

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE

House Bill 253 (Delegate Holmes)
 Ways and Means

Lottery for Schools Act of 2004

This bill allocates 25% of State lottery proceeds, after certain existing deductions, to local school systems based on full-time equivalent (FTE) enrollment in the prior year. Local school systems must use the State lottery proceeds for classroom staff and instructional materials. The additional State lottery proceeds are intended to provide additional revenue for local school systems and may not supplant any other funds allocated to public schools in the county. In addition, the remaining 75% of State lottery proceeds allocated to the general fund must be used to implement the Bridge to Excellence in Public Schools Act (Chapter 288 of 2002).

Fiscal Summary

State Effect: General fund revenues would decrease by \$110.0 million in FY 2005. The decrease in future year revenues reflects growth in State lottery revenues. Expenditures would not be affected.

(\$ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	(\$110.0)	(\$111.6)	(\$113.3)	(\$115.0)	(\$116.7)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$110.0)	(\$111.6)	(\$113.3)	(\$115.0)	(\$116.7)

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

Local Effect: State aid to local school systems would increase by \$110.0 million beginning in FY 2005. Local school expenditures would increase by a commensurate amount.

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 \$461.9 million in fiscal 2005. Of this amount, \$22.0 million is distributed to the Maryland Stadium Facilities Fund and \$439.9 million is distributed to the general fund.

Exhibit 1 shows the distribution of State lottery revenues for fiscal 2001 through 2005.

Exhibit 1 Net Revenues from State Lottery (\$ in millions)

	<u>Actual</u> <u>2001</u>	<u>Actual</u> <u>2002</u>	<u>Actual</u> <u>2003</u>	<u>Estimate</u> <u>2004</u>	<u>Estimate</u> <u>2005</u>
Pick 3	128.5	119.7	138.9	120.0	121.2
Pick 4	84.9	93.8	79.2	89.6	87.8
Lotto	20.4	14.5	13.8	11.8	11.4
Cash-in-Hand	3.0	6.5	1.3	1.5	8.3
Instant	58.9	69.9	64.3	68.8	75.1
Keno	92.9	103.4	112.1	112.8	121.9
Match 5	0.0	2.4	7.2	6.5	6.7
Mega Millions	19.7	31.8	28.2	29.8	29.5
Let it Ride	-1.3	0.5	0.0	0.0	0.0
Net Revenues	407.0	442.5	444.9	440.8	461.9
Stadium Authority	22.0	26.2	21.9	22.0	22.0
Horse Racing	0.0	2.2	0.0	0.0	0.0
General Fund	385.0	414.1	422.9	418.8	439.9

Source: Bureau of Revenue Estimates

State funding for public schools will increase significantly over the next three years due to the enactment of the Thornton legislation (Chapter 288 of 2002). 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 2005 to 2008, State education aid will increase by 9.4% annually compared to 8.1% for entitlements, 4.6% for State operations, and 3.1% for noneducation local aid. State education aid accounted for 26% of general fund expenditures in fiscal 2002 and 33% in fiscal 2005. By fiscal 2008, State education aid will account for 36% of general fund expenditures.

State Fiscal Effect: State general fund lottery revenues are estimated at \$439.9 million in fiscal 2005, increasing to \$466.9 million by fiscal 2009. Pursuant to this legislation, local school systems would receive 25% of the State lottery revenue with the remainder going to the State's general fund whereby 75% of the revenue must be used to fund the Bridge to Excellence in Public Schools legislation. However, mandated State funding to public schools is significantly higher than the amount of lottery proceeds that would be deposited in the State's general fund. General fund lottery revenues could only fund 9% of State education aid in fiscal 2005 and 7% in fiscal 2009. **Exhibit 2** shows the general fund forecast for State lottery revenues and the impact that the bill will have on the State's general fund.

Exhibit 2
Impact on the State's General Fund
(\$ in millions)

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
State GF Lottery Forecast	\$439.9	\$446.5	\$453.2	\$460.0	\$466.9
25% to Public Schools	110.0	111.6	113.3	115.0	116.7
Net General Fund Amount	329.9	334.9	339.9	345.0	350.2
State Education Aid	3,644.6	4,014.6	4,376.6	4,806.1	4,933.0

Local Fiscal Effect: State aid to local school systems would increase by \$110.0 million in fiscal 2005 and by \$116.7 million in fiscal 2009. Local school systems must use this additional funding for classroom staff and instructional materials. State and local governments cannot supplant any other funds allocated to public schools in the county. **Appendix 1** shows the estimated lottery distribution for each local school system based on current enrollment projections.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 10, 2004
lc/mdr

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Appendix 1
State Lottery Revenues to Public Schools
Fiscal 2005 to 2009

<u>County</u>	<u>Fiscal 2005</u>	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>
Allegany	\$1,248,000	\$1,257,000	\$1,272,000	\$1,272,000	\$1,265,000
Anne Arundel	9,539,000	9,670,000	9,796,000	9,973,000	10,050,000
Baltimore City	11,729,000	11,732,000	11,759,000	11,731,000	11,670,000
Baltimore	13,678,000	13,926,000	14,201,000	14,406,000	14,477,000
Calvert	2,222,000	2,313,000	2,405,000	2,486,000	2,533,000
Caroline	674,000	684,000	696,000	705,000	711,000
Carroll	3,718,000	3,824,000	3,929,000	4,018,000	4,097,000
Cecil	2,079,000	2,141,000	2,192,000	2,253,000	2,302,000
Charles	3,240,000	3,348,000	3,469,000	3,571,000	3,656,000
Dorchester	599,000	607,000	610,000	616,000	616,000
Frederick	4,967,000	5,126,000	5,298,000	5,476,000	5,646,000
Garrett	617,000	622,000	622,000	622,000	619,000
Harford	5,103,000	5,184,000	5,250,000	5,323,000	5,329,000
Howard	6,139,000	6,345,000	6,556,000	6,754,000	6,913,000
Kent	318,000	322,000	326,000	321,000	316,000
Montgomery	17,722,000	18,179,000	18,625,000	19,086,000	19,415,000
Prince George's	17,278,000	17,721,000	18,111,000	18,400,000	18,611,000
Queen Anne's	935,000	961,000	985,000	994,000	1,011,000
St. Mary's	2,021,000	2,112,000	2,161,000	2,213,000	2,262,000
Somerset	363,000	372,000	383,000	391,000	394,000
Talbot	560,000	567,000	577,000	574,000	569,000
Washington	2,585,000	2,630,000	2,678,000	2,736,000	2,774,000
Wicomico	1,789,000	1,813,000	1,850,000	1,882,000	1,907,000
Worcester	852,000	872,000	879,000	895,000	888,000
Total	\$109,975,000	\$111,625,000	\$113,300,000	\$115,000,000	\$116,725,000

Source: Department of Legislative Services, February 2004