

Georgia's Lottery: 'Reserving' a Big Prize for Education

By Jennifer Lee, Policy Analyst

This year marks the Georgia Lottery's 25th anniversary and the two main educational programs it supports: public Pre-Kindergarten and HOPE scholarships and grants. The lottery raised billions of dollars during its 25 years for education and helped hundreds of thousands of students attend college and Pre-K. Lottery proceeds also helped pay for capital outlay projects, classroom equipment and computers.

About a quarter of lottery ticket sales support education. Most of the rest is paid out in prizes. The lottery has also amassed more than \$1.1 billion in reserves. Building reserves for tough times is a wise fiscal strategy. Because the economy is unpredictable, it makes sense for the state to save so that it can follow through on its promises to Pre-K and college students in the event of a downturn. Half of the reserves are designated for use in case of a shortfall in lottery sales, but \$600 million sits idle. That leads to an inefficient use of lottery funds.

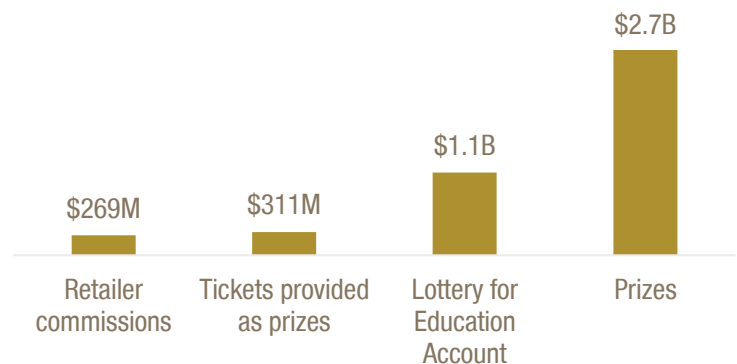
The Georgia Budget and Policy Institute recommends state lawmakers take the following steps to ensure the lottery reaches its full potential without compromising the cushion set aside for a rainy day:

- Clarify the intended size of the lottery reserves.** The Legislature set a clear savings target of 50 percent of prior year's net lottery proceeds for the shortfall reserve, but the state far exceeds its target. Additional unrestricted funds now stand at more than \$600 million, bringing total reserves equal to 100 percent net lottery proceeds. Reserves continue to grow each year. The unrestricted reserve funds are a missed opportunity for education.
- Craft a plan to responsibly invest the unrestricted reserves in education.** Existing lottery reserves above the 50 percent requirement present a major opportunity to invest the money in a non-occurring use to support education. One opportunity is to create an endowment and direct the earnings to support Pre-K quality and teacher retention, or more financial support for technical college students. An alternative is to use the money for capital improvements in Pre-K or early childhood learning centers.

How the Lottery Works

When people buy lottery tickets in Georgia, not all ticket sales go to education. About 60 percent is awarded back in prizes, and 24 percent goes to support Pre-K and the HOPE programs. The remaining 16 percent of state lottery revenue pays retailer commissions, administrative costs and other miscellaneous expenses. In 2017, the lottery sold more than \$4.5 billion worth of tickets. About \$2.7 billion was awarded in prizes and \$1.1 billion went to the Lottery for Education Account.¹

Prizes and Education Claim Most Lottery Money

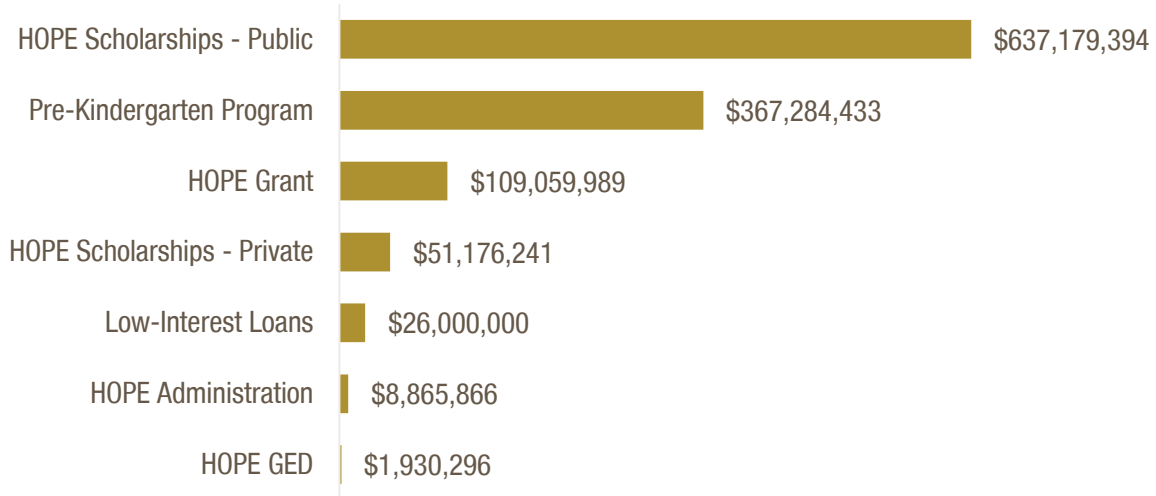


Source: Georgia Lottery 2017 Financial Statements

What the Lottery Pays For

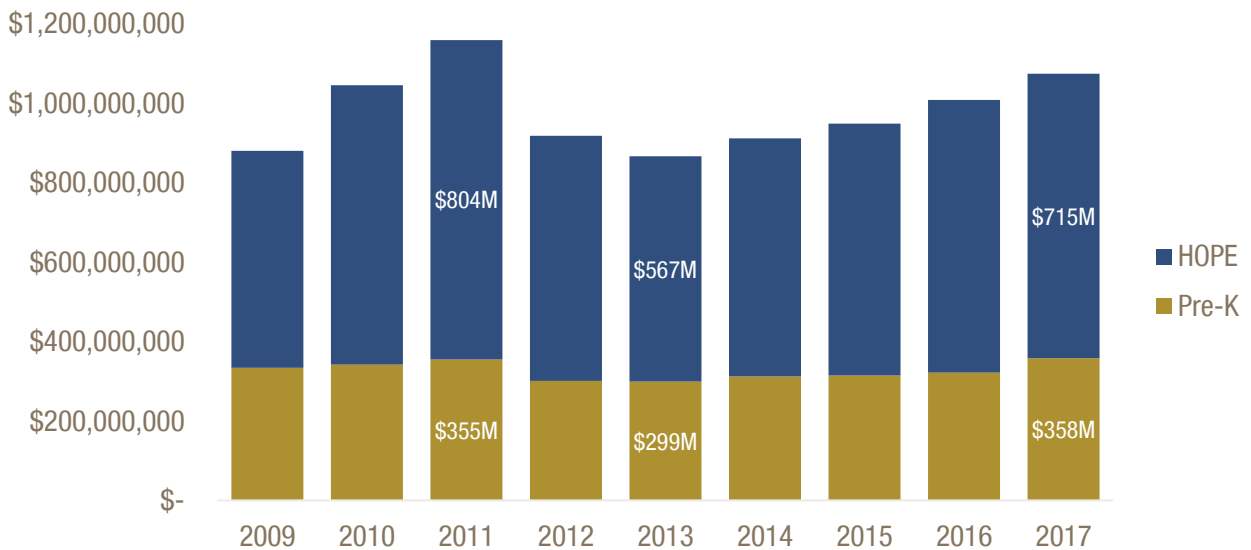
The General Assembly tallies available lottery funds each legislative session to decide how much to appropriate to support education. The Legislature appropriated \$367 million from the lottery in the 2019 state budget for Pre-K and \$808 million for HOPE scholarships and grants, totaling \$1.2 billion.² Historically, lottery dollars are split so an average of one-third go to Pre-K and two-thirds goes to support HOPE programs.³

Lottery Funds for Education Go Mostly to HOPE Scholarships and Pre-K



Source: Georgia's Fiscal Year 2019 Budget

One-Third of Lottery Dollars Pay for Pre-K, Two-Thirds for Higher Education



Source: Georgia amended fiscal year budgets, 2009–2017

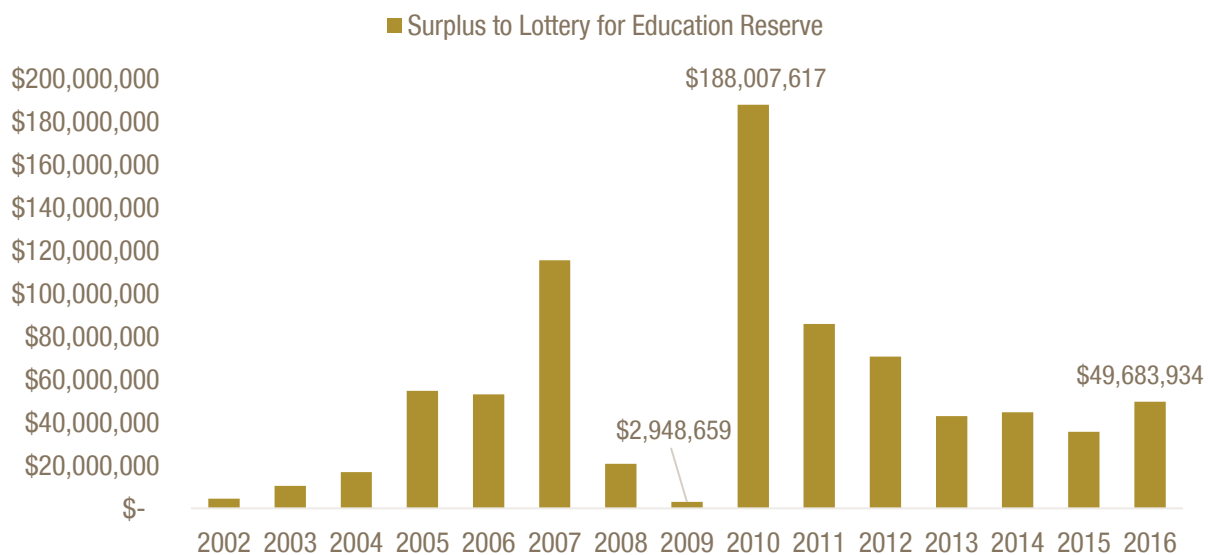
The lottery is best known today for funding HOPE and Pre-K, but in earlier years lottery proceeds supported significant investments in educational technology and capital projects. This funding included:

- \$716 million for capital outlay projects in K-12 schools, technical colleges and the university system
- \$264 million for grants to local school districts to buy classroom computers
- \$207 million for equipment
- \$186 million for an Equipment, Technology and Construction Trust Fund for colleges and universities⁴

■ Lottery Surplus and Reserves

The General Assembly decides how much lottery money to appropriate to support education each legislative session. It is a prudent budget practice for that appropriation to exceed the combined dollars spent on Pre-K and awarded in HOPE scholarships and grants. At each budget year’s end, the unspent money, or **surplus**, transfers to lottery **reserves** held by the State Treasury. From 2002 to 2016, lottery surpluses averaged more than \$50 million per year.⁵

Lottery for Education Account Runs Surplus Every Year

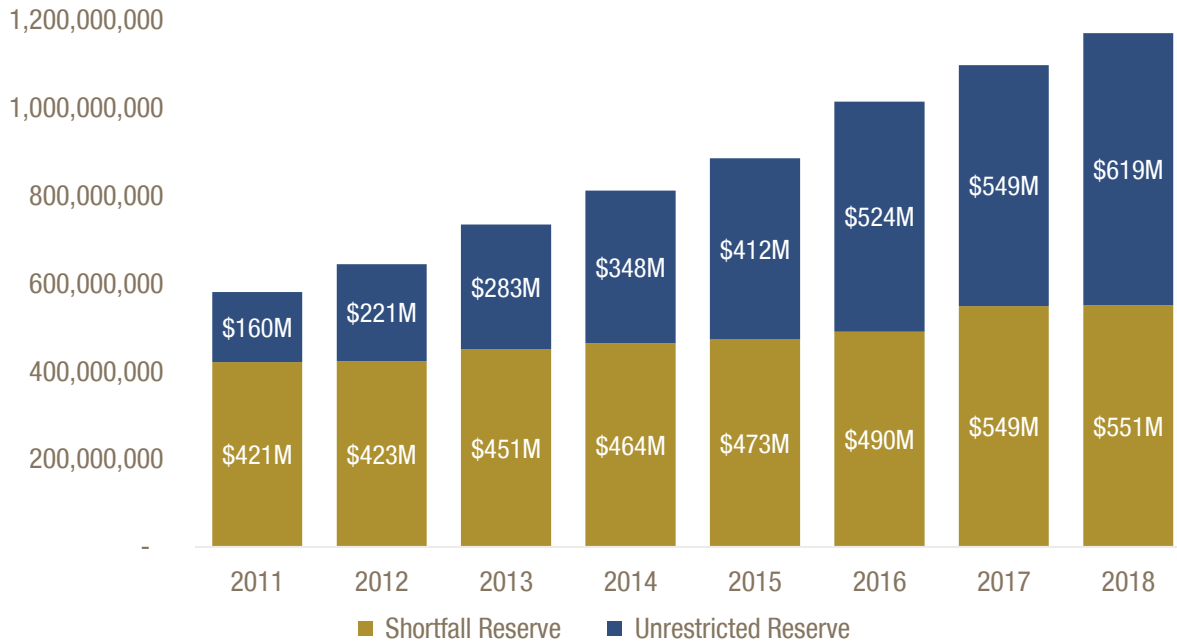


Source: Governor’s Budget Reports, FY 2004-2019

The lottery’s reserve fund is required by law and separate from the state’s general reserve fund. The lottery maintained two restricted reserves to fund programs before 2011 in case of a shortfall. State law required those reserves to hold at least 10 percent of the previous year’s net proceeds. After reaching the restricted reserves savings target, any additional money is considered unrestricted reserves.

After 2011, the legislature combined the two restricted reserve funds into a single shortfall reserve and quintupled the balance requirement to 50 percent of the previous year’s net proceeds. At the end of budget year 2018, the shortfall reserve held \$550 million and unrestricted reserves were \$619 million, totaling more than \$1.1 billion in lottery reserves. Interest earned is added back to the lottery for education account. In budget year 2018, \$14.3 million in interest was added to the lottery account, or 1.3 percent of total reserves.⁶

Lottery Reserves Growing Steadily, Now Total over \$1.1 Billion



Source: State Accounting Office, 2014-2018 Report of Georgia Revenues and Reserves, 2011-2013 Selected Summary Financial Information

Current Lottery Approach Marks Georgia as Outlier

State lottery reserve policies vary greatly across the country. Some states lack a legal reserve requirement, while others set a fixed amount. Georgia's approach that uses a percentage of the previous year's lottery proceeds is preferable to setting a fixed level, as it leaves flexibility for adequate reserves as lottery proceeds fluctuate year to year. But Georgia's stockpile of reserves marks it as an outlier compared to other states. The state has amassed \$1.1 billion in reserves, or 100 percent of lottery proceeds. Neighboring Tennessee sets a fixed \$100 million reserve requirement, which represents about 27 percent of the state's lottery proceeds.⁷

Tennessee and North Carolina recently changed lottery policy to support education instead of sitting on the money.

Tennessee Created Trust Fund from Reserves, Paid for Tuition-Free Technical and Community College

Tennessee launched its state lottery in 2004 and built up more than \$400 million in reserves by 2014. The state used \$300 million of the reserves to start the Tennessee Promise trust fund in an effort to maximize the effect of the savings on education.⁸ This lottery-funded endowment generated about \$21 million in Tennessee's 2017 budget, or about a six percent return.⁹

These earnings help pay for college grants that make two-year and technical college tuition-free in Tennessee for both graduating high school students and adults without college credentials. By law, a minimum of \$100 million must stay in reserves.¹⁰ This amount represents about 27 percent of Tennessee's total lottery proceeds.¹¹

North Carolina Caps Reserves and Directs Lottery Money to Public School Capital Needs

North Carolina caps lottery reserves at \$25 million. Recently the state appropriated \$30 million from lottery funds to start a Needs-Based Public School Capital Fund in its 2018 budget, increasing to \$75 million for 2019. The fund awards grants to lower-wealth counties for public school capital projects. Counties match grant funds based on a development tier, with lowest-wealth counties getting \$3 from lottery money for every \$1 in county funding.¹² Future surpluses are set to continue transferring to the Needs-Based School Capital Fund.

Recommendations

Setting aside reserves for tough times is sound fiscal strategy. The economy is unpredictable and lottery-funded programs depend on ticket sales, so it makes sense for the state to save so that it can follow through on promises made to Pre-K and college students.

But it's important to balance prudent saving with efficient and effective use of available lottery money. Over-saving for extended periods can limit the lottery's effectiveness, without a corresponding improved financial position. Instead, investing to support the lottery's original intent to boost education can deliver benefits for Georgia students, families and the state. To ensure lawmakers tap the lottery's full potential without compromising the need to adequately save, the Georgia Budget and Policy Institute recommends:

Clarify the intended size of the lottery reserves. The Legislature set a clear savings target in 2011 for the lottery shortfall reserve of 50 percent of the previous year's net lottery proceeds, up from an earlier 10 percent requirement. But Georgia far exceeds this target, hoarding an additional \$600 million and bringing total reserves up to 100 percent of previous year's proceeds. For comparison, the state's own Revenue Shortfall Reserve, or rainy day fund, cannot exceed 15 percent of the previous year's net revenue. The unrestricted reserve funds are a missed opportunity for education. All lottery dollars left after prize awards and the 50 percent requirement should support education.

Make a plan to use excess reserves to support education. After clarifying the reserve's size, excess funds should be used to maximize support for education. Because these reserve funds are non-recurring, they should not be used for ongoing expenses. Two possible uses include:

- **Repurpose part or all of the unrestricted reserve as an endowment.** Under this approach, lawmakers can restructure the existing \$600 million stockpile into an income-generating account designed to support a specific educational use. Last year, interest added back to the lottery account totaled 1.3 percent of total reserves. At a modest 5 percent return, the \$600 million fund can generate enough annual revenue to support free technical college certificates and diplomas or expand HOPE Career Grants for high-demand careers up to the associate's degree level. Earnings from reserves can also pay for one or more of Gov. Nathan Deal's Education Reform Commission's Pre-K recommendations. Promising recommendations include improving the pay structure for Pre-K teachers to increase quality and retention, as well as increasing funding for Pre-K start-up costs.¹³
- **Spend unrestricted reserves to help fund capital improvements for Pre-K or early childhood centers.** Georgia does not currently allocate funds for Pre-K capital improvement projects. The lottery used to support investments in capital projects, including technology and equipment.

Every local government in Georgia except Burke County has voted to tax itself extra using an education special purpose local options sales tax, or ESPLOST, to build or renovate facilities, upgrade technology, replace old school buses, and other capital improvements.¹⁴ Using reserve funds can remove pressure from school districts to divert revenue from this local tax when state funds are available. Local school districts can be required to match funds based on wealth, similar to North Carolina's Needs-Based Public School Capital Fund.

As Georgia's lottery programs hit the quarter-century mark, now is a good time for Georgia lawmakers to take stock of it and determine if there's room to improve. Devoting the \$600 million in unrestricted reserves to a purpose that upgrades education in Georgia better serves students from early childhood to college-aged. It ought to be on the Legislature's higher education agenda when lawmakers next convene.

Endnotes

¹ GBPI analysis of Georgia Lottery 2017 Financial Statements, p 19. <https://www.galottery.com/en-us/about-us/lottery-reports.html>

² Georgia's Fiscal Year 2019 Budget (HB 684), signed by governor

³ GBPI analysis of Georgia's Amended Fiscal Year Budgets, 2009–2017

⁴ Department of Audits and Accounts. (2014). The Georgia Lottery Selected Summary Financial Information from Inception (November 2, 1992) Through Fiscal Year Ended June 30, 2013.

⁵ GBPI analysis of Governor's Budget Reports, FY 2004-2019

⁶ State Accounting Office, Georgia Revenues and Reserves Report, Fiscal Year Ended June 30, 2018.

<https://sao.georgia.gov/georgia-revenues-and-reserves>

⁷ Tennessee Code 4-51-111. Tennessee's lottery generated \$372.7 million for its Lottery for Education Account in FY 2017. Tennessee Comptroller of the Treasury, Tennessee Education Lottery Corporation Financial and Compliance Audit Report For the Year Ended June 30, 2017. www.comptroller.tn.gov/sa/AuditReportCategories.asp

⁸ Tennessee Higher Education Commission & Tennessee Student Assistance Corporation. (2017). Tennessee Promise Annual Report 2018. <https://www.tn.gov/content/dam/tn/thec/bureau/research/promise/TN%20Promise%20Report%20-%202018%20-%20Final.pdf>

⁹ Tennessee Budget, FY 2018-2019.

¹⁰ Tennessee Code Annotated Section 4-51-111(b)

¹¹ Tennessee's lottery generated \$372.7 million for its Lottery for Education Account in FY 2017. Tennessee Comptroller of the Treasury, Tennessee Education Lottery Corporation Financial and Compliance Audit Report For the Year Ended June 30, 2017. www.comptroller.tn.gov/sa/AuditReportCategories.asp

¹² Millonzi, K. (2018, June 26). Needs-based public school capital fund [Blog post]. Retrieved from <https://canons.sog.unc.edu/needs-based-public-school-capital-fund/>

¹³ Education Reform Commission, Recommendations from Sub-Committees to full Committee.

https://gov.georgia.gov/sites/gov.georgia.gov/files/related_files/site_page/Sub%20Committee%20Final%20Recommendations%20Working%20Document%20111815%20%282%29.pdf

¹⁴ Georgia Department of Revenue, Georgia Sales and use Tax Rate Chart. <https://dor.georgia.gov/documents/sales-tax-rate-charts>