

Arizona State Lottery Commission

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	98.8	98.8	98.8
Personal Services	3,999,600	4,812,000	4,812,000
Employee Related Expenditures	1,817,400	1,772,300	1,772,300
Professional and Outside Services	401,800	386,800	386,800
Travel - In State	232,300	271,600	271,600
Travel - Out of State	21,600	16,800	16,800
Other Operating Expenditures	1,145,700	1,162,100	1,162,100
Equipment	86,900	0	0
OPERATING SUBTOTAL	7,705,300	8,421,600	8,421,600
SPECIAL LINE ITEMS			
Advertising	14,853,100	15,500,000	15,500,000
Charitable Commissions	865,300	922,900	969,000
Instant Tickets	13,275,800	18,805,800	20,118,800
On-Line Vendor Fees	8,722,800	9,033,200	9,519,900
Retailer Commissions	47,598,200	51,047,800	54,357,500
AGENCY TOTAL	93,020,500	103,731,300	108,886,800
FUND SOURCES			
<u>Other Appropriated Funds</u>			
State Lottery Fund	93,020,500	103,731,300	108,886,800
SUBTOTAL - Other Appropriated Funds	93,020,500	103,731,300	108,886,800
SUBTOTAL - Appropriated Funds	93,020,500	103,731,300	108,886,800
Other Non-Appropriated Funds	458,083,900	480,879,400	513,559,100
TOTAL - ALL SOURCES	551,104,400	584,610,700	622,445,900

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 Baseline includes \$8,421,600 and 98.8 FTE Positions from the State Lottery Fund in FY 2016 for the operating budget. These amounts are unchanged from FY 2015.

Advertising

The Baseline includes \$15,500,000 from the State Lottery Fund in FY 2016 for Advertising. This amount is unchanged from FY 2015.

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

Charitable Commissions

The Baseline includes \$969,000 from the State Lottery Fund in FY 2016 for Charitable Commissions. FY 2016 adjustments would be as follows:

FY 2016
Tab Ticket Increase OF \$46,100

The Baseline includes an increase of \$46,100 from the State Lottery Fund in FY 2016 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.' Tab Tickets are games 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 Baseline includes \$20,118,800 from the State Lottery Fund in FY 2016 for Instant Tickets. FY 2016 adjustments would be as follows:

Instant Ticket Sales Increase OF 1,313,000

The Baseline includes an increase of \$1,313,000 from the State Lottery Fund in FY 2016 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 Baseline includes \$9,519,900 from the State Lottery Fund in FY 2016 for On-Line Vendor Fees. FY 2016 adjustments would be as follows:

On-Line Vendor Fees Increase OF 486,700

The Baseline includes an increase of \$486,700 from the State Lottery Fund in FY 2016 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 Baseline includes \$54,357,500 from the State Lottery Fund in FY 2016 for Retailer Commissions. FY 2016 adjustments would be as follows:

Retailer Commissions Increase OF 3,309,700

The Baseline includes an increase of \$3,309,700 from the State Lottery Fund in FY 2016 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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

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 \$969,000 in FY 2016.

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 \$20,118,800 in FY 2016.

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 \$9,519,900, or 3.7% of actual on-line ticket sales in FY 2016.

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 \$54,357,500 in FY 2016.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

Lottery Forecast and Distributions

The Baseline assumes a 5.9% increase in overall Lottery ticket sales in FY 2015, followed by a 6.5% increase in FY 2016. For FY 2015 and FY 2016, the Baseline assumes Lottery ticket sales of \$766,522,300 and \$816,151,800, 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 2014 and the JLBC Staff projected distributions for FY 2015 and FY 2016. 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, 6th 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 2015 and FY 2016 are expected to be \$37,499,000 and \$37,501,800, 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 \$11,444,400 in each FY 2015 and FY 2016.

Laws 1993, 6th 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, 7th 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 2015 and FY 2016 are forecasted to fulfill requirements for General Fund - Part 1 and Part 2. The Lottery revenue bond payments of \$37,499,000 in FY 2015 and \$37,501,800 in FY 2016 count towards the \$84,150,000 General Fund - Part 1 requirement. Total General Fund distributions, net of bond payments, are therefore estimated to be \$75,566,900 in FY 2015 and \$70,576,300 in FY 2016.

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 2015 and FY 2016, 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 \$18,467,700 in FY 2015 and \$18,801,500 in FY 2016. 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 2015 and FY 2016.

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 2015 and FY 2016.

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 2015 and FY 2016, 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 2015 and FY 2016.

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 \$17,572,600 in FY 2014, which was 80% of the annual debt service payments on the \$536,235,000 of lease-purchase agreements that have been issued to date. The UCI Fund is expected to require \$24,133,600 in FY 2015 and \$40,582,000 in FY 2016 to make the expected level of debt service payments. The FY 2016 estimate includes debt service payments on \$683,130,000 of lease-purchase agreements that have already been or will be issued by the end of FY 2016. Once the full \$800,000,000 has been issued, debt service payments could total \$41,632,900, depending on assumptions of repayment

lengths and interest rates. (Please see the FY 2016 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 \$13,425,900 in FY 2015 and \$8,438,100 in FY 2016.

Table 1			
Forecast of Lottery Revenue Distribution			
(\$ in Millions)			
Sales	FY 2014	FY 2015	FY 2016
Instant Sales	\$488.3	\$522.4	\$558.9
On-Line Sales	<u>235.6</u>	<u>244.1</u>	<u>257.3</u>
Total Sales	\$723.9	\$766.5	\$816.2
<i>Less:</i>			
Operating Budget ^{1/}	\$ 93.0	\$ 103.7	\$ 108.9
Automation Projects Fund Transfer ^{2/}	0.7	0.0	0.0
Gaming Distribution	0.3	0.3	0.3
Prizes ^{3/}	<u>458.1</u>	<u>480.9</u>	<u>513.6</u>
Net Profit ^{4/}	\$171.8	\$181.6	\$193.4
Profit Transfers			
Debt Service Fund	\$ 37.5	\$ 37.5	\$ 37.5
Maricopa County Mass Transit ^{5/}	11.2	11.4	11.4
General Fund - Part 1 ^{6/}	46.7	46.7	46.7
Heritage	10.0	10.0	10.0
Health and Welfare Programs	18.1	18.5	18.8
Homeless Shelters	1.0	1.0	1.0
General Fund - Part 2 ^{6/}	15.5	15.5	15.5
Arizona Commerce Authority	3.5	3.5	3.5
University Capital	17.6	24.1	40.6
General Fund - Part 3 ^{6/}	<u>10.7</u>	<u>13.4</u>	<u>8.4</u>
Total Transfer	\$171.8	\$181.6	\$193.4
^{1/} Of this amount, an estimated \$922,900 in FY 2015 and an estimated \$969,000 in FY 2016 will be distributed as commissions to charities that sell lottery Tab Tickets. ^{2/} In accordance with Laws 2013, 1 st Special Session, Chapter 1, \$713,600 was transferred from the State Lottery Fund to the Automation Projects Fund in FY 2014 for the agency's share of costs to replace the Arizona Financial Information System. ^{3/} Prizes are estimated by subtracting net profit, operating budget expenditures, and the Automation Projects Fund transfer from total Lottery sales. ^{4/} To derive the profit transfer amounts, the actual FY 2014 rate of return for each game was applied to the current Baseline forecast. The cumulative profit transfer rate is 23.88%. ^{5/} 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>) ^{6/} Excluding fund transfers, distributions to the General Fund totaled \$72,881,300 in FY 2014 and are estimated to be \$75,566,900 in FY 2015 and \$70,576,300 in FY 2016.			

SUMMARY OF FUNDS	FY 2014 Actual	FY 2015 Estimate
State Lottery Fund (LOA2122/A.R.S. § 5-571)		Partially-Appropriated
Source of Revenue: Sales of lottery tickets, retailer license fees, and interest earnings.		
Purpose of Fund: 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 a number of different functions.		
Appropriated Funds Expended	93,020,500	103,731,300
Non-Appropriated Funds Expended	458,083,900	480,879,400
Year-End Fund Balance*	510,000	(471,600)

*Actual ending balance will not be negative.