

## COMMISSION AGENDA ITEM

### Item 8(d) – Revised Fiscal Year 2025-26 Budget



**Date:** November 20, 2025

**To:** California State Lottery Commission

**From:** Harjinder K. Shergill Chima - *HKC*  
Director

**Prepared by:** Nicholas Buchen, Deputy Director, Finance

**Subject:** **Item 8(d) – Revised Fiscal Year 2025-26 Budget**

### ISSUE

Recent projections indicate increased sales as well as higher expenses for the current fiscal year, presenting the California State Lottery (Lottery) with the opportunity to revise its annual budget to better align with anticipated revenue and program needs.

### BACKGROUND

The Lottery's budget presented in May for Fiscal Year (FY) 2025-26 included a sales goal of \$9.10 billion and was estimated to provide approximately \$2.08 billion to public education. Due to the FY 2025-26 budget being adopted in mid-May instead of late-June, the Lottery was missing more than a month's worth of revenue and expenditure data that otherwise would have been incorporated into its projections. Specifically, the sales projection for Scratchers did not consider sales trends beyond February of 2025, and Scratchers sales experienced an uptick in the latter months of FY 2024-25. Similarly, many of the expenditure projections included in the adopted FY 2025-26 budget lacked refinement due to the compressed timeframe. As a result, the Lottery did not fully fund all expenditure requests in order to include more funding in the administrative spending reserve to be fiscally prudent.

This revised budget presents an updated sales goal of \$9.55 billion and is estimated to provide approximately \$2.11 billion to public education and reflects a more accurate projection of expenditures, including prize expense, retailer and gaming costs, and operating expenses, as well as a more realistic estimate of income from interest earnings. The revisions include funding for additional opportunities to responsibly maintain operational growth as well as the resources necessary to implement the Lottery's FY 2025-26 Business Plan. The revised budget deploys strategies that continue to further the Lottery's current multi-year strategic plan to drive bottom-line contributions to education.

### DISCUSSION

A summary of the elements of the revised FY 2025-26 budget is presented below:

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#### Sales

Total sales for all Lottery products are now projected to be \$9.55 billion for FY 2025-26; this represents an increase of \$450 million, or 4.9 percent from the sales levels presented in May. This revised goal incorporates Scratchers sales trends from the spring and early summer, which indicates stronger sales performance than previously presented in May. In addition, the Powerball sales goal has been increased to account for there being four draws for which the advertised jackpot was \$1 billion or more already this fiscal year. The remainder of the fiscal year assumes we will achieve close to the 50<sup>th</sup> percentile of rollover chance as was assumed in May.

The following chart compares the FY 2025-26 approved budget with proposed sales goals for the revised FY 2025-26 budget.

<b>Comparison of Revenues FY 2025-26 Approved Sales Goals and Revised FY 2025-26 Sales Goals (Dollars in Thousands)</b>			
<b>Sales:</b>	<b>Approved Budget FY 2025-26</b>	<b>Revised Budget FY 2025-26</b>	<b>Difference</b>
<b>Scratchers®</b>	\$6,820,000	\$7,070,000	\$250,000
<b>Multi-State Jackpot Games</b>	1,180,000	1,380,000	200,000
<b>SuperLotto Plus®</b>	240,000	240,000	0
<b>Hot Spot®</b>	440,000	440,000	0
<b>Daily Games</b>	420,000	420,000	0
<b>Total Sales</b>	<b>\$9,100,000</b>	<b>\$9,550,000</b>	<b>\$450,000</b>

#### Prize Expense

Prize expense is now estimated to total \$6.35 billion in FY 2025-26, which is an increase of \$326.1 million (5.4 percent) from the prize expense presented in May. This increase is due to both the increased sales projection and the fact that the May budget inadvertently underestimated the prize payout percentage for Scratchers.

Pursuant to Lottery policy, the Director is required to determine the optimal prize payout levels across all games for the coming fiscal year to ensure that funding for education is maximized annually. The estimated prize expense included in the revised budget totals 66.5 percent of projected sales for FY 2025-26, which is within the range of 65 percent to 67 percent that was recommended as being ideal in a prior analysis that was conducted for the Lottery to determine the optimal prize payout rate.

#### Administrative Expenses

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Administrative expenses include retailer compensation, gaming costs, and operating costs. The Lottery Act caps administrative expenses at 13 percent of total annual sales revenues.

Excluding the reserve for insurable risk and administrative spending reserve (described below), total administrative expenses for FY 2025-26 are now estimated to be \$1.16 billion, an increase of \$77.2 million (7.1 percent) from the approved administrative expenses for FY 2025-26 presented in May. This change is due to the increased sales projection driving higher retailer and gaming costs, as well as additional investments in FY 2025-26 Business Plan initiatives and operational improvements to help achieve and sustain future growth.

Retailer compensation costs are now estimated to total approximately \$649.4 million for FY 2025-26, which represents an increase of \$32.4 million (5.2 percent) from the approved FY 2025-26 costs presented in May. This budget category includes the cost to compensate 23,000 retail partners for their contract 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 one million or more. The increase in this item is primarily associated with a higher sales projection than approved in May.

Gaming costs are now projected to be \$170.3 million for FY 2025-26, which is an increase of \$13.1 million (8.3 percent) from the FY 2025-26 budget approved in May. This budget category includes the cost of operating the gaming system, gaming equipment installation and maintenance, and production and distribution of Scratchers. This increase is primarily due to the increased sales projection for both Scratchers and Powerball, additional funding to allow for the reorder of popular Scratchers games, and higher costs to support new contract rates for printing Scratchers.

Excluding the reserves, retailer compensation and gaming costs account for 70.7 percent of the Lottery's revised administrative expenses for FY 2025-26. The remaining administrative expenditures are the Lottery's operating costs, which include personnel costs, advertising/marketing costs, and other overhead costs. Excluding the reserves, the Lottery's operating costs are now projected to total \$340.5 million in FY 2025-26. This represents an increase of \$31.7 million from the May projection, and the majority of this increase is funded by transferring from the administrative spending reserve. Releasing funds from the Lottery's administrative spending reserve to invest in FY 2025-26 Business Plan initiatives and operational improvements will enable the Lottery to maintain momentum with existing efforts and drive future sales. Highlights of this increase include an additional \$25 million to allow for full execution of the Marketing Budget Plan and the addition of \$3.6 million to execute the Mission Education Campaign as originally planned for this fiscal year.

The revised administrative expenses for FY 2025-26 maintain a \$5 million reserve for insurable risk to cover fiscal exposures for the areas of our organization that we are continuing to self-insure; this amount is unchanged from the May projection. In addition, a \$76.3 million administrative spending reserve, which is a decrease of \$18.7 million from the approved budget presented in May, acts as a safeguard against future uncertainties while also providing the Commission and the Lottery with the flexibility to take advantage of opportunities to increase funding for education that may emerge in the remaining months of the fiscal year. The administrative spending reserve is an element of the 13 percent of total revenues specified for

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administrative expenses. Pursuant to the Lottery Act, any funds remaining within the reserves at the end of the fiscal year will be transferred to public education.

#### **Summary**

The revised FY 2025-26 budget contains sales goals of \$9.55 billion which is estimated to result in approximately \$2.11 billion in contributions to California public schools. This is an increase of \$36.7 million from the contribution to education projected in May. The revised budget maintains a balanced approach between funding resources to drive gains in FY 2025-26, 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 revised budget for FY 2025-26.

Attachment