

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

**FISCAL AND POLICY NOTE**

House Bill 764  
Ways and Means

(Delegates Howard and Conroy)

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**Education - Maryland Public School Supplemental Fund - Lotteries**

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This bill requires the State Lottery Agency to conduct from two to four “Education Lotteries” per year for the benefit of local school systems. The net proceeds of these lotteries would be distributed into the Maryland Public School Supplemental Fund established by the bill, and then distributed to local boards of education based on the sales in each county. The State education grants may be withheld if a county is not in compliance with the maintenance of effort requirements for State education aid, unless the General Assembly grants an exemption.

The bill takes effect July 1, 2006.

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**Fiscal Summary**

**State Effect:** Significant decrease in general fund revenues in FY 2007 and beyond due to loss in revenues generated from other lottery games. Significant increase in special fund revenues in FY 2007 and thereafter. The extent of special fund revenues depends on the number and type of lottery games dedicated for local school systems. State education aid for local jurisdictions would increase by a corresponding amount.

**Local Effect:** Significant increase in local revenues due to increase in State grants for education in FY 2007 and beyond.

**Small Business Effect:** None.

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## 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 \$504.7 million in fiscal 2007. Of this amount, \$21.0 million is distributed to the Maryland Stadium Facilities Fund and \$483.7 million is distributed to the general fund.

**Exhibit 1** shows the distribution of State lottery revenues for fiscal 2001 through 2007.

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

	Actual 2001	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Estimate 2006	Estimate 2007
Pick 3	128.5	119.7	138.9	126.7	125.7	119.6	119.7
Pick 4	84.9	93.8	79.2	89.2	92.1	97.0	98.3
Lotto	20.4	14.5	13.8	14.2	13.5	13.8	13.6
Cash-in-Hand	3.0	6.5	1.3	0.0	0.0	0.0	0.0
Instant	58.9	69.9	64.3	67.9	71.3	75.6	80.3
Keno	92.9	103.4	112.1	115.0	125.4	126.6	130.4
Match 5	0.0	2.4	7.2	7.3	7.1	7.9	71.2
Mega Millions	19.7	31.8	28.2	37.6	41.9	51.3	55.1
Let it Ride	-1.3	0.5	0.0	0.0	0.0	0.0	0.0
<b>Net Revenues</b>	<b>407.0</b>	<b>442.5</b>	<b>444.9</b>	<b>458.4</b>	<b>477.1</b>	<b>491.8</b>	<b>504.7</b>
Stadium Authority	22.0	26.2	21.9	22.0	21.2	20.5	21.0
Horse Racing	0.0	2.2	0.0	0.0	0.0	0.0	0.0
General Fund	385.0	414.1	422.9	436.4	455.9	471.3	483.7

Source: Bureau of Revenue Estimates

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:** The amount of special fund revenue and expenditure increase in fiscal 2007 and thereafter depends on the type and number of Education Lotteries conducted in a year and cannot be reliably estimated.

General fund revenues will decrease to the extent that: (1) existing lottery games are conducted for the benefit of local school systems instead of the proceeds being deposited in the general fund; or (2) new lottery games are dedicated to local school systems and this reduces sales of other lottery games. For example, if a new instant ticket game is conducted for the benefit of local school systems, sales for the existing instant ticket games could decrease, causing general fund revenues to decline.

**Local Revenues:** State aid to counties for education would increase depending on the amount of lottery revenues generated by the Education Lotteries. The amount of the increase would depend on the number of games conducted and percentage of total sales in each county. *For illustrative purposes only*, **Exhibit 2** shows the distribution of lottery sales in each jurisdiction in fiscal 2005 and the amount of the revenues that would be provided to each local school system for every \$1 million in education lottery revenues.

**Exhibit 2**  
**Estimated Local Distribution**  
**Per \$1 Million in Lottery Revenues**

<u>County</u>	<u>Total Lottery Sales – FY 2005</u>	<u>Percent of FY 2005 Sales</u>	<u>Estimated Fund Distribution</u>
Allegany	\$10,785,253	0.7%	\$7,000
Anne Arundel	148,476,627	10.1%	101,000
Baltimore City	285,535,678	19.2%	190,200
Baltimore	226,844,237	15.3%	153,000
Calvert	23,147,526	1.6%	16,000
Caroline	7,302,945	0.5%	5,000
Carroll	28,874,202	2.0%	20,000
Cecil	15,955,233	1.1%	11,000
Charles	46,781,907	3.2%	32,000
Dorchester	8,080,115	0.6%	6,000
Frederick	31,961,950	2.2%	22,000
Garrett	2,932,693	0.2%	2,000

<u>County</u>	<u>Total Lottery Sales – FY 2005</u>	<u>Percent of FY 2005 Sales</u>	<u>Estimated Fund Distribution</u>
Harford	47,982,082	3.3%	33,000
Howard	32,238,503	2.2%	22,000
Kent	4,072,946	0.3%	3,000
Montgomery	138,089,176	9.3%	93,000
Prince George's	299,159,983	20.1%	201,000
Queen Anne's	8,734,506	0.6%	6,000
St. Mary's	31,289,783	2.1%	21,000
Somerset	5,733,498	0.4%	4,000
Talbot	7,329,499	0.5%	5,000
Washington	24,503,573	1.7%	17,000
Wicomico	18,021,538	1.2%	12,000
Worcester	24,251,577	1.6%	16,000
<b>Total</b>	<b>\$1,478,085,030</b>	<b>100.00%</b>	<b>\$1,000,000</b>

Source: Maryland State Lottery Agency

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### Additional Information

**Prior Introductions:** HB 319 of 2004, a substantially similar bill, received an unfavorable report from the House Ways and Means Committee.

**Cross File:** None.

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

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