

**REPORT ON LOTTERY EXPENDITURES  
FOR K-12 EDUCATION, 2006-07**

**A Report to the Governor and the Legislature  
as required by Control Section 24.60  
of the 2007 Budget Act**

**California Department of Education  
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Sacramento, California  
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# REPORT ON LOTTERY EXPENDITURES FOR K-12 EDUCATION, 2006-07

## Reporting Requirement

Control Section 24.60 of the 2007 Budget Act requires the California Department of Education (CDE) to collect and report to the Governor and the Legislature the amount of lottery funds received by kindergarten through grade twelve (K-12) entities in 2006-07 and the purposes for which those funds were expended.

Historically, the CDE has been required to survey a representative sample of 100 local educational agencies (LEAs), including county offices of education and K-12 school districts, to determine how lottery revenues were utilized during the fiscal year.

However, starting in fiscal year 2003-04, all LEAs in the state, with the exception of some charter schools, submitted their financial data to the CDE using the standardized account code structure (SACS). Charter schools are not required to report their financial data using SACS. Because SACS has been implemented statewide and provides much more detailed information on LEA revenues and expenditures, we are now able to report how nearly all LEAs, rather than just a sampling of LEAs, spent their lottery funds, and we are able to do so at a much more refined level.

## Types of Lottery Funds

### PROPOSITION 37

In November 1984, California's voters passed Proposition 37, the California State Lottery Act of 1984, as a means to benefit public education without the imposition of additional or increased taxes. Proposition 37 requires that at least 34 percent of the total lottery revenues are allocated to LEAs for the benefit of public education.

*Government Code* provisions established to implement Proposition 37 require that each school district and county superintendent of schools establish a separate account for the receipt and expenditure of lottery funds. They further specify that lottery funds shall be used exclusively for the education of pupils and no funds shall be spent for acquisition of real property, construction of facilities, financing of research, or any other non-instructional purpose. Except for the limitations discussed above, Proposition 37 lottery funds are essentially unrestricted, and are referred to as general purpose lottery funds in this report to distinguish them from the more recently established and restrictive Proposition 20 instructional materials lottery funds.

## PROPOSITION 20

In March 2000, California voters passed Proposition 20, the “Cardenas Textbook Act of 2000.” Proposition 20 provides that, beginning in fiscal year 1998-99, 50 percent of the increase in lottery funds for education over the 1997-98 fiscal year amount must be allocated to school districts and community colleges for the purchase of instructional materials. Because the use of these funds is more restrictive, Proposition 20 funds are tracked separately from Proposition 37 general purpose lottery funds.

### **Lottery Expenditures**

During fiscal year 2006-07, LEAs reported lottery expenditures totaling \$953,865,844. Of this amount, \$802,511,971 was general purpose lottery expenditures. The remaining \$151,353,873 was instructional materials expenditures pursuant to Proposition 20.

The appendices show what goods and services were purchased with the lottery funds, as well as what types of activities were performed, for both the general purpose and the instructional materials lottery funds. Appendix A provides the Budget Act requirement. Appendices B and C provide definitions of the cost categories listed. Appendices D and E provide summaries of all lottery expenditures in both percents and dollars.

### **Comparison to Historical Data**

Our lottery expenditure reports for years previous to 2003-04 included data from a representative sample of 100 LEAs. The LEAs were randomly selected within size, grade span, type, and geographical dispersion. Since the larger LEAs represented a disproportionate share of the average daily attendance (ADA) within the survey, the results were more representative of the larger LEAs. Consequently, the CDE weighted the results so that sampled lottery expenditures were more reflective of the total statewide lottery expenditure patterns. However, the weighted historical expenditures showed a consistent trend where a significant portion of expenditures were for salaries and benefits.

<u>Fiscal Year</u>	<u>Percent Spent on Salaries and Benefits (Surveyed LEAs)*</u>	<u>Percent Spent on Salaries and Benefits (Statewide Data)**</u>
1996-97	75.6	-
1997-98	69.0	-
1998-99	77.0	-
1999-00	79.0	-
2000-01	55.8	-
2001-02	64.6	-
2002-03	65.0	-
2003-04	-	63.5
2004-05	-	64.9
2005-06	-	64.2
2006-07	-	61.3

\* For fiscal years 1996-97 through 2002-03, the CDE calculated lottery expenditure percentages for the 100 surveyed LEAs and weighted them by enrollment. The expenditures were weighted by enrollment to derive data that were more representative of statewide lottery expenditures.

\*\* Beginning in 2003-04, statewide data were included for all LEAs that reported the data using SACS. The statewide financial data does not include data for charter schools that reported on the Alternative Form, rather than in SACS, as the Alternative Form does not provide sufficient detail to identify lottery expenditures.

The data reported under the current and the previous methods are fairly consistent.

### **Conclusion and Comments**

The 2006-07 data show that LEAs continue to spend a significant portion (61.3 percent) of the combined lottery funds on salaries and benefits. Even though lottery expenditures equal less than 2 percent of the total K-12 expenditures, to the extent lottery funding declines, LEAs would have to absorb on-going costs, such as salaries and benefits, with funds from other areas of LEA budgets.

It is important to note that because LEAs have varying spending patterns, the expenditure percentages cited in this report should not be applied to any specific LEA.

**Attachments:**

- Appendix A: Budget Act of 2007, Section 24.60
- Appendix B: Object of Expenditure Categories Used in LEA Accounting and Reporting
- Appendix C: Activity Categories Used in LEA Accounting and Reporting
- Appendix D: Percent of Lottery Expenditures by Object of Expenditure Categories for all LEAs
- Appendix E: Percent of Lottery Expenditures by Activity Categories for all LEAs

## **Budget Act of 2007**

### **Section 24.60**

Each state entity receiving lottery funds shall annually report to the Governor and the Legislature on or before May 15 the amount of lottery funds that the entity received and the purposes for which those funds were expended in the prior fiscal year, including administrative costs. The State Department of Education shall report on behalf of K-12 entities. If applicable, the entity shall also report the amount of lottery funds received on the basis of adult education average daily attendance (ADA) and the amount of lottery funds expended for adult education.

**Object of Expenditure Categories  
Used in LEA Accounting and Reporting**

Certificated Personnel Salaries	1000	Salaries of teachers and other employees in positions requiring credentials
Classified Personnel Salaries	2000	Salaries of all employees other than those in positions requiring credentials
Employee Benefits	3000	Benefits of all employees; sub-accounts distinguish between certificated and classified employees
Books and Supplies	4000	All books and supplies
Services and Other Operating Expenditures	5000	Professional and consulting services, travel and conferences, insurance, and other miscellaneous expenditures
Capital Outlay	6000	Sites, buildings, equipment, and the initial complement of books for a new school; includes replacement of equipment
Other Outgo and Other Financing Uses	7000	Tuition, transfers to other educational agencies or to non-LEAs

### Activity Categories Used in LEA Accounting and Reporting

Instruction	1000	Activities dealing directly with the interaction between teachers and students
Instruction-Related Services	2000	Activities providing administrative, technical, and logistical support to facilitate and enhance instruction
Pupil Services	3000	Activities providing student services such as guidance and counseling, psychological, attendance and social work, health, speech pathology and audiology, pupil testing, and pupil transportation
Ancillary Services	4000	School-sponsored activities during and after the school day that are not essential to instruction, such as school sponsored cocurricular or athletic activities
Community Services	5000	Activities providing community services to community participants other than students
Enterprise	6000	Activities financed and operated in a manner similar to private business
General Administration	7000	Agencywide administrative activities such as board and superintendent, fiscal services, payroll, personnel, purchasing, and data processing
Plant Services	8000	Activities related to keeping the schools open, comfortable, and safe for use, such as maintenance and operations, facility acquisition and construction, rents and leases
Other Outgo	9000	Debt service, transfers between agencies, and interfund transfers
Unspecified	--	Contributed to and spent in other programs; LEAs report these expenditures by object code but not by activity category.

**Percent of Lottery Expenditures by  
Object of Expenditure Categories for all LEAs**

Object of Expenditure Categories	<u>Proposition 37</u>		<u>Proposition 20</u>		<u>Combined</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Certificated Personnel Salaries	\$411,632,558	51.29%	\$1,806	0.00%	\$411,634,364	43.16%
Classified Personnel Salaries	63,369,195	7.90%	0.00	0.00%	63,369,195	6.64%
Employee Benefits	<u>110,066,576</u>	<u>13.71%</u>	<u>325</u>	<u>0.00%</u>	<u>110,066,901</u>	<u>11.54%</u>
Subtotal – Salaries and Benefits	\$585,068,329	72.90%	\$2,131	0.00%	\$585,070,460	61.34%
Books and Supplies	87,290,640	10.88%	142,236,642	93.98%	229,527,282	24.06%
Services and Other Operating Expenditures	117,073,207	14.59%	8,159,581	5.39%	125,232,788	13.13%
Capital Outlay	6,968,291	0.87%	124,476	0.08%	7,092,767	0.74%
Other Outgo and Other Financing Uses	<u>6,111,504</u>	<u>0.76%</u>	<u>831,043</u>	<u>0.55%</u>	<u>6,942,547</u>	<u>0.73%</u>
Total Expenditures	<u>\$802,511,971</u>	<u>100.00%</u>	<u>\$151,353,873</u>	<u>100.00%</u>	<u>\$953,865,844</u>	<u>100.00%</u>

### Percent of Lottery Expenditures by Activity Categories for all LEAs

Activity Categories	<u>Proposition 37</u>		<u>Proposition 20</u>		<u>Combined</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Instruction	\$528,069,073	65.80%	\$145,952,123	96.43%	\$674,021,196	70.66%
Instruction- Related Services	66,157,720	8.24%	3,667,319	2.42%	69,825,039	7.32%
Pupil Services	46,292,709	5.77%	784,180	0.52%	47,076,889	4.94%
Ancillary Services	19,337,098	2.41%	96,714	0.06%	19,433,812	2.04%
Community Services	510,878	0.06%	22,240	0.02%	533,118	0.05%
Enterprise	496,586	0.06%	--	0.00%	496,586	0.05%
General Administration	34,312,944	4.28%	12,143	0.01%	34,325,087	3.60%
Plant Services	39,834,268	4.96%	254	0.00%	39,834,522	4.18%
Other Outgo	4,711,147	0.59%	818,900	0.54%	5,530,047	0.58%
Unspecified	62,789,548	7.83%	--	0.00%	62,789,548	6.58%
Total Expenditures	<u>\$802,511,971</u>	<u>100.00%</u>	<u>\$151,353,873</u>	<u>100.00%</u>	<u>\$953,865,844</u>	<u>100.00%</u>