

Program Budget Comparison

The following table summarizes the total Legislative budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Legislative Budget 2016	Legislative Budget 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	31.50	31.50	31.50	31.50	31.50	31.50	0.00	0.00 %
Personal Services	1,934,732	2,039,103	2,163,692	2,164,610	3,973,835	4,328,302	354,467	8.92 %
Operating Expenses	2,940,083	2,963,996	3,972,156	3,435,390	5,904,079	7,407,546	1,503,467	25.46 %
Equipment & Intangible Assets	14,333	19,500	144,500	19,500	33,833	164,000	130,167	384.73 %
Debt Service	81,678	89,977	89,977	89,977	171,655	179,954	8,299	4.83 %
Total Costs	\$4,970,826	\$5,112,576	\$6,370,325	\$5,709,477	\$10,083,402	\$12,079,802	\$1,996,400	19.80 %
State/Other Special Rev. Funds	0	0	0	0	0	0	0	0.00 %
Proprietary Funds	4,970,826	5,112,576	6,370,325	5,709,477	10,083,402	12,079,802	1,996,400	19.80 %
Total Funds	\$4,970,826	\$5,112,576	\$6,370,325	\$5,709,477	\$10,083,402	\$12,079,802	\$1,996,400	19.80 %

Program Description

The Montana State Lottery (lottery) was created in November 1986 by a referendum vote of the people of Montana. The general purpose is to allow lottery games in which players purchase from the state, through the administration of the lottery, a chance to win a prize. A five-member Lottery Commission, appointed by the Governor, sets policy and oversees program activities and procedures.

Lottery operations are accounted for in an enterprise fund type. The lottery receives no funding from the State of Montana but rather generates money for the state general fund. Lottery is required to transfer its net revenue to the general fund on a quarterly basis until the amount transferred equals the amount transferred to the general fund in FY 2015. Lottery is then required to transfer any additional net revenue to the Montana STEM Scholarship Program.

The lottery is attached to the Department of Administration for administrative purposes only.

Program Highlights

Montana State Lottery Major Budget Highlights
<ul style="list-style-type: none"> • The legislature provided an increase of 18.2% in the 2017 biennium budget when compared to the 2015 appropriated biennium budget • Operating expenses for a new lottery contractor and changes to a printing contract are part of the increase

Program Narrative

Unlike most proprietary funds the lottery is budgeted in HB 2. This is because once the direct and administrative costs of the lottery are paid the remaining funds (net revenues) are transferred to the:

- general fund until the transfers equal the net revenues provided in FY 2015
- Montana STEM Scholarship Program

The lottery deposited \$12.1 million in net revenues into the general fund in FY 2014. Current estimates included in HJR 2 for FY 2015 show the net revenue transfers to the general fund at \$12.2 million.

Statutory appropriations for the lottery are directly related to either the:

- Sale of lottery tickets and the related private retailers commissions and vendor fees
- Payment of prizes

As such, the legislature cannot impact changes to these game costs as they are driven by the purchase of lottery tickets. In contrast, the legislature can affect the HB 2 appropriation amounts, which directly impact the level of lottery profits transferred to the general fund. The lower the administrative costs, the higher the amount available to transfer to the general fund. The HB 2 administrative costs are shown in the program budget comparison table on the first page of the program narrative.

As shown on the program budget comparison table, the largest contributor to the increase in operating expenses is the scheduled update in the gaming system. The lottery contracts with a private entity for its gaming system, which provides for terminals at each of the approximately 850 separate retail vendors across Montana, software for both the terminals and the Montana State Lottery system, system security, and other related components. State procurement requirements provide that the contract for the gaming system must be put out for bid every 10 years. The current contract expires in March 2016. It should be noted that even if the same vendor is selected through the bidding process, the request for proposal requires a new and updated gaming system with all new equipment for installation at each retail vendor and the lottery offices.

Bids for the system were received in December of 2014. Once the vendor is selected lottery staff will work with the contractor to refine the components needed to make the change to the new system. Items that will need to be addressed prior to having the system converted include:

- Conversion schedule
- Installation of new equipment
- Testing and verification of the system prior to “go live” date
- Education of retail vendors

The legislature provided \$0.6 million in funding over the biennium to support the conversion to the new gaming system, \$0.4 million in ongoing funds and \$0.2 million as one-time-only. Funding for independent validation and verification testing of the new system is only needed during the conversion process to the new system. The legislature also provided one-time-only funding for additional tickets related to instant scratch games offered on a more frequent basis and free standing lottery terminals that utilize touch-screen technology.

Personal services increases include provision of 1.14 FTE and related personal services of \$75,000 each year of the biennium. Support was also provided for the annualization of pay increases included in HB 13 as enacted by the 2013 Legislature and the state contribution to employee insurance.

Additional funding of \$400,000 for advertising and marketing was appropriated from the state lottery enterprise fund in HB 617. This funding is not reflected in the tables for the Montana State Lottery as it was not provided in HB 2.

Funding

The following table shows program funding by source from all sources of authority.

Department of Administration, 15-Montana State Lottery Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
02029 Board Of Horse Racing	0	0	0	0	0.00 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
06001 State Lottery Fund	12,079,802	0	75,000,000	87,079,802	100.00 %	
Proprietary Total	\$12,079,802	\$0	\$75,000,000	\$87,079,802	100.00 %	
Total All Funds	\$12,079,802	\$0	\$75,000,000	\$87,079,802		

House Bill 2

The lottery is funded entirely with proprietary funds derived from lottery game revenues. Net revenues of the lottery are by state law transferred to the general fund and the Montana STEM Scholarship Program. Therefore, the lottery is indirectly funded with general fund and by law its funding for operations must be appropriated by the legislature.

Statutory Appropriations

In the 2017 biennium over 84% of the total proposed costs for the lottery are statutorily appropriated for lottery prizes and commissions and vendor fees paid to lottery ticket or change sales agents. The level of costs for commissions and vendor fees fluctuates in direct correlation to the ticket sales and is thus forecast to increase as are lottery revenues.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	5,112,576	5,112,576	10,225,152	84.65 %
PL Adjustments	0	0	0	0.00 %	1,182,940	522,283	1,705,223	14.12 %
New Proposals	0	0	0	0.00 %	74,809	74,618	149,427	1.24 %
Total Budget	\$0	\$0	\$0		\$6,370,325	\$5,709,477	\$12,079,802	

Present law adjustment increases include additional funding for lottery terminals and conversion of the lottery to a new gaming system.

Present Law Adjustments

The "Present Law Adjustments" table shows the adopted changes from the FY 2015 legislative appropriation. Each is discussed in the narrative that follows.

Present Law Adjustments	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 510 - Legislative Audit- HB 2 2014 Fixed Costs (Biennial/Restricted)	0.00	0	0	0	110,145	0.00	0	0	0	0
DP 515 - State Share Health Insurance	0.00	0	0	0	14,755	0.00	0	0	0	14,755
DP 520 - Fully Fund 2015 Legislatively Authorized FTE	0.00	0	0	0	38,310	0.00	0	0	0	38,310
DP 525 - Fixed Cost Adjustment	0.00	0	0	0	27,794	0.00	0	0	0	26,834
DP 526 - 2017 Biennium Legislative Audit (Biennial/Restricted)	0.00	0	0	0	3,143	0.00	0	0	0	0
DP 529 - Longevity and Other adjustments	0.00	0	0	0	(5,512)	0.00	0	0	0	1,172
DP 550 - Motor Pool Rate Adjustment	0.00	0	0	0	(54)	0.00	0	0	0	(55)
DP 1500106 - Directors Office Costs	0.00	0	0	0	11,587	0.00	0	0	0	8,783
DP 1500200 - Lottery Conversion to New Gaming System - Ongoing	0.00	0	0	0	205,000	0.00	0	0	0	170,000
DP 1500210 - Operating Cost Adjustments	0.00	0	0	0	(109,576)	0.00	0	0	0	(88,168)
DP 1500220 - Other Personal Services Changes	0.00	0	0	0	2,227	0.00	0	0	0	(3,348)
DP 1500444 - Statewide 4% FTE Reduction - Program 15	(1.14)	0	0	0	0	(1.14)	0	0	0	0
DP 1501501 - Lottery Coronis Terminals (Restricted/OTO)	0.00	0	0	0	336,121	0.00	0	0	0	0
DP 1501502 - Lottery Conversion to a New Gaming System (Restricted/OTO)	0.00	0	0	0	200,000	0.00	0	0	0	0
DP 1501503 - New tickets (OTO/Restricted)	0.00	0	0	0	349,000	0.00	0	0	0	354,000
Grand Total All Present Law Adjustments	(1.14)	\$0	\$0	\$0	\$1,182,940	(1.14)	\$0	\$0	\$0	\$522,283

***Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 510 - Legislative Audit- HB 2 2014 Fixed Costs (Biennial/Restricted -

The legislature provided a restricted biennial appropriation for the legislative audit costs. The funding is established at the level of the 2015 biennial appropriation contained in HB 2 as enacted by the 2013 Legislature.

DP 515 - State Share Health Insurance -

The legislature provided appropriation authority for the state share of health insurance, as adopted by the 2013 Legislature.

DP 520 - Fully Fund 2015 Legislatively Authorized FTE -

The legislature provided appropriation authority to restore personal services funding to create a vacancy savings rate of zero.

DP 525 - Fixed Cost Adjustment -

The legislature adopted proprietary rates for fixed costs charged to state agencies for services such as information technology or rent and grounds maintenance within the capitol complex. Rates for messenger services, legislative audit, grounds maintenance, records management, agency legal costs, and the statewide cost allocation plan were adopted as proposed by the executive. The legislature lowered proprietary rates for warrant writer, payroll services, SABHRS, SITSD fees, and rent. The legislature increased insurance premiums to provide for increased costs of claims and to establish a reserve for the insurance fund.

DP 526 - 2017 Biennium Legislative Audit (Biennial/Restricted) -

The legislature adjusted legislative audit costs and funding based on the current estimate of the Legislative Auditor.

DP 529 - Longevity and Other adjustments -

The legislature adopted personal service adjustments for unemployment insurance, workers compensation rates, longevity, retirement, and health benefits.

DP 550 - Motor Pool Rate Adjustment -

The legislature adopted a reduction to the motor pool rates.

DP 1500106 - Directors Office Costs -

The legislature funded the Montana Lottery's share of department indirect/administrative costs for services provided by proprietary funded centralized service functions of the agency.

DP 1500200 - Lottery Conversion to New Gaming System - Ongoing -

The legislature provided funding for the Montana State Lottery's conversion to a new gaming system. The lottery's current gaming system contract expires March 30, 2016. New technologies for gaming systems are estimated at a higher cost than the current system which is now 10 years old.

DP 1500210 - Operating Cost Adjustments -

The legislature reduced funding for operating costs. The reductions are based on lower spending in the first year of the 2015 biennium that are carried forward into the 2017 biennium.

DP 1500220 - Other Personal Services Changes -

The legislature adopted all other personal service cost adjustments, except the annualization of the 2015 biennium pay plan.

DP 1500444 - Statewide 4% FTE Reduction - Program 15 -

The 2015 biennium budget included a 4% vacancy savings reduction. Language included in the boilerplate of HB 2 passed by the 2013 Legislature, indicated legislative intent that the 4% vacancy savings be made permanent as an FTE reduction for the 2017 biennium. Change package PL-1500444 includes a reduction of 1.14 FTE each year.

DP 1501501 - Lottery Coronis Terminals (Restricted/OTO) -

The legislature provided \$336,121 in one-time-only, restricted funding in FY 2016 to provide for the 150 Lottery Coronis MP Terminals currently leased from the lottery's gaming contractor. The terminals are free standing lottery terminals that utilizes player activated touch-screen technology, which allows the player to play a variety of Montana lottery games. In the 2013 Legislative Session, the lottery was approved funding for these terminals and entered into an operating lease with the vendor. The Montana Lottery's gaming contract with its current contractor ends in March of 2016, and at that time, the machines will revert back to the vendor.

DP 1501502 - Lottery Conversion to a New Gaming System (Restricted/OTO) -

The Montana Lottery's current gaming system contract is set to expire March 30, 2016. Once the lottery has concluded selecting a new contractor, the conversion process will require numerous systems engineering disciplines to work together, while drafting the supporting software and system package in compliance with the specifications outlined in the new gaming system contract. In order to protect the integrity of this process, the legislature provided funding for an independent third party to conduct validation and verification testing of the new system. Validation is required to make sure the software developed meets the lottery's needs, and verification would insure the resulting system is properly engineered. The word "independent" is critical to this process, because it will provide the lottery with a perspective not under the control of the contractor developing the software and system.

DP 1501503 - New tickets (OTO/Restricted) -

The legislature provided restricted, one-time-only funding each year of the biennium to provide for additional tickets related to instant scratch games. This will allow the lottery to provide the games on a more frequent basis.

New Proposals

The "New Proposals" table shows the adopted changes from the FY 2015 legislative appropriation. Each is discussed in the narrative that follows.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1500240 - Increase FTE by 1.14	1.14	0	0	0	74,809	1.14	0	0	0	74,618
Total	1.14	\$0	\$0	\$0	\$74,809	1.14	\$0	\$0	\$0	\$74,618

**"Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 1500240 - Increase FTE by 1.14 -

The legislature provided personal services funding to support an additional 1.14 FTE within the Montana State Lottery.