



E75D00

State Lottery and Gaming Control Agency

Fiscal Year 2025 Operating Budget

Response to Department of Legislative Services Analysis

House Appropriations Committee
Education and Economic Development Subcommittee
Delegate Stephanie M. Smith, Chair
February 14, 2024 - 1:00 p.m.

Senate Budget and Taxation Committee
Public Safety, Transportation, and Environment Subcommittee
Senator Sarah K. Elfreth, Chair
February 19, 2024 - 1:00 p.m.

Testimony by: John Martin, Director



Introduction

To the Chair and Members of the Subcommittee, thank you for allowing us to appear at this hearing in support of our Operating Budget request. Established by an Act of the General Assembly in 1972, the State Lottery began operations in 1973. Reorganized in October 2012 as the State Lottery and Gaming Control Agency (MLGCA), the added responsibilities of regulating casinos began in 2008, and in 2012 it was expanded to include table games and a sixth casino. Further expansion of gaming occurred after a 2020 referendum to permit sports wagering and fantasy competition was passed, the legal framework of which was created in 2021.

The MLGCA, in conjunction with the seven-member Maryland Lottery and Gaming Control Commission (MLGCC), serves as regulator of the state's casino gaming and sports wagering programs while also operating the Maryland Lottery. The MLGCA is operated as a business enterprise within the framework of state laws and regulations. Its primary mission is to generate revenue for the state, both through the sale of traditional Lottery products and through the administration of the casino gaming and sports wagering programs.

In FY2023, the MLGCA contributed more than \$1.589 billion to support the State of Maryland's good causes, including the Maryland Education Trust Fund; the Blueprint for Maryland's Future Fund; public health and safety programs; the state's horse-racing industry; the communities and jurisdictions where the state's six casinos are located; small, minority, women-owned business programs; and veterans' organizations. Lottery ticket sales contributed \$714.3 million to the state, while casino gaming revenue contributed \$848.1 million — both of which represented year-over-year increases. Meanwhile, sports wagering and fantasy competitions (including daily fantasy sports) combined to contribute another \$26.4 million.

Lottery

The Maryland Lottery program has operated for 50 years and enjoys broad participation as 74% of adult Marylanders report playing at least one Lottery game in the past twelve months. Since its inception in 1973, traditional Lottery sales have exceeded \$59.6 billion and have contributed more than \$19.3 billion in revenue to the state. Most of the revenue from the traditional Lottery is contributed to the State's General Fund, which supports education, public health and safety, and many other state programs and services. In addition, the MLGCA is required by statute to contribute to various other programs. Further, a portion of revenue from the Instant Ticket Lottery Machine (ITLM) program, which is exclusive to veterans' organizations, is contributed to the Maryland Veterans Trust Fund.

Lotteries across the country have evolved and become more diversified, offering players a variety of choices. Today, 45 states and Washington, D.C., operate lotteries, most selling both draw games and scratch-off games. During FY2023, these lotteries generated \$100.7 billion in sales nationwide. The Maryland Lottery ranked sixth among state lotteries in per capita sales during this time period. The Maryland Lottery demonstrated resiliency in prior economic downturns and most recently during the COVID pandemic with limited decline of only 1%. Lottery sales saw exceptional growth in recent years. FY2023 Lottery sales increased \$101.7 million from FY2022 to more than \$2.764 billion. Profit returned to the state increased \$40.6 million year-over-year to \$714.3 million. Sales of scratch-off tickets increased to a new benchmark of \$1.1 billion, up 5.3% from FY2022. Maryland Lottery operates quite efficiently with a percentage of administrative expenses to sales ratio of less than 4%. In FY23 this metric was 3.5%.

Lottery Revenue Components

The State Lottery Fund is a statutorily created fund into which all receipts from the sale of State lottery tickets (after payment of prizes, commissions to licensed retailers and operating expenses) are deposited.

- Lottery tickets are sold across a variety of licensed retailers that Marylanders visit every day, such as convenience stores, gas stations, liquor stores, independent drug stores, grocery stores, restaurants, bars and taverns.

- Lottery licensed retailers are private businesses that receive commissions to sell the games to the public and cash winning tickets. Lottery fuels over 4,400 retail businesses throughout the state by driving foot traffic and increasing income through commissions. In FY2023, the Maryland Lottery’s retailers earned \$219.9 million in sales and cashing commissions, an increase of 8.3%, or \$16.9 million. The average retailer commission was \$50,000.
- Transactions are conducted through clerk operated and touch screen vending (self-service) terminals that are connected to a computerized real-time system. Debit card readers were introduced on touch screen vending (self-service) terminals in early 2021. The average self- service transaction, since implementation of the debit card readers, has grown from approximately \$12.70 to over \$24.00.
- Maryland Lottery players won \$1.732 billion in prizes, an increase of \$37.9 million (2.2%) from FY2022. Players won an average of more than \$4.7 million per day.
- All Maryland Lottery draw games (Pick 3, Pick 4, Pick 5, Bonus Match 5, Multi-Match, Keno and Racetrax) are conducted by random number generators (RNGs). The computer-controlled RNG systems that operate Keno and Racetrax are maintained at a secure, multi-tenant data center located in Nevada. Pick 3, Pick 4, Pick 5, Bonus Match 5 and Multi-Match drawings are conducted by Maryland Lottery staff using an RNG system housed at the Maryland Lottery’s facility in Baltimore. Mega Millions, Powerball and Cash4Life drawings are conducted in Georgia, Florida, and New Jersey, respectively.
- The Maryland Lottery continues to offer a variety of games:

Category	Description	Games
Draw Games	Players pick their numbers or utilize random computer-generated plays. Customers receive a ticket and then wait for the drawing to determine if they have won.	Pick 3, Pick 4, Pick 5, Bonus Match 5 and FAST PLAY
Monitor Games	Players can purchase tickets at any Maryland Lottery retailer and watch the results at any Lottery retailer equipped with game monitors or on the Maryland Lottery' mobile Keno and Racetrax app.	Keno and Racetrax
Jackpot Games	Customers receive a ticket and then wait for the drawing to determine if they have won. Jackpots are calculated as a percentage of total game revenue. If there is not a jackpot winner, the prize pool is carried forward until there is a winner. Other prize levels are based on predetermined set amounts. Cash4Life's top prize is not a progressive jackpot; it is static at \$1,000 a day for life.	Mega Millions, Powerball, Multi-Match and Cash4Life
Scratch-off Games	Played by scratching a latex covering off a play area to reveal preprinted results. If a winning combination appears, the customer is an instant winner.	Scratch-offs
Instant Ticket Lottery Machine ("ITLM")	Available exclusively to veterans' organizations, gives players an entertaining animated display of a predetermined prize amount.	ITLM

Scratch-off games

Scratch-off games represents the largest category of growth, increasing by more than 26% since 2020. Following various strategic initiatives and internal policy goals implemented in 2015, revenues generated from the sales of scratch-off lottery tickets have more than doubled.

- Growth in scratch-off sales is directly attributable to improved inventory management, an aggressive planning and development schedule, and increased advertising.
- Every scratch-off game available to consumers is evaluated on a monthly basis. By closing lower performing games and replenishing inventory with the best sellers, trial and repurchase rates have remained high, along with retailer and player interest and enthusiasm.
- Through partnerships with professional sports teams within the State (including the Ravens) and the release of tickets related to special events (including in 2023, the launch of the \$50 *50 Years!* ticket

commemorating the 50th anniversary of the Maryland Lottery), sales of scratch-off tickets engage players through seasonal and current events.

- Increased focus on higher price point tickets at \$20 or more and expanding into new price points (with large prizes) have also contributed to improved revenues.

Strategic Initiatives

The Maryland Lottery undertakes various strategic initiatives that help in managing the operations of the Agency while trying to meet our primary mission. Initiatives such as:

- Maintaining a constant advertising presence to remain top of mind with consumers. Multiple media vehicles are utilized with an increasing focus on digital, streaming, social media and “on demand” tactics, all designed to reach consumers when and how they consume content. Maryland Lottery’s communications and advertising materials have won numerous awards from the Baltimore Chapter of the American advertising federation.
- Expansion of touch screen vending (self-service terminals) – over 2,000 devices are now deployed.
- Outside signage and digital signage used to display messaging at every retail location which brings customer attention to promotions and product information.
- Accessibility to cash out prizes up to \$600 at any of the 4,400 retailers. Expanded Cashing Authority Program (XCAP) – 430 retailers can cash prizes between \$600 and \$5,000. Casinos can cash Lottery prizes between \$5,000 and \$25,000.
- Increase in corporate retailers such as Walmart and Giant.
- Launching of new games/products:
 - Maryland’s second \$50 scratch-off ticket will launch this month.
 - A new draw game called CASH POP™ will launch during the fourth quarter of FY2024. CASH POP drawings will occur four times per day and will be conducted by a computer controlled RNG system. In each drawing, one winning number is selected from a range of 1 to 15. Players can purchase a ticket with as many numbers as they wish from that range. Prize amounts are randomly generated for each ticket from a pre-set range and appear on the ticket.
 - A new scratch-off will launch during the fourth quarter of FY2024 called The Big Spin, which features an innovative prizing process in which the top-prize winners will come to the Maryland Lottery’s office and spin a prize wheel that will determine their winnings, ranging from \$50,000 to \$250,000.

Casino Gaming

The mission of the casino gaming program is to generate revenue for the State of Maryland and to create good-paying jobs while maintaining integrity, security, transparency and fair play. From the opening of Maryland’s first casino in September 2010 through the end of FY2023, slot machine and table game revenues generated by the six casinos totaled more than \$15.9 billion. Casino gaming contributions to the state through FY2023 totaled more than \$6.9 billion. The distribution of casino gaming revenue is directed by statute. The casinos generated nearly \$2.1 billion in gaming revenue from slot machines and table games during FY2023, a 2.9% increase from FY2022. The \$848.1 million in contributions to the state went to the following beneficiaries:

- Education Trust Fund: \$622.7 million
- Local Aid: \$108.9 million (including local impact grants and local jurisdiction contributions)
- Maryland’s Horse Racing Industry: \$92.1 million (including contributions to the Racetrack Facility Renewal Account and the Horse Racing Purse Dedication Account)
- Maryland’s Small, Minority and Women-Owned Business Fund: \$19.9 million
- Responsible Gaming Programs: \$4.5 million

Sports Wagering and Fantasy Competitions

A U.S. Supreme Court Decision in 2018 paved the way for states to legalize sports wagering. Maryland joined a growing list of states to implement sports wagering when voters approved a sports wagering referendum in November 2020. The state's first five retail sportsbooks opened in December 2021, and the first seven mobile/online sportsbooks launched in November 2022. As of February 2024, there were 13 retail sportsbook facilities and 12 mobile/online sportsbooks operating in Maryland. Each sportsbook contributes 15% of its taxable win to the Blueprint for Maryland's Future Fund, which supports public education programs. In FY2023, these contributions totaled nearly \$25.3 million. Expired sports wagering prizes go to the Problem Gambling Fund. Those contributions totaled \$2.1 million during FY2023. In FY2023, initial license fees totaled \$11.4 million, which was distributed to the Blueprint for Maryland's Future Fund. Sports wagering licensees pay a renewal license fee every five years.

The operators of fantasy competitions (including daily fantasy sports) also contribute 15% of their revenue to the Blueprint for Maryland's Future Fund. In FY2023, these contributions totaled more than \$1.2 million.

Responsible Gaming

MLGCA continues to substantially deepen its organization-wide commitment to emphasizing the importance of responsible play. During FY2023, the Maryland Lottery began working on a responsible gaming program jointly sponsored by the North American Association of State and Provincial Lotteries (NASPL) and the National Council on Problem Gambling (NCPG). The NASPL-NCPG Responsible Gambling Verification Program helps lotteries plan and implement effective responsible gaming procedures in all aspects of their operations. The program has three levels of verification (Planning, Implementation and Sustaining), which encourage lotteries to progressively strengthen their commitment to responsible gaming.

The Maryland Lottery is currently recognized at the Sustaining level by virtue of its World Lottery Association (WLA) Level 4 certification, which was achieved in 2022. The WLA is a separate, international responsible gaming program with four levels of certification, and the NASPL-NCPG program gives parallel recognition to lotteries that have been certified by the WLA. The Maryland Lottery plans to submit its first application for the Sustaining level to NASPL-NCPG in late 2024. A group of more than a dozen staff members from multiple departments will spend much of 2024 working on the submission, which will include summaries and documentation of the Lottery's responsible gaming efforts pertaining to employee training; retailer training; public education and awareness; product oversight; research; and advertising.

The Maryland Lottery supports Problem Gambling Awareness Month with a paid advertising campaign and other messaging, and is a participant in NCPG's Gift Responsibly campaign, which reinforces the message that Lottery tickets are not an appropriate gift for anyone under the age of 18. Maryland Lottery and Gaming maintains its leadership role in the Maryland Alliance for Responsible Gambling (MARG), which brings together the state's gambling stakeholders and the problem gambling treatment community in a collaborative forum to enhance and develop resources. During FY2023, the Lottery updated the design of the MARG website (mdgamblinghelp.org) and streamlined the information presented there. The website provides extensive information on the Voluntary Exclusion Program which the Agency administers, allowing individuals to exclude themselves from all types of gambling that Maryland Lottery and Gaming oversees. Agency staff have also increased collaboration with the Maryland Center of Excellence on Problem Gambling, with regular meetings between MLGCA and Center of Excellence staff to coordinate activities and training opportunities.

Personnel Data

DLS noted that the Agency had a decrease of 4 contractual FTE positions between the fiscal 2024 working appropriation and fiscal 2025 allowance. The Agency reviewed all Agency contractual positions' functions. It was determined that the functionality of the 4 FTE positions identified by DLS was ongoing, long-term and should be converted to "Regular Positions."

The analysis by Department of Legislative Services Micah Richards is comprehensive and thorough. We thank him for the work performed, as well as that of the Department of Budget and Management and our Agency's OBA Analyst, Shane Benz.

DLS Recommendation

The Maryland Lottery and Gaming Control Agency concurs with the DLS recommendation and requests approval of the Governor's FY2025 budget for E75D00, the State Lottery and Gaming Control Agency, as submitted.