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Budget Briefing

Lottery Fund

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The Pennsylvania Lottery had another record-breaking year in 2018/19 with sales totaling \$4.88 billion, up \$663 million or 15.7 percent from 2017/18. This double-digit growth reflects the first full year of Lottery's internet-based games that were launched in May 2018.

The administration projects lottery sales will increase to \$5.16 billion in 2019/20. Lottery profits, after paying for prizes and operating costs, go toward services for seniors. This briefing reviews how Lottery Fund revenue is used in the enacted 2019/20 budget, with particular attention given to the \$1.3 billion budgeted for senior programs.

Act 91 of 1971 established the Pennsylvania State Lottery with the primary purpose of funding programs and services for older Pennsylvanians. State law requires at least 25 percent of gross lottery sales to be dedicated to programs benefitting seniors and at least 40 percent to be paid out as prize money.

The Department of Revenue is responsible for the administration and operation of the Pennsylvania State Lottery. This involves marketing and developing games, promoting sales, licensing agents to sell lottery tickets, and validating winners.

The Lottery offers a diverse portfolio of games that include instant "scratch-off" tickets as well as terminal-based and online games. Lottery games are sold through a statewide network of more than 9,700 local retailers, who earn commissions on their sales. Winning ticket holders may redeem prizes up to \$2,500 at any lottery retailer; for higher amounts, winners receive a check from the Lottery.

Revenue generated from the Pennsylvania Lottery is deposited into the Lottery Fund. The amount deposited into the fund is net lottery collections --this is gross sales less the commission retained by retailers and prizes paid directly by retailers. Other Lottery Fund deposits include transfers from the Gaming Fund (which support the property tax and rent rebate program, as required under the Taxpayer Relief Act) and investment earnings.

Lottery Fund Financial Statement

The 2019/20 Lottery Fund financial statement (Table 1) reports \$2.0 billion in revenue available to spend through June 30, 2020. This amount includes the \$4.2 million ending balance carried forwarded from 2018/19 and revenues deposited into the fund during 2019/20. These deposits include:

- \$1.85 billion projected net lottery collections,
- \$146 million transfer from the State Gaming Fund and
- \$1.25 million of miscellaneous revenue (namely investment earnings).

The Lottery Fund pays for the following expenditures: lottery prizes (other than those paid directly by local retailers), operating and administrative expenses, and senior programs. For 2019/20, these expenditures total \$1.99 billion. This leaves the Lottery Fund with a projected \$10.6 million ending balance by June 30, 2020.



Table 1: 2019/20 Lottery Fund Financial Statement*(Dollars in Thousands)*

Beginning Balance		\$4,249
Revenue:		
Net Lottery Collections	\$1,848,060	
Gaming Fund Transfers	\$146,300	
<u>Miscellaneous Revenue</u>	<u>\$1,250</u>	
Total Revenue		<u>\$1,995,610</u>
Funds Available		\$1,999,859
Expenditures:		
Appropriations	\$892,683	
<u>Executive Authorizations</u>	<u>\$1,096,625</u>	
Total Expenditures		<u>\$1,989,308</u>
Ending Balance		\$10,551

Source: Governor's Office of the Budget

Revenues

Table 2 details the Lottery Fund's estimate for 2019/20 net collections compared to actual net collections for the previous two years. Net lottery collections are projected at nearly \$1.85 billion in 2019/20, which is \$632 million (or 3.5 percent) above 2018/19.

Table 2: Net Lottery Collections			
<i>(Dollars in Millions)</i>			
	2017/18	2018/19	2019/20
Lottery Sales:			
Traditional Games	\$4,200.6	\$4,502.6	\$4,678.3
<u>iLottery Games</u>	<u>\$20.8</u>	<u>\$381.5</u>	<u>\$482.2</u>
Total Sales	\$4,221.4	\$4,884.1	\$5,160.6
Less Paid Prizes and Commissions:			
Traditional Games	(\$2,561.4)	(\$2,755.3)	(\$2,878.5)
<u>iLottery Games</u>	<u>(\$19.0)</u>	<u>(\$343.3)</u>	<u>(\$434.0)</u>
Total Paid Prizes & Commissions	(\$2,580.4)	(\$3,098.6)	(\$3,312.5)
Net Lottery Collections	\$1,641.0	\$1,785.4	\$1,848.1

Officials are counting on continued growth in lottery sales, with traditional games (such as "scratch-off" instant tickets, Powerball and other terminal-based games) projected to top \$4.67 billion in 2019/20. This represents an increase of 3.9 percent (or \$176 million) above the sales record set in 2018/19. Online internet games are expected to have another strong year, with the iLottery play estimated to reach \$482 million, or 26.4 percent above 2018/19.

These projections reflect Lottery's plans to increase sales and maximize profits by redesigning scratch-off and other traditional games, expanding its portfolio of online games, growing its retailer network and increasing promotional activities.



2018/19 Pennsylvania Lottery Sales and Profits

With help from iLottery online games, 2018/19 was the most successful year for the Pennsylvania Lottery. Traditional and iLottery games combined to generate all-time high sales of \$4.88 billion and record profits of \$1.14 billion to support senior programs. This marked the eighth consecutive year in which Lottery's profits exceeded \$1 billion.

Traditional lottery game sales totaled \$4.5 billion and generated \$1.11 billion in net profits for the Lottery Fund. Sales were nearly \$303 million (or 7.2 percent) above the previous record set in 2017/18. Below is a breakout of traditional lottery sales by game type.

- Scratch-off games drove the majority of sales with a total of \$2.99 billion, up \$165 million (or 5.9 percent) from 2017/18's record sales .
- Multi-state games -- such as Powerball and MegaMillions -- benefited from several large jackpots in 2018/19, with sales totaling \$507 million. This represents a year-over-year increase of \$82 million, or 19.4 percent.
- Keno and Express Sports games were not as strong as initially anticipated, posting \$47 million in sales during their first full year of operation. Lottery officials sited competition from illegal "games of skill" for the disappointing sales.
- Sales of other terminal-based games -- including Fast Play, Match 6 and the PICK family of games -- totaled \$960 million. This was \$16 million, or 1.7 percent, above 2017/18.

iLottery generated \$377 million in gross revenue during 2018/19, its first full year of operation, and \$31 million in net profits. Plays of online games was \$355 million more than 2017/18, during which iLottery posted six weeks of play compared to 52 weeks in 2018/19.

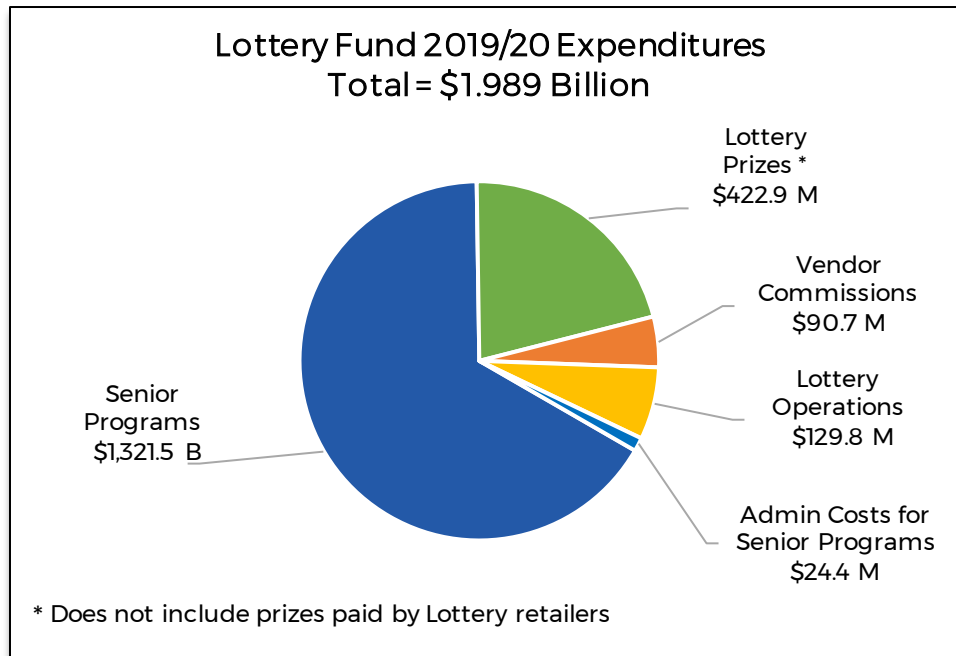
Expenditures

The nearby pie chart shows the distribution of Lottery Fund spending in the enacted 2019/20 budget. Senior programs account for two-thirds of Lottery Fund expenditures. The remaining expenses are for lottery prizes, lottery operations (including vendor commissions), and the administrative costs for senior programs.

- \$1.32 billion is for programs benefitting Pennsylvania's senior population. Detail on these programs is provided in the following section.
- \$423 million is for payment of the following Lottery prizes: instant game prizes that are more than \$2,500, on-line (terminal-based) prizes that are more than \$2,500, on-line prizes that were not claimed within 180 days and are more than \$100, and prizes for which winners choose to present their tickets at Lottery headquarters for payment. This is an executive authorization.
- \$130 million is for Lottery operating expenses, including the executive authorization that funds the general operations of the Lottery Bureau in the Department of Revenue (\$78.8 million), and the executive authorization that funds advertising and promotional activities for the state Lottery (\$51 million).
- \$91 million covers the commissions paid to contracted vendors who partner with the department to operate the Lottery, including the commission paid to the contractor who operates and maintains the Lottery's on-line games system (\$57.5 million). Payment of ticket testing and vendor commissions for the printing, warehousing and delivery of instant tickets to retailers is also included (\$33.2 million). Vendor commissions are funded through executive authorizations.



- \$24 million funds the costs associated with administering senior programs, including the executive authorization for the Department of Revenue to administer the property tax and rent rebate program (\$15.7 million), and the appropriation that funds general government operations in the Department of Aging (\$8.7 million).



Senior Programs

The 2019/20 budget spends \$1.32 billion on senior programs. This is \$11 million less than the revised 2018/19 spending level which included supplemental appropriation increases totaling \$68.9 million.

Table 3 details Lottery Fund expenditures in the revised 2018/19 budget and the enacted 2019/20 budget. Expenditures for programs administered by the Department of Aging and the Department of Human Services are appropriated from the Lottery Fund as part of the General Appropriations Act (HB 790). Expenditures for programs administered by the Department of Revenue and the Department of Transportation are made through executive authorizations.

Medicaid programs in the Department of Human Services roughly consume 30 percent of Lottery Fund dollars spent on senior programs. For 2019/20, \$400.5 million is appropriated for DHS programs, which is \$28 million more than 2018/19. The Lottery Fund appropriations reduce, dollar for dollar, the General Fund revenue that otherwise would be required to pay for these Medicaid programs.

Below are budget highlights, followed by a more detailed look at each program:

- The 2018/19 supplemental appropriation increases are the same amounts Gov. Wolf requested in his February Executive Budget proposal. The lion's share of the supplemental increase (\$64 million) covered DHS Medicaid expenditures and thereby reduced the need to spend General Fund revenue. The supplemental increase for PENNCARE repaid the federal government for past aging waiver reimbursement claims (dating back to 2008) that were determined to be ineligible for federal Medicaid matching funds.



- 2019/20 expenditures reflect the statewide expansion of the Community HealthChoices program in DHS, effective Jan. 1, 2020. Lottery funds are shifting from three appropriations – PENNCARE, Medical Assistance long term care, and home and community-based care – to support seniors who will be transitioning from these programs to Community HealthChoices.

Table 3. Lottery Fund Expenditures for Senior Programs			
<i>(Dollars in Thousands)</i>			
Agency	Revised	Enacted	Change From
Appropriation / Executive Authorizations	2018/19	2019/20	2018/19
Department of Aging:			
PENNCARE	\$338,725 *	\$305,324	(\$33,401)
Pharmaceutical Assistance Fund	\$155,000	\$155,000	-
Pre-Admission Assessment	\$8,750	\$8,750	-
Caregiver Support	\$12,103	\$12,103	-
Grants to Senior Centers	\$2,000	\$2,000	-
<u>Alzheimer's Outreach</u>	<u>\$250</u>	<u>\$250</u>	-
Subtotal - Aging	\$516,828	\$483,427	
Department of Human Services:			
Community HealthChoices	\$166,806 *	\$397,013	\$230,207
Home and Community Based Services	\$120,668 *	-	(\$120,668)
Medical Assistance Long-Term Care	\$81,381	-	(\$81,381)
<u>Medical Assistance Transportation</u>	<u>\$3,500</u>	<u>\$3,500</u>	-
Subtotal - Human Services	\$372,355	\$400,513	
Department of Revenue:			
Property Tax and Rent Rebate	\$264,700	\$266,700	\$2,000
Department of Transportation:			
Transfer to Public Transportation Trust Fund (Free Ride)	\$95,907	\$95,907	-
<u>Shared Ride</u>	<u>\$82,975</u>	<u>\$75,000</u>	(\$7,975)
Subtotal - Transportation	\$178,882	\$170,907	
TOTAL EXPENDITURES	\$1,332,765	\$1,321,547	(\$11,218)

* Revised 2018/19 expenditures include supplemental appropriation increases for PennCARE (\$4.947 million), Home and Community-Based Services (\$50.278 million) and Community HealthChoices (\$13.722 million).

PENNCARE. This appropriation funds all community-based and in-home service activities of the Department of Aging, including protective services for adults. The department distributes grants to the 52 area agencies on aging that serve all 67 counties, and each agency uses its allotted funds to provide a broad array of services that meet the needs of their older populations. Services include home-delivered meals, congregate meals, socialization, recreation, employment services, home health, attendant care, adult daily living and ombudsman services.

The enacted budget appropriates \$305 million for PENNCARE, which is \$33.4 million less than the 2018/19 revised appropriation. This decrease is primarily due to the transfer of \$49 million from PENNCARE to Community HealthChoices to support attendant care waiver users who will be moving to the Community HealthChoices program when it goes statewide Jan. 1, 2020. The attendant care waiver program, which serves individuals who qualify for Medical Assistance, will no longer exist after this date. However, PENNCARE will continue to support the Act 150 attendant care program, which serves individuals who are not eligible for Medical Assistance.



The 2019/20 appropriation includes \$5.9 million for protective service investigations for seniors at risk of being abused, neglected, exploited or abandoned. This is nearly twice as much as the \$3.1 million provided in 2018/19 but \$2 million less than requested by the area agencies on aging.

Reported cases of senior abuse totaled 33,519 in 2017/18 and are projected to reach 38,730 in 2019/20; a 15 percent increase over the two-year period.

Pharmaceutical Assistance Fund. Lottery Funds are annually transferred to the Pharmaceutical Assistance Fund to support three programs: PACE, PACENET and PACE Plus Medicare, which is administered by the Department of Aging for seniors age 65 or older. The amount of the annual Lottery Fund transfer to the Pharmaceutical Assistance Fund is based on estimated state expenditures for the three programs. The PACE and PACENET programs are paid entirely with state revenue, whereas PACE Plus is largely funded with federal Medicare funds.

Eligibility for PACE and PACENET is established by statute and is determined using the previous calendar year's income. Seniors who have too much income to qualify for PACE may qualify for PACENET, which has a small monthly premium and requires higher co-pays for prescriptions than PACE.

- PACE income eligibility (Act 37 of 2003) is \$14,500 or less for a single person and \$17,700 or less for a married couple. PACE participants pay no monthly fees or premiums, just copayments, which are \$6 for generic and \$9 for brand-name drugs.
- PACENET eligibility expanded in October (Act 87 of 2018) to cover single individuals whose annual income is between \$14,500 and \$27,500, and married couples with income between \$17,700 and \$35,500. PACENET copayments are \$8 for generic and \$15 for brand-name drugs. Participants pay a monthly premium equal to the regional benchmark premium for Medicare Part D (\$37.03 in 2019).

PACEPlus supplements PACE and PACENET drug coverage with the Medicare Part D drug benefit. PACEPlus is designed so that so that out-of-pocket costs paid by enrollees are the same as, or lower than, PACE and PACENET. Enrollment in PACEPlus Medicare is voluntary. Each year, the department partners with select Part D plans and encourages PACE and PACENET cardholders to enroll in the plan it has recommended for them, based on their prescription medications and pharmacy preferences. Cardholders who do not enroll in a Part D plan continue to receive prescription benefits through the PACE and PACENET programs. [\[More information about these programs can be found in our primer "Senior's Pharmaceutical Assistance Programs."\]](#)

The 2019/20 budget transfers \$155 million from the Lottery Fund to the Pharmaceutical Assistance Fund, the same as 18/19. Approximately 223,000 seniors age 65 or older will receive assistance in 2019/20, of which more than 80 percent are enrolled in PACE Plus.

Pre-Admission Assessment. Local area agencies on aging perform assessment screenings of individuals applying for nursing facility care. They also perform assessments to determine eligibility for Medicaid home- and community-based waiver programs (administered by the Department of Human Services) as well as other alternatives to nursing facility care that are appropriate to the individual's needs. The assessment screening process involves a thorough review of each applicant's medical and functional needs to determine their eligibility for services.

The 2019/20 budget appropriates \$8.75 million for approximately 105,800 nursing facility and community referrals.

Caregiver Support. The state caregiver support program provides training, counseling and financial assistance to qualified individuals who care for elderly and infirmed persons in their



homes. The caregiver need not be a relative nor reside in the same residence as the person receiving care. The amount of financial assistance to qualified caregivers is based on income.

The program generally reimburses caregivers up to \$200 per month for out-of-pocket expenses on services and supplies; however, under certain circumstances, it is possible for caregivers to receive up to \$500. The monthly reimbursement can be used for such expenses as respite care, transportation, and incontinence supplies, as well as for education and counseling for caregivers. The program also provides one-time grants of up to \$2,000 for home modifications and assistive devices, including wheelchair ramps, grab bars and chair lifts.

The enacted budget appropriates \$12.1 million from the Lottery Fund and anticipates serving 5,350 families in 2019/20.

Grants to Senior Centers. This \$2 million appropriation funds a grant program that assists senior centers in making repairs, renovations and other improvements. The Department of Aging uses a competitive process to award grants to centers, but it has yet to open the grant application process for 2019/20

Alzheimer's Outreach. This \$250,000 appropriation supports training, education and outreach to families, medical professionals, human service providers and the general public. The Department of Aging distributes funding to the two Alzheimer's association chapters serving Pennsylvania.

Community HealthChoices. The Department of Human Services administers Community HealthChoices, the managed long term care program for elderly persons, adults with physical disabilities, and dual eligibles (people eligible for both Medicare and Medicaid benefits). Community HealthChoices began operating January 2018 in 14-counties in southwest PA and expanded to the 5-county southeast zone on Jan. 1, 2019 (it will operate statewide in all 67 counties beginning Jan. 1, 2020).

Home and Community-Based Services. This appropriation in the Department of Human Services funds the aging waiver program providing personal care, home health care, and other services to people age 60 or older who are Medicaid eligible and who would otherwise require nursing facility care. The program will end after Jan. 1, 2020, when all waiver users are transferred to Community HealthChoices. Consequently, Lottery Funds previously appropriated for home and community based services are transferred to the Community HealthChoices appropriation in 2019/20.

Medical Assistance Long Term Care. This appropriation in the Department of Human Services funds nursing facility care for low-income individuals who qualify for Medical Assistance. For 2019/20, Lottery Funds previously appropriated to Medical Assistance long term care are shifted to the Community HealthChoices appropriation.

Medical Assistance Transportation Program (MATP). The MATP program in the Department of Human Services helps Medical Assistance recipients with non-emergency transportation (rides to doctor appointments, hospitals for tests, drug and alcohol clinics, mental health centers, pharmacies for prescriptions and other medical suppliers) to and from health care services and treatment. The 2019/20 budget appropriates \$3.5 million from the Lottery Fund for MATP, the same as 18/19. The appropriated Lottery Funds reduce the amount of General Fund revenues otherwise required to pay for MATP

Property Tax/Rent Rebate Program. The Department of Revenue administers the property tax/rent rebate program which helps senior citizens over age 65, widowed individuals over age 50, and permanently disabled individuals. The program rebates a proportion of property taxes or rent paid by eligible households.



The annual income eligibility limit for PTRR is \$35,000 for homeowners and \$15,000 for renters. Only half of Social Security income is counted in determining eligibility.

The rebate amount varies, based on household income; however, the amount cannot exceed actual property taxes or rents paid during the year. Eligible renters may receive a rebate of either \$500 or \$650. Eligible homeowners may receive a standard property tax rebate ranging between \$250 and \$650, with an additional 50 percent in enhanced property tax relief (for a maximum rebate of \$975) available to the following senior citizens who have household income less than \$30,000:

- Senior citizens residing in Philadelphia, Pittsburgh and Scranton.
- Senior citizens residing elsewhere in the state who pay more than 15 percent of their income in property taxes.

The 2019/20 budget includes \$266.7 million for the PTRR program, and more than half of this (\$146.3 million) is comprised of Gaming Fund revenue transferred to the Lottery Fund in accordance with provisions in the state's Taxpayer Relief Act.

Free and Reduced Fare Transit. The Department of Transportation administers two transit programs for Pennsylvanians over age 65: free transit and shared ride.

The free transit program offers free rides on local bus routes and rapid-transit lines during all operating times on weekdays, weekends and holidays. The program is funded with Lottery Fund revenues deposited into the Public Transportation Trust Fund and distributed by the department to transit systems as part of their annual operating assistance grant. The 2019/20 budget transfers \$95.9 million from the Lottery Fund to the Public Transportation Trust Fund, the same as 18/19.

The Shared Ride program offers door-to-door specialized transportation services (such as vans and minibuses) at a discounted fare. The department contracts with service providers who operate on a non-fixed route basis. Senior citizens, or approved third party sponsors (such as human services agencies), pay a discounted rate equal to 15 percent of the existing shared ride fare; the Lottery Fund pays the remaining 85 percent of the fare. The enacted budget includes \$75 million for the shared ride program in 2019/20, a decrease of \$8 million from 18/19.

