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Background Brief on ...

Lottery Revenue

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Background

The Oregon Constitution prohibits gambling and games of chance., with three exceptions: games offered by the Oregon State Lottery, games offered by Indian Tribes pursuant to agreements with the State of Oregon, and bingo or lotto games offered by charitable organizations.

The Oregon State Lottery offers a mix of games through 3,300 retailers. About 1,400 retailers offer only the eight types of traditional games (Megabucks, scratch-it, etc). Video lottery (video poker and line games) are offered to persons age 21 or older on about 10,000 machines. 800 retailers offer only video games, and about 1,100 offer both types of lottery games. Statute caps administrative expense to 16 percent of revenue, and at least 50 percent of revenue must be returned in the form of prizes. Net receipts are revenue less prizes and net proceeds are net receipts less expenses. Net proceeds are deposited in the Economic Development Fund.

Lottery revenues are distributed to the Education Stability Fund (18 percent, with a ceiling of five percent of the General Fund), and 15 percent are transferred to the Parks and Natural Resources Fund. Current law requires that an amount equal to the net proceeds of Sports Action Lottery games be transferred to the Intercollegiate Athletic Fund. Economic development for counties receives 2.5 percent of video lottery net receipts. The balance may be appropriated by the Legislature for the purposes of creating jobs, furthering economic development, financing public education in Oregon, or restoring and protecting Oregon's parks, beaches, watersheds and critical fish and wildlife habitats. From this balance, the Legislature must first appropriate amounts sufficient to pay lottery bonds, and that not less than one percent be transferred to the Problem Gambling Addiction Fund, and the County Fair account receives one percent .

Oregon Law

The Oregon State Lottery and the five-member Lottery Commission were created by Ballot Measures 4 and 5 in 1984 . Commission members are appointed by the Governor and charged with producing the maximum amount of net revenue to benefit the public purpose. The Lottery may operate any games authorized by the commission except pari-mutuel racing, social games, and bingo games. The commission added line games (slot machines) to video lottery in 2005. The commission also changed the structure of the retailer

compensation at that time. The 1989 Legislature directed the Commission to establish a Sports Action Lottery game and authorized video lottery games, which were suspended by the Governor and subsequently reauthorized by the 1991 Legislature. The 2005 Legislature repealed (effective July 2007) games based on the outcomes of sport events; however, it dedicated one percent of lottery total net proceeds to college athletic programs. The Constitution, originally dedicated the net lottery proceeds to the public purposes of creating jobs and furthering economic development. Ballot Measure 21 (1995) expanded the restriction to include financing public education and dedicated 15 percent of net proceeds to the Education Endowment Fund. Measure 21 also gave lottery bonds first claim on lottery proceeds. Ballot Measure 66 (1998) further amended the Constitution to include restoring and protecting Oregon's parks, beaches, watersheds, and critical fish and wildlife habitats. It dedicated 15 percent of net proceeds to the Parks and Natural Resources Fund with 50 percent dedicated to parks and recreational areas and 50 percent dedicated to fish and wildlife habitats. Ballot Measure 19 (2002), converted the Education Endowment Fund to an Education Stability Fund and increase the dedication to 18 percent of Lottery net proceeds. If the balance in the Stabilization Fund reaches five percent of General Fund revenue, the lottery dedication is reduced to

15 percent and deposited in a new school capital matching Subaccount.

Lottery Revenue

Lottery revenues include non-game revenues such as interest earnings, penalties, and unclaimed prizes in addition to game revenues. Table One on the next page shows the history of traditional and video lottery game revenues and total lottery revenue since 1995-96 (millions). After the introduction of line games in 2005, Lottery revenue is expected to net the state more than one billion dollars per biennium.

Lottery Transfers

Lottery net proceeds are transferred to the Administrative Services Economic Development Fund. Amounts transferred lag revenues by one quarter and may differ by amounts added or withdrawn from various lottery reserves. Table Two on the next page shows the history of lottery transfers by biennium in millions on dollars. Amounts available for legislative appropriation do not include beginning balances, reversions, or interest earned on the Economic Development Fund.

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Table One

Fiscal Year	<u>Traditional Games</u>				Video Lottery Games				Total Lottery
	Gross Revenue	Prizes	Expense	Net Proceeds	Gross Revenue	Prizes	Expense	Net Proceeds	
1995-96	344.2	213.7	53.9	76.6	3,285.1	2,929.5	149.8	205.9	286.2
1996-97	333.1	207.6	52.6	72.8	3,636.7	3,243.5	168.7	224.5	301.2
1997-98	310.4	195.1	50.6	64.8	4,245.2	3,837.8	179.0	228.5	297.7
1998-99	325.9	206.0	49.0	70.9	5,660.1	5,257.5	172.0	230.5	306.2
1999-00	323.7	210.5	56.8	56.4	6,566.3	6,129.8	183.8	252.8	314.9
2000-01	323.3	211.9	56.8	56.4	7,293.4	6,831.0	194.7	274.4	330.8
2001-02	336.8	223.5	57.4	56.7	7,725.0	7,244.8	199.8	283.9	340.6
2002-03	354.8	235.5	60.1	59.6	8,133.3	7,634.6	201.8	298.9	358.5
2003-04	362.3	234.9	59.5	68.3	8,587.6	8,056.6	209.4	323.2	391.4
2004-05	360.2	234.2	58.6	67.9	9,189.0	8,609.3	206.1	376.3	444.2
2005-06	363.1	239.5	58.1	66.4	10,928.8	10,195.9	236.0	504.3	570.7

Table Two

Biennium	Revenue Bonds	Education Endowment/ Stability	Parks & Recreation	Counties & County Fair	Sports Action	Gambling Addiction	Legislative Approp.
1987-89							106.6
1989-91							92.5
1991-93	**			7.7	3.3		176.7
1993-95	20.0			19.0	4.6		403.3
1995-97	20.0			18.4	5.3		532.8
1997-99	21.7	91.2		20.1	3.9		471.1
1999-01	26.8	87.1	87.1	22.2	4.8	5.8	362.0
2001-03	71.3	110.7	110.7	24.3	5.2	6.2	409.7
2003-05	119.43	140.5	117.9	27.9	4.04	6.53	378.01
2005-07*	132.43	194.2	161.8	39.8	3.85	8.3	486.5
* Nov 2006 Forecast		** \$16 million appropriation for West Side Light Rail precedes bonding.					