

California State Lottery: Background Information

The California State Lottery was authorized and established by Proposition 37, which was approved by the voters in November 1984. The California State Lottery Act of 1984 provides for a state-operated lottery administered by a five-person Commission appointed by the Governor and confirmed by the State Senate. Currently, the members of the Lottery Commission are John Mass, Cynthia Flores, and C.C. Yin; there are two vacant positions.

While lottery operations are subject to oversight hearings by Legislative policy committees, lottery funds are not appropriated in the annual budget act. The Legislature has the authority to amend the Act if, by doing so, it furthers the purposes of the measure, which is to provide resources for education.

Lottery ticket sales started out at about \$1.8 billion in the first year, growing to a peak of \$2.6 billion in 1989, declining until 1992, and have steadily increased since that time. With revenues of \$3.3 billion in 2006–07, the lottery distributed \$1.2 billion to public schools, community colleges, and universities. Lottery funds total less than 2 percent of all K–12 revenues.

The Lottery Act specifies that the proceeds of lottery ticket sales shall be distributed as follows: At least 50 percent shall be returned to the public in the form of lottery prizes; no more than 16 percent shall be used for administrative expenses of operating the lottery; and at least 34 percent shall be allocated to various levels of public education.

Existing Games

The Lottery's menu of games includes seven different types with the majority of sales coming from two of the most popular games -- the SuperLotto and Scratchers tickets.

- MEGA Millions
- SuperLotto Plus
- Scratchers
- Fantasy 5
- Daily 4
- Daily 3
- Hot Spot
- Daily Derby
- Make Me a Millionaire
Television Show

Distribution of Revenue

The initiative provides that education's share of the lottery receipts shall be allocated on a "per capita" basis among the state's educational entities. The current distribution is as follows:

Kindergarten - 12th Grade	80.22%
Community Colleges	14.08%
California State University System	3.43%
University of California	2.23%
Other Educational Entities	.04%

Administrative Expenditures

The Lottery Act caps administrative expenditures at 16% of sales, and requires administrative savings to be directed to benefit education. In recent years, surplus administrative funds have been used to increase prizes to the public.

Administrative Expenditures as a Proportion of Sales	
<i>Quarter ending</i>	<i>Total</i>
March 2009	12.81%
December 2008	12.77%
September 2008	12.91%
June 2008	12.47%
March 2008	11.81%
December 2007	11.69%
September 2007	11.51%

Source: State Controller

State Controller Audits

The Lottery Act requires the State Controller's Office to conduct quarterly and annual post-audits of all accounts and transactions of the California Lottery Commission and other special post-audits as the State Controller deems necessary. The goal of the analysis of the quarterly transfer of funds to public education is to determine whether transfer amounts are supported by the Lottery's accounting records; and whether the Lottery is on target to meet the annual allocation requirements specified in the Lottery Act.

Recent special audits conducted by the State Controller have made the following conclusions:

- "Our audit of the Lottery's fleet management disclosed that the FMU [Fleet Management Unit] is not in compliance with the Lottery's policies and procedures." (March 2009)
- "Our audit of the Lottery's Cal-Card Program disclosed that the cardholders made prohibited purchases totaling \$11,789 as described in Finding 1. Lottery staff inappropriately split purchases to avoid purchase limits for purchases totaling \$7,474 as described in Finding 2. In addition, the Lottery did not maintain written approvals to increase the card purchasing limit for cardholders as described in Finding 3." (Feb. 2009)
- "Our audit of the Lottery's [employee recognition] event disclosed that the Lottery inappropriately expended \$46,336 of public funds for an employee recognition event for Lottery employees, retirees, and their guests. The costs of the employee appreciation segment of the event were for a night of dining,

entertainment, and receiving gifts for employees, retirees, and their guests. The supposed training component consisted of a highly paid host who oversaw mock Lottery games for entertainment in which employees, retirees, and guests won prizes. These activities do not fit the mission of the Lottery and were for the sole purpose of the enjoyment of the employees and their guests. In addition, the Lottery inappropriately used its general cash fund and office revolving fund to make \$4,430 in charitable contributions." (March 2008)

Future Plans

At its June 26, 2009 meeting, the State Lottery Commission approved a \$63.9 million contract to construct a new headquarters building at its present location in Sacramento. The new headquarters is the first phase of a larger project already approved by the Commission, which will ultimately include four office buildings and a parking structure at an estimated cost of \$185 million. The State Lottery will self-finance the construction project. Demolition, relocation, and construction are scheduled to begin in late 2009.