

E75D
State Lottery Agency

Operating Budget Data

(\$ in Thousands)

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Operations	\$13,505	\$14,909	\$15,335	\$1,829	\$14,988	-\$347
Contractual Services	37,051	36,807	35,584	-\$1,467	37,656	2,072
Contingent & Back of Bill Reductions	0	0	0	\$0	-71	-71
Adjusted Grand Total	\$50,557	\$51,716	\$50,919	\$362	\$52,573	\$1,654
Special Funds	50,557	51,716	50,919	\$362	52,644	1,725
Contingent & Back of Bill Reductions	0	0	0	\$0	-71	-71
Adjusted Special Funds	\$50,557	\$51,716	\$50,919	\$362	\$52,573	\$1,654
Annual % Change		2.3%	-1.5%		3.2%	

- Cost containment actions include the reversion of special funds used to support free transit ridership and deferred compensation for State employees.
- The fiscal 2005 allowance restores \$2.0 million in the advertising budget that was reduced in fiscal 2004.

Personnel Data

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Regular Positions	175.0	172.0	170.0	-5	170.0	0.0
Contractual FTEs	5.5	5.5	6.5	1	11.0	4.5
Total Personnel	180.5	177.5	176.5	-4	181.0	4.5

Vacancy Data: Regular Positions

Turnover Expectancy	5.87	3.45%
Positions Vacant as of 12/31/03	3.00	1.76%

- Since 2002, the Lottery has lost five positions. Fiscal 2002 cost containment included a reduction of \$500,000 in salary expense.

Note: Numbers may not sum total due to rounding.

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- In fiscal 2005, the Lottery will add 4 contractual positions. Two of the contractual positions are part-time and will be working on special projects. The other contractual positions are required for increased processing needs and secretarial help.
- The State Lottery Agency's budgeted turnover rate of 3.45% requires that an average of 5.87 positions remain vacant throughout fiscal 2005 to achieve the \$353,051 in savings required. After adjusting for the abolishment of 2 positions, the agency's current number of vacant positions is 3.0 equating to just \$131,896 in salary and fringe benefits. Additional vacancies will be needed to meet the budget requirement. The statewide hiring freeze, in effect through fiscal 2005, may result in additional vacancies in the State Lottery Agency and thus allow the agency to meet the turnover budget target.

Analysis in Brief

Major Trends

Agent Earnings Keep Pace with Sales: Lottery agents are compensated with commissions and bonuses for selling and cashing lottery tickets. The expenditure for these commissions and bonuses has increased commensurate with the increase in lottery sales. As a percentage of total sales, these commissions and bonuses have remained at approximately 6.5%.

Operating Budget Cost to Sales Ratio: The Lottery's operating budget has increased from \$51.7 million in fiscal 2003 to a proposed \$52.6 million for fiscal 2005. As a percentage of total sales, however, the agency's operating budget to sales ratio has declined from 3.9% in fiscal 2003 to a proposed fiscal 2005 ratio of 3.7% of total sales.

Prize Payouts Remain Stable: In order to keep game interest high, the Lottery changes its game offerings and at times the individual game matrix. Prize payouts have remained at approximately 56.4% of total sales.

Issues

Overview of Revenue Results and Forecasts: Fiscal 2003, sales reached \$1.32 billion, resulting in revenues of \$422.9 million to the general fund. Current revenue estimates total \$418.8 million to the general fund for fiscal 2004 and \$439.9 million for fiscal 2005. **The Department of Legislative Services (DLS) recommends that the Lottery brief the committees on sales and revenue outlook for fiscal 2004 and 2005.**

New Game Equipment Not Purchased: The fiscal 2002, 2003, and 2004 budgets provided funding for the purchase of new game equipment. This equipment was supposed to allow the Lottery to expand its player base and thus improve overall games sales. Much of this equipment was not purchased. **DLS recommends reducing \$520,200 for equipment purchases since the agency has redirected these monies to other purposes over the past three fiscal years.**

Lottery Agency Undertakes Procurement for Consultants to Advise: This issue concerns the formulation of a request for proposal process relating to the operation of video lottery terminal system. **DLS recommends that the Lottery brief the committees on how authorization to proceed with the procurement was secured, specifically, whether it was approved or initiated by the Lottery Commission. The Lottery should comment on the status of the procurement and the terms of any contract awarded and the schedule of deliverables.**

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Recommended Actions

	<u>Funds</u>
1. Reduce funds for postage.	\$ 21,000
2. Reduce funds for customer access 800 lines.	32,000
3. Reduce funds for management studies.	116,550
4. Reduce funds for office equipment.	10,000
5. Reduce funds for equipment purchases.	520,200
Total Reductions	\$ 699,750

Updates

Office of Legislative Audits' Performance Audit Follow-up Review: This update summarizes the follow-up to the performance audit conducted by the Office of Legislative Audits as of August 2003.

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Operating Budget Analysis

Program Description

The Maryland State Lottery Agency administers and operates lottery games for the purpose of generating revenue for the State. The State Lottery Commission, consisting of five members appointed by the Governor, has oversight responsibility for the agency. The lottery, which has been in operation since 1973, consists of six divisions plus a security unit. The six divisions are Administration, Finance, and Operations (AFO); Information Technology; Marketing; Sales; Public Affairs; and Executive.

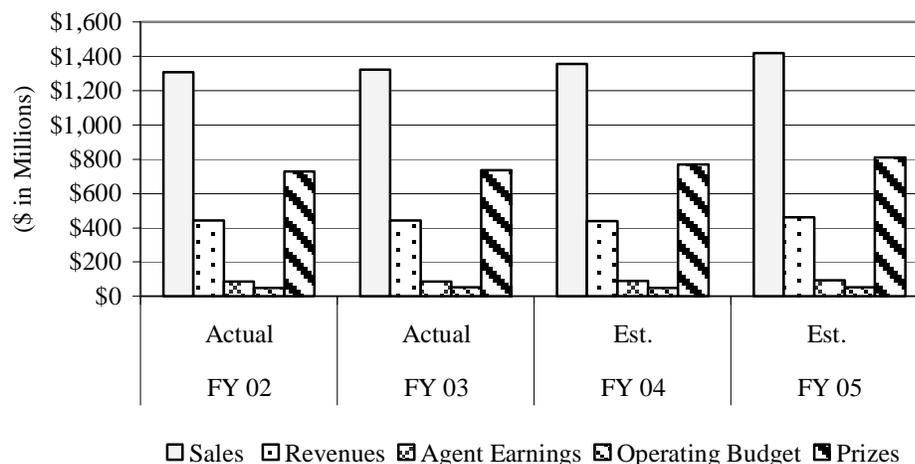
The lottery games are sold through lottery agents which are private businesses that receive fees in exchange for selling the games to the public. All operating expenses of the agency are paid out of the proceeds from the games. The lottery currently offers seven games: Pick 3, Pick 4, Lotto, Keno, Mega Millions, Bonus Match Five, and the Instant Games. In fiscal 2003, 55.8% of sales receipts paid for prizes, 6.6% paid for agent commissions and redemption fees, 3.9% paid the agency's operating costs, and the remaining 33.6% of the receipts was credited as revenue to the State.

Performance Analysis: Managing for Results

Exhibit 1 provides fiscal 2002 and 2003 actual and fiscal 2004 and 2005 estimated figures for lottery sales, agent earnings, lottery operating budget expense, and prize amounts.

Exhibit 1
Lottery Sales and Selected Expenditures
(\$ in Millions)

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>
	<u>Actual</u>	<u>Actual</u>	<u>Est.</u>	<u>Est.</u>
Sales	1,306.60	1,322.60	1,354.5	1,420.1
Revenues	442.50	444.90	440.8	461.9
Agent Earnings	85.4	87.1	91.7	95.1
Operating Budget	50.4	52.0	50.9	52.6
Prizes	728.2	738.4	771.1	810.5
Revenues to Sales	33.87%	33.64%	32.54%	32.53%
Agent earnings to Sales	6.54%	6.59%	6.77%	6.70%
Operating budget to Sales	3.86%	3.93%	3.76%	3.70%
Prizes to Sales	55.73%	55.83%	56.93%	57.07%



Source: Maryland State Lottery

- **Agent Earnings Keep Pace with Sales:** Lottery agents are compensated with a commission for selling and cashing lottery tickets. In addition, the lottery maintains an agent bonus and incentive program that is capped at one-half of 1% of gross sales. As shown in Exhibit 1, the total amount of agent commissions and bonuses is expected to be \$95.1 million in fiscal 2005, or \$3.4 million more than what was paid to agents in fiscal 2004. However, as a percentage of sales these commissions and bonuses have remained steady at approximately 6.65% of gross sales annually.

Analysis of the FY 2005 Maryland Executive Budget, 2004

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- **Operating Budget Cost to Sales Ratio:** One of the agency's Managing for Results (MFR) goals is to achieve a ratio of operating costs to sales of 5% or less on an annual basis. As shown in Exhibit 1, the lottery has surpassed its objective in the last four fiscal years. Based on anticipated sales and operating costs in fiscal 2004 and 2005, the lottery will continue to maintain a cost to sales ratio below 4%. Moreover, if the fiscal 2004 and 2005 sales and operating cost estimates hold true, in each of fiscal 2002 through 2005, the Lottery will reduce its operating cost to sales ratio from 3.86% to 3.70%.

- **Prize Payouts Remain Stable:** Prize payouts for the games operated by the Lottery are expected to be \$771.1 million in fiscal 2004, which is up from the \$738.4 million paid out in prizes in fiscal 2003. From fiscal 2003 through fiscal 2005, the sales to prize ratio is expected to increase 1.2% points. The increase is due to the growth in sales primarily being derived from Keno and Instant games which naturally have higher payout ratios.

Governor's Proposed Budget

The fiscal 2005 allowance for the State Lottery Agency is \$52.6 million, which is \$1.7 million, or 3.2% over the fiscal 2004 working appropriation. **Exhibit 2** summarizes the major changes.

**Exhibit 2
Governor's Proposed Budget
State Lottery Agency
(\$ in Thousands)**

	<u>FY 03 Actual</u>	<u>FY 04 Approp.</u>	<u>FY 05 Allowance</u>	<u>FY 04-05 Change</u>	<u>FY 04-05 % Change</u>
Special Funds	\$51,716	\$50,919	\$52,644	\$1,725	3.4%
Contingent & Back of Bill Reductions	0	0	-71	-71	
Adjusted Special Funds	\$51,716	\$50,919	\$52,573	\$1,654	3.2%
Adjusted Grand Total	\$51,716	\$50,919	\$52,573	\$1,654	3.2%

Where It Goes:

Personnel Expenses

Decreased turnover rate	\$51
Employee and retiree health insurance cost increase.....	63
Increments and other compensation	35
Other fringe benefit adjustments	17

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Where It Goes:

Nonpersonal Expenses

Four additional contractual positions.....	151
Discontinuation of 800 number winning number service.....	-352
Climate control for warehouse space.....	48
Decreased motor vehicle.....	-30
Increased funding to support advertising and promotion of Lottery products..	2,000
Reduced capital lease payments.....	-141
Delayed equipment purchases.....	-303
Miscellaneous.....	115

Total **\$1,654**

Note: Numbers may not sum to total due to rounding.

Impact of Cost Containment

The fiscal 2005 allowance reflects the elimination of the appropriation for matching employee deferred compensation contribution of \$70,538 contingent upon the enactment of a provision in the Budget Reconciliation and Financing Act (BRFA) of 2004.

Personnel Expenses

The fiscal 2005 allowance provides \$10.1 million for personnel expenses to support 170 regular employees. These expenses account for 19.2% of the agency's total budget and accounts for \$166,035 of the \$1.7 million of additional funds provided in the allowance. The increase in personnel expenses results primarily from a statewide increase in the cost of employee and retiree health insurance. The lottery maintains its position count in fiscal 2005. However, the Lottery will add 4 contractual positions. Two of the contractual positions are part-time and will be working on special projects. The other contractual positions are required for increased processing needs and secretarial help.

Communication

The fiscal 2005 allowance provides \$592,000 for communication expense which is a decrease of \$352,000. The reduction is the result of discontinuing the 800 number service which was specifically for "winning numbers" information.

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Utilities

The fiscal 2005 allowance provides a \$48,000 increase to fund the monthly utility cost for the warehouse. The warehouse needs to be climate controlled for proper storage of the instant tickets. Extremes of temperature are detrimental to the latex coverings on the tickets.

Motor Vehicle

The fiscal 2005 allowance includes a \$30,000 reduction for the purchase/lease of new vehicles.

Advertising

The allowance provides \$37.7 million for contractual services which is a \$2.1 million increase over the fiscal 2004 allowance of \$35.6 million. The increase is entirely due to additional funds for advertising and promotional expenses. In fiscal 2004 the advertising budget was reduced by \$2.0 million through legislative action. The 2005 allowance provides \$13.2 million for advertising, which is a 17.9% increase over fiscal 2004.

Equipment

The allowance for the replacement of equipment decreased \$141,000 due to the fiscal 2004 conclusion of the lease for the in-house mainframe computer system. The allowance for equipment also decreased \$303,000 due to the Lottery forgoing the purchase of 100 Enunciator Boards and 500 Keno Monitors and Controllers. Additional reductions are attributed to an overstatement of estimated fiscal 2004 lease payments and the decision not to purchase optional equipment for a prior years purchase.

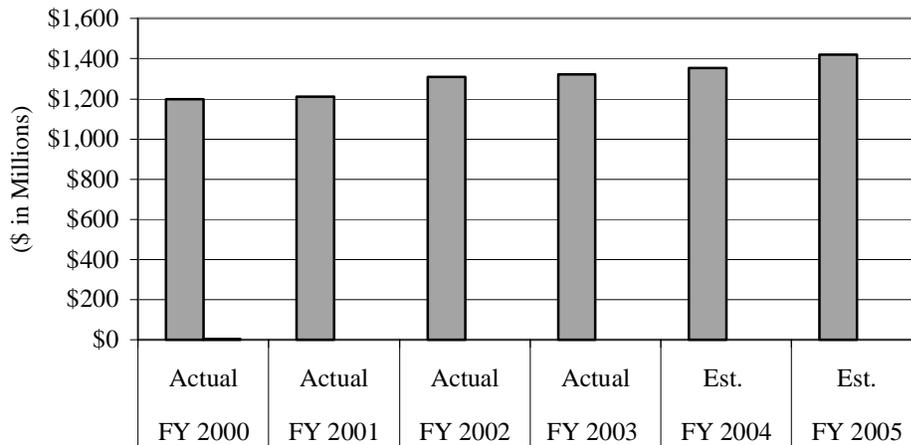
Issues

1. Overview of Revenue Results and Forecasts

Fiscal 2003 Results

The Lottery recorded total sales of \$1,322.6 billion during fiscal 2003. This represents a \$15.6 million, or 1.2% increase over sales recorded for fiscal 2002. Fiscal 2003 sales resulted in net revenue of \$444.9 million, of which \$422.9 million was credited to the State's general fund after distributing \$22.0 million to the Maryland Stadium Authority. As shown in **Exhibit 3**, the Lottery has achieved record sales growth in each of the last four years. The Board of Revenue Estimates (BRE) is expecting continued sales growth in fiscal 2004 and 2005.

Exhibit 3
Sales Growth
Fiscal 2000 through 2005



Source: Maryland State Lottery

Pick 3: Sales declined by \$10.1 million, or 3.31% from fiscal 2002. The lottery industry as a whole is noting a decline in Pick 3 sales. One of the major reasons for the decline is that the top prize of \$500 is no longer attractive to players, since many other on-line games offer higher prizes. Several promotions offering extra chances to win additional prizes have been run in an effort to boost sales; however, Pick 3 has fallen to third place behind Keno and instant ticket sales. In addition, as shown in **Exhibits 5 and 6**, Pick 3 December 2003 sales and revenues have continued to decline 3.0% and 4.9%, respectively.

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Pick 4: Sales increased by \$2.2 million, or 1.0% over fiscal 2002. Prize payouts were higher resulting in a 15.8% drop in revenues.

Lotto: Sales decreased by \$3.5 million, or 9.2% from fiscal 2002 levels. It is believed sales have decreased because the game does not offer big jackpots like Mega Millions. Revenues decreased by \$704,345 or 4.8%.

Keno and Keno Bonus: Sales grew by \$21.7 million, or 6.1% in fiscal 2003. It is believed that continued growth in Keno is due to the social environment in which the game is played, the instant winning experience (new games are drawn every minute), and the possibility of winning large prizes. Sales of both Keno games are continuing to grow, however, at a slower rate. One possible reason for the slow sales growth is that the opportunity to place new monitors in additional venues is becoming increasingly difficult. Revenues increased by \$8.4 million, or 8%.

Mega Million: Sales decreased by \$8.7 million, or 11.9%. The sales of Mega Millions are primarily driven by its ability to generate large jackpots. During fiscal 2003, Mega Millions did not produce very many large jackpots and as a result both sales and revenues decreased. Revenues were down by \$3.7 million, or 11.78%.

Bonus Match 5: Sales increased by \$12.9 million, or 156.9%. Fiscal 2003 was the first full year of sales of Bonus Match 5 – launched in February 2002 as a replacement to Cash In Hand which was discontinued in September 2002. Revenues increased by \$4.7 million, or 198%.

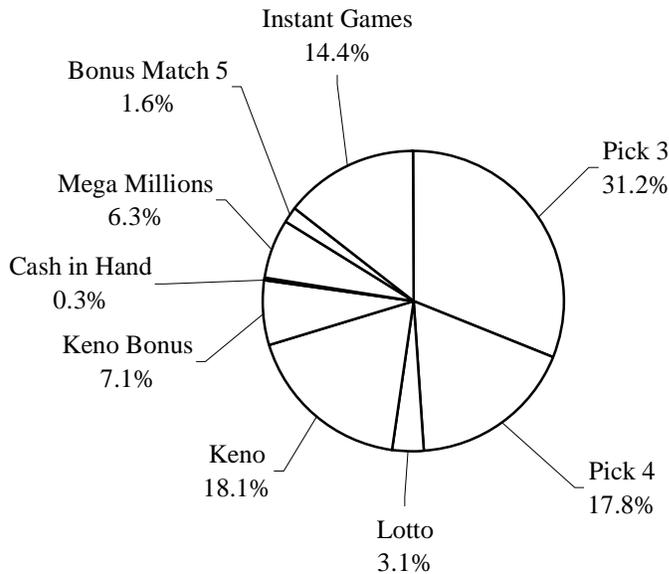
Instant Games: Sales increased by \$17.4 million, or 5.8% and revenues decreased \$5.5 million, or 7.9%. The increase in sales is attributed to the introduction of more \$5 and \$10 tickets, which provide additional winning experiences. Also, increased sales are attributed to the expansion of the product distribution network with Instant Ticket Vending Machines (ITVM's) ITVMs provide more security and allow the Lottery to offer the instant products in locations which were previously inaccessible. The decrease in revenues is attributable to additional administrative expenses, which are not expected to be carried into fiscal 2004.

Cash In Hand: Due to the decline in sales, this game was discontinued in September 2002. In March 2004, the Lottery expects to unveil a new game "Instant Win." **DLS recommends that the Lottery brief the committees on why Cash In Hand was discontinued and what the expectations are for the new product offering "Instant Win." Additionally, DLS requests the Lottery discuss other planned new product offerings as well as any changes to existing games.**

Exhibit 4 illustrates the percentage of total revenue each game contributes.

Exhibit 4
Fiscal 2003 Revenue by Game

<u>Game</u>	<u>FY 03 Revenues</u>
Pick 3	\$138,860,846
Pick 4	79,190,139
Lotto	13,775,644
Keno	80,372,715
Keno Bonus	31,757,019
Cash in Hand	1,299,370
Mega Millions	28,169,846
Bonus Match 5	7,191,456
Instant Games	64,276,932



Source: Maryland State Lottery

Fiscal 2004 Revenue Performance

BRE set the sales target for fiscal 2004 at \$1,354.5 billion which would result in general fund revenues of \$418.8 million. This is a 1.0% decrease from the previous estimate, which set fiscal 2003 general fund revenues at \$422.9 million. A game by game comparison of year-to-date sales (through December 2003) in **Exhibit 5** shows that sales are up 2.85% for all lottery games.

Exhibit 5
December 2003 Year-to-date Sales Versus December 2002

<u>Gross Sales</u>	<u>Year-to-date December 2002</u>	<u>Year-to-date December 2003</u>	<u>Difference</u>	<u>Percent</u>
Pick 3	\$148,468,623	\$143,951,659	(\$4,516,964)	-3.04%
Pick 4	100,684,357	102,142,736	1,458,379	1.45%
Lotto & Lotto subs	17,490,861	17,052,583	(438,278)	-2.51%
Mega Millions	33,366,050	38,070,393	4,704,343	14.10%
Keno	131,186,272	130,047,301	(1,138,971)	-0.87%
Keno Bonus	54,197,281	57,693,148	3,495,867	6.45%
Cash in Hand	3,871,668	0	(3,871,668)	-100.00%
Bonus Match 5	10,331,206	12,263,132	1,931,926	18.70%
Instant	154,583,367	171,593,597	17,010,230	11.00%
Total Gross Sales	\$654,179,685	\$672,814,549	\$18,634,864	2.85%

Note: Includes sales as of December 31, 2002, for fiscal 2003 and sales as of December 31, 2003, for fiscal 2004.

Source: Maryland State Lottery

Net revenues are up \$7.6 million, or 3.4% above revenue attainment through December 31, 2004, as shown in **Exhibit 6**. Although revenues increased during the first half of fiscal 2004, it is estimated that \$5.0 million in direct sales was lost due to Hurricane Isabel which destroyed the businesses of four large lottery agents including the largest. Most of the increase in sales is due to a strong showing by the Instant Games; they are expected to continue to be strong for the remainder of the fiscal year. Pick 4, Keno, Instant Games, and Mega Millions are contributing significantly to the first half of fiscal 2004 net revenues. **DLS recommends that the Lottery brief the committees on the latest results and forecasts with respect to sales and revenues and steps being taken to improve results.**

Exhibit 6
December 2003 Year-to-date Revenues Versus December 2002

<u>Net Revenue</u>	<u>Year-to-Date December 2002</u>	<u>Year-to-Date December 2003</u>	<u>Difference</u>	<u>Percent</u>
Pick 3	\$68,164,694	\$64,790,407	(\$3,374,287)	-4.95
Pick 4	41,995,814	49,661,107	7,665,293	18.25
Lotto & Lotto subs	6,996,836	6,462,795	(534,041)	-7.63
Mega Millions -				
Stadium	13,619,684	16,032,452	2,412,768	17.72
Keno	39,514,408	39,307,815	(206,593)	-0.52
Keno Bonus	15,471,683	16,496,865	1,025,182	6.63
Cash in Hand	1,299,406	0	(1,299,406)	-100.00
Bonus Match 5	3,015,554	3,999,947	984,393	32.64
Instant- Stadium	31,714,192	32,623,501	909,309	2.87
Total Net Revenue	\$221,792,271	\$229,374,889	\$7,582,618	3.42%

Note: Includes revenues as of December 31, 2003, for fiscal 2003 and revenues as of December 31, 2003, for fiscal 2004

Source: Maryland State Lottery

International Lottery Game Cancelled

Chapter 449, Acts of 2002 authorized the State Lottery Agency to enter into agreements to operate multi-jurisdictional lottery games. The Maryland Lottery along with 20 other states had intended to participate in a new international game which had the potential to generate very large jackpots. However, in the days prior to the U.S. invasion of Iraq, four out of eight European nations pulled out resulting in the collapse of the game. **DLS recommends that the Lottery brief the committees on what alternatives it is considering to replace the international lottery game.**

Fiscal 2005 Forecast

As shown in **Exhibit 7**, fiscal 2005 general fund revenues are projected to be \$439.9 million which is 4.8% greater, or \$21.1 million more than fiscal 2004 revenues. **DLS requests the Lottery brief the committee on the feasibility of attaining the BRE estimate given the expected decline in Pick 3 revenue, the cancellation of the international game, the growing market saturation of Keno, and the expected growth in sales to be primarily derived from Keno and Instant Games which have naturally higher payout ratios.**

Exhibit 7
Actual and Projected Lottery Revenues
Fiscal 2001 through 2005
(\$ in Millions)

	<u>FY 01</u> <u>Actual</u>	<u>FY 02</u> <u>Actual</u>	<u>FY 03</u> <u>Actual</u>	<u>FY 04</u> <u>BRE</u>	<u>FY 05</u> <u>BRE</u>
Sales	\$1,210.6	\$1,306.6	\$1,322.2	\$1,354.5	\$1,420.1
Net Revenue	407.0	442.5	444.9	440.8	461.9
Less Stadium Authority	22.0	26.2	22.0	22.0	22.0
Less Transfers to Horse Racing	0.0	2.2	0.0	0.0	0.0
Total Revenue to General Fund	\$385.0	\$414.1	\$422.9	\$418.8	\$439.9
Change from Prior Year		\$29.1	\$8.8	-\$4.1	\$21.1

Source: Board of Revenue Estimates: Fiscal 2005 Governor's Budget Book Volume

2. New Game Equipment Not Purchased

The fiscal 2002, 2003, and 2004 budgets provided funding for the purchase of new game equipment. This equipment was supposed to allow the Lottery to expand its player base and thus improve overall games sales. Much of this equipment was not purchased. **Exhibit 8** presents a history over the past three fiscal years of funding provided for equipment lease payments but reallocated to other areas. In fiscal 2002, the Lottery diverted funds allocated for equipment lease payments to partially offset salary reductions. In fiscal 2003, the Lottery again diverted funding for the 2002 and 2003 equipment lease payments to fund increased salary expense. In fiscal 2004, the 2002 and 2003 equipment lease payments are again delayed and reallocated to offset reductions in the fiscal 2004 advertising budget. It is unknown if the equipment will be purchased in the second half of fiscal 2004.

Exhibit 8
Delayed Game Equipment Purchases

	<u>Cost</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
100 Enunciators	\$47,700	Not purchased due to salary reductions	Not purchased due to salary shortage	Delayed to end of fiscal year due to advertising cuts
500 Keno monitors (1st)	224,000	Not purchased due to salary reductions	Not purchased due to salary shortage	Delayed to end of fiscal year due to advertising cuts
150 On-line terminals	185,000		Not purchased due to salary shortage	Delayed to end of fiscal year due to advertising cuts
Keno monitors (2nd)	75,207		Not purchased due to salary shortage	Delayed to end of fiscal year due to advertising cuts

Source: Maryland State Lottery Agency

DLS recommends reducing \$520,200 for game equipment purchases given the agency's history of redirecting these funds to other purposes during the last three years. The reduction leaves sufficient funds for existing equipment lease payments.

3. Lottery Agency Undertakes Procurement for Consultants to Advise

Press accounts report that the Lottery Agency has undertaken a procurement for consultants to advise concerning the formulation of a request of proposal process relating to the operation of a video lottery terminal system. Funds were not specifically budgeted for this purpose, nor has legislation been enacted which would authorize the agency to proceed with the procurement in question. **DLS recommends that the Lottery brief the committees on:**

- 1. How authorization to proceed with the procurement was secured and, specifically, whether it was approved or initiated by the Lottery Commission.**
- 2. The status of the procurement and the terms of any contract awarded and the schedule of deliverables.**

Recommended Actions

	<u>Amount Reduction</u>	
1. Reduce fund for postage. This reduction provides \$119,000 to support the subscriptions to the play by mail games. The reduction provides the same amount expended for these activities in fiscal 2004.	\$ 21,000	SF
2. Reduce funds for customer access 800 lines. This reduction provides \$32,000 to support customer access 800 lines. This reduction is the same amount expended for these activities in fiscal 2004.	32,000	SF
3. Reduce funds for management studies. This reduction would reduce by one-half the funding for Managing for Results agent satisfaction and public approval performance studies. This reduction provides \$116,550 which is the same amount expended for these activities in fiscal 2004.	116,550	SF
4. Reduce funds for office equipment. This reduction provides \$15,729 to support new office equipment which is the same amount provided in fiscal 2004.	10,000	SF
5. Reduce funds for equipment purchases. Over the past three years, including fiscal 2004, the State has appropriated funds for the purchase of game equipment. The equipment has not been purchased due to the decision of the Lottery to reallocate the funds to other areas. This reduction would provide sufficient funding for existing lease payments.	520,200	SF
Total Special Fund Reductions	\$ 699,750	

Updates

1. Office of Legislative Audits' Performance Audit Follow-up Review

In 2003, the Office of Legislative Audits (OLA) performed a follow-up audit to address the findings in their December 4, 2002, performance audit report. OLA selected 18 of the 24 findings from the December 2002 report and reviewed the Lottery's progress. The review disclosed that the Lottery has made significant progress in resolving the findings. Seven findings have been corrected, 8 have substantial progress, 3 are in progress, and 6 have not been determined. OLA anticipates that if the pace of the current effort continues for all audit report recommendations, if the recommendations implemented remain in effect, and if other areas do not deteriorate, the next audit will result in an improved accountability and compliance rating.

Current and Prior Year Budgets

Current and Prior Year Budgets State Lottery Agency (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2003					
Legislative Appropriation	\$0	\$51,984	\$0	\$0	\$51,984
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	462	0	0	462
Cost Containment	0	0	0	0	0
Reversions and Cancellations	0	-729	0	0	-729
Actual Expenditures	\$0	\$51,717	\$0	\$0	\$51,717
Fiscal 2004					
Legislative Appropriation	\$0	\$50,919	\$0	\$0	\$50,919
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Working Appropriation	\$0	\$50,919	\$0	\$0	\$50,919

Note: Numbers may not sum to total due to rounding.

Fiscal 2003

The Lottery finished fiscal 2003 \$267,395 below its legislative appropriation. Significant adjustments include:

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- The addition by budget amendment of \$461,500 provided for increased vendor fees due to higher than originally estimated sales.
- The cancellation of \$728,895, which consisted of \$301,600 in excess funds from the vendor fee amendment, \$246,600 due to a denied encumbrance request for the purchase of new Lottery equipment, and an overstatement of moving costs by \$110,000.

**Object/Fund Difference Report
State Lottery Agency**

<u>Object/Fund</u>	<u>FY03 Actual</u>	<u>FY04 Working Appropriation</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	172.00	170.00	170.00	0	0%
02 Contractual	5.50	6.50	11.00	4.50	69.2%
Total Positions	177.50	176.50	181.00	4.50	2.5%
Objects					
01 Salaries and Wages	\$ 9,939,749	\$ 9,890,713	\$ 10,127,286	\$ 236,573	2.4%
02 Technical & Spec Fees	370,225	195,085	346,600	151,515	77.7%
03 Communication	1,101,871	944,691	592,881	-351,810	-37.2%
04 Travel	65,945	80,158	81,900	1,742	2.2%
06 Fuel & Utilities	56,131	70,826	118,826	48,000	67.8%
07 Motor Vehicles	272,875	241,300	210,382	-30,918	-12.8%
08 Contractual Services	36,807,307	35,584,233	37,655,886	2,071,653	5.8%
09 Supplies & Materials	216,324	168,675	183,543	14,868	8.8%
10 Equip - Replacement	175,893	227,418	86,236	-141,182	-62.1%
11 Equip - Additional	1,340,549	2,532,960	2,229,063	-303,897	-12.0%
13 Fixed Charges	749,812	982,935	1,011,166	28,231	2.9%
14 Land & Structures	619,519	0	0	0	0.0%
Total Objects	\$ 51,716,200	\$ 50,918,994	\$ 52,643,769	\$ 1,724,775	3.4%
Funds					
03 Special Fund	\$ 51,716,200	\$ 50,918,994	\$ 52,643,769	\$ 1,724,775	3.4%
Total Funds	\$ 51,716,200	\$ 50,918,994	\$ 52,643,769	\$ 1,724,775	3.4%

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.