



Legislative Fiscal Bureau

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September 30, 2019

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Estimate of Available Funds for the 2019(20) Lottery and Gaming Credit

In a letter dated September 26, 2019, the Department of Administration (DOA), pursuant to s. 79.10 (11)(b) of the statutes, provided the Joint Committee on Finance with an estimate of total funds available for distribution under the lottery and gaming credit for property taxes levied in 2019 (paid in 2020). The Department of Revenue (DOR) must be notified of the total amount available for distribution under the lottery and gaming credit by October 15, 2019. This estimate provides DOR with the basis for calculating the fair market value, termed the credit base, necessary to distribute the lottery and gaming credit. The credits are calculated by multiplying the credit base by school tax rates.

The DOA estimate of September 26, 2019, is that \$271,222,900 would be available for the 2019(20) lottery and gaming credit, based on re-estimated 2019-20 lottery sales of \$703.1 million. The lottery fund condition statement for 2019-20 (Attachment 1) and the DOA letter (Attachment 2) are attached to this memorandum.

The Committee is authorized to revise the DOA estimate and may do so at a meeting that takes place before October 15, 2019. If the Committee chooses to accept the DOA estimate, as submitted in its letter dated September 26, 2019, no Committee action is required.

In 2019(20), with available proceeds of \$271,222,900 an estimated average tax credit of \$185 would be extended to eligible properties with values in excess of the credit base value. In 2018(19), the corresponding tax credit average was \$163. The estimated \$22 increase in the average credit is due primarily to lottery sales exceeding 2018-19 estimates, which resulted in a higher opening balance for 2019-20. Further, increased GPR support for lottery administration has reduced expenditures from the segregated lottery fund, thereby increasing the lottery fund's net proceeds available for distribution through the tax credit.

Under 2019 Act 9, the 2019(20) lottery and gaming credit was estimated at \$255.7 million with an estimated average tax credit of \$176. In its September 26, 2019, letter to the Committee, DOA recommends modifying the 2019(20) lottery and gaming credit estimate to \$271.2 million. This new credit estimate is \$15.5 million (6.1%) higher than the Act 9 budgeted estimate of \$255.7 million in 2019(20), and \$37.0 million (15.8%) higher than the actual 2018-19 credit level of \$234.2 million. Most of the difference in the tax credit between Act 9 and September 26 letter to the Committee can be attributed to a higher opening balance for 2019-20, which was estimated to be \$14.2 million and was actually \$32.2 million, a \$18.0 million dollar increase. In addition, both the credit estimates in Act 9 and in the September 26 letter to the Committee would have been \$71.7 million lower if GPR funding for general program operations, vendor fees, and retailer compensation had not been provided under Act 9.

The following table shows the actual amount appropriated for the lottery and gaming credit in 2018(19) and the projected credit amounts in 2019(20), based on sales and lottery fund conditions under Act 9 and the revised DOA projection.

<u>Actual</u> 2018-19	<u>Estimated Lottery Tax Credit</u>	
	<u>Act 9</u> 2019-20	<u>Revised DOA Projection</u> 2019-20
\$234,224,800	\$255,668,800	\$271,222,900

In October, 2018, when DOA and the Committee certified the 2018(19) lottery and gaming credit amount, lottery sales for 2018-19 were estimated at \$661.9 million. Under Act 9, lottery sales were re-estimated at \$709.2 million in 2018-19. Actual 2018-19 lottery sales totaled \$713.1 million.

Under Act 9, lottery sales were estimated at \$691.9 million in 2019-20. In its September 26, 2019, letter to the Committee, DOA recommends modifying the 2019-20 sales estimate to \$703.1 million. This new sales estimate is \$11.2 million (1.6 %) higher than the Act 9 budgeted estimate of \$691.9 million in 2019-20, and \$10.0 million (1.4%) lower than the actual 2018-19 sales level of \$713.1 million. This revised sales estimate was projected on the basis of actual 2019-20 year-to-date sales data and lottery sales models utilized by DOR (which administers lottery operations) to estimate future ticket sales.

To summarize, the following table shows actual 2018-19 sales by game type and 2019-20 sales estimates made under Act 9 and under the revised DOA projection.

<u>Game Type</u>	<u>Actual</u> 2018-19	<u>Estimated Sales</u>	
		<u>Act 9</u> 2019-20	<u>Revised DOA Projection</u> 2019-20
Scratch	\$450,364,300	\$436,437,000	\$454,867,900
Pull-Tab	979,000	967,800	972,100
Lotto	<u>261,789,500</u>	<u>254,452,000</u>	<u>247,274,300</u>
Total	\$713,132,800	\$691,856,800	\$703,114,300

Actual lottery sales typically vary from estimates, particularly in the case of jackpot games like Powerball. Large jackpots, which occur randomly, can result in significant sales increases. Although difficult to project, some jackpot-related fluctuations are factored into the DOR sales projection model.

Based on year-to-date lottery sales in 2019-20, an examination of the DOR sales projections for the remainder of the year, and the increase in the lottery fund opening balance for 2019-20, this office concludes that the \$703.1 million sales estimate submitted by DOA in its letter dated September 26, 2019, is reasonable and that the estimate for the lottery and gaming credit is calculated correctly.

The certification of the lottery and gaming credit proceeds available for distribution in 2019(20) will require that this amount be paid to property owners. If 2019-20 lottery sales exceed the sales projection, the additional funds would be available for distribution as 2020(21) property tax credits. Similarly, if the projected sales that support the distribution amount are not realized, the effect would be to reduce the credit amount in the subsequent tax year. Also, if actual sales in the current year fall short of projections, the lottery fund includes a reserve (approximately \$14.1 million) that can be utilized for credit payments.

In summary, 2019-20 lottery sales of \$703.1 million would result in \$271,222,900 in lottery and gaming credits, as shown in the attached lottery fund condition statement. Unless the Committee meets to certify another number before October 15, 2019, the \$271,222,900 projection will be used by DOR to set the credit base for determining 2020(21) lottery and gaming credits.

Prepared by: Angela Miller
Attachments

ATTACHMENT 1

2019-20 Lottery Fund Condition Statement

Fiscal Year Opening Balance	\$32,169,800
Operating Revenues	
Ticket Sales	\$703,114,300
Retailer Fees and Miscellaneous	<u>192,400</u>
Gross Revenues	\$703,306,700
Expenditures*	
Prizes	\$432,400,100
Retailer Compensation (SEG)	1,322,500
Retailer Compensation (GPR)	47,980,700
Vendor Fees (SEG)	2,706,700
Vendor Fees (GPR)	17,826,000
General Program Operations (SEG)	13,974,000
General Program Operations (GPR)	5,893,300
Appropriation to DOJ	433,600
Appropriation to DOR	280,200
Program Reserves	<u>111,200</u>
Total Expenditures	\$522,928,300
Net SEG Proceeds	\$252,078,400
Interest Earnings	\$1,548,200
Gaming Related Revenue	\$10,400
Total Available for Tax Relief **	\$285,806,800
Appropriations for Tax Relief	
Lottery and Gaming Credit	\$271,222,900
Late Lottery and Gaming Credit Applications	<u>517,900</u>
Total Appropriations for Tax Relief	\$271,740,800
Gross Closing Balance	\$14,066,000
Reserve (2% of Gross Revenues)	\$14,066,000
Net Closing Balance	\$0

* 2019 Act 9 replaced \$71.7 million SEG with GPR to lower expenditures.

** Opening balance, net proceeds, interest earnings, and gaming-related revenue.

ATTACHMENT 2

State of Wisconsin

SENATE CHAIR
Alberta Darling

317 East, State Capitol
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Madison, WI 53707-7882
Phone: (608) 266-5830



ASSEMBLY CHAIR
John Nygren

308 East, State Capitol
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Madison, WI 53708-8953
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Joint Committee on Finance

MEMORANDUM

To: Members
Joint Committee on Finance

From: Senator Alberta Darling
Representative John Nygren

Date: September 27, 2019

Re: 14-Day Passive Review Approval - DOA

Pursuant to s.79.10(11), Stats., attached is a 14-day passive review request from the Department of Administration, received on September 27, 2019.

Please review the material and notify **Senator Darling** or **Representative Nygren** no later than **Tuesday, October 15, 2019** if you have any concerns about the request or if you would like the Committee to meet formally to consider it.

Also, please contact us if you need further information.



STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor
Joel Brennan, Secretary

September 26, 2019

The Honorable Alberta Darling, Senate Co-Chair
Joint Committee on Finance
317 East, State Capitol
Madison, WI 53702

The Honorable John Nygren, Assembly Co-Chair
Joint Committee on Finance
309 East, State Capitol
Madison, WI 53702

Dear Senator Darling and Representative Nygren:

Under s. 79.10(11), Wisconsin Statutes, the Department of Administration must submit to the Joint Committee on Finance its estimate of the total funds available for distribution under the lottery and gaming credit.

Total funds available equal net lottery proceeds and interest plus net racing and bingo proceeds less the amounts expended for gaming enforcement and lottery credit administration. A 2 percent reserve of estimated gross revenues is also required under s. 20.003(5), Wisconsin Statutes.

The department estimates \$271,222,950 will be available for distribution in December 2019. A more detailed calculation of this estimate is attached for your review.

Following the Committee's approval or revision of the estimate, the department will inform the Department of Revenue of the total amount available for the lottery and gaming credit. The Department of Revenue will then calculate the estimated fair market value necessary to distribute the total amount of revenue available.

Sincerely,



Joel T. Brennan
Secretary

Enc.

cc: Members, Joint Committee on Finance
Peter Barca, Secretary of Revenue

Lottery Credit Certification FY20
 Last Update: 9/24/2019

	ACTUAL 2017-18	ACTUAL 2018-19	PROJECTED 2019-20
<i>FISCAL YEAR OPENING BALANCE</i>	\$13,214,691	\$32,310,397	\$32,169,817
GROSS REVENUES - OPERATING			
Ticket Sales			
Scratch Games	\$419,398,240	\$450,364,292	\$454,867,935
Pull-Tab Games	\$1,036,575	\$978,975	\$972,113
Lotto Games	\$246,957,605	\$261,789,507	\$247,274,325
Total Ticket Sales	\$667,392,420	\$713,132,773	\$703,114,373
Retailer Fees & Miscellaneous Revenue	\$286,937	\$1,257,472	\$192,427
TOTAL GROSS REVENUES - OPERATING	\$667,679,357	\$714,390,245	\$703,306,800
EXPENDITURES			
Prizes-SEG	\$404,205,317	\$432,195,345	\$432,400,126
Retailer Compensation-SEG	\$38,486,279	\$9,703,093	\$1,322,522
Retailer Compensation-GPR	\$8,000,000	\$40,000,000	\$47,980,700
Vendor Fees-SEG	\$17,696,362	\$20,778,509	\$2,706,726
Vendor Fees-GPR			\$17,826,000
General Program Operations-SEG	\$18,419,839	\$18,976,877	\$13,974,000
General Program Operations-GPR			\$5,893,300
Lottery Credit Administration-SEG	\$230,849	\$228,584	\$280,200
Gaming Law Enforcement-SEG	\$356,700	\$352,300	\$433,600
Banking Fees & Misc Expenses-SEG	\$119	\$0	\$149
Program Reserves			\$111,057
TOTAL EXPENDITURES	\$487,395,465	\$522,234,709	\$522,928,381
NET SEG PROCEEDS	\$188,283,891	\$232,155,536	\$252,078,419
Interest Earnings	\$1,058,066	\$2,583,872	\$1,548,235
Gaming Revenue Transfer In	\$8,886	\$0	\$10,429
TOTAL AVAILABLE FOR TAX RELIEF	\$202,565,535	\$267,049,805	\$285,806,900
Lottery and Gaming Credit-SEG	\$169,874,658	\$234,224,767	\$271,222,950
Late Lottery & Gaming Credit Applications-SEG	\$380,480	\$655,221	\$517,850
Farmland Tax Relief Credit-SEG	\$0	\$0	\$0
TOTAL APPROPRIATIONS FOR TAX RELIEF	\$170,255,138	\$234,879,988	\$271,740,800
<i>Gross Closing Balance</i>	\$32,310,397	\$32,169,817	\$14,066,100
<i>Reserve (2% of Gross Revenues-Operating)</i>	\$13,353,600	\$14,287,800	\$14,066,100
NET CLOSING BALANCE	\$18,956,797	\$17,882,017	\$0