

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	31.50	31.50	31.50	31.50	31.50	31.50	0.00	0.00%
Personal Services	1,791,766	1,800,905	1,794,578	1,795,998	3,592,671	3,590,576	(2,095)	(0.06%)
Operating Expenses	5,564,778	5,360,851	6,058,433	5,946,748	10,925,629	12,005,181	1,079,552	9.88%
Equipment & Intangible Assets	19,500	42,077	19,500	19,500	61,577	39,000	(22,577)	(36.66%)
Debt Service	89,977	85,827	89,977	89,977	175,804	179,954	4,150	2.36%
Total Costs	\$7,466,021	\$7,289,660	\$7,962,488	\$7,852,223	\$14,755,681	\$15,814,711	\$1,059,030	7.18%
State Special	0	0	0	0	0	0	0	n/a
Other	7,466,021	7,289,660	7,962,488	7,852,223	14,755,681	15,814,711	1,059,030	7.18%
Total Funds	\$7,466,021	\$7,289,660	\$7,962,488	\$7,852,223	\$14,755,681	\$15,814,711	\$1,059,030	7.18%

Program Description

The Montana State 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's 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.

The Montana State Lottery is attached to the Department of Administration for administrative purposes only.

Program Highlights

Montana State Lottery Major Budget Highlights	
◆	The executive proposes \$0.5 million in one-time-only funding to lease lottery equipment in FY 2014
Major LFD Issues	
◆	Montana State Lottery requested supplemental appropriations for lottery vendor fees
◆	The Legislative Finance Committee is recommending legislation to make the vendor fees part of the division's statutory appropriation

Program Discussion

The lottery deposited \$13.0 million of net revenues into the general fund in FY 2012, which was a 23.0% increase from the previous year. Figure 17 shows the lottery profits that were deposited into the general fund for the last five years. During the period of the Great Recession, the profits declined, not rebounding until FY 2012. Part of the reason for the significant increase in FY 2012 was the national publicity surrounding the large jackpot for one of the MegaMillions lottery games. However, lottery ticket sales have continued at a higher pace than forecasted since. Further discussion on the impacts of the increased sales are discussed in the LFD issue in the funding narrative.

Figure 17

Department of Administration Montana State Lottery Profits to the General Fund		
Fiscal Year	Actual	% Change
FY 2008	\$11,029,000	
FY 2009	10,136,000	-8.10%
FY 2010	10,631,000	4.88%
FY 2011	10,611,000	-0.19%
FY 2012	13,061,000	23.09%

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Administration Funding by Source of Authority 2015 Biennium Budget - Montana State Lottery							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
Proprietary Total	\$15,814,711	\$0	\$63,522,458	\$79,337,169	100.0%		
06001 State Lottery Fund	\$15,814,711	\$0	\$63,522,458	\$79,337,169	100.0%	23-7-402	Direct
Total All Funds	\$15,814,711	\$0	\$63,522,458	\$79,337,169	100.0%		
Percent - Total All Sources	19.9%	0.0%	80.1%				

House Bill 2 Funding

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. Therefore, the lottery is indirectly funded with general fund and by law its funding for operations must be appropriated by the legislature.

Statutory Appropriations

About 80% of the funding for the lottery is statutorily appropriated for lottery prizes and commissions paid to lottery ticket or chance sales agents. In FY 2012 the operating costs for these expenditures increased more than 15% due to increased lottery ticket sales. The costs above are estimated at the FY 2012 funding level.

LFD ISSUE	<u>Supplemental Appropriations Needed to Pay Vendor Fees</u>
	<p>In June 2012, the lottery requested a supplemental appropriation to transfer appropriation authority from FY 2013 to FY 2012. Two factors were stated as the drivers for this request:</p> <ul style="list-style-type: none"> o Increased lottery ticket sales and corresponding increase in vendor fees, which are 5.8% of every dollar in lottery sales o Increased instant (scratch) ticket stock to provide for game sales in June <p>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. Actual revenues for ticket sales for FY 2012 were \$52.6 million or 11.9% over the anticipated level. Additional authority for vendor fees was needed at the actual level of lottery sales.</p>

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A part of the increase was due to instant ticket sales, which were ahead of 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 needed to print additional game cards.

Statute requires agencies to present a plan for reducing expenditures in the second year of the biennium to ensure that the agency does not overspend its appropriation authority overall. In relation to the lottery’s plan to reduce expenditures in FY 2013, staff raised the following concerns:

- 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
- 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

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. This is the second biennium in a row that lottery ticket sales have exceeded projections requiring a supplemental transfer of funding between fiscal years to allow for vendor fees to be paid. During the 2011 Legislature the lottery requested a supplemental appropriation for two reasons:

- Additional vendor fees
- Equipment purchases/rental

The Legislative Finance Committee requested legislation (HB 20) to include vendor fees as part of the lottery’s statutorily appropriated expenditures rather than be included in HB 2.

Legislative Option

The legislature may wish to allow for the elimination of vendor fees in the HB 2 appropriation contingent upon passage and approval of HB 20 in a form that moves these expenses to the statutory appropriation.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	0	0	0	0.00%	7,466,021	7,466,021	14,932,042	94.42%
Statewide PL Adjustments	0	0	0	0.00%	51,307	(58,372)	(7,065)	(0.04%)
Other PL Adjustments	0	0	0	0.00%	445,448	444,870	890,318	5.63%
New Proposals	0	0	0	0.00%	(288)	(296)	(584)	0.00%
Total Budget	\$0	\$0	\$0		\$7,962,488	\$7,852,223	\$15,814,711	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base budget proposed by the executive. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					77,541					79,021
Vacancy Savings					(74,729)					(74,789)
Inflation/Deflation					(2,771)					(1,321)
Fixed Costs					51,266					(61,283)
Total Statewide Present Law Adjustments		\$0	\$0	\$0	\$51,307*		\$0	\$0	\$0	(\$58,372)*
DP 102 - Allocate Department Indirect/Admin Costs	0.00	0	0	0	(2,552)*	0.00	0	0	0	(3,130)*
DP 1501 - Montana Lottery Coronis MP Terminals - OTO	0.00	0	0	0	448,000*	0.00	0	0	0	448,000*
Total Other Present Law Adjustments	0.00	\$0	\$0	\$0	\$445,448*	0.00	\$0	\$0	\$0	\$444,870*
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	\$496,755*	0.00	\$0	\$0	\$0	\$386,498*

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

DP 102 - Allocate department indirect/admin costs - This request funds the department’s indirect/administrative costs for services provided by proprietary funded centralized service functions of the agency.

DP 1501 - Montana Lottery Coronis MP Terminals - OTO - The executive is requesting a one-time-only appropriation of \$896,000 to lease 150 additional Coronis MP Terminals for the 2015 biennium. The lottery would acquire the terminals from its gaming contractor, Intralot, under an operating lease. Increasing the availability of these terminals would allow greater access to terminals to increase sales and net proceeds.

New Proposals

New Proposals										
	-----Fiscal 2014-----					-----Fiscal 2015-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6101 - Professional Development Center Fee Allocation	15	0.00	0	0	(288)*	0.00	0	0	0	(296)*
Total	0.00	\$0	\$0	\$0	(\$288)*	0.00	\$0	\$0	\$0	(\$296)*

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

DP 6101 - Professional Development Center Training Fee - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the State Human Resources Division in this narrative.