

**Department of Legislative Services**  
 Maryland General Assembly  
 2006 Session

**FISCAL AND POLICY NOTE**

House Bill 761  
 Ways and Means

(Delegate Howard, *et al.*)

**Distribution of Lottery Proceeds - Public Schools**

This bill requires net State lottery revenue, other than that distributed to the Maryland Stadium Facilities Fund, to be distributed to public school systems in proportions equal to the share of statewide lottery ticket sales in each county. Public school systems may use the revenue for operating expenses, but may not use it to supplant any other revenue they receive from the State lottery.

**Fiscal Summary**

**State Effect:** General fund revenues decrease by approximately \$363 million in FY 2007, accounting for the bill’s October 1, 2006 effective date. Future year decreases reflect annualization and expected 3% annual increases in State lottery revenue.

(\$ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	(\$363.0)	(\$494.5)	(\$509.3)	(\$524.6)	(\$540.4)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$363.0)	(\$494.5)	(\$509.3)	(\$524.6)	(\$540.4)

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

**Local Effect:** Total public school system revenues for education increase by approximately \$363 million in FY 2007. Each county’s share of the total amount would depend on its share of statewide lottery ticket sales.

**Small Business Effect:** None.

## Analysis

**Current Law/Background:** Each month, the Comptroller must make payments from the State Lottery fund to:

- lottery winners;
- the State Lottery for operating expenses; and
- the Maryland Stadium Facilities Fund, from revenue generated by sports lotteries conducted on behalf of the Maryland Stadium Authority.

After those payments are made, any money remaining in the State lottery fund is deposited into the State's general fund.

In fiscal 2005, the State Lottery generated \$1.48 billion in revenue from ticket sales. Payments to lottery winners totaled \$858 million, while operating costs and payments to agents totaled \$151 million. Of the remaining \$480 million, \$456 was deposited in the general fund after payments were made to the Maryland Stadium Facilities Fund.

The proposed fiscal 2007 State budget includes \$4.5 billion for public elementary and secondary education, an increase of \$467 million or 11.6% over the fiscal 2006 appropriation. This is the third consecutive year with a record increase in proposed State education aid. The large annual increases are the result of the Bridge to Excellence in Public Schools Act of 2002 (Chapter 288), which is scheduled to complete its five-year phase-in in fiscal 2008 with an increase of over \$500 million. In fiscal 2008, funding under the Act will be an estimated \$1.3 billion more than the amount that would have been provided under the prior school finance structure. The Bridge to Excellence Act provides for more moderate increases in State aid after fiscal 2008.

**State Fiscal Effect:** For fiscal 2007, the State Lottery Agency projects total general fund revenues to be \$484 million. The Comptroller would divert all revenue previously deposited in the general fund to public school systems. After accounting for the bill's October 1, 2006 effective date, general fund revenue would decrease by \$363 million in fiscal 2007. Beginning in fiscal 2008, when the bill would be fully implemented, all annual revenue previously deposited in the general fund would be diverted to public school systems. Assuming a 3% rate of increase in general fund revenue from State Lottery sales, which reflects actual increases over the past three years, general fund revenue would decrease by \$498.5 million in fiscal 2008, with reductions increasing by 3% annually thereafter.

The bill does not alter the current funding formulas for State education aid. Therefore, the additional \$363 million that the bill would provide for public schools in fiscal 2007 would be added to the \$4.5 billion in State education aid that has been proposed in the fiscal 2007 allowance. In fiscal 2008, approximately \$498 million from lottery proceeds would be added to an estimated \$5.0 billion in mandated State education aid.

**Local Revenues:** Public school system revenue would increase by amounts commensurate with the decrease in State general fund revenue. The bill does not specify which fiscal year would be used to determine the distribution of Lottery revenues to public school systems. **Exhibit 1** shows each county's share of State lottery ticket sales in fiscal 2005, the most recent data available, and an estimate of the first-year lottery revenues allocated to each county, based on fiscal 2005 lottery sales.

---

**Exhibit 1**  
**State Lottery Ticket Sales by County**  
**Fiscal 2005**

	<u>Total Sales</u>	<u>Percent of Total Sales</u>	<u>Estimated First-year Revenue</u>
Allegany	\$10,785,253	0.7%	\$2,541,000
Anne Arundel	148,476,627	10.1	36,663,000
Baltimore	226,844,237	15.3	55,539,000
Baltimore City	285,535,678	19.2	69,696,000
Calvert	23,147,526	1.6	5,808,000
Caroline	7,302,945	0.5	1,815,000
Carroll	28,874,202	2.0	7,260,000
Cecil	15,955,233	1.1	3,993,000
Charles	46,781,907	3.2	11,616,000
Dorchester	8,080,115	0.6	2,178,000
Frederick	31,961,950	2.2	7,986,000
Garrett	2,932,693	0.2	726,000
Harford	47,982,082	3.3	11,979,000
Howard	32,238,503	2.2	7,986,000
Kent	4,072,946	0.3	1,089,000
Montgomery	138,089,176	9.3	33,759,000
Prince George's	299,159,983	20.1	72,963,000
Queen Anne's	8,734,506	0.6	2,178,000
St. Mary's	31,289,783	2.1	7,623,000
Somerset	5,733,498	0.4	1,452,000

	<u>Total Sales</u>	<u>Percent of Total Sales</u>	<u>Estimated First-year Revenue</u>
Talbot	7,329,499	0.5	1,815,000
Washington	24,503,573	1.7	6,171,000
Wicomico	18,021,538	1.2	4,356,000
Worcester	24,251,577	1.6	5,808,000
<b>Total</b>	<b>\$1,478,085,030</b>	<b>100.0</b>	<b>\$363,000,000</b>

Source: Maryland State Lottery Agency

---

### Additional Information

**Prior Introductions:** HB 320 of 2004 received an unfavorable report from the House Ways and Means Committee.

**Cross File:** None.

**Information Source(s):** Maryland State Lottery Agency, Maryland Association of Boards of Education, Maryland State Department of Education, Department of Legislative Services

**Fiscal Note History:** First Reader - March 22, 2006  
ncs/rhh

---

Analysis by: Michael C. Rubenstein

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510