

SCRATCH AND SHIFT: Lottery giving education smaller share

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THE N.C. EDUCATION LOTTERY HAS STEADILY CHIPPED AWAY at the cut of money it sends to education, pushing aside a formula etched in state law that calls for 35 cents out of every dollar to benefit North Carolina schoolchildren.

The chunk of total revenue that public educational programs get has dropped to 29 percent, according to an analysis by N.C. Policy Watch of the lottery's budget.

If the leaders of the state-run lottery had stuck to the old formula, that could have meant \$80 million more last year for college scholarships, early education classes, school construction and teacher positions to reduce classroom size.

The steady drop in percentage was made possible in 2007 when legislators amended state law with a provision that allowed lottery officials to hit the required 35-percent mark only "to the extent practicable."

Lottery proceeds are also going to places other than schools.

In the budget passed this summer, legislators tapped the N.C. Education Lottery for \$35 million to help cover North Carolina's share for Medicaid and other federal social service programs.

"That's not what the original intent was," said Kenneth Edge, a Cumberland County commissioner who wants more of the lottery money used to build schools. "Once they take it, it's gone forever."

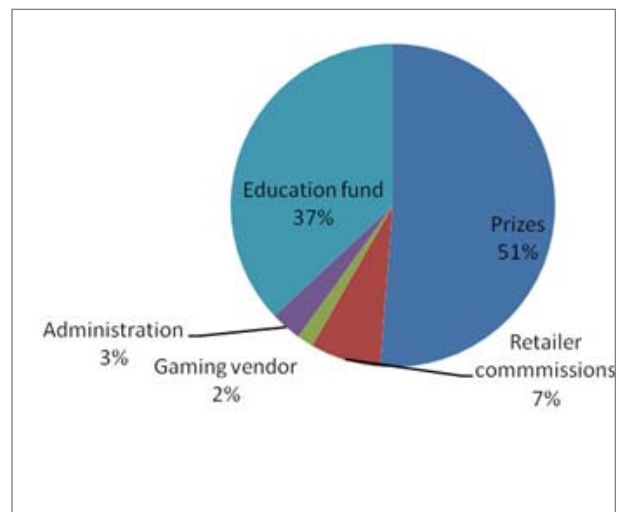
The reasoning

Lottery officials defend their shift away from the initial funding formula by explaining they make more money for education by investing their profits into game prizes.

Bigger prizes mean higher sales numbers that leave education programs with more money in the end, said Alice Garland, the N.C. Education Lottery's acting director. The total dollars the lottery gives to

FIGURE 1

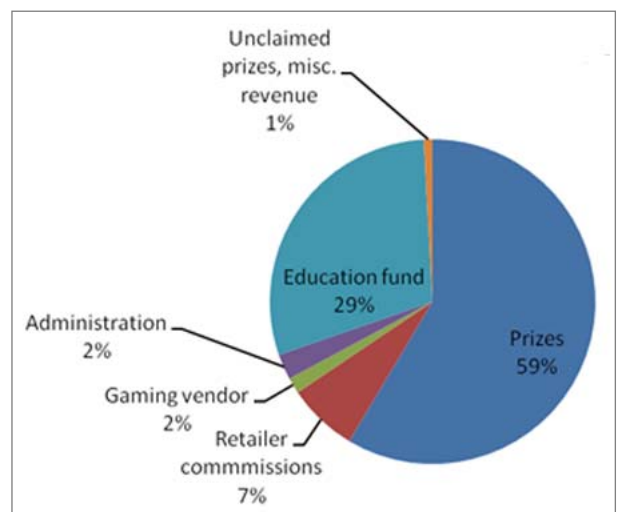
Lottery Budget 2006-7



SOURCE: NC Education Lottery

FIGURE 2

Lottery Budget 2009-10



SOURCE: NC Education Lottery

education has gone up each year, from \$325 million in its first full year of operation to \$419 million last year, according to lottery data.

“Our focus is on the dollars we raise, not on the percentage,” Garland said. “Our mission is to raise as much money for the state as we can.”

But the increases to education haven’t been drastic, nor have they kept pace with the corresponding jumps in sales.

Over the course of the 2009-2010 fiscal year, the lottery sent \$419 million to the state to be used for educational funds. A little less than \$411 million was sent the year before.

During that same period, overall lottery sales jumped from \$1.29 billion to \$1.43 billion, an uptick of 10 percent that far outpaced the 2 percent jump educators saw in the funds they got from the lottery.

“We projected this would happen, sooner or later,” said state Sen. Ellie Kinnaird, a Carrboro Democrat and lottery opponent. “That’s what we’ve all worried about from the very beginning.”

N.C. Gov. Bev Perdue, who cast a tie-breaking vote when lieutenant governor to create the lottery, said she’s comfortable with the downturn in the percentage of funding education gets as long as the overall dollars for schools continues to go up.

“The needs of our school children continue to grow as we prepare them for the 21st century global economy,” Perdue said in a written statement. “We welcome the lottery’s attempts to maximize the funding going to education.”

Dr. Myron Coulter, the retired chancellor of Western Carolina University and a co-chair of the Lottery Oversight Committee, was unaware of the \$35 million allocation of lottery money to cover Medicaid funding this year.

Coulter said the committee, which acts in an advisory role to the Legislature, will inquire about that money as well as the change in the funding formula when it meets next.

The N.C. Lottery Commission, a different nine-member group, has direct oversight of the lottery’s operation and approved the budgets decreasing the size of the cut that educational groups get.

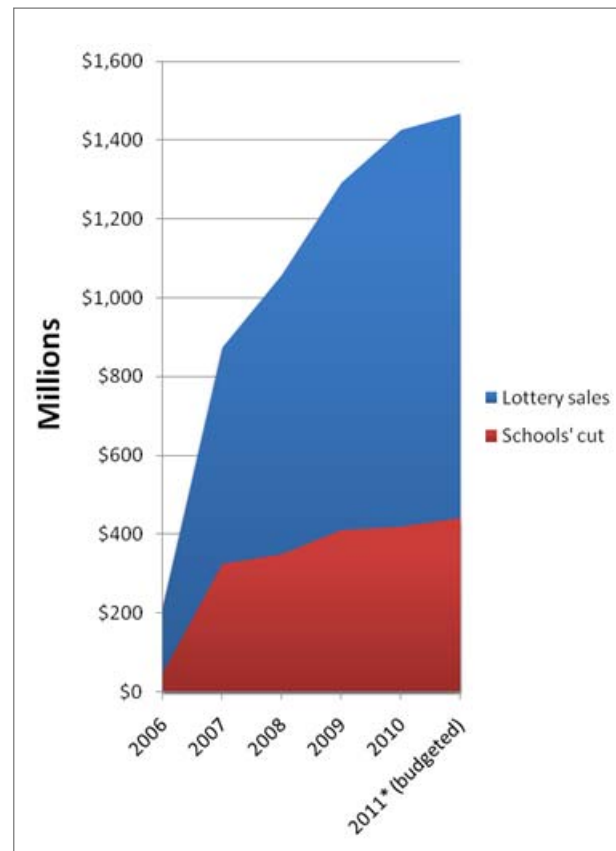
North Carolina’s entry into the gambling business wasn’t an easy sell to the public. Opponents from across the political spectrum as well as religious and civic leaders debated whether what the state, which will spend \$7.3 billion for public education next year, would raise enough money through the lottery to offset the moral and public policy concerns of North Carolina entering the gambling business.

When the lottery squeaked by a divided Legislature in August 2005, critics produced studies that predicted the lottery would back off over time from pledges that said lottery money would be used to enhance, and not replace, education funding. Selling lottery tickets would put the state in the gambling business and end up targeting the working families and poor that could least afford the \$1, \$2 or \$5 lottery tickets, opponents said.

But supporters pointed to bordering Southern states like Virginia and South Carolina with lotteries of their own,

FIGURE 3

Lottery Sales Compared to Schools’ Cut



SOURCE: NC Education Lottery

and said North Carolina was throwing away dollars that could help schoolchildren by not having a lottery.

North Carolina, one of 41 states in the country to host lotteries, participates in both scratch-off tickets that can be bought in gas stations as well as multi-state online games that let players pick numbers for the chance to win in regular drawings.

Tough Times Ahead

The N.C. lottery, with its tempting pot of revenues, could find itself a target as state leaders face what will be an especially brutal budget shortfall this year, with a projected shortfall of \$3.3 billion coming after two years of painful budget cuts for state agencies and services.

Perdue, through a spokeswoman, said it's too early to say whether the lottery would be off-limits, or if some of the revenue would go to ease the strain on the state's general fund.

Garland, the acting lottery director, said making next year's sales goals of \$1.5 billion will be difficult, and may mean further reducing the 30-percent cut education programs are slated to receive.

This economy has been the hardest for North Carolina families to weather since the Great Depression, with nearly one out of every 10 workers in the state unemployed and many more stretched or sinking under financial stresses.

That's why Garland suspects instant scratch-off tickets sales have dropped over the last year. In a recent game, the lottery misjudged the public's appetite or ability to buy \$20 tickets for the chance of winning a million dollars. The drawing, held earlier this week, was delayed for two weeks and only 299,319 of the 500,000 available tickets were sold. Nearly \$6 million in tickets were sold for the game but the lottery only cleared a \$222,000 profit for schools, a little less than four percent of the total sales, according to Van Denton, lottery spokesman.

If that \$6 million had been spent buying consumer goods – clothes, electronics or restaurant dinners – the state would have gotten back more through sales taxes, which are not tacked on to lottery ticket purchases.

Figuring out how to convince residents to spend their extra money on the N.C. Education Lottery will be the main focus for lottery staff, Garland said.

"We're a sales organization," she said. "That's what we're all about."

Have questions about this N.C. Policy Watch investigation or want to share other tips? Reporter Sarah Ovaska can be reached at (919) 861-1463 or sarah@ncpolicywatch.com.