State appropriations for higher education have decreased considerably over the past few decades. Concurrently, states began earmarking portions of their lottery revenues towards higher education funding. However, limited research is available to address the effects of these state lottery earmarks on actual appropriations to higher education. To address this gap, researchers at Miami University Oxford, East Tennessee State University, and Salus University examined twenty years of state funding data to determine these effects.

The authors found that state lottery earmarks supplement, rather than supplant, state funding for higher education (see figure). On average, appropriations increased by 5% in the year following state lottery earmarks. Lottery earmarks also have a large, and positive effect on merit-based financial aid (135% increase).

However, there is a strong, negative relationship between state lottery earmarks and need-based aid. In fact, after the implementation of lottery earmarks to higher education, states reduced need-based aid by approximately 12 percent. Given substantial evidence supporting the benefits of need-based aid as an important component for college access and success for underrepresented groups, these findings suggest there could be serious negative consequences for supplanting need-based aid to support merit-based aid.