Department of Legislative Services
Maryland General Assembly

FISCAL NOTE
Revised

House Bill 305 (Delegates C. Davis and C. Mitchell)
Ways and Means

State Lottery - Compensation for Agents

This bill requires the State Lottery Agency to pay commissions to a lottery agent equal to 5% of the agent's gross receipts from instant ticket sales made during the year, and authorizes a commission of 3% of on-line game payouts validated and paid through the agent's terminal. The bill also repeals the requirement that agent bonuses and incentives be appropriated in the lottery's operating budget.

Fiscal Summary

State Effect: General fund revenues would decline by an estimated $1.4 million in FY 1999. If incentive programs increase sales, revenues could increase by an indeterminate amount. Future year estimates reflect annualization and growth based on estimated revenue growth. To the extent that expenditures for incentives increase (up to $4.5 million), general fund revenues would decline.

(in millions)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
GF Revenues	($1.4)	($1.9)	($1.9)	($2.0)	($2.0)
GF Expenditures	--	--	--	--	--
Net Effect	($1.4)	($1.9)	($1.9)	($2.0)	($2.0)

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

Local Effect: None.

Small Business Effect: Meaningful.

Fiscal Analysis

Background: Currently, bonus and incentive payments must be appropriated in the Lottery Agency's budget. In fiscal 1997, the amount appropriated for incentives was $500,000; this amount was increased to $600,000 in fiscal 1998. The Governor's proposed fiscal 1999 budget includes $1,000,000 for incentives and bonuses. Repealing the requirement to have an appropriation for this item will allow the agency to expend up to 0.5% of sales for bonuses or incentives, the statutory limit.

The agency's fiscal 1998 agent incentive program provided for a bonus commission of 0.5% for an agent if the agent's sales increased 5% over the prior period; a bonus of 0.75% if sales increased by 10%; and a bonus of 1.0% if sales increased by 15% over the prior period. This program was carried out in the second quarter of fiscal 1998. It resulted in a 4.6% sales increase over the comparison period, the last quarter of fiscal 1997. A total of 1,047 agents received bonuses; 290 received a 0.5% bonus, 224 received a 0.75% bonus, and 533 received a 1.0% bonus.

State Effect: Agent commissions are deducted from gross sales receipts before funds are credited to the State's general fund. Accordingly, any increase in agent commissions would result in a decrease in State revenues.

Agents currently receive regular commissions of 4% of gross sales. Increasing the commissions to 5% for instant ticket sales would result in the Lottery Agency paying agents an additional $1.4 million in fiscal 1999, which accounts for the October 1, 1998 effective date ($1.8 million on an annualized basis). This is based on the Board of Revenue Estimates' fiscal 1999 sales forecast of instant tickets of $180.6 million. This would result in a $1.4 million decrease in State revenues in fiscal 1999.

Agents currently receive 3% cashing fees for payouts validated and paid. Codifying this practice would therefore have no fiscal impact.

The Lottery Agency believes that allowing the expenditure for bonuses and incentives of 0.5% of sales (up to $5.5 million in fiscal 1999, $4.5 million over the amount in the Governor's proposed budget) could result in sales increases of 2%, based in part on results from the agent incentive program from fiscal 1998. The net effect would be general fund revenue increases of approximately $3.5 million annually, assuming that about $1 million would continue to be appropriated for incentives absent this bill.

The Department of Legislative Services (DLS) advises that the experience of the fiscal 1998 incentive program may be misleading since it occurred in October through December of 1997 and the comparison period was April through June of 1997. A 2% increase in sales does not seem unreasonable, however. DLS further advises that, depending on the structure of the incentive program, liabilities under the program could exceed the statutory limit of 0.5% of sales.

Small Business Effect: This bill may have a significant impact on small businesses that sell lottery tickets. The average lottery agent will sell an estimated $46,300 of instant tickets in fiscal 1999, earning commissions of about $1,850. Under this bill, the average lottery agent would retain an additional $463 in commissions from instant ticket sales annually. Those agents with sales above average will receive a proportionally higher increase in commissions.

Approximately 80% of lottery agents are small businesses. Assuming an even distribution of sales increases among agents, about $3.2 million of additional bonuses and incentive payments would be received by small businesses. Assuming the incentive program funded by this bill is structured the same as the fiscal 1998 program, agents could increase their sales commissions by up to 20%.

Information Source(s): State Lottery Agency, Department of Legislative Services

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