

2009

LOTTERY MODERNIZATION ACT.

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QUICK-REFERENCE GUIDE

PROP LOTTERY MODERNIZATION ACT.

1C

SUMMARY

Put on the Ballot by the Legislature

Allows the state lottery to be modernized to improve its performance with increased payouts, improved marketing, and effective management. Requires the state to maintain ownership of the lottery and authorizes additional accountability measures. Protects funding levels for schools currently provided by lottery revenues. Increased lottery revenues will be used to address current budget deficit and reduce the need for additional tax increases and cuts to state programs. Fiscal Impact: Allows \$5 billion of borrowing from future lottery profits to help balance the 2009–10 state budget. Debt-service payments on this borrowing and higher payments to education would likely make it more difficult to balance future state budgets.

WHAT YOUR VOTE MEANS

YES A YES vote on this measure means: The state would be allowed to borrow \$5 billion from future lottery profits to help balance the 2009–10 state budget, as well as borrow additional funds later. The California Lottery would have greater flexibility to increase its sales and profits. Lottery payments to educational institutions would end, and the state General Fund would increase its payments to education to make up for the loss of these lottery funds.

NO A NO vote on this measure means: The state would not be able to borrow from lottery profits to help balance the state budget. The lottery would continue to operate as it does today, with profits dedicated to education.

ARGUMENTS

PRO Yes on Prop. 1C MODERNIZES OUR LOTTERY and generates up to \$5 billion in new revenue—without raising taxes. Prop. 1C guarantees schools get the same level of lottery funding as they do now. Prop. 1C will help prevent more tax hikes and deeper cuts to public safety and schools.

CON A no vote on this measure will leave the state lottery as the voters intended when they voted for Proposition 37 in 1984. Funding to education by the state lottery will not decrease or change in any way.

FOR ADDITIONAL INFORMATION

FOR
Budget Reform Now
(866) 978-3444
info@cabudgetreformnow.com
www.cabudgetreformnow.com

AGAINST
Senator Bob Huff
1017 L Street #401
Sacramento, CA 95814
(909) 396-6474

PROP PROTECTS CHILDREN'S SERVICES FUNDING.

1D

HELPS BALANCE STATE BUDGET.

SUMMARY

Put on the Ballot by the Legislature

Temporarily provides greater flexibility in funding to preserve health and human services for young children while helping balance the state budget in a difficult economy. Fiscal Impact: State General Fund savings of up to \$608 million in 2009–10 and \$268 million annually from 2010–11 through 2013–14. Corresponding reductions in funding for early childhood development programs provided by the California Children and Families Program.

WHAT YOUR VOTE MEANS

YES A YES vote on this measure means: A portion of funds previously approved by the voters to support early childhood development programs through the California Children and Families Program will be temporarily redirected over the next several years to achieve state General Fund budgetary savings.

NO A NO vote on this measure means: The California Children and Families Program will continue to receive all the funding now dedicated for the expansion of early childhood development programs. Other budget reductions or revenue increases would be needed to address the state's fiscal problems.

ARGUMENTS

PRO Proposition 1D protects vulnerable children while helping California close a \$42 billion budget gap. It temporarily shifts a portion of the unspent \$2.5 billion in First 5 Commission accounts to fund critical health and social services for children under the age of 5 and protects against future cuts.

CON Proposition 1D takes \$1.6 billion away from local health and education programs for young children and gives it to Sacramento politicians. Prop. 1D violates the will of voters who twice approved these funds for local health, education, and antismoking programs. Prop. 1D replaces voter-mandated local control with Sacramento bureaucracy.

FOR ADDITIONAL INFORMATION

FOR
No contact information was provided.

AGAINST
Protect Children and Families:
Vote No on Prop. 1D
2340 Powell St. #164
Emeryville, CA 94608
(510) 672-1016
info@NoOnProposition1D.com
www.NoOnProposition1D.com

OFFICIAL TITLE AND SUMMARY

LOTTERY MODERNIZATION ACT.

- Allows the state lottery to be modernized to improve its performance with increased payouts, improved marketing, and effective management.
- Requires the state to maintain ownership of the lottery and authorizes additional accountability measures.
- Protects funding levels for schools currently provided by lottery revenues.
- Increased lottery revenues will be used to address current budget deficit and reduce the need for additional tax increases and cuts to state programs.

Summary of Legislative Analyst’s Estimate of Net State and Local Government Fiscal Impact:

- Impact on 2009–10 State Budget: Allows \$5 billion of borrowing from future lottery profits to help balance the 2009–10 state budget.
- Impact on Future State Budgets: Debt-service payments on the lottery borrowing and higher payments to education would likely make it more difficult to balance future state budgets. This impact would be lessened by potentially higher lottery profits. Additional lottery borrowing would be allowed.

FINAL VOTES CAST BY THE LEGISLATURE ON AB 12 (PROPOSITION 1C)

Senate:	Ayes 30	Noes 8
Assembly:	Ayes 70	Noes 8

FINAL VOTES CAST BY THE LEGISLATURE ON SCA 12 (PROPOSITION 1C)

Senate:	Ayes 27	Noes 9
Assembly:	Ayes 63	Noes 14

ANALYSIS BY THE LEGISLATIVE ANALYST

OVERVIEW OF THE PROPOSAL

Measure Allows State to Borrow From Lottery Profits. As discussed in the “Overview of the State Budget” section, this measure is one of the major components of the plan approved by the Legislature and the Governor in February 2009 to balance the state budget. The measure makes major changes to the 1984 voter initiative that created the California Lottery. These changes could increase lottery ticket sales and allow the state to borrow \$5 billion in the 2009–10 fiscal year from future lottery profits. In addition to borrowing this \$5 billion, the state also could borrow more from lottery profits in future years. Under the measure, lottery profits now dedicated to schools and colleges would be used to pay back the borrowing. The measure would increase state payments to education from the state General Fund to make up for the loss of these lottery payments. (See the nearby box for definitions of terms used in this analysis.)

BACKGROUND**Existing Lottery Laws**

Lottery Created by a Voter-Approved Measure. California voters approved Proposition 37 in 1984. Proposition 37 authorized creation of the lottery and dedicated lottery profits to education. It created the California State Lottery Commission (commission), which consists of five persons appointed by the Governor and confirmed by the State Senate. The commission oversees the approximately 600-person state department that administers the lottery.

Laws Governing Use of Lottery Funds. Proposition 37 directs the use of funds generated from sales of lottery tickets. It requires that 50 percent of these funds be returned to lottery players as prizes. (This means that, on average, a lottery player in California claims about 50 cents in prizes for every dollar spent

on tickets.) Currently, the lottery may spend no more than 16 percent of its ticket sales on lottery operating expenses. The law dedicates lottery profits—the funds remaining after payment of prizes and lottery operating expenses—to educational institutions. These payments to educational institutions must equal at least 34 percent of the funds generated from lottery ticket sales each year.

Under Current Law, Lottery Funds Benefit Education. Currently, state officials have no ability to use lottery funds to help balance the General Fund budget. As described below, lottery profits currently benefit educational institutions and are paid directly to schools, community colleges, and universities. The state now has no ability to borrow from future lottery profits.

Current Lottery Funding for Education

Lottery Payments Are a Small Part of Education Funding. In the 2007–08 fiscal year, the lottery sold over \$3 billion of tickets, paid out \$1.6 billion in prizes, and spent \$380 million on operating expenses. This left about \$1.1 billion in lottery profits, which were distributed to public educational entities based on their number of students. This amount represents only a small part of the overall budget of California’s public educational institutions. For kindergarten through twelfth grade (K–12) schools, for example, lottery funds made up just over 1 percent of all revenues in 2007–08. In recent years, lottery payments to education have grown slowly. Between 1997–98 and 2007–08, these payments grew at an average rate of 2.8 percent

per year—slightly less than the rate of inflation. In addition, as shown in Figure 1, lottery payments to education have gone up and down over time, including drops in each of the last two fiscal years. By contrast, funding provided under Proposition 98—which makes up about three-fourths of K–12 education budgets—grew at an average rate of 5.6 percent per year between 1997–98 and 2007–08. Prior to the current fiscal year, Proposition 98 funding had increased every year during the last decade.

PROPOSAL

This measure modifies both the State Constitution and other state laws. It makes major changes in lottery operations and the allowed uses of lottery funds. These changes also would allow the state to borrow from future lottery profits. These changes also would affect both the funding of educational institutions and the state General Fund. Figure 2 summarizes key parts of this measure and how they compare with existing law.

Changes to Lottery Operations

More Flexibility for Lottery in Its Prize Payouts. This measure gives the lottery the flexibility to increase the percentage of lottery funds returned to players as prizes. Higher prize payouts can attract more spending for lottery tickets and increase lottery profits. Under this measure, the lottery commission could set prize payouts above 50 percent of lottery sales—at the level it determines will produce the maximum amount of lottery profits each year.

Selected Terms Used in This Analysis

Borrowing. The type of state borrowing allowed under this measure involves selling an asset to investors through a bond transaction. The asset—in this case, future lottery profits—then pays back the investors, with interest, over time. Through this borrowing, the state can receive benefit from future lottery profits “upfront”—by converting a stream of future annual payments into a large, “lump sum” amount realized now. This type of borrowing—referred to as securitization—is somewhat different from most other types of state borrowing in that it involves no legal commitment to use General Fund tax revenues to pay investors.

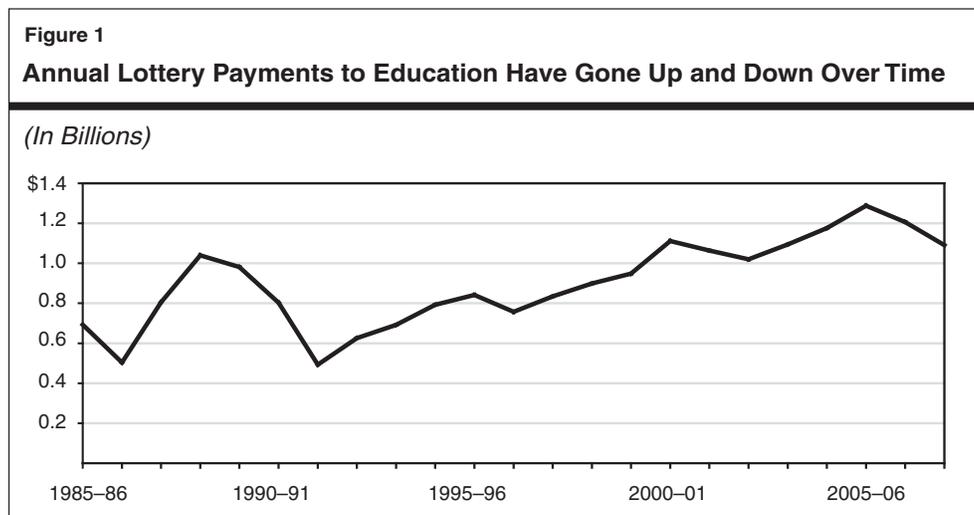
Educational Institutions. These are the public educational entities that now receive payments from the lottery, including kindergarten through twelfth grade (K–12) school districts, community college districts, the California State University system, and the University of California system.

General Fund. The state government’s main operating account, the General Fund, now receives over \$90 billion per year in taxes and other revenues. Its funds can be used by the Legislature for any purpose.

Lottery Operating Expenses. These are the costs to run the lottery. Currently, most of these expenses are sales commissions, bonuses, and other payments to retailers that sell lottery tickets—such as convenience stores, liquor stores, and supermarkets.

Lottery Profits. These are the lottery revenues that remain after payment of (1) prizes and (2) lottery operating expenses. They are currently about one-third of total sales.

Proposition 98. Approved by voters in 1988, Proposition 98 provides a minimum level of guaranteed funding each year to K–12 school districts and community college districts. This funding level, which is supported by the state General Fund and local property taxes, makes up about three-quarters of total revenues for these districts.



More Flexibility for Lottery Operating Expenses. Existing laws give the lottery more flexibility than most other state departments to spend funds for operating expenses, including contracts with private entities. Proposition 1C expands this flexibility in some ways. For instance, the measure further limits the number of contracts with private entities that the commission must submit for competitive bidding. The measure also reduces the maximum amount of lottery operating expenses from 16 percent of lottery funds each year to 13 percent of these funds. (Since the lottery currently spends under 13 percent of lottery funds—less than the maximum now allowed—on its expenses, this change probably would have no immediate effect on lottery operations.) The measure, however, gives the lottery new flexibility to carry over unused operating funds to a future year.

No Changes to Laws on Lottery Games and Devices or State Operation of the Lottery. This measure includes no changes to existing laws about the types of technologies the lottery may use in its games or the machines it may use to dispense lottery tickets. In addition, this measure continues to require the lottery to be conducted by the state and not by a private company.

Use of Lottery Profits

Profits Would No Longer Be Dedicated to Education. Under Proposition 1C, lottery profits no longer would be paid to educational institutions beginning in 2009–10. Instead, as described below, payments to educational institutions from the state General Fund would increase to make up for the loss of the lottery payments.

Borrowing From Future Lottery Profits. If voters approve this measure, the state would be able to borrow

from future lottery profits and receive a large payment or payments now from investors. The state budget plan for 2009–10—approved by the Legislature and the Governor in February 2009—relies on the state receiving \$5 billion from such a borrowing. Future lottery profits would be used to repay the investors—with interest—over time. There is no limit in the measure on how much state officials may borrow in 2009–10 and future years.

Profits Would Be Available for State Debt Payments or Budget Obligations. Under this measure, lottery profits not needed to pay off lottery borrowing would be transferred to a new state government account called the Debt Retirement Fund (DRF). Funds in the DRF could be used by the Legislature to pay the following state expenses:

- Debt-service costs on bonds issued by the state to fund roads, schools, prisons, and other infrastructure projects.
- Debt-service costs on Economic Recovery Bonds (ERBs). (The ERBs were approved by voters in Proposition 57 in 2004 to address state budget deficits from earlier in this decade.)
- Other debts incurred by the General Fund (such as amounts borrowed from other state funds) to help address budgetary shortfalls, as well as other General Fund budgetary obligations.

Payments for Problem Gambling Programs. The measure requires the lottery to direct \$1 million of its funds each year to the state’s existing Office of Problem Gambling for its awareness and treatment programs. Currently, the lottery commits about \$250,000 per year to this office to help pay for the state’s 1-800-GAMBLER problem gambling telephone line.

Funding for Educational Institutions

Increased State General Fund Payments. This measure requires the state to increase payments to educational institutions from the General Fund beginning in 2009–10. This would make up for the loss of lottery payments to education. Specifically, the measure requires the General Fund to make payments to educational institutions in 2009–10 equal to (1) the amount of lottery profits paid to these institutions in 2008–09 plus (2) an adjustment for growth in the number of students and the cost of living. For K–12 schools and community colleges, the measure states that these General Fund payments in 2009–10 are in addition to those already required under the Proposition 98 funding guarantee. In future years, the new General Fund payments for K–12 schools and community colleges would become part of their annual Proposition 98 funding. Future General Fund payments to educational institutions would continue to be adjusted each year for growth in the number of students, as well as cost of living. Like the payments under the existing lottery law, these General Fund payments would be distributed to educational institutions based on their number of students.

Future Amendments

Legislature Would Have More Flexibility to Amend the Law Later. Currently, two-thirds of Members in each house of the Legislature can vote to amend the lottery law to further the purposes of Proposition 37, the original lottery law passed in 1984. This measure gives the Legislature (with a two-thirds vote) more flexibility to amend the lottery law in the future. For example, such amendments could authorize new operating rules, games, or devices that increase the lottery’s ability to generate profits for public purposes.

The Legislature, however, would not be able to amend the parts of this measure that increase state General Fund payments to educational institutions without approval of the voters.

FISCAL EFFECTS

This measure would affect the finances of (1) the state General Fund, (2) the lottery, and (3) educational institutions.

Fiscal Effects on the General Fund

Lottery Borrowing Is a Key Part of the State’s 2009–10 Budget Plan. In February 2009, the Legislature and the Governor approved major spending reductions and revenue increases to address the state General Fund shortfall. This budget plan assumed that the state would receive \$5 billion from future lottery profits in 2009–10. Under current revenue forecasts, the \$5 billion is necessary in order for the 2009–10 budget to be in balance. Therefore, if voters reject Proposition 1C, the Legislature and the Governor probably will have to agree to billions of dollars of additional spending cuts, tax increases, and/or other solutions in order to balance the 2009–10 state budget.

Lottery Profits Would Pay Off the Borrowing and Cover Some General Fund Costs. If the state successfully borrows about \$5 billion from future lottery profits in 2009–10, annual debt-service payments to investors could total between \$350 million and \$450 million each year for 20 to 30 years. Lottery profits first would go to make these debt-service payments. Any remaining lottery profits then would be deposited to the DRF for use in paying various General Fund expenses. Accordingly, lottery profits not needed to pay debt-service costs would benefit the General Fund.

Figure 2
Key Parts of Proposition 1C and How They Compare With Current Law

	Current Law	Proposition 1C
State borrowing from future lottery profits	Not allowed.	Allows \$5 billion in borrowing to help balance the state’s 2009–10 budget. Additional borrowing allowed in the future. Repayment from future lottery profits.
Lottery prize payouts	Fixed at 50 percent of lottery sales.	Flexibility given to California State Lottery Commission to set prizes at a level above 50 percent that generates the most profits.
Use of lottery profits	Paid to public schools, community colleges, and universities.	Not paid to educational institutions. Proceeds instead are used first to repay state borrowing described above. Remaining profits would be available to benefit the state General Fund by paying state debts and budgetary obligations.
School and community college district funding	Annual minimum funding guarantee established by Proposition 98.	An increased Proposition 98 guarantee to make up for districts’ loss of payments from lottery profits.

ANALYSIS BY THE LEGISLATIVE ANALYST

CONTINUED

Future Strain on the General Fund. Proposition 1C requires increased General Fund payments to education. As described below, this measure’s changes to lottery operations probably would allow the lottery to grow its sales and profits above what they would be under existing law. Nevertheless, after the increased lottery profits are used to make debt-service payments to investors, the remaining profits probably would not be enough to cover the General Fund’s higher payments to education for most of the next 20 to 30 years. In the years after the \$5 billion borrowing, the Legislature would probably have to identify hundreds of millions of dollars per year in revenue increases or spending decreases to cover these costs.

Future Lottery Borrowing Also Could Affect the General Fund. While the Legislature and the Governor have assumed the state will borrow \$5 billion in 2009–10, the measure allows the state to borrow more from future lottery profits at any time in the future. If officials decided to do this, the state General Fund would benefit from the borrowing in a future year—just as the General Fund would benefit from the \$5 billion borrowing in 2009–10. Additional borrowings, however, would increase debt-service costs even more. These increased costs would reduce further the portion of lottery profits available to cover the General Fund’s higher payments to education. Accordingly, if state officials decide to borrow more than \$5 billion from future lottery profits, budgetary decisions of the Legislature could be more difficult in the years after that borrowing.

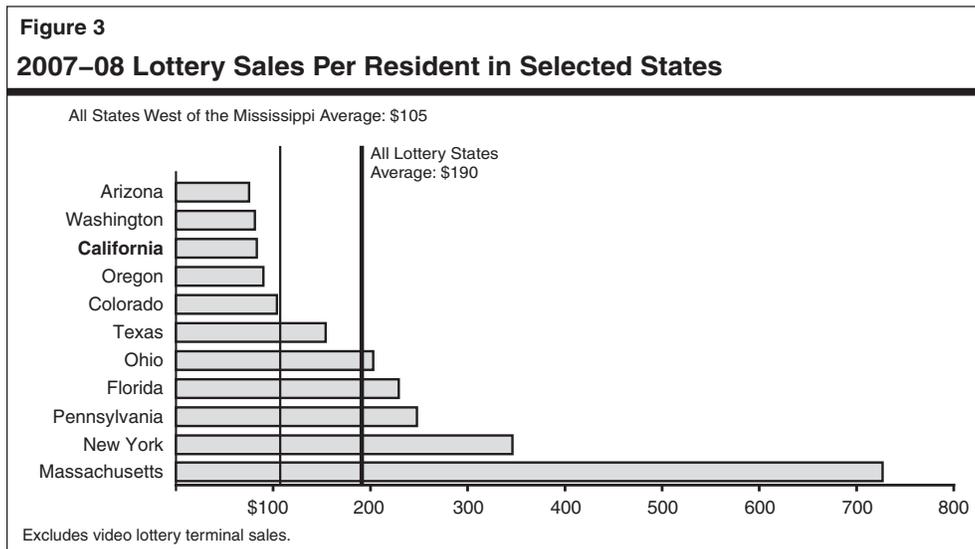
Financial Crisis Creates Near-Term Uncertainty About the \$5 Billion Borrowing. In 2008, the steep fall of the housing market led to insolvency or other fiscal troubles for many major financial institutions.

This led to a global “credit crunch” that reduced the ability and willingness of investors to lend money to many individuals, companies, and governments, including the state. The credit crunch has eased in recent months. At the time this analysis was prepared, however, there remained a possibility that California would not be able to achieve all of the planned \$5 billion lottery borrowing in 2009–10.

Fiscal Effects if State Never Borrows From Lottery Profits. While the state budget plan assumes \$5 billion of lottery borrowing in 2009–10, this measure does not require the state to undertake such a borrowing. In the event no lottery borrowing ever takes place, voter approval of Proposition 1C would allow the other changes to lottery operations, the uses of lottery funds, and funding for educational institutions discussed in this analysis to go into effect. In other words, if voters approve Proposition 1C and the state never borrows from future lottery profits, all lottery profits would flow to the DRF and be available to cover General Fund costs, including the required payments to education under this measure. In this case, it is possible that increased lottery profits under this measure would roughly offset the General Fund’s increased payments to education over the long term.

Fiscal Effects on the Lottery

Increased Prize Payouts Are Likely to Increase Lottery Sales and Profits. Each Californian currently spends an average of \$83 each year on lottery tickets—considerably less than the average resident of other states with a lottery, as shown in Figure 3. There are probably many reasons why this is so, including the other entertainment and gambling options available for residents here. California’s relatively low lottery prize



payouts (about 50 cents in prizes for every dollar spent on lottery tickets) likely also contributes to the lottery's relatively weak sales. Higher prize payouts appear to attract more players and greater spending for lottery tickets. For example, the Massachusetts State Lottery—one of the leading lotteries in sales per resident—returns over 70 percent of its funds to players as prizes. In 2002, the Florida Legislature authorized that state's lottery to grow its prize payouts. Within five years, Florida Lottery sales grew substantially. Based on the evidence from other states, we conclude that if voters approve this measure, sales and profits of the California Lottery could grow significantly compared to how much they would grow under existing law. This growth could result in future lottery sales being somewhere between 30 percent and 80 percent higher. Because a greater share of lottery funds would be given back to players as prizes, lottery *profits* would grow by a smaller percentage. We estimate that lottery profits would increase by hundreds of millions of dollars per year compared to what they would be under current law.

Choices by Consumers, Lottery Officials, and Legislators Would Affect Growth. While lottery sales and profits could grow substantially if this proposal is approved, the precise effects of this measure cannot be predicted. The amount of sales and profit growth would depend on how California consumers react to the products offered by the lottery in the future. In addition, the lottery's financial performance would depend on many decisions made by the commission and lottery staff. They would decide, among other things, the level of lottery prize payouts, how lottery games will be marketed to the public, and how lottery retailers throughout California will be encouraged to sell lottery tickets. The Legislature also would be able to pass additional changes to the lottery law to further increase lottery profits.

Fiscal Effects for Educational Institutions

State General Fund Payments to Make Up for Loss of Lottery Funds. Currently, educational institutions are the only entities that receive lottery profits. These profits totaled \$1.1 billion in 2007–08 and appear likely to be somewhat lower in 2008–09 based on recent lottery sales trends in California and other states (due in part to the recession). Under this measure, the lottery payments to schools, community colleges, and universities would stop at the end of the 2008–09 fiscal year. Beginning in 2009–10, payments from the state General Fund would increase to make up for the loss of lottery payments. These payments would grow each year in line with the growth of students and the cost

of living. For K–12 schools and community college districts, the payments would become a part of their Proposition 98 funding. Over the long term, these General Fund payments to educational institutions likely would grow faster and more consistently than the payments that the schools now receive from the lottery.

Other Fiscal Effects

Effects on Other Governmental Revenues and Expenditures. Under this measure, it is likely that California consumers would spend more of their income on the lottery. This means that Californians would spend less on other goods and services, including, perhaps, other gambling activities. State and local governments receive revenues as a result of consumer spending in these areas. Increases in lottery sales, therefore, would be partially offset by declines in other state and local revenues. The projected increase in lottery gambling activity also may contribute to more Californians having gambling problems. This could result in increased demands for services from publicly funded health and social services programs.

Summary of Fiscal Effects

This measure would affect finances of the state General Fund, the lottery, and educational institutions:

- ***State General Fund.*** This measure would allow the state to borrow \$5 billion from future lottery profits in 2009–10 to help balance the 2009–10 state budget. The measure also would allow more borrowing from lottery profits in the future. While the General Fund would benefit in the future from lottery profits not needed to pay off the borrowing, these lottery profits probably would not be enough to cover higher payments to education required by this proposition. This means the state would have to identify new revenues or spending reductions to make these higher payments to education in the future.
- ***Lottery.*** If voters approve this measure, lottery profits probably would increase by hundreds of millions of dollars per year compared to what they would be under current law.
- ***Educational Institutions.*** Schools, community colleges, and universities would no longer receive payments from the lottery. Instead, these institutions would receive higher payments from the state General Fund. These payments would grow over time—likely faster and in a more consistent way than the schools' existing lottery payments.

★ ARGUMENT IN FAVOR OF PROPOSITION 1C ★

YES ON 1C: MODERNIZE OUR LOTTERY AND PROVIDE IMMEDIATE FUNDS TO HELP OUR BUDGET CRISIS AND AVOID MORE TAX HIKES.

We're in the middle of the worst economic recession since the Great Depression. Californians face higher taxes and deeper cuts in education, public safety, transportation, health care and other critical services. We must act now to PROTECT THESE VITAL SERVICES AND AVOID FURTHER TAX INCREASES.

YES ON 1C: A RESPONSIBLE, IMMEDIATE SOLUTION TO OUR FISCAL CRISIS.

By modernizing our state lottery, Prop. 1C will immediately raise \$5 billion in new revenues without increasing taxes. Our lottery is out of date and underperforming. With a few simple changes, OUR LOTTERY CAN BRING IN MUCH MORE REVENUE TO THE STATE—\$5 billion immediately without costing taxpayers a dime, while protecting funding levels for schools currently provided by the lottery.

YES ON 1C: NEW REVENUE WITHOUT HIGHER TAXES.

Without this new lottery revenue, we will either be forced to cut another \$5 billion from the state budget—most likely from law enforcement, schools or health care—or California's hard-working residents will have to pay another \$5 billion in taxes.

YES ON 1C: PROTECT LOTTERY FUNDING FOR OUR SCHOOLS.

Under Proposition 1C, our schools will continue to receive at least as much funding as they receive from the lottery today.

YES ON 1C: MODERNIZING THE LOTTERY WILL HELP CALIFORNIA.

Every other state that has modernized its lottery has seen an increase in revenues. New York, North Carolina, Missouri and Massachusetts have all brought more revenues into their state budgets, some increasing their revenues by as much as 4,000 percent. Right now, California's lottery ranks dead last in performance among the ten largest states. CALIFORNIANS DESERVE BETTER.

YES ON 1C: INCREASED ACCOUNTABILITY AND OVERSIGHT.

Proposition 1C requires independent audits and makes reports available to the public so we can see exactly where lottery funds go and that they are being used appropriately.

YES ON 1C: DELIVERING ON THE LOTTERY PROMISE.

Proposition 1C will ensure that we're getting what we voted for and that funding for education is protected.

YES ON 1C: PART OF A RESPONSIBLE PACKAGE OF REFORMS TO FIX BUDGET DYSFUNCTION IN SACRAMENTO.

Props. 1A, 1B, 1C, 1D, 1E and 1F are a package of reforms that provide short-term solutions to get us through these difficult economic times and long-term solutions to help protect us against the type of deficits we faced this year.

VOTE YES ON 1C: PROTECT VITAL SERVICES FROM DEEPER CUTS AND PREVENT HIGHER TAXES.

www.CaBudgetReformNow.com

ED BONNER, President

California State Sheriffs' Association

DR. GLEN W. THOMAS, California Secretary of Education

BILL HAUCK, Vice-Chairman

California Business for Education Excellence

★ REBUTTAL TO ARGUMENT IN FAVOR OF PROPOSITION 1C ★

Proponents of Proposition 1C claim that all it will take is a few simple changes to bring in much more revenue to the state. Is anything the government does simple?

This is not an immediate, responsible solution to our fiscal crisis and we don't know how this will play out in the long term. What we do know is that we are making grand assumptions about a modernized state lottery, with anticipated revenues we probably won't see. Lottery ticket sales dropped 10 percent during the first four months of the current fiscal year beginning July 1. Lottery officials blamed the economic downturn for the drop in sales. If we are counting on the lottery to bail the state out financially, how is that done when people are gambling less because of a sour economy?

Part of "modernizing" the lottery will be to make the games available virtually wherever we go. We will also have sustained advertising aimed at separating people from their money, for a chance to win big. After all, it's for our children! If the increased revenues expected from this scheme don't materialize, what's next—full blown Las Vegas style gambling?

We cannot afford another ballot measure that creates more problems than it solves.

Vote NO on Prop. 1C.

HONORABLE BOB HUFF, State Senator

★ ARGUMENT AGAINST PROPOSITION 1C ★

The California lottery should be left as the voters originally intended it to be. When the voters approved the lottery twenty-five years ago, they had a clear understanding of how the program would function. They knowingly placed restrictions on the operation of the lottery in order to limit its size and scope. The Lottery has performed as it was designed to perform. There is no need to change or modernize the lottery. It should be left as the voters intended twenty-five years ago.

Please vote No.

HONORABLE BOB HUFF, State Senator

★ REBUTTAL TO ARGUMENT AGAINST PROPOSITION 1C ★

No improvements have been made to the California State Lottery in the 25 years since it was enacted by the voters. As a result, California has the lowest performing lottery of the ten largest states and our schools and taxpayers get short-changed. The lottery is an underperforming asset that needs reform and modernization to bring it up-to-date and ensure we're getting all the revenues possible to help fund schools and provide our state resources at this critical time.

PASSING PROP. 1C WILL GENERATE \$5 BILLION IMMEDIATELY—WITHOUT RAISING TAXES—AT A CRITICAL TIME TO HELP OUR BUDGET CRISIS.

Prop. 1C will modernize our lottery structure and immediately raise \$5 billion in new revenues without increasing taxes.

Prop. 1C also **INCREASES ACCOUNTABILITY** and oversight—including requiring independent audits and public reports.

VOTE YES ON PROP. 1C TO PREVENT HIGHER TAXES AND DEEPER CUTS TO SCHOOLS, POLICE AND FIRE PROTECTION AND OTHER SERVICES.

Without this new lottery revenue, we will be forced to cut another \$5 billion from the state budget—likely from law enforcement, fire protection, schools or health care—or California residents will have to pay another \$5 billion in taxes.

PROP. 1C PROTECTS LOTTERY FUNDING FOR SCHOOLS.

Under Proposition 1C, our schools will continue to receive at least as much funding from the lottery as they do today.

Props. 1A, 1B, 1C, 1D, 1E & 1F are a package of reforms to clean up budget dysfunction in Sacramento.

VOTE YES ON 1C.

www.CaBudgetReformNow.com

ED BONNER, President
California State Sheriffs' Association

SHELDON D. GILBERT, President
California Fire Chiefs Association

DR. GLEN W. THOMAS, California Secretary of Education

(A) Unfunded prior fiscal year General Fund obligations pursuant to Section 8.

(B) Any repayment obligations created by the suspension of subparagraph (A) of paragraph (1) of subdivision (a) of Section 25.5 of Article XIII.

(C) Any repayment obligations created by the suspension of subdivision (a) of Section 1 of Article XIX B.

(D) Bonded indebtedness authorized pursuant to Section 1.3.

(4) Any unanticipated revenues remaining after any appropriations and transfers described in paragraphs (1), (2), and (3) are made to retire all outstanding budgetary obligations shall be used for one or more of the following purposes:

(A) Transfer by statute to the Budget Stabilization Fund.

(B) Appropriation for one-time infrastructure or other capital outlay purposes.

(C) Appropriation to retire, redeem, or defease outstanding general obligation or other bonded indebtedness of the State.

(D) Return to taxpayers within the current or immediately following fiscal year by a one-time revision of tax rates, or by rebates.

(E) Appropriation for unfunded liabilities for vested nonpension benefits for state annuitants.

(d) For the 2010–11 fiscal year, and for each fiscal year thereafter, the revenue forecast amount shall be determined as follows:

(1) The General Fund revenues for the current fiscal year shall be forecast by extrapolating from the trend line derived by a linear regression of General Fund revenues as a function of fiscal year for the period of the 10 preceding fiscal years. For purposes of this paragraph, General Fund revenues shall exclude both of the following:

(A) The General Fund revenue effect of a change in state taxes that affects General Fund revenues for less than the entire period of the 10 preceding fiscal years.

(B) Any proceeds of bonds authorized by subdivision (a) of Section 1.3.

(2) The amount forecast pursuant to paragraph (1) shall be increased or decreased, as applicable, to reflect the net current fiscal year General Fund revenue effect of a change in state taxes for which General Fund revenue effects were excluded pursuant to subparagraph (A) of paragraph (1).

PROPOSITION 1B

This amendment proposed by Assembly Constitutional Amendment 2 of the 2009–2010 Third Extraordinary Session (Resolution Chapter 2, 2009–2010 Third Extraordinary Session) expressly amends the California Constitution by adding a section thereto; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

PROPOSED AMENDMENT TO ARTICLE XVI

That Section 8.3 is added to Article XVI thereof, to read:

SEC. 8.3. (a) School districts and community college districts shall receive supplemental education payments in the total amount of nine billion three hundred million dollars (\$9,300,000,000). These payments shall be in lieu of the maintenance factor amounts, if any, that otherwise would be determined pursuant to subdivision (d) of Section 8 for the 2007–08 and 2008–09 fiscal years. These payments are not subject to subdivision (e) of Section 8. These payments shall be made only from the Supplemental Education Payment Account, subject to the deposit into that account of the amounts necessary to make the payments. The operation of this section is contingent upon the establishment of the Supplemental Education Payment Account pursuant to subdivision (a) of Section 20.

(b) Commencing with the 2011–12 fiscal year, in addition to the amounts required to be allocated pursuant to subdivisions (b) and (e) of Section 8, the Legislature annually shall appropriate to school districts and community college districts the amount transferred to the Supplemental Education Payment Account pursuant to subdivision (h) of Section 20 in satisfaction of the supplemental education payments required by subdivision (a), until the full amount of the supplemental education payments required by subdivision (a) has been allocated pursuant to this section.

(c) (1) Of the appropriations made to school districts for the 2011–12 fiscal year pursuant to subdivision (b), an amount not exceeding two hundred million dollars (\$200,000,000) shall be available only for the purposes set forth in Section 42238.49 of the Education Code as that section read on March 28, 2009, as determined pursuant to the funding formula set forth in that section.

(2) The remaining amount of the appropriations made to school districts for the 2011–12 fiscal year pursuant to subdivision (b), and all of the appropriations made to school districts pursuant to subdivision (b) for each subsequent fiscal year, shall be allocated as an adjustment to revenue limit apportionments, as specified by statute, in a manner that does not limit a recipient school district with regard to the purposes of the district for which the moneys may be expended.

(d) All amounts appropriated in a fiscal year pursuant to this section shall be deemed allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIII B for that fiscal year, for purposes of determining, in the following fiscal year, the amount required pursuant to paragraph (2) or (3), as applicable, of subdivision (b) of Section 8.

PROPOSITION 1C

This amendment proposed by Senate Constitutional Amendment 12 of the 2007–2008 Regular Session (Resolution Chapter 143, Statutes of 2008) and Assembly Bill 1654 of the 2007–2008 Regular Session (Chapter 764, Statutes of 2008) and Assembly Bill 12 of the 2009–2010 Third Extraordinary Session (Chapter 8, 2009–2010 Third Extraordinary Session) expressly amends the California Constitution by amending a section thereof and amends, adds and repeals sections of the Government Code and amends a section of the California State Lottery Act of 1984; therefore, existing provisions proposed to be deleted are printed in ~~strikeout type~~ and new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

PROPOSED AMENDMENT TO ARTICLE IV OF THE CALIFORNIA CONSTITUTION

That Section 19 of Article IV thereof is amended to read:

SEC. 19. (a) The Legislature has no power to authorize lotteries, and shall prohibit the sale of lottery tickets in the State.

(b) The Legislature may provide for the regulation of horse races and horse race meetings and wagering on the results.

(c) Notwithstanding subdivision (a), the Legislature by statute may authorize cities and counties to provide for bingo games, but only for charitable purposes.

(d) (1) Notwithstanding subdivision (a), there is authorized the ~~establishment of a~~ California State Lottery, a lottery to be conducted by the State and operated for the purpose of increasing revenues to provide funds for the support of public education and other public purposes.

(2) Notwithstanding any other provision of law or this Constitution to the contrary, the Legislature is hereby authorized to obtain moneys for the purposes of the California State Lottery through the sale of future revenues of the California State Lottery and rights to receive those revenues to an entity authorized by the Legislature to issue debt

obligations for the purpose of funding that purchase.

(e) The Legislature has no power to authorize, and shall prohibit, casinos of the type currently operating in Nevada and New Jersey.

(f) Notwithstanding subdivisions (a) and (e), and any other provision of state law, the Governor is authorized to negotiate and conclude compacts, subject to ratification by the Legislature, for the operation of slot machines and for the conduct of lottery games and banking and percentage card games by federally recognized Indian tribes on Indian lands in California in accordance with federal law. Accordingly, slot machines, lottery games, and banking and percentage card games are hereby permitted to be conducted and operated on tribal lands subject to those compacts.

(f)

(g) Notwithstanding subdivision (a), the Legislature may authorize private, nonprofit, eligible organizations, as defined by the Legislature, to conduct raffles as a funding mechanism to provide support for their own or another private, nonprofit, eligible organization's beneficial and charitable works, provided that (1) at least 90 percent of the gross receipts from the raffle go directly to beneficial or charitable purposes in California, and (2) any person who receives compensation in connection with the operation of a raffle is an employee of the private nonprofit organization that is conducting the raffle. The Legislature, two-thirds of the membership of each house concurring, may amend the percentage of gross receipts required by this subdivision to be dedicated to beneficial or charitable purposes by means of a statute that is signed by the Governor.

PROPOSED STATUTORY PROVISIONS

SECTION 1. More than 20 years having passed since the inception of the California State Lottery, the Lottery, as a state-owned asset, should be authorized to modernize its operations in order to improve its financial performance.

SEC. 2. Section 8880.1 of the Government Code is amended to read:

8880.1. **Purpose and Intent**

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8880.1. *The People of the State of California declare that the purpose of this Act is support for preservation of the rights, liberties and welfare of the people by providing additional monies moneys to benefit education either directly or indirectly by providing funds to pay General Fund and infrastructure bond obligations without the imposition of additional or increased taxes.*

The People of the State of California further declare that it is their intent that the net revenues of the California State Lottery that are allocated for public education shall not be used as substitute funds but rather shall supplement the total amount of money allocated for public education in California.

It is further the intent of the People of California to permanently secure the contribution that the California State Lottery has made to funding public education by increasing the minimum guarantee set forth in Section 8 of Article XVI of the California Constitution.

SEC. 3. Section 8880.4 of the Government Code is amended to read:

8880.4. **Revenues** *For fiscal years prior to the 2009–10 fiscal year, total revenues of the state lottery, as defined in Section 8880.65, shall be allocated as follows:*

(a) Not less than 84 percent of 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.

(1) Fifty percent of the total annual revenues shall be returned to the public in the form of prizes as described in this chapter.

(2) At least 34 percent of the total annual revenues shall be allocated to the benefit of public education, as specified in Section 8880.5. However, for the 1998–99 fiscal year and each fiscal year thereafter, 50 percent of any increase in the amount calculated pursuant to this paragraph from the amount calculated in the 1997–98 fiscal year shall

be allocated to school districts and community college districts for the purchase of instructional materials, on the basis of an equal amount per unit of average daily attendance, as defined by law, and through a fair and equitable distribution system across grade levels.

(3) All unclaimed prize money shall revert to the benefit of public education, as provided for in subdivision (e) of Section 8880.32 8880.32I.

(4) All of the interest earned upon funds held in the State Lottery Fund shall be allocated to the benefit of public education, as specified in Section 8880.5. This interest is in addition to, and shall not be considered as any part of, the 34 percent of the total annual revenues that is required to be allocated for the benefit of public education as specified in paragraph (2).

(5) No more than 16 percent of the total annual revenues shall be allocated for payment of expenses of the lottery as described in this chapter. To the extent that expenses of the lottery are less than 16 percent of the total annual revenues, any surplus funds also shall be allocated to the benefit of public education, as specified in this section or in Section 8880.5.

(b) Funds allocated for the benefit of public education pursuant to subdivision (a) are in addition to other funds appropriated or required under existing constitutional reservations for educational purposes. No program shall have the amount appropriated to support that program reduced as a result of funds allocated pursuant to subdivision (a). Funds allocated for the benefit of public education pursuant to subdivision (a) shall not supplant funds committed for child development programs.

(c) None of the following shall be considered revenues for the purposes of this section:

(1) Revenues recorded as a result of a nonmonetary exchange. “Nonmonetary exchange” means a reciprocal transfer, in compliance with generally accepted accounting principles, between the lottery and another entity that results in the lottery acquiring assets or services and the lottery providing assets or services.

(2) Reimbursements received by the lottery for the cost of goods or services provided by the lottery that are less than or equal to the cost of the same goods or services provided by the lottery.

(d) Reimbursements received in excess of the cost of the same goods and services provided by the lottery, as specified in paragraph (2) of subdivision (c), are not a part of the 34 percent of total annual revenues required to be allocated for the benefit of public education, as specified in paragraph (2) of subdivision (a). However, this amount shall be allocated for the benefit of public education as specified in Section 8880.5.

SEC. 4. Section 8880.4.5 is added to the Government Code, to read:

8880.4.5. *Commencing with the 2009–10 fiscal year, total revenues of the lottery, as defined in Section 8880.65, for each fiscal year shall be allocated as follows:*

(a) *Not less than 87 percent of the total revenues shall be returned to the public as follows:*

(1) *The commission shall determine the percentage of total revenues that shall be returned to the public in the form of prizes as set forth in this chapter, provided that the percentage shall not be less than 50 percent of the total revenues.*

(2) *One million dollars (\$1,000,000) shall be allocated to the Office of Problem and Pathological Gambling within the State Department of Alcohol and Drug Programs for problem gambling awareness and treatment programs. No later than April 1 of each year, the Director of the Office of Problem and Pathological Gambling shall report to the commission on the effectiveness of problem gambling awareness and treatment efforts. The funding provided pursuant to this paragraph shall not replace or limit any other problem gambling awareness or treatment activity determined by the director to further the purposes of this chapter.*

(3) *The amount of net revenues designated by the Director of*

Finance as lottery revenue assets subject to sale pursuant to Article 6.7 (commencing with Section 63048.91) of Chapter 2 of Division 1 of Title 6.7 shall be transferred to the Lottery Assets Fund, which is hereby established in the State Treasury, and, notwithstanding Section 13340, is continuously appropriated for the purposes of that article.

(4) Net revenues remaining after the allocations made pursuant to paragraphs (1) through (3) shall be transferred to the Debt Retirement Fund, which is hereby established in the State Treasury. The Debt Retirement Fund may be appropriated by the Legislature for the purpose of repaying General Fund budgetary obligations, infrastructure bond debts, and the Economic Recovery Bonds, including reimbursement to the General Fund for the costs of these debts.

(b) No more than 13 percent of the total revenues shall be allocated for payment of expenses of the lottery as described in this chapter. To the extent that expenses of the lottery are less than 13 percent of the total revenues, surplus funds may be carried over from year to year upon a determination by the commission that the carryover furthers the purposes of this chapter, except that the total revenues allocated for payment, plus carried over revenue, shall not exceed 16 percent of the total revenues for the year in which carried over revenue is available. Excess carried over revenue shall be allocated pursuant to subdivision (a).

(c) None of the following shall be considered revenues for the purposes of this section:

(1) Revenues recorded as a result of a nonmonetary exchange. "Nonmonetary exchange" means a reciprocal transfer, in compliance with generally accepted accounting principles, between the lottery and another entity that results in the lottery acquiring assets or services and the lottery providing assets or services.

(2) Reimbursements received by the lottery for the cost of goods or services provided by the lottery that are less than or equal to the cost of the same goods or services provided by the lottery.

SEC. 5. Section 8880.5 of the Government Code is amended to read:

8880.5. Allocations for education:

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8880.5. The California State Lottery Education Fund is created within the State Treasury, and is continuously appropriated for carrying out the purposes of this chapter. ~~The~~ For fiscal years prior to the 2009–10 fiscal year, the Controller shall draw warrants on this fund and distribute them quarterly in the following manner, provided that the payments specified in subdivisions (a) to (g), inclusive, shall be equal per capita amounts.

(a) Payments shall be made directly to public school districts, including county superintendents of schools, serving kindergarten and grades 1 to 12, inclusive, or any part thereof, on the basis of an equal amount for each unit of average daily attendance, as defined by law and adjusted pursuant to subdivision (l).

(b) Payments shall also be made directly to public school districts serving community colleges, on the basis of an equal amount for each unit of average daily attendance, as defined by law.

(c) Payments shall also be made directly to the Board of Trustees of the California State University on the basis of an amount for each unit of equivalent full-time enrollment. Funds received by the trustees shall be deposited in and expended from the California State University Lottery Education Fund, which is hereby created or, at the discretion of the trustees, deposited in local trust accounts in accordance with subdivision (j) of Section 89721 of the Education Code.

(d) Payments shall also be made directly to the Regents of the University of California on the basis of an amount for each unit of equivalent full-time enrollment.

(e) Payments shall also be made directly to the Board of Directors of the Hastings College of the Law on the basis of an amount for each unit of equivalent full-time enrollment.

(f) Payments shall also be made directly to the Department of the

Youth Authority for educational programs serving kindergarten and grades 1 to 12, inclusive, or any part thereof, on the basis of an equal amount for each unit of average daily attendance, as defined by law.

(g) Payments shall also be made directly to the two California Schools for the Deaf, the California School for the Blind, and the three Diagnostic Schools for Neurologically Handicapped Children, on the basis of an amount for each unit of equivalent full-time enrollment.

(h) Payments shall also be made directly to the State Department of Developmental Services and the State Department of Mental Health for clients with developmental or mental disabilities who are enrolled in state hospital education programs, including developmental centers, on the basis of an equal amount for each unit of average daily attendance, as defined by law.

(i) No Budget Act or other statutory provision shall direct that payments for public education made pursuant to this chapter be used for purposes and programs (including workload adjustments and maintenance of the level of service) authorized by Chapters 498, 565, and 1302 of the Statutes of 1983, Chapter 97 or 258 of the Statutes of 1984, or Chapter 1 of the Statutes of the 1983–84 Second Extraordinary Session.

(j) School districts and other agencies receiving funds distributed pursuant to this chapter may at their option utilize funds allocated by this chapter to provide additional funds for those purposes and programs prescribed by subdivision (i) for the purpose of enrichment or expansion.

(k) As a condition of receiving any moneys pursuant to subdivision (a) or (b), each district and county superintendent of schools shall establish a separate account for the receipt and expenditure of those moneys, which account shall be clearly identified as a lottery education account.

(l) Commencing with the 1998–99 fiscal year, and each year thereafter, for the purposes of subdivision (a), average daily attendance shall be increased by the statewide average rate of excused absences for the 1996–97 fiscal year as determined pursuant to the provisions of Chapter 855 of the Statutes of 1997. The statewide average excused absence rate, and the corresponding adjustment factor required for the operation of this subdivision, shall be certified to the State Controller by the Superintendent of Public Instruction.

(m) It is the intent of this chapter that all funds allocated from the California State Lottery Education Fund and pursuant to Section 8880.5.5 shall be used exclusively for the education of pupils and students and no funds shall be spent for acquisition of real property, construction of facilities, financing of research, or any other noninstructional purpose.

SEC. 6. Section 8880.5.5 is added to the Government Code, to read:

8880.5.5. (a) Notwithstanding Section 13340 of the Government Code, commencing with the 2009–10 fiscal year and each fiscal year thereafter, the following annual appropriations are hereby made from the General Fund:

(1) To the State Department of Education, for allocation to school districts, county offices of education, and charter schools serving kindergarten and grades 1 to 12, inclusive, or any part thereof, on the basis of an equal amount for each unit of average daily attendance, as defined by law and adjusted pursuant to subdivision (l) of Section 8880.5, an amount equal to the payments made during the 2008–09 fiscal year pursuant to subdivision (a) of Section 8880.5, adjusted for inflation and attendance. The amount appropriated each year pursuant to this paragraph shall be determined by multiplying the amount appropriated in the preceding fiscal year by one plus the percent change in average daily attendance, as defined by law and adjusted pursuant to subdivision (l) of Section 8880.5, for school districts, county offices of education, and charter schools serving kindergarten and grades 1 to 12, inclusive, from the second preceding fiscal year to the preceding fiscal year and then by applying a cost-of-living adjustment pursuant to paragraph (10) of this subdivision.

(2) To the Board of Governors of the California Community Colleges, for allocation to community college districts, on the basis of an equal amount for each full time equivalent student, as defined by law, an amount equal to the payments made during the 2008–09 fiscal year pursuant to subdivision (b) of Section 8880.5, adjusted for inflation and attendance. The amount appropriated each year pursuant to this paragraph shall be determined by multiplying the amount appropriated in the preceding fiscal year by one plus the percent change in full time equivalent students for community college districts from the second preceding fiscal year to the preceding fiscal year and then by applying a cost of living adjustment pursuant to paragraph (10) of this subdivision.

(3) To the Board of Trustees of the California State University, an amount equal to the payments made during the 2008–09 fiscal year pursuant to subdivision (c) of Section 8880.5, adjusted for inflation and attendance. The amount appropriated each year pursuant to this paragraph shall be determined by multiplying the amount appropriated in the preceding fiscal year by one plus the percent change in full-time equivalent students for the California State University system from the second preceding fiscal year to the preceding fiscal year and then by applying a cost-of-living adjustment pursuant to paragraph (10) of this subdivision.

(4) To the Regents of the University of California, an amount equal to the payments made during the 2008–09 fiscal year pursuant to subdivision (d) of Section 8880.5, adjusted for inflation and attendance. The amount appropriated each year pursuant to this paragraph shall be determined by multiplying the amount appropriated in the preceding fiscal year by one plus the percent change in full-time equivalent students for the University of California system from the second preceding fiscal year to the preceding fiscal year and then by applying a cost-of-living adjustment pursuant to paragraph (10) of this subdivision.

(5) To the Board of Directors of the Hastings College of the Law, an amount equal to the payments made during the 2008–09 fiscal year pursuant to subdivision (e) of Section 8880.5, adjusted for inflation and attendance. The amount appropriated each year pursuant to this paragraph shall be determined by multiplying the amount appropriated in the preceding fiscal year by one plus the percent change in full-time equivalent students for the Hastings College of the Law from the second preceding fiscal year to the preceding fiscal year and then by applying a cost-of-living adjustment pursuant to paragraph (10) of this subdivision.

(6) To the California Department of Corrections and Rehabilitation, for educational programs serving kindergarten and grades 1 to 12, inclusive, or any part thereof, an amount equal to the payments made during the 2008–09 fiscal year pursuant to subdivision (f) of Section 8880.5, adjusted for inflation and attendance. The amount appropriated each year pursuant to this paragraph shall be determined by multiplying the amount appropriated in the preceding fiscal year by one plus the percent change in equivalent average daily attendance for the Department of Corrections and Rehabilitation Division of Juvenile Justice from the second preceding fiscal year to the preceding fiscal year and then by applying a cost-of-living adjustment pursuant to paragraph (10) of this subdivision.

(7) To the State Department of Education, for support of the State Special Schools, an amount equal to the payments made during the 2008–09 fiscal year pursuant to subdivision (g) of Section 8880.5, adjusted for inflation and attendance. The amount appropriated each year pursuant to this paragraph shall be determined by multiplying the amount appropriated in the preceding fiscal year by one plus the percent change in equivalent average daily attendance for the State Special Schools from the second preceding fiscal year to the preceding fiscal year and then by applying a cost-of-living adjustment pursuant to paragraph (10) of this subdivision.

(8) To the State Department of Developmental Services, for clients with developmental disabilities who are enrolled in developmental

center education programs, an amount equal to the payments made to the State Department of Developmental Services during the 2008–09 fiscal year pursuant to subdivision (h) of Section 8880.5, adjusted for inflation and attendance. The amount appropriated each year pursuant to this paragraph shall be determined by multiplying the amount appropriated in the preceding fiscal year by one plus the percent change in equivalent average daily attendance for the State Department of Developmental Services from the second preceding fiscal year to the preceding fiscal year and then by applying a cost-of-living adjustment pursuant to paragraph (10) of this subdivision.

(9) To the State Department of Mental Health, for clients with mental disabilities who are enrolled in state hospital education programs, an amount equal to the payments made to the State Department of Mental Health during the 2008–09 fiscal year pursuant to subdivision (h) of Section 8880.5, adjusted for inflation and attendance. The amount appropriated each year pursuant to this paragraph shall be determined by multiplying the amount appropriated in the preceding fiscal year by one plus the percent change in equivalent average daily attendance for the State Department of Mental Health from the second preceding fiscal year to the preceding fiscal year and then by applying a cost-of-living adjustment pursuant to paragraph (10) of this subdivision.

(10) The amounts appropriated pursuant to this subdivision shall be increased each year by the change in the cost-of-living determined pursuant to paragraph (1) of subdivision (e) of Section 8 of Article XIII B of the California Constitution.

(b) The amounts appropriated for the 2009–10 fiscal year pursuant to paragraphs (1), (2), (6), (7), (8), and (9) of subdivision (a) shall be in addition to the sums required by, and shall not be considered towards fulfilling the funding requirements of Section 8 of Article XVI of the California Constitution.

(c) The amounts appropriated for the 2009–10 fiscal year pursuant to paragraphs (1), (2), (6), (7), (8), and (9) of subdivision (a) shall not offset or in any way reduce the maintenance factor determined pursuant to subdivisions (d) and (e) of Section 8 of Article XVI of the California Constitution, and shall be in addition to the amount of maintenance factor allocated in the 2009–10 fiscal year pursuant to subdivision (e) of Section 8 of Article XVI of the California Constitution.

(d) Commencing with the 2010–11 fiscal year and each fiscal year thereafter, for the purposes of making the computations required by Section 8 of Article XVI of the California Constitution, the appropriations made by paragraphs (1), (2), (6), (7), (8), and (9) of subdivision (a) of this section for the prior fiscal year shall be deemed to be included within the “total allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIII B,” as defined in subdivision (e) of Section 41202 of the Education Code.

(e) Commencing with the 2010–11 fiscal year, the percentage determined pursuant to paragraph (1) of subdivision (b) of Section 8 of Article XVI of the California Constitution, as adjusted pursuant to Chapter 2 (commencing with Section 41200) of Part 24 of the Education Code, shall be increased by adding to it the number of percentage points determined by dividing the total amount allocated pursuant to subdivisions (a), (b), (f), (g), and (h) of Section 8880.5 for the 2008–09 fiscal year by the total General Fund revenues that may be appropriated pursuant to Article XIII B of the California Constitution for the 2008–09 fiscal year.

(f) Commencing with the 2009–10 fiscal year, references in law to lottery education funds, to funds allocated pursuant to Section 8880.5, to funds allocated from the California State Lottery Education Fund, or similar references in law to the proceeds of lottery revenues allocated for the benefit of public education to the entities described in subdivisions (a), (b), (f), (g), and (h) of Section 8880.5 shall be deemed to be references to the funds appropriated pursuant to this section. This subdivision shall be broadly construed to effectuate its

purpose.

SEC. 7. Section 8880.25 of the Government Code is amended to read:

8880.25. Operation of the Lottery

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8880.25. ~~The Lottery shall be initiated and operated so as to produce the maximum amount of net revenues to supplement the total amount of money allocated for public education in California available for allocation pursuant to Sections 8880.4 and 8880.4.5.~~

SEC. 12. Section 8880.56 of the Government Code is amended to read:

8880.56. (a) ~~Notwithstanding any other provisions provision of this chapter or of any other law, the director may purchase or lease goods and services as are necessary for effectuating the purposes of this chapter has express authority, subject only to commission approval, to make any and all expenditures that are necessary or reasonable for effectuating the purposes of this chapter, including, but not limited to, payment for the costs of supplies, materials, tickets, independent audit services, independent studies, data transmission, advertising, promotion, consumer, retailer, and employee incentives, public relations, communications, compensation paid to the lottery game retailers, bonding for lottery game retailers, printing, distribution of tickets or shares, reimbursement of costs of services provided to the lottery by other governmental entities, and payment for the costs of any other goods and services necessary or reasonable for effectuating the purposes of this chapter.~~ The director may not contract with any private party for the operation and administration of the California State Lottery, created by this chapter. However, this section does not preclude procurements ~~which that~~ integrate functions such as game design, supply, advertising, and public relations. In all procurement decisions, the director shall, subject to the approval of the commission, award contracts to the responsible supplier submitting the ~~lowest and~~ best proposal that maximizes the benefits to the state in relation to the areas of security, competence, experience, and timely performance, shall take into account the particularly sensitive nature of the California State Lottery and shall act to promote and ensure integrity, security, honesty, and fairness in the operation and administration of the lottery and the objective of raising net revenues for the benefit of the public purpose described in this chapter. *With regard to employee incentives, the director shall exercise his or her authority consistent with the provisions of Chapter 10.3 (commencing with Section 3512) of Division 4 of Title 1.*

(b) Notwithstanding any other provision of this chapter, the following shall apply to contracts or procurement by the lottery:

(1) To ensure the fullest competition, the commission shall adopt and publish competitive bidding procedures for the award of any procurement or contract involving an expenditure of more than ~~one five hundred thousand dollars (\$100,000)~~ (\$500,000). The competitive bidding procedures shall include, but not be limited to, requirements for submission of bids and accompanying documentation, guidelines for the use of requests for proposals, invitations to bid, or other methods of bidding, and a bid protest procedure. The director shall determine whether the goods or services subject to this paragraph are available through existing contracts or price schedules of the Department of General Services.

(2) The contracting standards, procedures, and rules contained in this subdivision shall also apply with respect to any subcontract involving an expenditure of more than ~~one five hundred thousand dollars (\$100,000)~~ (\$500,000). The commission shall establish, as part of its bidding procedures for general contracts, subcontracting guidelines that implement this requirement.

(3) The provisions of Article 1 (commencing with Section 11250) of Chapter 3 of Part 1 of Division 3 apply to the commission.

(4) The commission is subject to the Small Business Procurement and Contract Act, as provided in Chapter 6.5 (commencing with Section 14835) of Part 5.5 of Division 3.

(5) In advertising or awarding any general contract for the procurement of goods and services exceeding five hundred thousand dollars (\$500,000), the commission and the director shall require all bidders or contractors, or both, to include specific plans or arrangements to utilize subcontracts with socially and economically disadvantaged small business concerns. The subcontracting plans shall delineate the nature and extent of the services to be utilized, and those concerns or individuals identified for subcontracting if known.

It is the intention of the Legislature in enacting this section to establish as an objective of the utmost importance the advancement of business opportunities for these small business concerns in the private business activities created by the California State Lottery. In that regard, the commission and the director shall have an affirmative duty to achieve the most feasible and practicable level of participation by socially and economically disadvantaged small business concerns in its procurement programs.

By July 1, 1986, the commission shall adopt proposal evaluation procedures, criteria, and contract terms which are consistent with the advancement of business opportunities for small business concerns in the private business activities created by the California State Lottery and which will achieve the most feasible and practicable level of participation by socially and economically disadvantaged small business concerns in its procurement programs. The proposal evaluation procedures, criteria, and contract terms adopted shall be reported in writing to both houses of the Legislature on or before July 1, 1986.

For the purposes of this section, socially and economically disadvantaged persons include women, Black Americans, Hispanic Americans, Native Americans (including American Indians, Eskimos, Aleuts, and Native Hawaiians), Asian-Pacific Americans (including persons whose origins are from Japan, China, the Philippines, Vietnam, Korea, Samoa, Guam, the United States Trust Territories of the Pacific, Northern Marianas, Laos, Cambodia, and Taiwan), and other minorities or any other natural persons found by the commission to be disadvantaged.

The commission shall report to the Legislature by July 1, 1987, and by each July 1 thereafter, on the level of participation of small businesses, socially and economically disadvantaged businesses, and California businesses in all contracts awarded by the commission.

(6) The commission shall prepare and submit to the Legislature by October 1 of each year a report detailing the lottery's purchase of goods and services through the Department of General Services. The report shall also include a listing of contracts awarded for more than one hundred thousand dollars (\$100,000), the name of the contractor, amount and term of the contract, and the basis upon which the contract was awarded.

~~The~~

(c) ~~The~~ lottery shall fully comply with the requirements of paragraphs (2) to (5), inclusive, *of subdivision (b)*, except that any function or role which is otherwise the responsibility of the Department of Finance or the Department of General Services shall instead, for purposes of this subdivision, be the sole responsibility of the lottery, which shall have the sole authority to perform that function or role.

(d) *Where a conflict exists between the provisions of this chapter and any other provision of law, the provisions of this chapter shall control.*

SEC. 14. Section 8880.63 of the Government Code is repealed.

~~8880.63. As nearly as practical, 50 percent of the total projected revenue, computed on a fiscal-year basis, accruing from the sales of all lottery tickets or shares shall be apportioned for payment of prizes.~~

SEC. 15. Section 8880.64 of the Government Code is amended to read:

8880.64. (a) Expenses of the lottery shall 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, including, but not limited to, the costs~~

of supplies, materials, tickets, independent audit services, independent studies, data transmission, advertising, promotion, incentives, public relations, communications, compensation paid to the lottery game retailers, bonding for lottery game retailers, printing, distribution of tickets or shares, reimbursement of costs of services provided to the lottery by other governmental entities, and for the costs for any other goods and services necessary for effectuating the purposes of this chapter pursuant to Section 8880.56. As a promotional expense, the commission may supplement the prize pool of a game or games upon its determination that a supplement will benefit the public purpose of this chapter.

~~(b) (1) Not more than 16 percent of the total annual revenues accruing from the sale of all lottery tickets and shares from all lottery games shall be expended for the payment of the expenses of the lottery.~~

~~(2)~~

~~(b) Expenses recorded as a result of a nonmonetary exchange shall not be considered an expense for the purposes of Section Sections 8880.4 and 8880.4.5 and this section. "Nonmonetary exchange" means a reciprocal transfer, in compliance with generally accepted accounting principles, between the lottery and another entity that results in the lottery acquiring assets or services and the lottery providing assets or services.~~

SEC. 16. Section 8880.65 of the Government Code is amended to read:

~~8880.65. Transfer of Net Revenues~~

~~The funds remaining in the State Lottery Fund after accrual of all revenues to the State Lottery Fund, and after accrual of all obligations of the Lottery for prizes, expenses, and the repayment of any funds advanced from the temporary line of credit for initial startup costs and interest thereon shall be deemed to be the net revenues of the Lottery.~~

~~8880.65. (a) For the purposes of this chapter, the total revenues of the lottery shall include all revenue received by the California State Lottery, including, but not limited to, revenue from the sale of tickets or shares, merchandising revenue, advertising revenue, interest earnings on moneys in the State Lottery Fund, and unclaimed prizes returned to or retained by the State Lottery Fund. The net revenues of the lottery shall include total revenues remaining after accrual of all obligations of the lottery for prizes and expenses.~~

~~The~~

~~(b) For fiscal years prior to the 2009–10 fiscal year, the net revenues of the Lottery lottery shall be transferred from the State Lottery Fund not less than quarterly to the California State Lottery Education Fund.~~

~~(c) Commencing with the 2009–10 fiscal year, the net revenues of the lottery shall be transferred from the State Lottery Fund as required by Section 8880.4.5.~~

SEC. 17. Section 5 of the California State Lottery Act of 1984 is amended to read:

~~Sec. 5. No provision The provisions of this Act, except Sections 8880.5 and 8880.5.5 which may be amended only by a vote of the People, may be changed except to further its purpose for the purpose of modernizing the California State Lottery or to further the purposes of this Act as set forth in Sections 8880.1 and 8880.25 of the Government Code by a bill passed by a vote of two-thirds of the membership of both houses of the Legislature and signed by the Governor.~~

PROPOSITION 1D

This amendment proposed by Assembly Bill 17 of the 2009–2010 Third Extraordinary Session (Chapter 11, 2009–2010 Third Extraordinary Session) is submitted to the people in accordance with the provisions of Section 10 of Article II of the California Constitution.

This proposed law amends sections of the Health and Safety Code and amends a section of, and adds a section to, the Revenue and

Taxation Code; therefore, provisions proposed to be deleted are printed in ~~strikeout type~~ and new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

SECTION 1. Section 130105 of the Health and Safety Code is amended to read:

130105. The California Children and Families Trust Fund is hereby created in the State Treasury.

(a) The California Children and Families Trust Fund shall consist of moneys collected pursuant to the taxes imposed by Section 30131.2 of the Revenue and Taxation Code.

(b) All costs to implement this act shall be paid from moneys deposited in the California Children and Families Trust Fund.

(c) The State Board of Equalization shall determine within one year of the passage of this act the effect that additional taxes imposed on cigarettes and tobacco products by this act has on the consumption of cigarettes and tobacco products in this state. To the extent that a decrease in consumption is determined by the State Board of Equalization to be the direct result of additional taxes imposed by this act, the State Board of Equalization shall determine the fiscal effect the decrease in consumption has on the funding of any Proposition 99 (the Tobacco Tax and Health Protection Act of 1988) state health-related education or research programs in effect as of November 1, 1998, and the Breast Cancer Fund programs that are funded by excise taxes on cigarettes and tobacco products. Funds shall be transferred from the California Children and Families Trust Fund to those affected programs as necessary to offset the revenue decrease directly resulting from the imposition of additional taxes by this act. These reimbursements shall occur, and at any times, as determined necessary to further the intent of this subdivision.

(d) The California Children and Families Trust Fund shall be used to provide direct health care services, human services, including services for at-risk families who are involved with the child welfare system administered by the county welfare department, and direct early education services, including preschool and child care. Moneys shall be allocated and appropriated from the California Children and Families Trust Fund, except as authorized in subparagraph (H) of paragraph (1), and Section 30131.45 of the Revenue and Taxation Code, as follows:

(1) Twenty percent shall be allocated and appropriated to separate accounts of the state commission for expenditure according to the following formula:

~~(A) Six percent shall be deposited in a Mass Media Communications Account for expenditures for communications to the general public utilizing television, radio, newspapers, and other mass media on subjects relating to and furthering the goals and purposes of this act, including, but not limited to, methods of nurturing and parenting that encourage proper childhood development, the informed selection of child care, information regarding health and social services, the prevention and cessation of tobacco, alcohol, and drug use by pregnant women, the detrimental effects of secondhand smoke on early childhood development, and to ensure that children are ready to enter school.~~

~~(B)~~

(A) Five percent shall be deposited in an Education Account for expenditures to ensure that children are ready to enter school and for programs relating to education, including, but not limited to, the development of educational materials, professional and parental education and training, and technical support for county commissions in the areas described in subparagraph (A) of paragraph (1) of subdivision (b) of Section 130125.

~~(C)~~

(B) Three percent shall be deposited in a Child Care Account for expenditures to ensure that children are ready to enter school and for