



## Memo

<b>Date:</b>	June 23, 2023
<b>To:</b>	Oregon State Lottery Commissioners
<b>From:</b>	Kathy Ortega, chief financial officer
<b>Subject:</b>	Proposed FY '24 budget

I am pleased to present the draft FY '24 budget for the Oregon Lottery. This budget covers the project work items that have been prioritized by the Executive Team and follows the directions provided by the Governor's office to maintain, but not grow, product offerings.

As a result of this direction, Executive Team asked staff to prepare their budget requests for FY '24 based on a "keep the lights on" approach with projects currently in flight. The Executive Team then asked for a phase II budget with specific instructions on what to include for projects to be continued during FY '24, and again the Team asked that only spending that was certain be included.

Underlying assumptions in this budget are as follows:

- Revenues are representative of the May OEA forecast, which are a bit above current trends and represent a return to pre-pandemic levels.
- Video and Sport Bet revenues are strong and do contain growth based on OEA predictions.
- 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.
- We have included \$10.1M for game content to ensure we are able to meet player demand and keep our video sales strong.
- Our advertising, sales support, public information, and market research budgets are returning to support our strategic objectives and revenue goals.
- We have allowed increases in training and professional development to maintain certifications and continued investments in our staff.
- Overall Services and Supplies are up as we return to regular programs of technological equipment replacement and maintenance of our systems.

As far as Salary and Wage expenses, we have included a 5.7% pay increase effective July 1, 2023, and a 1% top of range pay increase. This increase matches the averages of pay increase indexes and the pressures of current inflation. The top of range increase does not carry forward into base pay. The FY '24 bonus criteria will be based on the percentages for accurate budgeting (half a percent), completion organizational process maps (one percent), and delivering governor's expectations for quarterly



## Memo

reflecting & planning and employee engagement survey participation at a rate of 95% for each item (half percent).

The capital budget is \$59.8M which includes \$20M for the VLT replacement program, as well as \$4M to replace the security system in the building, \$1.1M to replace aging vehicles, and \$755K to compete the move to the State data center. Also included in the capital budget are \$677K in building maintenance costs that require capitalization, and \$20.3M in RPM costs and Dynamics 365 costs to complete these projects in FY'24.

Overall, this is a budget that will allow the Oregon Lottery to continue operating complete the projects from modernization that are in flight. and return to a regular VLT strategy replacement program. To support this aggressive budget, we will be asking to set aside \$35M from administrative savings to fund the next round of VLT purchases and the costs associated with upgrading the wide-area network.

**Oregon State Lottery**  
**FY 2024 Budget**  
**Profit & Loss Statement**

	FY 2024 Proposed Budget	Percent of Total Revenue	Original Approved Budget for FY23	Percent of Total Revenue	FY 2024 to Original FY 2023 Approved
<b>Revenue</b>					
Video Lottery <sup>SM</sup>	\$ 16,522,862,563		\$ 15,659,127,039		\$ 863,735,524
Scratch-Its <sup>SM</sup>	156,123,251		162,527,132		(6,403,881)
Megabucks <sup>SM</sup>	31,286,175		32,126,655		(840,480)
Pick 4 <sup>SM</sup>	2,000,472		1,953,044		47,428
Powerball®	49,697,605		40,782,376		8,915,229
Mega Millions®	26,938,003		25,915,609		1,022,394
Win For Life <sup>SM</sup>	3,864,218		3,745,538		118,680
Keno	105,800,223		103,729,614		2,070,609
Lucky Lines <sup>SM</sup>	1,986,357		1,973,929		12,428
Raffle <sup>SM</sup>	2,500,000		2,500,000		-
Scoreboard (Online Sports Betting)	647,375,704		527,319,620		120,056,084
<b>Total Revenue</b>	17,550,434,571	100.00%	16,561,700,556	100%	988,734,015
Less: Prizes	16,120,122,576	91.85%	15,196,193,126	92%	923,929,450
<b>Net Revenue</b>	1,430,311,995	8.15%	1,365,507,430	8%	64,804,565
<b>Direct Expenses</b>					-
Commissions	309,528,511	1.76%	303,659,934	1.83%	5,868,577
Game Vendor Charges	49,239,322	0.28%	42,354,870	0.26%	6,884,452
Tickets	4,628,444	0.03%	3,806,218	0.02%	822,226
Advertising	7,650,984	0.04%	8,938,302	0.05%	(1,287,318)
Sales Support	1,080,098	0.01%	954,340	0.01%	125,758
Game Equipment/Parts & Maintenance	12,632,688	0.07%	11,379,066	0.07%	1,253,622
Depreciation	28,653,709	0.16%	28,253,270	0.17%	400,439
Interest Expense	10,946	0.00%	82,343	0.00%	(71,397)
<b>Total Direct Expenses</b>	413,424,703	2.36%	399,428,344	2.41%	13,996,359
<b>Gross Profit</b>	1,016,887,292	5.79%	966,079,086	5.83%	50,808,206
<b>Indirect Revenue</b>	11,503,000	0.07%	2,050,000	0.01%	9,453,000
<b>Indirect Expenses</b>				0.00%	-
Public Information	1,188,000	0.01%	1,301,100	0.01%	(113,100)
Market Research	860,525	0.00%	771,330	0.00%	89,195
Salaries & Benefits	78,784,156	0.45%	82,644,623	0.50%	(3,860,467)
Services & Supplies	40,284,117	0.23%	37,542,273	0.23%	2,741,844
Depreciation	3,447,672	0.02%	2,748,706	0.02%	698,966
<b>Total Indirect Expenses</b>	124,564,470	0.71%	125,008,032	0.75%	(443,562)
<b>Net Profit from Operations</b>	903,825,822	5.15%	843,121,054	5.09%	60,704,768
<b>Modernization Investment</b>	22,949,000	0.13%	20,693,000	0.12%	2,256,000
<b>Net Profit</b>	\$ 880,876,822	5.15%	822,428,054	4.97%	58,448,768

Admin. Exp. % of Revenue

3.00%

3.15%

# Oregon State Lottery

FY 2024 Budget  
Services & Supplies Statement

Services & Supplies	FY24 Proposed Budget	FY23 Projected TB	Change
Travel	\$624,406	\$396,791	(\$227,615)
Office Expenses	\$404,298	\$267,894	(\$136,404)
Retailer Network Expenses <sup>1</sup>	-	\$4,595,259	\$4,595,259
Retailer Network Recovery <sup>1</sup>	-	(\$6,184,263)	(\$6,184,263)
Telecommunications	\$1,180,150	\$867,148	(\$313,002)
Intergovernmental Charges	\$1,879,086	\$1,557,141	(\$321,945)
Technology Expenses <sup>2</sup>	\$9,374,946	\$6,879,852	(\$2,495,094)
Professional Services <sup>3</sup>	\$23,322,673	\$14,524,599	(\$8,798,074)
Staff Training & Recruiting	\$776,904	\$625,191	(\$151,713)
Facilities	\$698,630	\$653,005	(\$45,625)
Facilities Maintenance	\$473,398	\$173,400	(\$299,998)
Fleet Expenses	\$750,000	\$635,627	(\$114,373)
Other Services & Supplies	\$799,626	\$562,950	(\$236,676)
<b>Grand Total</b>	<b>\$40,284,117</b>	<b>\$25,554,594</b>	<b>(\$14,729,523)</b>

## Notes Reference:

1 Retailer Network Vendor contract under negotiation.

2 Technology Expenses have increased 36% due to general growth year over year for increases in asks from the Business in support of new projects. This includes increased expenses around software maintenance & web subscriptions.

3 Professional Services have increased 60% primarily due to information Security growth and consulting. The increase also reflects projects that were once in Business Modernization or would have been Business Modernization in the future are now under Information Technology management.

**Additional variance analyses available upon request**

# Oregon State Lottery

## Salaries & Benefits

FY 2024 Budget (Budget Assumptions)

FY 2023 actual wages through Feb 2023 for projecting FY 2024 wages.

To Project OPE for FY 2024:

FY 2023 average rate	55.2%	
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Note Ref.

**The FY 2024 Personnel Services Plan is as follows:**

Base Wages (Regular Service (0) & Limited Duration (0))	\$ 47,804,456	
Raise of 5.7% for all eligible employees	2,583,098	
Top of Range Pay (1% of base pay for employees not eligible for base pay increase)	8,878	
FY 2024 Employee Bonus (2% of base pay if bonus criteria is met)	1,007,734	
Employee Recognition	55,151	

<b>Total FY 2024 Salaries Expense</b>	<b>\$ 51,459,317</b>	
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**New Items**

Paid Family Leave	\$ 223,500	1
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<b>Total New Items</b>	<b>\$ 223,500</b>	
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<b>Total FY 2024 Salaries Expense</b>	<b>\$ 51,682,817</b>	
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Overtime	37,000	
OPE	28,528,915	

<b>Total FY 2024 Salaries &amp; Benefits Expense</b>	<b>\$ 80,248,732</b>	
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**Estimated Vacancy Savings**

Salaries	\$ 943,670	
OPE	520,906	

<b>Total Vacancy Savings</b>	<b>\$ 1,464,575</b>	
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<b>Total FY 2024 Personnel Services Budget</b>	<b>\$ 78,784,157</b>	
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<u>Note Ref.</u>	<u>Explanation</u>	<u>Amount</u>
1	Employer paid contribution for paid family leave through The Standard - expense starting in September	\$223,500

**Oregon State Lottery**  
 FY 2024 Budget  
 Schedule of Capital Projects and Expenditures

Asset	\$ Cost
<b><u>FY 2024 Capital Spending</u></b>	
<b>Site Services</b>	
Painting Building Exterior	145,000
Space Optimization Warehouse	532,000
	<b>677,000</b>
<b>Fleet Services</b>	
New Vehicles (30)	1,032,000
Racks and Bins (30)	99,000
	<b>1,131,000</b>
<b>IT Operations</b>	
Confernece Room Audio Equipment	9,000
Hard Drive Shredder	15,000
	<b>24,000</b>
<b>Player Services</b>	
Payment Center Improvements	100,000
	<b>100,000</b>
<b>Business Modernization</b>	
State Data Center Colocation Proj. Rollover	755,000
D365 Project Rollover	1,844,000
D365/AX Phase 2- Aurora Invoicing	2,000,000
RPM Phase 3/4 (phase 4 is planning)	12,550,000
EIP/Aurora Integration +QA for RPM Phase 3/4	5,800,000
	<b>22,949,000</b>
<b>Security</b>	
Building security system replacement	4,000,000
	<b>4,000,000</b>
<b>Gaming Products Portfolio</b>	
FY 23 Approved VLT Purchases	9,030,090
Annual VLT Replacement Strategy Purchase	20,000,000
Product Field Trial	1,800,000
Intelligen Change Requests (products/operational)	100,000
	<b>30,930,090</b>
<b>Total FY 2024 Expenditure Requests</b>	<b>\$59,811,090</b>

**Oregon State Lottery**  
 FY 2024 Budget  
 Schedule of Project Expenses

Project	Department	Function	Budget
State Data Center Colocation Proj. Rollover	Information Technology	Infrastructure	755,000
D365 Project Rollover	Finance & Accounting	Financial Reporting and General Accounting	1,844,000
D365/AX Phase 2- Aurora Invoicing	Finance & Accounting	Financial Reporting and General Accounting	2,000,000
RPM Phase 3/4 (phase 4 is planning)	Gaming Operations	Retailer Experience	12,550,000
EIP/Aurora Integration +QA for RPM Phase 3/4	Gaming Operations	Retailer Experience	5,800,000
			<u>\$ 22,949,000</u>
		<b>Total Business Investment</b>	<u><u>\$ 22,949,000</u></u>