SB 489

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

Senate Bill 489 (Senator Bromwell)
Finance

State Lottery - Licensed Agents - Compensation

This bill provides that lottery agents may receive a cashing fee not to exceed 3% of valid lottery prizes paid. The bill also repeals the requirement that the Lottery Agency appropriate funds for bonuses and incentives to agents in the agency's operating budget.

Fiscal Summary

State Effect: Indeterminate revenue increase. Expenditures could increase by up to $4.5 million annually.

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: 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.

Cashing fees of 3% are currently paid; codifying this practice would have no effect.

Small Business Effect: 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): Maryland State Lottery Agency, Department of Legislative Services

Fiscal Note History: First Reader - February 23, 1998
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