

**Department of Legislative Services**  
Maryland General Assembly  
2009 Session

**FISCAL AND POLICY NOTE**

Senate Bill 977 (Senators Mooney and Colburn)

Education, Health, and Environmental Affairs  
and Budget and Taxation

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**State Lottery - Unanticipated Revenues - Public School Systems**

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This bill requires State lottery revenues in excess of the estimate for a fiscal year to be distributed to local school systems instead of being deposited in the State's general fund. The distribution is to be based on the lottery ticket sales in the county in which the local school system is located.

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**Fiscal Summary**

**State Effect:** Potential significant decrease in general fund revenues beginning in FY 2010. The extent of any decrease depends on the amount of lottery revenues that exceed projections for a fiscal year. Expenditures are not affected.

**Local Effect:** Potential significant increase in local revenues. Corresponding expenditure increase for local school systems.

**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 \$529.4 million in fiscal 2008. The general fund proceeds represent the net "profit" after all expenses are paid, including the

costs of administering the State Lottery Agency (\$58.4 million for fiscal 2008) and the distribution of revenues to the Maryland Stadium Authority (\$21.5 million). In March 2009, the Board of Revenue Estimates (BRE) projects \$455.8 million in lottery revenues for fiscal 2009 and \$496.5 million for fiscal 2010.

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 3,900 licensed sales agents across the State. Agents receive commissions for selling tickets and cashing winning tickets; in fiscal 2008 agent earnings totaled \$117.8 million, 7% of gross sales. Prizes in fiscal 2008 totaled \$967.3 million, more than 58% of total sales.

**Exhibit 1** displays the State Lottery Fund's receipts and disbursements for fiscal 2008 to 2010.

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**Exhibit 1**  
**State Lottery Fund Overview**  
**Fiscal 2008-2010**  
**(\$ in Millions)**

	<b>Fiscal 2008 <u>Actual</u></b>	<b>Fiscal 2009 <u>Appropriation</u></b>	<b>Fiscal 2010 <u>Proposed Budget</u></b>
Gross Sales	\$1,673.0	\$1,664.0	\$1,713.7
Deductions			
Agent Commissions	117.8	118.6	122.1
Operating Expenses	58.4	59.2	59.1
Prizes	<u>967.3</u>	<u>1,010.4</u>	<u>1,016.4</u>
<b>Total Deductions</b>	<b>\$1,083.2</b>	<b>\$1,188.2</b>	<b>\$1,197.6</b>
Net Lottery Revenue	\$529.4	\$475.8	\$516.1
Maryland Stadium Authority	21.5	20.0	19.6
Net Lottery Revenue			
One-year distribution to Special Fund	10.8	0	0
<b>General Fund Revenues</b>	<b>\$497.1</b>	<b>\$455.8</b>	<b>\$496.5</b>

Note: Figures may not sum due to rounding.

Source: State Lottery Agency; Board of Revenue Estimates

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Beginning in fiscal 2011, it is assumed that State lottery sales will decrease due to the implementation of video lottery terminals in the State; the estimated decrease is shown in **Exhibit 2**. Since this decrease should be taken into account in future lottery revenue estimates, it should have no effect on the potential impact of the bill.

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**Exhibit 2**  
**Estimated Loss in State Lottery Sales**  
**Due to Video Lottery Terminals**  
**(\$ in Millions)**

<u><b>FY 2010</b></u>	<u><b>FY 2011</b></u>	<u><b>FY 2012</b></u>	<u><b>FY 2014</b></u>	<u><b>FY 2015</b></u>
\$0	\$1.0	\$29.9	\$51.4	\$57.0

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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, which will result in a decrease in general fund revenues in years when actual revenues exceed expectations. The actual 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 3** provides the budgetary estimates for State lottery revenues, based on the BRE March projections, and actual revenues from fiscal 1996 through 2008. Over the years State lottery revenues have generally exceeded the March estimates; however, the amount varies considerably each year. In the past two fiscal years the estimates have not exceeded the March estimates.

**Local Fiscal Effect:** Funding for public schools may increase depending on the amount of State lottery revenues that exceed budgetary projections in each fiscal year. This amount varies from year to year and cannot be reliably estimated. **Exhibit 4** shows the distribution of lottery sales in each jurisdiction in fiscal 2008 and the amount of revenues that would be provided to each local school system for every \$1.0 million in lottery revenues that exceed the budgetary projections for a fiscal year. Using the lottery sales from fiscal 2008, Prince George's County and Baltimore City would receive the most additional funding, while Garrett County would receive the least.

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**Exhibit 3**  
**State Lottery Revenues Exceeding Budgetary Estimate**  
**(\$ in Millions)**

<b><u>Fiscal Year</u></b>	<b><u>Estimated Revenue</u></b>	<b><u>Date of Estimate</u></b>	<b><u>Actual Revenue</u></b>	<b><u>Difference</u></b>
1996	\$348.2	March 1995	\$369.8	\$21.5
1997	382.2	March 1996	356.0	(26.2)
1998	358.6	March 1997	362.5	3.9
1999	376.6	March 1998	352.2	(24.5)
2000	362.2	March 1999	367.8	5.5
2001	373.5	March 2000	385.0	11.5
2002	384.3	March 2001	414.1	29.8
2003	417.5	March 2002	422.9	5.4
2004	418.8	March 2003	436.4	17.6
2005	446.2	March 2004	455.9	9.7
2006	471.3	March 2005	480.5	9.1
2007	477.4	March 2006	473.1	(4.3)
2008	497.1	March 2007	497.1	0.0

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**Exhibit 4**  
**Estimated Local Distribution**  
**Per \$1 Million in Lottery Revenues**

<b><u>County</u></b>	<b><u>Total Lottery Sales – FY 2008</u></b>	<b><u>% of Sales</u></b>	<b><u>Estimated Fund Distribution</u></b>
Allegany	\$10,433,497	0.63%	\$6,300
Anne Arundel	173,318,271	10.43%	104,300
Baltimore City	301,338,904	18.13%	181,300
Baltimore	263,125,362	15.83%	158,300
Calvert	23,534,715	1.42%	14,200
Caroline	7,544,477	0.45%	4,500
Carroll	33,070,209	1.99%	19,900
Cecil	18,918,076	1.14%	11,400
Charles	55,424,912	3.33%	33,300
Dorchester	8,240,275	0.50%	5,000
Frederick	34,148,399	2.05%	20,500
Garrett	3,008,493	0.18%	1,800
Harford	56,447,538	3.40%	34,000
Howard	39,173,237	2.36%	23,600
Kent	4,253,818	0.26%	2,600
Montgomery	158,925,393	9.56%	95,600
Prince George's	336,816,778	20.26%	202,600
Queen Anne's	10,276,470	0.62%	6,200
St. Mary's	36,006,412	2.17%	21,700
Somerset	6,209,423	0.37%	3,700
Talbot	8,159,951	0.49%	4,900
Washington	26,147,757	1.57%	15,700
Wicomico	20,990,803	1.26%	12,600
Worcester	26,895,057	1.62%	16,200
<b>Total</b>	<b>\$1,662,408,227</b>	<b>100.00%</b>	<b>\$1,000,000</b>

Note: Figures may not sum due to rounding.

Source: Maryland State Lottery Agency

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## **Additional Information**

**Prior Introductions:** Similar bills to transfer some or all of the unanticipated lottery revenues from the general fund to local school systems have been introduced almost every year since 1998 without success.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 23, 2009  
ncs/mwc

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