



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #661

Minor Policy and Technical Changes -- Lottery Sales, Retailer Compensation Reestimate, and Reestimate of Certain Lottery Fund Revenues (Revenue -- Lottery Administration)

[LFB 2001-03 Budget Summary: Page 373, #1; Page 374, #2; and Page 376, #4]

GOVERNOR

Lottery Sales Projections

Estimate lottery sales at \$417.2 million in 2003-04 and \$418.0 million in 2004-05. The following table shows these estimates, as well as 2001-02 actual lottery sales and 2002-03 projected sales. (For the purposes of certifying the amount available for the 2002(03) lottery and gaming property tax credit, DOA and the Joint Committee on Finance adopted, in October, 2002, the 2002-03 lottery sales estimate of \$412.7 million.)

Lottery Sales Projections (\$ in Millions)

Game Type	Actual 2001-02	2002-03	2003-04	Percent Change from 2002-03	2004-05	Percent Change from 2003-04
Scratch	\$233.6	\$238.4	\$243.3	2.0%	\$244.5	0.5%
Pull-tab	4.6	4.6	4.6	0.0	4.6	0.0
On-line	189.3	169.7	169.3	-0.2	168.9	-0.2
Total	\$427.5	\$412.7	\$417.2	1.1%	\$418.0	0.2%

The 2003-04 and 2004-05 estimated sales are identical to those made by DOR in the Department's 2003-05 budget request and are based on sales models utilized by DOR to estimate

both on-line and instant ticket games. The projected sales directly affect appropriation levels for retailer compensation and lottery vendor fees.

Sum Sufficient Appropriation Reestimates

Provide \$1,059,700 SEG in 2003-04 and \$1,171,900 SEG in 2004-05 to reestimate lottery sum sufficient appropriations for retailer compensation and vendor fees, as follows:

Retailer Compensation. Provide \$1,035,700 SEG annually to adjust base level funding for retailer compensation, including payments to retailers under the retailer performance program, to reflect projected lottery sales in the 2003-05 biennium. Base level funding for retailer compensation is \$28,352,000 SEG.

Vendor Fees. Provide \$24,000 SEG in 2003-04 and \$136,200 SEG in 2004-05 to adjust funding for vendor fees to reflect projected lottery sales in the 2003-05 biennium. Base level funding for vendor fees is \$12,790,500 SEG.

Lottery Fund Condition Statement

The total revenue available for tax relief, minus a statutory reserve (2% of gross revenue) and the amounts appropriated for the farmland tax relief credit and lottery and gaming credit late applications payments, determines the amount available for the lottery and gaming tax credit.

The bill would appropriate \$101,900,000 in 2003-04 and \$101,000,000 in 2004-05 for the lottery and gaming tax credit, however, the revenues and expenditures under the bill, with certain corrections, would support credits of \$101,730,900 in 2003-04 and \$100,812,900 in 2004-05. The corrections relate to two items: (a) retailer compensation in 2004-05 would need to be increased by \$64,400 to reflect higher ticket sales estimates in 2004-05; and (b) no funding for the lottery and gaming credit certification was appropriated in 2004-05 in the bill, but supporting documents indicate that \$960,000 was intended to be appropriated.

These corrected amounts, rather than the appropriated amounts, are used in the following fund condition, which provides information on operating revenues, appropriated amounts for expenditures, estimates of interest earnings and gaming-related revenue, and the amounts available for tax relief credits under the bill.

**Lottery Fund Condition Statement
Governor**

	<u>2003-04</u>	<u>2004-05</u>
Fiscal Year Opening Balance	\$8,256,300	\$8,346,000
Operating Revenues		
Ticket Sales	\$417,198,100	\$418,049,000
Retailer Fees and Miscellaneous	<u>100,600</u>	<u>100,600</u>
Gross Revenues	\$417,298,700	\$418,149,600
Expenditures		
Prizes	\$238,113,600	\$238,701,200
Retailer Compensation	29,387,700	29,452,100
Vendor Payments	12,814,500	12,926,700
General Program Operations	21,940,500	21,940,500
Appropriation to DOJ	299,200	302,100
Appropriation to DOR	274,300	276,300
Lottery and Gaming Credit Certification	0	960,000
Program Reserves	<u>242,500</u>	<u>379,600</u>
Total Expenditures	\$303,072,300	\$304,938,500
Net Proceeds	\$114,226,400	\$113,211,100
Interest Earnings	\$1,395,300	\$1,457,100
Gaming-Related Revenue	\$1,348,900	\$1,311,700
Total Available for Tax Relief *	\$125,226,900	\$124,325,900
Appropriations for Tax Relief		
Lottery and Gaming Tax Credit	\$101,730,900	\$100,812,900
Farmland Tax Relief Credit	15,000,000	15,000,000
Lottery and Gaming Credit: Late Applications	<u>150,000</u>	<u>150,000</u>
Total Appropriations for Tax Relief	\$116,880,900	\$115,962,900
Gross Closing Balance	\$8,346,000	\$8,363,000
Reserve (2% of Gross Revenues)	\$8,346,000	\$8,363,000
Net Closing Balance	\$0	\$0

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

DISCUSSION POINTS

Lottery Sales Projections

1. The October, 2002, estimate of 2002-03 sales (\$412.7 million) will likely be exceeded. A straight-line projection of year-to-date sales results in an estimate of \$431.6 million, a 4.6% increase above the October, 2002, estimate. This revised 2002-03 estimate would exceed the actual 2001-02 sales by \$4.1 million, about a 1% increase. Lottery sales declined between 1994-95 and 2000-01, but now appear to have stabilized. The following table shows annual sales from 1994-95 through 2001-02, reestimated sales for 2002-03, and sales projected under the bill for 2003-04 and 2004-05.

Lottery Sales History (In Millions)

<u>Fiscal Year</u>	<u>Game Type</u>			<u>Total Sales</u>
	<u>Scratch</u>	<u>Pull-Tab</u>	<u>On-Line</u>	
1994-95	\$310.3	\$10.0	\$198.6	\$518.9
1995-96	302.2	8.2	171.7	482.1
1996-97	266.2	7.2	157.7	431.1
1997-98	246.6	6.3	165.7	418.6
1998-99	224.9	5.9	197.4	428.2
1999-00	235.6	5.4	165.6	406.7
2000-01	233.2	4.8	163.2	401.2
2001-02	233.6	4.6	189.3	427.5
2002-03*	245.6	4.1	181.9	431.6
2003-04**	243.3	4.6	169.3	417.2
2004-05**	244.5	4.6	168.9	418.0

*Estimate

**Governor

2. Powerball jackpots have a significant effect on annual sales. For example, in 2000-01 (with total lottery sales of \$401.2 million) Powerball jackpots were consistently low. The best stretch of Powerball sales in 2000-01 occurred in a five- to six-week period in November, 2000, with sales totaling only \$12.3 million. Sales in both 2001-02 and 2002-03 benefited from large Powerball jackpots. In 2001-02, in a four-week period in August, 2001, Powerball sales totaled \$33.2 million. This gain was the primary reason sales increased to \$427.5 million in 2001-02 (scratch and pull-tab sales in 2001-02 remained consistent with sales for these games in 2000-01). In 2002-03, in a four-week period in December, 2002, Powerball sales totaled \$28.4 million.

3. This gain in Powerball sales is one reason that sales are expected to total \$431.6

million in 2002-03. The other reason is that it appears the lottery may increase scratch ticket sales this year (an estimated \$245.6 million) to their highest level since 1997-98 (\$246.6 million).

4. Under the bill, scratch lottery sales, estimated at \$243.3 million in 2003-04 and \$244.5 million in 2004-05, are consistent with the gains expected to be seen in 2002-03. On-line sales in 2003-04 (\$169.3 million) and 2004-05 (\$168.9 million) are estimated at a level between the 2000-01 on-line sales experience and the 2002-03 on-line sales experience. In other words, very large Powerball jackpots are neither assumed, nor are they discounted. The on-line estimates reflect a middle ground for anticipated Powerball sales. The sales estimates under the bill for the 2003-05 biennium appear reasonable, and there is no basis for modifying these projections at this time.

Sum Sufficient Appropriation Reestimates

5. Basic retailer compensation rates are 5.5% for online ticket sales and 6.25% for instant ticket sales. In addition, the retailer performance program provides an amount of up to 1% of for-profit sales as incentive payments to retailers (estimated at \$4.1 million in 2003-04 and \$4.2 million in 2004-05, under the bill). Base level funding for these purposes of \$28,352,000 was based on estimated lottery sales of \$402.9 million in 2002-03. The Governor's recommended increases to retailer compensation funding are tied to lottery sales projections under the bill (\$417.2 million in 2003-04 and \$418.0 million in 2004-05). Based on these projections, the amount provided in 2004-05 should be modified. This is because estimated sales in that year would require \$1,100,100 for retailer compensation, or \$64,400 more than the \$1,035,700 provided under the bill.

6. Vendor fees are paid on major procurement contracts for the provision of data processing services relating to on-line and scratch ticket lottery games. The fees are calculated on the basis of a formula containing both fixed costs and a percentage of on-line and scratch ticket sales. Under the bill, vendor fees would total 3.1% of on-line and scratch ticket sales in the 2003-05 biennium. The amounts for vendor fees under the bill are correctly calculated based on projected sales.

7. The Committee will also consider a sum sufficient appropriation adjustment for local costs relating to lottery and gaming credit certification in a separate paper to be presented under Shared Revenue and Tax Relief – Property Tax Credits. As noted above, no funding for the lottery and gaming credit certification was appropriated in 2004-05 in the bill, but supporting documents indicate that \$960,000 was intended to be appropriated. At the time this paper was prepared, the Committee's decision on funding local costs relating to lottery and gaming credit certification had not been made.

Lottery Fund Condition Statement

8. The reestimate of 2002-03 sales from \$412.7 million to \$431.6 million results in modified expenditure amounts for prizes, retailer compensation and vendor fees in 2002-03. In

addition, lottery and gaming tax credits, including payments for late applications, can now be reestimated based on actual 2002-03 expenditure data. The effect of all these changes is to increase the opening balance of the lottery fund on July 1, 2003. The opening balance under the bill (\$8,256,300) should be modified to \$16,871,100.

9. In addition to the change in the opening balance in 2003-04, interest earnings have been reestimated for 2003-04 and 2004-05 based on projected interest rates for the 2003-05 biennium. Under the bill, interest earnings are estimated at \$1.4 million in 2003-04 and \$1.5 million in 2004-05. Reestimated interest earnings would total \$1.0 million in 2003-04 and \$1.3 million in 2004-05.

10. Under the Wisconsin Constitution, gaming-related revenues (racing and charitable bingo revenue remaining after regulatory and enforcement costs are paid) must be deposited in the lottery fund. In 2002-03, gaming-related revenue is estimated to total \$1.0 million. Under the bill, gaming-related revenue is projected to increase to \$1.3 million annually in the 2003-05 biennium. An analysis of year-to-date 2002-03 revenue and expenses for racing and bingo shows that the transfers to the lottery fund should total approximately \$1.0 million, as estimated in October, 2002. However, it is unlikely that future transfers to the lottery fund from these sources will increase from current levels. Therefore, gaming-related revenue in 2003-04 and 2004-05 are reestimated to \$1.0 million annually.

11. The Committee will address an additional sum sufficient appropriation adjustment for the local costs relating to lottery and gaming credit certification in a subsequent paper, under Shared Revenue and Tax Relief – Property Tax Credits. This paper will have several alternatives for the Committee's consideration. Because the Committee's decision on local certification costs is unknown at this time, the following fund condition statement makes no assumption on what funding will be provided for this purpose. Following the Committee's work, all of its actions affecting the lottery fund will be reflected in the revised lottery fund condition statement that will be prepared as part of the Chapter 20 appropriation schedule.

12. The changes described above result in revised amounts that would be available for the lottery and gaming tax credit. The amounts under the bill (\$101.7 million in 2003-04 and \$100.8 million in 2004-05) would be modified to \$109.6 million in 2003-04 and \$101.3 million in 2004-05. The following fund condition statement incorporates these adjustments and reflects the modification to the retailer compensation appropriation proposed in this paper.

**Lottery Fund Condition Statement
Reestimate**

	<u>2003-04</u>	<u>2004-05</u>
Fiscal Year Opening Balance	\$16,871,100	\$8,346,000
Operating Revenues		
Ticket Sales	\$417,198,100	\$418,049,000
Retailer Fees and Miscellaneous	<u>100,600</u>	<u>100,600</u>
Gross Revenues	\$417,298,700	\$418,149,600
Expenditures		
Prizes	\$238,113,600	\$238,701,200
Retailer Compensation	29,387,700	29,452,100
Vendor Payments	12,814,500	12,926,700
General Program Operations	21,940,500	21,940,500
Appropriation to DOJ	299,200	302,100
Appropriation to DOR	274,300	276,300
Lottery and Gaming Credit Certification	0	0
Program Reserves	<u>242,500</u>	<u>379,600</u>
Total Expenditures	\$303,072,300	\$303,978,500
Net Proceeds	\$114,226,400	\$114,171,100
Interest Earnings	\$1,045,000	\$1,290,000
Gaming-Related Revenue	\$1,000,000	\$1,000,000
Total Available for Tax Relief *	\$133,142,500	\$124,807,100
Appropriations for Tax Relief		
Lottery and Gaming Tax Credit	\$109,646,500	\$101,294,100
Farmland Tax Relief Credit	15,000,000	15,000,000
Lottery and Gaming Credit: Late Applications	<u>150,000</u>	<u>150,000</u>
Total Appropriations for Tax Relief	\$124,796,500	\$116,444,100
Gross Closing Balance	\$8,346,000	\$8,363,000
Reserve (2% of Gross Revenues)	\$8,346,000	\$8,363,000
Net Closing Balance	\$0	\$0

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

MODIFICATION

Provide \$64,400 SEG in 2004-05 for the retailer compensation appropriation.

Explanation: The lottery sum sufficient appropriation for retailer compensation is based on estimated sales. The sales estimate for 2004-05 (\$418.0 million) would require \$1,100,100 for retailer compensation, or \$64,400 more than the \$1,035,700 provided under the bill.

<u>Modification</u>	<u>SEG</u>
2003-05 FUNDING (Change to Bill)	\$64,400

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