

Department of Legislative Services
Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

House Bill 764 (Delegate Patterson)
Ways and Means

State Lottery - Unanticipated Revenues - Public School Systems

This bill requires State lottery revenues in excess of the estimate for a fiscal year to be distributed to local school systems instead of being deposited in the State's general fund. The distribution is to be based on the lottery sales in the county in which the local school system is located.

Fiscal Summary

State Effect: Potential significant decrease in general fund revenues beginning in FY 2004. The extent of any decrease depends on the amount of lottery revenues that exceed projections for a fiscal year. Expenditures would not be affected.

Local Effect: Potential significant increase in local revenues. Corresponding expenditure increase for local school systems.

Small Business Effect: None.

Analysis

Current Law: Net revenues from sport lotteries conducted for the benefit of the Maryland Stadium Authority are distributed into the Maryland Stadium Facilities Fund and the net revenues from other State lotteries are distributed to the general fund.

Background: Net revenues from State lotteries are projected to total approximately \$470.5 million in fiscal 2004. Of this amount, \$22.0 million is distributed to the Maryland Stadium Facilities Fund and \$448.4 million is distributed to the general fund. **Exhibit 1** shows the distribution of State lottery revenues for fiscal 2001 through 2004.

Exhibit 1
Net Revenues from State Lottery

(\$ in Millions)	<u>Actual</u> <u>2001</u>	<u>Actual</u> <u>2002</u>	<u>Estimate</u> <u>2003</u>	<u>Estimate</u> <u>2004</u>
Pick 3	128.5	119.7	125.2	124.3
Pick 4	84.9	93.8	82.4	83.6
Lotto	20.4	14.5	12.8	11.2
Cash-in-Hand	3.0	6.5	1.3	0.0
Instant	58.9	69.9	75.1	78.7
Keno	92.9	103.4	114.2	123.7
Match 5	0.0	2.4	6.4	7.5
International	0.0	0.0	0.0	5.0
Mega Millions	19.7	31.8	36.5	36.5
Let it Ride	-1.3	0.5	0.0	0.0
Net Revenues	407.0	442.5	453.9	470.5
Stadium Authority	22.0	26.2	21.9	22.0
Horse Racing	0.0	2.2	0.0	0.0
General Fund	385.0	414.1	432.0	448.4

Source: Bureau of Revenue Estimates

State Budgetary Forecasts

The Bureau of Revenue Estimates (BRE) projects State lottery revenues in December and March prior to the start of the fiscal year and in the following December and March once the fiscal year begins. For example, for fiscal 2004, BRE released a December 2002 estimate that was used to form the State budget. This estimate may be revised in March 2003 prior to the adoption of the fiscal 2004 State budget. Once fiscal 2004 begins, BRE will release a revised estimate in December 2003 and March 2004. This legislation does not specify the BRE estimate that would be used in distributing lottery revenues to local school systems. For purposes of this fiscal note, the March estimate prior to the adoption of the State budget is used.

Horse Racing Fund

Beginning in fiscal 2002, excess lottery funds must be distributed to the horse racing special fund pursuant to the Racing Act of 2000 (Chapter 309) to cover debt service on bonds issued by the Maryland Economic Development Corporation (MEDCO) for capital improvements at the race tracks. No bonds have been issued for this purpose. It is assumed that the 2003 legislation will supersede the authority granted under the Racing Act of 2000.

State Fiscal Effect: State lottery revenues in excess of the estimate for a fiscal year must be distributed to local school systems. The actual amount of any general fund revenue decrease depends on the amount of lottery revenues that exceed budgetary projections. This amount cannot be reliably estimated because lottery revenue projections and actual revenues vary from year to year. **Exhibit 2** provides the budgetary estimates for State lottery revenues, based on the BRE March projections, and actual revenues from fiscal 1996 through fiscal 2002.

Exhibit 2
State Lottery Revenues Exceeding Budgetary Estimate

Fiscal Year	Estimated Revenue	Date of Estimate	Actual Revenue	Difference
1996	\$348,235,000	March 1995	\$369,768,000	\$21,533,000
1997	\$382,202,000	March 1996	\$356,002,000	(\$26,200,000)
1998	\$358,584,000	March 1997	\$362,515,000	\$3,931,000
1999	\$376,633,000	March 1998	\$352,175,000	(\$24,458,000)
2000	\$362,227,000	March 1999	\$367,763,000	\$5,536,000
2001	\$373,502,000	March 2000	\$385,045,000	\$11,543,000
2002	\$384,307,000	March 2001	\$414,063,000	\$29,756,000

State Education Aid

State funding for public schools will increase significantly over the next five years due to the enactment of the Thornton legislation (Chapter 288 of 2002) last year. Under the legislation, it is estimated that the State will provide \$1.3 billion in new funding for public schools by fiscal 2008. With these increases the State will be assuming a larger role in funding public schools.

State education aid is among the fastest growing components of the State general fund budget. From fiscal 2004 to 2008, State education aid will increase by 9.9% annually compared to 6.7% for entitlements, 3.7% for mandated State operations, and 2.6% for

nonmandated State operations. State education aid accounted for 26% of general fund expenditures in fiscal 2002 and 31% in fiscal 2004. By fiscal 2008, State education aid will account for 34% of general fund expenditures.

Local Fiscal Effect: State aid to local school systems would increase depending on the amount of State lottery revenues that exceed budgetary projections for a fiscal year. This amount varies from year to year and cannot be reliably estimated. **Exhibit 3** shows the distribution of lottery sales in each jurisdiction in fiscal 2002 and the amount of revenues that would be provided to each local school system for every \$1 million in lottery revenues that exceed the budgetary projections for a fiscal year.

Additional Information

Prior Introductions: Similar legislation has been introduced repeatedly since the 1998 session. At the 2002 session, three bills were introduced that would have distributed unanticipated lottery revenues, with local school systems receiving the revenues under SB 636/HB 574 and counties and municipalities receiving the revenues under HB 475. The Senate Finance Committee provided an unfavorable report to SB 636 and the House Ways and Means Committee took no action on HB 475 and HB 574.

Similar bills were introduced at the 2001 session as SB 644/HB 630. SB 644 received an unfavorable report by the Senate Finance Committee and HB 630 received an unfavorable report by the House Ways and Means Committee. A similar bill was introduced at the 2000 session as HB 617. The House Ways and Means Committee amended the bill to include only a task force to study the distribution of lottery revenues. The bill was approved by the full House but the Senate Finance Committee did not take action on the bill. At the 1998 session, HB 939 was introduced that distributed excess lottery revenues to counties and municipal corporations. The bill received an unfavorable report by the House Ways and Means Committee.

Cross File: SB 168 (Senator Mooney, *et al.* – Finance and Budget and Taxation) while not identified as a cross file, HB 764 is identical to SB 168.

Information Source(s): Maryland State Lottery Agency, Maryland State Department of Education, Comptroller's Office (Bureau of Revenue Estimates), Department of Legislative Services

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ncs/jr

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Exhibit 3
Estimated Local Distribution
Per \$1 Million in Lottery Revenues

<u>County</u>	<u>Total Lottery Sales - FY 2002</u>	<u>Percent of Sales</u>	<u>Estimated Fund Distribution</u>
Allegany	\$13,194,715	1.01%	\$10,122
Anne Arundel	118,875,230	9.12%	91,194
Baltimore City	272,657,619	20.92%	209,167
Baltimore	191,789,792	14.71%	147,130
Calvert	17,805,817	1.37%	13,660
Caroline	5,638,561	0.43%	4,326
Carroll	23,389,921	1.79%	17,943
Cecil	14,353,745	1.10%	11,011
Charles	38,808,924	2.98%	29,772
Dorchester	7,236,322	0.56%	5,551
Frederick	27,191,218	2.09%	20,859
Garrett	3,423,424	0.26%	2,626
Harford	39,619,425	3.04%	30,394
Howard	28,716,510	2.20%	22,030
Kent	3,550,954	0.27%	2,724
Montgomery	121,717,409	9.34%	93,374
Prince George's	272,873,035	20.93%	209,332
Queen Anne's	6,899,592	0.53%	5,293
St. Mary's	24,902,108	1.91%	19,103
Somerset	5,447,948	0.42%	4,179
Talbot	6,437,055	0.49%	4,938
Washington	21,049,236	1.61%	16,148
Wicomico	15,674,935	1.20%	12,025
Worcester	22,288,128	1.71%	17,098
Total	\$1,303,541,623	100.00%	\$1,000,000

Source: Maryland State Lottery Agency

