Arizona State Lottery Commission

	FY 2023 ACTUAL	FY 2024 ESTIMATE	FY 2025 BASELINE
OPERATING BUDGET			
Full Time Equivalent Positions	98.8	98.8	98.8
Personal Services	4,859,200	5,218,300	5,218,300
Employee Related Expenditures	1,931,400	2,186,200	2,186,200
Professional and Outside Services	580,800	386,800	386,800
Travel - In State	35,800	271,600	271,600
Travel - Out of State	45,800	16,800	16,800
Other Operating Expenditures	2,208,800	2,395,500	2,395,500
Equipment	166,000	0	0
OPERATING SUBTOTAL	**9,827,800**	**10,475,200**	**10,475,200**
SPECIAL LINE ITEMS			
Advertising	14,006,700	15,500,000	15,500,000
Charitable Commissions 1/	1,830,300	1,868,500	1,994,900 2/
Instant Tickets 1/	27,416,500	40,411,800	42,399,600 3/
On-Line Vendor Fees 1/	18,388,600	17,838,800	20,729,900 4/
Retailer Commissions 1/	100,366,000	102,667,600	110,876,200 5/
AGENCY TOTAL	**171,835,900**	**188,761,900**	**201,975,800** 6/
FUND SOURCES			
Other Appropriated Funds			
State Lottery Fund	171,835,900	188,761,900	201,975,800
SUBTOTAL - Other Appropriated Funds	171,835,900	188,761,900	201,975,800
SUBTOTAL - Appropriated Funds	**171,835,900**	**188,761,900**	**201,975,800**
Other Non-Appropriated Funds	1,002,910,300	1,144,479,700	1,144,479,700
TOTAL - ALL SOURCES	1,174,746,200	1,333,241,600	1,346,455,500

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 twenty percent of tab ticket sales is appropriated to pay sales commissions to charitable organizations. This amount is currently estimated to be $1,994,900 in fiscal year 2024-2025. (General Appropriation Act footnote)

3/ An amount equal to 3.6 percent 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 $42,399,600 in fiscal year 2024-2025. (General Appropriation Act footnote)

4/ An amount equal to a percentage of actual online game sales as determined by contract is appropriated to pay online vendor fees. This amount is currently estimated to be $20,729,900, or 4.256 percent of actual online ticket sales, in fiscal year 2024-2025. (General Appropriation Act footnote)

5/ An amount equal to 6.5 percent 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 percent of gross lottery game sales is appropriated to pay sales commissions to ticket retailers. The combined amount is currently estimated to be 6.7 percent of total ticket sales, or $110,876,200, in fiscal year 2024-2025. (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 $10,475,200 and 98.8 FTE Positions from the State Lottery Fund in FY 2025 for the operating budget. These amounts are unchanged from FY 2024.

Advertising

The Baseline includes $15,500,000 from the State Lottery Fund in FY 2025 for Advertising. This amount is unchanged from FY 2024.

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

Charitable Commissions

The Baseline includes $1,994,900 from the State Lottery Fund in FY 2025 for Charitable Commissions. Adjustments are as follows:

Tab Ticket Increase

The Baseline includes an increase of $126,400 from the State Lottery Fund in FY 2025 to realign spending with projected revenues.

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 $42,399,600 from the State Lottery Fund in FY 2025 for Instant Tickets. Adjustments are as follows:

Instant Ticket Sales Increase

The Baseline includes an increase of $1,987,800 from the State Lottery Fund in FY 2025 for Instant Tickets due to higher projected sales.

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 $20,729,900 from the State Lottery Fund in FY 2025 for On-Line Vendor Fees. Adjustments are as follows:

One-Line Sales Increase

The Baseline includes an increase of $2,891,100 from the State Lottery Fund in FY 2025 for One-Line Vendor Fees due to Higher projected sales.

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 $110,876,200 from the State Lottery Fund in FY 2025 for Retailer Commissions. Adjustments are as follows:

Retailer Commissions Increase

The Baseline includes an increase of $8,208,600 from the State Lottery Fund in FY 2025 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. Based on a General Appropriation Act footnote, 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 4.5% increase in overall Lottery ticket sales in FY 2024, followed by a 5.0% increase in FY 2025. For FY 2024 and FY 2025, the Baseline assumes

Lottery ticket sales of $1,585,565,200 and $1,664,843,500, respectively.

The FY 2024 forecasted sales and Special Line Items expenditures are revised from the amounts included as part of the *FY 2024 Appropriations Report* due to an updated FY 2024 sales forecast. These revised amounts are estimates based on the current sales forecast and the line-item percentages included in the FY 2024 General Appropriation Act footnotes. The final FY 2024 expenditures will be determined by the actual Lottery ticket sales during FY 2024.

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 2023 and the JLBC Staff projected distributions for FY 2024 and FY 2025. 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.

Maricopa County Mass Transit

The projected annual distribution of Powerball proceeds to the Maricopa Public Transportation Fund is $11,413,800 in both FY 2024 and FY 2025.

Laws 1993, 6th Special Session, Chapter 1 allocated not less than 31.5% of multi-state Powerball revenues to public transportation programs, otherwise known as Local Transportation Assistance Fund (LTAF) II. This allocation was capped at $18,000,000 and was contingent upon the General Fund receiving $45,000,000 in Lottery revenues. Laws 2010, 7th Special Session, Chapter 12 redirected these monies to the General Fund. In September 2011, the U.S. District Court in the case of Paisley v. Darwin ruled that the Arizona Legislature must restore the distribution of mass transit monies to Maricopa County because the distribution was part of the state implementation plan to ensure compliance with the Clean Air Act. As a result, the state must calculate Maricopa County's share of 31.5% of statewide Powerball proceeds and distribute those monies to the county regional public transportation agency.

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 2024 and FY 2025 are forecasted to fulfill requirements for General Fund - Part 1 and Part 2.

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 2024 and FY 2025, 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 $23,702,500 in FY 2024 and $24,301,400 in FY 2025. 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 2024 and FY 2025.

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 2024 and FY 2025.

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 2024 and FY 2025, 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 2024 and FY 2025.

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 $37,798,800 in FY 2023. Based on ABOR data which includes current and planned SPEED bond issuances, the UCI Fund is expected to require $37,783,200 in FY 2024 and $43,185,400 in FY 2025 to make the expected 80% level of debt service payments. *(Please see the FY 2023 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 and the current level of ticket sales, the Lottery Commission's recent practice is to defer the entire Part 3 distribution to the following fiscal year.

The Baseline forecast assumes that for each forecast year's ticket sales (FY 2024 and FY 2025), the Lottery Commission will transfer 100% of the Part 3 profits in a deferred transfer during the next fiscal year.

Total Distributions to the General Fund

Total FY 2024 distributions to the General Fund consist of the FY 2024 General Fund Part 1, Part 2, and partial Part 3 profit transfers plus the delayed prior year Part 3 transfer from FY 2023. With a FY 2024 Part 1 transfer of $84,150,000, a Part 2 FY 2024 transfer of $15,490,000, and a forecasted FY 2023 Part 3 delayed transfer of $122,645,200, total FY 2024 distributions to the General Fund are forecast to be $222,285,200.

Total FY 2025 distributions to the General Fund are forecast to be $234,637,800, which includes: a FY 2025 Part 1 transfer of $84,150,000, a Part 2 FY 2025 transfer of $15,490,000, and a FY 2024 Part 3 delayed transfer of $134,997,800. (*See Table 1 for more information).*

Table 1

Forecast of Lottery Revenue Distribution
($ in Millions) [1/]

Sales	**FY 2023**	**FY 2024**	**FY 2025**
Instant Sales	$1,078.4	$1,121.7	$1,177.8
On-Line Sales	438.3	463.9	487.1
Total Sales	$1,516.7	$1,585.6	$1,664.8
Less:			
Operating Budget	$ 171.8	$ 188.8	$ 202.0
Gaming Distribution	0.3	0.3	0.3
ICACEF/VREF Sales Transfer [2/]	0.9	0.9	0.9
Prizes [3/]	1,033.8	1,073.5	1,117.9
Net Profit [4/] [5/]	**$309.9**	**$322.1**	**$343.7**
Profit Transfers [6/]			
Maricopa County Mass Transit	11.4	11.4	11.4
General Fund - Part 1	84.2	84.2	84.2
Heritage	10.0	10.0	10.0
Health and Welfare Programs	23.9	23.7	24.3
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	37.8	37.8	43.2
Deferred General Fund - Part 3	122.6	135.0	150.6
Total Transfers	**$309.9**	**$322.1**	**$343.7**
General Fund			
Delayed Prior Year Transfer [6/]	76.2	122.6	135.0
General Fund - Part 1	84.2	84.2	84.2
General Fund - Part 2	15.5	15.5	15.5
Total General Fund [7/]	**$175.8**	**$222.2**	**$234.6**

1/ Totals may not sum due to rounding.

2/ 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 (ICACEF) and the Victims' Rights Enforcement Fund (VREF), respectively. The ICACEF 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 ICACEF and VREF from unclaimed prize monies in the State Lottery Fund. An estimated $903,400 and $948,600 will be distributed in FY 2024 and FY 2025, respectively. *(See Footnote 4.)*

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

4/ To derive the profit transfer amounts, the historical rate of return for each game was applied to the current budget forecast. The estimated total profit margin is 20.5% in both FY 2024 and FY 2025.

5/ 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 $325,000 to the Tribal College Dual Enrollment Program Fund (This distribution was $160,000 in FY 2016, but was increased to $250,000 pursuant to Laws 2016, Chapter 124 and increased again to $325,000 pursuant to Laws 2021, Chapter 404).

6/ 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.

7/ Under the forecast, total General Fund revenue in FY 2026 would be $250.2 million. This amount includes $150.6 million from the General Fund - Part 3 transfer deferred from FY 2025, $84.2 million for the FY 2026 General Fund - Part 1 and $15.5 million for they FY 2026 General Fund - Part 2.

SUMMARY OF FUNDS	FY 2023 Actual	FY 2024 Estimate
State Lottery Fund (LOA2122/A.R.S. § 5-571)		**Appropriated**
Source of Revenue: Sales of lottery tickets, retailer license fees, and interest earnings.		
Purpose of Fund: To pay for all costs of the Arizona State Lottery Commission. After all Lottery Commission expenses are paid, including the prize monies displayed in the Non-Appropriated funds expended, Lottery profits are distributed to a number of different functions. Please see the Non-Appropriated portion of the fund for additional information.		
Funds Expended	171,835,900	188,761,900
Year-End Fund Balance	141,313,200	69,484,500
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: For payment of prizes to the holders of winning tickets from games administered by the Arizona State Lottery commission. After all Lottery Commission expenses are paid, including prize monies, Lottery profits are distributed to a number of different functions. Please see the Appropriated portion of the fund for additional information.		
Funds Expended	1,002,910,300	1,144,479,700
Year-End Fund Balance	0	0