
**The Tennessee Education Lottery
Estimates for Net Lottery Proceeds
(Fiscal Years 2008-09 and 2009-10)**

**Presented to: The State Funding Board
Presented by: Robert N. Currey, Fiscal Review
Friday, May 1, 2009**

Presentation Outline

- **FY07-08 Actual**
- **Lottery Fundamental Concepts**
- **FY08-09 Estimates from December 2008**
- **FY08-09 New Assumptions**
- **FY08-09 Revised Estimates (May 2009)**

- **FY09-10 Estimates from December 2008**
- **FY09-10 New Assumptions**
- **FY09-10 Revised Estimates (May 2009)**

- **FY08-09 Outcome**
- **FY09-10 Outcome**

FY07-08 Actual - Total Revenue

<u>Source of Revenue</u>	<u>Amount of Revenue</u>	<u>Percent of Total Revenue</u>
<i>Instant Games (Net)</i>	\$721,415,718	72.39%
<i>Cash 3</i>	\$59,264,078	5.95%
<i>Cash 4</i>	\$23,343,824	2.34%
<i>Powerball</i>	\$149,489,495	15.00%
<i>Pick 5</i>	\$22,870,206	2.29%
<i>HotTrax Champions</i>	\$2,296,454	0.23%
<i>Million Dollar Madness</i>	\$3,842,070	0.39%
<i>Lotto Plus</i>	\$8,060,290	0.81%
<i>Miscellaneous</i>	\$5,991,401	0.60%
Total Revenue	\$996,573,536	100.00%

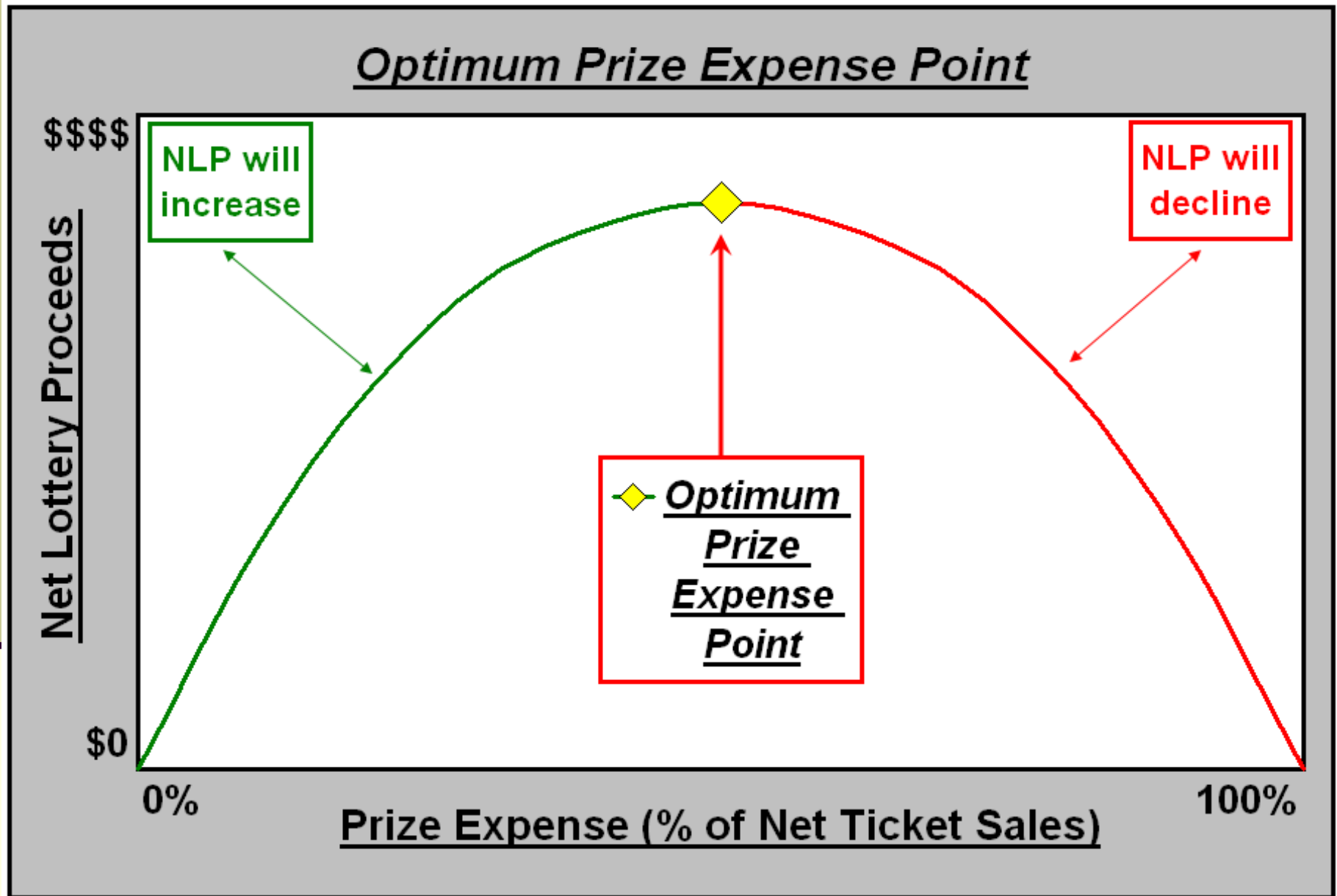
FY07-08 Actual – Total Revenue, Total Expenses, and Total Proceeds

<u>Income Statement Item</u>	<u>Amount</u>	<u>Percent of Total Revenue</u>
Total Revenue	\$996,573,536	100.00%
Prize Expense	\$602,283,577	60.44%
Retailer Commissions	\$69,568,160	6.98%
Operating Expense	\$14,620,429	1.47%
Other Expenses	\$37,685,803	3.78%
Total Expenses	\$724,157,969	72.66%
Net Lottery Proceeds	\$272,415,567	27.34%

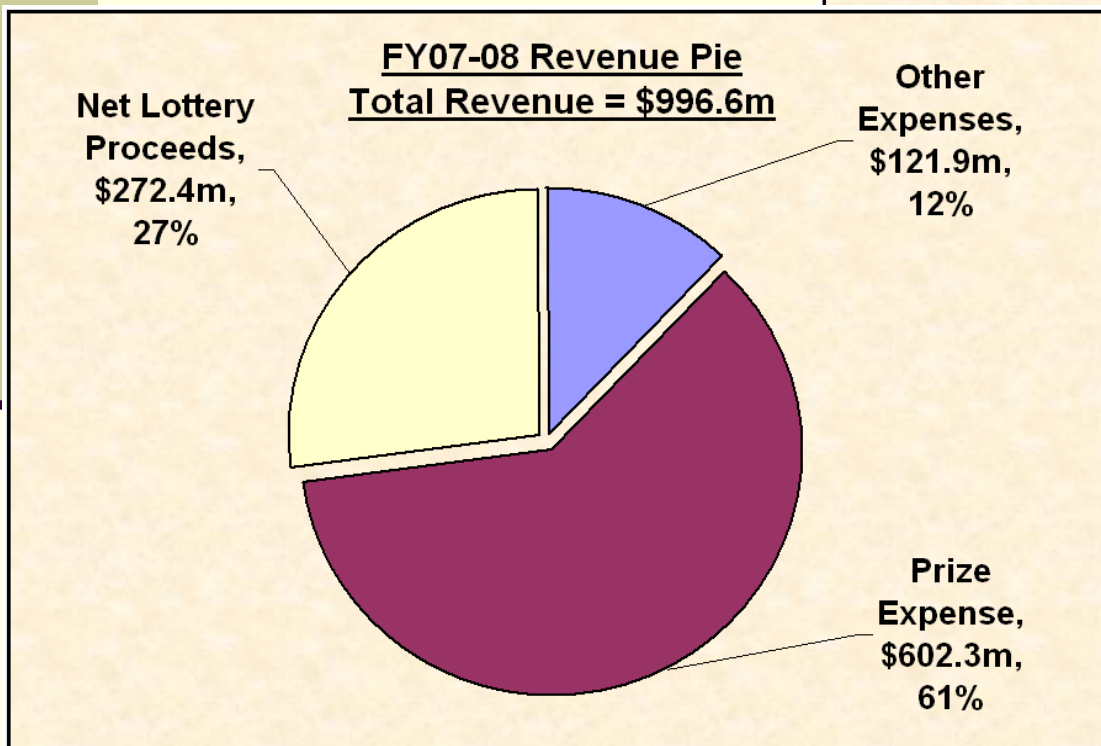
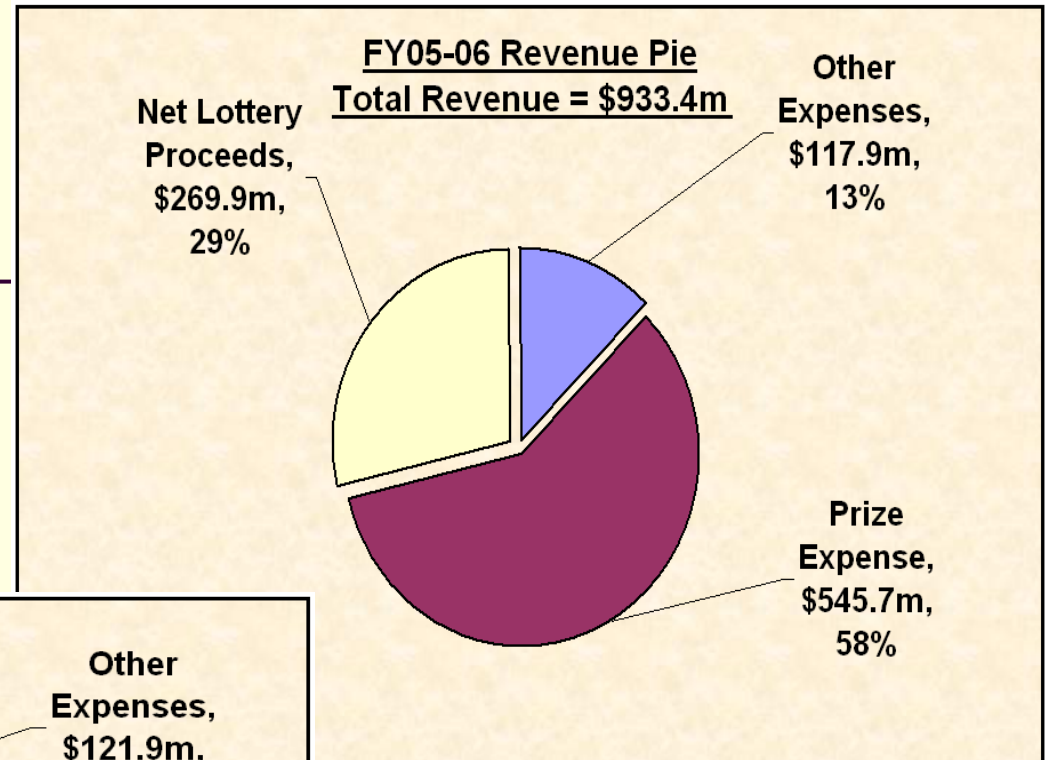
After-School Proceeds	\$13,724,640
Total State Proceeds	\$286,140,207

Lottery Fundamental Concepts

Lottery Fundamental Concept (1)

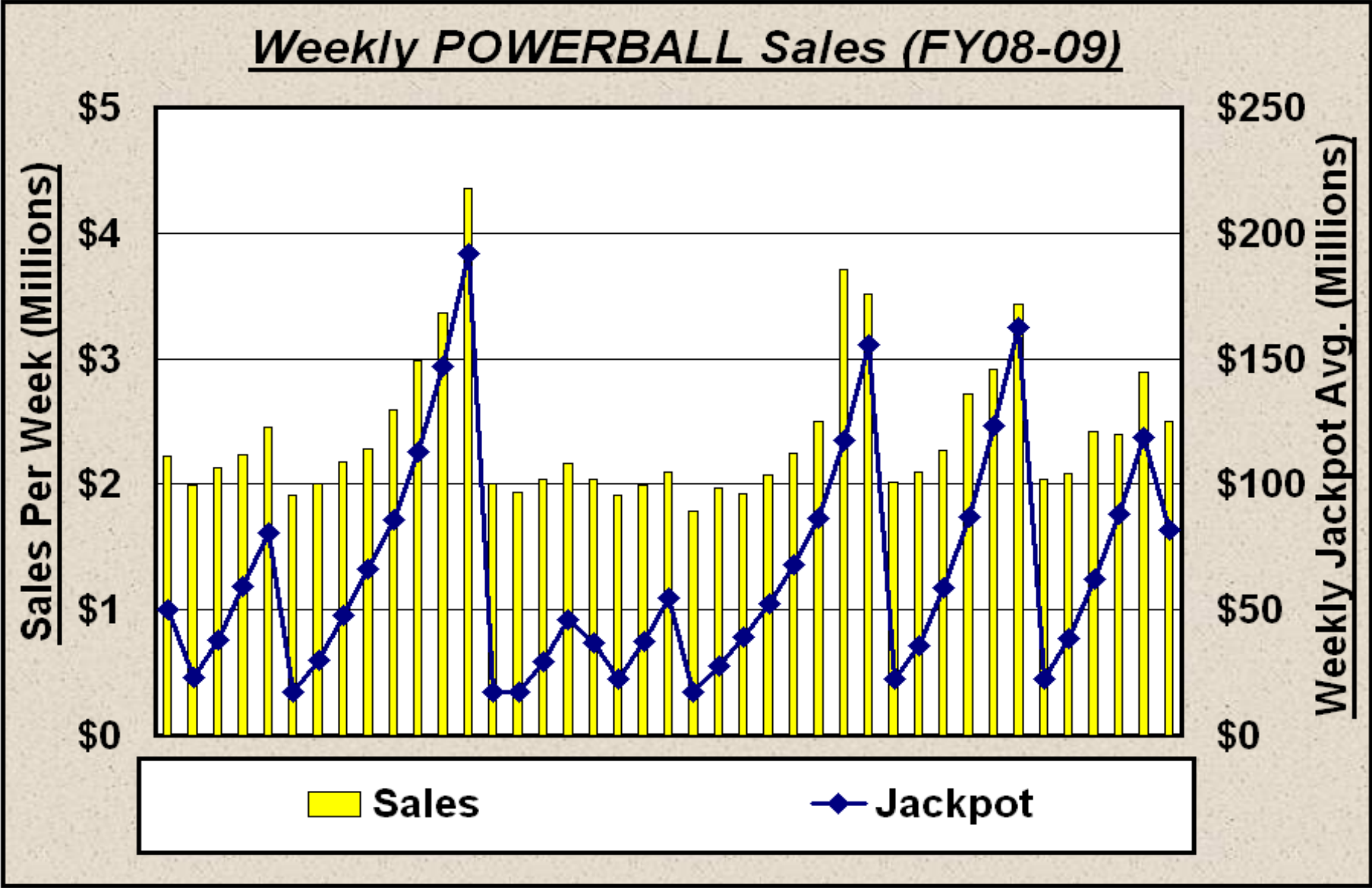


FY05-06 →



← FY07-08

Lottery Fundamental Concept (2)



FY08-09

FY08-09 Estimates (December 2008)

Revenue Source	Low	<u>Median</u>	High
Instant Games (Net)	\$716,320,000	\$730,170,000	\$744,030,000
Cash 3	\$56,220,000	\$56,800,000	\$57,370,000
Cash 4	\$22,910,000	\$23,120,000	\$23,330,000
Pick 5	\$13,880,000	\$14,270,000	\$14,670,000
Lotto Plus	\$19,600,000	\$21,170,000	\$22,740,000
Powerball	\$143,640,000	\$149,940,000	\$156,250,000
Hottrax Champions	\$870,000	\$875,000	\$880,000
Misc. Revenue	\$5,600,000	\$6,100,000	\$6,600,000
Total Revenue	\$979,040,000	\$1,002,445,000	\$1,025,870,000
Total Expenses (73%)	\$714,700,000	\$731,780,000	\$748,890,000
NET LOTTERY PROCEEDS (27%)	\$264,340,000	<u>\$270,665,000</u>	\$276,980,000
After-School Proceeds	\$11,500,000	\$12,500,000	\$13,500,000
TOTAL STATE PROCEEDS	\$275,840,000	<u>\$283,165,000</u>	\$290,480,000

FY08-09 – New Assumptions

- The number of daily drawings for Cash 3 and Cash 4 remain constant for the remainder of FY08-09.
- The number of weekly drawings for Powerball, Pick 5, and Lotto Plus remain constant for the remainder of FY08-09.
- No matrix change for Powerball, Pick 5, or Lotto Plus for the remainder of FY08-09.
- No new online games introduced for remainder of FY08-09.
- Ticket selling methods remain unchanged.
- Prize payout ratio for instant games, including the percentage of tickets awarded as prizes, remains relatively constant for remainder of FY08-09.
- Prize payout ratios for all other games remain constant for remainder of FY08-09.
- Total expense ratio is 74 percent of total revenue.
- Net lottery proceeds ratio is 26 percent of total revenue.

FY08-09 Revised Estimates (May 2009)

Revenue Source	Low	<u>Median</u>	High
Instant Games (Net)	\$774,861,000	\$785,307,000	\$795,753,000
Cash 3	\$56,977,000	\$57,548,000	\$58,119,000
Cash 4	\$24,398,000	\$24,569,000	\$24,740,000
Pick 5	\$13,924,000	\$14,086,000	\$14,248,000
Lotto Plus	\$23,345,000	\$23,517,000	\$23,688,000
Powerball	\$122,952,000	\$126,798,000	\$130,644,000
Hottrax Champions	\$793,000	\$793,000	\$793,000
Misc. Revenue	\$5,200,000	\$5,600,000	\$6,000,000
Total Revenue	\$1,022,450,000	\$1,038,218,000	\$1,053,985,000
Total Expenses (74%)	\$756,613,000	\$768,281,000	\$779,949,000
NET LOTTERY PROCEEDS (26%)	\$265,837,000	<u>\$269,937,000</u>	\$274,036,000
After-School Proceeds	\$12,500,000	\$13,500,000	\$14,500,000
TOTAL STATE PROCEEDS	\$278,337,000	<u>\$283,437,000</u>	\$288,536,000

FY09-10

FY09-10 Estimates (December 2008)

Revenue Source	Low	Median	High
Instant Games (Net)	\$723,480,000	\$737,470,000	\$751,470,000
Cash 3	\$56,220,000	\$56,800,000	\$57,370,000
Cash 4	\$22,910,000	\$23,120,000	\$23,330,000
Pick 5	\$13,880,000	\$14,270,000	\$14,670,000
Lotto Plus	\$16,000,000	\$18,200,000	\$20,400,000
Powerball	\$149,390,000	\$155,940,000	\$162,500,000
Misc. Revenue	\$5,500,000	\$6,100,000	\$6,600,000
Total Revenue	\$987,380,000	\$1,011,900,000	\$1,036,340,000
Total Expenses (73.1%)	\$721,770,000	\$739,700,000	\$757,560,000
NET LOTTERY PROCEEDS (26.9%)	\$265,610,000	<u>\$272,200,000</u>	\$278,780,000
After-School Proceeds	\$11,500,000	\$12,500,000	\$13,500,000
TOTAL STATE PROCEEDS	\$277,110,000	<u>\$284,700,000</u>	\$292,280,000

FY09-10 - New Assumptions

- Consistent with FY08-09, with the following exceptions:
 - One new online game introduced (approx. January 2010).
 - Prize payout ratio for instant games increases in FY09-10.
 - Total expense ratio is 74.2 percent of total revenue.
 - Net lottery proceeds ratio is 25.8 percent of total revenue.

Estimated Growth for FY09-10	Source of Growth	Low	Median	High
	Instant Games	0.00%	1.00%	2.00%
	Cash 3 and Cash 4	-2.00%	-1.00%	0.00%
	Pick 5	-2.00%	-1.00%	0.00%
	Lotto Plus	-1.00%	0.00%	1.00%
	Powerball	3.00%	4.00%	5.00%

FY09-10 Revised Estimates (May 2009)

Revenue Source	Low	Median	High
Instant Games (Net)	\$774,861,000	\$793,160,000	\$811,668,000
Cash 3	\$55,837,000	\$56,973,000	\$58,119,000
Cash 4	\$23,910,000	\$24,323,000	\$24,740,000
Pick 5	\$13,646,000	\$13,945,000	\$14,248,000
Lotto Plus	\$23,112,000	\$23,517,000	\$23,925,000
Powerball	\$126,641,000	\$131,870,000	\$137,176,000
<i>New Online Game</i>	\$3,000,000	\$4,500,000	\$6,000,000
Misc. Revenue	\$5,200,000	\$5,600,000	\$6,000,000
Total Revenue	\$1,026,207,000	\$1,053,888,000	\$1,081,876,000
Total Expenses (74.2%)	\$761,450,000	\$781,980,000	\$802,750,000
NET LOTTERY PROCEEDS (25.8%)	\$264,757,000	<u>\$271,908,000</u>	\$279,126,000
After-School Proceeds	\$12,500,000	\$13,500,000	\$14,500,000
TOTAL STATE PROCEEDS	\$277,257,000	<u>\$285,408,000</u>	\$293,626,000

FY08-09 - Outcome

	Low	Median	High
Net Lottery Proceeds	\$265,837,000	\$269,937,000	\$274,036,000
Interest Earnings	\$17,300,000	\$17,300,000	\$17,300,000
From General Fund*	\$6,000,000	\$6,000,000	\$6,000,000
Total	\$289,137,000	\$293,237,000	\$297,336,000
TSAA Need-Based Grants	\$6,800,000	\$6,800,000	\$6,800,000
Pre-K Programs	\$25,000,000	\$25,000,000	\$25,000,000
Administrative Expenses	\$4,100,000	\$4,100,000	\$4,100,000
Scholarship Expenses**	\$259,300,000	\$259,300,000	\$259,300,000
Total	\$295,200,000	\$295,200,000	\$295,200,000
Surplus/(Shortfall)	(\$6,063,000)	(\$1,963,000)	\$2,136,000
* Anticipated Shortfall Reflected in Governor's Budget for FY08-09 (Page A-16)			
** Scholarship Expenditure Estimates by THEC/TSAC (December 2008)			

FY09-10 - Outcome

	FY09-10		
	Low	Median	High
Net Lottery Proceeds	\$264,757,000	\$271,908,000	\$279,126,000
Interest Earnings	\$17,300,000	\$17,300,000	\$17,300,000
From General Fund*	\$14,000,000	\$14,000,000	\$14,000,000
Total	\$296,057,000	\$303,208,000	\$310,426,000
TSAA Need-Based Grants	\$6,800,000	\$6,800,000	\$6,800,000
Pre-K Programs	\$25,000,000	\$25,000,000	\$25,000,000
Administrative Expenses	\$4,100,000	\$4,100,000	\$4,100,000
Scholarship Expenses**	\$267,100,000	\$267,100,000	\$267,100,000
Total	\$303,000,000	\$303,000,000	\$303,000,000
Surplus/(Shortfall)	(\$6,943,000)	\$208,000	\$7,426,000

*Included in Governor's FY09-10 Recommended Budget (Page B-78)

**Scholarship Expenditure Estimates by THEC/TSAC (December 2008)