

SQ 705 and SQ 706: The Oklahoma Education Lottery

In 2004, Oklahoma voters approved three revenue-raising measures that offered the promise of increasing state funding for key public services. These factsheets, along with a full-length issue brief, explore the outcome of these new revenue sources three years later.

The Oklahoma Education Lottery was created by passage of SQ 705 and SQ 706 in 2004. Under the terms of these two measures, at least 30% of gross revenue during the first two years of the lottery and 35% of gross revenue thereafter would be dedicated as net proceeds to the Oklahoma Education Lottery Trust Fund for appropriations. The distribution of lottery net proceeds was specified as follows:

K – 12 funding, including early childhood programs	45%
Higher Education Tuition Assistance	45%
Capital projects (all levels of education)	
Technology improvement (all levels of education)	
Endowed Chair Professorships for Higher Education	
School for the Deaf and Blind	5%
School Consolidation Fund	
Teacher's Retirement Fund	5%

The Lottery Trust Fund is a certified fund, meaning that the Legislature can appropriate up to 95% of estimated collections for the upcoming fiscal year. If collections exceed the appropriated amount, the surplus is rolled over and is available to be appropriated in subsequent years. If there is a shortfall in collections, agencies must either absorb the difference or the Legislature must identify additional funds.

Table 1 presents the revenue and expenditure history of the lottery for its first two years of operation, along with projections for FY '08. Total revenue in the lottery's first year, FY '06, was \$205.4 million and grew modestly, by 5%, to \$216.3 million in FY '07. Revenue growth in Year 2 was boosted by a full year of Powerball, which generated \$32 million more in FY '07 than in FY '06; at the same time, collections from instant scratch games declined by \$27 million. Revenues are projected to grow by 5.4% in FY '08 to \$227.3 million with the addition of Hot Lotto and other new games.

Lottery revenues are allocated between several agencies as set out by the statutes. As can be seen from the Table, lottery funds have been dedicated by the Legislature to different purposes in each of the three years. These have included a mix of capital and operating costs, as well as both on-going and one-time expenditures. For the most part, lottery revenues have been

	FY '06 Actual	FY '07 Actual	FY '08 Budget
LOTTERY REVENUES			
Total Revenues and Non-Operating Income	\$ 205,424,609	\$ 216,272,301	\$ 228,067,000
Share of net proceeds/profit	33.62%	33.02%	32.28%
Actual Net Proceeds	\$ 69,063,754	\$ 71,413,114	\$ 73,620,028
Available Prior-Year Carryover	\$ -	\$ -	\$ 6,792,334
Total Lottery Net Proceeds	\$ 69,063,754	\$ 71,413,114	\$ 80,412,361
APPROPRIATIONS OF LOTTERY FUNDS			
General operating	\$ 28,022,139	\$ -	\$ 39,866,877
Teacher pay raise		\$ 52,980,075	
Consolidation	\$ 3,113,571	\$ 5,886,675	\$ 4,429,653
OTRS	\$ 3,113,571	\$ 5,886,675	\$ 4,429,653
Total Lottery Funds for Common Education	\$ 34,249,281	\$ 64,753,425	\$ 48,726,183
Construction, renovations or repairs	\$ 23,022,139	\$ 33,000,000	\$ 35,366,875
General operating		\$ 13,730,075	
Scholarships	\$ 5,000,000		
Total Lottery Funds for Higher Education	\$ 28,022,139	\$ 46,730,075	\$ 35,366,875
General operating and construction		\$ 6,000,000	\$ 4,500,000
Total Lottery Funds for Career Tech		\$ 6,000,000	\$ 4,500,000
Lottery Funds for Dept of Rehab Services		\$ 250,000	
Total Appropriations	\$ 62,271,420	\$ 117,733,500	\$ 88,593,058
Surplus/Shortfall	\$ 6,792,334	\$ (46,320,386)	\$ (8,180,697)

blended with other revenues to support programs, rather than being dedicated to an distinct, ongoing and identifiable purpose.

Net proceeds from lottery revenues to the Oklahoma Education Lottery Trust Fund totaled \$69.0 million in FY '06 and \$71.4 million in FY '07. Revenues in FY '07 fell considerably below the certified estimate, creating a shortfall of \$46.3 million in appropriations to the agencies and programs supported by lottery funds.

The Lottery Commission has recently proposed amending the lottery statutes to increase the share of ticket sales allocated for prize money, with a corresponding decrease in the 35% share designated as net proceeds for appropriation. According to the Lottery Commission's Executive Director, increasing the share of prize money is needed to boost lottery sales and help the lottery met its funding goals for education. The Commission also has raised the possibility of adding new games, such as video lottery, Kino and pull-tabs, which are currently prohibited by legislation.

For CAP's full issue brief on the revenue measures approved in 2004
 And for fact sheets on gaming and the tobacco tax, go to:
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