

North Carolina Lottery for Education:

What Are the Odds Our Schools Would Win?

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North Carolina Lottery for Education: *What Are the Odds Our Schools Would Win* Executive Summary

Purpose of Our Research

Presently North Carolina has a crippling budget crisis and is finding it very difficult to provide all public services, including education, by relying exclusively on broad-based taxes. This comes at a time when the courts are mandating that the State provide a basic education to all. Many states have turned to lotteries to help increase their coffers. As a result, there have been renewed discussions about bringing a lottery to North Carolina to help fund our public education.

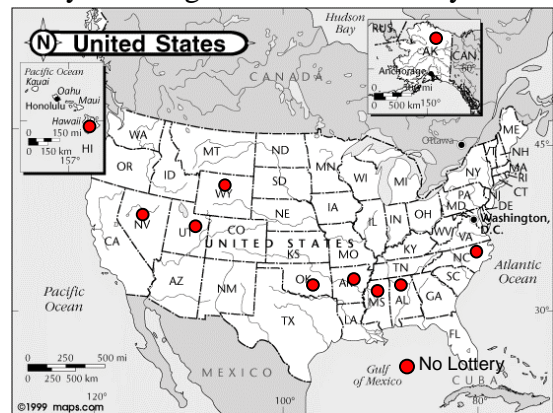
Before deciding whether a North Carolina lottery for education would benefit our students, we have sought to answer the following question: *Is a lottery an effective alternative way to fund education.* We researched:

1. The impact of lotteries on funding for education, both negative and positive.
2. Whether lotteries are a reliable, sustainable source of annual income for education.
3. Methods to ensure public primary (including pre-kindergarten), public secondary, and public higher education would in fact benefit if North Carolina does institute a state-run lottery.

Some Key Points:

- In 1964 New Hampshire authorized the first modern lottery. It designated that the lottery proceeds would go to education. Today lotteries are operating in 40 states and the District of Columbia.

North Carolina is one of ten states without a lottery, and the only such state on the East Coast. All states surrounding North Carolina – South Carolina, Georgia, Tennessee and Virginia – provide state-run lotteries.



- Lotteries are big business. Nationwide in 2001, lottery sales exceeded \$38 billion. Of these \$38 billion, approximately 1/2 went to the lottery winners, 1/6 was used to cover the cost of operations, and 1/3 was transferred to lottery-funded programs.

	<u>Payout to Winners</u>	<u>Operating Expenses</u>	<u>Proceeds Transferred to Lottery-Funded Programs</u>
<i>California</i>	52%	10%	38%
<i>Florida</i>	50%	12%	38%
<i>Georgia</i>	52%	18%	30%
<i>Michigan</i>	53%	13%	34%
<i>New Hampshire</i>	56%	14%	30%
<i>Ohio</i>	58%	9%	33%
<i>Texas</i>	58%	12%	30%
<i>Virginia</i>	56%	11%	33%

- In 2003, 22 out of 40 states use all or some lottery proceeds to fund educational programs. Other states and the District of Columbia fund a variety of other programs:

- 13 states direct **all** lottery revenues to education

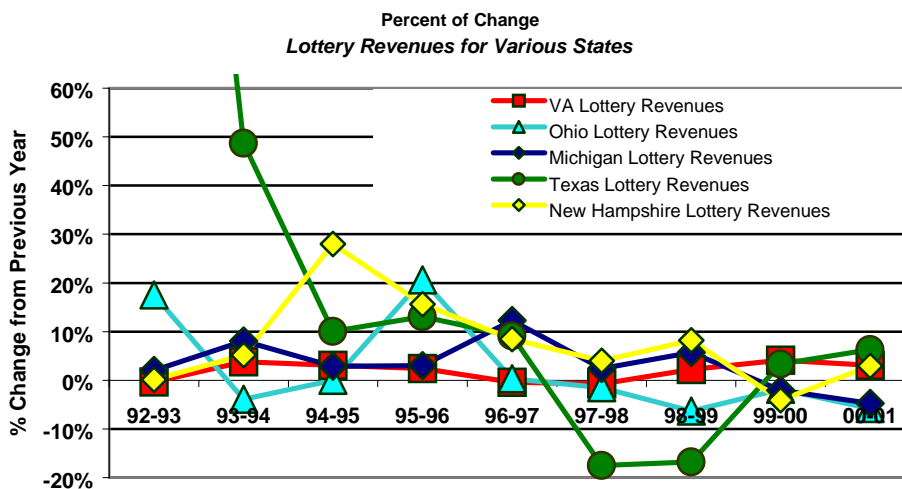
The following are cumulative totals (through fiscal year 2001) of amounts transferred to education programs by some of these states:

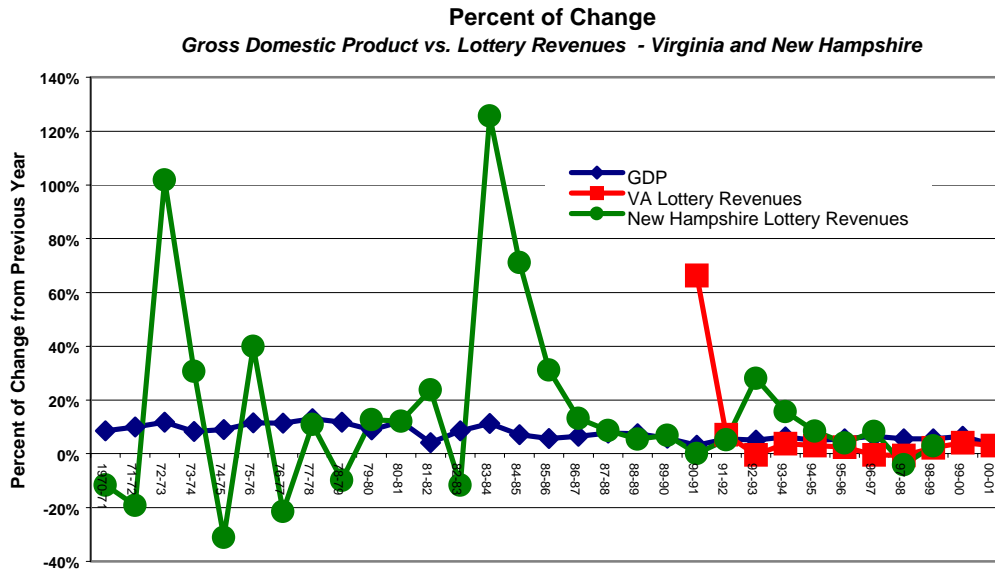
✓ California -	\$13 billion	since 1985
✓ Florida	\$11 billion	since 1987
✓ Michigan	\$10 billion	since 1973
✓ Georgia	\$ 5 billion	since 1993

- 7 states direct lottery revenues exclusively to a General Fund
 - 6 states direct a portion of lottery revenues to a General Fund
 - Other beneficiaries include senior citizens (PA), Vietnam veterans (KY), police & fire departments (IA), and juvenile delinquents (MT)
- Estimates for the net proceeds of a lottery in North Carolina vary widely, ranging from \$300 million to \$726 million. This would be approximately 4-9% of the present General Fund appropriations to education, which is \$8.3 billion.
 - But lottery proceeds are difficult to project.

Erratic fluctuations occur in lottery sales and there appears to be no correlation between general economic conditions in the United States and lottery sales.

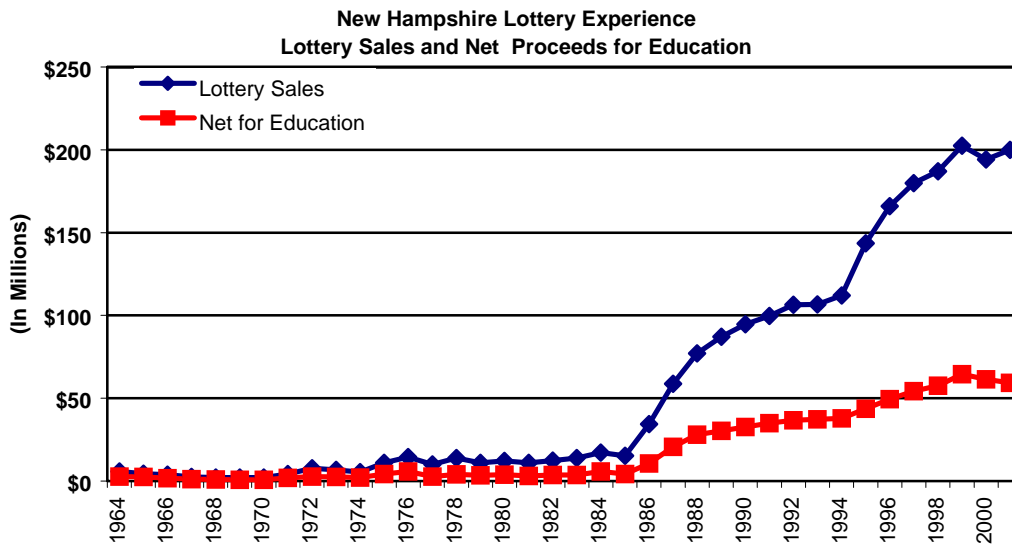
In many cases, lottery sales have often declined. For example, over the past several years, lottery revenues have declined significantly for Ohio. The trend continues for 2002-03. In fact with $\frac{3}{4}$ of the fiscal year gone, the state is on track to report a loss of \$45.3 million. This may translate to losses for education. For Ohio, the state is already behind \$26 million in payments to the education fund, where all the profits are required by the constitution to go. This number could rise to \$35 million by June 30, 2003.





➤ Increases in lottery sales do not always translate to equal increases in education funding.

Market conditions demand larger amounts to be spent on advertising and for winner payouts.

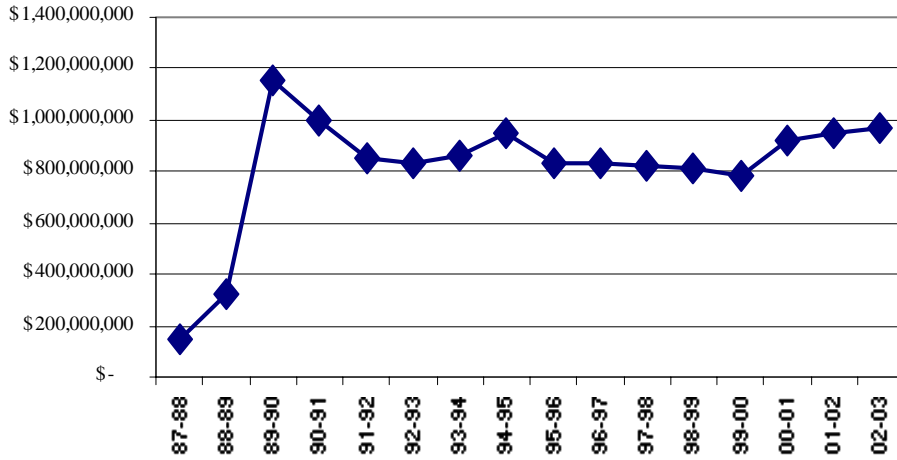


Georgia has also seen a decrease in the percentage of the revenues given to education.

	1994	1995	1996	1997	1998	1999	2000	2001	2002
Net Proceeds to Education (in millions)	\$370	\$502	\$545	\$568	\$555	\$648	\$682	\$691	\$726
Percent of gross revenues	34.5%	36.3%	35.1%	34.2%	33.0%	33.1%	30.7%	31.5%	29.6%

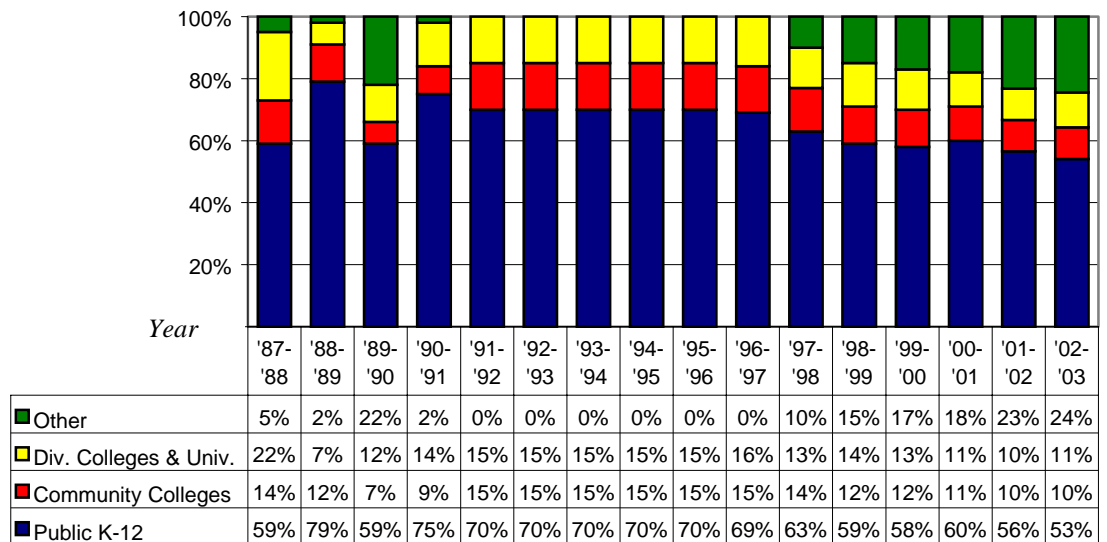
Some states have attempted to ensure education remains a winner by stipulating the percentage that must be appropriated to education. For example, in Florida the amount of lottery proceeds being allocated to education dropped precipitously from its peak in 1990.

**Florida Educational Enhancement (Lottery) Trust
Total Appropriations: By Fiscal Year**



As a result, Florida now stipulates 38% of gross revenues must be transferred into the Education Enhancement Trust Fund. Yet the percentage to be allocated to each division of education varies from year to year. In fact, the percentage allocated to public K-12 has been declining.

Florida Enhancement (Lottery) Trust Fund Appropriations: By Fiscal Year



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- Research indicates lottery funding often supplants existing state appropriations for education, making the percentage of state budgets allocated for education lower post-lottery.

Calculations show the last time Ohio Lottery expanded, the state allocated \$1.60 less in its general fund in aid to schools for every new \$1.00 in profits provided from the lottery.

The percentage of general funds allocated to education dropped in Vermont from 46% in 1990 to 39% in 1994. In Florida the percentage dropped from 61% in 1986 to 53% in 2002.

- While the percentage of state budgets being allocated to education has fluctuated both for lottery and non-lottery states, non-lottery states on average do allocate a smaller percentage of their state budgets to education.
- Some states found that even though the intent of the lottery was to benefit public education, schools were not always the beneficiaries. Thus state constitution amendments were necessary.
 - In the 1980s, New Hampshire diverted lottery proceeds into the General Fund, making the state's fiscal picture look better than it actually was. An amendment was added to the constitution.
 - Prior to an amendment, parts of the New Jersey proceeds were benefiting adult education in the prisons.
 - An amendment was added to Virginia's constitution, since through the years, much of the money earmarked for education had been transferred into the General Fund.
 - To ensure funding from lottery sales supplements and not supplants existing education funding, Georgia amended its constitution when the lottery was begun. Georgia even indicates specific programs for which the lottery money may be spent: 1) Hope Scholarships; 2) Voluntary pre-kindergarten programs; 3) Technology grants.

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- While Charlotte Advocates for Education is not supporting or opposing the lottery, based upon lessons learned from the other 40 states plus the District of Columbia, we recommend that if North Carolina does institute an *education lottery* the following must occur if public primary (including pre-kindergarten), public secondary, and public higher education are to benefit:
- Lottery proceeds must be maintained separately; proceeds and interest from these proceeds must be promptly transferred at least quarterly to this separate fund.
 - Public primary (including pre-kindergarten), public secondary, and public higher education must be the only beneficiary of the lottery.
 - 70% or greater of the lottery proceeds and interest from these proceeds must be allocated for public primary (including pre-kindergarten) and public secondary education.
 - Net proceeds from the lottery must be used to supplement, not supplant, non-lottery educational funding.
 - Lottery proceeds must be channeled into new resources or programs that are designed to address clear, identifiable educational needs and that have strong evidence for effectiveness in addressing those needs.
 - A system of accountability for the administration of the lottery, the disbursement of the revenues, and the effectiveness of the programs funded by the lottery proceeds must be provided.

A copy of the full report on **North Carolina Lottery for Education: *What Are the Odds Our Schools Would Win*** may be found at www.advocatesfored.org.