



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

Room 110 Capitol Building * P.O. Box 201711 * Helena, MT 59620-1711 * (406) 444-2986 * FAX (406) 444-3036

Director
AMY CARLSON

DATE: June 8, 2012

TO: Legislative Finance Committee

FROM: Kris Wilkinson, Fiscal Analyst II

RE: Montana State Lottery Supplemental Appropriation Proposal

On June 5, 2012, the Governor's budget director sent notice to the Legislative Fiscal Analyst of a proposed supplemental appropriation request to transfer \$500,000 in state lottery enterprise fund authority from FY 2013 to FY 2012 for the Montana State Lottery. It is the role of the Legislative Finance Committee (LFC) to report to the Governor whether, in the committee's view, the request meets statutory criteria and to raise any necessary compliance issues. If the LFC does not provide a report, the Governor can authorize the transfer 90 days after the date the request was forwarded to the LFC. The LFC does not approve or deny the request.

Statute requires two stipulations before a request to move authority from the second year of the biennium to the first year can be made:

- o Expenditures must be for an unforeseen and unanticipated emergency that causes the appropriation for the year to be insufficient for the operation and maintenance of the agency in that year; and
- o The requesting agency must present a plan for reducing expenditures in the second year of the biennium that allows the agency to contain expenditures within appropriations.

STAFF REVIEW

Staff has reviewed the proposed supplemental appropriation request in accordance with the requirements of 17-7-301, MCA. Two factors have been stated as the drivers for this request:

- o Increased lottery ticket sales and corresponding increase in vendor fees which are 5.8% of every dollar in lottery sales. This represents \$400,000 of the additional appropriation request in FY 2012; and
- o Increased instant (scratch) ticket stock to provide for game sales in June. This represents \$100,000 of the request for additional authority.

The statutory requirement for the expenditures being unforeseen and unanticipated appears to be justified based on review of the revenues and expenditures for the Montana State Lottery between FY 2010, FY 2011, and a comparison of budgeted and actual expenditures in FY 2012. The 2011 Legislature included \$2.8 million in authority for vendor fees anticipating that lottery revenues would be maintained at approximately \$47.0 million each year. FY 2012 lottery sales revenues are projected to be \$54.0 million, with \$49.5 million in sales realized as of June 2, 2012

and an additional \$4.0 million anticipated by fiscal year end. Additional authority for vendor fees will be needed at this level of lottery sales.

In addition, instant ticket sales are 9.9% ahead of FY 2011 sales at the beginning of June and are projected to exceed FY 2011 sales by about 10.2% by the end of the year. To maintain the ability to sell instant tickets the Montana State Lottery will need to print additional game cards. An additional \$100,000 in authority for costs associated with the additional games is requested.

In relation to the Montana State Lottery's plan to reduce expenditures in FY 2013, staff raises the following concerns:

- o FY 2013 budgeted expenditures are authorized based on anticipated revenues of about \$47.0 million in ticket sales. If sales maintain the level attained in FY 2012, additional costs for vendor fees and ticket stock will be realized and unfunded
- o Reductions identified for FY 2013 range between \$416,000 and \$501,000. At the high end of the range this is sufficient to offset the transfer of appropriation authority from FY 2013 to FY 2012. However, the impact of the reductions could affect lottery sales, reducing income to the proprietary fund and transfers to the general fund

The LFC may wish to discuss with the Montana State Lottery whether vendor fees should be part of its statutorily appropriated expenditures rather than included in HB 2. Vendor fees are directly related to the amount of lottery sales and vary based on the sales requiring supplemental appropriations whenever lottery sales significantly exceed projections as they have in the last two biennia.

OPTIONS

The LFC may take one of the three actions for this transfer:

- 1) Report to the Governor that the LFC does not raise any issues of statutory compliance with the proposed transfer,
- 2) Report to the Governor of statutory compliance issues with the proposed transfer, or
- 3) Do not report.

The LFC may also request a bill to include vendor fees as part of the statutorily appropriated costs of the Montana State Lottery.

J. P. ...

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA



BRIAN SCHWEITZER
GOVERNOR

PO Box 200802
HELENA, MONTANA 59620-0802

TO: Amy Carlson, Legislative Fiscal Analyst
Legislative Fiscal Division

FROM: Dan Villa, Budget Director *[Signature]*
Office of Budget and Program Planning

DATE: June 5, 2012

SUBJECT: **LFC Review and Comment on a Fiscal Year Transfer Supplemental
Appropriation for the Montana Lottery**

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FISCAL ANALYST

In accordance with Title 17, Chapter 7, part 3, MCA, the Governor's Office of Budget and Program Planning is submitting for review and comment at the June meeting of the Legislative Finance Committee one proposed supplemental appropriation to transfer FY 2013 authority to FY 2012.

Enclosed is a memo I received from the Montana Lottery requesting a transfer of up to \$500,000.

Please let us know if you wish additional information on this transaction.

CC: Angela Wong, Montana Lottery



2525 N. Montana, Helena, MT 59601 • P: 406-444-5825 • F: 406-444-5830

TO: Dan Villa, Budget Director
Office of Budget and Program Planning

FROM: Angela Wong, Director
Montana Lottery

DATE: June 4, 2012

SUBJECT: **Fiscal Year Transfer Supplemental Appropriation**

In accordance with Title 17, Chapter 7, part 3 of the Montana Code Annotated, the Montana Lottery is submitting a request to your office for a \$500,000 supplemental appropriation.

- The Montana Lottery requests a fiscal year transfer of \$400,000 for additional costs directly related to the increase in ticket sales for the year ended June 30, 2012. Exactly like our prize expenses and commissions that we incur each year, our vendor fees are in direct relation to our increase or decrease in ticket sales each year. But unlike prize expense and commissions, which are statutory appropriations, vendor fees are included as part of our House Bill 2 appropriation, along with the rest of our operating expenditures. For the past two years, the Lottery has had sales roughly around \$47,000,000. The appropriation for the biennium has been increased to absorb the direct costs for sales at this level. For the FY 2012 we are expecting our total ticket sales to be approximately \$54,000,000, which is about a \$7,000,000 increase compared to ticket sales in the last two years. This increase will result in approximately \$400,000 in additional vendor fees, along with our normal operating expenditures, and will surpass our HB2 appropriation for the year.
- The Montana Lottery requests an additional fiscal year transfer of \$100,000 for additional costs related to the increase in instant (scratch) ticket sales. For FY 2012, the Lottery is on track to have a 10-11% increase in instant ticket sales. This increase creates a shortage of ticket stock to send out to retailers to sell. Therefore, the Lottery is in need of additional appropriation to have 2-3 new games printed and distributed out in the market. Therefore, the only remaining avenue to deal with the shortfall of authority this year is with a transfer from next year.

Our mitigation proposal for the 2013 fiscal period to make up for this shortfall is the following:

- The Lottery will make every effort to review its expenditures for the second half of the biennium and identify line items that can be cut back or eliminated in preparation of having a sustained increase in sales. The Lottery will also look at any larger expenditures or encumbrances that could possibly be extended or spread out over a period of years.
- The Lottery will then reduce its budget in one major category of its expenditures and that is marketing and advertising. We can reduce our production costs related to our advertising as this year had a large amount of up-front costs related to having a new vendor and having a world record jackpot in the Mega Millions lotto game. With just these two proposals we will be able to cut down on our costs and spread others out over a period of time.

TO: Kris Wilkinson
Legislative Fiscal Division

FROM: Angela Wong, Director
Montana Lottery

DATE: June 7, 2012

SUBJECT: **Montana Lottery mitigation proposal for the 2013 fiscal period:**

The Lottery will make every effort to review its expenditures for the second half of the biennium and has identified the following line items that can be cut back or eliminated in preparation of having a sustained increase in sales.

Tickets – Lottery proposes to cut tickets by \$100k - \$125k

Printing Expenditure - \$30k - \$50k

Promotional Items - \$30 - \$50k

Advertising Expenditure - \$50k - \$60k

Public Relation Expense - \$10k - \$20k

Eliminate a full advertising campaign - \$50k

Equipment/Vehicles - \$18k

Elimination of Computer Equipment - \$58k

Another \$70k will be mitigated through supplies and travel. No out-of-state travel will be permitted and a mandate on in-state travel will be set limiting our field staff to fewer visits to our retailer network.

Note: The Montana Lottery is an enterprise fund its operations are financed and operated in a manner similar to private enterprise where the intent is to provide goods or services to the general public. The Lottery receives no funding from the State of Montana but rather generates money for the State General Fund.

The Lottery's net revenue – its profit – excess of revenues over expenses is transferred to the State's General Fund.

Lottery has experienced a historic sales year and impacts of mitigating tickets, marketing and advertising will have not only short term but long term effects and hamper the ability to sustain what its accomplished into the future.

For every dollar cut in sales revenue the Lottery's transfer to the State General Fund can expect to see a 24% decrease.