

## Arizona State Lottery Commission

	FY 2013 ACTUAL	FY 2014 ESTIMATE	FY 2015 APPROVED
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	97.8	98.8	98.8
Personal Services	4,146,100	4,812,000	4,812,000
Employee Related Expenditures	1,760,000	1,769,400	1,772,300
Professional and Outside Services	358,600	386,800	386,800
Travel - In State	221,600	271,600	271,600
Travel - Out of State	11,100	16,800	16,800
Other Operating Expenditures	1,089,300	1,163,600	1,162,100
Equipment	128,000	0	0
<b>OPERATING SUBTOTAL</b>	<b>7,714,700</b>	<b>8,420,200</b>	<b>8,421,600</b>
<b>SPECIAL LINE ITEMS</b>			
Advertising	14,110,300	15,500,000	15,500,000
Charitable Commissions <sup>1/</sup>	348,300	811,800	852,300 <sup>2/</sup>
Instant Tickets <sup>1/</sup>	11,870,400	17,199,700	18,571,300 <sup>3/</sup>
On-Line Vendor Fees <sup>1/</sup>	9,225,200	9,163,500	9,399,400 <sup>4/</sup>
Retailer Commissions <sup>1/</sup>	21,660,500	48,331,900	51,298,200 <sup>5/</sup>
<b>AGENCY TOTAL</b>	<b>64,929,400</b>	<b>99,427,100</b>	<b>104,042,800<sup>6/</sup></b>
<b>FUND SOURCES</b>			
<u>Other Appropriated Funds</u>			
State Lottery Fund	64,929,400	99,427,100	104,042,800
SUBTOTAL - Other Appropriated Funds	64,929,400	99,427,100	104,042,800
<b>SUBTOTAL - Appropriated Funds</b>	<b>64,929,400</b>	<b>99,427,100</b>	<b>104,042,800</b>
Other Non-Appropriated Funds	428,624,000	445,333,300	474,104,600
<b>TOTAL - ALL SOURCES</b>	<b>493,553,400</b>	<b>544,760,400</b>	<b>578,147,400</b>

**AGENCY DESCRIPTION** — The Arizona Lottery is responsible for administering sanctioned games of chance. In addition to Arizona-specific games, the state also participates in multi-state Powerball and Mega-Millions on-line games.

### Operating Budget

The budget includes \$8,421,600 and 98.8 FTE Positions from the State Lottery Fund in FY 2015 for the operating budget. These amounts fund the following adjustments:

#### Eliminate One-Time Funding

The budget includes a decrease of \$(1,500) from the State Lottery Fund in FY 2015 for the elimination of one-time costs of office equipment for an additional staff member.

### Statewide Adjustments

The budget includes an increase of \$2,900 from the State Lottery Fund in FY 2015 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

### Advertising

The budget includes \$15,500,000 from the State Lottery Fund in FY 2015 for Advertising. This amount is unchanged from FY 2014.

- <sup>1/</sup> Charitable Commissions, 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.
- <sup>2/</sup> 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 \$852,300 in FY 2015. (General Appropriation Act footnote)
- <sup>3/</sup> 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 \$18,571,300 in FY 2015. (General Appropriation Act footnote)
- <sup>4/</sup> 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 \$9,399,400, or 3.7% of actual on-line ticket sales in FY 2015. (General Appropriation Act footnote)
- <sup>5/</sup> 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 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 \$51,298,200 in FY 2015. (General Appropriation Act footnote)
- <sup>6/</sup> General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

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

### **Charitable Commissions**

The budget includes \$852,300 from the State Lottery Fund in FY 2015 for Charitable Commissions. This amount funds the following adjustments:

#### **Tab Ticket Increase**

The budget includes an increase of \$40,500 from the State Lottery Fund in FY 2015 to realign spending with projected revenues. (See Table 1 for more information.)

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, 20%, to the forecasted Tab Ticket sales. A.R.S. § 5-555 also allows the department to collect up to 35% of total Tab Ticket sales (which includes the 20% commission) for their operating budget, with the remainder distributed as prizes.

### **Instant Tickets**

The budget includes \$18,571,300 from the State Lottery Fund in FY 2015 for Instant Tickets. This amount funds the following adjustments:

#### **Instant Ticket Sales Increase**

The budget includes an increase of \$1,371,600 from the State Lottery Fund in FY 2015 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 \$9,399,400 from the State Lottery Fund in FY 2015 for On-Line Vendor Fees. This amount funds the following adjustments:

#### **On-Line Vendor Fees Increase**

The budget includes an increase of \$235,900 from the State Lottery Fund in FY 2015 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 \$51,298,200 from the State Lottery Fund in FY 2015 for Retailer Commissions. This amount funds the following adjustments:

#### **Retailer Commissions Increase**

The budget includes an increase of \$2,966,300 from the State Lottery Fund in FY 2015 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. A.R.S. § 5-555 specifies that compensation to retailers will be at least 5.5% but not more than 8% of non-Tab Ticket sales. The actual appropriation is equal to 6.5% of these 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.

### **Lottery Forecast and Distributions**

The budget assumes a 4.7% increase in overall Lottery ticket sales in FY 2014, followed by a 6.1% increase in FY 2015. For FY 2014 and FY 2015, the budget assumes Lottery ticket sales of \$725,430,600 and \$769,905,700, respectively.

#### **Sources and Uses of Lottery Profit Distribution**

Table 1 shows the sources of forecasted Lottery profits by revenue stream and illustrates the actual distributions to fund beneficiaries for FY 2013 and the JLBC Staff projected distributions for FY 2014 and FY 2015. A brief description of each beneficiary follows in the order that they receive Lottery-generated revenue in accordance with A.R.S. § 5-534 and 5-572.

#### **State Lottery Revenue Bond Debt Service Payment Fund**

Laws 2010, 6<sup>th</sup> Special Session, Chapter 4 authorized the Arizona Department of Administration (ADOA) to issue a 20-year, \$450,000,000 Lottery revenue bond by December 31, 2010 to be deposited into the General Fund. The payments are made from Lottery revenues that would have otherwise been deposited into the General Fund. The principal and interest payments in FY 2014 and FY 2015 are expected to be \$37,499,800 and \$37,499,000, respectively. Chapter 4 requires the first Lottery proceeds to be distributed to the State Lottery Revenue Bond Debt Service Payment Fund.

### Maricopa County Mass Transit

The projected annual distribution of Powerball proceeds to the Maricopa Public Transportation Fund is \$11,224,800 in each FY 2014 and FY 2015.

Laws 1993, 6<sup>th</sup> Special Session, Chapter 1 allocated not less than 31.5% of multi-state Powerball revenues to public transportation programs, otherwise known as Local Transportation Assistance Fund (LTAF) II. This allocation was capped at \$18,000,000 and was contingent upon the General Fund receiving \$45,000,000 in Lottery revenues.

Laws 2010, 7<sup>th</sup> Special Session, Chapter 12 redirected these monies to the General Fund. In September 2011, the U.S. District Court in the case of *Paisley v. Darwin* ruled that the Arizona Legislature must restore the distribution of mass transit monies to Maricopa County because the distribution was part of the state implementation plan to ensure compliance with the Clean Air Act. As a result, the state must calculate Maricopa County's share of 31.5% of statewide Powerball proceeds and distribute those monies to the county.

### General Fund - Part 1

The statutory distribution requires the General Fund to receive up to \$84,150,000. The General Fund - Part 2 would receive up to an additional \$15,490,000 (for a total of \$99,640,000) after the statutory funding obligations have been met through the Homeless Shelters distribution. After all other statutory obligations have been met, the General Fund - Part 3 would receive all remaining revenues.

The profit distributions in FY 2014 and FY 2015 are forecasted to fulfill requirements for General Fund - Part 1 and Part 2. The Lottery revenue bond payments of \$37,499,800 in FY 2014 and \$37,499,000 in FY 2015 count towards the \$84,150,000 General Fund - Part 1 requirement. Total General Fund distributions, net of bond payments, are therefore estimated to be \$77,548,000 in FY 2014 and \$87,577,400 in FY 2015.

### Heritage Fund

Statute caps annual distributions to the Arizona Game and Fish Commission's Heritage Fund at \$10,000,000. The funds are used to promote wildlife habitat and education programs and to rehabilitate historic buildings. In FY 2014 and FY 2015, the fund is projected to receive its entire allocation.

### Health and Welfare Programs

Statute requires annual inflation adjustments for the Health and Welfare distribution. The revised allocation cap is \$20,837,800 in FY 2014 and \$21,169,400 in FY 2015. These amounts are distributed among the following agencies:

- 29.4% to the Department of Child Safety for the Healthy Families program.
- 23.5% to the Arizona Board of Regents (ABOR) 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 Disease Control Research.
- 11.8% to DHS for the Health Start program.
- 5.9% to DHS for the Women, Infants and Children food program.

Health and Welfare Programs are expected to receive their entire allocation in both FY 2014 and FY 2015.

### Homeless Shelters

Under the statutory distribution, DES would receive up to \$1,000,000 for Homeless Shelters. The department shall use the funding to distribute grants to nonprofit organizations, including faith based organizations, for homeless emergency and transitional shelters and related support services. The fund is estimated to receive its full allocation in both FY 2014 and FY 2015.

### General Fund - Part 2

As noted above, the General Fund would receive up to an additional \$15,490,000 after all prior allocations have been met. In FY 2014 and FY 2015, the General Fund is estimated to receive its entire allocation of \$15,490,000.

### Arizona Competes Fund

Statute caps annual distributions to the Arizona Competes Fund at \$3,500,000. Allotments to this fund are used for administering grants to qualifying businesses for the purpose of attracting, retaining, and expanding business within the state. This fund is estimated to receive its full allocation in both FY 2014 and FY 2015.

### University Capital Improvement Fund

This fund serves as the source for up to 80% of the annual debt service associated with \$800,000,000 of University Capital construction lease-purchase agreements. This fund received \$11,161,000 in FY 2013, which was 80% of the annual debt service payments on the \$386,715,000 of lease-purchase agreements that have been issued to date. The UCI Fund is expected to require \$18,759,800 in FY 2014 and \$19,487,700 in FY 2015 to make the expected level of debt service payments. The FY 2015 estimate includes debt service payments on \$524,615,000 of lease-purchase agreements that have already been or will be issued by the end of FY 2015. Once the full \$800,000,000 has been issued, debt service payments could total \$41,632,800, depending on assumptions of repayment lengths and interest rates. (*Please see the FY 2015 ABOR Capital Outlay section for more details.*)

### General Fund - Part 3

The General Fund receives all remaining revenues after all statutory funding obligations have been met. These

payments to the General Fund are estimated to equal \$15,407,800 in FY 2014 and \$25,436,400 in FY 2015.

**Additional Legislation**

As session law, the FY 2015 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2014, Chapter 14) requires that \$25,836,400 in Lottery ticket sales commissions earned during the second half of FY 2013 be paid from the State Lottery Fund's FY 2013 ending balance. Due to a delay in processing, these amounts were recorded as FY 2014 expenditures in the state's accounting system.

<b>Sales</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
Instant Sales	\$440.5	\$477.8	\$515.9
On-Line Sales	<u>252.4</u>	<u>247.6</u>	<u>254.0</u>
Total Sales	\$692.9	\$725.4	\$769.9
<i>Less:</i>			
Operating Budget <sup>1/ 2/</sup>	\$ 64.9	\$ 99.4	\$ 104.0
Gaming Distribution	0.3	0.3	0.3
Prizes <sup>2/3/</sup>	<u>428.6</u>	<u>445.3</u>	<u>474.1</u>
<b>Net Profit <sup>2/4/</sup></b>	<b>\$173.2</b>	<b>\$180.4</b>	<b>\$191.5</b>
<b>Profit Transfers</b>			
Debt Service Fund	\$ 37.5	\$ 37.5	\$ 37.5
Maricopa County Mass Transit <sup>5/</sup>	11.2	11.2	11.2
General Fund - Part 1 <sup>6/</sup>	46.7	46.7	46.7
Heritage	10.0	10.0	10.0
Health and Welfare Programs	19.6	20.8	21.2
Homeless Shelters	1.0	1.0	1.0
General Fund - Part 2 <sup>6/</sup>	15.5	15.5	15.5
Arizona Commerce Authority <sup>7/</sup>	3.5	3.5	3.5
University Capital	11.1	18.8	19.5
General Fund - Part 3 <sup>6/</sup>	<u>17.1</u>	<u>15.4</u>	<u>25.4</u>
<b>Total Transfer</b>	<b>\$173.2</b>	<b>\$180.4</b>	<b>\$191.5</b>
<p><sup>1/</sup> Of this amount, an estimated \$811,800 in FY 2014 and an estimated \$852,300 in FY 2015 will be distributed as commissions to charities that sell lottery Tab Tickets.</p> <p><sup>2/</sup> Due to a delay in processing, \$25,836,400 of Lottery expenditures made in FY 2013 were recorded in FY 2014 in the state's accounting system. This delay in processing did not change the FY 2013 calculations of prizes, net profit, and profit transfers that appear in this table. Any delayed expenditures are assumed to be made from the FY 2013 ending balance and are not included in FY 2014 expenditures.</p> <p><sup>3/</sup> Prizes are estimated by subtracting net profit and operating budget expenditures from total Lottery sales.</p> <p><sup>4/</sup> To derive the profit transfer amounts, the actual FY 2013 rate of return for each game was applied to the current budget forecast. The cumulative profit transfer rate is 25.05%.</p> <p><sup>5/</sup> As a result of a federal court order, Maricopa County's share of Local Transportation Assistance Fund II monies was reinstated starting September 2011. (See <i>Lottery Forecast and Distributions for more information.</i>)</p> <p><sup>6/</sup> Excluding fund transfers, distributions to the General Fund totaled \$79,260,800 in FY 2013 and are estimated to be \$77,548,000 in FY 2014 and \$87,577,400 in FY 2015.</p> <p><sup>7/</sup> Laws 2012, Chapter 297 moved the Arizona Competes Fund distribution from before the General Fund – Part 1 to after General Fund – Part 2, beginning in FY 2013.</p>			