instant tickets, the Pick, Pick 3, and Pick 5 on-line games. Arizona also participates in the multi-state Powerball on-line game.

Operating Budget

The budget includes $8,126,300 and 104 FTE Positions from the State Lottery Fund in FY 2012 for the operating budget. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of $(72,900) from the State Lottery Fund in FY 2012 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

1/ An amount equal to 20% of tab ticket sales is appropriated for payment of sales commissions to charitable organizations. This amount is currently estimated to be $2,400,000 in FY 2012.

2/ Instant Tickets, On-Line Vendor Fees, and Retailer Commissions are appropriated as a percentage of sales. Therefore, the amounts shown for those line items are estimates only.

3/ 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 $14,608,700 in FY 2012. (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 $7,054,700, or 3.7% of actual on-line ticket sales in FY 2012. (General Appropriation Act footnote)

5/ An amount equal to 6.5% of gross lottery game sales, less Tab Tickets, is appropriated for payment of sales commissions to ticket retailers. 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 6.7% of total ticket sales, or $39,159,100 in FY 2012. (General Appropriation Act footnote)

6/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

7/ In addition to these amounts, a total of $228,800 OF is appropriated in FY 2012 for costs associated with an additional pay period. *(Please see the Agency Detail and Allocations section.)*

The Sales Incentive Program SLI funding of $50,000 has been shifted to the operating budget in FY 2012 and all years have been displayed accordingly.

Advertising

The budget includes $15,500,000 from the State Lottery Fund in FY 2012 for Advertising. This amount is unchanged from FY 2011.

Monies in this line item are used to promote and market Lottery games.

Charitable Commissions

The budget includes $2,400,000 from the State Lottery Fund in FY 2012 for Charitable Commissions. This amount funds the following adjustments:

Charitable Commissions
The budget includes an increase of $2,400,000 from the State Lottery Fund in FY 2012 for a newly-created Charitable Commissions Special Line Item.

Monies in this line item are used to compensate charities for selling lottery 'Tab Tickets.' Laws 2010, Chapter 126 established a special type of instant ticket, Tab Tickets, to be sold exclusively by charitable organizations, who receive a 20% commission for selling the games. The displayed amount is derived by applying the approved percentage to the forecasted Tab Ticket sales. Chapter 126 also allows the department to collect 15% of total Tab Ticket sales for their operating budget and the department will distribute the remainder as prizes. Overall, the department's operating budget is limited to 18% of total ticket sales, including the 15% of Tab Ticket sales the department may collect. The budget does not include a new appropriation for administration of Tab Tickets as these monies will be expended as part of the department's regular budget.

Instant Tickets

The budget includes $14,608,700 from the State Lottery Fund in FY 2012 for Instant Tickets. This amount funds the following adjustments:

Instant Ticket Sales Increase
The budget includes an increase of $998,600 from the State Lottery Fund in FY 2012 for Instant Tickets due to higher projected sales. *(See Table 1 for more information.)*

Monies in this line item are used to pay for instant ticket printing and distribution costs. The actual appropriation is for 3.6% of instant ticket sales. The amount displayed is derived by applying the approved spending percentage to the forecasted sales total.

On-Line Vendor Fees

The budget includes $7,054,700 from the State Lottery Fund in FY 2012 for On-Line Vendor Fees. This amount funds the following adjustments:

On-Line Vendor Fees Increase
The budget includes an increase of $26,900 from the State Lottery Fund in FY 2012 for On-Line Vendor Fees due to higher projected sales. *(See Table 1 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, which is 3.7%.

Retailer Commissions

The budget includes $39,159,100 from the State Lottery Fund in FY 2012 for Retailer Commissions. This amount funds the following adjustments:

Retailer Commissions Increase
The budget includes an increase of $1,572,200 from the State Lottery Fund in FY 2012 for Retailer Commissions due to higher projected sales. *(See Table 1 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 non-Tab Ticket sales. Pursuant to statute, an additional 0.5% of total non-Tab 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.

Telecommunications

The budget includes no funding in FY 2012 for Telecommunications. This program was shifted to the operating budget in FY 2011.

Monies in this line item were 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.

Fund Transfers

The budget includes transfers from this agency's funds to the General Fund. *(Please see the Fund Transfers section at the back of this report for more details.)*

Additional Legislation

Arizona Commerce Authority Lottery Distribution
The Arizona Commerce Authority Bill (Laws 2011, 2nd Special Session, Chapter 1) modifies the beneficiary distribution by repealing the transfer to the Commerce and Economic Development Fund. Instead, the bill directs the first $3,500,000 of the beneficiary distribution, after all related debt service transfers, to the newly-created Arizona Competes Fund. Beginning in FY 2012, the newly-created Arizona Commerce Authority will administer grants from the Arizona Competes Fund to qualifying businesses for the purpose of attracting, retaining, and expanding business within the state.

Lottery Forecast and Distributions

The JLBC Staff forecasts a 3.0% increase in overall Lottery ticket sales in FY 2011, followed by a 5.0% increase in FY 2012. For FY 2011 and FY 2012, the JLBC Staff forecasts Lottery ticket sales of $567,997,800 and $596,464,500, respectively.

Table 1 shows the sources of forecasted Lottery profits by revenue stream and illustrates the actual distributions to fund beneficiaries for FY 2010 and the JLBC Staff projected distributions for FY 2011 and FY 2012. For explanations of the distribution amounts to each beneficiary, see the Arizona State Lottery Commission pages of the *FY 2011 Appropriations Report*.

Table 1

Forecast of Lottery Revenue Distribution
($ in Millions)

Sales	**FY 2010**	**FY 2011**	**FY 2012**
Instant Sales	$336.9	$378.1	$405.8
On-Line Sales	214.6	189.9	190.7
Total Sales	$551.5	$568.0	$596.5
Less:			
Operating Budget 1/	$ 75.6	$ 82.0	$ 86.9
Fund Transfers 2/	9.7	1.7	1.8
Gaming Distribution	0.3	0.3	0.3
Prizes 3/	336.6	344.3	361.9
Net Profit 4/	$129.3	$139.7	$145.6
Profit Transfers			
Debt Service Fund 5/	$ 2.3	$ 19.4	$ 20.7
Arizona Commerce Authority 6/	NA	NA	3.5
General Fund – Part 1 7/	46.6	61.3	59.9
LTAF II 8/	5.1	NA	NA
LTAF 8/	12.7	NA	NA
CAF 8/	4.2	NA	NA
Heritage	16.1	10.0	10.0
Health and Welfare Programs	18.7	19.6	20.1
Homeless Shelters	1.0	1.0	1.0
General Fund – Part 2 7/	15.5	15.5	15.5
University Capital	0	8.8	10.0
General Fund – Part 3 7/	1.4	1.2	4.9
Economic Development 9/	5.7	2.9	NA
Total Transfer	$129.3	$139.7	$145.6

1/ Of this amount, an estimated $1,400,000 in FY 2011 and an estimated $2,400,000 in FY 2012 will be distributed to charities.

2/ Transfers in FY 2010 include an advertising fund transfer of $4,162,700, $1,000,000 due to a combined Fund Reduction and Transfer (FRAT) and personnel expense reduction, $4,055,000 due to a 10% county proceeds transfer, an additional $8,700 personnel expense reduction, and an additional FRAT of $528,400 as enacted by Laws 2009, 5th Special Session, Chapter 1. Transfers in FY 2011 include a $226,600 personnel expense reduction and continue a FY 2010 combined $1,000,000 FRAT and personnel expense reduction as an Excess Balance Transfer (EBT) as well as an additional $528,400 FRAT. Transfers in FY 2012 include a $1,779,300 fund balance transfer.

3/ Prizes are estimated by subtracting net profit and operating budget expenditures from total Lottery sales.

4/ To derive the profit transfer amounts, the actual FY 2010 rate of return for each game was applied to the current budget forecast. The cumulative profit transfer rate is 25.56%.

5/ Of the $21,630,000 in debt service payments scheduled for FY 2011, $2,255,000 was paid with profits generated in FY 2010.

6/ Laws 2011, 2nd Special Session, Chapter 1 directs the first $3,500,000 of profit transfers, after debt service payments, to the Arizona Competes Fund beginning in FY 2012.

7/ Excluding fund transfers, total distributions to the General Fund totaled $67,808,500 in FY 2010 and are estimated to be $77,980,500 in FY 2011 and $80,306,400 in FY 2012. The individual FY 2010 General Fund lines are $200,000 different due to a reconciliation issue. The FY 2011 estimate includes $18,268,600 due to redirected distributions for Mass Transit, Local Transportation Assistance Fund (LTAF), County Assistance Fund (CAF) and the State Parks Board Heritage Fund and the FY 2012 estimate includes redirected distributions of $49,650,000 as enacted by Laws 2010, 7th Special Session, Chapter 12.

8/ Distribution cumulatively reduced by $(4,055,000) in FY 2010 and eliminated in FY 2011 and FY 2012.

9/ Dedicated funding from 2 instant ticket games. Economic Development transfer was permanently eliminated in FY 2012 by Laws 2011, 2nd Special Session, Chapter 1.