

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

House Bill 1365

(Delegate V. Clagett, *et al.*)

Ways and Means

State Lottery - Lottery for Benefit of Thoroughbred and Standardbred Breeders

This bill requires the State Lottery Agency to annually conduct at least one horse racing lottery game for the benefit of the Maryland Thoroughbred Breeders Fund and the Maryland Standardbred Breeders Fund. Advertising and tickets for the game have to identify that the two funds are the beneficiaries. Proceeds from the games must be distributed 80% to the Maryland Thoroughbred Breeders Fund and 20% to the Maryland Standardbred Breeders Fund.

The bill takes effect October 1, 2008 and terminates September 30, 2011.

Fiscal Summary

State Effect: Assuming one instant lottery game is conducted each fiscal year, general fund revenues would decrease by \$1.6 million in FY 2009 – 2012 with a corresponding increase in special fund revenues and expenditures.

| (in dollars) | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
|----------------|---------------|---------------|---------------|---------------|---------|
| GF Revenue | (\$1,600,000) | (\$1,600,000) | (\$1,600,000) | (\$1,600,000) | \$0 |
| SF Revenue | 1,600,000 | 1,600,000 | 1,600,000 | 1,600,000 | 0 |
| SF Expenditure | 1,600,000 | 1,600,000 | 1,600,000 | 1,600,000 | 0 |
| Net Effect | (\$1,600,000) | (\$1,600,000) | (\$1,600,000) | (\$1,600,000) | \$0 |

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: All monies received in sales of State lottery games, less agent commissions, are credited to the State Lottery Fund. A system of voucher deposits provides for payout of prizes and commissions outside the State budget. Operating expenses of the State Lottery Agency are paid from the fund through normal budgetary procedures. The remaining funds are available as prizes, with any undistributed portion becoming part of the State's share. Any special distributions, such as that for the Maryland Stadium Authority, are deducted from the State's share. The remainder is credited to the general fund.

Background: Since 1973, the Maryland State Lottery Agency has administered and operated lottery games to generate revenues for the State. The lottery currently offers nine games: Pick 3; Pick 4; Keno and Keno Bonus; Mega Millions; Bonus Match Five; Instant Games; Multi-Match (which replaced Lotto in February 2006); Race Trax; and a new game called Maryland Hold'Em.

All games, except instant games, are online, meaning players pick their numbers or use computer generated numbers, receive a ticket, and then wait for a drawing to see if they have won. With instant games, players scratch off a latex covering on a ticket play area to reveal preprinted combinations. Games are sold through lottery agents, which are private businesses that receive commissions and fees in exchange for selling the games to the public.

Proceeds from the games pay for prizes, agent earnings, and all operating expenses of the Lottery Agency. In fiscal 2007, 58.3% of sales paid for prizes, 7.1% paid for agent commissions and redemption fees, 3.3% paid for agency operations, and the remaining 31.0% was credited as revenues to the State. Lottery income is the State's third largest source of revenue, after income taxes and sales taxes. **Exhibit 1** displays the State Lottery Fund's receipts and disbursements for fiscal 2007 to 2009.

Exhibit 1
State Lottery Fund Overview
Fiscal 2007-2009
(*\$* in Millions)

| | 2007 <u>Actual</u> | 2008 Working <u>Appropriation</u> | 2009 <u>Allowance</u> |
|-----------------------------------|-------------------------------------|--|--|
| Gross Sales | \$1,577.3 | \$1,708.7 | \$1,756.2 |
| Deductions | | | |
| Agent Commissions | 112.2 | 122.3 | 126.1 |
| Operating Expenses | 51.8 | 57.8 | 60.0 |
| Prizes | 919.2 | 1,010.0 | 1,038.8 |
| Total Deductions | 1,083.2 | 1,190.1 | 1,224.9 |
| Net Lottery Revenues | \$494.1 | \$518.6 | \$531.3 |
| Maryland Stadium Authority | \$21.0 | \$21.5 | \$23.0 |
| General Fund Revenues | \$473.1 | \$497.1 | \$508.3 |

Note: Figures may not sum due to rounding.

Source: State Lottery Agency; Board of Revenue Estimates

State Fiscal Effect: This estimate reflects the sale of one instant game lottery product in each fiscal year and considers the current market for these products to be saturated; therefore, sales of a product to assist the two racing funds will draw from and reduce ticket sales from the current pool of instant game lottery products. General fund revenues could decrease by an estimated \$1.6 million in fiscal 2009, 2010, 2011, and 2012 due to the creation of an instant game lottery product for the benefit of the Maryland Thoroughbred Breeders Fund and the Maryland Standardbred Breeders Fund. The estimate reflects the bill's October 1, 2008 effective date and September 30, 2011 termination date and is based on the State Lottery Agency's previous experience conducting a separate instant lottery game identified as a horse racing lottery ticket. Ticket sales resulted in \$1.6 million in net revenues to the general fund. Special fund

revenues and expenditures would increase correspondingly. The game could be implemented with the Lottery Agency's existing budgeted resources.

Small Business Effect: Small businesses involved in the horse racing industry could benefit from increased purses at Maryland race tracks.

Additional Information

Prior Introductions: A similar bill was introduced in the 2005 session as HB 632 and received a hearing from the House Ways and Means Committee.

Cross File: SB 486 (Senator Klausmeier, *et al.*) – Education, Health, and Environmental Affairs.

Information Source(s): Maryland State Lottery Agency; Department of Labor, Licensing, and Regulation; Department of Legislative Services

Fiscal Note History: First Reader - February 28, 2008
ncs/rhh

Analysis by: Michael P. Lee

Direct Inquiries to:
(410) 946-5510
(301) 970-5510