OREGON LOTTERY

Quarter 3, Fiscal Year 2025 Variance Analysis
(July 1, 2024 – March 31, 2025)

Net Profit From Operations
Net profit at the end of the third quarter is $664,969,109 on a plan of $665,717,897 creating an unfavorable variance of $748,788 (.1%). Indirect revenues, mostly interest on cash balances, and savings in both direct and indirect expenses are covering the unfavorable variance in net revenue.

	Net Profit Variance Favorable/(Unfavorable)			
	YTD			
	Actual	Budget	Variance	Percent
Net Revenue	$ 1,058,840,206	$ 1,080,071,454	$ (21,231,248)	-2.0%
Indirect Revenue	19,548,986	14,927,996	4,620,990	31.0%
Direct Expense	318,374,275	324,425,363	6,051,088	1.9%
Indirect Expense	95,045,808	104,856,190	9,810,382	9.4%
Net Profit from Operations	$ 664,969,109	$ 665,717,897	$ (748,788)	-0.1%

Net Revenue (Sales After Prizes)
Net revenues are $1,058,840,206 on a budget of $1,080,071,454 generating an unfavorable variance of $21,231,248.

	Net Revenue Variance Favorable/(Unfavorable)			
	YTD			
	Actual	Budget	Variance	Percent
Traditional	$ 122,004,182	$ 123,104,387	$ (1,100,205)	-0.9%
Video	872,868,229	886,050,104	(13,181,875)	-1.5%
Sports	63,967,795	70,916,963	(6,949,168)	-9.8%
	$ 1,058,840,206	$ 1,080,071,454	$ (21,231,248)	-2.0%

- Total traditional gross sales are over expectations by 1.7%. However, after prizes, net revenue is slightly less than projections.
    - Scratch product gross sales are 2.6% more than forecasted, and higher than last year by 9.3%. This is largely due to higher priced tickets and their popularity. However, prize percentages on those tickets are a little higher so net revenue fell slightly short of the forecast. Year over year net revenues for the scratch product have increased 7.3%.
    - Cash Pop launched on January 13th and has net revenue of $816K. With no history on which to base projections, it does appear the OEA forecast is largely exaggerated. Net revenue for the year is 63.9% less than forecasted.

- Video net revenue continued its trend of being slightly under forecast despite the forecast updates. It is worth noting that March dollars played are down 5.1% compared to March of last year. The fact that an Oregon kicker is not available this year and March of last year had five Fridays (the highest play day of a week) compared to only four this year may be contributing to the difference. This trend will be monitored.
- Sports net revenues did not meet expectations. However, net revenues are greater than last year by $9.1M.

Direct Expenses - YTD favorable $6,051,088

Commissions: YTD unfavorable $648,664

Commissions Variance Favorable/(Unfavorable)		
	Traditional	Video
	YTD	YTD
Variance from sales	$ (462,368)	$ 1,994,568
Variance from budgeted rate	(374,820)	(1,806,043)
	$ (837,188)	$ 188,524

- Traditional commissions are over budget as expected when gross sales surpass forecast.
- Video commissions are favorable to budget as expected when dollars played are not at the levels expected. However, sales being below forecast contributed to an overage for the rate portion of the variance in quarters 1 and 2. When sales aren't as expected, the retailers descend through the commission tier levels more slowly than expected. The March rate variance was only .001%.

Game Vendor Charges: YTD favorable $3,201,615

	Game Vendor Charges Variance Favorable/(Unfavorable)		
	YTD		
	Actual	Budget	Variance
Traditional	8,022,608	8,301,023	278,415
Video	377,526	250,541	(126,985)
Sports	33,638,706	36,688,891	3,050,185
	42,038,840	45,240,455	3,201,615

- Sports product is the major source of savings in game vendor charges. As previously mentioned, players had some lucky days in the 2nd quarter of the fiscal year. When days of loss occur, losses are shared with the vendor and they actually pay us. Additionally, net revenues are below forecast.

- Video product has a $40K per month flat charge which is the maintenance portion of the software subscription fees. This fee was accidentally included as part of the subscription asset when budgeting. This resulted in expense being included in the depreciation budget rather than the game vendor charges budget. However, this budget overage is net with savings from field trial lease fees which were expected to begin in March ($250K). The VLT model selected didn't require a field trial since it uses the same logic and platform as model currently in use. Expected favorable variance by year end is about $480K.

Ticket Expense: YTD unfavorable ($677,547)

Ticket Expense Variance	YTD
Variance from sales	$ (317,397)
Variance from budgeted rate	$ (360,150)
	$ (677,547)

- Based on the original budget, not adjusted for updated forecasts, sales exceeded the June 2024 forecast by $15M. Those sales drove additional ticket expense recognition causing a budget overage. In FY26 the ticket expense budget will be adjusted for forecast changes throughout the year.
- Tickets are expensed as tickets are sold, with each game having its own rate based on the cost of the ticket and the selling price for the game's ticket. The estimated composite rate for budgeting purposes was based on actual percentages seen in fiscal year 2024. The FY25 year to date budgeted composite rate is 2.11% but the actual rate is 2.39%. This rate variance resulted in a budget overage of $360K. Last year's rate was lower as new contract pricing had not taken effect. It is anticipated the variance caused by the rate will remain unfavorable at year end.

Sales Support: YTD favorable $202,329

- The contractor updating faceplates is behind on their invoicing. Additionally, spending has been controlled for various signs, holders and replacement parts for displays.

Game Equipment Parts & Maintenance (GEPM): YTD favorable $2,528,015

- A favorable variance continues for game set purchases as the Monopoly licensed game is expensed when the game is deployed to terminals, rather than a lump sum as budgeted. Deployments are continuing.

- Purchases of spare parts that were expected to happen by March will be occurring next quarter.
- GEPM is expected to close FY25 with a favorable variance of $300K - $400K.

Interest Expense (Direct): YTD unfavorable ($37,212)

- The iLinks purchasing contract had no budget for FY25 but did have three months of interest. This variance will not grow as the iLink contract ended in September and the equipment is now owned. This purchasing arrangement was in the Intelligen contract that started in September 2016.
- Interest for the Intelligen software was budgeted low.
- No interest was budgeted for direct expense leases. The budget will be refined in FY26.

Indirect Revenue - YTD favorable $4,620,990

- The favorable variance is largely produced by interest earnings on cash balances. This is primarily caused by prize cash balances not being included in the budget projection. The interest forecast will be refined in the FY26 budget.
- Investment market value adjustments are not budgeted since it is unrealized gain or loss. Lottery holds the securities to maturity and will receive their face value.

Indirect Expenses - YTD favorable $9,810,382

Public Information: YTD favorable $103,271

- Staff is working to repurpose budgeted amounts as some agency and consultant fees were not able to be used as expected.

Market Research: YTD favorable $111,911

- Responsible gambling research will be less than originally budgeted.

Salaries, Wages, & Benefits: YTD favorable $8,564,204

	Salaries, Wages and Benefits Variance			
	Actual	Budget	Variance	% Variance
Salaries and Wages	$ 39,725,626	$ 42,005,570	$ 2,279,943	5.43%
OPE	23,551,402	29,835,663	6,284,261	21.06%
	$ 63,277,029	$ 71,841,233	$ 8,564,204	

- The OPE variance is the primary source of the favorable variance. The rate used for budgeting OPE was the rate occurring at the time of budgeting (March). Once the actual FY24 PERS expense was known (July 2024), the FY25 monthly accrual amount was adjusted down to the new expectation for FY25. Actual FY25 PERS expense will not be known until July.

- Pay calibration is having a smaller impact than originally anticipated and headcount has been below expectations every month.

Services & Supplies: YTD favorable $2,015,868

The favorable conditions are attributable to the following expense groups:

- Retailer Network Expenses – YTD favorable variance $781,786
  The ongoing transition of our retailer network to a new service platform is progressing as planned and retailers are being moved monthly. However, due to challenges with the new platform, expenses for the retailer network aren't being charged when services fail to meet requirements. This is causing a favorable variance.

- Technology Expenses – YTD favorable variance $1,188,427
  The favorable variance is primarily driven by software subscription contracts which often have terms of a year or more. Originally budgeted in expense line items as payments are due, these contracts have been recognized as assets and are amortized through depreciation and interest expense over the length of the agreement. This leads to favorable variances here and unfavorable variances in depreciation and interest. Staff continues to try to align the budget with the expense accounts effected but much is unknown at the time of budgeting and assumptions are required.

- Professional Services – YTD unfavorable variance $(1,152,086)
  Most of this variance is caused by expenses for the RPM project. The budget assumption was all charges would be capitalized and expensed via depreciation and interest. However, some of the expenses have not met GASB requirements for capitalization and needed to be expensed.

- Staff Training & Recruiting – YTD favorable variance $336,104
  Favorable variance to date is primarily due to postponed and suspended expenses for the CHRO recruitment and executive relocation costs. Additional favorable variances are seen in professional development and technical training. Both of these areas are expected to have increased participation in the last quarter of the year.

- Other Services & Supplies – YTD favorable variance $228,591
  Expenses in this category are flexible and often driven by project schedules and activity levels. Through March there have been savings for meeting costs, miscellaneous small parts and tools, and other small services and supplies.

- Fleet Expenses – YTD favorable variance of $146,218
  The primary driver of the favorable variance is gasoline which was budgeted with an increase in fuel prices. Fuel prices have declined compared to the prior year, resulting in a favorable variance.

Depreciation (Indirect): YTD unfavorable $(934,175)

- The budget to actual difference includes lease variances as well as subscription based software (SBITA) depreciation. Approximately $518K of the variance is due to billboard leases that were not budgeted. Approximately $296K of the variance is due to SBITA depreciation that was generally budgeted in technology expense. Both types of depreciation will have improved budgets in FY26.
- Additional small overages are from vehicle purchases late in FY24 and the prior year building security system acquisitions not being included in the budget. Budgeting will be improved in FY26 to include late fiscal year purchases in the budget.

Interest Expense (Indirect): YTD unfavorable $(50,697)

- The negative variance is due to new lease and subscription contracts which have been recognized as assets with a corresponding liability and interest. This results in expense being reported through depreciation and interest instead of through the use of operating expense accounts such as technology expense where they were budgeted.

Capital Outlay – YTD favorable $16,393,306

- Player services ballistic upgrade and lobby remodel are in progress and expected to complete by the end of the fiscal year
- The UPS upgrade equipment is ordered and expected in June. Installation may carryover to FY26.
- The RPM project is in progress. There will likely be some underspending in capital as some of the expenses have not been capitalizable as originally thought. These costs are causing overages in professional services as mentioned above.
- It was originally anticipated fleet would purchase 26 vehicles and 20 have been purchased to date. A determination will be made if the other 6 will be needed.
- IT Enterprise Architecture expenditures were budgeted in Technology expenses but were determined to be capital once contracts were finalized and reviewed.
- IT Governance budgeted capital has been determined to be expense and is part of the professional services variance described above.
- Most of the security projects will be completed in the last quarter of FY25. However, the Coos Bay depot may fall behind due to circumstances out of Lottery control.
- VLT purchases are on track to complete by the end of the year.