

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

House Bill 254 (Delegate Howard)
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 2005. 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 \$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)	Actual 2001	Actual 2002	Actual 2003	Estimate 2004	Estimate 2005
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 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 2005, BRE released a December 2003 estimate that was used to form the State budget. This estimate may be revised in March 2004 prior to the adoption of the fiscal 2005 State budget. Once fiscal 2005 begins, BRE will release a revised estimate in December 2004 and March 2005. 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.

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 2003.

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
2003	\$417,545,000	March 2002	\$422,945,000	\$5,400,000

State Education Aid

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 non-education 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.

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 2003 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.

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

<u>County</u>	<u>Total Lottery Sales - FY 2003</u>	<u>Percent of Sales</u>	<u>Estimated Fund Distribution</u>
Allegany	\$11,124,330	0.84%	\$8,447
Anne Arundel	124,010,970	9.42%	94,163
Baltimore City	264,451,163	20.08%	200,801
Baltimore	199,275,616	15.13%	151,312
Calvert	18,885,996	1.43%	14,340
Caroline	5,474,241	0.42%	4,157
Carroll	24,463,579	1.86%	18,575
Cecil	13,946,078	1.06%	10,589
Charles	41,125,231	3.12%	31,227
Dorchester	7,354,292	0.56%	5,584
Frederick	26,557,365	2.02%	20,165
Garrett	2,724,296	0.21%	2,069
Harford	41,374,123	3.14%	31,416
Howard	28,575,434	2.17%	21,698
Kent	3,655,308	0.28%	2,776
Montgomery	124,337,959	9.44%	94,411
Prince George's	273,855,295	20.79%	207,942
Queen Anne's	6,977,565	0.53%	5,298
St. Mary's	27,451,273	2.08%	20,844
Somerset	5,487,080	0.42%	4,166
Talbot	6,628,797	0.50%	5,033
Washington	21,062,357	1.60%	15,993
Wicomico	15,968,748	1.21%	12,125
Worcester	22,213,869	1.69%	16,867
Total	\$1,316,980,965	100.00%	\$1,000,000

Source: Maryland State Lottery Agency

Additional Information

Prior Introductions: Similar legislation has been introduced since the 1998 session. At the 2003 session, HB 764 was introduced but it was withdrawn. 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: None.

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

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ncs/mdr

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