

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

House Bill 1114

(Chair, Ways and Means Committee)(By Request -
Departmental - Lottery and Gaming Control Agency)

Ways and Means

Budget and Taxation

State Lottery and Gaming Control Agency - Raffles - Authorized

This departmental bill expands the definition of “State lottery” to include a raffle conducted by the State Lottery and Gaming Control Agency (SLGCA). With the approval of the State Lottery and Gaming Control Commission (SLGCC) and the Legislative Policy Committee, the director of SLGCA may enter into agreements to operate multijurisdictional raffles with (1) any other political entity that operates a lottery or raffle or (2) a private licensee of a state or a foreign nation.

Fiscal Summary

State Effect: General fund revenues may increase to the extent that raffles increase overall lottery sales revenues. While the total revenues generated by the bill cannot be reliably estimated, *for illustrative purposes only*, under one set of assumptions, general fund revenues may increase by approximately \$4.1 million annually.

Local Effect: None.

Small Business Effect: SLGCA has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment as discussed below.

Analysis

Current Law: Raffles are not specified in the definition of “State lottery.” State criminal law prohibits all lotteries except the State Lottery or multijurisdictional lotteries authorized under the State Government Article. SLGCA must issue licenses to persons and governmental units that will best serve the public convenience and promote the sale of State lottery tickets or shares.

With the approval of SLGCC and the Legislative Policy Committee, the director of SLGCA may enter into agreements to operate multijurisdictional lotteries with (1) any other political entity that operates a lottery or (2) a private licensee of a state or a foreign nation.

Raffles are generally prohibited; however, there are exceptions under specified circumstances for charitable organizations, political committees or candidates for public office, and credit unions or depository institutions. In many counties, qualified organizations, which consist of charitable, religious, fraternal, civic, or war veterans' organizations and volunteer fire companies, may conduct raffles for the exclusive benefit of their organization if individuals do not benefit financially or receive any of the proceeds for personal use or benefit.

The State Lottery Fund

Each month, after payments to lottery winners and agents and to the State Lottery for operating expenses, the Comptroller must make payments from the State Lottery Fund to:

- the Maryland Stadium Facilities Fund (an amount not to exceed \$20 million in any fiscal year);
- the Baltimore City Public School Construction Financing Fund (an amount equal to \$20 million in each fiscal year that bonds are outstanding); and
- the State's general fund.

Additionally, the Comptroller must deposit 10% of the money that remains in the State Lottery Fund from the proceeds of ticket sales from instant ticket lottery machines by veterans' organizations into the Maryland Veterans Trust Fund.

Background: SLGCA offered a statewide raffle-style game, "Countdown to Millions," in 2007 and 2008. Though the game was styled like a raffle, it technically was not a raffle. In fiscal 2007 and 2008 raffle-style game sales consisted of less than 1% of total net lottery sales in the State. Seven states (Indiana, Iowa, Michigan, New Jersey, New York, Oklahoma, and Ohio) participate in the Multi-State Raffle. Pennsylvania offers raffle games; raffle sales consisted of less than 0.6% of Pennsylvania's Lottery Bureau sales in fiscal 2013 and 2014.

In fiscal 2014, the State Lottery generated \$1.7 billion from ticket sales. Payments to lottery winners totaled \$1.0 billion, while operating costs and payments to agents totaled \$178.7 million. Approximately \$501.8 million was deposited in the general fund after payments were made to the Maryland Stadium Facilities Fund (\$19.3 million).

In general, four types of games are offered by SLGCA: daily, jackpot, monitor, and scratch-off games. Daily games consist of Pick 3 or Pick 4, Bonus Match 5, and 5 Card Cash; jackpot games include Multi-Match, Mega Millions, and Powerball; and monitor games include Keno and Racetrax. Daily, jackpot, and monitor games allow players to pick their numbers or use automatic computer-generated plays. Customers receive a ticket and then wait for the drawing to determine if they have won. Scratch-off games are played by scratching a latex covering off a play area to reveal preprinted combinations. If a winning combination is revealed, the customer is an instant winner. Scratch-off games generally have price points between \$1 and \$20.

State Fiscal Effect: The increase in general fund revenues depends on a number of different factors, such as the number of raffle tickets sold, the payout of the raffles, the frequency of the raffle, and the degree to which customers switch from playing other lottery products to buying raffle tickets, which cannot be reliably estimated at this time. *For illustrative purposes only*, based on a preliminary analysis of data on Pennsylvania raffle sale revenues and historical lottery sales in Maryland, it is estimated that if there is \$10 million in additional sales, general fund revenues will increase by \$4.1 million. **Exhibit 1** shows the potential distribution of the revenues from raffle sales resulting from the bill at full implementation based on Pennsylvania’s experience. This analysis assumes a minimal decrease in existing State lottery sales, and no effect on video lottery terminal revenues and table game revenues. SLGCA can implement the bill with existing budgeted resources.

Exhibit 1
Potential Raffle Sale at Full Implementation

Raffle Sales	\$10,000,000
Prizes to Players	5,000,000
Retailer Commissions	600,000
Administrative Expenses	330,000
General Fund Revenue	\$4,070,000

Small Business Effect: An agent licensed by SLGCA receives a commission of 5.5% of gross receipts from the agent’s lottery ticket sales. A licensed agent may also receive a cashing fee not to exceed 3% of valid prizes paid for services rendered in cashing winning tickets. There were a total of 4,490 Maryland retailers in fiscal 2014, and they earned \$122.1 million from lottery commissions in fiscal 2014. Thus, retailers benefit minimally from receiving commissions from selling State raffle tickets.

Additional Information

Prior Introductions: HB 465 of 2014 received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: None.

Information Source(s): Comptroller's Office, Maryland State Lottery and Gaming Control Agency, Pennsylvania Department of Revenue, Department of Legislative Services

Fiscal Note History: First Reader - March 16, 2015
min/rhh

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Lottery – Raffles – Authorized

BILL NUMBER: HB 1114

PREPARED BY: Maryland Lottery Gaming and Control Agency
(Dept./Agency)

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

 X WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL
BUSINESSES

OR

 WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL
BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The proposed legislation would have minimal or no economic impact on small businesses in Maryland.