

COMMISSION AGENDA ITEM

Item 9(e) – Fiscal Year 2024-25 Budget



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To: California State Lottery Commission

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Director

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Subject: Item 9(e) – FY 2024-25 Budget

ISSUE

Pursuant to California State Lottery (Lottery) policy, the Lottery is required to present the California State Lottery Commission (Commission) with a proposed annual budget each June.

BACKGROUND

The Lottery's proposed budget for Fiscal Year (FY) 2024-25 presents a sales goal of \$9.10 billion and is estimated to provide \$2.08 billion to public education. This proposed budget includes resources to responsibly maintain operational growth as well as the resources necessary to implement the Lottery's FY 2024-25 Business Plan. The budget represents the financial plan to deploy strategies to further the Lottery's current multi-year strategic plan and drive bottom-line contributions to education.

DISCUSSION

Development of the Lottery's FY 2024-25 budget began by zero-basing divisional operating expense budgets. A preliminary sales projection was used to determine the availability of resources to fund proposed business plan initiatives and address operational improvements to drive increased sales and contributions to public education.

This comprehensive assessment of sales goals, the funding needed to deliver those goals, and the resulting contribution to education culminates in the proposed FY 2024-25 budget presented for approval. A summary of the elements of the proposed FY 2024-25 budget is presented below:

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Sales

Total sales for all Lottery products are projected to be \$9.10 billion for FY 2024-25; this represents a decrease of \$263 million, or 2.8 percent, from the estimated year-end sales levels for FY 2023-24. The primary driver of this projected year-over-year decrease in sales is that the multi-state jackpot games (Mega Millions® and Powerball®) each experienced multiple instances of extremely high jackpot levels in FY 2023-24 (combined, there were 13 different draws for which the advertised jackpot was \$1 billion or higher) that fueled exponential growth in sales. Having this many jackpots of these levels is a statistical anomaly and cannot be assumed to repeat in the coming fiscal year. These decreases are partially offset by projected year-over-year growth in Scratchers® and Hot Spot® sales.

The following chart compares the FY 2023-24 year-end estimate with proposed sales goals for the FY 2024-25 budget.

Fiscal Years Comparison Chart

Comparison of Revenues			
FY 2023-24 Estimated Sales and Proposed FY 2024-25 Sales Goals			
(Dollars in Thousands)			
Sales:	Year-End Estimate FY 2023-24	Proposed Budget FY 2024-25	Difference
Scratchers	\$6,650,000	\$6,830,000	\$180,000
Multi-State Jackpot Games	1,598,000	1,175,000	(423,000)
SuperLotto Plus®	266,000	240,000	(26,000)
Hot Spot	424,800	438,000	13,200
Daily Games	424,200	417,000	(7,200)
Total Sales	\$9,363,000	\$9,100,000	(\$263,000)

Expenses

The following section describes costs associated with the FY 2024-25 budget.

Prize Expense

Prize expense is estimated to total \$6.0 billion in FY 2024-25. This is a decrease of \$107.8 million (1.8 percent) from the estimated FY 2023-24 prize expense mainly due to the decreased sales projection.

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Pursuant to Lottery policy, the Director is required to make a determination that prize payout levels across all games have been optimized for the coming fiscal year to ensure that funding for education is maximized annually. Since Scratchers sales account for more than 70 percent of total revenues and the Lottery has more direct influence on the sale of these tickets, the Lottery ran several product plan scenarios for Scratchers to identify the optimal mix yielding the highest contribution to education. The resulting estimated prize expense total is 66.2 percent of projected sales for FY 2024-25, which is within the range of 65 percent to 67 percent that was recommended as being ideal in an analysis that was conducted for the Lottery to determine the optimal prize payout rate.

Administrative Expenses

Administrative expenses include retailer compensation, gaming costs, and operating costs. The Lottery Act caps administrative expenses at 13.0 percent of total annual sales revenues.

Excluding the reserve for insurable risk and administrative spending reserve (described below), total administrative expenses for FY 2024-25 are estimated to be \$1.09 billion, a slight decrease of \$14.4 million (1.3 percent) from estimated administrative expenses for FY 2023-24. This year-over-year change primarily reflects the decreased sales projection partially offset by strategic investment in FY 2024-25 Business Plan initiatives and operational improvements to help achieve and sustain future growth.

Retailer compensation costs are estimated to total \$612.2 million for FY 2024-25, which represents a decrease of \$30.2 million (4.7 percent) from the FY 2023-24 year-end projection. This budget category includes the cost to pay the Lottery's more than 23,000 retail partners incentives to sell Lottery tickets and cash the associated eligible winning tickets. Retailers also earn bonuses for selling eligible winning jackpot/top prize tickets and certain winning tickets worth \$1.0 million or more. The year-over-year decrease in this item is primarily associated with the year-over-year decrease in projected sales for FY 2024-25.

Gaming costs are budgeted at \$150.5 million for FY 2024-25, which is a decrease of \$5.0 million (3.2 percent) from the FY 2023-24 year-end projection. This budget category includes the cost of operating the gaming system, gaming equipment installation and maintenance, and production and distribution of Scratchers tickets. This year-over-year decrease is due to the estimated decrease in overall sales, partially offset by the projected increase in Scratchers sales in FY 2024-25.

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Excluding the reserves, retailer compensation and gaming costs account for 69.7 percent of the Lottery's administrative expenses for FY 2024-25. The remaining administrative expenditures are the Lottery's operating costs, which include personnel costs, advertising/marketing costs, and other overhead costs. Operating costs also contain the funding and resources required to execute the FY 2024-25 Business Plan initiatives and funding for operational improvements which, combined, account for the vast majority of the projected year-over-year increase in this budget category.

Year-over-year personal services cost increases are mainly due to a general salary increase negotiated last year that becomes effective on July 1, the assumption that the Lottery will be more effective in filling vacancies in the coming year, the conversion of several permanent intermittent positions to full time positions to meet operational needs in the field, and the proposed addition of 8.0 new positions for FY 2024-25.

Also included within administrative expenses for FY 2024-25 is a \$5.0 million reserve for insurable risk to cover fiscal exposures for the areas of our organization that we are continuing to self-insure, as well as an \$84.2 million administrative spending reserve to act as a safeguard against future uncertainties. The administrative spending reserve also provides the Commission and the Lottery with the flexibility to take advantage of opportunities to increase funding for education that may emerge over the upcoming year. The administrative spending reserve is an element of the 13 percent of total revenues specified for administrative expenses. Pursuant to provisions of the Lottery Act, the entire unspent amount within both the administrative spending reserve and the reserve for insurable risk will be transferred directly to public education.

Summary

The proposed FY 2024-25 budget contains sales goals of \$9.10 billion, which, combined with the other elements in the budget, is estimated to result in \$2.08 billion in contributions to California public schools. The Lottery takes pride in this being its first budget that projects more than \$2 billion in supplemental funding being generated for education.

The \$9.10 billion sales goal and the approximately \$2.08 billion estimated contribution to education for FY 2024-25 are based on executing the annual Business Plan which is designed to result in the sustainable growth of future revenues. The proposed budget includes a balanced approach between actions that enable the Lottery to sustain growth in sales and contributions to public education in years to come.

RECOMMENDATION

Staff recommends that the Commission approve the Lottery's budget for FY 2024-25.