



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

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Joint Committee on Finance

Paper #545

Lottery Fund Condition and Lottery Credit (DOR – Lottery Administration)

[LFB 2021-23 Budget Summary: Page 515, #1, Page 516, # 2, Page 517, #3,
Page 518, #4, #5, & #6, and Page 539. #3]

CURRENT LAW

Operation of the state lottery is the responsibility of the Lottery Division within the Department of Revenue (DOR). The state lottery is the one form of legal gambling in Wisconsin that is operated by the state, utilizing both state employees and contracted services, including private sector retailer outlets for lottery ticket sales.

Funding for the Lottery Division including prizes is primarily provided from the segregated (SEG) lottery fund. Additionally, 2019 Act 9 provided \$71.7 million GPR in 2019-20 and \$73.1 million GPR in 2020-21 for retailer compensation, vendor fees, and administration (excluding costs associated with positions salaries and production information). The Division's funding in 2020-21 totals \$85,674,000, including \$19,867,300 for general operations, \$47,980,700 for retailer compensation, and \$17,826,000 for vendor fees.

The Lottery Division is authorized 69.7 full-time equivalent (FTE) SEG positions in 2020-21, including one unclassified division administrator. Currently, 29.8 positions are allocated for retailer relations and sales, 16.0 positions for product development and marketing, and the remaining 23.9 positions for other administrative and operational functions. The total revenue available for tax relief is the remaining revenue available after (SEG) lottery expenditures, minus a statutory reserve (2% of gross revenue). Net revenue available for tax relief depends on actual lottery fund revenues and expenditures and will change with any change in revenue or expenditures.

DISCUSSION POINTS

1. Since the introduction of Assembly Bill 68/Senate Bill 111 (AB 68/SB 111), DOR has reestimated projected sales as well as the Lottery Fund condition under current law. Lottery sales have been strong in 2020-21, and are expected to be higher in the 2021-23 biennium compared to the estimates included in AB 68/SB 111. Under current law, expenditures from the Lottery Fund would equal adjusted base level appropriations, as modified by the Committee under Motion #24. These modifications included standard budget adjustments, including an adjustment to overtime, as well as sum sufficient reestimates of late claim applications for the lottery and gaming credit. In addition, SEG expenditures for prizes, retailer compensation, and vendor fees would be increased to reflect the reestimate of lottery sales.

2. The amount available for the lottery and gaming tax credit depends on many factors, including lottery sales trends and the opening balance of the Lottery Fund. Additionally, GPR funding has been provided on occasion to pay for certain lottery expenses, in order to increase the amount of lottery and gaming revenues available for the credit. The 1999-01 biennial budget appropriated general fund revenue for various lottery operating expenses, and for the farmland tax relief credit, in order to increase the distribution under the lottery and gaming credit for that biennium. In each of the past two biennia, GPR funding has been provided for lottery operations, retailer compensation, and vendor fee expenses, in order to increase revenues available for the credit. Base level GPR funding for these lottery expenses totals \$73.1 million.

3. In the fall of 2020, the Powerball Group announced that it was considering an expansion of Powerball to additional countries, beyond those currently participating in Powerball draws. At the time, Wisconsin state law did not allow for the participation in a lottery outside of the United States or Canada, meaning that the state would not have been able to participate in Powerball draws after the planned expansion. This expansion was initially planned for April, 2021, but has since been delayed. Moreover, 2021 Wisconsin Act 6 modified the definition of "multijurisdictional," for the purpose of the lottery, to mean "pertaining to another state of the United States of America, the District of Columbia, the Commonwealth of Puerto Rico or any territory or possession of the United States of America, or the government of Canada or any province thereof, or any other country or nation." Wisconsin will therefore be able to continue participating in Powerball draws, even after the planned international expansion.

4. Table 1 below indicates lottery sales under AB 68/SB 111, which includes the impact on sales associated with the Governor's recommendations for additional lottery product information funding.

TABLE 1**Lottery Sales under AB 68/SB 111
(\$ in millions)**

<u>Game Type</u>	<u>Actual 2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>Percent Change from 2020-21</u>	<u>2022-23</u>	<u>Percent Change from 2021-22</u>
Scratch	\$513.0	\$515.0	\$498.6	-3.2%	\$498.6	0.0%
Pull-tab	0.8	0.4	0.4	0.0	0.4	0.0
Lotto	<u>211.7</u>	<u>221.5</u>	<u>216.0</u>	-2.5	<u>217.9</u>	0.9
Total	\$725.5	\$736.9	\$715.0	-3.0%	\$716.9	0.3%

5. As a result of the state's continued participation in Powerball draws, and the higher lottery sales than previously expected, lottery revenues will exceed the amount certified by the Committee for distribution in 2020-21, which will result in a higher opening balance in 2021-22. Overall 2021-22 available lottery revenues will be higher, which means more will be available for distribution under the lottery and gaming credit in 2021(22). In addition, lottery revenues collected in the biennium are expected to be higher than earlier estimates, which will also increase the amount available for the credit. Table 2 provides current law estimates of the lottery sales for 2020-21 and the 2021-23 biennium.

TABLE 2**Current Law Lottery Sales Projections
(\$ in millions)**

<u>Game Type</u>	<u>Actual 2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>Percent Change from 2020-21</u>	<u>2022-23</u>	<u>Percent Change from 2021-22</u>
Scratch	\$513.0	\$645.8	\$562.9	-12.8%	\$562.9	0.0%
Pull-tab	0.8	0.4	0.4	0.0	0.4	0.0
Lotto	<u>211.7</u>	<u>260.8</u>	<u>252.3</u>	-2.5	<u>252.3</u>	0.0
Total	\$725.5	\$907.0	\$815.6	-10.1%	\$815.6	0.0%

6. Based on the estimated lottery sales indicated in Table 2, prize payouts, retailer compensation, and vendor fees associated with these higher sales, and the amount available for property tax relief will be higher in the biennium compared to earlier estimates. Table 3 shows the current law lottery fund condition, as well as the amount available for property tax relief.

TABLE 3**Current Law Lottery Fund Condition**

	Projected <u>2021-22</u>	Projected <u>2022-23</u>
Fiscal Year Opening Balance	\$82,200,400	\$16,316,000
Operating Revenues		
Total Ticket Sales	\$815,610,000	\$815,610,000
Retailer Fees and Miscellaneous	<u>192,200</u>	<u>192,200</u>
Gross Revenues	\$815,802,200	\$815,802,200
Expenditures		
Prizes	\$510,560,800	\$510,560,800
Retailer Compensation (SEG)	9,324,700	9,323,900
Retailer Compensation (GPR)	47,980,700	47,980,700
Vendor Fees (SEG)	5,591,400	3,986,400
Vendor Fees (GPR)	17,826,000	17,826,000
General Program Operations (SEG)	13,135,100	13,135,100
General Program Operations (GPR)	7,068,300	7,068,300
Gaming Law Enforcement	466,100	475,600
Lottery Credit Administration	316,900	316,900
Program Reserves	<u>149,600</u>	<u>301,900</u>
Total Expenditures	\$612,419,600	\$610,975,600
Net SEG Proceeds	\$276,257,600	\$277,701,600
Interest Earnings	<u>\$80,000</u>	<u>\$80,000</u>
Total Available for Tax Relief *	\$358,538,000	\$294,097,600
Appropriations For Tax Relief		
Lottery and Gaming Credit	\$341,556,400	\$277,116,000
Late Lottery and Gaming Credit Applications	<u>665,600</u>	<u>665,600</u>
Total Appropriations for Tax Relief	\$342,222,000	\$277,781,600
Gross Closing Balance	\$16,316,000	\$16,316,000
Reserve (2% of Gross Revenues)	\$16,316,000	\$16,316,000
Net Closing Balance	\$0	\$0

*Includes opening balance

7. In 2019-20, the amount distributed under the lottery and gaming tax credit totaled \$269.7 million, which provided an average credit of \$184. In October, 2020, the Joint Committee on Finance certified the distribution of \$237.4 million in 2020-21 for the lottery and gaming credit, which would provide an estimated average credit of \$160. This distribution was based on projected lottery sales for 2020-21 at that time. However, because 2020-21 sales are now projected to exceed the October, 2020,

projections, and the 2020-21 credit amount based on the Committee's October, 2020, certification has been distributed, the additional net sales revenues for 2020-21 will lead to a larger opening balance for the Lottery Fund for 2021-22. That opening balance is estimated to be \$82.2 million, an increase of \$49.0 million over the previous estimate.

8. Under the current law estimate of the lottery fund condition, \$342.2 million would be appropriated for property tax relief in 2021-22, and \$277.8 million would be available in 2022-23, including late claims. Of this amount, under Motion #24, the Committee already approved the sum sufficient reestimated for lottery credit late claims of \$665,600 for each year of the biennium. The reestimate of the Lottery Fund condition would establish the appropriation levels listed in Table 2 for lottery expenditures, and would result in reestimated lottery and gaming credits of \$341,556,400 for 2021-22 (\$84,977,500 increase to base) and \$277,116,000 for 2022-23 (\$20,537,100 increase to base). The estimated lottery and gaming credit associated with these funding levels would be \$232 in 2021-22 and \$188 in 2022-23. [Alternative A1]

Product Information Funding

9. AB 68/SB 111 would provide a 10% increase to the lottery product information budget, which would amount to an increase of \$850,000 SEG annually. Lottery product information activities provide lottery players with sufficient notice of game changes and game draws. Increasing funding for the product information budget is expected to increase lottery sales by approximately \$4.0 million annually, compared to current law estimates. However, the higher estimated sales associated with increased product information funding would also increase SEG expenditures for lottery prizes, retailer compensation, and vendor fees. Table 4 shows the effects that this provision would have on the lottery fund condition, including the net additional amounts that would be available for property tax relief.

TABLE 4**Lottery Fund With Product Information Funding**

	Projected <u>2021-22</u>	Projected <u>2022-23</u>
Fiscal Year Opening Balance	\$82,200,400	\$16,396,000
Operating Revenues		
Total Ticket Sales	\$819,610,000	\$819,610,000
Retailer Fees and Miscellaneous	<u>192,200</u>	<u>192,200</u>
Gross Revenues	\$819,802,200	\$819,802,200
Expenditures		
Prizes	\$512,596,500	\$512,596,500
Retailer Compensation (SEG)	9,605,700	9,605,700
Retailer Compensation (GPR)	47,980,700	47,980,700
Vendor Fees (SEG)	5,697,800	4,092,800
Vendor Fees (GPR)	17,826,000	17,826,000
General Program Operations (SEG)	13,985,100	13,985,100
General Program Operations (GPR)	7,068,300	7,068,300
Gaming Law Enforcement	466,100	475,600
Lottery Credit Administration	316,900	316,900
Program Reserves	<u>149,600</u>	<u>301,900</u>
Total Expenditures	\$615,692,700	\$614,249,500
Net SEG Proceeds	\$276,984,500	\$278,842,100
Interest Earnings	<u>\$80,000</u>	<u>\$80,000</u>
Total Available for Tax Relief *	\$359,264,900	\$294,903,700
Appropriations For Tax Relief		
Lottery and Gaming Credit	\$342,203,300	\$277,842,100
Late Lottery and Gaming Credit Applications	<u>665,600</u>	<u>665,600</u>
Total Appropriations for Tax Relief	\$342,868,900	\$278,507,700
Gross Closing Balance	\$16,396,000	\$16,396,000
Reserve (2% of Gross Revenues)	\$16,396,000	\$16,396,000
Net Closing Balance	\$0	\$0

*Includes opening balance

10. If an additional \$850,000 for product information were provided annually, an additional \$646,900 in 2021-22 and \$726,100 in 2022-23 would be available for the lottery and gaming credit, for a total distribution of \$342.2 million in 2021-22 and \$277.8 million in 2022-23, excluding late claims. This would provide increases to base level funding of \$85,624,400 SEG in 2021-22 and

\$21,183,200 SEG in 2022-23 for the lottery and gaming credit. These amounts would result in an estimated average credit of \$232 in 2021-22 and \$189 in 2022-23. [Alternative A2]

Lottery Operations Funding Changes/ Retailer Compensation and Vendor Fees

11. As mentioned earlier, in recent biennia a significant amount of GPR funding has been provided for the lottery general program operations, retailer compensation, and vendor fees associated with the administration of the lottery. This offsets SEG expenditures from the lottery, which, in turn, increases the amount of SEG available for property tax relief. The GPR funding for the lottery administration is from an annual, sum certain appropriation. GPR funding for retailer compensation and vendor fees is provided from two separate annual appropriations. If GPR funding is insufficient to pay the full costs of annual retailer compensation and vendor fees, two separate SEG sum sufficient appropriations for these purposes are also available to cover those costs.

12. Under current law, basic retailer compensation is established by statute at 5.5% of the retail price of lotto lottery tickets and 6.25% of the retail price of instant tickets. In addition, the retailer performance program provides an amount of up to 1% of gross lottery sales as incentive payments to retailers. Vendor fees are paid under a major procurement contract for the provision of data processing services to both the lotto and instant lottery games.

13. As part of the Governor's recommendations, while the overall GPR funding for the lottery expenditure would remain the same, changes were recommended as to the use of existing GPR funding for lottery program operations. These funding changes would provide \$5,307,300 SEG in 2021-22 and \$5,473,500 SEG in 2022-23 to fund a greater share of the lottery general program staff and operation costs from SEG funding. A corresponding reduction of \$5,307,300 GPR in 2021-22 and \$5,473,500 GPR in 2022-23 would be made to the lottery general operations appropriation to reduce GPR funding for lottery staff and operations. In addition, the Governor's proposed funding changes would make corresponding increases in GPR funding of \$2,305,000 GPR in 2021-22 and \$2,424,100 GPR in 2022-23 for retailer compensation and \$3,002,300 GPR in 2021-22 and \$3,049,400 GPR in 2022-23 for vendor fees. Offsetting reductions in SEG funding for retailer compensation and vendor fees would be made in same amounts. The administration indicates that the purpose of these funding changes is to increase GPR funding for retailer compensation and vendor fees and provide more SEG funding for lottery administration. Under the Governor's recommendations only \$1,761,000 in 2021-22 and \$1,594,900 in GPR funding would remain in the lottery general operations appropriation. Because these funding changes would make offsetting changes to the GPR and SEG funding amounts for lottery appropriations, this recommendation would have no net effect on the amounts available for property tax relief in 2021(22) or 2022(23). [Alternative B1]

14. At the time of the introduction of AB 68/SB 111, and given the estimated lottery fund revenues at that time, the proposed GPR and SEG funding changes among lottery appropriations would have fully funded the estimated retailer compensation and vendor fee appropriations with GPR funding. Now, given the expected higher revenues, additional SEG funding is needed to fund some portion of the higher retailer compensation and vendor fees from the respective sum sufficient appropriations. However, the Committee could remove GPR funding entirely from the lottery general operations appropriation, and instead provide that GPR funding to offset the higher SEG costs for

retailer compensation. A corresponding amount of SEG funding that is now needed to fund retailer compensation associated with the higher revenues could then be provided to the lottery general program operations SEG appropriation. This alternative would require the following: (a) decreases of \$7,068,300 GPR annually from the lottery GPR general operations appropriation; (b) increases of \$4,066,000 in 2021-22 and \$4,018,900 to the retailer compensation GPR appropriation; (c) increases of \$3,002,300 GPR in 2021-22 and \$3,049,400 GPR in 2022-23 to the vendor fees GPR appropriation; and (d) corresponding reductions of SEG funding from the SEG retailer compensation and vendor fee appropriations. Finally, the SEG general operations appropriation would be increased by \$7,068,300 annually. These funding changes would have no net effect on the amounts available for property tax relief in 2021(22) or 2022(23). [Alternative B2]

Lottery Draw Staff

15. AB 68/SB 111 would provide \$55,100 SEG in 2021-22 and \$73,500 SEG in 2022-23 to the Lottery Division's general operations appropriation to fund an additional full-time position to the lottery draw staff. The additional funding and position are meant to assist with both the increased number of lotto games and the mid-day draws that have been implemented for several lotto games.

16. Lottery draw staff are responsible for overseeing daily draws and ensuring the operation of the lottery. Coverage is needed 365 days per year, without exception. Since the draw staff positions were initially created, the number of both games and draws have increased, which has in turn increased the workload of the staff. The Lottery Division indicates that certain responsibilities have had to be transferred to the Lottery's contracting specialist due to the limited number of positions authorized. The Lottery Division further indicates that the increased funding and positions would assist in the recruitment and retention of qualified staff, with less risk to drawings stemming from staff outages. [Alternative C1]

17. The increased funding for the draw staff would not have an effect on lottery revenues, but would reduce the amounts available for property tax relief in each year in an amount equal to the costs of the position. However, the reduction to the estimated average credit would be minimal. [Alternative C2]

ALTERNATIVES

A. Lottery Product Information Funding

1. Take no action on additional product information funding and reestimate the lottery fund condition to reflect higher lottery sales under current law. Make the corresponding changes in base level funding for lottery retailer compensation and vendor fees and lottery credit expenditures to reflect the high lottery sales as follows: (a) increase estimated funding by \$9,324,700 SEG in 2021-22 and \$9,323,900 SEG in 2022-23 to DOR's sum sufficient SEG appropriation for lottery retailer compensation; (b) increase estimated funding by \$5,951,400 SEG in 2021-22 and \$3,986,400 SEG in 2022-23 to DOR's sum sufficient SEG appropriation for vendor fees; and (c) increase estimated funding available for the shared revenue and tax relief (SRTR) sum sufficient lottery credit appropriation by \$84,977,500 SEG in 2021-22 and \$20,537,100 SEG in 2022-23. [These base level

funding changes would be to the Committee's earlier actions on standard budget adjustments under Motion #24].

ALT A1	Change to Base
SEG (DOR)	\$28,226,400
SEG (SRTR)	<u>105,514,600</u>
Total	\$133,741,000

2. Provide an additional \$850,000 SEG annually in lottery product information funding to the lottery SEG general operations appropriation. Reestimate the lottery fund condition to reflect the impact this higher lottery product information funding would have on current law lottery sales in the biennium. Make the corresponding changes in base level funding for lottery compensation and vendor fees and lottery credit expenditures to reflect the increase to current law lottery sales as follows: (a) increase estimated funding by \$9,605,700 SEG annually to DOR's sum sufficient SEG appropriation for lottery retailer compensation; (b) increase estimated funding by \$5,697,800 SEG in 2021-22 and \$4,092,800 SEG in 2022-23 to DOR's sum sufficient SEG appropriation for vendor fees; and (c) increase estimated funding available for the shared revenue and tax relief (SRTR) sum sufficient lottery credit appropriation by \$85,624,400 SEG in 2021-22 and \$21,263,200 SEG in 2022-23. [These base level funding changes would be to the Committee's earlier actions on standard budget adjustments under Motion #24].

ALT A2	Change to Base
SEG (DOR)	\$30,702,000
SEG (SRTR)	<u>106,887,600</u>
Total	\$137,589,600

B. Lottery Operations Funding Changes/ Retailer Compensation and Vendor Fees

In addition to Alternative A1 or A2, do one of the following:

1. Make the following funding changes to lottery operations, retailer compensation and vendor fees to reflect removal of most GPR funding from lottery general program operations: (a) decrease funding by \$5,307,300 GPR in 2021-22 and by \$5,473,500 GPR in 2022-23 for the lottery general operations; (b) increase funding by \$2,305,000 GPR in 2021-22 and \$2,424,100 GPR in 2022-23 for lottery retailer compensation and increase funding by \$3,002,300 GPR in 2021-22 and \$3,049,400 GPR in 2022-23 for vendor fees; (c) increase funding by \$5,307,300 SEG in 2021-22 and by \$5,473,500 SEG in 2022-23 for lottery general operations; (d) decrease funding by \$2,305,000 SEG in 2021-22 and \$2,424,100 SEG in 2022-23 for lottery retailer compensation and decrease funding by \$3,002,300 SEG in 2021-22 and \$3,049,400 SEG in 2022-23 for vendor fees. Under this alternative, \$1,761,000 GPR in 2021-22 and \$1,594,800 GPR in 2022-23 would continue to fund lottery general program operations.

2. Make the following funding changes to lottery operations, retailer compensation and

vendor fees to reflect removal of all GPR funding from lottery general program operations: (a) decrease funding by \$7,068,300 GPR annually for the lottery general operations; (b) increase funding by \$4,066,000 GPR in 2021-22 and \$4,018,900 GPR in 2022-23 for lottery retailer compensation and increase funding by \$3,002,300 GPR in 2021-22 and \$3,049,400 GPR in 2022-23 for vendor fees; (c) increase funding by \$7,068,300 SEG annually for lottery general operations; (d) decrease funding by \$4,066,000 SEG in 2021-22 and \$4,018,900 SEG in 2022-23 for lottery retailer compensation and decrease funding by \$3,002,300 SEG in 2021-22 and \$3,049,400 SEG in 2022-23 for vendor fees. Under this alternative, no GPR funding would be used to fund lottery general operations.

3. Take no action [GPR funding would continue to be provided at current law levels for lottery operations as adjusted by the Committee's earlier actions under Motion #24.]

C. Lottery Draw Staff

In addition to Alternative A1 or A2, do one of the following:

1. Provide \$55,100 SEG in 2021-22 and \$73,500 SEG in 2022-23 and 1.0 position to the Lottery Division's SEG general operations appropriation.

ALT C1	Change to Base	
	Funding	Positions
SEG	\$128,600	1.00

2. Take no action.

Prepared by: Noga Ardon