

Primer

House Appropriations Committee (D)



JOE MARKOSEK, DEMOCRATIC CHAIRMAN

Nov. 7, 2014

The Pennsylvania Lottery & Lottery Fund

Act 91 of 1971 established the Pennsylvania Lottery and created the Lottery Fund for the deposit of revenue received from the sale of lottery tickets. The primary purpose for creating the lottery was to generate funds for programs that benefit Pennsylvania's elderly population. Initially, lottery proceeds were targeted at providing property tax relief for seniors in the form of rebates. Over the years, lottery-supported programs have expanded to include rent rebates, transportation services, prescription drug assistance, home and community-based services, caregiver support, and long-term care. Since 1972, the lottery has contributed nearly \$24.8 billion to senior programs.

The Department of Revenue is responsible for the administration and operation of the lottery, which involves marketing and developing games, promoting sales, licensing agents to sell lottery tickets, and validating winning tickets. In addition to its headquarters in Middletown, Dauphin County, the lottery has seven regional offices located in Philadelphia, Pittsburgh, Wilkes-Barre, Clearfield, Erie, Bethlehem and Harrisburg.

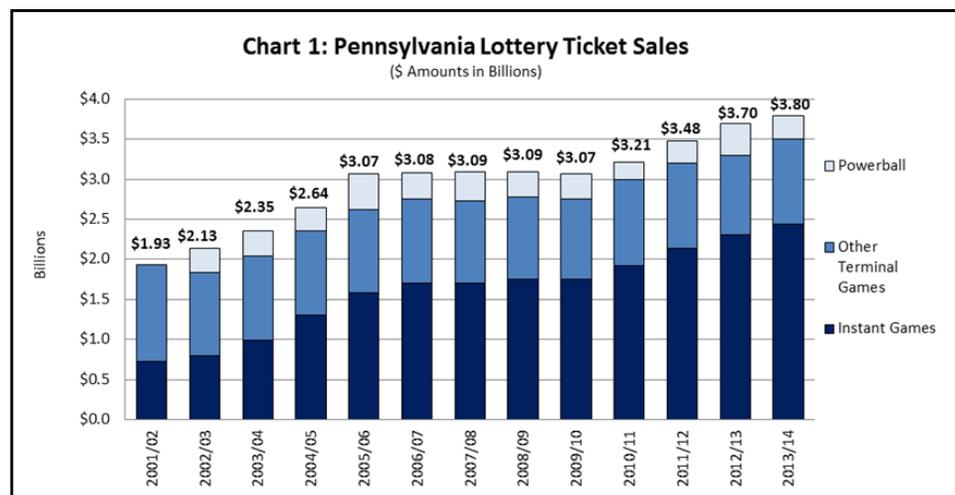
Lottery Sales

The Pennsylvania Lottery is the sixth largest state lottery in the country, with annual lottery sales exceeding \$3 billion in recent years. Chart 1 below shows a history of lottery sales for the years 2001/02 through 2013/14. Sales have nearly doubled during this period, growing by \$1.865 billion, or 96 percent. This growth reflects the impact of new games, such as Powerball, as well as expanding the network of retailers where lottery tickets are sold. For 2013/14, total lottery ticket sales reached a record of \$3.8 billion, an increase of \$99.9 million (or 2.7 percent) above the sales record set in 2012/13.

- Instant game sales were \$2.44 billion in 2013/14, an increase of \$139.8 million (or 6.1 percent) from the prior year.
- Powerball sales were \$301 million in 2013/14, a decrease of \$99.5 million (or 24.8 percent) from the prior year.
- Sales for all other games (Mega Millions and other terminal-based games) totaled \$1.05 billion, an increase of \$59.6 million (or 6 percent) from 2012/13.

The Pennsylvania Lottery offers two basic types of games: instant games and terminal-based games.

- Instant games, which consist of pre-printed "scratch off" tickets ranging in price from \$1 to \$30, account for 64 percent of all ticket sales. By comparison, in 2001/02, instant games accounted for just 37 percent of ticket sales.
- Terminal-based games include numbers games such as The Daily Number, Big 4 and Quinto and jackpot games such as Cash 5, Match 6 Lotto and Treasure Hunt, as well as the two multi-state jackpot games, Powerball and Mega Millions, in which Pennsylvania participates.



Powerball and Mega Millions are sold in 44 states, Washington, D.C. and the U.S. Virgin Islands. Pennsylvania joined Powerball in 2002 and Mega Millions in 2010. In October 2014, the lottery joined a new multi-state game, Monopoly Millionaire’s Club.

The lottery conducts drawings twice a day, at mid-day and 6:59 p.m. Powerball and Mega Millions drawings are conducted at 10:59 p.m. Eastern Standard Time.

Lottery games are sold through a statewide network of more than 9,100 retailers. Winning ticket holders may redeem prizes up to \$2,500 at any lottery retailer; otherwise, winners receive a check from the lottery. For lottery prizes over \$2,500, the lottery works with the Department of Public Welfare to deduct from winnings any overdue child support payments.

Increased Competition

With passage of the slots gaming act and concern about the impact it could have on lottery ticket sales, the Legislative Budget and Finance Committee (LBFC) is required by Act 71 of 2004 to issue annual reports to the General Assembly analyzing the impact. The reports are available at <http://lbfc.legis.state.pa.us>.

With passage of the small games of chance act (Act 90 of 2013) and concern about the impact it could have on lottery sales, LBFC is required to study the impact beginning in 2016. Pending the results, the governor may request the General Assembly to transfer money from the General Fund to the Lottery Fund.

Lottery Revenue

Net revenue from the lottery - which is the money generated from lottery ticket sales less prizes, vendor and retailer commissions, advertising, and other expenses - are deposited into the Lottery Fund. Other revenues deposited into the fund include transfers from the Gaming Fund (pursuant to Act 1 of Special Session No. 1 of 2006, known as the Taxpayer Relief Act) and investment earnings on securities and deposits.

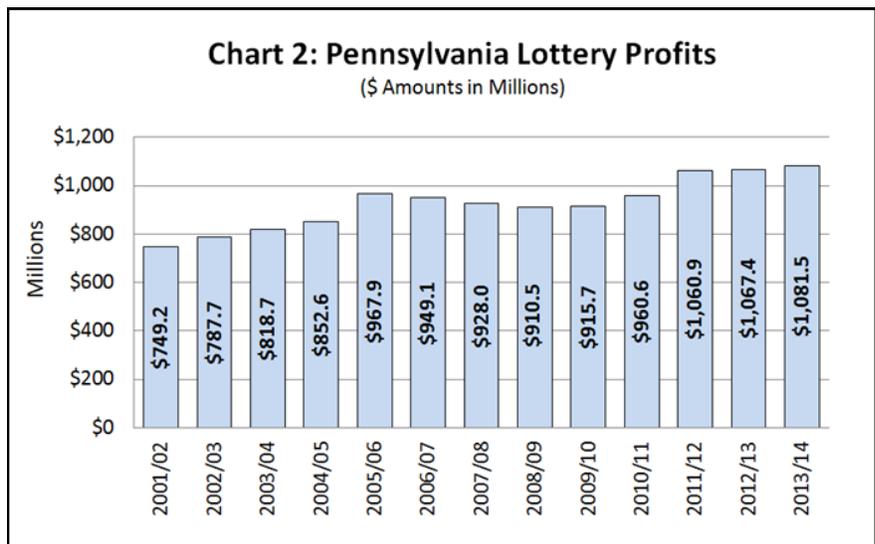
Lottery Fund profits, after paying for lottery prizes and operating costs, go

toward services for seniors. The 1971 act required the Pennsylvania Lottery to contribute at least 30 cents of each dollar earned to programs benefitting seniors and 40 cents of each dollar to players in the form of prize money. However, the General Assembly temporarily lowered the lottery’s profit requirement from 30 percent to 27 percent in 2008 (Act 53), and extended it again in 2011 (Act 23). **On Oct. 31, 2014, the governor signed House Bill 2110 (Act 201), which permanently reduces the profit rate requirement from 30 percent to 25 percent, effective immediately.**

According to the Department of Revenue, reducing the profit rate mandate gives the lottery the ability to offer games that maximize profits for senior programs. The department estimates that lowering the profit mandate to 25 percent will generate an additional \$130 million in profits for senior programs over the next five years, compared to keeping the profit rate at 27 percent. When compared to the 30 percent mandate, the rate reduction will generate nearly \$1 billion over the next five years.

Act 201 also prohibits the lottery from selling Keno, internet instant games, internet casino-style lottery games (i.e. video poker, roulette, blackjack and slot machines), and from selling lottery games online.

Chart 2 below shows a history of lottery profits from 2001/02 through 2013/14. Lottery profits have exceeded \$1 billion in each of the last three years. **Record profits of \$1.08 billion were posted in 2013/14, which represented a profit percentage of 28.5 percent.**



For 2013/14, state lottery revenue was distributed as follows:

- 62.6 percent to players as prize money;
- 28.5 percent to the Lottery Fund to support programs for older Pennsylvanians;
- 7 percent to retailers and vendors as commissions; and
- 2.04 percent for lottery administrative costs.

The PA Lottery also contributes \$150,000 to the Council on Compulsive Gambling of Pennsylvania, which is a nonprofit organization affiliated with the National Council on Problem Gambling.

Lottery-Funded Senior Programs

The lottery currently supports a number of programs under four state agencies. Below is a brief description of the major programs that received funding in the 2014/15 budget. Programs administered by the Department of Aging and the Department of Public Welfare receive annual appropriations from the Lottery Fund as part of the annual general appropriations act passed by the General Assembly. Programs administered by the Department of Revenue and the Department of Transportation receive funding under executive authorization.

The PA Lottery's Economic and Benefit Impact Report details by county the amounts for prizes paid, retailer commissions and funding for senior programs. The report is available at www.palottery.com.

Property Tax/Rent Rebate (PTRR) Program

The Department of Revenue administers the PTRR program which benefits senior citizens age 65 and older, widowed individuals age 50 and older, and permanently disabled individuals age 18 and older by providing rebates on property taxes or rent paid by eligible households.

Prior to the Taxpayer Relief Act of 2006, the PTRR income eligibility limit was \$15,000 per household – this applied to both homeowners and renters – and eligible households could receive a maximum rebate of up to \$500. The 2006 act expanded the PTRR program with respect to income eligibility and rebate amounts. Specifically, the income eligibility limit for homeowners increased to \$35,000 – the income eligibility limit for renters remained at \$15,000. The act increased the standard rebate for all recipients to a maximum of \$650 and created

supplemental property tax rebates for qualifying homeowners. Depending upon their household income, eligible renters may receive a standard rebate of either \$500 or \$650 while eligible homeowners may receive a property tax rebate between \$250 and \$650. The law provides an additional 50 percent in property tax relief (for a maximum rebate of \$975) to the following seniors who have household income less than \$30,000:

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

Funding for the enhanced income limits and rebate amounts under the 2006 Act are paid for through an annual transfer of gaming revenue from the Property Tax Relief Fund to the Lottery Fund. More than half of the funds budgeted for PTRR is slots gaming revenue transferred from the State Gaming Fund to the Lottery Fund to pay for rebates afforded to seniors under the program enhancements in the Taxpayer Relief Act of 2006.

Act 156 of 2014 (House Bill 1067) permits people to maintain eligibility for a rebate if their income exceeds the income limit due solely to a Social Security cost-of-living (COLA) increase. The change is effective for taxes or rents paid in 2013 through 2016. The rebates will be paid with revenue transferred from the State Gaming Fund.

Free and Reduced Fare Transit

The Department of Transportation administers two transit programs for Pennsylvanians over age 65:

- The **Free Transit program** offers free rides on local bus routes and rapid-transit lines during all operating times on weekdays, weekends and holidays. This 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 **Shared Ride program** offers door-to-door specialized transportation services (such as vans and mini buses) 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.

Pharmaceutical Assistance

The Department of Aging administers three pharmaceutical assistance programs – PACE, PACENET, and PACE Plus Medicare – for Pennsylvania seniors, age 65 or older. These programs cover most medications that require prescriptions as well as including insulin, syringes and insulin needles. They do not cover experimental medications or over-the-counter drugs.

- The **PACE program** is available to seniors whose annual income 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. Their only costs are co-payments, which are \$6 for generic drugs and \$9 for brand-name drugs.
- The **PACENET program** assists seniors whose annual income is between \$14,500 and \$23,500 for single individuals and between \$17,700 and \$31,500 for married couples. PACENET participants pay a monthly premium equal to the regional benchmark premium for Medicare Part D (which is \$35.50 for 2014). In addition PACENET participants pay higher co-payments for prescriptions, \$8 for generic drugs and \$15 for brand-name drugs.
- The **PACE Plus Medicare program** supplements PACE/PACENET drug coverage with the Medicare Part D drug benefit. Each year the department enrolls PACE and PACENET cardholders in Medicare Part D plans, where they continue to receive the same PACE/PACENET medications plus other prescriptions covered in the Part D plan. PACE Plus is designed so that out-of-pocket costs for enrollees are the same, or lower, as PACE/PACENET. Enrollees pay the lower of the PACE/PACENET co-payments and the Part D plan co-payments; if the Part D plan has higher co-pays, PACE Plus pays the difference. PACE Plus also pays for drugs not covered by the Part D plan and drugs purchased during the “[donut hole](#).” In addition, PACE Plus pays the monthly premium for PACE cardholders that enroll in a Part D plan that has signed an agreement with the department.

Over the years, the General Assembly has enacted temporary moratoriums that permit seniors to maintain their eligibility for benefits if their income

exceeds the limit solely due to a Social Security cost-of-living increase. The current moratorium expires after Dec. 31, 2015.

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 funded largely with federal Medicare funds – the state only pays for the “wrap around” coverage provided by PACE Plus (i.e., the monthly premiums for PACE cardholders, differences in co-pays, drugs not included in the Part D plans and claims for drugs purchased by individuals in the donut hole). Because the federal Medicare program pays for most of the prescription drug costs in PACE Plus, enrolling seniors in this program significantly reduces state expenditures and frees up Lottery Funds that can be used for other senior programs.

Medicare Part D provisions in the ACA are closing the “donut hole” over a ten-year period through a combination of drug manufacturer discounts and new federal subsidies that reduce the cost of purchasing prescription drugs for seniors in the donut hole. By closing the donut hole, the ACA is generating annual state savings of \$60 to \$70 million in the PACE Plus Program and thereby reducing the amount of Lottery Funds that need to be transferred to the PACE Fund in support of the program.

PENNCARE

The Department of Aging distributes grants to the 52 Area Agencies on Aging (AAAs) that serve Pennsylvania’s 67 counties. Each AAA’s annual PENNCARE grant amount is determined by a statutory formula that is based on the proportion of older people residing in the service area; however, a “hold harmless” provision prevents AAAs receiving less than the prior year’s grant amount. The AAAs use PENNCARE funds to provide a broad array of services that meet the needs of the older population residing within their geographic area.

- **Aging Services** provide a comprehensive and coordinated system of social services, including: congregate meals, home-delivered meals, personal care, home health, employment services, and recreation/socialization activities at senior community centers.
- **Attendant Care** provides in-home personal care services to people with physical disabilities who

“age out” from the attendant care program in the Department of Public Welfare which serves individuals under age 60.

- **Options In-Home** provides customized supports and services that enable seniors to remain in their homes and avoid relocating to a nursing facility.
- Other services include **Medicare Managed Care Education** (which provides information and counseling for health insurance and benefit), **Elder Abuse Education and Prevention**, and **Ombudsman activities** (that investigate and assist in resolving complaints made by older persons receiving long term care).

Each AAA’s annual grant amount is determined by a statutory formula that is based on the most current census data. A "hold harmless" provision in statute prevents AAAs from receiving less than the prior year's grant amount; consequently, there is no accounting for population shifts. Under the current formula, each AAA’s share of PENNCARE grants is based on the following factors:

- Persons age 60+ years of age (weighted 0.1);
- Persons age 75+ years of age (weighted 0.2) ;
- Minority persons 60+ years of age (weighted 0.2);
- Rural persons 60+ years of age (weighted 0.25); and
- Persons 60+ years of age who are at or below 100 percent of poverty (weighted 0.25).

Caregiver Support

The state Family Caregiver Support Program, administered by the Department of Aging, provides financial assistance to qualified families caring for frail older relatives. Eligible caregivers may be reimbursed up to \$200 per month for services and supplies and up to \$2,000 in one-time grants for home modifications and assistive devices.

Grants to Senior Centers

Beginning with the 2013/14 budget, Lottery Funds are appropriated to the Department of Aging for a grant program to fund repairs, renovations and expand programming to help senior centers meet the needs of their participants. The Department of

Aging uses a competitive application process to evaluate proposals and award grants to centers. Thirty-six senior centers were awarded grants in 2013/14.

Medical Assistance Long-Term Care

A portion of Lottery Funds are used to help pay for Medical Assistance long-term care in the Department of Public Welfare. The appropriated Lottery Funds reduce the need to spend General Fund revenue on nursing home expenditures in the Medical Assistance program.

Home and Community-Based Services

Beginning with the 2013/14 budget, portion of Lottery Funds are being used to help pay for the Aging Waiver program in the Department of Public Welfare. The Aging Waiver is a home and community-based program that provides personal care, attendant care, home health care, home-delivered meals, transportation, specialized medical equipment, and other services to people age 60 or older who are Medicaid eligible and who would otherwise require nursing facility care. Some of the appropriated Lottery Funds support the costs to expand the Aging Waiver so that the program may serve additional seniors in 2013/14 and 2014/15; however, most of the Lottery Funds are being used in 2014/15 to replace General Fund expenditures.

Medical Assistance Transportation Program

In the 2014/15 budget, for the first time a portion of Lottery Funds are used to help pay for the medical assistance transportation program (MATP) in the Department of Public Welfare.

This county-based program provides non-emergency transportation services to Medical Assistance recipients who do not have other transportation to and from their medical providers. Non-emergency transportation includes transportation to and from doctor appointments, pharmacies for prescriptions, hospitals for tests, drug and alcohol clinics, mental health centers, and medical suppliers.

The new MATP appropriation in the Lottery Fund reduces the amount of General Fund revenues required for the program.

House Appropriations Committee (D)

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