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Pennsylvania Lottery Funding of Programs and Services for Older Pennsylvanians

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A Report in Response to House Resolution 2011-106

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February 2012

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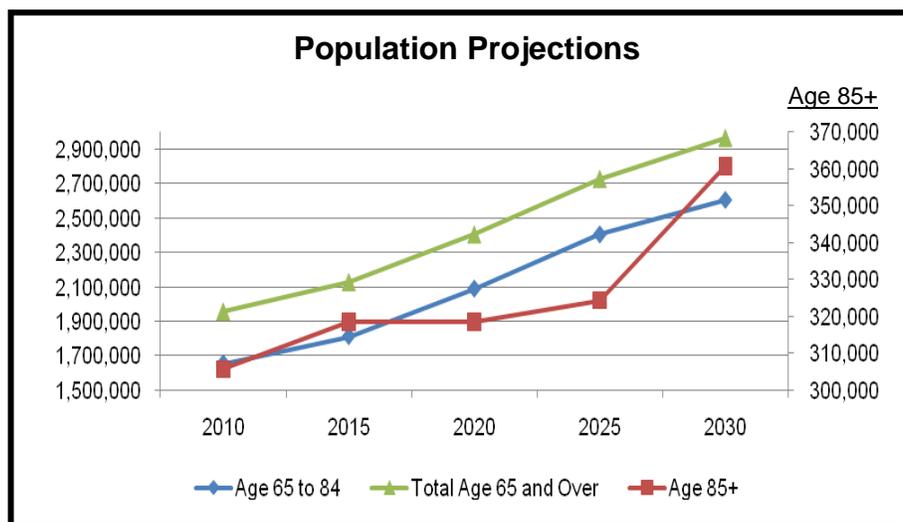
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Report Summary

The State Lottery Law, Act 1971-91, as amended, 72 P.S. §3761-101 *et seq.*, created the State Lottery Fund, into which all monies received from the operation of the State Lottery are deposited. A specific portion of the revenues accruing from the sale of lottery tickets, currently 27 percent, is required to be used to provide services for seniors in the Commonwealth. Services currently provided through those funds include free and shared ride transit, property tax and rent rebates, prescription drugs, long-term care, family caregiver support services, and PennCARE services, among others. The LB&FC was directed by House Resolution 2011-106 to study the Pennsylvania Lottery relating to its ability to continue to support programs and services for older Pennsylvanians. We conducted a similar analysis in 1994.¹

Findings and Conclusions

Pennsylvania has one of the “oldest” populations in the United States. As shown on the graph below, the age 65 to 84 and age 85 and older populations are expected to rise through 2030, with the Pennsylvania State Data Center projecting a 51 percent increase in the age 65 and older population. By 2030, this population is projected to represent approximately 22.5 percent of the total population in Pennsylvania.



The growth in the age 65 and over population in Pennsylvania, however, does not directly correlate to the use of all services for older Pennsylvanians funded by the Lottery Fund. For example, free transit and shared ride trips have declined at

¹ *State Lottery Funding of Programs and Services for Older Pennsylvanians*, a report in response to Act 1992-128, LB&FC, June 1994. Available at <http://lbfc.legis.state.pa.us>.

the same time both the 65 and older and 85 and older age categories have increased. The need for and use of other services, however, is increasing, particularly those related to allowing individuals to remain in their homes, such as the Family Caregiver Support Program.

Lottery Sales Increased by Almost 5 Percent in FY 2010-11 Driven by Significant Growth in Instant Ticket Sales

The Pennsylvania Lottery remains the only lottery in the nation that exclusively directs all of its proceeds to programs for older residents. In fiscal year 2009-10, the Lottery had sales of more than \$3.06 billion, and contributions to programs for older Pennsylvanians totaled more than \$915 million.

Pennsylvania Lottery gross ticket sales grew by double-digits annually from FY 2001-02 through FY 2005-06, but by less than 1 percent each year between FY 2005-06 and FY 2007-08. From FY 2007-08 through FY 2009-10, sales decreased by less than 1 percent each year, and then rebounded for an almost 5 percent increase in sales in FY 2010-11. Although the weakening economy may have been a factor in the sales decline, Lottery officials indicated that a slowing of the growth of the retail network may have been the primary cause for the flattening of gross sales as trend lines of these two factors very closely mirror each other.

Gross ticket sales for terminal-based games increased modestly each year from FY 2001-02 through FY 2005-06, and then declined each year through FY 2010-11, growing at an average of 0.8 percent annually. Sales of instant game tickets, on the other hand, have increased by an average of 12 percent annually since FY 2001-02. Instant tickets were 37 percent of total sales in FY 2001-02 and 60 percent of sales in FY 2010-11. Unfortunately, instant tickets have a much lower profit margin than terminal sales, generating only about half the profit as terminal-based games.

The Lottery Is Projecting Little Annual Growth Through FY 2016-17

The Lottery's sales projections for FY 2011-12 and the five-year period ending FY 2016-17 are shown below. The current projection has total sales in FY 2011-12 increasing to \$3.3 billion or almost 3 percent more than actual FY 2010-11 sales. At the end of the first quarter of the fiscal year, Lottery sales appeared to be on track to reach the estimate, totaling \$794.5 million, or 24 percent, of estimated sales for the year.

Lottery Sales Estimates Through FY 2016-17

(\$000)

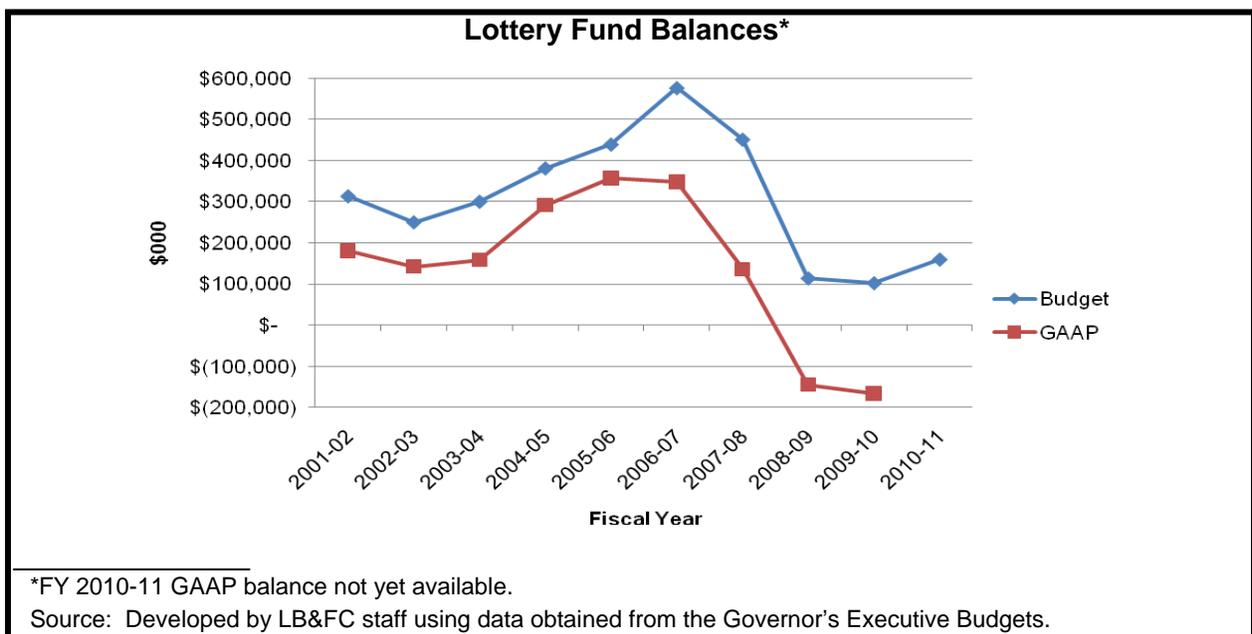
	Instant Games	Terminal - Based Games	Total Sales	Percent Increase (Decrease)
FY 2011-12 Est.	\$1,992,970	\$1,307,039	\$3,300,009	2.87%
FY 2012-13 Est.	2,032,829	1,315,565	3,348,395	1.47
FY 2013-14 Est.	2,063,322	1,321,637	3,384,959	1.09
FY 2014-15 Est.	2,083,955	1,326,378	3,410,333	0.75
FY 2015-16 Est.	2,094,375	1,328,454	3,422,828	0.37
FY 2016-17 Est.	2,104,847	1,330,550	3,435,397	0.37

Source: Developed by LB&FC staff using PA Lottery's 5 year sales projections.

Lottery officials expect instant game sales to continue to grow slightly each year, but sales for terminal-based games are projected to stay fairly flat. We compared the Lottery's sales estimates for seven previous years against actual sales and determined that the projections were generally within 4 percent of actual sales. When totaled, actual sales were 0.2 percent greater than total estimated sales.

Status of the Lottery Fund

The Lottery Fund's budgetary fund balance (modified cash basis) for FY 2010-11 was \$158.9 million, a notable decline from the FY 2006-07 balance of \$576.5 million. For FY 2009-10, the GAAP fund balance (accrual) was reported as a negative \$166.2 million in the Commonwealth's CAFR. As of June 30, 2010, a \$267.6 million difference, therefore, existed between these balances. See the graph below.



The two balances can be reconciled through revenue and expenditure adjustments. The two adjustments that account for the majority of the difference are liability for unclaimed prizes (\$83.3 million in 2010) and \$299.1 million in accrued expenditures, which are primarily monies to be paid for the Property Tax and Rent Rebate (PTRR) program (92 percent of this adjustment).

Services Funded by the Lottery Fund for Older Pennsylvanians

Department of Aging Programs and Services

The Department of Aging receives lottery funds for PACE/PACENET, PennCARE, Pre-Admission Assessment, the Family Caregiver Support Program, Alzheimer's Outreach, and General Government Operations.

PACE enrollment has declined since FY 2001-02. The Pharmaceutical Contract for the Elderly (PACE) provides prescription medication assistance to Pennsylvania residents² who are age 65 years or older and whose total income is \$14,500 or less for a single person or \$17,700 or less for a married couple. In FY 2010-11, 145,000 individuals were enrolled in the PACE program, and 4.4 million prescriptions were paid for through the program. This is a decline of 88,000 individuals and 4.7 million prescriptions since FY 2001-02, and is attributed to individuals migrating to the PACENET program as their income has increased.

Over this same time period the average cost of a prescription paid for by PACE has declined approximately \$17, or about 42 percent. The Department of Aging attributes this reduction to the provisions of Medicare Part D and its affect on prescription costs to the state.

PACENET enrollment has increased since FY 2001-02. PACENET provides prescription medication assistance to Pennsylvania residents who are age 65 or older with a total income between \$14,501 and \$23,500 for a single person, and total income between \$17,701 and \$31,500 for a married couple. In FY 2010-11, approximately 215,000 individuals were enrolled in PACENET, accounting for almost 6 million prescriptions. This represents a 459 percent increase in individuals enrolled in the program and an increase of almost 5 million prescriptions since FY 2001-02. The growth in the program is attributed in large part to the increase in income limits in 2003. Similar to PACE, the average cost of a prescription has decreased.

Both Programs Have Benefited From Medicare Part D and the Affordable Care Act. The Patient Protection and Affordable Care Act, Pub.L. 111-148, 124 Stat. 119, amended Medicare Part D resulting in reduced costs for these programs. According to Department of Aging officials, savings to these programs were \$32.5 million in

² The person must be a Pennsylvania resident for at least 90 days prior to the date of application and cannot be enrolled in the Department of Public Welfare's Medicaid prescription benefit program.

FY 2010-11 and are estimated to be \$731.5 million from FY 2010-11 through FY 2019-20. Two-thirds of these savings are anticipated to come from brand discounts in the “donut hole,” with the remaining savings from higher rebates from the drug manufacturers. The constitutionality of this act is currently before the United States Supreme Court.

Despite Lottery Fund Appropriations for Other Department of Aging Administered Programs Having Grown, Waiting Lists Exist for Some Services. The other programs and services funded by the Lottery Fund and administered by the Department of Aging and the Area Agencies on Aging (AAAs) are described below. Lottery Fund appropriations for these programs have increased from \$202.8 million in FY 2001-02 to \$310.7 million (budgeted) in FY 2011-12, an increase of 53 percent. During that time, the Family Caregiver Support Services Program, Pre-Admission Assessment, and Alzheimer’s Outreach services were added to those programs and services funded by the Lottery Fund. Specific appropriations from the Lottery Fund to the Department of Aging are designated for the following:

PennCARE. In FY 1996-97, the PennCARE appropriation was incorporated into one block grant contract to the AAAs, with the AAAs required to use 55 percent of the funding for home services and the remaining funds at their discretion to offer those services that address the needs of their community. PennCARE services are provided to enable frail older Pennsylvanians to delay or avoid institutionalization and include, for example, in-home and community-based services, abuse prevention services, and environmental modifications. Funding for PennCARE has increased from \$202.7 million in FY 2001-02 to \$244.6 million in 2010-11, an increase of approximately 21 percent. Since FY 2005-06, the number of individuals served by the program has decreased from 631,765 to 457,921, although the number of individuals on waiting lists for certain services has increased each year.

Family Caregiver Support Program. The Family Caregiver Support Program (FCSP) is designed to reduce caregiver stress and to reinforce the care being provided to functionally dependent older adults and individuals with chronic dementia. Total Lottery Fund appropriations for this program have remained fairly constant at a little over \$12 million annually. Approximately \$1.3 million has been lapsed over the last three years reportedly due to the relatively restrictive requirements of the state program. Unlike the federal program, the state requires the caregiver to be a relative and live in the home with the person receiving care.³

Pre-Admission Assessment. Pre-Admission Assessment provides thorough assessments of individuals applying for nursing facility care within the Commonwealth. Lottery Fund appropriations for pre-admission assessment have been \$10.7 million for the last two fiscal years, a slight decrease from the high of \$10.8 million in FY 2009-10.

³ This act was recently amended to remove these restrictions.

General Government Operations. The General Government Operations appropriation provides funding for the Department of Aging to provide an administrative structure for setting policy, planning, and administration of services provided under contract and grants to the 52 AAAs covering all 67 counties in Pennsylvania. The GGO has decreased from \$8.2 million in FY 2007-08 to \$7.7 million in FY 2010-11.

Alzheimer's Outreach. The Department provides grants to Pennsylvania's two Alzheimer's Association chapters to provide programs offering support and community awareness services to address the needs of individuals and families affected by Alzheimer's disease and related disorders. The initial appropriation from the Lottery Fund in FY 2008-09 was \$200,000 and increased to \$250,000 the following year.

Department of Revenue Programs

The Department of Revenue administers the Property Tax Rebate Program and the Rent Rebate Program.

Property Tax Rebate Program. The program is applicable to persons at least 65 years old, or whose spouse is at least 65 years old, widows or widowers 50 years of age or older, and the permanently disabled 18 years of age or older who meet certain income eligibility requirements.

In FY 2010-11 (claim year 2009), approximately 414,000 homeowners received rebates totaling \$152 million, with an average property tax rebate of \$367. In addition, 128,000 homeowners received supplements totaling \$28 million, with the average supplement being \$219. This represents an increase of approximately 167 percent in the number of claimants since FY 2006-07 (claim year 2005) and a 161 percent increase in total rebates (not including supplements).

Rent Rebate Program. This program is applicable to persons at least 65 years old, or whose spouse is at least 65 years old, widows or widowers 50 years of age or older, and the permanently disabled 18 years of age or older who meet income eligibility requirements. In FY 2010-11 (claim year 2009), approximately 193,000 renters received rebates totaling \$103 million, an average of \$534 per rebate. Since FY 2006-07 (claim year 2005), the number of claimants has increased 21 percent, and total rebates have increased 66 percent.

Department of Public Welfare Programs

The Long-Term Care (LTC) appropriation has historically funded a continuum of services ranging from independent living at home with the support of community services to institutional care. In FY 2011-12, however, Lottery Fund appropriations for long-term care services were dedicated solely to nursing facility services.

In total, the Lottery Fund appropriation has been about 5.6 percent of all funds appropriated to long-term care since FY 2006-07. Other funding sources for long-term care services include state general funds, federal general funds, intergovernmental transfer funds, federal stimulus funds, and state and federal tobacco funds.⁴

In FY 2009-10, \$178.4 million from the Lottery Fund was used for long-term care services and included all types of long-term care services. The \$178.4 million is a 40 percent decrease from the high of \$300.7 million in FY 2008-09.⁵ Both the total long-term care and the nursing home caseloads (unduplicated users) increased from FY 2009-10 to FY 2010-11, with the Department reporting a total long-term care caseload of 129,181 and a total nursing home caseload of 101,555.

Department of Transportation Programs

The Department of Transportation administers two programs for citizens who are 65 years of age and older funded by the Lottery Fund: free rides on local fixed route transit operations and shared ride services.

Free Transit. Citizens 65 years of age or older are eligible for free rides on local fixed route transit operations during the provider's regular hours of service. This program is served by 52 fixed route operators that provide service in 52 counties. In FY 2010-11, 36 million trips were taken by older Pennsylvanians at a cost of approximately \$88 million. This is a slight increase in both the number of trips and cost from the prior fiscal year. Overall, trips have declined from 42.5 million in FY 2001-02 to 36 million in FY 2010-11, a 15 percent decrease. Expenditures, however, have increased from \$77 million to \$88.2 million, a 14.5 percent increase. The cost per trip has also increased, from \$1.81 to \$2.45.

Shared Ride Program. Citizens 65 years of age or older are eligible for shared ride services from 58 PennDOT-contracted providers. Typically, a 24- to 48-hour advanced reservation is required, and hours of operation are locally set. Senior citizens, or an approved third-party sponsor (typically the county AAA), pay 15 percent of the fare, and the Department of Transportation reimburses the provider the remaining 85 percent.⁶

Similar to the free transit program, shared ride trips have also declined from a high of 6 million in FY 2001-02 to about 4.5 million in FY 2010-11, about

⁴ As noted by a Department official, since nursing home services are an entitlement, need levels will be met through general fund appropriations or cost reductions.

⁵ According to the Office of the Budget, this level of funding in FY 2008-09 was available for long-term care due to significant reductions in the need for PACE funds as a result of Medicare Part D beginning in FY 2006-07. See discussion on page 31.

⁶ Responses to a recent survey by the PA Association of AAAs regarding AAA participation in transportation showed that all but one AAA pay some portion of the 15 percent of the fare for which the passenger is responsible. This varied significantly by amount and type of trip.

26.7 percent. During the period, however, expenditures have increased by approximately \$6.8 million, or 10.9 percent, and the cost per trip has increased from \$10.35 to \$15.51 (this represents the 85 percent of the trip cost reimbursed to the provider by the Department).

Agency Projected Appropriations Fall Within Range of Estimated Available Funding Through FY 2015-16

The assumptions used to develop the projections for the funding needed to meet program and service needs over the next five years are different depending on the program or service. Most are based primarily on an analysis of average use over a period of time, although the Long-term Care appropriation projection is determined more by the availability of other funding sources. All projections, however, are based on the assumption that the benefit level and eligibility requirements will remain unchanged. Over the years, the most significant spikes in participants and costs have been due to amendments to program and service requirements. For example, the number of individuals enrolled in PACENET more than doubled after the income limits were increased in 2003.

As shown below, the anticipated growth in program spending is modest, averaging less than 2 percent each year for all programs. The PACE/PACENET program appropriation is expected to grow by over 5 percent each year, and the shared ride program is projecting a 3 percent annual increase in the appropriation.

Projected Expenditures for Lottery Fund Programs				
	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
PACE/PACENET	\$265,000,000	\$280,000,000	\$295,000,000	\$310,000,000
Aging Programs	315,262,000	315,262,000	315,262,000	315,262,000
DPW Long-term Care.....	121,255,000	121,255,000	121,255,000	121,255,000
Property Tax Rebates	180,438,000	180,881,000	181,389,000	181,832,000
Rent Rebates	104,162,000	104,419,000	104,711,000	104,968,000
Free Transit.....	91,807,135	93,413,760	95,048,501	96,711,850
Shared Ride	<u>81,386,000</u>	<u>83,844,000</u>	<u>86,376,000</u>	<u>88,984,000</u>
Total	\$1,159,310,135	\$1,179,074,760	\$1,199,041,501	\$1,219,012,850

We compared the amount calculated using the projected net revenue from the PA Lottery and the projected transfers from the Gaming Fund to the amount of needed funding the departments have projected for their programs. As shown below, for three of the four years analyzed, the projected agency needs fell between the upper and lower range of the funding calculated to be available for grants and

subsidies from these sources. Should actual Lottery sales, and subsequently net revenues, fall on the low end of the projections, additional funding would be needed to meet agency projections beginning in FY 2012-13.

Range of Calculated Available Funds Compared to Projected Program Needs				
	(\$000)			
	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
Total Projected Program Needs	\$1,159,310	\$1,179,074	\$1,199,041	\$1,219,012
Total Projected Funds From Lottery ...	986,473	995,624	1,002,077	1,005,205
Upper Limit ^a	1,190,832	1,201,149	1,208,660	1,212,013
Lower Limit ^a	1,111,914	1,121,499	1,128,494	1,131,597

^a Includes projected net revenue from the Lottery and projected annual transfer from the Gaming Fund for PTRR expansion and supplements (see Chapter IV).

Recommendations

1. **The State Lottery should continue to expand its retail network to facilitate an increase in ticket sales.** Lottery officials indicated that a slowing of the growth of the retail network may have been the primary cause for the flattening of gross sales in recent years, although the weakening economy may also have been a factor in the sales decline. Trend lines of the growth in the retail sales network and ticket sales very closely mirror each other.
2. **The Lottery should continue to consider and analyze approaches being used in other states to stimulate sales.**⁷ These include internet and smart phone sales of lottery tickets. The Pennsylvania Lottery has already adopted changes that have stimulated sales in other states such as increasing the size of jackpots.
3. **The General Assembly should limit the use of Lottery Fund monies to those programs and services currently funded in that manner.** Although the projected appropriations for agency programs fall within the range of calculated available funds for the next three years, if the Lottery's actual sales fall on the low end of the projection range current programs may experience shortfalls. However, if program and service requirements are amended to broaden their applicability, the projected funds may not be able to fund the additional benefits.
4. **Greater effort should be given to the methods used in at least some of the Lottery-funded programs for making future projections.** Reasonably

⁷ See Appendix F for Lottery games in other states.

accurate cost and client projections are important for long-term planning and policy decisions. While some programs (e.g., the Rent Rebate program) use formulas that appear to incorporate relevant past experience in making future projections, others simply assume zero cost growth (e.g., most Department of Aging programs) or, as in the case of the Property Tax Rebate program, negative client growth (going from 413,581 claimants in claim year 2009 to 394,554 claimants in claim year 2014), even though the Department of Aging programs have had a long track record of cost growth, and the Property Tax Rebate program has had a long record of claimant growth, every year for at least the past five years.

I. Introduction

House Resolution 2011-106 directed the Legislative Budget and Finance Committee to conduct a study of the Pennsylvania Lottery relating to its ability to continue to support programs and services for older Pennsylvanians. See Appendix A for a copy of House Resolution 106.

Study Scope and Objectives

Specifically, the study seeks:

- To identify all programs, services, and functions funded through the State Lottery Fund and determine their costs and services or activity levels.
- To examine all State Lottery Fund programs, services, and functions and analyze projections of future program demand, service levels, and associated costs.
- To determine the current and projected financial condition of the State Lottery Fund.
- To analyze Pennsylvania Lottery sales, including both in the short-term and long-term projections of net collections, to determine if State Lottery Fund revenues will be sufficient to support Lottery-funded programs, services, and functions at existing or expanded levels or if cutbacks or program changes will be necessary to maintain the solvency of the State Lottery Fund.
- To determine if changes to law, regulation, or policy are needed to maintain the future solvency of the State Lottery Fund.

Methodology

The study focused on the funding requirements that programs and services for older Pennsylvanians place on the State Lottery Fund. Although certain aspects of the Lottery's revenue-generating operations were analyzed, the study did not involve a performance audit of the Department of Revenue's Bureau of State Lottery or any of the individual Lottery-funded programs.

In addressing the Lottery's revenue-generating capacity, we examined the current game mix, recent sales trends, and sales and net income projections. Our work involved contacts with staff of the Bureau of State Lottery and the Office of the Budget.

To determine the funding requirements for programs for older Pennsylvanians, we identified all programs currently receiving funding from the State Lottery Fund. This involved an examination of state statutes, regulations, Governor's budget documents, individual agency reports, and statistical and operational data. For these programs, we analyzed recent trends and current and projected costs and

activity or service levels. This included an analysis of the assumptions used to project future program needs and, therefore, demands on the State Lottery Fund. Our work in these areas involved contacts with program officials and staff of the Departments of Aging, Public Welfare, Revenue, and Transportation, and the Governor's Budget Office. We also met with the PA Association of Area Agencies on Aging to discuss program trends and needs.

To determine the financial condition of the State Lottery Fund, we examined Fund financial statements presented in Pennsylvania Lottery reports, Governor's budget documents, and the Commonwealth's Comprehensive Annual Financial Report (CAFR). We met with the Office of the Budget to reconcile the differences in the Fund balances as reported on the cash (budgetary) and the full accrual (GAAP) basis. We did not conduct a financial audit of the State Lottery Fund or of the programs supported by the Fund, and accordingly, we express no opinion of the financial statements or information presented in this report.

Acknowledgements

We conducted this study with input and assistance from the Departments of Revenue, Aging, Public Welfare, and Transportation, and the Governor's Office of the Budget. We especially thank Drew Svitko, Deputy Executive Director of Marketing & Products, Greg Sahd, Deputy Executive Director for Administration and Finance, and Calvin Heath, Deputy Marketing Director—Research, Pennsylvania Lottery; David Gingerich, Policy Director, Department of Aging; Richard Cardamone, Director of the Bureau of Commonwealth Accounting, Pennsylvania Office of the Budget; Amy M. Gill, Director of the Bureau of Research and Stacie L. Amsler, Director of the Bureau of Fiscal Management, Department of Revenue; Eileen Ogan, Chief Specialized Transportation and Laverne E. Collins, Director of the Bureau of Public Transportation, PA Department of Transportation; and Robert Molnar, Director, Bureau of the Budget, PA Department of Public Welfare. Additionally, we thank Crystal Lowe, Director of the PA Association of Area Agencies on Aging for her assistance with our work.

Important Note

This report was developed by the Legislative Budget and Finance Committee staff. The release of this report should not be construed as an indication that the Committee or its individual members necessarily concur with the report's findings and recommendations.

Any questions or comments regarding the contents of this report should be directed to Philip R. Durgin, Executive Director, Legislative Budget and Finance Committee, P.O. Box 8737, Harrisburg, Pennsylvania 17105-8737.

II. Overview of the Pennsylvania Lottery

The State Lottery Law, Act 1971-91, as amended, 72 P.S. §3761-101 et seq., was enacted to:

...establish a lottery to be operated by the State, the net proceeds of which are to be used...for the purposes of providing property tax relief for the elderly...and for providing certain free fixed route local transit services to persons 65 years of age or older and reduced fare on group ride transit service to persons 65 years of age or older.

Department of Revenue

Secretary of Revenue

The Pennsylvania State Lottery is organizationally located in the Department of Revenue, and the Secretary of Revenue has overall responsibility for the operation and administration of the Lottery. See Appendix B for an organizational chart of the Pennsylvania Lottery, Appendix C for a description of the organizational units of the Pennsylvania Lottery, and Appendix D for staff complement information. In addition, the Secretary is to promulgate rules and regulations governing:

- The type of lottery to be conducted.
- The prices of tickets in the lottery.
- The numbers and sizes of the prizes of the winning tickets.
- The manner of selecting the winning tickets.
- The manner of payment of prizes to the holders of winning tickets.¹
- The frequency of the drawings or selections of winning tickets without limitation.
- The types of locations at which tickets may be sold.
- The method to be used in selling tickets.
- The licensing of agents to sell tickets provided that no person under the age of 21 is licensed as an agent.

¹ For new non-multistate on-line, pari-mutuel games with prizes of \$1 million or more and payable in more than one installment, the player shall have the option at the time of purchase to accept, as full payment, a lump sum of the prize money allocated to the first place prize category, divided equally by the number of tickets determined by the lottery to be entitled to claim a first place prize, provided that the player specified the lump-sum option at the time of purchase and received a mark on the ticket confirming such request.

- The manner and amount of compensation to be paid to licensed sales agents.
- The apportionment of the total revenues accruing from the sale of lottery tickets and from all other sources among (i) the payment of prizes to the holders of winning tickets; (ii) the payment of operating and administrative costs of the lottery, including the expenses of the division and the costs resulting from any contract entered into for promotional, advertising, or operational services or for the purchase or lease of lottery equipment and materials; and (iii) for property tax relief and free or reduced fare transit service for the elderly.
- The production and merchandising of promotional items for the lottery.
- Such other matters necessary or desirable for the efficient and economical operation and administration of the lottery and for the convenience of the purchasers of tickets and the holders of winning tickets.
- The performance of the powers and duties vested in the State Lottery Commission.

The Secretary of Revenue is required to report monthly to the Governor and the Legislature the total lottery revenues, prize disbursements, and other expenses for the preceding month. The Secretary is also required to make an annual report, which must include a full and complete statement of lottery revenues, prize disbursements, and other expenses, and any recommendations for amendments to the State Lottery Law as the Secretary deems necessary or desirable.

State Lottery Fund

The State Lottery Law created the State Lottery Fund in which all monies received from the operation of the State Lottery are to be deposited. The law provides that not less than 40 percent of the revenue generated from ticket sales be paid out in prizes. The Fiscal Code, at 72 P.S. §1730-H, provides that no less than 27 percent of total revenues accruing from the sale of lottery tickets be used to provide services for seniors in the Commonwealth.² The State Lottery Law states that if the funds in the State Lottery Fund are not sufficient to meet the requirements of the property tax and rent rebate program, additional funds to meet these obligations are to be appropriated from the General Fund. Monies in the fund are also to be used for the expenses of operating the lottery.

Since 1972, when its first game went on sale, the Pennsylvania Lottery has contributed more than \$20.6 billion to a wide variety of programs, including:

² The State Lottery Law originally provided that 30 percent of total revenues accruing from the sale of lottery tickets shall be dedicated to providing services for seniors in the Commonwealth. This was changed to 27 percent until June 30, 2011, by Act 2008-53, which was an amendment to the Fiscal Code, and was recently extended through June 30, 2015, by Act 2011-23.

- Property Tax/Rent Rebate, administered by the Department of Revenue.
- Free transit and reduced fare shared-ride services, administered by the Department of Transportation.
- PACE, PACENET, and PACE Plus Medicare, administered by the Department of Aging.
- Long-term living services administered by the Department of Public Welfare.
- Family caregiver support services administered by the Department of Aging.
- Services provided through the 52 Area Agencies on Aging throughout the Commonwealth.

Pennsylvania Lottery Games Mix

The Pennsylvania Lottery remains the only lottery in the nation that exclusively targets all of its proceeds to programs for older residents. In fiscal year 2009-10, the Lottery had sales of more than \$3.06 billion; contributions to programs for older Pennsylvanians totaled more than \$915 million.

Currently, there are nine games that are included in the Lottery's game mix in addition to the many instant ticket games offered. Each is briefly described in Appendix E, and Exhibit 1 provides a listing of these games. There are also several games that the PA Lottery has removed from its game mix, including, for example, Mix & Match, Super 7, Match 6 Lotto, Lucky for Life Lotto, and Super 6. See Exhibit 2 for a complete listing of games no longer included in the Lottery's game mix.

Exhibit 1

Basic Information on Pennsylvania Lottery Games

Game	Frequency	Cost	Game Type	Prize Structure
Instant	N/A	\$1, \$2, \$3, \$5, \$10, and \$20 ^a	Pre-printed "scratch and win" tickets featuring unique themes/games	Cash, free tickets, and merchandise prizes
Daily Number	Twice Daily	\$.50 to \$5	A 3-digit numbers game (000 through 999)	\$500 for each \$1 bet (straight bets) ^b
Big 4	Twice Daily	\$.50 to \$5	A 4-digit numbers game (0000 through 9999)	\$5,000 for each \$1 bet (straight bets) ^c
Cash 5	Daily	\$1	A 5/43 cash lotto matrix game	Starting jackpot is \$125,000 paid on a pari-mutuel basis and increases until someone wins. ^d
Quinto	Twice Daily	\$1	A 5-digit numbers game (xxxxx)	First prize is \$50,000; other prizes range from \$50 to \$10,000.
Treasure Hunt	Daily	\$1	A 5/30 cash Lotto Matrix game	Starting jackpot is \$10,000 paid on a pari-mutuel basis; other prizes range from \$1.00 to \$100. ^e
Match 6	Mondays and Thursdays	\$2	A 6/49 cash Lotto Matrix game	Starting jackpot is \$500,000 paid on a pari-mutuel basis and increases until someone wins. ^f
Mega Millions ^g	Tuesdays and Fridays	\$1	A 5/56 plus 1/46 (mega ball) cash Lotto Matrix game	Starting jackpot is \$12 million paid on a pari-mutuel basis and increases until someone wins. ^{h, i}
Powerball ^{g, j}	Wednesday and Saturdays	\$1	A 5/59 plus 1/39 (power ball) cash Lotto Matrix game	Starting jackpot is \$20 million paid on a pari-mutuel basis and increases until someone wins. ^{h, k}
Millionaire Raffle	Bi-annually	\$20	Raffle tickets numbered from 00000001 to 00500000	4 \$1 million prizes 4 \$100,000 prizes 100 \$1,000 prizes 5,892 \$100 prizes

^a Varies by game. ^b Prizes for pair or boxed bets range from \$50 to \$160 for every \$1 bet. ^c Prizes for boxed bets range from \$200 to \$1,200 for every \$1 bet depending on the combination of numbers drawn. ^d Other prizes range from \$1 for matching two numbers to 20.16 percent of the winnings pool after deducting other prize categories.

^e If more than one winning jackpot play is determined, each winner is entitled to a prorated payment share of the total jackpot prize category.

^f Other prizes range from \$2 to \$2,500, depending upon the combination of numbers matched with the numbers drawn.

^g A multi-state jackpot game.

^h Prize payments are made on an annuity basis, unless the winner selects a lump-sum payment within 60 days of filing a claim.

ⁱ Other prizes range from \$2 to \$250,000, depending upon how many numbers are matched.

^j Beginning January 15, 2012, the price of a Powerball ticket increased from \$1 to \$2. The matrix changed to 5/59 and 1/35 with a starting jackpot of \$40 million.

^k Other prizes range from \$3 to \$200,000, depending upon how many numbers are matched.

Source: Developed by LB&FC staff from PA Lottery rules and regulations.

Exhibit 2

Pennsylvania Lottery Games Removed From Game Mix

	Introduction	Final Drawing
Weekly Drawing	March 1972 ^a	February 28, 1977
Pennsylvania Lotto	April 16, 1982	February 1988
Super 7	August 14, 1986 Reintroduced March 11, 2009	October 28, 1995 April 27, 2010
Saturday Spin	March 7, 1987	May 4, 1990
Wild Card Lotto	February 1988	September 11, 1998
Million Dollar Spin	May 5, 1990	December 26, 1998
Hearts and Diamonds	October 5, 1994	March 10, 1996
Keystone Jackpot	November 4, 1995	September 5, 1998
Super 6	September 12, 1998	January 27, 2004
Match 6 Lotto	January 28, 2004 Reintroduced June 1, 2010	March 10, 2009
Lucky for Life Lotto	September 30, 2004	January 22, 2007
Mix & Match	January 23, 2007	May 31, 2010

^a Expanded to three times weekly in 1973. Replaced with the Daily Number on March 1, 1977.

Source: Developed by LB&FC staff from information on the Pennsylvania Lottery's website, <http://www.palottery.state.pa.us>.

III. Pennsylvania Lottery Sales and Net Revenue

Maintaining sales growth is an ongoing challenge for administrators of state lotteries. Lottery sales peak and then stagnate or decline as public interest/demand is satisfied and the player base becomes saturated. As games evolve and mature, i.e., become established, they eventually lose some of their appeal and lottery managers look to alternatives and game enhancements, such as longer lotto odds or multi-state games, to boost the prize pool. They may also initiate more frequent drawings to generate enthusiasm and offer additional instant games and different game structures. This has been the case in Pennsylvania, where lottery ticket sales are the primary revenue source for the Lottery Fund.

Gross Sales

Gross sales represent the proceeds from Lottery ticket sales before adjustments for expenses. As shown in Table 1, the Pennsylvania Lottery gross ticket sales experienced double-digit annual growth from FY 2001-02 through FY 2005-06 due primarily to a 120 percent increase in Instant Ticket sales and the introduction of Powerball. However, between FY 2005-06 and FY 2007-08, annual sales grew at less than one half of 1 percent each year. From FY 2007-08 through FY 2009-10, sales decreased by less than 1 percent each year, then rebounded for an almost 5 percent increase in sales in FY 2010-11.

Table 1

Pennsylvania Lottery Gross Sales

FY 2001-02 Through FY 2010-11
(\$000)

<u>Fiscal Year</u>	<u>Gross Sales</u>	<u>Percent Change</u>
2001-02.....	\$1,934,164	-
2002-03.....	2,132,981	10.28%
2003-04.....	2,352,072	10.27
2004-05.....	2,644,856	12.45
2005-06.....	3,070,268	16.08
2006-07.....	3,076,339	0.20
2007-08.....	3,089,188	0.42
2008-09.....	3,088,162	-0.03
2009-10.....	3,065,717	-0.73
2010-11.....	3,207,908	4.64

Source: Developed by LB&FC staff using PA Lottery's June 30 Comparative Statement of Income and Expenditures for FY 2001-02 through FY 2010-11.

The weakening economy may have been a factor in the sales decline, but Lottery officials report that a slowing of the growth of the retail network may have

been the primary cause for the flattening of gross sales. Trend lines of these two factors very closely mirror each other. Pennsylvania's lottery network consisted of 7,869 retailers in FY 2001-02. The number of retailers increased in most years and by FY 2010-11 the network had grown to 9,019. From FY 2005-06 through FY 2009-10, however, the number of retailers in the network remained fairly flat ranging from a low of 8,340 to a high of 8,562. As can be seen in Table 1, gross sales for these same years were also flat, at around \$3.1 billion. From FY 2001-02 through FY 2010-11, Pennsylvania's retailers averaged just over \$330,000 in sales annually.

Pennsylvania averaged 1,533 residents per lottery retailer from FY 2001-02 through FY 2008-09 and, by comparison, all states operating lotteries over these same years averaged 1,394 residents per retailer.³ For these years, Pennsylvania's resident per retailer statistic varied minimally, ranging from a low of 1,452 (FY 2006-07) to a high of 1,764 (FY 2002-03).

Success, both in revenue generation and in cost containment, can be measured by comparing sales and profits generated by the Pennsylvania Lottery to those of other lottery states. As can be seen in Table 2, the return percentage compares favorably to the other states. Table 3 shows that sales and profits have consistently ranked within the top ten of all lottery states. Beginning in FY 2005-06 and continuing through FY 2009-10, lottery sales and profits in Pennsylvania have ranked in the top five among states operating lotteries. For the period FY 2003-04 through FY 2008-09, PA Lottery's profit as a percent of sales ranked fifth, on average, among the top 10 states.

Table 2

Return Percentage of States in Top Ten of Lottery Sales*
FY 2003-04 Through FY 2008-09

State	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
New York	33.25%	32.09%	31.47%	30.58%	31.58%	30.87%
Florida.....	30.72	31.67	29.20	30.45	32.03	31.71
Texas	30.47	28.94	27.72	28.97	29.81	28.09
Georgia	30.21	29.45	27.28	26.84	26.62	25.75
Pennsylvania	34.75	32.21	31.44	30.85	30.05	29.48
California.....	30.25	34.70	31.66	35.03	36.29	34.09
New Jersey	35.77	34.85	34.48	34.46	34.59	34.38
Ohio	27.74	30.82	28.56	28.41	30.24	28.97
Michigan	31.97	31.66	30.74	31.96	32.04	29.50
Illinois.....	33.17	33.51	31.82	31.35	31.13	30.66

*Top ten states based on FY 2010 traditional lottery ticket sales.

Source: Developed by LB&FC staff using information from Le Fleur's *2010 World Lottery Almanac*.

³ Population statistics used include all residents not just those eligible to purchase lottery products.

Table 3

PA Lottery Sales, Profits, and Comparative Rankings With Other States
FY 2001-02 Through FY 2009-10

<u>Fiscal Year</u>	<u>Sales (\$000)</u>	<u>Rank</u>	<u>Profit (\$000)</u>	<u>Rank</u>
2001-02.....	\$1,934,164	9	\$749,178	9
2002-03.....	2,132,981	8	787,735	8
2003-04.....	2,352,072	7	818,670	7
2004-05.....	2,644,856	6	852,561	6
2005-06.....	3,070,268	5	975,859	1
2006-07.....	3,076,339	3	949,072	2
2007-08.....	3,089,188	1	928,049	3
2008-09.....	3,088,162	2	910,479	5
2009-10.....	3,065,717	4	915,737	4

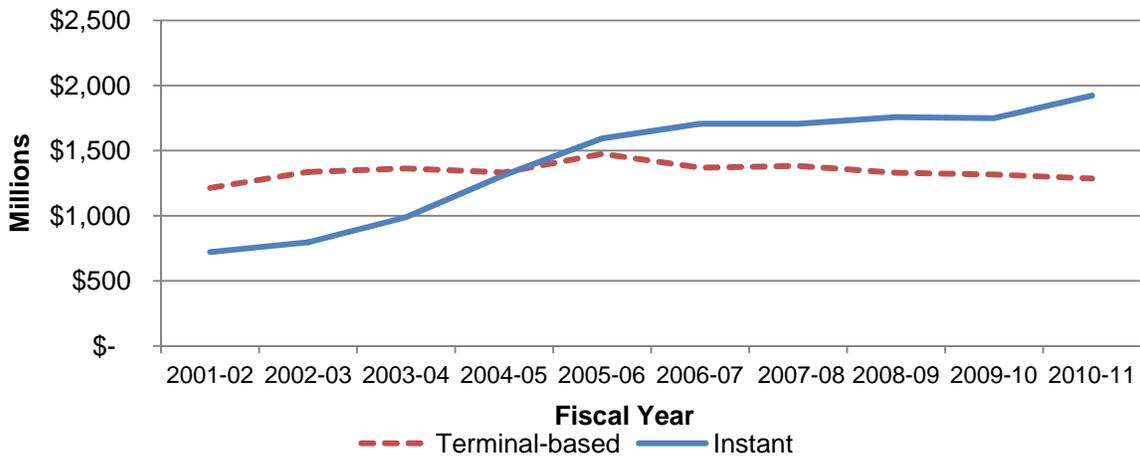
Source: Developed by LB&FC staff using the June 2010 Pennsylvania Lottery Profit Report.

Sales Breakdown by Game Type

As can be seen in Exhibit 3, gross ticket sales for terminal-based games increased modestly from FY 2001-02 through FY 2005-06, then declined through FY 2010-11. Between FY 2001-02 and FY 2010-11, terminal-based games grew at an average of 0.8 percent annually. Sales of instant game tickets, on the other hand, increased by an average of 12 percent annually since FY 2001-02. This rate of growth, however, slowed between FY 2006-07 and FY 2007-08 and again between FY 2008-09 and FY 2009-10, but increased almost 10 percent in FY 2010-11.

Exhibit 3

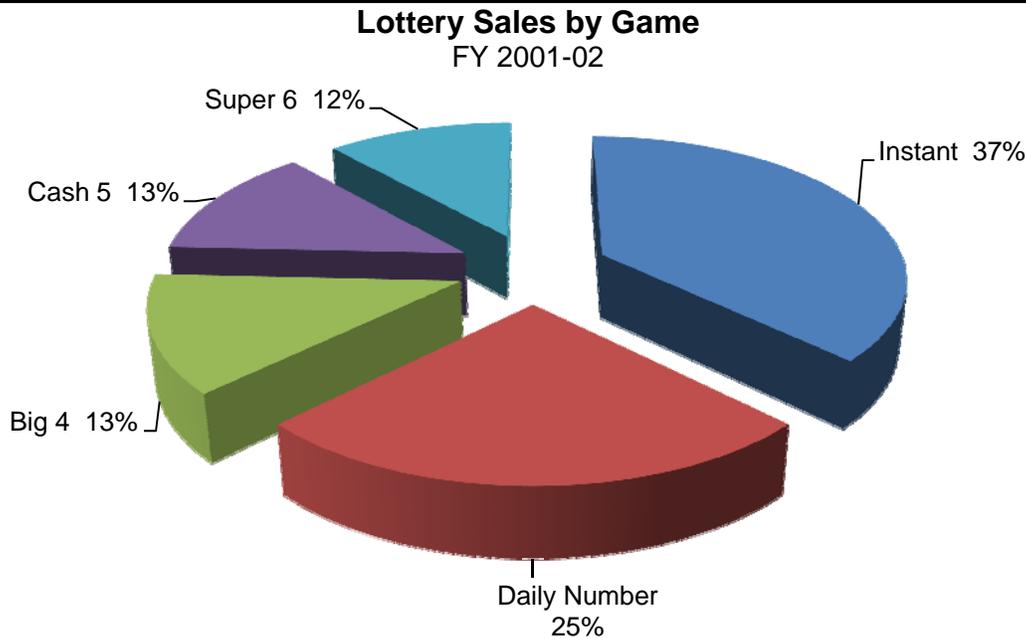
Gross Sales by Type of Game
FY 2001-02 Through FY 2010-11



Source: Developed by LB&FC staff using PA Lottery's June 30 Comparative Statement of Income and Expenditures for FY 2001-02 through FY 2010-11.

Exhibits 4 and 5 show the percentage distribution of gross sales by game. Reflecting the growth in sales noted above, instant tickets were 37 percent of total sales in FY 2001-02 and 60 percent of sales in FY 2010-11. In FY 2001-02, four terminal-based games accounted for 63 percent of sales. By FY 2010-11, nine terminal-based games accounted for 40 percent of total sales. See Appendix F for game mix and sales in selected other states.

Exhibit 4



Source: Developed by LB&FC staff using PA Lottery's Comparative Statement of Income and Expenditures, June 30, 2002.

According to the 2011 Act 2008-53 report,⁴ an increase in consumer appetite for the instant game product is causing a shift in the product mix toward the less profitable instant product. Instant lottery games return approximately half the profit per sale dollar as the terminal-based side of the product portfolio.

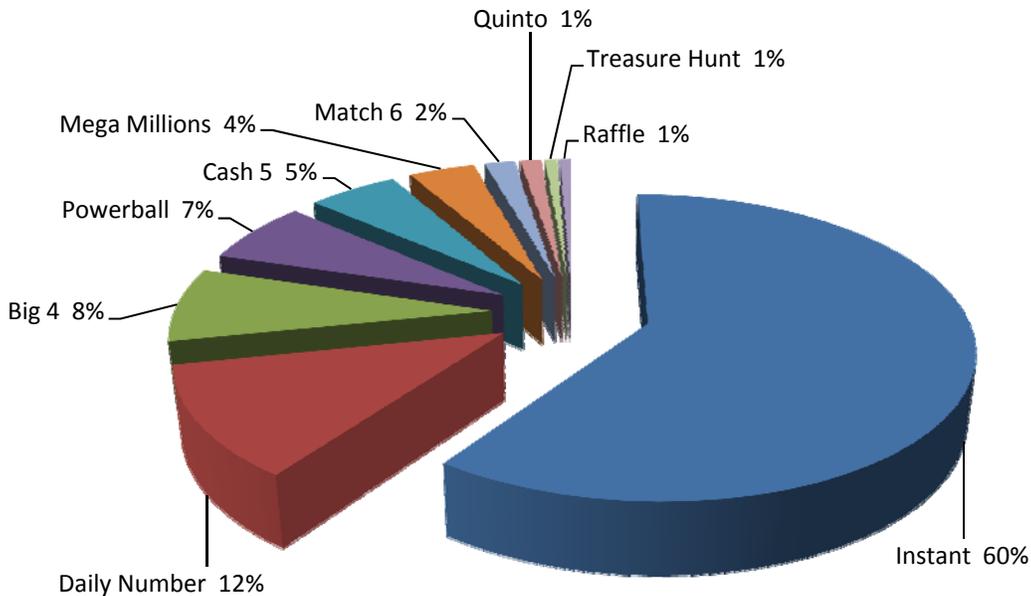
Terminal-Based Games

Multi-state Lottos: Powerball, Mega Millions. According to Lottery officials, sales of these games are dependent on the length of jackpot runs, growing dramatically after jackpots valued at \$100 million are announced. With the Mega Millions game now part of the product portfolio, the opportunity for this to happen has doubled. Officials also note that the resulting increased traffic at lottery points of

⁴ Act 2008-53 requires the Department of Revenue to submit a report to the Governor, the majority and minority chairs of the Appropriations Committees in both chambers, both chairs of the Senate Aging and Youth Committee, and both chairs of the House Aging and Older Adult Services Committee by June 1 of each year, noting the State Lottery's current profits and a plan for increasing future profits.

Exhibit 5

Lottery Sales by Game
FY 2010-11



Source: Developed by LB&FC staff using PA Lottery's Comparative Statement of Income and Expenditures, June 30, 2011.

sales also improves the sales of other games. Powerball and Powerplay⁵ combined sales have remained fairly constant at about \$300 million annually since the games' introductions, peaking at \$450 million in FY 2005-06. Powerball sales have typically accounted for 25 to 30 percent of all terminal-based game sales. For FY 2010-11, the combined Powerball sales were \$99 million less than the previous year, and officials attribute this to fewer large jackpots. With less than two full years of experience with Mega Millions, sales trends are not yet reliable, but in FY 2010-11, Mega Millions and Megaplier^{®5} sales totaled \$126 million.

Numbers Games: The Daily Number (TDN), Big 4, Quinto. Combined, the numbers games were about 39 percent of total sales in FY 2001-02 but as of FY 2010-11, are only 21 percent of sales. On average, TDN sales are declining three percent annually. In our 1994 report,⁶ we noted that TDN was 43 percent of FY 1992-93 sales; by FY 2001-02 it was 25 percent of total sales, and FY 2010-11's \$380 million in sales is 12 percent of total sales. This may be, in part, a result of the choices consumers now have—as noted earlier, the number of terminal-based games

⁵ Selecting Powerplay or Megaplier[®] doubles the cost of a lottery ticket from \$1.00 to \$2.00 and provides players with a chance to multiply their non-jackpot winnings up to five times for Powerball and up to four times for Mega Millions.

⁶ *State Lottery Funding of Programs and Services for Older Pennsylvanians*, a report in response to Act 1992-128, LB&FC, June 1994. Available at <http://lbfc.legis.state.pa.us>.

available has doubled since FY 2001-02. Lottery officials also suggest that new players are not trying the different numbers games because of the greater effort needed to understand the various play options available.

Big 4 sales have remained fairly constant since FY 2001-02 at about \$263 million annually. In August 2008, Quinto was introduced with two drawings daily. It was the first 5-digit numbers game in the United States and Pennsylvania Lottery officials hoped it would introduce new players to numbers play and provide current players with the opportunity to play numbers for greater prizes. Over its three-year life, Quinto has averaged \$35 million in sales, and sales have grown at an average rate of 10 percent annually.

In-state Lottos: Mix and Match, Super 7, Treasure Hunt, Match 6, Cash 5, Millionaire Raffle. The Lottery retired the Mix and Match and Super 7 games in FY 2009-10. Treasure Hunt has averaged \$21 million in sales from FY 2006-07 to FY 2010-11. Sales for Super 6 were declining and the game was redesigned and re-branded as Match 6. FY 2010-11's \$58 million in sales for Match 6 equaled sales in FY 2008-09. Cash 5 sales have been declining at just under 4 percent a year but average about \$202 million annually in sales. Cash 5 was also adjusted by increasing the matrix from 39 balls to 43 and increasing the percent of sales that funds the jackpot prize. As a result, the average jackpot run length has increased and this has increased the average jackpot amount. Millionaire Raffle sales have been steady at \$21 million and the game is profitable after 60 percent of tickets are sold. According to Lottery officials, the lack of growth of in-state lotto sales is due to the difficulty these games have competing with the larger jackpots of the multi-state games.

Instant Games

Instant game sales were 37 percent of total sales in FY 2001-02 and have grown an average of 12 percent annually through FY 2010-11, accounting now for 60 percent of total sales. After flattening briefly from FY 2007-08 to FY 2009-10, sales increased again in FY 2010-11 by almost 10 percent. Historically, instant game sales in Pennsylvania peak during the holidays. Lottery officials noted that the increasing sale of instant tickets and resulting larger share of overall ticket sales mirrors the nationwide trend.

Lottery Sales Projections

The Lottery's sales projections for FY 2011-12 and the five-year period ending FY 2016-17 are shown in Table 4. The current projection by the PA Lottery has total sales in FY 2011-12 increasing to \$3.3 billion, or almost 3 percent more than actual FY 2010-11 sales. As of September 30, 2011, the end of the first quarter of the fiscal year, Lottery sales totaled \$794.5 million or 24 percent of estimated sales for the year. This total is also \$44 million greater than sales reported at the end of September 2010.

Table 4

Lottery Sales Estimates Through FY 2016-17
(\$000)

<u>Fiscal Year</u>	<u>Instant Games</u>	<u>Terminal - Based Games</u>	<u>Total Sales</u>	<u>Percent Increase (Decrease)</u>
2011-12 Est.	\$1,992,970	\$1,307,039	\$3,300,009	2.87%
2012-13 Est.	2,032,829	1,315,565	3,348,395	1.47
2013-14 Est.	2,063,322	1,321,637	3,384,959	1.09
2014-15 Est.	2,083,955	1,326,378	3,410,333	0.75
2015-16 Est.	2,094,375	1,328,454	3,422,828	0.37
2016-17 Est.	2,104,847	1,330,550	3,435,397	0.37

Source: Developed by LB&FC staff using PA Lottery's five-year sales projections.

Methodology and Precision

Methodology. The Lottery monitors actual versus estimated sales on an on-going basis and presents five-year sales projections in its annual budget submission to the Office of the Budget (see Table 5). Sales and profit projections are calculated internally by the Lottery and provided to the Department of Revenue's Bureau of Fiscal Management, which uses this information to develop the Lottery Fund projections. The overall approach is to estimate sales conservatively. The models used take into account recent trending for each game and then factor in the projected lift from planned promotional support. The numbers are reviewed and approved by the Lottery's executive office before they are made official.

Table 5

Comparison of Actual Lottery Sales to Estimated Sales
(\$000)

<u>Fiscal Year</u>	<u>Estimate</u>	<u>Actual</u>	<u>Actual Over (Under) Estimate Dollar</u>	<u>Estimate Percent</u>
2004-05.....	\$2,690,368	\$2,644,856	\$ (45,512)	(1.69)%
2005-06.....	2,831,224	3,070,268	239,045	8.44
2006-07.....	3,228,000	3,076,339	(151,661)	(4.70)
2007-08.....	2,927,507	3,089,188	151,681	5.52
2008-09.....	3,116,091	3,088,162	(27,929)	(0.90)
2009-10.....	3,286,416	3,065,717	(220,629)	(6.72)
2010-11.....	3,121,800	3,207,908	86,108	2.76

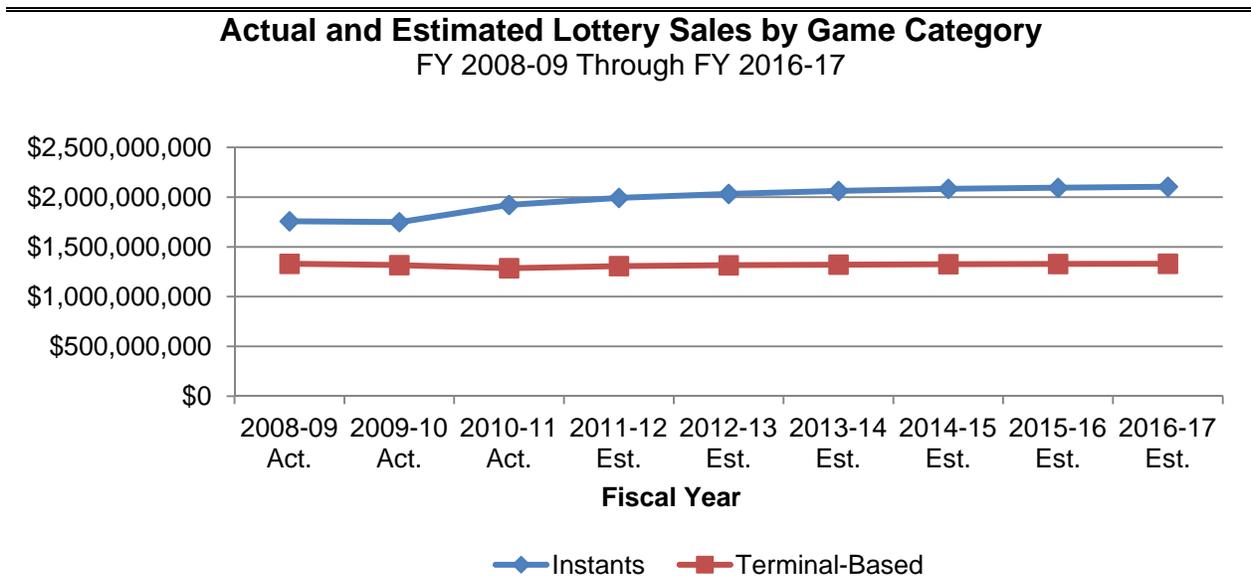
Source: Developed by LB&FC staff using information provided by Pennsylvania Lottery.

According to Lottery officials, some game performances are easier to project than others. The sales for the numbers games, for example, are relatively stable and are easier to project than jackpot games whose sales are more dependent on the length of jackpot runs (which are unpredictable). Other factors taken into account when developing these projections include the impact of the projected growth of the retailer network and the growth of equipment per retailer.

The Lottery also considers the effects of any changes made to the game portfolio. As noted earlier, Match 6 and Cash 5 were adjusted to focus payouts on, and increase the number of, lower tier jackpots, and Powerball will be moving from a \$1.00 ticket to a \$2.00 ticket with larger starting jackpots and improved odds of winning.⁷ The change to Powerball is also expected to impact Mega Millions sales, which will remain a \$1.00 ticket.

As can be seen in Exhibit 6, Lottery officials expect instant game sales to continue to grow slightly each year, increasing by over 3.5 percent in FY 2011-12, but slowing to an annual growth rate of 1.0 percent beginning in FY 2014-15. Sales for terminal-based games are projected to stay fairly flat, starting with an increase of 1.65 percent in FY 2011-12, but slowing to under 0.5 percent annual growth by FY 2013-14.

Exhibit 6



Source: Developed by LB&FC staff using PA Lottery's 5 year sales projections.

Precision of Sales Estimates. We compared the Lottery's sales estimates for seven previous years against actual sales and determined that the projections were

⁷ The PA Lottery has announced that Powerball tickets will be sold for \$2.00 beginning January 15, 2012.

generally within 4 percent of actual sales (see Table 5). In fact, when totaled for all seven years, actual sales were 0.2 percent greater than total estimated sales. The greatest differences between actual and estimated sales occurred in FY 2005-06, when actual sales were \$239 million greater than estimates with instant ticket sales exceeding estimates by more than 13 percent, and in FY 2009-10 when actual sales were \$221 million less than estimates. Lottery officials believe this was due in part to the prolonged softened economy and two major snow storms.

LB&FC has published several reports on the impact of casinos on lottery ticket sales.⁸ The evidence to date suggests that the operation of slots facilities has not significantly impacted lottery sales statewide. Local sales, however, have been affected in the following ways:

- in counties hosting a casino, lottery sales have underperformed that of the statewide average;
- in counties adjacent to counties with casinos, lottery sales are at about the statewide average; and
- in those counties neither hosting nor adjacent to casinos, lottery sales are higher than the statewide average.

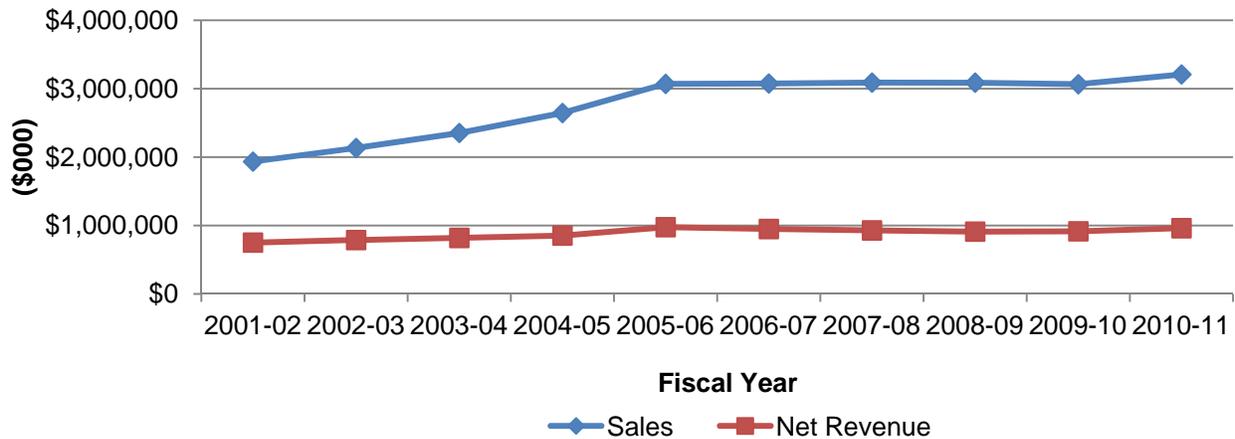
Pennsylvania Lottery Net Revenue

Net revenue, or profit, represents a lottery's total ticket sales, net of its direct and indirect costs and expenses. Lottery officials in Pennsylvania and in most states measure their success primarily on increased profits, not sales. In Pennsylvania, this is the amount that is available to support programs and services for older Pennsylvanians. Exhibit 7 displays the Lottery's sales and net revenues from FY 2001-02 through FY 2010-11. According to Lottery officials, sales and net revenues trend closely to each other because of strict cost controls maintained by the Lottery.

⁸ *An Assessment of the Impact of Slots Gaming on Pennsylvania Lottery Sales*: March 2005, February 2006, March 2007, June 2008, March 2009, February 2010, and April 2011. See <http://lbfc.legis.state.pa.us>.

Exhibit 7

Lottery Sales and Net Revenue



Source: Developed by LB&FC staff using PA Lottery's June 30 Comparative Statement of Income and Expenditures for FY 2001-02 through FY 2010-11.

The Lottery's FY 2010-11 net revenue was \$960.6 million, or almost 5 percent more than the prior year. The percent return, i.e., net revenue as a percent of gross sales, has decreased from a high in FY 2001-02 of 38.5 percent to just below 30 percent in FY 2010-11. As can be seen in Table 6, net revenue grew between 4 and 5 percent during the first three years of the decade but jumped to more than 14 percent from FY 2004-05 to FY 2005-06, then experienced three years of negative growth. This trend reversed in the last two years, with FY 2010-11's net revenue increasing almost 5 percent from the previous year—returning to the annual growth rate experienced at the beginning of this analysis. Lottery officials attribute the 14 percent increase in FY 2005-06's net revenue to a \$425 million increase in overall ticket sales. During this year, the Lottery had the two largest Powerball jackpots ever (\$365 million and \$340 million) driving Powerball and Powerplay sales up by \$154 million as well as a \$286 million increase in instant sales aided by a spike in the number of \$20 instant tickets sold.

Table 6

PA Lottery Net Revenue
FY 2001-02 Through FY 2010-11
(\$000)

<u>Fiscal Year</u>	<u>Net Revenue</u>	<u>Percent Change</u>	<u>Percent Return</u>
2001-02.....	\$749,177.5	---	38.73%
2002-03.....	787,734.7	5.15%	36.93
2003-04.....	818,669.7	3.93	34.81
2004-05.....	852,561.2	4.14	32.23
2005-06.....	975,859.2	14.46	31.78
2006-07.....	949,071.9	-2.74	30.85
2007-08.....	928,048.7	-2.22	30.04
2008-09.....	910,479.3	-1.89	29.48
2009-10.....	915,737.1	0.58	29.87
2010-11.....	960,610.8	4.90	29.95

Source: Developed by LB&FC staff using information obtained from the PA Lottery's Comparative Statement of Income and Expenditures as of June 30 of each fiscal year.

Lottery Expenses

The Lottery's direct and indirect costs and expenses can be grouped into cost of sales and administrative costs. From FY 2001-02 through FY 2010-11 the Lottery's cost of sales, as a percent of sales, increased from 60 percent to 68 percent. This increase appears to be the result of an increase in prize liability. Administrative costs have been stable as a percent of sales. The Lottery's net revenue is primarily total sales less these expenses.

Cost of Sales. The cost of sales includes vendor and retailer commissions, lost/stolen tickets, and prize liability. Table 7 displays the percent of sales for the commissions and the prize liabilities.

On-line vendor commissions are for the automated technology services provided and are based on the number of tickets sold. These commissions, as a percent of total sales, have declined annually and were less than 1 percent for FY 2009-10 and FY 2010-11. Similarly, commissions paid to instant ticket vendors were near or just over 1 percent FY 2001-02 through FY 2007-08. Beginning in FY 2008-09 and continuing to FY 2010-11, instant vendor commissions declined to under 0.70 percent of sales. Liability for prizes, however, increased from 52 percent in FY 2001-02 to 61 percent of sales in FY 2010-11 and, as a result, cost of sales as a percent of total sales increased from 60 percent in FY 2001-02 to 68 percent in FY 2010-11.

Table 7

Cost of Sales Components as Percent of Total Lottery Sales

<u>Fiscal Year</u>	<u>On-line Vendor Commission</u>	<u>Instant Vendor Commission</u>	<u>Retailer Commission</u>	<u>Liability for Prizes</u>	<u>Total Cost of Sales</u>
2001-02.....	2.16%	0.85%	5.17%	51.83%	60.01%
2002-03.....	2.13	0.84	5.19	52.72	60.89
2003-04.....	2.00	0.89	5.18	55.52	63.59
2004-05.....	1.92	1.11	5.21	57.83	66.07
2005-06.....	1.77	1.08	5.56	58.79	67.20
2006-07.....	1.66	1.15	5.41	59.57	67.79
2007-08.....	1.68	0.85	5.50	59.74	67.77
2008-09.....	1.30	0.59	5.35	59.99	67.23
2009-10.....	0.95	0.58	5.22	60.90	67.66
2010-11.....	0.95	0.68	5.26	61.05	67.94

Source: Developed by LB&FC staff using information obtained from the PA Lottery's Comparative Statement of Income and Expenditures as of June 30 of each fiscal year.

Administrative Costs. For the years FY 2001-02 through FY 2010-11, Pennsylvania's Lottery sales increased by two-thirds, and its administrative costs nearly doubled. However, administrative costs as a percent of total sales remained below 3 percent, ranging from a low of 1.97 percent in FY 2001-02 to a high of 2.65 percent (FY 2007-08) and averaged 2.35 percent for the 10 years. See Table 8. As shown

Table 8

Administrative Costs as a Percent of Lottery Sales

FY 2001-02 Through FY 2010-11

(\$000)

<u>Fiscal Year</u>	<u>Sales</u>	<u>Administrative Costs</u>	<u>Administrative Costs as Percent of Sales</u>
2001-02	\$1,934,164	\$38,119	1.97%
2002-03	2,132,981	47,873	2.24
2003-04	2,352,072	57,499	2.44
2004-05	2,644,856	63,423	2.40
2005-06	3,070,268	63,444	2.07
2006-07	3,076,339	74,851	2.43
2007-08	3,089,188	81,843	2.65
2008-09	3,088,162	73,912	2.39
2009-10	3,065,717	76,601	2.50
2010-11	3,207,908	73,698	2.30

Source: Developed by LB&FC staff using information obtained from the PA Lottery's Comparative Statement of Income and Expenditures as of June 30 of each fiscal year.

on Table 9, this compares favorably to lotteries operating in the top 10 states where administrative costs as a percent of sales ranged from 2.85 percent to 6.35 percent in FY 2008-09. For the period FY 2003-04 through FY 2008-09, PA Lottery's administrative costs as a percent of sales ranked tenth, on average, among the top ten states based on FY 2010-11 ticket sales. In fact, Pennsylvania had the lowest percentage in each year.

Table 9

Administrative Costs as Percent of Total Lottery Sales			
<u>State</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>
New York	3.96%	3.76%	3.82%
Florida	3.67	3.67	3.33
Texas	4.82	4.46	5.21
Georgia	4.04	4.17	4.11
Pennsylvania.....	2.43	2.65	2.39
California.....	4.99	5.33	6.35
New Jersey	3.39	3.02	2.85
Ohio	4.95	4.66	5.09
Michigan.....	4.58	4.67	4.60
Illinois	5.45	5.22	5.44

Source: Developed by LB&FC staff using information from Le Fleur's *2010 World Lottery Almanac*.

As expected, advertising, at 40 percent of total costs, is the largest single administrative expenditure. Personnel and operating expenses combined average 35 percent of administrative costs.

Prize Payouts and Requirements for Program Support

Pennsylvania's prize payout as a percentage of total sales has increased from 52 percent in FY 2001-02 to 61 percent FY 2010-11. According to Lottery officials, this is a result of the development of games with higher price points that pay out higher prize amounts. Another factor that skews the payout percentage is instant game sales. Instant games pay out at 70 percent and, as noted earlier in this chapter, have become the majority of ticket sales.

From FY 2003-04 to FY 2008-09, Pennsylvania's payout percentage averaged 58.28 percent. This payout percentage is comparable to the average payout, 58.17 percent, for other states over the same period. But, as can be seen in Table 10, beginning in FY 2005-06, Pennsylvania's payout percentage exceeded the average of the other lottery states, and the difference between the two percentages has widened each year since.

Table 10

Prize Payouts as a Percent of Total Lottery Sales

State	FY 2003 -04	FY 2004 -05	FY 2005 -06	FY 2006 -07	FY 2007 -08	FY 2008 -09
Pennsylvania.....	55.09%	57.44%	58.23%	58.94%	59.46%	60.53%
Other States.....	57.66 ^a	57.67 ^b	57.71 ^c	58.17 ^c	58.11 ^c	58.74 ^c

^a Average of 39 states. Traditional lottery only – does not include video lottery.

^b Average of 40 states. Traditional lottery only – does not include video lottery.

^c Average of 42 states. Traditional lottery only – does not include video lottery.

Source: Developed by LB&FC staff using information obtained from Le Fleur's *2010 World Lottery Almanac*.

Return Requirements. The State Lottery Law originally required that 30 percent of total revenues earned from the sale of lottery tickets be dedicated to providing services for seniors in the Commonwealth. Act 2008-53 amended the Fiscal Code to reduce this to 27 percent until June 30, 2011. Act 2011-23 extended this reduction through June 30, 2015. The change was granted with the understanding that it would give the Lottery the capability to grow sales and net revenues for programs even with a lower return percentage.

Table 6 displays the Lottery's return percentage for the years FY 2001-02 through FY 2010-11. In each year, the return percentage has exceeded the minimum required.

Recent Actions by the Lottery to Stabilize and Increase Sales

As noted at the beginning of this chapter, maintaining sales growth is an ongoing challenge for Lottery administrators. In order to enhance revenue generation, Pennsylvania's Lottery officials have identified several actions they anticipate will both increase player interest and attract new players to the Lottery. (Also see Appendix G, which contains a follow-up to the recommendations from the 1994 LB&FC Lottery report.) These actions include:

- The Lottery continues to emphasize the expansion of the retailer network and equipment density because growth of the network directly impacts both sales and profit growth. The addition of Wawa and Rite Aid store chains has recently increased the Lottery's presence in southeast Pennsylvania.
- Instant games account for a greater percentage of ticket sales and the profit margin for instant games is half that of the terminal-based games, as a result Lottery officials note that it has become increasingly difficult to meet the 30 percent return requirement. The reduction to 27 percent has allowed the Lottery to increase promotions. For example, there will be

more promotions geared to the Mega Millions game to give it more of its own identity and separate it from Powerball.

- Retailer incentives will focus on monthly game promotions rather than overall sales. Lottery officials plan to use these incentives, combined with specific promotions, to counter the decline in sales of terminal-based games.
- Changes to Powerball will increase the starting jackpot from \$20 million to \$40 million and will permit jackpots to be increased by at least \$10 million each time it rolls over. As noted earlier in this chapter, as jackpots increase in size, sales increase. Officials also believe that Mega Millions and the other games in the product portfolio may benefit from increased traffic from Powerball jackpots and result in greater cross sales.
- The Lottery is also looking at new technologies to bring games to the consumer. One area the Lottery is exploring is an application that will provide the winning numbers to smart phones and the possibility of eventually selling tickets via these phones.⁹
- Changes to printer technology may soon allow the Lottery to use regular paper to produce tickets which will result in cost savings.
- The Lottery is looking to improve ticket sales through increasing both benefit awareness and winner awareness.

⁹ Reportedly, a bill in New Jersey will allow lottery tickets to be sold on the Internet or via smart phones.

IV. Lottery Fund Program Expenditures

The Pennsylvania Lottery is the only lottery in the nation that exclusively targets all of its proceeds to programs for older residents. Several agencies, including the Departments of Aging, Revenue, Public Welfare, and Transportation, administer these programs. These programs are described below.

Department of Aging

The Department of Aging administers programs and services for Pennsylvania's older residents funded through the Lottery Fund. These programs and services include PACE, PACENET, Family Caregiver Support Services, and several other services offered through the 52 Area Agencies on Aging. The programs and services under the long-term living appropriation are overseen by the Office of Long Term Living, a dual deputation created in 2007 and operating under the Departments of Aging and Public Welfare.

As shown on Table 11, Lottery Fund appropriations for these programs, excepting PACE and PACENET discussed below, have increased from \$202.8 million in FY 2001-02 to \$310.7 million (budgeted) in FY 2011-12, an increase of 53 percent. During that time the Family Caregiver Support Services Program, Pre-Admission Assessment and Alzheimer's Outreach services were added to those programs and services funded by the Lottery Fund. Additionally, in FY 2011-12, funding for Home and Community-Based Services was directed to the Department of Aging to offset a proposed decrease in the Long-Term Care appropriation in the Department of Public Welfare.

Projected appropriations for these programs are shown on Table 12. The Senior Care and Service Study Commission provided the Department with some projections for future utilization. The Commission's final report, issued in November 2010, identified four critical focus areas that offer opportunities for change in order to achieve a more sustainable system by 2025:¹ financing and prioritization of resources; improving wellness; aging in place and care coordination; and workforce development. To address current barriers, the Commission identified 12 policy recommendations that it believes will move Pennsylvania toward its 2025 goals. In developing these recommendations, the Commission focused chiefly on actionable steps within the purview of Pennsylvania state agencies. See Appendix H for a list of the policy recommendations.

¹ The study addressed comprehensive needs for senior care and service, not just those services funded by the Lottery Fund.

Table 11

Department of Aging Program Expenditures/Appropriations

(\$000)

Lottery Fund	2001-02 Actual	2002-03 Actual	2003-04 Actual	2004-05 Actual	2005-06 Actual	2006-07 Actual	2007-08 Actual	2008-09 Actual	2009-10 Actual	2010-11 Available	2011-12 Budget
General Government Operations...											
Auditor General's Audit Cost.....	\$ 105	\$ 105	\$ 105	\$ 50	\$ 50	\$ 50	\$ 8,231	\$ 7,338	\$ 7,794	\$ 7,745	\$ 6,705
PENNCARE.....	202,704	204,976	206,587	211,899	219,791	227,923	235,987	240,273	241,414	244,560	248,764
Pre-Admission Assessment.....	0	0	0	0	7,253	7,678	10,293	10,206	10,823	10,735	10,735
Family Caregiver.....	0	0	0	0	0	0	12,103	12,027	12,103	12,103	12,103
Grants to Senior Centers ^a	0	0	0	0	0	4,000	0	0	0	0	0
Alzheimer's Outreach.....	0	0	0	0	0	0	0	200	250	250	250
Home and Community Based Services.....	0	0	0	0	0	0	0	0	0	0	32,183
Total Lottery Fund.....	\$202,809	\$205,081	\$206,692	\$211,949	\$227,094	\$239,651	\$266,614	\$270,044	\$272,384	\$275,393	\$310,740

^a The grant in FY 2006-07 was for capital improvements. Funding has been requested but not available in subsequent years.

Source: PA Department of Aging and Governor's Executive Budget 2011-12.

Table 12

Projected Expenditures for Department of Aging Programs				
(\$000)				
<u>Lottery Fund</u>	<u>2012-13</u> <u>Estimated</u>	<u>2013-14</u> <u>Estimated</u>	<u>2014-15</u> <u>Estimated</u>	<u>2015-16</u> <u>Estimated</u>
General Government Operations	\$ 6,705	\$ 6,705	\$ 6,705	\$ 6,705
PENNCARE.....	253,286	253,286	253,286	253,286
Pre-Admission Assessment	10,735	10,735	10,735	10,735
Family Caregiver	12,103	12,103	12,103	12,103
Alzheimer's Outreach	250	250	250	250
Home and Community Based Services ^a ..	<u>32,183</u>	<u>32,183</u>	<u>32,183</u>	<u>32,183</u>
Total Lottery Fund	\$315,262	\$315,262	\$315,262	\$315,262

^a Reflects a proposal to deposit the Tobacco Master Settlement Agreement revenue directly into the General Fund. This difference is to be offset by a decrease in the Lottery Fund Medical Assistance Long-term Care appropriation in the Department of Public Welfare.

Source: Governor's Executive Budget 2011-12.

PACE and PACENET

Act 1983-63 established the Pharmaceutical Assistance Contract for the Elderly (PACE) Program as a limited state financial assistance program to cover the costs of prescription drugs for older Pennsylvania residents. Since that time, the program has been amended and expanded. Currently, the program operates under the provisions of the State Lottery Law.

The Pharmaceutical Assistance Contract for the Elderly Needs Enhancement Tier (PACENET) began in 1996, when the State Lottery Law was amended by Act 1996-134. Under this program, seniors with incomes significantly higher than that set for the PACE program are eligible for financial assistance in purchasing prescription medications.

Brief Description

PACE. Pursuant to the State Lottery Law, the Department of Aging administers PACE. The PACE program has an open formulary meaning most prescription medications, including insulin and syringes, are covered under the program.

Under the PACE program, participants are able to receive generic prescription medications for no more than \$6 and brand name prescription medications for no more than \$9. These copayments are based on a 30-day supply. PACE participants may also participate in Medicare Part D.²

² See description of program on page 31.

PACENET. PACENET also covers most prescription medications, including insulin and syringes. Participants pay no more than \$8 for each generic prescription medication and not more than \$15 for each brand name prescription medication.

Seniors who are eligible for PACENET may also participate in Medicare Part D.³ PACENET cardholders enrolled in one of the program’s partner Medicare Part D plans pay the Part D premium at the pharmacy each month, prior to receiving pharmacy reimbursement coverage through PACENET. PACENET cardholders enrolled in a Part D plan that is not one of the program’s partner plans pay the Part D premium directly to the Part D plan. PACENET cardholders who do not enroll in a Part D plan pay a monthly deductible that is equal to the regional benchmark premium for Part D (\$34.07 in 2011) at the pharmacy. After the deductible is paid, the participant pays the PACENET co-pays for their medications. If the deductible is not met each month, it accumulates.

Program Eligibility

PACE. Pennsylvania residents⁴ who are age 65 years or older and whose total income is \$14,500 or less for a single person or \$17,700 or less for a married couple are eligible for PACE. Table 13 shows the income eligibility requirements over the years for the PACE and PACENET programs.

Table 13

PACE and PACENET Maximum Income Eligibility Limits		
	<u>PACE</u>	<u>PACENET</u>
1983.....	\$9,000 (s) \$12,000 (m)	N/A N/A
1984.....	\$12,000 (s) \$15,000 (m)	N/A N/A
1991.....	\$13,000 (s) \$16,200 (m)	N/A N/A
1996.....	\$14,000 (s) \$17,200 (m)	\$14,001 - \$16,000 (s) \$17,201 - \$19,200 (m)
2001.....	\$14,000 (s) \$17,200 (m)	\$14,001 - \$17,000 (s) \$17,201 - \$20,200 (m)
2003.....	\$14,500 (s) \$17,700 (m)	\$14,501 - \$23,500 (s) \$17,701 - \$31,500 (m)

Source: Developed by LB&FC staff from a review of applicable laws.

³ See description of program on page 31.

⁴ The person must be a Pennsylvania resident for at least 90 days prior to the date of application and cannot be enrolled in the Department of Public Welfare’s Medicaid prescription benefit program.

PACENET. This program has the same age qualifications as PACE, however, PACENET’s income limits are higher than those for PACE. As shown on Table 13, a single person’s total income can be between \$14,501 and \$23,500. A couple’s combined total income can be between \$17,701 and \$31,500.

Service Levels and Expenditures

PACE. As shown on Table 14, in FY 2010-11, 145,000 individuals were enrolled in the PACE program, and 4.4 million prescriptions were paid for through the program. This is a decline of 88,000 individuals and 4.7 million prescriptions since FY 2001-02. This reduction is attributed to individuals migrating to the PACENET program as their income has increased. Although legislation to allow individuals to remain eligible for PACE if their maximum income limit was exceeded due solely to a Social Security cost-of-living adjustment (COLA) has been in place since 2006 (see discussion on page 30), an earlier COLA provision instituted in 2001 expired in 2005. This also caused individuals to move from PACE to PACENET.

Over this same time period, as shown on Table 14, the average cost of a prescription paid for by PACE has declined approximately \$17, or about 42 percent. This reduction is due most significantly to the provisions of Medicare Part D and its effect on prescription costs to the state. Approximately 60 percent of the cost of prescriptions has been shifted to the federal government.

Table 14

PACE Enrollments, Prescriptions, and Average Cost Per Prescription

<u>Fiscal Year</u>	<u>Total En-rolled</u>	<u>Total Prescriptions Per Year^a</u>	<u>Average Cost Per Prescription</u>
2001-02	233,915	9,149,254	\$41.82
2002-03	229,167	9,161,439	44.95
2003-04	234,649	9,358,792	46.08
2004-05	227,113	9,252,451	37.27
2005-06	214,742	9,119,960	44.42
2006-07	219,350	7,705,695	27.00
2007-08	195,962	6,509,484	26.10
2008-09	172,912	5,561,909	23.66
2009-10	156,662	4,930,614	24.18
2010-11	145,049	4,398,278	24.30

^a Each “prescription” represents a pharmacy claim reimbursed on behalf of a participant. The vast majority of these claims represent a 30-day supply of a medication, although some represent less than that and others may represent more than that. The former claim type would be for acute dosed medications like antibiotics, and the latter would be for cardholders enrolled in a Medicare Part D plan (starting in 2006) that has available a 60- or 90-day supply option.

Source: PA Department of Aging.

PACENET. As shown on Table 15, in FY 2010-11 approximately 215,000 individuals were enrolled in PACENET, accounting for almost 6 million prescriptions. This represents a 459 percent increase in individuals enrolled in the program and an increase of almost 5 million prescriptions since FY 2001-02. The growth in the program is attributed in part to the increase in income limits in 2003. The average cost for a prescription is only slightly less than that in FY 2001-02, but significantly less than the average prescription cost in FY 2005-06. This reduction is due in part to the effect of Medicare Part D. As noted above, Medicare Part D has allowed a larger percentage of the cost of medications to be funded by the federal government than through state funds.

Table 16 shows the funds appropriated from the State Lottery Fund for the PACE and PACENET programs over the last 10 years. Due in part to savings attributed to Medicare Part D, discussed below, total appropriations for the two programs has decreased from \$400 million in FY 2005-06 to \$250 million budgeted in the current fiscal year.

Table 15

PACENET Enrollments, Prescriptions, and Average Cost Per Prescription			
<u>Fiscal Year</u>	<u>Total En-rolled</u>	<u>Total Prescriptions Per Year^a</u>	<u>Average Cost Per Prescription</u>
2001-02	38,385	1,019,546	\$29.61
2002-03	44,756	1,258,195	33.14
2003-04	102,811	2,025,868	36.83
2004-05	129,435	2,784,936	55.01
2005-06	143,897	3,408,847	57.78
2006-07	170,857	4,704,756	28.97
2007-08	191,963	5,635,783	27.12
2008-09	205,749	6,036,969	25.94
2009-10	211,827	5,900,458	28.77
2010-11	214,777	5,942,901	28.02

^a Each "prescription" represents a pharmacy claim reimbursed on behalf of a participant. The vast majority of these claims represent a 30-day supply of a medication, although some represent less than that and others may represent more than that. The former claim type would be for acute dosed medications like antibiotics, and the latter would be for cardholders enrolled in a Medicare Part D plan (starting in 2006) that has available a 60- or 90-day supply option.

Source: PA Department of Aging.

Table 16

PACE and PACENET Program Expenditures/Appropriations

 FY 2001-02 Through FY 2011-12
 (\$000)

<u>Fiscal Year</u>	<u>Pharmaceutical Assistance Fund</u>
2001-02 Actual	\$359,000
2002-03 Actual	395,000
2003-04 Actual	370,000
2004-05 Actual	300,000
2005-06 Actual	400,000
2006-07 Actual	204,000
2007-08 Actual	278,400
2008-09 Actual	254,500
2009-10 Actual	200,000
2010-11 Available	200,000
2011-12 Budget.....	250,000

 Source: Governor's Budget Documents.

Projection Assumptions

Projections for the PACE and PACENET programs are shown on Table 17. The projections are actuarially trended, and according to Department of Aging officials, the percent of seniors participating in the program has remained consistent over the years. For example, although approximately 1.38 million Pennsylvania residents meet the eligibility requirements of PACE and PACENET during the year, only approximately 25 percent are enrolled in the program. Department of Aging officials attribute this to several factors: (1) about 25 percent of seniors do not use the prescription medications covered by the program; (2) individuals have adequate coverage through private insurance; and (3) individuals are enrolled in Medical Assistance and receive their prescriptions through that program.⁵

⁵ The PACE and PACENET programs have an extensive outreach process that includes an effective outreach infrastructure consisting of Area Agencies on Aging and Senior Centers, legislative district offices, 3,000 retail pharmacies, insurance companies, pharmaceutical manufacturers and their companion patient assistance programs, and physicians. The program has eliminated the typical barriers to public program enrollment with a simplified application form and a centralized outreach and enrollment center that contacts every unenrolled eligible and is able to enroll anyone who chooses online.

Table 17

Projected Appropriations for PACE and PACENET
 FY 2012-13 Through FY 2015-16
 (\$000)

<u>Fiscal Year</u>	<u>Pharmaceutical Assistance Fund</u>
2012-13 Estimated.....	\$265,000
2013-14 Estimated.....	280,000
2014-15 Estimated.....	295,000
2015-16 Estimated.....	310,000

Source: Governor's Executive Budget 2011-12.

COLA Legislation

The Tobacco Settlement Act, Act 2001-77, provided for continued eligibility for persons who were enrolled in the PACE program on December 31, 2000, and whose income exceeded the maximum eligibility limit due solely to a Social Security cost-of-living adjustment. Continued eligibility under this provision expired on December 31, 2002. Act 2002-149 extended this COLA protection provision through December 31, 2003. Act 149 also established COLA protection for participants in the PACENET program, but the protection expired on December 31, 2003.

No COLA protection legislation applied to either PACE or PACENET participants during the time period January 1, 2004, through December 31, 2004. However, Act 2004-219 provided that persons who, as of December 31, 2004, were enrolled in the PACENET program would remain eligible for the program if the maximum income limit was exceeded due solely to a Social Security cost-of-living adjustment. This provision expired on December 31, 2005.

In 2006, the Legislature, through Act 2006-111, provided that persons who, as of December 31, 2005, were enrolled in PACE or PACENET would remain eligible for the programs if their maximum income limit was exceeded due solely to a Social Security cost-of-living adjustment. Such eligibility under the PACE program was extended until December 31, 2006, and such eligibility under the PACENET program was extended until December 31, 2007. Act 2008-69 extended eligibility for individuals who were enrolled in these programs on December 31, 2007, until December 31, 2010. Most recently, Act 2011-21 allows individuals enrolled in PACE or PACENET as of December 31, 2010, to remain eligible if their maximum income limit is exceeded due solely to a Social Security cost-of-living adjustment. Such eligibility now extends until December 31, 2013.

PACE Plus Medicare

Medicare Part D is a voluntary program providing prescription drug coverage to Medicare beneficiaries through the implementation of the federal Medicare Prescription Drug, Improvement, and Modernization Act of 2003.

Brief Description

The Medicare Part D drug benefit began in January 2006. The PACE Program elected to be a “qualified State Pharmacy Assistance Program,” which, along with the passage of Act 2006-111, allowed for the creation of “PACE Plus Medicare.” When the program began on September 1, 2006, 145,000 cardholders enrolled in Part D through the enrollment process facilitated by the program. In addition, there were approximately 100,000 PACE cardholders who had enrolled voluntarily into a Part D plan of their choosing. Today, 82 percent of all enrollees are in a Part D plan, averaging about 248,000 cardholders in Part D each month.

Persons who receive Medicare and get prescription drugs through Medical Assistance (the ACCESS card) are required to enroll in a Part D plan. Other Medicare consumers may enroll in Medicare Part D. Additionally, any Medicare beneficiary (on Part A and/or Part B) is permitted to sign up for the Medicare Prescription Drug Benefit. Because PACE/PACENET coverage is supplemented by federal Medicare Part D prescription coverage, older Pennsylvanians have the benefits of both programs. Older adults continue to receive the same prescription benefits while, in many cases, saving more money.

PACE Plus Medicare provides additional coverage for cardholders in Medicare Part D by covering deductibles, certain drugs not reimbursed by Part D, the coverage gap phase of no Medicare coverage, and co-payment differentials between the Part D plan coverage and the PACE and PACENET copayments. PACE Plus pays the Medicare premiums for Part D for PACE and PACENET cardholders, but PACENET cardholders repay the Part D premiums to the program. Act 2006-111 also eliminated the monthly deductible for PACENET cardholders. PACENET cardholders who do not enroll in a Part D plan pay a monthly deductible that is equal to the regional benchmark premium for Part D (\$34.07 in 2011) at the pharmacy. After the deductible is paid, the participant pays the PACENET co-pays for their medications. If the deductible is not met each month, it accumulates.

Medicare Part D has allowed the state to shift the cost of drugs to the federal government resulting in significant savings. Under this program, pharmacy providers must bill Medicare Part D before billing PACE/PACENET for any participant enrolled in Part D. If Part D denies the claim, in whole or in part, it then comes to PACE/PACENET for claim adjudication. PACE/PACENET will pay the claim for participants who are in the deductible period (donut hole), or when the medication is not on the Part D plan’s formulary. PACE/PACENET will also pay any part of

the Part D coinsurance or copays that exceed the PACE or PACENET copays. On average, Medicare Part D covers 50 percent of a participant's annual drug bill, which results in considerable savings to PACE/PACENET.⁶

Affordable Care Act

The Patient Protection and Affordable Care Act, Pub.L. 111-148, 124 Stat. 119, included a provision to close the Medicare Part D “donut hole.” The Medicare donut hole starts after the participant and their Medicare Part D drug plan reach \$2,840 in combined expenses and continues until the participant's total out-of-pocket expenses reach \$4,550, in 2011, measured on a calendar year basis. While in the donut hole, the participant is responsible for 100 percent of costs.

The Affordable Care Act amended this provision, and beginning in 2011, participants will receive a 50 percent discount on brand name drugs. In addition to the discounting in the donut hole in 2011, the size of the donut hole begins to shrink due to increased plan coverage which culminates in 2020 by reducing the beneficiary cost sharing from 50 percent to 25 percent of annual drug expenses.

According to Department of Aging officials, savings to the PACE and PACENET programs as a result of the Affordable Care Act were \$32.5 million in FY 2010-11. The Department estimates savings to PACE and PACENET of \$731.5 million from FY 2010-11 through FY 2019-20. Two-thirds of these savings are anticipated to come from brand discounts in the donut hole, with the remaining savings from higher rebates from the drug manufacturers.

The constitutionality of the Affordable Care Act has been challenged in several courts throughout the nation. As of the end of October 2011, 12 federal judges have dismissed these challenges. Two federal judges—in the Eastern District of Michigan and the Western District of Virginia—have fully upheld the law. One federal judge in the Eastern District of Virginia ruled against the individual responsibility provision but declined to bar full, continuing implementation of the law. On November 10, 2011, the U.S. Supreme Court decided to rule on the constitutionality of the Affordable Care Act.⁷

⁶ House Bill 2011-1044 proposes using Medicare Part D savings to fund increased income limits for PACENET.

⁷ Five petitions were before the Court. One petition stems from the U.S. Court of Appeals for the 11th Circuit ruling that struck down the Affordable Care Act's individual mandate. A second petition was filed by the Department of Justice to urge the Supreme Court to reverse the 11th Circuit Court's ruling. A third petition stems from a case in the Cincinnati-based 6th Circuit Court, which upheld the constitutionality of the individual mandate; the losing parties have filed the petition with the Supreme Court. The fourth petition was filed by Liberty University, which is challenging the decision by the Richmond-based 4th Circuit Court, which held that the individual mandate's enforcement mechanism—a penalty imposed on those who fail to obtain health insurance—constituted a tax and could therefore not be challenged until people had actually been penalized. That cannot occur until the mandate becomes effective in 2014. The final petition, which is not included among those considered on November 10, also stems from a 4th Circuit Court case, which asks the Supreme Court to strike down the individual mandate as a violation of the state's sovereignty under the 10th Amendment. By custom, four justices must vote to grant a petition for the Supreme Court to hear a case.

PennCARE

Area Agencies on Aging (AAA) were initially created through the Federal Older Americans Act. The federal legislation required that states designate service areas based on the geographic distribution of the senior population in order to receive federal funds under the act. The federal statute further required that states designate either a public entity or private non-profit agency as the Area Agency on Aging for each identified service area. In Pennsylvania, there are 52 offices throughout the Commonwealth that serve all 67 counties.

AAAs provide several lottery support services and are funded based on the proportion of older poor persons residing in the planning and service area in relation to the total number of older poor persons residing in the Commonwealth. A “hold harmless” provision requires that AAAs receive no less than the level of funding received in the previous year. In 2004, a new allocation formula with weighted categories was adopted by the Department of Aging, but has not directly affected funding levels due to the hold harmless provision of the law.⁸

Brief Description

Under the PennCARE appropriation, services are provided to enable frail older Pennsylvanians to delay or avoid institutionalization. Services provided include, for example, environmental modifications, protective services, and personal care services. The Fiscal Code, since FY 2007-08, provides that funds appropriated from the State Lottery Fund for PennCARE shall not be utilized for administrative costs by the Department of Aging.⁹ See Exhibit 8 for a brief description of PennCARE services.

Beginning in FY 1994-95, the PennCARE appropriation encompassed all of the community-based and in-home service activities of the Department. The previously separate appropriations for the Aging Service Program, the OPTIONS – Level 1 Services (In-Home Services) Program, the Abuse Intervention Services for Older Pennsylvanians Program, the Attendant Transportation Program, and the OPTIONS Level II Services Program have been incorporated into a single appropriation—the PennCARE appropriation. In FY 1996-97, the PennCARE appropriation was incorporated into one block grant contract to the AAAs. AAAs are required to use 55 percent of the funding for in-home services, with the remaining funds used at their discretion to offer those services that address the needs of their service area.

⁸ “Hold harmless” is a statutory requirement established in 1990. Under the new formula, each AAA receives its proportionate share based on the number of person 60+ years (weighted 0.1); the number of persons 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 at or below 100 percent of poverty (weighted 0.25).

⁹ 72 P.S. §1702-C.

PennCARE Services

Adult Day Care: Provides functionally eligible older Pennsylvanians with an array of activities in a protective environment to enable them to maintain independence within the community. Adult Day Services are licensed by the Department of Aging.

Care Management: Care managers arrange, coordinate and monitor services to fit the identified needs of an older adult.

Congregate Meals: Hot or other appropriate meals meeting at least one-third of the recommended nutritional needs of older persons are available at least once a day, five or more days a week to eligible older persons in a group setting either in senior centers or adult daily living centers. An eligible individual is any person age 60 or over or their spouse regardless of age.^a No fees are charged; however, voluntary contributions may be made.

Counseling: Consists of activities undertaken by a professional therapist to improve the problem-solving of coping skills of the individual and/or family and to improve their intra- and inter-personal development and function.

Domiciliary Care: Provides supervised living arrangements in a home-like environment for adults who are unable to live alone because of difficulties in accomplishing activities of daily living or who experience social or personal adjustments resulting from disabilities.

Employment Services: This program assists seniors by providing access to employment opportunities. Federal Title V funds (Senior Community Service Employment Program), sometimes supplemented by PennCARE Funds, are administered by the Department of Aging to provide employment and training opportunities for low-income seniors age 55 and over. According to the PA Association of AAAs, currently this service is only offered by a few AAAs and may have been affected, in part, by the slowing economy.

Environmental Modifications: Physical adaptations to the home, required by the recipient's plan of care, that are necessary to ensure the health, welfare and safety of the individual, or which enable the individual to function with greater independence, e.g., grab bars. Without such adaptations the recipient could not remain in their home.

Friendly Visitors/Telephone Reassurance: Provides homebound seniors with companionship, reassurance and connection to the community through volunteers.

Guardianship: Where the family is not available or is not willing to take on this responsibility, many AAAs have taken on this legal responsibility.

Home Delivered Meals: At least one meal a day, five days a week is provided to individuals 60 or older or their spouse regardless of age who are unable to prepare their own food and who cannot rely on family members or other supports to meet their nutritional needs.^a No fees are charged; however, voluntary contributions are accepted. Each AAA has established priorities to ensure that persons with the greatest need receive nutrition services.^b

Information and Referral: Answers questions and makes referrals to other agencies in the community that provide the specific services needed by the individual.

Legal Assistance: Assistance includes legal advice and representation by an attorney as well as benefits and rights counseling or representation by a non-lawyer to older people with social or economic need.

Exhibit 8 (Continued)

Ombudsman: Investigates and helps resolve complaints made by or for older consumers of long-term care services residing in nursing homes, personal care homes, older adult daily living centers and community settings.

Passenger Transportation: Assists eligible persons with travel to community facilities providing social, recreational or nutritional services and activities, e.g., senior centers, and to medical or shopping facilities. Some AAAs maintain their own vehicles and equipment; most use subcontracted transportation providers to furnish the necessary services. Provides funding to assist with the shared –ride passenger cost.

Personal Assistance: Provided where the individual experiences functional disabilities resulting in a substantial loss of capability to perform one or more of basic activities associated with the personal care of one's self, e.g., ambulating within the home, and who requires "hand-on" assistance to fulfill these needs.

Personal Care: Provides in-home "hands on" care related to personal hygiene, eating, bathing, dressing or other activities of daily living that an individual cannot meet independently.

Personal Emergency Response: An electronic device which enables certain high-risk consumers to secure help in the event of an emergency. These are limited to those individuals who live alone or who are alone for significant parts of the day and have no regular caregiver for extended periods of time or who would otherwise require extensive routine supervision.

Protective Services: Protects Pennsylvanians age 60 and older from abuse, neglect, exploitation and abandonment. The type of service depends on the abused person's immediate needs.

Respite Care and Overnight Shelter: Services are provided to individuals on a short-term basis due to the absence or need for relief of those non paid caregivers normally providing care. Services may be provided in the individual's home, or the home of a relative, friend or other family or in a Medicaid certified nursing facility or a licensed personal care home.

Senior Centers: 492 senior centers and 117 satellite centers operate throughout Pennsylvania offering activities to meet socialization, recreational, educational and enrichment needs of older persons. Activities include: arts and crafts, bingo, meals, educational and cultural programs, singing, dancing, and exercising classes. Senior centers also allow access to other AAA services such as legal assistance, case-work, health screening, employment, and volunteer opportunities.

Telehealth: Telehealth employs technology to empower people with chronic conditions to remain independent by using wireless technology or a phone line to monitor and collect health related data such as pulse and blood pressure, to track participants' daily routines and activities and to dispense and monitor medication compliance.

Volunteer Services: Provides opportunities for seniors to serve other seniors and their community at large as well as opportunities for persons of all ages to participate in providing services to older persons through the placement of persons in a variety of volunteer roles.

^a Volunteers and individuals with disabilities may also be considered eligible in certain circumstances.

^b Criteria utilized to determine needs for delivered meals may include income, functional disability, inadequate housing, aloneness, advanced age and minority status, among others. Since nutrition services monies are limited, persons prioritized as having the greatest need will receive nutrition services.

Service Levels and Expenditures

As shown on Table 11, funding for PennCARE has increased from \$202.7 million in FY 2001-02 to \$244.6 million in 2010-11, an increase of approximately 21 percent. Table 18 shows, however, that since FY 2005-06 the number of individuals served by the program has decreased from 631,765 to 457,921, although the number of individuals on waiting lists as of the report date has continued to increase. As shown on Table 12, appropriations from the Lottery Fund for the PennCARE program are projected to increase to \$253.3 million in FY 2012-13, an increase of \$4.5 million (1.8 percent) from FY 2011-12. Although there are waiting lists for these services, Department of Aging officials reported that they are seeking to address the funding inequity before seeking a significant increase in funds. As noted earlier, the “hold harmless” provision was created in statute and has restricted the distribution of funds to 1990 demographics.

Table 18

Department of Aging PennCare Program*			
Individuals Served		Individuals on Waiting Lists	
2005-06 Actual	631,765	2005-06 Actual	Consumers on Waiting Lists During Report Period ----- Active Consumer Still on Waiting List as of Report Date
			5,628 ----- 25
2006-07 Actual	500,824	2006-07 Actual	Consumers on Waiting Lists During Report Period ----- Active Consumer Still on Waiting List as of Report Date
			5,269 ----- 64
2007-08 Actual	494,912	2007-08 Actual	Consumers on Waiting Lists During Report Period ----- Active Consumer Still on Waiting List as of Report Date
			6,265 ----- 189
2008-09 Actual	515,156	2008-09 Actual	Consumers on Waiting Lists During Report Period ----- Active Consumer Still on Waiting List as of Report Date
			5,757 ----- 491
2009-10 Actual	473,919	2009-10 Actual	Consumers on Waiting Lists During Report Period ----- Active Consumer Still on Waiting List as of Report Date
			5,940 ----- 1,292
2010-11 Available	457,921	2010-11 Available	Consumers on Waiting Lists During Report Period ----- Active Consumer Still on Waiting List as of Report Date
			5,748 ----- 3,412

*The report period refers to the fiscal year and the report date is the reconciliation date 90 days after the end of the fiscal year.

Source: PA Department of Aging.

Family Caregiver Support Services

The Family Caregiver Support Act, Act 1990-204, 62 P.S. §3061 et seq., established the Family Caregiver Support Program (FCSP), which is designed to reduce caregiver stress and to reinforce the care being provided to older persons at home.¹⁰ This program assists persons who bear primary responsibility for the at-home care of functionally dependent older adults and individuals with chronic dementia. This program is administered by the Department of Aging through contracts with the various Area Agencies on Aging.

Brief Description

Under the Family Caregiver Support Act, persons who bear primary responsibility for the at-home care of functionally dependent older adults and individuals with chronic dementia may qualify to receive the following services:

- Benefits counseling and caregiver counseling, education, and training.
- Reimbursement up to \$200 per month to primary caregivers whose households financially qualify for assistance for expenses incurred in obtaining day or night respite care services, transportation to respite care service locations, or other supportive services and consumable supplies.
- Reimbursement up to \$2,000 in total to primary caregivers whose households financially qualify for expenses incurred in obtaining home modifications or assistive devices that help the functionally dependent older adult or adult with chronic dementia to carry out tasks required for daily living such as grab bars, safety devices, and wheelchair ramps.

The persons who receive services under this act include those who are primary, unpaid caregivers who live with and provide continuous care to a functionally dependent older adult relative or other adult relative with chronic dementia such as Alzheimer's disease. To qualify for services, the caregiver's household income cannot be more than 380 percent of poverty level. The act directs the Department of Aging to establish a sliding benefits scale to ensure that caregivers whose household income exceeds 200 percent of poverty level up to 380 percent of poverty level will receive reimbursement for some portion of out-of-pocket expenses.

¹⁰ A federal program, the National Family Caregiver Support Program (NFCSP), created in November 2000 by an amendment to the Older Americans Act provides grants to states, based on their share of the population aged 70 and over, to fund programs offering a range of direct services and supports to caregivers of chronically ill, frail, or elderly relatives, or relatives with developmental disabilities. NFCSP services are provided through Area Agencies on Aging, which receive grants from their respective state departments on aging based on need and the size of the eligible population.

Service Levels and Expenditures

The Lottery Fund began funding the FCSP in FY 2007-08. Prior to this, services were funded by the General Fund. As shown on Table 19, in 2009-10, 4,732 individuals received services under this program. During that period, 180 people were on a waiting list for the services, and 28 remained on the waiting list as of the report date. This is a slight decrease in the number of individuals served in FY 2007-08. The number of individuals remaining on the waiting list as of the report date has increased significantly since FY 2007-08. As shown on Table 11, total Lottery Fund appropriations for this program have remained fairly constant, with only a slight decrease in FY 2008-09. Table 12 shows that projected funding for the FCSP remains flat at \$12.1 million.

Table 19

		Department of Aging Family Caregiver Support Program*	
		Individuals Served	Individuals on Waiting Lists
2007-08 Actual	4,813	2007-08 Actual	Consumers on Waiting Lists During Report Period 192
		Active Consumer Still on Waiting List as of Report Date 4	
2008-09 Actual	4,734	2008-09 Actual	Consumers on Waiting Lists During Report Period 175
		Active Consumer Still on Waiting List as of Report Date 15	
2009-10 Actual	4,732	2009-10 Actual	Consumers on Waiting Lists During Report Period 180
		Active Consumer Still on Waiting List as of Report Date 28	
2010-11 Available	4,671	2010-11 Available	Consumers on Waiting Lists During Report Period 190
		Active Consumer Still on Waiting List as of Report Date 126	

*The report period refers to the fiscal year and the report date is the reconciliation date 90 days after the end of the fiscal year.

Source: PA Department of Aging.

Although there was a waiting list for services under the state program in some counties, in each of the last three fiscal years, approximately \$488,000 remained unspent reportedly due to the more stringent program requirements of the

state program versus the federal program. The state program requires the caregiver be a relative and to live with the older adult. The Department is working to amend the law to broaden its applicability. However, House Bill 2011-210, passed on December 13, 2011, amended the Family Caregiver Support Act to permit reimbursements for non-relative caregivers, and removed the language that a caregiver must live with the care recipient.¹¹

Pre-Admission Assessment

Pre-Admission Assessment provides thorough assessments of individuals applying for nursing facility care within the Commonwealth. This assessment screens all applicants for nursing facility placement to determine whether or not applicants have diagnoses for conditions related to mental illness, mental retardation, or other related conditions, whether they require care in a nursing facility and, if so, whether such applicants require specialized services. Additionally, the assessment is provided for applicants 18 years of age and older to determine Medicaid nursing facility care eligibility, SSI state supplement eligibility for personal care home or domiciliary care residential living, or appropriateness for community care in placements alternative to nursing facility placement. Assessments are also performed to determine eligibility for Over 60 and Under 60 Medicaid §1915(c) home and community-based waivers as well as other programs operated by the Department of Aging.

As shown on Table 11, Lottery Fund appropriations for pre-admission assessment have been \$10.7 million for the last two fiscal years, a slight decrease from the high of \$10.8 million in FY 2009-10. Projections for funding (see Table 12) remain flat at \$10.7 million each year.

General Government Operations

The General Government Operations appropriation provides funding for the administrative and overhead systems that support the operation of programs in the Department of Aging. The appropriation provides an administrative structure for setting policy, planning, and administration of services provided under contract and grants to the 52 Area Agencies on Aging covering all 67 counties in Pennsylvania. In FY 2007-08, the separate line item for the Auditor General's Audit Cost was included in the GGO. The GGO has decreased from \$8.2 million in FY 2007-08 to \$7.7 million in FY 2010-11. It is budgeted at \$6.7 million in FY 2011-12 and is projected to remain at that level.

¹¹ See Appendix I for other pending bills affecting the Lottery or Lottery-funded programs and services.

Alzheimer's Outreach

The Alzheimer's program was established to develop training, education, and outreach to families, medical professionals, human service providers, and the general public and has supported various programs and projects for public information and education. The Department provides grants to Pennsylvania's two Alzheimer's Association chapters through the Lottery Fund Alzheimer's appropriation. They provide programs offering support and community awareness services to address the needs of individuals and families affected by Alzheimer's disease and related disorders. As shown on Table 11, the initial appropriation from the Lottery Fund in FY 2008-09 was \$200,000. This was increased to \$250,000 the following year. Projections for funding remain at \$250,000 each year.

Department of Revenue

The Department of Revenue administers two programs funded through the Lottery Fund for persons who are at least 65 years old, certain widows and widowers, and certain persons who are at least 18 years old and permanently disabled. These programs are the Property Tax Rebate Program and the Rent Rebate Program. Each is described below.

Property Tax Rebate Program

Persons who are at least 65 years old, or whose spouse is at least 65 years old, widows or widowers 50 years of age or older, and the permanently disabled 18 years of age or older may qualify to receive a rebate on their real property taxes. Rebates are paid from the State Lottery Fund. The State Lottery Law states that if the funds in the State Lottery Fund are not sufficient to meet the requirements of the property tax rebate program, additional funds to meet these obligations are to be appropriated from the General Fund.

Brief Description

The Taxpayer Relief Act, Act 2006-1 (Special Session No. 1), is the current statute under which the Department of Revenue administers the property tax rebate program. Rebates are paid from the State Lottery Fund.

Eligible persons who own a homestead may file a claim for a property tax rebate. A homestead is defined as a dwelling that is occupied by a claimant. The dwelling may be:

- Premises occupied because of ownership or lease in a cooperative housing corporation.

- Mobile homes that are assessed as realty for local property tax purposes and the land if owned or rented by the claimant upon which the mobile home is situated.
- Part of a multi-dwelling or multi-purpose building and a part of the land upon which it is built.
- Premises occupied because the claimant owns or rents a dwelling on land owned by a nonprofit incorporated association, of which the claimant is a member, if the claimant is required to pay a pro-rata share of the property taxes.
- Premises occupied by a claimant if the claimant is required by law to pay property tax because of the claimant's ownership or rental, including a possessory interest, in the dwelling, the land, or both.

Claims for the property tax rebate must be made by June 30 of the year following the end of the calendar year in which real property taxes were due and payable.¹² When filing for the first time, claimants must provide proof of age. Claimants must also provide proof of household income, information on the size and nature of the property claimed as a homestead, tax receipts or other proof that the real property taxes have been paid, and a declaration of the marital status of the claimant if he or she is a widow or widower. If the claimant is disabled, the claimant must provide proof that he or she is eligible to receive disability benefits under the Social Security Act.

Program Eligibility

In order to qualify for a property tax rebate, claimants must meet certain income¹³ eligibility requirements, as shown on Table 20. The actual payment is determined using the total amount of real property taxes paid or the maximum rebate amount, whichever is less, based on the claimant's income.¹⁴

¹² A claim filed after the June 30 deadline until December 31 of such calendar year shall be accepted as long as funds are available to pay the benefits to the late filing claimant.

¹³ Income includes, but is not limited to, salaries, wages, bonuses, commissions, income from self-employment, alimony, support money, cash public assistance, and relief; the gross amount of pensions or annuities, including railroad retirement benefits prior to 1999 and 50 percent of railroad retirement benefits for 1999 and after; all Social Security benefits, except Medicare benefits, prior to 1999, and 50 percent of all such benefits for 1999 and after, excepting Medicare benefits; unemployment compensation and veterans' disability payments; interest received from the federal or state government or municipality; realized capital gains and rentals; workers' compensation; gross amount of loss of time insurance benefits, life insurance benefits, excepting the first \$5,000; and gifts of cash or property, excepting transfers by gift between members of a household, in excess of \$300.

¹⁴ Prior to 2006, rebates were calculated based on a specific percentage for various income levels. For example, for households whose income was \$5,499 or less, the rebate was 100 percent of the real property taxes paid. For households whose income was \$13,000 to \$15,000, the rebate was 10 percent of the real property taxes paid. The maximum rebate could not exceed \$500.

Table 20

Property Tax Rebate Income Eligibility Requirements

<u>Income</u>	<u>Maximum Rebate</u>
\$0 to \$8,000.....	\$650
\$8,001 to \$15,000.....	500
\$15,001 to \$18,000.....	300
\$18,001 to \$35,000.....	250

Source: Taxpayer Relief Act, Act 2006-1 (Special Session No. 1).

In addition, eligible applicants who live in Philadelphia, Pittsburgh, or Scranton, where local wage/income tax rates are high, and whose household income is under \$30,000 have their property tax rebate increased by an additional 50 percent. Property tax rebates for seniors across the rest of the state are also increased by an additional 50 percent when their household incomes are under \$30,000 and they pay more than 15 percent of income in property taxes.

Funding for the enhanced income levels and supplements provided by Act 2006-1 (Special Session No. 1) are paid for through transfers from the Property Tax Relief Fund to the State Lottery Fund.

Property Tax Rebate Service Levels and Expenditures

In FY 2010-11 (claim year 2009), as shown on Table 21, approximately 414,000 homeowners received rebates totaling \$152 million, with an average property tax rebate of \$367. In addition, 128,000 homeowners received supplements totaling \$28 million, with the average supplement being \$219. This represents an increase of approximately 167 percent in the number of claimants since FY 2006-07 (claim year 2005) and a 161 percent increase in total rebates (not including supplements). The average property tax rebate in FY 2006-07 was \$374. The number of supplements has increased marginally since their implementation in FY 2008-09 (claim year 2007), while the total supplement amounts paid has actually decreased by about 2 percent during that time.

Table 21

Property Tax Rebate by Income Ranges*

<u>Claim Year</u> ^a	<u>Household Income</u>	<u>Number of Claimants</u>	<u>Total Rebates</u>	<u>Number of Supplements</u>	<u>Total Supplements</u>
2005	\$0 - \$8,000	76,843	\$35,053,430		
	\$8,001 - \$15,000	78,005	22,921,273		
	\$15,001 - \$18,000	N/A	N/A		
	\$18,001 - \$35,000	N/A	N/A		
Total		154,848	\$57,974,703		
2006	\$0 - \$8,000	80,324	\$ 46,640,064		
	\$8,001 - \$15,000	107,264	52,338,523		
	\$15,001 - \$18,000	39,349	11,699,854		
	\$18,001 - \$35,000	163,505	40,727,615		
Total		390,442	\$151,406,055		
2007	\$0 - \$8,000	73,668	\$ 42,551,884	41,471	\$12,127,548
	\$8,001 - \$15,000	106,221	51,799,423	48,453	11,823,907
	\$15,001 - \$18,000	40,404	12,013,085	12,058	1,790,837
	\$18,001 - \$35,000	175,762	43,784,277	23,791	2,953,438
Total		396,055	\$150,148,669	125,773	\$28,695,730
2008	\$0 - \$8,000	70,714	\$ 39,597,378	36,893	\$10,767,027
	\$8,001 - \$15,000	107,373	51,587,634	46,670	11,375,888
	\$15,001 - \$18,000	41,441	12,236,441	12,176	1,808,645
	\$18,001 - \$35,000	181,101	44,952,806	24,854	3,086,259
Total		400,629	\$148,374,260	120,593	\$27,037,818
2009	\$0 - \$8,000	65,008	\$ 36,450,613	34,037	\$10,004,736
	\$8,001 - \$15,000	113,337	54,587,654	51,016	12,444,525
	\$15,001 - \$18,000	44,230	13,066,230	14,004	2,079,806
	\$18,001 - \$35,000	191,006	47,450,175	28,466	3,528,817
Total		413,581	\$151,554,672	127,523	\$28,057,884

* Claimant data calculated by the PA Department of Revenue, Bureau of Research, using PTRR applications labeled as Paid or Pending. Rebates incorrectly issued for claimants whose income exceeded the threshold are not included in these totals. Claimants are required to pay back any incorrectly awarded rebates the following year. Renters/Owners combined with owners to prevent disclosure of individual claimant information. A Renter/Owner is any claimant who paid both property taxes and rent any time during the applicable tax year.

^a Claim year is the year during which the property tax was paid.

Source: PA Department of Revenue.

Projection Assumptions

The Department of Revenue is projecting modest increases in the expenditures needed through FY 2015-16 (claim year 2014). As shown on Table 22, the Department projects an increase of approximately 0.25 percent each year through FY 2015-16 in the total rebates paid, with a decline in the number of claimants seeking rebates.

Table 22

Projected Enhanced Property Tax Rebates					
<i>Claim Year</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>
<i>Fiscal Year</i>	<i>2011-12</i>	<i>2012-13</i>	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>
	<u>Budget</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>
Claimants ^{a, b}	409,272	405,542	401,846	398,183	394,554
Total Rebates	\$179,994,000	\$180,438,000	\$180,881,000	\$181,389,000	\$181,832,000

^a Estimates based on PTRR applications for taxes paid in 2009 processed as of January 26, 2011. Applications labeled as "Full Denials" are not included in the analysis. The number of rebates processed to date is multiplied by the percent of applications that are expected to be paid between now and the end of processing. Future years are calculated using a -0.91 percent growth rate for owners.

^b Renter/owners also included in this category. A Renter/Owner is any claimant who paid both property taxes and rent any time during the applicable tax year.

Source: PA Department of Revenue.

These projections for the current fiscal year are calculated on point-in-time data multiplied by the percent of applicants received between that date and the end of processing in the prior year. The projections beyond the current year use the average growth in the program from claim years 2000 to 2008, but did not include the growth in claimants or the supplemental payments in FY 2006-07. Based on this assumption, the Department expects the number of owners seeking rebates to decline by 0.91 percent over the next several years, and the total dollar amount of rebates paid to increase by 0.27 percent each year.¹⁵ These projections are also based on the assumption that the statutory requirements related to income levels and maximum rebates will not change.¹⁶ Although it is reasonable to not include the 152 percent growth that occurred in claim year 2006 due to the significant expansion in the program, given that since that expansion the number of claimants has increased each year, the negative projections for the next few years may be unrealistic.

Rent Rebate Program

Persons who are at least 65 years old, or whose spouse is at least 65 years old, widows or widowers 50 years of age or older, and the permanently disabled 18 years of age or older may qualify to receive a rebate on the rent paid to a landlord.¹⁷ Rebates are paid from the State Lottery Fund. The State Lottery Law states that if the funds in the State Lottery Fund are not sufficient to meet the requirements of the

¹⁵ The projections shown actually increase by about 0.25 percent each year.

¹⁶ House Bill 2011-462 and House Bill 2011-731 propose allowing individuals to remain eligible for the rebate where the income limit is exceeded due solely to a Social Security cost-of-living adjustment.

¹⁷ Claimants who receive public assistance from the Department of Public Welfare are not eligible for the rent rebate in lieu of property taxes during those months within which the claimant receives public assistance. Additionally, tax free housing is not eligible. The landlord must have paid property taxes or agreed to make a payment in lieu of property taxes on the rental property.

rent rebate program, additional funds to meet these obligations are to be appropriated from the General Fund.

Brief Description

The Taxpayer Relief Act, Act 2006-1 (Special Session No. 1), is the current statute under which the Department of Revenue administers the rent rebate program. Rebates are paid from the State Lottery Fund.

Claims for the rent rebate in lieu of taxes must be made by June 30 of the year following the end of the calendar year in which the rent was due and payable.¹⁸ When filing for the first time, claimants must provide proof of age. Claimants must also provide proof of household income, receipts or other proof that the rent has been paid, and a declaration of the marital status of the claimant if he or she is a widow or widower. If the claimant is disabled, the claimant must provide proof that he or she is eligible to receive disability benefits under the Social Security Act.

Program Eligibility

In order to qualify for a rebate, claimants must meet certain income eligibility requirements, as shown on Table 23. The actual payment is determined using the total amount of rent paid to a landlord or the maximum rebate amount, whichever is less, based on the claimant's income. The total amount of rent rebate in lieu of taxes cannot be more than 20 percent of the total rent paid.¹⁹ Funding for the enhanced rebate is paid for through transfers from the Property Tax Relief Fund to the State Lottery Fund.

Table 23

Rent Rebate Income Eligibility Requirements

<u>Income</u>	<u>Maximum Rebate</u>
\$0 to \$8,000.....	\$650
\$8,001 to \$15,000.....	500

Source: Taxpayer Relief Act, Act 2006-1 (Special Session No. 1).

¹⁸ A claim filed after the June 30 deadline until December 31 of such calendar year shall be accepted as long as funds are available to pay the benefits to the late filing claimant.

¹⁹ Prior to 2006, rebates were calculated based on a specific percentage for various income levels. For example, for households whose income was \$5,499 or less, the rebate was 100 percent of the rent paid. For households whose income was \$13,000 to \$15,000, the rebate was 10 percent of the rent paid. The maximum rebate could not exceed \$500.

Rent Rebate Service Levels and Expenditures

In FY 2010-11 (claim year 2009), as shown on Table 24, approximately 193,000 renters received rebates totaling \$103 million, an average of \$534 per rebate. Since FY 2006-07 (claim year 2005) the number of claimants has increased 21 percent and total rebates have increased 66 percent. The average rebate in FY 2006-07 (claim year 2005) was \$393.

Table 24

Rent Rebate by Income Ranges*			
<u>Claim Year^a</u>	<u>Household Income</u>	<u>Number of Claimants</u>	<u>Total Rebates</u>
2005	\$0 – \$8,000	129,508	\$ 55,762,188
	\$8,001 – \$15,000	<u>29,537</u>	<u>6,701,810</u>
Total		159,045	\$ 62,463,998
2006	\$0 – \$8,000	138,076	\$ 73,524,025
	\$8,001 – \$15,000	<u>39,348</u>	<u>19,166,529</u>
Total		177,424	\$ 92,690,554
2007	\$0 – \$8,000	141,919	\$ 76,461,428
	\$8,001 – \$15,000	<u>44,340</u>	<u>21,600,132</u>
Total		186,259	\$ 98,061,560
2008	\$0 – \$8,000	143,498	\$ 78,115,289
	\$8,001 – \$15,000	<u>48,171</u>	<u>23,521,015</u>
Total		191,669	\$101,636,304
2009	\$0 – \$8,000	140,273	\$ 77,213,837
	\$8,001 – \$15,000	<u>52,885</u>	<u>25,880,117</u>
Total		193,158	\$103,093,954

* Claimant data calculated by the PA Department of Revenue, Bureau of Research, using PTRR applications labeled as Paid or Pending. Rebates incorrectly issued for claimants whose income exceeded the threshold are not included in these totals. Claimants are required to pay back any incorrectly awarded rebates the following year.

^a Claim year is the year during which the property tax was paid.

Source: PA Department of Revenue.

Projection Assumptions

The Department of Revenue is projecting modest increases in the expenditures needed through FY 2015-16 (claim year 2014). As shown on Table 25, the Department projects an increase of 0.2 percent each year through FY 2015-16, with a modest increase in the number of rebate claimants.

Table 25

Projected Enhanced Rent Rebates					
<i>Claim Year</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>
<i>Fiscal Year</i>	2011-12	2012-13	2013-14	2014-15	2015-16
	<u>Budget</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>
Claimants ^a	197,150	200,281	203,462	206,694	209,977
Total Rebates	\$103,906,000	\$104,162,000	\$104,419,000	\$104,711,000	\$104,968,000

^a Estimates based on PTRR applications for taxes paid in 2009 processed as of January 26, 2011. Applications labeled as "Full Denials" are not included in the analysis. The number of rebates processed to date is multiplied by the percent of applications that are expected to be paid between now and the end of processing. Future years are calculated using a 1.59 percent growth rate for renters.

Source: PA Department of Revenue.

The projections for the current fiscal year are calculated on point-in-time data multiplied by the percent of applications received between that date and the end of processing in the prior year. The projections beyond the current year use the average growth in the program from claim years 2000 to 2008, not including growth in claimants of approximately 11 percent between claim year 2005 and 2006 as a result of changes to the program. Based on this assumption, the number of renters seeking rebates will increase by 1.59 percent each year over the next several years. These projections are also based on the assumption that the statutory requirements related to income levels and maximum rebates will not change.²⁰

Department of Public Welfare

Long-term Care

The Long-Term Care (LTC) appropriation provides for a continuum of services ranging from independent living at home with the support of community services to institutional care. In FY 2011-12, Lottery Fund appropriations for long-term care services are dedicated to nursing facility services.

Brief Description

The Department of Public Welfare (DPW) offers home and community-based services that provide nursing facility alternatives to enable Medical Assistance (MA) recipients to obtain services in the least restrictive environment. The Living Independently for the Elderly (LIFE) Program, formerly known as the Long-term

²⁰ House Bill 2011-462 and House Bill 2011-731 propose allowing individuals to remain eligible for the rebate where the income limit is exceeded due solely to a Social Security cost-of-living adjustment.

Care Capitated Assistance Program (LTCCAP), is designed to provide a comprehensive array of services through an interdisciplinary team as an alternative to nursing facility placement. The Aging Waiver similarly offers individuals who qualify for nursing facility services alternative services when they choose those services over institutionalization.

Nursing facility care is provided to recipients whose medical needs do not require acute hospital care but need a more intense level of care or supervision than that provided in a non-nursing facility setting. The Governor's Budget for FY 2011-12, dedicates the Lottery Fund appropriation for long-term care to nursing home services.

Program Eligibility

Recipients of long-term care services are assessed to determine if they are both medically and financially eligible for MA nursing facility benefits before they can enroll in Home and Community-Based Services (HCBS) or be admitted to or have payment for nursing facility services. Eligibility for nursing facility care is determined by the county assistance office. Recipients must meet financial standards that are generally a monthly income below or equal to the Federal Benefit Rate, which changes annually. In 2010, the personal income limit was \$2,022 for an individual. A resource limit of \$2,000, with an additional \$6,000 resource disregard, is also applicable.²¹

Long-term Care Service Levels and Expenditures

The State Lottery Fund was initially used to appropriate funds for long-term care services in 2006.²² The Lottery Fund appropriation for long-term care services since FY 2006-07 has represented, on average, 5.5 percent of the total state and federal long-term care appropriations each year. In total, the Lottery Fund appropriation has been about 5.6 percent of all funds appropriated to long-term care since FY 2006-07. Other funding sources for long-term care services include state general funds, federal general funds, intergovernmental transfer funds, federal stimulus funds, and state and federal tobacco funds. As noted above, these services included home and community-based waiver services, life care, and nursing home care. In FY 2011-12, however, the Lottery Fund monies are appropriated solely for nursing facility services, which will continue to be augmented by the General Fund as necessary.²³

As shown on Table 26, \$178.4 million from the Lottery Fund was used for long-term care services in FY 2009-10. This included all types of long-term care

²¹ Resources include bank accounts, non-resident property and stocks, bonds, and mutual funds.

²² Lottery Fund monies are appropriated for long-term care services through the appropriations acts. No separate statutory authority requires Lottery Fund monies to be used in this manner.

²³ As noted by a Department official, since nursing home services are an entitlement, need levels will be met through General Fund appropriations or cost reductions.

services. According to a DPW official, the Lottery Fund appropriation is used to fund a portion of costs associated with long-term care services and is not “attached” to a particular consumer. Therefore, the Department cannot provide an unduplicated number of older Pennsylvanians who have been served solely with Lottery Fund monies. The \$178.4 million is a decrease of \$122.3 million from the high of \$300.7 million in FY 2008-09, a 40.1 percent decrease.²⁴

Overall, state and federal funding for long-term care services in FY 2009-10 was \$3.47 billion, a decrease of \$757.5 million from FY 2008-09. The total long-term care caseload (unduplicated users) increased from 103,856 in FY 2008-09 to 108,086 in FY 2009-10, while the nursing home caseload (unduplicated users) increased from 81,346 in FY 2008-09 to 82,420 in FY 2009-10. Both the total long-term care and the nursing home caseloads (unduplicated users) increased from FY 2009-10 to FY 2010-11, with the Department reporting a total long-term care caseload of 110,250 and a total nursing home caseload of 82,624.

Table 26

Long-term Care Funding From Lottery Fund

<u>Fiscal Year</u>	<u>Appropriation Amount</u>
2006-07	\$248,771,000
2007-08	248,771,000
2008-09 ^a	300,707,000
2009-10 ^a	178,438,000
2010-11 ^a	178,438,000
2011-12 ^b	178,438,000

^aThe Governor proposed to transfer these funds to a Department of Aging and Long-Term Living. This Department was not authorized by the General Assembly, and the appropriation for these services continues to be administered by the Department of Public Welfare with oversight from the Office of Long-term Living, a dual deputate in the Department of Aging and the Department of Public Welfare.

^bIn FY 2011-12, Lottery Fund Appropriations for long-term care were dedicated to nursing home services.

Source: Pennsylvania Department of Public Welfare.

The Department of Public Welfare implemented changes to the Commonwealth’s Title XIX State Plan and issued regulations changing the method used to determine rate-setting for nursing home services in an effort to control costs. Effective July 1, 2005, the methodology included the use of a budget adjustment factor

²⁴ According to the Office of the Budget, this level of funding in FY 2008-09 was available for long-term care due to significant reductions in the need for PACE funds as a result of Medicare Part D beginning in FY 2006-07. See discussion on page 31.

(BAF) in annual rate-setting. The BAF moderates or caps the rate at which nursing facility payment rates increase from one year to the next.²⁵

DPW reported that since implementing the BAF, case-mix per diem rates have increased an average of \$4.60 per day, and in the aggregate, by 16.62 percent overall from FY 2004-05 through FY 2010-11. In contrast, without the BAF, the rates would have increased on an annual average basis by \$7.18 per day and overall by 25.93 percent. In its FY 2011-12 budget request, DPW indicates savings of \$22.9 million due to the BAF.

Projection Assumptions

In the FY 2011-12 Governor’s Budget, the Lottery Fund monies for long-term care are to be dedicated to nursing home services. According to department officials, they plan to continue to dedicate the Lottery Fund appropriation for long-term care services to nursing home care in future budgets. As shown on Table 27, the projected appropriation from the Lottery Fund in FY 2012-13 for long-term care services is \$121.3 million, which is 32 percent lower than that in FY 2011-12. To develop cost projections, the Office of the Budget uses a nursing home model that includes an analysis of the number of nursing home days, the average daily rate, and operating costs. Once that bottom line cost is established, the Office of the Budget determines what other funding may offset that cost, including funds from the General Fund, federal funds, the nursing home assessment, and other available funding sources. The Office of the Budget also considers the projections for the growth in the Lottery Fund and what level of appropriation the Fund can sustain for long-term care services.

Table 27

Projected Long-Term Care Expenditures From Lottery Fund	
(\$000)	
<u>Fiscal Year</u>	<u>Appropriation Amount</u>
2012-13.....	\$121,255
2013-14.....	121,255
2014-15.....	121,255
2015-16.....	121,255

Source: Governor’s Executive Budget 2011-12.

²⁵ The General Assembly amended the Public Welfare Code, 62 P.S. §443.1(7)(i) and (iii), to mandate continued use of the BAF through FY 2010-11, subject to approval by the federal Centers for Medicare and Medicaid Services (CMS). The use of the BAF was extended by Act 2011-22, which mandates that the revenue adjustment neutrality factor remain in effect until the sooner of June 30, 2013, or the date on which a new rate-setting methodology for medical assistance nursing facility services that replaces the rate-setting methodology codified in 55 Pa. Code Chs. 1187 (relating to nursing facility services) and 1189 (relating to county nursing facility services) takes effect, subject to federal approval of such amendments as may be necessary to the Commonwealth's approved Title XIX State Plan.

According to DPW officials, service needs in excess of Lottery Fund appropriations will be addressed through a potential combination of state General Fund monies, reduction in optional services (e.g., dental care), or reduction in provider payments.

Department of Transportation

The Department of Transportation (PennDOT) administers two programs for citizens who are 65 years of age and older funded by the Lottery Fund: free rides on local fixed route transit operations and shared ride services described below.

Free Transit

Under this program, citizens 65 years of age or older are eligible for free rides on local fixed route transit operations during the provider's regular hours of service. The Department of Transportation administers this program and funding comes from deposits made each year from the State Lottery Fund into the Public Transportation Trust Fund (PTTF).²⁶

Brief Description

The State Lottery Law provides for free transit services to be provided on local fixed routes to senior passengers during the provider's regular hours of service. "Free transit services" is also known as "fixed route public transportation service" and is defined at 74 Pa.C.S. §1503, as "regularly scheduled general public transportation that is provided according to published schedules along designated routes, with specified stopping points...including public bus and commuter rail systems²⁷ and other Department approved service. The term does not include exclusive ride taxi service, charter or sightseeing service, nonpublic transportation, school bus and limousine service." This program is served by 52 fixed route operators that provide service in 52 counties.

Program Eligibility

All persons age 65 and older qualify for free transit services. The transportation provider or service coordinator must verify the age of all senior citizens wishing to receive free transit services. Upon age verification, a Senior Citizen Identification Card is issued.²⁸ When using free transit, the senior citizen must present one

²⁶ 74 Pa.C.S. §§1501-1520.

²⁷ Fares for senior citizens on commuter rail service are limited to \$1 per trip and are extended to all hours of commuter rail service. 74 Pa.C.S. §1506. Special reduced fare tickets are required to be issued for such trips by station ticket agents or by conductors in accordance with normal ticketing procedures.

²⁸ The following documents may be used as proof of age: armed forces discharge/separation papers; baptismal certificate; birth certificate; PACE/PACENET identification card; passport/naturalization papers; Pennsylvania identification card; photo motor vehicle operator's license; statement of age from the Social Security Administration; veteran's universal access identification card; or resident alien card.

of the following cards as proof of age: Senior Citizen Identification Card; Railroad Retirement Health Insurance Card; or Health Insurance (Medicare) Card. Additionally, the local common carrier, transportation authority, or company providing common carrier, mass transportation, commuter, or intercity rail service may require identification to verify age.

Free Transit Service Levels and Expenditures

In FY 2010-11, as shown on Table 28, 36 million trips were taken by older Pennsylvanians at a cost of approximately \$88 million. This is a slight increase in both the number of trips and cost from the prior fiscal year. Since the creation of the PTF, funds are allocated to the free transit program based on the prior year level of service, adjusted by the consumer price index.

As shown on Table 28, during the time period reviewed, the number of trips has declined from 42.5 million to 36 million, a 15 percent decrease. Expenditures, however, have increased from \$77 million to \$88.2 million, a 14.5 percent increase. The cost per trip has also increased from \$1.81 to \$2.45.

Table 28

Lottery Funded Free Transit Program			
	<u>Senior Trips</u>	<u>Lottery Funding</u>	<u>Cost Per Trip</u>
2001-02 ^a	42,525,999	\$77,004,894	\$1.81
2002-03 ^a	39,666,615	72,918,319	1.83
2003-04 ^a	39,473,893	73,204,519	1.85
2004-05 ^a	38,694,428	72,133,184	1.86
2005-06 ^a	37,252,472	69,831,360	1.87
2006-07 ^a	35,535,033	66,921,555	1.97
2007-08 ^b	36,597,806	80,020,000	2.19
2008-09 ^b	37,018,441	82,160,000	2.22
2009-10 ^b	35,830,071	86,597,000	2.42
2010-11	36,006,217	88,199,000	2.45

^a Actual justified expenditures. Justified funds are the amount of Lottery funds due to a grantee as determined by applying the appropriate per passenger trip reimbursement to the grantee's monthly ridership report. Justified funds differ from fiscal year payments or budgeted funds since they reflect the actual amount due to a grantee for services provided during the fiscal year.

^b Beginning in FY 2007-08, the Free Transit Program became part of the Act 2007-44 Public Transportation Fund Transfer and all funds available are allocated.

Source: PA Department of Transportation.

Act 2007-44 changed how funds are distributed for this program. Prior to this, PennDOT collected data monthly from the transit systems to reconcile the

funding necessary for the number of senior trips provided. The Department calculated the funding to the transit system using the average or base fare, whichever was less, of the transit system multiplied by the number of senior trips provided to determine the revenue lost by the provider. Act 2007-44 changed this approach and established a formula to distribute funds to local transportation organizations. Ten percent of the calculation is based on the number of senior passengers served by the organization to offset free fares for senior passengers.²⁹ This portion of the award is calculated as follows:

- The total amount of funding above the base allocation available for distribution is multiplied by 0.10.
- The product of that calculation is multiplied by the local transportation organization's number of senior passengers.
- The product of the second calculation is divided by the total number of senior passengers for all local transportation organizations.

Although the funds are fully allocated through Act 2007-44, PennDOT continues to track the total number of senior trips.

The first year affected by Act 2007-44, FY 2007-08, was also the year the program was extended from nonpeak hours, weekends, and holidays to all regular hours of service. According to PennDOT officials, they expected an increase in users, and therefore costs, with the expansion of service hours. As shown on Table 28, approximately 1 million more trips were provided in FY 2007-08 than in FY 2006-07.

Projection Assumptions

As shown on Table 29, projections for the transfer from the State Lottery Fund to the PTF to fund the free transit program are based on the expenditures of the prior year, adjusted by the consumer price index.

²⁹ The formula distributes total operating assistance funding based on (i) the local transportation organization's base allocation multiplied by 1.0506; and (ii) an additional amount allocated based on the following distribution formula: (A) 25 percent based on the number of passenger (calculated by multiplying the total amount of funding available for distribution under this paragraph by 0.25; multiplying that product by the local transportation organization's total number of passengers; and dividing the second product by all local transportation organizations' passengers); (B) 10 percent based on the number of senior passengers calculated as described in the text above; (C) 35 percent on the number of revenue vehicle hours (calculated by multiplying the total amount of funding available for distribution under this paragraph by 0.35; multiplying that product by the local transportation organization's number of revenue vehicle hours; and dividing the second product by total number of revenue vehicle hours for all local transportation organizations); (D) 30 percent based on the number of revenue vehicle miles (calculated by multiplying the total amount of funding available for distribution under this paragraph by 0.30; multiplying that product by the local transportation organization's number of revenue vehicle miles; and dividing the second product by total number of revenue vehicle miles for all local transportation organizations).

Table 29

**Projected Free Transit Trips and Lottery Fund Transfer to the
Public Transportation Trust Fund***

<u>Fiscal Year</u>	<u>Senior Trips</u>	<u>Projected Transfer</u>	<u>Increase From Prior Year</u>	<u>CPI</u>
2011-12	36,750,000	\$90,095,324	\$1,896,279	2.15%
2012-13	37,100,000	91,807,135	1,711,811	1.90
2013-14	37,450,000	93,413,760	1,606,625	1.75
2014-15	37,850,000	95,048,501	1,634,741	1.75

* Projections were calculated based on the estimated Consumer Price Index calculations from the U.S. Economic Outlook, August 2009.

Source: PA Department of Transportation.

Shared Ride

The shared ride program complements the free transit program by attempting to meet the needs of Commonwealth residents who do not have access to fixed route transportation services. Under this program, citizens 65 years of age or older are eligible for shared ride services. The Department of Transportation administers this program and funding comes from the State Lottery Fund.

Brief Description

Under this program, citizens 65 years of age or older are eligible for shared ride services. The State Lottery Law, at 72 P.S. §3761-901, defines “shared ride public transportation services”³⁰ as

...demand-responsive transportation that is available to the general public, operates on a nonfixed route basis and charges a fare to all riders. For transportation to be included in this definition, the first fare-paying passengers to enter the public transportation vehicle must not refuse to share the vehicle with other passengers during a given trip. The term excludes exclusive ride taxi service, charter and sightseeing services, nonpublic transportation, school bus and limousine services.

Typically, a 24 to 48 hour advanced reservation is required, and hours of operation are locally set. Senior citizens, or an approved third-party sponsor (typically the

³⁰ Shared ride is defined similarly in 74 Pa.C.S. §1503. In this same statute, shared ride is also referred to as “community transportation service.”

county Area Agency on Aging), pay 15 percent of the fare, and the department reimburses the provider the remaining 85 percent.³¹

PennDOT has contracts with 58 shared ride providers. The providers invoice the department monthly after calculating the number of one-way trips provided the previous month at each of the fares they charge. The grant agreements are based on past history and a calculation of potential increases in fares and/or ridership.

Program Eligibility

Citizens 65 years of age or older are eligible for shared ride services. The transportation provider or shared ride service coordinator is responsible for verifying the age of the seniors using the service. Acceptable documents for proof of age include a birth certificate, baptismal certificate, driver's license, PA photo I.D. Card,³² armed forces discharge papers, Social Security statement of age issued for Medicare recipients, passport or naturalization papers, and a PACE identification card. Senior citizens who are eligible for Medicaid may not have medical purpose trips reimbursed by the shared ride program; the Department of Public Welfare or its affiliated agencies will reimburse the transportation providers for these trips.

Act 2007-44 Human Service Transportation Study

Act 2007-44 directed the Department of Transportation to study human service transportation (HST) to address recommendations of the Transportation Funding and Reform Commission. This includes shared ride services for older Pennsylvanians. Trends related to the shared ride program include: (1) costs exceed revenue and fare increases can have severe impacts; (2) individual versus group trips are increasing, resulting in higher costs per trip; and (3) more riders need more physical assistance, which slows service.³³

To address the findings of the study,³⁴ the report recommended the following: (1) the Commonwealth should move toward a coordinated approach to HST management; (2) in partnership with local government, the Commonwealth should pilot

³¹ Responses to a recent survey by the PA Association of AAAs regarding AAA participation in transportation showed that all but one AAA pay some portion of the 15 percent of the fare for which the passenger is responsible. This varied significantly by amount and type of trip.

³² This is also known as a non-driver's license.

³³ *Human Service Transportation Coordination Study*, July 17, 2009.

³⁴ Findings of the study included: (1) fragmentation in the system made it difficult to analyze transportation for planning and budgeting; (2) the fragmented approach results in policy and program conflicts, unnecessary complexity and inefficiency; (3) local service delivery is different in every county; (4) shared ride fares are high; (5) operation of the programs require a high degree of skills in business management, transportation delivery and transportation analysis; (6) consumers have basic needs and expectations that are not being met; and (7) regional consolidation of management and service delivery offers the greatest opportunity for improved efficiencies and cost savings, service, quality, and availability.

a regional approach to HST management and service delivery; (3) the Commonwealth and local government should conduct listening sessions on the design of the coordinated program as well as the pilot to ensure that consumer needs are known and understood; and (4) in partnership with local government, the Commonwealth should establish performance criteria, standards, and targets to measure the efficiency, productivity, and effectiveness of HST.

To implement these recommendations, PennDOT and DPW continue to meet and discuss a coordinated approach to HST management. In January 2010, the agencies released a request for letters of interest in testing the effectiveness of a regional approach to HST management and service delivery. Pilot projects underway include: Clarion County HST Broker; Lackawanna/Luzerne/Hazleton Consolidation Assessment; Washington/Greene Coordination Assessment; and Uniform Fare Methodology. PennDOT has also conducted listening sessions across the Commonwealth to hear reactions from local government, transportation providers, consumers, and their advocates to the report and is working on establishing performance criteria, standards, and targets to measure the efficiency, productivity, and effectiveness of HST.

Shared Ride Service Levels and Expenditures

As shown on Table 30, similar to the free transit program, shared ride trips have also declined from a high of 6 million in FY 2001-02 to about 4.5 million in FY 2010-11, a decline of 26.7 percent. Expenditures, however, have increased during that same period, although they have declined from a high of \$72.5 million in FY 2008-09 to \$69.7 million in FY 2010-11. Since FY 2001-02, expenditures have increased by approximately \$6.8 million, or 10.9 percent, and the cost per trip has increased from \$10.35 to \$15.51 (this represents the 85 percent of the trip cost reimbursed to the provider by the Department).

As noted in the HST study, one of the reasons the cost per trip has increased is the increase in individual versus group trips. The report cites that in 1994, shared ride providers had a productivity level of 3.3 passenger trips per driver hour. That fell to 2 passenger trips per driver hour in 2007.

Table 30

Lottery Funded Shared Ride Program*

<u>Fiscal Year</u>	<u>Senior Trips</u>	<u>Lottery Funding</u>	<u>Cost Per Trip</u>
2001-02	6,002,000	\$62,118,000	\$10.35
2002-03	5,685,000	61,931,000	10.89
2003-04	5,575,000	63,913,000	11.46
2004-05	5,378,000	64,705,000	12.03
2005-06	5,328,000	67,541,000	12.68
2006-07	5,141,000	67,567,000	13.14
2007-08	5,063,000	71,984,000	14.22
2008-09	4,846,557	72,460,217	14.95
2009-10	4,611,097	70,523,747	15.29
2010-11	4,493,094	69,676,022	15.51

* Actual justified expenditures. Justified funds are the amount of Lottery funds due to a grantee as determined by applying the appropriate per passenger trip reimbursement to the grantee's monthly ridership report. Justified funds differ from fiscal year payments or budgeted funds since they reflect the actual amount due to a grantee for services provided during the fiscal year.

Source: PA Department of Transportation.

Projection Assumptions

Although the Department tries to estimate its projections conservatively, officials indicate that the projections for the past several years have been higher than actual need for the following reasons:

- Senior citizen trips have declined rather sharply, partly in response to higher fares that were established as the cost of providing service rose.
- Senior citizens today are more mobile and less dependent on transportation services than they were 20 or 30 years ago. In particular, older women are more likely to drive now than they were then.
- As senior passenger trips drop in response to higher fares, providers are reluctant, especially in the last two years, to continue raising fares and lose more senior trips.

As shown on Table 31, (and despite the reasons cited above) shared ride trips are projected to increase 4.3 percent from FY 2011-12 through 2015-16, and costs are projected to increase by an average of about 3 percent annually. These projections seem high, however, given that the average annual change in the number of trips since FY 2001-02 was negative 3.4 percent and the average annual change in funding was 1.2 percent.

Table 31

Projected Shared Ride Trips and Expenditures

<u>Fiscal Year</u>	<u>Senior Shared Ride Trips</u>	<u>Lottery Fund Shared Ride Estimated Cost</u>
2011-12	4,700,000	\$79,000,000
2012-13	4,750,000	81,386,000
2013-14	4,800,000	83,844,000
2014-15	4,850,000	86,376,000
2015-16	4,900,000	88,984,000

Source: Governor's Executive Budget 2011-12.

V. Lottery Fund Financial Condition

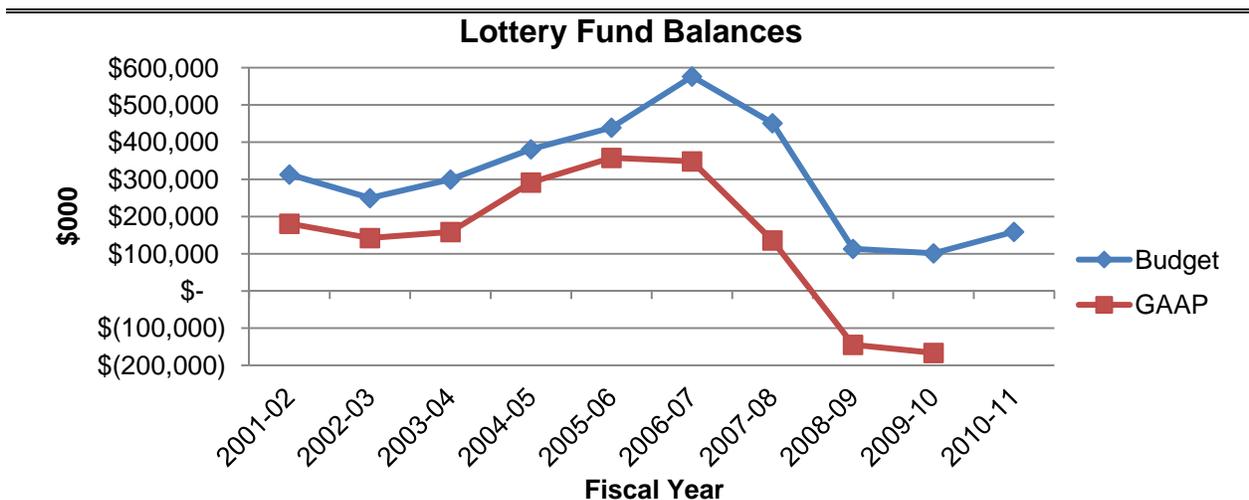
The Lottery Fund is categorized as a Special Revenue Fund in the Governor’s Executive Budget for purposes of financial reporting. Special Revenue Funds are used to account for the proceeds from specific revenue sources that are legally restricted to expenditure for specific purposes. As noted in Chapter II, the Fund was created by the State Lottery Law (72 P.S. §3761-1 *et seq.*) and receives all monies from the operation of the State Lottery. The Fund receives net lottery collections (i.e., ticket sales less retailer commissions and field-paid prizes) and miscellaneous revenues such as interest on securities and deposits, refunds of expenditures, transfers from other funds (e.g., Act 2006-1 [Special Session No. 1] requires the Gaming Fund to pay for Property Tax and Rent Rebate program expansion costs beginning in FY 2009-10), and federal dollars. Fund expenditures pay for Lottery prizes, operational expenses, and are used to provide a variety of services for older Pennsylvanians.

The Lottery Fund is also considered an Enterprise Fund (within the broader descriptor of Proprietary Funds) in the Comprehensive Annual Financial Report (CAFR). Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, i.e., where the costs of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges or where the periodic determination of net income is deemed appropriate.

Lottery Fund Financial Condition

Exhibit 9 shows the balance of the Lottery Fund on both a modified cash and a GAAP (Generally Accepted Accounting Principles) basis.

Exhibit 9

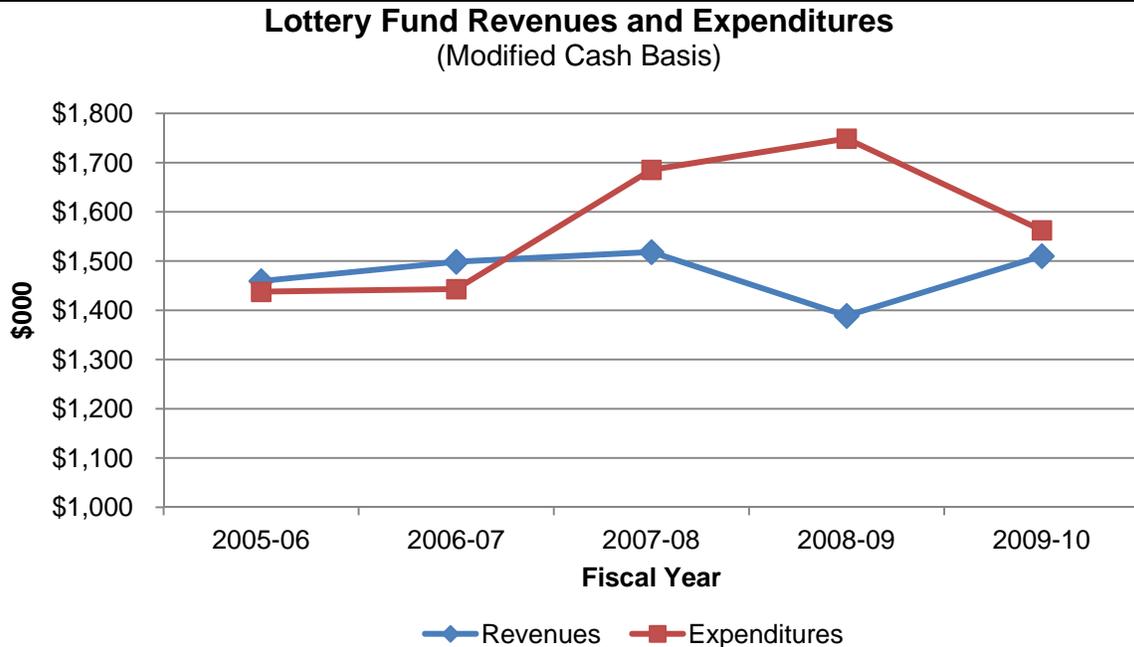


*FY 2010-11 GAAP balance not yet available.

Source: Developed by LB&FC staff using data obtained from the Governor’s Executive Budgets.

As shown in Exhibits 9 and 10, the declining balance from FY 2006-07 through FY 2009-10 is due to Lottery Fund expenditures exceeding revenues. This trend reversed in FY 2010-11, resulting in a fund balance increase.

Exhibit 10



Source: Governor's Budget Documents.

The “bottom line” balance in a financial statement provides a quick indicator as to the condition of a fund. This balance will vary, however, depending on the basis of accounting used for its determination. The basis of accounting refers to when revenues, expenditures, expenses, and transfers are recognized and reported.

The annual budget adopted for the Commonwealth is a compliance standard against which the operations of funds are evaluated. The Governmental Accounting Standards Board (GASB) recognizes budgetary accounting as a management tool for controlling expenditures and enforcing revenue provisions. The budgetary accounting statements used to report the financial condition of the Lottery Fund in the Governor's Executive Budget are prepared using a modified cash basis of accounting.

Under a modified cash basis of accounting, tax receipts, non-tax receipts, augmentations, and all other receipts are reported at the time revenue is recorded. Expenditures are recorded at the time payment requisitions and invoices are posted to the Commonwealth's accounting system. Expenditures include appropriated amounts reserved for payment of contracts for the future delivery of goods and services to the Commonwealth through an encumbrance process.

Appropriated funds are retained at fiscal year-end to pay direct expenditures such as salaries, wages, travel, and utility costs payable against a fiscal year's appropriation authority, but expended in the subsequent fiscal year. Thus, the year-end unreserved fund balance includes all revenue receipts at the time of recorded deposit and also includes any prior year lapse amounts (unused appropriation balances) as an increase to the fund balance. Reductions to the fund balance include all current year expenditures at the time payment is recorded (not necessarily paid), all current year open encumbrances, as well as all remaining current year available balances (the assumption at year-end is that these current year balances will be utilized in the following fiscal year to pay direct charges applicable on or before June 30). The portion of these available balances that are not fully utilized typically lapse (unless exempt) and are added back into the fund balance.

The Lottery Fund budgetary basis statements included in the Governor's Executive Budget assume augmenting, restricted, and federal revenues to be self-balancing in relation to the corresponding expenditures and are therefore not included in the statement activity (receipts/expenditures) in arriving at the year-end fund balance. The summary statements by department, however, detail these revenues and expenditures. While self-balancing, these items can constitute material differences due to the timing of revenue/expenditure recording between the budgetary and accrual accounting bases.

The Commonwealth also prepares financial statements in conformity to generally accepted accounting principles (GAAP)¹ in the Comprehensive Annual Financial Report (CAFR). The statements and the reports on the financial condition of the Lottery Fund in the CAFR are developed using an accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the fiscal year earned, and expenses are recognized in the fiscal year incurred. All assets (including capital assets) and all liabilities regardless of when payment is due are included in the Statement of Net Assets.

The Lottery Fund's budgetary fund balance for FY 2009-10 (as reported in the FY 2011-12 Governor's Executive Budget) was \$101.4 million. For the same period, the GAAP fund balance was reported as a negative \$166.2 million in the Commonwealth's CAFR. A comparison of the budgetary and GAAP fund balances in the Fund since FY 2001-02 is shown on Table 32.

¹ GAAP—Generally Accepted Accounting Principles are uniform minimum standards of and guidelines to financial accounting and reporting. Adherence to GAAP ensures that financial reports of all state and local governments contain the same types of financial statements and disclosures, for the same categories and types of funds and account groups, based on the same measurement and classification criteria.

Table 32

Comparison of State Lottery Fund Year-End Balances

Budgetary Basis Versus GAAP Basis
(\$000)

<u>Fiscal Year</u>	<u>Budget^a</u>	<u>GAAP</u>
2001-02.....	\$313,102	\$ 180,922
2002-03.....	249,685	142,371
2003-04.....	299,766	158,426
2004-05.....	380,996	291,416
2005-06.....	439,012	357,696
2006-07.....	576,515	348,278
2007-08.....	451,041	135,824
2008-09.....	113,189	(144,537)
2009-10.....	101,362	(166,238)
2010-11.....	158,986	N/A

^a Balance shown includes a \$100 million “reserve” except for FYs 2008-09, 2009-10 and 2010-11 when no such reserves were designated.

Source: Developed by LB&FC staff using data obtained from the Governor’s Executive Budgets and from the Office of the Budget, Bureau of Commonwealth Accounting.

As shown in Table 32, the Fund had positive year-end balances using both the budgetary and the GAAP bases from FY 2001-02 through FY 2007-08. After a decline in year two of the analysis, the fund balances under both bases steadily increased until FY2007-08 when both balances began to sharply decline. Beginning in FY 2008-09, the full accrual fund balance (GAAP) slid into negative numbers.

The difference between the two bases declined 38.5 percent from \$132.2 million in FY 2001-02 to a low of \$81.3 million in FY 2005-06. However, beginning with FY 2006-07, the difference between the bases began to widen, from \$228.2 million to the \$267.6 million difference in FY 2009-10, an increase of 17.2 percent. Officials with the Budget Office attribute this growing difference between the bases to the timing of the revenue that will ultimately pay for the encumbrances (primarily the PTRR program). For the fiscal years shown in the table, the difference between the two bases averaged \$180.1 million and ranged from a low in FY 2005-06 of \$81.3 million to a high in FY 2007-08 of \$315.2 million.²

In each year, except FY 2008-09, FY 2009-10, and FY 2010-11, the budget’s fund balance included a reserve amount of \$100 million. According to officials with the Office of the Budget, they prefer to maintain a reserve in the fund; however, the level of revenues generated for the fund and the needed expenditures from the fund dictate whether this is practical.

² The Budget Office actively monitors the Fund, adjusting priorities as necessary, and expects estimated revenues will be sufficient to cover expected obligations.

There is no fundamental conflict between the budget and GAAP presentations of the Lottery Fund balance. Each is developed for a specific purpose. There is general consensus, however, that one method is preferable for purposes of governmental financial reporting. The National Council on Government Accounting recommends the use of the accrual basis to the fullest extent practicable in the government environment because it believes the accrual basis is the superior method of accounting for the economic resources of any organization. It results in accounting measurements based on the substance of transactions and events, rather than merely when cash is received or disbursed, and thus enhances their relevance, neutrality, timeliness, completeness, and comparability.

Reconciliation of Budget and GAAP Fund Balances

As of June 30, 2010, a \$267.6 million difference existed between the \$101.4 million balance using the budgetary basis (see Table 33) and the negative \$166.2 million balance under the GAAP basis (see Table 34).

The GAAP basis fund balance deficit of \$166.2 million is derived through a conversion from the budgetary basis balance and includes a number of revenue and expenditure adjustments. Revenue adjustments include accrued interest, cash in transit, and deferred adjustments. The primary revenue adjustment is Lottery income earned but not collected as of the close of the fiscal year. Expenditure adjustments include liability for unclaimed prizes and expenditures not covered by encumbrances.

The revenue, expenditure, and fund balance adjustments required in the conversion from a budgetary to GAAP balance are shown in the reconciliation for the fiscal year ended June 30, 2010, in Table 35. To reconcile the \$267.6 million difference between the two bases of accounting, it is necessary to begin with the \$101.4 million budgetary basis fund balance. As shown, the GAAP revenue adjustments were \$12.7 million and the GAAP expenditure adjustments were \$385.1 million, which accounts for most of the \$267.6 million difference between the two balances.

The two expenditure adjustments that account for the majority of the difference are liability for unclaimed prizes (\$83.3 million in 2010) and \$299.1 million in accrued expenditures, which are primarily monies to be paid for the Property Tax and Rent Rebate (PTRR) program (92 percent of this adjustment). Thus, the deficit position is primarily a result of the nature of the PTRR program in which the liability for program benefits is attributable to one fiscal year and, by law, the funds are authorized and expenditures occur in the following fiscal year.

Table 33

**State Lottery Fund Revenues, Expenditures and
Ending Balance (Budget Basis), FY 2009-10**
(\$000)

Beginning Balance.....	\$ 113,189
<u>Revenues</u>	
Ticket Sales.....	\$3,065,717
Less: Field Paid Prizes/Commissions	<u>1,733,141</u>
Net Ticket Sales	\$1,332,576
Transfers and Earnings ^a	<u>177,810</u>
Net Revenue.....	\$1,510,386
<u>Administrative Expenses</u>	
Payment of Prizes	\$ 329,367
General Operations – Dept. of Revenue.....	38,726
Commissions - On-line Vendors.....	29,441
Commissions – Instant Game Vendors.....	18,043
General Operations – Dept. of Aging	7,790
Other ^b	<u>37,950</u>
Total Administrative Expenses	\$ 474,724
<u>Revenue Available for Programs</u>	\$1,035,662
Prior Year Lapse	<u>40,332</u>
Total Funds Available for Programs	\$1,189,173
<u>Program Expenditures</u>	
Department of Aging	\$ 464,590
PENNDOT	166,783
Department of Revenue	278,000
Department of Public Welfare	<u>178,438</u>
Total Program Authorizations.....	\$1,087,811
Ending Balance	\$ 101,362

^a Includes \$176,700 transfer from Gaming Fund and \$1,110 in Miscellaneous Revenues.

^b Includes Treasury replacement checks and advertising (\$37,900).

Source: Developed by LB&FC staff using the 2011-12 Governor's Executive Budget.

Liability for Unclaimed Prizes. The Lottery is required to pay prizes for winning tickets up to one year after the date of the drawing or the date of the closeout of an instant game. Transactions involving unclaimed prizes are ongoing, resulting in a liability for unclaimed prize money at any time during the year. In the past, for in-state Jackpot games offering an annuity prize, Lottery had purchased an annuity and maintained it for a year or until the associated prize was claimed. If the associated prize was not claimed the annuity was sold and proceeds were returned to the Lottery Fund. Currently, the Lottery does not offer an in-state Jackpot game offering an annuity.

Table 34

State Lottery Fund Statement of Net Assets, June 30, 2010
GAAP Basis
(\$000)

	<u>FY 2009-10</u>
<u>ASSETS</u>	
<u>Current Assets</u>	
Cash	\$ 1,583
Temporary Investments	223,062
Receivables (Net):	
Accounts	13,310
Investment Income	43
Due From Other Funds	1
Due from Federal Government	5,049
Other Assets	<u>14,657</u>
Total Current Assets	\$ 257,705
<u>Noncurrent Assets</u>	
Long - Term Investments	\$ 3,444
Depreciable Capital Assets:	
Machinery and Equipment	51,328
Less: Accumulated Depreciation	(42,752)
Net Depreciable/Amortizable Capital Assets	<u>8,576</u>
Total Noncurrent Assets	<u>\$ 12,020</u>
TOTAL ASSETS	\$ 269,725
<u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts Payable and Accrued Liabilities	\$ 405,014
Securities Lending Obligations	5,432
Due to Other Funds	111
Due to Pension Trust Funds	37
Due to Political Subdivisions	6,856
Due to Other Governments	1,431
Unearned Revenue	7,903
Self Insurance Liabilities	451
Compensated Absences	<u>498</u>
Total Current Liabilities	\$ 427,733
<u>Noncurrent Liabilities</u>	
Compensated Absences	2,616
Self insurance Liabilities	2,382
Other Postemployment Benefit Obligations	<u>3,232</u>
Total Noncurrent Liabilities	<u>\$ 8,230</u>
TOTAL LIABILITIES	\$ 435,963
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	\$ 8,576
Deficit	<u>(174,814)</u>
TOTAL NET ASSETS	\$(166,238)

Source: Comprehensive Annual Financial Report, for the Year Ended June 30, 2010.

Table 35

**Reconciliation of the Lottery Fund's June 30, 2010
Budget Balance to GAAP Basis Net Assets**

(\$000)		
June 30, 2010 (Budget Basis).....		\$ 101,362
Beginning Balance Differences (July 1, 2009):		
Beginning Balance (Budget Basis)	\$ 113,189	
Beginning Balance (Modified Accrual)	<u>196,757</u>	
Total Beginning Balance Difference.....		\$ 83,568
Additional Revenue: ^a		
Augmenting Revenue	\$ 3,491	
Restricted Revenue	(169)	
Federal Revenue.....	<u>111,918</u>	
Total Additional Revenue		\$ 115,240
Prior Year Lapses	\$ (40,322)	\$ (40,322)
Expenditures (Timing Differences):		
Budget State Appropriated ^b	\$1,562,535	
Non-GAAP Expenditures ^c	<u>(1,625,427)</u>	
Total Expenditures (Timing Differences)		\$ (62,892)
Net Assets June 30, 2010 (Cash Basis)		\$ 196,956
GAAP Revenue Adjustments:		
Lottery Income Earned but not Collected as of 06/30/2010 .	\$ 13,311	
Accrued Interest on Investments	2,201	
Deferred Revenue Adjustments.....	(7,903)	
Federal Revenue Adjustments.....	<u>5,049</u>	
Total GAAP Revenue Adjustments.....		\$ 12,658
GAAP Expenditure Adjustments:		
Accrued Expenditures		
Expenditure Accrual.....	\$ (299,088)	
Due to Other Funds	(111)	
Due to Fiduciary Funds.....	(37)	
Due to Political Subdivisions.....	(6,574)	
Due to Other Governments.....	(1,431)	
Powerball Reserve	14,657	
Workmen's Compensation	(2,833)	
Compensated Absences.....	(3,114)	
Other Post Employment Benefits.....	<u>(3,232)</u>	
Total Accrued Expenditures.....	\$ (301,763)	
Liability for Unclaimed Prizes.....	<u>(83,341)</u>	
Total GAAP Expenditure Adjustments.....		\$(385,104)
Net Asset Adjustments		
Net Assets Invested in Capital Assets	\$ 8,576	
Reclassify Restricted Receipts	(501)	
Reconciliation Adjustments.....	<u>1,178</u>	
Total Net Asset Adjustments.....		\$ 9,253
Net Assets June 30, 2010 (Full Accrual)		\$(166,238)

^aAssumes self-balancing with corresponding expenditures in Governor's Budget.

^bFiscal Year Expenditures, Encumbrances, and Available Balances.

^cAll expenditures posted in FY 2009-10.

Source: Office of the Budget, Bureau of Commonwealth Accounting.

The Lottery does offer instant “For Life” games that offer as prizes life contingent annuity payments. These annuities are not purchased until the prize is awarded because the cost varies by winner based on age and sex. If a “For Life” prize is not claimed the amount included in the game’s prize structure for the purchase of an annuity is returned to the Lottery Fund. The prize structure amount is an average based on past costs of similar annuities.

Expenditure Accrual. This refers to GAAP adjustments made for expenditures that are due and payable by fiscal year-end, but were not accounted for as expenditures and not included as encumbrances at fiscal year-end on the budgetary basis of accounting. The primary expenditure accrual included in the reconciling item is money to be paid to eligible applicants of the PTRR program. Applications for property tax and rent rebates are processed through June 30 and are paid in the subsequent fiscal year (see Chapter IV for additional information regarding the program).

State Demographics and the Demand for Lottery-Funded Programs

Pennsylvania has one of the “oldest” populations in the United States. According to the U.S. Census Bureau, in 2010 only Florida, West Virginia, and Maine had larger percentages of their population age 65 or older. Nationally, 13 percent of the population was age 65 and older compared to 15.4 percent of the population in Pennsylvania. As shown on Table 36, as of April 2010, Pennsylvania had approximately 2 million people 65 years of age or older, representing approximately 15.4 percent of the total population.

The total age 65 and older population has grown about 2 percent since 2000 and, as Table 36 shows, is expected to continue to rise through 2030. Between 2000 and 2010, the population age 85 and older increased 28.7 percent but, as shown on Table 36, is only expected to rise about 4 percent between 2010 and 2020, and by 18 percent by 2030. Although the Pennsylvania State Data Center projects a 10 percent decline in the population age 80 to 84 between 2010 and 2020, overall it projects a 51 percent increase in the age 65 and older population. By 2030, this population is projected to represent approximately 22.5 percent of the total population in Pennsylvania. According to the *Pennsylvania State Plan on Aging 2008-2012 (State Plan)*,³ by 2020, for the first time in history, the percentage of Pennsylvanians under the age of 15 will equal that of Pennsylvanians over age 65.

The *State Plan* also reports the following regarding the age 65 and older population in Pennsylvania:

- the percentages of minorities age 65 and older in Pennsylvania is expected to trend similar to the national growth of the minority older population;

³ *Pennsylvania State Plan on Aging 2008-2012*, PA Department of Aging.

- approximately 164,354 children under the age of 18 are reared by grandparents and almost one quarter of these children live in poverty;
- Pennsylvania has the fifth highest occurrence of Alzheimer’s disease in the nation;
- of Pennsylvania’s rural residents, 16 percent are age 65 or older; and
- 39.3 percent of Pennsylvanians age 65 years and older have one or more disabilities compared to 52 percent (in 2002) nationwide.

The growth in the over 65 population in Pennsylvania, however, does not directly correlate to the use of all services funded with the State Lottery Fund. For example, as noted earlier in the report, free transit and shared ride trips have declined at the same time both the 65 and older and 85 and older age categories have increased. The need for other services, as evidenced by waiting lists, is increasing, particularly those related to allowing individuals to remain in their homes, such as many of the PennCare services.

Table 36

Population Projections by Age								
<u>Age</u>	<u>4/1/10^a</u>	<u>As a % of Total Population</u>	<u>7/1/20^b</u>	<u>% Change 4/1/10 to 7/1/20</u>	<u>As a % of Total Population</u>	<u>7/1/30^b</u>	<u>% Change 4/1/10 to 7/1/30</u>	<u>As a % of Total Population</u>
65-69 ..	553,002	4.4%	768,481	39.0%	6.0%	804,998	45.6%	6.1%
70-74 ..	426,536	3.4	615,963	44.4	4.8	766,205	79.6	5.8
75-79 ..	362,332	2.9	421,634	16.4	3.3	607,290	67.6	4.6
80-84 ..	311,761	2.5	281,584	-9.7	2.2	426,187	36.7	3.2
85+	<u>305,676</u>	2.4	<u>318,589</u>	4.2	2.5	<u>360,812</u>	18.0	2.7
Total ..	1,959,307	15.4%	2,406,251	22.8%	18.7%	2,965,492	51.4%	22.5%

^a U.S. Bureau of the Census: 2010 Census; actual number of all persons in housing units as of April 1, 2010.

^b Projections calculated by the Pennsylvania State Data Center using the U.S. Bureau of the Census: 2000 Census data as the base. Projections were calculated based on assumptions about Pennsylvania trends in births, deaths, and migration rates.

Source: Pennsylvania State Data Center.

Estimated Available Funding and Projected Agency Needs

To determine the ability of the Lottery Fund to meet future program needs, we compared an amount calculated using the projected net revenue⁴ from the PA

⁴ The Lottery calculated the future net revenue they would provide the Fund by multiplying projected ticket sales by an expected rate of return. The rate of return was determined using a 5-year average adjusted to reflect changes in the overall product mix. Specifically, the profit margin for instant games is lower than that of terminal-based games and, as instant games become a larger percentage of the total sales mix, the return to the Lottery is decreasing.

Lottery and the projected transfers from the Gaming Fund for the PTTR expansion and supplements to the amount of needed funding the departments have projected for their programs. We assumed the precision of projected net revenues by the Lottery would equal that which we determined for its gross sales projections (see Chapter III) and calculated a probable range of available funds from the Lottery. For the upper and lower funding estimates, we also included the Gaming Fund transfers. As can be seen in Table 37, for three of the four years analyzed, the projected agency needs fell between the upper and lower range of the funding calculated to be available for grants and subsidies from these sources. Should actual Lottery sales, and subsequently net revenues, fall on the low end of the projections, additional funding would be needed to meet agency projections beginning in FY 2012-13.

Table 37

Projected Agency Program Needs Compared to Calculated Available Funds				
(\$000)				
	Est.	Est.	Est.	Est.
	<u>FY 2012-13</u>	<u>FY 2013-14</u>	<u>FY 2014-15</u>	<u>FY 2015-16</u>
PACE/PACENET	\$ 265,000	\$ 280,000	\$ 295,000	\$ 310,000
Aging Programs	<u>315,262</u>	<u>315,262</u>	<u>315,262</u>	<u>315,262</u>
Department of Aging Programs	\$ 580,262	\$ 595,262	\$ 610,262	\$ 625,262
Long Term Care	<u>\$ 121,255</u>	<u>\$ 121,255</u>	<u>\$ 121,255</u>	<u>\$ 121,255</u>
Dept. Of Public Welfare Programs...	\$ 121,255	\$ 121,255	\$ 121,255	\$ 121,255
Property Tax Rebates	\$ 180,438	\$ 180,881	\$ 181,389	\$ 181,832
Rent Rebates	<u>104,162</u>	<u>104,419</u>	<u>104,711</u>	<u>104,968</u>
Dept. of Revenue Programs.....	\$ 284,600	\$ 285,300	\$ 286,100	\$ 286,800
Free Transit.....	\$ 91,807	\$ 93,413	\$ 95,048	\$ 96,711
Shared Ride	<u>81,386</u>	<u>83,844</u>	<u>86,376</u>	<u>88,984</u>
PENNDOT Programs	\$ 173,193	\$ 177,257	\$ 181,424	\$ 185,695
Total Projected Program Needs.....	\$1,159,310	\$1,179,074	\$1,199,041	\$1,219,012
Total Projected Funds From Lottery ...	\$ 986,473	\$ 995,624	\$1,002,077	\$1,005,205
Upper Limit ^a	1,190,832	1,201,149	1,208,660	1,212,013
Lower Limit ^a	1,111,914	1,121,499	1,128,494	1,131,597

* Available funds do not include lapses, interest on securities and deposits, refunds of expenditures, or federal dollars.

^a Includes projected net revenue from the Lottery and projected annual transfer from the Gaming Fund for PTRR expansion and supplements (see Chapter IV).

Source: Developed by LB&FC staff using data obtained from the Departments of Aging, Revenue, Public Welfare, and Transportation and the PA Lottery.

The projections for service needs, however, are based on the assumption that program requirements, e.g., income limits, will not change. As shown in Chapter IV, that has not been the case with PACE/PACENET, whose income limits have

increased, resulting in an increase in program use. Given the potential for future changes in eligibility as well as the significant increase in the 85 years of age and older population, unless Lottery sales grow more than anticipated, those resources may not be sufficient to support the level of services currently supported by the Lottery Fund. For some of the programs, e.g., long-term care, other funding streams are expected to be available.

As discussed in Chapter III, however, Lottery sales have at times exceeded projections. Additionally, cost savings available to the PACE/PACENET programs through Medicare Part D may help to slow the growth in expenditures for that program.

VI. Appendices

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE RESOLUTION

No. 106

Session of
2011

INTRODUCED BY CAUSER, HENNESSEY, BAKER, CLYMER, COHEN, D. COSTA, CREIGHTON, DALEY, DAY, DeLUCA, DENLINGER, J. EVANS, EVERETT, FLECK, GABLER, GEIST, GINGRICH, GOODMAN, GRELL, GROVE, HARRIS, HESS, HICKERNELL, HUTCHINSON, M.K. KELLER, KILLION, MAJOR, MARSICO, MILLARD, MILLER, MILNE, MOUL, MURT, OBERLANDER, O'NEILL, PEIFER, PICKETT, PYLE, RAPP, REICHLEY, ROAE, SAYLOR, SCAVELLO, K. SMITH, SONNEY, STERN, TALLMAN, VULAKOVICH AND WATSON, MARCH 2, 2011

REFERRED TO COMMITTEE ON AGING AND OLDER ADULT SERVICES, MARCH 2, 2011

A RESOLUTION

Directing the Legislative Budget and Finance Committee to conduct a study of the Pennsylvania Lottery relating to its ability to continue to support programs and services for older Pennsylvanians.

WHEREAS, When the General Assembly enacted the State Lottery Law in August 1971, the Commonwealth became the fifth state to authorize the operation of a lottery; and

WHEREAS, Although 46 jurisdictions currently have legal lotteries, the Pennsylvania Lottery remains the only program that earmarks lottery profits solely for programs and services for older residents; and

WHEREAS, This Commonwealth has one of the oldest populations in the United States, with statistics indicating that one out of every five people is 60 years of age or older; and

WHEREAS, Since its inception, the Pennsylvania Lottery has provided more than \$20.1 billion to allow older citizens to benefit from a variety of programs and services, including low-cost prescription drugs, property tax and rent rebates, low-cost senior transportation programs, long-term care services administered by the Department of Public Welfare and home and community-based services made available through local area agencies on aging and senior community centers throughout this Commonwealth; and

Appendix A (Continued)

WHEREAS, According to Pennsylvania Lottery reports, in fiscal year 2009-2010, the lottery had sales of more than \$3.06 billion and contributions to programs for older Pennsylvanians totaled more than \$915 million; and

WHEREAS, Since the introduction of casino gambling in this Commonwealth, a lingering concern has existed regarding the impact of legalized slot machines and table games on lottery sales; and

WHEREAS, State Lottery Fund revenues have increasingly been drawn upon to meet certain General Fund obligations, as well as to expedite property tax relief for some residents of this Commonwealth; and

WHEREAS, Recent economic trends raise serious questions regarding the future ability of the State Lottery Fund to meet the increasing demand for services for older Pennsylvanians; and

WHEREAS, The last comprehensive review of State Lottery funding of programs and services for older Pennsylvanians was conducted as mandated under the former Lottery Fund Preservation Act and resulted in a June 1994 report issued by the Legislative Budget and Finance Committee; therefore be it

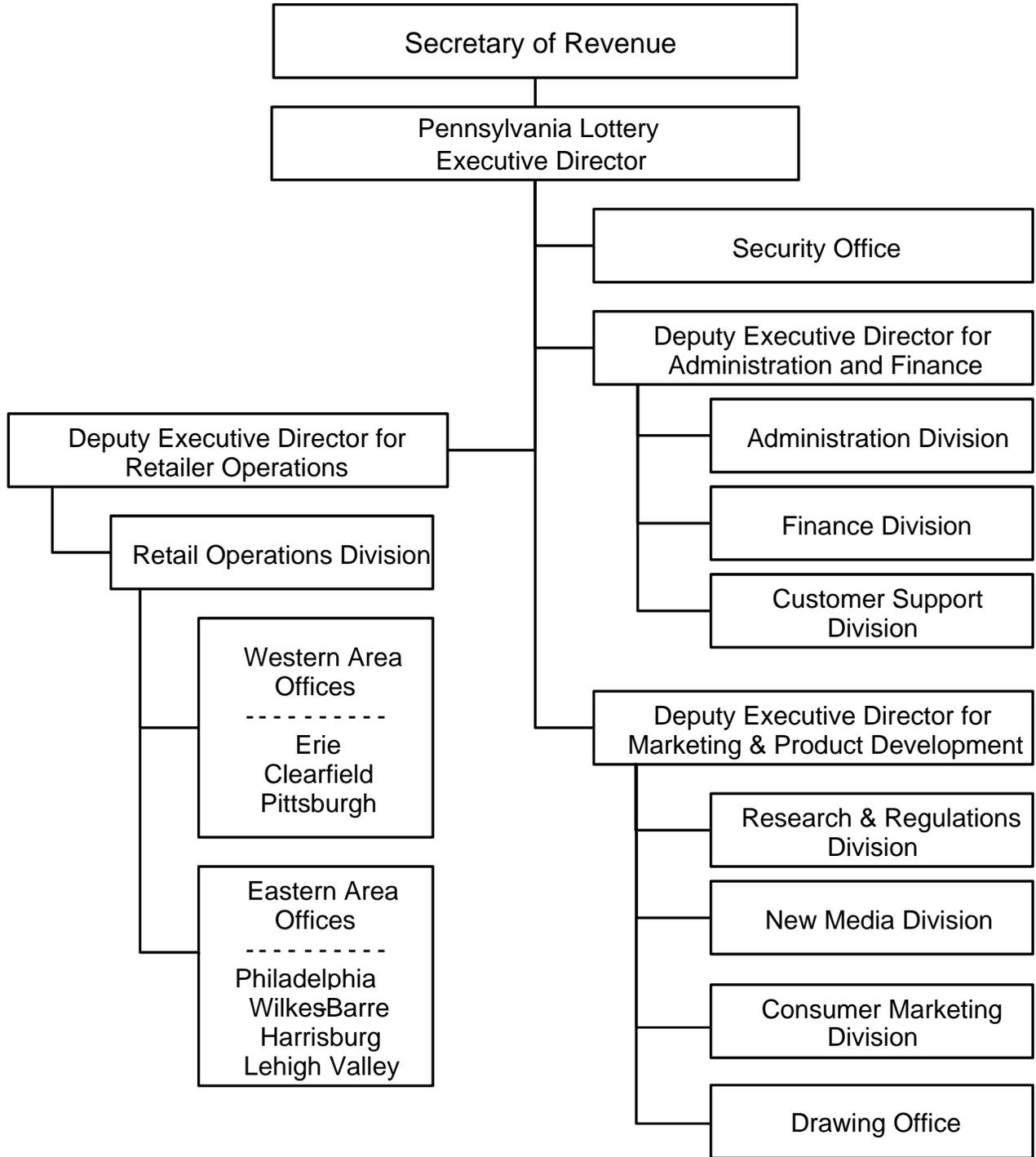
RESOLVED, That the House of Representatives direct the Legislative Budget and Finance Committee to conduct a study of the Pennsylvania Lottery relating to its ability to continue to support programs and services for older Pennsylvanians; and be it further

RESOLVED, That the Legislative Budget and Finance Committee identify all programs, services and functions funded through the State Lottery Fund and determine their costs and services or activity levels; examine all State Lottery Fund programs, services and functions and analyze projections of future program demand, service levels and associated costs; determine the current and projected financial condition of the State Lottery Fund; analyze Pennsylvania Lottery sales, including both short-term and long-term projections of net collections, to determine if State Lottery Fund revenues will be sufficient to support lottery-funded programs, services and functions at existing or expanded levels or, if cutbacks or program changes will be necessary, to maintain the solvency of the State Lottery Fund; and determine if changes to law, regulation or policy are needed to maintain the future solvency of the State Lottery Fund; and be it further

RESOLVED, That the Legislative Budget and Finance Committee prepare a report of its findings and transmit copies of the report to the Aging and Older Adult Services Committee and the Finance Committee of the House of Representatives no later than six months after adoption of this resolution.

APPENDIX B

Pennsylvania Lottery Organizational Chart



Source: Pennsylvania Department of Revenue.

APPENDIX C

Description of Organizational Structure of the Pennsylvania Lottery

Executive Director

The Executive Director's Office is responsible for the administration of the PA State Lottery and, as such, coordinates the efforts of three Deputy Executive Directors. This office also has oversight responsibility for Lottery games, systems, security, personnel, and Lottery related activities of retailers. Examples of specific activities of this office include:

- coordinating and monitoring major contract procurement activities for the Pennsylvania Lottery;
- overseeing all Lottery advertising activities;
- preparing and issuing press releases concerning activities such as games, sales and Lottery winners;
- soliciting and scheduling interviews and speaking engagements for Lottery personnel with the electronic and print media and with service organizations;
- coordinating activities of the Lottery's Compulsive Gambling Hotline; and
- responding to questions relating to the Lottery from legislators, the media, other state agencies, and the general public.

Security Office

The Security Office is responsible for planning, implementing, directing, and maintaining the security and integrity of the PA Lottery through activities that relate to personnel, buildings, computers, telecommunications, games, systems, operations, retailers, contractors, and sub-contractors. This office establishes and enforces security procedures including access by employees and visitors to Lottery Headquarters and area offices. Additionally, this office establishes and enforces security procedures for Lottery drawings including the approval of the security features of all drawing equipment, the testing and certification of balls, controlling access to drawings, videotaping of all drawing activities, and conducting statistical analysis to verify the randomness of drawing results.

Deputy Executive Director for Administration and Finance

This Deputy Executive Director works under the supervision of the Executive Director and oversees and coordinates the work of three divisions: Administration Division, Finance Division, and Customer Support Division. The Deputy Executive Director's Office is responsible for developing and implementing a financial accounting and reporting system that will permit the

Appendix C (Continued)

preparation of detailed monthly financial statements on an accrual basis for the purpose of monitoring monthly performance against budget.

The *Administration Division* is generally responsible for: receiving and storing returned instant and on-line ticket stock, materials, forms, supplies, and other stock items for Lottery operational units and retailers; maintaining an inventory system on all stored items; transporting materials to and from the Area Offices; coordinating building maintenance and landlord/tenant relations at Headquarters and Area Offices; managing real estate leasing activities for Lottery offices in cooperation with the Department of General Services; conducting a comprehensive review of automotive maintenance reports, accident reports, gasoline, and oil expenses; reviewing rules and regulations for instant games before publication in the Pennsylvania Bulletin; coordinating distribution of materials to vendors for new games; packaging point-of-sale material for shipment to all retailers and to area Lottery offices; and assisting with second chance drawings. This Division is also responsible for Lottery records retention, overseeing instant ticket audits, and vendor destruction of returned instant tickets.

The *Finance Division* is generally responsible for: managing the Lottery's budget; preparing service purchase contracts and procuring equipment, supplies, and services; working with banks to establish third party agreements with Lottery retailers and the PA State Lottery; reviewing weekly cash movements from Lottery retailers to Treasury; and managing the Advancement Account to pay low tier prizes, among other related tasks.

The *Customer Support Division* is generally responsible for: providing guidance to retailers with terminal use difficulties and accounting problems; identifying delinquent accounts and initiating appropriate action for license revocation or termination of delinquent retailers; and processing applications for new independent and chain retailer locations. This Division also maintains the Instant Ticket Accounting System; prepares tax withholding for Lottery prizewinners; clears high tier claims through the Department of Public Welfare checking for outstanding child support; ensures federal tax withholding guidelines are followed; and validates winning tickets and notifies winners, among other related responsibilities.

Deputy Executive Director for Marketing and Product Development

The Deputy Executive Director's Office is responsible for assisting the Executive Director in the administration of sales and marketing functions of the PA Lottery programs; coordinating the activities of the Research and Regulations Division, the Consumer Marketing Division, the Drawing Office, and the New Media Division; managing contracts for the creation and distribution of Instant Game Programs and the management of the advertising support activities; and serving as the Executive Director in his or her absence.

The *Research and Regulations Division* is generally responsible for: serving as a main contact with Department of Revenue, Office of Chief Counsel regarding game regulations; serving as the main contact for winners and requests for annuity-related information; coordinating the development of game-related contracts and facilitating their execution; directing the development of a comprehensive research program to include technology, consumer, retail, and market research; and functioning as the main source of business intelligence and insight.

Appendix C (Continued)

The *Consumer Marketing Division* is generally responsible for: developing and executing terminal-based and instant game strategies including those pertaining to price points, game design and development, and launch schedules; researching lottery industry game development best practices to keep current of game development trends; developing the Lottery program to enhance the awareness and popularity of the Pennsylvania Lottery brand through advertising and brand strategy; developing and executing promotional support for strategic product and branding initiatives; developing and executing in conjunction with the New Media Division and Lottery vendor partners the annual strategic and tactical plans with respect to product development, advertising execution, and promotional support; developing all creative and branding elements related to the nightly Drawing Show; participating in the development of the overall consumer marketing plan with specific emphasis on consumer promotions which support the plan; directing the development of the overall promotional strategy to support the overall consumer marketing plan; and overseeing the technical execution of the statewide coupon program, including printing, system testing, and internal and external redemption education.

The *Drawing Office* is responsible for the following: maintaining integrity security and professionalism to the drawing activities of the Pennsylvania Lottery and maximizing benefits of on-air broadcast of the Pennsylvania Lottery Daily Drawings.

The *New Media Division* is generally responsible for: developing and executing in conjunction with the Consumer Marketing Division and Lottery vendor partners the annual strategic and tactical plans with respect to VIP Players Club, palottery.com, Lottery In Motion System, social media, winner awareness, and e-marketing initiatives; directing the overall development, management, and maintenance of the website and e-marketing efforts; overseeing the advertising vendor as it pertains to e-marketing and palottery.com projects; and developing the Lottery program to support the agency's efforts to enhance the awareness and popularity of the Pennsylvania Lottery brand through customer relationship marketing, social and digital media, and winner awareness.

Deputy Executive Director for Retailer Operations

The Deputy Executive Director's Office is responsible for the management of the program delivery and technology functions of the Pennsylvania Lottery programs; coordinating the activities of the Retail Operations Division; managing the Lottery Sales Force; maintaining optimum distribution of lottery products into retail locations; serving as primary contact for the information network that operates within the retail licensees; determining the effectiveness of the retailer network; and identifying under-performing retailer locations by District Lottery Representative (DLR) district. This Office also assists DLRs in the development of new and existing retailers by identifying appropriate product delivery technology, acting as a primary contact with vendors on technology-related product delivery systems; and directing the Consumer Marketing Division and New Media Division on the annual review of the look and appeal of current technology in the field.

The *Retail Operations Division* is responsible for: directing the work of Area Managers relating to productivity and competitive levels of market penetration, personnel reviews, updating position descriptions, and following personnel policies and procedures. This Division also works with Scientific Games International (SGI) in integrating their sales force with the Lottery's; and developing a plan to integrate Corporate Marketing and Corporate Sales Programs. This

Appendix C (Continued)

Division manages distribution relationship with vendors, Instant Ticket Vending Machines (ITVM), Integra's, Omnipoints, Play Central Terminals (PCT) and other product distribution equipment that is supplied to the retailers. The Division works with the Consumer Marketing Division to develop, execute, and monitor a comprehensive marketplace development plan and conducts research to monitor emerging delivery technology and systems employed by similar lottery governmental entities. The Division works with the Consumer Marketing Division and New Media Division in developing corporate sales and marketing strategies and managing the DLR and DLR Supervisor incentive program in regards to recruitment of new retail outlets and sales.

Area Offices. The Area Offices are responsible for supporting Lottery sales and promotion activities through contact with Lottery retailers and for providing marketing assistance to retailers including information, education, and advice on the display of sales materials. These Offices also review retailer activity to ensure compliance with Lottery rules and regulations and conduct unannounced audits of all on-line retailer Lottery accounts. The Area Offices provide assistance in the development of game themes, play format, and game procedures. There are currently seven Area Offices: the western Area Offices include Erie, Clearfield, and Pittsburgh; the eastern Area Offices include Philadelphia, Wilkes-Barre, Harrisburg, and Lehigh Valley.

APPENDIX D

Pennsylvania Lottery Staff Complement

As of October 28, 2011

<u>Lottery Headquarters</u>	<u>Complement</u>
Executive Director's Office	6
Security Office	8
Deputy Executive Director for Administration and Finance	7
Administration Division	11
Finance Division	8
Customer Support Division	22
Deputy Executive Director for Marketing & Product Development	8
Consumer Marketing Division	14
Drawing Office	13
Deputy Executive Director for Retailer Operations	19
<u>Area Offices</u>	
Erie	13
Clearfield	16
Pittsburgh	27
Philadelphia	25
Wilkes-Barre	14
Harrisburg	19
Lehigh Valley	<u>18</u>
Total	248

Source: Developed by LB&FC staff from information obtained from the Pennsylvania Lottery.

APPENDIX E

Description of Lottery Games Mix

Daily Number

The Daily Number was introduced in Pennsylvania in March 1977. The Daily Number random drawings occur twice each day—at mid-day and nightly—every Monday through Sunday.^a The animated mid-day drawing can be seen on the PA Lottery's website after 1:35 p.m., and the nightly drawing can be seen at 6:59 p.m. on television.

Players select three numbers from 0 through 9. Tickets are purchased in increments of \$.50 up to \$5 per ticket. The three numbers selected may either be played straight, boxed, or in front and back pair combinations.^b Tickets may be purchased up to a week in advance of the drawing. Persons holding a ticket with a straight bet three digit number that matches in exact order the three digit number drawn are entitled to a prize of \$500 for each \$1 bet. Prizes for pair or boxed bets range from \$50 to \$160 for every \$1 bet depending on the combination of numbers drawn. The PA Lottery has established a cap or maximum liability of \$20 million in total prizes for any one Daily Number drawing to protect the integrity of the State Lottery Fund.

Big 4

Big 4 became part of the PA Lottery's game mix in November 1980. Big 4 players select four numbers from 0 through 9. Tickets are purchased in increments of \$.50 up to \$5 per ticket. Numbers may be played straight or boxed. Tickets may be purchased up to a week in advance of the drawing.

Twice each day—at mid-day and nightly—the Lottery randomly draws a four digit number. An animated depiction of the mid-day Big 4 drawing is available for viewing after 1:35 p.m. on the Lottery's website. The Big 4 nightly drawing is televised Monday through Sunday at 6:59 p.m., just after the Daily Number. Persons holding a winning ticket with a straight bet four digit number that matches in exact order the four digit number drawn are entitled to a prize of \$5,000 for each \$1 bet. Prizes for boxed bets range from \$200 to \$1,200 for every \$1 bet depending on the combination of numbers drawn. The PA Lottery has established a cap or maximum liability of \$10 million in total prizes for any one Big 4 drawing to protect the integrity of the State Lottery Fund.

Quinto

On August 26, 2008, the Lottery launched Quinto. Quinto drawings are conducted every day at mid-day and in the evening. For each game played, players select a five-digit number. Each of the five digits can be selected from numbers 0 to 9, and the same number can be selected more than once. Games cost \$1 each, and tickets may be purchased up to one week in advance of the drawing. Numbers can be played straight, boxed, or the front pair-back pair, front three-back three, or front four-back four. The top prize is \$50,000, which is won when a player matches any five digits in the exact order in which they were drawn. Other prizes range from \$50 to \$10,000 depending on the combination of numbers drawn. All Quinto prize payments are made as a one-time lump-sum cash payment.

Cash 5

Cash 5 was introduced in April 1992. It is a five-digit matrix cash lotto. For \$1, players select five numbers from 1 to 43. The PA Lottery then draws five numbers at random after the Daily Number and Big 4 drawings each evening. The starting jackpot is \$125,000 and continues to grow until someone wins. For each drawing, 50 percent of Cash 5 gross sales are allocated to the total winnings pool. After

Appendix E (Continued)

the fourth prize category prize monies are deducted from the pool, the remaining prize money is allocated to the first, second, and third prize categories, and then divided equally among the winning players in each category. To win first prize, a player must match the five drawn numbers. All prizes are paid as a one-time lump-sum cash payment.

Treasure Hunt

The Treasure Hunt daily drawing debuted on May 8, 2007. It is the only PA Lottery game that is only drawn at mid-day every day. The drawings may be watched on the PA Lottery's website after 1:35 p.m. daily. Players pick five numbers from 1 to 30 and win by matching at least two of the five numbers drawn. Tickets may be purchased up to one week in advance of the drawing.

Tickets may be purchased for \$1 starting with a \$10,000 jackpot for matching all five numbers drawn. Prize money allocated to the jackpot category is paid on a pari-mutuel basis. If more than one winning jackpot play is determined, each winner is entitled to a prorated payment share of the total jackpot prize category. All prize payments are made in a one-time lump-sum cash payment. If there are no winning jackpot prize plays, prize money allocated to that prize category will be carried forward and added to the amount allocated for the jackpot prize category money in the next Pennsylvania Treasure Hunt drawing. Prizes for matching two to four of the numbers range from \$1 to \$100.

Match 6

Match 6 was introduced in January 2004 and ran through March 2009. In June 2010, Match 6 was re-introduced to the PA Lottery's game mix. For \$2, players choose six numbers, from 1 to 49. After the player chooses six numbers, the PA Lottery quick-picks an additional two sets of six numbers, choosing from 1 to 49. This gives each player three lines of six numbers each, for a total of 18 numbers. On Monday and Thursday evenings, the Lottery randomly draws six numbers. Players could win one, two, or three prizes by matching, on each line, three or more of the six winning numbers. This is called "base play." Plus, the combined set of 18 numbers gives an additional chance to win by matching at least 4 of the 18 numbers on all three lines. This is called "combined play." Tickets for Match 6 lotto may be purchased up to 26 draws (13 weeks) in advance.

The starting jackpot is \$500,000 and grows until somebody wins. In the event of multiple jackpot winners, the jackpot is split among the winners on a pari-mutuel basis. All Match 6 lotto prize payments, including the jackpot prize, are made as a one-time, lump-sum cash payment. A winning ticket is entitled only to the highest prize won by those numbers on each play, plus the highest prize won by those numbers on the combined game.

Powerball

Pennsylvania launched its first multi-state jackpot game on June 27, 2002. The first drawing for Pennsylvania players was June 29, 2002. Players choose five numbers from 1 to 59 and one number—the Powerball number—from 1 to 39. Each play slip has five panels that can be played for \$1 for each. Tickets may be purchased up to 13 weeks (26 drawings) in advance. Powerball drawings take place on Wednesday and Saturday nights.

The Powerball jackpot starts at \$20 million and increases until someone wins. Powerball tickets are sold only as graduated annuity tickets, which means increasing annual cash payments over 29 years (30 payments). Jackpot winners may elect (within 60 days) to take the present cash value of the jackpot amount in one lump-sum payment.^c

Appendix E (Continued)

Mega Millions

On January 31, 2010, Pennsylvania launched sales for Mega Millions, its second multi-state jackpot game. The first drawing for Pennsylvania players was February 2, 2010. Players may play from one to five games on each play slip. Each game costs \$1. For each game grid, players select five numbers from 1 to 56 plus one “mega ball” number from 1 to 46. Players may also choose the Megaplier® option for an additional \$1. Drawings take place on Tuesday and Friday nights.

The Mega Millions jackpot starts at \$12 million and increases until somebody wins. Mega Millions tickets are sold only as annuity tickets, which means equal annual cash payments over 25 years (26 payments). Jackpot winners may elect (within 60 days of filing a claim) to take the present cash value of the jackpot amount in one lump-sum payment. Tickets may be purchased up to 13 weeks (26 drawings) in advance.

Millionaire Raffle

On November 22, 2005, the PA Lottery kicked off sales for the Millionaire Raffle, the first raffle-style lottery game in the nation. The first drawing was held on December 31, 2005. In the 12th edition of this game, the PA Lottery planned to award 6,000 prizes worth more than \$5 million. Winning tickets for four prizes of \$1 million cash; four prizes of \$100,000 cash; 100 prizes of \$1,000 cash, and 5,892 prizes of \$100 cash were drawn on July 9, 2011. For \$20 per ticket, players had the opportunity to win at four prize levels by exactly matching their ticket number to those drawn by the Lottery. Winning tickets may be redeemed up to one year after the drawing date, or until July 9, 2012.

In this game, only 500,000 tickets are available for purchase. Each ticket contains a unique, eight-digit raffle number issued sequentially across Pennsylvania, starting with raffle number 00000001. The last raffle ticket issued is 00500000. When the last raffle ticket is sold, the game is closed and no additional tickets are available for purchase. Raffle numbers are assigned sequentially at the time of purchase; players cannot select their own numbers. An automated drawing machine, or ADM, randomly selects all of the 6,000 winning raffle ticket numbers. The selection of the four \$1 million prizes and the four \$100,000 prizes is televised live. The remaining drawings are not televised due to time constraints.

Instant Games

The Pennsylvania Lottery offers many instant games. Each of these game tickets has scratch-off surfaces to remove with a coin. Winners of more than \$600 must complete a claim form. Winning ticket holders who win prizes up to \$2,500 may redeem their prizes at any Pennsylvania Lottery Retailer.

^a The mid-day drawing was introduced on February 11, 2003.

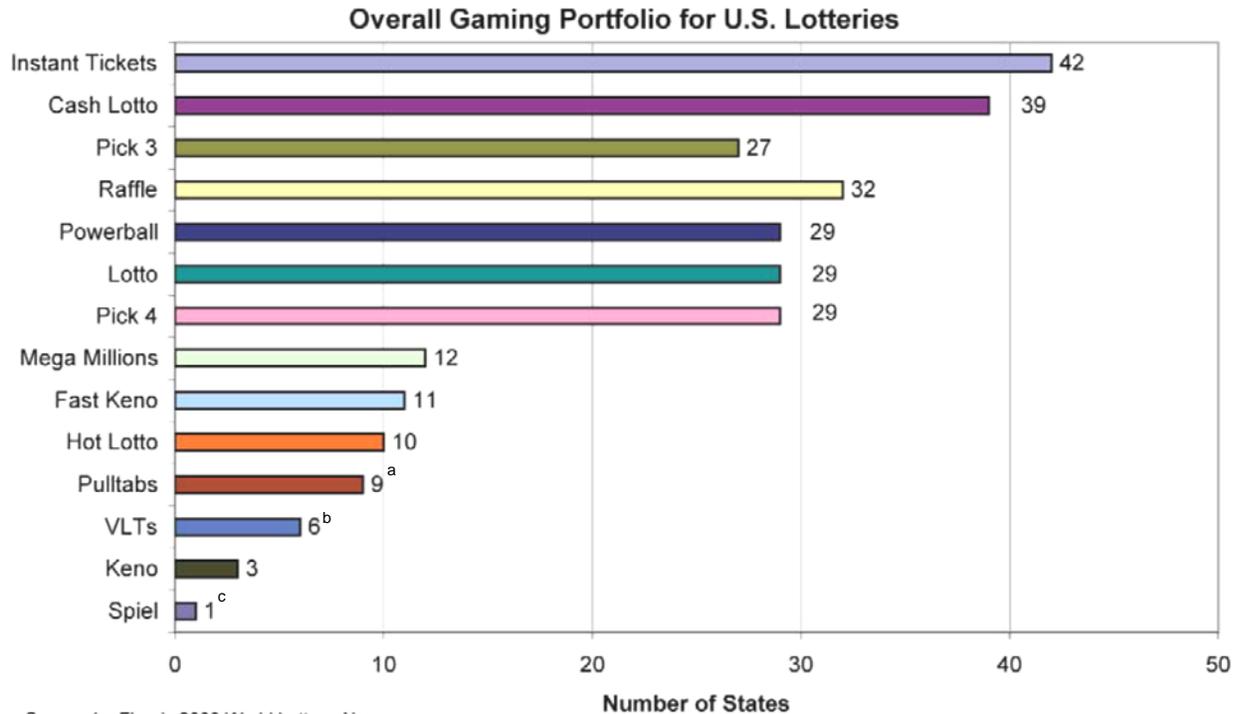
^b A straight bet is a number that the player believes will match the number drawn by the PA Lottery in the exact order. A boxed or combination bet is a number that the player believes will match the number drawn in any order. Front and back pair bets apply to the Daily Number and are two-digit numbers that match either the first or last two digits of the numbers drawn by the PA Lottery in the exact order.

^c Beginning January 15, 2012, the price of a Powerball ticket will increase to \$2, and the starting jackpot will increase to \$40 million. Players will continue to choose their first five numbers from 1 to 59, but the choice of Powerball numbers will decrease from 1 to 39 to 1 to 35, which will produce better overall odds of winning a prize. The odds of winning a jackpot prize will improve from 1-in-195 million to 1-in-175 million.

Source: Pennsylvania Lottery website and game rules and regulations.

APPENDIX F

Lottery Games and Sales in Selected Other States*



Classification/Definition of Game Types

- One-Number Games (category 1):** These are games where the player selects one number with either 3 digits or 4 digits, for example 123, or 444, or 1038. A few states have introduced five-digit Category 1 lottery games, for example, 32896. Some common names for these games are Cash 3, Pick 3, Play 3, Daily 3, Cash 4, Pick 4, Play 4, Quinto, and Georgia Five. In these games you can choose to play the selected number as a straight (exact match) or as a box (any). When you play it as a straight, you are betting that the number will come in the exact order as you played it. A box play is when you bet that the three (or four) digits will be drawn without regard to the order. Besides straight and box, there are also other play types such as combo, front pair, back pair, and split pair offered by several states.
- Multi-Number Games (category 2):** In these games, the player selects 4, 5, or 6 numbers from 1 to a certain maximum specified by the game. A common multi-number game is the Classic Lotto, a 6-number game denoted by 6/49, where you select 6 numbers from 1 to 49. Fantasy 5 is another game in the same category. The order in which the numbers are selected does not matter. Generally, prizes are awarded to those who get more than 2 or 3 numbers correct. If all the numbers selected match the player's numbers, the player hits the Jackpot. In some states, in addition to the initial numbers drawn, another number is drawn from the same set as a bonus ball. This is usually used to increase the amount of lower prizes.
- Multi-Number Games with two sets of numbers (category 3):** These are games where selections are made from two sets of numbers. They are denoted by the abbreviation n/N + m/M, which means that players select n numbers from 1 to N (in any order), from the first set and m more numbers from

Appendix F (Continued)

1 to M from the second set. Except the multi-state lottery game called 2By2, where players select two numbers from both sets, all U.S. lottery games that fall into this category are played by selecting only one number from the second set. Two very popular multi-number games with two sets of numbers are the Powerball and the Mega Millions.

4. **Keno type games (category 4):** These are basically multi-number games (category 2), where the player selects 10 numbers from 1 to 80 or 82. The difference from category 2 games is that double the numbers you have to select are drawn (i.e., 20 drawn). These games are indicated by 10/80/20 (or 22).
5. **Multiple-state (Interstate) Games (category 5):** Multiple-state (Interstate) games are games common to more than one state. The following is a list of the games played in multiple states: Powerball, Hot Lotto, Wild Card, Mega Millions, Win For Life, and 2By2. These games all fit into a multi-number game with two sets of numbers. Tri-State Lottery Games are Pick 3 and Pick 4 (both category 1); and Megabucks, Paycheck, and Weekly Grand (all category 3).
6. **Raffle:** Raffles are number-match games with a limited number of tickets available are sold within a limited sales period.

Lottery Games and Sales in Selected Other States^d

State	Games	Game Types	Gross Sales
California	Instant Tickets		\$1,661,288,087 ^e
	Daily 3	Category 1	128,835,256
	Daily 4	Category 1	30,695,878
	Fantasy 5	Category 2	144,382,030
	Daily Derby	Horse race game	10,084,277
	Hot Spot	Category 4	117,904,491
	SuperLotto Plus	Category 3	463,065,667
	Mega Millions	Category 5	484,704,181
Delaware	Instant Tickets		\$36,090,613 ^e
	Play 3 (Day)	Category 1	N/A
	Play 3 (Eve)	Category 1	N/A
	Play 4 (Day)	Category 1	N/A
	Play 4 (Eve)	Category 1	N/A
	Multi-win Lotto	Category 2	N/A
	Mega Millions	Category 5	N/A
	Powerball	Category 5	N/A
Hot Lotto	Category 5	N/A	
Florida	Instant Tickets		\$2,225,676,000
	Cash 3	Category 1	313,270,000
	Play 4	Category 1	235,692,000
	Fantasy 5	Category 2	282,777,000
	Mega Money	Category 3	88,971,000
	Lotto	Category 2	411,389,000
	Powerball	Category 5	392,969,000
	Raffle	Category 6	12,603,000
Lucky Lines	Category 1	45,369,000	
Georgia	Instant Tickets		\$2,424,000,000
	Cash 3	Category 1	467,600,000
	Cash 4	Category 1	191,500,000
	Georgia Five	Category 1	18,000,000
	Fantasy 5	Category 1	97,300,000
	Mega Millions	Category 5	147,900,000
	Powerball	Category 5	77,900,000
	Win For Life	Category 5	11,400,000
	Keno!	Category 4	144,300,000

Appendix F (Continued)

State	Games	Game Types	Gross Sales
Illinois	Instant Tickets		\$1,172,369,386 ^e
	Pick 3	Category 1	301,426,262
	Pick 4	Category 1	191,038,518
	Little Lotto	Category 2	118,542,544
	Lotto	Category 2	108,691,402
	Mega Millions	Category 5	221,456,474
	Powerball	Category 5	51,739,141
	Lotto Subscription	f	2,389,423
	Little Lotto Subscription	f	1,065,515
	Mega Millions Subscription	f	1,152,600
	Pick N Play	g	1,549,252
St. Patrick's Day	Category 6	20,000,000	
Maryland	Instant Tickets		\$493,500,000
	Pick 3	Category 1	260,800,000
	Pick 4	Category 1	254,600,000
	Bonus Match 5	Category 2	21,400,000
	MultiMatch	Category 2	27,900,000
	Mega Millions	Category 5	98,700,000
	Powerball	Category 5	52,700,000
	Keno	Category 4	380,600,000
Racetrax	Category 4	116,200,000	
Michigan	Instant Tickets		\$750,853,000
	Daily 3	Category 1	344,198,000
	Daily 4	Category 1	359,024,000
	Fantasy 5	Category 2	56,051,000
	Keno	Category 4	12,979,000
	Lotto47	Category 2	43,830,000
	Mega Millions	Category 5	173,462,000
	Powerball	Category 5	64,460,000
	Raffle Games	Category 6	19,048,000
	Club Keno	Category 4	490,509,000
	Lucky Lines	Category 1	15,739,000
Pull Tabs		29,075,000	
New Jersey	Instant Tickets		\$1,301,493,067
	Pick 3	Category 1	435,271,947
	Pick 4	Category 1	264,132,894
	Jersey Cash 5	Category 2	143,977,454
	Pick 6 Lotto	Category 2	81,916,339
	Mega Millions	Category 5	307,096,483
Powerball	Category 5	71,215,958	
New York	Instant Tickets		\$3,546,390,808 ^h
	Numbers	Category 1	854,429,836
	Win 4	Category 1	776,578,642
	Take Five	Category 2	281,582,733
	Pick 10	Category 4	30,497,838
	Sweet-Million	Category 2	45,007,741
	Lotto	Category 2	132,657,212
	Mega Millions	Category 5	463,049,453
	Powerball	Category 5	202,628,146
Quick Draw	Category 4	424,192,043	

Appendix F (Continued)

State	Games	Game Types	Gross Sales
Ohio	Pick 3	Category 1	\$364,436,000
	Pick 4	Category 1	209,040,000
	Ten-OH!	Category 4	9,245,000
	Rolling Cash 5	Category 2	62,394,000
	Classic Lotto	Category 2	42,709,000
	Kicker	Raffle Type	10,294,000
	Mega Millions	Category 5	164,970,000
	Powerball	Category 5	76,373,000
	Raffle	Category 6	10,000,000
	Keno/Booster	Category 4	157,892,000
Pennsylvania	Instant Tickets		\$1,922,112,455
	Daily Number	Category 1	379,674,036
	Big 4	Category 1	254,494,038
	Quinto	Category 1	39,988,678
	Treasure Hunt	Category 1	22,703,721
	Cash 5	Category 2	172,249,332
	Match 6	Category 2	56,324,340
	Mega Millions	Category 5	126,220,846
	Powerball	Category 5	214,175,244
	Millionaire Raffle	Category 6	19,965,360
Texas	Instant Tickets		\$2,842,000,000 ⁱ
	Pick 3	Category 1	274,700,000
	Pick 3 Sum It Up	Category 1	5,600,000
	Daily 4	Category 1	58,600,000
	Daily 4 Sum It Up	Category 1	4,400,000
	Cash 5	Category 2	64,700,000
	Texas Two Step	Category 3	51,000,000
	Lotto Texas	Category 2	172,600,000
	Mega Millions	Category 5	213,700,000
	Powerball	Category 5	124,200,000
West Virginia	Instant Tickets		\$115,697,423
	Daily 3	Category 1	8,621,978
	Daily 4	Category 1	4,967,805
	Cash 25	Category 2	5,440,930
	Mega Millions	Category 5	10,915,389
	Powerball	Category 5	35,669,004
	Hot Lotto	Category 5	5,831,270
	Travel Keno	Category 4	6,423,516

*This Appendix lists the most popular games; not all games are included.

^a A pull-tab ticket has perforated tabs on the back that the player opens to match the symbols inside the ticket to the winning combination on the front of the ticket.

^b Video Lottery Terminals.

^c This is an on-line draw game that is played in conjunction with lotto. Players are given the option, after entering another game, to enter the spiel game for an additional wager. The computer assigns the player a series of numbers, making the player eligible for a designated drawing. Ohio, Virginia, and New Jersey offer spiel games.

^d States contiguous to Pennsylvania and top ten states based on FY 2010 ticket sales of year ending 6/30/11, unless otherwise noted.

^e For fiscal year ending 6/30/10.

^f Subscriptions allow players to select their game numbers for a specific time period, for example, 13, 26, of 52 weeks. Winnings are automatically sent directly to the player or applied to an account that has been set up with the lottery entity.

^g A combination of on-line and instant game. Players select play cards, which are scanned for activation. Players receive a ticket with randomly generated numbers, symbols, or words from the ticket to the play card.

^h For year ended 8/31/11.

ⁱ Fiscal year ends 3/31/11.

Source: Developed by LB&FC staff from <http://us-lotteries.com> and from the various states' lottery websites and annual reports.

APPENDIX G

Lottery Update to 1994 LB&FC Report Recommendations

The 1994 LB&FC report, *State Lottery Funding of Programs and Services for Older Pennsylvanians*, directed several recommendations to the Lottery. The actions taken are described below:

1. As a state with a “mature lottery”, and rapidly expanding older population, Pennsylvania may soon need to consider implementing new lottery products and approaches to increase Lottery revenues. These actions would be in addition to the ongoing marketing initiatives and game enhancements recently undertaken by State Lottery officials to reverse declining sales. As discussed below, some of these additional actions could be undertaken in conjunction with the State Lottery’s next annual marketing plan. Others would require further study by the State Lottery and, in some cases, consideration by the General Assembly:

- *Study the revenue-generating potential and feasibility of adding video lottery and keno to the State Lottery’s game mix.*

2011 Update:

- The Lottery regularly examines the marketplace in search of opportunities for incremental revenue growth.
- The opening of casinos across the commonwealth has decreased the revenue potential for VLTs.
- Keno has been identified as a way to raise revenue as well as license restaurants, bowling centers, taverns, and other non-traditional retail locations which continue to be underrepresented in the Lottery’s retailer base. While Keno may be greeted with player enthusiasm and provide the Lottery an opportunity to offer certain traditional products at these locations, the addition of Keno may be viewed as further expansion of gaming in Pennsylvania and therefore be a sensitive political issue the Lottery has not pursued to date.

- *Consider introducing self-service or player-activated terminals.*

2011 Update:

- Since the 1994 report, the Pennsylvania Lottery has embraced self-service technology. With over 5,000 self-service devices selling across the commonwealth, the Lottery is among the leaders in the U.S. lottery industry in the number of self-service sales devices. The Lottery’s utilization player-activated terminals (now called PCT or Play Central Terminals) was instrumental in the recent licensing of the Wawa (215 locations) and Rite Aid (212 locations) retail chains. Last fiscal year \$133 million in sales can be attributed to the 1,427 PCTs. Additionally, the Lottery has deployed approximately 9,100 self-service ticket checkers at retail to allow players to check tickets without waiting in line at the retail counter.

Appendix G (Continued)

- Consider selling advertising on Lottery tickets.

2011 Update:

- The Lottery has examined this opportunity over the years and determined that the value of the limited space on tickets is best used to promote the Lottery, its mission, website, social media outlets and second-chance drawings

- Consider using direct marketing merchandizing methods.

2011 Update:

- Since the 1994 report, the Lottery has adopted the use of many additional marketing methodologies. In 2004, the Lottery began using direct mail to send coupons to over five million households in the commonwealth. The Lottery continues to test different offers in an effort to ensure maximum return on investment. In 2010, the Lottery began sending electronic single-use coupons to members of its website-based VIP Players Club (currently over 150,000 members). In addition, the Lottery uses a tele-marketing group, provided through the contract with its gaming system vendor, to contact retailers regularly to ensure adequate supply of product.

- Consider offering subscription plans, advance play options, and gift certificates.

2011 Update:

- The Lottery allows advance play for some of its games as far as 13 weeks before a drawing. Since 1994, the Lottery and its vendors have studied other lotteries' subscription services and gift card programs and determined that the costs associated with these programs still outweigh the incremental sales gain. The Lottery recognizes the potential of these programs and anticipates the ROI-shift to occur when technology currently being developed allows for the secure delivery (though not necessarily the sale) of electronic versions of tickets.

- Consider seeking authorization from the Legislature to return a portion of unclaimed prize money to Lottery players as a means of generating interest and increasing sales.

2011 Update:

- The Lottery has not requested this legislative change. The Lottery believes deeply in providing its players with a fair chance of winning prizes, but also in its mission to maximize profits for programs benefitting older Pennsylvanians.

- Consider expanding the installation of instant ticket vending machines into "nontraditional" outlets.

2011 Update:

- ITVMs have had a significant impact on increasing instant ticket sales. Since the 1994 report the lottery has expanded its network of ITVMs to 4,140 machines, which cumulatively generate \$750 million in gross annual sales.
- The Lottery is continually looking to expand its retail network to non-traditional outlets including restaurants and taverns. Expansion to these outlets often includes self-service equipment.

2. The State Lottery should increase the number of PA State Lottery retailers. The State Lottery has fewer on-line retailers per capita than any other large lottery state and should intensify its efforts to increase this number. In expanding the retailer network the Lottery should

Appendix G (Continued)

continue to set annual retailer targets and use demographic data and input from District Lottery Representatives to meet these objectives. The Lottery should also attempt to expand its chain store accounts and seriously consider expanding into nontraditional outlets such as bars and fast-food restaurants as is being done in a number of other states. Lottery officials should also initiate discussions with officials of the PA Liquor Control Board to explore the feasibility of placing ITVMs in State Wine and Spirits Shoppes.

2011 Update:

- The Lottery is continually trying to increase the number of Lottery retailers. Currently, the Lottery has approximately 9,100 licensed retailers and anticipates surpassing its goal of having 9,200 retailers licensed by the end of fiscal year 2011-2012. In recent years the Lottery has added new corporate accounts including Wawa, Rite Aid and Boscov's, expanded the number of licensed locations for current corporate accounts and is actively pursuing new corporate account opportunities.
 - To retain and recruit new licensees, the Lottery uses a dedicated Corporate Accounts Division to recruit corporate chain accounts. The Lottery is also in the midst of a pilot incentive program for DLRs which includes a recruitment component.
 - The Lottery sets specific annual goals for growing its retailer network. While most of the growth has occurred in the traditional retail sectors (convenience and grocery), the Lottery has expanded into many non-traditional locations such as airports, auto repair facilities, dry cleaners, restaurants and taverns. Restaurants and taverns continue to prove a retailer recruiting challenge, however, mainly because the Lottery's game lineup does not fit well with restaurant and tavern clientele who are more interested in socially-interactive games such as monitor games.
 - The Lottery has licensed all of the PA casinos, which have proven to be strong performing locations.
 - In the past, the Lottery has presented plans to sell Lottery products in the state Wine and Spirits Shoppes. Sale of Lottery products in the Wine and Spirits Shoppes, however, would require an amendment to the Liquor Code.
3. The General Assembly should consider amending the State Lottery Law to clarify the Legislature's intent concerning the expenditure of monies generated by the State Lottery, in particular, the percentage of annual gross lottery sales to be expended for programs directly benefitting older Pennsylvanians; the percentages to be used for prizes and operating costs; and whether the Lottery should be required to maintain a reserve.

2011 Update:

- In recent years shifting consumer demand away from higher-profit terminal-based games to lower-profit, higher-price-point instant games required the Lottery to seek legislative action to reduce the percentage of sales that is dedicated to funding programs for older Pennsylvanians. Most recently, in June of 2011, the General Assembly passed and the Governor signed legislation that reduces the percentage of sales dedicated to programs for older Pennsylvanians from 30 percent to 27 percent for fiscal years beginning before July 2015. This reduction has allowed product demand to be dictated by the changing consumer market and will allow the Lottery to add new games, expand the higher-price-point instant games and provide extended play value as demanded by consumers, in addition to allowing the Lottery to plan for increased profitability.

Source: Pennsylvania Lottery.

APPENDIX H

Senior Care and Services Study Commission's Policy Recommendations

Policy Recommendation #1: Develop strategies to educate Pennsylvanians about the need to plan for long-term care needs and increase self-funding of long-term care through various mechanisms, such as: improving incentives for purchasing long-term care insurance and/or participating in the Long-Term Care Partnership under Act 40.

Policy Recommendation #2: Provide additional incentives for self-funding of long-term care through implementation of a social insurance program modeled on the Class Act as enacted either through federal or state legislation.

Policy Recommendation #3: Assess the feasibility of developing and implementing an integrated financing system (Medicare, Medicaid, state funding) across the care continuum to eliminate care silos and delay or prevent nursing facility admission through better care coordination and timely interventions.

Policy Recommendation #4: Review gaps, barriers, and redundancies in current information systems, reimbursement, and service delivery as they relate to care coordination and care transitions across the care continuum and utilize funding initiatives under the American Reinvestment and Recovery Act of 2009 and the Patient Protection and Affordable Care Act of 2010 when available to fill identified gaps and barriers.

Policy Recommendation #5: Maximize use of technology such as telehealth and assistive devices to improve outreach, care coordination, accessibility, and safety for older adults living in the community.

Policy Recommendation #6: Develop a cross-agency collaborative approach to promote better nutritional choices and physical activity in schools, workplaces, and senior centers.

Policy Recommendation #7: Develop statewide strategies to promote a greater emphasis on wellness principles into business practices.

Policy Recommendation #8: Examine the feasibility of defining and requiring a minimum level of wellness coverage and chronic care management (including self care management) for all health insurance providers conducting business in the Commonwealth. The feasibility review shall include an assessment of the Commonwealth's legal authority to implement this requirement.

Policy Recommendation #9: Assess the feasibility of providing access to basic health coverage to direct care workers through public and private low-cost programs to enhance recruitment and retention.

Policy Recommendation #10: Promote employer initiatives to support elder care such as offering flexible work schedules and elder care information and referral services through a statewide campaign educating employers on the economic and other impacts of caregiving on businesses.

Policy Recommendation #11: Leverage new federal funding, develop and implement curricula for health care professionals and direct care workers in gerontology, chronic care management, long-term care, and senior and family-centered interdisciplinary care to maintain a quality care workforce.

Policy Recommendation #12: Promote cross-training or blended job roles for long-term care workers to achieve greater efficiencies in service delivery and coordinated career progression to attract frontline workers to the field.

Source: Senior Care and Services Study Commission: Final Report, November 2010.

APPENDIX I

Pending Bills Relating to the PA Lottery and Related Programs

(As of November 30, 2011)

Lottery

Senate Bill 861: excludes veterans' disability payments from the definition of "income" in several laws, including the State Lottery Law and the Taxpayer Relief Act.

House Resolution 85: memorializing the U.S. Congress to oppose any legislation legalizing Internet gambling, in order to protect the viability of the PA Lottery.

House Bill 510: places restrictions on the use of Lottery funds.

House Bill 1231: provides for licensees under the Liquor Code to become Lottery sales agents.

PACE/PACENET

House Bill 346: excludes principle and interest accrued from a savings bond from the definition of "income" for the purposes of pharmaceutical assistance.

House Bill 494: provides for annual adjustments to the maximum income eligibility limits under PACENET based on the Social Security cost-of-living adjustment.

House Bill 520: provides for the intercept of prize winnings for the payment of delinquent state taxes; applies to a single prize winning over \$2,500.

House Bill 811: excludes veterans' disability payments from the definition of "income" for purposes of pharmaceutical assistance.

House Bill 906: provides for a transfer of funds from the General Fund to the State Lottery Fund if the Secretary of Revenue determines that the Lottery Fund revenue has decreased due to the play of small games of chance in retail licensed establishments.

House Bill 1044: increases the income eligibility limits under PACENET.

Senate Bill 731: provides for a transfer of funds from the General Fund to the State Lottery Fund if the Secretary of Revenue determines that the Lottery Fund revenue has decreased due to the play of small games of chance in retail licensed establishments.

Senate Bill 765: excludes veterans' disability payments from the definition of "income" for purposes of pharmaceutical assistance.

Senate Bill 900: provides for the establishment of a single pharmacy benefits manager program to manage the pharmaceutical benefits program under the State Lottery Law.

Senate Bill 1157: provides for the intercept of Lottery prize winnings over \$2,500 in cases where the winner owes criminal court fines, fees, or costs or child support obligations.

Shared Ride and Free Transit

House Bill 1301: proposes amendments to the medical assistance transportation program, including shared-ride services.

Appendix I (Continued)

Family Caregiver Support

House Bill 210: provides that assistance provided to caregivers under the Family Caregiver Support Act and provided by State Lottery funds is to be given priority for those who are caring for adults age 60 and over who have chronic dementia. (Act 2011-112)

House Bill 224: provides that assistance given to caregivers under the Family Caregiver Support Act and provided by State Lottery funds is to be given priority for those who are caring for adults age 60 and over who have chronic dementia.

Senate Bill 639: provides that assistance given to caregivers under the Family Caregiver Support Act and provided by State Lottery funds is to be given priority for those who are caring for adults age 60 and over who have chronic dementia.

Property Tax and Rent Rebate

House Bill 154: amends the definition of "income" relating to Social Security substitute pension.

House Bill 462: provides for continued eligibility when ineligibility results solely from a Social Security cost-of-living adjustment.

House Bill 468: provides for claims where the claimant has died prior to submitting the rebate application.

House Bill 676: provides for local senior citizen property tax and rent rebates.

House Bill 677: amends the definition of "income" relating to Social Security substitute pension.

House Bill 731: provides for continued eligibility when ineligibility results solely from a Social Security cost-of-living adjustment.

House Bill 812: excludes veterans' disability payments from the definition of "income."

House Bill 1742: provides for an annual transfer of \$150 million from the State Lottery Fund to the Property Tax Relief Fund.

Senate Bill 82: amends the definition of "income" to exclude certain Social Security benefits.

Senate Bill 503: amends the definition of "income" relating to Social Security substitute pension.

Source: Developed by LB&FC staff from a review of proposed legislation.

APPENDIX J
Responses to This Report



Benefits Older Pennsylvanians.
Every Day.

February 9, 2012

Mr. Phillip R. Durgin
Executive Director
Legislative Budget and Finance Committee
400 Finance Building
613 North Street
Harrisburg PA 17105-8737

Dear Mr. Durgin:

Thank you for the opportunity to respond to the Legislative Budget and Finance Committee's Report entitled *Pennsylvania Lottery Funding of Programs and Services for Older Pennsylvanians*.

Although the Pennsylvania Lottery cannot comment on how Lottery Fund monies are appropriated or how future program costs are projected, the Pennsylvania Lottery finds that the report is an accurate review of the Lottery's current and future ability to raise revenues for programs for older Pennsylvanians. The Pennsylvania Lottery remains committed to its role as the only U.S. lottery that dedicates 100 percent of profits to programs that benefit older residents.

As you appropriately pointed out in your recommendations, the expansion of the Lottery's retail network is a critical component in continued growth of Lottery sales. The Lottery will continue efforts to recruit and retain new licensees in order to meet its goal of growing its retailer base.

The Lottery will also continue to study consumer and industry trends to look for opportunities to grow sales and profit for programs. In concert with other lotteries and industry vendors, the Pennsylvania Lottery is analyzing the business potential of the U.S. Department of Justice ruling regarding the sale of lottery tickets over the Internet. Meanwhile, the Lottery continues to increase its efforts to interact with consumers in the digital space through social media, our website and our VIP Players Club.

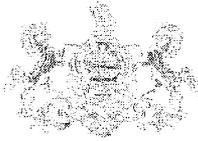
The Lottery is pleased to note that through two quarters of the fiscal year, it is on pace to meet its 2011-2012 sales estimates. The Lottery is currently projecting net sales of \$3.3 billion and a net profit of \$974.27 million this year.

We thank you and your staff for your consideration and look forward to future discussion on this issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Todd Rucci", written over a large, loopy flourish.

Todd Rucci
Executive Director
Pennsylvania Lottery



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF AGING
555 WALNUT STREET, 5TH FLOOR
HARRISBURG, PENNSYLVANIA
17101-1919

SECRETARY OF AGING

(717) 783-1550

February 14, 2012

Mr. Phillip R. Durgin
Executive Director
Legislative Budget and Finance Committee
Room 400, Finance Building
Harrisburg, PA 17105-8737

Dear Mr. Durgin:

Thank you for the opportunity to review and respond to your study of Pennsylvania's Lottery and the programs it supports for older Pennsylvanians. The Department of Aging and Pennsylvania's older persons are fortunate to have the rich benefit of services afforded to them through the support of Pennsylvania's Lottery.

The report presents four major recommendations, none of the recommendations exclusively to programs administered by the Department of Aging. I will confine my comments to the three recommendations that have the most direct relevance to the operation of the Department of Aging.

Recommendation One. The Pennsylvania Lottery should continue to expand its retail network to facilitate an increase in tickets sales.

The Department of Aging is supportive of this recommendation. Lottery sales trends are closely tied to growth trends in the retail network. With a growing population of older Pennsylvanians, the Department has long recognized the importance of continuing to grow the retail network. The Department has had a long history of partnering with the Department of Revenue and the Lottery to attract new retailers to the Pennsylvania Lottery. Through a partnership with the PACE program, the Lottery has been able to attract new retailers to the program.

Recommendation Three. The General Assembly should limit the use of Lottery Fund monies to those programs and services currently funded in that manner.

The Department of Aging is supportive of this recommendation. The Lottery Fund should remain limited to programs that support older Pennsylvanians. Pennsylvania currently has the fourth largest percentage of seniors in the country. With the number of seniors projected to increase significantly over the next decade, the Department believes it is prudent to ensure that services vital to keep seniors in their homes and communities remain available to them. The Department would however suggest that the Lottery Fund not be so limited that it would preclude new services that are being developed to support seniors from being able to be supported by the Lottery.

Mr. Philip R. Durgin
February 14, 2012
Page 2

Recommendation Four. Greater effort should be given to the methods used in at least some of the Lottery-funded programs for making future projections.

The Department of Aging is supportive of this recommendation. The Department is moving to become more data driven. The Department is working to reinvent and re-architect how services are not only delivered but also measured and quantified. It still remains important to tell the story about service, but in a time with ever increasing fiscal demand, it is becoming increasingly important to be able to quantify the benefits as well.

The Department would like to again commend you for the quality of the report. We believe it conveys the importance of the services and supports afforded to older Pennsylvanians funded through the Pennsylvania Lottery.

Sincerely,

A handwritten signature in dark ink, appearing to read "Brian M. Duke", with a long horizontal flourish extending to the right.

Brian M. Duke
Secretary