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FROM: Melissa McCaw, OPM Secretary

SUBJECT: Online Lottery Gaming Revenue and the Debt-Free Community College Program

DATE: February 5, 2020

This report is being submitted pursuant to Section 364 of Public Act 19-117. The Act requires the Secretary of the Office of Policy and Management to submit a report to the General Assembly by February 5, 2020 regarding the feasibility of the Connecticut Lottery Corporation offering an online lottery gaming program and whether the revenue from such program would be sufficient to offset the costs of the debt-free community college program established under Section 362 of the Act. This document fulfills the reporting requirement found in the Act.

c: Hon. Gregory Haddad, Co- Chair, Higher Education and Employment Committee
Hon. Will Haskell, Co-Chair, Higher Education and Employment Committee
Hon. Carol Hall, Ranking Member, Higher Education and Employment Committee
Hon. Tony Hwang, Ranking Member, Higher Education and Employment Committee
Kendall Wiggin, State Librarian
Neil Ayers, Director, Office of Fiscal Analysis

Online Lottery and Debt-Free College Feasibility Report

Section 364 of Public Act 19-117 requires the Office of Policy and Management (OPM) to determine the feasibility of allowing the Connecticut Lottery Corporation to offer its existing lottery draw games through the corporation's Internet website, online service or mobile application. If such online offering is feasible, the Act requires a determination by OPM of whether the revenue from online gaming is sufficient to offset the costs of the debt-free community college program established under section 362 of the Act, and to produce a report outlining the results of that determination. The objectives of this report are to (1) indicate whether the revenue derived from new online lottery gaming would be sufficient to fund the debt-free community college program, and (2) propose budget adjustments to cover the costs of the debt-free community college program if online lottery gaming revenue is deemed insufficient. The act also requires OPM to consult with the Connecticut Lottery Corporation, Attorney General and Consumer Protection Commissioner regarding the feasibility of allowing the Corporation to offer its existing lottery draw games online.

Online Lottery Background

The Connecticut Lottery Corporation (CLC) is proposing legislation that would authorize it to establish an online gaming program. The proposal would allow CLC to sell lottery tickets for lottery draw games through the corporation's Internet web site, online service or mobile application. The following draw games would be offered through the online gaming program: Play3 Day, Play4 Day, Play3 Night, Play4 Night, Powerball, Lotto, Cash 5, Mega Millions and Lucky For Life. The CLC would implement certain robust safeguard features as follows:

- 1) Verify that a person who establishes an online lottery account to purchase a lottery ticket is eighteen years of age or older and is located in the state;
- 2) Restrict the sale of lottery tickets to transactions initiated and received within the state;
- 3) Allow a person to deposit money into an online lottery account through the use of a credit card, debit card, or verified bank account;
- 4) Limit a person with an online lottery account to using only one debit card or credit card;
- 5) Provide that any money in an online lottery account belongs solely to the owner of the account and may be withdrawn by the owner;
- 6) Establish a voluntary self-exclusion process to allow a person to exclude himself or herself from establishing an online lottery account or purchasing a lottery ticket through such program;
- 7) Independently review and assess, no less frequently than every five (5) years, industry standards for responsible play;
- 8) Provide responsible gambling and problem gambling information;
- 9) Limit the amount of money a person may deposit into an online lottery account; and
- 10) Limit the amount of money a person may spend per day through such program.

Online Lottery Gaming Revenue

A five-year projection of the annual online lottery gaming revenue was provided by CLC. Over the five-year timeframe for these projections, CLC estimates a total of \$141.8 million in online lottery sales and \$43.8 million in net revenue. Annual net revenue projected from online lottery gaming sales is shown in the table below (\$ in millions):

<u>Fiscal Year</u>	<u>Estimated Revenue</u>
FY 2021*	\$ 1.5
FY 2022	\$ 4.4
FY 2023	\$ 7.4
FY 2024	\$ 11.9
FY 2025	\$ 18.6

*FY 2021 assumes a January 1, 2021 start date. Program anticipates a six-month lead time.

Debt-Free College Background

Established by the Board of Regents pursuant to Public Act 19-117, the debt-free community college program entitled Pledge to Advance Connecticut (PACT) will provide grants to qualifying students to fully cover tuition and fees at Connecticut community colleges beginning in the Fall 2020 semester. As revised by the Governor’s FY 2021 budget, the program will provide grants to students with an Expected Family Contribution up to \$7,500 who graduated from Connecticut high schools in the past year and are enrolling in community college full-time. The grants will equal the greater amount of the following:

- 1) A student’s remaining tuition and fee costs after all other available grants and scholarships are accepted; or
- 2) A minimum award of \$250 per semester.

The Debt-Free Community College program will provide a valuable benefit to Connecticut students who may currently lack the financial means to continue their education.

Debt-Free College Total Cost

Under current law, the debt-free college program is available to first-time, in-state Connecticut residents who enroll full time, make satisfactory academic progress while enrolled, and have completed the Free Application for Federal Student Aid (FAFSA). The expected costs of the program in current law are shown in the table below (\$ in millions):

<u>Fiscal Year</u>	<u>Estimated Cost</u>
FY 2021	\$ 16.8
FY 2022	\$ 29.9
FY 2023	\$ 34.0
FY 2024	\$ 35.6
FY 2025	\$ 37.4

As revised by the Governor’s proposed FY 2021 budget, in addition to current law requirements, eligibility for the program would require a student to have graduated high school in the past year and have an Expected Family Contribution (EFC) (calculated from FAFSA as a measure of ability to pay) up to \$7,500. With these revisions, the expected costs of the program are as follows (\$ in millions):

<u>Fiscal Year</u>	<u>Estimated Cost</u>
FY 2021	\$ 2.5
FY 2022	\$ 4.0
FY 2023	\$ 4.3
FY 2024	\$ 4.5
FY 2025	\$ 4.7

The attached appendix provides program costs both with and without the \$7,500 EFC limitation.

Guided Pathways

The Governor’s FY 2021 budget also includes a \$2.1 million appropriation to support the implementation of Guided Pathways in community colleges. The Guided Pathways model emphasizes clear program direction and guidance to help students determine and achieve their end goals. The funding provided will support additional advisors at community colleges, ensuring that incoming students who receive debt-free college awards can effectively complete credits and obtain their degrees.

Revenue vs. Cost

Online lottery gaming revenue is projected to fall short of debt-free college cost estimates by \$1 million in FY 2021, but is projected to be sufficient to fund the debt-free college program by the second year of its implementation (FY 2022). The ideal approach of supplementing debt-free college with Guided Pathways to enhance student success increases implementation costs that exceed online lottery revenue in FY 2021 by \$3.1 million and FY 2022 by \$0.2 million. Both programs are projected to be adequately funded by FY 2023, as shown below.

Net Surplus / (Deficit)
(in Millions)

<u>Fiscal Year</u>	<u>Estimated Online Gaming Revenue</u>	<u>Estimated Debt-Free College Cost</u>	<u>Surplus / (Deficit)</u>	<u>Estimated Debt-Free College and Guided Pathways Cost</u>	<u>Surplus / (Deficit)</u>
FY 2021	\$1.5	\$2.5	(\$1.0)	\$4.6	(\$3.1)
FY 2022	\$4.4	\$4.0	\$0.4	\$4.6	(\$0.2)
FY 2023	\$7.4	\$4.3	\$3.1	\$4.3	\$3.1
FY 2024	\$11.9	\$4.5	\$7.4	\$4.5	\$7.4
FY 2025	\$18.6	\$4.7	\$13.9	\$4.7	\$13.9

Note: Per Section 365 of PA 19-117, any surplus generated shall fund a regionalization subaccount in the General Fund’s regional planning incentive account.

Consultation with Consumer Protection Commissioner and Attorney General

Section 364 of Public Act 19-117 requires OPM to consult with the Attorney General and Consumer Protection Commissioner regarding the feasibility of allowing CLC to offer its existing lottery draw games online.

The Consumer Protection Commissioner identified that online gaming would entail increased regulatory costs, and that developing and passing regulations required to implement the program could take up to one year.

OPM also consulted with the Office of the Governor and the Office of the Attorney General about online lottery gaming. It was concluded that it would be feasible to authorize CLC to sell tickets over the internet for certain draw games, so long as the authorization: (1) clearly defines those games and the manner in which such games are offered, and (2) does not permit CLC to conduct any other online activities that might constitute “commercial casino games” or “video facsimiles of games of chance” as those terms are defined in the respective Gaming Compacts, Procedures or Memoranda of Understanding to which the state is a party with the state’s two federally recognized Native American tribes. Consistent with those conclusions, OPM is proposing legislation that would authorize CLC to offer online lottery gaming in a manner that is legally feasible.

Conclusion

This report finds that the revenue generated from the proposed online lottery gaming program is insufficient to fund the debt-free community college program in current law at any time during the first five years (see appendix). However, such revenue is expected to offset debt-free community college through the revised criteria in the Governor’s proposal beginning in FY 2023 with the Guided Pathways initiative. The shortfall in FY 2021 is addressed by the general fund appropriation in the Governor’s recommended budget adjustments.

Appendix

The table below show expected Debt-Free Community College costs in current law compared to projected Online Lottery Gaming revenue for a five year period.

Net Surplus / (Deficit)			
(in Millions)			
<u>Fiscal Year</u>	Estimated Online Lottery Gaming Revenue	Estimated Debt-Free College Cost	Surplus / (Deficit)
FY 2021	\$1.5	\$16.8	(\$15.3)
FY 2022	\$4.4	\$29.9	(\$25.5)
FY 2023	\$7.4	\$34.0	(\$26.6)
FY 2024	\$11.9	\$35.6	(\$23.7)
FY 2025	\$18.6	\$37.4	(\$18.8)

The tables below show Debt-Free Community College cost estimates with and without Expected Family Contribution (EFC) means test. Both scenarios assume the Debt-Free College program will only be available to recent high school graduates (i.e. within one year of completion).

With \$7,500 EFC Limit (\$ in millions)

<u>Fiscal Year</u>	Online Lottery Gaming Revenue	Debt-Free College Cost	Guided Pathways Cost	Surplus / (Deficit)
FY 2021	\$1.5	\$2.5	\$2.1	(\$3.1)
FY 2022	\$4.4	\$4.0	\$0.6	(\$0.2)
FY 2023	\$7.4	\$4.3	\$0.0	\$3.1
FY 2024	\$11.9	\$4.5	\$0.0	\$7.4
FY 2025	\$18.6	\$4.7	\$0.0	\$13.9

Without \$7,500 EFC Limit (\$ in millions)

<u>Fiscal Year</u>	Online Lottery Gaming Revenue	Debt-Free College Cost	Guided Pathways Cost	Surplus / (Deficit)
FY 2021	\$1.5	\$5.2	\$2.1	(\$5.8)
FY 2022	\$4.4	\$9.0	\$0.6	(\$5.2)
FY 2023	\$7.4	\$9.9	\$0.0	(\$2.5)
FY 2024	\$11.9	\$10.3	\$0.0	\$1.6
FY 2025	\$18.6	\$10.8	\$0.0	\$7.8