



## The Lottery Fund

*The Pennsylvania Lottery closed 2012/13 with a record \$3.7 billion in ticket sales, an increase of \$219 million, or 6.3 percent, above the sales record set in the previous year. The lottery generated \$1.07 billion in profits for senior programs, which was nearly \$6.5 million more than the previous year. Lottery's administrative costs were 2.07 percent of its sales.*

*The lottery's record-breaking performance was even more remarkable considering: 1.) Buried in the lottery's administrative costs was \$3.52 million to cover some of the consultant fees owed as a result of the administration's attempt to privatize lottery management 2.) In the previous fiscal year, profits were boosted by the one-time sale of \$11.7 million in securities, revenue that did not recur in 2012/13.*

*The 2013/14 budget spends \$1.287 billion of Lottery Fund revenues on senior programs, which is \$58 million more than 2012/13. The funds budgeted for senior programs reflect Gov. Corbett's budget request, with one change: funding for Grants to Senior Centers, a new appropriation in the Department of Aging, was increased to \$2.15 million, slightly more than the \$2 million initially requested. Additionally, per the governor's request, \$21 million was appropriated in 2013/14 to the Department of Public Welfare for Home and Community Based Services, the appropriation that funds the Aging Waiver. About \$8 million of the appropriated funds will be used to expand Aging Waiver services to an additional 1,547 older Pennsylvanians.*

*The 2013/14 budget is not predicated on privatizing the management and operation of the lottery, as proposed by the governor. Both the lottery revenue projections (which support the various Lottery Fund appropriations and executive authorizations) and the administrative costs budgeted for the lottery reflect the continued operation by the Department of Revenue. However, on October 29, Gov. Corbett announced that he had extended the bid through December 31 for British-owned Camelot Global Services Inc. to privately manage the lottery – this marked the 11th extension. To date, the commonwealth is obligated to pay more than \$4.4 million in fees to the consultants hired by the administration in its efforts to privatize the lottery.*

Established by Act 91 of 1971, the Pennsylvania State Lottery supports numerous programs that benefit older Pennsylvanians. All revenues generated from lottery operations are deposited into the Lottery Fund.

### Lottery Fund Revenues

Lottery Fund revenue available to spend includes net lottery collections, Gaming Fund transfers, investment earnings, and prior year ending balances.

For 2013/14, the revenue available to spend is projected to total nearly \$2.1 billion, a \$56 million increase from 2012/13. This includes:

- \$1.69 billion projected net lottery collections – this is the revenue generated from lottery ticket sales less the commission retained by retailers as compensation for the sale of the tickets and the prizes paid directly by retailers;

- \$166.5 million transferred from the Gaming Fund to pay for Property Tax/Rent Rebate program expansion costs under Special Session Act 1 of 2006;
- \$2.5 million of miscellaneous revenue (namely investment earnings); and
- \$236 million carried forward from the 2012/13 ending balance.

The table on the following page details Lottery Fund revenue projections for 2013/14 compared to actual revenues for 2012/13. Net collections are expected to increase by \$99 million in 2013/14, reflecting continued record growth in ticket sales. Specifically, ticket sales are projected to exceed \$3.8 billion, an increase of \$131 million (or 3.5 percent) above the record set in 2012/13. These projections are based on the assumption that the lottery is operated by the Department of Revenue, not by a private manager.

Lottery Fund Revenues (\$ Millions)		
	2012/13	2013/14 *
Lottery Ticket Sales	\$3,699.7	\$3,830.8
Less Commissions & Field Paid Prizes	(\$2,107.9)	(\$2,140.3)
<b>Net Lottery Collections</b>	<b>\$1,591.7</b>	<b>\$1,690.5</b>
Gaming Fund Transfer	\$166.8	\$166.5
Miscellaneous Revenue	\$0.0	\$2.5
<b>Total Revenue</b>	<b>\$1,758.5</b>	<b>\$1,859.5</b>

\* Per Lottery Fund Financial Statement, dated September 2013

### Pennsylvania Lottery Ticket Sales & Profits

For 2012/13, total lottery ticket sales reached a record of \$3.7 billion, an increase of \$219 million (or 6.3 percent) above the sales record set in 2011/12.

- Instant game sales were more than \$2.305 billion in 2012/13, an increase of \$170.5 million (or 8 percent) from the prior year.
- Powerball sales were \$401 million in 2012/13, an increase of nearly \$123 million (or 44 percent) from the prior year.
- Sales for all other games (Mega Millions and other terminal-based games) totaled \$994 million, which is down \$75 million (or 7 percent) from the prior year.

The lottery generated \$1.07 billion in profits for senior programs, which was nearly \$6.5 million more than the previous year and 28.9 percent of its total ticket sales.

For 2012/13, state lottery revenue was distributed as follows:

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

For more information about the Lottery, see the **Pennsylvania Lottery & Lottery Fund Primer**.

### Lottery Fund Expenditures

The enacted 2013/14 Lottery Fund budget includes expenditures totaling \$1.883 billion, of which more than two-thirds (68 percent) is used to support senior programs. The remaining expenses are for lottery prizes, the costs associated with operating the lottery (including vendor commissions), and the

costs associated with administering the various senior programs.

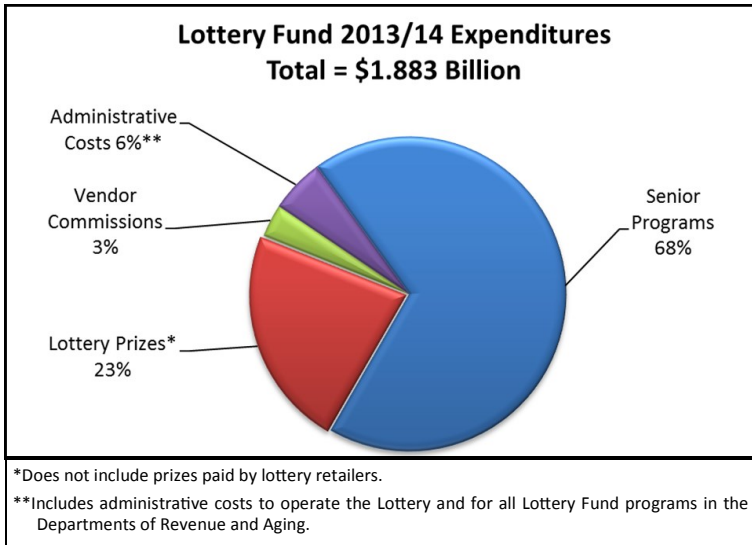
The pie chart on the following page shows the distribution of Lottery Fund expenditures in the enacted 2013/14 budget:

- \$1.287 billion is for various programs that benefit Pennsylvania's seniors. Detail on these programs is provided in the following section.

- \$427 million is for payment of the following types of lottery prizes: terminal-based and instant game prizes that are more than \$2,500; prizes for which winning ticket holders choose to present their tickets at Lottery headquarters for payment; and terminal-based game prizes not claimed within 180 days and are more than \$100. The amount budgeted for this executive authorization is based on ticket sale projections.

- \$64.4 million is for vendor commissions. This includes the commission paid to the contractor that operates/maintains the terminal-based game system – payments are calculated at 0.835 percent of the total sales of all lottery games, including instant. It also includes the payment of ticket testing and vendor commissions for the printing, warehousing and delivery of instant tickets to retailers – the commission is equal to 0.91 percent of actual sales of the instant ticket games, plus a bonus for increased profits.

- \$104.5 million for other administrative costs. This includes \$45.7 million for the Department of Revenue to operate the lottery (**which is \$16.3 million less than the funds requested in the Executive Budget for a private manager to operate the lottery**) and \$37 million for advertising and promotional activities for the lottery (**which is \$11 million less than what the Executive Budget had requested for a private manager**). The remaining expenses are for the Department of Revenue to administer the Property Tax/Rent Rebate Program (\$13.8 million) and for the administrative/overhead costs in the Department of Aging that support various senior programs (\$8 million).



serve all 67 counties. The AAA uses their 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).

## Senior Programs

The enacted 2013/14 budget spends a total of \$1.287 billion on senior programs, which is \$58 million more than 2012/13 and \$150,000 above Gov. Corbett’s initial 2013/14 budget request. The additional \$150,000 of spending reflects the General Assembly’s decision to increase funding for grants to seniors centers from the \$2 million proposed initially in the governor’s Executive Budget.

The following table details the Lottery Fund expenditures budgeted for 2013/14 by agency and program.

Expenditures for programs administered by the Department of Aging and the Department of Public Welfare are appropriated from the Lottery Fund as part of the General Appropriations Act (Act 1A/HB 1437). Expenditures for programs administered by the Department of Revenue and the Department of Transportation are made through Executive Authorizations.

### PENNCARE

The PENNCARE appropriation encompasses all of the Lottery-funded community-based and in-home service activities of the Department of Aging.

The department distributes grants to the 52 Area Agencies on Aging (AAAs) that

State Lottery Fund Expenditures for Senior Programs	Final 2013/14	Change from 2012/13
<b>Department of Aging:</b>		
PennCARE	\$275.2	\$27.0
Pre-Admission Assessment	\$10.7	-
Caregiver Support	\$12.1	-
Pharmaceutical Assistance Fund Transfer	\$190.0	-
Grants to Senior Centers	\$2.2	\$2.2
Alzheimer's Outreach	\$0.3	-
<b>Department of Public Welfare:</b>		
Medical Assistance Long-Term Care	\$309.1	-
Home and Community Based Services	\$21.0	\$21.0
<b>Department of Revenue:</b>		
Property Tax/Rent Rebate	\$292.4	\$6.3
<b>Department of Transportation:</b>		
Shared Ride	\$81.0	-
Free Transit	\$93.0	\$1.7
<b>TOTAL</b>	<b>\$1,286.814</b>	<b>\$58.1</b>

Each AAA's annual 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 2013/14 appropriation increases funding by \$27 million which, in accordance with the governor's Executive Budget request, will be used to provide home and community-based services to 5,400 additional people in the OPTIONS program (\$20 million), enhance support to the Area Agencies on Aging (\$5 million), and expand attendant care services to 193 individuals (\$2 million).

### **Pre-Admission Assessment**

This appropriation pays for the assessments, performed by the local Area Agencies on Aging (AAAs), of individuals applying for nursing facility care. Assessments are also performed to determine eligibility for Medicaid home- and community-based (waiver) programs as well as other alternatives to nursing facility care that are appropriate to the individual's needs and that will allow the individual to remain in his own home or community. The assessment screening process involves a thorough review of each applicant's medical and functional needs to determine their eligibility for services. The 2013/14 appropriation is expected to fund nearly 108,000 pre-admission assessments and re-certifications.

### **Caregiver Support**

This appropriation pays for the state Family Caregiver Supports Program in the Department of Aging. The program 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 over a lifetime for home modifications and assistive devices. The enacted budget anticipates serving 7,280 families in 2013/14.

### **Pharmaceutical Assistance**

Lottery Fund revenues are transferred to the Pharmaceutical Assistance Fund to support three pharmaceutical assistance programs – PACE, PACENET and PACE Plus – administered by the Department of Aging. Approximately 296,000 seniors, age 65 or older, receive assistance, of which

about 80 percent are enrolled in the PACE Plus program.

- 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 no more than \$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 has no monthly premium, but participants pay a monthly deductible equal to the regional benchmark premium for Medicare Part D (which is \$36.57 for 2013 and \$35.50 for 2014). In addition PACENET participants pay higher co-payments for prescriptions, up to \$8 for generic drugs and up to \$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.

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.

The 2013/14 budget transfers \$190 million of Lottery Fund revenue to the Pharmaceutical Assistance Fund, the same as the 2012/13 budget. **The 2013/14 transfer reflects the saving associated with Medicare Part D provisions in the federal Affordable Care Act (federal health reform) which close the “donut hole” and thereby reduce state expenditures required for the PACE Plus program.**

### Grants to Senior Centers

The 2013/14 budget includes a new initiative for a grant program to fund repairs, renovations and other needs to make senior centers more functional. The Department of Aging intends to implement a competitive grant application process using a weighted scoring system to evaluate proposals and award grants. We are still awaiting information from the department as to when the application process will be opened so that senior centers may begin applying for the grants.

### Alzheimer’s Outreach

This appropriation funds programs that offer support, education, and community awareness services to address the needs of individuals and families affected by Alzheimer’s disease and related disorders. It also funds outreach activities to families, medical professionals, human service providers and the general public.

### Medical Assistance Long-Term Care

This appropriation in the Department of Public Welfare uses Lottery Fund revenue to help pay for nursing home care provided to low-income individuals who qualify for Medical Assistance (the name of Pennsylvania’s federal Medicaid program). 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

This appropriation in the Department of Public Welfare funds the Aging Waiver program which 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. As requested by Governor Corbett, beginning in 2013/14 Lottery Funds will be used to help support the Aging Waiver and thereby reduce the need to spend General Fund revenues to pay for program expenditures. The 2013/14 budget appropriates \$21 million for Home and Community Based Services, of which \$8.1 million will be used to expand Aging Waiver services to 1,550 elderly Pennsylvanians; the remaining funds will be used to pay for current expenditures in the Aging Waiver program.

### Property Tax/Rent Rebate (PTRR) Program

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

Prior to 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 Taxpayer Relief Act of 2006 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 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.

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.

The 2013/14 enacted budget includes \$286.1 million for the PTRR program, \$6.3 million more than in 2012/13. The budgeted funds are based on the projection that 601,000 households will participate in the program in 2013/14, an increase of 1,000 households compared to the 2012/13 projection. More than half of the Lottery Fund revenue budgeted for PTRR is supported by gaming revenue transferred to the Lottery Fund to pay for rebates afforded to seniors under the program enhancements in the 2006 act – an estimated \$166.5 million of gaming revenue will be transferred in 2013/14.

### **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. Lottery Fund revenue is allocated annually to the program based on the prior year expenditures, adjusted by the consumer price index.
- 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 of the fare.

#### **House Appropriations Committee (D)**

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