



Legislative Fiscal Bureau

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October 4, 2022

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Estimate of Available Funds for the 2022(23) Lottery and Gaming Credit

In a letter dated September 28, 2022, 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 2022 (paid in 2023). The Department of Revenue (DOR) must be notified of the total amount available for distribution under the lottery and gaming credit by October 16, 2022. 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 the school tax rates. As a reference, the 2021(22) credit base was \$26,600.

DOA estimates that \$319,854,900 would be available for the 2022(23) lottery and gaming credit, based on re-estimated 2022-23 lottery sales of \$912.1 million in 2022-23. The estimated lottery fund condition statement for 2022-23 (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 17, 2022. If the Committee chooses to accept the DOA estimate, as submitted in its letter dated September 28, 2022, no Committee action is required.

In 2022(23), with available proceeds of \$319,854,900, an estimated average tax credit of \$213 would be extended to primary residence properties with values in excess of the credit base value. In 2021(22), the corresponding tax credit average was \$230. The higher average credit for 2021(22) was primarily due to an unusually high opening balance for that year (discussed below), as lottery sales in 2022-23 are projected to be higher than sales in 2021-22 (an estimated \$912.1 million in 2022-23 compared to \$888.0 million in 2021-22). Actual lottery sales typically vary from estimates, especially in the case of jackpot games like Powerball, which are strongly driven by the size and number of high jackpots.

While the estimated average credit of \$213 in 2022(23) is slightly less than the previous year credit of \$230, it remains higher than the average credits of \$160 in 2020(21), \$184 in 2019(20), and \$160 in 2018(19). The higher average credit in 2021(22) reflected ticket sales above the level predicted in 2020-21. In addition to a particularly large Powerball jackpot beginning in December, 2020, and limited entertainment options due to the COVID-19 pandemic and related closures (both of which resulted in higher than anticipated sales), the initial estimate of lottery sales in 2020-21 assumed that the Powerball game would expand to additional international markets in the spring of 2021. At the time, state law would have prohibited Wisconsin's continued participation in the game after such an expansion. Therefore, the 2020-21 sales estimate did not include approximately three months of Powerball ticket sales. However, the planned international expansion of the Powerball game has yet to occur. Moreover, 2021 Act 6 allowed for the state's continued participation in Powerball draws following such an expansion in the future. As a result of all these factors, actual lottery sales in 2020-21 were well above the initial estimates, resulting in a higher than expected opening balance for 2021-22. Ticket sales in 2021-22 remained high, which, combined with the high opening balance in that year, provided an unusually high average credit in 2021(22).

Overall lottery sales are expected to increase by 2.7% in 2022-23. This overall increase primarily reflects a growth in sales in July, 2022, associated with a large Mega Millions jackpot. Mega Millions game sales totaled \$25.7 million in that month compared to average sales of \$3.4 million for that month for the previous three fiscal years. After accounting for this period of higher sales, overall lottery sales for all games for the remainder of 2022-23 are projected to be similar to lottery sales in previous years.

Under 2021 Act 58, lottery sales for 2022-23 were estimated at \$815.6 million. In its September 28, 2022 letter to the Committee, DOA recommends modifying the 2022-23 sales estimate to \$912.1 million. This new sales estimate is \$24.3 million (2.7%) higher than the actual 2021-22 sales level of \$887.8 million and \$96.5 million (11.8%) higher than the Act 58 budgeted estimate for 2022-23. The revised sales estimate reflects actual 2022-23 year-to-date sales data, as well as lottery sales models utilized by DOR (which administers lottery operations) to estimate ticket sales through the end of 2022-23.

To summarize, the following table shows actual 2021-22 lottery sales by game type and 2022-23 sales estimates made under Act 58 and under the revised DOA projection.

<u>Game Type</u>	<u>Actual 2021-22</u>	<u>Estimated Sales</u>	
		<u>Act 58 2022-23</u>	<u>Revised DOA Projection 2022-23</u>
Scratch	\$637,777,300	\$562,933,400	\$643,557,200
Pull-tab	1,128,000	397,700	1,277,500
Lotto	<u>248,915,600</u>	<u>252,279,000</u>	<u>267,282,500</u>
Total	\$887,820,900	\$815,610,100	\$912,117,200

Based on year-to-date lottery sales in 2022-23, and an examination of the DOR sales

projection for the remainder of the year, this office concludes that the estimate of \$912.1 million in sales submitted by DOA in its letter dated September 28, 2022 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 2022(23) will require that this amount be paid to property owners. If the 2022-23 lottery sales exceed the sales projection, additional funds would be available for distribution as 2023(24) property tax credits. Similarly, if the projected sales that support the distribution are not realized, the effect would be to reduce the credit amount in the subsequent tax year. Additionally, if actual sales in the current year fall short of projections, the lottery fund includes a reserve (approximately \$18.2 million) that can be utilized for credit payments.

In summary, 2022-23 lottery sales of \$912.1 million would result in an estimated \$319,854,900 being available for lottery and gaming credits, as shown in the attached lottery fund condition statement. Unless the Committee meets to certify another number before October 17, 2022, this estimate will be used by DOR to set the credit base for determining 2022(23) lottery and gaming credits.

Prepared by: Noga Ardon
Attachments

ATTACHMENT 1

2022-23 Lottery Fund Condition Statement September, 2022

Fiscal Year Opening Balance	\$39,715,100
Operating Revenues	
Total Ticket Sales	\$912,117,200
Retailer Fees and Miscellaneous	<u>262,800</u>
Gross Revenues	\$912,380,000
Expenditures*	
Prizes	\$578,747,500
Retailer Compensation (SEG)	\$12,366,800
Retailer Compensation (GPR)	\$51,999,600
Vendor Fees (SEG)	\$3,483,000
Vendor Fees (GPR)	\$20,875,400
General Program Operations (SEG)	\$20,203,400
Gaming Law Enforcement	457,200
Lottery Credit Administration	316,900
Program and Other Reserves	<u>142,800</u>
Total Expenditures	\$688,592,600
Net SEG Proceeds	\$296,662,400
Interest Earnings	\$2,575,000
Total Available for Tax Relief **	\$338,952,500
Appropriations For Tax Relief	
Lottery and Gaming Credit	\$319,854,900
Late Lottery and Gaming Credit Applications	<u>850,000</u>
Total Appropriations for Tax Relief	\$320,704,900
Gross Closing Balance	\$18,247,600
Reserve (2% of Gross Revenues)	\$18,247,600
Net Closing Balance	\$0

*2021 Act 58 provided \$72.9 million GPR in 2022-23 to lower SEG expenditures.

**Includes opening balance, net proceeds, and interest earnings.

ATTACHMENT 2

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STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor
Kathy Blumenfeld, Secretary-designee

September 28, 2022

The Honorable Howard Marklein, Co-Chair
Joint Committee on Finance
316 East, State Capitol
Madison, WI 53702

The Honorable Mark Born, Co-Chair
Joint Committee on Finance
308 East, State Capitol
Madison, WI 53702

SEP 28 2022
St. Finance

Dear Senator Marklein and Representative Born:

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 \$319,854,879 will be available for distribution in December 2022. 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,

DocuSigned by:
Kathy Blumenfeld
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Kathy K. Blumenfeld
Secretary-designee

Enc.

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

Lottery Fund Condition Statement

Last Update: 9/14/2022

	ACTUAL 2021-22	PROJECTED 2022-23
FISCAL YEAR OPENING BALANCE	\$ 80,466,559	\$ 39,715,126
GROSS REVENUES - OPERATING		
Ticket Sales		
Scratch Games	\$ 637,777,252	\$ 643,557,245
Pull-Tab Games	\$ 1,128,015	\$ 1,277,507
Lotto Games	\$ 248,915,588	\$ 267,282,451
Total Ticket Sales	\$ 887,820,854	\$ 912,117,203
Retailer Fees & Miscellaneous Revenue	\$ 189,658	\$ 262,800
TOTAL GROSS REVENUES - OPERATING	\$ 888,010,512	\$ 912,380,003
EXPENDITURES		
Prizes	\$ 556,857,563	\$ 578,747,532
Retailer Compensation - SEG	\$ 7,732,216	\$ 12,366,807
Retailer Compensation - GPR	\$ 52,046,700	\$ 51,999,600
Vendor Fees - SEG	\$ 4,146,353	\$ 3,483,012
Vendor Fees - GPR	\$ 20,828,300	\$ 20,875,400
General Program Operations	\$ 19,212,168	\$ 20,203,400
Lottery Credit Administration	\$ 293,183	\$ 316,900
Gaming Law Enforcement	\$ 460,200	\$ 457,200
Banking Fees & Misc Expenses	\$ 365	\$ 200
Program Reserves		\$ 142,600
TOTAL EXPENDITURES - GPR	\$ 72,875,000	\$ 72,875,000
TOTAL EXPENDITURES - SEG	\$ 588,702,050	\$ 615,717,651
NET SEG PROCEEDS	\$ 299,308,462	\$ 296,662,352
Interest Earnings	\$ 134,715	\$ 2,575,000
Gaming Revenue Transfer In	\$ -	\$ -
TOTAL AVAILABLE FOR TAX RELIEF	\$ 379,909,736	\$ 338,952,479
APPROPRIATIONS FOR TAX RELIEF		
Lottery and Gaming Credit	\$ 339,353,799	\$ 319,854,879
Late Lottery & Gaming Credit Applications	\$ 840,811	\$ 850,000
Farmland Tax Relief Credit	\$ -	\$ -
TOTAL APPROPRIATIONS FOR TAX RELIEF	\$ 340,194,610	\$ 320,704,879
Gross Closing Balance	\$ 39,715,126	\$ 18,247,600
Reserve (2% of Gross Revenues-Operating)	\$ 17,760,200	\$ 18,247,600
NET CLOSING BALANCE	\$ 21,954,926	\$ -