

LOTTERY

Revenue Description

Section 23-7-402, MCA, directs the net revenue from the operation of the lottery to be deposited quarterly in the general fund. Net revenue from the lottery includes the sum of ticket sales, short-term investment pool and Multi-State Lottery Association interest and miscellaneous income, less payment of prizes, commissions, and operating expenses.

Historical and Projected Revenue

Table 1 shows historical and projected net general fund revenue from the lottery over the period FY 1994 through FY 2007.

Table 1		
Historical and Projected Lottery - Net General Fund Revenue		
(\$ millions)		
Fiscal Year	Net Revenue	Percent Change
A 1994	\$9.364	5.42%
A 1995	\$8.594	-8.22%
A 1996	\$7.859	-8.55%
A 1997	\$6.553	-16.61%
A 1998	\$6.564	0.17%
A 1999	\$6.780	3.28%
A 2000	\$5.841	-13.85%
A 2001	\$6.137	5.08%
A 2002	\$7.467	21.66%
A 2003	\$7.453	-0.18%
A 2004	\$8.116	8.89%
F 2005	\$7.002	-13.72%
F 2006	\$7.009	0.10%
F 2007	\$7.899	12.70%

Lottery Net Revenue

Fiscal Year	Net Revenue (\$ millions)
1994	9.364
1995	8.594
1996	7.859
1997	6.553
1998	6.564
1999	6.780
2000	5.841
2001	6.137
2002	7.467
2003	7.453
2004	8.116
2005	7.002
2006	7.009
2007	7.899

Since 1995 all net revenue is deposited to the general fund. Net revenues from the lottery reached a maximum in FY 1994, and then declined significantly until FY 1998. In fiscal years 2002, 2003, and 2004 net revenue increased to over \$7 million each year. However, included in the net revenue amounts listed in Table 1 are one-time adjustments due to changes in accounting practices and unclaimed prize refunds of \$428,618 in FY 2002, \$333,626 in FY 2003, and \$428,959 in FY 2004. FY 2004 revenues also increased due to an unusually high powerball jackpot of over \$200 million that improved ticket sales.

General fund revenue is projected to decrease by 13.72% in FY 2005, then increase by 0.10% in FY 2006, and 12.70% in FY 2007. The decrease from FY 2004 to FY 2005 is due to the large powerball jackpot in the first quarter of FY 2004 increasing

revenues, along with the aforementioned \$428,959 one-time upwards adjustment in FY 2004 due to a rebalancing of prize reserve funds from the Multi-State Lottery Association (MUSL). The anticipated increase of 12.70% in FY 2007 is attributed to the current lottery gaming system being completely depreciated and amortized in March 2006. The cost to continue using the current system is significantly less than the amortization and depreciation expenses through FY 2006.

Forecast Methodology and Projected Calculation

Forecasts of general fund revenue from the lottery are calculated by projecting gross revenues from ticket sales, short-term investment pool and Multi-State Lottery Association interest and miscellaneous income, and subtracting projected prizes, commissions, and operating expenses.

Step 1: Calculate Gross Revenues

Table 2 shows gross receipts (all interest income, miscellaneous income, and ticket sales), adult population, and per capita receipts for FY 1994 through FY 2007. Interest and miscellaneous income make up a minimal portion of total revenue, 0.2% in FY 2004. Since it is such a small proportion of total revenue, it is aggregated into gross receipts for estimation purposes.

Adult per capita receipts reached a maximum in FY 1994 at \$55.51 per person, and then declined through FY 1997, where per capita receipts hit its historic low point at \$40.65. Per capita receipts were stable over the period FY 1998 through FY 2001, and then began increasing in FY 2002 due to large jackpots, new games, and new terminals. The estimate of per capita receipts for FY 2005 through FY 2007 is the average per capita receipts over FY 2001 through 2004 of \$45.70.

<u>Fiscal Year</u>	<u>Gross Receipts</u>	<u>MT Adult* Population</u>	<u>Per Capita Receipts</u>
A 1994	\$37.607	677,511	\$55.51
A 1995	\$32.965	689,259	\$47.83
A 1996	\$32.021	696,457	\$45.98
A 1997	\$28.512	701,376	\$40.65
A 1998	\$30.119	707,240	\$42.59
A 1999	\$30.386	714,269	\$42.54
A 2000	\$30.261	724,323	\$41.78
A 2001	\$30.699	733,465	\$41.85
A 2002	\$33.817	741,490	\$45.61
A 2003	\$34.774	747,936	\$46.49
A 2004	\$36.784	753,037	\$48.85
Average (FY 2001 through FY 2004):			\$45.70
F 2005	\$34.626	757,695	\$45.70
F 2006	\$34.820	761,921	\$45.70
F 2007	\$35.004	765,965	\$45.70

*Source: Global Insight, Inc. Forecast of MT Population Age 15 and Over.

Forecast gross receipts are calculated as the product of estimated Montana adult population multiplied by estimated per capita receipts. Gross receipts are estimated to be \$34.626 million in FY 2005, \$34.820 million in FY 2006, and \$35.004 million in FY 2007.

Step 2: Calculate Prizes and Commissions

Table 3 shows historic gross receipts, prizes and commissions, and prizes and commissions as a percent of gross receipts. The share of gross receipts represented by prizes and commissions has remained constant over time. Shown on the lower portion of Table 3, prizes and commissions as a percent of total receipts is anticipated to remain fixed at the average level since FY 2001 of 57.21%.

Prizes and commissions are estimated to be \$19.810 million in FY 2005, \$19.920 million in FY 2006, and \$20.026 million in FY 2007.

Table 3 Prizes and Commissions as a Percent of Receipts (\$ millions) FY 1994 through FY 2007			
Fiscal Year	Gross Receipts	Prizes & Commissions*	Prizes & Commissions % of Total Receipts
A 1994	\$37.607	\$20.217	53.76%
A 1995	\$32.965	\$17.955	54.47%
A 1996	\$32.021	\$17.680	55.21%
A 1997	\$28.512	\$15.878	55.69%
A 1998	\$30.119	\$16.971	56.35%
A 1999	\$30.386	\$16.735	55.08%
A 2000	\$30.261	\$17.321	57.24%
A 2001	\$30.699	\$17.462	56.88%
A 2002	\$33.817	\$19.277	57.00%
A 2003	\$34.774	\$19.932	57.32%
A 2004	\$36.784	\$21.200	57.63%
Average (FY 2001 through FY 2004):			57.21%
F 2005	\$34.626	\$19.810	57.21%
F 2006	\$34.820	\$19.920	57.21%
F 2007	\$35.004	\$20.026	57.21%

*FY 2002 has an addition of \$190,935 due to a one-time unclaimed prize refund.
 *FY 2003 has an addition of \$333,626 due to a one-time unclaimed prize refund.
 *FY 2004 has an addition of \$428,959 from a one-time refund of prize reserves from MUSL.

Step 3: Calculate Operating Expenses

Total operating expenses are comprised of two components: (1) other operating expenses, and (2) depreciation and amortization.

Table 4 on the following page, shows total operating expenses, depreciation and amortization expenses, other operating expenses, gross receipts, and other operating expenses as a percent of gross receipts for FY 1994 through FY 2004.

Table 4
Other Operating Expenses as a Percent of Receipts (\$ millions)
FY 1994 through FY 2004

Fiscal Year	Total Operating Expenses	-	Depreciation and Amortization	=	Other Operating Expenses	Gross Receipts	Other Oper. Exp. % of Gross Rec.
1994	\$8.027	-	\$0.042	=	\$7.984	\$37.607	21.23%
1995	\$6.415	-	\$0.061	=	\$6.354	\$32.965	19.28%
1996	\$6.586	-	\$0.090	=	\$6.496	\$32.021	20.29%
1997	\$6.031	-	\$0.097	=	\$5.934	\$28.512	20.80%
1998	\$6.459	-	\$0.059	=	\$6.400	\$30.119	21.25%
1999	\$6.473	-	\$0.232	=	\$6.242	\$30.386	20.54%
2000	\$7.099	-	\$0.759	=	\$6.341	\$30.261	20.95%
2001	\$7.092	-	\$0.784	=	\$6.308	\$30.699	20.55%
2002	\$7.501	-	\$0.870	=	\$6.631	\$33.817	19.61%
2003	\$7.722	-	\$1.053	=	\$6.668	\$34.774	19.18%
2004	\$7.898	-	\$1.064	=	\$6.833	\$36.784	18.58%
Average (FY 2001 through FY 2004):							<u>19.48%</u>

Other operating expenses as a percent of gross receipts has remained stable over time, and is anticipated to remain at the four-year average from FY 2001 through FY 2004 of 19.48%.

Table 5 shows the calculation of total operating expenses for FY 2005 through FY 2007.

Table 5
Calculation of Operating Expenses (\$ millions)
FY 2004 through FY 2007

Fiscal Year	Gross Receipts	X	Other Operating Expenses % of Gross Receipts	=	Other Operating Expenses	+	Depreciation and Amortization	+	Cost Adjustment*	=	Total Operating Expenses
2005	\$34.626	X	19.48%	=	\$6.745	+	\$1.069	+		=	\$7.814
2006	\$34.820	X	19.48%	=	\$6.783	+	\$0.957	+	\$0.150	=	\$7.890
2007	\$35.004	X	19.48%	=	\$6.819	+	\$0.110	+	\$0.150	=	\$7.079

*FY 2006 and FY 2007 includes a cost adjustment of \$150,000 each year for equipment replacement and repair after the current lottery system is completely depreciated and amortized in March 2006.

Table 5 shows that based on the forecast gross receipts from Table 2, other operating expenses are forecast to be \$6.745 million in FY 2005; \$6.783 million in FY 2006; and \$6.819 million in FY 2007.

With the assistance of Lottery personnel, depreciation and amortization expenses are projected at \$1.069 million for FY 2005, \$0.957 million for FY 2005, and \$0.110 million for FY 2007. The expenses associated with depreciation and amortization are significantly lower in FY 2007 because the current lottery gaming system will be completely depreciated and amortized in March 2006. The cost to continue using the current system is significantly less than the amortization and depreciation schedules used through FY 2006. However, it is expected that there will be additional cost for equipment replacement and repair after the current lottery system is completely amortized and depreciated. The additional cost is anticipated to be \$150,000 in both FY 2006 and FY 2007.

UStep 4: Calculate Net Transfers to the General Fund

The lottery revenue transfer to the general fund is gross receipts minus disbursements in prizes, commissions, and operating expenses. Table 6 shows forecast transfers to the general fund for FY 2005 through FY 2007. Lottery general fund revenue for the forecast period is \$7.002 million in FY 2005, \$7.009 million in FY 2006, and \$7.899 million in FY 2007.

<p align="center">Table 6 Projected Lottery General Fund Revenue (\$ millions) FY 2003 through FY 2005</p>							
<u>Fiscal Year</u>	<u>Projected Gross Receipts</u>	-	<u>Projected Prizes and Commissions</u>	-	<u>Projected Operating Expenses</u>	=	<u>Projected General Fund</u>
2005	\$34.626	-	\$19.810	-	\$7.814	=	\$7.002
2006	\$34.820	-	\$19.920	-	\$7.890	=	\$7.009
2007	\$35.004	-	\$20.026	-	\$7.079	=	\$7.899