

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
 First Reader

Senate Bill 319 (Senator DeGrange)
 Education, Health, and Environmental Affairs

State Lottery - Licensed Agents - Commissions

This bill increases the lottery agent sales commission from 5.5% to 6% of gross lottery sales.

Fiscal Summary

State Effect: General fund revenues decrease by \$7.0 million and special fund revenues to the Maryland Veterans Trust Fund decrease by \$27,000 in FY 2017 due to increasing lottery agent sales commissions. The State Lottery and Gaming Control Agency (SLGCA) can implement the bill with existing resources.

(in dollars)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	(\$7,007,000)	(\$9,491,000)	(\$9,691,000)	(\$9,914,000)	(\$10,144,000)
SF Revenue	(\$27,000)	(\$37,000)	(\$37,000)	(\$38,000)	(\$38,000)
Expenditure	0	0	0	0	0
Net Effect	(\$7,034,000)	(\$9,528,000)	(\$9,728,000)	(\$9,952,000)	(\$10,182,000)

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

Local Effect: None.

Small Business Effect: Meaningful. Small businesses that are licensed lottery agents benefit from receiving an additional 0.5% commission on gross lottery sales.

Analysis

Current Law: In exchange for selling State lottery products, licensed agents earn a 5.5% commission of gross lottery sales. A licensed agent may receive a cashing fee of up to 3%

of valid prizes paid for services rendered in cashing winning tickets. Additionally, SLGCA may authorize bonuses up to 0.5% of the gross sales to licensed agents.

SLGCA may issue certain veterans' organizations a license to operate up to five instant ticket lottery (pull tab) machines. A veterans' organization that operates instant ticket lottery machines receives the same commissions as a licensed lottery agent.

The State Lottery Fund

Each month, after payments to lottery winners and agents and to the State Lottery for operating expenses, the Comptroller must make payments from the State Lottery Fund to:

- the Maryland Stadium Facilities Fund (an amount not to exceed \$20 million in any fiscal year);
- the Baltimore City Public School Construction Financing Fund (an amount equal to \$20 million in each fiscal year that bonds are outstanding); and
- the State's general fund.

Additionally, the Comptroller must deposit 10% of the money that remains in the State Lottery Fund from the proceeds of ticket sales from instant ticket lottery machines by veterans' organizations into the Maryland Veterans Trust Fund.

Background: As part of a cost containment initiative, the Budget Reconciliation and Financing Act of 2009 (Chapter 487) decreased the agent sales commission from 5.5% to 5.0% in fiscal 2010 through 2012. The Budget Reconciliation and Financing Act of 2012 (Chapter 1 of the first special session) kept the commission at 5.0% for fiscal 2013. Chapter 1 of the 2012 second special session increased the commission back to 5.5% effective January 1, 2013, and scheduled the commission to increase to 6.0% once the video lottery operation license was issued to a Baltimore City video lottery facility. The Budget Reconciliation and Financing Act of 2014 (Chapter 464) permanently set agent sales commission at 5.5% and repealed the authority of SLGCA to authorize the payment of incentives to licensed lottery agents and their employees.

In fiscal 2015, 4,536 licensed lottery agents earned \$128.6 million in commissions. In the past three fiscal years, lottery commissions have averaged \$27,545 per licensed retailer. **Exhibit 1** shows the lottery retailer commissions as a percentage of lottery sales in Maryland and surrounding states.

Exhibit 1
Regional Retailer Commissions as a Percentage of Lottery Sales
Fiscal 2014-2015

<u>Regional Jurisdiction</u>	<u>FY 2014</u>	<u>FY 2015</u>
Maryland	7.08%	7.30%
West Virginia	7.00%	7.00%
District of Columbia	6.56%	6.48%
Delaware	6.33%	6.40%
Virginia	5.61%	5.63%
Pennsylvania	5.33%	5.32%

Source: State Lottery and Gaming Control Agency; State Lottery websites; La Fleur's 2015 Lottery Almanac: FY14 Commissions – Bonuses

State Revenues: Exhibit 2 shows the fiscal impact of increasing the lottery agent commissions to 6.0% of gross sales. General fund revenues decrease by \$7.0 million and special fund revenues to the Maryland Veterans Trust Fund decrease by \$27,000 in fiscal 2017, which reflects the bill's October 1, 2016 effective date. Future years reflect the Board of Revenue Estimates projection of lottery sales revenues, which averages approximately 2% annual growth in State lottery sales.

Exhibit 2
Fiscal Impact
Fiscal 2017-2021

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
General Fund	(\$7,007,000)	(\$9,491,000)	(\$9,691,000)	(\$9,914,000)	(\$10,144,000)
Veterans Trust Fund	(27,000)	(37,000)	(37,000)	(38,000)	(38,000)
Total	(\$7,034,000)	(\$9,528,000)	(\$9,728,000)	(\$9,952,000)	(\$10,182,000)

Small Business Effect: Approximately 4,536 licensed lottery agents, a portion of which are small businesses, benefit from receiving an additional 0.5% commission on gross lottery sales, totaling \$7.0 million in fiscal 2017 and \$10.2 million in fiscal 2021. On average, a licensed lottery agent sales commission increases by \$1,551 in fiscal 2017 and by \$2,245 in fiscal 2021.

Additional Information

Prior Introductions: None.

Cross File: None designated; however, HB 728 (Delegate Bromwell – Ways and Means) is identical.

Information Source(s): Comptroller's Office, Maryland State Lottery and Gaming Control Agency, State Lottery websites, La Fleur's 2015 Lottery Almanac, Department of Legislative Services

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