

Department of Legislative Services
2011 Session

FISCAL AND POLICY NOTE

House Bill 414
Ways and Means

(Delegate Holmes)

Lottery for Schools Act of 2011

This bill requires the Comptroller to distribute 25% of net State lottery revenues, other than the revenues distributed to the Maryland Stadium Facilities Fund, to local 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. Local 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 decrease by \$94.4 million in FY 2012 due to the diversion of lottery revenues to local school systems. Future year revenue estimates reflect annualization and 3% annual increases in State lottery revenues, offset in FY 2013 by implementation of video lottery terminals (VLTs). 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 2012	FY 2013	FY 2014	FY 2015	FY 2016
GF Revenue	(\$94.4)	(\$119.9)	(\$123.5)	(\$127.2)	(\$131.1)
Expenditure	0	0	0	0	0
Net Effect	(\$94.4)	(\$119.9)	(\$123.5)	(\$127.2)	(\$131.1)

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 \$94.4 million in FY 2012 and \$119.9 million in FY 2013, and increasing by 3% annually. Each local 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 2010, the State Lottery generated \$1.7 billion from ticket sales. Payments to lottery winners were \$1.0 billion, while operating costs and payments to agents totaled \$165.0 million. Of the remaining \$510.6 million, \$491.0 million was deposited in the general fund after payments were made to the Maryland Stadium Facilities Fund (\$19.6 million).

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. Instead, new supplemental grants provided increases of at least 1% in specified State education aid programs, including teachers' retirement, in fiscal 2009 and 2010.

The inflation measures used to determine the fiscal 2011 increase in the per pupil amount showed no growth, so the fiscal 2011 per pupil funding amount remained at the fiscal 2008 level for a fourth consecutive year. Chapter 487 of 2009 limited to 1% the fiscal 2012 inflationary increases for the per pupil funding amount; Chapter 484 of 2010 extended the 1% cap on per pupil funding through fiscal 2015.

Under current law, State aid for public primary and secondary education totals \$5.9 billion in fiscal 2012. However, the proposed fiscal 2012 State budget includes a total of \$5.7 billion in State aid for public education. This decrease of approximately \$1.4 billion compared to fiscal 2011, or nearly level funding, is achieved by reducing the

per pupil funding amount as proposed in the Budget Reconciliation and Financing Act of 2011 (SB 87/HB 72).

State Revenues: For fiscal 2012, the State Lottery Agency projects \$503.5 million in total general fund lottery revenues. Under the bill, the Comptroller would divert 25% of all revenues previously deposited in the general fund to local school systems, and the remainder of the funds into the general fund. After accounting for the bill's October 1, 2011 effective date, general fund revenues would decrease by \$94.4 million in fiscal 2012. Beginning in fiscal 2013, when the bill is fully implemented, 25% of all annual revenues previously deposited in the general fund would be diverted to local school systems.

Beginning in fiscal 2013, the official lottery revenue estimates prepared by the Board of Revenue Estimates include an offset of 7.5% annually to account for implementation of VLTs reducing lottery sales and revenues. This will more than offset what would otherwise be an estimated 3% increase in general fund revenues from State lottery sales in fiscal 2013. This amounts to a one-time rebasing of estimated lottery revenues due to VLTs, with future years expected to grow by 3% annually off of this new base. VLT facilities in Cecil and Worcester counties opened in fiscal 2011 with a total of 2,300 VLTs. A third permanent facility is expected to open in Anne Arundel County in fiscal 2013 with 4,750 VLTs. Licenses for the remaining facilities in Baltimore City and Allegany County have not been awarded yet.

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 \$283.2 million in fiscal 2012), would be reserved for State education aid through existing funding formulas, which exceed the amount provided by lottery revenues.

Local Revenues: Local 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 local 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 2010, the most recent data available. Column 3 allocates the estimated first-year revenues for fiscal 2012 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 local school system.

Exhibit 1
State Lottery Ticket Sales and Share of Revenues for Education
Fiscal 2012
(\$ in Millions*)

<u>County</u>	(1)	(2)	(3)	(4)
	FY 2010		Estimated	FY 2012
	<u>Total Sales</u>	<u>% of Sales</u>	<u>FY 2012</u>	<u>Revenue</u>
			<u>Revenue</u>	<u>Per Pupil</u>
Allegany	\$10.72	0.63%	\$0.59	\$70
Anne Arundel	174.00	10.20%	9.63	131
Baltimore City	300.59	17.61%	16.63	212
Baltimore	278.86	16.34%	15.43	154
Calvert	23.44	1.37%	1.30	79
Caroline	7.14	0.42%	0.39	76
Carroll	34.26	2.01%	1.90	70
Cecil	21.37	1.25%	1.18	77
Charles	54.70	3.21%	3.03	117
Dorchester	8.58	0.50%	0.47	109
Frederick	36.07	2.11%	2.00	51
Garrett	3.30	0.19%	0.18	45
Harford	60.37	3.54%	3.34	89
Howard	46.78	2.74%	2.59	52
Kent	4.22	0.25%	0.23	115
Montgomery	166.30	9.74%	9.20	66
Prince George's	342.97	20.10%	18.97	158
Queen Anne's	11.32	0.66%	0.63	84
St. Mary's	35.77	2.10%	1.98	120
Somerset	6.39	0.37%	0.35	131
Talbot	8.46	0.50%	0.47	110
Washington	25.83	1.51%	1.43	66
Wicomico	20.38	1.19%	1.13	82
Worcester	24.76	1.45%	1.37	217
Total	\$1,706.57	100.00%	\$94.42	\$115

*Column (4) in \$.

Source: Maryland State Lottery Agency; Department of Legislative Services

Additional Information

Prior Introductions: A substantially similar bill was introduced in 2006 as HB 289 and received a hearing from the House Ways and Means Committee. HB 8 of 2008 and HB 183 of 2009 each received a hearing before the House Ways and Means Committee, but no further action was taken on either bill.

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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