

**Department of Legislative Services**  
 Maryland General Assembly  
 2002 Session

**FISCAL NOTE**

House Bill 960 (Delegate Montague)  
 Ways and Means

**State Lottery Tickets - Baltimore City Surcharge**

This bill authorizes the Mayor and City Council of Baltimore to pass an ordinance imposing a surcharge on each State lottery ticket purchased in Baltimore City for the purpose of enhancing funding to public elementary and secondary schools, public libraries, and homeless services.

**Fiscal Summary**

**State Effect:** General fund revenues could decrease by approximately \$3.5 million in FY 2003 and by \$5.1 million in FY 2007 due to the surcharge on lottery ticket sales in Baltimore City.

(\$ in millions)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
GF Revenue	(\$3.5)	(\$4.8)	(\$4.9)	(\$5.0)	(\$5.1)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$3.5)	(\$4.8)	(\$4.9)	(\$5.0)	(\$5.1)

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

**Local Effect:** Baltimore City revenues could increase by approximately \$10.1 million in FY 2003 and by approximately \$14 million each year thereafter due to a surcharge on lottery ticket sales in Baltimore City.

**Small Business Effect:** Potential meaningful.

## Analysis

**Current Law:** Local jurisdictions are not authorized to impose a surcharge on State lottery tickets.

**Background:** The Maryland State Lottery's products include a variety of instant winning tickets commonly known as scratch off games, Keno, the Big Game, Cash In Hand, Lotto, Pick 3, Pick 4, and Bonus Match 5. The price of a lottery ticket ranges from 50 cents to \$10. Generally, more expensive lottery tickets have higher prize values and reduced odds of winning. **Exhibit 1** shows the projected lottery sales and revenues by game in fiscal 2003.

**Exhibit 1**  
**Maryland Lottery Sales and Revenues by Game**  
**BRE December 2001 Estimate**

(\$ in millions)	FY 2003	Percent of Total
<i>Lottery Sales</i>		
Pick 3	294.8	22.5%
Pick 4	204.6	15.6%
Lotto	45.3	3.5%
Cash-in-Hand	16.9	1.3%
Instant Tickets	326.5	25.0%
Keno	362.3	27.7%
Big Game	57.6	4.4%
<b>Total Lottery Sales</b>	<b>1,307.9</b>	<b>100.0%</b>
<i>Distribution of Revenues</i>		
<b>Net State Revenues</b>	<b>431.9</b>	<b>33.0%</b>
Stadium Fund	28.5	
General Fund	403.4	

Lottery tickets are sold through a large network of agents that are mainly comprised of small businesses. In Baltimore City, there are approximately 785 retailers that sell lottery tickets. Lottery agents generate a weekly report from the lottery terminal that provides a summary of the previous week's lottery ticket sales. The lottery agent must submit 95% of those sales into the agent's bank account that is used by the Maryland State Lottery to

collect its share of the sales. The remaining 5% of sales are retained by the lottery agent as a commission.

The Maryland State Lottery advises that the Western Canadian Lottery experienced a 13% decrease in lottery ticket sales when a surcharge was implemented on lottery tickets.

**State Fiscal Effect:** Baltimore City accounts for 21.7% of lottery sales in Maryland. State lottery sales in fiscal 2003 are projected to total \$1.3 billion, of which \$283.8 million would be generated from sales in Baltimore City. Based on a study published in the *Journal of Business and Economic Statistics*, the price elasticity for lottery sales is unit elastic which implies a proportional change in lottery sales to any price increase. Assuming the Mayor and City Council of Baltimore impose a 5% surcharge on lottery tickets sold in the city, lottery sales in Baltimore City would decrease by 5% or \$14.2 million in fiscal 2003.

The State receives 33% of the revenues generated from lottery sales. Accordingly, State general fund revenues could decrease by \$3.5 million in fiscal 2003, which reflects the bill's October 1 effective date, and \$4.7 million on an annualized basis.

**Local Fiscal Effect:** Assuming the Mayor and City Council of Baltimore impose a 5% surcharge on lottery sales, local revenues for public schools, libraries, and homeless services could increase by \$10.1 million in fiscal 2003, which reflects the bill's October 1 effective date, and \$14 million annually thereafter. This estimate assumes that the demand for lottery tickets will initially decrease by 5% in the first year as a result of the surcharge but increase by 2% annually by the second year. Baltimore City expenditures could increase by a minimum amount to create and distribute forms and procedures for remitting the lottery surcharge and to collect and manage the revenues from the remitted surcharges.

**Small Business Effect:** To the extent that the bill's provisions cause a reduction in lottery ticket sales in Baltimore City, small businesses that sell lottery tickets would earn a lower commission. Aggregate commission sales for small businesses in Baltimore City could decrease by approximately \$500,000 in fiscal 2003 and by \$700,000 on an annualized basis. Small businesses that sell lottery tickets in Baltimore City could also see a reduction in general commercial traffic due to a decrease in lottery ticket purchases.

**Additional Comments:** Baltimore City residents could avoid the surcharge for the Big Game only by subscribing directly to the Maryland State Lottery.

## **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 526 (Senator Conway) – Finance.

**Information Source(s):** Maryland State Lottery Agency, Baltimore City, Department of Legislative Services

**Fiscal Note History:** First Reader - March 13, 2002  
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