

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **SB 452** SLS 20RS 856
 Bill Text Version: **REENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: May 17, 2020 5:04 PM	Author: FOIL
Dept./Agy.: Lottery Corporation	Analyst: Greg Albrecht
Subject: Change Percentage of Gross Revenue Transferred To State	

LOTTERIES RE INCREASE SD RV See Note Page 1 of 1
 Provides for the amount of gross revenue the Lottery Corporation is to annually transfer to the state treasury. (8/1/20)

Present law requires the Lottery to transfer 35% of gross revenue to the state each year.

Proposed law changes that transfer percentage to 25% of gross revenue, but provides that the rate goes back up to 35% on July 1, 2023 if, by FY 23, lottery transfers to the state do not exceed the amount transferred during FY20.

EXPENDITURES	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$2,000,000	\$7,400,000	\$9,400,000	\$12,800,000	\$13,000,000	\$44,600,000
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$2,000,000	\$7,400,000	\$9,400,000	\$12,800,000	\$13,000,000	\$44,600,000

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

With a lower transfer percentage to the state, the Lottery Corporation indicates that it would be able to increase prize percentages on instant ticket games (from the current 63% to a target of 70%), and would be able to offer instant win features at the lottery terminal point of sale. The Lottery has been able to document increased sales and transfers to state governments in other states that have increased their prize pay-out percentages after lowering their transfer rates (a number of natural experiments with rising and falling prize percentages), and through the addition of instant win features. In addition, rigorous statistical analysis performed by the Legislative Auditor performance audit division on Louisiana's lottery market has estimated the prize sensitivity of lottery players in the state, as well as optimum prize pay-out percentage (70%).

With a 25% transfer rate to the state (down from current law 35%), the Lottery indicates that it would phase-in an increase in the average prize percentage of instant ticket games from 63% to 70% over the next five years. In addition, it indicated that it would begin to offer the instant win feature at lottery terminals. The result of these changes is expected to be an increase in lottery sales sufficient to generate net additional transfers to the state even with a lower transfer rate. Implemented for the second half of calendar year 2020, increased transfers to the state for support of FY21 are estimated at \$4 million. Full-year effects occur after that, and phase up as prize percentages phase up. Some smaller gain might be expected in calendar year 2020 and 2021 as inventories of instant games at lower current prize percentages are worked off and replaced with higher prize percentage gains over the next several months. That possibility is acknowledged by a \$2 million deduction from each year's full expectation.

Increased transfers flow to the Lottery Proceeds Fund which is dedicated to the expenditure mandate of the Minimum Foundation Program (MFP). To the extent these additional transfers are realized, state general fund support of the MFP can be reduced.

The bill provides that the lower transfer rate (25%) stays in place only if the Lottery is able to transfer to the state more funds by the end of FY22 than it transfers in FY20. If it does not, the transfer rate reverts back to 35%. While FY20 is not yet complete, the Lottery is on track to transfer approximately \$167.7 million during FY20.

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}

House
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

John D. Carpenter
 Legislative Fiscal Officer