

Department of Legislative Services  
Maryland General Assembly  
2008 Session

FISCAL AND POLICY NOTE

House Bill 756 (Delegate Howard, *et al.*)  
Ways and Means

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State Lottery - Unanticipated Revenues

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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, 2008.

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Fiscal Summary

**State Effect:** Potential significant decrease in general fund revenues beginning in FY 2009. 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.

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Analysis

**Current Law:** Net revenues from State lotteries are distributed to the general fund after sports lotteries conducted for the benefit of the Stadium Authority are distributed to the Maryland Stadium Facilities Fund.

**Background:** The lottery, in operation since 1973, is the third largest contributor to the State’s general fund, with general fund revenues of \$473.1 million in fiscal 2007. The general fund proceeds represent the net “profit” after all expenses are paid, including the costs of administering the State Lottery Agency (\$51.8 million for fiscal 2007) and the distribution of revenues to the Maryland Stadium Authority (\$21.0 million). In March 2008, the Board of Revenue Estimates (BRE) projects \$497.1 million for fiscal 2008 and \$508.3 million for 2009.

The State Lottery Commission, consisting of five members appointed by the Governor, has oversight responsibility for the agency. The agency currently administers eight games, with approximately 3,700 licensed sales agents across the State. Agents receive commissions for selling tickets and cashing winning tickets; in fiscal 2007 agent earnings totaled \$112.2 million, 7.1% of gross sales. Prizes in fiscal 2007 totaled \$919.2 million, more than 50% of total sales.

**Exhibit 1** displays the State Lottery Fund’s receipts and disbursements for fiscal 2007 to 2009.

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

	<b>Fiscal 2007</b> <b><u>Actual</u></b>	<b>Fiscal 2008</b> <b><u>Appropriation</u></b>	<b>Fiscal 2009</b> <b><u>Allowance</u></b>
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 Revenue	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

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**State Fiscal Effect:** State lottery revenues in excess of the estimate for a fiscal year must be distributed to local school systems. The actual 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.

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**Exhibit 2**  
**State Lottery Revenues Exceeding Budgetary Estimate**  
**(\$ in Millions)**

<u>Fiscal Year</u>	<u>Estimated Revenue</u>	<u>Date of Estimate</u>	<u>Actual Revenue</u>	<u>Difference</u>
1996	\$348.235	March 1995	\$369.768	\$21.533
1997	382.202	March 1996	356.002	(26.200)
1998	358.584	March 1997	362.515	3.931
1999	376.633	March 1998	352.175	(24.458)
2000	362.227	March 1999	367.763	5.536
2001	373.502	March 2000	385.045	11.543
2002	384.307	March 2001	414.063	29.756
2003	417.545	March 2002	422.945	5.400
2004	418.786	March 2003	436.373	17.587
2005	446.195	March 2004	455.863	9.668
2006	471.338	March 2005	480.471	9.1333
2007	477.372	March 2006	473.119	(4.253)

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**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 2007 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 2007</u>	<u>Percent of Sales</u>	<u>Estimated Fund Distribution</u>
Allegany	\$10,651,701	0.70%	\$7,000
Anne Arundel	165,042,541	10.50%	105,000
Baltimore City	293,026,683	18.60%	186,000
Baltimore	241,454,889	15.40%	154,000
Calvert	22,269,698	1.40%	14,000
Caroline	7,004,769	0.50%	5,000
Carroll	30,297,106	1.90%	19,000
Cecil	15,964,184	1.00%	10,000
Charles	54,912,943	3.50%	35,000
Dorchester	7,898,762	0.50%	5,000
Frederick	32,932,708	2.10%	21,000
Garrett	2,836,047	0.20%	2,000
Harford	53,116,230	3.40%	34,000
Howard	36,702,763	2.30%	23,000
Kent	4,085,382	0.30%	3,000
Montgomery	143,179,132	9.10%	91,000
Prince George's	319,962,689	20.40%	204,000
Queen Anne's	9,354,775	0.60%	6,000
St. Mary's	36,884,503	2.40%	24,000
Somerset	5,781,763	0.40%	4,000
Talbot	7,511,477	0.50%	5,000
Washington	25,061,762	1.60%	16,000
Wicomico	19,832,008	1.30%	13,000
Worcester	26,834,885	1.70%	17,000
<b>Total</b>	<b>\$1,572,599,400</b>	<b>100.00%</b>	<b>\$1,000,000</b>

Source: Maryland State Lottery Agency

## Additional Information

**Prior Introductions:** A nearly identical bill, HB 371 of 2006, was withdrawn from the House Ways and Means Committee. A nearly identical bill, HB 315 of 2004, received an unfavorable report from the House Ways and Means Committee.

**Cross File:** None.

**Information Source(s):** State Lottery Agency, Department of Legislative Services

**Fiscal Note History:** First Reader - March 12, 2008  
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