

**Fiscal Year 2025 Variance Analysis**  
**(July 1, 2024 – June 30, 2025)**

**Net Profit From Operations**

Net profit for the year is \$885,609,438 on a plan of \$898,167,212 creating an unfavorable variance of \$12,557,774 (1.4%). Interest revenues over forecast and savings in both direct and indirect expenses did not cover the unfavorable variance in net revenue for the year.

	Net Profit Variance Favorable/(Unfavorable)			
	YTD			
	Actual	Budget	Variance	Percent
Net Revenue	\$ 1,415,680,664	\$ 1,444,395,524	\$ (28,714,860)	-2.0%
Indirect Revenue	25,507,177	19,904,000	5,603,177	28.2%
Direct Expense	418,044,699	424,991,794	6,947,094	1.6%
Indirect Expense	137,533,703	141,140,518	3,606,815	2.6%
Net Profit from Operations	\$ 885,609,438	\$ 898,167,212	\$ (12,557,774)	-1.4%

**Net Revenue (Sales After Prizes)**

Net revenues are \$1,415,680,664 on a budget of \$1,444,395,524 generating an unfavorable variance of \$28,714,860 (2%).

	Net Revenue Variance Favorable/(Unfavorable)			
	YTD			
	Actual	Budget	Variance	Percent
Traditional	\$ 158,800,901	\$ 163,022,232	\$ (4,221,331)	-2.6%
Video	1,166,921,763	1,186,633,587	(19,711,824)	-1.7%
Sports	89,958,000	94,739,705	(4,781,705)	-5.0%
	\$ 1,415,680,664	\$ 1,444,395,524	\$ (28,714,860)	-2.0%

- Total traditional gross sales were just slightly under expectations (.2%). However, after prizes, net revenue fell 1.3% under budget.
  - Scratch product gross sales for the year were marginally over forecast , but higher than last year by 9.3%. This is largely due to higher priced tickets and their popularity. However, prize percentages on those tickets are higher so net revenue fell short of the forecast by 5.0%. Year over year net revenues for the scratch product have increased 7.0%.
  - Cash Pop launched on January 13<sup>th</sup> and had net revenue of \$1.4M. With no history on which to base projections, it appears the OEA forecast is exaggerated. Net revenue for the year is 33.3% less than forecasted.

- Powerball gross sales were \$18.0M over forecast but down 46.5% from the prior year. Fiscal year 2024 had 3 jackpots of \$1B or more while FY25's highest jackpot offering was only \$515M.
- Megabucks net revenue was under forecast by \$9.2M but nearly the same as net revenue in the prior year. The forecast seems to have been overstated.
- Video net revenue ended the year 1.7% under expectations and 2.0% less than the prior year.
- Sports net revenues also did not meet expectations and were under estimates by 5.1%. However, net revenues were 19.8% higher than FY24.

**Direct Expenses - YTD favorable \$6,947,094**

Commissions: YTD favorable \$2,037,278

Commissions Variance Favorable/(Unfavorable)		
	Traditional	Video
	YTD	YTD
Variance from sales	\$ 58,139	\$ 3,311,118
Variance from budgeted rate	(795,179)	(536,800)
	<u>\$ (737,040)</u>	<u>\$ 2,774,319</u>

- Traditional commissions are over projections due to variations in validation commissions and prize selling bonuses. Higher price point scratch tickets have larger prizes that generate additional validation commissions. Additionally, Oregon Mega Millions players were lucky this fiscal year and one drawing had four \$1M winners.
- Video commissions are favorable to budget as expected when dollars played are not at the levels expected.

Game Vendor Charges: YTD favorable \$2,243,127

Game Vendor Charges Variance Favorable/(Unfavorable)			
	YTD		
	Actual	Budget	Variance
Traditional	10,794,834	11,032,849	238,016
Video	507,225	1,000,812	493,587
Sports	47,502,062	49,013,586	1,511,525
	<u>58,804,121</u>	<u>61,047,248</u>	<u>2,243,127</u>

- Sports product is the major source of savings in game vendor charges. Players had some lucky days in the 2<sup>nd</sup> quarter of the fiscal year. When days of loss occur, losses are shared with the vendor and they actually pay us. Additionally, net revenues are below forecast.
- Video product has a \$40K per month flat charge which is the maintenance portion of the software subscription fees. This fee was accidentally included as part of the subscription asset when budgeting. This resulted in expense being included in the depreciation budget rather than the game vendor charges budget. However, this budget overage is net with savings from field trial lease fees which were expected to begin in March (\$250K). The VLT model selected didn't require a field trial since it uses the same logic and platform as models currently in use.

**Ticket Expense: YTD unfavorable (\$356,948)**

<b>Ticket Expense Variance Favorable/Unfavorable</b>	
	<b>YTD</b>
Variance from sales	\$ (454,823)
Variance from budgeted rate	\$ 97,875
	<u>\$ (356,948)</u>

- Based on the original budget, not adjusted for updated forecasts, sales exceeded the June 2024 forecast by \$18.8M. Those sales drove additional ticket expense recognition causing a budget overage. In FY26 the ticket expense budget will be adjusted for forecast changes throughout the year.

**Advertising: YTD favorable \$1,029,847**

- Billboard charges were budgeted in this line item. However, billboards are considered leases which are capitalized and the expense is recognized through monthly depreciation and interest. This accounts for most of the favorable variance.

**Interest Expense (Direct): YTD unfavorable (\$43,744)**

- The iLinks purchasing contract from September 2016 had no budget for FY25 but the last three payments were in FY25.
- Interest for the Intelligen software (SBITA) was budgeted low.
- No interest was budgeted for direct expense leases. The budget will be refined in FY26.

**Indirect Revenue - YTD favorable \$5,603,177**

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

**Indirect Expenses - YTD favorable \$3,606,815**

Market Research: YTD favorable \$56,343

- Responsible gambling research was less than originally budgeted.

Salaries, Wages, & Benefits: YTD favorable \$9,636,933

Salaries, Wages, & Benefits Variance Favorable/(Unfavorable)				
YTD				
	Actual	Budget	Variance	% Variance
Salaries and Wages	53,619,048	56,061,328	2,442,279	4.36%
OPE	32,624,518	39,819,172	7,194,654	18.07%
	86,243,566	95,880,499	9,636,933	10.05%

- Pay calibration had a smaller impact than originally anticipated and headcount was below expectations every month.
- The OPE variance is the primary source of the favorable variance. PERS expense was over \$9M less than the approximate budget of \$18M. This was somewhat offset by the unbudgeted accrual of \$4.6M in compensated absence expense from the implementation of GASB 101.
- Other benefits were also budgeted higher than actual expenses came in.

Services & Supplies: YTD unfavorable \$4,421,049

The unfavorable conditions are attributable to the following expense groups:

- Travel – YTD favorable variance \$275,830  
In-state travel accounted for much of the savings. This expense is primarily driven by sales and service team activities.

- Retailer Network Expenses – YTD favorable variance \$769,435  
The ongoing transition of our retailer network to a new service platform encountered challenges and services weren't charged when they failed to meet requirements.
- Technology Expenses – YTD favorable variance \$1,272,935  
The favorable variance is primarily driven by software subscription contracts originally budgeted in expense as payments were due. Many of these contracts met the requirements for recognition as assets and were amortized through depreciation and interest expense. This leads to favorable variances here and unfavorable variances in depreciation and interest. Staff continues to try to align the budget with the expense accounts effected but much is unknown at the time of budgeting and assumptions are required.

Additional savings were generated from the Microsoft enterprise license which was budgeted for a full year at the new contract rates but the transition to the new contract didn't occur until 8 months into the year. An ongoing application portfolio review also identified opportunities to reduce license counts for other applications.

- Professional Services – YTD unfavorable variance \$(8,066,707)  
Approximately \$5.6M of this variance is caused by cost classification challenges for the RPM budget. The budget assumption was all charges would be capitalized and expensed via depreciation and interest. Many of the costs have not met GASB requirements for capitalization and were expensed. Corresponding combined favorable variances of \$5.7M for the project are shown on the capital outlay report and offset the project's unfavorable expense.

A D365 enhancement project that wasn't budgeted emerged during the year. This project added \$2.1M to the unfavorable variance.

- Staff Training & Recruiting – YTD favorable variance \$416,193  
Favorable variance to date is primarily due to postponed and suspended expenses for the CHRO recruitment and executive relocation costs. Additional favorable variances are seen in professional development, conference attendance, technical certifications and technical training. The reduction of these expenses is reflective of changes to the organizational structure and culture.

Depreciation (Indirect): YTD unfavorable \$(1,690,077)

- Most of the unfavorable variance is from lease and subscription based software (SBITA) depreciation. Approximately \$784K of the variance is due to billboard leases that were not

budgeted in depreciation but were budgeted in advertising. Approximately \$498K of the variance is due to SBITA depreciation that was generally budgeted in technology expense.

Interest Expense (Indirect): YTD unfavorable \$(70,092)

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

**Capital Outlay Cash Acquisitions – YTD favorable \$5,365,444**

Site Services – favorable \$244,603

- The headquarters lobby remodel has been completed but did not meet qualifications for capitalization. Expenses are part of Facilities Maintenance in Services and Supplies.
- The UPS upgrade equipment is ordered but receipt will be in FY26. Project will be carried over to FY26 and will show a negative variance in the FY26 report.

Retail Contracts – favorable \$4,179,440

- As mentioned before, costs for RPM were budgeted as capital but ended up as expense once details were known. Savings here offsets unfavorable variance in professional services.

Fleet Services – favorable \$350,819

- It was originally anticipated fleet would purchase 26 vehicles. However, only 20 were purchased.

IT Enterprise Architecture – unfavorable \$808,820

- IT Enterprise Architecture expenditures were budgeted in technology expenses but were determined to be capital once contracts were finalized and reviewed. Favorable variance in expense offsets these overages.

IT Governance – favorable \$1,542,500

- IT Governance budgeted capital (in connection with the RPM project) has been determined to be expense and is part of the professional services unfavorable variance described above.

Security – favorable \$668,567

- Much of the building security system replacement has been completed, although there will be some capital expenditures in FY26. The project spanned two fiscal years, and at the time of preparing the FY25 budget it was anticipated more would be completed during FY25. However, the project got underway, and more was completed in FY24 than expected.

Gaming Products Portfolio – unfavorable \$1,180,240

- iLinks were received faster than anticipated. This should produce favorable variances against the FY26 budget.