

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 777 (Senator Astle)
Education, Health, and Environmental Affairs

State Lottery - Licensed Agents - Commissions

This bill increases the lottery agent sales commission from 5.5% to 6% of gross lottery sales.

Fiscal Summary

State Effect: General fund revenues decrease by \$7.2 million and special fund revenues to the Maryland Veterans Trust Fund decrease by \$30,300 in FY 2018 due to increased lottery agent sales commissions. The State Lottery and Gaming Control Agency (SLGCA) can implement the bill with existing resources.

(in dollars)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF Revenue	(\$7,160,500)	(\$9,756,100)	(\$9,998,300)	(\$10,248,200)	(\$10,504,900)
SF Revenue	(\$30,300)	(\$41,000)	(\$41,600)	(\$42,300)	(\$42,900)
Expenditure	0	0	0	0	0
Net Effect	(\$7,190,900)	(\$9,797,100)	(\$10,039,900)	(\$10,290,400)	(\$10,547,800)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: None.

Small Business Effect: Meaningful. Small businesses that are licensed lottery agents benefit from receiving an additional 0.5% commission on gross lottery sales.

Analysis

Current Law: In exchange for selling State lottery products, licensed agents earn a 5.5% commission of gross lottery sales. A licensed agent may receive a cashing fee of up

to 3% of valid prizes paid for services rendered in cashing winning tickets. Additionally, SLGCA may authorize bonuses up to 0.5% of the gross sales to licensed agents.

SLGCA may issue certain veterans' organizations a license to operate up to five instant ticket lottery (pull tab) machines. A veterans' organization that operates instant ticket lottery machines receives the same commissions as a licensed lottery agent.

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);
- the Racing Special Fund (an amount not to exceed \$1 million in any fiscal year) through fiscal 2019; 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: As part of a cost containment initiative, the Budget Reconciliation and Financing Act of 2009 (Chapter 487) decreased the agent sales commission from 5.5% to 5.0% in fiscal 2010 through 2012. The Budget Reconciliation and Financing Act of 2012 (Chapter 1 of the first special session) kept the commission at 5.0% for fiscal 2013. Chapter 1 of the 2012 second special session increased the commission back to 5.5% effective January 1, 2013, and scheduled the commission to increase to 6.0% once the video lottery operation license was issued to a Baltimore City video lottery facility. The Budget Reconciliation and Financing Act of 2014 (Chapter 464) set the commission at 5.5% and repealed the authority of SLGCA to authorize the payment of incentives to licensed lottery agents and their employees.

Exhibit 1 shows the lottery retailer commissions as a percentage of lottery sales in Maryland and surrounding states.

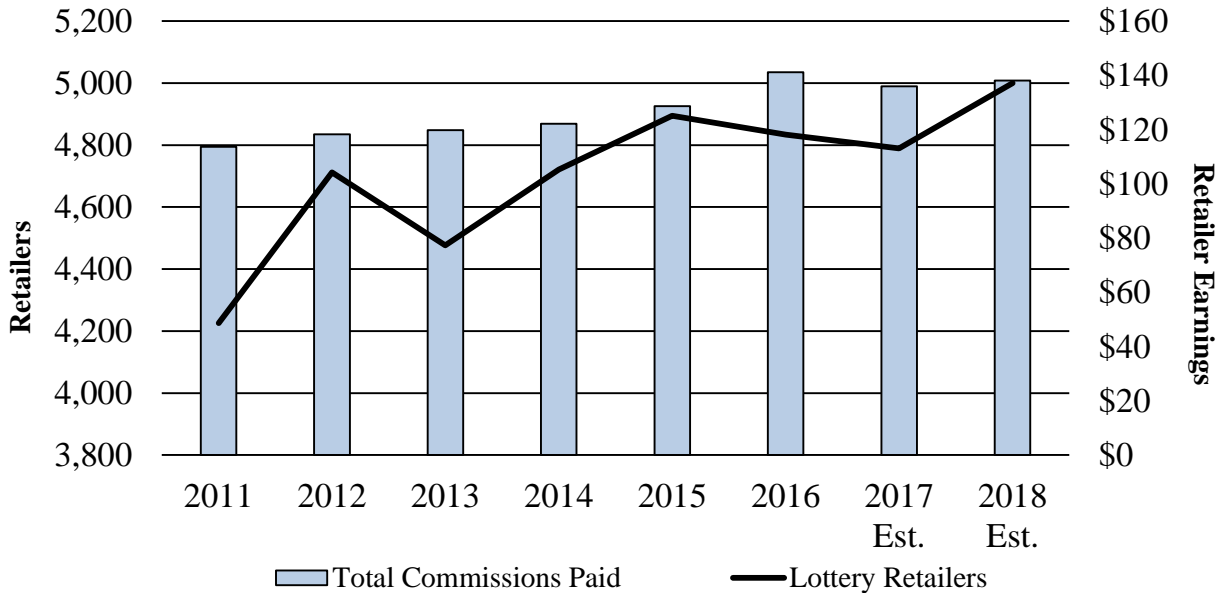
Exhibit 1
Regional Retailer Commissions as a Percentage of Lottery Sales
Fiscal 2014-2015

<u>Regional Jurisdiction</u>	<u>FY 2014</u>	<u>FY 2015</u>
Maryland	7.08%	7.30%
West Virginia	7.00%	7.00%
District of Columbia	6.56%	6.48%
Delaware	6.33%	6.40%
Virginia	5.61%	5.63%
Pennsylvania	5.33%	5.32%

Source: State Lottery and Gaming Control Agency; state lottery websites; La Fleur's 2015 Lottery Almanac: FY14 Commissions – Bonuses

According to SLGCA, as of December 31, 2016, there were 4,451 lottery retailers. Of these, 330 retailers participate in the expanded cashing authority program and are allowed to cash winnings of up to \$5,000. All other retailers may cash winning tickets of up to \$600. Agents earn 5.5% of sales at retail establishments as well as 3.0% in cashing commissions. **Exhibit 2** shows the number of agents and their earnings from fiscal 2011 through fiscal 2018 (estimated). In fiscal 2016, 4,539 licensed lottery agents earned \$141.2 million in commissions.

Exhibit 2
Lottery Retailers and Earnings
Fiscal 2011-2018 Est.
(\$ in Thousands)



Source: State Lottery and Gaming Control Agency

State Revenues: Exhibit 3 shows the fiscal impact of increasing the lottery agent commissions to 6.0% of gross sales. General fund revenues decrease by \$7.2 million and special fund revenues to the Maryland Veterans Trust Fund decrease by \$30,300 in fiscal 2018, reflecting the bill's October 1, 2017 effective date. Future year estimates reflect the Board of Revenue Estimates' projection of State lottery sales, which incorporates approximately 2% annual sales growth.

Exhibit 3
Fiscal Impact
Fiscal 2018-2022

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
General Fund	(\$7,160,545)	(\$9,756,073)	(\$9,998,302)	(\$10,248,178)	(\$10,504,859)
Veterans Trust Fund	(30,312)	(41,022)	(41,638)	(42,262)	(42,896)
Total	(\$7,190,858)	(\$9,797,095)	(\$10,039,940)	(\$10,290,440)	(\$10,547,755)

Small Business Effect: Approximately 4,451 licensed lottery agents, a portion of which are small businesses, benefit from receiving an additional 0.5% commission on gross lottery sales that totals \$7.2 million in fiscal 2018 and \$10.5 million in fiscal 2022. On average, a licensed lottery agent sales commission increases by \$1,616 in fiscal 2018 and by \$2,370 in fiscal 2022.

Additional Information

Prior Introductions: HB 728 of 2016 received a hearing in the House Ways and Means Committee, but no further action was taken. SB 319 of 2016 passed the Senate and received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: Although not designated as a cross file, HB 835 (Delegates Bromwell and Buckel – Ways and Means) is identical.

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

Fiscal Note History: First Reader - February 21, 2017
md/jrb

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