Arizona State Lottery Commission

	FY 2019 ACTUAL	FY 2020 ESTIMATE	FY 2021 BASELINE
OPERATING BUDGET			
Full Time Equivalent Positions	98.8	98.8	98.8
Personal Services	4,358,900	4,812,000	4,812,000
Employee Related Expenditures	1,777,100	1,775,300	1,775,300
Professional and Outside Services	461,600	386,800	386,800
Travel - In State	287,500	271,600	271,600
Travel - Out of State	60,000	16,800	16,800
Other Operating Expenditures	1,479,700	1,958,900	1,958,900
Equipment	217,200	0	0
OPERATING SUBTOTAL	**8,642,000**	**9,221,400**	**9,221,400**
SPECIAL LINE ITEMS			
Advertising	13,584,600	15,500,000	15,500,000
Charitable Commissions [1/]	1,477,600	1,538,800	1,643,000 [2/]
Instant Tickets	21,115,700	28,883,800	30,492,400 [3/]
On-Line Vendor Fees	11,994,600	12,049,400	12,070,100 [4/]
Retailer Commissions	70,684,900	75,200,700	78,960,700 [5/]
AGENCY TOTAL	**127,499,400**	**142,394,100**	**147,887,600** [6/]
FUND SOURCES			
Other Appropriated Funds			
State Lottery Fund	127,499,400	142,394,100	147,887,600
SUBTOTAL - Other Appropriated Funds	127,499,400	142,394,100	147,887,600
SUBTOTAL - Appropriated Funds	**127,499,400**	**142,394,100**	**147,887,600**
Other Non-Appropriated Funds	723,309,400	719,502,400	751,160,300
TOTAL - ALL SOURCES	850,808,800	861,896,500	899,047,900

AGENCY DESCRIPTION — The Arizona Lottery is responsible for administering sanctioned games of chance. In addition to Arizona-specific games, the state also participates in multi-state Powerball and Mega-Millions on-line games.

FOOTNOTES

1/ Charitable Commissions, Instant Tickets, On-Line Vendor Fees, and Retailer Commissions are appropriated as a percentage of sales. Therefore, the amounts shown for those line items are estimates only.

2/ An amount equal to 20% of Tab Ticket sales is appropriated to pay sales commissions to charitable organizations. This amount is currently estimated to be $1,643,000 in FY 2021. (General Appropriation Act footnote)

3/ An amount equal to 3.6% of actual instant ticket sales is appropriated to print instant tickets or to pay contractual obligations concerning instant ticket distribution. This amount is currently estimated to be $30,492,400 in FY 2021. (General Appropriation Act footnote)

4/ An amount equal to a percentage of actual on-line game sales as determined by contract is appropriated to pay on-line vendor fees. This amount is currently estimated to be $12,070,100, or 4.256% of actual on-line ticket sales in FY 2021. (General Appropriation Act footnote)

5/ An amount equal to 6.5% of gross lottery game sales, minus Charitable Tab Tickets, is appropriated to pay sales commissions to ticket retailers. An additional amount not to exceed 0.5% of gross lottery game sales is appropriated to pay sales commissions to ticket retailers. The combined amount is currently estimated to be 6.7% of total ticket sales, or $78,960,700 in FY 2021. (General Appropriation Act footnote)

6/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The Baseline includes $9,221,400 and 98.8 FTE Positions from the State Lottery Fund in FY 2021 for the operating budget. These amounts are unchanged from FY 2020.

Advertising

The Baseline includes $15,500,000 from the State Lottery Fund in FY 2021 for Advertising. This amount is unchanged from FY 2020.

Monies in this line item are used to promote and market Lottery games.

Charitable Commissions

The Baseline includes $1,643,000 from the State Lottery Fund in FY 2021 for Charitable Commissions. FY 2021 adjustments are as follows:

Tab Ticket Increase

The Baseline includes an increase of $104,200 from the State Lottery Fund in FY 2021 to realign spending with projected revenues. *(See Table 1 for more information.)*

Monies in this line item are used to compensate charities for selling lottery 'Tab Tickets.' Tab Tickets are games sold exclusively by charitable organizations, who receive a 20% commission for selling the games. The displayed amount is derived by applying the approved percentage, 20%, to the forecasted Tab Ticket sales. A.R.S. § 5-555 also allows the department to collect up to 35% of total Tab Ticket sales (which includes the 20% commission) for their operating budget, with the remainder distributed as prizes.

Instant Tickets

The Baseline includes $30,492,400 from the State Lottery Fund in FY 2021 for Instant Tickets. FY 2021 adjustments are as follows:

Instant Ticket Sales Increase

The Baseline includes an increase of $1,608,600 from the State Lottery Fund in FY 2021 for Instant Tickets due to higher projected sales. *(See Table 1 for more information.)*

Monies in this line item are used to pay for instant ticket printing and distribution costs. The amount displayed is derived by applying the approved spending percentage of 3.6% to the forecasted sales total.

On-Line Vendor Fees

The Baseline includes $12,070,100 from the State Lottery Fund in FY 2021 for On-Line Vendor Fees. FY 2021 adjustments are as follows:

On-Line Sales Decrease

The Baseline includes an increase of $20,700 from the State Lottery Fund in FY 2021 for On-Line Vendor Fees due to higher projected sales. *(See Table 1 for more information.)*

Monies in this line item are used to pay the vendor that operates the on-line game computer system. The actual appropriation is equal to a percentage of on-line ticket sales specified in the Lottery's contractual agreement with the vendor, which is 4.256%.

Retailer Commissions

The Baseline includes $78,960,700 from the State Lottery Fund in FY 2021 for Retailer Commissions. FY 2021 adjustments are as follows:

Retailer Commissions Increase

The Baseline includes an increase of $3,760,000 from the State Lottery Fund in FY 2021 for Retailer Commissions due to higher projected sales. *(See Table 1 for more information.)*

Monies in this line item are used to compensate retailers for selling lottery tickets. A.R.S. § 5-555 specifies that compensation to retailers will be at least 5.5% but not more than 8% of non-charitable Tab Ticket sales. The actual appropriation is equal to 6.5% of these sales. Pursuant to statute, an additional 0.5% of total non-charitable Tab Ticket sales may be paid to retailers based on their attainment of specified sales and marketing objectives. Since 40% of retailers are estimated to meet these objectives, this would result in an additional 0.2% in retailer commissions and a total retail commission rate of 6.7%. The displayed amount is derived by applying the approved percentage to the forecasted sales total.

Other Issues

Lottery Forecast and Distributions

The Baseline assumes a 0.8% increase in overall Lottery ticket sales in FY 2020, followed by a 4.1% increase in FY 2021. For FY 2020 and FY 2021, the Baseline assumes Lottery ticket sales of $1,085,443,700 and $1,130,613,600, respectively.

The FY 2020 forecasted sales and Special Line Items expenditures are higher than the amounts included as part of the *FY 2020 Appropriations Report*. This increase is due to a revised FY 2020 sales forecast. These revised amounts are estimates based on the current sales forecast and the special line item percentages included in the FY 2020 General Appropriation Act footnotes. The final FY 2020 expenditures will be determined by the actual Lottery ticket sales during FY 2020.

Sources and Uses of Lottery Profit Distribution

Table 1 shows the sources of forecasted Lottery profits by revenue stream and illustrates the actual distributions to fund beneficiaries for FY 2019 and the JLBC Staff projected distributions for FY 2020 and FY 2021. A brief description of each beneficiary follows in the order that they receive Lottery-generated revenue in accordance with A.R.S. § 5-534 and 5-572.

State Lottery Revenue Bond Debt Service Fund

Laws 2010, 6th Special Session, Chapter 4 authorized the Arizona Department of Administration (ADOA) to issue a 20-year, $450,000,000 Lottery revenue bond by December 31, 2010 to be deposited into the General Fund. The payments are made from Lottery revenues that would have otherwise been deposited into the General Fund.

In December 2018, the Arizona Department of Administration (ADOA) refinanced these bonds. Chapter 4 requires the first Lottery proceeds to be distributed to the State Lottery Revenue Bond Debt Service Fund.

Maricopa County Mass Transit

The projected annual distribution of Powerball proceeds to the Maricopa Public Transportation Fund is $11,473,200 in each FY 2020 and FY 2021. *(See FY 2020 Appropriations Report for additional background.)*

General Fund - Part 1

The statutory distribution requires the General Fund to receive up to $84,150,000. The General Fund - Part 2 would receive up to an additional $15,490,000 (for a total of $99,640,000) after the statutory funding obligations have been met through the Homeless Shelters distribution. After all other statutory obligations have been met, the General Fund - Part 3 would receive all remaining revenues.

The profit distributions in FY 2020 and FY 2021 are forecasted to fulfill requirements for General Fund - Part 1 and Part 2. The Lottery revenue bond payments of $34,511,900 in FY 2020 and $34,509,800 in FY 2021 account towards the $84,150,000 General Fund - Part 1 requirement.

Heritage Fund

Statute caps annual distributions to the Arizona Game and Fish Commission's Heritage Fund at $10,000,000. The funds are used to promote wildlife habitat and education programs and to rehabilitate historic buildings. In FY 2020 and FY 2021, the fund is projected to receive its entire allocation.

Health and Welfare Programs

Statute requires annual inflation adjustments for the Health and Welfare distribution. The revised allocation cap is $21,882,600 in FY 2020 and $22,432,400 in FY 2021. These amounts are distributed among the following agencies:

- 29.4% to the Department of Child Safety for the Healthy Families program.
- 23.5% to the Arizona Board of Regents (ABOR) for the Arizona Health Education Center program.
- 17.6% to the Department of Health Services (DHS) for teenage pregnancy prevention.
- 11.8% to DHS for Disease Control Research.
- 11.8% to DHS for the Health Start program.
- 5.9% to DHS for the Women, Infants and Children food program.

Health and Welfare Programs are expected to receive their entire allocation in both FY 2020 and FY 2021.

Homeless Shelters

Under the statutory distribution, DES would receive up to $1,000,000 for Homeless Shelters. The department shall use the funding to distribute grants to nonprofit organizations, including faith based organizations, for homeless emergency and transitional shelters and related support services. The fund is estimated to receive its full allocation in both FY 2020 and FY 2021.

General Fund - Part 2

As noted above, the General Fund would receive up to an additional $15,490,000 after all prior allocations have been met. In FY 2020 and FY 2021, the General Fund is estimated to receive its entire allocation of $15,490,000.

Arizona Competes Fund

Statute caps annual distributions to the Arizona Competes Fund at $3,500,000. Allotments to this fund are used for administering grants to qualifying businesses for the purpose of attracting, retaining, and expanding business within the state. This fund is estimated to receive its full allocation in both FY 2020 and FY 2021.

University Capital Improvement (UCI) Fund

This fund serves as the source for up to 80% of the annual debt service associated with $800,000,000 of University Capital construction Stimulus Plan for Economic and Educational Development (SPEED) bonds. This fund received $39,819,400 in FY 2019. Based on ABOR data which includes current and planned SPEED bond issuances, the UCI Fund is expected to require $40,642,800 in FY 2020 and $40,624,800 in FY 2021 to make the expected 80% level of debt service payments. *(Please see the FY 2021 Arizona Board of Regents Capital Outlay section for more details.)*

Deferred General Fund - Part 3

The General Fund receives all remaining revenues after all statutory funding obligations have been met. Due to the timing of Lottery profit transfers, the Deferred General Fund - Part 3 transfer actually occurs in the succeeding fiscal year. In the example of the FY 2021 deferred General Fund - Part 3 allocation of $42,128,400, that will be transferred to the General Fund in FY 2022.

Total Distributions to the General Fund

Total FY 2021 distributions to the General Fund consist of the FY 2021 General Fund Part 1 and Part 2 profit transfers plus the delayed prior year Part 3 transfer from FY 2020. With a FY 2021 Part 1 transfer of $49,640,200, a Part 2 FY 2021 transfer of $15,490,000 and a delayed FY 2020 Part 3 transfer of $34,687,900, total FY 2021 distributions to the General Fund are forecast to be $99,818,100. (*See Table 1 for more information.*)

Table 1

Forecast of Lottery Revenue Distribution
($ in Millions)

Sales	**FY 2019**	**FY 2020**	**FY 2021**
Instant Sales	$760.2	$802.3	$847.0
On-Line Sales	316.6	283.1	283.6
Total Sales	$1,076.8	$1,085.4	$1,130.6
Less:			
Operating Budget	$ 127.5	$ 142.4	$ 147.9
Gaming Distribution	0.3	0.3	0.3
ICACF/VREF Sales Transfer [1/]	0.4	0.4	0.5
Prizes [2/]	723.3	719.5	751.2
Net Profit [3/] [4/]	**$225.3**	**$222.8**	**$230.7**
Profit Transfers [4/]			
Debt Service Fund	$ 37.5	$ 34.5	$ 34.5
Maricopa County Mass Transit	11.5	11.5	11.5
General Fund - Part 1	46.6	49.6	49.6
Heritage	10.0	10.0	10.0
Health and Welfare Programs	21.4	21.9	22.4
Homeless Shelters	1.0	1.0	1.0
General Fund - Part 2	15.5	15.5	15.5
Arizona Commerce Authority	3.5	3.5	3.5
University Capital	39.8	40.6	40.6
Deferred General Fund - Part 3	38.5	34.7	42.1
Total Transfers	**$225.3**	**$222.8**	**$230.7**
General Fund			
Delayed Prior Year Transfer [5/]	20.8	38.5	34.7
General Fund - Part 1	46.6	49.6	49.6
General Fund - Part 2	15.5	15.5	15.5
Total General Fund [5/]	**$ 82.9**	**$103.6**	**$ 99.8**

1/ A.R.S. § 5-554H allows the commission to sell tab tickets from vending machine in age-restricted areas. Profits from these sales are distributed to the Internet Crimes Against Children Enforcement Fund (ICACF) and the Victims' Rights Enforcement Fund (VREF), respectively. The ICAC Fund receives up to $900,000 and the VREF receives up to $100,000. If net profits from age-restricted tab tickets are less than $1.0 million, then the difference will be paid to ICACF and VREF from unclaimed prize monies in the State Lottery Fund. In FY 2019, $379,400 was distributed to the ICACF/VREF from the sale of tab tickets. An estimated $420,900 and $467,000 will be distributed in FY 2020 and FY 2021, respectively. *(See Footnote 4.)*

2/ Prizes are estimated by subtracting net profit, operating budget expenditures, the Department of Gaming transfer, and the ICAC/VREF sales transfer from total Lottery sales.

3/ To derive the profit transfer amounts, the historical rate of return for each game was applied to the current budget forecast. The total rate of return on all games in FY 2019 was 20.99%. The estimated total profit margin is 20.60% in FY 2020 and 20.48% in FY 2021.

4/ In addition to these listed transfers, the following monies are distributed:
- 30% of unclaimed prizes to the Court Appointed Special Advocates program.
- 15% of unclaimed prizes, not to exceed $250,000 to the Tribal College Dual Enrollment Program Fund (This distribution was $160,000 in FY 2016, but was increased pursuant to Laws 2016, Chapter 124).
- An estimated $579,100 in FY 2020 and $533,000 in FY 2021 of unclaimed prizes to ICACF and VREF.

5/ Due to the timing of Lottery profit transfers, the General Fund - Part 3 transfer actually occurs in the succeeding fiscal year. As such, the General Fund total reflects deposits that actually occur within the fiscal year, whereas the Net Profit and Total Transfers lines reflect figures reported by the Lottery that are derived from ticket sales that occur during the fiscal year.

SUMMARY OF FUNDS	FY 2019 Actual	FY 2020 Estimate

State Lottery Fund (LOA2122/A.R.S. § 5-571) **Non-Appropriated**

Source of Revenue: Sales of lottery tickets, retailer license fees, and interest earnings.

Purpose of Fund: A portion of the fund is appropriated to pay for all costs of the Arizona State Lottery Commission. After all expenses are paid including the prize monies displayed below in the Non-Appropriated Funds Expended line, Lottery profits are distributed to a number of different functions.

Appropriated Funds Expended	127,499,400	142,394,100
Non-Appropriated Funds Expended	723,309,400	719,502,400
Year-End Fund Balance	38,994,100	14,824,700