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For Schools, Lottery Payoffs Fall Short of Promises



North Carolina's game had revenue of about \$300 million in its first full year, but officials had expected it to generate \$400 million to \$500 million.

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Last year, North Carolina's governor, Mike Easley, finally delivered on his promise to start a lottery, making his state the most recent of the 42 states and the District of Columbia to cash in on legalized gambling.

If some voters in this state frowned on Mr. Easley's push to bring gambling here, others were persuaded by his argument that North Carolina's students were missing out on as much as \$500 million in aid annually as residents crossed the border to buy lottery tickets elsewhere.

"Our people are playing the lottery," the governor said in an address two years ago that was a prelude to the creation of the North Carolina Education Lottery. "We just need to decide which schools we should fund, other states' or ours."

Pitches like this have become popular among lawmakers who, since states began legalizing lotteries more than 40 years ago, have sold gambling as a savior for cash-starved public schools and other government programs. Lotteries have raised billions of dollars, and of the 42 states that have them, 23 earmark all or some of the money for education.

For years, those states have heard complaints that not enough of their lottery revenue is used for education. Now, a New York Times examination of lottery documents, as well as interviews with lottery administrators and analysts, finds that lotteries accounted for less than 1 percent to 5 percent of the total revenue for K-12 education last year in the states that use this money for schools.

In reality, most of the money raised by lotteries is used simply to sustain the games themselves, including marketing, prizes and vendor commissions. And as lotteries compete for a small number of core players and try to persuade occasional customers to play more, nearly every state has increased, or is considering increasing, the size of its prizes — further shrinking the percentage of each dollar going to education and other programs.

In some states, lottery dollars have merely replaced money for education. Also, states eager for more players are introducing games that emphasize instant gratification and more potentially addictive forms of gambling.

Of course, the question of how much lotteries contribute to education has been around for years. But the debate is particularly timely now that at least 10 states and the District of Columbia are considering privatizing their lotteries, despite assurances decades ago that state involvement would blunt social problems that might emerge from an unregulated expansion of lotteries. These trends fly in the face of marketing campaigns that often emphasize lotteries' educational benefits, like a [South Carolina](#) lottery slogan, "Big Fun, Bright Futures," or an ad campaign in North Carolina featuring a thank-you note passed through schools and signed "The Students." The New York Lottery's Web site includes the tagline, "Raising billions to educate millions."

Promotions like these have taken root. Surveys and interviews indicate that many Americans in states with lotteries linked to education think their schools are largely supported by lottery funds — so much so that they even mention this when asked to vote for tax increases or bond authorizations to finance their schools.

A Growing Industry

Long a mainstay of American life, lotteries began as raffles in the 1700s to finance the Continental Army, bridges and roads, and [Columbia University](#). But modern lotteries are big businesses, run by streamlined enterprises with managers and consultants from Fortune 500 companies.

State lotteries raised more than \$56 billion and returned \$17 billion to the state governments last year. They spent more than \$460 million last year on advertising, making them one of the nation's largest marketers. The 197,000 retailers that sell lottery products earned \$3.3 billion in commissions in 2006.

Lottery advocates say the games live up to their public mandate. According to the North American Association of State and Provincial Lotteries, \$234 billion has gone into state coffers since the first modern lottery was started in New Hampshire in 1964.

“Lotteries bring additional money to states that can be used very effectively to fund special projects without raising taxes,” said Charles Strutt, executive director of the Multi-State Lottery Association, a nonprofit group.

But among the states that earmark lottery money for education, lottery dollars accounted for 1 percent or less of the total K-12 education financing (including all state, federal and local revenue) last year in at least five states, including New Jersey. New York had the highest percentage, 5.3 percent.

(Five states — Georgia, Kentucky, New Mexico, South Carolina and Tennessee — direct lottery dollars primarily to college scholarships. North Carolina and Florida also give some money to scholarships.)

At least five states — California, Missouri, New Jersey, Ohio and Washington — channel lottery money to higher education as well as elementary and secondary schools. In these states, too, lottery proceeds amount to less than 5 percent of the total education financing.

In at least four states — California, Illinois, Michigan and Texas — lottery dollars as a percentage of K-12 education money has declined or remained flat over the last decade.

In California, for example, the lottery in 1985 accounted for almost 5 percent of all K-12 education dollars. Today, it makes up less than 2 percent, or about \$1 billion, of the \$54 billion the state spends on in K-12 education, according to the California Budget Project, a nonprofit research group in Sacramento.

The California Department of Education addressed this in its State Fact Book two years ago: “Although the public still perceives the lottery as making a significant difference in the funds available for education,” the book read, “it is a minor source that cannot be expected to provide major improvements in K-12 education.”

Some state lotteries have fallen short of projections. In North Carolina, where officials expected the lottery to generate \$400 million to \$500 million a year for education, revenue reached just over \$300 million in its first full year of operations. In Oklahoma, officials expected schools to receive \$52 million last year from the lottery, but the final tally was \$15 million less.

Also, the portion of lottery money going to state programs is shrinking. When Missouri passed its lottery in 1985, it required that at least 45 percent of all proceeds go to the state, and the number went as high as 52 percent. Legislators revised the law, and now the state gets about 30 percent of proceeds.

The Times review of documents from all 42 states with lotteries and the District of Columbia found that nearly all have increased payouts and lowered the percentage going to programs. And those that have not changed their payout formulas are considering it.

Lawmakers and lottery officials defend the practices, saying schools and other programs will still benefit from the extra money raised by lotteries.

“Too much of the focus is on percentages,” said Gardner Gurney, acting director of the New York lottery. “My focus is on dollars. You can’t spend percentages.”

In 2000, New York State kept 38 percent of its lottery revenue for education. That share has dropped to 32 percent, but the dollar amount rose from \$1.3 billion in 2000 to \$2.2 billion last year.

But Jerry McPeak, a Democratic state representative in Oklahoma, said states that have committed to a percentage should not later lower that number.

“I think if you pass a lottery and tell people that a certain proportion of those dollars are going to something like education, then you ought to keep your word,” Mr. McPeak said.

School Budgets in Flux

In some states, lottery dollars are pooled with other funds, making it impossible to determine how much the lottery benefits schools. That is the case in Michigan, Texas and Illinois.

Because legislators in these states decide school budgets well in advance of knowing what lottery revenue will be, lottery money is just another part of the overall budget. If the lottery dollars are below projections, the state makes up the shortfall with money from other sources, or in some cases, simply gives schools less money. If the lottery dollars exceed projections, the state uses some of the money for other programs.

“Legislators merely substitute general revenue funds with lottery dollars so the schools don’t really gain any additional funding,” said O. Homer Erekson, dean of the business school at the [University of Missouri](#) in Kansas City, who co-wrote a national study on lottery money and school financing.

States including Georgia, Oklahoma and South Carolina have enacted laws that prohibit substituting lottery dollars for money that would have otherwise gone to education. But such laws have not stopped legislators.

Oklahoma, for example, used lottery money last year for a portion of promised teacher raises that were supposed to come from the general fund. The move provoked an angry response from education officials and some legislators.

In Nebraska, from 2002 through the last fiscal year, legislators diverted lottery dollars from the state’s K-12 education and other programs into the general fund to make up for a shortfall.

“Diverting lottery funds into the general fund was one of many ways to make up for the lost revenues,” said Bruce Snyder, a supervisor in the accounting office at the Nebraska Department of Administrative Services.

Lottery officials say they are unfairly blamed for legislators’ decisions. “Our job is to raise money for the things the legislators want,” said Clint Harris, director of the Minnesota lottery. “We don’t have any control over what happens to the money.”

But Brett McFadden, a budget analyst with the Association of California School Administrators, said: “It makes it harder for us to convince people that they still need to support education.” He added, “They think the lottery is taking care of education. We have to tell them we’re only getting a few sprinkles; we’re not even getting the icing on the cake.”

New Games and Gimmicks

As player interest has flagged, some lotteries have responded with aggressive marketing and new products that critics say can undermine public trust.

In an effort to attract younger customers, several states have introduced video lottery terminals, in which players wager against a computer, and Keno, a bingo-like video game. Critics have labeled both kinds of games “video crack” because of their addictive nature. Fifteen states offer electronic gambling machines, and several more are considering adding them.

This year in Florida, state officials estimated that the state could raise an additional \$1 billion from video terminals and \$39 million to \$241 million from Keno. The report also noted that both games “are considered to be more addictive than traditional lottery games and could contribute to a problem of pathological gambling.”

While introducing Keno in Florida would require legislative approval because of potential problems associated with gambling, Florida officials view the issue through an economic lens.

“We will determine which, of the products legally available to us, fits in fulfilling that mission,” said Jackie Barreiros, a spokeswoman for the Florida lottery.

Keith Whyte, executive director of the National Council on Problem Gambling, said many states are also introducing higher-price games, underscoring a Vegas-style rivalry among states for gambling dollars.

California’s contract with its instant ticket vendor, [Scientific Games](#), calls for the introduction of 30 to 45 new games a year. Kansas, Texas and Michigan recently introduced a \$50 scratch ticket, the most expensive in the nation.

States are also trying to bolster the number of “core” players, according to interviews with lottery officials in several states. Such players typically represent only 10 percent to 15 percent of all players but account for 80 percent of sales, according to Independent Lottery Research, which does research and marketing for state lotteries.

In North Carolina, Mr. Easley faces a battle in proving that the lottery will be a winner for voters. After its first full year, revenue was 25 percent less than projected, giving critics ammunition in their case that lottery revenue is an unreliable source of money for schools.

The governor declined to be interviewed, but Dan Gerlach, his senior policy adviser for fiscal affairs, said lottery officials had overestimated the market size of rival lotteries in Virginia, South Carolina and Georgia when developing the state's gambling efforts. But Mr. Gerlach said he expected the state to sell millions more tickets in coming months than it did last year.

That is because Mr. Easley recently persuaded his legislature to increase lottery prizes. The move will reduce the percentage of lottery dollars going to education. But North Carolina is choosing a tried and true formula: raising payouts increases customer traffic.

"People like to win big," Mr. Gerlach said. "Now, the pot is bigger."