



Overview of the Lottery Proceeds Fund

House Appropriations Committee
January 27, 2016



Establishment of Lottery System

- The Virginia State Lottery was created through a voter approved referendum in 1987 as a state-operated lottery gaming system
 - First ticket was sold 1988
- During the first couple of years, the lottery proceeds were deposited into the general fund and did not have a specific focus on where the revenues were to be spent
- From 1990 to 1998, the lottery proceeds continued to be transferred to the general fund and a small portion was used for equipment purchases under a blanket authorization reflected in Part 2, Capital Project Expenses

Lottery – Budgeted to Public Education

- In 1999, an amendment sent lottery proceeds to school divisions to be used solely for educational purposes and set out expectations for usage and spending
 - Important milestone – was the first year that the Lottery funds were specifically allocated and reflected in the Direct Aid budget
 - The lottery proceed revenues were split about 60/40
 - 60% allocated to pay for a portion of the state's share of SOQ Basic Aid costs
 - 40% allocated to school divisions on an ADM, per pupil basis
 - No more than 50% could be used for recurring costs and at least 50% had to be spent on nonrecurring expenditures
 - School construction, additions, infrastructure, site acquisition, renovations, technology, and other expenditures related to modernizing classroom equipment, and debt service on school projects completed during last 10 years
 - The remaining half could be spent however a division decided – total flexibility
 - Not allowed to use funds to supplant local operating expenses
 - Required a local match based on the local composite index

Lottery - Constitutional Amendment

- In 2000, the State Lottery Proceeds Fund was created with the passage of a Constitutional amendment
- Specific language set out and dedicated 100% of Lottery Proceeds solely for the usage of educational purposes

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).

Initial Lottery Allocation - Split 60/40

- For the next five years, 2000 through 2004 Sessions, the Lottery money was allocated in the Direct Aid budget and the 60/40 revenue split remained unchanged

Fiscal Year	Total	Basic Aid	Locality	Per Pupil Amount (PPA)
	(\$ in millions)			
1999	\$314.4	\$190.9	\$123.5	\$199
2000	\$318.6	\$193.0	\$125.6	\$201
2001	\$310.3	\$188.0	\$122.3	\$194
2002	\$361.3	\$216.7	\$144.6	\$228
2003	\$401.7	\$243.5	\$158.2	\$245
2004	\$396.4	\$250.2	\$146.2	\$224

Lottery Allocation Changes – Split 63/37

- During the 2004 Special Session I, the new biennial budget FY 2004-06, reflected a adjustment to the existing 60/40 split allocation of the lottery revenues
- At that time, some of the lottery funds were newly earmarked to pay for a portion of SOQ Prevention, Intervention and Remediation (PIR) program and the remaining lottery revenues were allocated toward continuing to pay for some of the Basic Aid costs and providing the localities with a per pupil amount
 - 58% for a portion of the state's share of Basic Aid
 - 5% for a portion of the state's share of PIR
 - 37% for the locality's PPA
- That allocation methodology was used for two years, through the FY 2006 Caboose budget

Lottery Allocation Changes – Split 63/37

- During the 2006 Special Session I, the newly adopted biennial budget for FY 2006-08, reflected a slight revision to the lottery allocation split to offset an adjustment that was made to the Sales Tax revenue estimate for FY 2007, and provided a one-time Hold Harmless supplement to those school divisions that would have received less sales tax revenues
 - 58% for a portion of the state's share of Basic Aid
 - 4% for a portion of the state's share of PIR
 - 1% for a Sales Tax Hold Harmless supplement
 - 37% for the locality's PPA
- For the second year, FY 2008, the 1% lottery revenue was redirected back to funding a portion of PIR program
 - The lottery revenue split went back to 58% / 5% / 37%

Lottery Allocation Split Changes 65/35

- Two years later, beginning with the 2008 Session, the economic outlook was starting to decline, and general fund revenue sources were decreasing with the onset of the recession
- That year, the new FY 2008-10 biennial budget reflected a substantial change for the usage and allocation of the lottery revenues
- Instead of continuing to use lottery to fund a portion of the Basic Aid and Prevention, Intervention and Remediation (PIR) accounts, the revenues were allocated to fund ten programs in Direct Aid and accounted for 65%
 - Remedial Summer School, Foster Care, Enrollment Loss, At-Risk Add-on, VPI, Early Reading Intervention, Mentor Teacher, K-3 Class Size Reduction, School Breakfast, SOL Algebra Readiness
- The remaining 35% of the lottery revenues were sent out to the divisions on a PPA to support some of the costs for school construction and general operating expenses

Changes to the Lottery Proceeds Allocations

- A year later, during the 2009 Session, the economic forecast outlook worsened, and general fund revenues estimates continued to decrease with the deepening effects of the recession
- That year, the interim FY 2008-10 biennial budget changes reflected a \$30.0 million decrease each year in lottery revenues
 - Revised Lottery revenues totaled about \$430.0 million each year
- For the first year of the budget – FY 2009
 - The ten programs in Direct Aid continued to be funded at roughly the same total amount of about \$298.0 million in lottery funds – about 70%
 - The remaining \$132.0 million in lottery revenues were sent out to the divisions on a PPA to continue supporting some of the costs for school construction and general operating expenses – about 30%
- For the second year of the budget – FY 2010
 - A total of 17 programs in Direct Aid were funded at roughly a total of \$370.0 million in lottery funds – about 86%
 - The remaining \$60.0 million in lottery revenues were sent out to the divisions on a PPA to continue supporting some of the costs for school construction and general operating expenses – about 14%

Changes to the Lottery Proceeds Allocations

- For the 2010 Session, the caboose budget finalized FY 2010 budget and reflected about a \$10.0 million increase in the estimated lottery funds -- those dollars were allocated to the localities for a revised total of about \$72 million -- going out on a PPA basis to support school construction, general operating and textbook expenses
 - Increased the locality split to about 16% of the revised \$440 million in lottery

Fiscal Year	Total Estimates	Basic Aid	Prev, Interv, Remed	Sales Tax Hold Harmless	Locality	PPA
	(Caboose budget amounts in millions)					
2005	\$446.2	\$270.4	\$19.3	\$0	\$156.5	\$237
2006	\$436.8	\$253.8	\$19.5	\$0	\$163.5	\$245
2007	\$427.2	\$247.1	\$19.5	\$5.3	\$155.3	\$232
2008	\$490.8	\$322.3	\$19.5	\$0	\$149.0	\$223
2009	\$430.5	\$298.3	\$0	\$0	\$132.2	\$198
2010	\$440.1	\$367.7	\$0	\$0	\$72.4	\$108

Changes to the Lottery Proceeds Allocations

- The new FY 2010-12 biennial budget realized significant revenue decreases across the board, the majority of agencies within the budget were cut
- Although public education realized one of the smaller reductions, it had to tighten the budget
- As a result of the decline in estimated general fund revenues midst the recession, the FY 2011 public education budget allotted all of the lottery revenues to fund specific existing programs and subsequently eliminated the per pupil amount that had previously been allocated to localities
 - Beginning with the FY 2011 budget, the PPA has been \$0
- Since the FY 2011 budget, the number of actual programs supported with lottery funds have changed from year to year, but all lottery funds have been budgeted

Closing Thoughts and Possible Considerations

- Going forward, may consider looking at possible options in support of reinvestments in public education and to provide additional flexibility to school divisions
- One possible consideration may be to realign some of the proposed spending in the introduced FY 2016-18 budget such that it would create an allotment to provide a lottery PPA
 - Additional instructional positions
 - \$42.7 million the first year
 - \$96.4 million the second year
 - Additional supplement for At-risk Add-on
 - \$24.8 million the first year
 - \$24.9 million the second year

Fiscal Year	Lottery Revenue <i>(Caboose budget amounts in millions)</i>	Locality PPA
2011	\$435.2	not available
2012	\$473.1	not available
2013	\$499.5	not available
2014	\$532.7	not available
2015	\$560.6	not available
2016	\$539.0	not available
2017	\$541.2	???
2018	\$541.2	???