

AUGUST 21, 2019

Overview of the California State Lottery

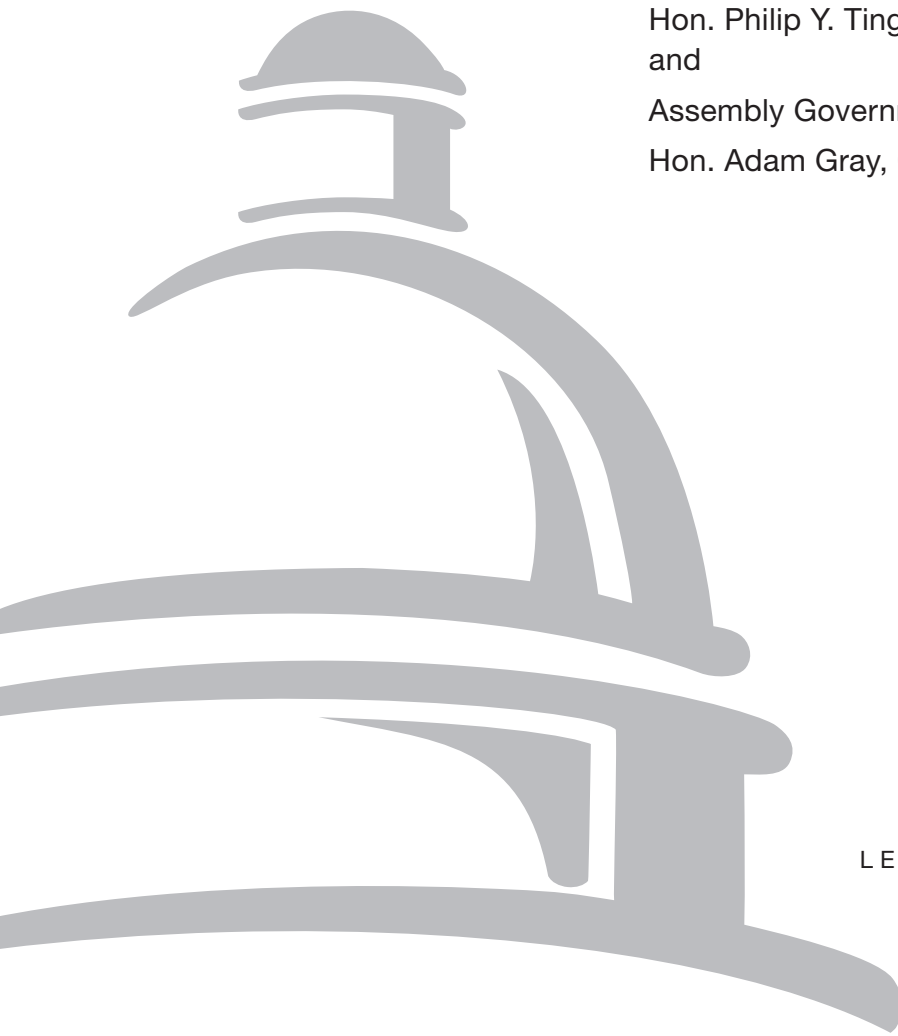
PRESENTED TO:

Assembly Budget Subcommittee No. 6
On Budget Process, Oversight, and
Program Evaluation

Hon. Philip Y. Ting, Chair
and

Assembly Governmental Organization Committee

Hon. Adam Gray, Chair



LEGISLATIVE ANALYST'S OFFICE

Background

- **Authorizing Statute.** Proposition 37 (1984) amended the State Constitution to authorize a statewide lottery in California. The Legislature can only change the provisions of the proposition—by a bill enacted by two-thirds of members of both houses—to further the proposition’s purposes.
- **Games Offered.** Authorized games can provide opportunities to instantly win (such as Scratcher games) or win by selecting numbers (such as SuperLotto Plus). Some games (such as Powerball) are multistate lottery games.
- **Regulation.** Proposition 37 created a five-member Lottery Commission to oversee the operations (including authorization of games and regulatory activities) of the State Lottery. Commission members are appointed by the Governor and confirmed by the Senate.
- **Required Use of Funds.** As of 2010, state law requires at least 87 percent of total annual lottery sales revenues be used to provide prizes or to support education—with at least 50 percent of the total revenues going to prizes. Additionally, no more than 13 percent of the total revenues may be used for lottery administrative expenses (such as personnel costs, game costs, and retailer incentives).
- **Size of Industry.** Approximately 23,000 retailers in all 58 counties currently sell lottery products. The industry generated nearly \$2.5 billion in revenue after winnings in 2017-18. Of this amount, nearly \$1.7 billion supported education and about \$830 million supported lottery administrative, regulatory, and other costs.



Lottery Sales and Expenditures Have Increased Steadily Over Past Ten Years

(In Millions)

	2008-09	2009-10	2010-11	2011-12	2012-13
Revenues—Lottery Sales	\$2,971.0^b	\$3,086.2^b	\$3,438.6	\$4,371.5	\$4,445.9
Transfers and Expenditures					
Prizes	1,556.1	1,611.4	1,904.8	2,560.3	2,652.1
Transfers to education ^a	1,018.7	1,069.5	1,100.9	1,298.4	1,260.8
Administrative expenses					
Retailer costs	208.1	214.5	233.6	295.8	302.9
Game costs	50.9	54.2	56.1	74.0	77.2
Personnel costs	49.2	46.0	52.1	62.9	56.8
Marketing and advertising	56.2	41.7	59.6	54.1	63.9
Other	31.7	49.0	31.5	25.9	32.2
Subtotal	(\$396.2)	(\$405.4)	(\$432.9)	(\$512.8)	(\$533.0)
Totals, Expenses	\$2,971.0	\$3,086.2	\$3,438.6	\$4,371.5	\$4,445.9
	2013-14	2014-15	2015-16	2016-17	2017-18
Revenues—Lottery Sales	\$5,034.7	\$5,524.9	\$6,275.6	\$6,233.5	\$6,965.8
Transfers and Expenditures					
Prizes	3,082.4	3,501.7	3,955.8	3,963.5	4,476.6
Transfers to education ^a	1,326.7	1,363.3	1,559.7	1,494.2	1,656.1
Administrative expenses					
Retailer costs	345.5	380.3	433.0	433.7	480.5
Game costs	100.0	98.9	114.8	116.4	127.6
Personnel costs	66.1	70.5	79.4	91.3	101.1
Marketing and advertising	78.2	72.9	85.3	85.3	77.7
Other	35.8	37.2	47.7	49.2	46.3
Subtotal	(\$625.6)	(\$659.8)	(\$760.1)	(\$775.8)	(\$833.1)
Totals, Expenses	\$5,034.7	\$5,524.9	\$6,275.6	\$6,233.5	\$6,965.8

^a Education may receive other revenues as well (such as unclaimed prizes and interest income).
^b Includes income from the restructuring of the lottery investment portfolio that generated \$16.1 million in 2008-09 and \$45.3 million in 2009-10.



Lottery Allocations to Education Have Increased Over Past Ten Years . . .

(In Millions)^a

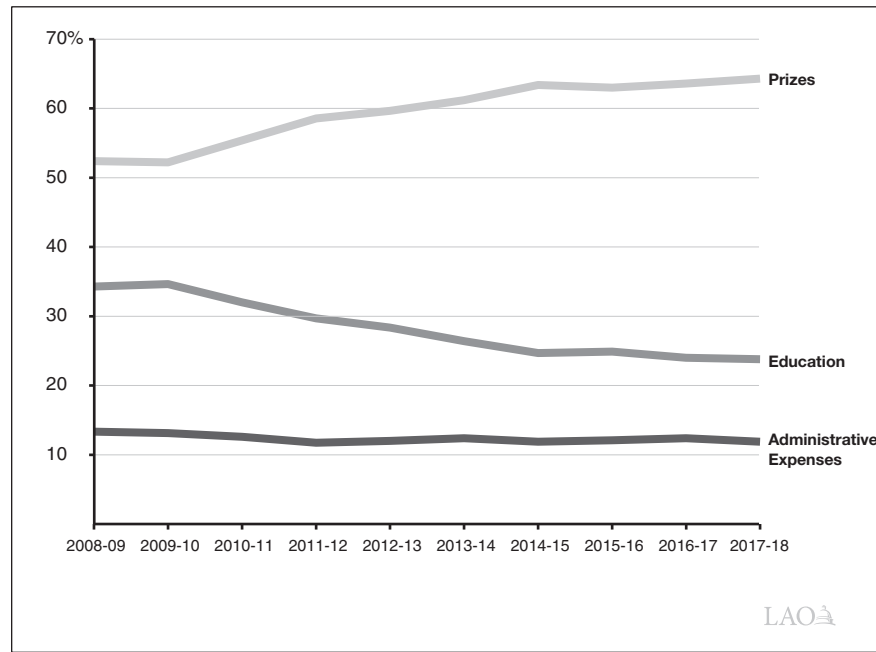
	2008-09	2009-10	2010-11	2011-12	2012-13
K-12 Schools	\$817.8	\$854.9	\$881.6	\$1,051.3	\$1,038.0
Community Colleges	155.6	177.6	173.8	197.5	168.6
California State University	41.8	41.7	38.5	41.6	46.2
University of California	24.9	26.1	27.0	29.9	29.9
Other ^b	0.5	0.7	0.6	0.8	0.7
Totals	\$1,040.6	\$1,100.9	\$1,121.6	\$1,321.0	\$1,283.4
	2013-14	2014-15	2015-16	2016-17	2017-18
K-12 Schools	\$1,088.3	\$1,113.3	\$1,249.5	\$1,221.2	\$1,339.7
Community Colleges	182.3	196.2	239.3	234.7	251.7
California State University	46.6	49.3	58.4	60.0	63.6
University of California	30.8	31.8	38.2	37.8	42.7
Other ^b	0.6	0.6	0.5	0.5	0.5
Totals	\$1,348.7	\$1,391.1	\$1,585.9	\$1,554.3	\$1,698.2

^a Amounts include lottery sales revenue, as well as other revenues (such as unclaimed prizes and interest income).
^b Includes the Department of Developmental Services, Hastings College of the Law, Department of Education State Special Schools, and Department of Corrections and Rehabilitation Division of Juvenile Justice.

- Lottery revenue distributions to education are provided on a quarterly basis generally based on average daily attendance (K-12 public school districts) or equivalent full-time enrollment (community colleges, California State University [CSU], and University of California [UC]).



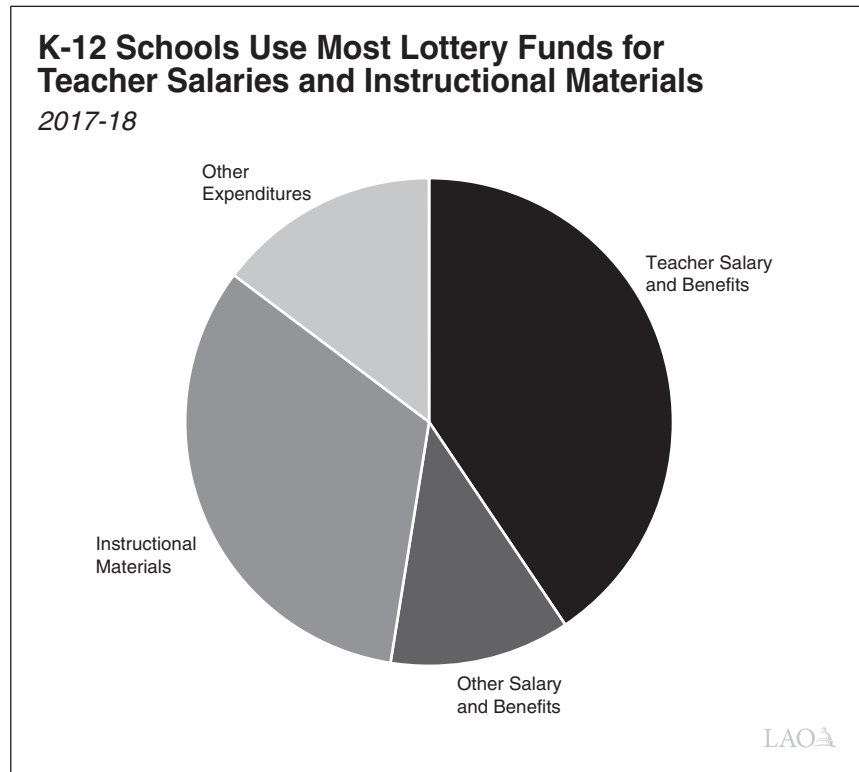
... But Share of Lottery Sales Allocated to Education Has Declined



- While actual distributions to education have increased, the percent of lottery sales revenue distributed to education has decreased from 34.7 percent in 2009-10 to 23.8 percent in 2017-18. In contrast, the percent of lottery sales revenue distributed to prizes has increased from 52.2 percent in 2009-10 to 64.3 percent in 2017-18.



Use of Education Funds



■ Overview of Legal Requirements

- Proposition 37 allows schools, community colleges, and universities to use lottery funding broadly for the education of students. The measure specifically prohibits the use of funds for acquiring property, constructing facilities, or financing research.
- Proposition 20 (2000) requires schools and community colleges to use a portion of their lottery funding (currently about 30 percent) for books and instructional materials.



Use of Education Funds

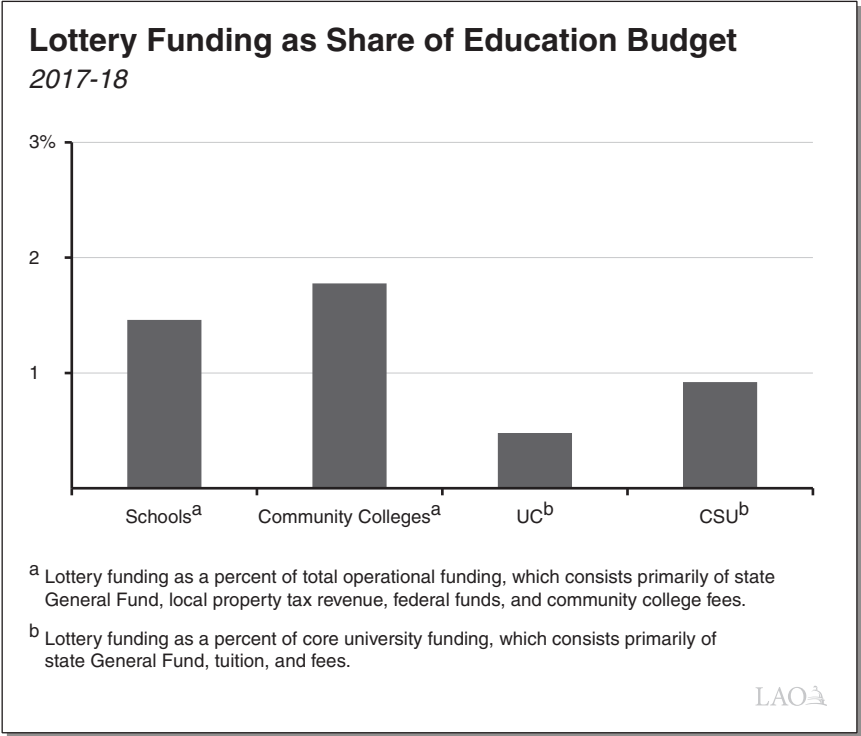
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■ Use of Funding by Educational Entity

- **K-12 Schools.** After setting aside funds for instructional materials, schools use the discretionary portion of their lottery funding primarily for teacher salaries and benefits (as shown on the prior page).
- **Community Colleges.** Community colleges use the discretionary portion of their lottery funding primarily to provide administrative support to academic departments and fund student services (such as counseling).
- **Universities.** The UC allocates all lottery funding to its campuses. The CSU retains about 25 percent for systemwide initiatives and allocates the rest to campuses. The campuses tend to use their funding for various priorities that include providing administrative support to academic departments, replacing instructional equipment, and purchasing library materials.



Lottery Funds Represent Small Share of Total Education Funding



Various Factors Could Influence Revenue Generated for Education

- **Major Factors.** Some of the major factors that could impact the amount of lottery revenue for education include:
 - **Types and Variety of Games Offered.** The types and variety of games offered may appeal to different demographics of customers. The range of lottery products can impact new customer acquisition or the level of spending by existing customers.
 - **Prize Structure and Prize Amounts.** The prize structure and prize amounts offered similarly appeal to different demographics of customers. Customer willingness to purchase specific products depends on how attractive they find the potential prize.
 - **Ease of Purchasing.** The ease of purchasing lottery products (such as the locations or ways in which they may be purchased) may be a factor in customer willingness to purchase them and the frequency of such purchases.
 - **Customer Service/Player Experience.** Customer service or player experience (such as the ease of winning payouts) may affect customer willingness to purchase lottery products generally and the frequency of such purchases.
 - **Amount Spent on Marketing.** The amount spent on marketing can potentially increase sales by increasing public awareness of lottery products. At the same time, there is a threshold at which additional marketing monies will no longer acquire new customers or generate additional sales at a productive rate.
 - **Retailer Incentives.** Retailers incentives, which differ by lottery product, could impact whether retailers are willing to offer lottery products as well as how willing they are to promote specific products (such as marketing displays).
 - **Responsible or Problem Gaming Provisions.** These policies could affect some of the other factors discussed above (such as the ease of purchasing lottery products).



Various Factors Could Influence Revenue Generated for Education

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- ***Factors Could Impact Amount Available to Education in Two Major Ways.*** Specifically, the above factors could (1) change the total amount of lottery revenue generated and/or (2) change the amount available for education regardless of whether additional lottery revenue is generated (such as reducing costs).



Comparison of California to Other States

- **Various Factors Can Impact Context of Comparisons.** Various policy, operational, and other factors should be taken into account when comparing the performance of the California State Lottery to the performance of lotteries in other states. For example, California could offer different games than other states. Additionally, California's approach to responsible gaming could impact the aggressiveness of how lottery products are marketed which could then impact sales.
- **How California Compares to Other States.** Approximately 44 states and the District of Columbia (DC) operate lotteries. Using 2017-18 data, various comparisons can be made between California's performance to those of other states.
 - **Sales Per Retailer.** California averaged about \$300,000 in sales per retailer. About 22 states and DC averaged higher sales per retailer, with the highest averaging a little more than \$1 million per retailer.
 - **Sales Per Capita.** California averaged about \$175 per Californian or nearly \$230 per Californian over the age of 18 years. About 27 states and DC averaged higher sales per capita ratios.
 - **Prize to Sales Ratio.** About 64 percent of California's lottery sales revenues are returned as prizes. About 12 states returned a greater proportion of sales, with the highest reaching about 74 percent.
 - **How Funding Is Used in Other States.** Similar to California, about two-thirds of other lotteries generate funding for education beneficiaries. Others provide funding for various other beneficiaries including: services for seniors or veterans, problem gambling, economic development, pensions, and environmental purposes. Some other states also transfer funding to governmental General Funds for various purposes.
 - **Beneficiaries to Sales Ratio.** About 24 percent of California's lottery sales revenues are transferred to education. About 29 states returned a greater proportion to their beneficiaries. We would note that, of this amount, most are within ten percentage points of California.

