



THE COLORADO LOTTERY

by Raegan Robb

State lotteries are operated in 43 states and the District of Columbia according to the laws of each jurisdiction, with proceeds used for various budget needs. Colorado voters adopted an amendment to the state constitution in 1980, which allowed the General Assembly to establish state-supervised lotteries to help fund outdoor recreation and capital construction. The lottery distribution formula has been altered several times since 1980, with the current formula added to the Colorado Constitution (Article XXVII) in 1992, and amended in 2000. The State Lottery Commission can change the types of lottery games offered each year, but the distribution formula is set by the state constitution.

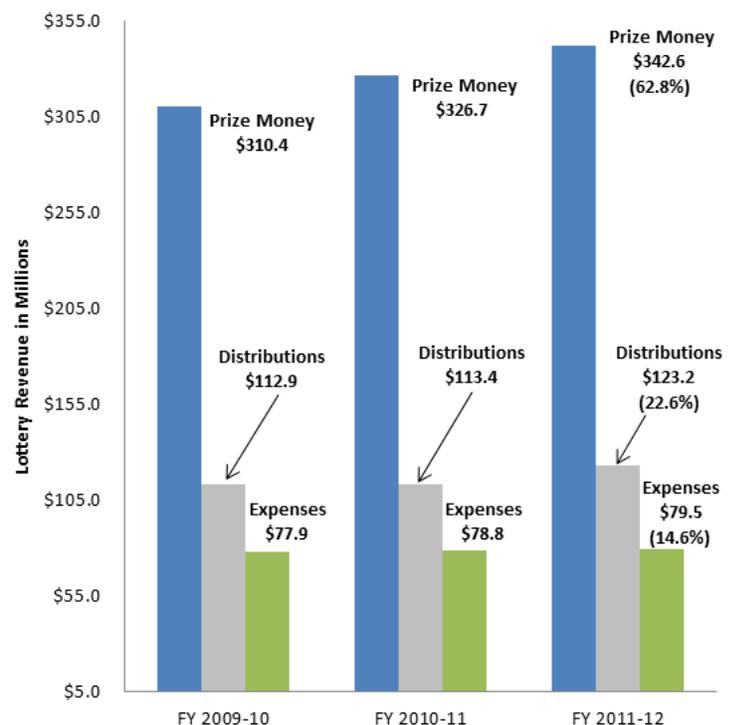
State law requires that lottery prizes be no less than 50 percent of lottery ticket revenue and all remaining proceeds after prizes and expenses are allocated for outdoor recreation and open space preservation. A small portion is available to fund health and safety issues in public schools. This *issue brief* provides information on the Colorado Lottery and the distribution of revenue from lottery games.

FY 2011-12 Lottery Distribution Highlights

The lottery had a record year in FY 2011-12, with \$545.3 million in total revenue — a 5.1 percent increase over prior year revenue. For every dollar spent on lottery games in FY 2011-12, 62.8 percent (\$342.6 million) went to lottery winners, 22.6 percent (\$123.2 million) was distributed to beneficiaries, and 14.6 percent (\$79.5 million) was required for annual expenses. The lottery distribution for FY 2009-10 through FY 2011-12 is shown in Figure 1.

The increase in FY 2011-12 sales over the prior year was the result of significant scratch ticket sales, and an increase in online games, such as State Lotto, Cash 5, MatchPlay, raffles, Mega Millions, and Powerball. Scratch ticket sales rose by \$19.3 million in FY 2011-12 and online games showed an overall increase of \$7.1 million, due to an increase in Powerball, which changed to a \$2 ticket in January 2012, and the historic Mega Millions jackpot that reached \$656 million in March 2012.

Figure 1
Lottery Revenue Distribution
FY 2009-10 through FY 2011-12



Source: Colorado Lottery Division.

Prizes. Lottery prizes will vary based on several factors in a given year, but generally, prize expenses will increase or decrease in relation to product sales. Factors that are not under the Colorado Lottery’s control include: annual sales; unclaimed prizes; the number of jackpots won; annuity versus cash payouts; and interest rates affecting the cost of annuities. The prize payouts increased \$15.9 million in FY 2012-11 over the prior year, an increase of 4.9 percent.

Expenses. Other costs are divided between game-related and non-game-related expenses. Game-related operating expenses include: the costs of tickets; vendor fees; retailer commissions and bonuses; and other administrative expenses. The Colorado Lottery accrued approximately \$51.0 million in game-related operating expenses during FY 2011-12, but made certain changes to increase the available revenue to beneficiaries from 21.8 percent to 22.6 percent. The Colorado Lottery also accrued \$28.5 million in non-game-related expenses in FY 2011-12, which includes promotions and advertising, equipment maintenance, software license fees, employee compensation, current liabilities, and capital asset depreciation.

Beneficiaries. In FY 2011-12, total lottery distributions were \$123.2 million. Pursuant to the formula in the Colorado Constitution, lottery proceeds must be distributed to beneficiaries as follows:

- 10 percent to the Colorado Division of Parks and Wildlife;
- 40 percent to the Conservation Trust Fund; and
- 50 percent to the Great Outdoors Colorado Trust Fund (GOCO).

Division of Parks and Wildlife. Colorado’s state parks received \$12.3 million in FY 2011-12 for trail construction and maintenance, land acquisitions, equipment purchases, and facility maintenance.

Conservation Trust Fund (CTF). The CTF distributed \$49.3 million to towns, cities, counties, and special districts in FY 2011-12 for open space and land acquisitions, park maintenance, equipment purchases, and for the development and restoration of local recreational facilities.

GOCO. GOCO distributed \$57.1 million in FY 2011-12 for local parks and outdoor recreation facilities, trail construction and maintenance, access to rivers and lakes, and the preservation of ranchlands, view corridors, and wildlife habitats. However, lottery revenue to GOCO may be capped by the distribution formula.

GOCO spillover for school safety. The annual distribution to the GOCO fund is limited to \$35 million, adjusted annually for inflation using 1992 as the base year. A "spillover" occurs when the distribution cap is reached in any one year. These spillover funds are used at the discretion of the General Assembly to address health and safety issues in public schools. Currently, these funds are held in the Public School Capital Construction Assistance Fund. In FY 2011-12, this fund received \$4.6 million from the spillover.

Total Distribution of Lottery Proceeds

Over the course of 30 years, the Colorado Lottery has distributed nearly \$2.5 billion to beneficiaries. The CTF has received the largest amount of revenue at \$930.5 million, about 38 percent of all benefits. Table 1 shows the total lottery proceeds that have been distributed to all beneficiaries from the first year of operation to the present.

Table 1
Total Lottery Distribution
(in millions)

Distribution	Total Distribution	Percentage of Total Distribution
Conservation Trust	\$930.5	38.0%
GOCO	\$789.8	32.2%
Parks and Wildlife	\$232.5	9.5%
Public Schools (GOCO Spillover)	\$55.9	2.3%
Capital Construction	\$440.5	18.0%
General Fund	\$1.3	0.1%
Totals	\$2,450.5	100.0%

Source: Colorado Department of Revenue.