

Department of Legislative Services  
Maryland General Assembly  
2012 Session

FISCAL AND POLICY NOTE

House Bill 855 (Delegate Conaway)  
Ways and Means

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State Lottery Agency - Education Lottery

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This bill requires the State Lottery Agency to conduct a monthly education lottery beginning on November 1, 2012. The bill requires that all advertising and all tickets for the lottery identify that the lottery benefits public school systems in the State. Local boards of education receive 20% of the money remaining in the State Lottery Fund from the proceeds of the education lottery, after deductions for prize payments and administrative costs for the State Lottery Agency. The distribution of proceeds to local boards of education from the education lottery must be proportionate to the amount of lottery ticket sales made in the county served by each local board.

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Fiscal Summary

**State Effect:** Special fund revenues and expenditures in support of local boards of education increase by up to \$1.9 million in FY 2013, and by up to \$2.9 million annually beginning in FY 2014. General fund revenues decrease by up to \$1.9 million in FY 2013 and by up to \$2.9 million annually beginning in FY 2014. State retirement payments on behalf of public school teachers increase beginning in FY 2015, to the extent education lottery revenues are used by local boards to hire additional teachers or increase teacher salaries.

**Local Effect:** Local boards of education revenues increase by up to \$1.9 million in FY 2013 and by up to \$2.9 million annually beginning in FY 2014. Local board expenditures increase by the same amounts. Revenue and expenditure increases for each local board depend upon the relative amount of lottery sales in each county.

**Small Business Effect:** None.

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## Analysis

**Bill Summary:** Proceeds from the education lottery must be used to help provide an adequate education to prekindergarten through grade 12 public school students through the Bridge to Excellence in Public Schools Program and must be used for classroom staff and instructional materials. Distributions from the proceeds of the education lottery to local boards of education are intended to provide additional revenue to local public schools and may not supplant any other revenue distributed to local school systems.

### Current Law/Background

#### *Lottery Ticket Sales and the State Lottery Fund*

State criminal law prohibits all lotteries except the State lottery or multi-jurisdictional lotteries authorized under the State Government Article. The State Lottery Agency must issue licenses to persons and governmental units that will best serve the public convenience and promote the sale of State lottery tickets or shares.

An agent licensed by the State Lottery Agency receives a commission of 5% of gross receipts from the agent's lottery ticket sales; the commission increases to 5.5% beginning in fiscal 2013. A provision of Senate Bill 152/HB 87 – the Budget Reconciliation and Financing Act of 2012 – maintains the commission rate at 5% for fiscal 2013 and subsequent years. A licensed agent may also receive a cashing fee not to exceed 3% of valid prizes paid for services rendered in cashing winning tickets.

Each month, after payments to lottery winners and to the State Lottery for operating expenses, the Comptroller must make payments from the State Lottery Fund to:

- the Maryland Stadium Facilities Fund, from revenues generated by sports lotteries conducted on behalf of the Maryland Stadium Authority; and
- the State's general fund.

In general, two types of games are offered by the Maryland State Lottery Agency: instant games and online games. Instant games are played by scratching a latex covering off a play area to reveal preprinted combinations. If a winning combination is revealed, the customer is an instant winner. Instant games generally have price points between \$1 and \$20. Online games allow players to pick their numbers or use automatic computer-generated plays. Customers receive a ticket and then wait for the drawing to determine if they have won. Online games include monitor games (*e.g.*, Keno), numbers games (*e.g.*, Pick 4), matrix games (*e.g.*, Mega Millions), and occasionally raffles (*e.g.*, Countdown to Millions).

During each fiscal year, the Maryland State Lottery Agency must conduct sports lotteries for the benefit of the Maryland Stadium Authority (MSA). In all advertising and on tickets, the agency must identify that these lotteries are conducted for the benefit of MSA.

In fiscal 2011, 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 \$166.0 million. Approximately \$499.4 million was deposited in the general fund after payments were made to the Maryland Stadium Facilities Fund (\$20.0 million). **Exhibit 1** shows lottery sales by jurisdiction in fiscal 2011.

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**Exhibit 1**  
**State Lottery Sales by County**  
**Fiscal 2011**

<b>County</b>	<b>Total Sales</b>	<b>Percent of Sales</b>
Allegany	\$11,240,905	0.66%
Anne Arundel	176,010,692	10.27%
Baltimore City	292,271,222	17.05%
Baltimore	278,196,840	16.23%
Calvert	24,328,024	1.42%
Caroline	6,761,520	0.39%
Carroll	34,465,435	2.01%
Cecil	19,786,084	1.15%
Charles	57,571,067	3.36%
Dorchester	8,649,659	0.50%
Frederick	36,423,372	2.12%
Garrett	3,426,916	0.20%
Harford	58,365,876	3.40%
Howard	47,761,493	2.79%
Kent	4,245,306	0.25%
Montgomery	169,445,933	9.88%
Prince George's	352,964,544	20.59%
Queen Anne's	11,636,346	0.68%
St. Mary's	35,318,712	2.06%
Somerset	5,906,556	0.34%
Talbot	8,269,194	0.48%
Washington	25,900,199	1.51%
Wicomico	21,971,165	1.28%
Worcester	23,485,566	1.37%
<b>Total</b>	<b>\$1,714,402,620</b>	<b>100.00%</b>

Note: Numbers do not sum to the total due to rounding.

Source: Maryland State Lottery Agency

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### *State Aid for Public Schools*

State financing of public schools changed considerably in fiscal 2004 with the implementation of new funding formulas established by Chapter 288 of 2002, the Bridge to Excellence in Public Schools Act. The financing structure established by the Act is based on the concept of “adequacy” – an empirical estimate of the amount of funding needed by schools and local school systems in order to obtain the resources needed to reasonably expect that students can meet the State’s academic performance standards. State education aid formulas incorporate the adequacy concept by ensuring a minimum per pupil funding level, providing additional funding based on enrollments of at-risk students, and granting additional aid to local school systems with higher educational resource costs.

The great majority of State education aid is distributed to local school systems through formulas that are based primarily on student enrollment counts and local wealth (as derived from assessed property values and net taxable income in each county). The State pays on behalf of each local board of education the entire cost of State retirement benefits for eligible school personnel. Local boards of education, however, are required to reimburse the State for retirement expenses that are accrued for personnel who are paid with federal funds.

### *Video Lottery Terminal Program*

Two VLT gambling bills passed during the 2007 special session – House Bill 4 (Chapter 5) and Senate Bill 3 (Chapter 4). Chapter 5 was a constitutional amendment approved by Maryland voters at the November 2008 general election authorizing 15,000 VLTs at five locations in the State. Chapter 4, which was contingent on ratification of Chapter 5, established the operational and regulatory framework for the authorized VLT program.

Under Chapter 4, VLT facility operation licenses are awarded by the Video Lottery Facility Location Commission. The State Lottery Commission oversees VLT operations and owns/leases VLTs and the central monitor and control system. A maximum of 15,000 VLTs are allowed, distributed as follows: 4,750 VLTs in Anne Arundel County; 3,750 VLTs in Baltimore City; 2,500 VLTs in Worcester County; 2,500 VLTs in Cecil County; and 1,000 VLTs in Allegany County. In addition, geographic parameters for each jurisdiction within which a VLT facility may be located are provided.

Under current law, except for the Allegany County location, gross VLT proceeds are distributed as follows:

- Business Investment – 1.5% to a small, minority, and woman-owned business investment account;

- Lottery Operations – 2% to the State lottery for administrative costs, with other costs provided for in the State budget;
- Local Impact Grants – 5.5% to local governments in which a video lottery facility is operating, 18% of which would go for 15 years (starting in fiscal 2012 and ending in fiscal 2027) to Baltimore City through the Pimlico Community Development Authority and \$1 million annually to Prince George’s County for the community surrounding Rosecroft;
- Purse Dedication Account – 7% to enhance horse racing purses and funds for the horse breeding industry, not to exceed \$100 million annually;
- Racetrack Facility Renewal Account – 2.5% for an eight-year period to RFRA, not to exceed \$40 million annually;
- Licensee (Operator) – no more than 33% to video lottery operation licensees; and
- Education Trust Fund (ETF) – remainder to ETF (48.5%-51.0%).

The Education Trust Fund is a nonlapsing, special fund that is used for continued funding of the Bridge to Excellence formulas and programs. The fund may also be used to support capital projects for public schools, public colleges and universities, and community colleges.

**Exhibit 2** shows the estimated VLT revenues for fiscal 2013 through 2017 and the various fund distributions, including revenues distributed to the Education Trust Fund.

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**Exhibit 2**  
**Distribution of Estimated VLT Revenues in Maryland**  
**(\$ in Millions)**

	<u><b>FY 2013</b></u>	<u><b>FY 2014</b></u>	<u><b>FY 2015</b></u>	<u><b>FY 2016</b></u>	<u><b>FY 2017</b></u>
Education Trust Fund	\$254.4	\$386.2	\$483.4	\$513.3	\$523.6
Licensees	173.1	265.0	333.5	353.9	361.0
Local Impact Grants	28.9	43.6	54.4	57.8	58.9
Business Investment	7.9	11.9	14.8	15.8	16.1
Purse Dedication Account	36.7	55.4	69.0	73.3	74.8
Racetrack Renewal	13.1	19.7	24.5	26.0	26.5
Lottery Operations	10.5	16.0	20.0	21.2	21.7
<b>Total Annual Gross</b>	<b>\$524.6</b>	<b>\$797.8</b>	<b>\$999.6</b>	<b>\$1,061.3</b>	<b>\$1,082.6</b>

Source: Department of Legislative Services

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**State Fiscal Effect:** The bill does not prescribe the particular type or types of lotteries that the Maryland State Lottery Agency must offer. This analysis assumes that total lottery sales and expenditures are not affected. Instead, the education lottery games would displace equivalent games that would otherwise benefit the general fund. It is assumed that the overall number of individuals who participate in lottery games will not be significantly affected. Therefore, total general fund revenues are reduced by the amount that funds distributed to local boards of education increase under the bill.

*For illustrative purposes*, if all lottery ticket sales on the first day of each year are designated as education lottery sales, 20% of net sales will be distributed to local boards of education for public school classroom staff and instructional materials. Special funds distributed to local boards total approximately \$1.9 million in fiscal 2013 (accounting for the November 1, 2012 start date) and approximately \$2.9 million annually, beginning in fiscal 2014. General funds are reduced by the same annual amounts. This estimate is based on average daily lottery ticket revenues of approximately \$1.2 million. Also, general fund expenditures for State retirement payments on behalf of public school teachers increase beginning in fiscal 2015, to the extent education lottery revenues are used by local boards to hire additional teachers or increase teacher salaries.

Sales, revenues, and expenditures may vary from the estimates above, depending on a number of factors that include (1) the type of game (or games) offered; (2) the price point for each game; (3) the popular appeal of a lottery benefiting public schools; and (4) the strength of overall lottery sales.

**Local Fiscal Effect:** Local board of education revenues increase by up to \$1.9 million in fiscal 2013 and by up to \$2.9 million annually beginning in fiscal 2014. Local board expenditures on classroom staff and for instructional materials increase by the same amounts. Revenue and expenditure increases for each local board depend upon the relative amount of lottery sales in each county. **Exhibit 3** shows the estimated annual increase in funding for local boards of education based on the illustrative example described above and assuming the same relative proportion of lottery sales by county realized in fiscal 2011 (see Exhibit 1).

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**Exhibit 3**  
**Annual Education Lottery Revenues by County**

<b>County</b>	<b>Total Revenues</b>	<b>Percent of Sales</b>
Allegany	\$19,008	0.66%
Anne Arundel	295,776	10.27%
Baltimore City	491,040	17.05%
Baltimore	467,424	16.23%
Calvert	40,896	1.42%
Caroline	11,232	0.39%
Carroll	57,888	2.01%
Cecil	33,120	1.15%
Charles	96,768	3.36%
Dorchester	14,400	0.50%
Frederick	61,056	2.12%
Garrett	5,760	0.20%
Harford	97,920	3.40%
Howard	80,352	2.79%
Kent	7,200	0.25%
Montgomery	284,544	9.88%
Prince George's	592,992	20.59%
Queen Anne's	19,584	0.68%
St. Mary's	59,328	2.06%
Somerset	9,792	0.34%
Talbot	13,824	0.48%
Washington	43,488	1.51%
Wicomico	36,864	1.28%
Worcester	39,456	1.37%
<b>Total</b>	<b>\$2,879,712</b>	<b>100.00%</b>

Note: Numbers do not sum to the total due to rounding.

Source: Maryland State Lottery Agency

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

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