

# FISCAL NOTE

**STATE OF ALASKA**  
**2003 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: CSHB 240(EDT)  
 (H) Publish Date: 4/11/03

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title Establish State Lottery BRU Revenue Operations  
 Component Tax Division  
 Sponsor Economic Development Committee  
 Requester Economic Development Committee Component No. 2476

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services	245.9	245.9	245.9	245.9	245.9	245.9
Travel	25.0	10.0	10.0	10.0	10.0	10.0
Contractual	100.0	50.0	50.0	50.0	50.0	50.0
Supplies	10.0	5.0	5.0	5.0	5.0	5.0
Equipment	25.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>405.9</b>	<b>310.9</b>	<b>310.9</b>	<b>310.9</b>	<b>310.9</b>	<b>310.9</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>	**	**	**	**	**	**
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	182.6	140.1	140.1	140.1	140.1	140.1
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>405.9</b>	<b>310.9</b>	<b>310.9</b>	<b>310.9</b>	<b>310.9</b>	<b>310.9</b>

Estimate of any current year (FY2003) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

**POSITIONS**

Full-time	5	5	5	5	5	5
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This legislation would establish the Alaska State Lottery Commission to operate a twice-a-year statewide cash prize lottery to raise money for the state General Fund.

Although there is no effective date to the legislation, this fiscal note assumes the Lottery Commission would start work immediately at the beginning of Fiscal 2004, with two drawings that first year.

\*\* See attached pages for further discussion of the cost and revenue from this legislation.

NOTE: We have included only the fixed administrative expenses on the front of this fiscal note, with those expenses directly related to the amount of ticket sales (printing, distribution and agent commissions) estimated in the attached discussion.

Prepared by: Brett Fried and Larry Persily Phone 465-5469  
 Division Tax Division and Commissioner's Office Date/Time 4/7/03 10:27 AM  
 Approved by: Larry Persily, Deputy Commissioner Date 4/7/2003  
 Agency Larry Persily, Deputy Commissioner

## Revenue

It is extremely difficult to estimate potential state revenue from this legislation.

This bill instructs the Lottery Commission “to conduct two lotteries each year with one winner at each lottery.” This differs substantially from lotteries in other states. Lotteries in other states include the following features:

- (1) All 39 states with lotteries include instant games in their product mix. Instant games are very popular because they provide the player with immediate winnings, or at least the possibility of immediate winnings. As drafted, the Alaska State Lottery would offer just once chance to win twice a year, which could very well hold down players’ interest in the game. (Although Alaskans spend a substantial amount of money each year on pull-tab sales, one attraction of that game is the instant prize it offers, as opposed to holding on to the pull-tab for a prize drawing in the future.)
- (2) All state lotteries include multiple product mixes where drawings are done at a minimum of once a week and most are held twice a week or more. Having multiple drawings and winners sustains the interest of players.
- (3) All small states, with populations under a million, include multi-state games as part of their product mix. Powerball conducted in 24 states is the most popular of these games. The ability to offer large jackpots attracts more interest, with states reporting heavy sales whenever the Powerball jackpot climbs into the multi-millions of dollars.
- (4) All states with lotteries have games available to purchase online, in addition to traditional paper ticket sales at vendor outlets. Although these systems are expensive to operate (approximately \$3 million to \$4 million a year in Montana and Vermont), this allows states to offer a variety of games, validate wins and prevent fraud. The states increase their revenue because of the variety of games that can be offered, the ability to offer new games, and the flexibility to choose the optimum mix of games.

The lottery in this legislation more closely resembles what most people think of as a raffle. That is, where a player must match his or her ticket’s preprinted number to one selected at a drawing.

Alaska already has hundreds of small raffles a year under existing charitable gaming statutes. Total gross revenue from raffles in Alaska in Calendar Year 2001 was approximately \$8.5 million. Revenue from these raffles held by qualifying organizations such as charities, sports teams, schools, fire departments, clubs and fraternal organizations is often done in the spirit of contributing to a favorite community cause. And, many of those raffle sales were conducted by volunteers going door-to-door in residential neighborhoods or at the workplace, helping to boost sales. Admittedly, though these raffles are promoted by volunteers, they lack the advertising that we assume would accompany an Alaska State Lottery to help boost ticket sales.

There are over 350 separate entities licensed to conduct raffles in Alaska. The largest of these is conducted by the Iditarod Trail Committee; it had gross receipts totaling about \$600,000 in 2001. Another similar game is the Nenana Ice Classic. This game originated in the early 1900s and the winner is the individual who guesses closest to when the ice breaks up on the Tanana River near Nenana. This game also generates approximately \$600,000 in gross receipts a year.

For sake of discussion, we assume that a well-publicized and heavily marketed statewide lottery with a large enough grand prize would exceed the ticket sales of either the Iditarod or the Nenana drawings. However, since the amount of the cash prize would depend on an always unknown amount of ticket sales, it would be impossible to advertise an exact prize amount to potential ticket buyers. And since the odds of winning would depend on the number of tickets sold, it would not be possible to print the odds of winning on each ticket as required by this legislation.

And, for this discussion, perhaps a strongly advertised statewide lottery would also draw the interest from the more than 1 million tourists who visit Alaska each year. Although tourists may appear to be a ready market for state lottery tickets, it should be noted that 750,000 visitors come to Alaska on cruise ships each summer — most of which offer full casino gambling on board. A lottery would have to compete with the casinos for visitor dollars, at least to some extent.

Therefore, for the sake of discussion, if a statewide lottery garnered as many ticket sales as the Iditarod and Nenana drawings combined (about \$1.2 million a year), then equaled that amount with \$1.2 million in additional sales due to heavy advertising, then added in an equal number of sales to tourists, the total gross receipts would be \$3.6 million a year.

That “guesstimate” of \$3.6 million per year in gross revenues is low compared to similar states with small population numbers, such as South Dakota that had \$26 million in gross sales in Fiscal 2002 (population 760,000), or Montana that had \$32 million in gross sales in Fiscal 2002 (population 910,000). However, South Dakota sells Instant Tickets with immediate winners and several different games with different prizes and drawings, and participates in a multistate Powerball drawing. Montana also has Instant Tickets and several different games and multiple prize drawings each week, in addition to participating in a Powerball drawing.

If the Alaska Lottery sold \$3.6 million a year in tickets, and shared 45% of the gross receipts with the two winners (after deducting 5%, or \$180,000 for expenses, as per the legislation), the income to the state could be about \$1.8 million per year. However, it is doubtful the 5% expense cap would be enough for printing and distribution costs, advertising and agent commissions.

It is worth noting that the states with the heaviest revenue totals from lotteries generate most of their money from video lotteries and video poker games, which are essentially video gambling terminals in bars and other businesses, usually owned and maintained by the state.

It also is possible that a statewide lottery could draw away some ticket sales from existing charitable gaming raffles, although most players in those games probably are loyal enough to the charity not to abandon their own raffles.

### **Operating Expenses**

The legislation is unclear if the compensation paid to agents to sell tickets for the state should be applied against the 5% cap on expenses from gross revenues. And it also is unclear if the operating expenses of the Alaska State Lottery Commission and its staff would be applied against the 5% expense cap.

For this fiscal note, we assumed a General Fund appropriation separate from the 5% of gross receipts from the lottery to cover the following expenses:

- Executive Director of the Alaska State Lottery Commission (Range 21).
- Four employees to handle accounting, record keeping, ticket sales and distribution for what we expect would be several hundred agents statewide (one Range 14, two Range 12's and one Range 10).
- Expenses of the commission itself (travel and per diem).
- Rent, office supplies and other expenses for the Lottery Commission.
- And start-up costs, which would include ticket design and initial marketing.

We also assumed the compensation (commission) paid to agents would be paid outside of the 5% expense cap, too, although we did not seek General Fund money for the compensation. We assumed the legislation would be amended to use gross receipts to cover agent compensation.

We assumed the 5% expense limit would cover only the cost of printing the lottery tickets, advertising, marketing and distribution costs — the actual, recurring costs for each lottery. Depending on how much is spent on advertising and marketing, the 5% of proceeds could be insufficient.

For comparison sake, the Nenana Ice Classic and the Iditarod Trail Committee spent 38% (\$255,000) and 16% (\$96,000), respectively, on expenses in 2001 (ticket printing, distribution, advertising and commissions to sales agents). The statewide average for all raffles in Calendar Year 2001 was 12% of gross receipts for expenses. However, charitable raffle organizations do not have to cover the cost of the following requirements in this legislation for the Lottery Commission:

- (1) Pay per diem, travel expenses and background checks for the five Alaska State Lottery Commission members that are required to meet at least quarterly.
- (2) Employ an executive director.
- (3) Require each agent to provide weekly commission reports and to file a bond.
- (4) Have an audit performed each year by certified public accountants.
- (5) Comply with all state hiring and other regulations.

**For comparison to other states, it appears prizes average around 50% to 60% of gross sales, with expenses and commissions totaling close to 25% and the net to the state at about 20% to 25%:**

- **South Dakota**, population 760,000, paid \$1.4 million in commissions to agents on \$26.35 million in lottery ticket sales in Fiscal 2002. That equals almost 5.5%.
- South Dakota's other expenses totaled \$4.25 million for ticket printing, distribution, operating the online ticket sales web site, staff salaries, advertising, rent and supplies.
- Prizes totaled \$14.17 million, or about 54% of gross sales.
- The net to the South Dakota treasury was \$6.53 million, or about 25% of gross sales.
  
- **Montana**, population 910,000, paid \$2 million in commissions to agents on \$33.8 million in lottery ticket sales in Fiscal 2002. That equals 6%.
- Montana's other expenses were \$7.5 million for ticket printing, distribution, operation of the online ticket sales web site, salaries, advertising, rent and supplies. The lottery has 33 employees, including sales managers, accountants, clerks, systems specialists, marketing staff and two positions assigned to security and investigations.
- Prizes totaled about \$17 million, or slightly more than 50% of gross receipts.
- The net to the Montana state treasury was \$7.5 million, or about 22% of gross sales.
  
- **Nebraska**, population 1.7 million, collected \$74 million in gross receipts on lottery sales in Fiscal 2002, and paid almost 6% in commissions to its lottery retailers (\$4.3 million)
- The state paid almost 11% to contractors for ticket production, distribution and validation (\$8 million).
- Advertising and promotion totaled almost 4% (\$2.7 million).
- Administration expenses totaled about 2% (\$1.7 million).
- Prizes averaged 54% of sales (\$39.5 million).
- Proceeds to the state are 25% of gross receipts, with the money distributed to the Education Innovation Fund (49.5%), the Nebraska Environmental Trust Fund (49.5%), and the Compulsive Gamblers Assistance Fund (1%).

**Brief Summary of the Bill**

**Section 05.18.010** creates a five-member lottery commission and establishes the rules that govern the members. Members are not paid but receive per diem and travel expenses.

**Section 05.18.020** describes what is needed for a quorum and the minimum number of meetings per year.

**Section 05.18.030** describes the reporting and monitoring requirements. Also, requires the commission to “conduct two lotteries each year with one winner at each lottery.” The winner of each lottery receives 50% of the ticket sales minus expenses up to 5% of total sales.

**Section 05.18.040** requires that the commission adopt the necessary regulations to conduct the lotteries including the compensation paid to agents and the calculation and awarding of prizes.

**Section 05.18.050** requires the commission to hire an executive director, and subject to approval by the Commission the director may appoint staff to perform the duties of the commission.

**Section 05.18.060** describes the duties of the director.

**Section 05.18.070** describes how the director/commission may subpoena witnesses/documents.

**Section 05.18.100--130** allows the director to contract with agents to sell tickets, specifies what the Director must consider before contracting with an agent, specifies the allowable duration of contracts, and specifies when a contract can be terminated.

**Section 05.18.140** establishes the criteria for compensating agents, including bonus or incentive awards.

**Section 05.18.150--160** allows the director to assess interest and service charges and describes the reporting requirements of the agent. Also, establishes bonding requirements for the agent.

**Section 05.18.200--220** establishes the rules for awarding prizes.

**Section 05.18.300-360** requires that an audit be performed at least once each year by certified public accountants. Also, describes those acts prohibited by this legislation and that each lottery ticket must indicate the odds of winning a prize in the particular lottery game represented by the lottery ticket.

**Sec. 05.18.900** provides definitions of terms used in the bill. These definitions include the definition of lottery. That is, “lottery” or “state lottery” is defined as “the lottery established and operated under this chapter.”