

SENATE OF VIRGINIA

Senate Finance Committee

Update on Lottery-Funded Education Programs

February 2, 2016



SENATE FINANCE COMMITTEE

Overview

Update on Lottery-Funded Education Programs

- All Lottery Proceeds (after prize payouts and operating costs) are used for public education, per the 2000 amendment to the Constitution of Virginia.
- Lottery Proceeds comprise about 8 percent of state Direct Aid to Public Education per year.
 - \$532 million out of \$6.45 billion total 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, Lottery Proceeds supported 1) part of SOQ costs (approx. 60%); and 2) a per pupil Lottery funding account (approx. 40%).
 - For FY 2009, 11 “incentive” programs, including “Additional Support for School Construction and Operating Costs” per pupil amount, were chosen for “best fit.”
 - Since then, during the Great Recession the percent of the flexible “per pupil” account diminished and 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.



Constitution of Virginia

Article X. Taxation and Finance

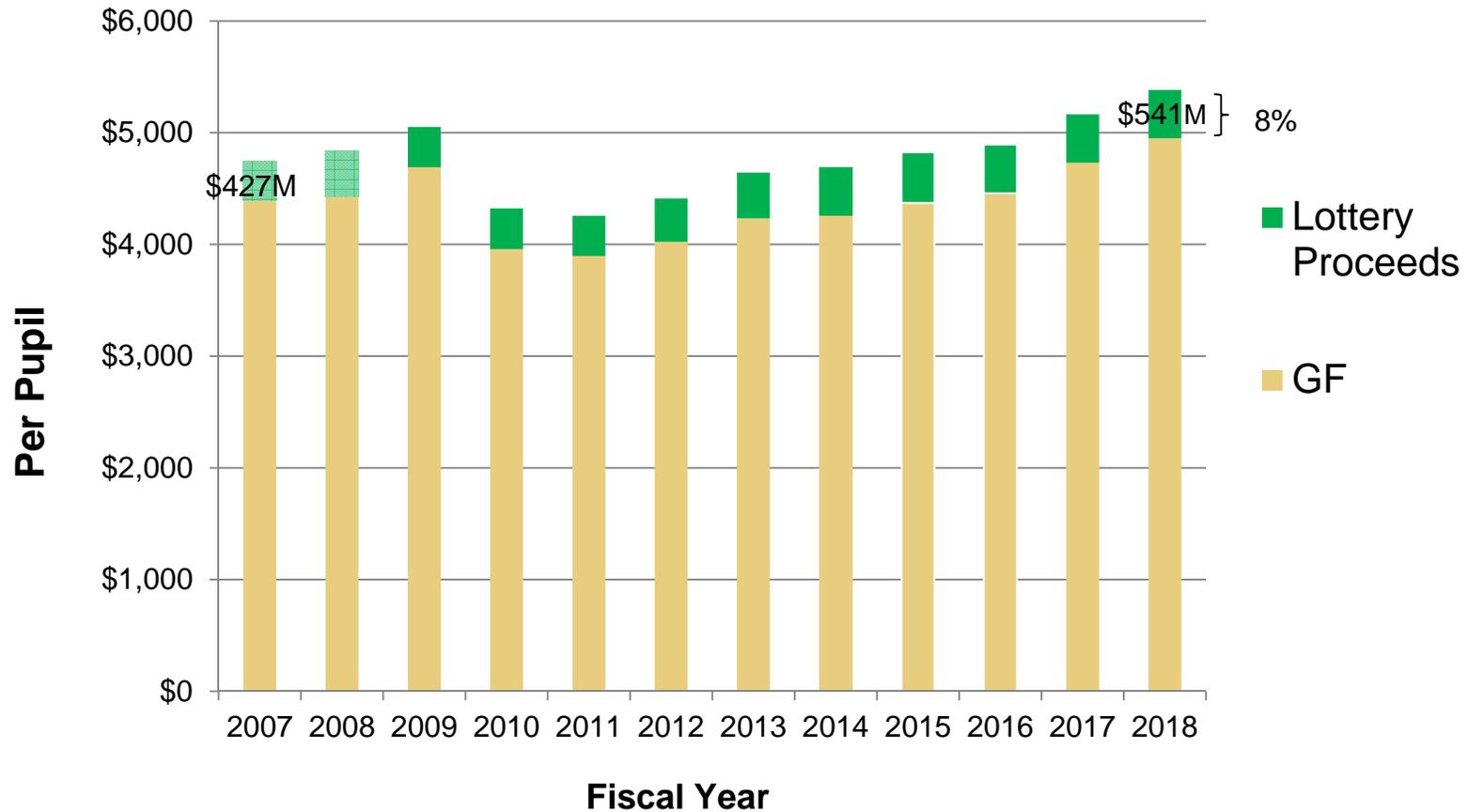
Section 7-A. Lottery Proceeds Fund; distribution of lottery revenues

- 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



As of FY 2008

- 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 (\$223) and the composite index.

FY 2008	\$ in Millions
SOQ prevention, intervention, and remediation	\$19.5 "off the top"
Approximately <u>60%</u> of the remaining Lottery revenue was used to pay a portion of the state's share of Basic Aid	Approx. \$285 million, as of the 2008 introduced budget
<u>40%</u> , the balance of the Lottery revenue was distributed based on a Per Pupil Amount and the Composite Index. - So 20%: flexible. - At least half of that amount (i.e. 20%) must be used for non-recurring costs, such as capital or debt service costs.	Approx. <u>\$149 million</u> as of the 2008 introduced budget



2008 Session Changes

- During the 2008 Session, concerns were raised about the flow of Lottery Proceeds dollars intermingling with GF.
 - Accounting and budgetary changes were made, including a 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 after January 15th of 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 account was distributed to localities on a per pupil basis and the composite index, and no less than half of the funds had to be used for non-recurring costs, such as capital or debt service costs.



Key Actions Since FY 2009

- **Additional PPA Support Reduced, Then Eliminated.**
 - **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 (about 14%).
 - **2010 Session:** Eliminated of the remaining "Support for School Construction and Operating Costs" as well as the Enrollment Loss funding.
 - **2014 adopted budget:** Reflected an additional \$38 million in Lottery Proceeds in FY 2016 used to offset GF.
 - **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

SB 30, As Introduced; 18 Programs

(\$ in millions)	FY 2017	FY 2018
K-3 Primary Class Size Reduction	\$129.2	\$131.2
At-Risk Add-On	121.5	116.4
Special Education – Regional Tuition	90.2	93.5
Virginia Preschool Initiative	69.2	69.5
English as a Second Language (SOQ)	52.5	54.9
Early Intervention Reading	18.0	18.2
SOL Algebra Readiness	12.9	13.0
Career and Technical Education – Categorical	12.4	12.4
Foster Care	8.0	8.0
Regional Alternative Education	8.5	8.9
School Breakfast	3.9	4.2
No Loss Funding	3.8	0.0
6 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)	<u>10.9</u>	<u>11.0</u>
	\$541.2	\$541.2



Summary of Proposed Actions (SB 30 As Intro.) in Direct Aid to Education

(GF, \$ in millions)	FY 2017	FY 2018	Total
Biennial Re-benchmarking Technical Updates	\$190.3	\$239.4	\$429.8
Additional Instructional Positions Funding based on 1 Per Elementary School (FY 17), Plus 2 Per Middle/High School (FY 18)	42.7	96.4	139.1
2% Compensation Increase (July 10, 2017)	0.0	83.2	83.2
Advance VRS Employer Rates to 100% in FY 18	0.0	55.1	55.1
Enhance At-Risk Add-On Range to 2.5%-14%	24.8	24.9	49.7
Restore Full Support Cost of Competing Adjustment	0.0	40.6	40.6
Literary Fund: GF to Reduce to \$135.2M Covering Part Retirement Costs	0.0	30.0	30.0
“No Loss” Relative to FY 16 (13 school divisions)	3.6	0.0	3.6
All Else	<u>10.6</u>	<u>13.1</u>	<u>23.6</u>
TOTAL	\$272.0	\$582.7	\$854.7



Restoring a Portion of Lottery Funds As a Per Pupil Amount Would Provide Flexibility in Use

More Prescriptive ←			→ More Flexible	
Provide Additional Funding Through Specific Staffing Approaches		Proposed in the Budget (SB30) As Introduced	Other Options	
Fund the State's Share of an Assistant Principal in Each School	Fund the State's Share of Kindergarten Aides	Additional Instructional Positions	Reinstate a Flexible Additional Support for Operating/or Capital Per Pupil Amount from Lottery Proceeds	Restore Other Funding Reduced Since 2008
1 per 400 Students = State share is approx. \$70M/yr.	1 per class of 18 students = State share is approx. \$62M/yr.	FY 17: \$42.7M FY 18: \$96.4M	In FY 2008 was approx. \$149M (FY18: 40% of Proceeds = Approx. \$215M)	Restore ASR Expenditure Codes to SOQ Model = Approx. \$91M/yr. School bus replacement cycle = Approx. \$12M/yr.

