



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #691

### **Transfer Funding for Lottery Ticket Manufacturing and Delivery (DOR -- Lottery Administration)**

[LFB 2009-11 Budget Summary: Page 564, #3]

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#### **CURRENT LAW**

The state lottery is provided base funding of \$22,350,000 in a sum certain general program operations appropriation account. This expenditure authority includes funding for instant lottery ticket manufacturing and delivery services. In addition, the state lottery is provided base funding of \$13,002,000 in a sum sufficient appropriation account to pay vendors for on-line and instant ticket services and supplies provided by the vendors under major procurement contracts.

#### **GOVERNOR**

Transfer \$4,415,900 annually from the Lottery Division's appropriation account for general program operations to the appropriation account for vendor fees for instant lottery ticket manufacturing and delivery.

#### **DISCUSSION POINTS**

1. Under the provision, the costs of ticket manufacturing and delivery would be moved from an annual, sum certain appropriation to a sum-sufficient appropriation. The amount of funding that would transfer from the sum certain appropriation account to the sum sufficient appropriation account (\$4,415,900) represents the currently budgeted amount for ticket printing and delivery. The sum sufficient appropriation account was established to pay vendors for on-line and instant ticket services and supplies provided by the vendors under major procurement contracts.

2. The provision was requested by the Department in its 2009-11 biennial budget request. According to departmental officials, the provision would allow the lottery to contract for ticket manufacturing on a percentage-of-sales basis, potentially cutting costs. The current practice

of the lottery is to purchase instant tickets on a "cost-per-thousand" basis. Department officials indicate that they are restricted to this method of purchase due to the fixed nature of funding under a sum certain appropriation structure. Sum certain appropriations are appropriations that are expendable only up to the amount shown in the Chapter 20 appropriations schedule and only for the fiscal year for which made. At the end of the fiscal year the unencumbered balances revert to the fund from which the funds are appropriated.

3. The Department believes that ticket printing on a percentage-of-sales basis requires a sum sufficient appropriation (appropriations which are expendable in the amounts necessary to accomplish the purpose specified) in order to accommodate the potential higher costs if sales are more than anticipated. The percentage-of-sales contract for ticket manufacturing is thought to provide the Department greater flexibility to pursue a variety of games and, in addition, to share the risk of introducing new games with the vendors. The Department also stated that percentage-of-sales pricing, may be more cost effective in some instances and ultimately less expensive, while providing the vendor with an incentive to help the state increase lottery sales.

4. Departmental officials also indicate a concern with the cost increases associated with ticket manufacturing and delivery that the lottery budget has experienced in recent years, and that are expected to continue. They argue that the lottery's budget has not been modified to accommodate these increases and rising costs could be more easily accommodated if paid from the sum sufficient appropriation account. However, it should be noted that the lottery has not requested any funding increase for ticket manufacturing or delivery in recent biennia.

5. It is unclear why the Department would not be able to pursue a percentage-of-sales contract for ticket manufacturing under its sum certain appropriation. There are no legal restraints on the lottery preventing a percentage-of-sales contract funded from its sum certain appropriation. In addition, it should be possible to accurately estimate the potential range of costs for a percentage-of-sales contract. If the lottery's sum certain appropriation account has sufficient supplies and services expenditure authority, these potential costs should be manageable. A review of the Department's budget and expenditures for lottery supplies and services in recent years indicates that current funding would be sufficient to initiate at least some percentage-of-sales contracts for ticket manufacturing.

6. Recently, lottery officials indicated that they are about to enter into a two-year contract for ticket manufacturing that will address ticket printing requirements for most of the 2009-11 biennium. They now indicate that the provision under the bill is not needed at this time.

## **ALTERNATIVES**

1. Approve the Governor's recommendation to transfer \$4,415,900 annually from the Lottery Division's appropriation account for general program operations to the appropriation account for vendor fees for instant lottery ticket manufacturing and delivery.

2. Delete the provision.

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