

**Department of Legislative Services**  
 Maryland General Assembly  
 2007 Session

**FISCAL AND POLICY NOTE**

House Bill 370  
 Ways and Means

(Delegate Howard, *et al.*)

**Distribution of Lottery Proceeds - Public Schools**

This bill requires net State lottery revenue, other than that distributed to the Maryland Stadium Facilities Fund, to be distributed to public school systems in proportions equal to the share of statewide lottery ticket sales in each county. Public school systems may use the revenue for operating expenses, but may not use it to supplant any other revenue they receive from the State lottery.

**Fiscal Summary**

**State Effect:** General fund revenues decrease by approximately \$374 million in FY 2008, accounting for the bill’s October 1, 2007 effective date. Future year decreases reflect annualization and expected 3% annual increases in State lottery revenue.

(\$ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	(\$374.4)	(\$514.2)	(\$529.6)	(\$545.5)	(\$561.9)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$374.4)	(\$514.2)	(\$529.6)	(\$545.5)	(\$561.9)

*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 \$374 million in FY 2008. 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 2006, the State lottery generated \$1.56 billion in revenue from ticket sales. Payments to lottery winners totaled \$903 million, while operating costs and payments to agents totaled \$157 million. Of the remaining \$501 million, \$480.5 million was deposited in the general fund after payments were made to the Maryland Stadium Facilities Fund.

The proposed fiscal 2008 State budget includes \$5.2 billion for public elementary and secondary education, an increase of \$682 million or 15.2% over the fiscal 2007 appropriation. This would be the fourth 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; during which 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 2008, the State Lottery Agency projects total general fund revenues to be \$499.2 million. The Comptroller would divert all revenue previously deposited in the general fund to public school systems. After accounting for the bill's October 1, 2007 effective date, general fund revenue would decrease by \$374.4 million in fiscal 2008. Beginning in fiscal 2009, when the bill would be fully implemented, 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 years, general fund revenue would decrease by \$514.2 million in fiscal 2009, with reductions increasing by 3% annually thereafter.

The bill does not alter the current funding formulas for State education aid. Therefore, the additional \$374.4 million that the bill would provide for public schools in fiscal 2008 would be added to the \$5.2 billion in State education aid that has been proposed in the fiscal 2008 allowance. In fiscal 2009, approximately \$514.2 million from lottery proceeds would be added to mandated State education aid.

**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 2006, the most recent data available, and an estimate of the first-year lottery revenues allocated to each county, based on fiscal 2006 lottery sales.

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**Exhibit 1**  
**State Lottery Ticket Sales by County**  
**Fiscal 2006**

	<u>Total Sales</u>	<u>Percent of Total Sales</u>	<u>Estimated First-year Revenue</u>
Allegany	\$11,127,049	0.7%	\$2,674,892
Anne Arundel	161,274,587	10.4	38,769,676
Baltimore	238,940,997	15.3	57,440,327
Baltimore City	290,059,704	18.6	69,729,031
Calvert	23,516,925	1.5	5,653,362
Caroline	6,755,980	0.4	1,624,107
Carroll	29,933,858	1.9	7,195,963
Cecil	16,490,135	1.1	3,964,153
Charles	50,591,475	3.2	12,161,960
Dorchester	7,595,378	0.5	1,825,894
Frederick	34,441,933	2.2	8,279,684
Garrett	2,763,022	0.2	664,218
Harford	52,671,758	3.4	12,662,051
Howard	36,063,887	2.3	8,669,594
Kent	4,400,333	0.3	1,057,820
Montgomery	144,751,573	9.3	34,797,619
Prince George's	317,228,536	20.4	76,260,295
Queen Anne's	9,327,293	0.6	2,242,239
St. Mary's	34,958,282	2.2	8,403,812
Somerset	5,895,246	0.4	1,417,190

	<u>Total Sales</u>	<u>Percent of Total Sales</u>	<u>Estimated First-year Revenue</u>
Talbot	7,403,076	0.5	1,779,666
Washington	26,213,933	1.7	6,301,710
Wicomico	18,962,454	1.2	4,558,488
Worcester	26,066,433	1.7	6,266,252
<b>Total</b>	<b>\$1,557,433,847</b>	<b>100.0</b>	<b>\$374,400,000</b>

Source: Maryland State Lottery Agency

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### Additional Information

**Prior Introductions:** HB 761 of 2006, an identical bill, was heard in the House Ways and Mean Committee but no further action was taken. HB 320 of 2004 received an unfavorable report from Ways and Means.

**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

**Fiscal Note History:** First Reader - March 7, 2007  
ncs/rhh

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