

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

House Bill 1488
Ways and Means

(Delegate Rosenberg)

State Lottery Agency - Performance Incentive Program for Employees

This bill authorizes the Director of the State Lottery Agency to establish a performance incentive program to provide Lottery employees with an opportunity to receive compensation, in addition to their annual base salary. Performance incentives may only be provided if funds are appropriated for the program in the State budget. An employee would be eligible for a performance incentive if the employee meets or exceeds measurable and established performance levels.

Fiscal Summary

State Effect: General fund revenues could increase by an indeterminate amount through additional lottery product sales and placement of lottery ticket terminals. General fund expenditures could increase by a presumably smaller, yet indeterminate amount, via the establishment of State Lottery Agency performance-based incentive program.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: There is an Incentive Performance Awards Program for State employees. Incentive performance awards for either extraordinary service or outstanding service may be awarded. An extraordinary service award provides State employees with the opportunity to be awarded • cash of not more than \$300; • a gift of not more than \$300 in value; • paid administrative leave of not more than three days; or • any combination of

cash, gift, and leave or not more than \$300 in value. An employee may only receive one incentive performance award in any 12-month period.

An outstanding service award provides the head of a principal unit to make a cash award of not more than \$3,000 to an employee. An employee may only receive one incentive performance award in any 24-month period.

Before making an award, the head of a principal unit must establish criteria for administering the program, including standards of eligibility, and ensure that employees in the unit have copies of the criteria.

Background: 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 <u>Appropriations</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 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

The Lottery Agency advises that it is aware of 14 other state lottery programs that also have incentive programs: Arizona, California, Colorado, Georgia, Indiana, Kentucky,

New Mexico, North Carolina, Oregon, Pennsylvania, South Carolina, Tennessee, Virginia, and Washington.

The Department of Budget and Management (DBM) advises that several State agencies have their own performance-based incentive programs. DBM's Central Collection Unit has a bonus system determined by the amount of revenues collected from outstanding debts. DBM also advises that the Comptroller's revenue examiners and auditors are provided nonmonetary administrative leave as a performance-based incentive program. **Exhibit 2** presents the distribution of incentive awards through June 30, 2007. A total of 1,241 incentive awards have been provided to State employees with a total dollar value of \$325,316. The average dollar value of the typical award to a State employee is \$262.

Exhibit 2
Distribution of Incentive Awards
Fiscal 2007

<u>Department</u>	<u>Incentive Awards</u>	<u>Total Award Dollar Amount</u>	<u>Average Dollar Amount</u>
Agriculture	5	\$200	\$40
DBED	22	7,310	33
DHCD	97	73,200	75
DHMH	89	64,650	72
DLLR	511	63,440	12
DNR	1	300	30
Environment	39	15,300	39
MDOT	60	1,500	2
Other	417	99,416	23
Total	1,241	\$325,316	\$262

Source: Department of Budget and Management

State Fiscal Effect: The Lottery Agency advises that the employee incentive program as currently envisioned would be structured into four categories: recruiting, online sales, instant sales, and placement of ticket outlets in retail outlets. Meeting the sales and revenue goals for each of the four categories would result in cash incentives of up to \$2,500 each, resulting in a potential total bonus of \$10,000. Although the intent of the bill appears to focus on the efforts of lottery sales representatives, regional managers, and

other members of the Lottery Agency's Sales Division, Legislative Services advises that the bill is drafted to provide the Lottery Agency with flexibility in awarding cash bonuses to staff members who are employed outside of the sales department. The Lottery Agency currently operates with 174 employees. Including management, the Sales Division is currently comprised of 54 employees. The proposed fiscal 2009 State budget does not include funds for performance incentives.

Legislative Services advises that to the extent employee incentives would be structured to recognize and reward sales staff in direct relation to measurable increases in sales volume and quality performance, general fund revenues could increase via higher ticket sales and more lottery ticket terminals. It is assumed that the costs for the incentive program would be more than offset by the increased revenues. To the extent that new revenues do not exceed employee incentives, general fund expenditures would increase by an indeterminate amount.

If all sales employees at the Lottery Agency received the maximum cash bonus, a sales employee-based incentive program would increase expenditures by \$540,000 beginning in fiscal 2009.

To the extent nonsales staff are provided incentives, expenditures would increase even further.

Additional Information

Prior Introductions: A similar bill was introduced in the 1999 session as SB 68 and scheduled for hearing before the Senate Finance Committee. The bill was withdrawn.

Cross File: None.

Information Source(s): Maryland State Lottery Agency, Department of Budget and Management, Department of Legislative Services

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ncs/rhh

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