

The California Lottery: A Small and Declining Share of School Funding

Proposition 37, the California State Lottery Act passed by voters in 1984, established the California lottery. Contrary to the beliefs of some voters, lottery funds provide a small percentage of education funding. Furthermore, the share of total school funding provided by the lottery has declined over the past two decades.

What Does Funding from the Lottery Support?

The Lottery Act divides proceeds between prizes (50 percent), administration (no more than 16 percent), and public education (at least 34 percent). Lottery funds provided to education are allocated annually on a per student basis to K-12 and community college districts, the California State University (CSU), the University of California (UC), and other educational institutions. Most of the lottery funds allocated to education go toward K-12 and community college districts. In 2005-06, K-12 education received eight out of every 10 lottery fund dollars (80.8 percent), and community colleges received approximately one out of seven dollars of lottery proceeds (14.2 percent).¹

Lottery Money Represents a Small and Declining Share of Public School Funding

The state lottery provides a small share of the total support for California's public schools. In 2005-06, expenditures from the state lottery fund accounted for just 1.9 percent of total K-12 spending, 3.0 percent of community college spending, and less than 1 percent of spending for each of the CSU and UC systems.²

Despite successful efforts to increase lottery revenue, the share of total K-12 spending provided by the lottery has declined since 1985-86. Lottery funds accounted for 4.6 percent of total K-12 spending in 1985-86, but only 1.9 percent in 2005-06 (Figure 1).³ Public schools received \$156.60 per student

from the lottery in 2005-06, two-thirds (66.7 percent) of the \$234.94 per student received in 1985-86 after adjusting for inflation (Figure 2).⁴

How Do Most Schools Spend Lottery Money?

Schools use most of the dollars they receive from the lottery to pay the salaries and benefits of district employees. In 2003, the California Department of Education (CDE) surveyed 100 school districts representing 18 percent of the state's K-12 students.⁵ The survey showed that between 1986-87 and 2001-02, districts spent an average of 79.5 percent of the funds they received from the lottery on salaries and benefits, while spending an average of only 8.3 percent of their lottery funds on books and supplies.⁶

In 2000, California voters approved Proposition 20, which requires half of the *growth* in lottery funds to be spent on instructional materials.⁷ In response to this measure, the 2003 CDE survey found that the share of lottery funds K-12 school districts spent on books and supplies increased from 3.7 percent in 1999-2000 to 18.6 percent in 2001-02.⁸ While Proposition 20 caused districts to increase the amount of lottery funds spent on books and supplies, cash-strapped districts still spent three-fourths (75.0 percent) of lottery funds on salaries and benefits in 2004-05.⁹ Schools continue to spend a majority of their lottery funds on salaries and benefits despite CDE's recommendation that districts use lottery funds for one-time costs due to the variability in lottery revenues.¹⁰

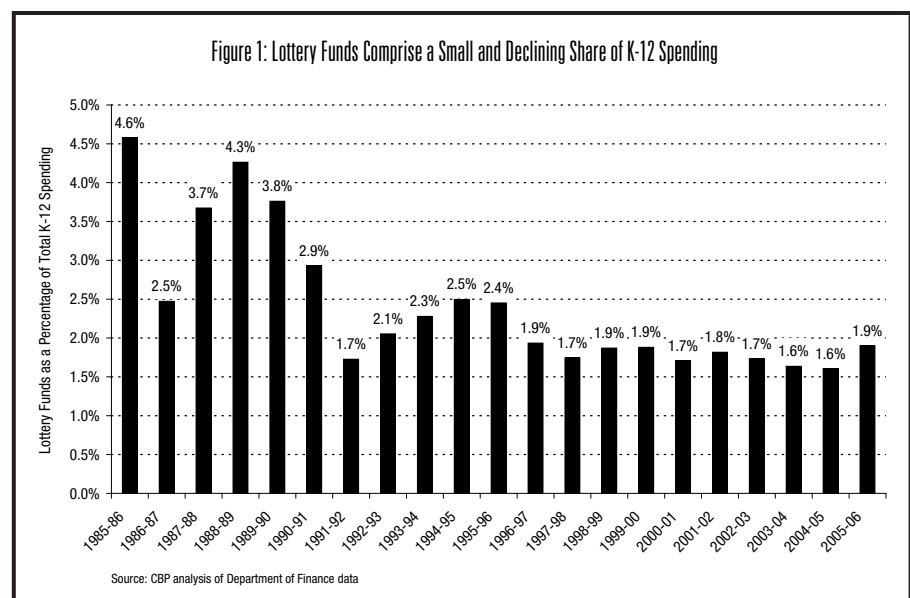
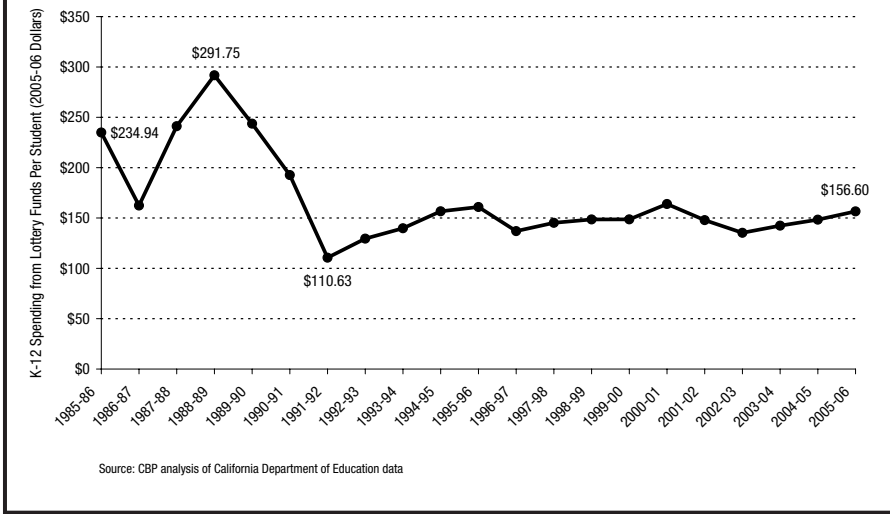


Figure 2: Lottery Funds Spent on K-12 Education Have Not Kept Pace with Inflation Since 1985-86



Who Plays the Lottery?

Lotteries are the most popular form of legal gambling.¹¹ Various research studies show that lottery sales are higher for individuals who have little or no formal education, are residents of urban areas, are between the ages of 45 and 65, and are not white.¹² Most studies demonstrate that individuals with lower incomes spend a greater share of their income on lottery games than those with higher incomes.¹³ While California lottery supporters note that it provides support to education, ironically, the lottery may also reduce other state revenues that support California’s public schools. Research suggests that the money Californians spend on the lottery may result in a reduction in what they spend on other goods, including goods subject to the state’s sales tax.¹⁴ To the extent lottery ticket buyers spend less on taxable goods, the lottery reduces state sales tax revenues and thus the funds available for public education.

Conclusion

Many voters believe the lottery provides a significant share of funds for education. In fact, the lottery provides a small fraction of the funds that support California’s public schools. Moreover, lottery funds have failed to keep pace with inflation for a number of reasons. One often cited factor is the rise in tribal gaming. Additionally, year-to-year increases in lottery revenues, sometimes caused by the introduction of new games or increased prizes, tend to be short-lived as consumer interest in new games declines. These short-term boosts in sales are consistent with trends in other states. While some may believe that the lottery solves school funding issues, in fact it is a minor revenue source that does not and cannot be expected to provide significant resources to public education.

¹ CBP analysis of Department of Finance, *Governor’s Budget 2007-08*, p. LJE 163.

² CBP analysis of Department of Finance, *Governor’s Budget 2007-08*, pp. EDU 2, 59, 92, and 107.

³ K-12 education spending includes child care and development, preschool, and adult education.

⁴ CBP analysis of California Department of Education, *Fact Book 2006 Handbook of Education Information* (2006), p. 126 and personal communication with the California Department of Education (January 25, 2007).

⁵ California Department of Education, *Report on Lottery Expenditures for K-12 Education, 2001-02* (July 2003), p. 2.

⁶ CBP analysis of California Department of Education, *Report on Lottery Expenditures for K-12 Education, 2001-02* (July 2003), Appendix F.

⁷ Proposition 20, which applies only to K-12 and community college districts, defines growth as any increase in lottery funding from the 1997-98 funding level.

⁸ California Department of Education, *Report on Lottery Expenditures for K-12 Education, 2001-02* (July 2003), Appendix F.

⁹ CBP analysis of California Department of Education data.

¹⁰ California Department of Education, *Report on Lottery Expenditures for K-12 Education, 2001-02* (July 2003), p. 5.

¹¹ Charlene Wear Simmons, Ph.D., *Gambling in the Golden State 1998 Forward* (California Research Bureau: May 2006), p. 87.

¹² Thomas A. Garrett and Russell S. Sobel, *State Lottery Revenue: The Importance of Game Characteristics* (Federal Reserve Bank of St. Louis: 2002), pp. 1-2.

¹³ Roger Dunstan, *Gambling in California* (California Research Bureau: January 1997), p. III-6.

¹⁴ Charlene Wear Simmons, Ph.D., *Gambling in the Golden State 1998 Forward* (California Research Bureau: May 2006), pp. 92-93.

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