

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE

Senate Bill 46 (Chairman, Finance Committee)
 (By Request – Departmental – Lottery)

Finance

State Lottery - Agents - Licensing Considerations and Application Processing Fee

This departmental bill alters the State lottery license application process by requiring the State Lottery Agency to consider the honesty and integrity of a State lottery sales applicant. The honesty and integrity of the applicant includes, but is not limited to, guilty pleas and convictions for felonies, gaming-related offenses, or misdemeanors related to the fitness, qualifications, or credibility of the applicant to perform as a lottery licensee. In addition, the bill authorizes the agency to charge an application fee sufficient to cover the agency’s costs to process an application and adopt regulations specifying the costs and methodology associated with processing an application.

Fiscal Summary

State Effect: General fund revenue increase of approximately \$14,000 annually beginning in FY 2006 due to fee implementation. Out-year estimates reflect stable numbers of lottery agent applications. No effect on expenditures.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	\$0	\$14,000	\$14,000	\$14,000	\$14,000
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$0	\$14,000	\$14,000	\$14,000	\$14,000

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

Local Effect: None.

Small Business Effect: The Lottery Agency has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment as discussed below.

Analysis

Current Law: The agency considers a variety of factors when considering a lottery license application. Financial factors include the financial stability of both the applicant and the business of the applicant, accessibility of the place of business to the public, sufficiency of existing licenses, and the volume of expected sales. Licenses may not be granted to individuals under the age of 21 or if lottery sales would constitute the primary business of the organization.

The Code of Maryland Regulations allows the agency to consider the honesty and integrity of an applicant, including crimes involving moral turpitude, but this is not addressed in statute.

Background: The agency advises that the lottery agent application process typically involves 10 different documents. In addition to the costs associated with the processing of lottery agent applications, the agency incurs background and security check costs. All of the lottery agencies in neighboring states, except Delaware, currently assess an agent application fee. Pennsylvania charges \$15, West Virginia \$25, and Virginia \$50.

State Revenues: The agency advises that due to the time required to adopt the regulations mandated in this bill, lottery agent application fees will not be assessed until fiscal 2006. The estimated increases in future general fund revenues are based on the following assumptions:

- a fee of \$25 will be assessed; and
- the agency will receive 560 agent applications annually. This is the average annual number of applications received in the last three fiscal years.

Factors that change the demand for lottery games will affect the amount of revenue generated from the fee. For example, increased demand for lottery games will likely increase the demand for additional lottery agents, increasing the number of applications and general fund revenue. Existing agents would not be subject to the application fee.

This bill authorizes the agency to charge a fee sufficient to cover the costs of processing lottery agent applications. Based on figures provided by the agency, fiscal 2004 processing costs are estimated to be \$229,500. This amount includes four existing full-time positions as well as background and credit check costs. These costs are currently included in the agency's budget. The agency states that it is their intention to defray part of the application processing costs by assessing a \$25 application fee. Legislative Services estimates that to fully cover agent application processing costs, a significantly

higher fee (of approximately \$435) would be necessary. To the extent the agency increases fees to cover more of the application processing costs, State general fund revenue increases will be higher.

Small Business Effect: In fiscal 2002, approximately 85% of lottery agents were convenience or liquor stores, restaurant/bars, or newsstands. Most of these types of stores are small businesses. Imposition of a one-time \$25 fee would have a minimal impact on small businesses.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): LaFleur's World Lottery Almanac, Maryland State Lottery Agency, Department of Legislative Services

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mh/mdr

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