

LOTTERY REVENUE

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 actual general fund revenue from the state lottery for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1 Lottery Revenue (\$ millions)		
Fiscal Year	General Fund	Percent Change
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%
A 2005	6.223	-23.33%
A 2006	9.110	46.41%
F 2007	8.925	-2.03%
F 2008	8.933	0.08%
F 2009	8.975	0.47%

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Since FY 1995 all net revenue is deposited in the general fund. Lottery revenue generally declined until FY 2000. In fiscal years 2002, 2003, and 2004 lottery revenue increased to over \$7 million each year. However, these numbers also include one-time adjustments due to changes in accounting practices and unclaimed prize refunds totaling \$428,618 in FY 2002, \$333,626 in FY 2003, and \$428,959 in FY 2004. It should be noted that FY 2004 revenues also increased due to an unusually high Powerball® jackpot of over \$200 million which improved ticket sales. 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 upward

adjustment in FY 2004 due to a rebalancing of prize reserve funds from the Multi-State Lottery Association (MUSL). The 46.4% increase in FY 2006 is largely due to the changes made to the Powerball® gaming matrix. The new matrix decreases odds of winning to provide a greater number of and larger jackpots. These conditions increase overall participation in lottery gaming and, hence, encourage revenue growth.

General fund revenue is projected to be \$8.925 million in FY 2007, \$8.933 million in FY 2008, and \$8.975 million in FY 2009. The change in the Powerball® gaming matrix is anticipated to yield relatively higher revenue amounts in FY 2007 through FY 2009. Additionally, the lottery gaming system was completely depreciated and amortized by March 2006, further reducing the cost of operation for FY 2007 through FY 2009. The 2.03% decrease in revenue in FY 2007 is projected due to the unusually high increase in revenue in FY 2006. This estimate projects that larger Powerball® jackpots will not likely draw as much participation in FY 2007 as potential gamers have likely become more accustomed to seeing the higher jackpot amounts and less enticed to play.

Forecast Methodology and Projected Calculation

General fund revenue from the lottery is determined by 1) calculating gross revenues; 2) calculating prizes and commissions; 3) calculating operating expenses; and 3) calculating net lottery revenue.

Step 1: Calculate Gross Revenues

Table 2 shows historical and forecast gross receipts, adult population, and per capita receipts for FY 1996 through FY 2009. Interest and miscellaneous income make up less than one-half percent of total revenue. Since it is such a small proportion of total revenue, it is aggregated into gross receipts for estimation purposes.

In FY 1997, per capita receipts hit its historic low point. 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. In FY 2006, the aforementioned Powerball® gaming matrix changed, yielding three jackpots over \$200 million and hence greater participation.

Table 2
Per Capita Lottery Receipts
FY 1996 through FY 2009
(\$ millions)

Fiscal Year	Gross Receipts	MT Adult* Population	Per Capita Receipts
A 1996	\$32.021	693,450	\$46.18
A 1997	\$28.512	699,017	\$40.79
A 1998	\$30.119	704,057	\$42.78
A 1999	\$30.386	710,729	\$42.75
A 2000	\$30.261	718,917	\$42.09
A 2001	\$30.699	729,222	\$42.10
A 2002	\$33.817	736,177	\$45.94
A 2003	\$34.774	748,052	\$46.49
A 2004	\$36.736	761,039	\$48.27
A 2005	\$33.841	772,089	\$43.83
A 2006	\$39.929	778,217	\$51.31
Average (FY 2002 through FY 2005):			\$46.13
F 2007	\$38.128	782,579	\$48.72
F 2008	\$38.323	786,574	\$48.72
F 2009	\$38.506	790,334	\$48.72

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

The estimated percentage of per capita receipts for FY 2007 through FY 2009 is \$48.72. This is the average of the per capita receipts for FY 2002 through FY 2005 (\$46.13) and the FY 2006 per capita receipts (\$51.31).
 $((\$51.31 + \$46.13) \div 2 = \$48.72)$

The upward adjustment is made to account for the new Powerball® gaming matrix which is expected to continue to earn more revenue, but not likely as much as in FY 2006 as people become accustomed to higher jackpots. Forecast gross receipts are calculated by multiplying estimated Montana adult population by estimated per capita receipts. As shown in Table 2 gross receipts are estimated to be \$38.128 million in FY 2007, \$38.323 million in FY 2008, and \$38.506 million in FY 2009.

Step 2: Calculate Prizes and Commissions

Table 3 shows historic gross receipts, prizes and commissions, and prizes and commissions as a percent of receipts. The share of gross receipts represented by prizes and commissions has remained relatively constant over time. Prizes and commissions, as a percent of total receipts, are anticipated to remain at the FY 2002 through FY 2006 average level of 57.41%.

Prizes and commissions are estimated to be \$21.889 million in FY 2007, \$22.001 million in FY 2008, and \$22.106 million in FY 2009.

Table 3 Prizes and Commissions as % of Receipts FY 1997 through FY 2009 (\$ millions)			
Fiscal Year	Gross Receipts	Prizes & Comm.	Prizes & Comm. % of Receipts
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	\$36.736	\$20.771	56.54%
A 2005	\$33.841	\$19.769	58.42%
A 2006	\$39.929	\$23.056	57.74%
Average (FY 2002 - FY 2006):			57.41%
F 2007	\$38.128	\$21.889	57.41%
F 2008	\$38.323	\$22.001	57.41%
F 2009	\$38.506	\$22.106	57.41%

Step 3: Calculate Operating Expenses

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

Table 4 shows the percent that operating expenses, without depreciation and amortization, are of gross receipts for FY 1996 through FY 2006. Other operating

expenses, as a percent of gross receipts, have remained stable over time, and are anticipated to remain at the five-year average from FY 2002 through FY 2006 of 19.10%.

Table 4									
Other Operating Expenses as a Percent of Receipts									
FY 1996 through FY 2006									
(\$ millions)									
Fiscal Year	Total Operating Expenses	-	Depreciation and Amortization	=	Other Operating Expenses	÷	Gross Receipts	=	Other Oper. Exp. % of Gross Rec.
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	\$7.867	-	\$1.064	=	\$6.802	÷	\$36.736	=	18.52%
2005	\$7.911	-	\$1.070	=	\$6.842	÷	\$33.841	=	20.22%
2006	\$7.964	-	\$0.791	=	\$7.174	÷	\$39.929	=	17.97%
Average (FY 2002 through FY 2006)								=	19.10%

The lottery gaming system was completely depreciated by March 2006. Therefore, depreciation is expected to further decline in FY 2007 and stabilize at \$0.035 million in FY 2008 and FY 2009.

Table 5 shows the calculation of total operating expenses for FY 2007 through FY 2009. Based on the forecast gross receipts from Table 2, other operating expenses are forecast to be \$7.282 million in FY 2007; \$7.320 million in FY 2008; and \$7.355 million in FY 2009.

Table 5									
Calculation of Operating Expenses									
FY 2007 through FY 2009									
(\$ millions)									
Fiscal Year	Gross Receipts	×	Other Operating Expenses % of Gross Receipts	=	Other Operating Expenses	+	Depreciation and Amortization	=	Total Operating Expenses
2007	\$38.128	×	19.10%	=	\$7.282	+	\$0.031	=	\$7.314
2008	\$38.323	×	19.10%	=	\$7.320	+	\$0.035	=	\$7.389
2009	\$38.506	×	19.10%	=	\$7.355	+	\$0.035	=	\$7.425

Step 4: Calculate Net Lottery Revenue

The lottery revenue transfer to the general fund equals gross receipts minus disbursements in prizes, commissions, and operating expenses. Table 6 shows forecast transfers to the general fund for FY 2007 through FY 2009. Lottery general fund revenue for the forecast period is \$8.925 million in FY 2007, \$8.933 million in FY 2008, and \$8.975 million in FY 2009.

Table 6							
Projected Lottery General Fund Revenue							
FY 2005 through FY 2007							
(\$ millions)							
<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>
2007	\$38.128	-	\$21.889	-	\$7.314	=	\$8.925
2008	\$38.323	-	\$22.001	-	\$7.389	=	\$8.933
2009	\$38.506	-	\$22.106	-	\$7.425	=	\$8.975

Data Sources

Data for the Lottery revenue estimate were obtained from SBAS reports, SABHRS Report MTGL0109, and Montana Lottery staff. Population data was provided by Global Insight (July 2006).