

Department of Legislative Services
Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

Senate Bill 62

(Senator Della)

Finance

Ways and Means

State Lottery - Licensed Agents - Banks - Commingling of Proceeds

This bill authorizes a licensed agent of the State lottery to deposit specified receipts from the sale of State lottery tickets or shares with a bank that the licensed agent selects. The bill also authorizes a licensed agent to commingle proceeds collected or deposited from the sale of State lottery tickets or shares with business receipts of the licensed agent.

Fiscal Summary

State Effect: Potential minimal decrease in general fund revenues resulting from the nonpayment of funds due to bankruptcy. No effect on expenditures.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: Licensed lottery agents must deposit, with a bank that the Treasurer designates and to the credit of the State Lottery Fund, all receipts from the sale of State lottery tickets or shares less any commission and validation prize payout. All proceeds collected or deposited from the sale of lottery tickets or shares constitute a trust for the benefit of the Maryland State Lottery Agency until remitted and paid either directly or through the agency's authorized collection representative. Proceeds include cash proceeds of the sale of any lottery products less any commission and validation prize payout.

Background: The Department of Legislative Audits has recommended that the agency take action to insure that lottery agents have a separate bank account for lottery revenues

in order to reduce the risk of nonpayment of lottery proceeds to the State in the event that an agent enters bankruptcy (December 2002 audit report).

The State lottery collects sales proceeds from its licensed sales agents on a weekly basis. Losses attributed to the nonpayment of sales proceeds is normally very small. The following indicates total lottery sales for fiscal 2001 and 2002 with the corresponding losses resulting from nonpayment of funds.

	<u>Lottery Sales</u>	<u>Nonpayment Losses</u>	<u>Percent of Total Sales</u>
FY 2001	\$1,215,711,176	\$176,627	.014%
FY 2002	\$1,310,405,576	\$174,314	.013%

State Fiscal Effect: This legislation allows lottery agents to deposit funds other than the proceeds from the sale of lottery tickets into one bank account. Because some lottery agents currently commingle lottery and nonlottery funds in one bank account, this legislation seeks to codify the current practice of commingling lottery and nonlottery funds used by some sales agents. Any losses attributed to nonpayment of funds as a result of commingling allowed by the bill is assumed to be minimal.

If a lottery agents fails to pay the weekly settlement, the agency turns the agent's sales terminal off in order to limit the potential loss. Lottery sales agents undergo an investigation of their financial condition prior to being issued a sales terminal.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland State Lottery Agency, Maryland State Treasurer's Office, Department of Legislative Services

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