

# Fiscal Note

State of Alaska  
2020 Legislative Session

Bill Version: HB 239  
Fiscal Note Number: \_\_\_\_\_  
( ) Publish Date: \_\_\_\_\_

Identifier: HB239-DOR-TAX-02-14-20  
Title: ESTABLISH STATE LOTTERY  
BOARD/LOTTERIES  
Sponsor: THOMPSON  
Requester: (H) STATE AFFAIRS

Department: Department of Revenue  
Appropriation: Taxation and Treasury  
Allocation: Tax Division  
OMB Component Number: 2476

**Expenditures/Revenues**

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2021 Appropriation Requested	Included in Governor's FY2021 Request	Out-Year Cost Estimates				
			FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
<b>OPERATING EXPENDITURES</b>	<b>FY 2021</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
Personal Services	850.0		1,700.0	1,700.0	1,700.0	1,700.0	1,700.0
Travel	100.0		200.0	200.0	200.0	200.0	200.0
Services	100.0		6,500.0	5,700.0	5,700.0	5,700.0	5,700.0
Commodities	50.0		100.0	100.0	100.0	100.0	100.0
Capital Outlay							
Grants & Benefits							
Miscellaneous			14,000.0	19,500.0	19,500.0	19,500.0	19,500.0
<b>Total Operating</b>	<b>1,100.0</b>	<b>0.0</b>	<b>22,500.0</b>	<b>27,200.0</b>	<b>27,200.0</b>	<b>27,200.0</b>	<b>27,200.0</b>

**Fund Source (Operating Only)**

1004 Gen Fund (UGF)	1,100.0		22,500.0	27,200.0	27,200.0	27,200.0	27,200.0
<b>Total</b>	<b>1,100.0</b>	<b>0.0</b>	<b>22,500.0</b>	<b>27,200.0</b>	<b>27,200.0</b>	<b>27,200.0</b>	<b>27,200.0</b>

**Positions**

Full-time	14.0		14.0	14.0	14.0	14.0	14.0
Part-time							
Temporary							

**Change in Revenues**

1251 Non-UGF (Other)			22,500.0	33,500.0	33,500.0	33,500.0	33,500.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>22,500.0</b>	<b>33,500.0</b>	<b>33,500.0</b>	<b>33,500.0</b>	<b>33,500.0</b>

**Estimated SUPPLEMENTAL (FY2020) cost:** 0.0 *(separate supplemental appropriation required)*

**Estimated CAPITAL (FY2021) cost:** 1,900.0 *(separate capital appropriation required)*

**Does the bill create or modify a new fund or account?** Yes  
*(Supplemental/Capital/New Fund - discuss reasons and fund source(s) in analysis section)*

**ASSOCIATED REGULATIONS**

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes  
If yes, by what date are the regulations to be adopted, amended or repealed? 06/30/21

**Why this fiscal note differs from previous version/comments:**

Initial version.  
  
A new subfund of the general fund, the State Lottery Fund, will be created for this bill.

Prepared By:	Dan Stickel, Chief Economist	Phone:	(907)465-3279
Division:	Tax Division	Date:	02/14/2020
Approved By:	Brad Ewing, Administrative Services Director	Date:	02/15/20
Agency:	Office of Management and Budget		

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2020 LEGISLATIVE SESSION

BILL NO. HB239

### Analysis

#### Background

This bill would establish a state lottery within the Department of Revenue. The lottery would be governed by a five-member Board appointed by the Governor for staggered three-year terms. The board would be authorized to establish and operate lottery games in the state. It could also participate in multi-state lotteries operated in conjunction with other lottery authorities. The board would have authority to determine the structure, management, and games of the lottery, within the parameters set in statute. Under this bill, games could potentially include single- and multi-jurisdiction draw games. Instant tickets, sports betting, keno, and video lottery terminals would not be allowed under this bill. The board would have authority to hire an executive director and employees and enter into various contracts necessary to implement the state lottery. Portions of the lottery administration and management function may be contracted out.

The stated purpose of the lottery board is to generate revenue by conducting a state lottery. All lottery revenues would go to the State Lottery Fund, a sub-fund of the general fund, created in the proposed legislation. This bill does not stipulate how prizes and expenses would be paid, or how profits would be made available for state spending.

This fiscal note assumes that, similar to other state lotteries, the lottery will be operated at a profit, and be able to make excess funds available for state spending. This fiscal note further assumes that budgetary authority will be granted to cover prizes and administration costs for the lottery. Since the lottery would flow directly through the state budget, this fiscal note shows estimated gross gaming revenues in the "Revenue Impact" section and estimated administration fees, prize payments, and contractor costs in the "Implementation Cost" section. All lottery receipts, including potential profits, could technically be appropriated for any purpose.

#### Revenue Impact

Under this bill, all lottery gross revenues, before accounting for any prizes or expenses, would go to the State Lottery Fund. The amount of the revenue stream will depend on the types of games offered, any restrictions or regulations on the lottery, and consumer participation levels.

Two other states (Wyoming and North Dakota) have lotteries offering draw games only (such as Lotto and Powerball). The gross revenue estimate is calculated by scaling average-per-capita gross sales from those two states to Alaska based on population. Once fully implemented, the lottery could generate about \$30-37 million in gross sales; the fiscal note represents the midpoint of this range. Profit after accounting for prizes and expenses could generate about \$5-8 million in excess revenues for the state. For this fiscal note, it is assumed to generate \$6.3 million per year.

Based on the experience of other states, Alaska should not expect significant net profit in the first two years after passing a lottery. Experiences of other states show that the first year is primarily the establishment of the lottery and the development of regulations and administrative and contractual structures to support a lottery. It is reasonable to assume that sales could begin in year two and that a lottery with draw games could be fully operational by the third year after passage, with a net profit for the state coming in that year.

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2020 LEGISLATIVE SESSION

BILL NO. HB239

### Analysis

#### Implementation Cost

Initial lottery startup costs are estimated at approximately \$3 million in FY 2021. This estimate is based on discussions with other states and industry experts. If necessary, the lottery could be authorized to borrow additional funds from the private market for any additional startup costs or could come back to the legislature to request supplemental funds. It is estimated that there would be a period of approximately one year from establishing the lottery to beginning to offer games, in which the lottery would be incurring expenses but not yet taking in any revenue. It is anticipated that staffing costs for this first year would be approximately half of the fully operational cost, as it will take time to create and fill positions throughout the year. This first-year staffing and associated costs are shown as operating expenditures, with remaining start-up costs reflected as a FY 2021 capital appropriation.

Once lottery sales begin, ongoing expenses and staffing are reflected in this fiscal note. Depending on the decisions of the board, some or most administration could potentially be outsourced to private companies with extensive lottery experience. At least 10-12 positions would be needed in support of the board for certain oversight and administrative tasks that cannot readily be outsourced. If most of the work is done in-house, the board may need 25 or more employees. For this fiscal note, a staffing plan was developed by reviewing other state lotteries and consulting with industry experts. This plan contemplates 14 new state positions to handle essential functions, with contracting out of many other functions to vendors with significant lottery experience. In-house functions would include executive management, some marketing activity, security, accounting, and customer service.

Additional lottery costs beyond state personnel would include prizes paid, vendor contracting costs, and retailer commissions. The total expenditures estimate is based on analysis of the two other states with draw-only lotteries, and scaling to Alaska based on population. This provides a range of expenses from \$25-29 million per year. Note, this range is very sensitive to the level of gaming activity, since prizes, vendor fees, and commissions are all a function of sales activity.

Detail for the 14 requested positions follows. It is assumed these positions would be located in either Juneau or Anchorage:

- 1 – Director, Range 27
- 1 – Deputy Director, Range 25
- 1 – Information Security Officer, Range 24
- 1 – Administrative Operations Manager II, Range 23
- 2 – Analyst Programmer V, Range 22
- 1 – Research Analyst IV, Range 21
- 3 – Program Coordinator II, Range 20 (one marketing coordinator, one game coordinator, one product specialist)
- 1 – Customer Service Supervisor, Range 18
- 3 – Customer Service Representative III, Range 14

As currently written, this bill does not provide for prizes or any administrative costs to be paid out of the State Lottery Fund or any other fund. Thus, all prizes, commissions, and costs are shown as General Fund expenditures in this fiscal note.

#### Regulations

It is anticipated that regulations would need to be promulgated to implement the new lottery. The regulations should be completed prior to first sales of games and any associated costs would be paid out of the initial capital appropriation.