

JOINT BUDGET COMMITTEE



INTERIM SUPPLEMENTAL BUDGET REQUEST FY 2022-23

DEPARTMENT OF REVENUE

JBC WORKING DOCUMENT - SUBJECT TO CHANGE
STAFF RECOMMENDATION DOES NOT REPRESENT COMMITTEE DECISION

PREPARED BY:
ANDREA UHL & JON CATLETT, JBC STAFF
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JOINT BUDGET COMMITTEE STAFF
200 E. 14TH AVENUE, 3RD FLOOR • DENVER • COLORADO • 80203
TELEPHONE: (303) 866-2061 • TDD: (303) 866-3472
<https://leg.colorado.gov/agencies/joint-budget-committee>

INTERIM SUPPLEMENTAL REQUESTS

LOTTERY VENDOR FEES

	REQUEST	RECOMMENDATION
TOTAL	\$2,000,000	\$2,000,000
FTE	0.0	0.0
General Fund	0	0
Cash Funds	2,000,000	2,000,000
Federal Funds	0	0

Does JBC staff believe the request satisfies the interim supplemental criteria of Section 24-75-111, C.R.S.? **YES**
 [The Controller may authorize an overexpenditure of the existing appropriation if it: (1) Is approved in whole or in part by the JBC; (2) Is necessary due to unforeseen circumstances arising while the General Assembly is not in session; (3) Is approved by the Office of State Planning and Budgeting (except for State, Law, Treasury, Judicial, and Legislative Departments); (4) Is approved by the Capital Development Committee, if a capital request; (5) Is consistent with all statutory provisions applicable to the program, function or purpose for which the overexpenditure is made; and (6) Does not exceed the unencumbered balance of the fund from which the overexpenditure is to be made.]

Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria? **YES**
 [An emergency or act of God; a technical error in calculating the original appropriation; data that was not available when the original appropriation was made; or an unforeseen contingency.]

Explanation: JBC staff and the Department agree that this request is the result of an unforeseen contingency.

DEPARTMENT REQUEST: The Department of Revenue requests an increase of \$2,000,000 in cash funds spending authority from the Lottery Fund for FY 2022-23 for vendor fees.

STAFF RECOMMENDATION: Staff recommends the Committee **approve** the request and a corresponding letter to the State Controller. Denial of the request would result in the Lottery failing to meet its contractual obligations to pay its vendor fees.

STAFF ANALYSIS:

The Lottery contracts with International Gaming Technology to provide a central gaming system as well as online jackpot game support services. The bulk of the contract calls for payments of 1.85 percent of sales, paid through fees. The Lottery also pays Scientific Games on a percentage of sales basis for providing scratch tickets and related services. The rates and amounts are contractually negotiated and approved by Lottery leadership, Department of Revenue purchasing rules, and the Lottery Commission. These payments are made from the Lottery Fund through the Vendor Fees line item in the Long Bill. Staff would like to note that the Lottery is an enterprise, but the Lottery Fund is not continuously appropriated.

The Vendor Fees line item received a \$27,757,019 appropriation for FY 2022-23; the Department estimates that required vendor fee payments could exceed this amount by as much as \$2.0 million in the current fiscal year. For FY 2021-22, the most recent year for which actual expenditures are available, the Lottery reverted 24 percent of its \$26.1 million appropriation. Lottery sales are highly variable from year to year and cause associated expenses for vendor fees and retailer compensation to fluctuate accordingly. The Lottery has experienced an unprecedented three jackpots with PowerBall

and MegaMillions in excess of \$1.0 billion in the current fiscal year, driving sales to record levels for both games.

The Lottery's increase in sales, retailer compensation, and vendor fees also corresponds with an increase in distributions to beneficiaries. Other than a slight dip in 2020 due to the pandemic, the Lottery has seen revenues rise every year for the past six years. Lottery proceeds (after payment of lottery-related administrative expenses, retailer compensation, prizes, and operating reserves) are distributed to the Conservation Trust Fund, Great Outdoors Colorado, Colorado Parks and Wildlife, the Outdoor Equity Fund, the Parks/Outdoor Recreation Cash Fund, the Wildlife Cash Fund, and the Building Excellent Schools Today fund based on Constitutional and statutory requirements.

RECENT LOTTERY DISTRIBUTIONS (MILLIONS)						
	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Great Outdoors Colorado	\$66.2	\$68.5	\$70.4	\$71.7	\$73.1	n/a
Conservation Trust Fund	56.3	66.6	57.0	67.7	72.1	n/a
Colorado Parks and Wildlife	14.1	16.6	14.2	16.9	18	n/a
Outdoor Equity Fund	-	-	-	0.8	1.5	n/a
Parks/Outdoor Recreation Cash Fund	-	-	-	2.3	3.1	n/a
Wildlife Cash Fund	-	-	-	2.3	3.1	n/a
Building Excellent Schools Today	4.1	14.7	0.8	7.6	9.3	n/a
Total	\$140.7	\$166.5	\$142.4	\$166.5	\$142.4	\$195.0