**California Department of Education**

# Report to the Governor, the Legislature, and the Legislative Analyst’s Office: Report on Lottery Expenditures for Kindergarten through Grade Twelve Education, Fiscal Year 2016–17



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*Description*: Report on Lottery Expenditures for Kindergarten through Grade Twelve Education, Fiscal Year 2016–17

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## Executive Summary

Control Section 24.60 of the 2016 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 2016–17 and the purposes for which those funds were expended.

The 2016–17 data show that local educational agencies (LEAs) continue to spend a significant portion (53.1 percent) of their lottery funds on salaries and benefits. Even though expenditures from lottery funds equal less than 2 percent of the total K–12 expenditures, to the extent lottery funding declines, LEAs would have to absorb ongoing costs, such as salaries and benefits, with funds from other areas of LEAs' budgets.

You can find this report at the CDE Finance and Grants Reports Web page at <https://www.cde.ca.gov/fg/fr/>. If you need a copy of this report, please contact the Financial Accountability and Information Services Office by phone at 916-322-1770 or by email at sacsinfo@cde.ca.gov.

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## Reporting Requirement

Control Section 24.60 of the 2016 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 2016–17 and the purposes for which those funds were expended.

### 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. California *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 2016–17, LEAs reported lottery expenditures totaling $1,161,321,707. Of this amount, $869,662,664 was spent on general purpose lottery expenses. The remaining $291,659,043 was spent on instructional materials from Proposition 20 funds.

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 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. The weighted historical expenditures showed a consistent trend where a significant portion of expenditures were for salaries and benefits.

* 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 the Standardized Account Code Structure (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.

| **Fiscal Year** | **Percent Spent on Salaries and Benefits\*** |
| --- | --- |
| 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 |
| 2007–08 | 61.3 |
| 2008–09 | 63.1 |
| 2009–10 | 64.1 |
| 2010–11 | 64.1 |
| 2011–12 | 63.6 |
| 2012–13 | 62.1 |
| 2013–14 | 61.3 |
| 2014–15 | 57.9 |
| 2015–16 | 54.3 |
| 2016­–17 | 53.1 |

### Conclusion and Comments

The 2016–17 data show that LEAs continue to spend a substantial portion (53.1 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 that lottery funding might decline, LEAs would have to absorb ongoing 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.

Appendix A

## Budget Act of 2016Section 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 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.

Appendix B

## Object of Expenditure Categories Used in Local Educational Agencies Accounting and Reporting

| **Title** | **Code** | **Definition** |
| --- | --- | --- |
| 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 |

Appendix C

## Activity (Function) Categories Used inLocal Educational Agencies Accounting and Reporting

| **Title**  | **Code**  | **Definition** |
| --- | --- | --- |
| 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, and rents and leases |
| Other Outgo | 9000 | Debt service, transfers between agencies, and interfund transfers |
| Unspecified | Not applicable | Contributed to and spent in other programs; LEAs report these expenditures by object code but not by activity category |

Appendix D

## Percent of Lottery Expenditures by  Object of Expenditure Categories for all Local Educational Agencies

| **Object of Expenditure Categories** | **Proposition 37 Amount** | **Proposition 37 Percent** | **Proposition 20 Amount** | **Proposition 20 Percent** | **Combined Amount** | **Combined Percent** |
| --- | --- | --- | --- | --- | --- | --- |
| Certificated Personnel Salaries | $427,790,153 | 49.19% | $0 | 0.00% | $427,790,153 | 36.84% |
| Classified Personnel Salaries | 58,975,947 | 6.78% | 5,449 | 0.00% | 58,981,396 | 5.08% |
| Employee Benefits | 130,095,922 | 14.96% | 711 | 0.00% | 130,096,633 | 11.20% |
| Subtotal –– Salaries and Benefits | $616,862,022 | 70.93% | $6,160 | 0.00% | $616,868,182 | 53.12% |
| Books and Supplies | 123,453,301 | 14.20% | 272,134,900 | 93.31% | 395,588,201 | 34.06% |
| Services and Other Operating Expenditures | 124,231,140 | 14.28% | 19,065,456 | 6.54% | 143,296,596 | 12.34% |
| Capital Outlay | 3,518,002 | 0.41% | 38,861 | 0.01% | 3,556,863 | 0.31% |
| Other Outgo and Other Financing Uses  | 1,598,199 | 0.18% | 413,666 | 0.14% | 2,011,865 | 0.17% |
| Total Expenditures | $869,662,664 | 100.00% | $291,659,043 | 100.00% | $1,161,321,707 | 100.00% |

Appendix E

## Percent of Lottery Expenditures by Activity (Function) Categories for all Local Educational Agencies

| **Activity (Function) Categories** | **Proposition 37 Amount** | **Proposition 37 Percent** | **Proposition 20 Amount** | **Proposition 20 Percent** | **Combined Amount** | **Combined Percent** |
| --- | --- | --- | --- | --- | --- | --- |
| Instruction | $602,401,841 | 69.27% | $286,944,199 | 98.38% | $889,346,040 | 76.58% |
| Instruction Related Services | 45,024,007 | 5.18% | 2,272,523 | 0.78% | 47,296,530 | 4.07% |
| Pupil Services | 60,330,922 | 6.94% | 1,221,560 | 0.42% | 61,552,482 | 5.30% |
| Ancillary Services | 27,198,735 | 3.13% | 1,271 | 0.00% | 27,200,006 | 2.34% |
| Community Services | 206,158 | 0.02% | 1,027 | 0.00% | 207,185 | 0.02% |
| Enterprise | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |
| General Administration | 36,033,410 | 4.14% | 773,439 | 0.27% | 36,806,849 | 3.17% |
| Plant Services  | 41,300,450 | 4.75% | 31,357 | 0.01% | 41,331,807 | 3.56% |
| Other Outgo | 1,784,926 | 0.20% | 413,667 | 0.14% | 2,198,593 | 0.19% |
| Unspecified | 55,382,215 | 6.37% | 0 | 0.00% | 55,382,215 | 4.77% |
| Total Expenditures | $869,662,664 | 100.00% | $291,659,043 | 100.00% | $1,161,321,707 | 100.00% |