

Department of Legislative Services
Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE

House Bill 10 (Delegate Walker)
Ways and Means

State Lottery - Unclaimed Prizes - Public Prekindergarten Programs

This bill requires the director of the State Lottery and Gaming Control Agency (SLGCA) to remit any unclaimed prize money in the unclaimed prize fund to the Comptroller to be distributed to local boards of education on a pro rata basis based on total lottery sales in each county. A county board of education that receives these funds must use them for the school system's public prekindergarten program. This distribution is supplemental to and is not intended to take the place of funding that otherwise would be appropriated under federal or State law for public prekindergarten programs in the State. The unclaimed prize fund is no longer for the use of other lottery prizes. **The bill takes effect July 1, 2018.**

Fiscal Summary

State Effect: General fund revenues likely significantly decrease annually beginning in FY 2019. Nonbudgeted expenditures decrease by approximately \$24.0 million annually and special fund revenues and expenditures increase by a corresponding amount beginning in FY 2019.

Local Effect: Revenues and expenditures for local boards of education increase beginning in FY 2019 by approximately \$24.0 million annually.

Small Business Effect: Meaningful.

Analysis

Current Law: Generally, State lottery winners have 182 days to claim their prize money. After that, SLGCA deposits the unclaimed prize money in an unclaimed prize fund that must be used for prize money in other lottery games.

Publicly Funded Prekindergarten

Chapter 288 of 2002, the Bridge to Excellence in Public Schools Act, required each local school system to make publicly funded prekindergarten available to economically disadvantaged four-year-old children in the State. To qualify as economically disadvantaged, a child must be from a family whose income is at or below 185% of federal poverty guidelines. If vacancies remain after economically disadvantaged children have been enrolled, local school systems may make prekindergarten available to other children that exhibit a lack of readiness for school. The State provides funding to school systems to support the program through the State compensatory education formula.

Chapter 2 of 2014 expanded prekindergarten services to additional eligible four-year-old children from families whose income is at or below 300% of federal poverty guidelines by establishing a competitive grant program to provide funding to qualified public and private prekindergarten providers.

Since fiscal 2015, the State budget has included \$4.3 million for the expansion program. In 2014, Maryland was also awarded a federal grant that provides \$15 million annually through fiscal 2019 to continue the expansion of public prekindergarten. In its grant application, the State committed to matching funds of \$3,672,000 in fiscal 2018 and \$7,344,000 in fiscal 2019 to provide access to high-quality prekindergarten to families with incomes between 200% and 300% of federal poverty guidelines. Pursuant to Chapters 683 and 684 of 2016, the Governor must include an appropriation in the budget for the amount that the State committed to fund as the State match to the federal grant in addition to the amount required under current law for the State Prekindergarten Expansion Grant Program. The fiscal 2018 budget contained a total of \$16.0 million in federal funds and \$8.0 million in State funds to support public prekindergarten expansion.

Augenblick, Palaich, and Associates (APA)'s report on prekindergarten expansion in the State was finalized in January 2016. The report recommended that the State offer universal, full-day prekindergarten for four-year-olds in Maryland, by providing funding for 80% of Maryland's four-year-olds to attend either a public prekindergarten program or a private program that has received a rating of Level 5 in Maryland EXCELS (the State's tiered Quality Rating Improvement System for licensed child care centers, family child care providers, and public prekindergarten programs) or has national or state accreditation. The report noted that the 80% target is at the higher end of what is considered "universal," when compared with other states that have implemented universal prekindergarten. However, after considering the importance of prekindergarten, as evidenced by the literature review included in the report, and an analysis of the return on investment, the report concluded that increased investment in quality prekindergarten is justified.

Chapter 701 of 2016 established the Commission on Innovation and Excellence in Education and one of the major charges to the commission is to make recommendations pertaining to prekindergarten. Chapters 25 and 779 of 2017 established the Workgroup to Study the Implementation of Universal Access to Prekindergarten for 4-Year-Olds, which was given the charge to estimate the number and portion of eligible four-year-old children currently being served by publicly funded prekindergarten programs and to submit recommendations regarding an implementation plan to make full-day prekindergarten universally available to four-year-old children, based on APA's January 2016 report. Generally, the workgroup recommended in its [report](#) that universal, high-quality, full-day prekindergarten should be provided to all four-year-old children in a mixed delivery system to include schools (public and private), child care centers, family child care homes, and Head Start programs. Additionally, it was recommended that this should be phased in over at least 10 years.

Background: In fiscal 2017, SLGCA generated \$1.9 billion from lottery ticket sales, awarded \$1.2 billion in lottery prizes, and had \$27.7 million in unclaimed prize money. Revenues to the unclaimed prize fund have averaged \$24.0 million annually from fiscal 2015 through fiscal 2017.

State Fiscal Effect: The unclaimed prize fund is a nonbudgeted fund for SLGCA so the bill decreases nonbudgeted expenditures for SLGCA by approximately \$24 million annually beginning in fiscal 2019.

SLGCA advises that unclaimed prizes are used as a funding source for the prizes awarded in promotional games and programs conducted each year. If revenues available for those games and programs are reduced, players may become dissatisfied and spend less money on those games. Thus, by repurposing the unclaimed prize fund as specified in the bill, the bill results in a decrease in general fund revenues from lottery ticket sales. While the impact of decreased promotional spending cannot be reliably quantified, it likely significantly decreases general fund revenues.

Remitting unclaimed prize money in the unclaimed prize fund to the Comptroller to be distributed to local boards of education increases special fund revenues and expenditures for the Comptroller's Office by approximately \$24 million annually beginning in fiscal 2019.

Local Fiscal Effect: Revenues and expenditures for local boards of education increase beginning in fiscal 2019 by approximately \$24 million annually. **Exhibit 1** shows the estimated annual unclaimed prize money that the Comptroller must distribute to each county board of education based on each county's share of State lottery ticket sales in fiscal 2017, the most recent data available. Local boards of education must spend this money on public prekindergarten programs.

Exhibit 1
Lottery Sales by County and Estimated Distribution

	<u>Percent of Lottery Sales</u>	<u>Distribution</u>
Allegany	0.6%	\$148,000
Anne Arundel	9.6%	2,298,000
Baltimore City	14.3%	3,442,000
Baltimore	16.2%	3,895,000
Calvert	1.6%	376,000
Caroline	0.4%	107,000
Carroll	2.1%	513,000
Cecil	1.3%	311,000
Charles	3.8%	907,000
Dorchester	0.6%	148,000
Frederick	2.4%	575,000
Garrett	0.2%	45,000
Harford	3.6%	854,000
Howard	2.8%	667,000
Kent	0.2%	59,000
Montgomery	11.0%	2,633,000
Prince George's	20.9%	5,024,000
Queen Anne's	0.7%	169,000
St. Mary's	2.4%	573,000
Somerset	0.4%	90,000
Talbot	0.5%	132,000
Washington	1.6%	385,000
Wicomico	1.3%	316,000
Worcester	1.4%	333,000
Total	100.0%	\$24,000,000

Source: State Lottery and Gaming Control Agency; Department of Legislative Services

Small Business Effect: Lottery tickets are sold through a large network of mainly small businesses that receive a 5.5% commission on the sale of lottery tickets. To the extent that the bill results in a decrease in lottery ticket sales, these small businesses earn less in commissions. There were approximately 4,440 lottery ticket retailers in fiscal 2017.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office; Maryland State Department of Education; Maryland Association of Boards of Education; Maryland State Lottery and Gaming Control Agency; Department of Legislative Services

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nb/jrb

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