

E75D
State Lottery and Gaming Control Agency

Executive Summary

The State Lottery and Gaming Control Agency (SLGCA) administers and operates lottery games in the State and administers the State’s video lottery terminal, or casino, program.

Operating Budget Data

(\$ in Thousands)

| | <u>FY 18</u> | <u>FY 19</u> | <u>FY 20</u> | <u>FY 19-20</u> | <u>% Change</u> |
|------------------------------|----------------------|-----------------------|-------------------------|------------------------|--------------------------|
| | <u>Actual</u> | <u>Working</u> | <u>Allowance</u> | <u>Change</u> | <u>Prior Year</u> |
| General Fund | \$7,475 | \$6,931 | \$6,943 | \$13 | 0.2% |
| Adjustments | 0 | 88 | 10 | -78 | |
| Adjusted General Fund | \$7,475 | \$7,019 | \$6,953 | -\$66 | -0.9% |
| Special Fund | 79,939 | 92,512 | 97,209 | 4,697 | 5.1% |
| Adjustments | 0 | 116 | 769 | 653 | |
| Adjusted Special Fund | \$79,939 | \$92,628 | \$97,978 | \$5,350 | 5.8% |
| Adjusted Grand Total | \$87,414 | \$99,647 | \$104,931 | \$5,284 | 5.3% |

Note: The fiscal 2019 appropriation includes deficiencies, a one-time \$500 bonus, and general salary increases. The fiscal 2020 allowance includes general salary increases.

- The fiscal 2020 allowance increases by \$5.3 million, or 5.3%, compared to the fiscal 2019 working appropriation. The increase is entirely comprised of special funds; general funds decrease by approximately \$66,000.
- Nearly all of the increase is due to increases in personnel costs (\$2.2 million) and advertising spending (\$3 million).

Note: Numbers may not sum to total due to rounding.

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Personnel Data

| | <u>FY 18 Actual</u> | <u>FY 19 Working</u> | <u>FY 20 Allowance</u> | <u>FY 19-20 Change</u> |
|------------------------|--------------------------------|---------------------------------|-----------------------------------|-----------------------------------|
| Regular Positions | 324.10 | 324.10 | 324.10 | 0.00 |
| Contractual FTEs | <u>5.98</u> | <u>9.75</u> | <u>9.75</u> | <u>0.00</u> |
| Total Personnel | 330.08 | 333.85 | 333.85 | 0.00 |

Vacancy Data: Regular Positions

| | | |
|---|-------|-------|
| Turnover and Necessary Vacancies, Excluding New Positions | 10.95 | 3.38% |
| Positions and Percentage Vacant as of 12/31/18 | 18.00 | 5.55% |

- Despite a vacancy rate that has consistently been around 5% for the past two years, the SLGCA fiscal 2020 allowance reduces the turnover rate to 3.38% (from 3.91%) at a cost of nearly \$100,000. Additionally, 5 regular positions at the agency have been vacant for more than a year.

Key Observations

- Lottery sales hit \$2.05 billion in fiscal 2018, setting a record high for the fourth straight year, bringing in \$534.5 million to the General Fund.
- Video lottery terminal, or casino, revenues continue to grow, resulting in distributions of nearly \$500 million to the Education Trust Fund in fiscal 2018.
- A recent U.S. Supreme Court ruling struck down a federal ban on sports betting. While it had previously been thought a voter referendum would be needed to allow for sports betting in the State, questions have been raised about whether voter approval is actually necessary.

Operating Budget Recommended Actions

| | <u>Funds</u> | <u>Positions</u> |
|---|---------------------|-------------------------|
| 1. Eliminate 4.0 long-term vacant positions in Administration and Operations. (PINs 004833, 047804, 056127, and 064839) | \$ 281,425 | 4.0 |
| 2. Eliminate 1.0 long-term vacant position in Video Lottery Terminal Operations. (PIN 087338) | 69,210 | 1.0 |
| Total Reductions | \$ 350,635 | 5.0 |

Updates

- At the end of calendar 2018, there were 4,395 lottery retailers, a reduction of 19 retailers since the end of calendar 2017.

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Operating Budget Analysis

Program Description

The State Lottery and Gaming Control Agency (SLGCA) administers and operates lottery games to generate revenue for the State. The lottery currently offers the following games: Pick 3, Pick 4, Keno, Instant Ticket Games, Keno Bonus and Super Keno Bonus, Mega Millions, Powerball, Bonus Match Five, Multi-Match, Racetrax and Racetrax Bonus, 5 Card Cash, and Cash4Life.

All games, except Instant Ticket Games, are draw games, meaning that players pick their numbers or use computer-generated numbers, receive a ticket, and then wait for a drawing to see if they have won. With Instant Ticket Games, players scratch off a latex covering on a ticket play area to reveal preprinted combinations. Games are sold through lottery agents, which are private businesses that receive commissions and fees in exchange for selling the games to the public.

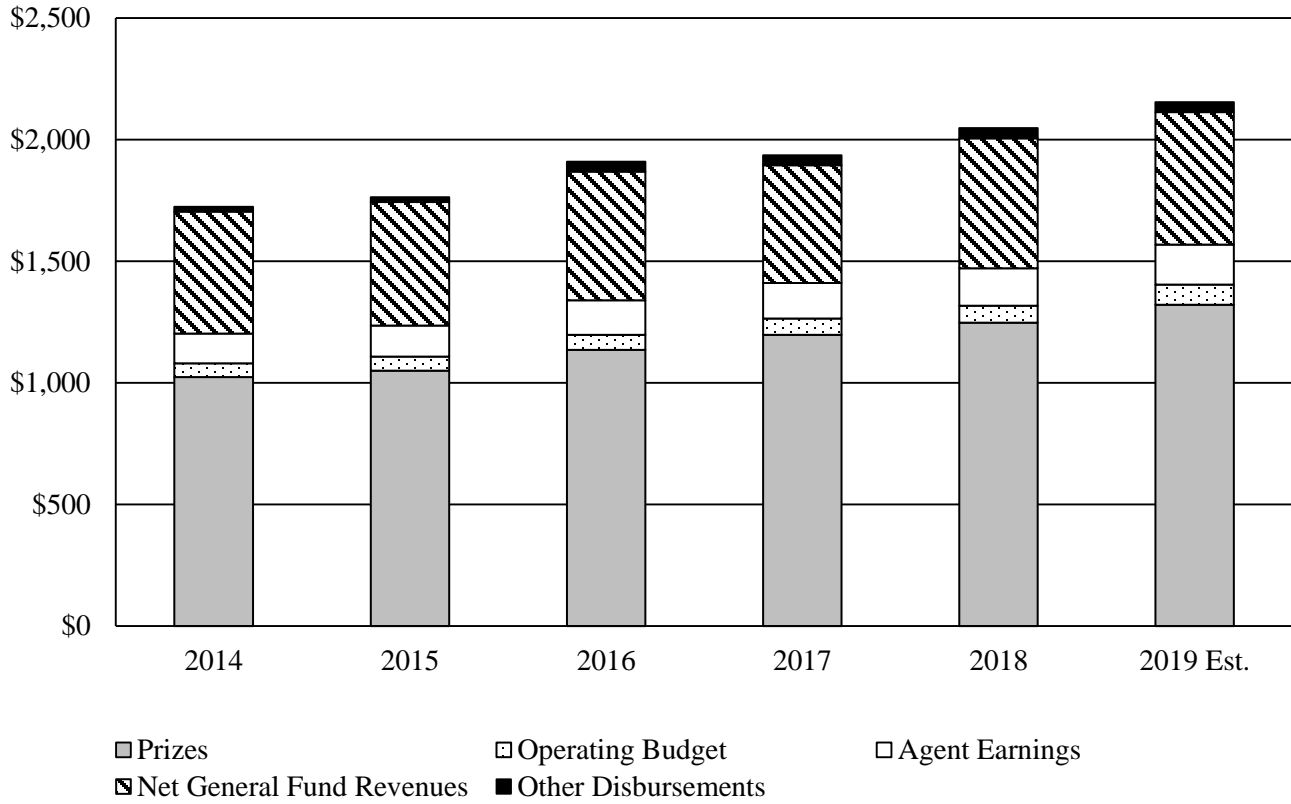
The State Lottery and Gaming Control Commission has oversight responsibility for SLGCA. In 2008, the commission was expanded to address additional responsibilities stemming from the video lottery terminal (VLT) legislation. SLGCA is responsible for the administration of the VLT program, including accounting for and distributing VLT revenues, managing the program's central system, and regulating and licensing of operators. In fiscal 2012, SLGCA's responsibilities were further expanded to include the regulation of table games at the previously authorized VLT facilities, among other new duties.

Performance Analysis: Managing for Results

1. Lottery Sales Remain Strong

Lottery sales, prize payouts, and agent earnings all experienced increases in fiscal 2018, with sales growing by 5.8% to a record high of \$2.05 billion. Proceeds from the traditional lottery games pay for prizes, agent earnings, and all operating expenses of SLGCA. In fiscal 2018, 60.9% of sales paid for prizes, 7.5% paid for agent commissions and redemption fees, 3.4% paid for operations of the lottery program, 26.1% was credited as revenue to the General Fund, and 2.0% was disbursed to the Maryland Stadium Authority and the Maryland International Race Purse, per statute. Net general fund revenues increased by nearly 11% to \$534.5 million in fiscal 2018. **Exhibit 1** shows total lottery sales and the distribution of those revenues from fiscal 2014 through an estimate for fiscal 2019.

Exhibit 1
Lottery Sales and Expenditures
Fiscal 2014-2019 Est.
(\$ in Millions)



Note: Operating budget amount does not include funds to operate the video lottery terminal program.

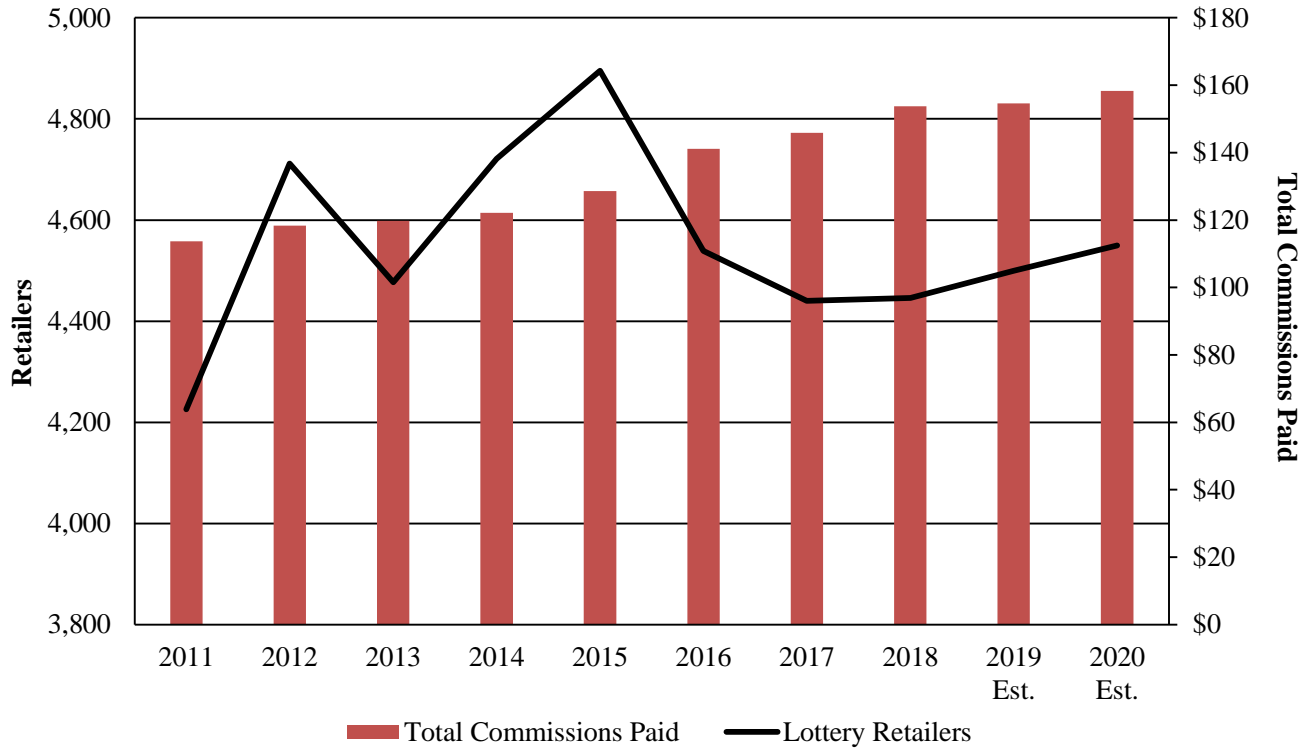
Source: State Lottery and Gaming Control Agency

2. Number of Lottery Retailers Flat in Fiscal 2018

SLGCA relies on its network of lottery retailers to sell its lottery games. There were 4,446 retailers in fiscal 2018, an increase of 6 retailers over fiscal 2017. Of these, 344 retailers participate in the Expanded Cashing Authority Program and are allowed to cash winnings of up to \$5,000. All other retailers may cash winning tickets of up to \$600. Agents earn 5.5% of sales at retail establishments as well as 3.0% in cashing commissions. **Exhibit 2** shows the number of agents and their earnings from fiscal 2011 through an estimate for fiscal 2020. The agency paid out \$153.7 million

in commissions to retailers in fiscal 2018. SLGCA should comment on the reduction in the number of lottery retailers in the State since fiscal 2015.

Exhibit 2
Lottery Retailers and Earnings
Fiscal 2011-2020 Est.
(\$ in Millions)



Source: State Lottery and Gaming Control Agency

Fiscal 2019 Actions

Proposed Deficiency

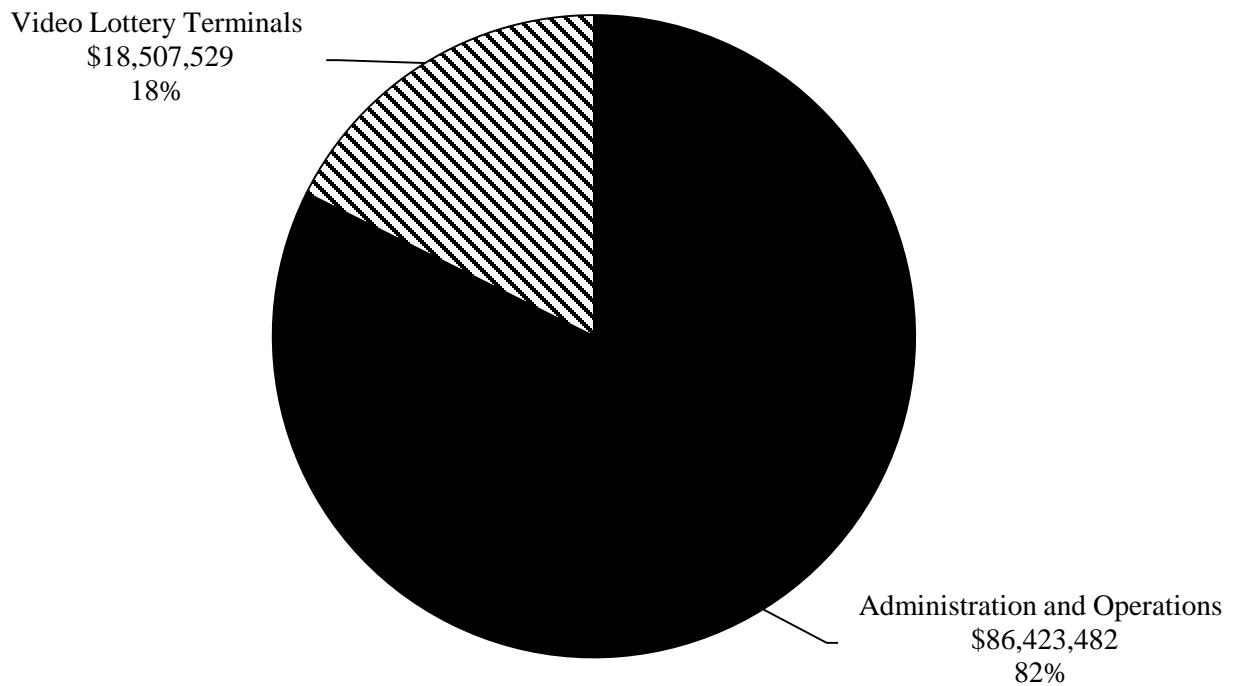
The fiscal 2020 budget includes fiscal 2019 deficiency appropriations for the 0.5% general salary increase and one-time \$500 bonus. The SLGCA share of these amounts is \$174,525 for the bonus and \$28,944 for the salary increase.

Fiscal 2020 Allowance

Overview of Agency Spending

The fiscal 2020 allowance for the agency totals \$104.9 million. As shown in **Exhibit 3**, SLGCA is divided into two units: Administration and Operations, which handles lottery gaming, and VLT and Gaming Operations, which is responsible for the regulation of the State’s VLT and table game operations. Lottery administration accounts for 82% of agency spending.

Exhibit 3
SLGCA Expenditures by Program
Fiscal 2020

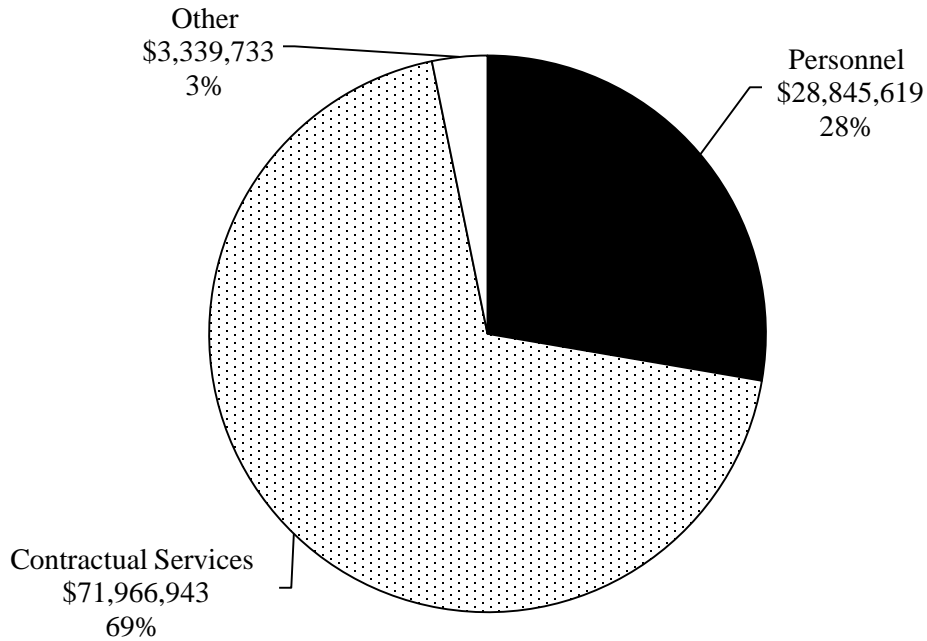


SLGCA: State Lottery and Gaming Control Agency

Source: Governor’s Fiscal 2020 Budget Books

SLGCA’s expenses are primarily personnel costs (28% of the allowance) and costs for contractual services (69%), as shown in **Exhibit 4**.

Exhibit 4
SLGCA Expenditures by Purpose
Fiscal 2020



SLGCA: State Lottery and Gaming Control Agency

Source: Governor’s Fiscal 2020 Budget Books

Proposed Budget Change

As shown in **Exhibit 5**, SLGCA’s fiscal 2020 allowance increases by \$5.3 million, or 5.3%, compared to the fiscal 2019 working appropriation. Special funds account for all of the increase; general funds decline by approximately \$66,000.

Exhibit 5
Proposed Budget
State Lottery and Gaming Control Agency
(\$ in Thousands)

| How Much It Grows: | <u>General Fund</u> | <u>Special Fund</u> | <u>Total</u> |
|-----------------------------------|----------------------------|----------------------------|---------------------|
| Fiscal 2018 Actual | \$7,475 | \$79,939 | \$87,414 |
| Fiscal 2019 Working Appropriation | 7,019 | 92,628 | 99,647 |
| Fiscal 2020 Allowance | <u>6,953</u> | <u>97,978</u> | <u>104,931</u> |
| Fiscal 2019-2020 Amount Change | -\$66 | \$5,350 | \$5,284 |
| Fiscal 2019-2020 Percent Change | -0.9% | 5.8% | 5.3% |

Where It Goes:

Personnel Expenses

| | |
|--|-------|
| Employee and retiree health insurance | \$658 |
| General salary increase (3%) and annualization of fiscal 2019 0.5% increase offset by fiscal 2019 one-time bonus..... | 575 |
| Employees' retirement system contributions | 514 |
| Regular earnings including annualization of fiscal 2019 2% general salary increase | 195 |
| Overtime earnings | 100 |
| Turnover adjustments..... | 98 |
| Workers' compensation premium assessment | 89 |
| Reclassification | -135 |
| Other fringe benefit adjustments..... | 61 |

Other Changes

| | |
|--|--------|
| Lottery advertising | 3,000 |
| Contractual costs for central lottery system..... | 1,378 |
| Office equipment | 50 |
| Department of Information Technology cost allocation and 700 mHz conversion | 34 |
| Software licenses related to functions now handled by the central lottery system | -150 |
| Equipment costs related to no longer owning instant ticket vending machines..... | -1,298 |
| Other | 115 |

Total **\$5,284**

mHz: megahertz

Note: Numbers may not sum to total due to rounding.

Personnel

Personnel costs at SLGCA increase by approximately \$2.2 million in the fiscal 2020 allowance compared to the fiscal 2019 working appropriation. The increase is driven in part by the combined effects of fiscal 2019 and 2020 salary increases and regular salary increments offset by a reduction due to the one-time \$500 bonus in fiscal 2019. Those factors account for approximately \$770,000 of the personnel cost increase. Employee and retiree health insurance costs (\$658,000) and retirement contributions (\$514,000) account for much of the rest of the increase.

The allowance also decreases the turnover rate from 3.91% to 3.38%, resulting in an increase in costs of nearly \$100,000. However, the agency's vacancy rate has been approximately 5% for the past two years. In addition, 5 positions at SLGCA have been vacant for more than one year, including 1 position that has been vacant since September 2015. Eliminating the 5 long-term vacancies would result in a vacancy rate of 4.07%. **The Department of Legislative Services (DLS) recommends eliminating 5 long-term vacant positions at SLGCA.**

Lottery Advertising

The fiscal 2020 allowance increases spending on lottery advertising by \$3 million, or 16.6%, to continue SLGCA's promotional focus on instant ticket sales. The \$21.1 million for advertising in the fiscal 2020 allowance is 53.4% higher than the \$13.7 million provided in fiscal 2016. While the increase in spending is significant, the amount is in line with other state lotteries relative to sales, and the approximately 1% advertising-to-sales ratio is in line with typical ratios in other consumer categories. The Department of Budget and Management has recognized an additional \$8,990,697 in general fund revenue related to an expected increase in sales due to the increase in advertising. The increase in revenue is based on a study conducted for the New York State Lottery that showed a \$4 increase in sales for every \$1 increase in advertising spending. DLS has been unable to adequately review this study to determine how applicable it would be to Maryland. Neither the Board of Revenue Estimates (BRE) nor the Department of Legislative Services use advertising spending as a factor in estimating lottery revenues. **SLGCA should comment on the rapid increase in lottery advertising spending and the assumptions used to generate the projected fiscal 2020 revenue increase.**

Issues

1. Ban on Sports Betting Struck Down

A recent U.S. Supreme Court ruling in *Murphy v. National Collegiate Athletic Association* struck down the federal ban on sports betting in most states. As a result, there has been a rush of legislative activity in states hoping to capture a new source of gaming revenue.

Background

The federal Professional Amateur Sports Protection Act (PASPA) made betting on sports illegal under federal law but exempted certain types of sports betting in states that authorized it before the PASPA or within a year after the PASPA became effective. As a result, Delaware, Montana, Nevada, and Oregon could offer betting on sporting events, although only Delaware and Nevada have done so. However, betting in Delaware was limited to a professional football sports lottery, which consists of parlays and selected-off-the-board wagers, not single-game wagers.

Less than one month after the *Murphy* decision, Delaware became the first state outside of Nevada to offer single-game sports betting. On the heels of Delaware, New Jersey's sports betting operations went live on June 14, 2018, and betting began in Mississippi and West Virginia coinciding with the start of the regular professional football season that September. According to a recent study by Eilers & Krejcik Gaming, 32 states are predicted to offer sports betting within five years of the *Murphy* decision.

Sports Betting in Maryland

In Maryland, legalized sports betting is considered an expansion of commercial gaming. Chapter 5 of the 2007 special session amended the Maryland Constitution so that after November 15, 2008, the General Assembly may only authorize additional forms or an expansion of commercial gaming if approved through a referendum by a majority of the voters in a general election. Legislation authorizing a referendum on sports betting was introduced in both houses during the 2018 session, but these bills failed to pass. Maryland voters will not be able to consider the question until the 2020 general election, at the earliest. However, there is a question as to whether a sports betting operation run by SLGCA, similar to what has been proposed in Rhode Island and the District of Columbia, could be implemented legislatively as a lottery game without requiring a voter referendum.

Revenue Estimates

DLS notes that sports betting revenues in Nevada are approximately 2% of Nevada's total gaming revenues. Thus, if sports betting revenues in Maryland total 2% of Maryland's gaming revenues, gross revenues after payouts to bettors could increase by \$33.9 million in fiscal 2020. Assuming that the current table games tax rate of 20% is applied, the State share of gross revenues in fiscal 2020 would be \$6.8 million. However, authorizing mobile sports betting could significantly

increase revenues. Oxford Economics, a global economics forecasting firm, estimates that sports betting revenues would more than quadruple if sports betting became conveniently available at casinos, racetracks, lottery retailers, and online in Maryland. Likewise, Global Market Advisors, a consulting firm with a focus on the gaming industry, estimates that sports betting revenues could increase tenfold. Estimates suggest that between 20% and 50% of sports wagering in Las Vegas occurs online. New Jersey reported \$184 million in total wagers for the month of September 2018, 56% of which (\$104 million) was generated from online and mobile betting. Accordingly, DLS estimates that gross revenues could increase by \$67.9 million in fiscal 2020, totaling 4% of Maryland's gaming revenues, if sports betting is authorized both online and at Maryland casinos and racetracks. Assuming a 20% tax rate, the State share of revenues in fiscal 2020 would be \$13.6 million. **SLGCA should comment on the impact of legalizing sports betting on State revenues.**

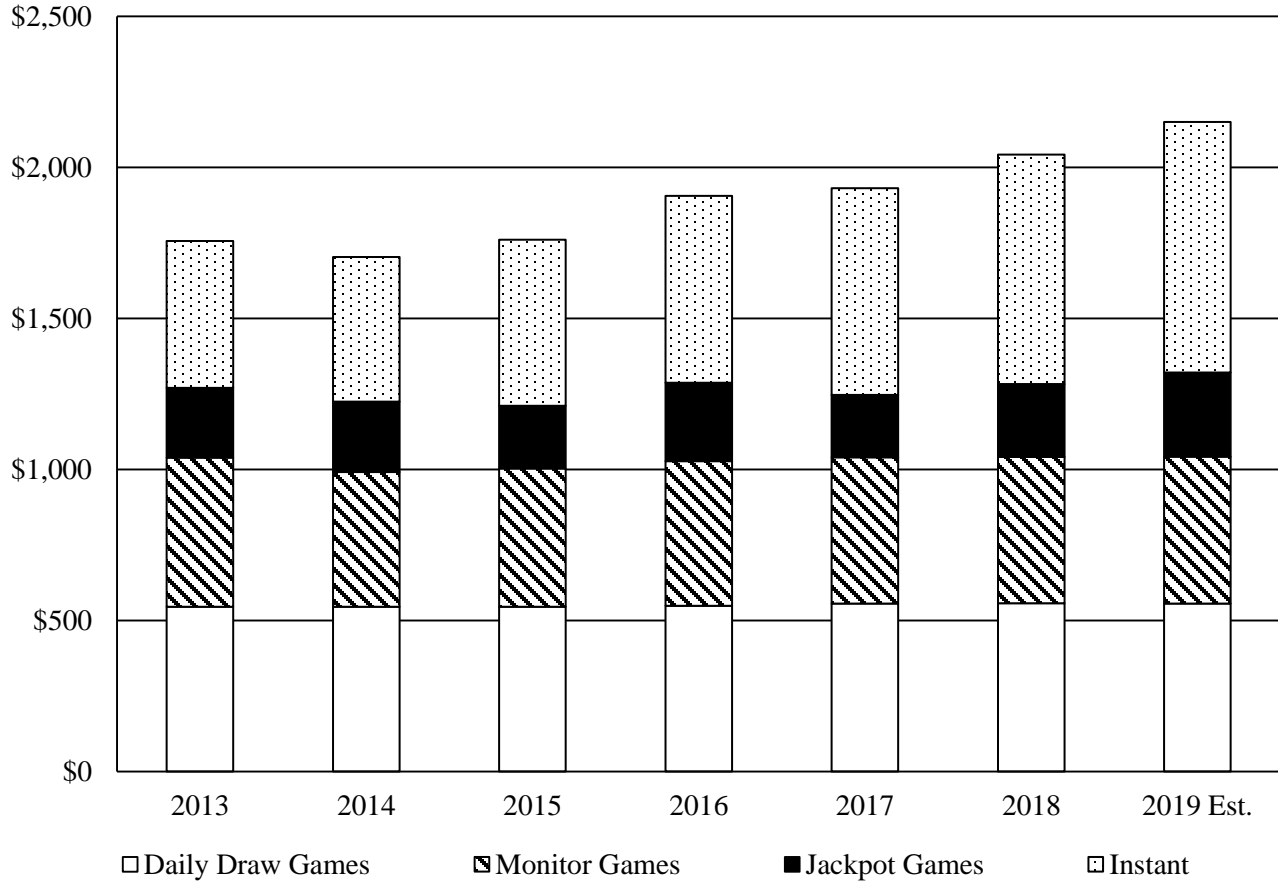
2. Sales of Lottery Games Hit New High

Sales of traditional lottery games exceeded \$2 billion for the first time in fiscal 2018, a 5.8% increase over fiscal 2017. This marks the fourth consecutive year of lottery sales increases. BRE anticipates continued increases in fiscal 2019 and 2020. **Exhibit 6** shows the total sales by game type from fiscal 2013 through an estimate for fiscal 2019. The exhibit shows the relative popularity of the games, with instant ticket and monitor games claiming most of the sales.

Several years ago, SLGCA noted that its sales of instant tickets were underperforming as compared to other states, so the agency increased its effort to market these games. Sales of instant tickets grew by nearly 11% in fiscal 2018, the fourth straight year of double-digit percentage increases.

Sales of Powerball, Mega Millions, and other jackpot games are driven much more by jackpot size than by marketing efforts. In fiscal 2016, sales of jackpot games grew by 25% over fiscal 2015. In January 2016, there was a record \$1.6 billion jackpot that drove sales up considerably. Without a massive jackpot in fiscal 2017, however, jackpot sales fell by 21%. Fiscal 2018 sales totaled \$241.9 million, a 17% increase.

Exhibit 6
Lottery Sales by Game Type
Fiscal 2013-2019 Est.
(\$ in Millions)

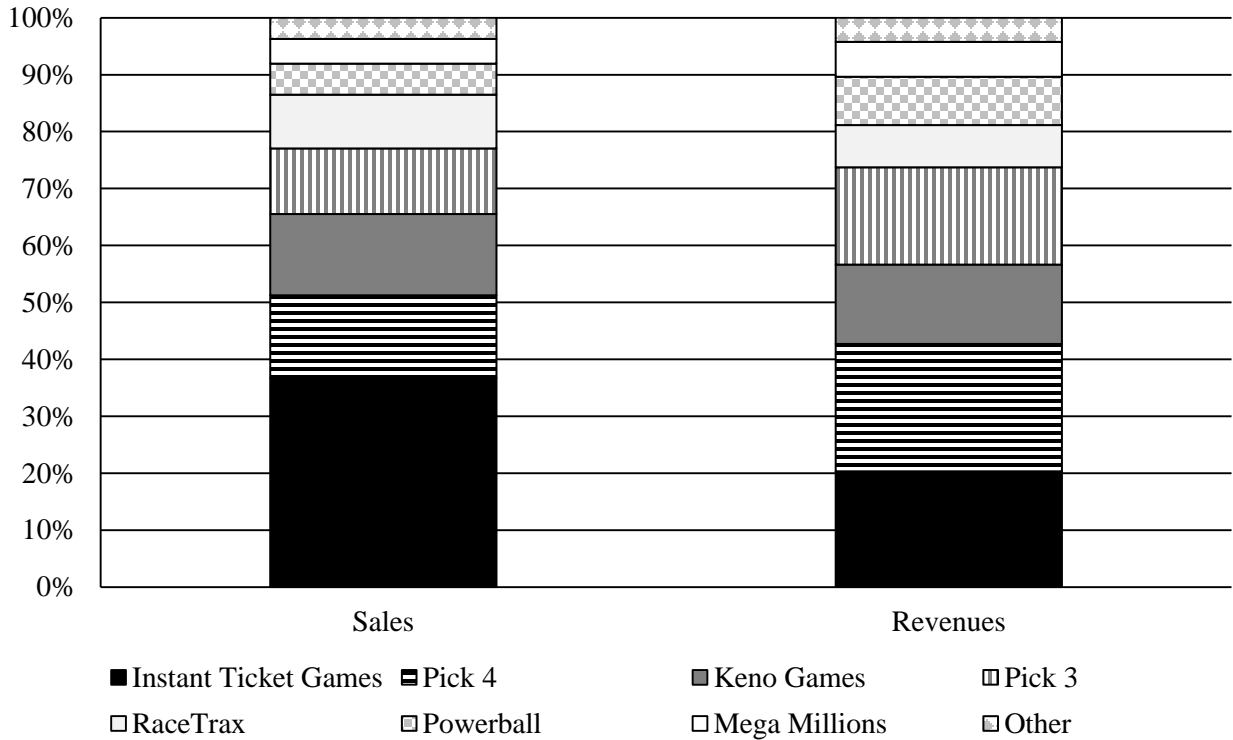


Note: Instant includes instant ticket lottery machines

Source: State Lottery and Gaming Control Agency

Exhibit 7 shows sales and revenues for each game type in fiscal 2018. As shown, Instant Ticket Games make up 37% of sales but only 20% of revenue. Instant tickets are popular, in part, because of the relatively high payout rates, which result in less return to the State. Conversely, Pick 3 and Pick 4 make up 26% of sales and 40% of revenues. This is worth considering as SLGCA continues to place advertising emphasis on increasing instant ticket sales.

**Exhibit 7
Lottery Sales and Revenues
Fiscal 2018**



Note: Other includes Power Play, 5 Card Cash, Cash4Life, Bonus Match 5, Multi-Match, and instant ticket lottery machines.

Source: State Lottery and Gaming Control Agency

3. State Revenue from Casinos Continues to Increase

Since fiscal 2008, SLGCA has been tasked with the responsibility of administering the VLT program for the State. This includes the regulation and licensing of operators, accounting for and distributing VLT and table game revenues, and managing the program’s central system.

Background

The following locations have video lottery operation licenses:

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- **Anne Arundel County:** PPE Casino Resorts, LLC was awarded a license to operate a facility with 4,750 VLTs adjacent to Arundel Mills Mall in Anne Arundel County. In June 2012, the Maryland Live! facility opened with 3,171 VLTs. The facility, now called Live!, currently has 3,825 VLTs and 198 table games.
- **Allegany County:** Evitts Resort, LLC was awarded a video lottery operation license to own and operate a video lottery facility adjacent to the Rocky Gap Lodge and Resort, subject to certain contingencies. The facility opened in May 2013 and currently has 665 VLTs and 17 table games. It is now owned by Golden Entertainment, Inc.
- **Baltimore City:** CBAC Gaming, LLC was awarded a license to own and operate a video lottery facility with 3,750 VLTs, subject to certain contingencies. The Horseshoe Casino Baltimore opened in August 2014 with 2,500 VLTs and 147 table games. It currently has 2,194 VLTs and 158 table games.
- **Cecil County:** Penn Cecil Maryland Inc. was awarded a license to operate a VLT facility with 1,500 VLTs in Perryville in Cecil County. Hollywood Casino Perryville opened to the public with 1,500 VLTs on September 27, 2010. It currently houses 822 machines and 19 table games. The facility is now owned by Gaming and Leisure Properties, Inc.
- **Prince George’s County:** MGM National Harbor, LLC was awarded a license to own and operate a video lottery facility with 3,600 VLTs and 140 table games. The facility opened in December 2016 with 3,237 VLTs and 178 table games. The MGM National Harbor Casino currently has 3,137 VLTs and 198 table games.
- **Worcester County:** Ocean Enterprise 589, LLC (Ocean Downs) was awarded a license to operate a facility with 800 VLTs at Ocean Downs Racetrack in Worcester County. The facility opened with 750 VLTs on January 4, 2011, and now has 892 VLTs and 18 table games.

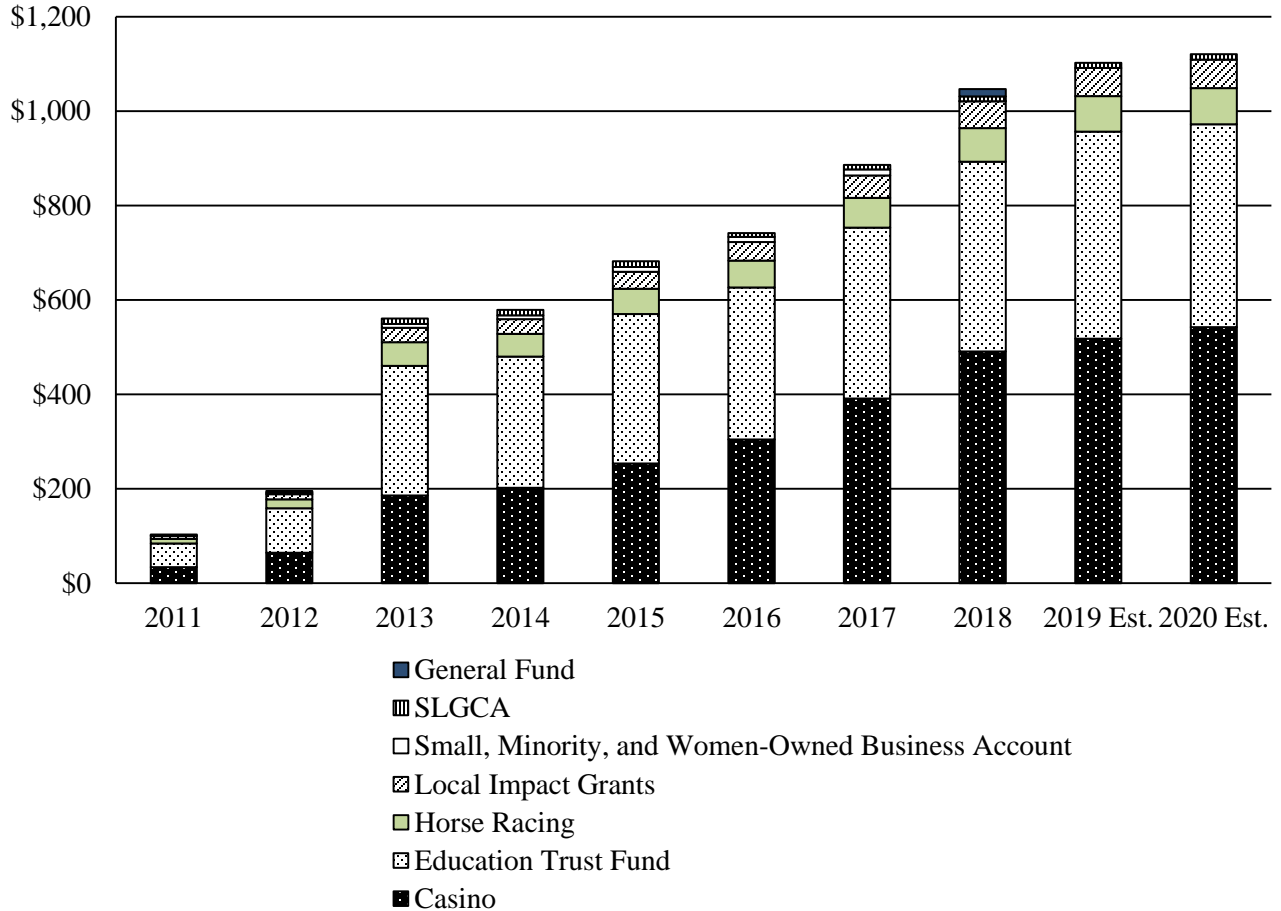
State law authorizes 16,500 VLTs in State casinos. Casinos currently contain 11,535 VLTs, or 70% of the allowable number of machines.

Revenue Distributions Increasing

Proceeds from VLTs are distributed to a variety of recipients, as shown in **Exhibit 8**. The amount that operators retain from VLTs is set in statute and currently varies between 39% and 60% depending on the facility. Pursuant to § 9-1A-37 (c) of the State Government Article, the State Lottery and Gaming Control Commission has proposed changing the VLT casino operator share at three casinos. As of July 1, 2019, operator shares at the following casinos would change: Hollywood from 39% to 44%; Live! from 49% to 51%; and Horseshoe from 46% to 49%. After all other specified distributions have been made, the Education Trust Fund (ETF) receives the remainder. In fiscal 2018, the ETF received \$401.8 million from VLT distributions, an 11.1% increase over the prior year. The BRE estimates increased distributions to the ETF in fiscal 2019 (\$438.7 million), followed by a slight

decline in fiscal 2020 (\$430.1 million). SLGCA should comment on the justification for and revenue impacts of the repealed operator share increases, including the impact on the ETF.

Exhibit 8
Gross VLT Revenue Distributions
Fiscal 2011-2018 Est.
(\$ in Millions)



SLGCA: State Lottery and Gaming Control Agency
 VLT: video lottery terminal

Source: State Lottery and Gaming Control Agency

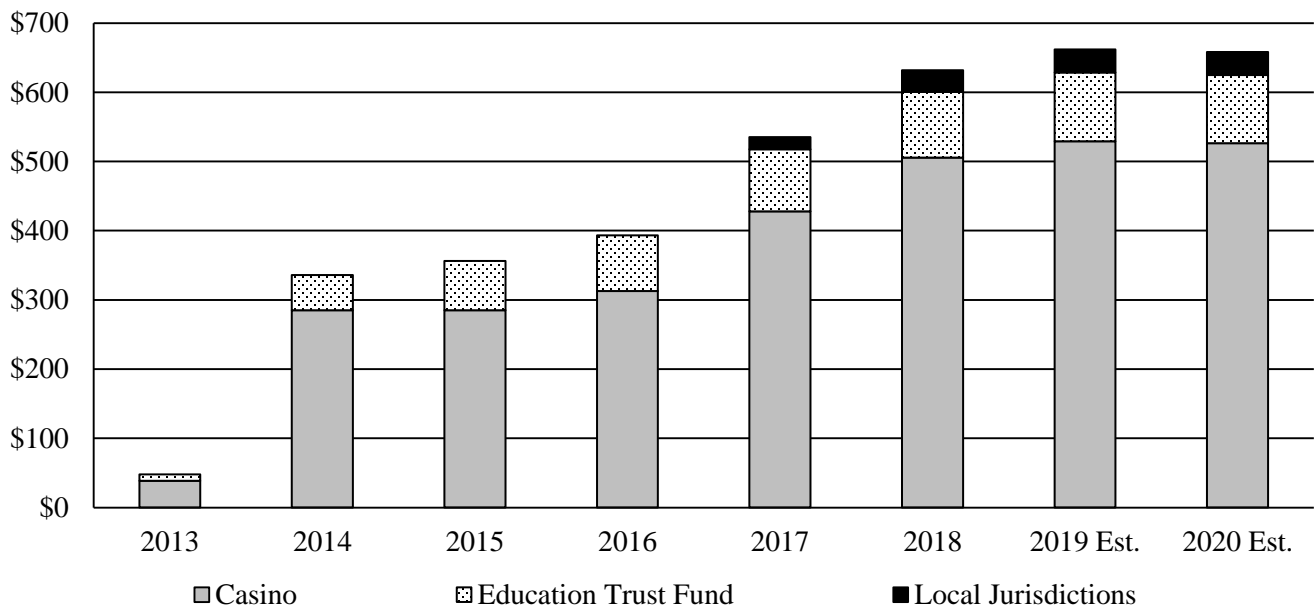
SLGCA gets 1% of gross terminal revenues for administrative costs, with any excess going to the ETF. Other distributions include local impact grants, the Purse Dedication Account (PDA), the Racetrack Facility Renewal Account (RFRA), and the Small, Minority, and Women-Owned Businesses

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Account. For fiscal 2018, 1.5% of proceeds were distributed to the General Fund to pay a portion of the costs of grants established under Chapters 6 and 607 of 2017.

Casinos began offering table games in fiscal 2013, with the operators retaining 80% of gross revenue and, until fiscal 2016, the remainder to the ETF. Beginning in fiscal 2017, 5% of gross revenue was distributed to the local jurisdiction in which the facility is located, with 15% going to the ETF. As shown in **Exhibit 9**, the ETF received \$94.5 million from table game revenue in fiscal 2018, a 5.6% increase over the prior year.

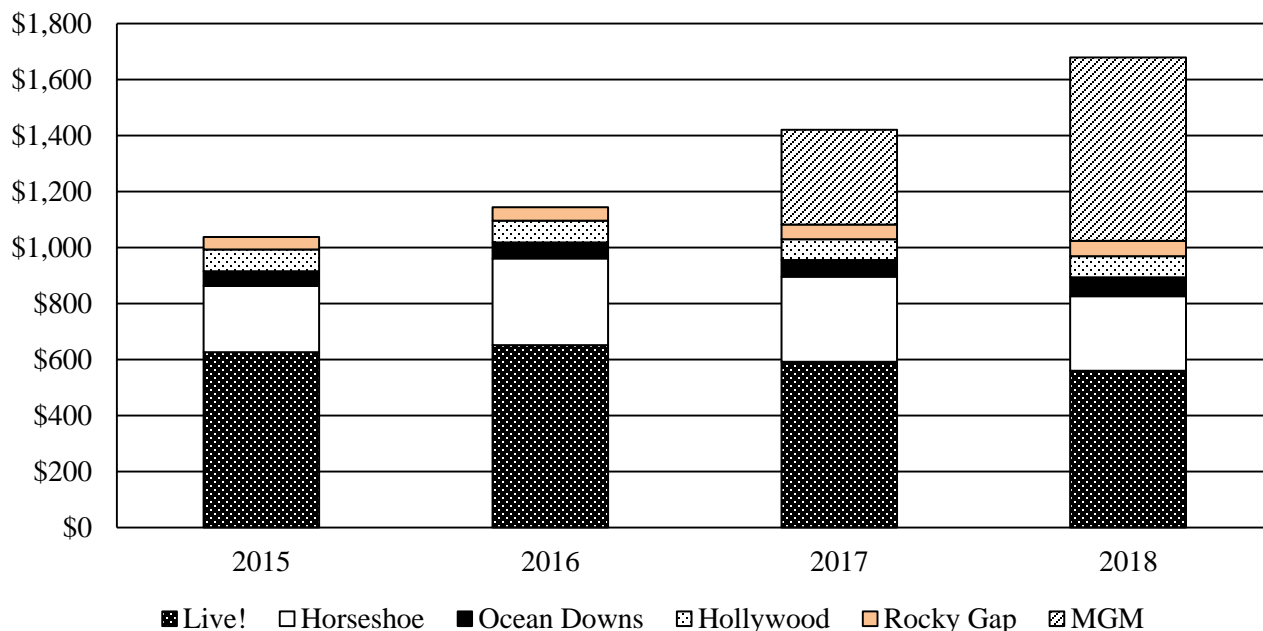
Exhibit 9
Table Game Revenue Distributions
Fiscal 2013-2020 Est.
(\$ in Millions)



Source: State Lottery and Gaming Control Agency

Overall, casino revenues – including both VLTs and table games – in the State increased by \$257.7 million, or 18.1%, in fiscal 2018, driven by the first full fiscal year of operations at MGM National Harbor Casino. The new facility brought in \$655.3 million in fiscal 2018, a \$316.9 million increase over fiscal 2017, offsetting smaller losses at Live! in Anne Arundel County (5.4%) and Horseshoe Casino in Baltimore City (12.2%), as shown in **Exhibit 10**.

**Exhibit 10
Gross Casino Revenues
Fiscal 2015-2018
(\$ in Millions)**



Source: State Lottery and Gaming Control Agency

4. VLT Revenues Being Disbursed without Budget Authority

As noted earlier in this analysis, a portion of VLT funds are to be used for horse racing related programs. By statute, 6% of VLT revenues are generally to be distributed to the PDA and 1% to the RFRA. While the funds are collected by SLGCA, the authorization to spend the funds is in the budget of the Department of Labor, Licensing and Regulation (DLLR). Beginning in fiscal 2015, DLLR has canceled at least \$2 million annually related to the PDA or the RFRA. For fiscal 2018, DLLR canceled \$33 million budgeted for the PDA.

In 2018, the Office of Legislative Audits discovered a letter from the Maryland Racing Commission to SLGCA asking the agency to begin depositing monthly the funds that are to be distributed from the PDA to the Maryland Thoroughbred Purse Account and the Maryland-Bred Race Fund. While the statutorily required amount of funds appear to have been disbursed from VLT revenues to the appropriate accounts, SLGCA does not have the budgetary authority to transfer the funds directly to the Maryland Thoroughbred Purse Account and the Maryland-Bred Race Fund. The agency instead

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should have provided the funds to DLLR, which has the budgetary authority to make the disbursements. **SLGCA should comment on its disbursement of funds directly to the Maryland Thoroughbred Purse Account and the Maryland-Bred Race Fund without budgetary authority, rather than to DLLR as budgeted.**

Operating Budget Recommended Actions

| | <u>Amount Reduction</u> | | <u>Position Reduction</u> |
|--|-----------------------------|----|-------------------------------|
| 1. Eliminate funding for four long-term vacant positions in Administration and Operations. (PINs 004833, 047804, 056127, and 064839) | \$ 281,425 | SF | 4.0 |
| 2. Eliminate funding for one long-term vacant position in Video Lottery Terminal Operations. (PIN 087338) | 69,210 | SF | 1.0 |
| Total Special Fund Reductions | \$ 350,635 | | 5.0 |

Updates

1. Lottery Retailers by County

SLGCA is able to achieve its sales goals because of its network of lottery retailers. According to SLGCA, as of the end of calendar 2018, there were 4,395 lottery retailers, a reduction of 19 retailers since the end of calendar 2017. Of these, 344 retailers participate in the Expanded Cashing Authority Program and are allowed to cash winnings of up to \$5,000. All other retailers may cash winning tickets of up to \$600. Agents earn 5.5% of sales at retail establishments as well as 3.0% in cashing commissions. **Exhibit 11** shows the total number of retailers in each county.

Exhibit 11
Maryland Lottery Retailers by County
As of December 2018

| <u>County</u> | <u>Retailer Count</u> | <u>Percentage</u> |
|-----------------|-----------------------|-------------------|
| Allegany | 55 | 1.3% |
| Anne Arundel | 413 | 9.4% |
| Baltimore | 702 | 16.0% |
| Baltimore City | 670 | 15.2% |
| Calvert | 71 | 1.6% |
| Caroline | 28 | 0.6% |
| Carroll | 128 | 2.9% |
| Cecil | 92 | 2.1% |
| Charles | 138 | 3.1% |
| Dorchester | 32 | 0.7% |
| Frederick | 157 | 3.6% |
| Garrett | 29 | 0.7% |
| Harford | 175 | 4.0% |
| Howard | 155 | 3.5% |
| Kent | 17 | 0.4% |
| Montgomery | 438 | 10.0% |
| Prince George's | 605 | 13.8% |
| Queen Anne's | 51 | 1.2% |
| St. Mary's | 97 | 2.2% |
| Somerset | 18 | 0.4% |
| Talbot | 37 | 0.8% |
| Washington | 115 | 2.6% |
| Wicomico | 79 | 1.8% |
| Worcester | 93 | 2.1% |
| Total | 4,395 | 100.0% |

Source: State Lottery and Gaming Control Agency

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Appendix 1
Current and Prior Year Budgets
State Lottery and Gaming Control Agency
(\$ in Thousands)

| | <u>General</u> <u>Fund</u> | <u>Special</u> <u>Fund</u> | <u>Federal</u> <u>Fund</u> | <u>Reimb.</u> <u>Fund</u> | <u>Total</u> |
|--|---|---|---|--|---------------------|
| Fiscal 2018 | | | | | |
| Legislative Appropriation | \$20,048 | \$80,653 | \$0 | \$0 | \$100,701 |
| Deficiency/Withdrawn Appropriation | -10,318 | 906 | 0 | 0 | -9,412 |
| Cost Containment | -379 | 0 | 0 | 0 | -379 |
| Budget Amendments | 0 | 0 | 0 | 0 | 0 |
| Reversions and Cancellations | -1,876 | -1,620 | 0 | 0 | -3,495 |
| Actual Expenditures | \$7,475 | \$79,939 | \$0 | \$0 | \$87,414 |
| Fiscal 2019 | | | | | |
| Legislative Appropriation | \$6,918 | \$92,307 | \$0 | \$0 | \$99,225 |
| Budget Amendments | 13 | 205 | 0 | 0 | 218 |
| Working Appropriation | \$6,931 | \$92,512 | \$0 | \$0 | \$99,443 |

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. Numbers may not sum to total due to rounding.

Fiscal 2018

The State Lottery and Gaming Control Agency (SLGCA) closed fiscal 2018 \$13.3 million below the legislative appropriation. The majority of the reduction is due to a negative deficiency appropriation of \$10.2 million in general funds and \$1.7 million in special funds as a result of SLGCA's divestiture of video lottery terminals (VLT), specifically, savings from the agency no longer paying to maintain the VLT machines. That reduction was offset by increases of \$2.8 million in special funds for contractual services for the new Lottery Central Monitoring and Control System and a deficiency appropriation of \$78,757 in general funds for negotiated personnel costs.

Section 19 of the fiscal 2018 Budget Bill withdrew appropriations due to a surplus in the health insurance account. This agency's share of the reduction is \$179,441 in general funds and \$180,549 in special funds.

The fiscal 2018 legislative appropriation was further reduced by \$379,000 in general funds as part of cost containment actions taken by the Board of Public Works. The funds were available due to reduced VLT machine costs.

SLGCA canceled \$1.1 million in special funds due to lower than expected vendor fees related to instant ticket printing. The agency also reverted \$1.9 million in general funds and canceled \$537,729 in special funds due to lower than anticipated costs for VLT machine operations.

Fiscal 2019

The fiscal 2019 legislative appropriation increased by \$13,359 in general funds and \$204,938 in special funds for an amendment for the centrally budgeted general salary increase.

Appendix 2
Audit Findings

| | |
|------------------------------|----------------------------------|
| Audit Period for Last Audit: | March 20, 2014 – January 2, 2017 |
| Issue Date: | March 2018 |
| Number of Findings: | 4 |
| Number of Repeat Findings: | 0 |
| % of Repeat Findings: | 0% |
| Rating: (if applicable) | n/a |

Finding 1: Controls over individual access to perform certain critical transactions on the Lottery Gaming System and for the payment of instant ticket printing were not sufficient. In addition, processes in place to ensure tickets met required specifications were not consistently performed.

Finding 2: Required monthly video lottery terminal procedures were not always properly performed to ensure proper operation and reporting.

Finding 3: Sensitive personally identifiable information maintained by the State Lottery and Gaming Control Agency (SLGCA) was stored without adequate safeguards.

Finding 4: SLGCA lacked assurance that its public website was properly secured.

*Bold denotes item repeated in full or part from preceding audit report.

Appendix 3
Object/Fund Difference Report
State Lottery and Gaming Control Agency

| <u>Object/Fund</u> | <u>FY 18 Actual</u> | <u>FY 19 Working Appropriation</u> | <u>FY 20 Allowance</u> | <u>FY 19 - FY 20 Amount Change</u> | <u>Percent Change</u> |
|-----------------------------|-------------------------|--|----------------------------|--|---------------------------|
| Positions | | | | | |
| 01 Regular | 324.10 | 324.10 | 324.10 | 0.00 | 0% |
| 02 Contractual | 5.98 | 9.75 | 9.75 | 0.00 | 0% |
| Total Positions | 330.08 | 333.85 | 333.85 | 0.00 | 0% |
| Objects | | | | | |
| 01 Salaries and Wages | \$ 26,181,205 | \$ 26,718,891 | \$ 28,298,409 | \$ 1,579,518 | 5.9% |
| 02 Technical and Spec. Fees | 392,040 | 547,645 | 547,210 | -435 | -0.1% |
| 03 Communication | 383,327 | 472,380 | 396,225 | -76,155 | -16.1% |
| 04 Travel | 90,317 | 99,500 | 122,500 | 23,000 | 23.1% |
| 06 Fuel and Utilities | 179,482 | 178,832 | 185,943 | 7,111 | 4.0% |
| 07 Motor Vehicles | 297,755 | 502,253 | 522,689 | 20,436 | 4.1% |
| 08 Contractual Services | 57,336,994 | 68,933,097 | 71,966,943 | 3,033,846 | 4.4% |
| 09 Supplies and Materials | 163,402 | 286,000 | 262,138 | -23,862 | -8.3% |
| 10 Equipment – Replacement | 178,275 | 122,500 | 122,500 | 0 | 0% |
| 11 Equipment – Additional | 777,039 | 117,000 | 167,000 | 50,000 | 42.7% |
| 13 Fixed Charges | 1,434,331 | 1,455,068 | 1,550,738 | 95,670 | 6.6% |
| 14 Land and Structures | 0 | 10,000 | 10,000 | 0 | 0% |
| Total Objects | \$ 87,414,167 | \$ 99,443,166 | \$ 104,152,295 | \$ 4,709,129 | 4.7% |
| Funds | | | | | |
| 01 General Fund | \$ 7,474,980 | \$ 6,930,921 | \$ 6,943,445 | \$ 12,524 | 0.2% |
| 03 Special Fund | 79,939,187 | 92,512,245 | 97,208,850 | 4,696,605 | 5.1% |
| Total Funds | \$ 87,414,167 | \$ 99,443,166 | \$ 104,152,295 | \$ 4,709,129 | 4.7% |

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. The fiscal 2020 allowance does not include general salary increases.

**Appendix 4
Fiscal Summary
State Lottery and Gaming Control Agency**

| <u>Program/Unit</u> | <u>FY 18 Actual</u> | <u>FY 19 Wrk Approp</u> | <u>FY 20 Allowance</u> | <u>Change</u> | <u>FY 19 - FY 20 % Change</u> |
|--------------------------------------|-------------------------|-----------------------------|----------------------------|---------------------|-----------------------------------|
| 01 Administration and Operations | \$ 70,366,608 | \$ 82,241,700 | \$ 86,003,221 | \$ 3,761,521 | 4.6% |
| 02 Video Lottery Terminal Operations | 17,047,559 | 17,201,466 | 18,149,074 | 947,608 | 5.5% |
| Total Expenditures | \$ 87,414,167 | \$ 99,443,166 | \$ 104,152,295 | \$ 4,709,129 | 4.7% |
| General Fund | \$ 7,474,980 | \$ 6,930,921 | \$ 6,943,445 | \$ 12,524 | 0.2% |
| Special Fund | 79,939,187 | 92,512,245 | 97,208,850 | 4,696,605 | 5.1% |
| Total Appropriations | \$ 87,414,167 | \$ 99,443,166 | \$ 104,152,295 | \$ 4,709,129 | 4.7% |

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. The fiscal 2020 allowance does not include general salary increases.