

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 765 (Delegate Howard, *et al.*)
Ways and Means

State Lottery - Unanticipated Revenues

This bill requires State lottery revenues in excess of the estimate for a fiscal year to be distributed to counties and municipalities instead of being deposited in the State's general fund. The distribution is to be based on the lottery sales in each county, except that sales in municipalities may not be included in the counties' sales for the purpose of determining this distribution. A county or municipality that receives these funds must spend the money equally between public school and public safety expenses.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: Potential significant decrease in general fund revenues beginning in FY 2007. The extent of any decrease depends on the amount of lottery revenues that exceed projections for a fiscal year.

Local Effect: Potential significant increase in local revenues. Corresponding expenditure increase for local school systems and public safety.

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 \$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
Net Revenues	407.0	442.5	444.9	458.4	477.1	491.8	504.7
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

State Revenue 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 2007, BRE released a December 2005 estimate that was used to form the State budget. This estimate may be revised in March 2006 prior to the adoption of the fiscal 2007 State budget. (The March 2006 estimate did not change for fiscal 2007 lottery revenues.) Once fiscal 2007 begins, BRE will release a revised estimate in December 2006 and March 2007. 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 2005. Since fiscal 2000, lottery revenues have exceeded the March estimate by at least \$5 million annually, but the amount varies considerably each year.

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
2004	\$418,786,000	March 2003	\$436,373,000	\$17,587,000
2005	\$446,195,000	March 2004	\$455,863,000	\$9,668,000

Local Fiscal Effect: State aid to counties and municipalities for public schools and public safety 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 2005 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. Sales in municipalities are not included in the exhibit.

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

<u>County</u>	<u>Total Lottery Sales – FY 2005</u>	<u>Percent of 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
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
Total	\$1,478,085,030	100.00%	\$1,000,000

Source: Maryland State Lottery Agency

Additional Information

Prior Introductions: HB 315 of 2004 received an unfavorable report from the House Ways and Means Committee. Similar legislation has been introduced since the 1998 session.

Cross File: None.

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

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