

SQ 705 and SQ 706: The Oklahoma Education Lottery

In 2004, Oklahoma voters approved three revenue-raising measures that offered the promise of additional state funding for key public services. These fact sheets explore the outcome of these new revenue sources four 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 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 appropriations. 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 rolled 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 first three years of operation, along with projections for FY '09. Total revenue in the lottery's first year, FY '06, was \$205.4 million and grew modestly, by 5 percent, to \$216.3 million in FY '07, with the addition of Powerball. However, revenues flattened in FY '08 and are projected to decline slightly (-3.0 percent) in FY '09. New revenue from Powerball and, more recently, Hot Lotto, has been offset by declining revenue from instant scratch-off games.

Net proceeds from lottery revenues to the Oklahoma Education Lottery Trust Fund totaled \$69.0 million in FY '06, \$71.4 million in FY '07 and \$78.4 million in FY '08 (which included carryover funds). 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 Legislature appropriated \$69.3 million in lottery funds in the current budget (FY '09).

Lottery net proceeds are allocated between several 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. 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 blended with other revenues to support programs, rather than being dedicated to any distinct, ongoing and identifiable purpose.

Over the past two years, the Lottery Commission has proposed amending the lottery statutes to eliminate or reduce the mandated profit percentage ensuring a fixed amount (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 meet its funding goals for education. The Commission was unsuccessful in efforts to bring about legislative changes in 2008 but remains actively committed to this goal during the 2009 session.

TABLE 1: Education Lottery Trust Fund Revenues and Appropriations

	FY'06 Actual	FY'07 Actual	FY'08 Actual	FY'09 Budgeted
LOTTERY REVENUES				
Total Revenues	\$ 205.4	\$ 215.2	\$ 214.4	\$ 208.1
Share of net proceeds/profit	33.6%	33.2%	33.4%	35.0%
Actual Net Proceeds	\$ 69.0	\$ 71.4	\$ 71.6	\$ 72.8
Available Prior-Year Carryover	\$ -	\$ -	\$ 6.8	\$ -
Total Lottery Net Proceeds	\$ 69.0	\$ 71.4	\$ 78.4	\$ 72.8
APPROPRIATIONS OF LOTTERY FUNDS				
General operating	\$ 28.0		\$ 39.9	\$ 31.2
Teacher pay raise		\$ 53.0		
Consolidation	\$ 3.1	\$ 5.9	\$ 4.4	\$ 3.5
OIRS	\$ 3.1	\$ 5.9	\$ 4.4	\$ 3.5
Total Lottery Funds for Common Education	\$ 34.2	\$ 64.8	\$ 48.7	\$ 38.2
Construction, renovations or repairs	\$ 23.0	\$ 33.0	\$ 35.4	\$ 27.3
General operating		\$ 13.7		
Scholarships	\$ 5.0			
Total Lottery Funds for Higher Education	\$ 28.0	\$ 46.7	\$ 35.4	\$ 27.3
General operating and construction		\$ 6.0	\$ 4.5	\$ 3.8
Total Lottery Funds for Career Tech		\$ 6.0	\$ 4.5	\$ 3.8
Lottery Funds for Dept of Rehab Services		\$ 0.3		
Total Appropriations	\$ 62.2	\$ 117.8	\$ 88.6	\$ 69.3
Surplus/Shortfall	\$ 6.8	\$ (46.4)	\$ (10.2)	\$ 3.5