

COMMISSION AGENDA ITEM

Item 9(g) – Fiscal Year 2026-27 Budget



Date: June 16, 2026
To: California State Lottery Commission
From: Harjinder K. Shergill Chima, Director – *HKC*
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Subject: **Item 9(g) – Fiscal Year 2026-27 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 for the upcoming fiscal year.

BACKGROUND

The Lottery's budget prepared for Fiscal Year (FY) 2026-27 presents a sales goal of \$9.36 billion and is estimated to provide approximately \$2.06 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 2026-27 Business Plan. The budget represents the financial plan to deploy strategies to further the Lottery's multi-year strategic plan to drive bottom-line contributions to education. All goals and major initiatives tie back to one or more of the Lottery's five strategic objectives:

- Reduce reliance on big jackpots to meet financial goals by growing Draw Game sales outside of \$1 billion+ jackpots
- Continue eliminating barriers to play among infrequent Scratchers® players
- Expand efforts against Core Scratchers players to battle growing competition for the entertainment and gaming dollar
- Elevate the customer experience for players, retailers, and internal customers
- Transform and modernize Lottery programs and processes to reduce costs and/or allow staff more time for revenue generating initiatives

DISCUSSION

Development of the Lottery's FY 2026-27 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 2026-27 budget presented

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for approval. A summary of the elements of the proposed FY 2026-27 budget is presented below:

Sales

Total sales for all Lottery products are projected to be \$9.36 billion for FY 2026-27; this represents an increase of \$36.0 million, or 0.4 percent from the estimated year-end sales levels for FY 2025-26. Although current year Scratchers sales have been trending below goal in the second half of the fiscal year, the budget year assumes sales growth with the launch of an additional \$30 and \$40 game. The year-over-year decrease in multi-state game sales for the proposed budget is primarily due to better-than-expected performance achieved in the current fiscal year resulting from there being 10 Powerball® jackpot draws advertised at \$1 billion or more. Conversely, the year-over-year sales growth projected for both SuperLotto Plus® and the Daily Games is a function of sales in the current fiscal year coming in a little lower than projected, which is not expected to repeat in the coming fiscal year.

The following chart compares the FY 2025-26 year-end estimate with proposed sales goals for the FY 2026-27 budget.

Fiscal Years Comparison Chart

Comparison of Revenues			
FY 2025-26 Estimated Sales and Proposed FY 2026-27 Sales Goals			
(Dollars in Thousands)			
Sales:	Year-End Estimate FY 2025-26	Proposed Budget FY 2026-27	Difference
Scratchers	\$6,900,000	\$7,040,000	\$140,000
Multi-State Jackpot Games	1,323,500	1,205,000	(118,500)
SuperLotto Plus	233,500	240,000	6,500
Hot Spot®	455,000	455,000	0
Daily Games	412,000	420,000	8,000
Total Sales	\$9,324,000	\$9,360,000	\$36,000

Prize Expense

Prize expense is estimated to total \$6.2 billion in FY 2026-27. This is an increase of \$88.4 million (1.4 percent) from the estimated FY 2025-26 prize expense and is driven by the increased sales projection. However, this increase is disproportionately higher than the year-over-year sales increase since the product line with the most significant projected growth, Scratchers, has a much higher prize expense relative to the product line with the projected year-over-year decrease in sales, the multi-state games.

Pursuant to Lottery policy, the Director is required to make a determination that prize payout levels

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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 totals 66.7 percent of projected sales for FY 2026-27, which is within the range of 65 percent to 67 percent that was recommended as being ideal in the most recent analysis that was conducted for the Lottery to determine the optimal prize payout rate/range.

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 2026-27 are estimated to be \$1.1 billion, an increase of \$16.6 million (1.5 percent) from estimated administrative expenses for FY 2025-26. This year-over-year growth primarily reflects the increased sales projection combined with strategic investment in FY 2026-27 Business Plan initiatives and operational improvements to help achieve and sustain future growth.

Retailer compensation costs are estimated to total approximately \$637.3 million for FY 2026-27, which represents an increase of \$2.5 million (0.4 percent) from the FY 2025-26 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 increase in this item is directly associated with the increased sales projection.

Gaming costs are budgeted at \$179.1 million for FY 2026-27, which is an increase of \$11.6 million (6.9 percent) from the FY 2025-26 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. Although this year-over-year increase is driven by the increased sales projection for FY 2026-27, it is disproportionately higher due to the increased cost of printing and producing Scratchers tickets resulting from the various economic conditions that have significantly driven up prices.

Excluding the reserves, retailer compensation and gaming costs account for 72.0 percent of the Lottery's administrative expenses for FY 2026-27. 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 2026-27 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.

Personal services cost increases are mainly due to rising staff benefit costs, the assumption that

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the Lottery will continue to have fewer vacant positions, and the proposed addition of 23 new positions for FY 2026-27 along with the addition of temporary help positions to meet operational needs. Although it does not factor into the year-over-year increase in personal services costs, the Lottery also proposes converting two existing limited-term positions to permanent to meet ongoing workload demands.

Also included within administrative expenses for FY 2026-27 is a \$5.0 million reserve for insurable risk to cover fiscal exposures for the areas within the organization that the Lottery self-insures, as well as a \$78.6 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.

Five-Year Average Provision

Chapter 13, Statutes of 2010 (AB 142) includes a provision requiring that net Lottery revenues allocated to public education, as reflected in the budget approved by the Commission for a given fiscal year, be at least as much as the average of the amount allocated to public education in the prior five fiscal years. The Lottery's budget for FY 2026-27 projects that the Lottery will fall short of this requirement by \$78.1 million. This is primarily a result of two of the fiscal years included in the five-year average having unusually high contributions to education due to the statistically rare number of jackpots over \$1 billion in Powerball and Mega Millions occurring during each fiscal year. Although the Lottery strives for compliance, the fiscal years with anomalous jackpot rollover luck in the multistate games skew the average that the proposed budget must meet or exceed. It would not be responsible of the Lottery to purposely inflate the revenue projections included in the budget to satisfy this provision.

Summary

The proposed FY 2026-27 budget contains a total sales goal of \$9.36 billion, which, combined with the other elements in the budget and assuming the reserves remain unspent, is estimated to result in approximately \$2.06 billion in contributions to California public schools. This projected performance is based on executing the annual Business Plan which is designed to result in sustainable growth of future revenues. The proposed budget includes a balanced approach between funding resources to drive gains in FY 2026-27, as well as investing in longer-term initiatives to enable the Lottery to increase sales and contributions to public education in years to come.

RECOMMENDATION

Staff recommends that the Commission approve the Lottery's budget for FY 2026-27.

Attachment