

Fiscal Estimate Narratives

DOR 10/30/01

LRB Number 01-3658/1	Introduction Number SB-285	Estimate Type Original
Subject		
Binding referendum of continuation of state lottery		

Assumptions Used in Arriving at Fiscal Estimate

The bill would require a referendum in November 2002 asking voters whether the sale of lottery tickets should be prohibited as of January 1, 2003. If a majority votes to prohibit lottery sales, the Secretary of Revenue would be required to submit by February 1, 2003 a plan to phase out lottery operations.

Assuming the referendum is approved, sales of lottery tickets would end as of January 1, 2003. 2001 Act 16 (the biennial budget) indicates that total sales of lottery tickets are expected to be about \$402.9 million in FY03. Since the bill would eliminate lottery ticket sales for the second half of FY03, it is assumed that total lottery revenue would decrease by 50% or about \$201.5 million (50% x \$402.9 million). On an annual basis, lottery revenue would decrease by about \$403 million. The attached table reproduces the lottery fund summary from 2001 Act 16 (pages 47-48) with an additional column showing estimates for FY03 under SB 285 and a column showing the change for FY03 under SB 285 compared with current law.

Lottery administrative expenses for FY03 are expected to total \$63.7 million, including \$21.5 million for general program operations, \$28.4 million for retailer compensation and \$12.8 million for vendor fees. Under the bill, the Secretary of Revenue is required to develop a plan to phase out these expenses. The phase-out would have to address the Lottery's long-term contracts and other commitments, including the 240-day window in which winners can claim prizes and the annuitized bonds for 25-year prize payouts. Due to these long-term commitments, the phase-out would include costs in FY04 and possibly in subsequent years. However, on an annual basis, about \$64 million in expenses would be eliminated.

Lottery revenue available for property tax relief is the residual remaining after deduction of prizes and administrative expenses plus the fund's opening balance, interest earnings and gaming-related revenue. Typically, a reserve is maintained which becomes the following year's opening balance. However, under the bill it is assumed that there would not be a reserve. Therefore, as shown in the attached table, the amount available for property tax relief would decrease by about \$79.7 million (\$113.9 million - \$34.2 million) in FY03 and by about \$114 million each year thereafter under the bill. Since all property tax jurisdictions receive lottery revenue, all jurisdictions would have to increase property taxes or other revenue sources, or reduce services, to offset the loss of lottery revenue.

Also, under current law, the Farmland Tax Relief Program is appropriated \$15 million annually from the Lottery Fund. Under this program, eligible farmers receive an income tax credit of up to \$1,500 as reimbursement for property taxes on their agricultural land. Since the Lottery Fund would be eliminated under the bill, an alternative funding source would have to be identified or this tax relief program would have to be eliminated.

Under the bill, counties would incur the cost of placing the referendum question on the ballot and processing the votes. Since the referendum would be part of a regularly scheduled election, election costs attributable to the referendum are likely to be minimal.

Long-Range Fiscal Implications

Comparison of Lottery Fund under Current Law and SB 285

	<u>Current Law</u>		FY03 under <u>SB 285</u>	<u>Change</u>
	<u>FY02</u>	<u>FY03</u>		
Gross Revenue	\$403,719,100	\$402,943,000	\$201,471,500	-\$201,471,500
Expenses:				
Prizes	230,258,200	229,867,000	114,920,639 *	-114,946,361
Administrative Expenses	<u>63,363,300</u>	<u>63,685,000</u>	<u>63,685,000</u>	<u>0</u>
	\$293,621,500	\$293,552,000	\$178,605,639	-\$114,946,361
Net Proceeds	\$110,097,600	\$109,391,000	\$22,865,861	-\$86,525,139
Total Available for Property Tax Relief:				
Opening Balance	\$9,324,400	\$8,074,400	\$8,074,400	\$0
Net Proceeds	110,097,600	109,391,000	22,865,861	-86,525,139
Interest Earnings	2,335,000	2,455,000	1,227,500	-1,227,500
Gaming-Related Revenue	<u>2,477,300</u>	<u>1,995,900</u>	<u>1,995,900</u>	<u>0</u>
	\$124,234,300	\$121,916,300	\$34,163,661	-\$87,752,639
Property Tax Relief	\$116,159,900	\$113,857,400	\$34,163,661	-\$79,693,739
Gross Closing Balance	8,074,400	8,058,900	0	-8,058,900
Reserve	<u>8,074,400</u>	<u>8,058,900</u>	<u>0</u>	<u>-8,058,900</u>
Net Closing Balance	\$0	\$0	\$0	\$0

* Assumes prizes are 57% of gross revenue, the same percentage currently in the budget.

Fiscal Estimate Worksheet - 2001 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
II. Annualized Costs:			
		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes	\$		-229,867,000
(FTE Position Changes)			(-110.5 FTE)
State Operations - Other Costs			-229,867,000
Local Assistance			-109,391,000
Aids to Individuals or Organizations			
TOTAL State Costs by Category	\$		\$-402,943,000
B. State Costs by Source of Funds			
GPR			
FED			
PRO/PRS			
SEG/SEG-S (Lottery)			-402,943,000
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
		Increased Rev	Decreased Rev
GPR Taxes	\$		\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S (Lottery)			-402,943,000
TOTAL State Revenues	\$		\$-402,943,000
NET ANNUALIZED FISCAL IMPACT			
		State	Local
NET CHANGE IN COSTS	\$-402,943,000		\$
NET CHANGE IN REVENUE	\$-402,943,000		\$-113,857,400
Agency/Prepared By		Authorized Signature	
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		Date	
		10/30/01	