

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 879 (Delegate Howard, *et al.*)
Ways and Means

State Lottery - Unanticipated Revenues - Public School Systems

This bill requires State lottery revenues in excess of the estimate for a fiscal year to be distributed to local school systems instead of being deposited in the State's general fund. The distribution is to be based on the lottery sales in the county in which the local school system is located. It is intended to provide additional revenue for local school systems and not to supplant any other distribution of lottery proceeds to the public school systems.

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.

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 |

State Education Aid

State funding for public schools will continue to increase significantly over the next two years due to the enactment of the Bridge to Excellence Act (Chapter 288 of 2002). Under the legislation, it is estimated that the State will provide \$1.3 billion in new funding for public schools by fiscal 2008 over the prior financing structure. With these increases the State will be assuming a larger role in funding public schools. From fiscal 2005 to 2008, State education aid will increase by 11.3% annually.

Local Fiscal Effect: State aid to local school systems 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.

Exhibit 3
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 |
| 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 254 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, Maryland State Department of Education, Comptroller's Office (Bureau of Revenue Estimates), Department of Legislative Services

Fiscal Note History: First Reader - March 22, 2006
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