
Legislative Fiscal Division

Revenue Estimate Profile

Lottery Profits

Revenue Description: The Montana state lottery was enacted by legislative referendum and became effective January 1, 1987. The first lottery game began in June 1987. A lottery is generally defined as “any procedure in which one or more prizes are distributed among persons who have paid for a chance to win a prize.” The games are administered by the Department of Administration. By law, a minimum of 45.0% of the money paid for tickets or chances must be paid out as prizes.

Lottery revenue is derived from ticket sales, sales agents license fees, and unclaimed prizes. Sales revenue is initially deposited into an enterprise fund known as the state lottery fund. After paying prizes, ticket costs, commissions, and other operating costs, profits are transferred to the general fund.

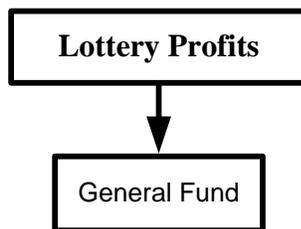
Statutory Reference:

Tax Rate – NA
Distribution (MCA) – 23-7-402(3)
Date Due – quarterly (23-7-402(3))

Applicable Tax Rate(s): There is no actual tax rate involved. However, applicants for sales agent licenses are charged a \$50 fee to cover the cost of investigating and processing the applications.

Distribution: All gross lottery revenue not used for prizes, commissions, administration, and operating expenses, together with the interest earned (on the gross revenue while the gross revenue is in the enterprise fund), is considered net revenue. This net revenue is transferred to the general fund. Senate Bill 55, passed by the 1999 Legislature, requires the Department of Commerce to submit a biennium budget for the state lottery fund for appropriation by the legislature. By determining the amount appropriated, the legislature has better control over the amount transferred to the general fund.

Distribution Chart:



Collection Frequency: Lottery revenues are collected on an on-going basis. Transfers to the general fund are usually made quarterly.

% of Total General Fund Revenue:

FY 2004 – 0.59%	FY 2007 – 0.62%	FY 2010 – 0.65%
FY 2005 – 0.41%	FY 2008 – 0.56%	FY 2011 – 0.60%
FY 2006 – 0.53%	FY 2009 – 0.56%	FY 2012 – 0.70%

Revenue Estimate Methodology:

The estimate for lottery profits is derived by estimating the various sources of revenue to the enterprise fund and expenses of the fund. Revenues less expenses are considered net revenue (profits).

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Data

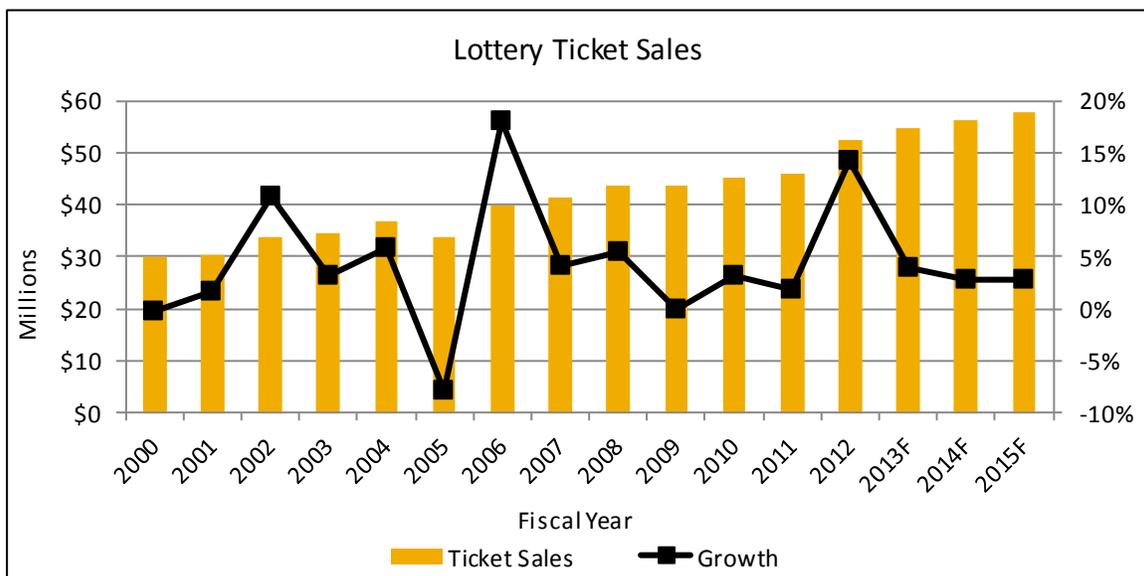
Data from the state accounting system (SABHRS) provide a history of the enterprise fund revenues and expenditures. Annual reports received from the Montana Lottery Commission provide additional financial information about the fund. Lottery personnel are contacted for their views on trends in lottery tickets sale and other factors that may influence revenues or expenditures. The state budgeting system is used to obtain estimates of appropriated administrative expenses. Montana population statistics from IHS are used to model per capita ticket sales.

Analysis

The estimate for lottery profits is difference between the four revenue components and the two expenditure components, each of which are forecast separately.

Revenue

1. Ticket sales – This is the largest component of lottery revenue. Per capita ticket sales are modeled on a time trend with an adjustment for unusually low sales in FY 2005, and multiplied by the forecast of Montana’s population to produce future ticket sales.



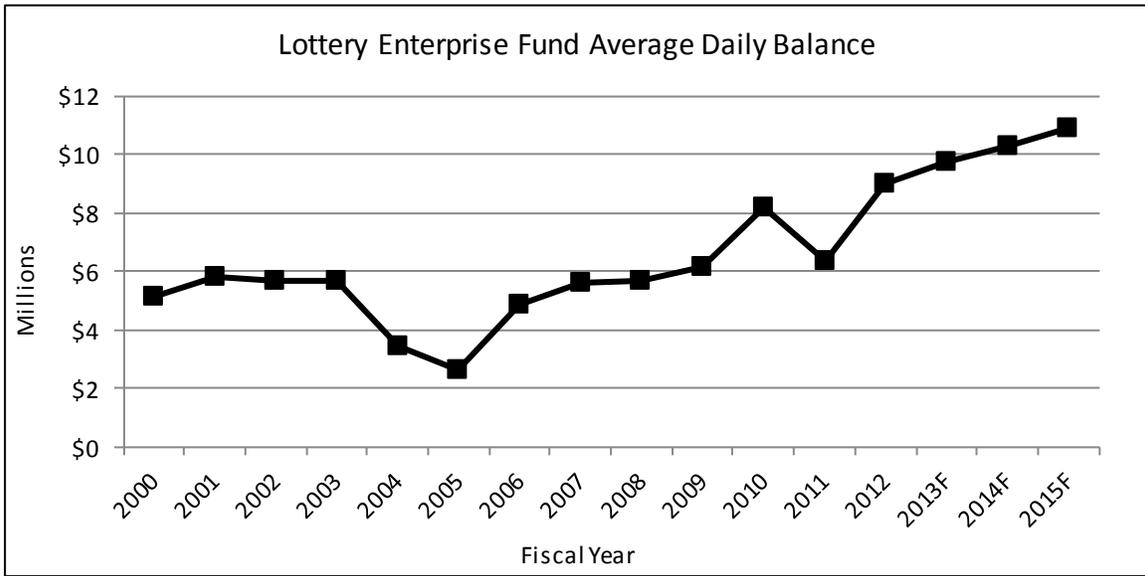
2. Licenses – Applicants who apply for a sales agent license pay a \$50 license fee. The amount from the last known fiscal year is used for all subsequent years.
3. Interest earnings – Money in the lottery enterprise fund, as well as Montana’s share of money held by the Multi-State Lottery Association, earns interest at the short-term interest rate and is deposited to the enterprise fund. To estimate interest earnings, the average daily balance is multiplied by the short-term interest rate. The average daily balance is determined by:
 - a. Deriving the balance for the last known fiscal year by dividing known interest earnings by the known short-term interest rate
 - b. Developing a balance ratio between the balance derived from (a) and ticket sales from the last known fiscal year
 - c. Multiplying the balance ratio by the ticket sales estimate for each subsequent year to derive the average daily balance.

Once the balance has been estimated, it is multiplied by the applicable short-term interest rate (see the “Treasury Cash Account” revenue source for details on the development of this rate).

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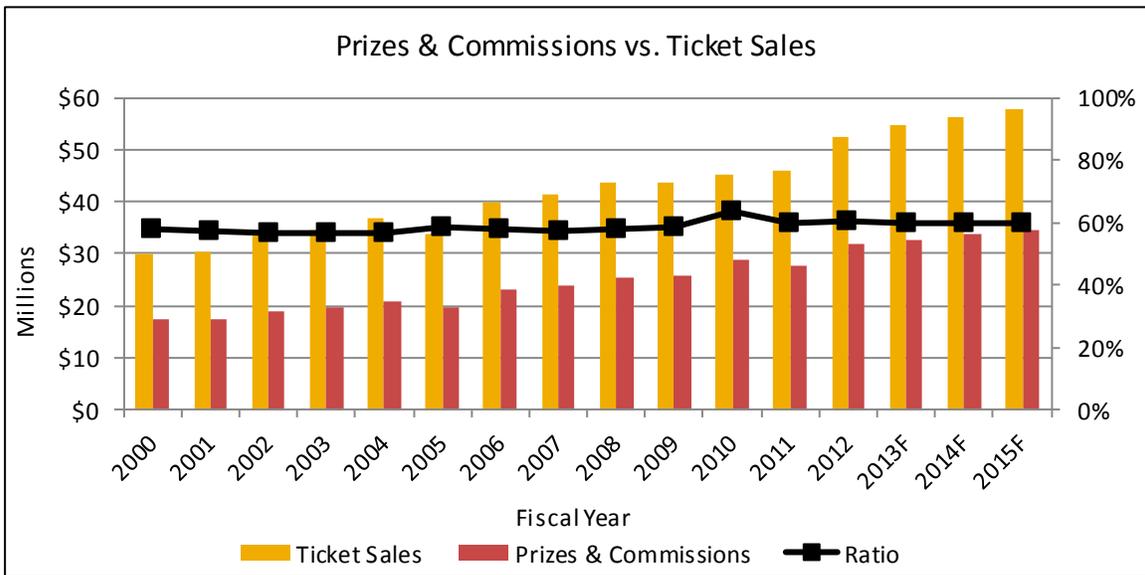
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4. Other – The small amount of miscellaneous revenue from the last known fiscal year is used for all subsequent years.

Expenditures

1. Prizes and Commissions – The ratio of prizes and commissions to ticket sales is relatively constant, so an average ratio is computed for all years with actual data. This ratio is multiplied by the estimated amount of ticket sales (see above) for each corresponding fiscal year to derive the estimate of prizes and commissions.

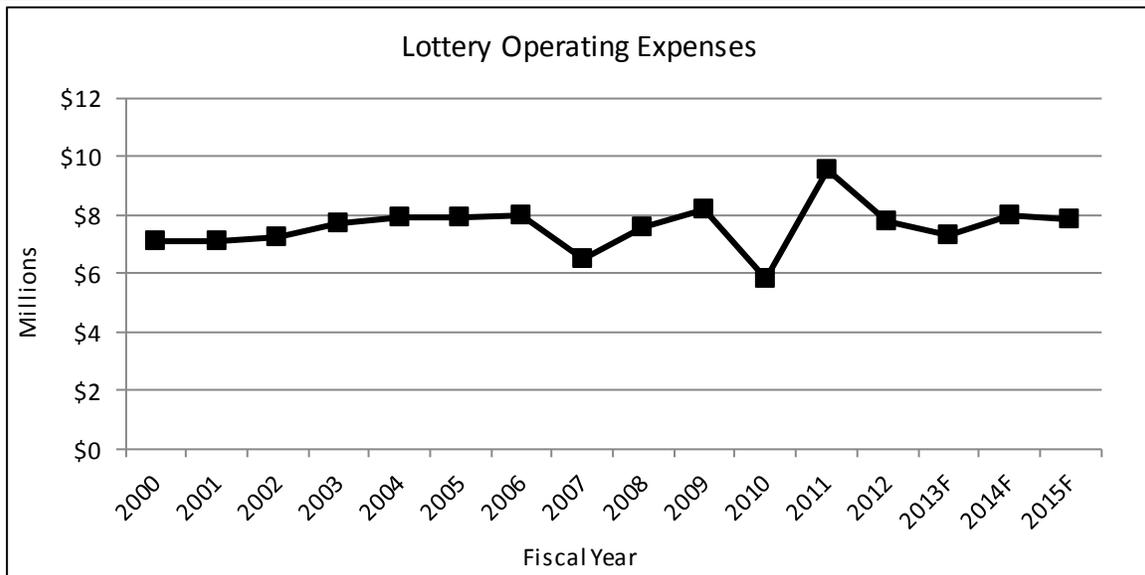


2. Operations – Operational costs are estimated using the budget submissions by the Lottery Commission, as shown on the state budgeting system.

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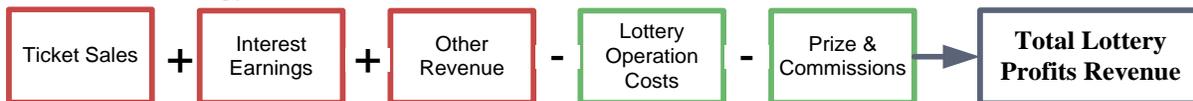
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Adjustments and Distribution

All profits are deposited to the general fund.

Forecast Methodology:



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Revenue Estimate Assumptions:

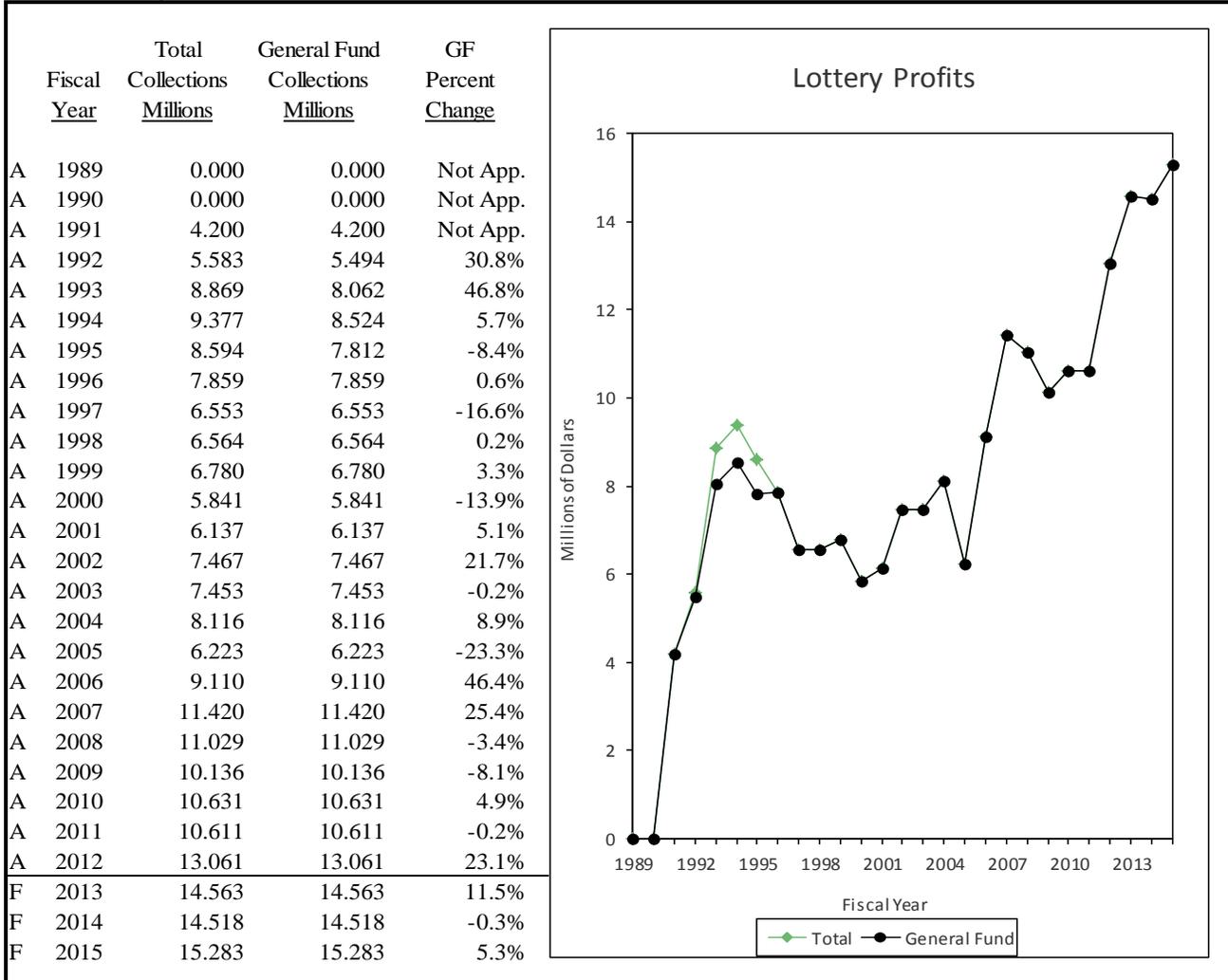
	t	Total Profit	GF Profits	Sales	Interest	Other	Operating	Prizes
	<u>Fiscal</u>	<u>Millions</u>						
Actual	2002	7.467	7.467	33.632	0.146	0.039	7.264	19.086
Actual	2003	7.453	7.453	34.682	0.077	0.014	7.722	19.599
Actual	2004	8.116	8.116	36.738	0.044	0.003	7.898	20.771
Actual	2005	6.223	6.223	33.811	0.063	0.030	7.913	19.769
Actual	2006	9.110	9.110	39.918	0.200	0.011	7.962	23.056
Actual	2007	11.420	11.420	41.565	0.267	0.004	6.529	23.886
Actual	2008	11.029	11.029	43.822	0.179	0.006	7.575	25.403
Actual	2009	10.136	10.136	43.827	0.059	0.025	8.177	25.598
Actual	2010	10.631	10.631	45.193	0.017	0.021	5.825	28.775
Actual	2011	10.611	10.611	46.035	0.009	1.638	9.577	27.494
Actual	2012	13.061	13.061	52.602	0.011	0.015	7.807	31.761
Forecast	2013	14.563	14.563	54.628	0.015	0.015	7.290	32.805
Forecast	2014	14.518	14.518	56.195	0.016	0.015	7.963	33.746
Forecast	2015	15.283	15.283	57.740	0.053	0.015	7.853	34.674
Total Profits = Sales + Interest + Other - Operating - Prizes								
GF Profits = Total Profits								

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Revenue Projection:



Data Source(s): SABHRS, MBARS, Department of Revenue, Department of Administration - Montana Lottery

Contacts: Department of Administration