

## Lottery revenue soars, but schools fear 'shell game'

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ALBANY — New York's lottery revenue has soared in recent years and reached a record \$9 billion last year. But the percentage of education aid that comes from the lottery hasn't budged, and the state's gaming halls are getting more money.

The New York Lottery boasts that sales help fund the state's roughly 700 school districts. Though schools are getting more money, about half goes to lottery prizes, a review of records by Gannett's Albany Bureau found.

In the 2011-12 fiscal year, nearly 50 percent of the revenue went to prizes; 34 percent went to schools, lottery records show. The commissions to the state's video-lottery facilities have doubled over the past five years as the facilities rapidly grew.

Overall, 15 percent of school aid, which was \$20 billion last year, came from lottery revenue. That percentage has been the same in recent years.

Critics say the lottery money that goes to schools — \$2.9 billion in the last fiscal year — simply replaces other state funding for education and isn't a pool of bonus cash.

“The notion was the lottery was going to really give states a big chunk of change that would do some remarkable things in terms of improving education — and that simply didn't happen,” said Patrick Pierce, a political science professor at Saint Mary's College in Notre Dame, Ind., who has studied state lotteries.

There's also a disparity in how much each district gets, Gannett's review found. South Orangetown schools in Rockland County had the largest increase in lottery aid, going from \$51,000 in 2003 to \$1.4 million in 2012. Pine Plains in Dutchess County had the biggest decline, going from \$575,904 in 2003 to \$202,529 in 2012. Lottery officials said the distribution is based on the state's school-aid formula.

Lottery officials defended the system. Lottery money has helped schools when other state revenues have been flat or declining.

“The New York Lottery continues to provide crucial support for the state's education system,” Robert Williams, acting executive director of the state Gaming Commission, said in a statement. “Just last fiscal year, the Lottery's contribution was \$2.88 billion. We are proud of the ongoing significant contribution the Lottery makes to support New York's schools.”

The benefit of using lottery revenue to help schools has been debated for decades. When the lottery started in 1967, a majority of the profit went to schools. A few years after it started, a majority was shifted to prizes to entice more gambling.

Over the past decade, New York has rapidly expanded gambling. The state has nine racinos that have produced big sales every year since they started opening in 2004. Gov. Andrew Cuomo wants to add three upstate, privately owned casinos. Ninety percent of the revenue would go to education, and the rest would go to local property-tax relief, he said.

Some education officials are skeptical. The state Rural Schools Association said it would oppose the casino expansion unless the state can document that the money would be used to close funding gaps between richer and poorer districts.

“We don't believe casinos do that much for the regions of the state where most of our school districts are housed,” said Bruce Fraser, the group's executive director.

The long-held belief is that lottery revenue is simply pumped into the state's general fund and used for various

purposes. That's true in some states, but not New York. Lottery revenue is designated specifically for education. The Lottery division puts revenue into a "State Lottery Fund," and the money is distributed by the state Comptroller's Office at the start of each school year July 1.

The money is distributed through the state education funding formula, which considers a district's wealth and the size of the student population.

Critics said the money goes to schools, but it shouldn't be misconstrued as a special pot of cash.

"There's ultimately a fiction to this. There is no such thing as a real lockbox in government," said E.J. McMahon, senior fellow for the fiscally conservative Empire Center for New York State Policy, based in Albany. "Any dollar that comes in for school aid is one less dollar that comes from the general tax fund. It's basically all sort of a wash."

Even as lottery funding has increased over the years, so has state aid to schools. So the percentage of overall education aid that consists of lottery money hasn't changed.

"It creates a lot of confusion because people think that the lottery is somehow just funding our schools totally," said Billy Easton, executive director of the Alliance for Quality Education, a labor-backed group in Albany. "It's good for the schools: 15 percent of the resources that the schools need are coming from a dedicated source. But the reality is it's kind of shell game."

Because lottery money is allocated by the state's funding formula, the money varied widely among school districts over the past decade, records reviewed by Gannett found.

Hamilton County, the state's smallest county, has the largest percentage increase in lottery aid to its schools over the past decade.

Second was Rockland, one of the larger counties in the state. Its lottery aid more than doubled from 2003 to 2012 – from \$11 million to \$23 million.

Schools in Putnam and Westchester counties also saw major increases, about 75 percent, as did Monroe County, where lottery aid rose 71 percent over the decade.

Lottery aid increased about 52 percent in Broome and Tompkins counties, and 50 percent in Chemung County. It increased 39 percent in Dutchess, among the lowest increases in the state.

The money has helped schools amid growing costs and a limited ability to raise taxes, budget experts said. A property-tax cap implemented in 2011 limits the growth in property-tax levies to 2 percent a year.

"The lottery increases the amount of money available," said Frank Mauro, executive director of the Fiscal Policy Institute, a labor-backed think tank. "And while it earmarks it for education, you'd need a crystal ball to know how much would have been given to education if the lottery didn't exist."

Some lawmakers said the aid formulas and how lottery money is spent need to be revisited. Rural and poor districts are struggling to survive, said Assemblywoman Donna Lupardo, D-Endwell, Broome County. The lottery money is "important to help" schools, Lupardo said. "But it's not an addition, it's a backfill."

South Orangetown Superintendent Ken Mitchell said the increase in lottery aid hasn't meant more money for the district. The lottery money has offset decreases in other state funding sources.

"That's how the state chooses to allocate the revenue that they will use to pay districts their state aid," Mitchell said. "It has nothing to do with one district being eligible for a higher amount of lottery aid."

Linda Kaumeyer, superintendent of Pine Plains, said it appeared the loss in lottery money was consistent with a decrease in overall state aid.

“We have lost state aid pretty consistently over the last few years,” she said.

With the addition of video-lottery terminals and New York’s entry into multi-state lottery games, the revenue increased 12 percent over the past five years. Lottery aid to education grew at roughly the same rate, from \$2.6 billion to \$2.9 billion.

Over that period, revenue for the state’s eight racinos grew 63 percent, and racinos’ commissions doubled – from \$307 million to \$617 million, state records show. The ninth racino in Queens opened in October 2011.

Lottery officials said each track’s commission depends on its agreement with the state. Yonkers Raceway sends 50 percent of its profit to the state for education while Monticello Raceway sends about 39 percent. The rest is split among commissions, a marketing fund and administration. In December, the state’s largest racino in Queens produced a record \$1.2 billion in revenue in the one month. About 44 percent of the profit – roughly \$26 million — went to the state’s education coffers.

The racinos said they send more money to pay for education than casinos in neighboring states, such as New Jersey and Pennsylvania. They said they essentially pay a tax rate of about 67 percent.

“The real winners are the school kids, taxpayers and racing industry workers who benefit from the revenue we generate,” James Featherstonhaugh, president of the New York Gaming Association, the tracks’ lobbying group, in a statement Feb. 12.