

Lottery Profits (23-7-402)

1. Model Characteristics

- Gross receipts from lottery earnings are estimated using a multiple linear regression model.
- Variables are included in the model to control for income as well as law changes that are assumed to impact participation in the state lottery.
- Montana disposable income is used as the income variable in the model.
 - Disposable income is assumed to be a better representation of the money individuals are willing to spend on lottery tickets.
- A dummy variable is included in the model to account for Powerball changes and new machine locations starting in FY 2012.
 - Additional machines were placed in grocery stores and there was a simultaneous doubling of Powerball minimum jackpots and ticket prices.
- Lottery gross receipts are adjusted for the payout of prizes and commissions as well as other expenses.
 - These expenditures are estimated based on their historical proportions of gross receipts.
- Once expenditures are subtracted from gross receipts, the remaining revenue is credited to the general fund.
- Lottery revenue is estimated using annual data.

2. Model Data

- Disposable income data are obtained from IHS Economics. Information on revenue and expenditures is sourced from SABHRS and reports published by the Montana Lottery.

3. Key Variables

- Montana disposable income.

4. Other Important Points

- The Montana Lottery recently signed a new contract, which will result in slightly higher expenses throughout the life of the contract. These higher expenses could have a negative effect on revenue transferred to the general fund.
- An increasingly positive outlook among consumers about the state of the national economy is good news for participation in the Montana lottery. Wage gains will likely encourage individuals to spend more on lottery tickets.