

Schwarzenegger relies on lottery for bail-out

Arnold Schwarzenegger is looking to California's lottery to solve the state's budget crisis and wants to raise billions of dollars by selling bonds backed by future profits from the game.

With the slump in the property market and an economy that is nearing recession, the governor revealed on Wednesday that state revenues had fallen USD 6bn, leaving California facing a projected deficit of USD 24.3bn.

Mr Schwarzenegger is turning to the California lottery to raise new money that would narrow the budget gap and supplement a programme of spending cuts that have caused controversy.

Under Mr Schwarzenegger's plan, restrictions that have curtailed the performance of the lottery would be torn up to provide greater "operational flexibility". Those restrictions include a cap on prizes, which state officials say have limited the game's popularity, and an arcane rule that prevents the lottery from being able to use modern technology.

The California lottery performs poorly when compared with other state draws: average sales per capita in 2006 were USD 88, compared with a national average of USD 189.

David Crane, the governor's special adviser on jobs and economic growth, said the lottery plan would not involve a privatisation of the game. The sale of bonds pegged to future profits would generate USD 5.1bn a year, provided lottery performance improved, he said.

"If we can get to the national average [of lottery performance] we can generate \$ 15bn in the next three years,"

he said. The funds from any lottery bonds sale would be used to capitalise a new "rainy-day fund", which Mr Schwarzenegger has promised to establish to buffer the state's finances, which are notoriously prone to boom-and-bust cycles.

State coffers are overly dependent on capital gains tax revenues, which have fallen as the US economy has slowed down. "In the last 10 years we have had excellent growth in revenues...the compound annual growth rate is 5.5 per cent a year," said Mr Crane. "But the problem is we haven't saved in above-average years so we can deploy the saved money in below-average years."

The lottery plan, which requires the support of the California legislature, would immediately capitalise the rainy-day fund, said Mr Crane. It would safeguard education spending, which receives USD 1.2bn in annual funding from the lottery.