

Department of Legislative Services
 Maryland General Assembly
 2024 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 1013 (Senator Charles)
 Budget and Taxation

State Lottery - Instant Ticket Lottery Machines - Veterans' and Fraternal Organizations

This bill adds fraternal organizations to the organizations that the State Lottery and Gaming Control Agency (SLGCA) may issue a license to for up to five instant ticket lottery (pull tab) machines. The bill alters the distribution of proceeds from pull tab sales by veterans' organizations and specifies the distribution of proceeds from pull tab sales by fraternal organizations, with the remainder of each being distributed to the Education Trust Fund (ETF) after specified distributions. **The bill takes effect July 1, 2024.**

Fiscal Summary

State Effect: Under the assumptions below, general fund revenues increase by at least \$0.7 million and special fund revenues increase by at least \$5.0 million beginning in FY 2025. Special fund expenditures for ETF increase by at least \$5.3 million beginning in FY 2025. Other gaming revenues may decrease due to substitution effects beginning in FY 2025. General fund expenditures increase by \$3.6 million beginning in FY 2025, but general fund expenditures for education decrease by at least \$5.6 million beginning in FY 2027.

(\$ in millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
GF Revenue	\$0.7	\$0.7	\$0.7	\$0.7	\$0.6
SF Revenue	\$5.0	\$5.1	\$5.2	\$5.4	\$5.5
GF Expenditure	\$3.6	\$3.6	(\$1.9)	(\$2.0)	(\$2.1)
SF Expenditure	\$5.3	\$5.5	\$5.6	\$5.7	\$5.8
Net Effect	(\$3.2)	(\$3.2)	\$2.3	\$2.3	\$2.4

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: Minimal. To the extent that video lottery terminal and table game revenues decrease as a result of fraternal organizations operating pull tab machines, local impact grants decrease.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill defines a fraternal organization and excludes any fraternity or sorority restricted to students or graduates of an educational institution or a professional school. Fraternal organizations in counties on the Eastern Shore are not eligible.

The bill authorizes, instead of requires, the Director of SLGCA to consider factors specified in current law before issuing a license to sell State lottery tickets or shares.

The bill alters the distribution of proceeds from pull tab machines operated by veterans' organizations so that after the deduction of prizes (and not commissions as authorized under current law), 50% of net proceeds go to veterans' organizations and an amount goes to SLGCA to cover the purchase or lease pull tab machines, plus administration fees for the program, and the remainder goes to ETF. The bill no longer requires a veterans' organization to purchase or lease pull tab machines.

After deducting prizes paid out, a fraternal organization must remit the receipts from the sale of pull tab tickets to SLGCA, which must distribute 20% to the Homelessness Solutions Program (HSP) in the Department of Housing and Community Development (DHCD) as specified. From the remaining proceeds from fraternal organizations, SLGCA must pay 25% to the fraternal organization, an amount needed to pay for the purchase or lease of pull tab machines and administration fees to SLGCA, and any remaining amount to ETF.

Current Law: SLGCA may issue specified veterans' organizations a license for up to five pull tab machines. Veterans' organizations in counties on the Eastern Shore are not eligible.

A licensed veterans' organization must locate and operate its pull tab machines at its principal meeting hall in the county. After deductions for commissions and prize payouts, 10% of the proceeds are distributed to the Maryland Veterans Trust Fund (MVTF) and the remainder goes to the State Lottery Fund. A licensed veterans' organization must purchase or lease the pull tab machines from SLGCA but may not use receipts from the sale of pull tabs that would otherwise go to the State Lottery Fund to purchase or lease the machines.

Before issuing a license to an applicant, the Director of SLGCA must consider such factors as: (1) the financial responsibility and security of the applicant and the business or activity of the applicant; (2) the accessibility of the place of business or activity to the public; (3) the sufficiency of existing licenses to serve the public convenience; and (4) the volume of expected sales.

Homelessness Solutions Program

DHCD administers HSP, which serves as a statewide response to address the issue of homelessness in Maryland, providing technical support and funding to Continuums of Care and Local Homeless Coalitions, which coordinate funding and resources for service providers across the State. The goals of HSP are to reduce the number of individuals/households who become homeless or return to homelessness and to shorten the length of time an individual or household is homeless. HSP funds can be used for rapid rehousing, homelessness prevention, and other related services.

Education Trust Fund

ETF provides funding for education and public schools. After specified allocations for school construction financing under the Built to Learn Act (Chapter 20 of 2020), ETF funds are directed to the Blueprint for Maryland's Future Fund (BMFF), which serves as the primary funding source for Blueprint for Maryland's Future education programs.

State Fiscal Effect: Based on U.S. Census data, the Department of Legislative Services (DLS) estimates that there are approximately 240 fraternal organizations in the State that may be eligible to operate pull tab machines. However, DLS assumes only a fraction of eligible organizations will operate pull tab machines. If 60 fraternal organizations operate pull tab machines, net sales from pull tab machines operated by fraternal organizations are \$7.2 million, based on net sales data from veterans' organizations in fiscal 2021. SLGCA must distribute 20% of this amount, or \$1.4 million in general funds, to HSP. Fraternal organizations receive approximately \$1.4 million, SLGCA receives approximately \$2.2 million to pay for the lease or purchase of pull tab machines and for administration fees, and the remainder of approximately \$2.2 million is distributed to ETF in fiscal 2025.

Altering the distribution of instant ticket proceeds from veterans' organizations increases ETF revenues by at least \$3.2 million annually beginning in fiscal 2025; thus, total annual ETF revenues increase by \$5.3 million. Under current law, MVTF receives 10% of the money that *remains* in the State Lottery Fund from proceeds of instant ticket sales by veterans. However, the bill specifies the distribution of proceeds of instant ticket sales by veterans so that no funds attributable to veterans' organizations remain in the State Lottery Fund. Thus, MVTF receives no funding from instant ticket sales by veterans under the bill.

Accordingly, MVTF revenues decrease by approximately \$320,000 annually, and general fund revenues decrease by at least \$2.9 million annually.

Exhibit 1 shows the revenue effects for the funds affected by the bill as a result of altering the distribution of instant ticket proceeds from veterans’ organizations and from authorizing fraternal organizations to operate pull tab machines. These amounts do not take into account any substitution effects. The bill may minimally decrease special fund revenues from casinos. The actual impact of the bill on general fund and special fund revenues and expenditures will depend on the number of fraternal organizations that operate authorized pull tab machines, their location with respect to casinos and to veterans’ organizations with pull tab machines, the actual payout rates on pull tabs, and the degree to which pull tab machines authorized by the bill constitute a substitute for other gambling in the State, and could vary significantly from what is shown below.

Exhibit 1
Overall Revenue Effects of the Bill
(\$ in Millions)

	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
ETF	\$5.3	\$5.5	\$5.6	\$5.7	\$5.8
MVTF	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
HSP	1.4	1.5	1.5	1.5	1.5
SLGCA	2.2	2.2	2.2	2.2	2.2
General Fund	(\$2.9)	(\$2.9)	(\$3.0)	(\$3.0)	(\$3.0)

ETF: Education Trust Fund
HSP: Homelessness Solutions Program
MVTF: Maryland Veterans Trust Fund
SLGCA: State Lottery and Gaming Control Agency

Source: Department of Legislative Services

If a significant number of fraternal organizations operate pull tab machines, additional staff will be needed to manage the machines. Shifting to multiple vendors may also impact program costs. It is assumed that much, if not all, of these costs will be offset by the increased revenues to SLGCA as shown above.

DHCD notes there were 1,764 homeless veterans in Maryland in fiscal 2023, of which approximately 20% were considered chronically homeless. DHCD advises that it can likely

implement the bill with existing resources, and general fund expenditures would be commensurate with the increased revenue.

ETF revenues are redirected to BMFF, and BMFF revenues are projected to be sufficient to cover mandated annual increases in expenditures for the Blueprint for Maryland's Future through fiscal 2026. However, current projections indicate that, under current law, revenues in BMFF, including prior-year fund balances, will be less than the required increases to annual expenditures under the Blueprint for Maryland's Future beginning in fiscal 2027. Thus, beginning in fiscal 2027, general fund expenditures for education decrease to the same extent that any BMFF revenues and expenditures increase under the bill.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Department of Housing and Community Development; Department of Veterans Affairs; Maryland State Lottery and Gaming Control Agency; Department of Legislative Services

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