

## Department of Planning and Budget

### 2022 Fiscal Impact Statement

**1. Bill Number:** SB117

<b>House of Origin</b>	<input checked="" type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
<b>Second House</b>	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

**2. Patron:** Newman

**3. Committee:** Finance and Appropriations

**4. Title:** Local school divisions; budget bill to include appropriation of surplus for operational costs.

**5. Summary:** Provides that for any year in which there is a surplus, the Governor shall include in his proposed budget an appropriation of five percent of such surplus for the operational costs of local school divisions. The bill provides for an equivalent decrease in the amount of operational costs funded by the Lottery Proceeds Fund and an equivalent increase in the amount of funds in the Fund restricted exclusively for local school divisions' capital construction and renovation costs. If the restricted amount is equal to or greater than the amount in the Fund, the increases and decreases are no longer required under the bill.

**6. Budget Amendment Necessary:** No

**7. Fiscal Impact Estimates:** Indeterminate, see Item 8.

**8. Fiscal Implications:** The state fiscal impact of this bill is equal to five percent of any general fund surplus, as defined by the bill, and such amount is indeterminate.

Each year, the Governor's budget bill appropriates the Lottery Proceeds Fund to support Direct Aid to Public Education based on the Virginia Lottery Board's annual fall profit forecast. The appropriated Lottery proceeds offset the amount of general fund appropriation required to fund the calculated state share of Direct Aid to Public Education under State Education Assistance Programs (Item 137 of HB/SB 30, 2022 General Assembly Session). To ensure maximum distribution of the Lottery Proceeds Fund appropriation each year, one Direct Aid program under State Education Assistance Programs is split-funded between the general fund and the Lottery Proceeds Fund each year and acts as the balancing account for any changes to the Lottery Proceeds Fund appropriation.

This bill requires, for any fiscal year in which there is a general fund surplus and after satisfying other required deposits, the Governor's budget bill to: 1) appropriate five percent of such surplus for the operational costs of local school divisions; 2) include a corresponding reduction to the amount of operational costs of local school divisions that are funded by the Lottery Proceeds Fund; and 3) include an equivalent increase in the amount of funds in the

Lottery Proceeds Fund that are restricted for the sole purpose of funding capital construction and renovation costs of local school divisions. In practice, this would involve a general fund increase to the split-funded program under Direct Aid to Public Education, a Lottery proceeds decrease to that split-funded program, and an equivalent Lottery proceeds appropriation to a subfund/program that is restricted for the sole purpose of funding capital construction and renovation costs of local school divisions.

Currently, there is not a subfund under the Lottery Proceeds Fund or a Lottery-funded program under Direct Aid that is restricted exclusively for local school divisions' capital construction and renovation costs, as required by this bill. The Infrastructure and Operations Per Pupil Funds (IOPPF) is an existing program under Direct Aid that is funded through Lottery proceeds, and school divisions must use at least 40 percent of their IOPPF allocation for nonrecurring expenditures, such as school construction; however, divisions may use up to 60 percent of their IOPPF allocation for recurring costs. Therefore, IOPPF are not restricted for capital construction and renovation. Further, the IOPPF appropriation is distributed in full to school divisions each year, so the appropriated amount does not accumulate.

To satisfy the provisions of this bill, in any year that the requirements of § 2.2-1509.5 are met, the Governor's budget bill would need to establish (or in subsequent years, continue to fund) a separate subfund under the Lottery Proceeds Fund that is restricted for capital construction and renovation costs of local school divisions, or a Lottery-funded program under Direct Aid to Public Education specifically for this purpose. The amount appropriated to that subfund/program from the Lottery Proceeds Fund would be equivalent to the amount of general fund surplus that is appropriated for school division operational costs, pursuant to § 2.2-1509.5. Additional legislation or budget language would be necessary to set out the guidelines for distributing those funds to local school divisions.

Alternatively, to satisfy the provisions of this bill, a budget language amendment would be necessary to change local school divisions' permitted uses of IOPPF allocations and to change the way that the IOPPF appropriation is distributed to divisions.

**9. Specific Agency or Political Subdivisions Affected:** Department of Education, local school divisions, Department of Planning and Budget

**10. Technical Amendment Necessary:** No

**11. Other Comments:** If the intent is that a surplus from the prior fiscal year is appropriated in the current fiscal year, any funds appropriated for capital construction and renovation as a result of this legislation would be available for distribution to the local school divisions only after adoption of the appropriation act, and therefore, distributions would occur only at the end of the fiscal year.