

SENATORS

CLARENCE D. BELL, CHAIRMAN
PATRICK J. STAPLETON, VICE CHAIRMAN
ROY C. AFFLERBACH
H. CRAIG LEWIS
JOHN E. PETERSON
ROBERT D. ROBBINS



REPRESENTATIVES

RONALD C. RAYMOND, SECRETARY
DAVID R. WRIGHT, TREASURER
ROBERT W. GODSHALL
CHRISTOPHER K. McNALLY
KAREN A. RITTER
SAMUEL H. SMITH

Legislative Budget and Finance Committee

A JOINT COMMITTEE OF THE PENNSYLVANIA GENERAL ASSEMBLY

OFFICES: Room 400 • Finance Building • Harrisburg • Tel: (717) 783-1600 • Facsimile: (717) 787-5487
MAILING ADDRESS: P.O. Box 8737 • Harrisburg, PA 17105-8737

EXECUTIVE DIRECTOR
Phillip R. Durgin

CHIEF ANALYST
John H. Rowe, Jr.

STATE LOTTERY FUNDING OF PROGRAMS AND SERVICES FOR OLDER PENNSYLVANIANS

A REPORT IN RESPONSE
TO ACT 1992-128

June 1994

Table of Contents

	<u>Page</u>
I. Introduction.....	1
II. Study Findings and Recommendations.....	5
Findings	5
Recommendations.....	27
III. PA State Lottery Overview.....	31
Background.....	31
Game Structure	32
IV. PA State Lottery Sales and Net Income	39
Gross Sales.....	39
Sales Breakdown, by Game.....	43
Lottery Sales Projections.....	46
State Lottery Net Income	49
V. Recent Actions Taken by the PA State Lottery to Stabilize and Increase Sales.....	52
Lottery Initiatives.....	52
Development of an Annual Marketing Plan	52
Instant Ticket Validation and Accounting System	53
Instant Ticket Vending Machines.....	55
Instant Ticket Enhancements.....	58
Super 7 and Cash 5 Modifications	60
Generic Regulations for Instant Games	60
Additional Emphasis on Retailer Relations	61
Increase in Advertising Expenditures	65
Research-Based Marketing Strategies	67
Impact on Lottery Sales	68

Table of Contents

(Continued)

	<u>Page</u>
VI. State Lottery Fund Expenditures for Programs and Services Benefitting Older Pennsylvanians.....	75
Historical Funding Chronology.....	75
Current Expenditures	82
Expenditure Projections	82
Compliance With Statutory Spending Requirements.....	84
Analysis of Lottery Fund Expenditures, by Program/Function	88
VII. State Lottery Fund Financial Condition	
Fund Description	141
Financial Condition as of June 30, 1993	142
VIII. Lottery Products and Approaches Being Attempted by Some States to Increase Sales	152
Video Lottery	152
Keno	156
Lottery by Phone.....	158
Midday Drawings	159
Use of Unclaimed Prize Money	160
Direct Marketing	161
Subscription Plans and Advance Play.....	162
Powerball	163
Multi-Jurisdiction Lotteries	165
Use of Television Game Shows	165
Self-Service/Player-Activated Terminals	167
Expansion of the Lottery Retailer Base.....	168
Special Promotions	176
Selling Advertising on Lottery Tickets.....	177
IX. Appendices	
A. Background Information on the Pennsylvania State Lottery.....	180
B. Summary of Major Statutes Affecting the Pennsylvania State Lottery	187
C. Summary of Pending Lottery-Related Legislation.....	190

Table of Contents
(Continued)

	<u>Page</u>
IX. Appendices (Continued)	
D. State Lottery Fund Financial Statement (Budgetary Basis) FY 1971-72 to FY 1992-93	197
E. State Lottery Funding of Programs for Older Pennsylvanians, FY 1971-72 to FY 1992-93	199
F. Historical PA Lottery Gross Sales, by Game, FY 1971-72 to FY 1992-93	201
G. PA Lottery Economic and Benefit Impact Report, by County During Fiscal Year 1992-93.....	202
H. The State Lottery Annuity Process	204
I. Prize Structure for PA Lottery Super 7, Wild Card Lotto, and Cash 5 Games.....	210
J. States With Lotteries and How They Use Lottery Profits	212
K. Lottery Product Mix, PA and Other Lottery States	214
L. Pattern of Gross Lottery Sales, U.S., Pennsylvania, and Other Large Lottery States, FY 1982-83 Through FY 1992-93.....	216
M. A Comparison of the Pennsylvania Lottery to Other Large State Lotteries in Selected Performance Measures.....	222
N. Sale of Out-of-State Lottery Tickets	226
O. Elderly Population Indicators, 1990	228
P. Percent of Elderly, by Poverty Status, Housing Tenure, and Disability, 1990	229
Q. Department of Revenue's Response to This Report	232
R. Department of Aging's Response to This Report.....	238

I. Introduction

Study Origin

The Pennsylvania State Lottery began operation in 1972. From its inception, Lottery proceeds have been dedicated to programs and services benefitting older Pennsylvanians. In its first full year of operation the Lottery generated \$25.4 million for senior citizen property tax and rent assistance. By FY 1992-93, the Lottery was supporting an array of programs and services for older Pennsylvanians with annual costs approaching \$600 million.

Act 1992-128 directs the Legislative Budget and Finance Committee to conduct a study of the State Lottery and its ability to continue to support these programs and services. Specifically, Act 128 requires that the Committee. “. . . conduct a study of the State Lottery as it impacts upon the future of programs and services for older Pennsylvanians and the possible need for legislative action”

Study Objectives

In responding to the Act 128 study mandate, our objectives were:

1. To identify all programs, services, and functions funded through the State Lottery Fund, and to determine their current costs and service or activity levels.
2. To examine all Lottery-funded programs, services, and functions, and to analyze projections of future program demand, service levels, and associated costs.
3. To determine the current and projected financial condition of the State Lottery Fund.
4. To analyze Lottery sales, including both short- and long-term projections of net collections from the State Lottery to determine if Fund revenues will be sufficient to support Lottery-funded programs, services, and functions at existing or expanded levels, or if cutbacks or program changes will be necessary to maintain the solvency of the Fund.
5. To determine if changes to law, regulation, or policy may be needed to maintain the future solvency of the State Lottery Fund.

Scope and Methodology

This study focused on the revenue-generating capacity of the PA State Lottery and the funding requirements that programs and services for older Pennsylvanians place on the State Lottery Fund. Although selected aspects of Lottery operations and programs were analyzed, the study did not involve a performance audit of the Department of Revenue's State Lottery Bureau or any of the individual Lottery-funded programs.

In addressing the Lottery's revenue-generating capacity, we reviewed the evolution of lottery games in Pennsylvania and historical trends in gross sales and net income. We also examined the Lottery's current game mix, recent sales trends, and sales and net income projections. Our work in this area involved numerous meetings with staff of the Bureau of State Lottery and the Department of Revenue's Bureau of Fiscal Policy, and examination of internal Lottery sales and revenue reports, pertinent Commonwealth fiscal reports, and State Lottery marketing plans.

We also analyzed the impact on FY 1993-94 sales of game enhancements and other marketing and technological initiatives recently undertaken by the Lottery to stabilize and increase sales. The revenue analysis included a review of the concept of "lottery maturity" and whether the characteristics of a "mature" lottery are evident in Pennsylvania.

We also compared the pattern of the PA State Lottery's gross sales to sales trends in nine other large state lotteries over the past ten years. The states selected for comparison are those with annual gross sales of \$1 billion or more. We developed these comparisons using data obtained from the states and from LaFleur's '94 World Lottery Almanac. We used the same sources to compare the PA State Lottery to other large state lotteries in selected measures of lottery performance (e.g., per capita sales and operating expenses as a percentage of sales).

To determine the funding requirements placed on the State Lottery, we identified all programs, services, and functions funded through the State Lottery since its inception in 1972. This involved examination of the State Lottery Law and related state laws and regulations, Governor's budget documents, Department of Revenue and Lottery documents, and Commonwealth fiscal reports.

From these activities, we analyzed historical spending patterns and tested compliance with statutory funding requirements (e.g., related to prize payout and program funding). We also examined each program and function currently funded by the State Lottery and determined current and projected costs and activity or service levels. This aspect of the study included an analysis of the assumptions upon which future demand for Lottery expenditures are based and demographic data on the number of older Pennsylvanians who will potentially be in need of

Lottery-funded programs and services. Our work in these areas involved interviews and meetings with program officials and staff of the Departments of Aging, Revenue, Public Welfare, and Transportation, and the Governor's Budget Office and examination of program, statistical and operational data.

To determine the financial condition of the State Lottery Fund, we examined Fund financial statements presented in State Lottery reports, Governor's budget documents, and the Commonwealth's Comprehensive Annual Financial Report (CAFR). We met with representatives of the Bureau of Financial Management, the Comptroller's Office, and the Department of Revenue regarding the statements and to reconcile the differences in Fund balances as reported on the cash (budgetary) basis and the modified accrual (GAAP) basis. We did not conduct a financial audit of the Lottery Fund or the programs supported by the Fund, and accordingly, we express no opinion on the financial statements or information presented in this report.

The study also included an examination of new lottery products and approaches that might be considered for Pennsylvania as a means of strengthening the Lottery's revenue-generating capacity. To identify possible products and approaches, we surveyed current lottery industry literature, contacted other state lotteries, and spoke with lottery industry associations, representatives, and analysts.

Acknowledgements

The LB&FC staff conducted this study with input and assistance from the Departments of Revenue, Aging, Public Welfare, and Transportation, and the Governor's Office of the Budget. We thank Secretary of Revenue Eileen H. McNulty and Department of Revenue officials and staff, including especially Charles W. Kline, Executive Director of the PA State Lottery; Thomas L. Shaub, Director of the Bureau of Fiscal Policy; and Randy Boyer, Statistical Supervisor, Bureau of Policy Analysis and Planning.

We also thank Secretary of Aging Linda M. Rhodes and Department officials and staff, including Sharon Alexander-Keilly, Deputy Secretary of Development and Operations; Thomas Snedden, Director of the Bureau of Pharmaceutical Assistance; Glen Dunbar, Director of the Bureau of Policy, Planning and Research; R. Dan Ainscough, Director of the Bureau of Program and Field Operations; Dale Laninga, Director of the Bureau of Community-Based Care; Gerald O'Neal, Director of the Bureau of Administrative Services; and Secretary of Public Welfare Karen F. Snider and John Ross, Director of the DPW Division of Nursing Home Rates; Secretary of Transportation Howard Yerusolim and LaVerne E. Collins, Chief of the Lottery Transportation Division in PennDOT's Bureau of Public Transit; Secretary of Budget Michael H. Hershock and Helen Herd of the Bureau of Budget Analysis;

Donald E. Edmiston and William A. Higgins of the Bureau of Financial Management; and Herman W. Umholtz of the Comptrollers Office.

We also acknowledge the information and assistance received from the National Association of State and Provincial Lotteries (NASPL), Bruce and Teresa LaFleur of TLF Publications, and the Public Gaming Research Institute, Inc.

IMPORTANT NOTE

This report was developed by the Legislative Budget and Finance Committee staff. The release of this report should not be construed as indicating that LB&FC members necessarily endorse all of the report's findings and recommendations.

Any questions or comments regarding this report should be directed to Philip R. Durgin, Executive Director, Legislative Budget and Finance Committee, P.O. Box 8737, Harrisburg, Pennsylvania 17105-8737.

II. Study Findings and Recommendations

When the General Assembly enacted the State Lottery Law in August 1971 Pennsylvania became the fifth state to authorize the operation of a lottery. The Pennsylvania State Lottery began operation on March 7, 1972, selling a 50-cent ticket that featured weekly drawings and a grand prize of \$1 million. The Lottery generated about \$52.3 million in sales during its first year. Today the Lottery sells tickets for instant games and on-line numbers and matrix games, including the Daily Number, Big 4, Super 7, Wild Card Lotto, and Cash 5. In FY 1992-93 these games generated gross sales of \$1.4 billion and \$612.8 million in net income.

Pennsylvania is currently one of 36 states that operates a lottery.¹ While some states return lottery proceeds to their general funds or use them for education funding, Pennsylvania earmarks Lottery profits solely for programs and services for older Pennsylvanians. Since beginning operation in 1972, the PA State Lottery has sold more than \$18 billion worth of lottery tickets. About 40 percent of this amount, or \$7.3 billion has been used to fund property tax and rent rebates, free and reduced fare transit, pharmaceutical assistance, and a wide array of other programs and services for older Pennsylvanians. The remainder has been used to pay prizes, retailer commissions, and operating expenses.

Act 1992-128 directed the Legislative Budget and Finance Committee to conduct a study of the State Lottery “as it impacts upon the future of programs and services for older Pennsylvanians. . . .” In this study we examined the revenue-generating capacity of the State Lottery and its ability to meet the funding requirements that programs and services for older Pennsylvanians place on it. The following is a summary of the study’s major findings.

Findings

A. Demand for Lottery-Funded Services

The rapid increase in the State’s older population, especially among the oldest and most frail, is placing increasingly heavy funding demands on the State Lottery Fund.

Pennsylvania has one of the “oldest” populations in the United States. According to 1990 U.S. Census data, 2.4 million Pennsylvanians, or more than 20 percent of the total state population, are 60 years of age or older. This ranks Pennsylvania second only to Florida in the percentage of state residents in this age group

¹The State Lottery is administered by the Bureau of Pennsylvania State Lottery in the Department of Revenue.

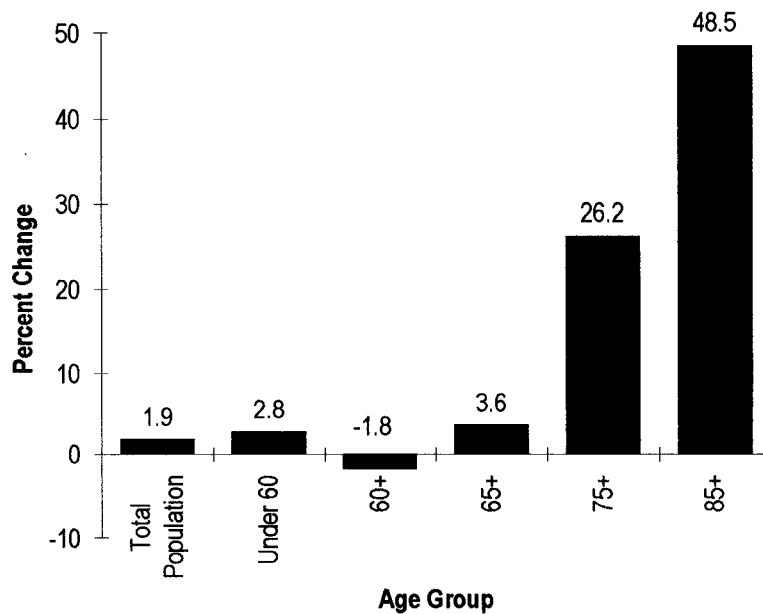
and represents an increase of about 33 percent in the 60 and over population since the Lottery was started in 1972.

The state's older population is growing at a rapid rate and is increasingly becoming a higher proportion of the total population. Between 1980 and 1990, the number of Pennsylvanians age 60 and over increased by over 12 percent while the under 60 population decreased by about 3 percent. During the same period, the age 75 and over population increased by nearly 30 percent and the age 85 and over group increased by 32 percent.

Further increases will occur during the 1990s, especially in those segments of the population referred to as the "oldest old" (i.e., those over 85 years of age). As shown below, although there will be a modest decrease in the total number of persons over age 60, the number of persons 75 and older will increase by 26 percent between 1990 and 2000 and the number 85 and over will grow by almost 50 percent by the year 2000. These segments of the older population have special program needs that will significantly impact the demand for many programs and services currently paid for from the Lottery Fund.

Exhibit 1

**Projected Increases in the Number of
Older Pennsylvanians, 1990 to 2000**



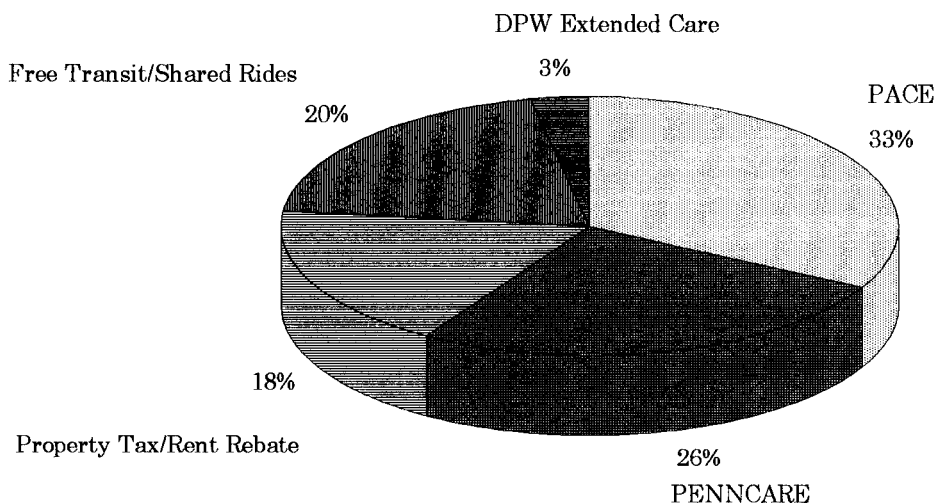
Source: Developed by LB&FC staff from data obtained from the Pennsylvania State Data Center.

B. Programs and Services Funded by the State Lottery

During FY 1993-94 a total of \$803.6 million was available from the State Lottery Fund for programs and services benefitting older Pennsylvanians and for Lottery administrative and operational costs.² This represents a slight decline from the previous year and is significantly lower than the late 1980s when annual Lottery Fund spending peaked in the \$970 million range. The distribution of the amount available in FY 1993-94 for programs and services directly benefitting older Pennsylvanians (\$575.7 million) is shown below:

Table 1

Lottery Funding of Programs for Older Pennsylvanians FY 1993-94 Available



Source: Developed by LB&FC staff from information in the 1994-95 Governor's Executive Budget.

In addition to direct program funding, \$227.9 million was available in FY 1993-94 for Lottery administrative and operating expenses, as follows: payment of prizes, \$128.9 million; Department of Revenue general government operations (primarily the Bureau of State Lottery), \$49.7 million; on-line vendor commissions, \$22.8 million; payment of personal income tax for Lottery prizes, \$22.6 million; Department of Aging general government operations, \$3.4 million; and other miscellaneous costs, \$0.5 million.

²See Table 19 for a breakdown of FY 1992-93 actual, FY 1993-94 available, and FY 1994-95 budgeted Lottery Fund expenditures.

1. *When originally established, the State Lottery funded property tax relief and free transit services for older Pennsylvanians. Total Lottery expenditures for this purpose in FY 1972-73 were \$25.4 million. From that starting point, Lottery funding grew to encompass a wide variety of other programs and services. The State Lottery currently provides financial support for programs and services for older Pennsylvanians in seven major program areas. These include: pharmaceutical assistance (PACE), an array of in-home and community-based services for older Pennsylvanians ranging from congregate meals to intensive in-home care (PENNCARE), Property Tax/Rent Rebates, and the Free Transit and Shared-Ride Programs. Together, the amount available for these programs in FY 1993-94 is \$575.7 million or about 72 percent of total fiscal year spending from the Lottery Fund:*

- *The PACE Program pays for prescription drug, insulin, and insulin supplies after a mandatory \$6 copayment is made by eligible participants. Pennsylvania residents who are 65 years of age or older and who meet income requirements are eligible for PACE. An annual transfer is made from the State Lottery Fund to the PACE Fund to cover program costs. In FY 1992-93 the PACE Program provided services to about 340,000 persons at a cost to the Lottery Fund of \$200 million. In that year, PACE paid for 9.1 million claims at an average per prescription cost of \$24.64.*
- *The Property Tax and Rent Assistance Program pays rebates to eligible persons, including persons 65 years of age or older, and certain widows/widowers, and disabled persons who are real property tax payers or renters. The rebate amount is based on income and amount paid in property taxes and rent. The minimum and maximum benefits paid are \$10 and \$500. In FY 1992-93 the Property Tax and Rent Rebate Program paid Lottery-funded tax or rent rebates totalling \$104.5 million to 403,384 households.*
- *PENNCARE is an array of in-home and community-based services designed to address the varied needs of older Pennsylvanians and enable frail older persons to delay or avoid institutionalization. PENNCARE services include, for example, personal care, home-delivered meals, homemaker and other in-home services, preadmission assessment, attendant care, Alzheimer's Disease programs, and abuse intervention services. These services are provided through the Commonwealth's 52 Area Agencies on Aging (AAAs). According to Department of Aging data, 447,084 unduplicated persons received PENNCARE services in FY 1992-93 at a cost of \$203.8 million. About two-thirds of this amount was paid from the Lottery Fund.*

- Under the *Free Transit Program*, citizens 65 years of age or older are eligible for free rides on participating local fixed-route transit operations during off-peak hours on weekdays and all day on weekends and certain holidays. The free service also includes commuter rail lines. Transit operators are reimbursed from the State Lottery Fund. Older Pennsylvanians took about 59.5 million free-transit trips in FY 1992-93. The total cost to the Lottery Fund for the Free Transit Program was \$53.4 million. This amount was combined with \$25.1 million from the General Fund for a program total of \$78.5 million.
- The *Shared-Ride Program* complements the Free Transit Program by attempting to meet the needs of Commonwealth residents who do not have access to fixed-route transportation services. Under this program, citizens 65 years of age or older are eligible for shared-ride services. Shared-ride services operate on a nonfixed-route basis and provide door-to-door service to passengers who “share” the vehicle for their trips. Riders pay 15 percent of the fare and transit operators are reimbursed from the State Lottery Fund for the remaining portion of the fare. The Lottery contributed to a total of 6.6 million shared rides during FY 1992-93. The total cost to the Lottery Fund for these trips was \$53.7 million.

2. *Lottery administrative and operational costs will account for about 28 percent of total Lottery Fund spending in FY 1993-94. Lottery prizes (those not paid by retailers in the field) and vendor commissions account for \$151.7 million or nearly 20 percent of the FY 1993-94 available amount. The remaining 8 percent is to be spent for Lottery operational costs, Department of Aging general government operations, and other miscellaneous expenses.*

C. Compliance With Statutory Spending Requirements

The State Lottery Law includes required expenditure provisions related to Lottery prizes and spending for programs that directly support older Pennsylvanians. The Lottery appears to be in compliance with these provisions.

1. *The State Lottery is in compliance with the statutory spending requirement for prizes.*

The State Lottery Law, 72 P.S. §3761-12(a) requires that at least 40 percent of gross Lottery ticket sales be paid out in prizes. We tested the Lottery's compliance with this mandate during the period FY 1987-88 through FY 1992-93. During this time, prizes as a percentage of gross sales exceeded 40 percent each year and were 50 percent or more in four of the six years. The FY 1992-93 calculation shows prize payments were 48.7 percent of gross sales.

2. *Considerably more than 30 percent of gross Lottery sales is currently being spent for all programs that directly support older Pennsylvanians. However, the 30 percent spending requirement stated in the law directly refers only to the Property Tax and Rent Rebate Program and the Free Transit and Shared-Ride Programs.*

The State Lottery Law originally specified that the amount spent on the property tax assistance and rent rebate program (PT/RR), together with the amount spent on free and reduced fare transit services, must be at least 30 percent of total ticket sales. It is not clear, however, that this original 30 percent mandate remains in effect since the Lottery now funds numerous other programs and services.

The Department of Revenue currently interprets these provisions to mean that the 30 percent requirement applies to all programs currently being funded by the Lottery which are in direct support of older Pennsylvanians. Thus, at the time the State Lottery Law was enacted, the 30 percent requirement applied only to PT/RR; currently, in addition to PT/RR the requirement could also be interpreted to pertain to free and reduced mass transit, PENNCARE, Aging Programs, Abuse Prevention, PACE, and Medical Assistance Long-Term Care Facilities.

Overall, the Revenue Department's interpretation is that the law's intent was to require that at least 40 percent of total revenues be used for prizes, that no less than 30 percent support programs directly benefitting older Pennsylvanians and that no more than 30 percent go for administrative and operating costs.

We tested compliance with these provisions on two bases for the period FY 1987-88 through FY 1992-93: (1) that the 30 percent requirement applies solely to PT/RR and the Free Transit and Shared-Ride Programs; and (2) that the 30 percent requirement applies to all programs in direct support of older Pennsylvanians.

We found that considerably more than 30 percent of gross Lottery sales is being spent for all programs in direct support of older Pennsylvanians. The percentage consistently exceeds 40 percent and in FY 1990-91 reached 47 percent. If viewed as applying only to PT/RR and the Free Transit and Shared-Ride Program, the percentage falls far short of 30 percent.

D. State Lottery Fund Financial Condition

The balance in the State Lottery Fund was depleted during the late 1980s when Lottery-funded program costs consistently exceeded annual revenues. Cost-savings and containment measures, the return of funding responsibility for several programs to the General Fund, and actions taken by the State Lottery to increase sales have helped stabilize the Fund's financial condition.

1. *During the early 1980s ticket sales skyrocketed and a large balance developed in the Lottery Fund. With a rapidly increasing balance came additional program funding demands and the transfer of funding responsibility for some General Fund programs. The Lottery Fund was soon spending more than it was taking in.*

By 1980 the State Lottery was funding property tax and rent rebates, free transit, and senior citizen inflation dividends. Act 1980-184 further expanded the use of Lottery monies for transit programs, and in FY 1981-82 maximum rebates and inflation dividends rose to \$500 and \$125 respectively. During the same fiscal year, Department of Aging programs previously funded by the General Fund were transferred to the Lottery Fund. Legislation enacted in 1982 also provided for a one-time grant from the Lottery Fund for Area Agencies on Aging to purchase and lease vehicles and equipment.

In FY 1983-84 the Pharmaceutical Assistance Contract for the Elderly (PACE) Program was added. PACE funding in the first year totaled \$100 million. During the same fiscal year responsibility for a portion of Medical Assistance funding (Long-Term Care Facilities) was transferred from the General Fund to the Lottery Fund, and the Lottery began paying the state personal income tax liability on Lottery prizes. At the time, the Lottery was able to absorb the additional funding responsibilities. Annual Lottery sales had increased by more than 30 percent for the third consecutive year and exceeded one billion dollars for the first time.

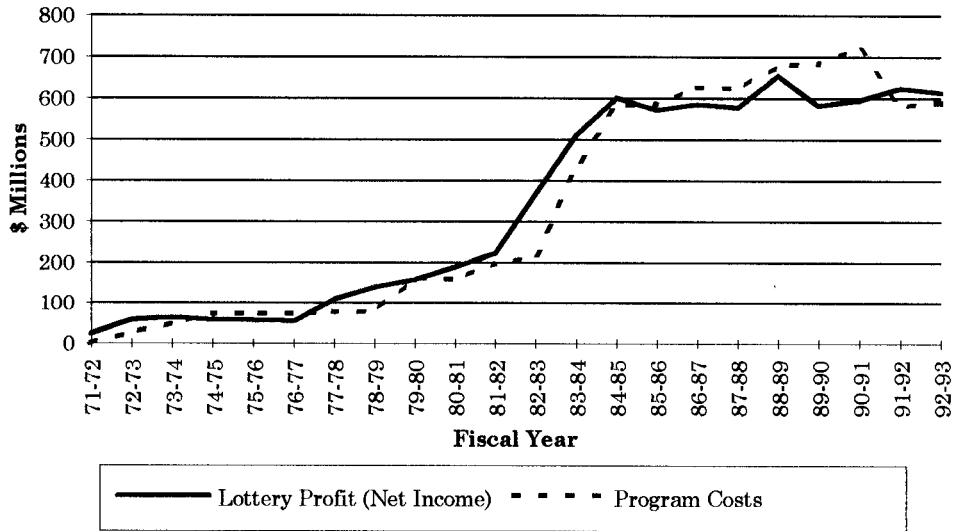
During the mid-1980s Lottery sales continued to climb and funding responsibilities continued to be added to the Lottery Fund. During FY 1984-85 and FY 1985-86, five funding areas were transferred from the General Fund: Department of Aging General Government Operations and Pre-Admission Assessment, and Medicare Part B, Supplemental Grants to the Aged, and Community Mental Retardation Services for the Elderly from the Department of Welfare. By FY 1986-87 more than \$340 million was expended from the Lottery Fund for programs formerly paid from the General Fund.

Other programs and services initiated with Lottery funds in these years included in-home services, attendant care, drug education, senior center renovations, and demand response equipment grants. The Shared Ride Program also began in FY 1984-85.

However, as shown on Exhibit 2, the Lottery Fund could not sustain this level of expenditure. Existing program costs were escalating rapidly and Lottery sales, after peaking in FY 1988-89, declined for three consecutive fiscal years. During this period, Lottery expenditures peaked at \$973 million and the balance in the Lottery Fund began to erode.

Exhibit 2

Annual Lottery Profit Versus Program Costs



Source: Developed by LB&FC staff from information contained in the Governor's Executive Budget.

2. *Program revisions and cost-containment measures have been necessary to maintain the solvency of the Lottery Fund.*

Since FY 1988-89, all but two of the functions that had been transferred from the General Fund to the Lottery Fund have been returned. The Administration and the General Assembly also carried out other program revisions designed to maintain and preserve the financial integrity of the Lottery Fund.

Act 1991-36, the Lottery Fund Preservation Act, repealed the older Pennsylvanians inflation dividend and discontinued payments from the Lottery Fund to the Motor License Fund to cover amounts lost due to the reduced vehicle registration fee charged to qualified retired persons. Act 36 also changed the reimbursement formula for carriers in the Free Transit Program to the lower of the average or base fare, increased the Shared Ride Program copayment from 10 to 15 percent, and provided for a General Fund appropriation to augment fixed route public transportation.

In addition to these actions, the Department of Aging and General Assembly implemented a number of cost-cutting initiatives in the Pharmaceutical Assistance Contract for the Elderly (PACE) Program, including, for example, requiring (with qualifications) the use of generic drugs, increasing the copayment, and requiring a drug manufacturers' rebate program. These actions, along with an improving

economy and marketing and game enhancements by the State Lottery, appear to have stabilized the financial condition of the Lottery Fund for the immediate future.

3. *The June 30, 1993, State Lottery Fund balance on a budgetary basis was \$90.7 million. For the same period, the Commonwealth's Comprehensive Annual Financial Report reflected a fund deficit of \$33.5 million. This difference results from the use of two different accounting methods that are used to report the Fund's financial condition. No matter which method is used, the Fund balance is improving slightly after several consecutive years of decline.*

Information on the financial condition of the State Lottery Fund and the amount of money available to finance programs for older Pennsylvanians varies depending upon the basis of accounting used in preparing fund financial statements. Because two distinctly different bases of accounting are used, there appear to be conflicting reports and misunderstanding on whether the Lottery Fund has a surplus or deficit fund balance.

Such differences can be confusing for public policymakers and problematic for state administrators who operate the Lottery and Lottery-funded programs. Moreover, conflicting reports on the solvency of the Fund are disturbing for many older Pennsylvanians who fear they may lose Lottery-funded services. Discussion of Fund deficits may also erode public or player confidence in the Lottery despite the fact that safeguards exist to ensure that money is available to meet the Fund's prize obligations.

The Lottery Fund financial statements used to report the financial condition of the Fund in the Governor's Executive Budget are prepared on a cash basis of accounting known as a budgetary basis. The Commonwealth also prepares financial statements on the modified accrual basis of accounting (GAAP)³ and reports the financial condition of the Fund on this basis in the Commonwealth's Comprehensive Annual Financial Report (CAFR). A comparison of the Lottery Fund balances on these two bases is shown on Table 2.

As shown on Table 2, the Lottery Fund's budgetary fund balance for FY 1992-93 reported in the Governor's Executive Budget for FY 1994-95 was \$90.7 million. For the same period, FY 1992-93, the GAAP fund balance reported a \$33.5 million deficit in the Commonwealth's CAFR. This represents a \$124.2 million

³Generally Accepted Accounting Principles (GAAP) are rules and procedures established by authoritative bodies (e.g., the Governmental Accounting Standards Board). Although GAAP generally requires full accrual accounting, modified accrual is allowed under GAAP for governmental bodies.

Table 2

Comparison of State Lottery Fund Year-End Balances
Cash Basis (Budgetary) Versus Modified Accrual Basis (GAAP)
(\$000)

<u>Fiscal Year</u>	<u>Budgetary</u>	<u>GAAP</u>
1984-85.....	\$385,379	\$291,484
1985-86.....	355,950	209,002
1986-87.....	314,314	197,814
1987-88.....	279,753	149,691
1988-89.....	256,640	112,925
1989-90.....	154,393	(14,795)
1990-91.....	25,725	(79,412)
1991-92.....	69,133	(47,841)
1992-93.....	90,653	(33,540)

Source: Developed by LB&FC staff from information obtained from Governor's Executive Budget documents and the Commonwealth's Comprehensive Annual Financial Report (CAFR) for FYs ending 6/30/86 to 6/30/93.

difference between the State Lottery Fund balance reported on the budgetary and GAAP bases of accounting:

Budgetary Basis Fund Balance....	\$ 90,653,000
GAAP Basis Fund Balance.....	<u>(33,540,000)</u>
Difference	\$124,193,000

The GAAP basis fund balance deficit of \$33.5 million is derived through a GAAP conversion project, which requires a number of revenue and expenditure adjustments be made to the budgetary basis fund balance. The two adjustments that account for the majority of the difference are liability for unclaimed prizes (\$21.8 million in FY 1992-93) and expenditures not covered by encumbrances, which are primarily monies to be paid for property tax and rent rebates (about \$100 million in FY 1992-93). Thus, the deficit position is primarily a result of the nature of the Property Tax and Rent Rebate Program in which the liability for program benefits is attributable to one fiscal year and, by law, the funds are authorized and expenditures occur in the following fiscal year.

There is not a fundamental conflict between the GAAP and budgetary presentations of the Lottery Fund balance. There is general consensus, however, that the GAAP method is preferable for purposes of governmental financial reporting.

E. The State Lottery's Revenue-Generating Capacity

The PA State Lottery has strong revenue-generating capacity and is one of only ten lotteries in the nation with annual sales exceeding \$1 billion. Among these states, Pennsylvania ranked sixth in lottery profits generated in FY 1992-93. However, the State Lottery is "mature" and has little potential for substantial sales growth within the traditional lottery game structure.

1. *The PA State Lottery's historical sales pattern is characteristic of a mature lottery.*

Gross sales represent the proceeds from Lottery ticket sales before adjustments for retailer commissions and field-paid prizes. During the first few years of the Lottery's operation gross sales were relatively modest, growing from \$124.4 million in FY 1972-73 to \$136.9 million in FY 1975-76. However, in FY 1976-77 the Daily Number game was introduced and in FY 1977-78 ticket sales nearly doubled. From that point through FY 1983-84, Lottery ticket sales exploded.

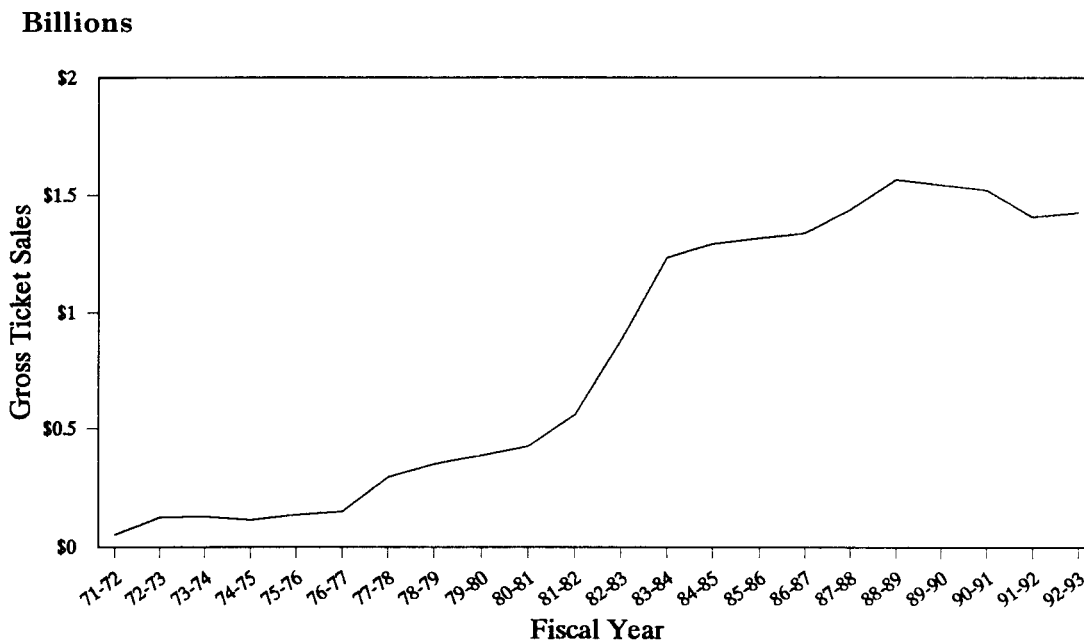
Big 4 and Lotto games were added in 1981 and 1982 and annual gross sales topped the \$1 billion mark for the first time in FY 1983-84. Although annual gross sales have exceeded \$1 billion every year since, the annual rate of growth has slowed. The Lottery experienced annual sales declines for three consecutive fiscal years between FY 1989-90 and FY 1991-92. Gross sales rebounded slightly in FY 1992-93 to \$1.4 billion. Although instant ticket and other marketing initiatives will produce a sales increase in FY 1993-94, current projections indicate declining and flat sales each year thereafter through FY 1998-99.

This sales pattern is characteristic of a "mature" lottery. All lotteries have a development phase in their life cycle during which products are new and sales growth is rapid. In older lotteries such as Pennsylvania's, this development phase is ending and the Lottery appears to be at the end of a long growth curve.

Literature on the lottery industry suggests that lotteries initially sell more, peak, and then experience stagnating or declining sales as public interest/demand is satisfied and the player base becomes saturated. The game structure of a lottery also changes during the development period. States usually start with simpler games such as instant tickets and then move to more sophisticated numbers and lotto games. Ultimately, at the end of the growth curve, lotteries are faced with the challenge of creating and maintaining demand in established and mature markets. This scenario appears very similar to what has occurred in Pennsylvania.

Exhibit 3

Historical Pattern of PA Lottery Gross Ticket Sales



Source: Developed by LB&FC staff from information obtained from the PA State Lottery.

2. *The State Lottery has exhausted its options within the traditional lottery game structure. With the exception of keno, Pennsylvania's game mix is similar to that of other large state lotteries.*

The PA State Lottery currently operates six types of games. These include instant games, two numbers games (The Daily Number and Big 4) and three matrix games (Super 7, Wild Card Lotto, and Cash 5).

As shown on Exhibit 4, the mix of games found in the PA Lottery is very similar to that of other large state lotteries (i.e., those with annual gross sales of \$1 billion or more). Most offer a combination of instant, numbers, and on-line lotto games. The differences among the states are primarily in the variations in prize structure and game format. Also, the California, Massachusetts, Michigan, and New York lotteries operate a keno game. A number of other states have recently instituted new games or are employing new approaches in an attempt to increase sales.

Exhibit 4

Lottery Game Mix, PA and Other Large State Lotteries*

<u>State</u>	<u>Instant</u>	<u>Numbers</u>	<u>Lotto</u>	<u>Cash Lotto</u>	<u>Spiel^{a/}</u>	<u>Keno^{b/}</u>
CA	X	X	X	X	--	X
FL	X	X	X	X	--	--
IL	X	X	X	X	--	--
MA	X	X	X	X	--	X
MI	X	X	X	X	--	X
NJ	X	X	X	X	--	--
NY	X	X	X	X	--	X
OH	X	X	X	X	X	--
PA	X	X	X	X	--	--
TX	X	X	X	--	--	--

*Includes state lotteries with \$1 billion or more in annual gross sales.

^aSpel is typically a 6-digit computer generated number that appears on the bottom of lotto tickets. Players pay an extra \$1 to activate the spiel number. Players must match two or more spiel numbers, in exact order from left to right on the ticket, to be prize winners.

^bKeno is an on-line numbers game. Keno is further defined and discussed in Chapter VIII of this report.

Source: Developed by LB&FC staff from The '94 World Lottery Almanac, TLF Publications.

3. *The State Lottery has taken actions to improve its marketing practices and enhance existing games. As a result, the State Lottery has stabilized sales and reversed a three-year decline in revenues.*

By the late 1980s it was evident that the Pennsylvania Lottery had matured. Faced with declining revenues, Lottery officials sought to stabilize sales and seek modest sales growth. The actions taken by the Lottery in relation to these objectives have focused primarily on improving the Lottery's marketing abilities, introducing lottery industry technological innovations, and enhancing its existing games.

These initiatives are directed by a formal annual marketing plan, the development and implementation of which gives the Lottery a definite plan of action and sense of marketing direction that was not evident when the LB&FC conducted a performance audit of the State Lottery in 1987. The Lottery has:

- Implemented an *Instant Ticket Validation and Accounting System* (ITVAS) that gives the Lottery the ability to offer an unlimited number of

instant games in any calendar year, allows new instant game marketing strategies, and reduces the administrative burden on the Lottery and its retailers.

- Installed nearly 1,000 *Instant Ticket Vending Machines (ITVMs)*. ITVMs offer state lotteries the opportunity to increase sales in existing markets where there has been a historical resistance to aggressively sell lottery products and penetrate new markets. About three-quarters of the PA Lottery's machines are being installed in secure, high-traffic locations, mostly groceries and supermarkets. Other are being placed in a variety of locations such as truck stops, restaurants, bowling centers, and retail pharmacies. Because implementation is not yet complete, it is not possible to determine exactly how cost-effective ITVMs will be in Pennsylvania. However, we analyzed instant ticket sales at ten supermarkets both before and after the installation of ITVMs. Average weekly instant ticket sales increased at all ten locations (from 73 to 204 percent) following installation of ITVMs.
- Made *enhancements to instant ticket games* which had previously been underdeveloped as a revenue producer in the PA State Lottery. These enhancements included a multiple game strategy made possible by the ITVAS system, expanded use of the niche marketing-concept, and the addition of Instant Bingo as a permanent part of the game mix.
- The Lottery also *moved the Super 7 drawing* from Wednesday to Saturday, *added a second weekly Cash 5 drawing*, increased advertising expenditures, upgraded its retailer relations efforts, and made increasing use of research-based marketing strategies.

Actions taken by the Lottery to improve its marketing practices and enhance existing games contributed to improved sales. The effect of the Lottery's initiatives will begin to be more fully measurable during FY 1993-94. Sales during the first nine months of FY 1993-94 were \$1.17 billion. This is about 10 percent ahead of the comparable nine month period in FY 1992-93 and is 76 percent of total sales projected for FY 1993-94. It appears that the actions taken by the Lottery to improve marketing practices and enhance existing games (instant games, in particular) will, along with an improving economy, enable the Lottery to achieve an overall sales increase in FY 1993-94.

F. Lottery Sales and Net Income Projections

Although Lottery sales will be good in FY 1993-94, net income, or profits, will decline. Further declines in net income are expected in FY 1994-95, with net income then remaining relatively flat through the end of the decade.

1. *The State Lottery projects that ticket sales will increase by about 8 percent during FY 1993-94 as a result of marketing improvements and game enhancements. However, the Lottery projects that sales will decline slightly during FY 1994-95 and then level off at annual increases of less than 1 percent a year through FY 1998-99.*

It appears that the Lottery will exceed its overall sales projections for FY 1993-94 and the declining sales trend seems to have been reversed, at least in the short term. The marketing initiatives and game enhancements carried out by the State Lottery have clearly increased sales, especially in the instant games.

Lottery officials are, however, conservative in making sales projections for FY 1994-95 and beyond because they view a large portion of the FY 1993-94 sales growth as largely being attributable to instant ticket enhancements and two unusually large Super 7 jackpots that spurred sales. Thus, the FY 1994-95 sales forecast is for a slight decline (0.9 percent) to \$1.533 billion followed by four years of less than 1 percent annual sales growth.

To put the current sales projections in perspective, we examined the Department's performance in estimating Lottery's sales over the past ten years. We compared actual to estimated Lottery ticket sales for the period FY 1983-84 through FY 1992-93. During this period the Department's Lottery sales estimates were, on average, within 2.5 percent of actual ticket sales.

2. *Lottery profits are declining and are expected to level off at about \$575 million through FY 1998-99.*

Net income, or profit, represents a lottery's total ticket sales, net of its direct and indirect costs and expenses and is the measure by which most state lotteries measure their success. The PA State Lottery's FY 1992-93 net income was \$612.8 million, a decrease of 1.8 percent from the prior year. Net income is expected to continue to decline in FY 1993-94 and FY 1994-95 to about \$570 million, the lowest net income figure since FY 1985-86. Annual net income is projected to remain at about this level through FY 1998-99.

G. Lottery Program Funding Projections

Although a growing demand for aging services exists, especially in the 75 and 85 and over age groups, Lottery program administrators project no growth and, in some cases, a decline in services provided over the five-year projection period ending in FY 1998-99. These program service projections are dictated by projections of relatively flat Lottery sales and net income. The projections also assume no change in income eligibility limits for Lottery-funded programs such as PACE and the property tax and rent rebate programs. Participation in both of these programs is expected to

continue to decline as cost-of-living adjustments increasingly drive incomes above the maximum eligibility limits.

1. In providing PENNCARE services, the Department of Aging is faced with an increasingly aging population with growing demands for long-term care. At the same time, Lottery and federal funds are leveling off and unit service costs are increasing. The result is a decreasing number of persons served and increases in waiting lists for services. Projected funding increases are geared to expected inflation rates with relatively little growth in program service levels.

Approximately 2.4 million Pennsylvanians are 60 years of age or older and thus eligible to receive services offered by the Department of Aging. The number of these persons served by PENNCARE represents only a portion of those in need of services. The extent of "unmet need" is, however, difficult if not impossible to measure. The primary way in which the Department of Aging measures "unmet need" is through the use of waiting lists.

As of December 1993, 3,648 persons (unduplicated) were awaiting services, mostly in the personal care and home support areas. An additional 1,897 persons were on other waiting lists. While useful in providing a perspective on service demand, waiting lists have a number of limitations. Waiting lists are only "snap shots" of identified need on the specific date of the report and do not include individuals in need but who have not been identified. Waiting lists include only those individuals who have declared a need and who Area Agency on Aging (AAA) personnel determined have a high enough priority level to be put on the list. Also, some people awaiting services may become discouraged and decline to be included on the waiting lists. AAAs also may not maintain waiting lists for services they do not provide.

The Department of Aging estimated that an additional \$11 million in funding would have been necessary to eliminate the waiting lists in effect as of June 1993. However, even if it were possible to serve all persons on the current waiting lists, new names would immediately be added.

2. Budget officials project that the average number of persons participating in the PACE Program and Program expenditures will continue to decline over the next five years. They project PACE Program participation to drop about 5 percent each year through FY 1998-99 and expenditures to decrease from \$200 million in FY 1992-93 to \$189 million in FY 1998-99.

These projections assume that income eligibility limits (currently \$13,000 for a single person and \$16,200 for a married couple) will remain unchanged and that progressively fewer persons will be eligible for the program as their incomes rise and exceed income eligibility limits due to cost-of-living adjustments. The

projections do not, however, take into account the possible impacts on the PACE Program of proposed federal or state health care reform plans. A national health care reform plan if it includes pharmaceutical benefits could significantly reduce funding demands on the State Lottery Fund.

The Pharmaceutical Assistance Contract for the Elderly (PACE) Program requires about \$200 million a year in Lottery funding. Some of the proposed national health care proposals contain provisions which, if enacted, could eliminate or substantially reduce PACE Program expenditures. For example, the standard benefits package in the Clinton Administration's proposed federal health care reform plan would include Medicare outpatient prescription drug coverage that would effectively replace the PACE Program.

Although it is difficult to assess the actual impact of a proposed federal plan that is still taking shape, it is clear that it could have significant implications for the PACE Program and funding demands placed on the Lottery Fund. If a federal plan were to replace the PACE Program in its entirety, the demand on the Lottery Fund would be reduced by between \$190 and \$200 million a year. On the other hand, some of the submitted plans reportedly include a "maintenance of effort" clause which would require the Commonwealth to maintain its current level of enrollment. Under such a provision, little, if any, savings would result.

Additionally, assuming a federal health care reform plan includes a prescription drug benefit plan, the PACE Program director believes that PACE under current mandates would be obligated to pay some or all of the deductible limit. He believes, however, it is unlikely that the limit will be as low as the administration's proposal of \$250; i.e., a more likely deductible limit would be \$500. Assuming that a federal program took over responsibility for the state's drug benefit program but that PACE continued to pay the deductible, the savings to PACE are estimated to be about \$75 million.

At this point, given the uncertain nature of the final form of a national health care plan and its drug benefit provisions and the response of the Legislature to such a plan, it is impossible to predict the impact of the plan on PACE.

3. Property Tax and Rent Rebate Program expenditures are projected to continue to decline through FY 1998-99.

These projections assume there will not be changes in the local property tax system or in income eligibility requirements. Under current eligibility limits there will be a steady reduction in the number of households eligible for a rebate as retirement and Social Security cost-of-living adjustments move more households above the income limits. The Department of Revenue and Budget Office project that the number of households served will decrease by about 2 percent a year and

program expenditures will decline from \$104 million in FY 1992-93 to \$96 million in FY 1998-99. Property tax reform, if enacted, could, of course, significantly affect these estimates.

4. *The number of free transit trips taken by older Pennsylvanians should remain relatively steady over the next five years. Lottery expenditures for this program are projected to increase by less than 2 percent a year.*

There will probably not be a substantial increased demand for free transit rides in the immediate future. All persons 65 or older are eligible and the number of persons in this age group is projected to increase by 3.6 percent between 1990 and 2000. Larger increases will occur in the 75 and 85 years of age and older cohorts. These groups are more likely to be potential users of the Shared-Ride Program than the Free Transit Program.

Current projections also assume that the General Fund Fixed-Route Transit appropriation will continue to supplement Lottery funding of the program at the rate of about \$25 million a year and that transit fares will remain relatively constant.

5. *There will be an increasing demand for shared-ride services as the number of older Pennsylvanians 70 years of age and older increases. Lottery funding of this program is projected to increase by 29 percent by FY 1998-99.*

The Department of Transportation and Governor's Budget Office project that the number of shared rides funded by the Lottery will increase by about 20 percent between FY 1993-94 and FY 1998-99. This estimate may, however, be conservative. A 1993 report on the Shared-Ride Program concluded that significant increases in demand for shared-ride service could develop because the 70 and older population group is increasing rapidly and that many in this group are more likely to be frail and less ambulatory. The report also notes that there could be an increased demand for specialized transportation services to address the physical and cognitive disabilities of these older persons.

H. New Products and Approaches That Could Increase Lottery Sales

A number of lottery products and approaches being attempted in other states could potentially be used to increase Lottery sales in Pennsylvania. However, a number of these, such as video lottery and keno, are outside the "traditional" lottery game structure and raise significant social and public policy questions.

1. *Many within the Lottery industry believe that there is a formula for increasing revenues in mature state lotteries, such as Pennsylvania's, during the 1990s. The elements of this formula are improved marketing, enhancement of existing games and diversification (i.e., introduction of new lottery products). The PA Lottery has taken actions designed to improve merchandising and enhance its games but has not yet diversified into new product areas.*

Lottery industry analysts believe that state lotteries will have to diversify their product lines. Respondents to a survey conducted by Public Gaming International cited video lottery, keno, interactive television (including lottery game shows), and lottery-by-telephone as some of the lottery products that will increasingly be used by state lotteries during the 1990s. A number of states are already introducing some of these lottery products:

Video lottery - Video lottery is played through video lottery terminals (VLTs). VLTs are electronic games, typically poker, keno, and blackjack, played on a video screen. However, other kinds of lottery games, e.g., scratch-offs, Bingo, and tic-tac-toe can be programmed into VLTs at a lottery's discretion. Players can win prizes redeemable for cash or free games (credits). VLTs differ from slot machines in that they do not dispense money to winners. Winners press a button on the machine to dispense a ticket showing the number of credits won and the dollar value of those credits to be paid by the retailer.

Proponents refer to video lottery as the most promising new lottery product for the 1990s. Some also view VLTs as a new medium for lottery product distribution, rather than as a different kind of gaming.

However, introducing and operating video lottery can be difficult and highly controversial. The "social acceptability" of video lottery among the public as well as concerns about compulsive gambling are important factors that will need to be addressed in states that consider authorizing VLTs. Currently six states operate video lottery. These are Montana, Louisiana, Oregon, Rhode Island, South Dakota, and West Virginia. Net income from video lottery sales in these states in FY 1992-93 ranged from \$4.7 million in West Virginia to \$172.8 million in Oregon.

Keno - Keno is an on-line numbers game that is offered either weekly (regular keno) or every five minutes (fast-draw keno). Regular keno generally has drawings once or twice a week with a jackpot keno prize. This form of keno uses a 10/20/80 matrix similar to that used in casinos. In fast-draw keno, drawings occur every five minutes as computers randomly select 20 numbers between 1 and 80. Players have various play options. They may choose anywhere from 1 to 10 numbers and win cash prizes depending on how many numbers they match. Prizes usually range between \$2 and \$100,000.

Proponents of keno believe it enables mature lotteries to bring a whole new demographic group into the lottery player base. Although it is sold in grocery and convenience stores, keno is thought to be best suited for non-traditional outlets such as bars, taverns, restaurants, and bowling alleys. Some, however, believe keno borders on real-time gambling with drawings conducted in the presence of players who receive instant feedback on whether or not they have won. Eleven states, including California, Maryland, Massachusetts, Michigan, and New York, were operating keno games as of early 1994. Keno sales in FY 1992-93 in these states ranged from about \$9 million in Colorado to \$235 million in California.

Other products and approaches being used or considered in some states include lottery-by-telephone, midday numbers drawings, use of unclaimed prize money to seed jackpots, direct marketing, subscription plans and advance play options, Powerball, multi-jurisdiction lotteries, use of television lottery game shows, use of self-service or player activated terminals, expansion of lottery retailer base to non-traditional outlets, use of special promotions, and the sale of advertising space on lottery tickets. All of these are discussed in Chapter VIII.

2. Some states are looking for new retailer outlets. The PA State Lottery has fewer on-line retailers per capita than any other state with annual lottery sales of \$1 billion or more.⁴

The retailer distribution system is critical to a lottery's success. As such, state lotteries need to give ongoing attention to the size and composition of their retailer networks. We examined the number of lottery retailers through which lottery tickets are sold in the ten states with \$1 billion or more in annual sales. We found that Pennsylvania has fewer on-line lottery agents and fewer agents per capita than any of the other large lottery states. Pennsylvania has one on-line retailer for every 2,971 residents. In contrast, Massachusetts, the state with the highest per capita lottery sales in the nation, has one on-line retailer for every 1,053 residents.

We also examined the composition of the instant and on-line lottery distribution network in Pennsylvania and the nine other states that have annual sales of \$1 billion or more. Pennsylvania's retailer network consists primarily of grocery and convenience stores which comprise about 65 percent of the entire retailer network. About 50 percent of Pennsylvania's on-line ticket sales and 80 percent of its instant ticket sales are made through these retail outlets.

Some state lotteries are taking innovative steps to increase their retailer networks. For example, the Virginia Lottery is moving its lottery products into

⁴On-line retailers are hooked up to a central computer via telecommunications lines, as with ticket generating terminals used in numbers and lotto games. The Pennsylvania Lottery's off-line (instant only) network ranks sixth among the ten largest lotteries in terms of off-line agents per capita.

fast-food restaurants. Massachusetts has also taken steps to expand its market by making lottery products available in bars, taverns, clubs, and restaurants with a liquor license. ITVMs are being used as the primary vehicle to sell instant tickets in these locations, although player-activated terminals are also planned. About 20 percent of Massachusetts instant and on-line ticket sales are made through liquor stores, bars, and restaurants. The Colorado Lottery has also been successful in moving ITVMs into bars and restaurants and plans to move into retail locations such as K-marts.

3. *Since their inception, state lotteries have grown and become more sophisticated with the advance of technology. A number of companies in the gaming industry are reportedly investing significant amounts into further advancing lottery technology. Many lottery analysts believe that new products and innovations will become available to state lottery administrators over the next several years.*

In the near future, the player base will have changed to include more people who have grown up with computers and video games. This group will likely find interactive lottery games more appealing than the traditional “numbers” games that appealed to previous generations. State lotteries need to position themselves to diversify their products as technological advances alter the direction of the industry. Interactive player terminals, video lotteries for in-home play, and three-dimensional scratch-off instant tickets are examples of emerging technologies.

I. Interstate Lottery Comparisons

Pennsylvania has historically been a leader among the states in total lottery sales. Although surpassed in recent years by states such as New York, Massachusetts, Florida, and California, Pennsylvania remains one of only ten states with annual lottery sales of \$1 billion or more. For purposes of comparison we analyzed FY 1992-93 data on selected performance measures for the Pennsylvania Lottery and lottery operations in these other large states. We found Pennsylvania ranks as follows:

- *Gross Sales* - With gross sales of \$1.4 billion, Pennsylvania ranked eighth among the ten large lottery states.
- *Per Capita Sales* - Pennsylvania per capita lottery sales were \$119, also eighth among the ten states.
- *Net Income* - The PA State Lottery net income, or profits, as a percentage of total sales was 42.4 percent, third highest among the ten states.
- *Prizes* - The PA State Lottery paid out 48.7 percent of gross sales as prizes, ranking ninth among the ten states.

- Operating Expenses - The PA State Lottery's operating expenses as a percentage of gross sales were 4.1 percent, third lowest among the ten states.
- Retailer Commissions - Commissions paid to retailers by the PA State Lottery were 5.2 percent, ranking it eighth among the ten states.
- Sales Per Employee - The PA State Lottery's gross sales per employee were \$7.67 million, third highest among the ten states.

Performance measures for Pennsylvania and each of the ten large lottery states are presented in Appendix M.

Recommendations

1. *As a state with a “mature” lottery and a rapidly expanding older population, Pennsylvania may soon need to consider implementing new lottery products and approaches to increase Lottery revenues. These actions would be in addition to the ongoing marketing initiatives and game enhancements recently undertaken by State Lottery officials to reverse declining sales. As discussed below, some of these additional actions could be undertaken in conjunction with the State Lottery’s next annual marketing plan. Others would require further study by the State Lottery and, in some cases, consideration by the General Assembly:*

- *Study the revenue-generating potential and feasibility of adding video lottery and keno to the State Lottery’s game mix.*

Currently, lotteries in Oregon, Rhode Island, South Dakota, and West Virginia operate lottery games such as poker, keno, and blackjack through video lottery terminals or VLTs⁵ (two non-lottery agencies regulate video gaming in Louisiana and Montana). Also, 11 state lotteries, including California, Maryland, Massachusetts, Michigan, and New York, are operating keno, an on-line numbers game. While some view video lottery and keno as different and potentially addictive forms of gambling, a number of industry analysts see these games as the key to state lottery growth in the 1990s. The State Lottery should study the feasibility and revenue-generating potential of these games for Pennsylvania and provide this information along with recommendations to the House and Senate Appropriations and Finance Committees before the end of FY 1994-95. If determined to be feasible and necessary to increase State Lottery Fund revenues, the General Assembly should consider specifically authorizing the Lottery to implement these games.⁶

- *Consider introducing self-service or player-activated terminals.*
Player-activated terminals provide lotteries with a new means of generating on-line sales and can also be used for electronic

⁵These are typical video lottery games. Other games such as scratch-offs, bingo, and tic-tac-toe can reportedly be programmed into video lottery terminals.

⁶Although it appears the State Lottery would have authority under present law to introduce keno as a lottery game by regulation, consideration and approval of such action by the General Assembly would be advisable because of the social and public policy issues associated with an expansion of the State Lottery’s game structure. Review and approval by the General Assembly would also be needed with respect to video lottery games because the State Lottery only appears to have authority under current law to promulgate regulations concerning video games that are “lotteries” (e.g., keno).

instant lottery (EIL).⁷ In conjunction with the development of its annual marketing plan, the State Lottery should study the feasibility of placing PATs in high traffic locations as has been done in California and Virginia.

- *Consider selling advertising on Lottery tickets.*

The State Lottery could consider contracting with an advertising broker to sell advertising space on Lottery tickets or on-line number slips as is being planned in Connecticut and Massachusetts (similar to advertising that is done on the backs of some grocery store receipts).

- *Consider using direct marketing merchandising methods.*

Lottery analysts believe state lotteries will need to more aggressively market their products in the upcoming years. Marketing techniques using direct mail, telemarketing, newspaper couponing, and premium offers are being used in some states. These methods have not yet been used by the PA State Lottery, although a direct market test is being considered. The Lottery should consider developing a direct marketing component in its annual marketing plan.

- *Consider offering subscription plans, advance play options, and gift certificates.*

Some lottery jurisdictions offer subscription plans and extended advance play options for certain games. Subscription plans are not currently offered in Pennsylvania and a limited advance play option is available for the on-line games. The PA State Lottery should consider developing a subscription plan similar to those used in Maryland and Massachusetts, expanding advance play options, and developing a gift-certificate program.⁸

- *Consider seeking authorization from the Legislature to return a portion of unclaimed prize money to Lottery players as a means of generating interest and increasing sales.*

Many lottery states return unclaimed prize money to players by periodically seeding lotto jackpots and increasing prize amounts in

⁷EIL can involve a variety of game themes on terminals which players can participate in without interacting with a clerk. EIL game themes are often similar to existing instant games with sports themes, card games, money match, tic-tac-toe, and bingo.

⁸The Lottery appears to have the statutory authority to implement a subscription plan and advance play options by regulation, but legislation may be necessary to implement a gift certificate program.

instant games.⁹ In Pennsylvania, if prize money is not claimed after one year, it reverts to the State Lottery Fund. The Lottery should develop a proposal to use a specified portion of unclaimed prize money to seed jackpots and increase the instant game prize structure.

- *Consider developing a Lottery-run television game show.*

Virtually all state lotteries, Pennsylvania's included, use television to conduct live drawings for daily numbers and lotto games. Some states have also attempted to integrate their games with the entertainment value of television in an effort to stimulate interest in the lottery and increase sales. Several state lotteries host television game shows with a lottery format, including California, Indiana, Illinois, Michigan, and Ohio. The PA State Lottery should study the feasibility and revenue-generating potential of such a show.

- *Consider expanding the installation of instant ticket vending machines into "nontraditional" outlets.*

By the end of FY 1993-94 the PA State Lottery will have installed about 1,000 Instant Ticket Vending Machines (ITVMs). Initial indications are that the ITVMs are having a significant impact on increasing instant ticket sales. The State Lottery should proceed with the planned further installation of ITVMs and should consider eventually placing ITVMs in nontraditional outlets such as fast-food restaurants as is being done in some other states.

2. *The State Lottery should increase the number of PA State Lottery retailers. The State Lottery has fewer on-line retailers per capita than any other large lottery state and should intensify its efforts to increase this number. In expanding the retailer network the Lottery should continue to set annual retailer targets and use demographic data and input from District Lottery Representatives to meet these objectives. The Lottery should also attempt to expand its chain store accounts and seriously consider expanding into nontraditional outlets such as bars and fast-food restaurants as is being done in a number of other states. Lottery officials should also initiate discussions with officials of the PA Liquor Control Board to explore the feasibility of placing ITVMs in State Wine and Spirits Shoppes.*
3. *The General Assembly should consider amending the State Lottery Law to clarify the Legislature's intent concerning the expenditure of*

⁹A survey done by the Public Gaming Research Institute, Inc., in 1991 found that 22 of 32 states with lotteries at that time used unclaimed prize monies to seed jackpots and increase instant game prize structures.

monies generated by the State Lottery, in particular, the percentage of annual gross lottery sales to be expended for programs directly benefitting older Pennsylvanians; the percentages to be used for prizes and operating costs; and whether the Lottery should be required to maintain a reserve.

4. *The Department of Aging should further consider implementing a mandatory statewide cost-sharing system¹⁰ under which persons receiving certain Lottery-funded services (primarily those involving direct care within or outside the home)¹¹ would contribute to the cost of the services they receive. Consumer cost-sharing for these services could be administered through the Area Agencies on Aging based on a sliding fee schedule that would consider both the client's income and housing and medical expenses. At a minimum, it appears that the Department would need to promulgate regulations to establish the fee schedule and govern the operation of such a system.*

¹⁰The 1993-1996 State Plan on Aging for Pennsylvania states that "there is a growing belief that many older people are able and willing to share in the cost of services available to them and that the concept of cost-sharing is a viable means of expanding services to more people." This position is based in part on a 1988 study commissioned by the Department of Aging (by Peat, Marwick & Main), which found that professional and consumer communities would endorse cost-sharing if the fees charged were fair and were not used to replace federal and state support. In 1990 the Pennsylvania Conference on Aging also endorsed the concept with fundamentally the same conditions. Area Agencies on Aging were surveyed in 1992 and were also found to be generally supportive of the cost-sharing concept. Revenues generated through a cost-sharing system would be used to reduce waiting lists, expand services, serve a broader spectrum of consumers, improve service quality by linking payments to ability to pay and preventing cutbacks in services.

¹¹Services potentially subject to cost-sharing include personal care service (such as assisting with bathing or administering medication), adult day care service, home health service (such as physical therapy), home support service (such as routine maintenance and cleaning), medical equipment and supplies, and attendant care. Services funded under the federal Older Americans Act would not be subject to cost-sharing.

III. PA State Lottery Overview

Background

In August 1971 the General Assembly enacted the State Lottery Law (Act 1971-91). The purpose of this act was:

. . . to establish a lottery to be operated by the State, the net proceeds of which [were] to be used after June 30, 1972, exclusively for the purpose of providing property tax relief for the elderly for taxes paid in 1971 and thereafter¹. . . .

The Pennsylvania Lottery's first executive director was appointed in October 1971, and the State Lottery put its first tickets on sale on March 7, 1972 (a 50 cent ticket featuring weekly drawings and a grand prize of \$1 million). Initial sales were strong and the Lottery generated about \$52.3 million by the end of the inaugural, but abbreviated, 1971-72 fiscal year.

Today, the Pennsylvania Lottery offers instant and on-line numbers and matrix games through a network of about 7,400 retailers.² These include the Daily Number, Big 4, Super 7, Wild Card Lotto, and Cash 5. In FY 1992-93 these games generated gross sales of \$1.4 billion and \$612.8 million in net income.

While continuing to provide property tax relief benefits, Lottery proceeds now also fund a variety of other programs and services for older Pennsylvanians. Programs funded by the State Lottery have expanded over the years to include free and reduced-fare transit, pharmaceutical assistance, and a wide array of other aging programs and services (see Chapter VI).

Since beginning operation in 1972, the PA Lottery has sold \$17.7 billion worth of Lottery tickets.³ About 59 percent of this amount, \$10.4 billion, has gone for prizes, commissions, and other Lottery operating expenses. The balance, \$7.3 billion, has been used to fund programs and services for older Pennsylvanians.

As established in law, the Pennsylvania State Lottery is organizationally located in the Department of Revenue. The Secretary of Revenue has overall responsibility for the operation and administration of the Lottery.⁴ However,

¹After payment of Lottery prizes, operating-expenses, and repayment of a start-up loan from the General Fund.

²Includes 4,042 on-line retailers (of whom approximately 75 percent also sell instant tickets) and 3,389 retailers who sell instant tickets only.

³Through FY 1992-93.

⁴Act 1971-91 provided for a State Lottery Commission consisting of five members appointed by the Governor. The Commission was to advise and make recommendations to the Secretary of Revenue regarding the functions and operations of the State Lottery. The Commission was abolished by Act 1982-291 and its powers and duties were transferred to the Secretary of Revenue.

day-to-day responsibility for the operations is the responsibility of the Lottery's Executive Director who heads the Bureau of Pennsylvania State Lottery. The Department has also established an informal, internal advisory committee for the State Lottery. This committee is modeled after the Department's major tax area policy advisory groups and serves as a means of communication among key Lottery administrators. The committee generally meets on a monthly basis to discuss topics such as game mix, marketing strategies, game structure, Lottery administration, and changes to regulations. The advisory committee reports to the Secretary of Revenue.

The Lottery Bureau has an authorized staff complement of 174 and is organized into six divisions: Administration, Security, Instant Games Control, On-Line Games Control, Sales, and Marketing. It operates through a headquarters located in Middletown and six area offices in Clearfield, Erie, Harrisburg, Norristown, Pittsburgh, and Wilkes-Barre. The Bureau's operational expenses are paid from the State Lottery Fund. In FY 1992-93 the Bureau's operational costs were \$44.4 million, or about 3.1 percent of total Lottery sales. Additional background information on the State Lottery is included in Appendix A.

Pennsylvania is one of 36 states that was operating a lottery as of early 1994. Many states return lottery proceeds to their general funds or use them for education funding. Pennsylvania is the only state that earmarks lottery income solely for programs for older residents. (See Appendix J.)

Historically, Pennsylvania has been a leader among the states in total lottery sales. Although surpassed in recent years by states such as New York, Massachusetts, Florida, and California, Pennsylvania remains one of only ten states with annual lottery sales of \$1 billion or more. Appendix M presents information on comparative measures of performance for these ten state lotteries.

Game Structure

Game Types

There are four basic types of lottery games. The original, or passive game, consisted of a pre-numbered ticket and a periodic drawing. Although still used in other countries, these games have virtually disappeared in the United States. Today, most lottery states use a combination of instant, numbers, and matrix games.

Instant games use pre-printed tickets with a scratch-off surface that instantly reveals whether or not the ticket is a winner. In numbers games the player selects a three or four digit number and places the selection on an on-line computer terminal. These games provide various payoffs for different straight order or mixed combination bets. The fourth type is on-line games such as lotto. Lotto is a

pari-mutuel game⁵ in which the player selects a specified number of digits out of a large field of numbers (e.g., 6 of 49) and the selections are transmitted to a central computer via telecommunications lines. Varying prizes are offered for matching three through six numbers drawn by the state lottery.

PA Game Mix

The PA State Lottery currently operates six types of games. These include instant games, two numbers games (The Daily Number and Big 4) and three matrix games (Super 7, Wild Card Lotto, and Cash 5). The basic play and prize payout features of the games are discussed in this section and summarized in Exhibit 5.

Instant Games

Instant ticket games were first offered in Pennsylvania in 1975. These games use pre-printed tickets with a scratch-off latex surface which reveals instantly whether or not the player has won. A player can win cash, free tickets, and, in some games, merchandise prizes. The instant game tickets are played by removing the outer coating from the play area to reveal play symbols that determine if the ticket is a winner or loser.

The Lottery typically offers up to eight instant games simultaneously, with the average game duration being 16 weeks. Each game features a unique theme or game (e.g., Tic-Tac-Toe, Baseball, Bingo, Mother's Day, Stocking Stuffer). The concept, however, of "scratch and win" is the same on each game. For most games, the price of an instant lottery ticket is \$1. Prices for some special games are \$2 and \$5. These include, for example, Bingo (\$2) and Stocking Stuffer (\$5).

Prizes can range from free tickets to thousands of dollars, but the actual number and dollar amount of instant ticket prizes varies with each game. Games being offered as of February 1994 included Bingo; Winner Wonderland; Joker Poker; Dozen Roses; Money, Movies & Music; Instant Slots; and Monopoly. For example, Dozen Roses offers prizes of a free ticket, \$1, \$2, \$4, \$12, \$24, \$48, \$96, \$1,200, and \$12,000.

Winners of free instant tickets are also eligible for entry into a "Semifinal Grand Prize Drawing" to qualify for a "Grand Prize Drawing" with prizes of \$5,000, \$50,000, \$75,000, \$100,000, or an annuity worth \$1 million--\$50,000 a year for 20 years. To be eligible for a Semifinal Grand Prize Drawing, a winner having a free winning ticket must return it to a participating Lottery sales retailer before the close of the instant ticket game.

⁵In a pari-mutuel game all prizes are created solely with the money wagered with all winning players splitting the prize pool.

Exhibit 5

Basic Information on Pennsylvania Lottery Games

<u>Game</u>	<u>Frequency</u>	<u>Cost</u>	<u>Game Type</u>	<u>Prize Structure</u>
Instant.....	Daily	\$1.00 (Some tickets \$2 or \$5) ^a	Pre-printed "scratch and win" tickets featuring unique themes/games	Cash, free tickets, and merchandise prizes
Daily Number	Daily	\$.50 to \$5.00	A 3-digit numbers game (000 through 999)	\$500 for each \$1 bet (straight bets) ^b
Big 4	Daily	\$.50 to \$5.00	A 4 digit numbers game (0000 through 9999)	\$5,000 for each \$1 bet (straight bets) ^c
Super 7	Saturdays	\$1.00	A 7/10/74 lotto matrix game	\$2 million annuity guaranteed-- higher jackpots due to rollovers ^d
Wild Card Lotto	Tuesdays and Fridays	\$1.00	A 6/48 lotto matrix game	\$1 million annuity guaranteed-- higher jackpots due to rollovers ^d
Cash 5	Mondays and Thursdays	\$1.00	A 5/39 cash lotto matrix game	First prize is approximately 53 percent of the prize pool ^d
Million Dollar Spin	Wednesdays	Ten finalists are selected weekly from free instant ticket winners		\$1 million grand prize ^e

^aVaries by game.

^bPrizes for pair or boxed bets range from \$50 to \$160 for every \$1 bet.

^cPrizes for boxed bets range from \$200 to \$1,200 for every \$1 bet depending on the combination of numbers drawn.

^dThe complete prize structure for these games is shown in Appendix H.

^eThe grand prize winner receives a guaranteed prize of \$50,000, \$75,000, \$100,000, or \$1 million annuity; the other nine finalists win a \$5,000 prize.

Source: Developed by LB&FC staff from PA State Lottery rules and regulations.

Every Friday a Semifinal Grand Prize Drawing is held using the eligible redeemed free winning tickets. Ten finalists are selected with the aid of mechanical drawing equipment for entry into the Grand Prize Drawing. The Grand Prize Drawing (also known as Million Dollar Spin) involves the spin of two wheels to determine one grand prize winner, winning either \$50,000, \$75,000, \$100,000 or a \$1,000,000 annuity. The other 9 finalists win a consolation prize of \$5,000. The top grand prize of \$1 million is paid to the winner through an annuity contract which consists of an initial cash payment plus 20 equal annual payments. Grand prize amounts of less than \$1 million are paid to the winner in lump sums. These drawings are held weekly on Wednesday evenings.

The Lottery offered 12 different instant games during FY 1992-93. Prizes paid in these games totaled \$114.2 million.

The Daily Number

The Daily Number was introduced in Pennsylvania in March 1977. The Daily Number can be played seven days a week by selecting three numbers from 000 through 999. Tickets are purchased in increments of \$.50 up to \$5.00 per ticket. Players select three numbers and play them either straight, boxed, or in front and back pair combinations.⁶

Each day the Lottery randomly draws a three-digit Daily Number. These drawings are held at Lottery headquarters at 7 p.m. each day and are broadcast on live television. Persons holding a ticket with a straight bet three-digit number that matches in exact order the three-digit number drawn are entitled to a prize of \$500 for each \$1 bet. Prizes for pair or box bets range from \$50 to \$160 for every \$1 bet depending on the combination of numbers drawn. The Lottery has established a cap or maximum liability of \$20 million in total prizes for any one Daily Number drawing to protect the integrity of the Lottery Fund.

Big 4

Big 4 became part of the Pennsylvania Lottery's game mix in November 1980. Big 4 players select four numbers from 0000 through 9999. Tickets are purchased in increments of \$.50 up to \$5 per ticket. Players select four numbers and play them either straight or boxed.⁷

⁶A "straight bet" is a three-digit (Daily Number) or four-digit (Big 4) number that the player believes will match the number drawn by the Lottery in exact order. A boxed or combination bet is a three-digit (Daily Number) or four-digit (Big 4) number that the player believes will match the number drawn by the Lottery in any order. Front and back pair bets apply to the Daily Number and are two-digit numbers which match either the first or last two digits of the three-digit number drawn by the Lottery in exact order.

⁷See footnote 6 for definitions of straight and combination bets.

Each day the Lottery randomly draws a four-digit Big-4 Number. These drawings are held at Lottery headquarters at 7 p.m. each day and are broadcast on live television. Persons holding a ticket with a straight bet four-digit number that matches in exact order the four-digit number drawn are entitled to a prize of \$5,000 for each \$1 bet. Prizes for boxed bets range from \$200 to \$1,200 for every \$1 bet depending on the combination of numbers drawn. The Lottery has established a cap or maximum liability of \$10 million in total prizes for any one Big 4 drawing to protect the integrity of the Lottery Fund.

Super 7

Super 7, a lotto matrix game, began in August 1986. In this game the Lottery player pays \$1 to select (or have the computer randomly select) seven numbers from a field of 1 through 74. The Lottery then draws 10 numbers at random during a live television broadcast from Lottery headquarters. To win the grand prize a player's selections must match any 7 of the 10 numbers drawn by the Lottery. (This is called a 7/10/74 lotto matrix.) Super 7 drawings are held on Saturday evenings.

Forty-nine percent of gross ticket sales for each Super 7 game drawing are reserved for prizes. The first prize is a guaranteed \$2 million annuity with an unlimited maximum prize amount possible because of the "rollover provision" (i.e., prize money from a weekly drawing in which there is no winner is added to the next week's jackpot). The first prize is paid by an initial cash payment plus 25 equal annual payments. Players who match any four, five, or six digits of the 10 drawn numbers win prizes of lesser amounts. (See Appendix I for an explanation of the prize payment policy.) Ten jackpot winning Super 7 tickets were sold in FY 1992-93. The average jackpot won was \$8.5 million.

Wild Card Lotto

Wild Card Lotto, a 6/48 lotto matrix game, started in February 1988. In this game, the Lottery player pays \$1 for a ticket containing two individual game plays. The player selects six numbers from 1 through 48. The Lottery then draws 6 numbers at random and a seventh number referred to as the "wild card" number. To win first prize of a guaranteed \$1 million annuity (which may be higher due to "rollovers"), the player must match the six drawn numbers. Second prize tickets are those that contain five of six matching numbers plus the wild card number. Lesser prize amounts are also awarded for matching four or five of the winning numbers or three or four of the winning numbers plus the wild card number. (See Appendix I for an explanation of the prize payout policy.) Thirty-three jackpot winning tickets were sold in FY 1992-93. The average jackpot prize was \$3.2 million.

Cash 5

Cash 5 was introduced in April 1992 and is the Lottery's newest product. Cash 5 is a five-digit matrix cash lotto. For \$1 players select five numbers from 1 to 39. The Lottery then draws 5 numbers at random after the Daily Number and Big 4 game drawings on Monday and Thursday evenings. To win first prize of approximately 53 percent of the prize pool, a player must match the five drawn numbers. Players who match four, three, or two of the five numbers win lesser prizes. (See Appendix I for an explanation of the prize payout policy.) All prizes are paid in cash. A total of 153 jackpot winning tickets were sold in FY 1992-93. The average jackpot was \$101,587.

Comparison of Game Mix: PA and Other Large Lottery States

As shown on Exhibit 6 the mix of games found in the Pennsylvania Lottery is very similar to that of other large state lotteries. Most offer a combination of instant, numbers, and on-line lotto games. The differences among the states are primarily in the variations in prize structure and game format. Also, the California, Massachusetts, Michigan, and New York lotteries offer a keno game.

Some states have recently instituted new games or are considering diversifying their lottery product line. These developments are discussed further in Chapter VIII.

Exhibit 6

Lottery Game Mix, PA and Other Large State Lotteries*

<u>State</u>	<u>Instant</u>	<u>Numbers</u>	<u>Lotto</u>	<u>Cash Lotto</u>	<u>VLTs</u>	<u>Spiel^{a/}</u>	<u>Keno^{b/}</u>
CA.....	X	X	X	X	--	--	X
FL.....	X	X	X	X	--	--	--
IL.....	X	X	X	X	--	--	--
MA.....	X	X	X	X	--	--	X
MI.....	X	X	X	X	--	--	X
NJ.....	X	X	X	X	--	--	--
NY	X	X	X	X	--	--	X
OH.....	X	X	X	X	--	X	--
PA.....	X	X	X	X	--	--	--
TX.....	X	X	X	--	--	--	--

*Includes state lotteries with \$1 billion or more in annual gross sales.

^aSpeil is typically a 6-digit computer generated number that appears on the bottom of lotto tickets. Players pay an extra \$1 to activate the spiel number. Players must match two or more spiel numbers, in exact order from left to right on the ticket, to be prize winners.

^bKeno is an on-line numbers game. Keno is further defined and discussed in Chapter VIII of this report.

Source: Developed by LB&FC staff from The '94 World Lottery Almanac, TLF Publications.

IV. PA State Lottery Sales and Net Income

After peaking at \$1.567 billion in FY 1988-89, PA Lottery sales declined in the following three consecutive fiscal years. In FY 1992-93, sales rebounded by about 1 percent to \$1.427 billion. Despite this increase, the Lottery appears to have reached "maturity." Although instant ticket and other marketing initiatives will produce a sales increase in FY 1993-94, current projections indicate declining and flat sales each year thereafter through FY 1998-99.

However, lotteries typically measure their success primarily on the basis of increases in net income or profit rather than on sales. Net income, or profit, is a lottery's ticket sales, net of its direct and indirect costs and expenses. The PA Lottery's net income declined to \$612.8 million in FY 1992-93. Profits are projected to further decline to about \$570 million in the current and upcoming fiscal years and to remain at about this level through FY 1998-99.

Gross Sales

Gross sales represent the proceeds from Lottery ticket sales before adjustments for retailer commissions and field-paid prizes. As shown on Table 3, the PA State Lottery's gross sales during the first few years of operations were relatively modest, growing from \$124.4 million in FY 1972-73 to \$136.9 million in FY 1975-76. However, in FY 1976-77 the Daily Number game was introduced and ticket sales nearly doubled in FY 1977-78. From that point through FY 1983-84, Lottery ticket sale increases averaged about 35 percent a year.

Big 4 and Lotto games were added in 1980 and 1982 and annual gross sales topped the \$1 billion mark for the first time in FY 1983-84. Although annual gross sales have exceeded \$1 billion every year since, the annual rate of growth has slowed and the Lottery experienced annual sales declines for three consecutive fiscal years between FY 1989-90 and FY 1991-92. Gross sales rebounded slightly in FY 1992-93 to \$1.4 billion. Although representing a 1.3 percent increase over the prior year, FY 1992-93 sales were well below FY 1988-89's peak level of \$1.6 billion.

Table 3

State Lottery Gross Sales
 FY 1972-73 Through FY 1992-93
 (\$Millions)

<u>Fiscal Year</u>	<u>Gross Sales</u>	<u>% Increase (Decrease)</u>
1971-72.....	\$ 52.3	--
1972-73.....	124.4	138.02% ^a
1973-74.....	128.5	3.25
1974-75.....	115.6	(10.01)
1975-76.....	136.9	18.42
1976-77 ^b	151.7	10.81
1977-78.....	295.5	94.76
1978-79.....	351.4	18.94
1979-80.....	387.4	10.24
1980-81 ^c	427.0	10.23
1981-82 ^d	562.3	31.67
1982-83.....	885.4	57.48
1983-84.....	1,236.0	39.60
1984-85.....	1,294.7	4.76
1985-86.....	1,320.2	1.96
1986-87 ^e	1,338.5	1.38
1987-88.....	1,439.1	7.52
1988-89.....	1,567.2	8.89
1989-90.....	1,543.4	(1.52)
1990-91.....	1,523.2	(1.30)
1991-92 ^f	1,408.9	(7.51)
1992-93.....	1,427.4	1.31

^aFirst full fiscal year of Lottery operations. FY 1971-72 sales were for a partial fiscal year.

^b"Daily Number" introduced.

^c"Big 4" introduced.

^d"Lotto" introduced.

^e"Super 7" introduced.

^f"Cash 5" introduced.

Source: Developed by LB&FC staff from data obtained from the PA State Lottery and the Governor's Office of the Budget.

Lottery Maturity

This sales pattern is characteristic of a “mature” lottery. All lotteries have a development phase in their life cycle during which products are new and sales growth is rapid. In older lotteries such as Pennsylvania's, this development phase has either ended or is coming to an end.

Literature on the lottery industry suggests that lotteries initially sell more, peak, and then experience stagnating or declining sales as public interest/demand is satisfied and the player base becomes saturated. The game structure of a lottery also changes during the development period. States usually start with simpler games such as instant tickets and then move to more sophisticated numbers and lotto games.

As these games evolve and mature they eventually lose some of their appeal and lottery managers need to find alternatives and game enhancements. Research on state lottery operations suggests that in such situations, states often experiment with longer lotto odds and multi-state games to boost the prize pool. They may also initiate more frequent drawings to generate enthusiasm, and offer additional instant games and different game structures. The options, however, are limited within the traditional lottery game structure.

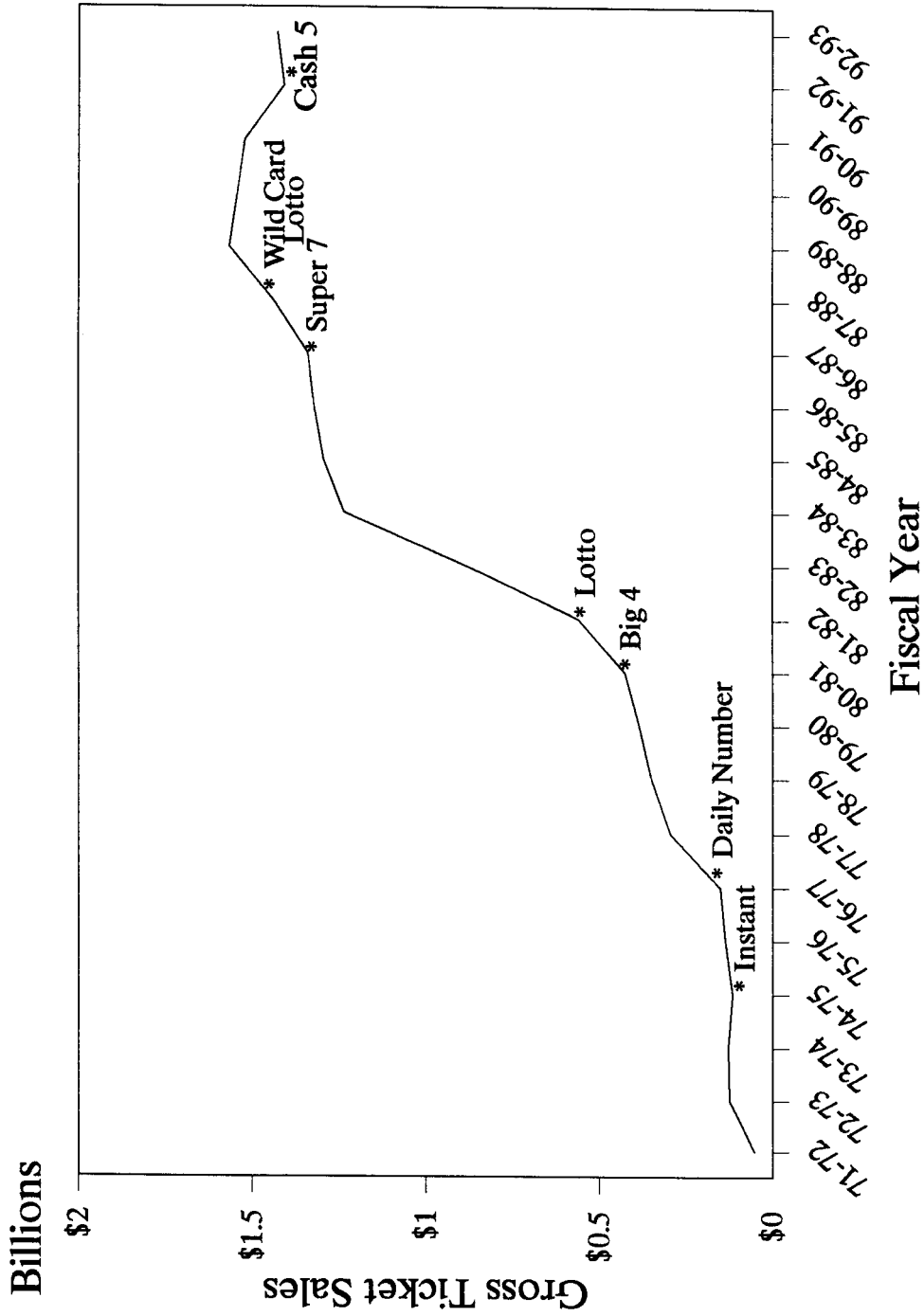
This scenario appears very similar to the Pennsylvania experience. The Pennsylvania Lottery started in 1972 with basic passive sweepstakes games. By 1975 the Lottery introduced instant ticket games and added The Daily Number in 1977. Widespread player acceptance of these games created a strong upward sales trend. In one year alone, FY 1977-78, sales increased by 95 percent.

In FY 1980-81 the Big 4 numbers game was added followed by Pennsylvania Lotto in April 1982. What followed was described in the World Lottery Almanac as a “meteoric rise” in Pennsylvania Lottery sales during the 1980s. (See Exhibit 7.) Record lotto jackpots and an expansion of drawing dates drove sales past the \$1 billion mark for the first time in FY 1983-84.

In 1986 the Lottery began offering a second lotto game (Super 7) and Lottery sales peaked in FY 1988-89 at \$1.567 billion. Sales then declined for the next three years to \$1.409 billion in FY 1991-92. In 1992 the Lottery added a new all cash lotto matrix game, Cash 5, that contributed to a modest sales increase in FY 1992-93. The Lottery now projects a relatively flat sales pattern through FY 1998-99.

It is apparent that a state lottery cannot be an ever-increasing revenue producer. Maintaining sales growth is an ongoing challenge for administrators of state lotteries. Achieving growth in a mature lottery is especially challenging. An industry journal, Gaming and Wagering Business (September 1993) stated that the maturing of the lottery marketplace looms like “a spectre over the governments that

Historical Pattern of Pennsylvania Lottery Gross Ticket Sales



Note: Asterisk denotes game introduction within that fiscal year.

Source: Developed by LB&FC staff from information obtained from the PA State Lottery.

have come to depend on consumers' willingness to spend annually increasing amounts of money on paper-ticket and on-line numbers and lotto”

At this point in its development cycle the Pennsylvania Lottery has introduced the full range of what could be called “traditional” lottery games. In fact, most of these had been introduced by the early 1980s. In the past eight years only two new games have been added. Both of these, Super 7 and Cash 5, are variations of lotto matrix games.

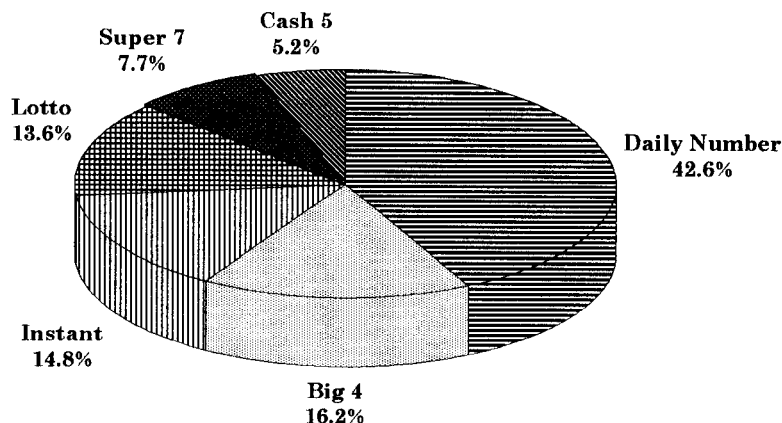
As is also typical of a mature lottery, Pennsylvania has added more frequent drawings and additional instant games in an attempt to stabilize sales. For example, Big 4 drawings were expanded to six a week in January 1988 and Sunday drawings of The Daily Number and Big 4 were instituted in July 1989. More recently, Cash 5 drawings were increased to two a week and the Super 7 drawing was moved to Saturday because Lottery officials believed more tickets would be bought on a drawing day which was also a major shopping day. The results of these initiatives are discussed in Chapter V.

Sales Breakdown, by Game

The Pennsylvania Lottery had gross sales of \$1.4 billion in FY 1992-93. As shown in Exhibit 8, the Lottery's numbers games (the Daily Number and Big 4) accounted for nearly 60 percent (\$838 million) of total sales. The matrix games, Lotto, Super 7, and Cash 5, generated \$378 million (about 26 percent of total sales) while instant games produced \$211 million (nearly 15 percent of total sales).

Exhibit 8

Breakdown of FY 1992-93 PA Lottery Sales, by Game



Total FY 1992-93 Gross Sales = \$1,427,402,670

Source: Developed by LB&FC staff from information obtained from the PA State Lottery.

Numbers Games

The Daily Number and Big 4 games are “companion products.” According to the State Lottery, almost 90 percent of Big 4 players also play the Daily Number. Together, these games account for nearly 60 percent of Lottery sales (the Daily Number, 43 percent, and Big 4, 16 percent).

As shown on Table 4, Daily Number sales increased at a fairly steady pace during the 1980s. Sales, however, have declined over the past two years. FY 1992-93 sales declined by 4.3 percent to \$607.7 million.

Table 4

Daily Number and Big 4 Ticket Sales (\$000)

Fiscal Year	Daily Number		Big 4	
	Sales	% Change	Sales	% Change
1983-84	\$480,911	6.14%	\$ 68,237	6.69%
1984-85	503,416	4.68	79,114	15.94
1985-86	514,055	2.11	99,380	25.62
1986-87	532,747	3.64	98,531	(0.86)
1987-88	555,957	4.36	132,119	34.09
1988-89	586,531	5.50	165,043	24.92
1989-90	658,635	12.29	196,900	19.30
1990-91	665,021	0.97	217,155	10.29
1991-92	635,155	(4.49)	224,972	3.60
1992-93	607,718	(4.32)	230,524	2.47

Source: Developed by LB&FC staff from information obtained from the PA State Lottery.

These declines may be related at least in part to the maturity of this game in Pennsylvania. Lottery officials also believe economic factors, low payouts, and increased competition from competing gambling enterprises are contributing to sales softness for this game. Big 4, on the other hand, has performed well over the past ten years showing annual growth rates of 25 percent or more in three separate years and a sales decline in only one year. FY 1992-93 sales for Big 4 were up 2.5 percent over the prior year to \$230.5 million. Continued productivity from both of these numbers games will be crucial to the overall success of the State Lottery.

Matrix Games

The Lottery's matrix games (Wild Card Lotto, Super 7, and Cash 5) are highly interrelated. That is, no changes in game design or marketing strategy can be made without first measuring the impact those changes will have on the other matrix games.

By FY 1991-92 it was evident that a serious erosion of sales was occurring in the matrix games. Super 7 was in its third straight year of sales declines of about 30 percent per year and Wild Card Lotto sales were off by 18 percent from the previous year. A slow sales start for Cash 5, the Lottery's newest matrix game, compounded the problem.

The sales decline continued for Wild Card Lotto in FY 1992-93 but Super 7 sales rebounded by 13 percent to \$110.3 million. However, Super 7 sales remain far short of its peak sales levels during the period FY 1987-88 to FY 1989-90. Cash 5 sales in FY 1992-93 increased dramatically to \$73.6 million.

Table 5

Wild Card Lotto, Super 7, and Cash 5 Ticket Sales (\$000)

Fiscal Year	Wild Card Lotto		Super 7		Cash 5	
	Sales	% Change	Sales	% Change	Sales	% Change
1983-84	\$487,983	163.90%	\$ 0	0 %	\$ 0	0 %
1984-85	511,631	4.85	0	0	0	0
1985-86	498,365	(2.59)	0	0	0	0
1986-87	306,510	(38.50)	190,532	0	0	0
1987-88	241,835	(21.10)	284,392	49.26	0	0
1988-89	276,015	14.13	304,144	6.95	0	0
1989-90	255,473	(7.44)	216,813	(28.71)	0	0
1990-91	259,025	1.39	150,515	(30.58)	0	0
1991-92	211,456	(18.36)	97,292	(35.36)	14,841	0
1992-93	193,976	(8.27)	110,313	13.38	73,647	396.24

Source: Developed by LB&FC staff from information obtained from the PA State Lottery.

Instant Games

Instant ticket game sales have been flat to declining over the past several fiscal years. In FY 1992-93 instant game sales declined by about 6 percent to \$211.2 million. Instant sales were not this low since FY 1986-87.

The Lottery attributes the decline in sales to many factors including the maturity of the games, the lack of retailer incentives, a decrease in the number of off-line retailer locations, and economic factors. Lottery officials believe, however, that instant games are underdeveloped in Pennsylvania and that significant growth opportunities exist in these games.

Table 6

Instant Ticket Sales (\$000)

<u>Fiscal Year</u>	<u>Sales</u>	<u>% Change</u>
1983-84.....	\$198,893	8.42%
1984-85.....	200,582	0.85
1985-86.....	208,369	3.88
1986-87.....	210,196	0.88
1987-88.....	224,839	6.97
1988-89.....	235,429	4.71
1989-90.....	215,550	(8.44)
1990-91.....	231,528	7.41
1991-92.....	225,207	(2.73)
1992-93.....	211,224	(6.21)

Source: Developed by LB&FC staff from information obtained from the PA State Lottery.

Lottery Sales Projections

Projections of Pennsylvania Lottery sales are made by the Department of Revenue's Bureau of Policy Analysis and Planning in conjunction with the Department's Bureau of Fiscal Management and the Lottery's Executive Director. The Department monitors actual versus estimated sales on an ongoing basis and presents five-year sales projections in its annual budget submission to the Office of the Budget.

In developing sales projections, the Department uses various structural models that are based upon the inherent statistical nature of each game. These are used to capture sales trends for the Lottery games and to predict future sales. The models differ for the various games. For example, sales for certain games tend to

follow a linear trend, while other games are affected by their matrix design (i.e., sales levels are relatively constant except during periods of unusually high or abnormally low jackpot levels over the forecast period). These models also consider major general influences such as economic conditions, population changes, and personal income. The Bureau obtains forecasts of general economic factors from the Wharton Econometric Forecasting Associates.

The Department derives base estimates from the structural models and then revises them to reflect anticipated marketing, advertising, and administrative initiatives planned for the forecast period. For example, instant ticket vending machines are expected to be installed throughout FY 1993-94 which should have a positive impact on instant ticket sales. Specific adjustments are derived by researching similar actions taken by other jurisdictions, internal studies by the Lottery or one of its contractors, or independent analysis by Department staff.

According to Revenue Department officials, the overall approach used in estimating Lottery ticket sales is to project conservatively. This is especially true when new games or marketing initiatives are involved. In developing its estimates the Department concentrates on preparing game-by-game estimates for the plan year (i.e., currently FY 1993-94). Sales estimates for the "out" years in the projection period are based on a straight percentage increase or decrease over the plan year.

The Lottery's sales projections for FY 1993-94 and the five-year period ending FY 1998-99 are shown on Table 7. The Department's current projections are that ticket sales will increase by about 8 percent during FY 1993-94, decline slightly next fiscal year and then level off at annual increases of less than 1 percent a year through FY 1998-99.

According to Lottery officials, these estimates assume that the economy is no longer in a recession. Wharton Econometric Forecasting Associates concurs that the economy has rebounded and that it is reasonable to assume that consumers are generally more likely to spend a portion of their discretionary income on lottery tickets under such conditions. A Wharton Associates official noted, however, that Pennsylvania appears to be lagging behind the general rate of recovery nationwide.

The projected sales increase in FY 1993-94 also assumes that instant ticket sales would increase due to the implementation of an automated instant ticket validation and accounting system, the installation of instant ticket vending machines, and the introduction of Instant Bingo as a permanent part of the game mix.

Table 7

State Lottery Sales Projections Through FY 1998-99*
(\$000)

<u>Fiscal Year</u>	<u>Gross Sales</u>	<u>% Increase (Decrease)</u>
1993-94	\$1,547,100	8.39%
1994-95	1,532,600	(0.94)
1995-96	1,543,000	0.68
1996-97	1,553,600	0.69
1997-98	1,564,400	0.70
1998-99	1,575,300	0.70

*Represents projected sales totals for all games; projections by game are not available.

Source: Developed by LB&FC staff from data obtained from the PA State Lottery and the Governor's Office of the Budget.

To put the current sales projections in perspective, we examined the Department's performance in estimating Lottery sales over the past ten years. We compared actual to estimated Lottery ticket sales for the period FY 1983-84 through FY 1992-93. During this period the Department's Lottery sales estimates were, on average, within 2.5 percent of actual ticket sales.

As shown on Table 8, the greatest differences between actual and estimated sales occurred in FY 1988-89 and FY 1989-90. These years marked the transition from steadily increasing to declining Lottery sales. In the first of these two years the estimate was nearly \$85 million less than actual sales; in the subsequent year, the estimate was nearly \$82 million more than actual. Much of the variation in FY 1988-89 can be attributed to the Super 7 jackpot reaching \$115.5 million, a record for North America at that time. In FY 1989-90 there were no jackpots of this magnitude and sales began to decline in a recessionary economy.

Lottery sales were up during the first nine months of FY 1993-94. Through March 1994, sales of \$1.174 billion had been made. This is 76 percent of the total sales estimate for FY 1993-94. Current sales trends are discussed further in Chapter V.¹

¹The outcome of a pending court case on the legality of selling out-of-state lottery tickets in Pennsylvania could, to some degree, affect sales. Lottery officials estimate the sale of out-of-state tickets costs the Pennsylvania Lottery about \$800,000 per year in lost sales. The status of this case is summarized in Appendix B.

Table 8

**Comparison of Actual to Estimated
Pennsylvania Lottery Ticket Sales**

FY 1983-84 to FY 1993-94
(\$000)

<u>Fiscal Year</u>	<u>Ticket Sales</u>		<u>Actual Over (Under) Estimate</u>	
	<u>Estimate</u>	<u>Actual</u>	<u>Dollar</u>	<u>Percent</u>
1983-84	\$1,268,800	\$1,236,023	\$(32,777)	(2.58)%
1984-85	1,283,320	1,294,742	11,422	0.89
1985-86	1,321,000	1,320,170	(830)	(0.06)
1986-87	1,295,480	1,338,516	43,036	3.32
1987-88	1,413,500	1,439,142	25,642	1.81
1988-89	1,482,326	1,567,162	84,836	5.72
1989-90	1,625,215	1,543,371	(81,844)	(5.04)
1990-91	1,506,677	1,523,244	16,567	1.10
1991-92	1,424,000	1,408,923	(15,077)	(1.06)
1992-93	1,415,000	1,427,402	12,402	0.88
1993-94	1,520,900	a	--	--

^aTicket sales during the first nine months of the fiscal year totaled \$1,174,044,245.

Source: Developed by LB&FC staff from Governor's Executive Budget documents and information obtained from the PA State Lottery.

State Lottery Net Income

Net income, or profit, represents a lottery's total ticket sales, net of its direct and indirect costs and expenses. Lottery officials in Pennsylvania and most states measure their success primarily on increased profits, not sales. In Pennsylvania's case, this figure is the amount available to support programs and services for older Pennsylvanians. The PA State Lottery's FY 1992-93 net income was \$612.8 million,

a decrease of 1.76 percent from the prior year. Historical net income is shown on Table 9.

Table 9

**Historical Net Income (Profit) Generated
by the PA State Lottery**
(\$000)

<u>Fiscal Year</u>	<u>Net Income^a</u>	<u>% Income Increase (Decrease)</u>
1971-72.....	\$ 22,533	-- %
1972-73.....	55,146	144.73
1973-74.....	61,048	10.70
1974-75.....	54,235	(11.16)
1975-76.....	54,807	1.05
1976-77.....	51,953	(5.21)
1977-78.....	107,933	107.75
1978-79.....	138,210	28.05
1979-80.....	155,892	12.79
1980-81.....	188,147	20.69
1981-82.....	221,593	17.78
1982-83.....	366,175	65.25
1983-84.....	510,749	39.48
1984-85.....	600,601	17.59
1985-86.....	569,639	(5.16)
1986-87.....	584,762	2.65
1987-88.....	576,006	(1.50)
1988-89.....	655,518	13.80
1989-90.....	581,442	(11.30)
1990-91.....	593,390	2.05
1991-92.....	623,714	5.11
1992-93.....	612,755	(1.76)

^aNet income is defined as net revenue (i.e., net collections plus miscellaneous revenue) minus administrative and operating costs.

Source: Developed by LB&FC staff from the PA Department of Revenue, Bureau of Fiscal Policy.

Projections of net income or profit from the Lottery are shown on Table 10. As the table shows, net income is expected to continue to decline in FY 1993-94 and FY 1994-95 to about \$570 million, the lowest net income figure since FY 1985-86. Annual net income is projected to remain at about this level through the end of the projection period.

Table 10

**Projections of State Lottery Net Income (Profit)
Through FY 1998-99**

(\$000)

<u>Fiscal Year</u>	<u>Net Income^a</u>	<u>% Increase (Decrease)</u>
1993-94	\$576,846	(5.86)%
1994-95	570,496	(1.10)
1995-96	575,423	0.86
1996-97	575,831	0.07
1997-98	576,475	0.11
1998-99	575,463	(0.18)

^aNet income is defined as net revenue (i.e., net collections plus miscellaneous revenue) minus administrative and operating expenses. Except for FY 1993-94, does not include prior year lapses (\$7.5 million in FY 1993-94).

Source: Developed by LB&FC staff from information contained in the 1994-95 Governor's Executive Budget.

V. Recent Actions Taken by the PA State Lottery to Stabilize and Increase Sales

By the late 1980s it was evident that the Pennsylvania Lottery had matured. Faced with declining revenues, Lottery officials first sought to stabilize sales. Once stabilized, the Lottery's strategy was to next seek modest sales growth. The actions taken by the Lottery in relation to these objectives have focused primarily on improving the Lottery's marketing abilities, introducing lottery industry technological innovations, and enhancing its existing games. The Lottery's Executive Director stated that the strategy has been to avoid "quick fix solutions" and instead focus on becoming better at marketing their lottery products. This chapter discusses actions that have been taken by the Lottery in these areas and assesses their results to date on sales.

Lottery Initiatives

Development of an Annual Marketing Plan

The Pennsylvania Lottery is a \$1.5 billion division of state government that competes with the private sector for the public's discretionary dollar. Because of the increasing amount of competition for that dollar, it is essential that the Lottery operate according to a strategic marketing plan.

A 1987 LB&FC performance audit of the State Lottery recommended that the Lottery develop a formal strategic business plan. Since that time the Lottery has initiated an annual marketing planning process. As part of this study we examined the marketing plans for FY 1992-93 and FY 1993-94.

The Lottery views the plans as a "blueprint for the strategy, plans, and initiatives" it will follow during the course of a given fiscal year. The plans are developed by Lottery and other Revenue Department staff with input from the Lottery's advertising agency, and on-line games and instant ticket vendors. The plans appear thorough and incorporate time-framed goals and objectives in key areas of Lottery operations.

The FY 1992-93 plan includes sales goals and marketing objectives, operational analysis, and initiatives for each of the Lottery's games. The plan also includes strategic planning in the areas of research, lottery technology, retailer relations, public relations, and advertising.

The Lottery's FY 1993-94 marketing plan represents a refinement of previous efforts. The Lottery's Executive Director explained that the plan is, in large measure, based on a special marketing segmentation study that was conducted to determine the attitudes and lottery playing habits of Pennsylvania citizens. As a result, the Executive Director characterized the plan as more "customer oriented" than previous plans.

The FY 1993-94 plan begins with a broad statement of mission, value, and underlying beliefs of the PA State Lottery. Other parts of the plan include:

- Situation Analysis—that identifies and quantifies Lottery performance by District Area and by product as of July 1, 1993.
- Situation Evaluation—that reviews and evaluates the game programs and advertising implemented during FY 1992-93.
- Product Positioning—that defines each Lottery game product's positioning (i.e., in terms of who plays the game and why, the historical pattern of the game, the type of advertising and promotional campaign needed, etc.).
- Goals and Objectives—that define the FY 1993-94 marketing goals and objectives for each game.
- Marketing Strategy—that defines marketing strategies by game. Each strategy addresses a specific objective defined in the previous section.
- Marketing Budget—that presents marketing budget data with detail by game and by specific marketing initiative.
- Marketing and Sales Action Plans—that identify each program by its initial start date, key deadlines, budget, responsible project manager, and evaluation method.

Overall, the development, implementation, and refinement of the market planning process gives the Lottery a definite plan of action and sense of marketing direction that were not evident when we conducted a performance audit of the State Lottery in 1987.

Instant Ticket Validation and Accounting System (ITVAS)

For many years the operation of instant lottery games involved methods that were highly manually-intensive. Advances in technology have, however, greatly simplified the process. Automated ticket validation and accounting systems that use barcode technologies have been implemented in several states.

According to lottery experts, these systems facilitate new instant game marketing strategies, reduce administrative burden on retailers, and satisfy player demand for greater product variety. Several states, including Ohio, Minnesota, Massachusetts, and Virginia have successfully implemented instant ticket validation systems. One lottery industry official observed that the automated systems have enabled these states to prove that "instant tickets can be the salvation of stagnant sales."

The Pennsylvania Lottery, in conjunction with its on-line games vendor (Automated Wagering International), converted to an instant ticket validation and accounting system (ITVAS) in March 1993. The Lottery pays its vendor a percentage of on-line sales for this service plus telecommunications costs. The Lottery believes the new system will provide the following benefits:

- Streamline retailer methods of handling redeemed instant tickets.
- Eliminate/reduce fraudulent ticket practices.
- Provide the capability to expand the number of instant games available for sale.
- Provide the capability to substantially increase the number of variable prize levels, by game.
- Position the Lottery so that its computer-based system is capable of processing increased instant ticket sales.
- Eliminate/reduce the manually-intensive methods for processing returned redeemed tickets used since instant games started in 1975.

Before implementation of ITVAS, the Lottery could offer a maximum of 10 instant games a year. With the new system the Lottery can offer an unlimited number of instant games in any calendar year. Under the old system there was a limit of seven field-paid prize categories per game. Under ITVAS there is the capability of 32 field-paid prize levels per game. Previously, instant games had to be introduced on a statewide basis. Now they can be introduced regionally if the Lottery determines there is a sales potential in a regional or "niche" market.

There are numerous other advantages to the new system. Many of these relate to the reduction or elimination of manually intensive activities such as ticket handling and data entry. Others relate to game security, accounting, and ticket distribution matters. Because of the enhanced capabilities available through ITVAS, the Lottery plans to market 16 new instant games and reissue up to four established games during FY 1993-94.

Instant Ticket Vending Machines (ITVMs)

The lottery industry has recently entered into the world of self-service. Since 1991, vending machines that dispense instant tickets have become a common sight in many North American lotteries. Virginia installed the first ITVMs in 1991 in supermarkets, volume-discount stores, major drug stores, and airports. Many states have followed Virginia's lead. Among these are California, Kentucky, Massachusetts, Missouri, New York, Ohio, and Pennsylvania. The Pennsylvania Lottery installed its first ITVMs in early July 1993.

ITVMs offer state lotteries the opportunity to increase sales in existing markets where there has been a historical resistance to aggressively sell lottery products, and penetrate new markets. For example, supermarkets and chain drug stores traditionally avoided selling instant lottery tickets at check-out registers because they interfered with moving customers through the check-out areas as quickly as possible.

Virginia Lottery officials report that the instant ticket machines have been successful in addressing sales concerns at these types of retail outlets. The machines also enable retailers to handle the multiple instant game format that has resulted from new automated instant ticket validation systems.

Proponents of the machines also found that they open up new channels of distribution. For example, Virginia has entered into an agreement with a major fast food chain to install ITVMs in its restaurants. Colorado reports that its objective is to use the machines in bars and restaurants and eventually retail locations such as K-Marts. Also, for several years, the Massachusetts Lottery had reportedly been unsuccessful in selling instant tickets in bars, taverns, clubs, and restaurants with a liquor license. ITVMs are reportedly being used by Massachusetts to penetrate these markets.

Although most lottery officials see the machines as essential in a modern lottery, they do not believe the industry will go to a totally self-serve environment. Most agree that the machines should supplement, not replace, the availability of clerk-provided tickets. Lottery officials also note "age-control concerns" associated with the machines and the need to monitor their placement and operation. Industry representatives point out that machines must be in sight of a clerk and can be equipped with a remote shut-off switch if a retailer suspects use by a minor.

The Pennsylvania Lottery tested ITVMs during FY 1992-93. The Lottery found both player and retailer acceptance to be excellent and decided to proceed with implementation to: (1) provide new marketing opportunities, (2) reduce the amount of labor involved in selling tickets, and (3) to increase customer convenience. The Lottery's goal is to install 1,000 ITVMs throughout the state by the end of FY 1993-94. The total purchase price for these 1,000 machines including

delivery, installation, and training of store personnel is \$3.8 million. Most of the machines purchased (at a cost of \$3,580 each) offer four games. However, a number of machines which offer eight games have also been purchased for placement at high volume locations (i.e., retailers that serve 60,000 or more customers weekly). These units cost \$4,969 each. The Lottery also maintains a service maintenance contract on the machines.

As shown on Table 11, 830 machines had been installed at PA Lottery retailer locations as of early April 1994. About three-quarters of these machines are being installed in grocery stores and supermarkets. The others are being placed in a variety of locations such as truck stops, restaurants, bowling centers, and retail pharmacies. An ITVM has also been placed at the New Stanton service plaza on the Pennsylvania Turnpike and in a Harrisburg area bar and a hospital gift shop in Pittsburgh on a trial basis.

Table 11

**Number of Instant Ticket Vending Machines Installed
in Pennsylvania, by Lottery Area***

<u>Lottery Area</u>	<u>Location</u>	<u>Number of Machines Installed</u>
1	Philadelphia.....	119
2	Wilkes-Barre.....	157
3	Harrisburg.....	185
4	Clearfield.....	97
5	Pittsburgh.....	207
6	Erie.....	62
--	Lottery/BABN ^a	<u>3</u>
	Total.....	830

*As of April 1994.

^aBABN Technologies provides instant lottery ticket printing and related services.

Source: Developed by LB&FC staff from information obtained from the PA Lottery.

The first 1,000 ITVMs are being installed in high-traffic locations which are considered secure. For purposes of this distribution, the Lottery sought locations with customer counts of at least 4,000 to 5,000 per week.

Although approximately one-third of the Pennsylvania Lottery's retail accounts are with convenience stores, ITVMs are not being placed at these stores because the machines have not done well at these locations in other states. However, Virginia has recently begun to expand ITVMs into convenience stores and Lottery officials are continuing to evaluate the potential of using ITVMs in such Pennsylvania stores in the future.

ITVMs can increase sales but represent a sizable investment for a state lottery. However, according to the North American Association of State and Provincial Lotteries, the machines are paying for themselves. California reports needing only half of the incremental sales it realized to pay for its machines, and Colorado reported paying for its machines in six months through incremental sales. A sales analysis done in Virginia attributed \$26.5 million in incremental sales directly to the vending machines. According to information obtained from the Virginia Lottery, retailers using ITVMs in that state experienced a 49.3 percent increase in weekly instant ticket sales over the previous year. Retailers without ITVMs reportedly had only a 7.5 percent increase for the same period.

Because implementation is not yet complete, it is not possible to determine exactly how cost-effective ITVMs will be in Pennsylvania. To accomplish this, the Lottery is designing an automated reporting system which will measure the total sales impact at each ITVM location. Although this system is not yet complete, a preliminary sales survey of approximately 30 locations about two months after the installation of ITVMs in the Harrisburg and Scranton-Wilkes-Barre areas found that average weekly instant ticket sales increased by about \$800 per retailer.

We also analyzed instant ticket sales at ten supermarkets both before and after the installation of ITVMs. As shown on Table 12, average weekly instant ticket sales (i.e., including both instant tickets sold from the counter and through ITVMs) increased at all locations (from 73 to 204 percent) following installation of ITVMs.

The Governor's Executive Budget for FY 1994-95 recommends \$3.7 million to install an additional 1,000 instant ticket vending machines and \$630,000 for their maintenance costs.

Table 12

**Average Weekly Instant Ticket Sales in
Selected PA Lottery Retailer Locations
Before and After Installation of ITVMs**

Store	Date of ITVM Installation	Sales		Change	
		1993 ^a	1994 ^b	Dollar	Percent
1	12-10-93	\$ 242	\$ 677	+\$435	+180%
2	12-09-93	545	1,084	+539	+99
3	12-09-93	725	1,538	+813	+112
4	12-09-93	599	1,269	+670	+112
5	11-16-93	1,216	2,164	+948	+78
6	01-13-94	731	1,262	+531	+73
7	01-11-94	542	1,070	+528	+97
8	12-09-93	455	800	+345	+76
9	12-15-93	491	938	+447	+91
10	01-10-94	395	1,200	+805	+204

^aRepresents total average weekly instant ticket sales at this location in 1993. Sales include both instant tickets sold from the counter and sales made through an instant ticket vending machine.

^bRepresents total average weekly instant ticket sales between January 4, 1994, and March 22, 1994, at this location. Sales include both instant tickets sold from the counter and sales made through an instant ticket vending machine.

Source: Developed by LB&FC staff from information obtained from PA State Lottery Sales Division.

Instant Ticket Enhancements

The Lottery views instant games as a growth product that has been underdeveloped in Pennsylvania. In addition to introducing ITVMs, the Lottery has taken a number of steps to enhance instant ticket sales:

Multiple Instant Game Strategy

Research has shown that instant tickets are impulse items and a wide choice of instant games stimulates sales. With the capabilities now available through the ITVAS, the Lottery has been able to implement a multiple instant ticket game strategy. Prior to ITVAS the Lottery was limited to offering a maximum of four instant games for sale at any given time.

The Lottery is now encouraging retailers to display a minimum of eight games at one time and to prominently display the games. As of May 1994 the

Lottery had nine instant games available with all on-line retailers reportedly having instant ticket dispensers on hand for eight or more games.

Bingo. The multiple game and multiple prize capabilities of the ITVAS system have enabled the Pennsylvania Lottery to significantly expand its mix of instant games. Among the most successful of the newer instant games is Instant Bingo. Industry analysts believe Bingo is a whole new product line for lotteries rather than just another instant game.

Introduced by the Atlantic Lottery Corporation in 1991, Bingo is an extended play \$2 instant ticket. Pennsylvania introduced the game in May 1993. The game features four play areas on each ticket and plays like actual Bingo. The top prize is \$25,000.

Bingo was the most popular and unique new game introduced in FY 1992-93. The Lottery has found that Bingo has generated new sales without cannibalizing other instant games. From the start Bingo has been a consistent top seller. Instant ticket Bingo sales averaged about \$1.5 million per week between July 1993 and early April 1994, accounting for about 27 percent of instant ticket sales during the period. According to Lottery officials, the Lottery plans to make the game a permanent part of its product mix.

Niche Marketing

A key to instant game success is marketing games with universal appeal. Such games incorporate proven themes, game structures, and play formats. Successful lotteries also offer a mix of specialty games targeted for specific markets. Games of this type are a part of niche or target marketing.

The State Lottery has given increasing attention to maintaining an effective mix of core and niche games. Its current instant game philosophy is to always have a strong core game on the market that appeals to a proven player base. This strategy ensures sales and allows the Lottery to experiment with niche games, which are designed to appeal to narrower, more specific markets.

For example, as discussed above, the Lottery introduced Instant Bingo in May 1993. This game has a somewhat more complicated play format (it takes about 5 to 10 minutes to play) and is targeted to Bingo players. As such, it is targeted to a particular player group that has an interest in the play value of the game as well as the possibility of winning a cash prize (ranging from \$2 to \$25,000). Other examples of niche games include "Money, Movies & Music," targeted to movie goers and music lovers and "Football" and "Baseball" for sports enthusiasts.

The ITVAS capabilities available to the Lottery facilitate this strategy. Multiple game capabilities also open up the possibility of the Lottery producing

short-term niche games for holidays, special events, or particular sites or geographic areas of the state. Although the Lottery has not yet introduced a niche game targeted to a specific geographical area, it is possible to design such games (for example, related to professional sports teams or festivals operating in specific locations). According to the Lottery's Executive Director, geographically targeted niche games are a definite future possibility as they become more sophisticated in the use of ITVAS.

Instant Ticket Dispensers. Instant tickets are an impulse item and sales are often generated when tickets are in view at check-out counters. The Lottery's marketing plan included an initiative to encourage retailers to display a minimum of eight games at one time. With this initiative and the availability of multiple games, the Lottery needed to increase the number of ticket dispensers at Lottery retailer locations.

The Lottery's 1993-94 Marketing Plan included an initiative to increase the number of instant ticket dispensers from four to eight at each location by April 1994. This was to be accomplished through the purchase of new units and the reallocation of dispensers collected from approximately 900 retailers who dropped out of the network during ITVAS conversion. The Lottery reports that virtually all on-line retailers had been equipped with a minimum of eight instant ticket dispensers as of April 1994.

Super 7 and Cash 5 Modifications

Lotteries sometimes change or increase the frequency of their drawings as a strategy to increase sales. During FY 1993-94 the Pennsylvania Lottery modified the drawing schedule for its matrix lotto games. Beginning in July 1993 the Super 7 drawing was moved from Wednesday to Saturday. This was done to maximize play among regular playing groups by featuring the drawing on a traditional shopping day. Prior to this change, Pennsylvania was the only major state lottery that did not have a jackpot drawing on Saturday.

As a second step, Cash 5 was expanded from one to two drawings per week effective the week of April 26, 1993. Drawings are held on Mondays and Thursdays.

Generic Regulations for Instant Games

Until recently, all Pennsylvania Lottery instant games had to be initiated by separate regulations. This meant that all new games had to go through the formal regulatory review process before they could be introduced. This often took as long as six months, hampering the ability of the Lottery to respond to market trends.

To deal with this problem the Lottery proposed generic instant game regulations that would reduce the paperwork and lead time needed to design, produce, and initiate new instant games. Because the basic features and operation of instant games are relatively constant and already promulgated in regulations, the Lottery sought authority to begin new instant games after publication in the Pennsylvania Bulletin. This would allow the Lottery to market new games in three to four months (rather than six months) and take full advantage of the ITVAS system by providing the means to introduce multiple games targeted to specific geographic areas or regions.

The generic regulations that establish general procedures for operating and administering instant lottery games were adopted in November 1993. In promulgating these regulations, the Department of Revenue maintained that the basic structure of all instant games is the same. Only specific elements, such as the game name, number of tickets, and prize structure, vary from game to game. The regulations contain general rules and definitions, ticket requirements, procedures for claiming, and payment of prizes, etc. They permit the Lottery to initiate instant games by publishing a notice in the Pennsylvania Bulletin which contains information unique to the game being introduced.

Additional Emphasis on Retailer Relations

Lottery industry analysts believe that state lotteries need to reexamine their distribution systems in a rapidly changing retail environment. This will require lottery administrators to create "partnerships" with their retailers in which additional emphasis is placed on retailer relations and communications.

The Pennsylvania Lottery identified improvement of retailer relations as a primary objective in its FY 1992-93 Marketing Plan. This objective is also reflected in the FY 1993-94 Plan. The 13 major retailer relations initiatives included in the plans are listed on Exhibit 9. We examined the current status of these initiatives as a measure of the Lottery's progress in implementing its retailer relations objective.

As shown on Exhibit 9, the Lottery appears to have made progress in each of the 13 areas identified. The Lottery has established retailer advisory boards in each of its six marketing regions and implemented a number of retailer incentive programs. Also, training initiatives for retailers and District Lottery Representatives (DLRs), while not new, have received increased attention, especially in view of the implementation of new technologies such as ITVAS and the installation of instant ticket vending machines. A Retailer Services Section has been established in the Lottery's Sales Division. Approval to fully staff this section with existing Lottery personnel was pending as of April 1994.

Status of Selected Retailer Relations Initiatives Planned by the PA State Lottery

<u>Initiative</u>	<u>Status^a</u>
Create a Retailer Services Division	A Retailer Services Section has been established within the recently created Sales Division. As of April 1994, the Lottery was awaiting approval to staff the positions with existing Lottery personnel.
Develop a Telemarketing ^b Program for Possible Implementation.....	Information on telemarketing programs was obtained from Florida, Montana, and Minnesota. A telemarketing proposal is to be developed for presentation to the local bargaining unit by the end of calendar year 1994.
Conduct Retailer Training.....	Training is ongoing. Automated Wagering, Inc., Lottery's on-line game vendor, trains retailers in on-line terminal operations. Lottery Enterprises, Inc., trains retailers on ITVMS. Additional training support is provided by district lottery representatives and a retailer newsletter.
Conduct DLR ^c Training	Training is ongoing. Training seminars are conducted twice a year. Additionally, the on-line vendor is assisting in training DLRs on operation of ITVMs, on-line terminals, and strategies to increase sales.
Implement Retailer Incentive Programs.....	Ongoing. Various incentive programs have been used. For example, a three-week promotion created to promote player awareness of the Super 7 drawing's move to Saturday night resulted in 777 retailers receiving Lottery watches, 177 receiving \$77, and 17 receiving \$777. The \$7,777 grand prize was won by Uni-Mart. An "All Cash" retailer incentive program ran from 10/19/93 through 1/3/94. Winners were selected weekly and a grand prize drawing of \$5,000 was also held.

Exhibit 9 (Continued)

<u>Initiative</u>	<u>Status^a</u>
Implement an Incentive Program for DLRs.....	Was discussed with DLRs. A draft of the program will be presented to the local bargaining unit by the end of the fiscal year for implementation in the second quarter of FY 1994-95, and to continue on a regular basis.
Upgrade Point-of-Sale (POS) Strategy.....	Developing a catalog of point-of-sale retailer materials was a priority of the newly created Sales Division. A draft of the catalog has been prepared and will be published at end of FY 1993-94. Lottery is now in process of ordering the materials.
Provide Advertising Support Services.....	Ongoing. Training on promoting Lottery products and on improved advertising techniques is being provided to DLRs. Also, increased availability of Lottery logo for use by retailers.
Produce Retailer/Lottery Personnel Newsletters.....	Ongoing. A retailer newsletter, "Lottery Line," is distributed quarterly. Also, a monthly newsletter to DLRs was started in June 1993.
Conduct Retailer Surveys.....	Survey drafted and reviewed by members of retailer advisory boards. Is being revised to be finalized and distributed prior to June 30, 1994.
Update Retailer Manual.....	A draft of the manual was completed and distributed internally for review. Will be published and distributed to DLRs and retailers in first quarter of FY 1994-95.
Enhance Chain Store Account Relations.....	The Lottery has been holding regular meetings with chain store operations. Is seeking to employ a full-time chain store account manager in the Sales Division by the end of FY 1993-94. Improvements to periodic chain store sales reports are also planned.

Exhibit 9 (Continued)

Initiative

Status^a

Conduct Retailer Advisory Board Meetings

Six regional retailer advisory boards were established in 1993. The boards consist of a cross-section of retailers selected by recommendation of the Area Lottery Managers and from retailers who expressed an interest in serving. The purpose of the boards is to assist the Lottery in the development of products, policies, and programs. Meetings of the boards were held in June 1993 and February 1994.

^aAs of April 1994.

^bAccording to the PA Lottery's FY 1993-94 Marketing Plan, the primary purpose of a telemarketing program is to increase sales through improved inventory management and retailer relations.

^cDistrict Lottery Representatives (DLRs). DLRs, who work out of the six Area Lottery Offices, are the primary point of contact between the Lottery and its retailers. Responsibilities include supporting sales and promotion activities and providing marketing assistance.

Source: Developed by the LB&FC staff from information obtained from the PA State Lottery.

Telemarketing, another new initiative intended to help increase sales through improved inventory management and retailer relations, is being researched. A proposal on telemarketing is expected to be developed by the end of calendar year 1994 and, if implemented, will become a responsibility of the Retailer Services Section. An incentive program for DLRs is to be developed and presented by the end of FY 1993-94, for implementation during the second quarter of the subsequent fiscal year. Additionally, several documents to support the enhancement of retailer services (e.g., a point-of-sale catalog, updates to the retailer manual, and a retailer survey questionnaire) reportedly have been drafted and are nearing completion. Although a separate Retailer Services Division has not been established, many of the retailer support services envisioned for it have been assigned to the Lottery's Sales and Marketing Divisions.

Increase in Advertising Expenditures

Advertising is one of the Lottery's major operational expenses, accounting for about one-third of total costs in FY 1992-93. To execute its advertising plan, the Lottery engages a professional advertising agency.

In advertising, the Lottery's primary objectives are to introduce new products, raise consumer awareness, entice discretionary spending, and remind players of existing games. The advertising program involves a mix of television, radio, and print media.

The Lottery's advertising budget has increased by about 32 percent over the past five years. The decision to increase the Lottery's advertising budget has been made based, at least in part, on research showing a positive correlation between advertising and lottery sales.

As shown on Table 13, a larger portion of the advertising budget was shifted to instant games in FY 1993-94 consistent with the increased emphasis on instant games and the multiple game capabilities available from the ITVAS system.

To enhance its advertising effort, the State Lottery conducted a segmentation study in 1992 to resegment the current market players and investigate new revenue sources. Among other findings, the study found that the percentage of Pennsylvanians playing the Lottery has remained stable since 1987, but the percentage of heavy players (those who play once a week or more) has declined. At the same time, the number of medium players (play at least once a month but less than once a week) was unchanged while the number of light players (played once in the past 12 months, but less than once a month) increased significantly. The study also included a game-by-game analysis and evaluations of the new Cash 5 game and new Bingo lottery concept.

Table 13

PA Lottery Advertising Budget
(\$000)

<u>Fiscal Year</u>	<u>Total</u>		<u>On-Line Games</u>	<u>% of Total</u>	<u>Instant Games</u>	<u>% of Total</u>	<u>Research & Misc.</u>	<u>% of Total</u>
1989-90..	\$11,759	100.0%	\$3,999	34.0%	\$6,015	51.2%	\$1,745	14.8%
1990-91..	12,000	100.0	5,091	42.4	5,065	42.2	1,845	15.4
1991-92..	12,049	100.0	4,288	35.6	5,161	42.8	2,600	21.6
1992-93..	13,344	100.0	6,272	47.0	4,564	34.2	2,508	18.8
1993-94..	15,533	100.0	5,957	38.4	6,432	41.4	3,144 ^a	20.2

^aMiscellaneous production costs.

Source: Developed by LB&FC staff from information obtained from the PA State Lottery and its advertising consultant.

Table 14

PA Lottery Advertising Budget, by Game
(\$000)

<u>Game</u>	<u>FY 1991-92</u>	<u>% of Total</u>	<u>FY 1992-93</u>	<u>% of Total</u>	<u>FY 1993-94</u>	<u>% of Total</u>
Instant Games.....	\$5,161	42.8%	\$4,564	34.2%	\$6,432	41.4%
Daily Number.....	1,901	15.8	2,582	19.4	2,177	14.0
Big 4.....	401	3.3	578	4.3	544	3.5
Cash 5.....	1,679	13.9	1,518	11.4	1,073	6.9
Wild Card Lotto.....	307	2.5	696	5.2	467	3.0
Super 7.....	a	b	898	6.7	1,695	10.9
Other Misc. ^c	<u>2,600</u>	<u>21.6</u>	<u>2,508</u>	<u>18.8</u>	<u>3,144</u>	<u>20.2</u>
Total ^d	\$12,049	100.0%	\$13,344	100.0%	\$15,533	100.0%

^aLess than \$1,000.

^bLess than 0.1 percent.

^cMiscellaneous production costs.

^dMay not add due to rounding.

Source: Developed by LB&FC staff from information obtained from the PA State Lottery as provided by its advertising consultant.

We also compared the Pennsylvania Lottery's advertising budget to those of other large state lotteries (e.g., those with annual gross sales of \$1 billion or more). As shown on Table 15, Pennsylvania ranks third among the ten largest state lotteries in terms of ticket sales generated per advertising dollar spent, \$106.52 for every dollar spent for advertising. PA State Lottery officials note, however, that this measure should not be viewed as an accurate representation of the effectiveness of advertising or incremental sales generated as a result of advertising efforts. The data reflected on this table simply calculates gross sales divided by advertising dollars spent.

Table 15

**Lottery Sales Per Advertising Dollar Spent,
PA and Other Large Lottery States**
FY 1992-93

<u>State</u>	<u>Gross Sales (\$Millions)</u>	<u>Advertising Expenditures (\$Millions)</u>	<u>Sales Per Advertising Dollar</u>
New Jersey.....	\$1,363.9	\$ 4.4	\$309.98
Massachusetts.....	2,278.2	11.6	196.40
PENNSYLVANIA....	1,427.4	13.4	106.52
Ohio.....	1,976.4	18.9	104.52
Michigan.....	1,243.0	13.6	91.40
Illinois.....	1,575.5	18.6	84.70
New York.....	2,360.0	30.9	76.40
Florida.....	2,169.7	28.8	75.44
Texas.....	1,826.3	30.8	60.80
California.....	1,759.5	43.1	40.79

Source: Developed by LB&FC staff from information contained in LaFleur's The '94 World Lottery Almanac.

Research-Based Marketing Strategies

Research plays a key role in the overall success of a state lottery. Market and consumer-based research is especially important to making effective marketing, game development, and strategic-planning decisions. Each of the Pennsylvania Lottery's two most recent marketing plans includes a listing of research initiatives to be undertaken during the fiscal year. The research projects planned for FY 1992-93 and FY 1993-94 are shown on Exhibit 10.

More than 25 separate research projects were outlined in the two marketing plans. We met with Lottery officials to determine the status of these initiatives and

examined a sample of the research reports. As shown on Exhibit 10, we found that many of the projects have been completed. For example, a player segmentation study to gain an understanding of attitudes and playing habits of Pennsylvanians was completed at the end of 1992. Such a study was previously conducted in 1987.

According to the PA Lottery Executive Director, information resulting from the segmentation study can be invaluable in helping the Lottery to determine new revenue resources, and to better design techniques and programs to attract new players and lapsed players and to retain play among current players. Additionally, a study of prize structures of other state lotteries resulted in a decision to increase the frequency of mid-tier prizes (i.e., prizes in the range of \$25 to \$100). In a number of areas, research did not result in implementation of a new initiative due to limited resources, the degree of risk involved, or other unresolved issues. This is the case, for example, with respect to the Lottery's possible sponsorship of a PA Lottery exposition and the production of a media insert that would include a coupon to attract new players. Additionally, study in several areas was in process or under consideration as of May 1994.

Impact on Lottery Sales

Following three straight years of declining sales, the Lottery was able to stabilize sales during FY 1992-93. Although Instant Ticket and Daily Number sales continued to decline, overall ticket sales were up by 1.3 percent.

Actions taken by the Lottery to improve the Lottery's marketing practices and enhance existing games contributed to the stabilization of sales. The effect of the Lottery's initiatives will begin to be more fully measurable during FY 1993-94. To measure the effect of these actions, we analyzed monthly Lottery sales on a game-by-game basis during the first nine months of the current fiscal year. We then compared total sales for the nine month period to sales during the comparable period in FY 1992-93.

As shown on Table 16, sales during the first nine months of FY 1993-94 were \$1.17 billion. This is about 10 percent greater than the comparable nine month period in FY 1992-93 and 76 percent of total sales projected for FY 1993-94. It appears that the actions taken by the Lottery to improve marketing practices and enhance existing games (instant games, in particular) will, along with an improving economy, enable the Lottery to achieve relatively strong growth in the current fiscal year.

Table 16

**Comparison of Lottery Ticket Sales During the
Nine-Month Period July to March 1992-93 and 1993-94**
(\$Millions)

<u>Lottery Game</u>	<u>Nine Month Sales (July to March)</u>		<u>Percent Change</u>
	<u>1992-93</u>	<u>1993-94</u>	<u>1993-94 Over 1992-93</u>
Instant	\$147.3	\$217.1	47.3%
Daily Number	456.0	458.0	0.4
Big 4	172.6	178.1	3.2
Wild Card Lotto	153.2	99.4	(35.1)
Super 7	91.5	148.0	61.8
Cash 5	<u>51.1</u>	<u>73.4</u>	<u>43.8</u>
Total.....	\$1,071.6	\$1,174.0	9.6%

Source: Developed by LB&FC staff from information obtained from the PA State Lottery.

Our review of FY 1993-94 sales through March 1994 found that at their current pace, sales should exceed the 5.6 percent increase that the Lottery and Governor's Budget Office projected for the year. The following is a game-by-game analysis of the nine-month FY 1993-94 sales figures:

- *Instant Games* - Ticket sales are up by 47 percent during the first nine months of FY 1993-94. The multiple game strategy employed as a result of the ITVAS system, the continuing installation of instant ticket vending machines, and the strong performance by Instant Bingo appear to be major contributors to the resurgence in instant ticket sales.

Lottery officials believe that these initiatives are enabling Pennsylvania to realize the full potential of instant ticket sales. They point out, however, that although a 40 percent sales growth rate is likely in FY 1993-94, subsequent growth will be at a slower rate. Their best case scenario for FY 1994-95 instant ticket sales growth is 10 to 12 percent, although a 3 to 5 percent growth rate is expected.

- *Daily Number and Big 4* continue to hold their own although Daily Number sales have declined for two consecutive fiscal years. Daily Number sales during the first nine months of FY 1993-94 show almost no growth over the prior year. Big 4 sales are up 3.2 percent over last year. The decision to redirect more advertising dollars to these games is intended to slow the rate of sales decline.

- *Wild Card Lotto* is the only Lottery game showing a sales decline over the same nine month period in FY 1992-93. This may be due to declines in the jackpots and the overall maturity of this game. Lottery officials suggested that sales for Wild Card Lotto and Super 7 should be viewed together. They observed that generally as sales for one game go up (as did Super 7 in FY 1993-94) sales for the other go down (as did Wild Card Lotto in FY 1993-94).

Player expectations are another factor affecting matrix games sales. According to the Lottery's Executive Director, ticket sales generally do not pick up until jackpots exceed a certain threshold. Further, player expectations for larger and larger jackpots means that a \$10 to \$15 million jackpot is needed to generate the same player enthusiasm that was once present with jackpots of \$1 to \$5 million.

A recent study also suggests that it may be difficult to maintain player enthusiasm for Wild Card Lotto. The Lottery's recent segmentation study showed that nearly one-quarter of those surveyed are playing this game less or have stopped playing.

- *Super 7* sales are up by 62 percent over the same period last fiscal year. However, this increase must be viewed with a recognition of the impact on sales of the two exceptionally large jackpots that occurred in August 1993 (\$52.1 million) and November 1993 (\$32.7 million). Sales levels are also, to some degree, impacted by the move of the drawing from Wednesday to Saturday. The Lottery's Marketing Plan states that the decision to leave the matrix intact and move the drawing to Saturday night is expected to yield a 10 percent increase in sales.
- *Cash 5* sales remain strong, driven largely by a favorable response to the addition of a second weekly drawing. Lottery officials believe Cash 5 sales will experience modest but steady growth. They are, however, studying whether the introduction of the Cash 5 game has had an adverse effect on Daily Number sales.
- *Conclusion* - It appears that the Lottery will exceed its overall sales projections for FY 1993-94 and the declining sales trend seems to have been reversed, at least in the short term. The initiatives previously described in this chapter have, to varying degrees, had an impact on ticket sales. This is especially evident in the instant games.

Lottery officials are, however, conservative in making sales projections for FY 1994-95 and beyond. However, they view a large portion of the FY 1993-94 sales growth as being largely attributable to instant game

enhancements and two unusually large Super 7 jackpots. Thus, the FY 1994-95 sales forecast is for a slight decline (0.9%) to \$1,547,100,000 followed by four years of less than 1 percent annual sales growth.

Exhibit 10

Status of Recent PA State Lottery Research Projects

<u>Research Initiative</u>	<u>Purpose</u>	<u>Status^a</u>
1. Player Segmentation Study	To provide a current understanding of attitudes and playing habits of Pennsylvanians and to reflect changes since the 1987 study.	Completed November 1992.
2. On-Line Game Sales Trends	To analyze sales trends for all on-line games as they relate to existing terminal placements	Completed, but did not factor heavily in the placement of additional terminals.
3. Point-of-Sale Material.....	To upgrade its point-of-sale material and increase its visibility at retail outlets	Draft P-O-S retailer materials catalog completed. To be published June 1994.
4. Retailer Incentive Programs	To evaluate the performance of past programs and identify types of programs to be used in the future.	An ongoing activity of the Lottery. New incentive programs are developed and monitored regularly.
5. Big 4 Game	To measure growth potential.	Not undertaken.
6. Subscription Program	To investigate the possibility of implementing a subscription program aimed at upper-middle-income nonplayers.	Completed, but initiative not undertaken due to limited resources.
7. Cash 5 Radio Promotion.....	To evaluate the effectiveness of this radio promotion.	Completed and part of an ongoing activity of assessing the cost-effectiveness of radio promotions.
8. Special Promotions.....	To further evaluate the "Hot Pink Payout" to determine if it should be reintroduced.	Completed. Strategy to be implemented during period of low prize payouts and declining sales.
9. Retailer Survey	To determine retailer attitudes, opinions, and concerns about the Lottery.	Retailer Advisory Boards established. Retailer survey to be administered by end of FY 1993-94.

Exhibit 10 (Continued)

<u>Research Initiative</u>	<u>Purpose</u>	<u>Status^a</u>
10. Cross-Merchandising	To investigate the possibility of cross-merchandising the Daily Number game with other Lottery products.	Completed. The Lottery plans to cross-merchandise a new instant game with the Daily Number Game beginning in the second quarter of FY 1994-95.
11. "Million Dollar Spin"	To monitor performance and research and propose alternatives.	Lottery completed research in first quarter of FY 1993-94 which indicated high player satisfaction with the "Million Dollar Spin."
12. Alternate Instant Games	To conduct a controlled market test to measure the effectiveness of alternate instant games.	Controlled market test not conducted. Rather, Lottery measures effectiveness of such games based upon experience in other lottery jurisdictions.
13. Niche Games	To design niche instant games which utilize the marketing features of ITVAS.	Completed and ongoing.
14. Telemarketing Programs	To evaluate telemarketing programs currently in place in other lottery jurisdictions.	Completed. Programs in Florida, Montana, and Minnesota reviewed.
15. DLR Incentive Programs	To investigate the possibility of instituting an incentive program for DLRs that will reward exceptional performance.	Completed. Possible implementation by second quarter of FY 1994-95.
16. DLR Training	To determine the feasibility of developing a training video for DLRs to supplement training initiatives.	Training is ongoing. However, development of training video is on hold due to resource constraints.
17. "PA Lottery Expo"	To investigate the feasibility of sponsoring the first ever "PA Lottery Expo."	Completed, but not undertaken due to limited resources.
18. Sales Analysis	To conduct a statistical analysis of sales to determine if more advertising funding is necessary to increase sales.	Ongoing. Analysis conducted at least every other month.

Exhibit 10 (Continued)

<u>Research Initiative</u>	<u>Purpose</u>	<u>Status^a</u>
19. Million Dollar Instant Ticket Games	To determine demand for such a ticket in PA.	Possible introduction of game by third or fourth quarter of FY 1994-95.
20. Promotional Items	To determine the feasibility of offering promotional items with the Lottery logo to Lottery players as prizes.	Research determined that non-cash prizes not as cost-effective as cash prizes.
21. Lottery Promotional Items	To determine the feasibility of creating a catalog similar to a mail-order catalog that will enable retailers to purchase products with the Lottery's logo.	Still being examined. Experience in Florida and Virginia being reviewed.
22. Prize Structures	To determine the varieties of prize structures used by other U.S. lotteries.	Completed and presented by the Lottery's instant ticket vendor during the third quarter of FY 1993-94. Research resulted in increasing the frequency of mid-tier prizes.
23. Instant Games	To determine the feasibility of offering a 50¢ instant game.	Completed. Lottery does not plan to introduce a single-play 50¢ ticket. However, implementation of ITVAS allows for multiple games on the same \$1 or \$2 ticket in effect creating a 50¢ game.
24. On-Line Games	Explore the possibility of introducing on-line Bingo or Blackjack games.	Studied in conjunction with Lottery's on-line vendor. Introduction of an on-line niche game planned for the second quarter of FY 1994-95.
25. Media Insert	To investigate the possibility of producing a 4-6 page color insert for insertion in the Sunday newspapers statewide, including a coupon for free tickets to attract new players.	Completed, but on hold due to resource constraints and unresolved questions about use of coupon.
26. Free Tickets	To determine the effects of replacing all free tickets, or a portion thereof, with either \$1 tickets and/or entry tickets into the "Million Dollar Spin" game.	Consideration is being given to replacing free tickets with \$1 tickets that would also qualify as an entry into the "Million Dollar Spin."

^aAs of April 1994.

VI. State Lottery Fund Expenditures for Programs and Services Benefitting Older Pennsylvanians

The Lottery's primary mission is to generate revenue to support programs and services for older Pennsylvanians. Since its inception in 1972, the level of direct Lottery funding support has grown dramatically, from \$25.4 million in the first year to a peak of \$722 million in FY 1990-91. Due to cost-containment measures and the return of certain funding responsibility to the General Fund, the amount of Lottery funding has since dropped to about \$575 million in FY 1993-94.

The Lottery currently provides funding support in seven major program areas: PACE pharmaceutical assistance, PENNCARE, Aging Programs, Abuse Prevention, Property Tax/Rent Rebates, and the Free Transit and Shared-Ride Programs. Together these programs account for about 72 percent of total Lottery Fund spending. The remainder goes for prizes, vendor commissions, and Lottery operational expenses.

This chapter (1) provides a historical overview of State Lottery funding of programs and services for older Pennsylvanians, (2) reviews the programs and services currently funded by the Lottery, (3) analyzes current and projected program service levels and expenditures, and (4) examines demographic trends that are affecting the demand for Lottery-funded programs.

Historical Funding Chronology

When originally enacted, Pennsylvania's State Lottery Law restricted appropriations from the State Lottery Fund to the payment of prizes,¹ Lottery operational expenses, property tax relief for the elderly, and repayment of a loan from the General Fund. Property tax rebates were first paid during FY 1972-73, the first full fiscal year of Lottery operations. Spending for property tax rebates (up to a maximum of \$200 per household) amounted to \$25.4 million in that year.

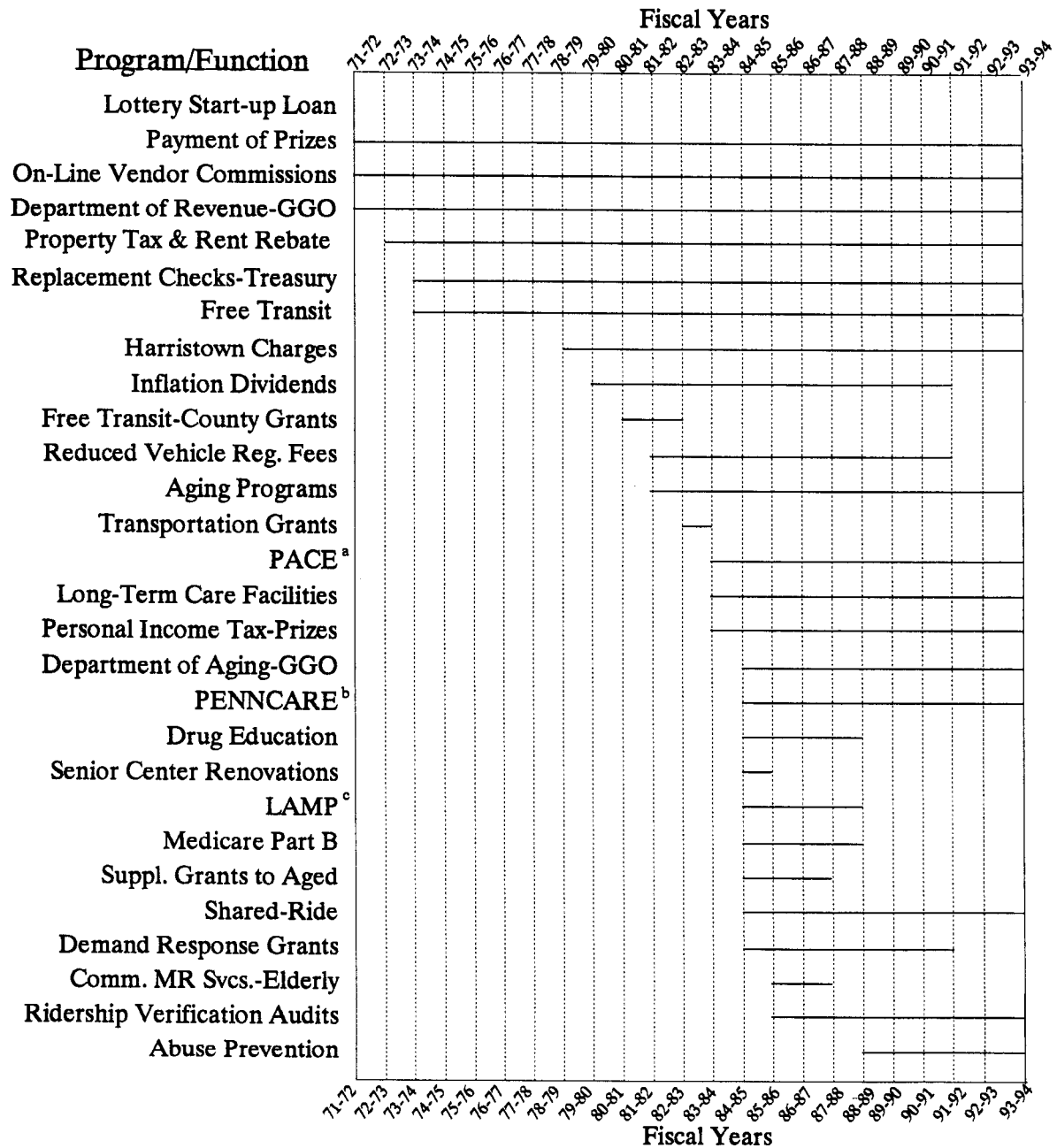
From that starting point, Lottery funding grew to encompass a wide variety of programs and services for older Pennsylvanians.² Act 1972-338 provided for the use of Lottery funds to provide free local transit for persons 65 and older. Free transit services and rent rebates that were retroactive to 1972 began in FY 1973-74. By FY 1978-79, maximum property tax and rent rebates increased to \$400. A year later the Senior Citizen Inflation Dividend program was added. Under this program Lottery funded "inflation dividends" of up to \$95 (retroactive to calendar year 1978) were paid to qualifying older Pennsylvanians.

¹The law requires that the amount used for prizes not be less than 40 percent of gross ticket sales.

²A chronological summary of programs and services funded by the State Lottery is shown in Exhibit 11.

Exhibit 11

Chronology of Funding for All Programs and Services Supported by the PA State Lottery Since 1972



^aThe Pharmaceutical Assistance Contract for the Elderly Program.

^bPENNCARE is an array of in-home and community-based programs designed to address the long-term care needs of older Pennsylvanians. Services range from congregate meals to intensive in-home care. Services are provided through the Commonwealth's 52 Area Agencies on Aging.

^cThe Long-Term Care Assessment and Management Program.

Source: Developed by LB&FC staff from Commonwealth budget documents and financial reports.

Exhibit 11 (Continued)

<u>Program</u>	<u>FY Funding Initiated</u>	<u>Administering Agency</u>	<u>Initial FY</u>	<u>State Lottery Funding (\$000) FY 1994-95 Budget</u>
1. One-Time Start-Up Loan Payment to General Fund.....	1971-72	--	\$ 1,000	\$ 0 ^a
2. Payment of Lottery Prizes.....	1971-72	Revenue	24,500	124,779
3. Department of Revenue - General Operations.....	1971-72	Revenue	3,420	61,820
4. Property Tax and Rent Rebate.....	1972-73	Revenue	25,447	100,000
5. Free Mass Transit for the Elderly..	1973-74	PennDOT	10,755	56,100
6. Payment of Commissions	1973-74	Revenue	547	22,339 ^b
7. Replacement Checks.....	1973-74	Treasury	1	150
8. Harristown Rental Charges	1978-79	DGS	265	72
9. Harristown Utility and Municipal Charges	1978-79	DGS	46	113
10. Senior Citizen Inflation Dividend ..	1979-80	Revenue	28,400	0 ^c
11. Free Transit - County Grants.....	1980-81	PennDOT	9,080	0 ^d
12. Vehicle Registration Fees	1981-82	PennDOT	2,849	0 ^c

Exhibit 11 (Continued)

Program	FY Funding Initiated	Administering Agency	State Lottery Funding (\$000)	
			Initial FY	FY 1994-95 Budget
13. Aging Programs	1981-82	Aging	\$ 6,200	\$ e
14. Transportation Grants	1982-83	PennDOT	4,100	0 ^f
15. Pharmaceutical Assistance Program (PACE)	1983-84	Aging	100,000	196,000
16. Medical Assistance - Long Term Care Facilities	1983-84	DPW	100,000	0 ^g
17. Personal Income Tax - Prizes	1983-84	Revenue	13,899	21,836
18. Department of Aging - General Operations	1984-85	Aging	1,523	3,345
19. In-Home Services	1984-85	Aging	12,000	h
20. Pre-Admission In-Home Services ...	1984-85	Aging	4,615	h
21. Attendant Care for Senior Citizens	1984-85	Aging	5,000	h
22. Drug Education for Senior Citizens	1984-85	Aging	192	0 ⁱ
23. Senior Center Renovations	1984-85	Aging	10,100 ^j	e
24. Pre-Admission Assessment	1984-85	DPW	1,639	0 ^k
25. Medicare Part B	1984-85	DPW	8,000	0 ^k

Exhibit 11 (Continued)

<u>Program</u>	<u>FY Funding Initiated</u>	<u>Administering Agency</u>	<u>State Lottery Funding (\$000)</u>	
			<u>Initial FY</u>	<u>FY 1994-95 Budget</u>
26. Supplemental Grants to the Aged..	1984-85	DPW	\$17,600	\$ 0 ^l
27. Elderly Shared Rides.....	1984-85	PennDOT	28,272	54,925
28. Demand Response Equipment Grants.....	1984-85	PennDOT	954	m
29. Alzheimer's Disease.....	1985-86	Aging	495	h
30. Community Mental Retardation Services - Elderly.....	1985-86	DPW	2,200	0 ^l
31. Ridership Verification	1985-86	Budget Office	75	114
32. PENNCARE	1988-89	Aging	45,485	160,059
33. Elderly Protection	1988-89	Aging	2,351	e

^aLoan was repaid in FY 1971-72.
^bOn-line vendor commissions only.
^cRepealed by Act 1991-36.
^dA two-year program that was funded in FY 1980-81 and FY 1981-82.
^eIn FY 1994-95, \$2 million is being funded out of PENNCARE for this purpose.
^fA one-time grant distributed to Area Agencies on Aging to purchase/lease vehicles and equipment for senior citizen support.
^gFunding responsibility to be transferred back to the General Fund in FY 1994-95.
^hFunded under PENNCARE (see #32) beginning in FY 1987-88.
ⁱBeginning in FY 1988-89 the Department of Aging leveraged private funds to continue this program.
^jFunded for one year only, FY 1984-85.
^kFunding responsibility transferred back to the General Fund in FY 1988-89.
^lFunding responsibility transferred back to the General Fund in FY 1987-88.
^mFunded under Aging Programs (see #13) beginning in FY 1991-92.

Source: Developed by L&B&FC staff from the Governor's Executive Budget Documents, FY 1973-74 through FY 1994-95 and from information provided by the Department of Revenue.

Act 1980-184 further expanded the use of Lottery monies for transit programs. In addition to providing free fixed route local transit services, the Lottery now provided reduced fare on group ride transit service to persons 65 years of age or older. By FY 1981-82, maximum rebates and inflation dividends rose to \$500 and \$125 respectively. During the same fiscal year, Department of Aging programs previously funded by the General Fund were transferred to the Lottery Fund. Legislation enacted in 1982 also provided for a one-time grant from the Lottery Fund for Area Agencies on Aging to use to purchase and lease vehicles and equipment.

An additional major funding responsibility was mandated in FY 1983-84. In that year the Pharmaceutical Assistance Contract for the Elderly (PACE) Program was added. PACE funding in the first year totaled \$100 million. During the same fiscal year responsibility for a portion of Medical Assistance funding (Long-Term Care Facilities) was transferred from the General Fund to the Lottery Fund and the Lottery began paying the state personal income tax liability on Lottery prizes. At the time, the Lottery was able to absorb the additional funding responsibilities. Annual Lottery sales had increased by more than 30 percent for the third consecutive year and exceeded one billion dollars for the first time.

During the mid-1980s Lottery sales continued to climb and funding responsibilities continued to be added to the Lottery Fund. During FY 1984-85 and FY 1985-86, five funding areas were transferred from the General Fund: Department of Aging General Government Operations and Pre-Admission Assessment, and Medicare Part B, Supplemental Grants to the Aged, and Community Mental Retardation Services for the Elderly from the Department of Welfare. By FY 1986-87 more than \$340 million was expended from the Lottery Fund for programs formerly paid from the General Fund.

Other programs and services initiated with Lottery funds in these years included in-home services, attendant care, drug education, senior center renovations, and demand response equipment grants. The Shared Ride Program also began in FY 1984-85. Beyond this point few additional funding responsibilities were added to the Lottery Fund.

Existing program costs were escalating rapidly and Lottery sales, after peaking in FY 1988-89, declined for three consecutive fiscal years. During this period, Lottery expenditures peaked at \$973 million and the balance in the Lottery Fund began to erode. Program revisions and cost-containment measures thus became necessary to reduce the funding load.

Since FY 1988-89, all but two of the functions that had been transferred from the General Fund to the Lottery Fund have been returned.³ The Administration and the General Assembly also carried out other program revisions to “maintain and preserve the financial integrity of the Lottery Fund.”

Act 1991-36, the Lottery Fund Preservation Act, repealed the older Pennsylvanians inflation dividend and discontinued payments from the Lottery Fund to the Motor License Fund to cover amounts lost due to the reduced vehicle registration fee charged to qualified retired persons. Act 36 also changed the reimbursement formula for carriers in the Free Transit Program to the lower of the average or base fare, increased the Shared Ride Program copayment from 10 to 15 percent, and provided for a General Fund appropriation to the Department of Transportation to augment fixed route public transportation.

In addition to these actions, the Department of Aging and General Assembly have taken a number of cost-saving initiatives in the Pharmaceutical Assistance Contract for the Elderly (PACE) Program. PACE is the single most costly program supported by the Lottery, averaging about 25 percent of the Fund's annual expenditures.

These initiatives include:

- Requiring (with qualifications) the use of generic drugs by requiring that participants who elect to use brand name drugs when an A-rated generic is available pay the copayment and 70 percent of the average wholesale cost of each such drug.
- Reducing assistance to certain eligible claimants whose prescription drug costs are covered in part by any other plan of assistance or insurance.
- Implementing a drug manufacturers' rebate program known as the Prudent Pharmaceutical Purchasing Program.⁴
- Increasing the copayment from \$4.00 to \$6.00 (this increase was coupled with an increase in the income eligibility limits from \$11,999 to \$13,000 for single persons and from \$14,999 to \$16,200 for married persons).

³The two that remain are Aging Programs and Department of Aging General Government Operations. Funding for Medical Assistance Long-Term Care Facilities will be fully returned to the General Fund in FY 1994-95.

⁴This program requires participating pharmaceutical manufacturers to enter into agreements with the PA Department of Aging for offering quarterly rebates of 15 percent for brand name drugs and 11 percent for generic drugs. With the exception of reimbursement for drugs determined to be essential to the health of eligible claimants, reimbursements are withheld for any covered prescription drug in cases in which a manufacturer does not have a rebate agreement with the Department.

- Eliminating coverage for cosmetic drugs.⁵
- Implementing a drug utilization review program, known as the Prospective Therapeutic Drug Utilization Review Program, which is designed to monitor prescription claims to ensure against over-prescriptions, duplicative prescriptions, and over-extended prescriptions.

Lottery Fund expenditures were contained due, in large part, to these measures. In one year alone, FY 1991-92, spending dropped by nearly 20 percent.

Current Expenditures

As shown on Table 17, Lottery Fund expenditures increased dramatically during the 1980s and peaked in FY 1989-90 at \$973 million. Since that time, Lottery Fund spending has been curtailed, dropping to \$809 million in FY 1992-93. The amount available in FY 1993-94 is \$804 million. (See Table 19.)

Lottery Fund expenditures are made for both programs for older Pennsylvanians and for Lottery administrative and operational costs. The State Lottery currently provides financial support for programs and services for older Pennsylvanians in seven major program areas. These include pharmaceutical assistance (PACE), PENNCARE,⁶ Aging Programs, Abuse Prevention, Property Tax/Rent Rebates, and the Free Transit and Shared Ride Programs. Together, the amount available for these programs in FY 1993-94 is \$575.7 million or about 72 percent of total fiscal year spending from the Lottery Fund.

Lottery non-field paid prizes and vendor commissions account for \$151.7 million or nearly 20 percent of the FY 1993-94 available amount. The remaining 8 percent is to be spent for Lottery operational costs, Department of Aging general government operations, and other miscellaneous expenses.

Expenditure Projections

The Budget Office projects little growth in Lottery expenditures through FY 1998-99. As shown on Table 18, spending in FY 1998-99 is projected to be \$850 million, 5.8 percent more than FY 1993-94. This represents an average annual increase of 1.2 percent. For the same period, the Budget Office projects an average annual increase in overall General Fund spending of 1.4 percent.

⁵PACE does not cover drugs prescribed for cosmetic purposes, experimental medications, or any medication that can be purchased without a prescription.

⁶PENNCARE is an array of in-home and community-based programs designed to address the long-term care needs of older Pennsylvanians. Services range from congregate meals to intensive in-home care and are provided through the Commonwealth's 52 Area Agencies on Aging. Aging Programs and Abuse Prevention are also funded under PENNCARE beginning in FY 1994-95.

Table 17

State Lottery Fund Expenditures*

FY 1971-72 Through FY 1992-93

(\$000)

Fiscal Year	Expenditures	% Increase (Decrease)
1971-72.....	\$ 49,720	--
1972-73.....	99,786	100.7%
1973-74.....	113,703	13.9
1974-75.....	132,607	16.6
1975-76.....	121,981	(8.0)
1976-77.....	120,263	(1.4)
1977-78.....	125,519	4.4
1978-79.....	123,140	(1.9)
1979-80.....	201,399	63.6
1980-81.....	201,871	0.2
1981-82.....	257,389	27.5
1982-83.....	351,266	36.5
1983-84.....	715,907	103.8
1984-85.....	800,028	11.8
1985-86.....	804,476	0.6
1986-87.....	851,394	5.8
1987-88.....	875,721	2.9
1988-89.....	965,947	10.3
1989-90.....	973,036	0.7
1990-91.....	968,818	(0.4)
1991-92.....	788,763	(18.6)
1992-93	809,004	2.6

*Except for FY 1971-72, includes both program expenditures and expenditures for Lottery administrative and operational costs.

Source: Developed by LB&FC staff from Governor's Executive Budget documents and information obtained from the Department of Revenue.

Table 18

Lottery Fund Expenditure Projections Through FY 1998-99*
(\$000)

<u>Fiscal Year</u>	<u>Projected Expenditures</u>	<u>% Increase (Decrease)</u>
1994-95 ...	\$801,652	(0.2)%
1995-96 ...	806,725	0.6
1996-97 ...	822,016	1.9
1997-98 ...	836,104	1.7
1998-99 ...	850,269	1.7

*Includes both program expenditures and expenditures for Lottery administrative and operational costs.

Source: Developed by LB&FC staff from Governor's Executive Budget documents and information obtained from the Department of Revenue.

Discussion of the assumptions and program service levels associated with the projections is presented later in this chapter.

Compliance With Statutory Spending Requirements

The State Lottery Law includes two required spending provisions. One relates to Lottery prizes and the other to the percentage of Lottery revenues that are to be spent for specified programs for older Pennsylvanians.

Prize Payment Requirement

The State Lottery Law, 72 P.S. §3761-12(a) requires that at least 40 percent of gross Lottery ticket sales be paid out in prizes. We tested the Lottery's compliance with this mandate during the period FY 1987-88 through FY 1992-93. As shown on Table 20, prizes as a percentage of gross sales exceeded 40 percent each year and were 50 percent or more in four of the six years.

Table 19

State Lottery Fund Expenditures, by Program/Purpose,
 FY 1992-93 Through FY 1994-95 (Budget)
 (\$000)

	<u>FY 1992-93</u> <u>Actual</u>	<u>FY 1993-94</u> <u>Available</u>	<u>FY 1994-95</u> <u>Budget</u>
<u>Programs:</u>			
PACE	\$200,000	\$191,000	\$196,000
Property Tax and Rent Rebate	104,539	104,000	100,000
PENNCARE	72,575	148,316	160,059
Aging Programs.....	62,911	a	a
Free Transit.....	53,400	56,527	56,100
Shared-Ride.....	53,655	55,900	54,925
Long-Term Care - Medical Assist.	40,000	20,000	0
Elderly Protection	<u>4,160</u>	<u>a</u>	<u>a</u>
Subtotal - Programs	\$591,240	\$575,743	\$567,084
<u>Administrative/Operating:</u>			
Payment of Prizes ^b	\$130,753	\$128,894	\$124,779
Revenue-General Gov't. Operations ^c ..	44,423	49,742	61,820
Personal Inc. Tax - Lottery Prizes	19,951	22,557	21,836
On-Line Vendor Commissions ^d	18,943	22,833	22,339
Aging - General Gov't. Operations.....	3,344	3,378	3,345
DGS-Harristown	238	213	185
Ridership Verification Audits	97	109	114
Replacement Checks	<u>14</u>	<u>150</u>	<u>150</u>
Subtotal - Administrative/Operating .	<u>\$217,763</u>	<u>\$227,876</u>	<u>\$234,568</u>
Lottery Fund Total.....	\$809,003	\$803,619	\$801,652

^aBeginning in FY 1994-95, Aging Programs and Elderly Protection are funded through the PENNCARE appropriation. The 1994-95 Governor's Budget combined the three programs for the FY 1993-94 PENNCARE available budget line.

^bThis figure represents all on-line prizes over \$2,500, all instant ticket prizes over \$100, and prizes in any amount presented for payment at Lottery headquarters. It does not include "field paid prizes" that are deducted directly from gross ticket sales when Lottery retailers reconcile their accounts with Lottery headquarters.

^cPrimarily State Lottery Bureau operating expenses.

^dRepresents payments to the Lottery's on-line vendor, Automated Wagering International, Inc., for automated technology services. This figure does not include commissions that are retained by Lottery retailers from gross ticket sales when reconciling their accounts with Lottery headquarters.

Source: Developed by LB&FC staff from information contained in the 1994-95 Governor's Executive Budget.

Table 20

Prize Payments as a Percentage of Gross Lottery Sales

FY 1987-88 Through FY 1998-99
(\$000)

Actual:

Fiscal Year	Prizes	Gross Sales	Prizes as % of Gross Sales
1987-88	\$738,927	\$1,439,151	51.3%
1988-89	796,511	1,567,155	50.8
1989-90	804,581	1,543,371	52.1
1990-91	779,257	1,523,242	51.2
1991-92	623,019	1,408,923	44.2
1992-93	694,707	1,427,402	48.7

Projected:

1993-94	\$801,471	\$1,547,000	51.8%
1994-95	777,615	1,532,600	50.7
1995-96	782,829	1,543,000	50.7
1996-97	788,144	1,553,600	50.7
1997-98	793,556	1,564,400	50.7
1998-99	799,020	1,575,300	50.7

Source: Developed by LB&FC staff from information obtained from the Department of Revenue.

The Lottery projects prizes at about 50 percent of gross sales through the end of FY 1998-99.⁷

Program Spending Requirement

The State Lottery Law contains language that addresses the percentage of Lottery revenues that must be spent for certain programs. As originally enacted, the Lottery Law, Act 1971-91, provided that the Secretary of Revenue had authority to promulgate regulations concerning the State Lottery Fund, including regulations addressing:

The apportionment of the total revenues accruing from the sale of lottery tickets or shares and from all other sources among (i) the payment of prizes to the holders of winning tickets or shares; (ii) the payment of

⁷Pennsylvania ranks ninth among the ten states with annual lottery sales of \$1 billion or more in terms of prizes as a percentage of gross sales. See Appendix M.

costs incurred in the operation and administration of the lottery, . . . ; (iii) for the repayment of the moneys appropriated to the State Lottery Fund [for start-up]; and (iv) for property tax relief for the elderly as provided in section 12 of this act: Provided, however, That no less than thirty per cent of the total revenues accruing from the sale of lottery tickets or shares shall be dedicated to subclause (iv) above. [Emphasis added.]

Thus, initially at least 30 percent of the revenue raised by the sale of tickets had to be spent on the property tax and rent rebate program by itself. This language was amended, however, in 1972. Act 1972-338 amended the law to provide for free local transit services for persons sixty-five years of age or older. To reflect this change, the language quoted above was amended to provide that 30 percent of the amount of revenue raised by selling tickets had to be spent on the property tax and rent rebate program together with the free local transit service program.

Finally, Act 1980-184 amended the State Lottery Law to state that the Lottery would fund free fixed route local transit services and reduced fare group ride transit services. The language quoted above was again amended to reflect this change.

As a result, one could reasonably argue that the State Lottery Law requires that the amount spent on the property tax assistance and rent rebate program (PT/RR), together with the amount spent on free and reduced fare transit services, must be at least 30 percent of total ticket sales. It is not clear, however, that the 30 percent mandate remains in effect.

The State Lottery Fund now finances a number of additional programs and services. If later statutes require that the State Lottery Fund finance other programs, and if those statutes require the Revenue Department to spend so much money on those additional programs and services that it cannot meet the 30 percent mandate, it appears the 30 percent mandate has been implicitly repealed. This would result in the conclusion that the Revenue Department is no longer required to spend a specific amount on the property tax and rent rebate program and for free and reduced fare transit services.

The Department of Revenue currently interprets these provisions to mean that the 30 percent requirement applies to all programs currently being funded by the Lottery which are in direct support of older Pennsylvanians. Thus, at the time the State Lottery Law was enacted, the 30 percent requirement applied only to PT/RR; currently the requirement would pertain to PT/RR, free and reduced mass transit, PENNCARE, Aging Programs, Abuse Prevention, PACE, and Medical Assistance Long-Term Care Facilities.

Overall, the Revenue Department's interpretation is that the law's intent was to require that at least 40 percent of total revenues went to prizes, no less than 30 percent went to programs directly benefitting older Pennsylvanians, and no more than 30 percent went to administrative and operating costs.

We tested compliance with these provisions on two bases for the period FY 1987-88 through FY 1992-93: (1) that the 30 percent requirement applies solely to PT/RR and the Free Transit and Shared-Ride Programs; and (2) that the 30 percent requirement applies to all programs in direct support of older Pennsylvanians.

As shown on Table 21, considerably more than 30 percent of gross Lottery sales is being spent for all programs in direct support of older Pennsylvanians. The percentage consistently exceeds 40 percent and in FY 1990-91 reached 47 percent. If viewed as applying only to PT/RR and the Free Transit and Shared-Ride Program, the percentage falls far short of 30 percent.

Table 21

**Lottery Support of Programs for Older Pennsylvanians
as a Percentage of Gross Ticket Sales**

FY 1987-88 to FY 1992-93

Fiscal Year	Gross Sales (\$000)	Program Expenditures as a Percentage of Gross Sales	
		PT/RR Free Transit Shared-Ride	All Programs
1987-88	\$1,439,151	16.6%	43.4%
1988-89	1,567,155	15.8	43.3
1989-90	1,543,371	15.7	44.3
1990-91	1,523,242	16.4	47.4
1991-92	1,408,923	15.4	41.2
1992-93	1,427,402	14.8	41.4

Source: Developed by LB&FC staff from information obtained from the Department of Revenue.

Analysis of Lottery Fund Expenditures, by Program/Function

This section analyzes each of the Lottery Fund programs and Lottery administrative and operational expense areas. The discussion includes a brief description of each program or function, program eligibility, trends in funding and service/activity levels, and projected funding and service/activity levels and related projection assumptions.

Lottery-Funded Programs

Pharmaceutical Assistance Contract for the Elderly (PACE) Program

This program pays for prescription drug, insulin, and insulin supplies after a mandatory \$6 copayment is made by eligible participants. Pennsylvania residents who are 65 years or older and who meet income requirements are eligible for PACE. An annual transfer is made from the State Lottery Fund to the PACE Fund to cover program costs.

Brief Description

The PACE Program was created by Act 1983-63 to assist older Pennsylvanians who live on fixed incomes and experience difficulties in meeting the costs of prescription drugs. The Program was reestablished by Act 1987-17 and the Lottery Fund Preservation Act, Act 1991-36, included various cost-saving provisions for the Program. PACE is a limited state pharmaceutical assistance program which pays for most medications that require a prescription and insulin and insulin supplies. PACE does not cover experimental medications, medications for certain cosmetic problems, or any medication which can be purchased without a prescription. Eligibility is income-based and all prescriptions are subject to a mandatory copayment of \$6.⁸

The PACE Program reimburses pharmacies for the remainder of the average wholesale cost, plus a dispensing fee of \$2.75, or their usual and customary charge, whichever is less. Act 1992-128 modified the Program by requiring that participants use generic drugs under certain specific circumstances.⁹ Should a participant choose to use a brand name drug, he/she is required to pay the copayment and 70 percent of the average wholesale cost of the brand name drug.

A Prudent Pharmaceutical Purchasing Program, providing for rebates and authorized by Act 1991-36, was reauthorized and expanded by Act 1992-128 to ensure that the PACE Program receives a discount from drug manufacturers. PACE will not pay for drug products from manufacturers who have not agreed to pay a rebate of 15 percent for innovator drugs and 11 percent for noninnovator drugs purchased through the program. Manufacturers must also provide an excessive pharmaceutical price inflation discount for all covered prescription drugs.¹⁰

⁸The copayment was increased from \$4 to \$6 per prescription in July 1991. The law provides for periodic adjustment of the copayment based on ingredient costs, program experience, and expenditure projections and after consultation with the Pharmaceutical Assistance Review Board.

⁹PACE will only reimburse for a nongeneric drug if the participant has a written prescription indicating "brand necessary." Since adoption of this requirement, a generic price differential, if applicable, is also subtracted from the amount the PACE Program reimburses pharmacies.

¹⁰This discount is to be equivalent to the difference between the average quarterly manufacturer's price charged for a drug and the average quarterly price charged for that drug one year earlier inflated by the Producer Price Index for Pharmaceuticals.

Program Eligibility

Program participants must be age 65 or over, be Pennsylvania residents, and meet income requirements. The Pennsylvania Department of Aging (PDA) is authorized by statute to set the maximum income level of not more than \$13,000 for a single person and not more than \$16,200 for a married couple. The PDA adopted these maximum income levels as of September 1, 1991. Another eligibility requirement is that the person must not be receiving drug benefits under other programs.¹¹

According to the Director of the PACE Program, there are some cardholders who would probably be declared eligible for Medicaid and yet do not apply for such assistance. He noted that the PACE Program has no statutory authority to expel these individuals from the Program, nor would it have the staff resources to conduct the means testing necessary for determining Medicaid eligibility for all lower income level enrollees. The Director added that those individuals who elect not to apply for Medicaid and in effect pay a higher copayment (\$6 versus \$1) are given the option of remaining in the Program. He emphasized, however, that the PACE Program has encouraged enrollees who might be eligible for Medicaid to consider applying for prescription benefits under the "Healthy Horizons" Program. The Department conducts a monthly reconciliation with the Medicaid enrollment listings to ensure that duplicate enrollment is not occurring.

Individuals wishing to participate in the PACE Program must submit an application and an income statement accompanied by copies of interest and dividend statements.¹² Persons found eligible for the Program receive a PACE identification card that they must present to the pharmacist or other dispensing provider when filling a prescription.

About half (54.5 percent) of the current PACE Program participants hold a one-year benefit card that must be renewed annually through completion of a reenrollment application and submission of updated financial information. These participants fall into the upper income level eligibility brackets (i.e., in relationship to the maximum income cut-off for eligibility). The remaining program participants are in the lower income level eligibility brackets and have a benefit card that must only be renewed every two years. The Department implemented this policy of allowing some cardholders to renew their benefit cards every two years to minimize the paperwork involved in having to annually complete an application and produce income documentation. There is less possibility that those at the lower end of the

¹¹In addition to conducting monthly reconciliations with Medicaid enrollment listings, PACE attempts to recoup claim payments from third-party payors. For instance, from July through December 1993, PACE received \$568,976 in third-party reimbursements.

¹²PACE Program staff has the authority to verify income information with the Department of Revenue. Income is defined broadly as all income from whatever source derived, including, salaries, wages, federal Social Security benefits (except Medicare), and veteran's disability payments, among other types of income.

income spectrum will have such a substantial income increase in one year to render them unqualified to remain a cardholder. If a participant's income exceeds the eligibility limit prior to reenrollment, he/she is required to inform the PACE Program of this or be subject to having to repay any amounts reimbursed during the period.

PACE Expenditure and Service Levels

In FY 1992-93 the PACE Program provided services to about 350,000 persons at a net cost to the Lottery Fund of \$202 million. (See Table 22.) In that year, PACE paid for 9.1 million claims at an average per prescription cost of \$24.64.

During the period we examined, PACE expenditures increased dramatically. In FY 1987-88 program participation averaged nearly 478,000 and Lottery Fund costs were \$165 million. In the immediately ensuing years, program participation and the total number of claims declined while the average cost per claim increased by nearly 50 percent. As a result, program costs in FY 1991-92 peaked at \$231 million, which is 40 percent more than the level of four years earlier.

In response to these trends the Department of Aging and General Assembly implemented a number of cost containment measures, including an increased co-payment, tightened generic drug substitution, therapeutic drug utilization review, and a pharmaceutical manufacturer rebate program.¹³ Although it is difficult to calculate the precise dollar impact these actions have had, they have clearly contributed to containing program costs. For example, according to PACE Program data the rebate program alone has resulted in savings of approximately \$60 million during FY 1991-92 and FY 1992-93.¹⁴

¹³These measures are discussed earlier in this chapter.

¹⁴According to PACE Program data, cost savings were \$27,467,705 in FY 1991-92 and \$28,701,487 in FY 1992-93.

Table 22

PACE Program Appropriations and Expenditures

FY 1987-88 Through FY 1998-99
(\$000)

Actual:

<u>Fiscal Year</u>	<u>Appropriation^a</u>	<u>% Change</u>	<u>Expenditures^b</u>	<u>% Change</u>
1987-88.....	\$100,000	0.0%	\$164,707	16.4%
1988-89.....	165,000	65.0	202,974	23.2
1989-90.....	188,000	13.9	217,449	7.1
1990-91.....	222,000	18.1	230,108	5.8
1991-92.....	204,925	(7.7)	230,901	0.3
1992-93.....	200,000	(2.4)	224,857	(2.6)

Projected:

1993-94.....	\$191,000	(4.5)%
1994-95.....	196,000	2.6
1995-96.....	192,000	(2.0)
1996-97.....	192,000	0.0
1997-98.....	191,000	(0.5)
1998-99.....	189,000	(1.0)

^aMonies appropriated for the PACE Program are transferred from the Lottery Fund to the Pharmaceutical Assistance Contract for the Elderly Fund. The PACE Fund is a governmental special revenue fund which includes Lottery Fund transfers, interest, and monies from other miscellaneous sources. Monies not spent in the fiscal year in which they were appropriated are available for use in the following year.

^bExpenditures include claim payments and contract and administrative costs. Expenditures are net of any reimbursements received, such as third-party payor reimbursements and drug manufacturer rebates.

Source: Developed by LB&FC staff from PACE Biannual Program reports, Commonwealth fiscal reports, and Governor's Executive Budget documents.

Participation in the PACE Program is measured by the average number of enrolled cardholders and total prescription claims. As shown on Table 23, the number of participants declined by 29 percent between FY 1987-88 and FY 1992-93 and the number of claims dropped by about 17 percent. This trend is primarily attributable to Social Security inflation adjustments relative to the fixed income limits of the PACE Program. A continued decline in both Program participation and claims is projected through FY 1998-99.

Table 23

**Numbers of PACE Program
Participants and Prescription Claims**
FY 1987-88 Through FY 1998-99

Actual:					
<u>Fiscal Year</u>	<u>Number of Participants^a</u>	<u>% Change</u>	<u>Total Number of Claims</u>	<u>% Change</u>	
1987-88.....	477,772	1.1%	10,956,570	4.4%	
1988-89.....	451,547	(5.5)	11,992,415	9.5	
1989-90.....	408,493	(9.5)	11,253,792	(6.2)	
1990-91.....	371,592	(9.0)	10,805,841	(4.0)	
1991-92.....	369,919	(0.5)	9,890,202	(8.5)	
1992-93.....	341,361	(7.7)	9,127,238	(7.7)	
Projected:					
1993-94.....	332,900	(2.5)%	8,655,400	(5.2)%	
1994-95.....	316,600	(4.9)	8,231,600	(4.9)	
1995-96.....	301,100	(4.9)	7,828,600	(4.9)	
1996-97.....	286,400	(4.9)	7,446,400	(4.9)	
1997-98.....	272,300	(4.9)	7,079,800	(4.9)	
1998-99.....	259,000	(4.9)	6,734,000	(4.9)	

^aAs of last quarter, each year.

Source: Developed by LB&FC staff from PACE Biannual Program reports for actual data and Governor's Executive Budget documents for projected data.

Table 24

Average PACE Cost Per Prescription
FY 1987-88 Through FY 1998-99

Actual			Projected		
<u>Fiscal Year</u>	<u>Average Cost Per Prescription</u>	<u>% Change</u>	<u>Fiscal Year</u>	<u>Average Cost Per Prescription</u>	<u>% Change</u>
1987-88	\$15.03	11.4%	1993-94	\$25.77	4.6%
1988-89	16.93	12.6	1994-95	26.66	3.5
1989-90	19.32	14.1	1995-96	27.60	3.5
1990-91	21.29	10.2	1996-97	28.55	3.4
1991-92	23.35	9.7	1997-98	29.54	3.5
1992-93	24.64	5.5	1998-99	30.55	3.4

Source: Developed by LB&FC staff from PACE Biannual Program reports for actual data and Governor's Executive Budget documents for projected data.

Projection Assumptions

The Department of Aging and Governor's Budget Office project that the average number of persons participating in the PACE Program and Program expenditures will decline over the next five years. They project PACE Program participation to drop by about 5 percent each year through FY 1998-99 and expenditures to decrease from \$191 million in FY 1993-94 to \$189 million in FY 1998-99. The projections assume that:

- Current income eligibility limits (\$13,000 for a single person and \$16,200 for a married couple) will remain unchanged¹⁵ and that progressively fewer persons will be eligible for the program as their incomes rise and exceed income eligibility limits due to cost-of-living adjustments.
- The drug manufacturers rebate program and other cost containment measures will continue and will exert a constraining influence on program costs.
- Average costs per prescription will continue to increase; the projections assume an annual increase of about 3.5 percent through FY 1998-99.

The projections do not, however, take into account the possible impacts of proposed federal or state health care reform plans on the PACE Program.

Some proposed health care programs contain provisions which, if enacted, could eliminate or substantially reduce PACE Program expenditures. For example, the standard benefits package in the Clinton Administration's proposed federal health care reform plan would include Medicare outpatient prescription drug coverage that could effectively replace the PACE Program.¹⁶ Under the proposal, Medicare beneficiaries, who would generally continue in that program, would also receive prescription drug benefits.¹⁷ The proposed Medicare drug benefit would carry a \$250 annual deductible. Once the deductible has been met, beneficiaries would pay 20 percent of the cost of each prescription with an annual limit on out-of-pocket expenditures of \$1,000.

The proposed Medicare prescription drug plan would have features that are similar to those of the PACE Program. The plan would cover all drugs, biological products, and insulin approved by the Food and Drug Administration (FDA) for

¹⁵As of mid-April 1994 there were 23 PACE-related bills pending in the General Assembly. Many of these propose liberalizing the income eligibility limits for the PACE Program.

¹⁶The individual health plans contracting with the proposed regional and corporate alliances would be permitted to establish formularies, drug utilization review, generic substitution, and mail order programs.

¹⁷Any Medicare beneficiary who elects to enroll in the Part B program (97 percent of the Medicare population) would automatically enroll in the prescription drug benefit.

their medically accepted indications as defined in at least one of three compendia.¹⁸ Also, much like the PACE Program's major drug utilization review program, the Secretary of the U.S. Department of Health and Human Services would be authorized to require physicians or pharmacists to obtain approval before prescribing or dispensing certain medications based on evidence that they are subject to clinical misuse or inappropriate use or because the Secretary determines that they are not cost effective. Additionally, pharmaceutical manufacturers would be required to pay the Federal government a 17 percent rebate on products dispensed to Medicare patients.¹⁹

Although it is difficult to assess the actual impact of a proposed federal plan that is still taking shape, it is clear that it could have significant implications for the PACE Program and funding demands placed on the Lottery Fund. If a federal plan were to replace the PACE Program in its entirety, the demand on the Lottery Fund would be reduced by between \$190 and \$200 million a year. On the other hand, the PACE Program director told LB&FC staff that some of the submitted plans include a "maintenance of effort" clause which would require the state to maintain its current level of enrollment. Under such a provision, little, if any, savings would result.

Additionally, assuming an approved health care plan includes a prescription drug benefit plan, the PACE Program director believes that PACE under current mandates would be obligated to pay some or all of the deductible limit. He believes, however, it is unlikely that the limit will be as low as the administration's proposal of \$250; i.e., a more likely deductible limit would be \$500. Assuming that a federal program took over responsibility for the state's drug benefit program but that PACE continued to pay the deductible, the savings to PACE are estimated to be about \$75 million.²⁰

At this point, given the uncertain nature of the final form of a national health care plan and its drug benefit provisions and the response of the Legislature to such a plan, it is impossible to predict the impact of the plan on PACE.

¹⁸The American Medical Association Drug Evaluations, the American Hospital Formulary Service, and the United States Pharmacopeia or other authoritative compendia.

¹⁹An additional rebate would be required from manufacturers who increase the price of any drug at a rate higher than inflation. In the case of new drugs that the Secretary determines are too expensive, the Secretary has the authority to negotiate a special rebate with the manufacturer. The Secretary could also exclude from Medicare coverage any new drug she deems too expensive.

²⁰This is an estimate based on program data for calendar year 1993: 164,000 cardholders (49 percent of 334,000 cardholders) exceeded the \$500 limit. The cost to reimburse this group would amount to approximately \$82 million (164,000 multiplied by the \$500 deductible). The cost of reimbursing the remaining 51 percent who are at less than the \$500 threshold would be about \$36 million (using actual program data). The total cost would thus be \$118 million. This would translate to a net reduction in PACE Program costs of about \$75 million: i.e., projected program costs of about \$192 million minus estimated costs of \$118 million if PACE were to reimburse clients up to the \$500 deductible. This estimate does not take into account lost rebate revenues.

Other potential reductions in cost could occur through elimination of all or a portion of the operating and administrative costs related to the PACE Program. For example, in FY 1992-93, these costs included approximately \$7 million for a contractor that assists in conducting many of the day-to-day operations of the PACE Program and \$640,000 for Department of Aging administrative costs.

Both the Pennsylvania House and Senate are currently considering bills that would provide for a statewide health care plan. The bills include a guaranteed benefits package. Since the bills give the governing agency the option of recommending exclusion of selected items such as a prescription drug program and of determining the specific schedule, scope, and duration of services within the guaranteed benefits package, it is not possible to project the potential implications of this legislation on the PACE Program.

Property Tax and Rent Rebate Program

The Property Tax and Rent Assistance Program (commonly known as Property Tax/Rent Rebate) was one of the original programs funded by the State Lottery. It is administered by the Department of Revenue and, since beginning in 1971, has provided almost \$1.9 billion in property tax and rent rebates to qualified older Pennsylvanians. Rebates are paid to eligible persons, including persons 65 years of age or older, and certain widows/widowers, and disabled persons who are real property tax payers or renters. The rebate amount is based on income and amount paid in property taxes and rent. The minimum and maximum benefits paid are \$10 and \$500.

Brief Description

The Senior Citizens Rebate and Assistance Act, 72 P.S. §4751-1 et seq., provides for property tax and rent rebates to qualifying older Pennsylvanians, widows, widowers, and disabled persons. The purpose of this program is to assist these individuals remain in their homes, whether owned or rented.

Rebates are calculated on the basis of real estate taxes actually paid multiplied by a statutory percentage ranging from 10 to 100 percent, depending on annual household income. Rebates for renters are calculated on the basis of rent paid multiplied by a percentage ranging from 2 to 20 percent, depending on household income. The rebate percentage allowable for renters is 20 percent of that allowable for homeowners at each income level because it is assumed that 20 percent of the total rent paid by an individual is used by the landlord to satisfy the real estate taxes on the rented property. Since the start of the program, the maximum rebate has been increased from \$200 in 1971 to \$400 in 1978 and since claim year 1981 has been established at \$500.

Program Eligibility

Income eligibility requirements and maximum allowable rebate amounts have increased several times since 1971. Originally, the maximum income that qualified for a rebate was \$7,499. In December 1978, legislation was enacted increasing each income bracket by \$1,500 (to a maximum allowable income of \$8,999) starting with the filing of 1978 rebate applications. Income eligibility was increased again beginning with claim year 1981 so that the maximum income that qualified for a rebate was \$11,999. Beginning with claim year 1985, the rebate percentage tables increased the maximum eligible income to \$15,000.

PT/RR Program Service Levels and Expenditures

In FY 1992-93 Property Tax/Rent Rebate Program expenditures were \$104.5 million, about 13 percent of total Lottery Fund expenditures. Program participation is measured in terms of the number of households that receive a tax or rent rebate. A total of 403,384 households received rebates in FY 1992-93.

As shown on Table 25, both program participation and expenditures have declined during the period we reviewed. However, in FY 1988-89, participation declined but program costs increased. According to program administrators, this was due to low inflation (hence small pension increases) coupled with increasing local tax rates, which resulted in higher average payments per household.

In 1988, the program was affected by a Federal Medical Assistance ruling that the property tax rebate must be counted as income in determining eligibility for certain benefits. Program administrators believe this ruling reduced the number of persons who file for a rebate. Also, incomes from retirement plans and social security continue to increase each year as individuals retire. This tends to cause declines in the number of new households that qualify for participation in the program. The trend of decline in eligible population is expected to continue, resulting in lower funding requirements.

Projection Assumptions

As shown on Table 25, PT/RR program expenditures as well as number of households served are expected to continue to decline through FY 1998-99. The projections made by the Revenue Department and the Governor's Budget Office assume that:

- There will be no changes in income eligibility requirements with a resulting steady reduction in the number of households eligible for a rebate as

retirement and social security income cost-of-living adjustments move more households above the maximum program income eligibility levels.²¹

- Expenditures will decline at a lower rate than participation because the average rebate per filer will tend to rise (but no higher than the \$500 current statutory limit) as property taxes increase.

Table 25

**Property Tax and Rent Rebate Expenditures
and Number of Households Receiving a Rebate**

FY 1987-88 Through FY 1998-99

Actual:

<u>Fiscal Year</u>	<u>Expenditures (\$000)</u>	<u>% Change</u>	<u># of Households Served</u>	<u>% Change</u>
1987-88.....	\$123,681	1.3%	484,351	1.3%
1988-89.....	127,820	3.3	453,530	(6.4)
1989-90.....	121,535	(4.9)	476,528	5.1
1990-91.....	114,317	(5.9)	447,535	(6.1)
1991-92.....	109,000	(4.7)	422,355	(5.6)
1992-93.....	104,539	(4.1)	403,384	(4.5)

Projected:

1993-94.....	\$104,000	(0.5)%	389,823	(3.4)%
1994-95.....	100,000	(3.8)	380,077	(2.5)
1995-96.....	99,000	(1.0)	372,476	(2.0)
1996-97.....	98,000	(1.0)	365,026	(2.0)
1997-98.....	97,000	(1.0)	357,726	(2.0)
1998-99.....	96,000	(1.0)	350,571	(2.0)

Source: Developed by LB&FC staff from Governor's Executive Budget documents.

Legislation to liberalize the program's income eligibility requirements is currently pending. For example, Senate Bill 204 would exclude Social Security Cost-of-Living Adjustments (COLAs) since December 31, 1988, from income and increase the maximum household income from \$15,000 to \$18,000. If enacted, the number of households eligible for a rebate would certainly increase.

²¹An objective stated in the State Plan on Aging for Pennsylvania, 1993-1996 is to review eligibility levels for the PT/RR Program and recommend revisions, as appropriate.

Income eligibility limits were last increased for claim year 1985. At that time the ceiling was increased from \$11,999 to \$15,000. As a result, the number of households served by the program increased by 4.1 percent (from 459,300 to 478,315) between FY 1985-86 and FY 1986-87. During the same period, Lottery funding for rebates increased from \$98.8 million to over \$122 million (a 23.5 percent increase). Program expenditures continued to gradually increase over the next two years to \$127.8 million in FY 1988-89 before beginning to decline as cost-of-living adjustments in household incomes began to result in fewer households meeting the income eligibility limit.

PENNCARE

PENNCARE is an array of in-home and community-based services designed to address the varied needs of older Pennsylvanians and enable frail older persons to delay or avoid institutionalization. PENNCARE services include, for example, congregate meals, personal care, home-delivered meals, counseling, home health care, homemaker and other in-home services, preadmission assessment, attendant care, Alzheimer's Disease programs, and abuse intervention services. These services are provided through the Commonwealth's 52 Area Agencies on Aging (AAAs).

Brief Description

PENNCARE is a grouping of various programs and services for older Pennsylvanians that are provided through the Commonwealth's 52 Area Agencies on Aging. PENNCARE programs focus on assessing the needs of consumers and tailoring a service response to provide the most appropriate and least restrictive level of care (i.e., to enable persons to remain in their homes rather than being placed in a nursing home or personal care facility). The PENNCARE appropriation formerly covered only the statewide system of in-home long-term care services which enabled frail older Pennsylvanians to delay or avoid institutionalization. For the 1994-95 fiscal year the PENNCARE appropriation encompasses all of the community based and in-home service activities of the Department of Aging. According to the Department of Aging, this will give the Department more flexibility to tailor their support services in accordance with demonstrated need.

PENNCARE.

OPTIONS Level I is intended to assist persons who are able to live independently in the community. Area Agencies on Aging conduct a needs assessment and arrange and coordinate for the necessary services. Such services might include counseling, protective services, personal care, home health care, home support, older adult daily living services, placement services, attendant care, and medical equipment, supplies and adaptive devices. OPTIONS Level I services are funded by both Lottery and federal monies.

OPTIONS Level II Assessments is a joint effort of the Department of Public Welfare and the Department of Aging. Pre-admission assessments focus on two areas described as Part I, Omnibus Budget Reconciliation Act of 1987 (OBRA-87) and Part II, OPTIONS Level II Assessments. Part I meets the requirement to screen all applicants for nursing facility placement to determine whether or not applicants have diagnoses for conditions related to mental illness, mental retardation, or other related conditions requiring care in a nursing facility. Part II assessments are provided for applicants 18 years of age or older to determine Medicaid nursing facility care eligibility, SSI State Supplement eligibility for personal care home or domiciliary care residential living. The screening process involves a thorough review of each applicant's medical and functional needs and, for OBRA-87 individuals, a separate evaluation of the need for specialized services in cases where nursing facility placement is determined appropriate. OPTIONS Level II assessments are paid for by federal and DPW funding.

OPTIONS Level II Intensive In-Home Services provides case management and a range of community based services to enable individuals to remain in their home rather than a nursing facility. The availability of intensive community long-term care services has the effect of expanding the service capacity in Pennsylvania without adding additional nursing facility beds. OPTIONS Level II services typically involve in-home support services such as home delivered meals, personal care, and home support and home health care. The services are usually provided on a more intensive basis than those under OPTIONS Level I. These services are funded totally by Lottery Fund monies.

Aging Services. Aging programs focus on helping older Pennsylvanians remain active within their communities. Funding for Aging Programs is through block grants made by the Department of Aging to the Area Agencies on Aging. The AAAs in turn coordinate or provide community-based services such as home delivered meals, congregate meals, senior center services, employment services, volunteer services, passenger transportation, outreach, information and referral, care management, counseling, protective services, personal care, home health care, home support, day care, placement services, legal assistance, ombudsman, attendant care, and medical equipment, supplies and adaptive devices.

Older Adults Protection. The Older Adults Protection Program, also referred to as Abuse Intervention Services for Older Pennsylvanians, is designed to protect older adults who are at risk of being abused, neglected, exploited, or abandoned. The program was created by Act 1987-79, the Older Adults Protective Services Act.

Abuse intervention services are provided either by the local Area Agency on Aging (AAA) itself or through a contractor located and monitored by the AAA. The agency providing services is to administer intervention services for older adults, conduct investigations into reported abuse, receive and maintain abuse records, conduct client assessments, develop service plans, arrange for available services needed to implement service plans, and purchase, on a temporary basis, services determined to be necessary to reduce, correct, and eliminate abuse.

For purposes of this program, abuse is defined as the infliction of injury, unreasonable confinement, intimidation or punishment which results in physical harm, pain, or mental anguish. Additionally, abuse is the willful deprivation by a caretaker of goods or services necessary for physical or mental health. Abandonment is defined as the desertion of an older adult by a caretaker.

Reports of abuse may be made to the contractor or AAA either by the older adult him/herself or by any person on behalf of the older adult. Services are available on a 24-hour basis. Persons receiving services do so voluntarily although involuntary intervention is possible in certain instances.

Initially, the Department of Aging estimated that the program's target population would number approximately 2,880 older persons. This was based on an estimate of 2.4 million persons aged 60 or older and that 2 of every 1,000 persons in that age group would need protective services. In FY 1992-93, 2,517 older Pennsylvanians received protective services from the Department of Aging. The Department reports that about 85 percent of the persons needing assistance consent to receiving the services.

Alzheimer's Project. The Alzheimer's Disease Program (funded through a separate line-item appropriation until FY 1987-88) is also funded under PENNCARE. This program is administered through the Pennsylvania Council on Aging and provides Alzheimer's training, education, and outreach to families, health professionals, social service providers, and the general public.

Area Agencies on Aging

The Department of Aging contracts with the 52 Area Agencies on Aging²² to provide in-home and community-based services for older Pennsylvanians. Funds

²²The Older Americans Act of 1965, as amended, 42 U.S.C. §3001 *et seq.*, requires the states to establish Area Agencies on Aging (AAAs) to distribute services to older Americans and dictates a formula for funding distribution. Pennsylvania currently has 52 AAAs, which are organized based on county boundaries. Some (42) cover one county while in others (10) several counties are combined. Most are run as part of county government but some (15) are private nonprofit organizations.

are distributed to the AAAs to provide these services primarily through the aging services block grant and through OPTIONS contracts. Area Agencies on Aging must work within several parameters in budgeting and expending aging services block grants. As an example, some of the budgeting and expenditure requirements in effect for FY 1992-93 include:

- No more than 10 percent of block grant funds may be budgeted and expended on AAA administration.
- At least 11 percent of the block grant allocation must be budgeted and expended for congregate meals and outreach.
- At least 47.7 percent of the block grant allocation must be budgeted for the following in-home services: home delivered meals; outreach; care management; home support; home health; personal care; day care; protective services; attendant care; medical equipment, supplies, and adaptive devices; placement services; and other in-home services (lifeline systems, direct nursing).
- At least 4.04 percent of the aging services block grant allocation must be budgeted and expended for home delivered meals and outreach.

The block grant monies are distributed to the AAAs in proportion to each area's share of the Commonwealth's elderly poor, elderly rural poor, and elderly minority poor populations.

Program Eligibility

Eligibility for PENNCARE services varies depending on the service provided. For most programs a person must be 60 years old or older. Eligibility is limited to residents of Pennsylvania. Requests for service are made primarily by contacting an Area Agency on Aging. Determination of need and eligibility are made by AAA personnel. Depending on the type of service or geographic location, consumers may be asked to pay a fee or make a contribution to defray a portion of the cost of services provided.

Program Service Levels and Expenditures

The Department of Aging reports that a total of 447,084 unduplicated persons received PENNCARE services in FY 1992-93. Total PENNCARE costs for the year were \$203.8 million. As shown on Table 26, about two-thirds of this amount,

\$139.6 million, was paid from the Lottery Fund.²³ Other funding sources include the General Fund, federal funds, and augmentations.

AAA Funding

The PDA annually distributes available Lottery Fund monies to the Area Agencies on Aging in the form of block grants and other contracts. The block grant monies are distributed to the AAAs based on a formula which takes into account the area's elderly poor, elderly rural poor, and elderly minority poor.

With the exception of Pre-Admission Assessment, once their funding is determined, the AAAs must operate within their budgets regardless of the demand for programs or services in their service area with the exception that OPTIONS Level II assessments are entitlements.²⁴ If the AAAs run out of funds while there is still an identified need for services, they must place people on waiting lists or attempt to find additional sources of funding. Near the end of the budget year, the PDA may transfer funds among AAAs to ensure that unused program funds are made available to other AAAs.

Other monies are distributed to the AAAs outside the block grant. Some funding involves programs which receive federal dollars, such as the assessment portion of the OPTIONS Level II program. Other funds which are distributed outside of the block grant process include the Family Caregiver Support Program (FCSP) which is entirely funded by the General Fund. This program is designed to reduce caregiver stress and reinforce the care being given to older persons at home. The program includes assessments, counseling, training, financial assistance, and home modifications.

Table 27 shows the planned statewide percentages of the aging services block grants (provided to the AAAs) that were to be spent for each service in FY 1992-93. As shown, the largest percentage, about 15 percent, was targeted for personal care services.

²³Appropriated separately as Aging Programs (\$62.9 million), Abuse Intervention Services (\$4.2 million), and PENNCARE (\$72.6 million).

²⁴The AAAs prepare three-year plans and annual plans or contracts which are submitted to the PDA. AAAs are given guidelines as to how to allocate their funds including minimum amounts to be spent for certain services, but the actual mix of programs and services is to be determined by the AAAs and approved by the PDA. Contracts function as annual plans about how they will spend their grants, where it will be spent, how many people will be served, and the number of units to be delivered.

Table 26

PENNCARE Expenditures*

FY 1987-88 to FY 1998-99

(\$000)

Actual:

<u>Fiscal Year</u>	<u>Lottery Fund</u>	<u>% Change</u>	<u>Other Funds^a</u>	<u>% Change</u>	<u>Total</u>	<u>% Change</u>
1987-88..	\$ 94,926	14.55%	\$51,110	3.95%	\$146,036	10.60%
1988-89..	102,097	7.55	52,203	2.14	154,300	5.66
1989-90..	110,704	8.43	58,866	12.76	169,570	9.90
1990-91..	121,501	9.75	57,741	(1.91)	179,242	5.70
1991-92..	134,938	11.06	61,811	7.05	196,749	9.77
1992-93..	139,646	3.49	64,182	3.84	203,828	3.60

Projected:

1993-94..	\$148,316	6.21%	\$72,328	12.69%	\$220,644	8.25%
1994-95..	160,059 ^b	7.92	74,168	2.54	234,227	6.16
1995-96..	164,381	2.70	76,613 ^c	3.30	240,994 ^c	2.9
1996-97..	170,955	4.00	76,613 ^c	0	247,568 ^c	2.7
1997-98..	177,794	4.00	76,613 ^c	0	254,407 ^c	2.8
1998-99..	184,712	3.89	76,613 ^c	0	261,325 ^c	2.7

*For purpose of this table Lottery Fund appropriations for PENNCARE, Aging Programs, and Abuse Intervention have been added together for FY 1987-88 through FY 1993-94. Starting in FY 1994-95 the Governor's Executive Budget includes Aging Programs and Abuse Prevention in PENNCARE.

^aIncludes federal funds for Title III of the Older Americans Act (providing social services, congregate meals, and home delivered meals) and Title V of the Older Americans Act (providing older persons employment services); and augmentations for medical assistance preadmission assessments.

^bIncludes program revision request of \$7 million (\$4 million to renovate senior citizen centers, \$2 million to reduce waiting lists for in-home services and almost \$680,000 for increased abuse intervention services).

^cAlso includes federal funding for Department of Aging administrative activities. In FY 1992-93 this amounted to \$2.2 million.

Source: Developed by LB&FC staff from Governor's Executive Budget documents.

Table 27

**Percentage of Aging Services Block Grant to Be
Expended for Various PENNCARE Services**
FY 1992-93

<u>Service</u>	<u>Percentage of Block Grant</u>
Personal Care	15.49%
Care Management	13.67
Congregate Meals	13.30
Home Delivered Meals	9.71
Senior Center Services	8.86
Administration.....	8.09
Attendant Care	4.58
Passenger Transportation	4.51
Information & Referral	3.82
Protective Services.....	3.80
Day Care	3.76
Home Support.....	3.43
Placement	1.35
Volunteer Services91
Ombudsman.....	.83
Legal Assistance77
Outreach55
Employment Services38
Counseling30
Home Health.....	.24
Medical Equipment.....	.08
Other	<u>1.58</u>
 Total ^a	 100.00%

^aDoes not add due to rounding.

Source: Developed by LB&FC staff from information obtained from the PA Department of Aging.

Waiting Lists. Approximately 2.4 million Pennsylvanians are 60 years of age or older and thus eligible to receive services offered by the Department of Aging. The number of these persons served by PENNCARE represents only a portion of those in need of services. The increases in the Commonwealth's elderly population are placing constantly growing demands on the aging services network. Increases in the 75 and 85 years of age and older population cohorts will mean increased demand for aging services as the decade progresses.

For example, according to an official of the Bureau of Planning in the Department of Health, Pennsylvania had an overall shortage of about 2,000 nursing home beds as of February 1994. To make the situation worse, the shortage is not evenly distributed as some counties have an excess of beds while others have a shortage (Philadelphia and Allegheny counties together have a shortage of 11,174 beds). This situation places increased pressure on the Department of Aging to provide in-home and community based services that are essential in many cases to avoid institutionalization. Currently, the demand for PENNCARE services exceeds the supply in many categories of service. The extent of "unmet need" is, however, difficult if not impossible to measure.

The primary way in which the Department of Aging measures "unmet need" is through the use of waiting lists. The Department has directed the AAAs to develop waiting lists when funds or facilities are not available to accept new clients. The Department's directive on this subject states:

A waiting list consists of those individuals who have been assessed as needing a particular service and are waiting the availability of that service. More specifically, persons may be on a waiting list due to a surplus of demand over available resources or where persons are waiting for service due to gaps in the Service Delivery System.

In order for a person to be reported on a waiting list, the AAA must fund the service, either totally or in part. The AAA is responsible for compiling accurate waiting list data on all clients for the services it provides. This responsibility applies if the AAA provides the service directly or through a service subcontractor. AAAs are to report persons on a waiting list until all the needed services have begun or the need for the service no longer exists.

Table 28 shows the number of AAAs reporting waiting lists as of December 1993. At that time 3,648 persons (unduplicated) were awaiting services, mostly in the personal care and home support areas. An additional 1,897 persons were on waiting lists which might include duplicate reporting because of the nature of the service requested.

Table 28

Waiting Lists for PENNCARE Services*

December 1993

<u>Service</u>	<u>Number of AAAs Reporting Waiting Lists</u>	<u>Number of Individuals on Waiting Lists</u>
Home Delivered Meals	10	140
Counseling	2	19
Personal Care	31	2,090
Home Support.....	25	1,009
Home Health	2	69
Day Care.....	17	246
Attendant Care.....	19	184
Medical Equipment	4	28
OPTIONS (Level II) ^a	19	854
Domiciliary Care ^a	17	156
Home Support (Non prioritized) ^a	1	74
Family Caregiver Support Program ^a	24	813

*Waiting list data is not maintained for employment services, placement services, legal assistance, home-maker services, care management, ombudsman, and others.

^aThese categories may include duplication.

Source: Developed by LB&FC staff from data obtained from the Department of Aging.

While useful in providing a perspective on service demand, waiting lists have a number of limitations. Waiting lists are only “snap shots” of identified need on the specific date of the report and do not include individuals in need but who have not been identified. Waiting lists include only those individuals who have declared a need and who AAA personnel determined have a high enough priority level to be put on the list. Also, some people awaiting services may become discouraged and decline to be included on the waiting lists. It is also not clear that all AAAs provide all the services for which waiting list data is maintained. Unmet need is therefore understated when AAAs do not maintain data for the services which they do not provide.

Finally, there is not enough funding available to serve all qualified persons. The Department of Aging estimated that an additional \$11 million in funding would have been necessary to eliminate the waiting lists in effect as of June 1993.

However, even if it were possible to serve all persons on the current waiting lists, new names would be added.

Projection Assumptions

As expressed by the Department of Aging, the problem facing the Commonwealth in terms of PENNCARE services is driven by four factors: an increasingly aging population with growing demands for long-term care, a leveling off of Lottery and federal funding, increasing unit service costs, and a decreasing number of persons served. In response, the Department is taking an approach that it describes as a “managed growth strategy that will balance needed program expansions within resources.”

The Department and the Governor's Budget Office are projecting an 8 percent increase in Lottery Fund expenditures for PENNCARE in FY 1994-95 to \$160.1 million. For the four remaining planning years through FY 1998-99 the Budget reflects annual increases of 4 percent or less which represent inflationary indexed increases. With the exception of a 2.5 percent increase in FY 1994-95, no growth is projected in the other non-Lottery PENNCARE funding sources. No increases in service levels are provided for in the planning year projections.

The projections assume:

- A growing demand for aging services, especially in the 75 and 85 and over age cohorts and the continued maintenance of waiting lists for services.
- Appropriation increases geared to expected inflation rates with relatively little growth in program service levels.
- A continued leveling off of revenues from the Federal Older Americans Act and the State Lottery Fund.
- Continued increases in the unit costs of providing in-home and community-based services (e.g., personal care, home support, home health care, attendant care, and adult day care).
- Approval of a Program Revision Request in the FY 1994-95 budget titled “Enhancing Services for Older Pennsylvanians.”²⁵
- A continuation of existing cost-containment measures.

²⁵This PRR requests \$4 million in Lottery funds to create the Senior Center Revitalization Program, \$2 million to reduce OPTIONS Level I waiting lists for in-home services, and \$698,000 to provide for increased levels of abuse intervention services.

Table 29

**Measures of PENNCARE Services Provided
to Older Pennsylvanians**

FY 1987-88 to FY 1998-99

Congregate Meals (Persons Served):

<u>Actual</u>			<u>Projected</u>		
<u>Fiscal Year</u>	<u>Number</u>	<u>% Change</u>	<u>Fiscal Year</u>	<u>Number</u>	<u>% Change</u>
1987-88.....	139,578	3.73%	1993-94.....	149,000	0.02%
1988-89.....	140,540	0.69	1994-95.....	149,000	0.00
1989-90.....	144,644	2.92	1995-96.....	149,000	0.00
1990-91.....	142,470	(1.50)	1996-97.....	149,000	0.00
1991-92.....	143,204	0.52	1997-98.....	149,000	0.00
1992-93.....	148,974	4.03	1998-99.....	149,000	0.00

Transportation (Persons Served)^a:

<u>Actual</u>			<u>Projected</u>		
<u>Fiscal Year</u>	<u>Number</u>	<u>% Change</u>	<u>Fiscal Year</u>	<u>Number</u>	<u>% Change</u>
1987-88.....	88,932	1.39%	1993-94.....	93,000	2.40%
1988-89.....	92,655	4.19	1994-95.....	93,000	0.00
1989-90.....	95,705	3.29	1995-96.....	93,000	0.00
1990-91.....	93,788	(2.00)	1996-97.....	93,000	0.00
1991-92.....	103,509	10.36	1997-98.....	93,000	0.00
1992-93.....	90,819	(12.26)	1998-99.....	93,000	0.00

OPTIONS Level II (Persons Served):

<u>Actual</u>			<u>Projected</u>		
<u>Fiscal Year</u>	<u>Number</u>	<u>% Change</u>	<u>Fiscal Year</u>	<u>Number</u>	<u>% Change</u>
1987-88.....	2,524	15.30%	1993-94.....	5,800	5.74%
1988-89.....	2,536	0.48	1994-95.....	5,800	0.00
1989-90.....	3,021	19.12	1995-96.....	5,800	0.00
1990-91.....	3,652	20.89	1996-97.....	5,800	0.00
1991-92.....	5,603	53.42	1997-98.....	5,800	0.00
1992-93.....	5,485	(2.11)	1998-99.....	5,800	0.00

Table 29 (Continued)

Attendant Care Services (Persons Served):

Fiscal Year	<u>Actual</u>		Fiscal Year	<u>Projected</u>	
	<u>Number</u>	<u>% Change</u>		<u>Number</u>	<u>% Change</u>
1987-88.....	2,916	19.61%	1993-94.....	2,400	3.23%
1988-89.....	3,531	21.09	1994-95.....	2,501	4.21
1989-90.....	3,211	(9.06)	1995-96.....	2,501	0.00
1990-91.....	3,077	(4.17)	1996-97.....	2,501	0.00
1991-92.....	3,025	(1.69)	1997-98.....	2,501	0.00
1992-93.....	2,325	(23.14)	1998-99.....	2,501	0.00

Home Delivered Meals (Persons Served):

Fiscal Year	<u>Actual</u>		Fiscal Year	<u>Projected</u>	
	<u>Number</u>	<u>% Change</u>		<u>Number</u>	<u>% Change</u>
1987-88.....	36,358	8.30%	1993-94.....	41,000	1.14%
1988-89.....	37,913	4.28	1994-95.....	41,000	0.00
1989-90.....	39,567	4.36	1995-96.....	41,000	0.00
1990-91.....	41,487	4.85	1996-97.....	41,000	0.00
1991-92.....	39,816	(4.03)	1997-98.....	41,000	0.00
1992-93.....	40,539	1.82	1998-99.....	41,000	0.00

Home Support Services (Persons Served):

Fiscal Year	<u>Actual</u>		Fiscal Year	<u>Projected</u>	
	<u>Number</u>	<u>% Change</u>		<u>Number</u>	<u>% Change</u>
1987-88.....	13,452	7.33%	1993-94.....	16,000	(8.30)%
1988-89.....	31,161	131.65	1994-95.....	16,000	0.00
1989-90.....	22,598	(27.48)	1995-96.....	16,000	0.00
1990-91.....	19,968	(11.64)	1996-97.....	16,000	0.00
1991-92.....	16,408	(17.83)	1997-98.....	16,000	0.00
1992-93.....	17,448	6.34	1998-99.....	16,000	0.00

Table 29 (Continued)**Personal Care Services (Persons Served):**

<u>Actual</u>			<u>Projected</u>		
<u>Fiscal Year</u>	<u>Number</u>	<u>% Change</u>	<u>Fiscal Year</u>	<u>Number</u>	<u>% Change</u>
1987-88	39,471	(11.26)%	1993-94	27,000	3.89%
1988-89	22,976	(41.79)	1994-95	28,024	3.79
1989-90	27,828	21.12	1995-96	28,024	0.00
1990-91	31,390	12.80	1996-97	28,024	0.00
1991-92	25,480	(18.83)	1997-98	28,024	0.00
1992-93	25,990	2.00	1998-99	28,024	0.00

Protective Services (Persons for Whom a Report of Need Was Prepared):

<u>Actual</u>			<u>Projected</u>		
<u>Fiscal Year</u>	<u>Number</u>	<u>% Change</u>	<u>Fiscal Year</u>	<u>Number</u>	<u>% Change</u>
1987-88	3,070	7.20%	1993-94	6,100	0.80%
1988-89	3,632	18.30	1994-95	6,778	11.10
1989-90	4,910	35.20	1995-96	6,778	0.00
1990-91	5,608	14.20	1996-97	6,778	0.00
1991-92	6,502	15.90	1997-98	6,778	0.00
1992-93	6,051	(6.90)	1998-99	6,778	0.00

Employment Services (Unsubsidized Job Placements):

<u>Actual</u>			<u>Projected</u>		
<u>Fiscal Year</u>	<u>Number</u>	<u>% Change</u>	<u>Fiscal Year</u>	<u>Number</u>	<u>% Change</u>
1987-88	3,901	39.62%	1993-94	3,000	11.23%
1988-89	3,818	(2.13)	1994-95	3,000	0.00
1989-90	3,629	(4.95)	1995-96	3,000	0.00
1990-91	3,219	(11.30)	1996-97	3,000	0.00
1991-92	2,841	(11.74)	1997-98	3,000	0.00
1992-93	2,697	(5.07)	1998-99	3,000	0.00

Table 29 (Continued)**Volunteer Services (Volunteer Hours):**

Fiscal Year	<u>Actual</u>		Fiscal Year	<u>Projected</u>	
	<u>Number</u>	<u>% Change</u>		<u>Number</u>	<u>% Change</u>
1987-88	4,296,902	13.84%	1993-94	4,900,000	(0.07)%
1988-89	4,672,826	8.75	1994-95	4,900,000	0.00
1989-90	4,809,272	2.92	1995-96	4,900,000	0.00
1990-91	5,247,253	9.11	1996-97	4,900,000	0.00
1991-92	4,956,019	(5.55)	1997-98	4,900,000	0.00
1992-93	4,903,552	(1.06)	1998-99	4,900,000	0.00

Home Support Services (Client Hours):

Fiscal Year	<u>Actual</u>		Fiscal Year	<u>Projected</u>	
	<u>Number</u>	<u>% Change</u>		<u>Number</u>	<u>% Change</u>
1987-88	267,404	19.98%	1993-94	570,000	(0.82)%
1988-89	940,627	251.76	1994-95	570,000	0.00
1989-90	678,300	(27.89)	1995-96	570,000	0.00
1990-91	570,109	(15.95)	1996-97	570,000	0.00
1991-92	552,048	(3.17)	1997-98	570,000	0.00
1992-93	574,733	4.11	1998-99	570,000	0.00

Personal Care Services (Client Hours):

Fiscal Year	<u>Actual</u>		Fiscal Year	<u>Projected</u>	
	<u>Number</u>	<u>% Change</u>		<u>Number</u>	<u>% Change</u>
1987-88	2,459,961	3.65%	1993-94	3,200,000	2.30%
1988-89	2,031,055	(17.44)	1994-95	3,200,000	0.00
1989-90	2,138,747	5.30	1995-96	3,200,000	0.00
1990-91	2,501,941	16.98	1996-97	3,200,000	0.00
1991-92	2,626,064	4.96	1997-98	3,200,000	0.00
1992-93	3,128,167	19.12	1998-99	3,200,000	0.00

Table 29 (Continued)

Families Receiving Caregiver Support:^b

Fiscal <u>Year</u>	<u>Actual</u>		Fiscal <u>Year</u>	<u>Projected</u>	
	<u>Number</u>	<u>% Change</u>		<u>Number</u>	<u>% Change</u>
1987-88	N/A	N/A	1993-94	7,000	3.66%
1988-89	N/A	N/A	1994-95	7,000	0.00
1989-90	N/A	N/A	1995-96	7,000	0.00
1990-91	3,020	N/A	1996-97	7,000	0.00
1991-92	5,562	84.17%	1997-98	7,000	0.00
1992-93	6,753	21.41	1998-99	7,000	0.00

^aComplete round trip.

^bFCSP was initiated in 1987 as a demonstration program. In FY 1990-91 the decision was made to expand the program statewide.

Source: Developed by LB&FC staff from information obtained from Governor's Executive Budget documents and Department of Aging budget transmittal materials.

The projections do not reflect the possible effects of a plan the Departments of Aging and Public Welfare are working on to request a federal Medicaid waiver for home and community-based services (referred to as a "2176 waiver"). This waiver enables the Secretary of Health and Human Services to allow state agencies administering medical assistance funds under an approved state plan to substitute payment for care in a hospital; nursing facility; or intermediate care facility for the mentally retarded with payment for the cost of home-based services or community-based services where appropriate. The PDA has submitted a plan to the Department of Public Welfare for review and approval. The initial plan provides for 1,000 home and community-based slots in the Philadelphia area where the need for such services is reported to be the greatest. If approved, the plan will provide home and community services to persons who otherwise would be receiving nursing home care.

*Aging Programs*²⁶

The Department of Aging has established a network of in-home and community-based services addressing the varied needs of older Pennsylvanians. These programs are provided by the Area Agencies on Aging at the local level. Services include congregate meals, transportation, attendant care, home support, and personal care services.

Brief Description:

Aging Programs focus on helping older Pennsylvanians remain active within their communities. Funding for Aging Programs is through block grants made by the Department of Aging to the Commonwealth's 52 Area Agencies on Aging.

The AAAs in turn coordinate or provide community-based services such as home delivered meals; congregate meals; senior center services; employment services; volunteer services; passenger transportation; outreach; information and referral; care management; counseling; protective services; personal care; home health care; home support; day care; placement services; legal assistance; ombudsman; attendant care; and medical equipment, supplies, and adaptive devices.

Program Eligibility

Eligibility for aging services varies across the individual services (see page 102). Determination of need and eligibility are made by AAA personnel.

²⁶Through FY 1993-94, Aging Programs were funded through a separate line-item appropriation. Beginning in FY 1994-95, they are budgeted under the PENNCARE appropriation. See the discussion on PENNCARE for further information on Aging Programs.

Aging Programs Service Levels and Expenditures

See PENNCARE

Older Adults Protection²⁷

State Lottery Fund monies are used to provide services to protect older Pennsylvanians from being abused, neglected, exploited, or abandoned. This program, which was implemented as a result of Act 1987-79, provides services through the Area Agencies on Aging.

Brief Description

This program, also referred to as Abuse Intervention Services for Older Pennsylvanians is designed to protect older adults who are at risk of being abused, neglected, exploited, or abandoned. The program was created by Act 1987-79, the Older Adults Protective Services Act.

To comply with this act, the Commonwealth's aging network must investigate all reports of abuse, neglect, exploitation, or abandonment of people age 60, or over and to offer services to all individuals needing them.

Abuse intervention services are provided either by the local Area Agency on Aging (AAA) itself or through a contractor located and monitored by the AAA.

Eligibility Requirements

Persons eligible to receive abuse intervention services are Pennsylvania residents 60 years of age or older who are at imminent risk of abuse, neglect, exploitation, or abandonment.

Program Service Levels and Expenditures

See PENNCARE

²⁷Through FY 1993-94, Elderly Protection was funded through a separate line-item appropriation. Beginning in FY 1994-95, it is budgeted under the PENNCARE appropriation. See the discussion on PENNCARE for further information on Elderly Protection.

Free Transit

Under this program, citizens 65 years of age or older are eligible for free rides on participating local fixed-route transit operations during off-peak hours on weekdays and all day on weekends and certain holidays. The free service also includes commuter rail lines. Transit operators are reimbursed from the State Lottery Fund.

Brief Description

A Lottery-funded Free Transit program was authorized in 1972. As amended, the State Lottery Law, 72 P.S. §3761-12, states that Lottery proceeds are to be used to provide certain free fixed-route local transit services to persons 65 years of age or older. The participant must use the transit service during nonpeak hours, weekends, or holidays. As provided by the Lottery Fund Preservation Act (Act 1991-36), transit operators are reimbursed from the State Lottery Fund at 100 percent of the average or base fare, whichever is less, multiplied by the number of trips made by senior citizens participating in the program.²⁸

In addition to revising the reimbursement formula, Act 1991-36 authorized that monies be appropriated from the General Fund to augment the program. The first funding year for this General Fund appropriation was FY 1991-92.

Program Eligibility

All persons age 65 or older are eligible to participate in the Free Transit program provided they register with a participating transit agency to obtain a Commonwealth ID Card for use as a boarding pass. These passes may be used for common carrier mass transportation services, commuter rail services and intercity rail service trips less than 35 miles in length.

Free Transit Service Levels and Expenditures

Program participation is measured in terms of the number of free transit trips taken by older Pennsylvanians. As shown on Table 31, older Pennsylvanians took about 59.5 million free-transit trips in FY 1992-93. The total cost to the Lottery Fund for the Free Transit Program was \$53.4 million. This amount was combined with \$25.1 million from the General Fund for a program total of \$78.5 million.

²⁸The Lottery Fund Preservation Act (Act 1991-36) revised the reimbursement formula to transit agencies. Previously, reimbursement had been based on 100 percent of the average or base fare, whichever was higher, multiplied by the number of senior citizen free passenger trips. Act 1991-36 now provides for reimbursement at 100 percent of the system's average or base fare, whichever is less, multiplied by the number of free senior citizen passenger trips.

Table 30

Expenditures for the Free Transit Program

FY 1987-88 Through FY 1998-99

(\$000)

Actual:

Fiscal Year	Lottery Fund	% Change	General Fund	% Change	Total	% Change
1987-88	\$69,503	(2.7)%	0	--	\$69,503	(2.7)%
1988-89	73,059	5.1	0	--	73,059	5.1
1989-90	71,932	(1.5)	0	--	71,932	(1.5)
1990-91	80,100	11.4	0	--	80,100	11.4
1991-92	54,547	(31.9)	25,480 ^a	--	80,027	(0.1)
1992-93	53,400	(2.1)	25,090	(1.5)%	78,490	(1.9)

Projected:

1993-94	\$56,527	5.9%	\$25,090	0.0%	\$81,617	4.0%
1994-95	56,100	(0.8)	25,090	0.0	81,190	(0.5)
1995-96	57,000	1.6	25,090	0.0	82,090	1.1
1996-97	57,600	1.1	25,090	0.0	82,690	0.7
1997-98	58,300	1.2	25,090	0.0	83,390	0.8
1998-99	58,900	1.0	25,090	0.0	83,990	0.7

^aA Fixed Route Transit General Fund appropriation was authorized by Act 1991-36 and began in FY 1991-92.

Source: Developed by LB&FC staff from Governor's Executive Budget documents.

During the period we examined Lottery funding peaked at \$80.1 million in FY 1990-91. Although the number of free trips taken between FY 1987-88 and FY 1990-91 decreased by 3 percent, program expenditures rose by 15 percent due to transit system fare increases.

Because of the rapidly escalating cost of the program, the Lottery Fund Preservation Act (Act 1991-36) provided for a General Fund appropriation to substitute for a portion of previous Lottery funding for the program. The first year of funding from the General Fund Fixed-Route Transit appropriation was FY 1991-92 in the amount of \$25.5 million.

Table 31

Number of Free Transit Trips and Cost Per Trip
 FY 1987-88 Through FY 1998-99

Actual:

<u>Fiscal Year</u>	<u>Number of Free Trips</u> (000)	<u>% Change</u>	<u>Cost Per Trip^a</u>	<u>% Change</u>
1987-88.....	63,665	(0.8)%	\$1.14	1.8%
1988-89.....	63,982	0.5	1.14	0.0
1989-90.....	62,224	(2.7)	1.19	4.4
1990-91.....	61,666	(0.9)	1.34	12.6
1991-92.....	61,533	(0.2)	1.32	(1.5)
1992-93.....	59,469	(3.4)	1.32	0.0

Projected:

1993-94.....	59,461	b	\$1.35	2.3%
1994-95.....	59,913	0.8%	1.36	0.7
1995-96.....	60,368	0.8	1.36	0.0
1996-97.....	60,827	0.8	1.36	0.0
1997-98.....	61,289	0.8	1.36	0.0
1998-99.....	61,755	0.8	1.36	0.0

^aCost per trip from both the Lottery and General Funds beginning in FY 1991-92.

^bLess than 0.1 percent

Source: Developed by LB&FC staff from Governor's Executive Budget documents.

Projection Assumptions

The Department of Transportation and the Governor's Budget Office project that the number of free transit trips taken by older Pennsylvanians will remain relatively steady over the next five years and that Lottery expenditures for the program will increase by less than 2 percent a year. The projections assume that:

- There will not be a substantial increased demand for free transit rides. All persons 65 or older are eligible. The number of persons in this age group is projected to increase by 3.6 percent between 1990 and 2000. Larger increases will occur in the 75 and 85 years of age and older cohorts. These groups, however, are more likely to be potential users of the Shared-Ride Program than the Free Transit Program.
- The General Fund Fixed-Route Transit appropriation will continue to supplement Lottery funding of the program at the rate of about \$25 million a year.
- That transit fares will remain relatively constant.

Shared-Ride

The Shared-Ride Program complements the Free Transit Program by attempting to meet the needs of Commonwealth residents who do not have access to fixed-route transportation services. Under this program, citizens 65 years of age or older are eligible for shared-ride services. Shared-ride services operate on a nonfixed-route basis and provide door-to-door service to passengers who "share" the vehicle for their trips. Riders, or third-party sponsoring agencies, pay 15 percent of the fare and transit operators are reimbursed from the State Lottery Fund for the remaining portion of the fare.

Brief Description

A Lottery funded program of reduced fare shared-ride transportation services was authorized in 1980. As amended, the State Lottery Law, 72 P.S. §3761-12, states that, among other purposes, the Lottery net proceeds are to be used for providing reduced fare transit service to persons 65 years of age or older.

Shared-ride public transportation services are defined as demand-responsive (i.e., services which are available only upon advance reservation by the passenger) transportation that is available to the general public, operates on a nonfixed-route basis and charges a fare to all riders. For transportation to be included in this definition, the first fare paying passengers to enter the public transportation vehicle must not refuse to share the vehicle with other passengers during a given trip. The

term does not include exclusive ride taxi service, charter and sightseeing services, nonpublic transportation, school bus, and limousine services.

Participants were originally required to pay 25 cents or 25 percent of the shared-ride fare, whichever was greater. This requirement was amended in 1984 however, to lower the share of the cost to senior citizens to 25 cents or 10 percent of the fare, whichever was greater. In 1984 PennDOT was also given authority to establish reimbursement limits for shared-ride service.

The Lottery Fund generally reimbursed the shared-ride transit operators the difference--up to 90 percent of the shared-ride fare, as constrained by reimbursement limits. However, effective August 1991, the Lottery Fund Preservation Act, Act 1991-36, increased the senior citizen share of the fare from 10 percent to 15 percent (with no 25 cent minimum) and decreased the Lottery Fund share of the fare from 90 percent to 85 percent.

Program Eligibility

Persons 65 years of age or older are eligible for the Shared-Ride Program. Grantees (transportation companies, local transportation organizations, and county transportation systems) are responsible for verifying the age of riders before providing services. In addition, reservations for trips must be made at least one working day prior to the trip. PennDOT must approve the grantees before reimbursable trips can be provided. The grantees receive reimbursement for service provided based on monthly ridership reports they submit to PennDOT.

Shared-Ride Service Levels and Expenditures

Program participation is measured in terms of the number of shared-ride trips taken by older Pennsylvanians. As shown on Table 33 the Lottery contributed to a total of 6.6 million shared rides during FY 1992-93. The total cost to the Lottery Fund for these trips was \$53.7 million, or \$6.72 per trip.

Program participation rose gradually from about 7.5 million in FY 1987-88 to 7.7 million in FY 1990-91. Participation then fell by about 14 percent over the next two fiscal years to 6.6 million shared rides in FY 1992-93. Local fare increases and the reduction in the amount of the fare paid by the Lottery Fund (provided for in Act 1991-36, the Lottery Fund Preservation Act) contributed to declining participation levels.

Another major factor in declining participation during these years was ridership losses in Philadelphia as a result of changes in the program delivery system. According to a Shared-Ride Program administrator, the program in Philadelphia was previously served by many providers. At one point as many as 14 independent operators were reportedly under contract. The Department of Transportation

believes that implementation of provider coordination, local monitoring, and an overall reduction in the number of providers in Philadelphia by 1991 resulted in a substantial decrease in reported trips.

Table 32

**Lottery Fund Expenditures
for the Shared-Ride Program**

FY 1987-88 to FY 1998-99
(\$000)

Actual:

<u>Fiscal Year</u>	<u>Expenditures</u>	<u>% Change</u>
1987-88	\$46,200	17.3%
1988-89	46,075	(0.3)
1989-90	49,043	6.4
1990-91	54,636	11.4
1991-92	52,894	(3.2)
1992-93	53,655	1.4

Projected:

1993-94	\$55,900	4.2%
1994-95	54,925	(1.7)
1995-96	58,810	7.1
1996-97	62,972	7.1
1997-98	67,429	7.1
1998-99	72,202	7.1

Source: Developed by LB&FC staff from Governor's Executive Budget documents.

Since November 1992, program coordination in Philadelphia has been handled exclusively by the Southeastern Pennsylvania Transportation Authority (SEPTA). This is expected to stabilize the program and, as a result, ridership is expected to increase in Philadelphia during FY 1993-94 and FY 1994-95, raising statewide trip levels to more than 7 million. Projections of 2 percent annual growth in Lottery-funded shared rides are assumed for the period FY 1995-96 through FY 1998-99.

Table 33

**Number of Lottery-Funded
Shared Rides and Cost Per Trip**

FY 1987-88 to FY 1998-99

Actual:

<u>Fiscal Year</u>	<u>Number of Shared Rides (000)</u>	<u>% Change</u>	<u>Cost Per Trip</u>	<u>% Change</u>
1987-88.....	7,485	13.2%	\$6.23	4.5%
1988-89.....	7,338	(2.0)	6.01	(3.5)
1989-90.....	7,641	4.1	6.43	7.0
1990-91.....	7,713	0.9	6.79	5.6
1991-92.....	7,018	(9.0)	6.43	(5.3)
1992-93.....	6,593	(6.1)	6.72	4.5

Projected:

1993-94.....	6,970	5.7%	\$7.11	5.8%
1994-95.....	7,293	4.6	7.50	5.5
1995-96.....	7,440	2.0	7.88	5.1
1996-97.....	7,590	2.0	8.27	4.9
1997-98.....	7,740	2.0	8.69	5.1
1998-99.....	7,895	2.0	9.12	4.9

Source: Developed by LB&FC staff from Governor's Executive Budget documents.

Projection Assumptions

The Department of Transportation and the Governor's Budget Office project that the number of shared rides funded by the Lottery will increase by about 13 percent between FY 1993-94 and FY 1998-99. Program expenditures are projected to increase by 29 percent during this period. The projections assume:

- An increasing demand for shared ride services as the number of older Pennsylvanians 70 years of age and older increases. Current projections are for about a 2 percent annual increase in ridership. This estimate may, however, prove to be conservative. In assessing transportation needs of older Pennsylvanians, a 1993 report on the Shared-Ride

Program²⁹ concluded that the Program could experience a significant increase in demand because the 70 and older population is more likely to need transportation service than the 60-69 age group. The report also notes that there could be an increased demand for specialized transportation services to address the physical and cognitive disabilities of the 70 and older age group.

- No change in current rate of participant share of the cost of the ride or in the transit operator reimbursement formula.
- That the per trip cost of shared rides for the Lottery Fund will increase at about 5 percent a year through FY 1998-99. This is based on anticipated fare increases to insure that revenues generated by this service are sufficient to fully cover expenses. Part of the cost per trip increase also reflects an increasingly older and frailer clientele which is more difficult and more costly to serve.

Long Term Care Facilities - Medical Assistance

This program provides long term medical care to eligible recipients through certified nursing homes. Lottery funding for this program will be phased out by June 30, 1994.

Long Term Care Facilities is a component of the Medical Assistance Program administered by the Department of Public Welfare. It provides nursing services to eligible recipients through certified nursing homes. Nursing home care provided by the program involves daily medical treatment and rehabilitation services as prescribed by a licensed physician. The services are provided by or under the supervision of licensed professional nursing or other professional health care personnel.

Individuals receiving these services must be declared eligible by the Department of Public Welfare's Office of Income Maintenance. Preadmission assessment is done by the Department of Aging through an Area Agency on Aging. In general, an individual must have less than \$2,000 in resources and less than \$1,302 per month in income to be eligible for this program.

The Lottery Fund first provided funding for Long Term Care Facilities in FY 1983-84. The transfer from the Lottery Fund was \$100 million in that year and peaked at \$140 million annually from FY 1984-85 through FY 1987-88.

²⁹A Report on the Shared-Ride Program for Older Pennsylvanians, PA Department of Aging in cooperation with the PA Department of Transportation, June 1993. This report was required by the Lottery Fund Preservation Act and was presented to the General Assembly in July 1993. The statutory mandate was for the report to address options for future administration of the program.

Funding responsibility for this program is being returned to the General Fund. Lottery funding in FY 1993-94 was reduced to \$20 million. No Lottery Fund monies are budgeted for the program for FY 1994-95.

Administrative/Operational Costs

Payment of Lottery Prizes

Monies received from Lottery sales are used to pay prizes on winning Lottery tickets. The State Lottery Law states that the amount paid in prizes must be at least 40 percent of the amount received in gross ticket sales.

There are two categories of Lottery prizes. One is referred to as “field paid prizes” and is deducted directly from the State Lottery’s gross ticket sales when retailers reconcile their accounts with Lottery headquarters. Retailers may pay field paid prizes of \$2,500 or less in cash from their store receipts for on-line games and prizes of \$100 or less for instant games.

The other prize category, “payment of prize money,” is an executive authorization for all on-line prizes over \$2,500, all instant ticket prizes over \$100, and for prizes in any amount which the winning ticket holder chooses to present to Lottery headquarters for payment. The following table includes the payouts for both prize categories.

Table 34

Expenditures for Payment of Lottery Prizes
 FY 1987-88 to FY 1998-99
 (\$000)

Fiscal Year	<u>Actual</u>		Fiscal Year	<u>Projected</u>	
	Amount	% Change		Amount	% Change
1987-88	\$738,927	15.0%	1993-94	\$801,471	15.4%
1988-89	796,511	7.8	1994-95	777,615	(3.0)
1989-90	804,581	1.0	1995-96	782,829	0.7
1990-91	779,257	(3.1)	1996-97	788,144	0.7
1991-92	623,019	(20.0)	1997-98	793,556	0.7
1992-93	694,707	11.5	1998-99	799,020	0.7

Source: Developed by LB&FC staff from Governor's Executive Budget documents.

From a management standpoint, prize payouts are not fully predictable. The instant games and matrix lotto games have inherent prize structures which restrict prize payouts, but the numbers games do not. Therefore, high prize winnings in the numbers games can decrease planned profits. For example, from July 1, 1993, through February 1994, the Daily Number had triple numbers hit five times. One of these resulted in prize payouts in excess of \$20 million. The Lottery subsequently capped winnings on any one drawing of the Daily Number at \$20 million, but planning for prize payouts is still somewhat uncertain. The Lottery maintains historical data on its sales by game type and predicts the prize payouts from its assumptions about ticket sales by game type in subsequent fiscal years.

For planning purposes, the Lottery has projected a constant prize payout of 50.7 percent for the next five planning years and a rate of growth pattern which mirrors projected sales increases at 0.7 percent per year.

Department of Revenue - General Government Operations

By law, expenses incurred by the Department of Revenue in administering the Property Tax and Rent Rebate Program and operating the PA State Lottery are to be paid from the State Lottery Fund. These administrative costs amounted to \$44.4 million in FY 1992-93.

The State Lottery Law, at 72 P.S. §3761-12(b)(2), states that monies in the State Lottery Fund shall be appropriated for the expenses of operating the Lottery. Also, the Senior Citizens Rebate and Assistance Act, at 72 P.S. §4751-8, states that administrative costs of operating the Property Tax and Rent Rebate Program are to be paid from the State Lottery Fund. These expenses are paid from the line item "Department of Revenue-General Government Operations."

Expenditures under Department of Revenue-General Government Operations include:

- The Bureau of Pennsylvania State Lottery for all Lottery operations.
- The Bureau of Individual Taxes for the administration of the Property Tax and Rent Rebate Program.
- The Bureau of Collections and Taxpayer Services for offering assistance with the Property Tax and Rent Rebate Program.
- The Bureau of Fiscal Management for the expenses of the Financial Officer of the State Lottery and his staff.

- The Bureau of Computer Services for the computer programming related to the Lottery.
- The Bureau of Compliance for verifying that potential Lottery retailers have a clear tax record.
- The Communications Office for press release functions related to the State Lottery.

Costs for the Bureau of Pennsylvania State Lottery account for the vast majority (about 87 percent) of expenditures in this category. Administrative costs related to the Property Tax and Rent Rebate Program are about 11 percent of the total. Lottery Bureau operating costs as a percentage of gross ticket sales were 2.98 percent in FY 1992-93 and are projected to increase to 4.08 percent by FY 1998-99.

Table 35

**Lottery Fund Expenditures for
Department of Revenue General Government Operations**
FY 1987-88 Through FY 1998-99
(\$000)

Fiscal Year	<u>Actual</u>		Fiscal Year	<u>Projected</u>	
	<u>Amount</u>	<u>% Change</u>		<u>Amount</u>	<u>% Change</u>
1987-88	\$39,484	(2.8)%	1993-94	\$49,742	12.0%
1988-89	54,755	38.7	1994-95	61,820	24.3
1989-90	64,337	17.5	1995-96	61,433	(0.6)
1990-91	45,120	(29.9)	1996-97	64,996	5.8
1991-92	43,204	(4.2)	1997-98	67,726	4.2
1992-93	44,423	2.8	1998-99	71,180	5.1

Source: Developed by LB&FC staff from data in the Governor's Executive Budgets.

Projected expenditures are based on the current year's expenditures which are indexed by an inflationary factor and adjusted for any known increases or decreases in expenditures.

As shown on Table 36, 50 percent of the Department's expenses are related to advertising and specialized services. Specialized services pay for the instant ticket vendor (about \$5.5 million) and for interdepartmental fees and services such as computer services provided by other state agencies who receive their funding from the General Fund.

Table 36

Pennsylvania Lottery
Operating Expenditures, by Purpose
 FY 1992-93

<u>Purpose</u>	<u>Amount</u>
Advertising	\$14,103,878
Department Specialized Services.....	10,323,075
Personnel Services (Salaries, Wages, and Benefits)	9,593,999
EDP Equipment and Service	7,415,984
Freight Charges/Postage.....	3,766,227
Printing	676,049
Fees/Services/Conferences/Dues/Contracted Repairs ...	589,980
Telephone Costs/Communications.....	434,859
Rental of Real Estate	398,653
Motorized Equipment Supplies, Rentals, and Repairs .	394,400
Fixed Assets	34,691
All Other Expenses	<u>539,992</u>
 Total.....	 <u>\$48,271,787^a</u>

^aBecause of \$3,848,532 in reimbursements from Lottery retailers for items such as telephone line charges and license fees (classified as "Actual Revenue-on-Federal"), net Lottery Fund expenditures for operating costs were actually \$44,423,255.

Source: Developed by LB&FC staff from "Monthly Allotment Ledger Transaction Update Report as of 6/30/93."

Personal Income Tax for Lottery Prizes

PA Lottery winnings are exempt from the State Personal Income Tax. Monies from the State Lottery Fund are periodically transferred to the General Fund to cover the tax liability.

The State Lottery Law, at 72 P.S. §3761-13, exempted State Lottery winners from paying state income tax on their winnings. Act 1983-29 provides that an amount equal to the product of the present value of prizes won in the PA State Lottery times the rate of the personal income tax shall be transferred quarterly to the General Fund from the Lottery Fund.

Table 37 shows the actual and projected transfers to reimburse the General Fund for the lost tax revenue for the period FY 1987-88 to FY 1998-99. As shown on the table, the FY 1992-93 transfer was about \$20 million. A large increase in

the amount transferred to cover the personal income tax liability occurred during FY 1991-92, due to increases in the personal income tax rate for CY 1991 and CY 1992.

Table 37

**Lottery Fund Transfers to Cover
Personal Income Tax Liability for Lottery Prizes**
FY 1987-88 Through FY 1998-99
(\$000)

Fiscal Year	<u>Actual</u>		Fiscal Year	<u>Projected</u>	
	Amount	% Change		Amount	% Change
1987-88	\$14,842	3.9%	1993-94	\$22,557	13.1%
1988-89	17,295	16.5	1994-95	21,836	(3.2)
1989-90	16,283	(5.9)	1995-96	21,983	0.7
1990-91	15,820	(2.8)	1996-97	22,132	0.7
1991-92	20,575	30.1	1997-98	22,284	0.7
1992-93	19,951	(3.0)	1998-99	22,438	0.7

Source: Developed by LB&FC staff from data in the Governor's Executive Budgets.

The Director of the Department of Revenue's Bureau of Fiscal Policy prepares projections of required expenditures for tax liability. This calculation is based on projected Lottery sales and projected prizes. The Department then multiplies the projected prize liability by the personal income tax rate. The FY 1993-94 through FY 1998-99 projections assume:

- A constant growth rate of 0.7 percent which is the projected rate of growth for gross ticket sales for the same time period, and
- no change in the personal income tax rate.

On-Line Vendor Commission Payments

The State Lottery Law allows for the payment of Lottery operating costs from the State Lottery Fund. One of these costs is the commissions paid to the Lottery's on-line vendor for automated technology services.

The Lottery's on-line vendor, Automated Wagering International (AWI), provides services necessary for the operation of approximately 4,000 on-line terminals and 3,400 recently installed Instant Ticket Validation and Accounting System

terminals. The vendor receives a commission for the automated technology services they provide based on the number of Lottery tickets sold. AWI is also reimbursed for the communications lines they maintain.

Table 38

Lottery Expenditures for On-Line Vendor Commissions

FY 1987-88 to FY 1998-99

(\$000)

<u>Fiscal Year</u>	<u>Actual Amount</u>	<u>% Change</u>	<u>Fiscal Year</u>	<u>Projected Amount</u>	<u>% Change</u>
1987-88.....	a	--	1993-94	\$22,833	20.5%
1988-89.....	a	--	1994-95	22,339	(2.2)
1989-90.....	a	--	1995-96	22,511	0.8
1990-91.....	\$20,989	--	1996-97	22,688	0.8
1991-92.....	19,117	(8.9)%	1997-98	22,867	0.8
1992-93.....	18,943	(0.9)	1998-99	23,049	0.8

^aThe on-line vendor has been paid from a separate appropriation only since FY 1990-91. Prior to that time the vendor was paid directly from a gross ticket sales account in a depository bank and was also paid for a short period of time from the Department of Revenue's general government operations appropriation.

Source: Developed by LB&FC staff from Governor's Executive Budget documents.

Expenditures for on-line vendors depend on ticket sales and the on-line system in place or planned. The Lottery has expanded its on-line network by approximately 120 retailers from the June 1993 level of 3,907 retailers and plans to add another 75 by the end of FY 1993-94.

Lottery projections for on-line vendor expenses are based on projected ticket sales and reflect the same general growth pattern as predicted for gross sales.

Commissions paid to on-line vendors are not related to commissions paid to Lottery retailers. Retailer commissions are deducted directly from gross ticket sales and retained by retailers when they reconcile their accounts with Lottery headquarters.

The regulations at 61 Pa. Code §805.10 state that commissions are to be paid to persons who are licensed by the Department of Revenue to sell Lottery tickets. Retailers are entitled to a commission of 5 percent of the price of each ticket sold. The Lottery may also pay an incentive for agents selling winning tickets.

For instant ticket sales, in addition to the 5 percent commission (which is \$25.00 for a pack of 500 one dollar instant tickets sold), retailers also receive a \$1.00 bonus for each pack fully sold. The Lottery also on occasion pays bonuses to retailers when they sell certain winning tickets. These bonuses sometimes result in the 5 percent commission guideline being exceeded.

Table 39 shows actual and projected Lottery expenditures for retailer commissions. In FY 1992-93, commissions totaled \$73.9 million.

Table 39

Lottery Expenditures for Retailer Commissions
FY 1987-88 to FY 1998-99

Fiscal Year	<u>Actual</u> Amount	%	Fiscal Year	<u>Projected</u> Amount	%
		<u>Change</u>			<u>Change</u>
1987-88	\$ 95,308	6.1%	1993-94	\$83,977	13.7%
1988-89	97,017	1.8	1994-95	81,513	(2.9)
1989-90	100,759	3.9	1995-96	82,059	0.7
1990-91	79,117	(21.5)	1996-97	82,616	0.7
1991-92	67,557	(14.6)	1997-98	83,184	0.7
1992-93	73,868	9.3	1998-99	83,756	0.7

Source: Developed by LB&FC staff from Governor's Executive Budget documents.

Retailer commissions tend to reflect gross ticket sales trends but can vary due to the differences in sales by game type. The Lottery projects its gross sales to increase by 0.7 percent for the planning years. Retailer commissions are projected to increase at the same rate.

We tested the Lottery's compliance with the 5 percent commission requirement in regulation. As shown on Table 40, the Lottery has met or exceeded the requirement that retailers receive a commission of 5 percent of the price of each ticket sold. For most years the total commissions paid exceed the 5 percent requirement because of bonus payments. In FY 1991-92 the accounting year included 53 weeks in which deposits were made but only 52 weeks in which sales were recorded. As a result, commissions were recorded one week less than sales were and commissions paid as a percentage of gross sales were less than 5 percent.

Table 40

Commissions as a Percentage of Gross Sales

FY 1987-88 to FY 1998-99

<u>Fiscal</u> <u>Year</u>	<u>Actual</u>	<u>Fiscal</u> <u>Year</u>	<u>Projected</u>
	<u>Amount</u>		<u>Amount</u>
1987-88.....	6.6%	1993-94	5.4%
1988-89.....	6.2	1994-95	5.3
1989-90.....	6.5	1995-96	5.3
1990-91.....	5.2	1996-97	5.3
1991-92.....	4.8	1997-98	5.3
1992-93.....	5.1	1998-99	5.3

Source: Developed by LB&FC staff from Governor's Executive Budgets and information obtained from the PA State Lottery.

Department of Aging - General Government Operations

The Department of Aging funds a network of in-home and community-based services established to meet the needs of Pennsylvanians age 60 and over. Most services are provided directly through the Commonwealth's 52 Area Agencies on Aging (AAAs). The AAAs are either operated by county governments or are private non-profit organizations. The Department also manages the Pharmaceutical Assistance Contract for the Elderly (PACE) Program. Beginning in FY 1984-85 State Lottery Fund monies have been used to pay the administrative expenses of the Department of Aging and the PA Council on Aging and its regional councils.³⁰

Act 1978-70 established the Department of Aging. The Department's general government operations (GGO) are financed by the State Lottery Fund and represent less than one-half percent of the Fund's expenditures. The GGO function provides administrative support for operation of the Department of Aging, for the statewide Area Agencies on Aging, and for the operation of the PA Council on Aging. As shown on Table 41, the FY 1992-93 GGO appropriation was \$3.3 million.

³⁰Funding for the Department of Aging comes from four different sources: the Lottery Fund, federal funds, the state General Fund, and augmentations. In FY 1993-94, the Lottery Fund supports 59 percent of the Department's operating budget, 37 percent comes from federal funds, and 4 percent from the General Fund and augmentations.

Table 41

**Lottery Fund Expenditures for
Department of Aging General Government Operations**
FY 1987-88 to FY 1998-99
(\$000)

<u>Fiscal Year</u>	<u>Actual</u>			<u>Projected</u>		
	<u>Amount</u>	<u>% Change</u>		<u>Fiscal Year</u>	<u>Amount</u>	<u>% Change</u>
1987-88	\$2,374	5.1%		1993-94	\$3,378	1.0%
1988-89	2,467	3.9		1994-95	3,345	(1.0)
1989-90	3,022	22.5		1995-96	3,536	5.7
1990-91	2,916	(3.5)		1996-97	3,741	5.8
1991-92	3,177	9.0		1997-98	3,898	4.2
1992-93	3,344	5.3		1998-99	4,097	5.1

Source: Developed by LB&FC staff from Governor's Executive Budget documents.

The Department of Aging's GGO costs are primarily for personnel expenses. The FY 1993-94 through FY 1998-99 expenditure projections assume a mean annual growth rate of approximately 3.5 percent largely to account for expected increases in personnel costs.

Harristown Rental and Utility/Municipal Charges

Although Lottery headquarters is in Middletown, PA, numerous Lottery administrative and support functions are performed by Department of Revenue staff in the Harrisburg Strawberry Square (Harristown) facilities. A pro-rata share of the charges for rental of these facilities and associated utility and municipal charges are paid from the State Lottery Fund.

The State Lottery Law, 72 P.S. §3761-12(b)(2), provides that State Lottery Fund monies are to be used for the expenses of operating the Lottery. The Lottery considers rent, utility, and municipal charges legitimate operating expenses.

Table 42

**Lottery Expenditures for
Harristown Rental and Utility/Municipal Charges**
FY 1987-88 to FY 1998-99
(\$000)

Fiscal Year	<u>Actual</u>		Fiscal Year	<u>Projected</u>	
	<u>Amount</u>	<u>% Change</u>		<u>Amount</u>	<u>% Change</u>
1987-88	\$188	(0.5)%	1993-94.....	\$213	(10.5)%
1988-89	184	(2.1)	1994-95.....	185	(13.1)
1989-90	180	(2.2)	1995-96.....	185	0.0
1990-91	180	0.0	1996-97.....	185	0.0
1991-92 ^a	128	(28.9)	1997-98.....	185	0.0
1992-93	238	85.9	1998-99.....	185	0.0

^aThe FY 1991-92 rental payment is lower than the amount paid in previous years because Harristown refinanced their debt service during the year and shared the cost savings with the Commonwealth.

Source: Developed by LB&FC staff from Governor's Executive Budget documents.

Two appropriations are used for these charges--one for Harristown rental and one for Harristown utility and municipal costs. Both are administered by the Department of General Services. The rental payment provides for the Strawberry Square facilities that are used by the Department of Revenue in administering State Lottery functions. The full cost of Strawberry Square is determined by a lease payment schedule, and this cost is pro-rated based on the square footage used by the various agencies occupying the building.

The utility and municipal appropriation provides payment for the utility and municipal charges incurred by the Department of Revenue in administering State Lottery functions while using the facilities of Strawberry Square and of the Harrisburg Parking Authority. The total utility and municipal charges are paid each month in the form of a cash advance and are shared by the General Fund, the Banking Department Fund, and the State Lottery Fund in the same proportion as is used for the rental charges. These advance payments are reconciled quarterly with the actual expenditures, and any difference is shared by the three funds on the square footage pro-rata basis.

The Harristown rental charges are not estimated. Rather they are based on an established lease payment schedule. The amounts shown in Table 42 for the planning years are taken directly from the lease payment schedule. The

Harristown utility and municipal projected expenditures are determined from current year actual expenses

Ridership Verification Audits

State Lottery Fund monies are used to pay for Ridership Verification and Fare Structure audits of transit operators participating in the Shared-Ride Program. In FY 1988-89 the responsibility for these audits transferred from the Department of Transportation to the Governor's Office of the Budget, Comptroller Operations.

Accounting for less than one tenth of one percent of Lottery Fund expenditures, ridership verification is one of the least costly functions funded by the Lottery. Expenditures are projected to increase slightly due to an anticipated increase in travel associated with providing services to verify senior citizen ridership with transportation service providers.

Table 43

Lottery Expenditures for Ridership Verification Audits

FY 1987-88 to FY 1998-99
(\$000)

<u>Fiscal Year</u>	<u>Actual Amount</u>	<u>% Change</u>	<u>Fiscal Year</u>	<u>Projected Amount</u>	<u>% Change</u>
1987-88	\$100	0.0	1993-94.....	\$109	11.2%
1988-89	2	(98.0)%	1994-95.....	114	4.6
1989-90	57	2,750.0	1995-96.....	120	5.3
1990-91	40	(29.8)	1996-97.....	127	5.8
1991-92	62	55.0	1997-98.....	132	3.9
1992-93	98	58.1	1998-99.....	139	5.3

Source: Developed by LB&FC staff from Governor's Executive Budget documents.

Replacement Checks

The Treasury Department uses State Lottery Fund monies to replace checks which are stale dated and have been recredited to the State Lottery Fund.

State Lottery Law, 72 P.S. §3761-12(b)(2) states that monies in the State Lottery Fund may be used to pay the Lottery's operational expenses.

Table 44

Actual Lottery Fund Expenditures, by Program and Function

FY 1987-88 Through FY 1992-93

Program	Actual Expenditures (\$000)						Annual Percentage Increase (Decrease)					
	FY 1987-88	FY 1988-89	FY 1989-90	FY 1990-91	FY 1991-92	FY 1992-93	FY 1987-88	FY 1988-89	FY 1989-90	FY 1990-91	FY 1991-92	FY 1992-93
PACE	\$100,000	\$165,000	\$188,000	\$222,000	\$204,925	\$200,000	0.00%	65.00%	13.94%	18.09%	(7.69%)	(2.40%)
Aging Programs	52,077	54,160	57,586	59,436	61,000	62,911	3.74%	4.00%	6.33%	3.21%	2.63%	3.13%
PENNCARE	42,849	45,585	49,119	57,905	69,778	72,575	31.15%	6.39%	7.75%	17.89%	20.50%	4.01%
Abuse Prevention	0	2,351	4,000	4,160	4,160	4,160	a	a	70.14%	4.00%	0.00%	0.00%
Property Tax/Rent Assistance	123,681	127,820	121,535	114,317	109,000	104,539	1.31%	3.35%	(4.92%)	(5.94%)	(4.65%)	(4.09%)
Free Transit	69,503	73,059	71,932	80,100	54,547	53,400	(2.68%)	5.12%	(1.54%)	11.36%	(31.90%)	(2.10%)
Shared-Ride	46,200	46,075	49,043	54,636	52,894	53,655	17.25%	(0.27%)	6.44%	11.40%	(3.19%)	1.44%
Long-Term Care Facilities	140,000	126,000	106,000	96,000	24,000	40,000	0.00%	(10.00%)	(15.87%)	(9.43%)	(75.00%)	66.67%
Other Programs ^b	49,983	38,581	36,475	33,505	0	0	(28.39%)	(22.81%)	(5.46%)	(8.14%)	(100.00%)	0.00%
Total - Programs	\$624,293	\$678,631	\$683,690	\$722,059	\$580,304	\$591,240	(0.20%)	8.70%	0.75%	5.61%	(19.63%)	1.88%
<u>Administrative/Operational</u>												
Department of Revenue-GGO	\$39,484	\$54,755	\$64,337	\$45,120	\$43,204	\$44,423	(2.78%)	38.68%	17.50%	(29.87%)	(4.25%)	2.82%
Department of Aging-GGO	2,374	2,467	3,022	2,916	3,177	3,344	5.09%	3.92%	22.50%	(3.51%)	8.95%	5.26%
Payment of Prizes	194,420	212,600	205,407	161,656	122,145	130,753	15.48%	9.35%	(3.38%)	(21.30%)	(24.44%)	7.05%
On-Line Vendor Commissions ^c	0	0	0	20,989	19,118	18,943	c	c	c	c	(8.91%)	(0.92%)
Personal Inc. Tax on Prizes	14,842	17,295	16,283	15,820	20,575	19,951	3.86%	16.53%	(5.85%)	(2.84%)	30.06%	(3.03%)
Harristown Charges	188	184	180	180	128	238	(0.53%)	(2.13%)	(2.17%)	0.00%	(28.89%)	85.94%
Ridership Verification	100	2	57	40	62	97	0.00%	(98.00%)	2750.00%	(29.82%)	55.00%	56.45%
Replacement Checks	10	13	60	38	50	14	0.00%	30.00%	361.54%	(36.67%)	31.58%	(72.00%)
Total - Adm./Operational	\$251,418	\$287,316	\$289,346	\$246,759	\$208,459	\$217,763	11.34%	14.28%	0.71%	(14.72%)	(15.52%)	4.46%
State Lottery Total	\$875,711	\$965,947	\$973,036	\$968,818	\$788,763	\$809,003	2.86%	10.30%	0.73%	(0.43%)	(18.59%)	2.57%

a Program funding began in FY 1988-89.

b Includes various programs that were either discontinued or transferred to the General Fund: inflation dividends, reduced vehicle registration fees, demand-response transportation equipment grants, pre-admission assessment, and Medicare B premiums.

c Prior to FY 1990-91 these payments were made directly from gross ticket sales and, for part of FY 1989-90, from the Department of Revenue's GGO appropriation.

Source: Developed by LB&FC staff from information obtained from the Governor's Executive Budgets.

Table 45

Projected Lottery Fund Expenditures, by Program and Function
 FY 1993-94 Through FY 1998-99

Program	Projected Expenditures (\$000)								Annual Percentage Increase (Decrease)				
	FY 1993-94	FY 1994-95	FY 1995-96	FY 1996-97	FY 1997-98	FY 1998-99	FY 1993-94	FY 1994-95	FY 1995-96	FY 1996-97	FY 1997-98	FY 1998-99	
PACE	\$191,000	\$196,000	\$192,000	\$192,000	\$191,000	\$189,000	(4.50%)	2.62%	(2.04%)	0.00%	(0.52%)	(1.05%)	
PENNCARE	148,316	160,059	164,381	170,955	177,794	184,712	6.21%	7.92%	2.70%	4.00%	4.00%	3.89%	
Aging Programs	Included under PENNCARE beginning in FY 1993-94.						a	a	a	a	a	a	a
Abuse Prevention	Included under PENNCARE beginning in FY 1993-94.						a	a	a	a	a	a	a
Property Tax/Rent Assistanc	104,000	100,000	99,000	98,000	97,000	96,000	(0.52%)	(3.85%)	(1.00%)	(1.01%)	(1.02%)	(1.03%)	
Free Transit	56,527	56,100	57,000	57,600	58,300	58,900	5.86%	(0.76%)	1.60%	1.05%	1.22%	1.03%	
Shared-Ride	55,900	54,925	58,810	62,972	67,429	72,202	4.18%	(1.74%)	7.07%	7.08%	7.08%	7.08%	
Long-Term Care Facilities	20,000	0 ^b	0	0	0	0	(50.00%)	(100.00%)	b	b	b	b	
Total - Programs	\$575,743	\$567,084	\$571,191	\$581,527	\$591,523	\$600,814	(2.62%)	(1.50%)	0.72%	1.81%	1.72%	1.57%	
Administrative/Operational													
Department of Revenue-GG	\$49,742	\$61,820	\$61,433	\$64,996	\$67,726	\$71,180	11.97%	24.28%	(0.63%)	5.80%	4.20%	5.10%	
Department of Aging-GGO	3,378	3,345	3,536	3,741	3,898	4,097	1.02%	(0.98%)	5.71%	5.80%	4.20%	5.11%	
Payment of Prizes	128,894	124,779	125,616	126,470	127,339	128,217	(1.42%)	(3.19%)	0.67%	0.68%	0.69%	0.69%	
On-Line Vendor Commission	22,833	22,339	22,511	22,688	22,867	23,049	20.54%	(2.16%)	0.77%	0.79%	0.79%	0.80%	
Personal Inc. Tax on Prizes	22,557	21,836	21,983	22,132	22,284	22,438	13.06%	(3.20%)	0.67%	0.68%	0.69%	0.69%	
Harristown Charges	213	185	185	185	185	185	(10.50%)	(13.15%)	0.00%	0.00%	0.00%	0.00%	
Ridership Verification	109	114	120	127	132	139	12.37%	4.59%	5.26%	5.83%	3.94%	5.30%	
Replacement Checks	150	150	150	150	150	150	971.43%	0.00%	0.00%	0.00%	0.00%	0.00%	
Total-Adm./Operational	\$227,876	\$234,568	\$235,534	\$240,489	\$244,581	\$249,455	4.64%	2.94%	0.41%	2.10%	1.70%	1.99%	
State Lottery Total	\$803,619	\$801,652	\$806,725	\$822,016	\$836,104	\$850,269	(0.67%)	(0.24%)	0.63%	1.90%	1.71%	1.69%	

^a Beginning in FY 1993-94 Aging Programs and Elderly/Abuse Prevention are funded through the PENNCARE appropriation.
^b Funding responsibility returned to the General Fund in FY 1994-95.

Source: Developed by L.B.&F.C. staff from information contained in the 1994-95 Governor's Executive Budget.

State law, 72 P.S. §308.1, also provides that upon presentation for payment of any state check to the Treasury Department which is more than one year and not more than seven years old, the Treasury Department shall requisition and issue a replacement check.

In the case of the State Lottery Fund this means that any check drawn from the Fund (e.g., for prizes, PACE, PT/RR, or another program) which is not cashed within one year is no longer valid and the face value of the check reverts to the Fund. If after that one year time period the holder of the check attempts to cash it he/she will be unable to receive payment. In these cases the Treasury Department issues a new check and the payment of this check is recorded under the line item "Replacement Check" and not under the line item for the purpose of the original check.

As shown on Table 46, the annual expenditure for replacement checks was only \$14,000 in FY 1992-93. This is projected to increase to \$150,000 annually in subsequent years.

Table 46

Amount of State Lottery Replacement Checks
 FY 1987-88 to FY 1998-99
 (\$000)

<u>Fiscal Year</u>	<u>Actual Amount</u>	<u>% Change</u>	<u>Fiscal Year</u>	<u>Projected Amount</u>	<u>% Change</u>
1987-88	\$10	0.0%	1993-94	\$150	971.0%
1988-89	13	30.0	1994-95	150	0.0
1989-90	60	361.5	1995-96	150	0.0
1990-91	38	(36.7)	1996-97	150	0.0
1991-92	50	31.6	1997-98	150	0.0
1992-93	14	(72.0)	1998-99	150	0.0

Source: Developed by LB&FC staff from Governor's Executive Budget documents.

State Demographics and the Demand for Lottery-Funded Programs

Pennsylvania has one of the "oldest" populations in the United States. According to 1990 U.S. Census data, 2.4 million Pennsylvanians or over 20 percent of the total population are 60 years of age or older. This ranks Pennsylvania second only to Florida in the percentage of state residents in this age group. In terms of

absolute numbers, Pennsylvania has a larger number of people age 60 and over than all states except Florida, California, and New York.

As shown on Table 47, about 1.8 million Pennsylvanians are age 65 or older and about 759,000 are 75 or older. Nearly 172,000 are in the 85 and over category, while about 2,000 people are 100 years of age or older.

Table 47

Pennsylvania Population, by Age Groups: 1980 - 2000

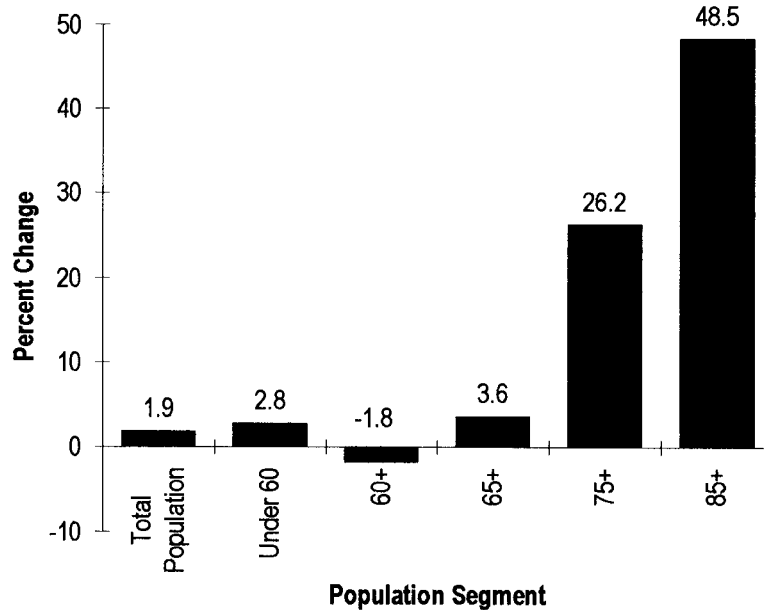
<u>Year</u>	<u>Total Population</u>	<u>Under 60</u>	<u>60+</u>	<u>65+</u>	<u>75+</u>	<u>85+</u>
1980.....	11,863,895	9,699,981	2,163,914	1,530,933	586,868	129,960
1990.....	11,881,643	9,445,131	2,436,512	1,829,106	759,085	171,836
1995 (Proj.)	12,018,816	9,593,372	2,425,444	1,915,651	863,156	210,786
2000 (Proj.)	12,101,253	9,709,357	2,391,896	1,894,780	958,077	255,192

Source: Developed by LB&FC staff from information obtained from the PA Department of Aging and the PA State Data Center.

The state's older population has grown at a rapid rate. Between 1980 and 1990, the number of Pennsylvanians age 60 and over increased by over 12 percent while the under 60 population decreased by nearly 3 percent. During the same period, the age 75 and over population increased by nearly 30 percent and the age 85 and over group increased by 32 percent. Further increases will occur in the oldest segment of the population (i.e., those over 75 years of age). According to estimates prepared by the PA State Data Center, the number of persons 75 and older will increase by 26 percent between 1990 and 2000 and the number 85 and over will grow by almost 50 percent by the year 2000.

Exhibit 12

**Pennsylvania Population Projections, by Age Group
Percent Change, 1990 to 2000**



Source: Developed by LB&FC staff from data obtained from the Pennsylvania State Data Center.

Pennsylvania's State Plan on Aging (1993-1996) identifies groups of older people with certain attributes who are more vulnerable and are at higher risk of needing an intensive set of support services. These include: the poor, minority persons, the culturally isolated, those unable to communicate well in the English language, those isolated or distanced geographically, persons with physical or mental impairments, the chronically ill, and those who live alone. As people grow older, there is a greater likelihood of being poor, living alone, or being frail.

These segments of the older population have special program needs that will have significant implications for the State Lottery and the State Lottery Fund. As described in the State Plan on Aging:

- About 1 in every 5 Pennsylvanians age 60 and over was below or near the poverty level in 1990.³¹

³¹The official 1989 poverty annual income threshold set by the federal government was \$5,947 for a single elderly person and \$7,501 for an elderly couple.

- Pennsylvania has more rural elderly than any other state, about 27 percent of the 60 and over population, or 640,000 people.
- In 1990, over 20 percent of Pennsylvanians age 65 and over not in a nursing home had some mobility or self-care limitations.
- The number of Pennsylvanians age 60 and over that identified themselves as members of a minority group increased by 21 percent to 180,237 between 1980 and 1990.
- About 526,000 or almost 29 percent of the people 65 and over were living alone in 1990, an increase of about 25 percent over 1980.

In summary, the size and composition of Pennsylvania's older population will undergo dramatic changes into the next century. Increases in the older population, especially among the oldest and most frail, will place additional demands on Lottery-funded programs. According to the Commonwealth's 1993-1996 State Plan on Aging, these demographic trends "will continue to significantly impact the needs and demands for long-term care, medical care, and social and housing services The availability and affordability of these services are critical to the well-being of older people and their ability to live independently in the community."

VII. State Lottery Fund Financial Condition

The balance in the State Lottery Fund varies depending upon the basis of accounting used in preparing Fund financial statements. Because two distinctly different bases of accounting are used, there appear to be conflicting reports and misunderstanding on whether the Lottery Fund has a surplus or deficit fund balance.

Such differences can be confusing for public policymakers and problematic for state administrators who operate the Lottery and Lottery-funded programs. Moreover, conflicting reports on the solvency of the Fund may be disconcerting for many older Pennsylvanians who fear they may lose Lottery-funded services. Discussion of Fund deficits may also erode public or player confidence in the Lottery despite the fact that safeguards exist to ensure that money is available to meet the Fund's prize obligations.

The differences in the fund balances of the Lottery Fund relate to the use of both a cash basis of accounting (Budgetary Basis) and a modified accrual basis of accounting (Generally Accepted Accounting Principles or GAAP¹ Basis) to report the Fund's financial condition. This chapter discusses and compares the financial condition of the Fund in the context of these two bases of accounting.

Fund Description

The State Lottery Fund is a special revenue fund administered by the Department of Revenue. Special revenue funds are used to account for revenues from specific taxes or other earmarked revenue sources which by law are designated to finance particular functions or activities. The Lottery Fund accounts for proceeds from the State Lottery that are designated to support programs and services for older Pennsylvanians.

The Fund was created in 1971 by the State Lottery Law. According to the law, 72 P.S. §3761-1 *et seq.*, the Lottery Fund is to receive all monies from the operation of the State Lottery. The Fund receives net lottery collections (i.e., ticket sales less retailer commissions and field paid prizes) and miscellaneous revenues

¹Generally Accepted Accounting Principles (GAAP) are rules and procedures established by authoritative bodies (e.g., the Governmental Accounting Standards Board) or conventions. Although generally GAAP requires full accrual accounting, modified accrual is allowed under GAAP for governmental bodies.

such as interest on securities and deposits, and refunds of expenditures.² Fund expenditures pay for Lottery prizes, operational costs, and a variety of programs and services for older Pennsylvanians.

The Lottery Fund financial statements used to report the financial condition of the Fund in the Governor's Executive Budget are prepared on a cash basis of accounting (Budgetary). The Commonwealth also prepares financial statements on the modified accrual basis of accounting (GAAP) and reports the financial condition of the Fund on this basis in the Commonwealth's Comprehensive Annual Financial Report (CAFR).

Financial Condition as of June 30, 1993

The "bottom line" balance in a financial statement depends upon the basis of accounting used. According to generally accepted accounting principles, the "basis of accounting" refers to when revenues, expenditures, expenses, and transfers are recognized and reported. The primary bases of accounting are *cash*, *modified accrual*, and *accrual*.

Under the *cash* basis of accounting, revenues are recognized when cash is received and deposited into the state treasury, and expenditures are recognized when vouchered and cash is disbursed. Under the *modified accrual* basis of accounting, revenues are recognized in the fiscal year that they become both measurable and available (within 60 days of fiscal year-end) to pay current fiscal year liabilities. Expenditures are recognized in the fiscal year goods or services are received and a related liability is incurred. Under the *accrual* basis of accounting, revenues are recognized in the fiscal year earned and expenses are recognized in the fiscal year incurred. The fund balance reported on a financial statement thus depends upon the accounting basis that is used.

The Lottery Fund's budgetary fund balance for FY 1992-93 reported in the Governor's Executive Budget for FY 1994-95 was \$90.7 million. For the same period, FY 1992-93, the GAAP fund balance reported a \$33.5 million deficit in the Commonwealth's CAFR. A comparison of the budgetary and GAAP fund balances in the Fund since FY 1984-85 is shown on Table 48.

The first CAFR was issued for the fiscal year ended June 30, 1986.³ As shown on Table 48, the Fund had a substantial balance both on budgetary and GAAP bases for FY 1984-85. The balance on the budgetary basis was, however, about \$94 million greater than the GAAP basis balance reported in the CAFR.

²Act 1991-22 also provided that the proceeds from one-quarter mill of the Capital Stock and Franchise Tax from any taxable year beginning in 1991 only are to be transferred to the Lottery Fund.

³Although for the fiscal year ending June 30, 1986, the first CAFR also included Lottery Fund balances on both a cash and modified accrual basis for FY 1984-85.

Over the next four fiscal years the Fund balance on both accounting bases declined steadily, but remained positive. During these years, the budgetary fund balance consistently ranged from \$116 to \$146 million greater than the reported GAAP fund balance.

Table 48

Comparison of State Lottery Fund Year-End Balances
Cash Basis (Budgetary) Versus Modified Accrual Basis (GAAP)
(\$000)

Fiscal Year	Budgetary ^a	GAAP ^{a,b}
1984-85.....	\$385,379	\$291,484
1985-86.....	355,950	209,002
1986-87.....	314,314	197,814
1987-88.....	279,753	149,691
1988-89.....	256,640	112,925
1989-90.....	154,393	(14,795)
1990-91.....	25,725	(79,412)
1991-92.....	69,133	(47,841)
1992-93.....	90,653	(33,540)

^aRepresents the unreserved, undesignated balance as reported in the Commonwealth's CAFR.

^bThe CAFR states that the State Lottery Fund reports on a basis of accounting which provides results which are the same as if the full accrual method of accounting were used, except for fixed assets and related depreciation, which are not reported.

Source: Developed by LB&FC staff from information obtained from Governor's Executive Budget documents and the Commonwealth's Comprehensive Annual Financial Report (CAFR) for FYs ending 6/30/86 to 6/30/93.

For FY 1989-90 the budgetary basis fund balance decreased \$102 million over the previous fiscal year to \$154.4 million. For the same period a deficit fund balance of \$14.8 million was reported on the GAAP basis. The deficit represented a \$127.7 million decrease from the \$112.9 million GAAP basis fund balance for the prior fiscal year. This sharp decline in the fund balance occurred at a time when Lottery sales began to decline and program costs continued to escalate.

From FY 1989-90 through FY 1992-93 the Fund continued in a deficit position when viewed on the GAAP basis. After reaching a high of \$79.4 million in FY 1990-91, the deficit improved by nearly \$46 million by the end of FY 1992-93. On the budgetary basis, the fund balance bottomed out in FY 1990-91 at \$25.7 million. The June 30, 1993, budgetary fund balance was \$90.7 million. (See Table 48.)

In some fiscal years the budgetary fund balance included a reserve. Fund financial statements from FY 1981-82 through FY 1990-91 displayed a reserve the Department of Revenue established based on an "administrative interpretation" of Act 1979-131. This "reserve from previous year" was equal to 20 percent of the prior year revenues after prior year administrative expenditures had been deducted. In 1990 the Budget Office found it necessary to use the reserve to pay for Lottery-funded programs. At that time the Budget Office sought a legal opinion on whether the 20 percent reserve was a legislative mandate. The resulting opinion stated that the law does not require the maintenance of a reserve and that there is nothing in the law to prohibit the use of reserve monies for Lottery program expenditures. The practice of maintaining a reserve was subsequently discontinued for three years, from FY 1990-91 through FY 1992-93.

The Lottery is reestablishing a reserve for FY 1993-94 and subsequent years. The FY 1993-94 reserve is \$86 million. According to the State Lottery Executive Director, the establishment of a reserve is a prudent management practice which helps protect the Lottery Fund against the possibility of a large unexpected draw-down which could occur due to large prize payouts, declining Lottery sales, and/or increased program expenditures.

Reconciliation of the State Lottery Fund's June 30, 1993, Budgetary and GAAP Fund Balances

As of June 30, 1993, there was a \$124.2 million difference between the State Lottery Fund balance reported on the budgetary and GAAP bases of accounting:

Budgetary Basis Fund Balance....	\$ 90,653,000
GAAP Basis Fund Balance.....	<u>(33,540,000)</u>
Difference	\$124,193,000

The GAAP basis fund balance deficit of \$33.5 million is derived through a GAAP conversion project, which requires a number of adjustments be made to the budgetary basis fund balance. Therefore, to reconcile the \$124.2 million difference between the two bases of accounting, it is necessary to begin with the \$90.7 million budgetary basis fund balance.

The revenue, expenditure, and fund balance adjustments required in the GAAP conversion are shown in the reconciliation for the fiscal year ended June 30, 1993, in Table 49. As shown on the table, GAAP revenue adjustments were \$7.2 million and GAAP expenditure adjustments were \$122.4 million which accounts for most of the \$124.2 million difference between the reported budgetary basis and GAAP basis fund balances.

Revenue adjustments include accrued interest, cash in transit, and deferred adjustments. The primary revenue adjustment, however, is Lottery income earned but not collected as of the close of the fiscal year. Expenditure adjustments include lapses, liability for unclaimed prizes, and expenditures not covered by encumbrances. In FY 1992-93 expenditure adjustments for liability for unclaimed prizes and other expenditures not covered by encumbrances, totaled \$128.9 million. These were offset by \$6.5 million in lapses to arrive at a net expenditure adjustment of a negative \$122.4 million.

Liability for Unclaimed Prizes. The Lottery is required to pay prizes for winning tickets up to one year after the date of the drawing or the date of the close-out of an instant game. Transactions involving unclaimed prizes are ongoing, resulting in a liability for unclaimed prize money at any time during the year. For unclaimed prizes which involve an annuity, the Lottery purchases an annuity⁴ and maintains it for a year. If the prize involving the annuity is not claimed, the annuity is sold and the proceeds are returned to the Lottery Fund.

Using June 30 as a reference point, prizes not claimed within one year ranged from \$10.7 to \$17.1 million during FY 1986-87 through FY 1992-93. The GAAP expenditure adjustment for liability for unclaimed prizes for FY 1992-93 was \$21.8 million.

Expenditures Not Covered by Encumbrances. This term refers to GAAP adjustments made for expenditure accruals that are due and payable by fiscal year-end, but were not accounted for as expenditures and not included as encumbrances at fiscal year-end on the budgetary basis of accounting. The primary expenditure accrual included in this reconciling item is money to be paid to eligible applicants of the Property Tax and Rent Rebate Program. This adjustment amounts to almost \$100 million annually and accounts for the primary difference between the budgetary basis and GAAP basis fund balance.

Applications for property tax and rent rebates are processed through June 30 and are paid in the subsequent fiscal year. For example, applications for rebates applicable to the 1992 tax year were processed through June 30, 1993, and were paid early in FY 1993-94. Expenditure Symbol Notification Letter #93-60, dated May 25, 1993, authorized \$104 million for these payments. According to the Central Services Comptrollers Office, this authorization accounts for the majority of the \$107 million adjustment for "expenditures not covered by encumbrances" on the FY 1992-93 financial statement.

⁴The PA State Lottery annuity process is described in Appendix H.

Budgetary (Cash Basis) Versus GAAP (Modified Accrual Basis) Reporting

There is no fundamental conflict between the GAAP and budgetary presentations of the Lottery Fund balance. There is general consensus, however, that one method is preferable for purposes of governmental financial reporting. According to a publication of the Governmental Accounting Standards Board (GASB):

The accrual basis is the superior method of accounting for the economic resources of any organization. It results in accounting measurements based on the substance of transactions and events, rather than merely when cash is received or disbursed, and thus enhances their relevance, neutrality, timeliness, completeness, and comparability.

While GASB recommends the use of the accrual basis for accounting for an organization's economic resources, the standards also recommend the use of the accrual basis to the fullest extent practicable in a governmental environment and indicate that the cash basis of accounting is not appropriate for governmental financial accounting. Accordingly, GASB recommends that:

Governmental fund revenues and expenditures should be recognized on the modified accrual basis. Revenues should be recognized in the accounting period in which they become available and measurable. Expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which should be recognized when due.

The CAFR includes general purpose financial statements (GPFS) for the Lottery Fund and other governmental funds prepared using the modified accrual basis of accounting. The CAFR indicates that the Commonwealth's GPFS as of a fiscal year-end include amounts which were due and payable at fiscal year year-end but payment was made at a future date.

Representatives of both the Bureau of Financial Management and the Department of Revenue's Bureau of Fiscal Management stated that they believe the modified accrual basis is the more appropriate basis of accounting for the financial condition of the State Lottery fund.

Table 49

**Reconciliation of the State Lottery Fund's June 30, 1993,
Budgetary Basis and GAAP Basis Fund Balances**
(\$000)

Unappropriated Surplus - Budget Basis.....		\$ 90,653
GAAP Revenue Adjustments:		
Lottery Income Earned but not Collected as of 6/30/93	\$ 8,078	
Accrued Interest on Investments	236	
Deferred Revenue Adjustments	(1,380)	
Federal Revenue Adjustments.....	227	
Net GAAP Revenue Adjustments		7,161
GAAP Expenditure Adjustments:		
Expenditures not Covered by Encumbrances.....	(107,028)	
Liability for Unclaimed Prizes	(21,828)	
Lapses.....	6,471	
Net GAAP Expenditure Adjustments.....		(122,385)
GAAP Fund Balance Adjustment:		
Encumbrances		2,116
Reclassification of Restricted Receipts and Continuing Appropriations.....		862
Reserves for Receivables and Advances.....		697
Unreserved/Undesignated Fund Balance (Deficit) - GAAP Basis.		\$(33,540) ^a

^aUnreserved undesignated balance. Includes \$12.6 million reserved for long-term investments, encumbrances, and other.

Source: Developed by LB&FC staff from information obtained from the Bureau of Financial Management, Office of the Budget and the Bureau of Fiscal Management, Department of Revenue.

Table 50

**Combining Balance Sheet For The State
Lottery Fund, FY 1992-93 (GAAP Basis)**
(\$000)

<u>Assets:</u>	
Cash	\$ 34
Temporary Investments.....	111,382
Long-Term Investments.....	9,831
Receivables, Net:	
Accounts	18,599
Accrued Interest.....	236
Other.....	697
Due From Other Governments.....	<u>10,999</u>
Total Assets	<u>\$151,778</u>
 <u>Liabilities and Fund Balances:</u>	
<u>Liabilities</u>	
Accounts Payable and Accrued Liabilities.....	\$166,505
Due to Other Funds	368
Due to Other Governments.....	4,168
Deferred Revenue	<u>1,633</u>
Total Liabilities	<u>172,674</u>
 <u>Fund Balance</u>	
<u>Reserved for:</u>	
Encumbrances	2,116
Long-Term Investments.....	9,831
Other.....	697
<u>Unreserved:</u>	
Undesignated (Deficit).....	<u>(33,540)</u>
Total Fund Balances (Deficit).....	<u>(20,896)</u>
 Total Liabilities and Fund Balances.....	 <u>\$151,778</u>

Source: Commonwealth of Pennsylvania Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1993.

Table 51

**State Lottery Fund Revenues, Expenditures and Ending
Balance (Budgetary Basis), FY 1992-93***
(\$000)

	<u>FY 1992-93</u>
Beginning Balance.....	\$ 69,133
<u>Revenue</u>	
Ticket Sales.....	\$1,427,402
Less: Field Paid Prizes/Commissions.....	<u>630,305</u>
Deposit From Sale of Tickets	797,097
Miscellaneous Revenue	11,638
Capital Stock & Franchise Tax ^a	<u>3,758</u>
Net Revenue	\$ 812,493
<u>Administrative Expenses</u>	
Payment of Prizes.....	\$ 130,753
General Operations - Revenue	44,423
Commissions - On-line Vendors	18,943
Personal Income Tax on Prizes	19,951
General Operations - Aging.....	3,344
Other ^b	<u>350</u>
Total Administrative Expenses.....	\$ 217,764
Revenue After Administrative Expenses.....	\$ 594,729
Less: Revenue Reserve - 20% ^c	<u>0</u>
Revenue Available for Programs.....	\$ 594,729
Prior Year Lapse.....	\$ 18,026
Prior Year Reserve	<u>0</u>
Total Funds Available for Programs.....	\$ 681,888
<u>Program Expenditures:</u>	
Department of Aging	\$ 339,646
Department of Transportation	107,055
Department of Revenue.....	104,539
Department of Public Welfare.....	<u>40,000</u>
Total Program Authorizations	\$ 591,240
<u>Ending Balance (Including Reserve).....</u>	<u>\$ 90,648</u>

(Footnotes Appear on the Next Page)

Footnotes to Table 51

*NOTE: A statement showing historical Lottery Fund revenues, expenditures, and year-end balances on a budgetary basis (FY 1971-72 through FY 1992-93) is in Appendix D.

^aAct 1991-22 increased the rate of taxation of the capital stock-franchise tax. One-quarter mill of the total tax rate increase was to be transferred to the Lottery Fund for one tax year--the tax year beginning in 1991.

^bIncludes Treasury replacement checks, ridership verification audits, and Harris-town rental and utilities.

^cLottery management discontinued its practice of maintaining a reserve for fiscal years 1990-91 through 1992-93. Prior to these years the Lottery maintained a reserve from FY 1980-81 through FY 1989-90.

Source: Developed by LB&FC staff from the 1994-95 Governor's Executive Budget.

Table 52

**State Lottery Fund Revenues, Expenditures and Ending
Balance (GAAP Basis), FY 1992-93**

(\$000)

	<u>FY 1992-93</u>
Beginning Balance	\$ (37,402)
<u>Revenue</u>	
Licenses and Fees	\$ 87
Intergovernmental	56,318
Charges for Sales and Services.....	3,763
Investment Income	2,611
Lottery Revenues	1,440,784
Other	<u>9,883</u>
Total Revenues.....	\$1,513,446
<u>Expenditures</u>	
General Government	\$ 837,973
Public Health and Welfare	336,394
Transportation	<u>103,129</u>
Total Expenditures	\$1,277,496
<u>Other Financing Sources (Uses)</u>	
Operating Transfers In	\$ 261
Operating Transfers Out	<u>(219,705)</u>
Net Other Financing Sources (Uses)	\$ (219,444)
<u>Ending Balance</u>	<u>\$ (33,540)^a</u>

^aUnreserved, undesignated balance. Includes \$12.6 million reserved for long-term investments, encumbrances and other.

Source: Commonwealth of Pennsylvania Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1993.

VIII. Lottery Products and Approaches Being Attempted by Some States to Increase Sales

Many within the Lottery industry believe that there is a formula for increasing revenues in mature state lotteries, such as Pennsylvania's, during the 1990s. The elements of this formula are improved marketing, enhancement of existing games, and diversification, or introduction of new lottery products. The Pennsylvania Lottery has taken actions designed to improve merchandising and enhance its games but has not yet diversified into new product areas.

Respondents to a survey conducted by Public Gaming International cited video lottery, keno, interactive television (including lottery game shows), and lottery-by-telephone as some of the lottery products that will increasingly be used by state lotteries during the 1990s. This chapter discusses these and other lottery products and approaches that may potentially increase the revenue-generating capacity of a state's lottery. However, a number of these options also have significant social and public policy implications.

Video Lottery

Video lottery is a game that involves a stand-alone machine designed similarly to a video amusement game. Video lottery is seen by many as the most significant new lottery product in the market today. In assessing the history and evolution of lotteries, the Public Gaming Research Institute called video lottery “. . . the most promising--proven but still quite new--product of the 1990s . . .” The Institute's assessment is that, although still controversial, video lottery is gaining acceptance and will be a “big-league revenue producer wherever it is implemented.”

Video lottery is played through video lottery terminals (VLTs). Video lottery games typically include poker, keno, and blackjack. However, other games such as bingo and tic-tac-toe can reportedly be programmed into video lottery terminals at the lottery's discretion. Players can win prizes redeemable for cash or free games (credits). Unlike slot machines VLTs do not dispense money to winners. Winners press a button on the machine to dispense a ticket showing the number of credits won and the dollar value of those credits to be paid by the retailer.

VLTs differ substantially from other forms of lotteries in offering relatively low odds, opportunity for instantaneous reinvestment of winnings, relatively high prize payout (typically 89 percent payouts),¹ and fast action. Net revenue that remains after prize payouts is divided among the vendor, retailer, and state or local governments.

¹The prize payment for typical lottery games usually does not exceed 60 percent of sales.

Currently, six states have video lottery. Lotteries in Oregon, Rhode Island, South Dakota, and West Virginia operate VLTs. Two non-lottery agencies operate VGDs in Montana and Louisiana. According to a National Conference of State Legislatures "Legisbrief," 17 other states considered legislation to authorize video lottery during 1993 to delay tax increases, bolster lagging lottery sales or a faltering racing industry, and reduce illegal gambling activity.

Video lottery in Louisiana and Montana is under private sector ownership. In these states coin operators buy and install the devices. In Louisiana video gaming devices are allowed in racetracks, restaurants/bars, and truck stops. In Montana they are limited to establishments with liquor licenses. In Louisiana 22.5 percent of net revenue (i.e., total dollars played less prizes) goes to the government; in Montana 15 percent.

The following is information on the states in which lotteries operate video lottery.

South Dakota

In October 1989 the South Dakota Lottery became the first state lottery to license and regulate video gaming activities. The Lottery operates a statewide system under which VLTs are distributed and owned by coin operators, but regulated by the state lottery. As of February 1994 South Dakota had approximately 6,900 VLTs at 1,400 locations throughout the state. Most machines are in licensed on-premise liquor establishments as the retailer must be able to restrict access to those over 21 years of age. A few machines are located in other lottery retail locations such as convenience stores. These establishments, however, must have a separate area for the video lottery machines which is enclosed by walls and is only accessible to players over 21.

VLTs operate under 24 hour control and monitoring by the lottery's central computer. The central computer documents how much each VLT earned and how much is owed to the state, and then electronically transfers funds into the state account every two weeks. According to a South Dakota spokesperson, the video lottery machines are very profitable for both the retailer and the state, and retailers are reportedly anxious to comply with age restrictions in order to keep the machines. The state receives 36 percent of the profits from the video lottery machines with the remainder split between the retailer location and the machine owners. South Dakota's VLT profit in FY 1992-93 was \$48.9 million, an increase of 28 percent over the prior year.

Rhode Island

The state legislature authorized VLTs in August 1992. As of March 1994, the Rhode Island Lottery was operating 1,266 video lottery terminals at two pari-mutuel racetracks. VLT sales during the first year of operation were \$32.7 million. Of this amount, \$16 million was net income. The state's share was almost \$8 million. The remainder is shared by the racetracks, local governments, and the VLT owners.

West Virginia

West Virginia conducted research in 1990 to determine if video lottery machines would improve the financial condition of Mountaineer Park, a racetrack in Chester, WV. Video lottery terminals were subsequently installed at the racetrack and grossed over \$92 million in the three years ending June 1993. Of this amount approximately \$82 million was paid out in prizes, \$7.2 million was paid to the track, the West Virginia Lottery received \$2.7 million, and the racetrack operators received \$820,000.

In October 1993 the West Virginia Supreme Court of Appeals ruled that the Lottery Commission did not have the legal authority to conduct video lottery type games. The state was able, however, to continue operating these games during stays granted by the Supreme Court. Legislation was enacted in March 1994 which specifically authorizes the state to operate video lottery games.

Oregon

In March 1992 Oregon became the first state lottery to implement a noncoin-operator-run video lottery system. In Oregon, the state lottery leases, installs, maintains, and repairs all machines. In the other states that have video lottery, the machines are privately-owned and operated with the owners licensed by the state.

VLTs are located in establishments with liquor licenses. Revenues in excess of prize payouts are split 35 percent for the retailer and 65 percent for the state (including 15 percent for administrative expenses). Video lottery is the leading revenue producer in the Oregon game mix. In FY 1992-93 VLT net income was \$173 million and state profit was \$88 million.

Table 53

**Net Income From Video Lottery
in States With VLTs, FY 1992-93**
(\$000)

<u>State</u>	<u>Net Income</u>	<u>State Proceeds</u>
Oregon	\$172,800	\$87,500
Rhode Island.....	16,411	7,587
South Dakota.....	142,000	48,900
West Virginia.....	4,700	900

Source: Developed by LB&FC staff from information contained in The '94 World Lottery Almanac, TLF Publications. Rhode Island data from the Controller, Rhode Island State Lottery.

Summary

Video lottery is referred to by some as the most promising new lottery product for the 1990s. However, introducing and operating video lottery can be difficult and highly controversial. The “social acceptability” of video lottery among the public as well as concerns about compulsive gambling are important factors that will need to be addressed in states that consider authorizing VLTs.

Proponents of video lottery believe steps can be taken to discourage compulsive behavior among players. One possibility is to require low per game costs and place limits on prizes paid to winners. According to a video lottery consultant, the typical cost-per-game played is \$.25 with a maximum bet of \$2.00. Limits on prizes are typically \$100-\$125 per \$.25. For example, both Oregon and South Dakota have a \$2 per bet limit. The limit on wins per game is \$600 in Oregon and \$500 in South Dakota.

Video lottery consultants believe that it is also important to prohibit progressive jackpots, place terminals only in age-controlled locations, and limit the number of VLTs per establishment. This is to keep video lottery more in the realm of entertainment and to prevent the development of casino-like establishments. For example, in Oregon and South Dakota VLTs can be placed only in establishments that have a liquor license. In both of these states the maximum number of machines per location is five.

The North American Gaming Regulators Association (NAGRA) recently adopted standards for video lottery that are intended to provide a degree of standardization, security, and integrity for the games. The standards provide regulatory guidance relating to: rates of return (payback) to players; limits on play,

numbers, and placement of games; VLT specifications and testing; licensing; use of a central control system; staffing; and other relevant issues such as wiping out illegal "gray area" gaming by converting play to a controlled video lottery program.

Video lottery, nevertheless, is a highly controversial area for state involvement. To some observers, VLTs are simply electronic versions of slot machines that are likely to produce compulsive gamblers. Others believe that video lottery can be controlled and is the key to the lottery industry's future.

The PA State Lottery currently has no plans to introduce video lottery terminals in the near term. The Lottery has researched video lottery games, acknowledges they have revenue generating potential, but is concerned about the gambling issue associated with the operation of video lottery games.

Keno

According to the World Lottery Almanac, Keno was first played in China over 3,000 years ago and is the world's oldest lottery game. Today keno is offered by lotteries, casinos, and charitable gaming interests.

Keno is an on-line numbers game. Lotteries market two types of keno: regular and fast draw. Regular keno was introduced in the lottery industry during the mid-1980s. Regular keno generally has drawings once or twice a week with a jackpot keno prize. This form of keno uses a 10/20/80 matrix similar to that used in casinos.

In the late 1980s the world's first fast-draw keno was introduced in South Australia. In fast-draw keno, drawings occur every five minutes as computers randomly select 20 numbers between 1 and 80. Players have various play options. They may choose anywhere from 1 to 10 numbers and win cash prizes depending on how many numbers they match. Prizes usually range between \$2 and \$100,000.

In 1991 the Oregon Lottery introduced fast-draw keno to the U.S. Lottery market. According to the 1994 World Lottery Almanac, fast-draw keno is sweeping the U.S. lottery market and is currently operating in California, Colorado, Kansas, Maryland, Massachusetts, Michigan, New York, Oregon, Rhode Island, Washington, and West Virginia.

Seven states offer fast-draw or 5-minute keno games while four states have regular keno (i.e., drawings once a day). Keno sales by state lotteries have increased significantly over the past five years. Total FY 1992-93 sales in the states that offer keno was \$623.6 million. This is nearly a tenfold increase since FY 1988-89 when only New York had a keno game.

As shown on Table 54, keno sales account for a substantial percentage of total sales in both Kansas (30 percent) and Oregon (25 percent). In Kansas on-line sales more than doubled in the 26 weeks following the introduction of keno. In Oregon keno is the second highest selling game behind video lottery. Fast-draw keno also accounts for more than 10 percent of total lottery sales in California, Maryland, Rhode Island, and West Virginia.

Lottery administrators see keno as a game that enables mature lotteries to attract a new player base. They note that the ability to tap into new markets is one of the keys to keno's success. Although often available in grocery and convenience stores, keno is best suited for non-traditional outlets such as bars, taverns, restaurants, bowling alleys, and other places with a social atmosphere. The on-line vendor for states that presently offer keno believes that it brings a whole new demographic group into lottery play.

Some, however, believe keno borders on real-time gambling with drawings conducted in the presence of players who receive instant feedback on whether or not they have won. Others have criticized keno as "video lottery in disguise" since it uses video monitors to display winning numbers. Still others fear that keno will attract compulsive gamblers. According to the North American Association of State and Provincial Lotteries, problems related to these concerns have not materialized.

Pa Lottery officials do not currently have plans to introduce keno. As with video lottery products, they believe keno has the potential to generate additional revenue, but also has a downside related to its gambling-like nature.

Table 54

Game Sales in State Lotteries That Offer Keno*
(\$Millions)

<u>State</u>	<u>Game Type</u>	<u>Keno Sales</u>	<u>Total Sales</u>	<u>Keno as a % of Total</u>
California	5-Minute	\$235.1	\$1,759.5	13.4%
Colorado	Regular	9.5	263.5	3.6
Kansas	5-Minute	26.3	114.5	30.0
Maryland.....	5-Minute	99.8	882.2	11.3
Massachusetts	5-Minute	^a	--	--
Michigan	Regular	23.8	1,248.0	1.9
New York	Regular	91.2	2,360.0	3.9
Oregon.....	5-Minute	106.7	430.3	24.8
Rhode Island.....	5-Minute	30.8	--	22.3
Washington.....	Regular	17.0	365.0	4.7
West Virginia.....	5-Minute	14.2	115.9	12.3

*All data for FY 1992-93 except New York (March 31) and Michigan.

^aLegislation was enacted in Massachusetts that required start-up of a Keno game by October 1, 1993. As of early 1994 Massachusetts Lottery officials reported sales of about \$1.6 million per week although Keno implementation was incomplete.

Source: Developed by LB&FC staff from The '94 World Lottery Almanac, TLF Publications, Rhode Island data obtained from the Controller of the Rhode Island Lottery.

Lottery by Phone

Another expected development in the lottery industry is the use of telecommunications services for the purchase of tickets. Although not yet in use, industry representatives believe that lottery tickets will soon be available by phone in some lottery states.

Last year a Virginia-based company announced that it had reached an agreement with AT&T to provide an 800 service to serve the domestic and international lottery-by-phone market. Unlike other companies that are involved in the interstate lottery market, this service would focus only on intrastate lottery ticket sales.

According to a description provided by the North American Association of State and Provincial Lotteries, the system would work as follows: The company would act as a retailer or agent of the individual state lottery and would sell only

that state's tickets via a phone line accessible only to in-state residents. A player interested in participating in lotto-by-phone would call an 800 number and set up an account. (The company plans an elaborate security system to protect all transactions.) The player places funds in his or her account and may open the account either using an ATM, cash, check, wire transfer, or credit card. The player is then sent an information packet and membership contract which details the terms and conditions of membership.

Once the contract is signed and approved, players may begin to utilize the service and draw upon their account to place their wagers. Players will be able to select their own numbers, or may chose to let the computer select the numbers for them. The company will charge a \$2 service fee per transaction on top of the actual ticket cost, and will require a minimum wager of \$5 per transaction. Winnings under \$600 are credited to the player's account. Prizes over \$600 would be paid through a voucher system agreed upon between the company and the participating lottery.

Officials of the lottery-by-phone company believe that the service will attract "incremental players" who otherwise wouldn't bother to buy lottery tickets. They also believe the service could generate a 15 to 20 percent increase in incremental sales for a state lottery. A company official stated that he is working with several east coast lotteries and hopes to be on-line with the service during 1994.

According to the Pennsylvania Lottery's Executive Director, Pennsylvania is familiar with the Lotto phone concept but is not one of the states currently considering this service. He believes there are two primary obstacles in the concept that conflict with basic principles of lottery play: the player does not receive a ticket and credit play is allowed. He acknowledges, however, that the concept is still in its infancy and that it does have potential for increasing sales.

Midday Drawings

In the past few years three lottery jurisdictions added midday drawings to their daily numbers games. The Delaware and District of Columbia lotteries instituted midday drawings in 1992. These extra drawings reportedly resulted in sales increases of 10 to 15 percent.

In December 1993 Illinois became the third U.S. lottery to add midday drawings. Illinois' Pick 3 and Pick 4 games are now each offered twice a day. Illinois Lottery officials initially estimated numbers games sales increases in the 5 to 8 percent range. According to these officials, midday drawings satisfy players who wanted to buy tickets, obtain drawing results, and receive their winnings on the same day. Early indications are that number games sales have increased by about 8 percent without negatively impacting other games sales.

The Director of the Delaware Lottery observed, however, that additional numbers games drawings are not for everyone. He believes that only states in which numbers games are "established and significant business in that product line" should consider more drawings. For example, the numbers games are the District of Columbia's number one revenue producer and the player base is conducive to the drawings. The D.C. Lottery has a population base of 600,000 residents that increases to 1.2 million during the workday. In Delaware numbers games revenues account for about 44 percent of total lottery sales. In Pennsylvania numbers games (The Daily Number and Big 4) generated \$838 million or about 59 percent of total sales in FY 1992-93.

PA Lottery officials are not in favor of adding a midday drawing for the numbers game because they believe any sales increase from such a drawing would most likely come from current players. The Lottery believes it should expand its player base rather than get more play from existing players.

Use of Unclaimed Prize Money

Many lottery states return unclaimed prize money to players by periodically seeding lotto jackpots and increasing prize amounts in instant games. A survey done by the Public Gaming Research Institute and updated in 1991 found that 22 of 32 states with lotteries at that time returned unclaimed prize monies to players. The others, including Pennsylvania, returned these monies to the state.

Some lottery states have found that holiday periods are good times to seed prize structures with unclaimed prize money. For example, the South Dakota Lottery increases its prize payouts through unclaimed prize monies. From February to August 1993 the Lottery financed a second chance drawing and in December 1993 offered a "December Double Dollar Deal" in which any instant prize of \$100 or more was doubled. According to South Dakota lottery officials these promotions had mixed results. In the second chance drawing no increase in sales was attributable to the use of unclaimed prize money. However, the December Double Dollar Deal reportedly generated an additional \$600,000 in game sales at a cost of \$145,000.

The Florida Lottery also used unclaimed prizes during a special 1993 promotion called "Holiday Lotto Fest" and for instant games. During a six-week period, the Lottery used unclaimed prizes to guarantee a minimum \$10 million lotto jackpot. Florida lotto jackpots usually start at about \$7 million. Promotions of this type can increase sales. The promotion used by Florida in late 1993 reportedly increased average weekly lottery sales by nearly 25 percent, bringing in an additional \$35 million in sales for the month. Florida Lottery officials report that \$9 million in unclaimed prize monies was used for the promotion. They also stated that the promotion appears to have had a residual effect of increasing lotto sales.

In Pennsylvania the State Lottery Law requires the Lottery to pay prizes to winners up to one year from the date of the lotto or numbers game drawing or the close-out of an instant game. After one year expires, the Lottery is required by law to pay the unclaimed prizes into the State Lottery Fund where it may be “used for purposes as otherwise herein provided.”

The Lottery's computer system tracks its obligation for unclaimed prizes, by game, on a monthly basis. The monies obligated for this purpose are never removed from the Lottery Fund, so technically, after the one year period expires, they are not returned to the Fund. This is in effect a continual process as an unclaimed prize for the previous year could be claimed and processed at any point in the year subsequent to when the winning ticket was purchased or instant game closed.

We found that the Lottery's handling of these monies is consistent with the statutory requirement. The monies are retained in the Lottery Fund on a continual basis. The Lottery knows that a certain amount of prizes are never claimed and that unclaimed prizes are never all claimed on the same day. From a practical standpoint, the Lottery, therefore, always has the money “on hand” to pay off unclaimed prizes. Additionally, the largest of the unclaimed prizes involve annuities. For those prizes which, if claimed, would require an annuity, the Lottery purchases an annuity in the required amount and maintains it for the required time period. If prizes involving annuities are not claimed after one year, the annuity is sold and the money returns to the Lottery Fund.

During the period FY 1986-87 through FY 1992-93, the amount of unclaimed prizes has ranged from \$10 to \$17 million. There do not appear to be any statutory restrictions that would prevent the Pennsylvania Lottery from using at least a portion of the unclaimed monies to seed prizes in other games. The Lottery's FY 1993-94 Marketing Plan provides for the development of a proposal on the use of unclaimed prize money for this purpose.

Direct Marketing

During the 1990s state lotteries are expected to move more aggressively into direct marketing of their products. Industry analysts believe that direct marketing using direct mail and telemarketing has “built-in pulling power” for lotteries. Moreover, many people are “too busy” to engage in standard and traditional lottery purchasing behavior. In discussing the direct response approach, Dr. Glenn Shippee stated that:

. . . lotteries must recognize that the 1990s are bringing tremendous changes to the lottery and entertainment marketplaces. Trust and brand loyalty that have been built previously can now be leveraged to enhance revenues. Similarly, changing demographics support the idea

that direct marketing will play an increasingly important role in the advertising mix of the 1990s and beyond.²

Several state lotteries we contacted reported using some form of direct marketing. These include direct mail, newspaper couponing, and premium offerings. For example, the Massachusetts Lottery uses a direct mail approach to distribute a coupon good for one free bet or a buy one ticket-get one free. According to the Lottery's Public Relations Director the response rate is about 45 percent for the free bet coupons and 35 percent for the buy one-get one free offer. Ohio, Oregon, and West Virginia also reported using the buy one-get one free promotion. The South Dakota Lottery reported that it plans to use the direct mail approach for a free play on a new game to be introduced in early 1994.

Pennsylvania currently has a direct marketing test under way. About 90,000 households received promotional material and a free coupon to be used towards a free video in the "Money, Movies & Music" instant ticket game. To date, a redemption rate for the coupons has not been computed. According to the FY 1993-94 Marketing Plan, the Lottery is also considering a direct marketing effort using a four-to-five-page color insert in the Sunday newspapers. The insert would include a coupon for a free lottery game play. Lottery officials have not yet decided whether to use this coupon because of security and accounting concerns associated with couponing.

Subscription Plans and Advance Play

Some lottery jurisdictions offer subscription plans and extended advance play options for certain games. Subscription plans are not currently offered in Pennsylvania although a limited advance play option is available for the on-line games. According to the Handbook for Lottery Operations, nine states were utilizing a form of subscription sales for at least some of their lottery games as of 1992. We contacted several of these states for information on their sales.

In Maryland players can purchase a variety of subscription plans which start at \$25 for 26 game plays in 13 weeks and go up to \$500 for 520 game plays over 52 weeks. Subscriptions are available only for Lotto and only to players with a Maryland mailing address.

"Season tickets" are available for three of Massachusetts' Lottery games. Tickets are available in denominations of \$25, \$50, and \$100. Tickets cover drawings in the selected game for 13, 26, and 52 weeks respectively, with two drawings held each week. According to Massachusetts Lottery officials, this subscription program is most popular at Christmas when the Lottery promotes it as a gift idea.

²"Marketing Lottery Products in the 1990s: The Decade of Opportunity - Part II," *Public Gaming*, April 1991.

Promotions also run at other times of the year. Virginia also offers two subscription plans, for six months or one year. Purchasers must be Virginia residents.

Subscription plans generally account for a relatively small percentage of a lottery's total sales. Based on our contacts with states offering subscriptions, sales percentages range from less than 1 percent in Maryland to 2 percent in New York and 4 percent in New Hampshire.

According to the Pennsylvania Lottery's Executive Director, the Lottery's advertising agency is studying the feasibility of a subscription plan. As a possible disadvantage, he believes that retailers could view a subscription program as taking away some of their business, especially at a time when the Lottery is attempting to improve relations with its retailers. Also, he does not believe the Lottery has sufficient staff resources to administer a subscription program at the present time.

Advance play is a betting feature that allows players to place wagers for one or more future drawings. According to the 1992 edition of the Handbook of Lottery Operations, 11 states offer some form of advance play. Pennsylvania is one of these states but limits advance play to one week for all of its lottery games.

In Maryland advance play is available on the Pick 3, Pick 4, Match 5, and Lotto games. For Pick 3 and Pick 4, players can purchase a ticket for up to seven consecutive drawings; on Match 5 for up to five consecutive drawings (one week's worth); and on Lotto up to ten consecutive draws. Some advance play options are also available in the Massachusetts Lottery. For example, the Daily Number may be played for 14 days in advance. In Ohio it is possible to purchase tickets in advance for up to 10 drawings (five weeks) for the lotto games. Virginia offers advance purchase from the retailers for up to 104 drawings (one year) for the lotto games, and West Virginia offers advance play for up to 10 drawings on all on-line games.

According to the Pennsylvania Lottery's Executive Director, the expansion of advanced play programs is under study. The Lottery is also reportedly considering the feasibility of developing a gift-certificate program.

Powerball

Powerball is a lotto matrix game conducted by the Multi-State Lottery Association (MUSL). MUSL is a voluntary association of lotteries which operates joint lottery games through each of the member lotteries' on-line systems. The Association was formed in 1987 and is currently made up of 16 member states³ and the District of Columbia. The members of MUSL are generally smaller states. Eleven

³Member states include Arizona, Delaware, Indiana, Idaho, Iowa, Kansas, Kentucky, Minnesota, Missouri, Montana, Nebraska, Oregon, Rhode Island, South Dakota, Wisconsin, and West Virginia.

of the 16 current member states have populations of 3 million or less, and none are among the top ten states in gross lottery sales. The Association offered its first game, Lotto America, in 1988. Powerball replaced Lotto America in April 1992.

Member lotteries sell the one or more joint games offered by MUSL through their own on-line systems just as they would sell any of their other on-line games. Each member lottery determines the advertising and promotion of the game in its jurisdiction and all profits realized from the sale of a game within a state stay with that lottery. The Association currently sells one joint game known as Powerball. According to MUSL, other joint games are expected to be sold by two or more of the current members within the year.

Powerball is a 5/45 and 1/45 game paying a pari-mutuel grand prize and a fixed or set cash prize for eight other prize levels. Powerball drawings are held twice weekly on Wednesday and Saturday. The game uses two drums with five numbers drawn from the first drum (5/45) and one number drawn from the second drum (1/45). A player always wins a cash prize if they match the powerball drawn from the second drum. A grand prize winner must match all five of the first set plus the Powerball.⁴ The prize pool is set at 50 percent of sales and a probable prize for a grand prize winner is approximately \$30 million. Other prizes of \$1 to \$100,000 are awarded depending on the number of matches with the first set of drawn numbers--with or without the Powerball. Powerball sales are currently at about \$750 million per year.

The Powerball game is conducted and winning tickets are validated through the on-line systems of member state lotteries. All prize payments are made by the member lottery in the same way that prize payments are made for winners of other games conducted by the member lottery. MUSL buys the required annuities from member lottery's share of the prize pool and sends the amount needed for the grand prize to the member lottery each year before the annual prize payment is due.

Each member state promotes, advertises, and markets Powerball according to its own marketing strategy. Also each state retains the profits it generates from its own marketing efforts, i.e., profits are not pooled among the member states.

The Multi-State Lottery Association is reportedly considering offering a passive on-line game with tickets in the \$3 to \$5 dollar range. The attraction of the game is that it would have several million dollar winners rather than one multi-million dollar winner. Players would be issued unique seven digit numbers ranging from 0000000 to 9999999. MUSL will conduct weekly drawings ranging from two to six digit numbers. On the last drawing of the game's cycle, up to ten seven digit numbers will be drawn. Players matching all seven numbers will win \$1 million. MUSL expects annual sales in the \$520 million to \$2.6 billion range.

⁴In July 1993, MUSL had a \$110 million Powerball jackpot.

Multi-Jurisdiction Lotteries

Within the lotto game type category, some smaller states have joined together to offer multi-jurisdictional lottos in order to increase prize pools and stimulate sales. In the United States there are two multi-jurisdictional lotteries besides MUSL. Maine, Vermont, and New Hampshire launched Tri-State Megabucks in September 1985. Originally, Tri-State was played as a 6/30 matrix lotto. Early in 1986, the three lotteries agreed to change the field to a 6/36 matrix lotto and in January 1988, the Tri-State Megabucks Commission announced the change to a 6/40 matrix lotto. In 1992 the Commission launched its second game which is a cash lotto.

Montana, South Dakota, and Idaho formed Tri-West Lotto and began operation of a 6/41 lotto game in February 1994. The game offers one play for \$1 and pari-mutuel jackpots are expected to be in the \$300,000 range. Cash prizes will be paid for matching three, four, or five of six and the jackpot prize will be paid in 20 annual installments.

Reportedly, Georgia, Kentucky, and Louisiana are considering forming a Tri-South lottery. Their combined player base of 14 million would make the proposed jurisdiction comparable in size to the Florida Lottery.

Use of Television Game Shows

Virtually all state lotteries use television to conduct live drawings for daily numbers and lotto games. Using television for these drawings helps assure the public of the lottery's credibility. Live television lottery shows confirm the drawings took place, reinforce their integrity and security, and provide information on the results more rapidly than otherwise possible.

Some states have also attempted to integrate their games with the entertainment value of television in an effort to stimulate interest in the lottery and increase sales. According to the NASPL, several large state lotteries host television game shows with a lottery format.

Megabucks Giveaway. Cash Explosion Double Play. The Big Spin. The \$100,000 Fortune Hunt. Hoosier Millionaire. They give away more cash and prizes than any other game shows on television. The sets are elaborate, the hosts are polished, and their ratings rank them among some of the most popular game shows on television today.

States that operate lottery television game shows include California, Indiana, Illinois, Michigan, and Ohio.

Ohio's "Cash Explosion" show is one of the longest running lottery TV game shows. It was introduced in 1987 as a way to increase declining instant ticket sales. The show is broadcast weekly and has an audience of over two million viewers in nine Ohio television markets. Each week there is a top cash jackpot of \$200,000 and other prizes such as cars.

Entry into Ohio's TV game show is through the Lottery's "Cash Explosion" instant ticket game. Eight players are chosen to appear on the show each week from Cash Explosion instant ticket winners. Cash Explosion ticket sales are reported to be about \$1.5 million per week.

In Illinois, the lottery pays for the prizes on its "\$100,000 Fortune Hunt" show through its unclaimed prize fund. Lottery officials believe that the show has helped increase sales of its "Fortune Hunt" instant game. They also report, however, plans to revamp the show to tie it to several games rather than just one instant game.

The Indiana Lottery's "Hoosier Millionaire" is considered to be one of the most successful game shows. Unlike other lottery shows, the Indiana Lottery does not limit entry onto the show to a particular instant game. Instead, they include an entry feature in most games in their product line. The game show offers a top prize of \$1 million.

Despite their success, such shows can be costly for state lotteries to operate. Larger lottery states such as California, Indiana, and Ohio can absorb these costs and find that the shows' direct impact on sales is significant. Others believe the shows have public relations benefits and provide opportunities to educate players and cross promote lottery products.

Game shows do not, however, work for all states. Both Kansas and Oregon found their shows popular with viewers but a drain on their prize fund. Both shows were cancelled. In states such as these, multi-state efforts may be the only way smaller lotteries can use the television game show concept.

Others in the lottery industry believe interactive television participation and purchasing will evolve and that established game shows will not be essential for lotteries to benefit from interactivity.

According to the Executive Director of the Pennsylvania State Lottery, a television lottery game show is a potential source of additional revenue. However, the Lottery does not at present plan on conducting a TV game show because of the cost factor and limited staff resources.

Self-Service/Player-Activated Terminals

Since the introduction of on-line lottery games in the mid-1970s, ticket sales have primarily been through clerk-operated terminals. In recent years a new type of sales terminal designed to be operated by consumers has been introduced. These player-activated terminals (PATs) provide lotteries a new means to generate sales in their on-line distribution networks.

As described by an official of the company that first developed them, PATs are:

. . . computerized vending machines that operate as a component of an on-line lottery system and are capable of handling all the sales functions that are performed by an agent-operated terminal.

PATs were developed in response to a demand for a mechanism for selling lottery tickets that was not so time-consuming for retail clerks. The manufacturer claims that PATs require only 3 percent as much employee time to operate as clerk-activated terminals making them a viable means to move lottery products into previously unavailable locations.

In addition to attracting new retail locations, PAT proponents also believe that the machines are a way to gain an incremental customer base. With color graphics, sound generation, and LED display, the machines can also be used to promote lottery products.

PATs can also be used for electronic instant lottery (EIL). EIL can involve a variety of game themes on terminals which players can participate in without interacting with a clerk. The games are a form of entertainment and, in some cases, can be played with other players. EIL game themes often are similar to existing instant games with sports themes, card games, money match, tic-tac-toe and bingo. As with instant tickets, players don't have to wait for a drawing to find out if they have won.

The first PATs were installed in New York in 1985. Other states using PATs include California, Illinois, Iowa, Ohio, Oregon, and Virginia. We contacted lottery officials in a sample of these states to obtain information on their use of PATs. We found that some states have had success with the introduction of player activated terminals or self-serve terminals.

California and Virginia have introduced PATs in high traffic locations such as super-markets, drug stores, bus terminals and also in Virginia's case, fast food establishments. California has about 900 terminals in operation, Virginia has about 400. Both states plan to expand to 1,000 terminals. The primary benefit of

PATs as reported by California and Virginia is that they have been able to access markets which were previously closed to them. Both states report that increased sales have resulted from the introduction of PATs and both comment that the terminals are particularly useful in handling overflow crowds when large jackpots are being offered.

New York and Illinois have not experienced the success with PATs as have California and Virginia. New York experimented with PATs in 1985 and 1986 and discontinued their use in 1986. Reportedly, these were first generation machines and New York had service and delivery problems. Currently, New York does not plan to reintroduce PATs. Illinois has put about 200 PATs in the Chicago area and does not plan to expand their use. Illinois Lottery officials explained that their players are older, appear to be intimidated by the terminals, and prefer to obtain lottery tickets from a clerk.

Many lottery industry representatives believe PATs will become a permanent part of state lottery on-line distribution networks. They believe that PATs will play an important role as mature lotteries look for more effective marketing and distribution methods.

The Pennsylvania State Lottery does not currently use PATs. The Lottery's Executive Director reports that they have researched the use of player activated terminals. They believe PATs have the potential of generating additional revenue, but they are somewhat concerned about underage patrons using PATs. PATs generally are used either in an age-controlled environment or placed where store personnel can monitor or control their operation. PA does not plan on introducing PATs in the near future.

Expansion of the Lottery Retailer Base

The retailer distribution system is critical to a lottery's success. As such, state lotteries need to give ongoing attention to the size and composition of their retailer networks. A recent analysis by the Public Gaming Institute addressed this aspect of marketing lottery products during the 1990s. One of the points made in the analysis is that no lottery should be concerned about being "over-retailed." The analysis cited a prior study which found that total lottery sales increased by 5 to 20 percent in every geographic area where the number of retailers was increased. As would be expected, the strongest increases came from areas that were previously "under-retailed."

Our analysis of retailer expansion in lotteries with \$1 billion or more in annual sales found that all states have increased their on-line⁵ retailer network over the past three years. As shown on Table 55, the rates of these increases have ranged from 1.8 percent in Ohio to 30.8 percent in New York. During this period, Pennsylvania's on-line retailer network increased by about 7 percent to 3,920. In FY 1992-93 Pennsylvania's growth rate was less than 1 percent, the slowest rate ever. Lottery officials report that they will attempt to expand the on-line retailer base to 4,100 by the end of FY 1993-94. This expansion effort will focus on the Philadelphia, Wilkes-Barre, Harrisburg, and Pittsburgh areas.

PA Lottery officials consider increasing the number of retailers, particularly on-line retailers, to be a matter of priority. They intend to increase the number of on-line retailers on a yearly basis. As of April 6, 1994, the number of on-line retailers had increased to 4,042. The Lottery subscribes to a demographic data service as a means of assisting them to determine retailer locations as well as using input from the District Lottery Representatives.

In the off-line (i.e., instant only)⁶ segment of the retail networks of large state lotteries, increases were not as widespread. While the number of off-line retailers increased in New York, Ohio, and Massachusetts, significant declines occurred in other states including Pennsylvania where the number of instant-only retailers fell by 21 percent in FY 1992-93 alone. According to Lottery officials, most of this loss can be attributed to retailers dropping from the system during the ITVAS conversion. Overall, off-line (instant ticket only) retailers account for a relatively small (3 percent) percentage of total Lottery profits. Nevertheless, even 3 percent of \$600 million is a significant amount of profit. As stated in the Lottery's Marketing Plan, instant-only retailers also provide a pool of retailers from which to select on-line retailers.

According to Lottery officials, efforts are also underway to expand the number of instant-only retailers. In the second quarter of FY 1993-94 the Lottery established an account with the Wawa convenience store chain located in eastern Pennsylvania. This will add 184 retail outlets to the Lottery retailer complement. Approximately 150 of these will be instant ticket only retailers. The Lottery is also attempting to expand existing chain store accounts with such companies as Weis, Acme, and Giant Foods.

Another perhaps more meaningful measure of the size of a state lottery's retail network is the number of retailers per capita. We examined the number of lottery retailers through which lottery tickets are sold in the ten states with \$1 billion

⁵On-line lottery agents market lottery games through a network of computer terminals installed at various types of retail locations. The on-line terminals are linked to a main data center at lottery headquarters by dedicated telephone lines. On-line retailers usually also sell off-line (i.e., instant ticket or passive) games.

⁶Off-line agents sell instant tickets or passive games that do not utilize an on-line lottery terminal for purchase.

Table 55

Change in the Number of Lottery Retailers in PA and Other Large Lottery States, 1990 to 1993

State	On-Line Retailers		Off-Line Retailers		Total Retailers	
	1990	1993	1990	1993	1990	1993
CA	9,509	11,494	11,005	10,401	20,514	21,895
FL.....	7,513	7,664	4,304	3,676	11,817	11,340
IL	5,087	5,422	3,604	1,755	8,691	7,177
MA	5,520	5,698	700	1,202	6,220	6,900
MI	4,063	5,141	4,649	3,527	8,712	8,668
NJ ^a	5,200	5,200	5,200	5,200	5,200	5,200
NY	6,805	8,901	3,897	5,506	10,702	14,407
OH.....	5,154	5,246	3,235	4,228	8,389	9,474
PA	3,650	3,920	4,987 ^b	3,474 ^b	8,637	7,394
TX	0 ^c	10,031	0 ^c	5,070	0 ^{b/}	15,101

^aEvery licensed lottery retailer in New Jersey is equipped with an on-line terminal and all retailers sell instant tickets.

^bAll Pennsylvania off-line retailers (instant ticket only retailers) are connected to the Instant Ticket Validation and Accounting System (ITVAS).

^cLottery created in 1991. The first ticket sales were conducted on May 29, 1992.

Source: Developed by LB&FC staff from information contained in World Lottery Almanacs, TLF Publications.

or more in annual sales. We found that Pennsylvania has fewer on-line lottery agents and fewer agents per capita than any of the other large lottery states. As shown on Table 56, Pennsylvania has one on-line retailer for every 2,971 residents. In contrast, Massachusetts, the state with the highest per capita lottery sales in the nation, has one on-line retailer for every 1,053 residents.

Table 56

**Number of On-Line Retailers Per Capita,
PA and Other Large Lottery States***

<u>State</u>	<u>On-Line Retailer</u>	<u>Population</u>	<u>Retailers Per Capita</u>
Massachusetts	5,698	5,998,000	1:1,053
New Jersey	5,200	7,789,000	1:1,498
Florida.....	7,664	13,488,000	1:1,760
Texas.....	10,031	17,656,000	1:1,760
Michigan	5,141	9,437,000	1:1,836
New York	8,901	18,119,000	1:2,036
Ohio.....	5,246	11,016,000	1:2,100
Illinois	5,422	11,631,000	1:2,145
California	11,494	30,867,000	1:2,685
PENNSYLVANIA..	4,042	12,009,000	1:2,971

*Includes states with \$1 billion or more in annual gross sales.

Source: Developed by LB&FC staff from The '94 World Lottery Almanac, TLF Publications and information obtained from the PA Lottery.

Table 57

**Number of Off-Line (Instant Only) Lottery Retailers Per Capita,
PA and Other Large Lottery States***

<u>State</u>	<u>Off-Line Retailers</u>	<u>Population</u>	<u>Retailers Per Capita</u>
Ohio.....	4,228	11,016,000	1:2,605
Michigan	3,527	9,437,000	1:2,676
California	10,411	30,867,000	1:2,965
New York	5,506	18,119,000	1:3,291
Texas.....	5,070	17,656,000	1:3,482
PENNSYLVANIA.	3,389	12,009,000	1:3,544
Florida.....	3,676	13,488,000	1:3,669
Massachusetts	1,202	5,998,000	1:4,990
Illinois	1,755	11,631,000	1:6,627
New Jersey	a	7,789,000	a

*Includes states with \$1 billion in annual gross sales. FY 1992-93 retailer data. 1990 census data.

^aIn New Jersey all retailers sell both off-line and on-line games. Thus, there are off-line or instant only retailers.

Source: Developed by LB&FC staff from The '94 World Lottery Almanac, TLF Publications and information obtained from the PA Lottery.

The Pennsylvania Lottery's off-line (instant only) network ranks sixth among the ten largest lotteries in terms of off-line agents per capita.

We also examined the composition of the instant and on-line lottery distribution network in Pennsylvania and the nine other states that have annual sales of \$1 billion or more.

As shown on Table 58, Pennsylvania's retailer network consists primarily of grocery and convenience stores which comprise about 65 percent of the entire retailer network. Stores selling merchandise make up 11 percent of the network followed by drug stores and bars/restaurants which represent less than 1 percent of the retailers, respectively. About 50 percent of Pennsylvania's on-line ticket sales and 80 percent of its instant ticket sales are made through grocery and convenience stores.

Table 58

Composition of the PA State Lottery's Retailer Network*

	<u>On-Line Retailers</u>	<u>Off-Line Retailers</u>	<u>Total Retailers</u>
Convenience Stores.....	1,133	1,446	2,579
Groceries	1,181	1,012	2,193
Merchandise	481	341	822
Drug Stores	266	231	497
Bars/Restaurants.....	213	201	414
Liquor Stores.....	0	0	0
Other ^a	<u>646</u>	<u>243</u>	<u>889</u>
Total	3,920	3,474	7,394

*As of June 30, 1993.

^aOther includes newsstands, tobacco stores, kiosks, and other retail outlets.

Source: Developed by LB&FC staff from The '94 World Lottery Almanac, TLF Publications.

Table 59

**Lottery Retail Outlets in PA and the Top Five
Lottery Sales States***
FY 1992-93

% of On-Line Ticket Sales

<u>Sales Outlet</u>	<u>PA</u>	<u>NY</u>	<u>FL</u>	<u>MA^a</u>	<u>OH</u>	<u>CA</u>
Groceries	30%	27%	24%	9%	32%	17%
Convenience Stores..	22	9	60	54	25	32
Bars/Restaurants	4	4	3	3	5	8
Drug Stores	7	6	2	4	5	4
Liquor Stores.....	0	11	5	17	22	33
Merchandise	19	29	0	0	5	1
Other ^b	<u>18</u>	<u>16</u>	<u>7</u>	<u>13</u>	<u>8</u>	<u>6</u>
Total ^c	100%	100%	100%	100%	100%	100%

% of Instant Ticket Sales

<u>Sales Outlet</u>	<u>PA</u>	<u>NY</u>	<u>FL</u>	<u>MA^a</u>	<u>OH</u>	<u>CA</u>
Groceries	23%	27%	10%		9%	28%
Convenience Stores..	55	25	67		70	34
Bars/Restaurants	5	4	7		9	3
Drug Stores	4	4	1		2	3
Liquor Stores.....	0	7	4		6	24
Merchandise	6	21	0		1	1
Other ^b	<u>7</u>	<u>11</u>	<u>11</u>		<u>3</u>	<u>7</u>
Total ^c	100%	100%	100%		100%	100%

*Includes the top five states in lottery sales in FY 1992-93: New York \$2.36 billion; Florida \$2.17 billion; Massachusetts \$2.01 billion; Ohio \$1.97 billion; and California \$1.76 billion.

^aInstant tickets and on-line tickets sold at the same locations. Instant ticket sales are included in the on-line percentages.

^b"Other" includes newsstands, tobacco stores, kiosks, and other assorted retail outlets.

^cMay not add due to rounding.

Source: Developed by LB&FC staff from The '94 World Lottery Almanac, TLF Publications.

Some state lotteries are taking innovative steps to increase their retailer networks. For example, the Virginia Lottery is moving its lottery products into the fast-food market. Virginia officials are negotiating with Hardee's fast-food chain to offer both instant and on-line tickets through instant ticket vending machines and self-service player-activated terminals in Hardee's restaurants.

According to the Virginia Lottery's Marketing Director, the lottery was interested in the fast-food market because of the similarity in demographics with frequent lottery players. A Virginia survey found frequent lottery players visit fast-food restaurants more often than grocery stores, ranking fast-food restaurants just behind convenience stores in their ability to attract the lottery's target market. The survey also showed 36 percent of Virginia adults visit a fast-food restaurant at least once a week, and 43 percent of the lottery's heavy player group frequent fast-food restaurants one or more times per week. This compares with grocery stores which attract 18 percent of adults during the week and 29 percent of heavy lottery players.

Lottery officials point out that the addition of lottery tickets to the Hardee's menu also helps the fast-food chain contend with the growing competition from convenience stores in the fast-food business. The Virginia Lottery is monitoring the Hardee's locations to decide whether to attempt to expand into additional fast-food retail locations. According to their marketing director SSTs and ITVMs are installed in five Hardee's with an additional seven Hardee's due for these machines by the end of April 1994. Reportedly, sales from both machines are doing well, particularly the ITVMs. Preliminary indications are that Virginia will expand the use of SSTs and ITVMs into other fast food markets.

Massachusetts has also taken steps to expand its market by making lottery products available in bars, taverns, clubs, and restaurants with a liquor license. ITVMs are being used as the primary vehicle to sell instant tickets in these locations. In the past few years the Massachusetts Lottery has carried out an aggressive program in this new market area.

According to Massachusetts Lottery officials, there are currently about 1,200 ITVMs in establishments that hold "pouring licenses." On-line games in these locations are sold directly by bartenders, cashiers, or other store personnel as Massachusetts has not, at present, introduced player activated terminals into these establishments. Massachusetts does plan on using PATs in establishments with pouring licenses at some point in the future. As shown on Table 59, about 20 percent of Massachusetts' instant and on-line ticket sales are made through liquor stores and bars and restaurants.

The Colorado Lottery has also been successful in moving ITVMs into bars and restaurants. According to Colorado's Sales and Marketing Director, sales have increased by 120 to 600 percent in each establishment into which ITVMs have been

installed. He stated that part of their objective is to expand into more nontraditional kinds of retail outlets. In addition to bars and restaurants, the Colorado Lottery hopes to place automatic lottery machines in retail locations such as K-Marts.

Special Promotions

State lotteries sometimes offer special game promotions in order to increase player interest and attempt to attract new players. According to the North American Association of State and Provincial Lotteries (NASPL), two promotions recently used in some states involve daily numbers and instant games.

According to the NASPL, many lotteries are using merchandise in conjunction with their instant games. For example, the Arizona Lottery offered an instant game with a basketball theme that capitalized on the popularity of the Phoenix Suns basketball team. The Lottery offered a special commemorative Suns T-shirt as a prize in the game. The shirt has autographed sketches of the players and is only available as a prize in the lottery's instant game. The Arizona Lottery has also offered season tickets to the Suns games as a prize. The Arizona Lottery Marketing Director pointed out that almost all Suns tickets are season tickets, and almost impossible to get, which makes them an ideal incentive for the lottery to offer in its instant game. The Arizona Lottery also used a \$2,500 Super Bowl trip package as a prize and tickets sold out immediately. Lottery administrators agree, to be most effective, merchandise prizes should be something that generally is not readily available for purchase by lottery players.

Some states also run special promotions on their daily numbers games. For example, in August 1993 Florida added a special drawing (referred to as the "Hot Pink Promotion") following each evening's Cash 3 drawing. This promotion worked as follows:

Immediately following each evening's Cash 3 drawing, a fourth drawing machine was loaded with nine yellow balls and one hot pink ball. One ball was selected each night, and if the pink ball was picked all winning tickets from that night's drawing received increased prize amounts. Players could win up to an additional \$99 in cash. Each time a yellow ball was drawn, it was eliminated from the next drawing, improving the odds for the pink ball being selected the next day. Once the pink ball was selected, all 10 balls were then put into the drawing machine for the next day's drawing.

Florida Lottery officials reported that Cash 3 sales increased in the short term and did not have a carryover effect. Weekly sales increases averaged \$200,000, but additional prize payouts were as high as \$197,000 per week. The Director of the Florida Lottery Research Department characterized the promotion

as follows: "it added some nice short-term excitement." Florida is undecided as to whether this promotion will be repeated.

The Virginia Lottery conducted a similar promotion for its Pick 4 game in September and October 1993. According to Virginia officials, the promotion was the most successful one ever conducted by the Virginia Lottery. The promotion has stimulated sales for the Pick 4 game long after the promotion ended. It is estimated that total sales increased by \$5.7 million and that the promotion cost \$600,000. Virginia plans to conduct the promotion again in July 1994 when sales for Pick 4 are traditionally the lowest.

The Pennsylvania Lottery conducted a Hot Pink promotion similar to Florida's for 15 weeks in FY 1991-92. The promotion increased sales by approximately \$11 million with a net profit of \$2.6 million. The promotion was conducted to stimulate sales during a period when the economy was in a recession and sales were stagnant. Lottery officials state they do not plan on repeating the promotion unless they are experiencing low prize payouts and declining sales.

Selling Advertising on Lottery Tickets

At least two states, Connecticut and Massachusetts, are reportedly planning to sell advertising on their lottery tickets and collateral materials as a means of generating additional revenue. Both states would contract with an advertising broker who would sell space to either statewide or national advertisers such as beverage companies, fast-food chains, or regional telephone or transit companies. The advertising would be similar to that found on the backs of some grocery store receipts.

According to the NASPL, the Connecticut Lottery hopes that its plan to sell advertising on tickets will help the lottery generate an additional \$150,000 to \$800,000 that can be used to supplement the lottery's advertising budget. The Massachusetts Lottery plans to limit its advertising space to the backs of on-line tickets and the edges of bet slips, but hasn't ruled out expanding to other lottery products in the future. Lottery officials expect the program to generate \$4 to \$6 million in additional revenues per year.

IX. APPENDICES

APPENDIX A

Background Information on the Pennsylvania State Lottery

Secretary of Revenue

The PA State Lottery is administered by the Bureau of PA State Lottery under the direction of the Secretary of Revenue. The Secretary has the power and duty to operate and administer the Lottery (72 P.S. §3761-6 (a)). Specifically, the Secretary is to promulgate rules and regulations governing:

- The type of lottery to be conducted.
- The prices of tickets in the lottery.
- The numbers and sizes of the prizes of the winning tickets.
- The manner of selecting the winning tickets.
- The manner of payment of prizes to the holders of winning tickets.
- The frequency of the drawings or selections of winning tickets without limitation.
- The types of locations at which tickets may be sold.
- The method to be used in selling tickets.
- The licensing of agents to sell tickets provided that no person under the age of twenty-one is licensed as an agent.
- The manner and amount of compensation to be paid licensed sales agents.
- The apportionment of the total revenues accruing from the sale of lottery tickets and from all other sources among (i) the payment of prizes to the holders of winning tickets, (ii) the payment of operating and administrative costs of the Lottery, (iii) the repayment of moneys to the General Fund, and (iv) the payment of programs as provided for at §3761-12 of the State Lottery Law.
- The efficient and economical operation and administration of the lottery and for the convenience of the purchaser of tickets and the holders of winning tickets.

Appendix A (Continued)

Bureau of PA State Lottery

The Bureau of PA State Lottery is responsible for administering and operating the PA State Lottery. It has a staff of 161 and an annual operating budget of \$44 million.

Bureau functions include authorizing procedures and guidelines for the marketing and manufacturing of lottery tickets, establishing procedures and conducting all lottery drawings, validating winning tickets, and compensating winning ticket holders. The Bureau also maintains ticket sales through marketing and publicity methods, and establishes and oversees security measures throughout the entire lottery process to ensure the integrity of lottery operations.

Executive Director's Office

The Executive Director's Office is responsible for the administration of the PA State Lottery and for the coordination of efforts of the Security Division and the Deputy Executive Director. This office also has oversight responsibility for lottery games, systems, security, personnel, and lottery related activities of retailers. The Executive Director works with the Deputy Executive Director, the Marketing Director, and the Sales Director in the development of marketing plans and sales strategies.

Deputy Executive Director

The Deputy Executive Director is responsible for assisting the Executive Director in the administration of the PA State Lottery. The Deputy Executive Director coordinates the activities of the Divisions of Marketing, Sales, Administration, Instant Games Control, and On-Line Games Control. In addition, the Deputy Executive Director has responsibility for preparing procurement and personnel actions for the approval of the Executive Director and serves as the Executive Director in the Executive Director's absence.

Security Division

The Security Division is responsible for planning, implementing, directing, and maintaining the security and integrity of the PA State Lottery through activities that relate to personnel, buildings, computers, telecommunications, games, systems, operations, retailers, contractors, and sub-contractors. This division establishes and enforces security procedures including access by employees and visitors to Lottery Headquarters and Area Offices. Additionally,

Appendix A (Continued)

this division establishes and enforces security procedures for Lottery drawings including the approval of the security features of all drawing equipment, the testing and certification of balls, controlling access to drawings, video taping of all drawing activities, and conducting statistical analysis to verify the randomness of drawing results.

On-Line Games Control Division

The On-Line Games Control Division is responsible for monitoring the retailer on-line network to identify problems and take corrective actions. This division also settles retailer sales reports and payouts and reconciles the on-line Automated Wagering International System with the Department of Revenue Internal Control System. Additionally, this division validates large tier ticket winners and prepares check registers for payment, and controls on-line games by tracking minute-to-minute sales activities and by closing games prior to the drawings.

Instant Games Control Division

The Instant Games Control Division is responsible for all instant game matters including the allocation of instant tickets, the handling of returned redeemed and unsold instant tickets, the accounting for instant ticket packs, the authorization and payout of instant game prizes, and the initial collection on accounts receivable for instant tickets.

The Ticket Distribution and Packaging Section inspects instant ticket packets as a quality control measure, prepares packages of instant tickets for shipment to the retailer, maintains computer files on tickets shipped, and receives and processes requests for additional ticket packages. This section also packages point-of-sales material for shipment to all retailers and to Lottery Area Offices and performs data entry activities.

The Prize Validation Section processes instant game prize claims, and authorizes for payment on-line game prize claims exceeding \$600. This section also responds to instant games correspondence and to all retailer information inquiries and provides monthly and annual withholding reports on prize payments for the Internal Revenue Service.

The Ticket Accounting and Control Section maintains the Instant Ticket Validation and Accounting System and performs data entry activities. This section also creates delinquent accounts receivable files, sends out initial delinquency billing notices and refers unresolved accounts to another area for

Appendix A (Continued)

collection activity, and collects outstanding instant tickets from retailers who are going out-of-business or when a change in ownership occurs.

Administration Division

The Administration Division is responsible for providing technical communications support, administrative services support, and clerical support to other Lottery divisions. Additionally, this division oversees instant game ticket, point-of-sale, and bet slip printing activities as well as managing the automotive fleet.

The Clerical Services Section provides generalized support services such as, mail and messenger services, word processing support, central record storage and use, microfilming, receptionist and data entry services, and provides a temporary pool of clerical assistance to other Lottery divisions.

The Receiving and Warehousing Section receives, stores, and distributes materials, forms, supplies, and other stock items to other Lottery divisions and receives, inspects and stores instant tickets for later distribution. This section also maintains an inventory of all stored items and receives and initially records retailer instant and on-line settlement envelopes prior to release to other Lottery units for processing. This section also transports materials to and from Area Offices and provides custodial services to Lottery Headquarters.

Sales Division

The Sales Division is responsible for planning, implementing, directing, and maintaining strategies aimed at improving Lottery retailer relations and sales by providing promotional materials, direction, timely information, problem resolution support, and overall product and program information. The Sale Division also conducts extensive research to monitor industry trends and innovations in the areas of new games and technology, and it identifies locations within the state where more retailers are needed and coordinates recruitment activities. This division also provides comprehensive on-going training programs for both District Lottery Representatives and retailers aimed at increasing sales and improving customer service.

Marketing Division

The Marketing Division is responsible for developing marketing strategies aimed at maximizing Lottery revenues and for developing an annual

Appendix A (Continued)

marketing plan. The Director of the Marketing Division plays a key role in assisting the Executive Director and the Deputy Executive Director in the development of game themes, play format, and game procedures. The Marketing Director also works closely with the Sales Director in developing and implementing marketing strategies. The Marketing Division also serves as the marketing liaison to the Lottery advertising agency, the Public Relations Division, the instant ticket vendor, the on-line vendor, and to public officials. This division also directs the activities of the field marketing force and retailer network of nearly 9,000 agents through the six Area Offices.

Area Offices

The Area Offices are responsible for supporting Lottery sales and promotion activities through contact with Lottery retailers and for providing marketing assistance to retailers including information, education, and advice on the display of sales materials. These Offices also review retailer activity to ensure compliance with Lottery rules and regulations and conduct unannounced audits of all on-line retailer Lottery accounts. The Area Offices also provide assistance in the development of game themes, play format, and game procedures.

Source: Developed by LB&FC staff from the State Lottery Law and information obtained from the PA State Lottery.

Appendix A (Continued)

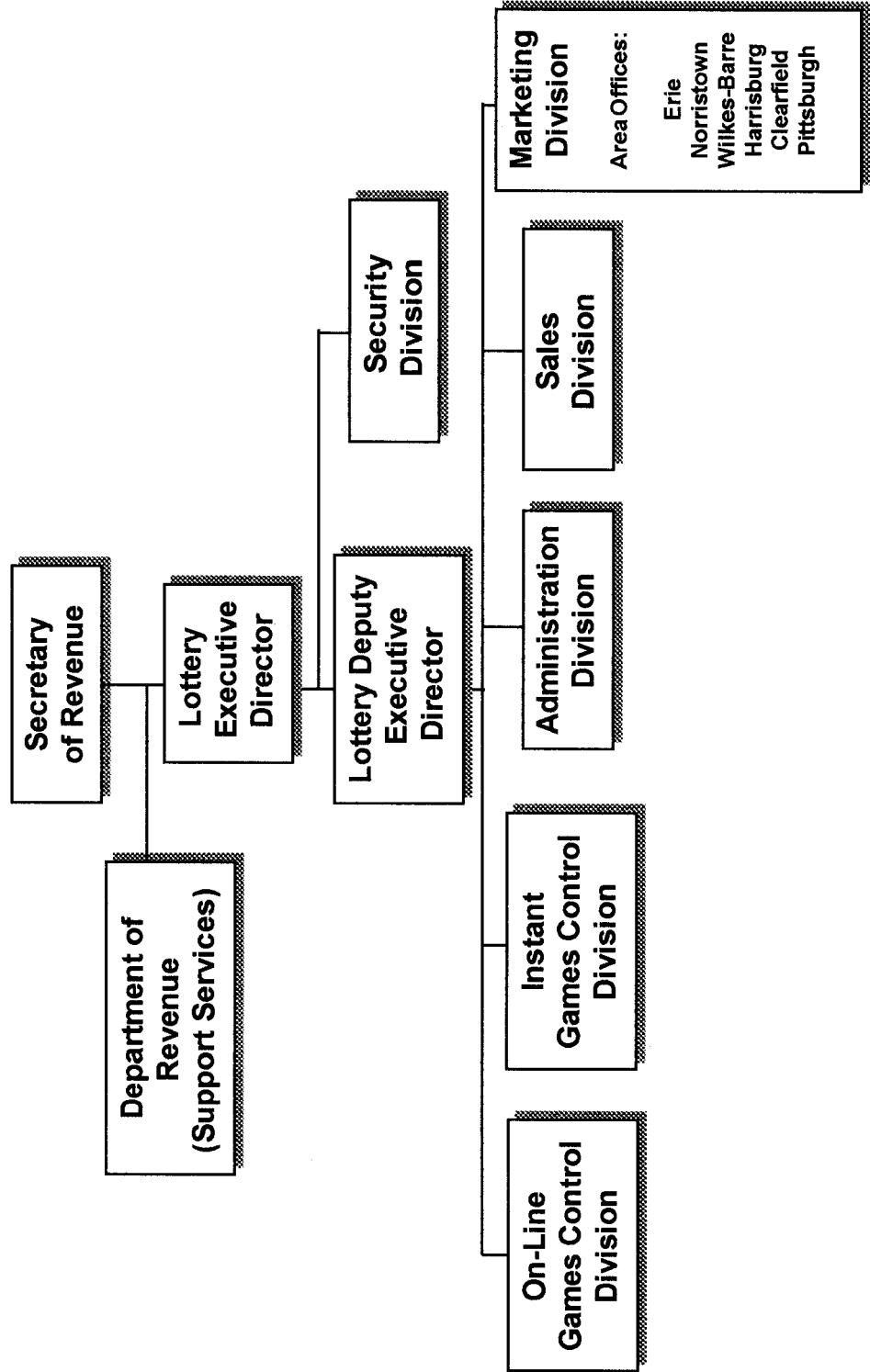
Pennsylvania State Lottery, Staff Complement
As of March 21, 1994

	<u>Complement</u>	
	<u>Authorized</u>	<u>Filled</u>
<u>Central Office</u>		
Executive Director's Office	7	7
Security Division	3	3
On-Line Games Control Division	5	5
Instant Games Control Division	34	26
Administration Division	22	22
Sales Division	9	9
Marketing Division	<u>6</u>	<u>6</u>
Subtotal - Central Office	86	78
<u>Area Offices</u>		
Erie.....	9	9
Norristown.....	22	19
Wilkes-Barre.....	14	14
Harrisburg.....	13	13
Clearfield.....	10	10
Pittsburgh.....	<u>20</u>	<u>18</u>
Subtotal - Area Offices	88	83
Total.....	174	161

Source: Developed by LB&FC staff from information obtained from the Department of Revenue.

Appendix A (Continued)

BUREAU OF PENNSYLVANIA STATE LOTTERY ORGANIZATIONAL CHART



APPENDIX B

Summary of Major Statutes Affecting the Pennsylvania State Lottery

Act 1971-91, the State Lottery Law, established the Pennsylvania State Lottery and created the State Lottery Fund. The State Lottery Fund receives monies from lottery ticket sales and unclaimed prize monies. Under this original legislation, fund monies were to be used to pay prizes, to cover operational expenses, and to provide property tax relief for the elderly.

Act 1972-338, an amendment to the State Lottery Law, provided for free local transit for persons 65 years of age and older under the provisions of the Pennsylvania Urban Mass Transportation Assistance Law of 1967.

Act 1980-101, an amendment to the Pennsylvania Urban Mass Transportation Assistance Law of 1967, and **Act 1980-183**, which amended the Pennsylvania Rural and Intercity Common Carrier Surface Transportation Assistance Act, further affected transportation programs for the elderly. These amendatory acts authorized the Department of Transportation to make grants from the State Lottery Fund to provide free or reduced fare service on local common carrier mass transportation systems and free or reduced fare service on shared-ride county transportation systems to persons 65 years old or older.

Act 1973-136 amended the Senior Citizens Property Tax Assistance Act to provide for rent rebates, in addition to property tax rebates, which were to be paid from the State Lottery Fund. This act also authorized payment of administrative expenses, salaries, and other costs incurred in administering the property tax and rent rebate program from the State Lottery Fund.

Acts 1978-272, 1982-56, and 1985-53 increased property tax and rent rebates and/or income eligibility levels.

Act 1979-131 provided for inflation dividends to be paid to senior citizens receiving property tax or rent rebates. **Act 1982-56** increased the dividend amount and provided for an additional one time dividend payment of \$100. These dividends were paid from the State Lottery Fund until the provision for such payments was repealed by **Act 1991-36**.

Act 1982-56 provided \$6.2 million from the State Lottery Fund to the Department of Aging for service grants to area agencies on aging in fiscal year 1981-82. Additionally, for fiscal year 1982-83, \$4.1 million was appropriated from the State Lottery Fund to the Department of Aging for transportation grants to area

Appendix B (Continued)

agencies on aging to purchase, replace, or lease vehicles and/or equipment for use in senior citizens transportation.

The Vehicle Code provides that low-income retired persons must pay a \$10 processing fee, rather than the \$24 registration fee, to register their vehicles. **Act 1982-171** provided for an annual transfer from the State Lottery Fund to the Motor License Fund to cover the amount of revenue annually lost by the Department of Transportation as a result of this provision with respect to persons receiving benefits under the Senior Citizens Rebate and Assistance Act. This transfer was discontinued by **Act 1991-36**.

Act 1982-291 provided a one time grant for fiscal year 1982-83 of \$4.1 million from the State Lottery Fund to the Department of Aging for transportation grants to area agencies on aging to purchase, replace, lease, maintain, operate, or contract for the operation of vehicles or equipment for use in senior citizens transportation. This provision replaced the appropriation made by **Act 1982-56** for this purpose; it was not an additional appropriation.

Act 1983-29 provided for quarterly transfers from the State Lottery Fund to the General Fund in an amount equal to the personal income tax that would have been paid on lottery prizes by prize winners.

Act 1983-63, the Pharmaceutical Assistance Contract for the Elderly Act, established a program to assist the elderly in purchasing prescription drugs and insulin supplies. Under this program, participants paid a copayment for pharmaceuticals at the time of dispensing and pharmacies received payments from the PACE Fund on behalf of the participants for the average wholesale cost of drugs and insulin supplies dispensed, plus a dispensing fee. Monies were transferred from the Lottery Fund to the PACE Fund for this program. **Act 1984-202** expanded this program because it increased the maximum income for receiving assistance.

Act 1984-49 provided for annual grants to counties, except Philadelphia and Allegheny counties, for the purpose of replacing and/or upgrading equipment for reduced fare demand-response service. The total amount appropriated from the State Lottery Fund was not to exceed \$2.3 million.

Act 1984-201, the Senior Center Grant Program Act, provided one time grants to senior centers for rehabilitation and renovation of facilities. During FY 1984-85, \$10.1 million was appropriated out of the State Lottery Fund to the Department of Aging for this program.

Appendix B (Continued)

Act 1987-17 reauthorized continuation of the PACE Program and authorized a number of administrative changes that were intended to make the program more cost effective.

Act 1987-79, the Older Adults Protective Services Act, provides services to older adults which are necessary to protect their health, safety, and welfare. Such services protect older adults from suspected abuse, neglect, exploitation, or abandonment. The General Assembly annually appropriates State Lottery Fund monies for this program.

Act 1991-22 provided for a one-time tax for the State Lottery Fund. Specifically, one quarter mill of the capital stock franchise tax for fiscal years beginning in 1991 was to be transferred to the State Lottery Fund by June 15 and December 15 of each calendar year.

Act 1991-26, the Public Transportation Law, provided grants from the State Lottery Fund to counties, except Philadelphia and Allegheny counties, for adding, replacing, upgrading, and over-hauling equipment and purchasing, constructing, or renovating facilities for reduced fare demand-response service. The amount available to all counties could not exceed \$2.3 million. **Act 1991-26** replaced the appropriation made by **Act 1984-49**, which was repealed.

Act 1991-36, the Lottery Fund Preservation Act, added a rebate component to the PACE program in order to ensure the integrity of the State Lottery Fund. Under this rebate program, pharmaceutical manufacturers participating in the program were required to offer a discount to the Commonwealth for pharmaceutical products purchased or reimbursed through state agencies. This program was set to expire July 1, 1992, but was repealed and replaced with a similar rebate program by **Act 1992-128**. **Act 1992-128** also promoted the integrity of the State Lottery Fund by including provisions to increase the use of generic drugs.

Act 1992-138 permits the Secretary of Revenue to enter into contracts to place commercial advertisements on lottery tickets. All revenues derived from these contracts are to be deposited into the State Lottery Fund.

Act 1993-8 prohibited the sale of interests in out of state lotteries and required the Secretary of Revenue to enter into compacts with other states so that each state could sell the other's lottery tickets. These provisions, however, never took effect; a federal court found they were unconstitutional because they placed an undue burden on interstate commerce. As of late May 1994, this case was still being litigated.

Source: Developed by LB&FC staff.

APPENDIX C

Summary of Pending Lottery-Related Legislation

1. Bills Related to the Pharmaceutical Assistance Contract for the Elderly (PACE) Program: As of mid-May 1994, 23 PACE-related bills were pending. For the most part, these bills pertain to the definition of maximum annual income for program eligibility. Currently, income limits are \$13,000 for single persons and \$16,200 for married couples.

Bill and
Printer's Numbers

Brief Description

HB 64, PN 74	Maximum annual income could not be set at more than \$14,000 for single persons, and \$17,500 for married couples. These figures would be adjusted annually based on the Social Security cost of living adjustment (COLA).
HB 234, PN 261	All costs of prescription medicine would be excluded from income.
HB 267, PN 294	Maximum annual income could not be set at more than \$15,000 for a single person or \$18,000 for a married couple.
HB 691, PN 755	The Department would be required to develop a system for deducting all costs of prescription drugs from income.
HB 740, PN 804	Income would include only the taxable amount of any annuities (rather than the gross amount).
HB 749, PN 813	Maximum annual income would be \$13,000 for singles, and \$16,200 for married couples, plus Social Security COLAs.
HB 1087, PN 1218	All Social Security benefits would be excluded from income.
HB 1490, PN 1666	Maximum annual income could not be set at more than \$16,000 for single persons or \$22,000 for married couples. The copayment would also be raised to \$10.50.

Appendix C (Continued)

1. PACE-Related Bills (Cont.)

<u>Bill and Printer's Numbers</u>	<u>Brief Description</u>
HB 1792, PN 2120	Rather than excluding all Medicare benefits from income, such benefits would be excluded only to the extent they exceed any payments for Medicare coverage.
HB 2310, PN 2869	Income would not include the cost of Medicare premiums.
HB 2341, PN 2934	Persons who improperly receive PACE benefits need not reimburse the Commonwealth under certain circumstances.
HB 2412, PN 3027	"Increases in benefits" under the Social Security Act would be excluded from income.
HB 2497, PN 3148	Income would no longer include the gross amount of annuities.
HB 2733, PN 3619	Maximum annual income could not be set at more than \$14,000 for single persons and \$17,200 for married couples. This bill would also increase the rebate drug manufacturers pay to the Commonwealth.
SB 202, PN 204	Maximum annual income would be \$13,000 for singles, and \$16,200 for married couples, plus all Social Security COLAs since December 31, 1988.
SB 203, PN 205	Maximum annual income could not be set at more than \$16,000 for single persons and \$19,200 for married couples.

Appendix C (Continued)

1. PACE-Related Bills (Continued)

<u>Bill and Printer's Numbers</u>	<u>Brief Description</u>
SB 207, PN 209	The Department of Aging would be required to create two levels of maximum annual income for participants. The maximum annual income for level one could not be set at more than \$13,000 for single persons and \$16,200 for married couples. The copayment for level one participants would be \$6. The maximum annual income for level two could not be set at more than \$16,000 for single persons and \$21,200 for married couples. The copayment for level two participants would be \$8. In addition, the costs of the PACE program for level two participants would be paid from the General Fund rather than the Lottery Fund.
SB 589, PN 628	The maximum annual income after August 31, 1991, could not exceed \$12,000 for single persons, and \$15,000 for married couples, adjusted by the same percentage as the Social Security COLA for the previous year.
SB 1312, PN 1601	An applicant could not be considered ineligible based on fraud if he reported his income in 1988 as excluding his Medicare premium.
SB 1315, PN 1604	Alimony payments would be excluded from the payor's income.
SB 1406, PN 1702	The current cap on prescription sizes (the lesser of a 30 day supply or 100 units of the drug) would not apply if the physician notes on the prescription that a larger supply is necessary.
SB 1464, PN 1788	Payments of disability compensation received as a result of active service in the Armed Forces or the National Guard would be excluded from income.
SB 1471, PN 1795	The PACE Program would have six levels, each with a different maximum annual income and a different copayment. The higher the income, the higher the copayment.

Appendix C (Continued)

2. Bills Related to the Property Tax and Rent Rebate Program: Twelve bills concerning the Property Tax and Rent Rebate Program had been introduced as of mid-May 1994. Most of these relate to proposed changes in the program's income eligibility limits. Under current law, no person may receive more than \$500 in property tax or rent rebates, and persons with household incomes exceeding \$15,000 are ineligible for the program. The program formerly provided inflation dividends ranging from \$20 to \$125 per year, but this part of the program was discontinued in 1991.

<u>Bill and Printer's Numbers</u>	<u>Brief Description</u>
HB 208, PN 224	Veterans' disability benefits would be excluded from income.
HB 640, PN 704	The schedule for paying rebates would be modified; among other changes, the bill would increase the maximum income for receiving benefits to \$18,000.
HB 681, PN 745	The schedule for paying rebates would be modified; among other changes, the bill would increase the maximum income for receiving benefits to \$20,000.
HB 1364, PN 1499	The maximum amount of property tax or rent rebate payable would be \$500, \$600, or \$700, depending on the recipient's household income.
HB 1465, PN 1642	No more than 50 percent of veterans' benefits would be included in income.
HB 1790, PN 2118	Medicare benefits (which are currently excluded from income) would be excluded only to the extent they exceed payments for Medicare coverage.
HB 1897, PN 2317	The inflation dividends portion of the program would be reestablished.

Appendix C (Continued)

2. Property Tax and Rent Rebate Bills (Continued)

Bill and
Printer's Numbers

Brief Description

HB 2202, PN 3240	Counties, municipalities, and school districts could impose personal income and other taxes. The revenue raised would be used in part to reduce real estate taxes. In addition, taxing authorities would have authority to grant deferrals to increases in real property taxes. ¹
HB 2550, PN 3234	A school district generally could not increase real property taxes for residential property owners after they reach age 65. The Lottery Fund would reimburse school districts for the amount of lost taxes.
SB 204, PN 206	Social Security COLAs since December 31, 1988, would be excluded from income. In addition, the maximum income for participation in the program would be \$18,000.
SB 1314, PN 1603	Alimony payments would be excluded from the payor's income.
SB 1355, PN 1645	Federal and state taxes paid by a claimant would be excluded from income.
SB 1386, PN 1681	Tenants of persons who are exempt from real property taxes could receive rent rebates.

3. Bills Related to Lottery-Funded Transit Services: Three bills concerning transit programs had been introduced as of mid-May 1994.

Bill and
Printer's Numbers

Brief Description

HB 201, PN 217	The cap on commuter rail fares for persons age 65 or older would be repealed.
----------------	---

¹This bill would affect the Lottery Fund indirectly. By reducing the amount older Pennsylvanians pay in real estate taxes, the bill may reduce expenditures for the property tax and rent rebate program. This bill is cited here because it passed the House. It is, however, only one of many bills that could affect the amount older Pennsylvanians pay in real estate taxes.

Appendix C (Continued)

3. Lottery-Funded Transit Services Bills (Continued)

Bill and Printer's Numbers	<u>Brief Description</u>
-------------------------------	--------------------------

- | | |
|------------------|--|
| HB 2690, PN 3526 | The Department of Transportation would have authority to provide shared-ride services for adult blind persons. |
| SB 1028, PN 1142 | The Department of Transportation would be required to contract with a local management agency to provide shared-ride services in Philadelphia. |

4. Bills Related to Lottery Games and Drawings: Under current law, the Secretary of Revenue has considerable discretion in operating and administering the State Lottery. For example, the Secretary has discretion over the types of lottery games to be conducted and the frequency of drawings. Three bills concerning Lottery games and drawings had been introduced as of mid-May 1994.

Bill and Printer's Numbers	<u>Brief Description</u>
-------------------------------	--------------------------

- | | |
|------------------|---|
| HB 345, PN 374 | Lottery drawings could not be held on Sunday. |
| HB 978, PN 1062 | The Lottery would be required to offer a game like Keno. |
| SB 1220, PN 1473 | A State Lottery Commission (rather than the Department of Revenue) would operate and administer the State Lottery. In addition, the bill would permit video lottery games in municipalities passing a referendum on video gaming. |

Appendix C (Continued)

5. Miscellaneous Lottery-Related Bills: As of mid-May 1994, seven other bills and one resolution had been introduced addressing miscellaneous items related to the State Lottery.

<u>Bill and Printer's Numbers</u>	<u>Brief Description</u>
HB 75, PN 85	The Secretary of Revenue would be required to ensure that all TV stations have the option of televising live drawings as a public service.
HB 526, PN 577	People who win prizes of \$1 million or more could choose to receive one lump sum payment (rather than a series of annual payments).
HB 565, PN 1542	Lottery prizes of \$2,500 or more could be intercepted to pay defaulted loans owed to or guaranteed by PHEAA.
HB 976, PN 1060	Lottery Fund monies could be used to reimburse certain persons for contributions to a 911 system. Reimbursements could be paid to persons eligible for a property tax or rent rebate.
HB 1054, PN 1138	The Lottery Fund could not pay any person who is not a U.S. citizen.
SR 8, PN 255	A special Senate Committee would be created to investigate means of generating additional revenue for the State Lottery Fund.
SB 242, PN 1418	The General Assembly generally could not use an appropriations act to have the Lottery Fund pay for programs that were funded by the General Fund prior to FY 1983-84.
SB 518, PN 954	The Secretary of Revenue could enter into compacts with other states to permit each state to sell the other's lottery tickets. ²

²A federal court found a similar provision in Act 1993-8 unconstitutional.

Source: Developed by LB&FC staff.

APPENDIX D State Lottery Fund Financial Statement (Budgetary Basis) FY 1971-72 to FY 1992-93
(\$000)

	ACTUAL 1971-72	ACTUAL 1972-73	ACTUAL 1973-74	ACTUAL 1974-75	ACTUAL 1975-76	ACTUAL 1976-77	ACTUAL 1977-78	ACTUAL 1978-79	ACTUAL 1979-80	ACTUAL 1980-81	ACTUAL 1981-82
BEGINNING BALANCE	0	733	29,020	44,164	27,831	11,863	(7,293)	24,044	85,130	80,253	75,853
REVENUE											
TICKET SALES	52,274	124,421	128,466	115,610	136,904	151,703	295,455	351,419	387,401	427,012	562,256
LESS FIELD PAID PRIZES AND COMMISSIONS	1,821	7,405	7,066	13,605	35,644	51,536	139,457	170,654	197,825	219,433	291,929
DEPOSIT FROM SALE OF TICKETS	50,453	117,016	121,400	102,005	101,260	100,167	155,998	180,765	189,576	207,579	270,327
MISCELLANEOUS REVENUE	0	1,664	4,359	2,818	779	529	474	3,082	5,266	8,458	10,147
CAP. STOCK & FRANCHISE TAX											
NET REVENUE	50,453	118,680	125,759	104,823	102,039	100,696	156,472	183,847	194,842	216,037	280,474
ADMINISTRATIVE EXPENSES											
DEPARTMENT OF REVENUE											
GENERAL OPERATIONS	3,420	6,752	10,356	12,940	14,435	15,643	18,885	20,427	21,171	23,999	28,263
COMMISSIONS - ONLINE VENDOR											
PAYMENT OF PRIZES	24,500	66,174	56,894	48,647	36,068	32,800	29,331	24,717	18,265	18,698	29,999
PERSONAL INCOME TAX ON PRIZES										0	0
PAYMENT OF COMMISSIONS			547	450	700	700	700	557	635	554	700
REFUNDING STATE LOTTERY MONIES										0	0
STATE TREASURER											
TREASURY REPLACEMENT CHECKS		1	1	1	2	10	1	1	-10	4	8
REFUNDING STATE LOTTERY MONIES-TREAS		1	1	1	1	1	6	3	4	3	3
DEPARTMENT OF GENERAL SERVICES											
HARRISTOWN RENTAL CHARGES									375	333	333
HARRISTOWN UTILITY CHARGES								265	170	185	204
DEPARTMENT OF AGING											
GENERAL OPERATIONS										0	0
DEPT TRANS Thru FY87 - OA FY 88										0	0
RIDERSHIP VERIFICATION										0	0
NET TRANSFER TO THE GENERAL FUND	21,800	1,412					1,975				
TOTAL ADMINISTRATIVE EXPENSES	49,720	74,339	67,799	62,039	51,206	49,154	50,898	46,016	40,630	43,776	59,510
REVENUE AFTER ADMINISTRATIVE EXPENSES	733	44,341	57,960	42,784	50,833	51,542	105,574	137,831	154,212	172,261	220,964
LESS REVENUE RESERVE -20%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	34,452	44,193
REVENUE AVAILABLE FOR PROGRAMS	733	44,341	57,960	42,784	50,833	51,542	105,574	137,831	154,212	137,809	176,771
PRIOR YEAR LAPSE	0	9,393	3,088	11,451	3,974	411	384	379	1,680	15,886	629
PRIOR YEAR RESERVE	0	0	0	0	0	0	0	0	0	0	34,452
TOTAL FUNDS AVAILABLE FOR PROGRAMS	733	54,467	90,068	98,399	82,638	63,816	98,665	162,254	241,022	233,948	287,705
PROGRAM AUTHORIZATIONS BY DEPARTMENT											
DEPARTMENT OF REVENUE	0	25,447	35,149	59,338	57,993	58,250	59,625	60,227	143,100	127,529	157,285
DEPARTMENT OF AGING	0	0	0	0	0	0	0	0	0	0	6,200
DEPARTMENT OF PUBLIC WELFARE	0	0	0	0	0	0	0	0	0	0	0
DEPARTMENT OF TRANSPORTATION	0	0	10,755	11,230	12,782	12,859	14,996	16,897	17,669	30,566	34,394
TOTAL PROGRAM AUTHORIZATIONS	0	25,447	45,904	70,568	70,775	71,109	74,621	77,124	160,769	158,095	197,879
LESS CURRENT YEAR LAPSE	0	0	0	0	0	0	0	0	0	0	0
ENDING BALANCE	733	29,020	44,164	27,831	11,863	(7,293)	24,044	85,130	80,253	75,853	89,826

Appendix D (Continued)

(\$000)

	ACTUAL 1982-83	ACTUAL 1983-84	ACTUAL 1984-85	ACTUAL 1985-86	ACTUAL 1986-87	ACTUAL 1987-88	ACTUAL 1988-89	ACTUAL 1989-90	ACTUAL 1990-91	ACTUAL 1991-92	ACTUAL 1992-93
BEGINNING BALANCE	89,826	214,607	265,726	265,969	258,352	214,506	169,621	130,205	\$39,563	\$25,724	\$69,133
REVENUE											
TICKET SALES	885,407	1,236,023	1,294,742	1,320,170	1,338,516	1,439,151	1,567,155	1,543,371	\$1,523,242	\$1,408,923	\$1,427,402
LESS FIELD PAID PRIZES AND COMMISSIONS	389,645	472,209	526,008	587,318	573,424	663,617	673,724	699,716	\$713,417	\$608,614	\$630,305
DEPOSIT FROM SALE OF TICKETS	495,762	763,814	768,734	732,852	765,092	775,534	893,431	843,655	\$809,825	\$800,309	\$797,097
MISCELLANEOUS REVENUE	8,740	28,704	45,834	37,917	28,407	26,553	26,059	19,837	\$12,484	\$5,776	\$11,638
CAP. STOCK & FRANCHISE TAX										12,492	3,758
NET REVENUE	504,502	792,518	814,568	770,769	793,499	802,087	919,490	863,492	\$822,309	\$818,577	\$812,493
ADMINISTRATIVE EXPENSES											
DEPARTMENT OF REVENUE											
GENERAL OPERATIONS	34,890	35,599	36,333	38,744	40,612	39,484	54,755	64,337	\$45,120	\$43,204	\$44,423
COMMISSIONS - ONLINE VENDOR									\$20,989	\$19,118	\$18,943
PAYMENT OF PRIZES	103,000	234,200	163,571	161,596	168,356	194,420	212,600	205,407	\$161,656	\$122,145	\$130,753
PERSONAL INCOME TAX ON PRIZES	0	13,899	15,259	15,192	14,291	14,842	17,295	16,283	\$15,820	\$20,575	\$19,951
PAYMENT OF COMMISSIONS	400	400	400	109	0	0	0	0	\$0	\$0	\$0
REFUNDING STATE LOTTERY MONIES	10	10	10	7	10	10	0	0	\$0	\$0	\$0
STATE TREASURER											
TREASURY REPLACEMENT CHECKS	8	8	8	15	10	10	13	60	\$38	\$50	\$14
REFUNDING STATE LOTTERY MONIES-TREAS	0	0	0	0	0	0	0	0			\$103
DEPARTMENT OF GENERAL SERVICES											
HARRISTOWN RENTAL CHARGES	309	328	231	109	103	101	95	86	\$86	\$10	\$3,344
HARRISTOWN UTILITY CHARGES	199	259	182	89	86	87	89	94	\$94	\$118	\$0
DEPARTMENT OF AGING											
GENERAL OPERATIONS	0	0	1,523	2,367	2,259	2,374	2,467	3,022	\$2,916	\$3,177	\$0
DEPT TRANS Thru FY87 - OA FY 88	0	0	0	75	100	100	2	57	\$40	\$62	\$98
RIDERSHIP VERIFICATION											
NET TRANSFER TO THE GENERAL FUND											
TOTAL ADMINISTRATIVE EXPENSES	138,816	284,703	217,517	218,303	225,827	251,428	287,316	289,346	\$246,759	\$208,459	\$217,764
REVENUE AFTER ADMINISTRATIVE EXPENSES	365,686	507,815	597,051	552,466	567,672	550,659	632,174	574,146	\$575,550	\$610,118	\$594,729
LESS REVENUE RESERVE - 20%	73,137	101,563	119,410	110,493	113,534	110,132	126,435	114,829	\$0	\$0	\$0
REVENUE AVAILABLE FOR PROGRAMS	292,549	406,252	477,641	441,973	454,138	440,527	505,739	459,317	\$575,550	\$610,118	\$594,729
PRIOR YEAR LAPSE	489	2,934	3,550	17,173	17,090	25,347	23,344	7,296	\$17,841	\$13,595	\$18,026
PRIOR YEAR RESERVE	44,193	73,137	101,563	119,410	110,493	113,534	110,132	126,435	\$114,829	\$0	\$0
TOTAL FUNDS AVAILABLE FOR PROGRAMS	427,057	696,930	848,480	844,525	840,073	793,914	808,836	723,253	\$747,783	\$649,437	\$681,888
PROGRAM AUTHORIZATIONS BY DEPARTMENT											
DEPARTMENT OF REVENUE	141,504	133,873	133,362	133,364	156,776	157,697	161,504	153,013	\$142,620	\$109,000	\$104,539
DEPARTMENT OF AGING	18,618	129,840	192,628	175,723	182,869	194,926	267,096	298,705	\$343,501	\$339,863	\$339,646
DEPARTMENT OF PUBLIC WELFARE	0	100,000	167,239	169,635	170,301	151,835	126,000	106,000	\$96,000	\$24,000	\$40,000
DEPARTMENT OF TRANSPORTATION	52,328	67,491	89,282	107,451	115,621	119,835	124,031	125,972	\$139,938	\$107,441	\$107,055
TOTAL PROGRAM AUTHORIZATIONS	212,450	431,204	582,511	586,173	625,567	624,293	678,631	683,690	\$722,059	\$580,304	\$591,240
LESS CURRENT YEAR LAPSE									\$0	\$0	\$0
ENDING BALANCE	214,607	265,726	265,969	258,352	214,506	169,621	130,205	39,563	\$25,724	\$69,133	\$90,648

Source: PA Department of Revenue, Bureau of Fiscal Policy.

APPENDIX E State Lottery Funding of Programs for Older Pennsylvanians, FY 1971-72 to FY 1992-93

(\$000)

 APPROPRIATION DETAIL

	ACTUAL 1971-72	ACTUAL 1972-73	ACTUAL 1973-74	ACTUAL 1974-75	ACTUAL 1975-76	ACTUAL 1976-77	ACTUAL 1977-78	ACTUAL 1978-79	ACTUAL 1979-80	ACTUAL 1980-81	ACTUAL 1981-82
DEPARTMENT OF REVENUE											
PROPERTY TAX/RENT REBATES	0	25,447	35,149	59,338	57,993	58,250	59,625	60,227	114,700	101,494	92,977
INFLATION DIVIDEND	0	0	0	0	0	0	0	0	28,400	26,035	64,308
TOTAL	0	25,447	35,149	59,338	57,993	58,250	59,625	60,227	143,100	127,529	157,285

DEPARTMENT OF AGING	
AGING PROGRAMS	6,200

PHARMACEUTICAL ASSISTANCE PROGRAM
 IN-HOME SERVICES
 PRE-ADMISSION IN-HOME SERVICES
 HOME ATTENDANT CARE
 PENN CARE
 DRUG EDUCATION
 ABUSE PREVENTION
 SENIOR CITIZEN CENTERS
 ALZHEIMER'S DISEASE

TOTAL	0	0	0	0	0	0	0	0	0	0	0	6,200
--------------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	--------------

DEPARTMENT OF PUBLIC WELFARE
 MEDICAL ASSISTANCE-LONG TERM CARE
 SUPPLEMENTAL SOCIAL SECURITY
 PRE-ADMISSION ASSESSMENT
 MEDICARE PART B PREMIUMS
 COMM. BASED SVS-MR SPEC SVS-AGING

TOTAL	0	0	0	0	0	0	0	0	0	0	0	0
--------------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------

DEPARTMENT OF TRANSPORTATION

ELDERLY FREE TRANSIT
 ELDERLY SHARED RIDES
 ELDERLY SHARED RIDES-URBAN MASS TRANSIT
 ELDERLY SHARED RIDES-RURAL & INTERCITY
 VEHICLE REGISTRATION-ELDERLY
 DEMAND RESPONSE EQUIPMENT GRANTS
 TRANSPORTATION GRANTS
 FREE TRANSIT-COUNTY GRANTS

	10,755	11,230	12,782	12,859	14,996	16,897	17,669	21,486	27,005
TOTAL	\$0	\$10,755	\$11,230	\$12,782	\$14,996	\$16,897	\$17,669	\$30,566	\$34,394

	9,080	4,540
--	-------	-------

Appendix E (Continued)

(\$000)

	ACTUAL 1982-83	ACTUAL 1983-84	ACTUAL 1984-85	ACTUAL 1985-86	ACTUAL 1986-87	ACTUAL 1987-88	ACTUAL 1988-89	ACTUAL 1989-90	ACTUAL 1990-91	ACTUAL 1991-92	ACTUAL 1992-93
DEPARTMENT OF REVENUE											
PROPERTY TAX/RENT REBATES	101,637	97,231	97,820	98,861	122,086	123,681	127,820	121,535	\$114,317	\$109,000	\$104,539
INFLATION DIVIDEND	39,867	36,642	35,542	34,503	34,690	34,016	33,684	31,478	\$28,303	\$0	\$0
TOTAL	141,504	133,873	133,362	133,364	156,776	157,697	161,504	153,013	\$142,620	\$109,000	\$104,539
DEPARTMENT OF AGING											
AGING PROGRAMS	18,618	29,840	45,121	46,637	50,198	52,077	54,160	57,586	\$59,436	\$61,000	\$62,911
PHARMACEUTICAL ASSISTANCE PROGRAM		100,000	115,600	100,000	100,000	100,000	165,000	188,000	\$222,000	\$204,925	\$200,000
IN-HOME SERVICES			12,000	14,000	16,000	24,000			\$0	\$0	\$0
PRE-ADMISSION IN-HOME SERVICES			4,615	9,441	11,177	13,300			\$0	\$0	\$0
HOME ATTENDANT CARE			5,000	5,100	5,400	5,400			\$0	\$0	\$0
PENN CARE							45,485	49,119	\$57,905	\$69,778	\$72,575
DRUG EDUCATION			192	50	32	49			\$0	\$0	\$0
ABUSE PREVENTION			10,100	0	0	0	2,351	4,000	\$4,160	\$4,160	\$4,160
SENIOR CITIZEN CENTERS			0	495	62	100	100	0	\$0	\$0	\$0
ALZHEIMER'S DISEASE									\$0	\$0	\$0
TOTAL	18,618	129,840	192,628	175,723	182,869	194,926	267,096	298,705	\$343,501	\$339,863	\$339,646
DEPARTMENT OF PUBLIC WELFARE											
MEDICAL ASSISTANCE-LONG TERM CARE		100,000	140,000	140,000	140,000	140,000	126,000	106,000	\$96,000	\$24,000	\$40,000
SUPPLEMENTAL SOCIAL SECURITY			17,600	17,600	17,600	0	0	0	\$0	\$0	\$0
PRE-ADMISSION ASSESSMENT			1,639	1,653	1,973	2,505	0	0	\$0	\$0	\$0
MEDICARE PART B PREMIUMS			8,000	8,182	8,528	9,330	0	0	\$0	\$0	\$0
COMM. BASED SVS-MR SPEC SVS-AGING			0	2,200	2,200	0	0	0	\$0	\$0	\$0
TOTAL	0	100,000	167,239	169,635	170,301	151,835	126,000	106,000	\$96,000	\$24,000	\$40,000
DEPARTMENT OF TRANSPORTATION											
ELDERLY FREE TRANSIT	44,839	64,091	56,656	65,292	71,415	69,503	73,059	71,932	\$80,100	\$54,547	\$53,400
ELDERLY SHARED RIDES			28,272	37,702	39,402	46,200	46,075	49,043	\$54,636	\$31,894	\$53,655
ELDERLY SHARED RIDES-URBAN MASS TRANSIT									\$0	\$5,000	\$0
ELDERLY SHARED RIDES-RURAL & INTERCITY									\$0	\$16,000	\$0
VEHICLE REGISTRATION-ELDERLY	3,389	3,400	3,400	2,500	2,512	1,838	2,600	2,700	\$2,911	\$0	\$0
DEMAND RESPONSE EQUIPMENT GRANTS			954	1,957	2,292	2,294	2,297	2,297	\$2,291	\$0	\$0
TRANSPORTATION GRANTS	4,100										
FREE TRANSIT-COUNTY GRANTS											
TOTAL	\$52,328	\$67,491	\$89,282	\$107,451	\$115,621	\$119,835	\$124,031	\$125,972	\$139,938	\$107,441	\$107,055

Source: PA Department of Revenue, Bureau of Fiscal Policy.

APPENDIX F

Historical PA Lottery Gross Sales, by Game

FY 1971-72 to FY 1992-93
(\$000)

<u>Fiscal Year</u>	<u>50¢^a</u>	<u>\$1.00^a</u>	<u>Instant</u>	<u>Daily Number</u>	<u>Big Four</u>	<u>Lotto</u>	<u>Super 7</u>	<u>Cash 5</u>	<u>Total</u>
1971-72.....	\$ 52,274	--		--	--	--	--	--	\$ 52,274 ^b
1972-73.....	88,145	\$ 36,276		--	--	--	--	--	124,421
1973-74.....	58,292	70,174		--	--	--	--	--	128,466
1974-75.....	47,486	54,578	\$ 13,546	--	--	--	--	--	115,610
1975-76.....	34,084	34,907	67,913	--	--	--	--	--	136,904
1976-77.....	38,559	17,333	47,336	\$ 42,882	--	--	--	--	151,703 ^c
1977-78.....	26,068	14,699	62,006	187,634	--	--	--	--	295,455 ^c
1978-79.....	21,345	14,014	64,015	247,520	--	--	--	--	351,419 ^c
1979-80.....	18,176	8,894	72,369	287,962	--	--	--	--	387,401
1980-81.....	14,999	5,544	64,049	318,902	\$ 23,519	--	--	--	427,013
1981-82.....	11,371	4,110	96,342	386,500	51,699	\$ 12,233	--	--	562,255
1982-83.....	--	--	183,450	453,090	63,957	184,914	--	--	885,411
1983-84.....	--	--	198,893	480,910	68,237	487,983	--	--	1,236,023
1984-85.....	--	--	200,582	503,416	79,114	511,631	--	--	1,294,742
1985-86.....	--	--	208,369	514,055	99,380	498,365	--	--	1,320,169
1986-87.....	--	--	210,196	532,747	98,531	306,510	\$ 190,532	--	1,338,516
1987-88.....	--	--	224,839	555,957	132,119	241,835	284,392	--	1,439,142
1988-89.....	--	--	235,429	586,531	165,043	276,015	304,144	--	1,567,162
1989-90.....	--	--	215,550	658,635	196,900	255,473	216,813	--	1,543,371
1990-91.....	--	--	231,528	665,021	217,155	259,025	150,515	--	1,523,244
1991-92.....	--	--	225,207	635,155	224,972	211,456	97,292	\$ 14,841	1,408,923
1992-93.....	--	--	211,224	607,718	230,524	193,976	110,313	73,647	1,427,402
Totals.....	\$410,799	\$260,529	\$2,832,843	\$7,664,635	\$1,651,150	\$3,439,416	\$1,354,001	\$ 88,488	\$17,717,026^d

^aThe first 50¢ game went on sale March 7, 1972, and underwent five revisions before being discontinued on April 14, 1982. The first \$1.00 game was introduced on November 14, 1972. There were five different \$1.00 game formats before the last game was discontinued on April 14, 1982.

^bPartial fiscal year figure. Ticket sales began March 7, 1972.

^cIncludes ticket sales from sweepstakes games that operated only in these three fiscal years generating \$5.6 million in FY 1976-77, \$5.0 million in FY 1977-78, and \$4.5 million in FY 1978-79.

^dIncludes monies from sweepstakes games offered in FYs 1976-77, 1977-78, and 1978-79. See footnote c.

Source: Developed by LB&FC staff from Pennsylvania Tax Compendium, FY 1983-84 and FY 1991-92, PA Department of Revenue and the Chronological History of Major Events of the Pennsylvania State Lottery. FY 1971-72 gross sales data provided by the Director of the Bureau of Fiscal Management, PA Department of Revenue.

APPENDIX G

PA Lottery Economic and Benefit Impact Report, by County During Fiscal Year 1992-1993

COUNTY	AGING	PACE	TRANSPORTATION	LONG-TERM CARE	PROPERTY TAX	LOTTERY PRIZES	RETAILER COMMISSIONS	COUNTY TOTALS
Adams	\$575,000	\$1,221,504	\$143,000	\$151,000	\$413,000	\$1,886,797	\$239,632	\$4,629,933
Allegheny	\$17,754,000	\$25,650,699	\$23,524,000	\$4,533,000	\$14,417,000	\$102,247,737	\$11,326,808	\$199,453,244
Armstrong	\$1,069,000	\$1,536,127	\$258,000	\$189,000	\$903,000	\$3,774,666	\$451,298	\$8,181,091
Beaver	\$1,863,000	\$3,723,436	\$263,000	\$554,000	\$1,856,000	\$12,872,437	\$1,421,523	\$22,553,396
Bedford	\$815,000	\$1,384,905	\$294,000	\$93,000	\$386,000	\$1,012,642	\$134,289	\$4,119,836
Berks	\$3,393,000	\$5,703,520	\$1,245,000	\$718,000	\$2,550,000	\$18,351,952	\$2,112,835	\$34,074,307
Blair	\$1,651,000	\$3,342,682	\$800,000	\$372,000	\$1,339,000	\$5,837,289	\$687,561	\$14,029,532
Bradford	\$832,000	\$1,239,836	\$180,000	\$137,000	\$556,000	\$1,345,954	\$162,571	\$4,453,361
Bucks	\$2,791,000	\$6,088,569	\$2,202,000	\$1,131,000	\$2,154,000	\$21,892,696	\$2,654,029	\$38,913,294
Butler	\$1,253,000	\$2,391,326	\$190,000	\$352,000	\$1,116,000	\$6,568,021	\$772,496	\$12,642,843
Cambria	\$2,243,000	\$3,726,570	\$683,000	\$472,000	\$1,676,000	\$11,346,967	\$1,098,828	\$21,246,365
Cameron	\$69,000	\$163,584	\$26,000	\$14,000	\$51,000	\$142,511	\$16,902	\$482,997
Carbon	\$569,000	\$1,798,176	\$253,000	\$136,000	\$496,000	\$4,014,162	\$441,824	\$7,708,162
Centre	\$632,000	\$1,405,049	\$278,000	\$150,000	\$489,000	\$1,909,097	\$253,118	\$5,116,264
Chester	\$2,015,000	\$3,188,480	\$2,796,000	\$645,000	\$1,217,000	\$11,643,665	\$1,413,486	\$22,918,631
Clarion	\$444,000	\$959,477	\$88,000	\$139,000	\$271,000	\$898,203	\$114,939	\$2,914,619
Clearfield	\$1,088,000	\$2,469,849	\$158,000	\$256,000	\$680,000	\$2,724,685	\$290,250	\$7,666,784
Clinton	\$424,000	\$960,257	\$144,000	\$104,000	\$378,000	\$1,097,114	\$109,654	\$3,217,025
Columbia	\$699,000	\$1,801,725	\$138,000	\$125,000	\$495,000	\$1,831,113	\$228,017	\$5,317,855
Crawford	\$1,176,000	\$1,939,971	\$259,000	\$267,000	\$709,000	\$3,206,650	\$387,236	\$7,944,857
Cumberland	\$1,236,000	\$2,095,398	\$300,000	\$304,000	\$758,000	\$6,212,338	\$787,839	\$11,693,575
Dauphin	\$2,524,000	\$3,407,828	\$812,000	\$692,000	\$1,544,000	\$15,804,982	\$1,644,221	\$26,429,031
Delaware	\$4,683,000	\$8,030,498	\$4,309,000	\$1,729,000	\$4,237,000	\$31,980,209	\$3,774,448	\$58,743,155
Elk	\$349,000	\$905,468	\$52,000	\$73,000	\$276,000	\$1,255,839	\$129,654	\$3,040,961
Erie	\$2,470,000	\$5,212,787	\$833,000	\$789,000	\$2,285,000	\$15,483,016	\$1,728,113	\$28,800,916
Fayette	\$2,633,000	\$3,512,268	\$531,000	\$540,000	\$1,753,000	\$12,035,187	\$1,296,430	\$22,300,885
Forest	\$70,000	\$153,148	\$122,000	\$24,000	\$31,000	\$333,419	\$36,711	\$770,278
Franklin	\$1,047,000	\$1,934,521	\$163,000	\$183,000	\$555,000	\$2,994,582	\$356,515	\$7,233,618
Fulton	\$211,000	\$267,335	\$59,000	\$26,000	\$96,000	\$226,150	\$28,973	\$914,458
Greene	\$656,000	\$661,028	\$135,000	\$158,000	\$440,000	\$1,859,564	\$194,899	\$4,104,491
Huntingdon	\$590,000	\$950,622	\$235,000	\$93,000	\$370,000	\$1,078,523	\$104,275	\$3,421,420
Indiana	\$959,000	\$1,519,100	\$179,000	\$224,000	\$839,000	\$3,410,444	\$387,113	\$7,517,657
Jefferson	\$717,000	\$1,352,999	\$81,000	\$151,000	\$407,000	\$1,550,540	\$179,229	\$4,438,768
Juniata	\$246,000	\$528,844	\$61,000	\$47,000	\$97,000	\$387,923	\$36,494	\$1,404,261
Lackawanna	\$2,984,000	\$8,445,647	\$1,265,000	\$648,000	\$3,176,000	\$13,931,691	\$1,553,219	\$32,003,557
Lancaster	\$2,836,000	\$5,234,156	\$1,202,000	\$805,000	\$2,302,000	\$13,362,751	\$1,509,243	\$27,251,150
Lawrence	\$1,123,000	\$2,124,506	\$320,000	\$288,000	\$1,087,000	\$6,340,969	\$696,368	\$11,979,843
Lebanon	\$1,035,000	\$1,572,223	\$322,000	\$253,000	\$684,000	\$3,918,440	\$469,915	\$8,254,578
Lehigh	\$2,757,000	\$4,609,178	\$1,207,000	\$763,000	\$1,987,000	\$13,930,782	\$1,656,330	\$26,910,290
Luzerne	\$4,959,000	\$13,581,018	\$1,164,000	\$876,000	\$4,635,000	\$22,378,075	\$2,544,920	\$50,138,013
Lycoming	\$1,268,000	\$2,606,698	\$557,000	\$288,000	\$1,039,000	\$2,913,153	\$371,750	\$9,043,601
McKean	\$626,000	\$1,288,124	\$60,000	\$152,000	\$448,000	\$1,531,121	\$177,814	\$4,283,059

Appendix G (Continued)

COUNTY	AGING	PACE	TRANSPORTATION	LONG-TERM CARE	PROPERTY TAX	LOTTERY PRIZES	RETAILER COMMISSIONS	COUNTY TOTALS
Mercer	\$1,059,000	\$2,318,493	\$359,000	\$317,000	\$913,000	\$6,751,980	\$724,813	\$12,443,286
Mifflin	\$623,000	\$1,451,095	\$246,000	\$121,000	\$496,000	\$935,075	\$116,864	\$3,989,034
Monroe	\$758,000	\$1,306,062	\$325,000	\$179,000	\$571,000	\$4,319,418	\$545,731	\$8,004,211
Montgomery	\$4,662,000	\$6,999,294	\$4,430,000	\$1,463,000	\$3,440,000	\$25,818,361	\$3,103,941	\$49,916,596
Montour	\$237,000	\$368,653	\$75,000	\$55,000	\$87,000	\$585,220	\$66,375	\$1,474,248
Northampton	\$2,324,000	\$4,259,529	\$1,207,000	\$463,000	\$2,069,000	\$12,295,515	\$1,479,273	\$24,097,317
Northumberland	\$1,644,000	\$4,024,058	\$358,000	\$231,000	\$935,000	\$5,089,217	\$573,029	\$12,854,304
Perry	\$330,000	\$642,085	\$130,000	\$63,000	\$195,000	\$877,790	\$120,280	\$2,358,155
Philadelphia	\$32,999,000	\$34,564,215	\$45,983,000	\$14,014,000	\$22,379,000	\$129,675,176	\$14,956,080	\$294,570,471
Pike	\$244,000	\$408,438	\$101,000	\$29,000	\$116,000	\$767,750	\$99,813	\$1,766,001
Potter	\$324,000	\$427,311	\$41,000	\$53,000	\$124,000	\$449,153	\$52,605	\$1,471,069
Schuylkill	\$2,596,000	\$6,741,223	\$1,179,000	\$366,000	\$1,644,000	\$12,866,201	\$1,419,672	\$26,812,096
Snyder	\$321,000	\$795,310	\$145,000	\$59,000	\$160,000	\$694,073	\$96,997	\$2,271,380
Somerset	\$1,136,000	\$1,867,419	\$182,000	\$231,000	\$712,000	\$2,525,955	\$296,114	\$6,950,488
Sullivan	\$92,000	\$169,795	\$39,000	\$29,000	\$53,000	\$130,270	\$16,610	\$529,675
Susquehanna	\$501,000	\$909,934	\$90,000	\$80,000	\$316,000	\$955,396	\$110,628	\$2,962,958
Tioga	\$556,000	\$939,078	\$175,000	\$90,000	\$315,000	\$495,675	\$62,225	\$2,632,978
Union	\$274,000	\$562,063	\$135,000	\$61,000	\$162,000	\$451,114	\$56,402	\$1,701,579
Venango	\$627,000	\$1,265,785	\$181,000	\$202,000	\$448,000	\$1,876,282	\$208,807	\$4,808,874
Warren	\$437,000	\$826,476	\$137,000	\$119,000	\$296,000	\$1,316,164	\$158,155	\$3,289,795
Washington	\$2,292,000	\$4,050,542	\$1,040,000	\$519,000	\$2,022,000	\$12,764,619	\$1,454,638	\$24,142,799
Wayne	\$545,000	\$947,804	\$137,000	\$81,000	\$341,000	\$1,493,864	\$179,173	\$3,724,841
Westmoreland	\$4,360,000	\$7,731,270	\$1,545,000	\$906,000	\$3,219,000	\$22,375,300	\$2,512,536	\$42,649,106
Wyoming	\$303,000	\$655,786	\$100,000	\$60,000	\$244,000	\$535,367	\$65,275	\$1,963,428
York	\$3,063,000	\$4,827,581	\$824,000	\$565,000	\$2,084,000	\$11,758,682	\$1,405,492	\$24,527,755
GRAND TOTALS	\$139,641,000	\$229,748,435	\$107,055,000	\$40,000,000	\$104,539,000	\$645,327,673	\$73,863,297	\$1,340,174,405

DEFINITIONS:

AGING - Services provided through area Agencies of Aging.

PACE - Pharmaceutical Assistance Contract for the Elderly.

TRANSPORTATION - Free and Subsidized Mass Transit and Shared-Ride Program.

LONG-TERM CARE - Nursing Home Program through the Department of Welfare.

PROPERTY TAX - Property Tax and Rent Rebate Program.

LOTTERY PRIZES - Lottery prizes won by county residents.

APPENDIX H

The State Lottery Annuity Process*

Annuities are used by the State Lottery to pay the jackpot winners of the Super 7 game, the Wild Card Lotto game, and the Million Dollar Spin (from free instant ticket winners).

An annuity is a contractual agreement entered into with an insurance company whereby the insurance company provides a series of payments to the individual (annuitant) for a specified number of years or for life. The annuitant (i.e., the individual through the State Lottery) invests an amount of money with the insurance company and then the insurance company invests the money for the annuitant. The initial deposit plus the interest earned on that deposit is the money that is returned to the annuitant over time.

For the Lottery, an annuity means that the Lottery Fund will buy an investment policy with an insurance company for the jackpot winner. The money used to purchase the annuity is the percent of prize pool for the specific game plus any amount rolled over from previous weeks' games (where no one had a winning ticket).

The annuity is bought on the seventh working day after the bid award. Over the specified time period the annuity will earn interest. This interest plus the original investment amount make up the total prize money paid to the winner. The payments are made annually to the winner, with the first one made by Lottery officials and all remaining ones made by the insurance company.

For Wild Card Lotto, a 20-year annuity is purchased. This means the winner receives 21 payments: the first one by the Lottery at the time of winning and the remaining 20 for each of the next 20 years by the insurance company. For Super 7 a 25-year annuity is purchased which results in 26 payments to the winner, and for Million Dollar Spin a 19-year annuity is bought which means 20 payments to the winner. These are the only games that use an annuity. For all other games the prizes are paid in one lump sum at the time of ticket validation.

A minimum jackpot of \$1,000,000 is guaranteed for the Lotto winners and the maximum is unlimited due to a carryover provision when no winner is determined for prior week drawings. The minimum jackpot for Super 7 is \$2,000,000 with an unlimited maximum due to possible rollovers. For Million Dollar Spin there is the possibility of a \$1,000,000 prize available based on the spin of the wheel.

Appendix H (Continued)

The State Lottery Annuity Process (Continued)

Once there is a jackpot winner for any of these games, the Lottery Financial Officer immediately begins the process of purchasing an annuity. The Financial Officer receives a report from AWI, the on-line vendor, the day after the winning draw that shows the total sales for the winning game and the pool of winners (meaning the number of 6th place winners, the number of 5th place, etc.). From this report, the Financial Officer can see how much money is available to purchase an annuity.

In order to buy an annuity, the Lottery needs to contact an insurance company. The Bureau of Risk and Insurance Management (BRIM) within the Department of General Services provides the State Lottery with a list of approved insurance companies that can be contacted for an annuity quote. These companies include Alexander Hamilton Life Insurance Company of America, New York Life Insurance Company, Mutual of America, Metropolitan Life Insurance Company, John Hancock Mutual Life Insurance Company, First Colony Life Insurance Company, Hartford Life Insurance Company, Prudential Insurance Company of America, and Trans-America Occidental. BRIM provides Standard and Poor's, Moody's, and AM Best ratings on the insurance companies that are used for annuity bidding. BRIM also provides total net policy reserves, annuities, and unassigned surplus for each insurance company, and the State Lottery calculates maximum aggregate exposure allowed each company.

The Lottery solicits bids from these companies. The companies are provided with the amount of money that Lottery has available to purchase an annuity as determined from the AWI report. The companies then fill out a worksheet showing the annual amount they could pay to the winner. The company that offers the largest pay-out to the winner is the company picked. The deciding factor in selecting among the companies is the interest rate they can generate. The higher the rate, the higher the payout to the winner.

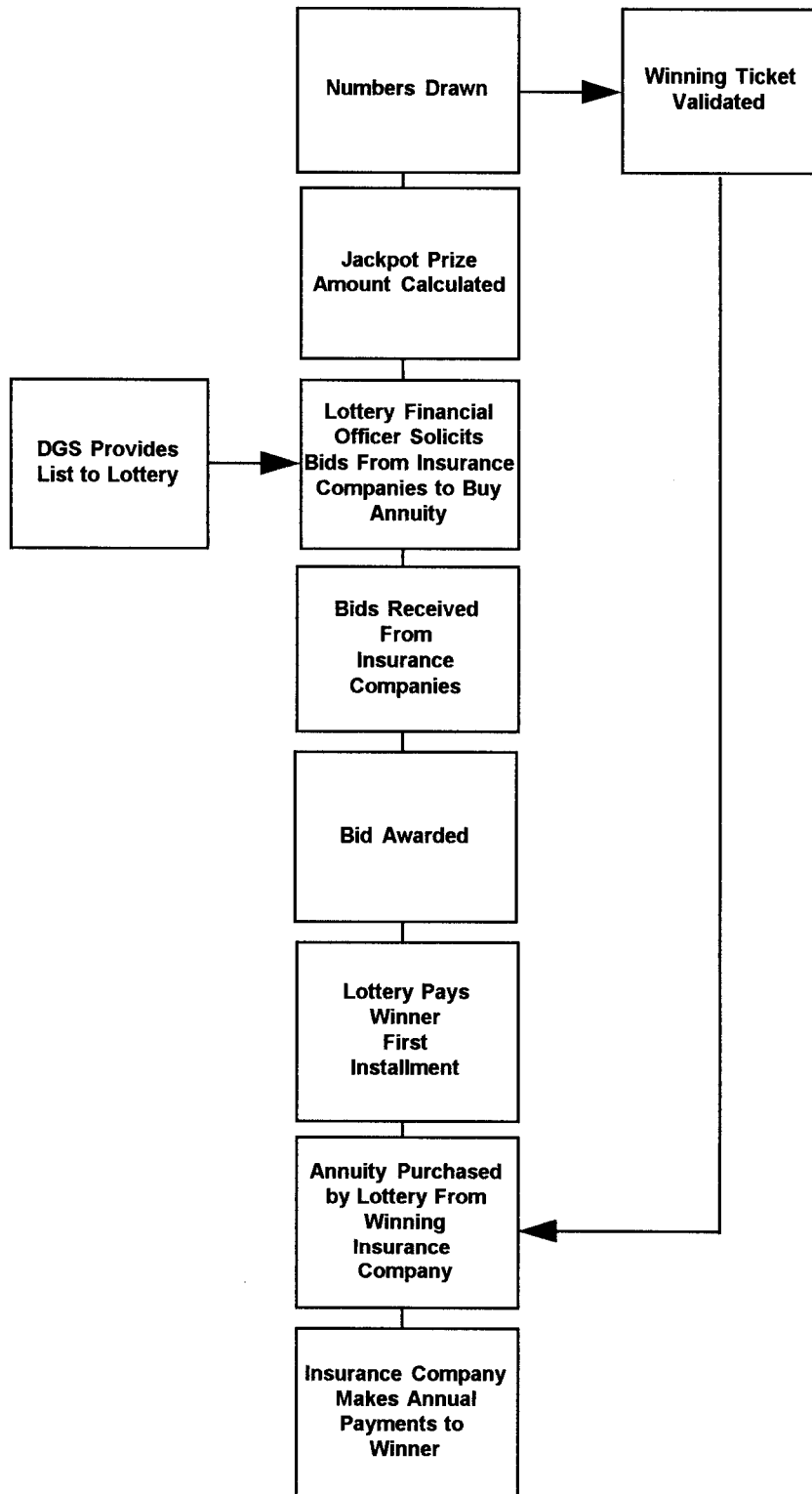
The annuity is purchased on the seventh working day after the bid award. The amount available, less first payment, is the amount paid. The Lottery pays the winner the first installment when the winning ticket is presented and validated. The insurance company makes the remainder of the payments.

No other state agencies use an annuity. A flowchart on the annuity process and narrative explaining a sample annuity (from the Wild Card Lotto jackpot of May 4, 1993) are attached.

*Developed by LB&FC staff based on information obtained from the PA State Lottery's Financial Officer.

Appendix H (Continued)

Flowchart on Pennsylvania State Lottery Annuity Process



Source: Developed by LB&FC staff from information obtained from the Pennsylvania State Lottery.

Appendix H (Continued)

Narrative to Flowchart on PA State Lottery Annuity Process (Using a Wild Card Lotto Jackpot as an Example)

1. The winning numbers for the Wild Card Lotto game are drawn on Tuesdays and Fridays. Six numbers are drawn with a seventh number selected as a wild card. A person holding a ticket that matches the six numbers drawn by the Lottery is the jackpot winner and needs to have the winning ticket validated by the State Lottery.
2. The jackpot prize amount available to purchase an annuity is calculated based on the total ticket sales for that game drawing plus any rollover ticket sales from prior games where there was no jackpot winner. The State Lottery Law states that no less than 40 percent of gross ticket sales is to be used for the payment of lottery prizes. The current Lottery policy is to allocate 49 percent of Wild Card Lotto gross ticket sales to the prize pool.
3. Once the Lottery's Financial Officer determines the amount of money available to purchase an annuity, he solicits bids from insurance companies to purchase the annuity. The Financial Officer lets the insurance companies know how much money the Lottery has to purchase an annuity and then the insurance companies compute the total amount that they would be able to pay to the winner over time based on the interest rate they could secure in investing in an annuity.
4. The Bureau of Risk and Insurance Management within the Department of General Services provides the State Lottery with a list of approved insurance companies that are eligible to participate in the annuity bid solicitation process.
5. The insurance companies return their bid packets to the State Lottery. These packets contain a worksheet that informs the Lottery on the total amount of prize money that would be paid to the winning ticket holder over time.
6. The insurance company that offers the largest payout to the winning ticket holder is awarded the annuity contract. The competition between the companies is the interest rate they can guarantee on the annuity.
7. The State Lottery makes the first payment to the winning ticket holder from the total jackpot amount available to invest in an annuity. The amount of this payment is stated on the worksheet of the insurance company awarded the annuity contract.

Appendix H (Continued)

Narrative to Flowchart on PA State Lottery Annuity Process (Continued)

8. The Lottery then purchases an annuity from the insurance company selected using the remainder of the jackpot money. This annuity is bought on the seventh working day after the bid award.
9. The insurance company is then responsible for annually paying an installment to the winning ticket holder for the term of the annuity. For the Wild Card Lotto game this term is 20 years. The insurance company is also responsible for all administrative functions associated with paying the prize for the term of the annuity.
10. An illustration of how this process works using the May 4, 1993, Wild Card Lotto jackpot prize as an example is shown on the next page.

Appendix H (Continued)

**Illustration of the Annuity Process Using a 1993
Wild Card Lotto Winner as an Example**

Total Game Ticket Sales.....	\$1,849,937.00
Prize Pool (49% of Sales) available to 1st through 6th place prizes	906,469.13
Prize amount available to 1st place jackpot (60% of prize pool: established in regulations for Wild Card Lotto).....	543,881.50
Plus rollover from prior game sales with no jackpot winner.....	<u>2,438,989.00</u>
Amount available to purchase an annuity for jackpot winner.....	<u>\$2,982,870.50</u>

Bids Received

<u>Insurance Company</u>	<u>Interest Rate</u>	<u>Total Prize to be Paid to Winner</u>
Alexander Hamilton Life	6.320%	\$5,143,805.94
Metropolitan Life	6.380	5,166,609.00
First Colony Life	6.424	5,183,372.67
John Hancock Mutual.....	6.535	5,225,595.06
Prudential Insurance	6.637	5,264,299.11
Hartford Life	6.700	5,288,117.10
Mutual of America	6.787	5,321,258.88

Winner Selected: Mutual of America

Amount available to purchase an annuity for jackpot winner.....	\$2,982,870.50
Payment #1 made to winner by the State Lottery.....	<u>253,393.28</u>
Remaining money used to purchase an annuity	\$2,729,477.22
Annual payments made to winner for 20 years by insurance company.....	253,393.28
Total amount of payments made to jackpot winner.....	<u>\$5,321,258.88</u>

APPENDIX I

Prize Structure for PA Lottery Super 7, Wild Card Lotto, and Cash 5 Games

Super 7

<u>Prize^a</u>	<u>For Tickets Containing:^b</u>	<u>Percentage of Prize Pool Received by Winner(s)^c</u>
First Prize.....	Any seven winning numbers	70%
Second Prize	Any six winning numbers	25% after deduction of first and fourth prizes
Third Prize.....	Any five winning numbers	75% after deduction of first and fourth prizes
Fourth Prize	Any four winning numbers	\$15 fixed prize

Wild Card Lotto

<u>Prize^a</u>	<u>For Tickets Containing:^b</u>	<u>Percentage of Prize Pool Received by Winner(s)^d</u>
First Prize.....	All six winning numbers	60%
Second Prize	Five winning numbers plus wild card number	5%
Third Prize.....	Five winning numbers	9%
Fourth Prize	Four winning numbers plus wild card number	10%
Fifth Prize.....	Four winning numbers	10%
Sixth Prize	Three winning numbers plus wild card number	6%

Appendix I (Continued)

Cash 5

<u>Prize^e</u>	<u>For Tickets Containing:^b</u>	<u>Percentage of Prize Pool Received by Winner(s)^f</u>
First Prize	All five winning numbers	53.15% after deduction of fourth prize
Second Prize	Four winning numbers	22.24% after deduction of fourth prize
Third Prize	Three winning numbers	24.61% after deduction of fourth prize
Fourth Prize	Two winning numbers	\$1.00 fixed

^aAll prizes are paid in cash with the exception of the first prize.

^bIn one single lettered game grid.

^cForty-nine percent of gross ticket sales for each Super 7 game drawing is reserved for prizes. Prize monies allocated to the first and fourth prize categories are deducted from the total winnings pool before monies are allocated to the second and third prize categories.

^dForty-nine percent of gross ticket sales for each Wild Card Lotto drawing is reserved for prizes.

^eAll prizes are paid entirely in cash.

^fFifty-five percent of gross ticket sales for each Cash 5 drawing is reserved for prizes. Prize monies allocated to the fourth prize category are deducted from the total winnings pool before monies are allocated to the remaining prize categories.

Source: Developed by LB&FC staff from PA State Lottery game rules and regulations.

APPENDIX J

States With Lotteries and How They Use Lottery Profits

<u>State</u>	<u>Year of Lottery Start-Up</u>	<u>Use of Lottery Profits</u>
Arizona.....	1981	Local Transportation, County Assistance, General Fund, Economic Development
California.....	1985	Education
Colorado.....	1983	Construction Fund (40%), Colorado Division of Parks (10%), Public Facilities Construction (50%)
Connecticut.....	1972	General Fund
Delaware.....	1975	General Fund
Florida.....	1988	Education
Georgia.....	1993	Education
Idaho.....	1989	Education, State Permanent Building Fund
Illinois.....	1974	Education
Indiana.....	1989	Economic Development, Public Employee Pensions
Iowa.....	1985	Environment (Clean Fund), General Fund, Gamblers Assistance Fund
Kansas.....	1987	Economic Development (90%), Prisons (10%)
Kentucky.....	1989	Biennial Decision by Legislature (Education in FY 1993-94)
Louisiana.....	1991	Lottery Trust Fund (Legislature Earmarks)
Maine.....	1974	General Fund
Maryland.....	1973	General Fund, Maryland Stadium Authority

Appendix J (Continued)

<u>State</u>	<u>Year of Lottery Start-Up</u>	<u>Use of Lottery Profits</u>
Massachusetts	1972	Revenue Sharing With Cities and Towns
Michigan	1972	Education
Minnesota	1990	Environment, General Fund, Economic Development
Missouri	1986	General Fund
Montana	1987	Education
Nebraska.....	1993	Education, Environment
New Hampshire..	1964	Education
New Jersey.....	1970	Education, State Institutions
New York	1967	Education
Ohio.....	1974	Education
Oregon.....	1985	Economic Development
PENNSYLVANIA	1972	Programs for Older Pennsylvanians
Rhode Island.....	1974	General Fund
South Dakota.....	1987	General Fund
Texas	1992	General Fund
Vermont	1977	General Fund
Virginia	1988	General Fund
Washington.....	1982	General Fund
West Virginia.....	1986	Education, Senior Citizens, Tourism
Wisconsin	1988	Property Tax Relief

Source: 1992 Compendium of Lottery Statistics, TLF Publications, as updated by LB&FC staff for selected states.

APPENDIX K

Lottery Product Mix, Pa and Other Lottery States

<u>State</u>	<u>Instant</u>	<u>Numbers</u>	<u>Lotto</u>	<u>Cash Lotto</u>	<u>Multi-State Lottery</u>	<u>Keno</u>	<u>Pulltabs</u>	<u>VLTs</u>	<u>Spiel</u>	<u>Sports Pools</u>
--------------	----------------	----------------	--------------	-------------------	----------------------------	-------------	-----------------	-------------	--------------	---------------------

I. Lotteries With \$1 Billion or More in Annual Gross Sales

California.....	X	X	X	X	--	X	--	--	--	--
Florida.....	X	X	X	X	--	--	--	--	--	--
Illinois.....	X	X	X	X	--	--	--	--	--	--
Massachusetts.....	X	X	X	X	--	X	--	--	--	--
Michigan.....	X	X	X	X	--	X	--	--	--	--
New Jersey.....	X	X	X	X	--	--	--	--	--	--
New York.....	X	X	X	X	--	X	--	--	--	--
Ohio.....	X	X	X	X	--	--	--	--	X	--
PENNSYLVANIA.....	X	X	X	X	--	--	--	--	--	--
Texas.....	X	X	X	--	--	--	--	--	--	--

II. All Other Lotteries

Arizona.....	X	--	X	X	--	--	--	--	--	--
Colorado.....	X	--	X	--	--	X	--	--	--	--
Connecticut.....	X	X	X	X	--	--	--	--	--	--
Delaware.....	X	X	X	--	X ^a	--	--	--	--	b
D.C.....	X	X	--	X	X ^a	--	--	--	--	--
Georgia ^c	X	X	X	--	--	--	--	--	--	--
Idaho.....	X	--	--	X	X ^d	--	X	--	--	--
Indiana.....	X	X	X	X	X ^a	--	X	--	--	--
Iowa.....	X	--	X	X	X ^a	--	X	--	--	--
Kansas.....	X	X	--	X	X ^a	X	X	--	--	--
Kentucky.....	X	X	X	X	X ^a	--	X	--	--	--
Louisiana.....	X	X	X	--	--	--	--	--	--	--
Maine.....	X	X	X	X	X ^e	--	--	--	--	--
Maryland.....	X	X	X	X	--	X	--	--	--	--
Minnesota.....	X	X	--	X	X ^a	--	--	--	--	--
Missouri.....	X	X	X	X	X ^a	--	X	--	--	--
Montana.....	X	--	--	X	X ^{a,d}	--	--	--	--	--
Nebraska ^f	X	--	--	--	X ^a	--	--	--	--	--
New Hampshire.....	X	X	X	X	X ^e	--	--	--	--	--
Oregon.....	X	X	X	--	X ^a	X	X	X	--	X ^g

Appendix K (Continued)

<u>State</u>	<u>Instant</u>	<u>Numbers</u>	<u>Lotto</u>	<u>Cash Lotto</u>	<u>Multi-State Lottery</u>	<u>Keno</u>	<u>Pulltabs</u>	<u>VLTs</u>	<u>Spiel</u>	<u>Sports Pools</u>
Rhode Island	X	X	X	--	X ^a	X	X	X	--	--
South Dakota	X	--	--	X	X ^{a,d}	--	--	X	--	--
Vermont	X	X	X	X	X ^e	--	--	--	--	--
Virginia	X	X	X	X	--	--	--	--	--	--
Washington	X	X	X	X	--	X	--	--	--	--
West Virginia	X	X	--	X	X ^a	X ^h	--	X ^h	--	--
Wisconsin	X	X	X	X	X ^a	--	X	--	--	--
Total	37	30	29	29	19	11	9	4	1	1 ^g

^aA member of the Multi-State Lottery Association which operates one joint game--Powerball.

^bDelaware conducted a sports lottery for 14 weeks in the fall of 1976.

^cGeorgia began lottery operations on June 29, 1993.

^dA member of Tri-West Lotto launched in February 1994.

^eA member of Tri-State Megabucks which began in September 1985.

^fNebraska began lottery operations on September 11, 1993.

^gSports lotteries are currently offered only in Oregon. In late 1992 the U.S. Congress approved a ban on state sponsored sports gambling (the "Professional and Amateur Sports Protection Act of 1992"). States where sports betting was already being conducted such as Nevada and Oregon were exempt as was Delaware since it had operated a sports lottery in the mid-1970s. New Jersey was to be permitted to operate sports lotteries if its Legislature enacted legislation authorizing sport lotteries by January 1, 1994. New Jersey was given this opportunity because the casino gambling industry argued it was an unfair advantage to permit Nevada casinos to operate sports wagering but prohibit such a product in New Jersey.

^hIn the fall of 1993 the WV Supreme Court of Appeals ruled that the Lottery Commission was not authorized to establish VLTs. The Commission interpreted the decision to include Keno. Operators of both games requested stays which were granted and repeatedly extended. Both games have continued operation and it appears that legislation will soon be passed that will officially authorize them.

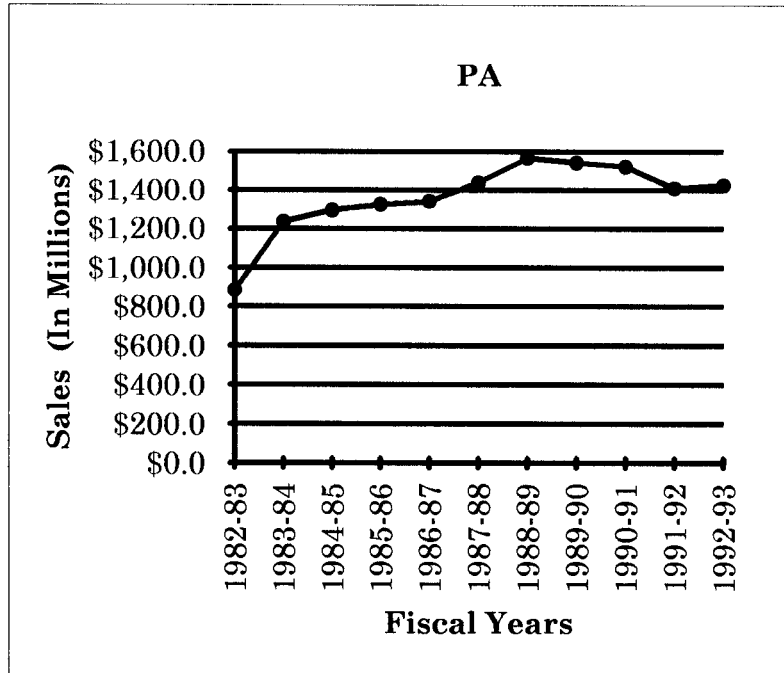
Source: Developed by LB&FC staff from information contained in The '94 World Lottery Almanac, TLF Publications.

APPENDIX L

Pattern of Gross Lottery Sales, U.S., Pennsylvania, and Other Large Lottery States, FY 1982-83 Through FY 1992-93

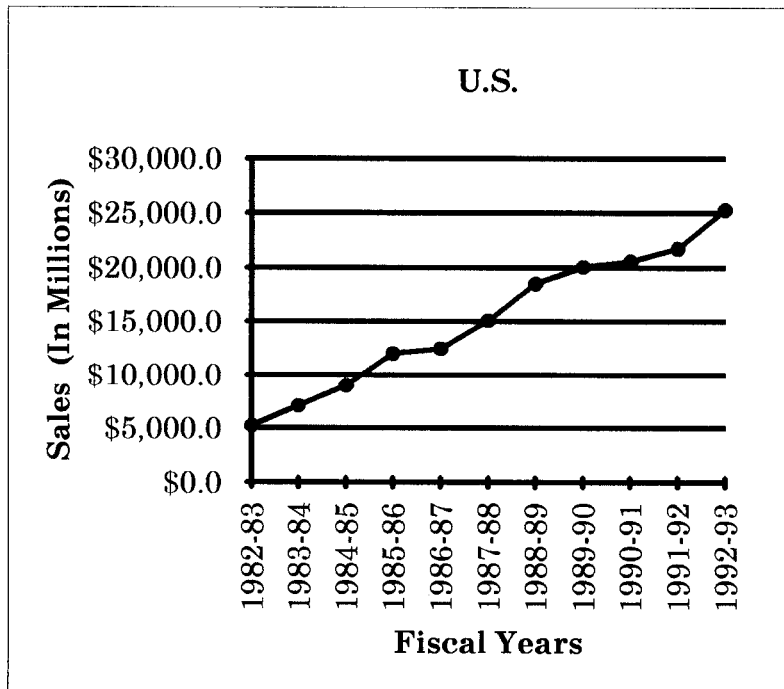
PENNSYLVANIA

<u>Fiscal Year</u>	<u>Gross Sales (In Millions)</u>
1982-83	\$885.4
1983-84	\$1,236.0
1984-85	\$1,294.7
1985-86	\$1,320.2
1986-87	\$1,338.5
1987-88	\$1,439.1
1988-89	\$1,567.1
1989-90	\$1,543.4
1990-91	\$1,523.2
1991-92	\$1,408.9
1992-93	\$1,427.4



UNITED STATES

<u>Fiscal Year</u>	<u>Gross Sales (In Millions)</u>
1982-83	\$5,240.2
1983-84	\$7,078.0
1984-85	\$9,035.1
1985-86	\$12,039.8
1986-87	\$12,449.3
1987-88	\$15,027.8
1988-89	\$18,519.8
1989-90	\$20,060.0
1990-91	\$20,559.5
1991-92	\$21,744.9
1992-93	\$25,342.7

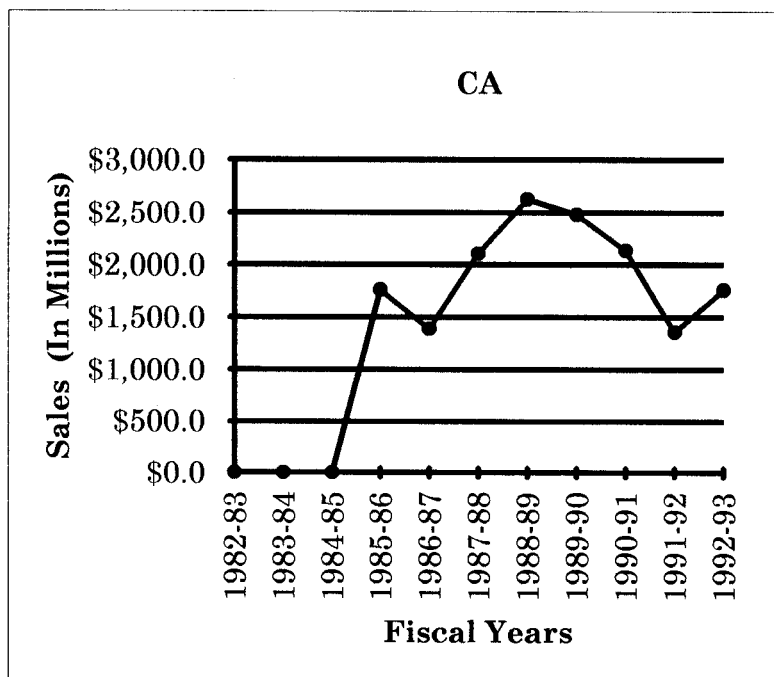


Appendix L (Continued)

Ticket Sales History for Selected U.S. Lotteries

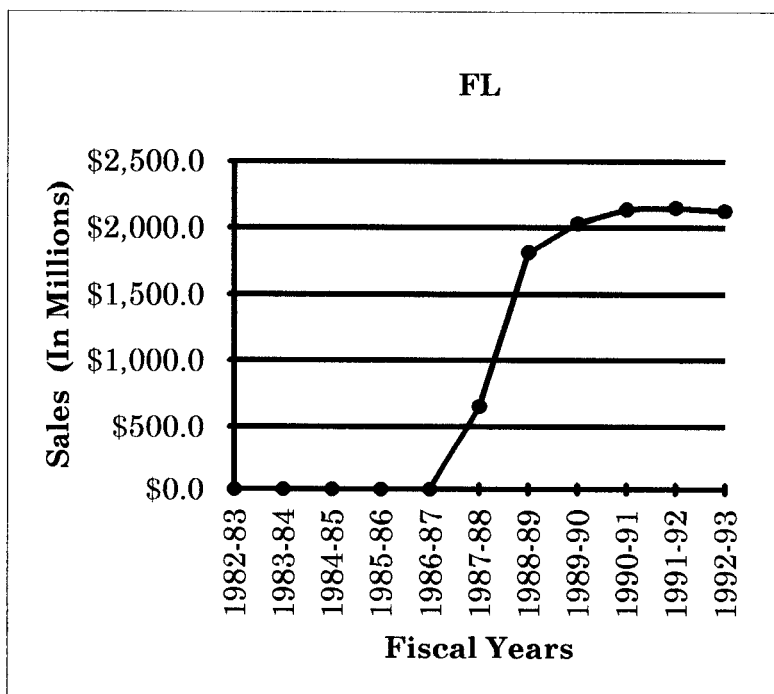
CALIFORNIA

<u>Fiscal Year</u>	<u>Gross Sales (In Millions)</u>
1982-83	N/A
1983-84	N/A
1984-85	N/A
1985-86	\$1,765.6
1986-87	\$1,392.2
1987-88	\$2,106.5
1988-89	\$2,628.9
1989-90	\$2,479.7
1990-91	\$2,131.9
1991-92	\$1,358.7
1992-93	\$1,760.0



FLORIDA

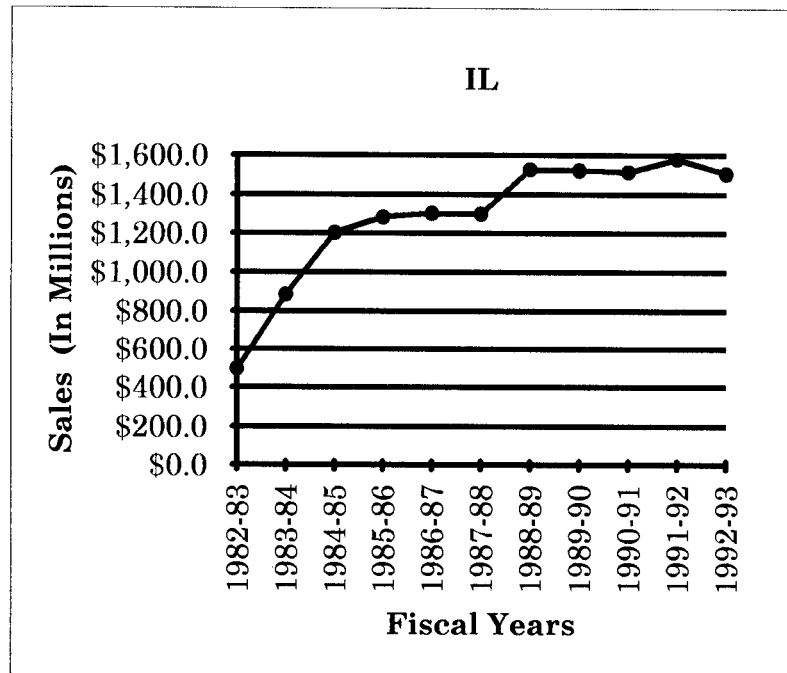
<u>Fiscal Year</u>	<u>Gross Sales (In Millions)</u>
1982-83	N/A
1983-84	N/A
1984-85	N/A
1985-86	N/A
1986-87	N/A
1987-88	\$653.6
1988-89	\$1,814.9
1989-90	\$2,031.6
1990-91	\$2,139.1
1991-92	\$2,147.6
1992-93	\$2,121.9



Appendix L (Continued)

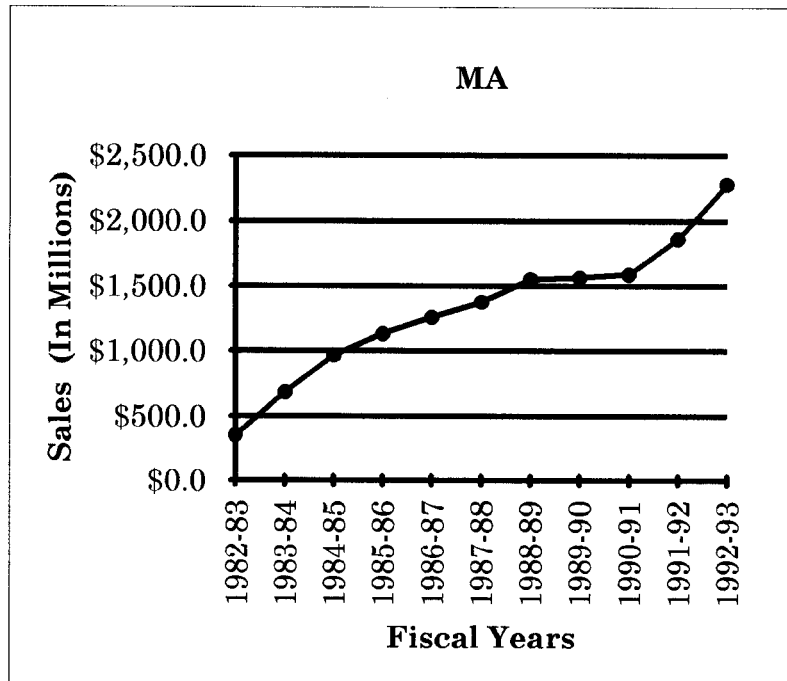
ILLINOIS

<u>Fiscal Year</u>	<u>Gross Sales (In Millions)</u>
1982-83	\$493.9
1983-84	\$886.1
1984-85	\$1,204.2
1985-86	\$1,284.1
1986-87	\$1,303.8
1987-88	\$1,301.5
1988-89	\$1,527.9
1989-90	\$1,522.5
1990-91	\$1,513.1
1991-92	\$1,579.3
1992-93	\$1,507.0



MASSACHUSETTS

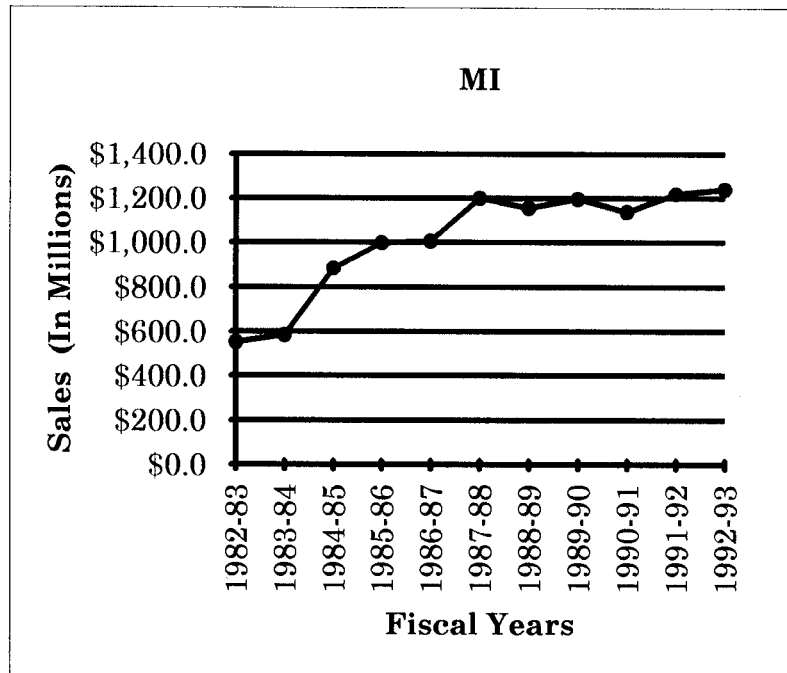
<u>Fiscal Year</u>	<u>Gross Sales (In Millions)</u>
1982-83	\$350.4
1983-84	\$686.8
1984-85	\$965.6
1985-86	\$1,133.9
1986-87	\$1,259.8
1987-88	\$1,374.2
1988-89	\$1,551.0
1989-90	\$1,563.4
1990-91	\$1,593.0
1991-92	\$1,860.9
1992-93	\$2,278.2



Appendix L (Continued)

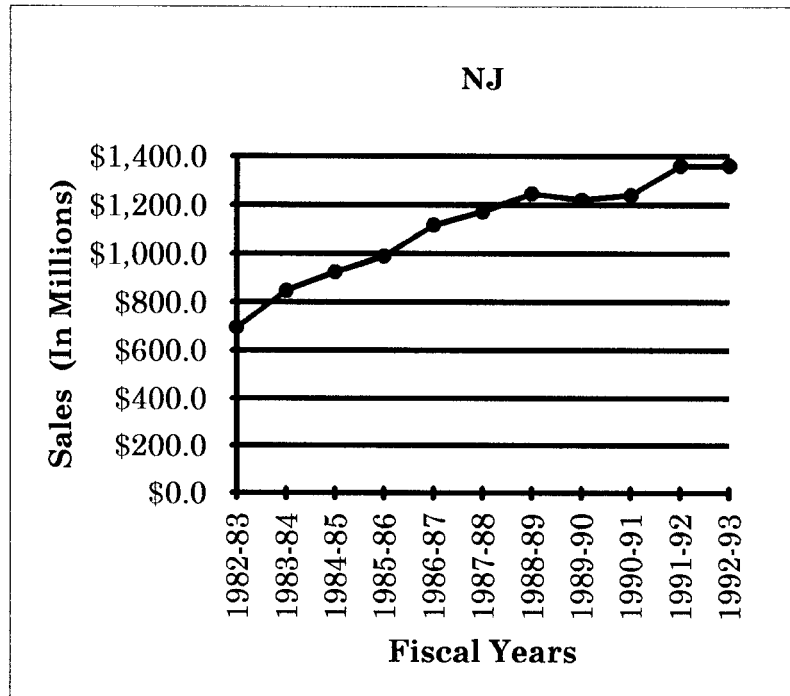
MICHIGAN

<u>Fiscal Year</u>	<u>Gross Sales (In Millions)</u>
1982-83	\$552.0
1983-84	\$585.2
1984-85	\$885.5
1985-86	\$999.4
1986-87	\$1,006.3
1987-88	\$1,201.1
1988-89	\$1,155.2
1989-90	\$1,197.9
1990-91	\$1,138.7
1991-92	\$1,218.5
1992-93	\$1,243.0



NEW JERSEY

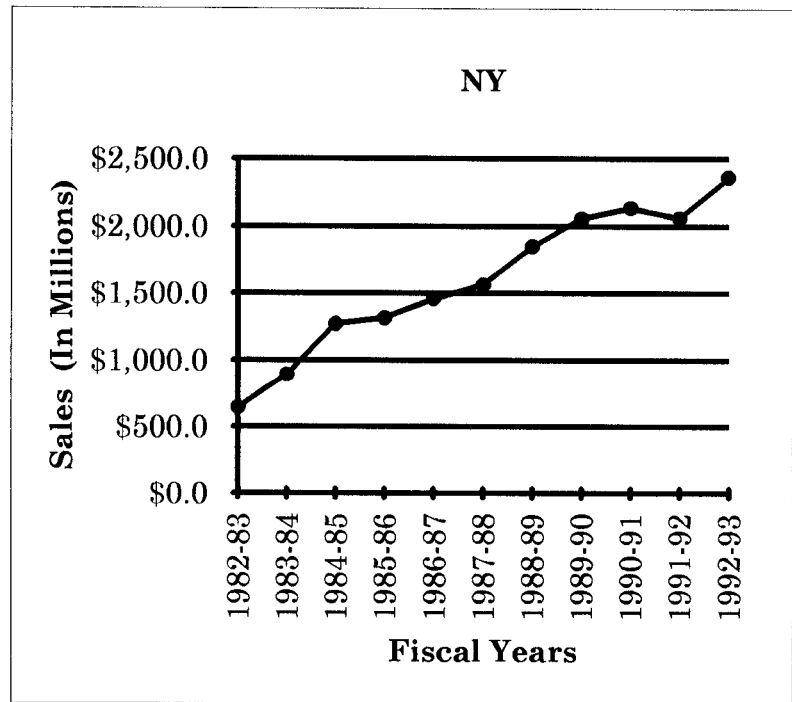
<u>Fiscal Year</u>	<u>Gross Sales (In Millions)</u>
1982-83	\$693.1
1983-84	\$848.0
1984-85	\$924.6
1985-86	\$990.1
1986-87	\$1,116.9
1987-88	\$1,174.3
1988-89	\$1,247.0
1989-90	\$1,223.3
1990-91	\$1,241.6
1991-92	\$1,360.3
1992-93	\$1,363.7



Appendix L (Continued)

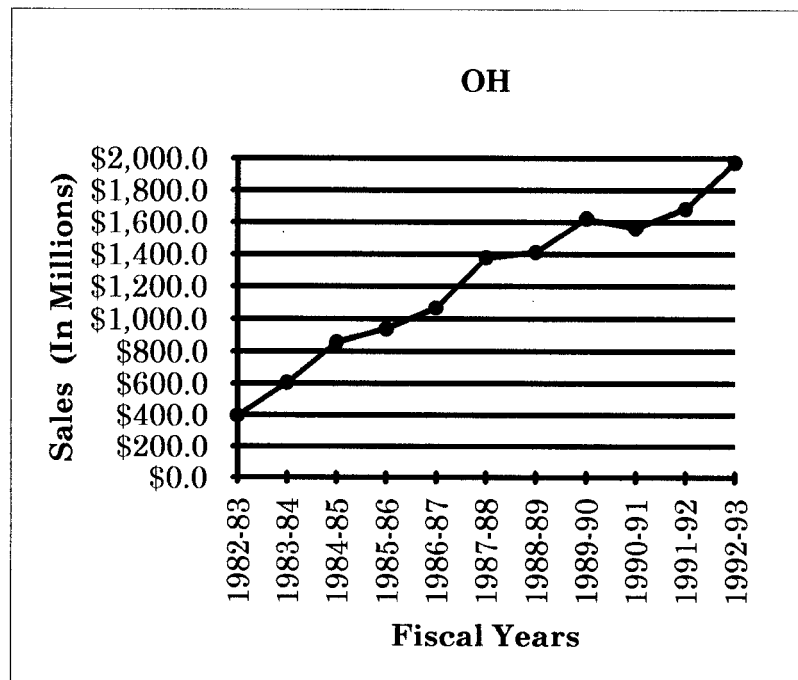
NEW YORK

<u>Fiscal Year</u>	<u>Gross Sales (In Millions)</u>
1982-83	\$645.0
1983-84	\$890.3
1984-85	\$1,271.2
1985-86	\$1,317.0
1986-87	\$1,458.8
1987-88	\$1,565.9
1988-89	\$1,847.1
1989-90	\$2,058.1
1990-91	\$2,134.6
1991-92	\$2,063.1
1992-93	\$2,360.0



OHIO

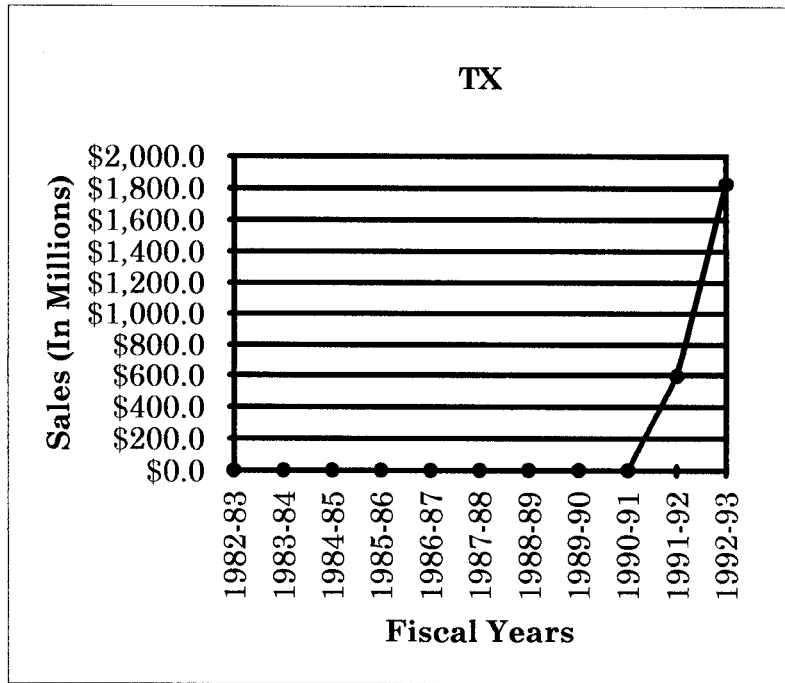
<u>Fiscal Year</u>	<u>Gross Sales (In Millions)</u>
1982-83	\$397.8
1983-84	\$603.0
1984-85	\$854.6
1985-86	\$937.2
1986-87	\$1,069.9
1987-88	\$1,375.7
1988-89	\$1,414.0
1989-90	\$1,620.9
1990-91	\$1,564.5
1991-92	\$1,685.4
1992-93	\$1,976.5



Appendix L (Continued)

TEXAS

<u>Fiscal Year</u>	<u>Gross Sales (In Millions)</u>
1982-83	\$0.0
1983-84	\$0.0
1984-85	\$0.0
1985-86	\$0.0
1986-87	\$0.0
1987-88	\$0.0
1988-89	\$0.0
1989-90	\$0.0
1990-91	\$0.0
1991-92	\$592.0
1992-93	\$1,826.3



Source: Developed by LB&FC staff from information contained in The 94 World Lottery Almanac, TLF Publications and the Michigan Bureau of State Lottery's 1993 Annual Report.

APPENDIX M

A Comparison of the Pennsylvania Lottery to Other Large State Lotteries in Selected Performance Measures

Pennsylvania is one of ten states with lotteries that have annual gross sales in excess of \$1 billion. These states include California, Florida, Illinois, Massachusetts, Michigan, New Jersey, New York, Ohio, and Texas. For purposes of comparison, we analyzed statistical data on selected performance measures for the Pennsylvania Lottery and lottery operations in these other large states. This appendix presents the results of this analysis.

Pennsylvania ranks:

- Eighth in per capita sales.
- Third in net income as a percent of sales.
- Ninth in prizes as a percent of sales.
- Third in operating expenses as a percent of sales.
- Eighth in commissions as a percent of sales.
- Third in sales per employee.

Appendix M (Continued)

Gross and Per Capita Lottery Sales, PA and Other Large Lottery States (FY 1992-93)

<u>State</u>	<u>Gross Sales (\$Millions)</u>	<u>Per Capita Sales</u>
Massachusetts.....	\$2,278.20	\$380
Ohio	1,976.46	180
New Jersey	1,363.90	175
Florida	2,121.85	157
Michigan.....	1,243.02	132
Illinois.....	1,507.03	130
New York.....	2,360.01	130
PENNSYLVANIA.....	1,427.40	119
Texas	1,826.30	104
California.....	1,759.50	57

Source: Developed by LB&FC staff from information contained in LaFleur's The '94 World Lottery Almanac.

Lottery Net Income (Profits) as a Percentage of Total Sales, PA and Other Large Lottery States* (FY 1992-93)

<u>State</u>	<u>Net Income (\$Millions)</u>	<u>Percent of Sales</u>
New Jersey.....	\$ 581.70	42.65%
New York.....	1,001.06	42.42
PENNSYLVANIA.....	605.40	42.41
Florida	838.88	39.54
Illinois.....	589.60	39.12
Ohio	736.38	37.26
Texas	642.79	35.20
Michigan.....	432.11	34.76
California.....	607.14	34.51
Massachusetts.....	575.85	25.28

*Net income, or lottery government profit, equals total sales, net a lottery's direct and indirect costs or expenses.

Source: Developed by LB&FC staff from information contained in LaFleur's The '94 World Lottery Almanac.

Appendix M (Continued)

**Lottery Prizes as a Percentage of Gross Sales,
PA and Other Large Lottery States**
(FY 1992-93)

<u>State</u>	<u>Prizes (\$Millions)</u>	<u>Percent of Sales</u>
Massachusetts.....	\$1,526.86	67.02%
Michigan.....	684.55	55.07
Ohio.....	1,075.88	54.43
Texas.....	983.25	53.84
Illinois.....	784.75	52.07
New Jersey.....	684.60	50.19
California.....	880.95	50.07
Florida.....	1,056.42	49.79
PENNSYLVANIA.....	694.71	48.67
New York.....	1,101.76	46.68

Source: Developed by LB&FC staff from information contained in LaFleur's The '94 World Lottery Almanac.

**Lottery Operating Expenses as a Percentage of Gross Sales,
PA and Other Large Lottery States***
(FY 1992-93)

<u>State</u>	<u>Operating Expenses (\$Millions)</u>	<u>Percent of Sales</u>
Massachusetts.....	\$ 63.52	2.79%
New Jersey.....	41.37	3.03
PENNSYLVANIA.....	58.41	4.09
Illinois.....	76.08	5.05
New York.....	122.08	5.17
Florida.....	120.54	5.68
Michigan.....	76.94	6.19
Texas.....	137.45	7.53
Ohio.....	185.47	9.38
California.....	176.34	10.02

*Expenses include all operational and administrative costs, exclusive of retailer commissions.

Source: Developed by LB&FC staff from information contained in LaFleur's The '94 World Lottery Almanac.

Appendix M (Continued)

**Commissions as a Percentage of Sales
PA and Other Large Lottery States**
(FY 1992-93)

<u>State</u>	<u>Commissions (\$Millions)</u>	<u>Percent of Sales</u>
Michigan	\$ 83.92	6.75%
Ohio.....	119.46	6.04
New York	141.60	6.00
California	104.81	5.96
Florida.....	117.11	5.52
New Jersey	73.80	5.41
Illinois	78.75	5.23
PENNSYLVANIA	73.87	5.18
Texas.....	92.82	5.08
Massachusetts	116.00	5.09

Source: Developed by LB&FC staff from information contained in LaFleur's The '94 World Lottery Almanac.

**Lottery Sales Per Employee,
PA and Other Large Lottery States**
(FY 1992-93)

<u>State</u>	<u>Gross Sales (\$Millions)</u>	<u>Number of Employees</u>	<u>Sales Per Employee (\$Millions)</u>
Texas.....	\$1,826.30	185	\$9.87
New York	2,360.01	252	9.37
PENNSYLVANIA.....	1,427.40	186	7.67
New Jersey	1,363.90	181	7.54
Ohio	1,976.46	319	6.20
Massachusetts	2,278.20	420	5.42
Michigan	1,243.02	240	5.18
Illinois	1,507.03	310	4.86
Florida	2,121.85	755	2.81
California.....	1,759.50	1,100	1.60

Source: Developed by LB&FC staff from information contained in LaFleur's The '94 World Lottery Almanac and Stokes Handbook of Lottery Operations and Statistics.

APPENDIX N

Sale of Out-of-State Lottery Tickets

Pennsylvania residents can purchase interests in out-of-state lotteries through businesses such as Pic-A-State, Inc., and Fortune U.S.A. Pennsylvania State Lottery officials estimate that, as a result, Lottery revenues are reduced by \$800,000 to millions of dollars each year through lost ticket sales.

Pic-A-State, Inc. reports having a vendor network of about 165 retailers who sell receipts for tickets from New York, New Jersey, California, Florida, Illinois, Ohio, and the Multi-State Lottery Association. Retailers take the order, give the customer a receipt, and transmit the order to purchasing agents in one of these states. The customer is not given the actual lottery ticket; this remains in the state of purchase on behalf of the customer. The companies sell the tickets for \$2. One dollar goes for the purchase of the out-of-state ticket, and the other dollar is divided among the Pennsylvania retailer, the out-of-state retailer, and the company.

Act 1993-8 included a provision that would have prohibited such transactions. The act stated:

Except as provided in this Act, no person shall engage in the sale or offering for sale within this Commonwealth of any interest in a lottery of another state or government whether or not such interest is an actual lottery ticket, receipt, contingent promise to pay, order to purchase or other record of such interest.

Pic-A-State, Inc., filed suit in federal court challenging this part of Act 1993-8. A United States District Court held that this part of the act violated the interstate commerce clause of the United States Constitution, so it prohibited enforcement of this part of the act. This decision could have a significant impact nationally because the sale of out-of-state lottery tickets is growing. Additionally, some attorneys have argued that the case involves a state's right to regulate gambling within its borders.

The Pennsylvania Attorney General asked the district court to reconsider its decision, but that motion was denied. He subsequently appealed the case to the United States Court of Appeals for the Third Circuit, where several states filed *amicus curiae* brief supporting the Commonwealth's position. As of late May 1994, the case was still pending in that court.

Appendix N (Continued)

The issue of interstate lottery ticket purchases is also being considered by the United States Congress. The Senate-passed version of a crime bill included a provision that would prevent persons from buying out-of-state lottery tickets in their home state. As of May 1994 a conference committee, reportedly meeting to iron out differences between the House and Senate bills, was considering legislation (HR 3355) that would prohibit such interstate wagering.

Source: Developed by LB&FC staff from a review of the court decision and newsletter articles published by the National Association of State and Provincial Lotteries.

APPENDIX O

Elderly Population Indicators, 1990

State	Number 65+ 1,829,106	Percent 65+ 15.39	Number 85+ 171836	Percent 85+ 1.45
Adams	10,634	13.59	1235	1.58
Allegheny	231,911	17.35	20619	1.54
Armstrong	12,887	17.54	1199	1.63
Beaver	31,520	16.94	2633	1.41
Bedford	7,347	15.33	622	1.30
Berks	52,526	15.61	5251	1.56
Blair	22,154	16.97	2214	1.70
Bradford	8,940	14.66	927	1.52
Bucks	58,912	10.89	5657	1.05
Butler	20,481	13.47	2239	1.47
Cambria	30,582	18.76	2558	1.57
Cameron	1,095	18.52	86	1.45
Carbon	10,481	18.44	839	1.48
Centre	11,109	8.97	1072	0.87
Chester	40,977	10.89	3903	1.04
Clarion	5,793	13.89	649	1.56
Clearfield	12,987	16.63	1181	1.51
Clinton	5,944	15.99	519	1.40
Columbia	9,974	15.78	923	1.46
Crawford	13,301	15.44	1290	1.50
Cumberland	26,141	13.39	2783	1.43
Dauphin	34,012	14.30	3169	1.33
Delaware	84,932	15.51	8113	1.48
Elk	5,576	15.99	459	1.32
Erie	38,025	13.80	3320	1.20
Fayette	26,076	17.94	2200	1.51
Forest	970	20.20	86	1.79
Franklin	17,498	14.45	1767	1.46
Fulton	1,796	12.98	159	1.15
Greene	6,501	16.44	643	1.63
Huntingdon	5,951	13.47	555	1.26
Indiana	12,407	13.79	1069	1.19
Jefferson	7,944	17.24	795	1.73
Juniata	2,987	14.48	344	1.67
Lackawana	43,193	19.72	3910	1.79
Lancaster	55,469	13.12	6195	1.49
Lawrence	17,783	18.48	1583	1.64
Lebanon	17,070	15.01	1739	1.53
Lehigh	44,865	15.41	4401	1.51
Luzerne	64,717	19.72	5676	1.73
Lycoming	17,940	15.11	1841	1.55
McKean	7,882	16.72	864	1.83
Mercer	20,777	17.17	2060	1.70
Mifflin	7,383	15.98	649	1.40
Monroe	12,499	13.06	1072	1.12
Montgomery	101,993	15.04	10891	1.61
Montour	2,926	16.50	352	1.98
Northampton	37,019	14.98	3121	1.26
Northumberland	18,287	18.90	1747	1.81
Perry	4,569	11.10	395	0.96
Philadelphia	240,714	15.18	22801	1.44
Pike	4,357	15.73	310	1.12
Potter	2,754	16.47	1151	6.89
Schuylkill	30,549	20.02	2369	1.55
Snyder	4,616	12.58	399	1.09
Somerset	13,252	16.94	1168	1.49
Sullivan	1,275	20.89	172	2.82
Susquehanna	6,185	15.23	617	1.53
Tioga	6,151	14.96	610	1.48
Union	4,548	12.57	538	1.49
Venango	8,921	15.02	852	1.43
Warren	7,053	15.66	735	1.63
Washington	35,770	17.48	2871	1.40
Wayne	6,766	16.94	711	1.78
Westmoreland	63,472	17.14	5251	1.42
Wyoming	3,537	12.60	1469	5.23
York	44,443	13.09	4493	1.32

Source: Sixty-Five Plus in Pennsylvania: County Demographic Profiles by Pennsylvania State Data Center from U.S. Bureau of the Census, 1990 Census of Population.

APPENDIX P

Percent of Elderly by Poverty Status, Housing Tenure, and Disability, 1990

State	<u>Below Poverty</u> 10.59	<u>Rent Home</u> 24.06	<u>Live Alone</u> 28.77	<u>Disability Limitations</u> 20.19
Adams	7.92	21.20	24.83	16.54
Allegheny	10.07	27.42	30.36	21.56
Armstrong	11.17	21.24	30.88	21.95
Beaver	9.72	20.03	28.69	20.75
Bedford	15.03	17.38	29.47	20.38
Berks	9.19	22.09	27.56	18.63
Blair	11.47	23.33	31.48	20.64
Bradford	15.15	23.81	28.57	14.61
Bucks	6.14	23.52	23.09	17.51
Butler	9.16	22.03	27.74	17.69
Cambria	11.56	22.49	31.11	21.08
Cameron	9.06	19.24	32.88	15.16
Carbon	10.00	19.75	29.55	21.14
Centre	8.65	23.43	27.87	17.08
Chester	6.08	23.82	22.44	16.12
Clarion	12.19	17.72	30.83	20.32
Clearfield	13.22	16.58	31.25	20.39
Clinton	10.72	23.04	31.59	18.96
Columbia	10.23	20.43	29.66	19.22
Crawford	10.69	20.68	28.82	17.83
Cumberland	5.98	22.90	26.78	14.31
Dauphin	9.92	29.76	30.48	17.06
Delaware	7.79	22.08	26.21	18.67
Elk	12.06	16.61	30.67	13.78
Erie	9.73	25.37	29.50	17.47
Fayette	14.48	20.13	30.87	24.51
Forest	9.62	9.89	26.70	15.50
Franklin	10.67	20.38	27.00	18.36
Fulton	16.99	15.27	29.18	23.36
Greene	15.89	19.86	30.16	24.45
Huntingdon	14.49	20.46	33.51	20.53
Indiana	11.09	17.11	28.68	19.30
Jefferson	12.29	19.69	30.72	19.47
Juniata	14.34	18.24	28.96	18.08
Lackawana	12.41	29.95	31.18	21.69
Lancaster	8.26	26.63	23.95	16.24
Lawrence	9.64	19.81	28.34	19.22
Lebanon	8.65	26.43	26.89	16.12
Lehigh	7.89	27.88	27.34	18.58
Luzerne	12.00	28.12	32.41	21.90
Lycoming	9.94	25.97	29.28	19.22
McKean	12.29	20.59	32.89	15.42
Mercer	9.11	20.15	28.86	19.13
Mifflin	14.42	23.55	31.64	20.77
Monroe	8.93	17.61	21.87	13.95
Montgomery	5.80	27.03	25.39	16.49
Montour	10.34	26.02	25.84	17.49
Northampton	7.40	22.39	26.51	19.36
Northumberland	14.16	25.41	33.67	20.20
Perry	11.15	17.76	26.07	18.34
Philadelphia	16.27	26.74	31.39	26.71
Pike	9.36	8.75	23.53	13.10
Potter	17.42	21.55	28.14	10.62
Schuylkill	13.26	19.01	33.61	22.12
Snyder	9.59	18.94	28.40	17.25
Somerset	13.60	16.94	29.01	22.37
Sullivan	19.67	21.83	27.76	17.77
Susquehanna	13.93	19.55	27.84	14.44
Tioga	10.66	19.44	28.84	17.72
Union	8.12	25.62	26.63	15.93
Venango	9.61	20.13	30.05	18.68
Warren	9.06	20.46	28.87	16.95
Washington	10.90	19.45	28.82	21.46
Wayne	12.83	16.34	25.48	13.95
Westmoreland	10.20	18.67	28.51	20.27
Wyoming	13.42	18.10	29.18	19.95
York	8.27	20.45	26.90	17.02

Source: Sixty-Five Plus in Pennsylvania: County Demographic Profiles by Pennsylvania State Data Center from U.S. Bureau of the Census, 1990 Census of Population and Housing.

APPENDIX Q

Department of Revenue's Response to This Report



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF REVENUE
HARRISBURG, PENNSYLVANIA
17128-1100

June 24, 1994

THE SECRETARY

Mr. Phillip R. Durgin
Executive Director
Legislative Budget and
Finance Committee
Room 400, Finance Building
Harrisburg, Pennsylvania 17105

Dear Mr. Durgin:

Thank you for the opportunity to respond to your study on the Pennsylvania Lottery and its impact upon the future of programs and services for older Pennsylvanians.

We would first like to commend you and your staff for producing a comprehensive and sound report. The report has already served to help the Lottery refine its F.Y. 94-95 marketing plan, and will continue to serve to aid public policymakers in the decision-making process for years to come.

We would like to make several points pertaining to the revenue generating capacity of the Pennsylvania Lottery. However, we will not be commenting on the funding requirements which programs and services impose on the Lottery Fund.

We concur with your findings that the Lottery is in compliance with statutory spending requirements and statutory prize payout requirements. The requirement that at least 30 percent of gross sales be appropriated to support programs has been met. In fact, as you noted, the percentage consistently exceeds 40 percent. As such, Pennsylvania ranks among the top states in the nation in terms of percentage of gross sales allocated to support programs.

The statutory requirement that at least 40 percent of gross sales be allocated to prizes has also been fulfilled. The 50 percent prize payout average that we have achieved has made our players winners as well. And, when you consider the fact that Pennsylvania does not tax lottery winnings, players' net winnings are consistent with the industry norm.

Mr. Phillip R. Durgin
June 24, 1994
Page 2

We would like to clarify your finding that approximately 28 percent of total Lottery Fund spending in F.Y. 93-94 will be used for Lottery administration and operation. Please note that non-field paid lottery prizes and income tax on prizes account for more than 65 percent of that 28 percent reflected in your report. We do not consider either of these items as truly administrative in nature.

We would like to point out that, on average, 50 cents of every dollar wagered is returned to players in the form of prizes, 40 cents is allocated to programs, 7 cents is allocated to retailers and vendors in the form of commissions, and 3 cents is allocated to operate the Bureau of Lottery.

We concur with your finding that the steps taken by the Administration and the General Assembly have stabilized the financial condition of the Lottery Fund for the immediate future. The cost-containment measures implemented by the Administration and the General Assembly, along with the marketing initiatives undertaken by the Lottery, have restored solvency to the Lottery Fund.

The discussion on the two different accounting methods used to report the Lottery Fund's financial condition is a valid one. Whatever the preferred method of reporting, the salient point is that the Fund balance is improving after several years of decline.

We concur with your statement that the different accounting methods may confuse public policymakers about the financial condition of the Lottery Fund with the Lottery's ability to pay prizes to winners. For this reason, we proposed a solution to the problem during the interview process. Since the funding of programs for older Pennsylvanians is the primary mission of the Lottery, and because there are many more programs in need of funds than the Lottery can be expected to support, we anticipated your recommendation to create a "fund" solely for programs for older Pennsylvanians.

We believe that a separate fund for programs offers three primary benefits. First, it would provide the Legislature with the ability to identify revenue requirements for programs, totally separate from the revenue generating efforts of the Bureau of Lottery. Secondly, it would provide the public with a better picture of the condition of the Lottery and its ability to pay prizes. Thirdly, it would eliminate placing tax revenue into the Lottery Fund, as was done in prior years, and would avoid the appearance that taxes are needed to support the operations of the Lottery.

Mr. Phillip R. Durgin
June 24, 1994
Page 3

We concur with your finding that the Lottery's historic sales pattern is characteristic of a mature lottery. However, your assertion that the Lottery has little potential for substantial sales growth within the traditional game structure is a bit strong and, in fact, contradicts many of the recommendations presented in the report.

Expanding the retailer network, offering subscriptions, seeding jackpots, installing player-activated terminals, producing a television game show, employing direct marketing techniques and selling advertising on lottery tickets may all be implemented within the traditional Lottery game structure. Even video lottery terminals may be programmed to offer only traditional scratch games. We remain optimistic that the Lottery has not yet exhausted its options and reached its potential within the traditional game structure.

We concur with your finding that the Bureau of Lottery has taken actions to improve its marketing practices and to enhance existing games. The actions taken by the Lottery, as you noted, are directed by a formal annual marketing plan. We were particularly pleased with your conclusion that the document gave the Lottery a definite plan of action and a sense of marketing direction that was not evident when the LB&FC conducted a performance audit of the Lottery in 1987.

We are also pleased to report that since we first discussed sales figures with your staff, projected net income has improved. Over the past three months, the Lottery has realized better sales, as well as lower prize payouts in the daily number games than were projected. We are also pleased to report that we are no longer anticipating a decline in sales for next fiscal year.

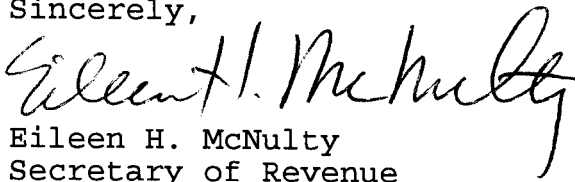
Just as the Pennsylvania Lottery's primary mission is to fund programs benefitting older Pennsylvanians, our major objective is to maximize lottery profits in a socially responsible fashion. While we employ many private sector management principles, we recognize that we are fundamentally different from a business. As public servants, we believe our obligations require us to consider the impact of expanded forms of gambling on the citizens of Pennsylvania beyond mere revenue generation.

Mr. Phillip R. Durgin
June 24, 1994
Page 4

As our older population grows, be assured that we recognize the need to increase sales. We remain well aware of this pressure, and we have responded in recent years by reducing the burden on the Lottery Fund, while simultaneously undertaking a marketing strategy designed to produce responsible growth in sales.

We again congratulate you and your staff on a job well done, and look forward to future discussions about this matter.

Sincerely,



Eileen H. McNulty
Secretary of Revenue

APPENDIX R

Department of Aging's Response to This Report



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF AGING
HARRISBURG, PENNSYLVANIA
17101-1195

SECRETARY OF AGING

June 24, 1994

Mr. Philip R. Durgin
Executive Director
Legislative Budget and Finance Committee
P. O. Box 8737
Harrisburg, Pa. 17105-8737

Dear Mr. Durgin:

Thank you for the opportunity to review the Legislative Budget and Finance Committee's report on the future of the Pennsylvania State Lottery and its impact on funding programs and services for older Pennsylvanians. The report is extremely comprehensive and insightful. You and your staff are to be complimented for such a thorough and balanced presentation.

The document captures the importance of building upon the solid marketing efforts and games enhancements recently initiated by state Lottery officials to reverse declining sales. It also calls upon the state to evaluate new Lottery products and approaches to increase Lottery revenues. The future growth of Lottery revenues is critical to continue needed services for older Pennsylvanians. Based on Pennsylvania's staggering demographic profile, a maintenance strategy would simply not be sufficient to meet the expected demand for long term care services.

While the report presents four major recommendations, I will confine my comments to the two recommendations that have direct relevance to the operation of the Department of Aging.

Recommendation Three. This recommendation states that the General Assembly should clarify its legislative intent regarding the proportion of Lottery revenues directed to prizes, program funding and Lottery reserve. While this is a responsible suggestion, we must recognize that during the last six years, an average of 43% of total Lottery revenues were expended on programs directly benefitting older Pennsylvanians. Even with these expenditures, there is still critical unmet need in many communities. The General Assembly must work to balance the imperative to increase revenues while not diminishing this essential program funding base. Sufficient flexibility and discretion to address fluctuations in both revenue generation and program funding needs must be factored into any clarifications made in distributing Lottery funds. The Department also agrees with the need for a Lottery reserve, but feels that the reserve should be kept at the minimum amount necessary to ensure financial stability of the Lottery fund.

Recommendation Four. This recommendation states that the Department of Aging should implement a mandatory system of client cost sharing for services. The Department is extremely supportive of this recommendation. In fact, we have been moving in this direction for a period of time. Our work has culminated in a technical assistance document that was issued to all area agencies on aging (AAAs) in May 1994 outlining a cost sharing system that is available for voluntary implementation by the AAA network. To date, nearly one half of our area agencies on aging engage in some form of cost sharing. Before the Department can make the system mandatory, we believe that additional groundwork must be established with several key stakeholders, particularly in the General Assembly. We have not lost sight of our goal for a mandatory, statewide system in the future and we are sure your recommendation will be significant in securing support for the concept in the General Assembly.

The Department would like to again commend you for this quality report. We believe it truly reflects the importance of the benefits to older Pennsylvanians who are supported by the State Lottery and the urgent need to ensure their continuation.

Sincerely,

Sharon Alexander-Keilly

Sharon Alexander-Keilly
Acting Secretary