

Department of Legislative Services
Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 500
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, 2020.**

Fiscal Summary

State Effect: General fund revenues likely significantly decrease annually beginning in FY 2021. Nonbudgeted expenditures decrease by approximately \$25.0 million annually, and special fund revenues and expenditures increase by a corresponding amount beginning in FY 2021.

Local Effect: Revenues and expenditures for local boards of education increase beginning in FY 2021 by approximately \$25.0 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 fiscal 2023 and each subsequent year, 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. Chapter 771 of 2019 established in statute the policy framework for a world-class education system in Maryland based on the commission's recommendations. When fully phased-in, the commission's recommendations are expected to require an additional \$2.8 billion in State funding and \$1.2 billion in local funding by fiscal 2030.

Background: In fiscal 2019, SLGCA generated \$2.2 billion from lottery ticket sales, awarded \$1.4 billion in lottery prizes, and had \$25.6 million in unclaimed prize money. Revenues to the unclaimed prize fund averaged \$25 million annually from fiscal 2016 through 2019.

State Fiscal Effect: The unclaimed prize fund is a nonbudgeted fund for SLGCA, so the bill decreases nonbudgeted expenditures for SLGCA by approximately \$25 million annually beginning in fiscal 2021.

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 use of 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 \$25 million annually beginning in fiscal 2021.

Local Fiscal Effect: Revenues and expenditures for local boards of education increase beginning in fiscal 2021 by approximately \$25 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 2019, the most recent data available.

Exhibit 1
Lottery Sales by County and Estimated Distribution

	<u>Percent of Lottery Sales</u>	<u>Distribution</u>
Allegany	0.60%	\$150,000
Anne Arundel	9.49%	2,372,500
Baltimore City	13.30%	3,325,000
Baltimore	16.20%	4,050,000
Calvert	1.50%	375,000
Caroline	0.56%	140,000
Carroll	2.20%	550,000
Cecil	1.40%	350,000
Charles	3.80%	950,000
Dorchester	0.63%	157,500
Frederick	2.60%	650,000
Garrett	0.21%	52,500
Harford	3.68%	920,000
Howard	2.85%	712,500
Kent	0.25%	62,500
Montgomery	11.40%	2,850,000
Prince George’s	20.75%	5,187,500
Queen Anne’s	0.76%	190,000
St. Mary’s	2.47%	617,500
Somerset	0.37%	92,500
Talbot	0.56%	140,000
Washington	1.65%	412,500
Wicomico	1.37%	342,500
Worcester	1.40%	350,000
Total	100.0%	\$25,000,000

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 will earn less in commissions. At the end of fiscal 2019, there were 4,391 lottery retailers.

Additional Information

Prior Introductions: HB 1326 of 2019 and a similar bill, HB 10 of 2018, received a hearing in the House Ways and Means Committee, but no further action was taken.

Designated Cross File: None.

Information Source(s): Maryland State Lottery and Gaming Control Agency;
Department of Legislative Services

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