



Memo

Date:	June 20, 2024
To:	Oregon State Lottery Commissioners
From:	Kristy Komes, interim chief financial officer
Subject:	Proposed FY '25 budget

I am pleased to present the draft FY '25 budget for the Oregon Lottery. This budget covers the strategy items that have been prioritized by the executive team and follows the guidance received by the Governor's office to maintain, but not grow, product offerings.

This year, the executive team held a budget summit for each department to share their budget. Each department was asked to review FY '24 and explain their variances, review each line item in FY '25 including projects/contracts and the tie to our strategy, and include a 10% reduction list with explanations. Once the executive team prioritized the strategy and projects, we again asked budget managers to review and update their budgets to align with the priorities and remove any 'what-if' budget items.

Underlying assumptions in this budget are as follows:

- Revenues are representative of the May OEA forecast and OSL's sports forecast. We are projecting a \$62,487,460 increase to net revenue.
- Video and Sport Betting revenues remain strong and are expected to grow \$838,757,175 and \$260,406,552 respectively.
- Prize payouts were calculated by game design.
- Retailer commissions are based on contractual rates at the revenue levels mentioned above. Game vendor charges are based on current contractual rates.
- Direct and indirect depreciation will increase due to the budget incorporating the expected depreciation on capitalized web subscriptions (SBITA), previously expensed, under GASB 96. Also included is \$20,000,000 for the purchases of Video Lottery Terminals (VLTs), including the estimate of when they will be received and placed in service.
- Ticket costs and advertising are expected to decrease slightly.
- Service and supplies decreased by \$2,617,025 as part of OSL's initiative to prioritize projects expected to be completed during FY '25.



Memo

For salaries and benefits, we have included a 3.6% pay increase effective July 1, 2024. We also have included \$3.8M to support the pay calibration project being completed by Human Resources. This project is to ensure that we are in compliance with the pay equity law and completing a one-time correction to ensure equal pay across the agency.

The capital budget is \$39,258,693, which includes \$20,000,000 for the VLT replacement program, as well as \$10,590,000 to replace the retailer contract system (RPM), \$2,310,500 for IT upgrades and integrations, \$1,459,600 to replace aging vehicles, \$572,150 for building upgrades and headquarter remodel, and \$1,000,000 to complete the building security system. Also included in the capital budget are \$322,407 for lease and subscription-based IT arrangements (SBITA) acquired through contracts, and \$11,476 for a cleaning station.

Overall, this is a budget that will allow the Oregon Lottery to continue a robust financial health and a solid transfer base for the State of Oregon.

To support this budget, we are also asking to close the modernization fund and create an investment fund. The investment fund would be held to provide Oregon Lottery sufficient working capital and an ability to address investments for strategy delivery planned one year or more in advance or funding unanticipated needs during the fiscal year.

The investment fund shall have a cap of \$50 Million and be refunded at the close of the fiscal year with excess administrative savings from the current year, once the contingency fund is fully funded.

OREGON STATE LOTTERY
Fiscal Year 2025 Budget

Budget Roll Up

Fiscal Year 2025 Budget

	Traditional	Video	Sports	Total
Revenue				
Video Lottery SM	-	\$16,968,665,458	-	\$16,968,665,458
Scratch-its SM Instant Tickets	155,684,913	-	-	155,684,913
Megabucks SM	31,216,879	-	-	31,216,879
Pick 4 SM	1,948,482	-	-	1,948,482
Powerball®	52,295,777	-	-	52,295,777
Mega Millions®	31,727,547	-	-	31,727,547
Win for Life SM	4,824,864	-	-	4,824,864
Keno	106,056,767	-	-	106,056,767
Lucky Lines SM	1,824,500	-	-	1,824,500
Raffle SM	2,500,000	-	-	2,500,000
Sales, Sports Bet / Scoreboard	-	-	907,782,256	907,782,256
Total Revenue	\$388,079,728	\$16,968,665,458	\$907,782,256	\$18,264,527,442
Less: Prizes	244,077,039	15,717,764,252	813,042,551	16,774,883,841
Net Revenue	\$144,002,689	\$1,250,901,206	\$94,739,705	\$1,489,643,600
Direct Expenses				
Commissions	32,962,883	286,286,274	-	319,249,157
Game Vendor Charges	9,724,216	1,000,812	49,013,586	59,738,614
Tickets	3,769,091	-	-	3,769,091
Advertising	2,798,500	3,859,665	16,500	6,674,665
Sales Support	-	962,845	2,000	964,845
Game Equip, Parts & Maint	-	11,864,614	-	11,864,614
Depreciation	205,338	32,820,028	-	33,025,366
Interest Expense	12,853	42,000	-	54,853
Total Direct Expenses	\$49,472,881	\$336,836,237	\$49,032,086	\$435,341,205
Gross Profit	\$94,529,809	\$914,064,968	\$45,707,619	\$1,054,302,396
Indirect Revenue	-	\$19,904,000	-	\$19,904,000
Indirect Expenses				
Public Information	-	1,197,000	-	1,197,000
Market Research	-	413,613	-	413,613
Salaries & Benefits	-	95,880,499	-	95,880,499
Services & Supplies	-	37,649,323	17,769	37,667,092
Depreciation	-	5,934,557	-	5,934,557
Interest Expense	-	50,149	-	50,149
Total Indirect Expenses	-	\$141,125,141	\$17,769	\$141,142,910
Net Profit	\$94,529,809	\$792,843,827	\$45,689,850	\$933,063,485

Oregon State Lottery

FY 2025 Budget Profit & Loss Statement

	FY 2025 Proposed Budget	Percent of Total Revenue	Approved FY2024 Budget (May '24 Forecast)	Percent of Total Revenue	FY 2025 vs. FY 2024 Variance
Revenue					
Video Lottery SM	\$ 16,968,665,458		\$ 16,129,908,283		\$ 838,757,175
Scratch-Its SM	155,684,913		159,289,462		(3,604,549)
Megabucks SM	31,216,879		30,760,285		456,594
Pick 4 SM	1,948,482		1,991,904		(43,422)
Powerball®	52,295,777		96,826,117		(44,530,340)
Mega Millions®	31,727,547		55,203,354		(23,475,807)
Win For Life SM	4,824,864		5,062,241		(237,377)
Keno	106,056,767		106,381,877		(325,110)
Lucky Lines SM	1,824,500		1,806,080		18,420
Raffle SM	2,500,000		2,500,000		-
Sports Betting	907,782,256		647,375,704		260,406,552
Total Revenue	18,264,527,443	100.00%	17,237,105,307	100.00%	1,027,422,136
Less: Prizes	16,774,883,841	91.84%	15,809,949,165	91.72%	964,934,676
Net Revenue	1,489,643,602	8.16%	1,427,156,142	8.28%	62,487,460
Direct Expenses					-
Commissions	319,249,157	1.75%	311,091,588	1.80%	8,157,569
Game Vendor Charges	59,738,614	0.33%	51,233,694	0.30%	8,504,920
Tickets	3,769,091	0.02%	4,628,444	0.03%	(859,353)
Advertising	6,674,665	0.04%	7,650,984	0.04%	(976,319)
Sales Support	964,845	0.01%	1,080,098	0.01%	(115,253)
Game Equipment/Parts & Maintenance	11,864,614	0.06%	12,632,688	0.07%	(768,074)
Depreciation	33,025,366	0.18%	28,653,708	0.17%	4,371,658
Interest Expense	54,853	0.00%	10,946	0.00%	43,907
Total Direct Expenses	435,341,205	2.38%	416,982,150	2.42%	18,359,055
Gross Profit	1,054,302,396	5.77%	1,010,173,992	5.86%	44,128,404
Indirect Revenue	19,904,000	0.11%	11,504,000	0.07%	8,400,000
Indirect Expenses		0.00%		0.00%	-
Public Information	1,197,000	0.01%	1,188,000	0.01%	9,000
Market Research	413,613	0.00%	860,525	0.00%	(446,912)
Salaries & Benefits	95,880,499	0.52%	78,784,157	0.46%	17,096,342
Services & Supplies	37,667,092	0.21%	40,284,117	0.23%	(2,617,025)
Depreciation	5,934,557	0.03%	3,447,672	0.02%	2,486,885
Interest Expense	50,149	0.00%	-	0.00%	50,149
Total Indirect Expenses	141,142,910	0.77%	124,564,471	0.72%	16,578,439
Net Profit	\$ 933,063,485	5.11%	897,113,521	5.20%	35,949,964

Admin. Exp. % of Revenue

3.05%

3.15%

**Oregon Lottery
Operating Statement**

	Fiscal Year 2023				Fiscal Year 2024 through May 31, 2024			
	Actual	Budget	Variance	% Variance	Actual	Budget	Variance	% Variance
Revenue								
Scratch-Its SM Instant Tickets	\$ 157,960,917	\$ 157,052,912	\$ 908,005	0.6%	\$ 146,768,752	\$ 146,670,284	\$ 98,468	0.9%
Megabucks SM	31,200,704	30,745,231	455,473	1.5%	28,243,326	28,234,095	9,231	-6.0%
Powerball [®]	75,941,748	74,436,819	1,504,929	2.0%	92,356,494	92,524,665	(168,171)	11.7%
Mega Millions [®]	55,776,122	55,118,441	657,681	1.2%	53,570,443	52,595,733	974,710	21.0%
Raffle SM	2,499,850	2,500,000	(150)	0.0%	2,499,630	2,500,000	(370)	0.0%
Keno	109,091,865	108,911,367	180,498	0.2%	98,122,110	97,869,534	252,576	-0.1%
Pick 4 SM	1,946,679	1,953,860	(7,182)	-0.4%	1,823,735	1,832,772	(9,037)	1.4%
Win For Life SM	4,467,126	3,914,104	553,022	14.1%	4,673,231	4,666,863	6,368	2.2%
Lucky Lines SM	1,740,608	1,809,186	(68,578)	-3.8%	1,651,134	1,656,129	(4,995)	-6.3%
Video Lottery SM (Gross Receipts)	16,099,497,096	16,155,262,106	(55,765,010)	-0.3%	14,786,328,040	14,788,939,477	(2,611,438)	-0.1%
Scoreboard SM (Gross Receipts)	565,474,205	527,319,620	38,154,585	7.2%	706,669,957	596,352,599	110,317,358	17.2%
Total Revenue	<u>17,105,596,920</u>	<u>17,119,023,646</u>	<u>(13,426,726)</u>	<u>-0.1%</u>	<u>15,922,706,851</u>	<u>15,813,842,151</u>	<u>108,864,700</u>	<u>0.7%</u>
Prizes	(15,698,768,833)	(15,725,125,820)	26,356,987	0.2%	(14,595,279,199)	(14,500,553,214)	(94,725,986)	-0.7%
Net Revenue	<u>1,406,828,087</u>	<u>1,393,897,826</u>	<u>12,930,261</u>	<u>0.9%</u>	<u>1,327,427,652</u>	<u>1,313,288,938</u>	<u>14,138,714</u>	<u>1.1%</u>
Direct Expenses								
Commissions	310,579,497	300,019,486	(10,560,010)	-3.5%	287,747,012	287,247,105	(499,907)	-1.5%
Game Vendor Charges	42,149,957	43,465,687	1,315,730	3.0%	47,573,734	47,315,333	(258,401)	-0.3%
Tickets	2,961,030	4,145,427	1,184,397	28.6%	3,143,973	4,081,598	937,625	21.1%
Advertising	6,298,714	8,005,552	1,706,838	21.3%	5,894,676	7,171,630	1,276,954	19.1%
Sales Support	779,219	964,690	185,471	19.2%	488,040	983,233	495,193	53.7%
Game Equipment, Parts & Maintenance	4,947,210	5,875,316	928,106	15.8%	7,453,066	11,464,538	4,011,472	36.0%
Depreciation	22,113,157	28,253,270	6,140,113	21.7%	26,098,404	26,286,044	187,639	1.4%
Interest Expense	208,061	82,343	(125,718)	-152.7%	83,952	10,032	(73,920)	-751.4%
Direct Expenses	<u>390,036,844</u>	<u>390,811,771</u>	<u>774,927</u>	<u>0.2%</u>	<u>378,482,857</u>	<u>384,559,512</u>	<u>6,076,655</u>	<u>0.8%</u>
Gross Profit	<u>1,016,791,243</u>	<u>1,003,086,055</u>	<u>13,705,188</u>	<u>1.4%</u>	<u>948,944,795</u>	<u>928,729,425</u>	<u>20,215,369</u>	<u>1.9%</u>
Indirect Revenue								
Gain (Loss) on Sale of Fixed Assets	4,950,386	-	4,950,386	N/A	259,471	-	259,471	N/A
Other Income	14,260,545	2,050,000	12,210,545	595.6%	22,205,899	10,545,326	11,660,573	108.3%
Investment Market Value Adj	(6,152,379)	-	(6,152,379)	N/A	(2,963,085)	-	(2,963,085)	N/A
Total Indirect Revenue/(Loss)	<u>13,058,552</u>	<u>2,050,000</u>	<u>11,008,552</u>	<u>537.0%</u>	<u>19,502,285</u>	<u>10,545,326</u>	<u>8,956,959</u>	<u>65.8%</u>
Indirect Expenses								
Public Information	851,936	1,111,100	259,164	23.3%	801,810	1,182,152	380,342	32.0%
Market Research	225,784	526,330	300,546	57.1%	207,059	961,958	754,899	58.0%
Salaries, Wages & Benefits	73,367,659	78,573,682	5,206,024	6.6%	73,017,903	72,218,796	(799,107)	-3.3%
Services & Supplies	20,416,703	37,887,420	17,470,717	46.1%	22,305,372	36,965,843	14,660,471	40.5%
Depreciation	2,824,318	2,542,362	(281,956)	-11.1%	5,152,524	3,254,327	(1,898,198)	-48.6%
Interest Expense	144,944	-	(144,944)	N/A	74,043	-	(74,043)	N/A
Total Indirect Expense	<u>97,831,344</u>	<u>120,640,895</u>	<u>22,809,551</u>	<u>18.9%</u>	<u>101,558,711</u>	<u>114,583,076</u>	<u>13,024,365</u>	<u>10.4%</u>
Net Profit from Operations	<u>932,018,451</u>	<u>884,495,160</u>	<u>47,523,291</u>	<u>5.4%</u>	<u>866,888,368</u>	<u>824,691,676</u>	<u>42,196,692</u>	<u>4.4%</u>
Modernization Investment Spending	<u>9,750,599</u>	<u>20,888,053</u>	<u>11,137,454</u>	<u>53.3%</u>	<u>7,139,043</u>	<u>21,036,568</u>	<u>13,897,525</u>	<u>67.4%</u>
Net Profit	<u>\$ 922,267,852</u>	<u>\$ 863,607,108</u>	<u>\$ 58,660,745</u>	<u>6.8%</u>	<u>\$ 859,749,326</u>	<u>\$ 803,655,108</u>	<u>\$ 56,094,218</u>	<u>6.3%</u>

Oregon State Lottery

Salaries & Benefits

FY 2025 average OPE rate	71.0%	<u>Note Ref.</u>
The FY 2025 Personal Services Plan is as follows:		
Base Wages (Regular Service (424.5) & Limited Duration (14))	\$ 51,380,105	
Raise of 3.6% for all eligible employees	1,350,829	
Overtime	20,500	
Top of Range Pay (0% of base pay for employees not eligible for base pay increase)	-	
FY 2025 Employee Bonus (0% of base pay if bonus criteria is met)	-	
Employee Recognition	47,578	
Estimated Vacancy Salary Savings	(3,236,744)	
Total FY 2025 Salaries Expense	\$ 49,562,268	
OPE	\$ 42,103,601	
Overtime Benefits	14,561	
Estimated OPE Savings	(2,298,990)	
Total FY 2025 Benefits Expense	\$ 39,819,172	
New Items		
Pay Calibration	\$ 3,800,000	1
Pay Calibration Benefits	2,699,059	2
Total FY 2025 Benefits Expense	\$ 6,499,059	
Total FY 2025 Personal Services Budget	\$ 95,880,499	

<u>Note Ref.</u>	<u>Explanation</u>	<u>Amount</u>
1	Pay Calibration	\$3,800,000
2	Pay Calibration Benefits	2,699,059

Oregon State Lottery

FY 25 Budget

Schedule of Capital Projects

Asset	\$ Cost
<u>FY 2025 Capital Spending</u>	
Retailer Contracts (1300)	
RPM Implementation	\$ 10,590,000
IT Governance (2880)	
Data hub development for RPM	1,215,500
Integration development for RPM	327,000
	\$ 1,542,500
IT Operations (2840)	
Veritas Netbackup Imm Storage	250,000
Network Equipment Upgrades	412,000
SDWAN for Business Network	106,000
	\$ 768,000
Site Services (2120)	
Player Services Ballistic Upgrades	186,150
HQ Lobby Remodel	164,000
UPS Upgrade	222,000
	\$ 572,150
Fleet Services (2630)	
New Vehicles (26)	1,333,600
Racks and Bins (26)	126,000
	\$ 1,459,600
Bench Supervisor (5210)	
Omegasonic electronic cleaning station	\$ 11,476
Security (3100)	
Building security system replacement	\$ 1,000,000
Gaming Products Portfolio (5420)	
iLinks	2,992,560
New VLT purchases	20,000,000
	\$ 22,992,560
Total FY 2025 Capital Project Requests	\$ 38,936,286
SBITA Acquisitions through Contract	166,407
Lease Acquisitions through Contract	156,000
	\$ 322,407 **
Total FY 2025 Capital Project & Contract Requests	\$ 39,258,693

** These items are acquired through signed contracts.