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## Q&A: How the lottery proposal would work

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Gov. Arnold Schwarzenegger is proposing to borrow against lottery proceeds to help address the state's budget problems. Here's a quick look at the plan:

**Q:** How would the borrowing work?

**A:** The state would seek investors to lend \$15 billion secured by future earnings from lottery games the state hopes would be improved and more lucrative. Investors would be repaid from lottery funds over 32 years.

**Q:** What would the state do with the money?

**A:** It would go into a rainy day fund the governor hopes to create in a separate ballot measure. About \$5.1 billion could be used to help balance the budget for the fiscal year beginning July 1. The rest could be used over the next two years.

**Q:** How would the games change?

**A:** The games themselves probably wouldn't change much, but the lottery's current rules would be changed to allow broader promotion, bigger and more frequent prize payouts and other incentives to create more player interest.

**Q:** What would happen to the money for schools?

**A:** Under the proposal, the amount schools get would be capped at what they have received in recent years – about \$1.2 billion a year of the \$3.3 billion in total lottery revenues. The \$1.2 billion is not guaranteed, however, as the investors must be paid first from lottery proceeds under the deal. Finance Director Mike Genest acknowledged the schools would have "some risk, but we don't think it's a practical problem."

As for the \$1.2 billion-a-year cap, Genest said, "Lottery revenues aren't growing much anyway so (schools) aren't giving up much there. The lottery has never been a boon to schools."

**Q:** Do I have to vote on it?

**A:** Yes. Voters will have to approve a November ballot measure to change the state constitution, which currently says 34 percent of lottery revenues – the amount left after paying prizes and overhead – must go to schools.

**Q:** What would happen if the ballot measure didn't pass?

**A:** A temporary 1-cent sales tax increase would be triggered in 2009 for up to three years to raise the \$15 billion for the rainy day fund.

**Q:** What would happen after three years?

**A:** The tax would end. The proposal assumes the economy will have improved enough by then to feed the rainy day fund in good years, as Schwarzenegger has proposed in his budget reform measure. After the tax ends, taxpayers would get a full rebate using a formula yet to be determined.

**Q:** What if the state couldn't sell the bonds?

**A:** The administration says it's confident there will be a market on Wall Street for them. Similar bonds have been sold by the state and counties since 2000 that allow governments to raise money now and pay it back with future revenues it collects from the huge settlement between states and the tobacco industry.

**Q:** How would the "rainy day" fund be used?

**A:** The administration is still negotiating and may have specifics by next week. But the basic idea is twofold: The governor would have more power to make midyear cuts, and the rainy day fund would accumulate money in good years for use in bad years to even out the ups and downs of the economy. Because the state is experiencing a down period now, the fund would be jump-started with the \$15 billion from the lottery transaction.

**Q:** Who will oppose this on the ballot?

**A:** It's too early to say for sure, but Indian tribes with casinos may not be thrilled with increased competition from the lottery, and teachers unions fear the budget reform measure would put future school funding at risk. Both groups have a history of spending whatever it takes to have their way on the ballot.

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