



2008-09 MAY REVISE

PROVIDING A LONG-TERM BUDGET SOLUTION BY MODERNIZING THE LOTTERY

GOVERNOR'S PROPOSAL WILL BRING BILLIONS IN NEW REVENUE TO CLOSE BUDGET GAP, JUMP-START NEEDED STRUCTURAL BUDGET FIX

In addition to addressing California's immediate budget challenges, the May Revise also ensures that California has the tools necessary to prevent future budget crises. A major feature of the Governor's reform package is a plan to modernize California's lottery and use that asset to jump-start structural budget reform while protecting the \$1.2 billion education receives from the Lottery. By providing \$5 billion this budget year and \$15 billion by 2010-11 to establish and capitalize the Revenue Stabilization Fund—or rainy-day fund—which the Governor introduced as part of his budget reform proposal in this year's State of the State speech, the Governor addresses California's structural budget problems while assisting the 2008-09 budget.

By modernizing the lottery and raising cash upfront from securitizing future lottery revenues, the Governor's proposal will establish the Revenue Stabilization Fund (Rainy Day Fund).

- California could raise an estimated \$5 billion cash this year and \$15 billion in total by 2010-11.

The Lottery revenues will provide both a short-term budget fix AND the long-term solution to our broken budget system.

- The money raised by securitizing future revenues will create and establish permanently a needed Revenue Stabilization Fund. This rainy day fund will bring long-term stability to our budget system.
- The Revenue Stabilization Fund will be created and capitalized this year using \$5 billion generated from modernizing the lottery and securitizing its future revenues. This means that the state can begin to address the deficit right away, while also creating the structure necessary to tackle future deficits with the rainy day fund.
 - In the future, this rainy day fund will take in excess revenues during high growth years, to sustain core programs and funding in years like this, when the economy slows.

California has used securitization before to great effect – with tobacco settlement revenues. When California won settlement revenues from tobacco companies, the state securitized those revenues to get cash up front.

- There is no financial risk to the state. Through securitization, investors assume all of the risk; the state will never have to make a repayment or take a financial hit – even if increased future revenues never materialize.

The Governor's proposal will modernize California's underperforming lottery and bring it up to national averages by removing current operational constraints.

- California's lottery is weighed down by numerous statutory restrictions and limitations. California has a fixed 34 percent profit margin, is the only state that cannot pay fixed prizes, is limited to 1984 technology in the delivery of its games, has detailed dispensing machine limitations, and is subject to numerous theme restrictions.
- The performance of California's lottery lags compared to other states. Of the 10 most populous states, California ranks dead last in terms of per capita lottery sales, per capita return to beneficiaries, prize payouts, and per capita advertising expenditures.
- The Governor is committed to taking action to enable California's lottery the same operational flexibility enjoyed by lotteries in most other states. Improving flexibility will boost performance and returns.

On The Record

Sen. Dean Florez: State Lottery “Very Inefficient.” "We start with the premise that it's a very inefficient operation ... It produces less revenue per pupil than any other state lottery ... I wouldn't discount it as a closer on a budget deal if we can do revenue bonds." (Timm Herdt, "Changes In State Lottery Weighed," *Ventura County Star*, 3/21/08)

Lottery Director Joan Borucki Recognizes California's Lottery Is In A Dire State: "She notes that 40 percent of California adults now play the lottery, and the number 'could drop to 25 percent in the next 10 years if we stay on the same trend line.'" (Timm Herdt, "Changes In State Lottery Weighed," *Ventura County Star*, 3/21/08)

Ventura County Star's Timm Herdt: California's Lottery Simply “Limps Along.” "California's Lottery is a laggard among state lotteries that limps along with per-capita ticket sales that are about half the national average ... the state lottery has stagnated and the percentage of Californians who play the game has dropped steadily." (Timm Herdt, "Changes In State Lottery Weighed," *Ventura County Star*, 3/21/08)