



A FAILED EXPERIMENT: How the Lottery Has Not Helped Fund North Carolina's Schools



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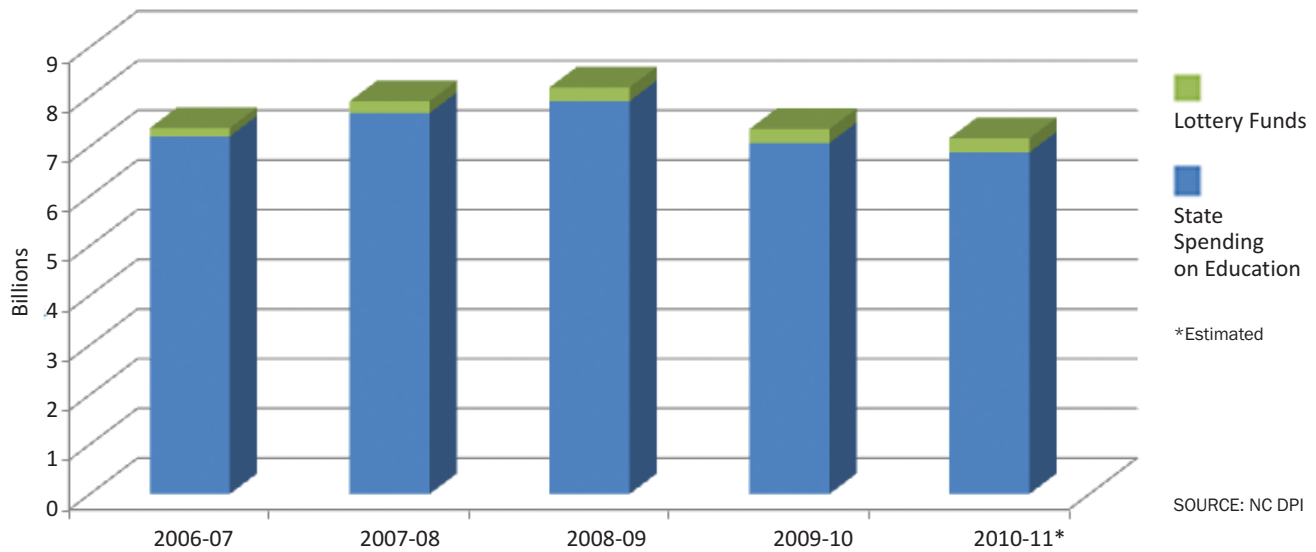
DURING THE DEBATE around the creation of the North Carolina Education Lottery in 2005, critics from across the political spectrum predicted that the state would eventually back off of its promises that lottery funds would be used to enhance rather than replace existing education funds.¹ The reality of what has happened in the years since is worse than what critics predicted: North Carolina spent less on K-12 education in the 2010-11 school year than it did in the last school year before the lottery came into existence, even without accounting for inflation or increases in the student population (see Figure 1).

FIGURE 1: Lottery Funding vs. Overall Spending on Education

CURRENT BREAKDOWN OF LOTTERY PROCEEDS	2011-2012 BUDGET BREAKDOWN OF LOTTERY PROCEEDS
<ul style="list-style-type: none"> • 50% for class-size reduction in early grades and pre-kindergarten programs for at-risk students 	<ul style="list-style-type: none"> • 66.8% for class-size reduction in early grades and prekindergarten programs for at-risk students
<ul style="list-style-type: none"> • 40% for school construction 	<ul style="list-style-type: none"> • 23.5% for school construction
<ul style="list-style-type: none"> • 10% for scholarships for needy university students 	<ul style="list-style-type: none"> • 9.7% for scholarships to university students.

The lottery supports vital education programs, including reduced class size in early grades, academic prekindergarten programs, school construction, and scholarships for needy college and university students. But, rather than using lottery proceeds to supplement the state's funding for these programs and the larger public school system, North Carolina's legislative leaders have increasingly relied on the lottery to cover up cuts to education.

FIGURE 2: Lottery Funding vs. Overall Spending on Education



The lottery did give a bump to spending on education in the early years of its existence during the 2007-2008 and 2008-2009 school years (see Figure 1). However, that increase has disappeared completely, and spending on K-12 education is now below what it was when the lottery began.

Broken Promises – The 2011-12 State Budget

The way North Carolina spends lottery proceeds in the recently adopted state budget for fiscal year 2011-12 represents a significant shift from how they were spent in the past. These changes show the state legislature is using lottery proceeds to replace funds rather than add to the funds provided by the traditional funding system.

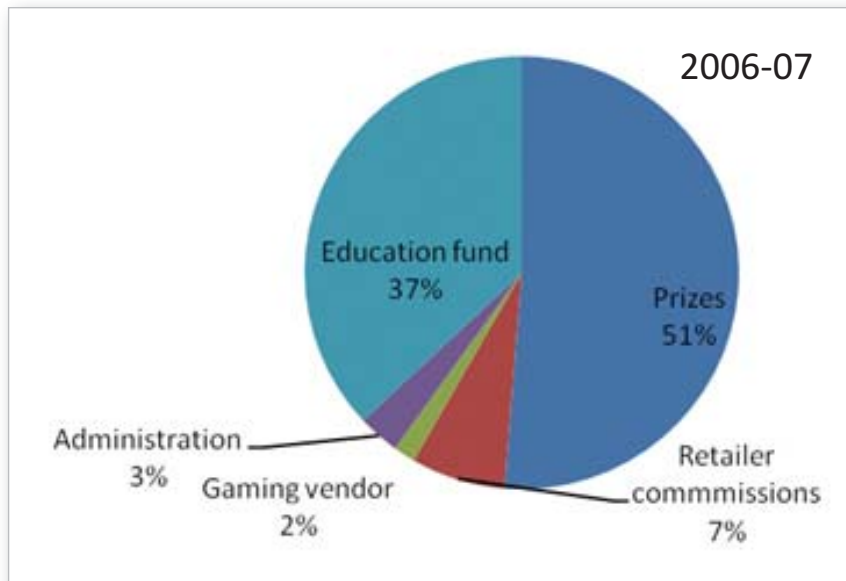
Until this year, the general breakdown of lottery proceeds has been 50% for class-size reduction in early grades and pre-kindergarten programs for at-risk students, 40% for school construction, and 10% for scholarships for needy students. The 2011-2012 budget allocates 66.8% for class-size reduction, 23.5% for school construction, and 9.7% for scholarships to university students (see Figure 2).² In other words, the legislature cut funding for school construction, even as the population is growing and the need for new schools is increasing, in an attempt to mitigate the loss of teaching positions that will result from the cuts to K-12 education funding.

A Dwindling Share

The overall share of the lottery's gross proceeds that goes to education has declined at the same time that legislators have cut funding for education. When the lottery was first enacted, the legislation called for at least 35% of gross proceeds to benefit North Carolina's schoolchildren.³ The remainder could be used for prizes, administration, gaming vendors, and retailer commissions (see Figure 3). However, in 2007, the legislature amended the law with a provision that required lottery officials to meet the 35% mark "to the extent practicable".⁴ The current share of revenue that education programs receive has dropped to 29% as a result.⁵

Lottery officials have justified this change by positing that they make more money for education by using profits to fund larger prizes, which in turn lead to higher sales and, in the end, more money to

FIGURE 3: Actual Distribution of Lottery Funds

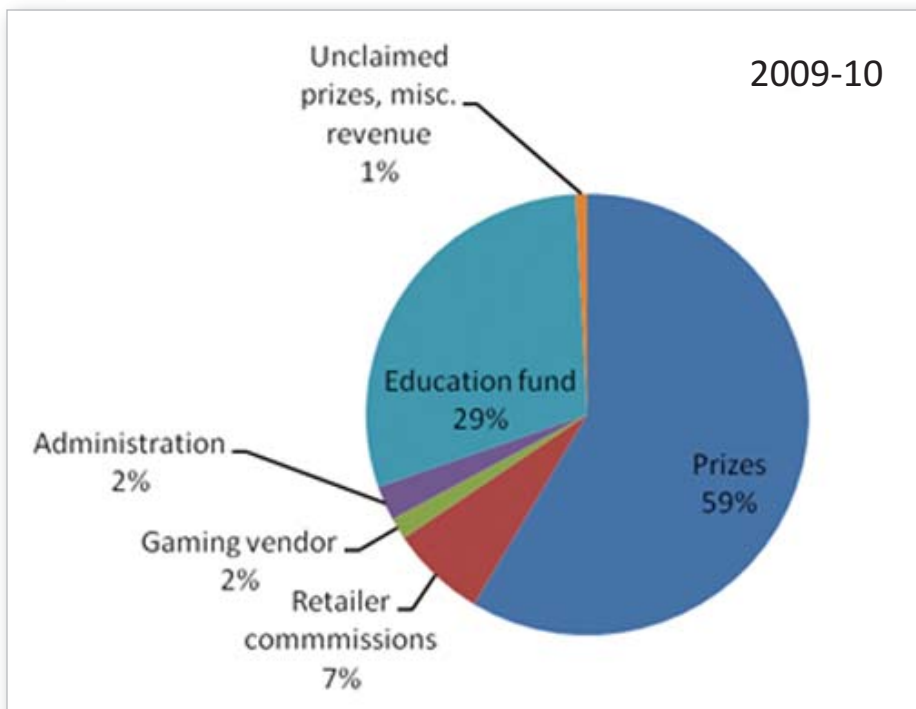


education programs. However, the result has been that growth in lottery sales has outpaced the increase in the amount of lottery money going to education by a rate of 5 to 1 over the past 2 years.⁶

Lottery sales have begun to stagnate and are projected to decline in 2011-2012.⁷ North Carolina has not seen the large increase in funding going to education that was promised as an effect of the larger prizes. Declining lottery revenues in the 2011-2012 fiscal year will only continue the trend of providing less and less funding for North Carolina's public schools.

Predicted Problems Manifest, but Not Proclaimed Benefits

Critics from both sides of the aisle have pointed out that the lottery is a regressive tax that falls mainly on the poor and have warned of the moral and societal ills that accompany gambling. The original justification that the lottery would provide a beneficial supplement to education funding that outweighs these evils is no longer valid since the state now spends less on education funding than it did before the lottery was enacted. The lottery is now a tax on the poor that brings gambling into the state's communities without adding anything to the state's education system.



SOURCE: NC Education Lottery and the NC Governor's Office of Budget and Management

- 1 Amy Gardner. (August 25, 2005). Lottery Fight Likely to Return. Raleigh News and Observer. Retrieved August 9, 2011 from <http://www.newsobserver.com/2005/08/25/52368/lottery-fight-likely-to-return.html>
- 2 General Assembly of North Carolina, Session Law 2011-145, House Bill 200 (2011).
- 3 North Carolina General Statutes, Chapter 18C-162 Allocation of Revenues (2005).
- 4 North Carolina General Statutes, Chapter 18C-162 Allocation of Revenues (2007).
- 5 2010 Fiscal Year Brochure. North Carolina Education Lottery. Retrieved August 9, 2011 from http://www.nc-educationlottery.org/uploads/docs/Beneficiary_Brochure_fy2010.pdf
- 6 Ibid; 2009 Fiscal Year Brochure. North Carolina Education Lottery. Retrieved August 9, 2011 from http://www.nc-educationlottery.org/uploads/docs/Beneficiary_Brochure_fy2009.pdf
- 7 General Assembly of North Carolina, Session Law 2011-145, House Bill 200 (2011).