Montana LOTTERY
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TO: David Ewer, Budget Director
Office of Budget and Program Planning

FROM: George Parisot, Executive Director
Montana Lottery

DATE: June 25, 2010

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 $650,000 supplemental appropriation.

- The Montana Lottery requests a fiscal year transfer of $225,000 for additional costs directly related to the increase in ticket sales for the year ended June 30, 2010. Exactly like our prize expense 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 FY 2010 we are expecting our total ticket sales to be approximately $47,000,000, which is about a $3,000,000 increase compared to ticket sales in FY 2009. This increase will result in approximately $350,000 in additional vendor fees which will surpass our HB2 appropriation for the year. As of today, the addition of $350,000 in vendor fees less the remaining appropriation for HB2 and prior years' carryovers of $125,000, we will be over our appropriation by approximately $225,000.

- The Montana Lottery requests an additional fiscal year transfer of $425,000 for additional costs related to equipment for state wide ticket sales. The Lottery was contracted to purchase 60 lottery ticket vending machines of which some have been placed in grocery chain stores throughout the state. The Lottery paid for half of these machines during the FY2010 year with the remainder to be paid at the beginning of FY2011. After realizing that the Lottery did not have the authorized budget to purchase said machines, we decided we could not purchase the remaining 30 machines. Currently, we are working on an agreement with the vendor to lease the rest of the machines over a 70 month period which is the contract term we presently have with them. This would result in approximately $6,000 in a monthly lease payment or service fee. 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 2011 fiscal period to make up for this shortfall is the following:

- We will continue to negotiate a lease contract or service agreement with our vendor for the remainder of the vending machines. We feel it will be feasible to pay for the other 30 machines over a period of 70 months as this is the remainder of our general contract with them. The result would be a low monthly/quarterly/ annual payment for five plus years instead of a large expenditure in one fiscal period. Currently, this looks to be a plausible solution for both parties and has a very high probably of being successful.

- 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 a having a new vendor and the additional price tag of two brand new Lotto games. We can also cut over half of our budget for promotional free tickets given away as we will no longer have the game that contributed to most of that expense in 2010. With just these two proposals we will be able to cut down on our costs and spread others out over a period of time.