

Fiscal Note

State of Alaska
2020 Legislative Session

Bill Version:	HB 246
Fiscal Note Number:	3
(H) Publish Date:	2/12/2020

Identifier: 0894-DOR-TAX-2-6-20	Department: Department of Revenue
Title: LOTTERY: PUB. CORP; FUND; UNLAWFUL SALE	Appropriation: Taxation and Treasury
Sponsor: RLS BY REQUEST OF THE GOVERNOR	Allocation: Tax Division
Requester: Governor	OMB Component Number: 2476

Expenditures/Revenues

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

	FY2021	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2021 Request	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
OPERATING EXPENDITURES	FY 2021	FY 2021					
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

None				***	***	***	***
Total	0.0	0.0	0.0	***	***	***	***

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

Estimated CAPITAL (FY2021) cost: 3,000.0 *(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? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version/comments:

Initial version.

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

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Division: Tax Division	Date: 02/06/2020 03:00 PM
Approved By: Brad Ewing, Administrative Services Director	Date: 02/11/20
Agency: Office of Management and Budget	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
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Analysis

Background

This bill would create the Alaska Lottery Corporation within the Department of Revenue. The corporation would be governed by a seven-member Board appointed by the Governor for staggered five-year terms. The corporation 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 corporation would have broad authority to determine the structure, management, and games of the lottery. Games could potentially include single- and multi-jurisdiction draw games, instant tickets, sports betting, keno, and video lottery terminals. Portions of the lottery administration and management function may be contracted out.

The stated purpose of the lottery corporation is revenue generation. At least on a quarterly basis, the corporation would transmit net profits to the Department of Revenue, and those transfers would go to the Lottery Profits Fund (LPF), a sub-fund of the general fund, created in the proposed legislation.

This bill suggests that 90 percent of the balance of the LPF would be available for appropriation each year to support programs related to domestic violence prevention, drug abuse prevention, foster care, seniors, and homelessness. The bill proposes that the remaining 10 percent of the balance of the LPF would be available for appropriation to the education endowment fund established in AS 43.23.220. Lottery net profits would be treated as Designated General Fund revenues and as with all such revenues, could technically be appropriated for any purpose.

Revenue Impact

The revenue impact of this bill is uncertain. The lottery corporation would transfer net profits (after all expenses) to the state, and this transferred amount would be considered Designated General Fund revenue. The amount of the revenue stream will depend on the types of games offered, any restrictions or regulations on the lottery, and the administrative cost structure adopted.

Based on the experience of other states with lotteries, and scaled to Alaska using population size, a lottery offering draw games only (such as Lotto and Powerball) could generate about \$5-8 million in annual transfers to the state. A lottery with both draw and instant games could generate about \$35 million (within a range from \$8 to \$107 million). Finally, a lottery with draw and instant games as well as video lottery terminals (VLTs), could generate about \$135 million (within a range from \$69 to \$255 million).

Based on the experience of other states, Alaska should not expect significant transfers to the state in the first two years after passing a lottery. Experiences of other states show that the first year is primarily the establishment of the corporation and the development of regulations and administrative and contractual structures to support a lottery and the corporation. It is reasonable to assume that sales could begin in year two and that a lottery with instant and draw games could be fully operational by the third year after passage, with transfers to the state coming in that year. For video lottery terminal games, it may be reasonable to allow for a longer ramp-up period.

The revenue estimate shown on this fiscal note is indeterminate, due to the wide range of possible scenarios based on decisions yet to be made by the lottery corporation and board.

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Analysis**Implementation Cost**

This fiscal note does not show costs or positions for the lottery corporation. Instead, this fiscal note shows costs borne by the state to establish the corporation. The corporation would be capitalized by a one-time appropriation of \$3 million in FY 2021. This \$3 million capital request reflects an estimate for seed funding for the lottery corporation and is based on discussions with other states and industry experts. If necessary, the lottery corporation could be authorized to borrow additional funds from the private market for any additional startup costs. 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 corporation would be incurring expenses but not yet taking in any revenue.

Once lottery games begin, it is expected that the corporation would be profitable and return net profits to the state beginning with the second year of lottery operations (third year after lottery authorization). Ongoing corporation expenses and staffing are not reflected in this fiscal note. Depending on the decisions of the board and corporation, some or most administration could potentially be outsourced to private companies with extensive lottery experience. At least 10-12 positions would be needed in the corporation for certain legal, oversight, and administrative tasks that cannot readily be outsourced. If most work is instead done in-house, the corporation may need 25 or more employees.

The Department could implement bill provisions related to establishing and managing the new Lottery Profits Fund using existing resources.