

## THE OKLAHOMA EDUCATION LOTTERY

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 percent of gross revenue during the first two years of the lottery, and 35 percent of gross revenue thereafter, would be dedicated as net proceeds to the Oklahoma Education Lottery Trust Fund for appropriation by the Legislature. The distribution of lottery net proceeds was specified as follows:

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

The Lottery Trust Fund is a certified fund, meaning that the Legislature can appropriate up to 95 percent of estimated collections for the upcoming fiscal year. If collections exceed the appropriated amount, the surplus is carried over and is available to be appropriated in subsequent years. If lottery revenues come in the below appropriated amount, 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 five years of operation, along with projections for FY '11. For the most part, lottery sales have remained remarkably consistent, regardless of the up and downs of the economy, the addition of new games, and growing competition from tribal casinos and the new state lottery in Arkansas. Total revenue in the lottery's first year, FY '06, was \$191.0 million and grew modestly, by 6.5 percent, to 203.5 million in FY '07, with the addition of Powerball. However, revenues flattened in FY '08 and then declined by 5.5 percent to \$193.3 million in FY '09 before growing by 3.4 percent in FY '10.

Net proceeds from lottery revenues to the Oklahoma Education Lottery Trust Fund have totaled \$68.9 million in FY '06, \$69.4 million

in FY '07, \$78.4 million in FY '08 (which included carryover funds), \$69.2 million in FY '09 and \$70.0 million in FY '10. Revenues in FY '07 and FY '08 fell considerably below the certified estimate, creating a shortfall of in appropriations to the agencies and programs supported by lottery funds. In FY '10, revenues exceeded projections by \$6.5 million. Net proceeds in FY '10 are projected at \$66.5 million.

Lottery net proceeds are divided between several education agencies as set out by the statutes. As can be seen from Table 1, lottery funds have been dedicated by the Legislature to different education-related purposes in different years. For the most part, lottery revenues have been blended with other revenues to support programs, rather than being dedicated to any distinct, ongoing, and identifiable purpose. Current year (FY '11) appropriations includes \$61.6 million of lottery revenues out of total state appropriations of \$6.7 billion, or 1.0 percent.

Over the past several years, the Lottery Commission has advocated forcefully but unsuccessfully with the Legislature to amend the lottery statutes to eliminate or reduce the mandated profit percentage ensuring a fixed minimum (35 percent) as net proceeds. This change is intended to allow for higher payouts, which the Commission contends is needed to boost lottery sales and help the lottery increase funding for education.

	FY '06 Actual	FY '07 Actual	FY '08 Actual	FY '09 Actual	FY '10 Actual	FY '11 Budgeted
<b>LOTTERY REVENUES</b>						
Total Revenues	\$ 191.0	\$ 203.5	\$ 204.6	\$ 193.3	\$ 199.9	\$ 190.1
Share of net proceeds/profit	36.1%	34.1%	35.0%	35.8%	35.0%	35.0%
Net Proceeds	\$ 68.9	\$ 69.4	\$ 71.6	\$ 69.2	\$ 70.0	\$ 66.5
Available Prior-Year Carryover	\$ -	\$ -	\$ 6.8	\$ -	\$ -	\$ -
Total Net Proceeds plus Carryover	\$ 68.9	\$ 69.4	\$ 78.4	\$ 69.2	\$ 70.0	\$ 66.5
<b>APPROPRIATIONS OF LOTTERY FUNDS</b>						
General operating	\$ 28.0		\$ 39.9	\$ 31.2	\$ 28.5	\$ 27.7
Teacher pay raise		\$ 53.0				
Consolidation	\$ 3.1	\$ 5.9	\$ 4.4	\$ 3.5	\$ 3.2	\$ 3.1
OTRS	\$ 3.1	\$ 5.9	\$ 4.4	\$ 3.5	\$ 3.2	\$ 3.1
Total Lottery Funds for Common Education	\$ 34.2	\$ 64.8	\$ 48.7	\$ 38.2	\$ 34.9	\$ 33.9
Construction, renovations or repairs	\$ 23.0	\$ 33.0	\$ 35.4	\$ 27.3	\$ 25.0	\$ 24.3
General operating		\$ 13.7				
Scholarships	\$ 5.0					
Total Lottery Funds for Higher Education	\$ 28.0	\$ 46.7	\$ 35.4	\$ 27.3	\$ 25.0	\$ 24.3
General operating and construction		\$ 6.0	\$ 4.5	\$ 3.8	\$ 3.5	
Total Lottery Funds for Career Tech		\$ 6.0	\$ 4.5	\$ 3.8	\$ 3.5	\$ 3.4
Lottery Funds for Dept of Rehab Services		\$ 0.3				
Total Appropriations	\$ 62.2	\$ 117.8	\$ 88.6	\$ 69.3	\$ 63.4	\$ 61.6
Surplus/Shortfall	\$ 6.7	\$ (48.4)	\$ (10.2)	\$ (0.1)	\$ 6.6	\$ -