

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

Senate Bill 887 (Senator Peters)
Education, Health, and Environmental Affairs

State Lottery Agency - Veterans Lottery - Established

This bill requires the Maryland State Lottery Agency to conduct an annual lottery on November 11 (Veterans Day) for the benefit of the Maryland Veterans Trust Fund (MVTF). The bill requires that all advertising and all tickets for the veterans lottery identify that the lottery benefits MVTF. MVTF receives 20% of the money remaining in the State Lottery Fund from the proceeds of the veterans lottery, after deductions for prize payments and administrative costs for the Maryland State Lottery Agency.

The bill takes effect July 1, 2012.

Fiscal Summary

State Effect: Special fund revenues to MVTF increase beginning in FY 2013 from veterans lottery proceeds. General fund revenues from the lottery decrease by the same amount, based on the assumption that overall lottery sales are not affected. Under one scenario, special fund revenues increase and general fund revenues decrease by approximately \$101,300 in FY 2013 and \$190,000 annually beginning in FY 2014.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Chapter 742 of 2009 established MVTF, which consists of gifts and grants received by the Maryland Department of Veterans Affairs (MDVA) and administered by the Secretary of Veterans Affairs. Money in the fund may be used to make grants and loans to veterans and their families, support public and private programs

that serve veterans in the State, or support the Charlotte Hall Veterans Home. Money in the fund may also be used to invest in general obligations of the State or other securities, pay for the cost of administering the fund, or support any other programs that the Secretary considers appropriate.

Money expended from the fund is supplemental to and is not intended to take the place of funding otherwise appropriated to MDVA. By August 31 of each year, the Secretary of Veterans Affairs must submit a report to the General Assembly that includes the gross amount of gifts and grants credited to the fund, the costs of administering the fund, and a detailed accounting of the use of the fund.

State Lottery

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.

Background: The proposed fiscal 2013 State budget for MDVA includes \$100,000 for MVTF.

Proceeds from MSA lotteries go to a special fund for this purpose. In fiscal 2011, the State Lottery generated \$1.7 billion in total 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).

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).

Veterans Lotteries in Other States

In 2006 the Illinois Lottery launched an instant game to benefit veterans organizations. To date Illinois has offered eight veterans lottery games and raised over \$8 million in revenue for veterans. In July 2008, the Kansas Lottery began selling lottery tickets benefiting veterans year-round, instead of only May 1 through November 30. The Texas

Lottery introduced the \$2 “Veterans Cash” scratch-off ticket in November 2009, with proceeds to benefit veterans and their families. Michigan launched the \$2 “Michigan Heroes” ticket in October 2010, with a portion of proceeds donated to the Veterans of Foreign Wars of Michigan to benefit veterans statewide.

State Fiscal Effect: The bill does not prescribe the particular type or types of lotteries that the Maryland State Lottery Agency must offer. *For illustrative purposes*, the following analysis supposes that a \$1 instant game is offered. Each new game will on average run for approximately 15 months, with nearly 100% of tickets sold.

Assuming about \$3.4 million in sales (*i.e.*, 3.4 million tickets sold) per game over the 15-month period, approximately \$950,000 in net proceeds would be generated, with \$190,000 (or 20%) going to MVTF, a special fund. This accounts for expenses, including prize winnings, commissions and cashing fees paid to licensed lottery agents, costs associated with printing and distributing tickets, and administrative costs.

Under this scenario, special fund revenues may increase by approximately \$101,300 in fiscal 2013 (accounting for the November 11, 2012 start date) and approximately \$190,000 annually beginning in fiscal 2014. General fund revenues decrease in the same amounts for each year.

Alternatively, also *for illustrative purposes*, if 20% of proceeds from all lottery sales on November 11 of each year are distributed to the MVTF, approximately \$240,200 annually would be distributed to the MVTF. General fund revenues would decrease by the same amount annually. This estimate is based on projected lottery revenues for November 11 averaging \$1.2 million in fiscal 2010 and 2011.

This analysis assumes that total lottery sales and expenditures are not affected. Instead, the veterans 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.

Sales, revenues, and expenditures may vary from the estimates above, depending on a number of factors that include (1) the type of game offered; (2) the price point for a game; (3) the popular appeal of a lottery benefiting veterans; (4) the sell-through percentage for each game (if an instant game); and (5) the strength of overall lottery sales.

Additional Information

Prior Introductions: HB 1073 of 2011 passed the House and was referred to the Senate Budget and Taxation Committee, but no further action was taken. HB 1355 of 2010, a similar bill, received an unfavorable report from the House Ways and Means Committee.

Cross File: HB 260 (Delegate Boteler, *et al.*) - Ways and Means.

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

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mc/rhh

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