

E75D
State Lottery and Gaming Control Agency

Operating Budget Data

(\$ in Thousands)

	<u>FY 13</u> <u>Actual</u>	<u>FY 14</u> <u>Working</u>	<u>FY 15</u> <u>Allowance</u>	<u>FY 14-15</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$73,691	\$86,590	\$71,672	-\$14,918	-17.2%
Contingent & Back of Bill Reductions	0	-194	-104	89	
Adjusted General Fund	\$73,691	\$86,397	\$71,568	-\$14,829	-17.2%
Special Fund	113,382	69,629	70,894	1,265	1.8%
Contingent & Back of Bill Reductions	0	0	-158	-158	
Adjusted Special Fund	\$113,382	\$69,629	\$70,736	\$1,107	1.6%
Adjusted Grand Total	\$187,073	\$156,026	\$142,304	-\$13,722	-8.8%

- The fiscal 2015 allowance includes several fiscal 2014 deficiencies that affect the budget of the State Lottery and Gaming Control Agency (SLGCA). Special funds are included to increase the agency's advertising budget and to address an increase in costs for the instant ticket contract in fiscal 2014. Additionally, the allowance includes general funds for 8 new positions in fiscal 2014 to address compliance and licensing issues under the agency's gaming program.
- After contingent and back of the bill reductions, the fiscal 2015 allowance declines by over \$13.7 million, or 8.8%. The primary reason for this decrease is the planned transfer of ownership of video lottery terminals (VLT) from the State to the casino owners on March 31, 2015.

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

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Personnel Data

	<u>FY 13 Actual</u>	<u>FY 14 Working</u>	<u>FY 15 Allowance</u>	<u>FY 14-15 Change</u>
Regular Positions	268.50	279.50	309.60	30.10
Contractual FTEs	<u>10.75</u>	<u>7.75</u>	<u>7.75</u>	<u>0.00</u>
Total Personnel	279.25	287.25	317.35	30.10

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	12.78	4.57%
Positions and Percentage Vacant as of 12/31/13	30.00	10.73%

- The allowance includes 8 new positions in fiscal 2014 and 22 new positions in fiscal 2015. All the new positions are under the agency’s gaming operations: 1 Assistant Director of Enforcement; 19 positions related to the opening of the Baltimore facility; and 10 positions related to compliance and licensing backlogs.
- The agency had 30 vacant positions at the end of calendar 2013, well over the number of vacancies required to meet its budgeted turnover.

Analysis in Brief

Major Trends

Sales, Prize Payouts, and Revenues Expected to Decline: For the first time since 2008, prize payouts from the lottery’s traditional games are expected to fall below \$1 billion in fiscal 2014. Sales and revenues are also expected to decline.

Sales Fall as Advertising Remains Flat: The agency’s advertising has remained fairly flat since the cost containment initiative in fiscal 2010. Despite that reduction, sales of traditional lottery games rose to record levels through fiscal 2012. However, sales did experience a decline in fiscal 2013.

Agency Should Consider Performance Measures for Gaming Program: The State Lottery and Gaming Control Agency has been responsible for the administration and regulation of the State’s gaming program since 2008. It is reasonable that the agency begin reporting goals, objectives, and performance measures through the State’s Managing for Results process.

Issues

Traditional Lottery Game Sales Fall for First Time Since 1997: After 15 years of record setting sales, traditional lottery games saw a decrease in sales in fiscal 2013. Another small decline is expected in fiscal 2014. The mix of game types with varying payout rates ensured that revenues did not decline as much as sales. **The Department of Legislative Services (DLS) recommends that the agency comment on the trend in sales and revenues. The agency should comment on the impact of the State’s casino facilities on traditional lottery sales and how it intends to use the proposed increase in advertising funds to increase sales.**

Fifth Gaming Facility to Open in Fiscal 2015; Table Games Exceed Expectations: Since 2008, the lottery agency has been tasked with the responsibility of administering the gaming program for the State. Currently, the agency is responsible for the regulation and licensing of operators; accounting for and distributing of revenues; managing the program’s central system; and the purchase or lease of gaming machines associated with four facilities. The State’s fifth gaming facility is expected to open in the first quarter of fiscal 2015, thus generating a significant increase in gaming revenue for the State. The agency’s fiscal 2015 allowance includes additional positions to ensure proper regulation of the new facility. **DLS recommends that the agency update the budget committees on the status of the State’s gaming facilities and how the agency is addressing its evolving regulatory responsibilities. Additionally, DLS recommends that committee narrative be adopted that asks SLGCA to report to the budget committees, in consultation with the Department of Budget and Management, on the out-year savings owed to the Education Trust Fund from the VLT ownership transfer.**

Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Reduce the number of new positions for licensing duties.	\$ 255,095	5.0
2. Increase turnover rate for newly created positions.	259,544	
3. Adopt narrative that requests the SLGCA to quantify savings of VLT machine costs due to the transfer of ownership.		
Total Reductions	\$ 514,639	5.0

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State Lottery and Gaming Control Agency

Operating Budget Analysis

Program Description

Since 1973, the State Lottery and Gaming Control Agency (SLGCA) has administered and operated lottery games to generate revenue for the State. The lottery currently offers the following games: Pick 3, Pick 4, Keno, Keno Bonus and Super Keno Bonus, Mega Millions, Powerball, Bonus Match Five, Instant Games, Multi-Match, Racetrax and Racetrax Bonus, and 5 Card Cash.

All games, except Instant Games, are online, 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 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 Gaming and Control Commission has oversight responsibility for the agency. In 2008, the commission was expanded to address additional responsibilities stemming from the video lottery terminal (VLT) legislation. The agency is responsible for the administration of the VLT program, including accounting for and distributing VLT revenues; managing the program's central system; and regulation and licensing of operators. In 2012, the agency's responsibilities were further expanded to include the regulation of table games at the previously authorized VLT facilities, among other new duties. The agency's divisions include Executive; Administration, Finance, and Operations; Information Technology; Sales; Marketing and Communications; Legal; and Gaming and Enforcement.

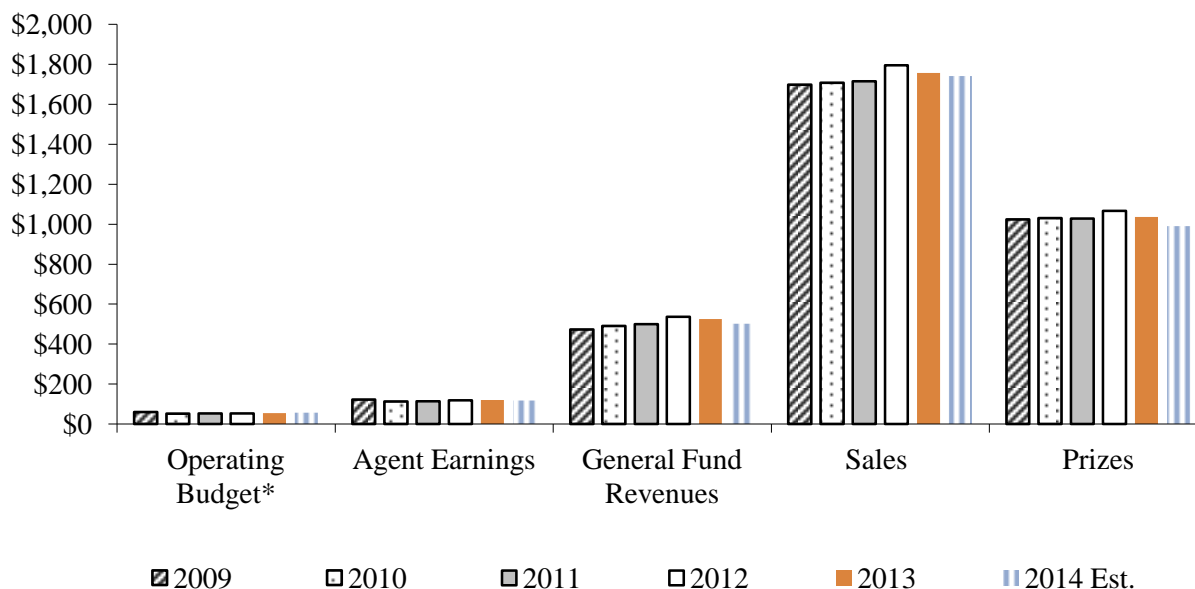
Performance Analysis: Managing for Results

1. Sales, Prize Payouts, and Revenues Expected to Decline

Proceeds from the traditional lottery games pay for prizes, agent earnings, and all operating expenses of the agency. In fiscal 2013, 59.0% of sales paid for prizes, 6.8% paid for agent commissions and redemption fees, 3.1% paid for agency operations, and 29.9% was credited as revenue to the State (a small percentage is forwarded to the Maryland Stadium Authority per statute).

As shown in **Exhibit 1**, prize payouts surpassed \$1 billion in fiscal 2009 and have not fallen below that mark. However, based on prizes to date, the lottery agency expects payouts to fall to about \$990 million in fiscal 2014. Agent earnings are expected to decline in fiscal 2014 due in part to the expected decline in sales, but also due to a provision in the Budget Reconciliation and Financing Act of 2014 that lowers the agent sales commission, effective June 1, 2014. This item will be discussed further under the budget discussion section of this analysis.

**Exhibit 1
Lottery Sales and Expenditures
Fiscal 2009-2014
(\$ in Millions)**



*The operating budget does not include funds to operate the video lottery terminal program.

Note: General fund revenues exclude disbursements to the Maryland Stadium Authority.

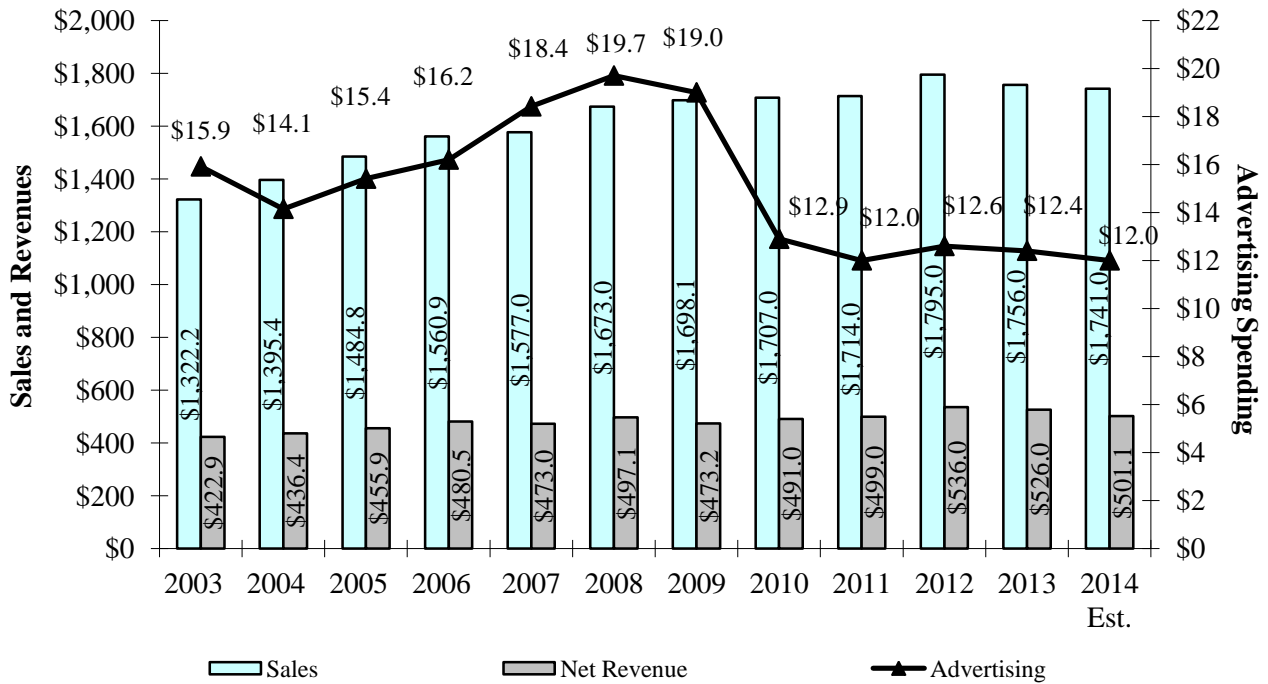
Source: Maryland State Budget Books, Fiscal 2008 to 2015

2. Sales Fall as Advertising Remains Flat

Traditional lottery games resulted in \$1.76 billion in sales in fiscal 2013. This is the first time in sixteen years that total lottery sales declined.

Exhibit 2 shows sales and revenues as compared to the agency’s total advertising expenditures. Advertising expenditures include funds for radio, television, print, and other advertisements, as well as promotional events and materials. The cost containment effort in fiscal 2010 reduced the advertising budget by \$6 million from the original fiscal 2010 appropriation. The budget has since remained fairly flat. However, record sales were achieved between fiscal 2010 and 2012. The decline in sales in fiscal 2013 is thought to be attributable to the increased competition from gaming facilities and not from a reduced level of advertising. The fiscal 2015 allowance does include funds in 2014 and 2015 to supplement advertising to combat the effect of the increased competition.

Exhibit 2
Sales and Revenue Trends Compared to Advertising Spending
Fiscal 2003-2014
(\$ in Millions)



Source: Governor’s Budget Books, Fiscal 2006-2014; Lottery Budget, Fiscal 2005-2014

3. Agency Should Consider Performance Measures for Gaming Program

The lottery agency began its responsibilities associated with the State’s gaming program in 2008. An entirely new division has been established with new and unique duties that enable the regulation and oversight of the casino facilities. The new division continues to evolve; however, it does warrant performance oversight through the legislative budget process.

To date, no performance measures are submitted through the budget’s Managing for Results process. The agency does report a mission of implementing and overseeing Maryland’s VLT program, with the dual goals of generating revenue for the State, while maintaining integrity, transparency, and fair play. However, no goals or objectives have been established that would help direct the agency toward fulfilling its mission.

The agency should consider the inclusion of performance measures related to the amount of licenses issued, including any backlogs to licensure; the oversight of VLT machines; disciplinary issues or technical issues related to patrons or licensees; or any other issue the agency deems relevant.

Fiscal 2014 Actions

Proposed Deficiency

There are several fiscal 2014 deficiencies that are included in the fiscal 2015 allowance that affect the agency's budget. Specifically, the allowance includes \$620,000 in special funds in fiscal 2014 to supplement the increased costs of a contract for instant ticket printing. Similarly, there is an additional \$485,000 in special funds for increased advertising fees and new sponsorships.

The allowance also includes fiscal 2014 deficiencies for the agency's gaming program. Specifically, \$92,468 was included to support the addition of 8 new positions: 3 compliance positions, 4 licensing positions, and 1 Security Director. The turnover on the new positions is high given that they will not be filled until late in the year. Additionally, the appropriation for the Security Director position is a negative deficiency of \$21,526, because this position will cost less than the current practice of reimbursing the Maryland Department of State Police (DSP) for temporary security services. The positions will be discussed in full under the fiscal 2015 budget discussion in this analysis.

Cost Containment

There are three across-the-board withdrawn appropriations that offset the increase in deficiency appropriations. These include reductions to employee/retiree health insurance, funding for a new Statewide Personnel Information Technology (IT) system, and retirement reinvestment. These actions are fully explained in the analyses of the Department of Budget and Management (DBM) – Personnel, the Department of Information Technology, and the State Retirement Agency, respectively.

Proposed Budget

After accounting for contingent and back of the bill reductions, the lottery agency's budget declines by \$13.7 million or 8.8% in fiscal 2015.

Exhibit 3
Proposed Budget
State Lottery and Gaming Control Agency
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Total
2014 Working Appropriation	\$86,397	\$69,629	\$156,026
2015 Allowance	<u>71,568</u>	<u>70,736</u>	<u>142,304</u>
Amount Change	-\$14,829	\$1,107	-\$13,722
Percent Change	-17.2%	1.6%	-8.8%

Where It Goes:

Personnel Expenses

New positions	\$1,807
Annualized cost-of-living adjustment and merit increases.....	649
Increments and other compensation	55
Employee and retiree health insurance.....	-523
Retirement	15
Turnover adjustments	-159
Other fringe benefit adjustments	49

Other Changes

Regular Lottery Operations

Instant ticket contracts.....	377
Advertising	132
Lease cost for instant ticket machines	128
Online system contract based on expected sales	-569

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Where It Goes:

Gaming Operations

Rent	213
Fuel and utilities	72
Equipment repairs.....	-479
Outside investigative services	-942
One-time software upgrades in fiscal 2014	-1,000
Video lottery terminal machine leasing.....	-13,729
Other miscellaneous items.....	182
Total	-\$13,722

Note: The fiscal 2014 working appropriation reflects negative deficiencies and contingent reductions. The fiscal 2015 allowance reflects back of the bill and contingent reductions. Numbers may not sum to total due to rounding.

Cost Containment

There is one across-the-board reduction and one contingent reduction reflected in the Governor’s spending plan for the fiscal 2015 allowance. This affects funding for employee/retiree health insurance and retirement reinvestment. These actions are fully explained in the analyses of DBM – Personnel and the State Retirement Agency.

Regular Lottery Operations

Absent VLT and gaming operations and absent any of the across-the-board reductions, the regular lottery allowance for fiscal 2015 increases by about \$324,000 in special funds, or 0.6%. The most significant increase in the allowance relates to a new contract to design, produce, secure, and deliver instant tickets. Although the total cost is not significantly different, the terms, and therefore the timing of payment, are different. The previous contract was based on sold tickets. The vendor was paid only after tickets were sold. The new contract requires payment upon delivery of the instant tickets. The need for initial funding is reflected in the fiscal 2014 deficiency and in the small increase in the fiscal 2015 allowance (\$377,000 in special funds).

The fiscal 2015 allowance also shows a small increase in the agency’s advertising budget. The lottery saw sales decline for the first time in 16 years. A likely cause is the increased competition from casinos, which have a large pool of private funds for advertising. As such, the fiscal 2015 allowance includes a special fund deficiency for advertising funds and a small increase in fiscal 2015 (\$132,000).

Partially mitigating the increases in the fiscal 2015 allowance is a decrease in the contract costs (\$569,000) for the online system that connects the lottery to its retailers across the State. The contract is based on sales, and sales are expected to be less than what was originally budgeted for in fiscal 2014.

Budget Reconciliation and Financing Act of 2014

The Budget Reconciliation and Financing Act (BRFA) of 2014 includes a provision that would return the commissions for the lottery sales agents to 5.0% on a permanent basis. The BRFA of 2009 decreased the agent sales commission from 5.5 to 5.0% in fiscal 2010 through 2012. As part of Chapter 1 of the Second Special Session of 2012, lottery sales agents commissions increased to 5.5% on January 1, 2013, and were scheduled to increase again to 6.0% once the license was issued to a Baltimore gaming facility.

As a means of mitigating the loss to the agents, the BRFA also allows the SLGCA to utilize up to 1.0% of gross receipts from ticket sales for bonuses and incentives for the retailers. This is an increase from 0.5% of gross receipts that the agency may currently use for a bonus program. It should be noted, however, that the agency has utilized this authority only sparingly. It would need to be used to the full extent to compensate the agents for the loss in direct sales commissions. It is assumed that the agency will utilize this authority in fiscal 2015.

The Administration's fiscal 2015 budget plan assumes \$8.8 million in savings from this proposed BRFA provision. It should be noted, however, that the budget plan assumes that the 6% agent commission would have been in place for the entirety of fiscal 2015. However, the rate is only scheduled to increase when the gaming license is issued for the Baltimore City facility; meaning when the Baltimore facility opens. The likely opening date for the Baltimore facility is at least two months after the start of the fiscal year. As such, the savings from this provision would more likely reach about \$7.3 million.

In order to keep the BRFA provision revenue neutral from the Administration's original budget plan, the Department of Legislative Services (DLS) recommends that the amount available for promotions and incentives should be reduced to .75% of gross receipts. It is also recommended that the SLGCA utilize the incentive pool to the maximum extent.

VLT and Gaming Operations

The legislation that created the regulatory framework of the VLT and gaming program specified that the lottery agency would be allowed to retain 2% of the gross VLT revenue as special funds for the administration of the program. Additional special funds are generated through licensing fees of gaming operators and employees. However, these special funds are not currently sufficient to cover all costs associated with the gaming program. The fiscal 2015 allowance includes \$71.7 million in general funds and \$14.4 million in special funds. **Exhibit 4** shows the total costs of the program in fiscal 2015.

Exhibit 4
Video Lottery Terminal Program
Fiscal 2015 Allowance

	<u>General Funds</u>	<u>Special Funds</u>
Machine Purchase	\$8,679,574	\$0
Machine Leasing	48,657,780	6,989,175
Maintenance	0	7,414,000
Central System	3,540,900	0
Personnel	9,376,003	0
Other	1,417,541	0
Total	\$71,671,798	\$14,403,175

Source: State Lottery Agency

Personnel

The fiscal 2015 allowance includes funds for 22 new positions that are in addition to the 8 positions that were allotted through the deficiency allowance. For simplicity, the following description includes both the fiscal 2014 and 2015 positions.

- **1 position – Assistant Director for Enforcement;** this position is currently a reimbursable position within DSP. This individual will now be a lottery employee and will be responsible for security management and background investigations of license applicants.
- **19 positions – Staff for the Baltimore gaming facility;** these positions will be responsible for providing 24-hour agency coverage at the new gaming facility as required by statute. The lottery proposes that 3 of the positions be hired in fiscal 2014 to assist in the early work associated with licensing and fingerprinting license applicants.
- **10 positions – Licensing and Background Staff;** the agency has a backlog of background investigations and licensing. The backlog is exacerbated by a high turnover of casino employees and license renewal terms coming due. Of these positions, 4 are included in the deficiency.

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The fiscal 2015 allowance includes an increase of \$1.8 million in general funds under its gaming program for the new positions.

Other Changes

The staff has grown considerably since the agency assumed responsibility for the State's gaming program. As such, space needs have also grown. The fiscal 2015 allowance includes an increase in rent and utilities (totaling \$285,000), reflecting the increase in office space within the building the agency currently occupies.

Mitigating the above increases are some significant reductions in the agency's allowance. The fiscal 2015 allowance reflects the removal of some one-time funds in fiscal 2014 related to equipment repairs and software upgrades. Additionally, the allowance reflects savings for bringing some investigative services in-house, for example, the new position for the Assistant Director for Enforcement.

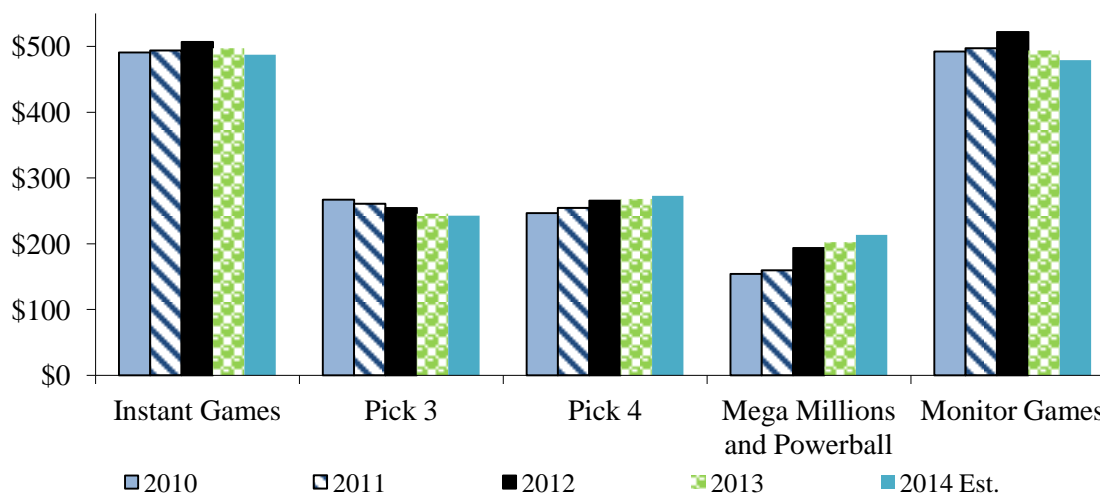
The most significant reduction is due to the statutory provision that transfers VLT ownership from the State to the facility owners effective March 31, 2015. Currently, the agency leases the majority of the VLTs, although it did purchase some machines through the State Treasurer's lease program. The agency is obligated to keep the full payment on the Treasurer's lease through fiscal 2015. However, for those machines that the agency leased, the payment obligation terminates on March 31, 2015. As such, the fiscal 2015 allowance realizes a savings of three months of lease payments. The allowance shows a decrease of \$13.7 million based on this savings.

Issues

1. Traditional Lottery Game Sales Fall for First Time Since 1997

Of the lottery’s most popular traditional games, only Pick 4 and the jackpot games experienced an increase in sales in fiscal 2013. **Exhibit 5** shows the total sales of selected games from fiscal 2010 through an estimate for fiscal 2014. The exhibit clearly shows the relative popularity of the games, with instant games and monitor games claiming most of the sales.

Exhibit 5
Sales – Selected Games
Fiscal 2010-2014
(\$ in Millions)



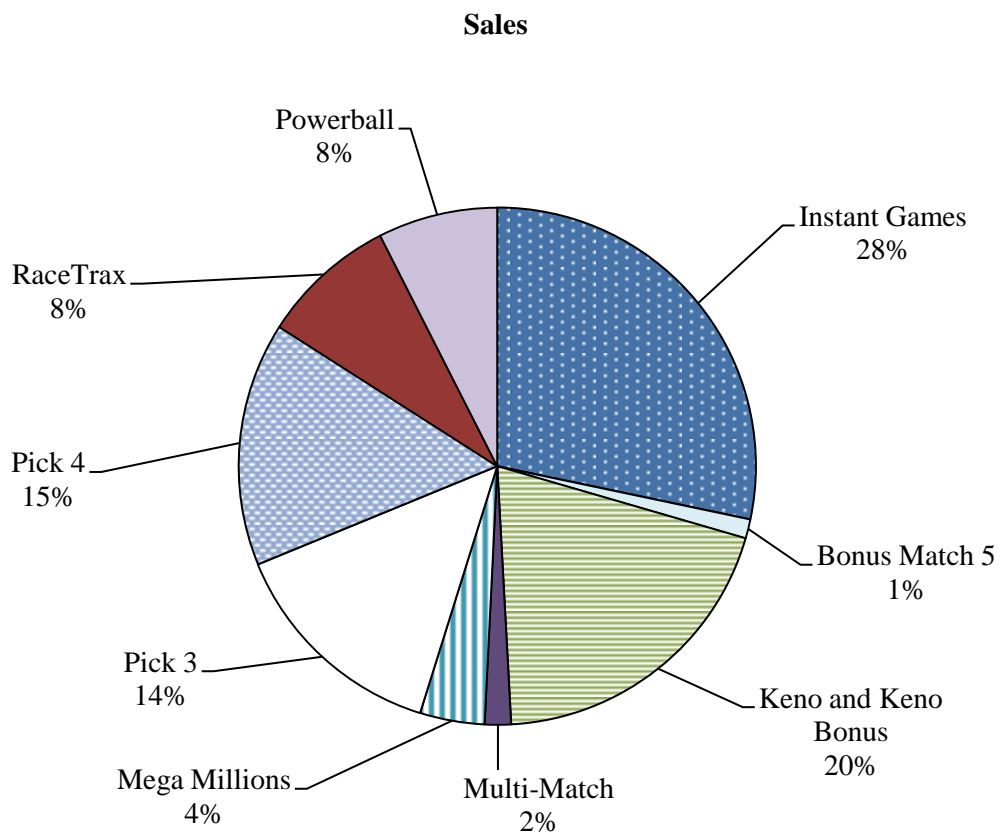
Source: Maryland State Lottery Agency

The Powerball game continues to post strong sales. In 2013, more states entered into the agreement to offer the game, thus increasing the chances of large jackpots. In fact, in 2013, there were two extremely large jackpots, including a \$600 million jackpot in May. Keno, the largest monitor game, experienced a significant drop in sales; however, that loss was mitigated somewhat by an increase in the other monitor game, RaceTrax. Instant games experienced an uncharacteristic decline in sales in fiscal 2013. In theory, instant games are the most vulnerable to competition from the State’s casino facilities.

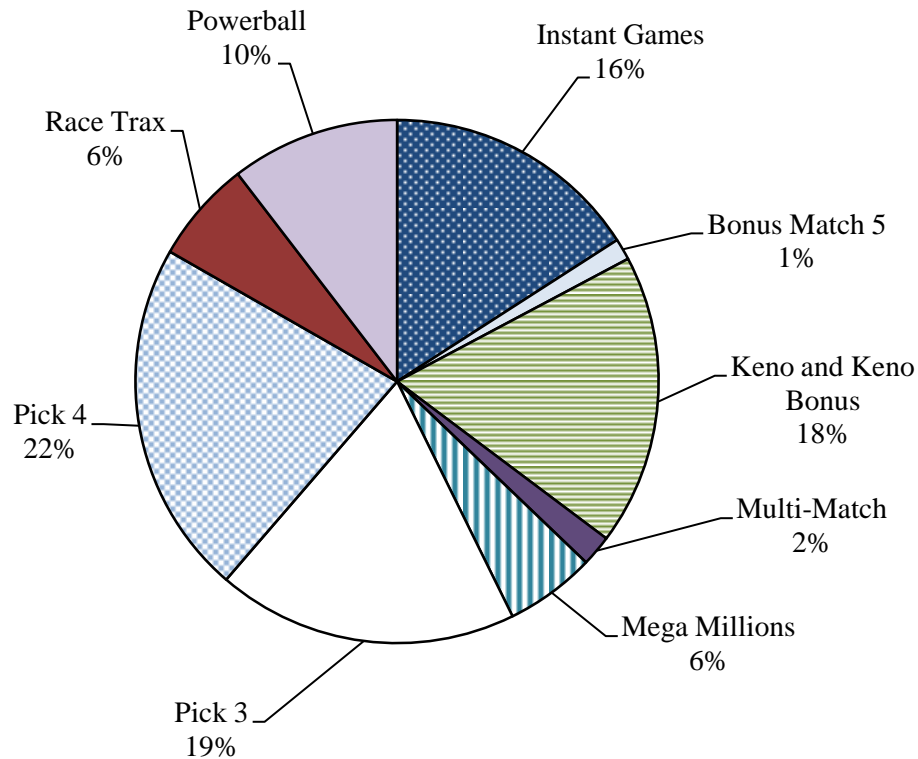
The mix of games is important to maintaining customer interest and to the returns to the general fund. Because of this variety, any negative impact on revenues from one game can be mitigated by the other games.

Exhibit 6 shows sales and revenues for each game type in fiscal 2013. As shown, instant tickets make up 28.0% of sales but only 16% of revenue. Instant tickets are popular, in part, because of this high payout. Pick 3 has relatively lower prize payouts, with 14.0% of sales and 19.0% of revenue. However, in fiscal 2013, revenues for Pick 3 were a bit less than usual because payouts increased by 5.8%.

Exhibit 6
Sales and Revenues
Fiscal 2013



Revenues



Source: State Lottery Agency

DLS recommends that the agency comment on the trend in sales and revenues. The agency should comment on the impact of the State’s casino facilities on traditional lottery sales and how it intends to use the proposed increase in advertising funds to increase sales.

2. Fifth Gaming Facility to Open in Fiscal 2015; Table Games Exceed Expectations

Since 2008, the lottery agency has been tasked with the responsibility of administering the VLT program for the State. This has included the regulation and licensing of operators; accounting for and distributing VLT revenues; managing the program’s central system; and the purchase or lease

of gaming machines. Legislation passed during the Second Special Session of 2012 significantly expanded the agency's responsibilities and altered its current responsibilities.

Background

The Video Lottery Facility Location Commission (location commission) is tasked with the review and awarding of facility licenses. The location commission has awarded video lottery operation licenses for the following:

- ***Cecil County:*** Penn Cecil Maryland Inc. (Penn Cecil) was awarded a license to operate a VLT facility with 1,500 VLTs in Perryville in Cecil County. The facility opened to the public with 1,500 VLTs on September 27, 2010. It currently houses 1,158 machines and 22 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, but now has the full complement of 800 VLTs.
- ***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. As of September 2013, the facility has placed into operation 4,341 VLTs and 174 table games.
- ***Allegany County:*** On April 26, 2012, Evitts Resort, LLC (Evitts) 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 with 558 VLTs and 13 table games.
- ***Baltimore City:*** On July 31, 2012, the location commission awarded the Baltimore City casino operation license to CBAC Gaming, LLC for a facility with 3,750 VLTs, subject to certain contingencies. That facility is currently scheduled to open in the summer/fall of 2014.
- ***Prince George's County:*** On December 20, 2013, the location commission awarded the Prince George's casino operation license to MGM National Harbor, LLC for a facility with 3,600 VLTs and 140 table games. The statute allows the casino to open as soon as July 2016.

Revenue

The agency accounts for and disperses the revenue derived from the State's gaming facilities. Currently, four facilities are generating revenue for the State. **Exhibit 7** shows the gross revenue from the four facilities over fiscal 2013, compared to the estimate of that revenue.

Exhibit 7
Maryland Gaming Facilities
Gross Revenues
Fiscal 2013
(\$ in Millions)

	<u>Estimate</u>	<u>Actual</u>	<u>Difference</u>
<i>Video Lottery Terminal Revenues</i>			
Education Trust Fund	\$244.5	\$274.7	\$30.3
Facility Owner	164.4	185.4	21.0
Horse Racing Purse Account	34.9	39.1	4.2
Local Impact Aid	27.4	30.7	3.3
Racetrack Facility Renewal Account	9.7	10.8	1.1
State Lottery Agency	10.0	11.2	1.2
Small, Minority and Women-Owned Business Account	7.5	8.4	0.9
<i>Subtotal</i>	<i>\$498.4</i>	<i>\$560.3</i>	<i>\$62.0</i>
<i>Table Games</i>			
Education Trust Fund	\$6.6	\$9.6	\$3.0
Facility Owner	26.6	38.4	11.8
<i>Subtotal</i>	<i>\$33.2</i>	<i>\$48.0</i>	<i>\$14.8</i>
Total	\$531.6	\$608.3	\$76.8

Source: Maryland State Lottery Agency, Department of Legislative Services

Revenues exceeded estimates by \$76.8 million in fiscal 2013. This overattainment results in an increase of \$33.3 million for the Education Trust Fund (ETF), as well as smaller amounts for the other uses of the revenue.

In December 2013, the Board of Revenue Estimates (BRE) took over from DLS the responsibility for forecasting the expected revenues from the gaming program. The lottery agency informed the BRE's process by procuring two consultants to provide additional revenue estimates. **Exhibit 8** shows the new estimates for fiscal 2014 and 2015 and the difference from the prior estimate.

Exhibit 8
Maryland Gaming Facilities
Estimated Revenues
Fiscal 2014-2015
(\$ in Millions)

	<u>2014</u> <u>Estimate</u>	<u>2014</u> <u>Revised</u> <u>Estimate</u>	<u>Difference</u>	<u>2015</u> <u>Estimate</u>	<u>2015</u> <u>Revised</u> <u>Estimate</u>	<u>Difference</u>
VLTs	\$616.7	\$616.7	\$0.0	\$995.8	\$759.4	-\$236.4
Table Games	126.9	236.8	109.9	221.1	326.4	105.3
Totals	\$743.6	\$853.5	\$109.9	\$1,216.9	\$1,085.8	-\$131.1

VLT: video lottery terminals

Source: Board of Revenue Estimates, Department of Legislative Services

In fiscal 2014, the new estimate reflects an increase in activity for table games. This trend continues in fiscal 2015; however, it is assumed that VLT activity will not be as robust as previously expected. This is due, in part, to the dedication of floor space to table games instead of VLT machines at several of the gaming facilities.

Budgetary Impact

Since SLGCA became responsible for the State's gaming program, it has increased its activities, funding, and personnel. In fiscal 2010, the agency began the fiscal year with 172.0 full-time equivalents (FTE). The current allowance requests a total of 309.6 FTEs, an 80% increase in staff. Similarly, the budget has grown from \$56.6 in fiscal 2010, to \$142.3 million in the current allowance. The discussion of the additional personnel and their responsibilities is included under the budget section of this analysis.

The growth has been driven, in large part, by the requirement that the State own the VLTs for use by the licensed casinos. Chapter 1 altered that requirement and transfers ownership responsibilities to some facility owners. That provision of the statute is effective March 31, 2015, to coincide with the end of the current machine lease terms. Accordingly, fiscal 2015 shows a savings of three months of VLT lease costs.

The statute also includes a provision that requires the savings from the transfer of ownership be appropriated to the ETF. The fiscal 2015 allowance does not show any such appropriation to the education fund.

DLS recommends that the agency update the budget committees on the status of the State’s gaming facilities and how the agency is addressing its evolving regulatory responsibilities. Additionally, DLS recommends that committee narrative be adopted that asks the SLGCA, in consultation with DBM, to report to the budget committees, on the out-year savings owed to the ETF from the VLT ownership transfer.

Recommended Actions

	<u>Amount Reduction</u>		<u>Position Reduction</u>
1. Delete 5 new positions. The State Lottery and Gaming Control Agency is currently carrying a large number of vacant positions, many that were created by the enactment of the previous budget. The agency should strive to fill the current positions. In recognition of the agency’s licensing and regulatory workload, this action would still allow for the creation of 25 new positions in fiscal 2014 and 2015.	\$ 255,095	GF	5.0
2. Increase the turnover rate for 17 positions included in the fiscal 2015 allowance. As introduced, the new positions carried a turnover rate of 6%. Given the number of existing vacancies, it is assumed that filling the new positions will not be immediate and that budgeted turnover should be higher.	259,544	GF	

3. Adopt the following narrative:

Machine Cost Savings: The budget committees request that the State Lottery and Gaming Control Agency (SLGCA) prepare an estimate of the savings to the State that can be expected due to the transfer of video lottery terminals (VLT) from State ownership to casino ownership. The estimate should include an accounting of all VLT machines, both owned and leased, by facility. By statute, the savings must be appropriated to the Education Trust Fund; however, the fiscal 2015 allowance does not reflect any such appropriation. In an effort to assist budget forecasting, the SLGCA, in consultation with the Department of Budget and Management (DBM), should attempt to quantify, by fiscal year, the VLT cost savings.

Information Request	Author	Due Date	
VLT cost savings	SLGCA, in consultation with DBM	June 1, 2014	
Total General Fund Reductions			\$ 514,639
			5.0

Current and Prior Year Budgets

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 2013					
Legislative					
Appropriation	\$73,008	\$239,045	\$0	\$0	\$312,053
Deficiency					
Appropriation	1,991	0	0	0	1,991
Budget					
Amendments	0	621	0	0	621
Reversions and					
Cancellations	-1,308	-126,284	0	0	-127,592
Actual					
Expenditures	\$73,691	\$113,382	\$0	\$0	\$187,073
Fiscal 2014					
Legislative					
Appropriation	\$86,464	\$69,391	\$0	\$0	\$155,854
Budget					
Amendments	126	239	0	0	365
Working					
Appropriation	\$86,590	\$69,629	\$0	\$0	\$156,219

Note: The fiscal 2014 working appropriation does not include deficiencies or contingent reductions. Numbers may not sum to total due to rounding.

Fiscal 2013

The fiscal 2013 original general fund appropriation was increased by a deficiency appropriation included in the fiscal 2014 allowance. Specifically, the deficiency included \$1.6 million in general funds for 44 positions that were created by the Board of Public Works in November 2012. These positions are largely responsible for duties associated with table games and 24-hour operations at the State-licensed gaming facilities. Further, the deficiency provided about \$110,000 in general funds for 5 additional positions, again related to new agency responsibilities, namely the regulation of pull-tab machines at veterans' organizations. Finally, the deficiency included about \$216,000 in general funds for an additional 12 positions related to the opening of the casino in Allegany County.

The agency was able to revert over \$1.3 million in large part due to an increase in special funds available. The agency is allotted a specified percentage of VLT proceeds, and fiscal 2013 proceeds exceeded estimates. Additionally in fiscal 2013, State agencies were assessed a fee for development of a new Statewide Personnel System. That year, the State spent approximately 48% of this major IT project's appropriated budget, with the remainder reverted to the general fund. The lottery agency's share was \$5,883 in general funds.

Actual special funds expenditures in fiscal 2013 varied dramatically from the original appropriation; however, only a small component related to substantive, and not technical, changes. Budget amendments increased special funds by a total of \$620,981. Of this amount, \$120,981 is attributable to the cost-of-living salary adjustment (COLA). The remaining \$500,000 was added to the budget to cover the increased costs of the online games vendor contract. Costs are tied to a percentage of online game sales, and, in fiscal 2013, sales of those games exceeded expectations.

The agency canceled over \$126.1 million in special funds in fiscal 2013. First, the General Assembly withheld \$167,112 in special funds that were included in the allowance for a program of selling of lottery tickets over the Internet. The funds were withheld pending a report on the agency's plans for such a program. However, the agency appeared to abandon plans for Internet sales. Accordingly, the funds were canceled at year's end. Secondly, the vast majority of the canceled funds are attributable to a change in the manner in which gaming facility operators receive their share of gaming proceeds. Operators now retain their share of revenues instead of remitting the funds to the agency to be budgeted and then returned. This resulted in a large, but non-substantive, cancellation of special funds in the fiscal 2013 appropriation.

Fiscal 2014

The original fiscal 2014 appropriation has increased due to budget amendments related to the COLA, the Annual Salary Review, and other salary adjustments.

**Object/Fund Difference Report
State Lottery and Gaming Control Agency**

<u>Object/Fund</u>	<u>FY 13 Actual</u>	<u>FY 14 Working Appropriation</u>	<u>FY 15 Allowance</u>	<u>FY 14 - FY 15 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	268.50	279.50	309.60	30.10	10.8%
02 Contractual	10.75	7.75	7.75	0.00	0%
Total Positions	279.25	287.25	317.35	30.10	10.5%
Objects					
01 Salaries and Wages	\$ 16,711,705	\$ 21,329,232	\$ 23,325,787	\$ 1,996,555	9.4%
02 Technical and Spec. Fees	466,587	304,613	339,677	35,064	11.5%
03 Communication	445,070	468,457	484,442	15,985	3.4%
04 Travel	145,110	59,000	59,000	0	0%
06 Fuel and Utilities	116,631	150,592	222,592	72,000	47.8%
07 Motor Vehicles	428,328	392,856	408,295	15,439	3.9%
08 Contractual Services	51,386,650	51,621,119	50,174,383	-1,446,736	-2.8%
09 Supplies and Materials	2,343,501	1,528,400	509,000	-1,019,400	-66.7%
10 Equipment – Replacement	81,968	136,647	166,647	30,000	22.0%
11 Equipment – Additional	60,638,644	70,661,282	57,060,087	-13,601,195	-19.2%
12 Grants, Subsidies, and Contributions	44,775,506	0	0	0	0.0%
13 Fixed Charges	9,518,946	9,557,147	9,805,777	248,630	2.6%
14 Land and Structures	14,322	10,000	10,000	0	0%
Total Objects	\$ 187,072,968	\$ 156,219,345	\$ 142,565,687	-\$ 13,653,658	-8.7%
Funds					
01 General Fund	\$ 73,690,820	\$ 86,590,222	\$ 71,671,798	-\$ 14,918,424	-17.2%
03 Special Fund	113,382,148	69,629,123	70,893,889	1,264,766	1.8%
Total Funds	\$ 187,072,968	\$ 156,219,345	\$ 142,565,687	-\$ 13,653,658	-8.7%

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.

Fiscal Summary
State Lottery and Gaming Control Agency

<u>Program/Unit</u>	<u>FY 13 Actual</u>	<u>FY 14 Wrk Approp</u>	<u>FY 15 Allowance</u>	<u>Change</u>	<u>FY 14 - FY 15 % Change</u>
00 State Lottery Agency	\$ 187,072,968	\$ 156,219,345	\$ 142,565,687	-\$ 13,653,658	-8.7%
Total Expenditures	\$ 187,072,968	\$ 156,219,345	\$ 142,565,687	-\$ 13,653,658	-8.7%
General Fund	\$ 73,690,820	\$ 86,590,222	\$ 71,671,798	-\$ 14,918,424	-17.2%
Special Fund	113,382,148	69,629,123	70,893,889	1,264,766	1.8%
Total Appropriations	\$ 187,072,968	\$ 156,219,345	\$ 142,565,687	-\$ 13,653,658	-8.7%

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.