

Maryland Lottery and Gaming



**FY 2019 BUDGET
PRESENTATION**

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Overview

In fiscal year 2017, Maryland Lottery and Gaming contributed more than \$1.117 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. \$525 million was generated through lottery operations and \$592 million was contributed by the casinos.

In fiscal year 2017, the lottery generated record sales of \$1.931 billion, increasing by \$26 million or 1.4% over the previous fiscal year. Refer to page 4 for a breakdown of sales. Other notable fiscal year 2017 highlights include profits totaling \$524.9 million and record commissions paid to retailers totaling \$145.9 million and prizes paid to players totaling \$1.197 billion.

Maryland's casino industry continued to grow in fiscal year 2017, highlighted by the December 2016 opening of MGM National harbor Casino, the state's sixth casino. Gaming revenue at these six casinos totaled \$1.421 billion, a \$276.9 million or a 24.2% increase compared to fiscal year 2016. The casinos' \$451.2 million contribution to the Maryland Education Trust Fund increased \$48.7 million or 12.1% compared to the previous fiscal year.

Maryland Lottery and Gaming

Lottery Sales and Revenue Comparison

Fiscal Year 2016-2017

SALES:	FY 2016	% of Total Sales	FY 2017	% of Total Sales	DIFFERENCE	% of Change
MEGA-MILLIONS	73,217,563	3.8%	66,344,693	3.4%	-6,872,893	-9.4%
POWERBALL	143,525,324	7.5%	100,133,706	5.2%	-43,391,618	-30.2%
KENO	311,555,811	16.4%	303,244,462	15.7%	-8,311,349	-2.7%
RACE TRAX	167,091,717	8.8%	180,398,545	9.3%	13,306,828	8.0%
PICK 3	241,569,648	12.7%	239,153,635	12.4%	-2,416,014	-1.0%
PICK 4	280,783,133	14.7%	291,588,159	15.1%	10,805,026	3.4%
MULTI-MATCH	31,095,004	1.6%	24,018,675	1.2%	-7,076,329	-22.8%
BONUS MATCH-5	20,611,878	1.1%	19,799,308	1.0%	-812,570	-4.0%
5 CARD CASH	5,914,242	0.3%	5,545,217	0.3%	-369,025	-6.2%
CASH4LIFE	11,958,604	0.6%	16,193,704	0.8%	4,235,100	35.4%
INSTANT	611,286,137	32.1%	676,752,574	35.0%	65,466,437	10.7%
ITLM	6,934,191	0.4%	8,372,989	0.4%	1,438,798	20.8%
TOTAL	1,905,543,252	100%	1,931,545,666	100%	26,002,391	1.4%
REVENUE:						
LOTTERY TOTAL	569,813,356	29.9%	524,902,592	27.1%	-45,910,764	-8.1%
STADIUM AUTHORITY	40,000,000	2.1%	40,000,000	2.1%	0	0.0%
VETERANS ORGS	59,507	0.0%	70,173	0.0%	10,666	17.8%
MD INT'L HORSE RACE	0		1,000,000	0.0%	1,000,000	N/A
GENERAL FUND	529,753,849	27.8%	483,832,419	25.0%	-45,921,430	-8.7%

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Gaming Revenue Comparison

Fiscal Year 2016-2017

	Fiscal Year 2016	Fiscal Year 2017	Difference	% of Change
Gaming Revenue	\$1,143,972,959	\$1,420,942,363	\$276,969,404	24.2%
Education Trust Fund	\$402,504,947	\$451,206,895	\$48,701,948	12.1%
Casino Operators	\$613,257,678	\$814,739,2984	\$201,481,620	32.8%
Responsible Gaming	\$3,844,625	\$4,649,746	\$805,121	20.9%
Horse Racing	\$57,061,944	\$63,048,641	\$5,986,697	10.5%
Local Aid	\$39,656,342	\$47,481,444	\$7,825,102	19.7%
MLGCA	\$7,832,058	\$9,310,058	-\$1,478,000	-18.9%
Small, Minority, and Women-Owned Businesses	\$10,815,366	\$12,949,485	\$2,134,119	19.7%
Local Jurisdictions	0	\$17,556,796	\$17,556,796	N/A

Department of Legislative Services (DLS) Issues and Recommended Actions

SLGCA should consider adding measures that better measure the agency's lottery retail network.

The Lottery does not agree with this recommendation. The Lottery believes that the best measure of the lottery retail network is the number of retailers and the commissions that are paid to these retailers, which are primarily small businesses. As mentioned in the analysis, the Lottery is working to increase the number of overall retailers. The Lottery has established a retail recruitment division and under the new central system contract will have a paperless licensing system that will expedite retailer applications. In addition, the contractor will be providing staffing to assist the Lottery in its recruitment efforts.

SLGCA should develop a rating system or other method of reporting in order to convey the severity of audit findings as well as its disciplinary actions.

The Lottery does not agree with this recommendation as it already has a process in place to convey audit findings and take disciplinary action where appropriate. If a licensee violates a provision of the Gaming Law, a regulation promulgated by the Commission or a directive of the Commission or the Director of the Lottery, the Commission takes action against that licensee that is typically in the form of a civil penalty for each violation. Violations are reviewed and documented by management on an on-going basis and discussed with the licensee. Once discussed, a penalty is assessed based on the severity (risk) of the finding and whether or not the finding is a repeat. All findings are presented on a consent agenda at the monthly commission meetings and contains information concerning the type of violation, the penalty assessed and whether the finding was a repeat.

Maryland Lottery and Gaming

SLGCA should discuss the implementation and cost of the new system.

In May 2017, the Lottery awarded a new contract for a lottery central system. This new contract will provide a System and staffing that will meet all of the Lottery's requirements for supporting its current games while providing improved flexibility for future development efforts. The new central system and new Retailer equipment will provide operational efficiencies and expanded capabilities. New equipment at Retailer locations will enhance the image and appeal of the Lottery to both the public and its Retailers resulting in increased player and Retailer satisfaction. These improvements are expected to contribute to increased sales and revenue. Some specific features of the contract are listed below:

- Replace and upgrade the existing On-Line Gaming System, which is over 12 years old and is now obsolete. The existing central computer will be replaced by new state-of-the-art systems;
- Replace all terminals, monitors and other equipment at over 4,500 retailer locations throughout the State, including: new clerk operated terminals, larger monitors with higher resolution for monitor games (Keno and RaceTrax) and two types of self-service terminals to reach a broader retailer base;
- Replace the existing communications network with a faster and more reliable dual cellular-based telecommunications network which allows much faster installation of new retailers and includes superior HD video capability for supporting monitor games and advertising;
- Provide additional staff and technology to assist the MLGCA with retailer recruitment, data analysis, marketing and promotions; and
- Provide additional equipment to improve the instant ticket order fulfilment, thereby increasing sales.

Conversion to this new system is aggressively underway. As of January 30, 2018, over 800 new terminals have been installed throughout the State. Business requirements have been developed and User Acceptance Testing of the system has started. It is anticipated that the full conversion will take place in Spring 2018. The contractor will be compensated primarily based on a percentage of sales. The current percentage is 1.3115% of sales up from the 12 year-old contract that compensates the contractor at .0095% of sales.

Maryland Lottery and Gaming

SLGCA should comment on its assumption of additional revenue based on its increased spending on advertising.

The lottery industry is a mass market consumer entertainment business that relies heavily on marketing to achieve its revenue goals, as is the case for most consumer products. Overall, advertising spending accounts for roughly 2% of national GDP. Advertising spending is usually expressed as a percentage of sales, a metric known as the ad/sales ratio. Ad/sales ratios vary by product and by industry, with some industries, such as casinos, spending over 20% of sales on advertising and promotion (N.B., “promotion” spending - e.g., coupons, rebates, discounts, etc. – often exceeds spending on media and advertising). In many consumer businesses, 2% is a useful rule-of-thumb for their ad/sales ratio. In the lottery industry, the average ad/sales ratio across all U.S. lotteries is 1.2%. In Maryland, it is only 0.8%.

At the New York Lottery, it was conventional wisdom that a dollar of advertising spending generated an incremental \$5.00 in *profit* (not just sales). To test this, the lottery engaged an econometrics-based brand research agency to study the relationship between advertising, sales and profits. The findings actually supported the old rule-of-thumb, that an incremental dollar of advertising generated \$5.00 of incremental profit. (As an aside, the New York Lottery is the largest and most profitable in the country, with a total marketing budget of \$92 million.)

The research findings showed that advertising spending had a strongly positive Return on Investment (ROI) even at levels of ad/sales ratios up to 3%. Since then, in discussions with Texas who conducted a similar study, the results were even higher (\$1 ad spend = \$7 profit). We have provided evidence that supports instant tickets supported by advertising sell faster than those without advertising. We will continue to support our instant tickets with advertising to drive profits.

Recommended Action

Concur with Governor’s allowance.

The Agency Concurs.