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*California's protection and advocacy system*

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**Disability Rights California Supports Proposition 1C  
April 2009**

**Background:**

Proposition 37 (enacted in 1984) authorized the creation of the California State Lottery. Proposition 37 directs the amount of income to go to operating expenses and payout, and requires that any profits go directly to public education entities. It also requires that 50 percent of these funds be returned to lottery players as prizes.

Currently, the lottery may spend no more than 16 percent of its ticket sales on lottery operating expenses. The law dedicates lottery profits—the funds remaining after payment of prizes and lottery operating expenses—to educational institutions. Payments to educational institutions must equal at least 34 percent of the funds generated from lottery ticket sales each year. Over the years, lottery payments have made up a small portion of the overall education funding and this funding has grown slowly over time, slightly less than the rate of inflation.

State officials have no ability to use lottery funds to help balance the General Fund budget. Lottery profits benefit educational institutions and are paid directly to schools, community colleges, and universities. The state also has no ability to borrow from future lottery profits.

**This Proposition:**

This measure modifies both the State Constitution and other state laws. It makes major changes in lottery operations, including increased prize payouts and other allowed uses of lottery funds. If voters approve this measure, the state would be able to borrow from future lottery profits to receive a large payment or payments now from investors. Future lottery profits would be used to repay the investors—with interest—over time. There is no limit in the measure on how much state officials may borrow.<sup>1</sup>

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<sup>1</sup> [http://www.lao.ca.gov/ballot/2009/1C\\_05\\_2009.aspx](http://www.lao.ca.gov/ballot/2009/1C_05_2009.aspx)

Lottery profits not needed to pay off lottery borrowing would be used by the Legislature to pay the following state expenses:

- Debt-service costs on bonds issued by the state to fund roads, schools, prisons, and other infrastructure projects.
- Debt-service costs on Economic Recovery Bonds approved by voters in Proposition 57 in 2004 to address state budget deficits from earlier in this decade
- Other debts incurred by the General Fund (such as amounts borrowed from other state funds) to help address budgetary shortfalls, as well as other General Fund budgetary obligations.

The state budget plan for 2009-10—approved by the Legislature and the Governor in February 2009—relies on the passage of this Proposition and the state receiving \$5 billion from lottery borrowing. In addition, if this measure passes, it allows future income of the lottery to go to the state's general fund instead of going directly to education, as the law currently requires.

- Lost education funding would be made up by increased payments from the general fund, in an approximately equal amount to what lottery profits would have been.
- The amount would be adjusted annually in line with pupil attendance and the cost of living. The money would be paid in addition to the Proposition 98 minimum guarantee.

**Analysis:**

If voters approve this measure, lottery profits probably would increase by hundreds of millions of dollars per year compared to current law because increased prize payouts would likely increase ticket sales. In addition, schools, community colleges, and universities would no longer receive payments from the lottery. Instead, these institutions would receive higher payments from the state General Fund. The payments would grow over time—likely faster and in a more consistent way than the schools' existing lottery payments.

This measure would allow the state to borrow \$5 billion from future lottery profits in 2009-10 to help balance the 2009-10 state budget. The measure

also would allow more borrowing from lottery profits in the future. While questions exist how education will be funded in the future because there may not be enough general fund dollars available in the future to balance future budgets, the February 2009 budget plan assumes that the state would receive \$5 billion from future lottery profits in 2009–10 and the \$5 billion is necessary in order for the 2009–10 budget to be in balance. Therefore, if voters reject Proposition 1C, the Legislature and the Governor probably will have to agree to billions of dollars of other solutions, which will result in additional, deeper cuts, to critical programs that serve individuals with disabilities.

**Position of Others:**

**Support:**

California Teachers Association  
California Chamber of Commerce  
California Peace Officers Association  
California State Conference of NAACP

**Oppose:**

California Federation of Teachers  
California Nurses Association  
AFSCME