

Gambling with a New Plan for the North Carolina Education Lottery

Revenue from the North Carolina Education Lottery has fallen short of initial estimates, with the inevitable result that the Legislature has had to provide public tax dollars to “backfill” pre-kindergarten and other programs that were to be financed with lottery revenue. For example, more than half (\$37.5 million) of the proposed budgetary increase of \$56 million for Governor Easley’s More-At-Four program is to make up for the difference between projected (\$425 million) and actual Education Lottery revenue receipts (\$350 million). In hopes of remedying this problem, the conference committee budget reportedly includes provisions to change how revenue from the North Carolina Education Lottery is to be distributed. The new formula, however, does not address the root causes of the shortfall and further removes operation of the lottery from public accountability. The new legislation would make the following changes:

- Remove the requirement that 35 percent of lottery game proceeds go to education. The 35 percent requirement, as well as other percentages outlined in the lottery law, are now only “guidelines.”
- Allow appointed lottery commissioners to increase lottery payouts, if they believe higher payouts will attract additional revenue.
- Empower lottery commissioners to apportion proceeds to “maximize revenue for education purposes” and to take the means necessary to maximize revenue, as long as proceeds are distributed in general agreement with the Legislature’s formula.

“Whatever the payout rate, the lottery will remain too unstable to be the sole revenue source for important public programs like preschool education and college scholarships for low-income students. If state support for early childhood education, school construction and college scholarships is in the public interest, then let's arrange secure funding for those programs, rather than linking their budgets to inherently unstable lottery revenues.”

(Duke University professors Charles Clotfelter and Philip Cook, *Raleigh News & Observer*, “What if the Lottery Were Run for Lottery Players?” Editorial, March 1, 2007)

Irresponsible Budgeting

While this legislation is being put forward as an attempt to remedy lottery revenue shortfalls, it does little to address the real reasons lottery proceeds have failed to meet expectations. **The fact that the new formula will also be voted on without going through the full legislative process of committee hearings and debate in each chamber is even more troubling.**

- **Overly Optimistic Estimates.** The new Education Lottery plan concentrates only on maximizing revenue. This focus only treats the symptoms and ignores the root causes of the revenue shortfalls. In reality, revenue shortfalls are traceable to structural issues, such as overly optimistic revenue estimates, that will continue to plague the lottery. These estimates were used by Governor Mike Easley (D) to claim that the education lottery would generate \$425 million per year for education, after paying out prizes and administrative costs. Legislative budget writers likewise used the \$425 million figure to balance the budget. At the time, other legislators voiced skepticism at the claim, and lottery commission staff placed the estimate closer to \$400 million. This week, lottery officials said sales reached \$890 million for the previous fiscal year, resulting in only \$311.5 million for education.
- **Unfair Distribution Mechanism.** The current method for distributing lottery revenue is inefficient. In 2006-07, the Education Lottery apportioned \$131 million to North Carolina counties to assist with school construction.

According to the North Carolina Department of Public Instruction, over the next five years 57 of the state's 115 school districts are expected to lose enrollment. Should lottery funds continue to be used for school construction in counties with declining enrollments?

- **Less Public Oversight.** The new Education Lottery plan lessens public oversight. The expansion of powers for lottery commissioners and the emphasis on revenue maximization increases the opportunity for mismanagement. At \$246,750 a year, N.C. Lottery executive director Tom Shaheen is already the second-highest paid nonuniversity state employee in North Carolina. Expect Shaheen to get another raise if his strategy for boosting sales – but not necessarily education revenue – is successful.

The New Lottery Plan Assumes the Lottery Is Working: Is It?

- In 2004, the lottery was billed as the means to address overcrowded classrooms, low test scores, and academic underachievement. North Carolina schools are still plagued by these problems.
- Test scores show class reduction programs have had minimal impact. Should lottery funds continue to support programs that are not backed by demonstrable results and solid research findings?
- Education lotteries do not add to education funding, but merely supplant money that was already spent on education. In 2005, for example, budget writers sought to cut \$245 million from the education budget once they discovered that the lottery was supposed to generate \$400 million in revenue.
- Lotteries are notoriously unreliable sources of income. Neighboring states like Georgia and South Carolina have experienced wide fluctuations in revenue.

The New Lottery Plan is Bad Public Policy

- **No Restriction on Advertising.** In essence, the new guidelines remove the current restriction on advertising. Under the current formula, advertising spending is capped at 1 percent of total annual lottery revenue. Tom Shaheen has already gone on record as stating that his plan for making the lottery “hugely successful” is to reach beyond “core players” and “bring in other players, like players who buy a Powerball ticket every now and then.” But is having the state encourage more gambling as a means of funding education good public policy? Endorsing the expansion of get-rich quick schemes undercuts the values of hard work and discipline so critical to education and civil society.
- **A Hidden Tax on the Poor.** Lotteries are essentially a regressive tax on the poor. Larger payouts with the goal of encouraging more people to play – or play more often – will only exacerbate this problem. In fact, several studies by the National Bureau of Economic Research, including that by Duke professors Charles Clotfelter and Philip Cook, show that lotteries disproportionately harm the poor – especially minorities. Concluded a report on Georgia's lottery commissioned by that state's General Assembly, “The people who play the lottery more than a couple of times a week tend to be less well-educated, lower income and minority.” Likewise, the Wilmington *Star-News* reported in 2006 that “the new North Carolina lottery appears most popular in the part of the state that can least afford to play – rural Eastern North Carolina.”

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