

Department of Legislative Services
Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1326
Ways and Means

(Delegate Walker)

State Lottery - Unclaimed Prizes - Distribution to Local Boards of Education

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. 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 local boards of education in the State. The unclaimed prize fund is no longer for the use of other lottery prizes. **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: General fund revenues likely significantly decrease annually beginning in FY 2020. Nonbudgeted expenditures decrease by approximately \$24.0 million annually and special fund revenues and expenditures increase by a corresponding amount beginning in FY 2020.

Local Effect: Revenues and expenditures for local boards of education increase beginning in FY 2020 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 unclaimed prize money in an unclaimed prize fund that must be used for prize money in other lottery games.

Constitutional Amendment on Supplemental Funding for Public Schools

Chapter 357 of 2018 authorized a constitutional amendment, which was subsequently approved by Maryland voters in November 2018, requiring the Governor to provide supplemental State funding for public education through the use of commercial gaming revenues that are dedicated to public education in the State budget beginning in fiscal 2020. Supplemental funding must total \$125.0 million in fiscal 2020, \$250.0 million in fiscal 2021, and \$375.0 million in fiscal 2022. In all subsequent years, 100% of the gaming revenues dedicated to public education must be used for supplemental funding.

Commission on Innovation and Excellence in Education

Chapter 701 of 2016 established the Commission on Innovation and Excellence in Education. The commission essentially has a two-part charge:

- reviewing the findings and recommendations of the Study on Adequacy of Funding for Education in the State of Maryland as required by Chapter 288 of 2002 and subsequent legislation; and
- determining how the State can better prepare students for postsecondary education and to be competitive in the workforce and with other high-performing countries in the global economy.

The commission is required to make recommendations on, among other things, updating the State's education funding formulas based on its findings. The commission submitted a January 2019 [interim report](#), and will make funding formula recommendations in fall 2019.

Background: In fiscal 2018, SLGCA generated \$2.04 billion from lottery ticket sales, awarded \$1.2 billion in lottery prizes, and had \$23.6 million in unclaimed prize money. Revenues to the unclaimed prize fund have averaged \$24 million annually from fiscal 2015 through 2018.

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 2020.

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 2020.

Local Fiscal Effect: Revenues and expenditures for local boards of education increase beginning in fiscal 2020 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 2018, the most recent data available.

Exhibit 1
Lottery Sales by County and Estimated Distribution

	<u>Percent of Lottery Sales</u>	<u>Distribution</u>
Allegany	0.6%	\$153,200
Anne Arundel	9.5%	2,287,000
Baltimore City	13.7%	3,282,300
Baltimore	16.4%	3,936,700
Calvert	1.5%	360,900
Caroline	0.5%	109,500
Carroll	2.2%	526,800
Cecil	1.3%	310,400
Charles	3.9%	942,400
Dorchester	0.6%	147,500
Frederick	2.5%	594,900
Garrett	0.2%	48,300
Harford	3.5%	849,800
Howard	2.8%	662,300
Kent	0.2%	59,300
Montgomery	11.4%	2,732,200
Prince George’s	20.8%	4,983,800
Queen Anne’s	0.7%	179,300
St. Mary’s	2.4%	585,700
Somerset	0.4%	88,800
Talbot	0.5%	125,000
Washington	1.6%	393,700
Wicomico	1.3%	307,700
Worcester	1.4%	332,500
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 as well as 3.0% in cashing commissions. To the extent that the bill results in a decrease in lottery ticket sales, these small businesses earn less in commissions. At the end of calendar 2018, there were 4,395 lottery retailers.

Additional Information

Prior Introductions: A similar bill, HB 10 of 2018, received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: None.

Information Source(s): Comptroller's Office; Maryland State Lottery and Gaming Control Agency; Baltimore City Public Schools; Department of Legislative Services

Fiscal Note History: First Reader - March 7, 2019
sb/jrb

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