

Date of Hearing: April 4, 2018

ASSEMBLY COMMITTEE ON GOVERNMENTAL ORGANIZATION

Adam Gray, Chair

AB 2824 (Gray) – As Introduced February 16, 2018

**SUBJECT:** California State Lottery: revenue allocations: Office of Problem Gambling

**SUMMARY:** Makes changes to the allocation of California State Lottery (Lottery) revenues. Specifically, **this bill:**

1. Requires an unspecified percentage of the amount of Lottery revenues allocated to pay allowable administrative expenses to instead be allocated to the Office of Problem Gambling (OPG) to support gambling disorder prevention and treatment programs.

**EXISTING LAW:**

1. The California State Lottery Act (Act) of 1984, enacted by initiative, authorizes a 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 87 percent or more the total annual revenues from the sale of state lottery tickets or shares shall be returned to the public in the form of prizes and net revenues to benefit public education.
3. Requires the Lottery to determine the percentage of total annual revenues that shall be returned to the public in the form of prizes. The percentage shall not be less than 50 percent of the total revenues.
4. The percentage of the total annual revenues to be allocated to the benefit of public education shall be established by the Lottery at a level that maximizes the total net revenues allocated to the benefit of public education.
5. Prohibits the Lottery from using more than 13 percent of the total annual revenues for administrative expenses, as defined. Clarifies to the extent that expenses of the lottery are less than 13 percent of the total annual revenues, any surplus funds also shall be allocated to the benefit of public education.
6. Establishes the Gambling Addiction Program Fund (Fund) to benefit those who have a gambling addiction problem.
7. Requires each cardroom licensee to pay \$100 for each table for which it is licensed to the California Department of Public Health (CDPH) for deposit in the fund. Clarifies these funds shall be made available, upon appropriation by the Legislature, to community-based organizations that directly provide aid and assistance to those persons with a gambling addiction problem.
8. The Act of 1984, an initiative measure, specifies that none of its provisions may be changed except to further its purpose by a bill passed by a 2/3 vote of each house of the Legislature and signed by the Governor.

**FISCAL EFFECT:** Unknown

**COMMENTS:**

Purpose of the bill: According to the author: “This bill will provide much needed funding for OPG, which has been severely underfunded for the better part of a decade. Since 2000, California has seen a large expansion in overall gambling, a trend that is likely to continue. As California continues to remain one of the largest gambling states and considers new gaming options, we must ensure resources are available for a growing number of people with a gambling addiction or problem.”

Statistics show that people who suffer a gambling addiction benefit greatly from treatment programs provided by the State. According to data collected from OPG, CalGETS (treatment program) clients show decreased intensity of their gambling urges and increased overall life satisfaction at the conclusion of treatment. Life satisfaction, as measured by a self-reported 100-point scale, has increased from intake to end-of-treatment across the treatment network by 12 points or more. Additionally, gamblers decreased the severity of their gambling problem from intake to the end of treatment. It is clear the treatment that OPG is providing is working, but more funding is needed to expand programs across the State.

According to the 2016 National Surveys of Problem Gambling Services, California provided just 22 cents per capita of publicly funded monies to problem gambling services in 2016, well below the national average. Of the 40 states that specifically funded problem gambling services, the 2016 per capita average was \$0.37.

The author states: “Currently, the Lottery, which accounts for a large percentage of gambling in California, paid less than \$150,000 to OPG in FY 2017-2018 to help fund gambling disorder prevention and treatment programs. This contribution accounts for less than 2% of OPG’S annual budget, while California’s Tribal Casinos contribute over 96% or \$8.2 million. As we discuss potential gambling expansion at brick and mortar facilities and online, California must be better prepared to provide services to those who need it. AB 2824 is a step in the right direction to find more resources to combat problem gambling.”

Background: The Lottery was created by a ballot measure, Proposition 37, which was approved by 58 percent of voters on Nov. 6, 1984. The Act authorizes a California State Lottery and provides for its operation and administration by the Commission and the Director of the Lottery, with certain limitations. The voters gave the Lottery a clear mission: to provide supplemental funding for public schools and colleges. Since 1985, the Lottery has contributed more than \$30.9 billion to help create more educational opportunities for California’s students. These funds have been used in public schools to attract and retain teachers, buy classroom supplies and state-of-the-art equipment, and keep important programs running. In fiscal year 2016-17 total sales revenue for the Lottery was \$6.234 billion; \$1.545 billion of which was allocated to education.

Lottery’s Administrative Expenses: Initially, the Act capped administrative expenses at 16 percent of sales and required that 34 percent of sales go to education. In 2010, the Legislature passed Assembly Bill 142 (Hayashi), which changed the Lottery’s funding formula to follow best practices. The bill 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 bill gave the Lottery the flexibility to pay out a higher percentage of its revenues in prizes than it had 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 2016-17 total administrative expenses for the Lottery was \$775.8 million or 12.4% of total revenue. Below is a breakdown of the Lottery's administrative expenses for fiscal year 2016-17:

- Retailer costs: \$433.7 million (7.0% of sales revenue)
- Gaming costs: \$116.4 million (1.9% of sales revenue)
- Personal Services: \$91.3 million (1.5% of sales revenue)
- Advertising/Marketing: \$85.3 million (1.4% of sales revenue)
- Depreciation: \$16.9 million (0.3% of sales revenue)
- Contractual Services: \$14.3 million (0.2 % of sales revenue)
- Operating Expense: \$18.0 million (0.3 % of sales revenue)

Office of Problem Gambling (OPG): Effective with the passage of the 2013-2014 Budget Act, OPG was transitioned to the California Department of Public Health (CDPH). OPG's mission is to provide quality, research-driven leadership in prevention, intervention, and treatment for gambling disorder. OPG has a two-pronged approach to accomplish its mission – prevention and treatment:

1. Prevention Program – OPG's Prevention Program contains the following mandated elements: Toll-free helpline, Training and Education, Outreach and public education, and Research.
2. Treatment Program – OPG has taken a stepped-care approach – system of delivering and monitoring treatments, so that the most effective yet least resource-intensive treatment is delivered to patients first – in developing California Gambling Education and Treatment Services (CalGETS). To date, OPG has trained more than 600 licensed health providers who have treated over 12,500 clients. In fiscal year 2016-2107 CalGETS served 1,210 gamblers and 405 affected individuals (those negatively impacted by problem gambler's behavior). CalGETS provides gamblers and affected individuals with various treatment options: Problem Gambling Telephone Interventions (PGTI), Outpatient Services, Intensive Outpatients Services (IOP), Residential Treatment, and Clinical Innovations.

In fiscal year 2017-2018 OPG's budget was \$8.5 million. They were able to operate the above the programs with a staff of 1 chief, 3 full-time analysts, 1 part-time analyst, and 1 part-time office technician. Funding for OPG comes three different sources: \$8.2 million from Indian Gaming, \$139,080 from the Lottery, and \$150,000 from Cardrooms. It is important to note, OPG has divided California into six service regions: North/Mountain, Bay Area, Central Valley, Los Angeles, Southern California (excluding LA), and Central/Southern Farm. Due to funding constraints treatment resources have been focused in only four of the six regions.

Support: The California Council on Problem Gambling writes in support: "We strongly support AB2824, an act to Amend Section 8880.4 of the Government Code, requiring that a to-be-determined percentage of lottery revenues be allocated to the California Office of Problem Gambling (OPG). We further urge that the determined allocation be significant enough to satisfy the needs of OPG, as it strives to fulfill its mission of serving all Californians affected by gambling problems, throughout the entire state.

California is home to the largest gambling industry in the country by revenue, yet based on data from two National Surveys of Problem Gambling Services, our per-capita public investment for gambling addiction treatment and prevention declined by about 4%, to \$0.22, between 2013 and 2016. That ranks 20<sup>th</sup> out of the 39 states that provide public funding, and is nearly 40% below the unweighted average of \$0.37.

We strongly urge the Assembly to pass AB 2824, and provide them with the funding necessary to expand their programs throughout the entire State, while continuing to provide critical services to those in need.”

Prior/Related Legislation: AB 142 (Hayashi), Chapter 13, Statutes of 2010. Modified the allocation formula of revenue generated from the Lottery, and contained language to require the repeal of the modified formula if the Controller determines that the revenue allocated to benefit public education is less than a specified amount.

AB 1973 (Bermudez), Chapter 854, Statutes of 2006. Required each cardroom licensee to pay \$100 for each table for which it is licensed to the CDPH for deposit into the Gambling Addiction Program Fund.

**REGISTERED SUPPORT / OPPOSITION:**

**Support**

California Council on Problem Gambling  
Morongo Band of Mission Indians

**Opposition**

None on file

**Analysis Prepared by:** Kenton Stanhope / G.O. / (916) 319-2531