

SENATE APPROPRIATIONS COMMITTEE FISCAL NOTE

BILL NO. House Bill 986

PRINTER'S NO. 1849

AMOUNT

No Fiscal Impact

FUND

Lottery Fund

DATE INTRODUCED

March 9, 2011

PRIME SPONSOR

Representative Benninghoff

HISTORY OF BILL

Referred to FINANCE, March 9, 2011

Reported as committed, April 4, 2011

First consideration, April 4, 2011

Laid on the table, April 4, 2011

Removed from table, April 5, 2011

Second consideration, April 6, 2011

Re-committed to APPROPRIATIONS, April 6, 2011

Re-reported as committed, April 11, 2011

Third consideration and final passage, April 13, 2011 (197-0)

In the Senate

Referred to FINANCE, April 25, 2011

Reported as amended, May 10, 2011

First consideration, May 10, 2011

Re-referred to APPROPRIATIONS, June 8, 2011

Re-reported as committed, June 20, 2011

DESCRIPTION AND PURPOSE OF BILL

House Bill 986 amends the State Lottery Law (Act of August 26, 1971, P.L. 351, No. 91) by maintaining the State Lottery's rate of return at 27% for fiscal years prior to July 1, 2015. For fiscal years beginning after June 30, 2015, the rate of return requirement is raised to 30%.

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Act 53 of 2008 granted the Pennsylvania Lottery temporary relief from the statutorily mandated 30% minimum rate of return, with a sunset date of June 30, 2011. The change to a mandated 27% rate of return was granted to provide the State Lottery with the capability to grow sales and net revenues for programs even though the return percentage is lower. House Bill 986 extends this relief to fiscal years beginning before July 1, 2015, and the rate of return reverts back to 30% for fiscal years beginning after June 30, 2015.

According to information provided by the Department of Revenue, 57% of Pennsylvania Lottery sales come from instant tickets, compared to about 24% ten years ago. While instant game sales have grown, terminal-based game sales (e.g. Daily Number, Powerball) have declined. Because instant games offer a lower profit margin than terminal-based games, the Pennsylvania Lottery has struggled in recent years to manage its product portfolio to stay above the 30% rate of return requirement. According to the Department, a higher return percentage does not mean higher net profits to the Lottery Fund.

The legislation requires the Department of Revenue to annually submit a report to the Governor and General Assembly setting forth current lottery profits and the State Lottery's plan for increasing future profits.

The Act takes effect July 1, 2011, or immediately, whichever is later.

FISCAL IMPACT:

It is presumed there would be no costs to the Commonwealth.

According to information provided by the Department of Revenue, the 2011-12 budget and Lottery's game development plan for the same fiscal year assumes continued relief from the 30% rate of return requirement. If relief from this requirement is not extended, the Department maintains that the Lottery will be forced to scale back its marketing initiatives planned for the second quarter and reduce sales estimates for fiscal year 2011-12 and out years. Presumably, this could result in decreased net profit dollars being available for programs funded through the Lottery Fund.