

SENATE OF VIRGINIA

Senate Finance Committee

Update on Lottery-Funded Education Programs

June 23, 2015



SENATE FINANCE COMMITTEE

Overview

Update on Lottery-Funded Education Programs

- Per the 2000 amendment to the Constitution of Virginia, all Lottery Proceeds (after prize payouts and operating costs) continue to be used to fund public education.
- At \$532 million, Lottery Proceeds comprise about 8 percent of the \$6.45 billion total state Direct Aid to Public Education for FY 2016 (Ch. 665).
- In recent years, the mix of specific programs paid from this funding source has changed substantially.
 - In FY 2008 and prior, the only programs supported with Lottery Proceeds were part of SOQ costs; and a per pupil Lottery funding account.
 - For FY 2009, 11 “incentive” programs, including “Additional Support for School Construction and Operating Costs,” were chosen for “best fit.”
 - Since then, during the Great Recession the balancer account was zeroed out and some SOQ costs are again being funded with Lottery Proceeds, and additional Lottery Proceeds amounts have been used to offset GF.
 - For FY 2016, 19 different Direct Aid programs are funded, no longer including any direct funding of capital or debt service costs.



Constitution of Virginia

Article X. Taxation and Finance

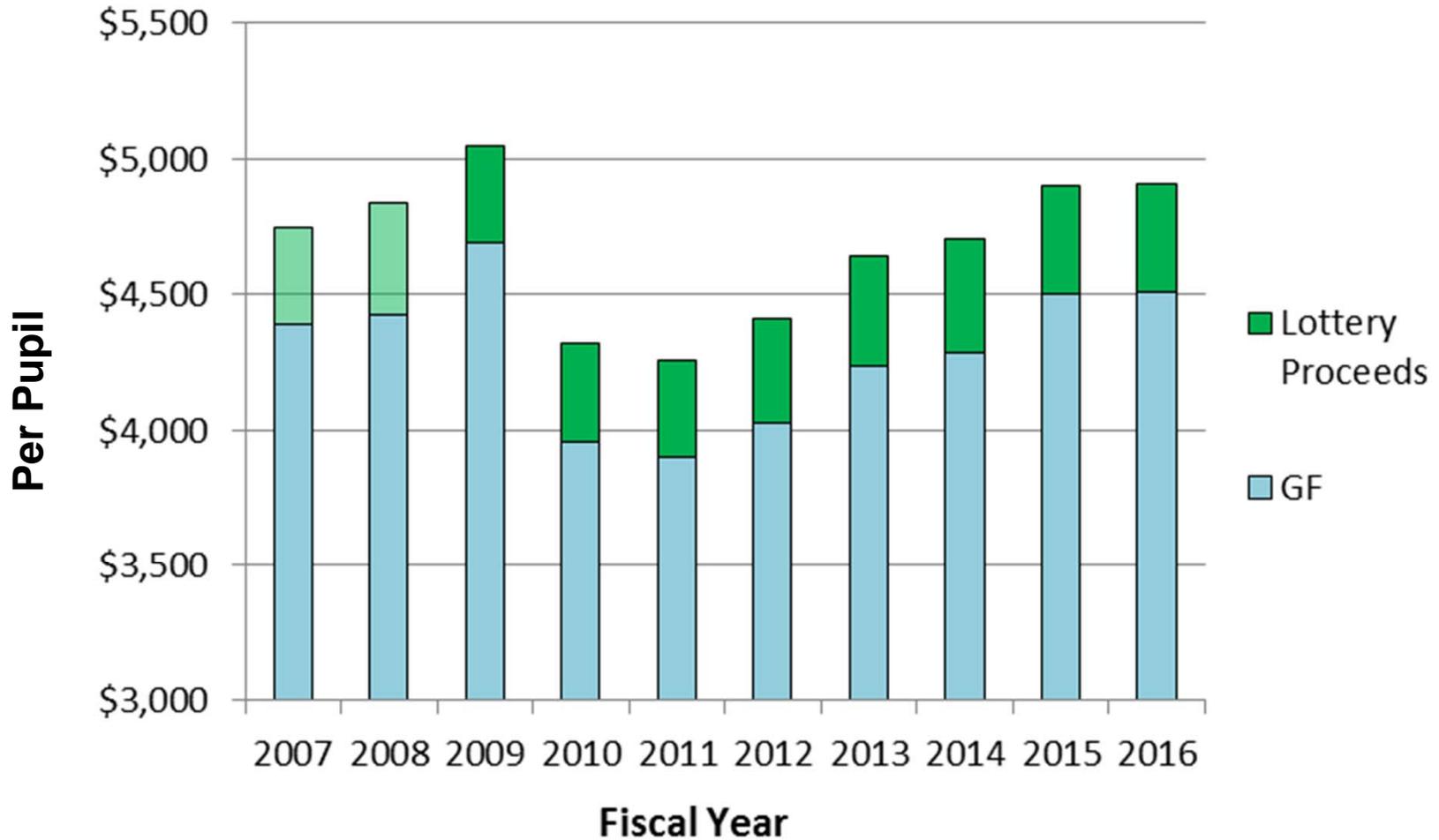
Section 7-A. Lottery Proceeds Fund; distribution of lottery revenues

- The General Assembly shall establish the Lottery Proceeds Fund. The Fund shall consist of the net revenues of any lottery conducted by the Commonwealth. Lottery proceeds shall be appropriated from the Fund to the Commonwealth's counties, cities and towns, and the school divisions thereof, to be expended for the purposes of public education.
- Any county, city, or town which accepts a distribution from the Fund shall provide its portion of the cost of maintaining an educational program meeting the standards of quality prescribed pursuant to Section 2 of Article VIII of this Constitution without the use of distributions from the Fund.
- The General Assembly shall enact such laws as may be necessary to implement the Fund and the provisions of this section.
- The General Assembly may appropriate amounts from the Fund for other purposes only by a vote of four-fifths of the members voting in each house, the name of each member voting and how he voted to be recorded in the journal of the house.

The amendment ratified November 7, 2000 and effective July 1, 2001—Added a new section (7-A).



Lottery Proceeds Plus GF for Direct Aid to Public Education



FY 2008 and Prior

- Initially, approximately 60 percent of the Lottery Proceeds were used to fund a portion of the state's SOQ Basic Aid costs and the remaining approximately 40 percent was distributed based on a calculated per pupil amount and the composite index.
- As of FY 2008, there were three programs supported by the Lottery Proceeds.
 - \$19.5 million “off the top” for SOQ prevention, intervention, and remediation (Lottery was added as a funding source for this in FY 2005 when a formula change was made);
 - Approximately 60% of the remaining Lottery revenue was used to pay a portion of the state's share of Basic Aid (approximately \$285 million as of the 2008 introduced budget); and
 - The balance of the Lottery revenue was distributed based on a per pupil amount and the composite index (approximately 40%, or \$149 million as of the 2008 introduced budget).
 - At least half of that amount must be used for non-recurring costs, such as capital or debt service costs.



2008 Session Changes

- During the 2008 Session, concerns were raised about the flow of Lottery Proceeds dollars intermingling with GF.
 - As a result, accounting and budgetary changes were made, including a major shift in the programs funded from Lottery Proceeds, so that they would come to localities through a number of non-SOQ programs that would allow distributions from the Fund to occur after January 15th of the each year.
- **From 3 programs to 11.** In FY 2009, lottery funds were distributed directly to school divisions for 11 programs:
 - Remedial Summer School, Foster Care, Enrollment Loss, At-Risk, VPI, Early Reading Intervention, Mentor Teacher, K-3 Class Size Reduction, School Breakfast, SOL Algebra Readiness, and Additional Support for School Construction and Operating Costs account.
 - Like the previous “per pupil” Lottery funding, the Additional Support for School Construction and Operating Costs “balancer” account was distributed to localities on a per pupil basis and the composite index, and no less than 50% of the funds had to be used for non-recurring costs, such as capital or debt service costs.



Key Actions Since FY 2009

- **Additional Support “Balancer” Reduced.** In the 2009 Session, the budgeted Lottery Proceeds estimate was reduced by about \$30 million per year (to about \$430 million per year). The budget reduced distributions in the Additional Support account by \$55.8 million and created GF savings of the same amount, leaving \$60.8 million.
- **Balancer Reaches Zero.** In the 2010 Session, the adopted budget reflected changes resulting in now 18 programs funded with Lottery Proceeds, in total reflecting the offset of \$77.5 million GF the second year, including eliminating of the remaining “Support for School Construction and Operating Costs” as well as the Enrollment Loss funding.
- **No Reductions to Public Education in 2014, but Increased Lottery Forecast Offsets GF Instead of Being Added Back to a Balancer Account.** The 2014 adopted budget reflected an additional \$38 million in Lottery Proceeds in FY 2016 used to offset GF. In addition, the 2015 adopted budget reflected the latest Lottery Proceeds forecast, with additional revenues of about \$22 million in FY 2016.



Current List of Lottery-Funded Programs

19 Programs

	FY 2016 (\$ in millions)
K-3 Primary Class Size Reduction	\$117.6
At-Risk	89.6
Special Education – Regional Tuition	84.2
Virginia Preschool Initiative	72.0
English as a Second Language (SOQ)	50.8
Textbooks (SOQ; split funded with GF)	44.9
Early Intervention Reading	17.8
SOL Algebra Readiness	12.2
Career and Technical Education – Categorical	10.4
Foster Care	8.8
Regional Alternative Education	8.2
School Breakfast	3.9
7 Other Programs \$3M or Less Each (Project Graduation, Race to GED, Individual Student Alternative Education Plan, Path to Industry Certification, Mentor Teacher, Supplemental Basic Aid, Virginia Teacher Corps)	<u>11.0</u>
	\$531.7



Looking Ahead

Fiscal Policy Questions

- Except when necessary during periods of fiscal pressure, should additional Lottery Proceeds be used to reinstate a flexible Additional Support balancer account, or should increases in the forecast continue to be used to offset GF costs?
- In addition, given the potential for variability in Lottery Proceeds, should a certain amount again be required to be used for non-recurring school costs, such as capital?
- Otherwise, is the current mix of programs funded with Lottery Proceeds still the best fit?
 - For example, should the Virginia Preschool Initiative be shifted to GF given the interest in increasing the use of mixed delivery in private settings?
 - Should some SOQ programs be funded from Lottery Proceeds or should SOQ programs be funded from GF whenever possible?

