

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

House Bill 355 (Delegate Patterson, *et al.*)
 Ways and Means

State Lottery - Unclaimed Prizes - Distribution to School Systems

This bill requires half of all unclaimed lottery prize money to be distributed to local school systems in amounts proportionate to each county's share of State lottery sales. The school systems must use the additional revenue to purchase or maintain technology and may not use the additional revenue to supplant any other revenue they receive.

Fiscal Summary

State Effect: State lottery ticket sales could decrease by as much as \$16.5 million in FY 2007 and \$23 million annually thereafter. As a result, general fund revenue could decrease by between \$3.8 million and \$5.1 million in FY 2007, which reflects the bill's October 1, 2006 effective date (the mid-point of the range is shown below). Special fund revenue for the State Lottery Agency (SLA) could decrease by as much as \$596,000 in FY 2007. Future year decreases in both general and special fund revenues reflect annualization and 3% growth in lottery ticket sales.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	(\$4,481,000)	(\$6,153,800)	(\$6,338,500)	(\$6,528,600)	(\$6,724,500)
SF Revenue	(595,500)	(817,800)	(842,400)	(867,700)	(893,700)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$5,076,500)	(\$6,971,600)	(\$7,180,900)	(\$7,396,300)	(\$7,618,200)

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

Local Effect: Local school system revenues could increase by \$9.5 million in FY 2007. Distribution of the revenue among the school systems would be based on the share of State lottery ticket sales in each county.

Small Business Effect: Meaningful. Small businesses that sell lottery tickets could experience decreased lottery ticket sales due to reduced lottery promotions.

Analysis

Current Law: State lottery winners have 182 days to claim their prize money. After that, SLA deposits the unclaimed prize money in an unclaimed prize fund that must be used for prize money in other lottery games.

Revenues from the State lottery are used to fund SLA's operating expenses, prizes, and, in the case of sports lotteries, the Maryland Stadium Authority. Remaining revenue is paid into the general fund.

Background: In fiscal 2005, the State lottery generated \$1.48 billion in revenue from ticket sales, awarded \$858 million (57.8%) in prizes, and had \$17.8 million in unclaimed prize money.

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: Based on fiscal 2005 figures and a 3% annual increase in lottery ticket revenues, this bill would reduce prize money awarded from the unclaimed prize fund by about \$9.5 million annually. SLA notes that the unclaimed prize fund is used to increase lottery ticket sales by funding special promotions. Reductions in prize money for those promotions would likely decrease ticket sales, and therefore the amount of money available for the general fund.

Based on its statistical model of lottery ticket sales, SLA estimates that every dollar spent on promotions generates \$2.33 in additional ticket sales. Applying that ratio to the \$9.5 million in unclaimed prize money that would be diverted to local school systems, lottery ticket sales could decrease by \$16.5 million in fiscal 2007, accounting for the bill's October 1, 2006 effective date. In fiscal 2005, the general fund received 31% of all lottery revenue. Therefore, a high estimate of State general fund revenue decreases

would be \$5.1 million in fiscal 2007, after accounting for the bill's October 1, 2006 effective date, and more than \$7 million annually thereafter.

A lower estimate of general fund revenue decreases is based on the fact that for the past three years, for every dollar awarded in prize money, SLA has paid about 54 cents to the general fund. Applying the above ratio of prize money to general fund revenue, the \$9.5 million reduction in unclaimed prize funds would reduce general fund revenue by \$3.8 million in fiscal 2007, after accounting for the bill's October 1, 2006 effective date, and more than \$5 million, annually thereafter.

Finally, SLA retains about 3.6% of lottery revenues for operating expenses. A \$16.5 million reduction in ticket sales would result in a \$595,500 reduction in special fund revenue for SLA in fiscal 2007, after accounting for the October 1, 2006 effective date. Future year reductions in special fund revenue account for annualization and a 3% annual increase in lottery ticket sales.

Local Revenues: Local school system revenue for technology could increase by \$9.5 million in fiscal 2007, and increase annually by 3% thereafter. The bill does not specify which year would be used to determine the allocation of revenues to local systems. **Exhibit 1** shows each county's share of State lottery ticket sales in fiscal 2005, the most recent data available, and the revenue each county would receive in the first year under this bill based on fiscal 2005 county shares.

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%	\$69,073
Anne Arundel	148,476,627	10.0	950,902
Baltimore	226,844,237	15.3	1,452,798
Baltimore City	285,535,678	19.3	1,828,681
Calvert	23,147,526	1.6	148,246
Caroline	7,302,945	0.5	46,771
Carroll	28,874,202	2.0	184,922
Cecil	15,955,233	1.1	102,183
Charles	46,781,907	3.2	299,609
Dorchester	8,080,115	0.5	51,748
Frederick	31,961,950	2.2	204,697

	<u>Total Sales</u>	<u>Percent of Total Sales</u>	<u>Estimated First-year Revenue</u>
Garrett	2,932,693	0.2	18,872
Harford	47,982,082	3.2	307,296
Howard	32,238,503	2.2	206,468
Kent	4,072,946	0.3	26,085
Montgomery	138,089,176	9.3	884,376
Prince George's	299,159,983	20.2	1,915,936
Queen Anne's	8,734,506	0.6	55,939
St. Mary's	31,289,783	2.1	200,392
Somerset	5,733,498	0.4	37,720
Talbot	7,329,499	0.5	46,941
Washington	24,503,573	1.7	156,930
Wicomico	18,021,538	1.2	115,416
Worcester	24,251,577	1.6	155,316
Total	\$1,478,085,030	100.0	\$9,466,228

Source: Maryland State Lottery Agency

Additional Information

Prior Introductions: None.

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

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