

1997-98 SESSION  
COMMITTEE HEARING  
RECORDS

Committee Name:

Joint Committee on  
Finance (JC-Fi)

Sample:

Record of Comm. Proceedings ... RCP

- 05hrAC-EdR\_RCP\_pt01a
- 05hrAC-EdR\_RCP\_pt01b
- 05hrAC-EdR\_RCP\_pt02

➤ Appointments ... Appt

➤ \*\*

➤ Clearinghouse Rules ... CRule

➤ \*\*

➤ Committee Hearings ... CH

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➤ Executive Sessions ... ES

➤ \*\*

➤ Hearing Records ... HR

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➤ Miscellaneous ... Misc

➤ 97hrJC-Fi\_Misc\_pt102\_LFB

➤ Record of Comm. Proceedings ... RCP

➤ \*\*

# Lottery Fund Condition

## LFB Summary Item for Which an Issue Paper Has Been Prepared

<u>Item #</u>	<u>Title</u>
1&3	Lottery Fund Condition (Paper #732)

<p>To: Joint Committee on Finance</p> <p>From: Bob Lang, Director Legislative Fiscal Bureau</p>
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**ISSUE****Lottery Fund Condition (Revenue -- Lottery Administration)**

[LFB Summary: Page 530, #1 &amp; 3]

**GOVERNOR**

Estimate 1997-99 lottery ticket sales at \$440.4 million annually, based on the following annual game estimates:

	(Millions)	
<u>Game Type</u>	<u>1997-98</u>	<u>1998-99</u>
Scratch	\$267.6	\$269.7
Pull-Tab	8.8	8.8
On-Line	<u>164.0</u>	<u>161.9</u>
Total	\$440.4	\$440.4

Estimate appropriations for the lottery tax credit at \$250.8 million in 1997-98 and \$116.6 million in 1998-99. Estimate the farmland tax relief credit at \$12.0 million in 1997-98 and \$11.8 million in 1998-99. The following table shows the lottery fund condition under the Governor's bill. Due to a minor error, the lottery fund has a small net deficit, under the bill, in both 1997-98 and 1998-99.

## Lottery Fund Condition -- Governor

	<u>1997-98</u>	<u>1998-99</u>
Fiscal Year Opening Balance	\$135,993,700	\$8,809,700
<b>Operating Revenues</b>		
Ticket Sales	\$440,403,000	\$440,397,300
Retailer Fees and Miscellaneous	<u>80,000</u>	<u>80,000</u>
Gross Revenues	\$440,483,000	\$440,477,300
<b>Expenditures</b>		
Prizes	\$250,638,600	\$250,899,600
Basic Retailer Compensation	27,173,800	28,946,800
On-Line Vendor Payments	10,597,000	10,794,900
General Program Operations	23,338,100	23,811,600
Appropriation to DOJ	225,800	229,600
Appropriation to DOR	<u>119,800</u>	<u>119,800</u>
Total Expenditures	\$312,093,100	\$314,802,300
<b>Net Proceeds</b>	\$128,389,900	\$125,675,000
<b>Interest Earnings</b>	\$7,270,000	\$2,700,000
Total Available for Tax Relief*	\$271,653,600	\$137,184,700
<b>Appropriations for Tax Relief</b>		
Lottery Property Tax Credit	\$250,844,800	\$116,576,300
Farmland Tax Relief Credit	<u>12,000,000</u>	<u>11,800,000</u>
Total Appropriations for Tax Relief	\$262,844,800	\$128,376,300
Gross Closing Balance	\$8,808,800	\$8,808,400
Reserve (2% of Gross Revenues)	\$8,809,700	\$8,809,500
Net Closing Balance	-\$900	-\$1,100

\*Opening balance, net proceeds and interest earnings.

### DISCUSSION POINTS

1. The lottery fund condition under the bill assumed that 1996-97 sales would total \$460.0 million. In March, 1997, the Fiscal Bureau reestimated 1996-97 lottery sales to \$430.0 million. This estimate was based on lottery sales performance in the first 35 weeks of the fiscal year (through March 1, 1997). Sales data for this period indicated average weekly sales of about \$8.1 million. A straight-line projection of this level of sales would have indicated 1996-97 sales of \$423.4 million. The \$430.0 million estimate was based on an assumption that the reintroduction of new scratch ticket games would have a positive effect on sales. (The regular

introduction of new scratch ticket games had been interrupted in 1996-97 because of a change in ticket printers.)

2. Beginning in early March, 1997, lottery sales have taken an upswing. In the ten-week period between March 15, and May 17, 1997, weekly lottery sales averaged about \$9.1 million per week. Assuming this weekly sales level is maintained until the end of the fiscal year, 1996-97 lottery sales may be reestimated at \$441.7 million. This improved sales performance may reflect the availability of new games as well as some increase in lottery advertising in recent weeks.

3. Several additional factors may be viewed as having a positive effect on sales in the 1997-99 biennium. These include: (a) the implementation of new on-line and instant ticket data processing contracts, including new on-line lottery terminals that will increase ease of use for retailers; (b) a recent change in lottery management; (c) a stepped-up hiring process to eliminate an unusually high vacancy rate; and (d) the provision of 18.0 positions, in addition to those recommended by the Governor, for retailer field support and telemarketing sales.

4. Based on the current upturn in weekly sales and the anticipated strengthening of lottery staff and retailer support in the next year, lottery sales are estimated to increase 5% annually from current sales levels to \$463.8 million in 1997-98 and \$487.0 million in 1998-99. These new estimates are shown in the following table:

<u>Game Type</u>	<u>1997-98</u>	<u>1998-99</u>
Scratch	\$288.3	\$302.7
Pull-Tab	7.1	7.5
On-Line	<u>168.4</u>	<u>176.8</u>
Total	\$463.8	\$487.0

5. Committee actions relating to the lottery also increased retailer compensation for instant ticket sales from 5.5% to 7.0% and adjusted funding for lottery vendor fees. These changes, in conjunction with reestimates of operating expenses based on the new sales estimates, result in estimated lottery credit amounts of \$254.5 million in 1997-98 and \$133.8 million in 1998-99. These modifications would result in more lottery proceeds being available for distribution as lottery property tax credits. Under the value-based distribution alternative adopted by the Committee (Paper #730, Alternative 3), statewide average credits are reestimated at \$84 in 1997-98 and \$44 in 1998-99 due to the modifications. Previously, these amounts were estimated at \$80 and \$38, respectively.

6. The reestimated lottery fund condition, following Joint Committee on Finance action, is as follows:

**Lottery Fund Condition -- Joint Committee on Finance**

	<u>1997-98</u>	<u>1998-99</u>
Fiscal Year Opening Balance	\$130,801,900	\$9,277,600
<b>Operating Revenues</b>		
Ticket Sales	\$463,800,000	\$487,000,000
Retailer Fees and Miscellaneous	<u>80,000</u>	<u>80,000</u>
Gross Revenues	\$463,880,000	\$487,080,000
<b>Expenditures</b>		
Prizes	\$265,202,600	\$278,471,700
Basic Retailer Compensation	28,567,600	32,386,800
Vendor Payments	11,829,800	12,075,500
General Program Operations	20,663,100	20,711,500
Appropriation to DOJ	225,800	229,600
Appropriation to DOR	<u>119,800</u>	<u>119,800</u>
Total Expenditures	\$326,608,700	\$343,994,900
<b>Net Proceeds</b>	\$137,271,300	\$143,085,100
<b>Interest Earnings</b>	7,655,300	2,986,200
Total Available for Tax Relief*	275,728,500	155,348,900
<b>Appropriations for Tax Relief</b>		
Lottery Property Tax Credit	\$254,450,900	\$133,807,300
Lottery Credit Local Administrative Costs	0	0
Farmland Tax Relief Credit	<u>12,000,000</u>	<u>11,800,000</u>
Total Appropriations for Tax Relief	\$266,450,900	\$145,607,300
Gross Closing Balance	9,277,600	9,741,600
Reserve (2% of Gross Revenues)	9,277,600	9,741,600
Net Closing Balance	0	0

\*Opening balance, net proceeds and interest earnings.

**MODIFICATION TO BASE**

Provide \$1,166,700 SEG in 1997-98 and \$2,966,500 SEG in 1998-99 to reflect reestimates of costs based on adjusted lottery sales projections, as follows: (a) \$1,116,500 in 1997-98 and \$2,870,600 in 1998-99 for retailer compensation; and (b) \$50,200 in 1997-98 and \$95,900 in 1998-99 for vendor fees.

<u>Modification</u>	<u>SEG</u>
1997-99 FUNDING (Change to Base)	\$4,133,200
[Change to Bill	\$4,133,200]

Prepared by: Art Zimmerman

MO# modification

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

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