



# MEMORANDUM

**To:** California State Lottery Commission      **Date:** June 27, 2007

**From:** Joan M. Borucki  
Director

**Prepared By:** Linh Nguyen, Chief Deputy Director

**Subject:** Item 9(d) – Approval of Fiscal Year 2007-08 Budget

## **ISSUE**

Should the California Lottery Commission (Commission) approve the Budget for Fiscal Year 2007/2008, for an annual education contribution of over \$1.185 billion from sales of \$3.35 billion?

## **RECOMMENDATION**

Staff recommends that the Commission approve the Budget for Fiscal Year 2007/2008 as presented in the attached document.

## **BACKGROUND**

This year, the California State Lottery (Lottery) employed a new budget development process. A baseline budget was developed wherein the divisions justified all expenses for continued funding. Special project proposals were developed to address areas not considered to be part of divisional baseline budgets. Special projects were then approved by the Director.

## **DISCUSSION**

The development of the Lottery's budget begins by projecting sales performance by game and determining prize funding levels by game. Remaining revenues are allocated to administrative expenses and contributions to education. Sales performance is projected by the Lottery's forecasting unit using sophisticated modeling and simulations based on recent sales trend data. In reality, sales are effected by many things, including prize payout levels, jackpot levels, marketing efforts, new games, promotions, and the economy. As a result, modeling and simulations can never predict future sales with absolute certainty. As a result, budget projections and actual sales always differ, sometimes significantly.

For Fiscal Year 2007/2008, the forecasting unit projects total sales to be \$3.125 billion based on current sales trends. However, establishing a budget is more than just using models and simulations. It is about setting goals and motivating ourselves to reach higher and work harder. As outlined in the Business Plan, the Lottery has some exciting new efforts planned for the years ahead. This will be the first year of this multi-year plan and significant returns will not be realized until the second year. However, we still believe that we can exceed the \$3.125 billion sales projection and are recommending a sales goal of \$3.35 billion for Fiscal Year 2007/2008. This will provide \$1.185 billion for education and will be the eighth consecutive year we have contributed over \$1 billion to education.

Further details of the Fiscal Year 2007/2008 budget can be found in the attached budget summary and slide presentation.

Attachment

**CALIFORNIA LOTTERY  
FY 2007-2008 BUDGET**  
(Dollars in Millions)

	<u>Dollars</u>	<u>% of Sales</u>
<b>SALES</b>		
• Estimated Sales	\$3,350	100.0%
<b>PRIZES</b>		
• Prize Expense	1,675	50.0%
Promotional Prizes	<u>105</u>	<u>3.1%</u>
Total Prizes	\$1,780	53.1%
<b>ADMINISTRATIVE EXPENSES</b>		
• Retailer Compensation	\$239	7.1%
• Game Operations	60	1.8%
• Communications	40	1.2%
• General Administration	77	2.3%
• Administrative Reserve	<u>15</u>	<u>0.5%</u>
Total Administrative Expenses	\$431	12.9%
<b>EDUCATION REVENUE</b>		
• Statutory Requirement	\$1,139	34.0%
• Interest and other income	20	0.6%
• Unclaimed prizes	<u>26</u>	<u>0.8%</u>
Total Revenues for Education	\$1,185	35.4%