

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

House Bill 289 (Delegate Holmes)
 Ways and Means

Lottery for Schools Act of 2006

This bill requires the Comptroller to distribute 25% of net State lottery revenue, other than that distributed to the Maryland Stadium Facilities Fund, to public school systems in proportions equal to the share of statewide lottery ticket sales in their county. Public school systems may use the revenue for classroom staff and instructional materials, but may not use it to supplant any other revenue they receive. The remaining 75% of lottery revenue distributed to the general fund must be used to help maintain an adequate education for public school students under the Bridge to Excellence Act, enacted by Chapter 288 of 2002.

Fiscal Summary

State Effect: General fund revenues decrease by approximately \$90.8 million in FY 2007, accounting for the bill’s October 1, 2006 effective date. Remaining proceeds from State lottery sales currently available for all State programs in the general fund would be reserved for the purpose of funding the Bridge to Excellence Act. 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	(\$90.8)	(\$125.8)	(\$129.6)	(\$133.5)	(\$137.5)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$90.8)	(\$125.8)	(\$129.6)	(\$133.5)	(\$137.5)

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 \$90.8 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 were \$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 25% of all revenue previously deposited in the general fund to public school systems, and the remainder into the general fund. After accounting for the bill's October 1, 2006 effective date, general fund revenue would decrease by \$90.8 million in fiscal 2007. Beginning in fiscal 2008, when the bill would be fully implemented, 25% of 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 fiscal years, general fund revenue would decrease by \$125.8 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, State expenditures for education aid would not be affected. Instead, the 75% of State lottery sales revenue deposited in the general fund (approximately \$272.2 million in fiscal 2007) would be reserved for State education aid through existing funding formulas, which far exceed the amount provided by lottery revenues.

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 expected first-year revenues for each local school system.

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%	\$635,600
Anne Arundel	148,476,627	10.1	9,170,800
Baltimore	226,844,237	15.3	13,892,400
Baltimore City	285,535,678	19.2	17,433,600
Calvert	23,147,526	1.6	1,452,800
Caroline	7,302,945	0.5	454,000
Carroll	28,874,202	2.0	1,816,000
Cecil	15,955,233	1.1	998,800
Charles	46,781,907	3.2	2,905,600
Dorchester	8,080,115	0.6	544,800
Frederick	31,961,950	2.2	1,997,600
Garrett	2,932,693	0.2	181,600
Harford	47,982,082	3.3	2,996,400
Howard	32,238,503	2.2	1,997,600
Kent	4,072,946	0.3	272,400
Montgomery	138,089,176	9.3	8,444,400
Prince George's	299,159,983	20.1	18,250,800

	<u>Total Sales</u>	<u>Percent of Total Sales</u>	<u>Estimated First-year Revenue</u>
Queen Anne's	8,734,506	0.6	544,800
St. Mary's	31,289,783	2.1	1,906,800
Somerset	5,733,498	0.4	363,200
Talbot	7,329,499	0.5	454,000
Washington	24,503,573	1.7	1,543,600
Wicomico	18,021,538	1.2	1,089,600
Worcester	24,251,577	1.6	1,452,800
Total	\$1,478,085,030	100.0	\$90,800,000

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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