

**77<sup>th</sup> OREGON LEGISLATIVE ASSEMBLY – 2013 Session  
BUDGET REPORT AND MEASURE SUMMARY**

**MEASURE: SB 5532-A**

**JOINT COMMITTEE ON WAYS AND MEANS**

**Carrier – House: Rep. Nathanson  
Carrier – Senate: Sen. Johnson**

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**Action:** Do Pass as Amended and as Printed A-Engrossed

**Vote:** 26 – 0 – 0

House

Yeas: Barker, Buckley, Frederick, Freeman, Hanna, Huffman, Jenson, Komp, McLane, Nathanson, Read, Richardson, Smith, Tomei, Williamson

Nays:

Exc:

Senate

Yeas: Bates, Devlin, Edwards, Girod, Hansell, Johnson, Monroe, Steiner Hayward, Thomsen, Whitsett, Winters

Nays:

Exc:

**Prepared By:** Jim Carbone, Department of Administrative Services

**Reviewed By:** Steve Bender, Legislative Fiscal Office

**Meeting Date:** July 7, 2013

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Agency

Various Agencies – Lottery Allocation

Biennium

2013-15

2011-13

## **Summary of Revenue Changes**

The Oregon Lottery collects revenues from traditional and video lottery gaming. It pays player prizes and its operating expenses out of these revenues and then transfers the balance (net profits) to the Administrative Services Economic Development Fund (EDF). The Department of Administrative Services (DAS) then distributes funds from the EDF in adherence with constitutional and statutory funding priorities, including specific Legislative allocations. The amounts outlined in this bill are based on the Lottery revenue forecast from the DAS Office of Economic Analysis as of May 16, 2013. As actual amounts vary, the allocations or distributions set forth within may also vary – in some cases requiring related expenditure limitation adjustments.

The Oregon Lottery transfers Lottery Funds to the Administrative Services EDF on a quarterly basis. From each quarterly transfer, a number of dedicated distributions are required by the Oregon Constitution or are provided for in Oregon Revised Statutes (ORS), including:

- The Oregon Constitution requires that 18 percent of net proceeds be distributed to the Education Stability Fund.
- The Oregon Constitution requires that 15 percent of net proceeds be distributed to the Parks and Natural Resources Fund.
- Oregon statute requires that 2.5 percent of net proceeds of video lottery gaming be distributed to the counties for economic development projects. Beginning with the 2005-07 biennium, 50 percent of the operating costs for the Economic Revitalization Team (ERT) established by ORS 284.555 are also funded from this source. Beginning with the 2013-15 biennium, 50 percent of the new funding for Regional Solutions positions in Oregon Business Development Department are also funded from this source.
- Oregon statute requires that one percent of net profits be distributed to the Sports Lottery Account for sports programs at state institutions of higher education and for scholarships.
- Oregon statute requires that one percent of net profits be transferred to the Oregon Health Authority for Gambling Addiction prevention and treatment programs.
- Oregon statute requires that one percent of the net profits, not to exceed \$1.53 million annually, be transferred to the County Fair account. The maximum amount is adjusted each biennium pursuant to certain changes in the Consumer Price Index.
- Oregon statute requires that annual debt service payments for outstanding lottery bonds be satisfied before allocating for other purposes.

Finally, the Legislature makes other allocations from the EDF within authorized public purposes. These purposes include job creation, economic development and public education. Currently, the bulk of allocations are made to the Department of Education for the State School Fund and to the Oregon Business Development Department for various program expenditures. During the 2013-15 biennium, debt service requirements will comprise approximately 23.4 percent of the total distributions from this account.

Debt service allocations are paid annually. Interest earned on the EDF remains within the fund itself. If at the end of any quarter funds remain undistributed, they will remain in the EDF for allocation in future quarters. If in any quarter revenue in the EDF is insufficient to pay for quarterly distribution of allocations, DAS will first fund debt service obligations. Remaining revenues will be distributed in a prorated manner.

## **Summary of Capital Construction Subcommittee Action**

### Allocation of Lottery Revenue

Senate Bill 5532 allocates lottery revenue from the EDF. The amounts outlined in this bill are based on the Lottery revenue forecast from the DAS Office of Economic Analysis as of May 16, 2013. The attached tables display the Lottery Funds allocated by the Subcommittee from the EDF. These include allocations authorized in this bill, SB 5532, as well as SB 813 and HB 2323. The 2013-15 allocations are summarized below.

- A total of \$241.6 million Lottery Funds is allocated for debt service for outstanding bonds. These funds are allocated to the DAS since the DAS Capital Investment Section manages debt service for the state. DAS will transfer the necessary funding to the Department of Education, Oregon University System, Oregon Business Development Department, Housing and Community Services Department, Department of Transportation, Department of Community Colleges and Workforce Development, Department of Forestry, Department of Energy, and the Water Resources Department for the payment of debt on existing lottery bonds. No allocations are included to pay debt service for lottery revenue bonds issued in the 2013-15 biennium.
- The State School Fund is allocated \$327.4 million Lottery Funds.
- A total of \$65.3 million Lottery Funds is allocated for the programs of the Oregon Business Development Department. This total excludes amounts allocated for debt service payments on Lottery revenue bonds, but includes \$7.7 million in SB 5532 for Shared Services; \$54.2 million in SB 5532 for Business, Innovation and Trade; and \$1.1 million in SB 5532 for the Film and Video Office. Note that additional lottery allocations are made in SB 813 (\$281,076 for Seismic Rehabilitation Grants) and HB 2323 (\$100,000 for the Oregon Growth Board and \$1.9 million for the Oregon Growth Fund).
- The Office of the Governor is allocated \$3.3 million Lottery Funds for the Economic Revitalization Team. Half of this funding will come from a reduction in the video lottery proceeds that are distributed to counties for economic development.
- The Department of Forestry is allocated \$2.9 million Lottery Funds for the Eastern Oregon Forest Collaboration.

### Education Stability Fund

A constitutional amendment approved by Oregon voters in 1997, and amended in 2002, requires that 18 percent of net lottery proceeds be transferred to the Education Stability Fund. Interest earnings on this fund are continuously appropriated for the benefit of education programs. These earnings are split 75 percent to the Oregon Education Fund, which is currently used to help pay debt service on lottery bonds that were previously issued for the Department of Education, and 25 percent to the Oregon Student Access Commission for Opportunity Grants.

Ten percent of the amount deposited in the Education Stability Fund is deposited into the Oregon Growth Account within the Fund. All declared earnings from this account are continuously appropriated to the Oregon Education Fund and the Oregon Student Assistance Commission. The transfers and distributions relating to the Education Stability Fund as described here are established by the Oregon Constitution and by other statutes – therefore Senate Bill 5532 does not include provisions relating to them.

### Parks and Natural Resources Fund

Ballot Measure 76, approved by Oregon voters in 2010, requires 15 percent of net lottery proceeds to be transferred to the Parks and Natural Resources Fund. This fund is continuously appropriated for the benefit of parks and recreation and for native species protection and restoration. This transfer is established by the Oregon Constitution. Senate Bill 5532, therefore, does not include provisions relating to it.

### County Economic Development

ORS 461.547 requires that 2.5 percent of net proceeds of video lottery gaming be distributed to the counties for economic development projects. Beginning with the 2005-07 biennium, 50 percent of the operating costs for the Economic Revitalization Team (ERT) established by ORS 284.555 have also been funded from this source.

The Subcommittee approved allocating a fixed dollar amount for county economic development during the 2013-15 biennium, rather than the percentage allocation described in statute. The fixed dollar amount is \$33,849,166, which is equal to 2.5 percent of the amount of video lottery proceeds forecasted in the May 2013 revenue forecast, minus one-half of the Economic Revitalization Team allocation and one-half of the new funding for Regional Solutions positions in Oregon Business Development Department.

### Gambling Addiction Prevention and Treatment

The 1999 Legislature statutorily dedicated one percent of net lottery proceeds to be transferred to the Oregon Health Authority to fund gambling addiction programs in the state.

Instead of the percentage allocation described in statute, the Subcommittee approved a fixed allocation of \$10,545,832 for the 2013-15 biennium.

### Oregon University System Sports Lottery Account

Beginning in 2007, one percent of net lottery proceeds are dedicated to the Oregon University System for distribution to institutions to offset the costs of intercollegiate athletic programs and for academic scholarships.

Instead of the percentage allocation described in statute, the Subcommittee approved a fixed allocation of \$8,000,000 for the 2013-15 biennium.

#### County Fairs

The 2001 Legislature statutorily dedicated one percent of net lottery proceeds, with certain limitations, for distribution to county fair programs throughout the state. This amount is adjusted by inflation each biennium.

Instead of the percentage allocation described in statute, the Subcommittee approved a fixed allocation of \$3,669,380 for the 2013-15 biennium.

#### Lottery Funds Expenditure Limitation

Lottery Funds expenditure limitation related to these allocations is generally contained within the respective agency budget bills and in House Bill 5008.

### **2011-13 Lottery Allocation Change**

The 2011-13 allocation of Lottery Funds from the Administrative Services Economic Development Fund for County Fairs is increased by \$10,349.

## LOTTERY FUNDS CASH FLOW SUMMARY

	2011-13 Estimated Budget	2013-15 Legislatively Adopted Budget
<b>ECONOMIC DEVELOPMENT FUND</b>		
RESOURCES		
Beginning Balance	\$333,528	\$3,491,087
REVENUES		
Transfers from Lottery		
Net Proceeds	1,071,637,267	1,054,583,137
Administrative Savings	8,005,457	
Other Revenues	4,027,987	1,400,000
Total Revenue	1,083,670,711	1,055,983,137
TOTAL RESOURCES	1,084,004,239	1,059,474,224
DISTRIBUTIONS / ALLOCATIONS		
Allocation of Video Lottery Revenues to Counties	(36,309,783)	(33,849,166)
Allocation to OUS for Sports Lottery Account	(8,405,488)	(8,000,000)
Distribution to the Education Stability Fund	(194,335,690)	(189,824,965)
Distribution to the Parks and Natural Resources Fund	(161,946,409)	(158,187,471)
Allocation to the Problem Gambling Treatment Fund	(10,350,984)	(10,545,832)
Allocation to the State School Fund	(363,665,513)	(327,374,109)
Debt Service Allocations	(248,243,839)	(241,594,783)
Other Agency Allocations	(57,255,446)	(75,097,898)
<b>TOTAL DISTRIBUTIONS / ALLOCATIONS</b>	<b>(1,080,513,152)</b>	<b>(1,044,474,224)</b>
<b>ENDING BALANCE</b>	<b>\$3,491,087</b>	<b>\$15,000,000</b>
<b>EDUCATION STABILITY FUND</b>		
(not including Oregon Growth Account)		
RESOURCES		
Beginning Balance	5,061,518	7,584,467
Revenues		
Transfer from the Economic Development Fund	184,804,102	170,842,468
Interest Earnings	618,295	984,890
Total Revenue	185,422,397	171,827,358
TOTAL RESOURCES	190,483,915	179,411,825
DISTRIBUTIONS		
Oregon Education Fund - Lottery Bond Debt Service	(493,010)	(738,668)
Oregon Student Access Commission - Opportunity Grants	(164,337)	(246,222)
State School Fund	(182,239,000)	0
<b>TOTAL DISTRIBUTIONS</b>	<b>(182,896,347)</b>	<b>(984,890)</b>
<b>ENDING BALANCE</b>	<b>\$7,587,568</b>	<b>\$178,426,935</b>

## 2013-15 LOTTERY FUNDS ALLOCATIONS AND EXPENDITURES

	New Lottery Funds Allocation	Beginning Lottery Balance	Interest and Other Earnings	LAB Expenditure Limitation	Ending Lottery Balance
<b>ECONOMIC DEVELOPMENT FUND</b>					
DEBT SERVICE COMMITMENTS					
Department of Education Outstanding bonds	41,488,406	454,559		41,942,965	
Oregon University System Outstanding bonds	25,550,980	20,509		25,571,489	
Oregon Business Development Department Outstanding bonds	47,857,951	168,986		48,026,937	
Housing and Community Services Dept. Outstanding bonds	9,411,695	17,271		9,428,966	
Department of Transportation Outstanding bonds	93,841,992	111,978		93,953,970	
Department of Administrative Services Outstanding bonds	8,808,024	84,366		8,892,390	
Community Colleges & Workforce Development Outstanding bonds	9,380,970	140,057		9,521,027	
Department of Forestry Outstanding bonds	2,519,440	3,692		2,523,132	
Department of Energy Outstanding bonds	2,162,153	3,897		2,166,050	
Water Resources Department Outstanding bonds	573,172	853		574,025	
OTHER ALLOCATIONS					
Oregon University System Sports Lottery Account	8,000,000			8,000,000	
Department of Education State School Fund	327,374,109			327,374,109	
Oregon Growth Fund	1,900,000				
DAS - Distribution to County Fairs	3,669,380	23,682		3,669,380	23,682
Oregon Business Development Department Shared Services	7,819,653			7,819,653	
Business, Innovation, Trade	54,432,117	4,069,326		58,501,443	
Film and Video	1,130,544			1,130,544	
Office of the Governor Economic Revitalization Team	3,261,204	84,902		3,261,204	84,902
Oregon Health Authority Problem Gambling Treatment Fund	10,545,832		7,338	10,545,832	7,338
Forestry Department Eastern Oregon Forest Collaboration	2,885,000			2,885,000	
<b>TOTAL ECONOMIC DEVELOPMENT FUND</b>	<b>\$662,612,622</b>	<b>\$5,184,078</b>	<b>\$7,338</b>	<b>\$665,788,116</b>	<b>\$2,015,922</b>
<b>EDUCATION STABILITY FUND / OREGON EDUCATION FUND</b>					
Oregon Student Access Commission Oregon Opportunity Grants	246,222	2,704,861		246,223	2,704,860
Department of Education Outstanding Education bonds	738,668	271,976		428,111	582,533
<b>TOTAL EDUCATION STABILITY FUND / OEF</b>	<b>\$984,890</b>	<b>\$2,976,837</b>	<b>\$0</b>	<b>\$674,334</b>	<b>\$3,287,393</b>