

Maryland Lottery and Gaming



FY 2018 BUDGET PRESENTATION

**GORDON MEDENICA,
DIRECTOR**

Table of Contents

Page 3	Overview
Page 4	Lottery Sales and Revenue Comparisons – Fiscal Year 2015–2016
Page 5	Gaming Revenue Comparisons – Fiscal Year 2015-2016
Page 6	DLS Issues and Recommended Actions

Overview

In fiscal year 2016, Maryland Lottery and Gaming contributed more than \$1.079 billion to the State of Maryland to support good causes, such as the Maryland Education Trust Fund; public health and safety; small, minority and women owned businesses; horseracing and more. \$569.8 million was generated through lottery operations and \$510 million was contributed by the casinos.

In fiscal year 2016, lottery sales hit a record high of \$1.905 billion, \$144.6 million over the previous fiscal year. Lottery profit generated in fiscal year 2016 totaled \$569.8 million, which represented an increase in profit of \$43.3 million or an 8.2% increase compared to the previous fiscal year. Refer to page 4 for the fiscal year 2016 sales breakdown. Other notable fiscal year 2016 highlights include commissions paid to retailers totaling \$141.2 million and prizes paid to players totaling \$1.13 billion.

Maryland's casino industry reached new heights in fiscal year 2016, which marked the first time the state had five casinos in operation for a full fiscal year. Gaming revenue at these five casinos totaled \$1.14 billion, a \$105.7 million or a 10.2% increase compared to fiscal year 2015. The casinos \$402.5 million contribution to the Maryland Education Trust Fund increased \$14.7 million or 3.8% compared to the previous fiscal year.

Maryland Lottery and Gaming

Lottery Sales and Revenue Comparison

Fiscal Year 2015-2016

SALES:	FY 2015	% of Total Sales	FY 2016	% of Total Sales	DIFFERENCE	% of Change
MEGA-MILLIONS	82,020,637	4.7%	73,217,563	3.8%	-8,803,074	-10.7%
POWERBALL	89,507,596	5.1%	143,525,324	7.5%	54,017,728	60.4%
KENO	302,987,619	17.2%	311,555,811	16.3%	8,568,192	2.8%
RACE TRAX	154,668,357	8.9%	167,091,717	8.8%	12,423,360	8.0%
PICK 3	240,910,861	13.7%	241,569,648	12.7%	658,787	0.3%
PICK 4	276,957,939	15.7%	280,783,133	14.7%	3,825,194	1.4%
MULTI-MATCH	34,499,811	2.0%	31,095,004	1.6%	-3,404,807	-9.87%
BONUS MATCH-5	21,320,570	1.2%	20,611,878	1.1%	-708,692	-3.3%
Cash4Life	-	-	11,958,604	0.6%	11,958,604	N/A
5 CARD CASH	6,534,023	0.3%	5,914,242	0.3%	-619,781	-9.5%
MONOPOLY	1,592,835	0.0%	-	0.0%	-1,592,835	N/A
INSTANT	546,053,764	31.0%	611,286,137	32.1%	65,232,373	12.0%
ITLM	3,812,016	0.2%	6,934,191	0.4%	3,122,175	81.9%
TOTAL	1,760,866,028	100%	1,905,543,252	100%	144,677,224	8.2%
REVENUE:						
LOTTERY TOTAL	526,526,915	29.90%	569,813,356	29.9%	43,286,441	8.2%
STADIUM AUTHORITY	20,000,000	1.1%	40,000,000	2.1%	20,000,000	100.0%
VETERANS TRUST	34,267	0.0%	59,507	0.0%	25,240	73.7%
GENERAL FUND	506,492,648	28.76%	529,753,849	27.8%	23,261,201	4.6%

Maryland Lottery and Gaming

Gaming Revenue Comparison

Fiscal Year 2015-2016

	Fiscal Year 2016	Fiscal Year 2015	Difference	% of Change
Gaming Revenue	\$1,143,972,959	\$1,038,223,816	\$105,749,143	10.2%
Education Trust Fund	\$402,504,947	\$387,775,613	\$14,729,334	3.8%
Casino Operators	\$626,102,303	\$538,999,870	\$87,102,433	16.2%
Horse Racing Purse Dedication Account	\$57,061,944	\$53,119,111	\$3,942,833	7.4%
Local Impact Grants	\$39,656,342	\$36,453,259	\$3,203,083	8.8%
MLGCA	\$7,832,058	\$11,934,165	\$(4,102,107)	-34.4%
Small, Minority, and Women-Owned Businesses	\$10,815,366	\$9,941,798	\$873,568	8.8%

Department of Legislative Services (DLS) Issues and Recommended Actions

The DLS recommends that the Agency comment on the current trends of sales and revenues, and in particular, the current mix of games, the emphasis on instant tickets and the return to the General Fund.

Fiscal year 2016 was a record-breaking year for the Lottery, establishing new highs for sales, prizes to players, retailer commissions and profit to the State. As previously mentioned, sales in fiscal year 2016 totaled \$1.905 billion, an increase of \$144.6 million over fiscal year 2015. Profit in fiscal year 2016, increased \$43.4 million over the previous fiscal year totaling \$569.8 million. The Lottery has a diverse portfolio and offers the following categories of games: jackpot games, daily draw games, monitor games and instant games. Having such a diverse portfolio enables the Lottery to be more successful as it is not reliant on one game to be successful whereas, many lotteries are reliant upon large jackpots to be successful.

Sales in all categories of games increased in fiscal year 2016 with the largest increase occurring in our instant ticket games category. Instant ticket game sales increased by \$65 million over the previous year. The Agency has identified instant ticket products as a growth area and expects to grow this product to 50% of total business. Since fiscal year 2014, instant ticket sales have grown from \$479.6 million to \$611.2 million in fiscal year 2016 and we are seeing continued growth in fiscal year 2017. As of the week ended January 29, 2017, instant ticket sales were \$19.4 million higher than the same time last fiscal year. We expect this growth to continue as we launch our first \$30 ticket later this month.

The jackpot game category showed the second largest growth increasing by \$53.8 million thanks to the \$1.6 billion Powerball jackpot that occurred in January 2016. Absent another billion-dollar jackpot, we do not expect to see similar growth in this game category during fiscal year 2017. Up until last fiscal year, the entire industry saw a decline in jackpot games due to jackpot fatigue and the lack of large jackpots.

Monitor games, which include Keno and Racetrax, saw a combined increase in sales of \$21 million. For the first time since fiscal year 2010, Keno sales increased. Racetrax has steadily continued to increase since its launch in fiscal year 2007. We are the only lottery in the nation that has a successful second monitor game. We expect to see continued growth in fiscal year 2017. As of the week ended January 29, 2017, monitor game sales were up almost \$3 million over sales from the prior year.

Maryland Lottery and Gaming

While daily draw games increased in fiscal year 2106 by \$3.1 million, we are seeing a slight decline in fiscal year 2017. Pick 3 and Pick 4 are our largest daily draw games and the industry overall has seen a decline in these games as players seek out immediate gratification game such as instant tickets and monitor games.

Overall lottery profit has grown each year since fiscal year 2014 and reached an all-time high in fiscal year 2016, generating \$569.8 million for the State of Maryland. Profit is expected to decline in fiscal year 2017 absent another \$1 billion dollar jackpot and due to higher than normal Pick 4 payouts, both of which are beyond the control of the Lottery.

The DLS recommends that the Agency comment on the status of the State's gaming program. Specifically, on the impact of the sixth casino, on the overall revenues to the State, and on the revenue and expenditure impact of its departmental legislation.

As noted previously, Maryland's casino industry continued to grow in fiscal year 2016, as it was the first time the state had five casinos in operation. Gaming revenue at these five casinos totaled \$1.143 billion, a \$105.7 million or a 10.2% increase compared to fiscal year 2015. On December 8, 2016, the states sixth casino, MGM opened, generating \$41.9 million in gaming revenue during its first three weeks of operation. The opening of MGM has contributed to the overall casino growth in 2017. As of January 29, 2017, overall gaming revenue had increased \$95.1 million over the same time last year. Overall contributions also continue to increase, and were \$29.4 million higher than the same time last year, and are expected to increase throughout the fiscal year.

The Agency has introduced two pieces of gaming legislation that it expects will decrease Agency expenditures and, in turn, will increase the return to the State. House Bill 90 – Reconciliation of Proceeds, would enable the casinos to carry over loses from one day to the next. At times, there are instances whereby the casinos payout more on table games and slot machines than it takes in. In these cases, the casinos incur the loss. If this legislation were to pass, the casinos would be able to offset the follow day's gaming revenue with the loss. The Agency believes that allowing the casinos to offset their losses would have an overall positive impact on the casinos as they would better be able to market to their most important customers. Such marketing requires that casinos accept larger bets when appropriate; despite the volatility, such large bets can create. MLGCA believes that such volatility evens out over time and leads to increased gaming revenue.

House Bill 91 would transfer ownership of the slot machines to both Ocean Downs and Rocky Gap in exchange for an increase in their tax rate of 10%. The increase in the tax rate will be offset by a reduction in Agency expenditures, as we would no longer be responsible for leasing the slot machines. It is estimated that net savings to the State would be approximately \$2.5 million a year.

Maryland Lottery and Gaming

Recommended Action

Reduce the increase in contractual salaries.

The Agency Concur.

Maryland Lottery and Gaming