

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

House Bill 8 (Delegate Holmes)
 Ways and Means

Lottery for Schools Act of 2008

This bill requires the Comptroller to distribute 25% of net State lottery revenues, 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 respective counties. Lottery revenues may not supplant other revenues distributed to public schools. Public school systems may use the revenues for classroom staff and instructional materials. The remaining 75% of lottery revenues 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 would decrease by approximately \$95.3 million in FY 2009 due to the diversion of lottery revenues to local school systems. Future year revenue estimates reflect annualization and expected 3% annual increases in State lottery revenues. 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.

(\$ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	(\$95.3)	(\$130.9)	(\$134.8)	(\$138.9)	(\$143.0)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$95.3)	(\$130.9)	(\$134.8)	(\$138.9)	(\$143.0)

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

Local Effect: Local school revenues from lottery proceeds would increase by an estimated \$95.3 million in FY 2009. Each school system'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 revenues 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 2007, the State Lottery generated \$1.58 billion in revenues from ticket sales. Payments to lottery winners were \$919.2 million, while operating costs and payments to agents totaled \$164.0 million. Of the remaining \$494.1 million, \$473.1 million was deposited in the general fund after payments were made to the Maryland Stadium Facilities Fund.

During the six-year phase-in of the Bridge to Excellence in Public Schools Act of 2002, State aid for public primary and secondary education increased by \$2.3 billion from \$2.9 billion in fiscal 2002 to \$5.2 billion in fiscal 2008. Although the growth in aid was always expected to be smaller in fiscal 2009 than it was in the preceding years due to the completion of the Bridge to Excellence Act phase-in, the Budget Reconciliation Act (BRA) passed during the 2007 special session constrained growth in State education aid by eliminating for two fiscal years the inflationary increases that are used in the major aid formulas. The BRA did, however, guarantee at least modest increases in total State aid for each local school system in fiscal 2009 and 2010. The proposed fiscal 2009 State budget includes \$5.35 billion in State aid for public education, an increase of \$182 million over the fiscal 2008 funding level.

State Revenues: For fiscal 2009, the State Lottery Agency projects total general fund lottery revenues to be \$508.3 million. The Comptroller would divert 25% of all revenues

previously deposited in the general fund to public school systems, and the remainder of the funds into the general fund. After accounting for the bill's October 1, 2008 effective date, general fund revenues would decrease by \$95.3 million in fiscal 2009.

Beginning in fiscal 2010, when the bill would be fully implemented, 25% of all annual revenues previously deposited in the general fund would be diverted to public school systems. Assuming a 3% rate of increase in general fund revenues from State lottery sales, which reflects actual increases over the past three fiscal years, general fund revenues would decrease by \$130.9 million in fiscal 2010, with reductions increasing by 3% annually thereafter.

State Expenditures: 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 \$285.9 million in fiscal 2009) would be reserved for State education aid through existing funding formulas, which exceed the amount provided by lottery revenues.

Local Revenues: Public school system revenues would increase by amounts commensurate with the decrease in State general fund revenues. The bill specifies that the distribution of lottery revenues to public school systems occur on a monthly basis and in proportion to lottery sales in each county. **Exhibit 1** presents an estimate of the first year revenues that would be generated by lottery sales under the proposed legislation. In detail, Columns 1 and 2 in the exhibit provide each county's share of State lottery ticket sales on a total and percentage basis for fiscal 2007, the most recent data available. Column 3 allocates the estimated first-year revenues for fiscal 2009 for each local school system, using the State lottery ticket sales data. Column 4 provides an estimate of the revenues that would be generated per student in each school system.

Exhibit 1
County-by-county State Lottery Ticket Sales,
Direct Mandated Grants, and Total Revenues
Fiscal 2009
(\$ in Millions)

<u>County</u>	<u>Total Sales</u> (1)	<u>% of Sales</u> (2)	<u>Estimated First-year Revenue</u> (3)	<u>Estimated Revenue per Pupil</u> (4)
Allegany	\$10.65	0.68%	\$0.65	\$73
Anne Arundel	165.04	10.49%	10.00	140
Baltimore	241.45	15.35%	14.63	194
Baltimore City	293.03	18.63%	17.76	178
Calvert	22.27	1.42%	1.35	79
Caroline	7.00	0.45%	0.42	79
Carroll	30.30	1.93%	1.84	66
Cecil	15.96	1.02%	0.97	61
Charles	54.91	3.49%	3.33	127
Dorchester	7.90	0.50%	0.48	109
Frederick	32.93	2.09%	2.00	50
Garrett	2.84	0.18%	0.17	40
Harford	53.12	3.38%	3.22	84
Howard	36.70	2.33%	2.22	46
Kent	4.09	0.26%	0.25	121
Montgomery	143.18	9.10%	8.68	64
Prince George's	319.96	20.35%	19.39	159
Queen Anne's	9.35	0.59%	0.57	75
St. Mary's	36.88	2.35%	2.24	138
Somerset	5.78	0.37%	0.35	128
Talbot	7.51	0.48%	0.46	109
Washington	25.06	1.59%	1.52	71
Wicomico	19.83	1.26%	1.20	83
Worcester	26.83	1.71%	1.63	257
Total	\$1,573.00	100.00%	\$95.30	

Source: Maryland State Lottery Agency; Department of Legislative Services

Additional Information

Prior Introductions: A substantially similar bill was introduced in the 2006 as HB 289 and received a hearing from the House Ways and Means Committee.

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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