



**State of Arkansas
Department of Finance and Administration
Fiscal Impact Statement**

Bill: SB232

Bill Subtitle: TO AMEND VARIOUS PROVISIONS OF THE ARKANSAS SCHOLARSHIP LOTTERY ACT; AND TO DECLARE AN EMERGENCY.

Sponsor:

Sen. Hickey

Basic Change:

SB232 amends various provisions of state law regarding operations of the Office of Arkansas Lottery (OAL).

SB232 eliminates the Scholarship Shortfall Reserve Trust Account ("Shortfall Account"). The bill transfers the \$20 million fund balance in the Shortfall Account to the Office of the Arkansas Lottery's Unrestricted Net Position Account to reduce the deficit to \$0.00. Any remaining funds in the Shortfall Account after this transfer will be transferred to the Lottery Scholarship Trust Account.

SB232 amends several definitions, as follows:

- Amends the definition of "lottery proceeds" to include revenue from interest;
- Amends the definition of "net proceeds" to include any adjustments required to meet the Multi-State Lottery Association reserve requirements and to include fidelity fund revenue that exceeds a fidelity fund balance of \$500,000; and
- Amends the definition of "operating expenses" to delete reimbursements to the Division of Higher Education ("ADHE") for both the costs of administering scholarship awards and to replenish nonlottery state education resources expended by ADHE on scholarship awards.

SB232 also provides that the OAL shall file an annual report with the Governor and Legislative Council showing revenue, expenses, and changes in net assets for the last ten fiscal years. Current law requires that the report cover the period since inception of the lottery.

This bill will allow the OAL to calculate its net proceeds each month using the full accrual basis of accounting using generally accepted accounting principles (GAAP), rather than using the current cash to accrual basis required by statute. This will eliminate the variances in the Unrestricted Net Position Account, which can create monthly and annual reporting issues and misconceptions as to how well, or how poorly, the OAL is performing.

Additionally, operating expenses of ADHE will not be considered operating expenses of OAL. ADHE will continue to invoice OAL, with review and approval of the Lottery Oversight Subcommittee and ADHE expenses will be paid by OAL out of net proceeds. All scholarships and the administrative expenses to ADHE will be paid out of the net proceeds, which is consistent with the legislative intent of the creation of the Arkansas Scholarship Lottery Act.

SB232 contains an emergency clause and would be effective on July 1, 2025.



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Fiscal Impact:

None. The Lottery does not receive appropriation from the General Assembly, and all operating expense are paid from lottery revenue and not from general revenue.

Taxpayer Impact:

None.

Resources Required:

None.

Time Required:

Adequate time is provided for implementation.

Procedural Changes:

Procedurally, this accounting adjustment will eliminate the Shortfall Account and move that \$20 million to correct the deficit in the Unrestricted Net Position Account. Last month, that amount was approximately \$16 million. Any remaining money will go to net proceeds. This will be a one-time transfer and will eliminate the deficit. Now that scholarships are paid out based on the previous year's revenues, OAL will no longer have a need for the Shortfall Account.

Other Comments:

As a reference point, the Unrestricted Net Position Account deficit was \$6 million in 2012 but has grown as revenues have grown because of the accrual to cash adjustment and OPEB liability requirements. At the end of fiscal year 2024, the Unrestricted Net Position Account deficit was \$19.45 million. For an entity with \$600 million in revenue and \$100 million in transfers to net proceeds annually, the OAL should not have such a large deficit in its Unrestricted Net Position Account.

Legal Analysis:

None.