

Date of Hearing: April 6, 2016

ASSEMBLY COMMITTEE ON GOVERNMENTAL ORGANIZATION

Adam Gray, Chair

AB 2215 (Medina) – As Introduced February 18, 2016

SUBJECT: California State Lottery Act: California State University Lottery Education Fund:
California State University Trust Fund

SUMMARY: Would require the Board of Trustees of the California State University to deposit funds received from the California State Lottery Education Fund in the California State University Trust Fund instead of the California State University Lottery Education Fund.

EXISTING LAW:

- 1) The California State Lottery Act (Lottery Act or Act) of 1984, enacted by initiative, authorizes a California State Lottery and provides for its operation and administration by the California State Lottery Commission (Commission) and the Director of the California State Lottery, with certain limitations.
- 2) Requires the Commission to establish the percentage of total annual revenues of the state lottery to be allocated to the benefit of public education at a level that maximizes the total net revenues allocated for the benefit of public education.
- 3) Requires that no more than 13 percent of the total annual revenues be used to pay Lottery expenses and that those expenses include all costs incurred in the operation and administration of the Lottery and all costs resulting from any contracts entered into for the purchase or lease of goods and services required by the Lottery.
- 4) Establishes the California State Lottery Education Fund and provides for direct payments from the fund to various entities, including the Board of Trustees of the California State University (trustees).
- 5) Requires funds received by the trustees to be deposited in, and expended from, the California State University Lottery Education Fund or, at the discretion of the trustees, deposited in local trust accounts.
- 6) Establishes the California State University Trust Fund and specifies its sources of revenue.
- 7) Provides that all money received by the Fund shall augment the support appropriation to the California State University for the fiscal year to which the collections apply.

FISCAL EFFECT: Unknown

COMMENTS:

Purpose of the bill: According to the author, this bill will allow the State Controller's Office (SCO) to directly deposit lottery funds into the California State University Trust Fund. This will eliminate unnecessary administrative processes and streamline the accounting processes associated with utilizing the funds from the California State University Lottery Education Fund.

Background: State Lottery Act of 1984 (Act) was created by a ballot measure, Proposition 37, which was approved by 58 percent of voters on November 6, 1984. The Act gave the Lottery a clear mission: to provide supplemental funding for public schools and colleges. The Act specifies that the Lottery be operated and administered by a Commission appointed by the Governor. The Legislature has the authority to amend the Act if, by doing so, it furthers the purposes of the Act.

In April 2010, the Legislature passed Assembly Bill 142, which changed the Lottery's funding formula to follow best practices. Those practices have helped lotteries throughout the nation increase sales and earn more money for their beneficiary. AB 142 limits administrative expenses to 13 percent of sales, while requiring that 87 percent of sales go back to the public in the form of prizes and contributions to education. The law gives the Lottery the flexibility to pay out a higher percentage of its revenues in prizes than it has in the past, but only if it does so in a way that increases the total amount of money that goes to public schools and colleges.

In fiscal year 2014/2015, the State Lottery contributed \$1,391,101,826 to K-12, Community Colleges, CSU and UC campuses and several specialized schools. The funds were divided up by following percentages: K-12: 80% (\$1,113,267,781); Community Colleges: 14.10% (\$196,204,535); CSU: 3.54% (\$49,308,817); UC System: 2.28% (\$31,768,586); Public Colleges and Miscellaneous Educational Institutions: .04% (\$552,107). Additionally, below is a breakdown of how every lottery dollar was spent for the 2014/2015 fiscal year:

- 63.4¢ prizes
- 24.6¢ operating income to education
- 6.9¢ retailer compensation
- 2.0¢ overhead
- 1.8¢ direct gaming costs
- 1.3¢ marketing costs

California State University Lottery Education Fund: Under current law, funds from the California State Lottery Education Fund are distributed quarterly by the State Controller's Office into the California State University Lottery Education Fund, which serves as the depository account for CSU lottery funds. CSU accounting staff then must submit quarterly transfer requests to move these funds into the California State University Trust Fund. They must also submit similar quarterly forms to move the associated interest accrued from lottery revenues. From their funds are distributed to various State Universities for programs and uses that are consistent with the Lottery Act.

According to the CSU Chancellor's Office, in recent years, annual CSU Lottery Fund receipts have averaged around \$45 million per year. Approximately 80% of funds are allocated directly to campuses for instructionally related programs and activities. The remaining funds are allocated for CSU programs that assist student education, such as the Summer Arts, Pre-Doctoral, and Doctoral Incentive programs. Approximately 1.2 percent of lottery resources are used by the CSU Chancellor's Office to administer lottery fund operations and reporting requirements. The CSU sets aside \$5 million for reserves, to prepare for cash-flow variations and other year-to-year economic uncertainties that could impact future fund receipts.

The 2016-17 lottery budget for CSU is estimated to be \$49.2 million; the allocation would be as follows:

\$5 million	Set aside for cash-flow variation and fluctuations
\$39.5 million	\$31.5 million for campus-based programs \$8 million for increased financial aid for the Early Start program (in the form of fee waivers)
\$4 million	System-designated programs, including: <ul style="list-style-type: none"> • \$2 million for the Chancellor’s Doctoral Incentive program • \$1.2 million for the CSU Summer Arts program • \$814,000 for the California Pre-Doctoral program
\$607,000	Administrative costs associated with the fund and system programs

Double referral: Should AB 2215 pass the Assembly Committee on Governmental Organization on Wednesday, April 6, 2016, this bill will be referred to the Assembly Committee on Higher Education for further consideration.

Prior/Related Legislation: AB 142 (Hayashi), Chapter 13, Statutes of 2010. Modified the allocation formula of the Act of 1984, also known as Proposition 37. Repeals the modifications to the allocation formula if it is determined by the Controller that the amount of revenues allocated to the benefit of public education by the Lottery is less than what would have been allocated if the law were not changed, as specified.

AB 1654 (Budget Committee), Chapter 764, Statutes of 2008. Would have implemented a number of changes to the Lottery Act to "modernize" the Lottery if the voters would have approved Proposition 1C (which was placed on the ballot by SCA 12 (Perata), Resolution Chapter 143, Statutes of 2008, in May 2009. (The voters did not approve Proposition 1C.)

SB 1679 (Florez), 2007-2008 Legislative Session. Would have made a number of changes to enhance the performance of the Lottery. (Never heard in the Senate.)

SB 1011 (Florez), 2005-2006 Legislative Session. Would have required, among other things that at least 50% of multistate lottery revenues to be allocated to the public in the form of prizes, at least 42% must benefit public education, and no more than 8% to be allocated for Lottery expenses. (Died on the Assembly Floor).

REGISTERED SUPPORT / OPPOSITION:

Support

California State University, Board of Trustees (Sponsor)
Betty T. Yee, California State Controller

Opposition

None on file

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