
North Carolina Education Lottery Funding

Key Takeaways

- Proceeds from the North Carolina Education Lottery (Lottery) support four separate education programs
- Lottery revenues have not met projections so actual 2006-07 education distributions were well below appropriation
- Local effort component of school construction formula provides support only to those LEAs over Statewide average

Purpose/Eligibility

- Lottery provides support to counties for educational purposes, such as:
 - More at Four (Pre-K)
 - Class Size Reduction (K-3)
 - School Construction (Pre-K-12)
 - College Scholarships (Postsecondary)
- Eligibility
 - Pre-K-12 resources provided to Counties
 - Scholarship funds earmarked for needy students

Determining Lottery Funds for Education

- Statute set guidelines for allocating revenues:
 - 50% for Prizes
 - 35% for Education Programs
 - 15% for Administrative Costs (8%) & Retailers (7%)
- It also created a Lottery Reserve Fund
 - Fully funded at \$50 million from 1st year revenues
- Budget office allocates public school program funds to DPI and scholarship funding to the State Education Assistance Authority (NCSEAA)
 - DPI and NCSEAA administer Lottery funding

Allocation of Education Funding

35% of Total Lottery Revenues

- 50% for More-at-Four and Class Size Reduction
 - Particular amounts for each activity not specified
- 40% for Public School Construction
 - 65% based on Average Daily Membership (ADM)
 - 35% based on “local effort”
- 10% for Scholarships for Needy Students

Funding Availability

- General Assembly appropriates annual funding levels for Lottery proceeds
 - Based on estimates of availability from State Budget and Fiscal Research
- Use of Education Lottery Reserve
 - If available revenues fall below the appropriated amounts, the Governor may transfer an amount from the Reserve to equal the appropriation
- When revenues exceed appropriation
 - 50% to Public School Building Capital Fund and 50% to NCSEAA for scholarships

2006-07 Appropriations vs. Allocations

Education Programs:	FY 2006-07 Appropriations	FY 2006-07 Allocations	Allocation % of Appropriations
Class Size Reduction	127.9 M	78.1 M	61%
More at Four Prekindergarten	84.6 M	84.6 M	100%
Public School Construction	170.0 M	130.2 M	77%
Scholarships for Needy Students	42.5 M	32.7 M	77%
Total	\$425.0 M	\$325.6M	77%

NOTE: G.S. 18C-164 provides flexibility between Class Size Reduction and More at Four allocations as long as combined funding total is 50% of all education revenues

What is the outlook for FY 2007-08?

- Education Program Appropriations

Education Programs:	FY 2007-08 Appropriations
Class Size Reduction	90.4 M
More at Four Prekindergarten	84.6 M
Public School Construction	140.0 M
Scholarships for Needy Students	35.0 M
Total	\$350.0 M

- Education Program Transfers

- 1st Quarter education transfers were \$79.9 million
- At this pace, total transfers would be \$30 million below appropriation
- Lottery public school appropriations are approximately 4% of all 2007-08 total State public school funding

Lottery School Construction Funding

- Only Lottery program with a two-tiered formula
 - 65% of funds distributed by ADM
 - 35% of funds distributed by “local effort”
- “Local Effort” Funding
 - Construction funds are 40% of education transfers
 - % of Lottery total funding: $40\% \times 35\% = \boxed{14\%}$
- Public School Building Capital Fund
 - Both ADM and local effort funds distributed through PSBCF and are subject to most of its rules
 - Only differences: No required match and funds can’t be used for technology

School Construction Formula

FY 2007-08 Projected Lottery Transfers

- Overall total funding estimated at \$350M
- Allocate 40% for construction→\$140M
- ADM Funding: 65% of \$140M → \$91M
distributed to Counties based on student count
- Local Effort Funding: 35% of \$140M → \$49M

Lottery School Construction--Local Effort

Allotment Formula

- Three steps to determine eligibility:
 1. Determine “effective county tax rate” (ECTR)
 2. Compare ECTR to Statewide average and if $ECTR > 100\%$ of the Statewide average then LEA is eligible
 3. Distribute funds on behalf of all eligible LEAs based on ADM

School Construction Allotment Formula

Step 1: Determine Effective County Tax Rate

- What is a Real Estate Assessment Sales Ratio?
 - Measure of the assessed value of property compared to the selling price of property
$$= \frac{\text{Assessed Value}}{\text{Selling Price}}$$
 - Result is a percentage, usually below 100%, as sales values are typically greater than assessed values
- Why use the Real Estate Assessment Sales Ratio?
 - Factors in property tax base as well as property tax rates
 - Does not disadvantage counties with lower tax rates but property valuations closer to true market value

Step #1 Continued

LEA Name	Real Estate Assessment Sales Ratio			Property Tax Rates Year of latest revaluation	Weighted Sales Assessment Ratio
	2004	2005	2006		
Chatham County	0.8976	1.0000	0.9753	2005	0.9835
Cherokee County	0.9686	0.8188	0.7480	2004	0.8084
Chowan County	0.8168	0.7278	1.0000	2006	1.0000

- WSAR calculation based on latest year of reevaluation
 1. 2006: $WSAR = 2006 \text{ Ratio (Chowan)}$
 2. 2005: $WSAR = 1/3 \text{ 2005 Ratio} + 2/3 \text{ 2006 ratio (Chatham)}$
 3. 2004 or prior: $WSAR = 1/6 \text{ 2004 Ratio} + 2/6 \text{ 2005 Ratio} + 3/6 \text{ 2006 Ratio (Cherokee)}$

Step #1 Continued

LEA Name	Sales Assessment Ratio	Property Tax Rates 2006-07	Effective County Tax Rates
Chatham County	0.9835	0.5970	0.5870
Cherokee County	0.8084	0.5200	0.4200
Chowan County	1.0000	0.5450	0.5450

$$\begin{array}{|c|} \hline \text{Weighted} \\ \text{Sales} \\ \text{Assessment} \\ \text{Ratio} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Property Tax} \\ \text{Rate} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Effective} \\ \text{County Tax} \\ \text{Rate} \\ \hline \end{array}$$

School Construction Allotment Formula

Step 2: Compare LEA's ECTR to State Average

LEA Name	Effective County Tax Rates	% of State Avg Effective Tax Rate	Eligible?
Chatham County	0.5870	101.91%	Yes
Cherokee County	0.4200	72.92%	No
Chowan County	0.5450	94.62%	No
State Average			
Effective Tax Rate	0.5760		

**State Average =
Average of all
County ECTRs**

School Construction Allotment Formula

Step 3: Distribute Funds to Eligible LEAs

- Calculate Total ADM for all eligible LEAs and divide by available funds to derive funding factor

$$\begin{array}{|c|} \hline \text{35\% Fund:} \\ \text{\$49,000,000} \\ \hline \end{array} \div \begin{array}{|c|} \hline \text{Total eligible} \\ \text{ADM: 859,729} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Funding Factor} \\ \text{(\$/ADM):} \\ \text{\$56.99} \\ \hline \end{array}$$

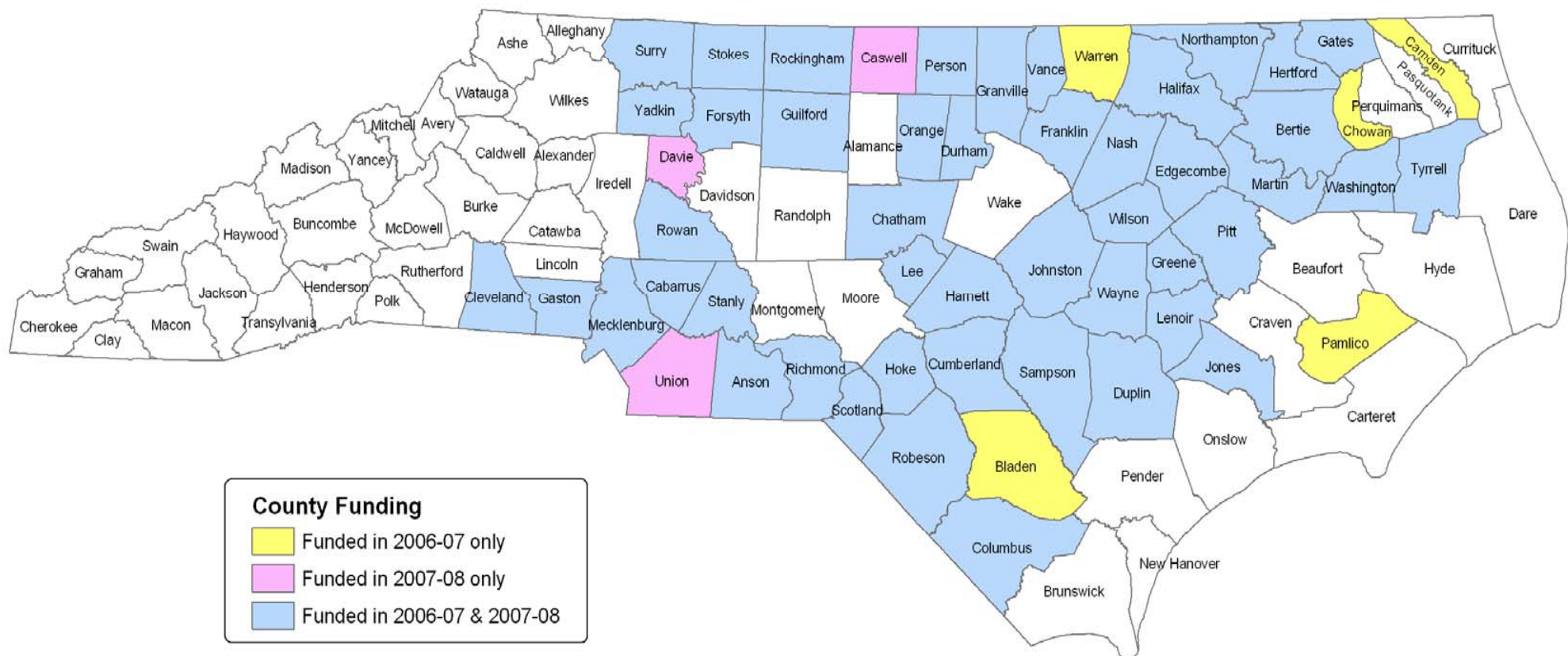
- Chatham County Funding Calculation:

$$\begin{array}{|c|} \hline \text{Chatham Cty.} \\ \text{ADM: 7,724} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Funding} \\ \text{Factor: \$56.99} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Chatham 2007-} \\ \text{08 Funding:} \\ \text{\$440,227} \\ \hline \end{array}$$

- Funding estimate based on Lottery appropriation and is subject to change if actual revenues fall below this level

LEAs receiving “35% Pot” Funding

EDUCATION LOTTERY - SCHOOL CONSTRUCTION 35% FUNDING



35% Formula Issues to Consider

- Local Effort is measured against a State average
 - Guarantees winners and losers
- Variability
 - Data is updated every year
 - Inclusion or exclusion of a county with high ADM can produce substantial funding decrease/increase
 - No hold harmless provision
- Proposed Changes (Introduced Bills)
 - Distribute all funding 100% by ADM
 - Use high growth and low wealth elements in formula

2007 Legislative Change to Lottery

- S.L. 2007-323 Change
 - Added flexibility to Lottery revenue distribution, “...*in order to increase and maximize the available revenues for education purposes...*”
 - Commission may set prize percentage over 50% as long as change will increase total net education transfers

EXAMPLE:

FY 2006-07 actual: $\$930\text{M} \times 35\% = \325M

Flexible Percentage: $\$1,000\text{M} \times 33\% = \330M

Net Change: +\$5 million

****Percentage transferred to education could be lower but provide greater total funding**

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Questions to Consider

- School Construction Funding
 - What is the goal of the current funding distribution?
 - Does formula optimally direct funding to meet goal?
 - Should other factors such as growth, capacity, or capital efficiency be considered?
 - Is a hold harmless provision warranted to address funding volatility?