

Department of Legislative Services
 Maryland General Assembly
 2009 Session

FISCAL AND POLICY NOTE

House Bill 183 (Delegate Holmes)
 Ways and Means

Lottery for Schools Act of 2009

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 must 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 will decrease by approximately \$93.1 million in FY 2010 due to the diversion of lottery revenues to local school systems. Future year revenue estimates reflect annualization and 2.5% annual increases in State lottery revenues, offset increasingly by implementation of video lottery terminals (VLT), beginning in FY 2012. 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 2010	FY 2011	FY 2012	FY 2013	FY 2014
GF Revenue	(\$93.1)	(\$127.2)	(\$130.0)	(\$123.9)	(\$122.8)
Expenditure	0	0	0	0	0
Net Effect	(\$93.1)	(\$127.2)	(\$130.0)	(\$123.9)	(\$122.8)

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

Local Effect: Local school revenues from lottery proceeds will increase by an estimated \$93.1 million in FY 2010. 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 2008, the State Lottery generated \$1.66 billion in revenues from ticket sales. Payments to lottery winners were \$967.3 million, while operating costs and payments to agents totaled \$176.2 million. Of the remaining \$529.4 million, \$497.1 million was deposited in the general fund after payments were made to Medicaid (\$10.8 million) per Chapter 589 of 2008 and to the Maryland Stadium Facilities Fund (\$21.5 million).

Effect of VLTs on Lottery Sales

Chapter 4 of the 2007 special session authorizes up to 15,000 VLTs at five locations in the State, as approved by Maryland voters at the November 2008 general election.

DLS estimates that VLTs, when fully implemented, will cause a permanent reduction in lottery revenues of 10% annually. This estimate is based on the experience of other states that have authorized additional gambling and experienced substantial decreases in lottery sales. In addition, for those states where figures are available, Maryland has substantially greater lottery operations, measured on both a gross volume and per capita basis. Therefore, it is possible that lottery sales might decrease more sharply than in these other states. **Exhibit 1** details the estimated decline in general fund revenue in each fiscal year, as a result of decreased lottery sales. The impact on lottery revenues incorporates current lottery and VLT revenue forecasts and increases with increased VLT implementation.

Exhibit 1
Estimated Loss in General Fund Revenues
Due to Decreased State Lottery Sales
As a Result of Video Lottery Terminals
(\$ in Millions)

<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
--	--	\$1.5	\$39.3	\$57.0

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, the final year of the phase-in. Although the growth in aid was always expected to be smaller once the phase-in was complete, the Budget Reconciliation Act (BRA) passed during the 2007 special session constrained growth in State education aid by eliminating the inflationary increases that are used in the major aid formulas for fiscal 2009 and 2010. The BRA did, however, guarantee at least modest increases in total State aid for each local school system during the two-year inflation freeze. The proposed fiscal 2010 State budget includes a total of \$5.5 billion in State aid for public education, an increase of approximately \$172 million over the fiscal 2009 funding level of \$5.3 billion.

State Revenues: For fiscal 2010, the State Lottery Agency projects total general fund lottery revenues to be \$496.5 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, 2009 effective date, general fund revenues would decrease by \$93.1 million in fiscal 2010.

Beginning in fiscal 2011, when the bill is fully implemented, 25% of all annual revenues previously deposited in the general fund would be diverted to public school systems. Implementation of VLTs, which is assumed to begin in fiscal 2012 and be complete by fiscal 2014, will increasingly offset what would otherwise be an estimated 2.5% rate of increase in general fund revenues from State lottery sales. General fund revenues will decrease by \$1.5 million in fiscal 2012 and by \$57.0 million in fiscal 2014 as a result of the phased-in implementation of VLTs.

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 \$279.3 million in fiscal 2010) 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 2** 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 2008, the most recent data available. Column 3 allocates the estimated first-year revenues for fiscal 2010 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 2
County-by-county State Lottery Ticket Sales,
Direct Mandated Grants, and Total Revenues
Fiscal 2010
(\$ in Millions*)

<u>County</u>	FY 2008		Estimated	FY 2010
	<u>Total Sales</u>	<u>% of Sales</u>	<u>Revenue</u>	<u>Revenue per Pupil</u>
	(1)	(2)	(3)	(4)
Allegany	\$10.43	0.63%	\$0.58	\$67
Anne Arundel	173.32	10.43%	9.71	135
Baltimore	263.13	15.83%	14.74	188
Baltimore City	301.34	18.13%	16.88	215
Calvert	23.53	1.42%	1.32	79
Caroline	7.54	0.45%	0.42	80
Carroll	33.07	1.99%	1.85	67
Cecil	18.92	1.14%	1.06	68
Charles	55.42	3.33%	3.10	120
Dorchester	8.24	0.50%	0.46	107
Frederick	34.15	2.05%	1.91	49
Garrett	3.01	0.18%	0.17	39
Harford	56.45	3.40%	3.16	84
Howard	39.17	2.36%	2.19	45
Kent	4.25	0.26%	0.24	114
Montgomery	158.93	9.56%	8.90	65
Prince George's	336.82	20.26%	18.86	154
Queen Anne's	10.28	0.62%	0.58	76
St. Mary's	36.01	2.17%	2.02	125
Somerset	6.21	0.37%	0.35	128
Talbot	8.16	0.49%	0.46	107
Washington	26.15	1.57%	1.46	69
Wicomico	20.99	1.26%	1.18	81
Worcester	26.90	1.62%	1.51	238
Total	\$1,662.41	100.00%	\$93.10	

*Column (4) in \$.

Source: Maryland State Lottery Agency; Department of Legislative Services

Additional Information

Prior Introductions: HB 8 of 2008 received a hearing before the House Ways and Means Committee, but no further action was taken. A substantially similar bill was introduced in 2006 as HB 289 and received a hearing from the House Ways and Means Committee.

Cross File: None.

Information Source(s): Maryland State Department of Education, Comptroller's Office, Maryland State Lottery Agency, Department of Legislative Services

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mlm/rhh

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