

Department of Legislative Services
 Maryland General Assembly
 2002 Session

FISCAL NOTE

Senate Bill 526
 Finance

(Senator Conway)

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%
Total Lottery Sales	1,307.9	100.0%
<i>Distribution of Revenues</i>		
Net State Revenues	431.9	33.0%
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: HB 960 (Delegate Montague) – Ways and Means.

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

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