

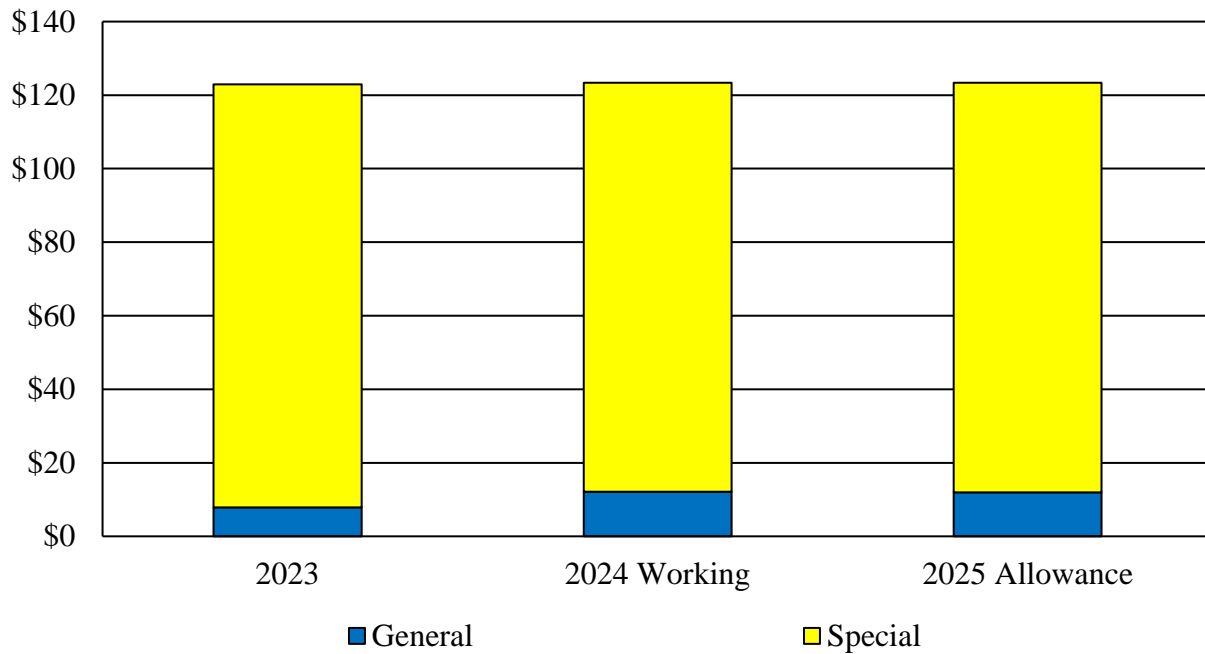
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Maryland Lottery and Gaming Control Agency

Program Description

The Maryland Lottery and Gaming Control Agency (MLGCA) administers lottery games and the State’s casino and sports betting programs to generate revenue for the State. The lottery currently offers a mix of instant ticket, Fast Play, and draw games. All games are sold through lottery agents, which are private businesses that receive commissions and fees in exchange for selling the games to the public. MLGCA is also responsible for the regulation of the video lottery terminal (VLT) program, including accounting for VLT revenues, managing the program’s video lottery central system, and regulating and licensing operators. MLGCA regulates the table games at the authorized VLT facilities, sports wagering, and fantasy gaming in the State.

Operating Budget Summary

Fiscal 2025 Budget Increases \$62,000, or 0.1%, to \$123.4 Million
(\$ in Millions)



Note: The fiscal 2024 working appropriation includes deficiencies. The fiscal 2024 impacts of statewide salary adjustments appear in the Statewide Account in the Department of Budget and Management (DBM), and adjustments are not reflected in this agency’s budget. The fiscal 2025 impacts of the fiscal 2024 statewide salary adjustments appear in this agency’s budget. The fiscal 2025 statewide salary adjustments are centrally budgeted in DBM and are not included in this agency’s budget.

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Fiscal 2024

Implementation of Legislative Priorities

Section 19 of the fiscal 2024 Budget Bill added \$100,000 in general funds for MLGCA to contract with a third-party to assist in completing an iGaming study. Separate language in the fiscal 2024 Budget Bill required that MLGCA submit a report on iGaming, which could be completed in consultation with a third-party vendor. iGaming is interactive online or mobile slot machines, table games, and poker. MLGCA contracted with The Innovation Group to conduct the study, which was completed in November 2023. The study addressed a number of issues related to iGaming, including the estimated size and revenue potential of the iGaming market in Maryland, iGaming in other states, and the potential impacts of iGaming on problem gambling.

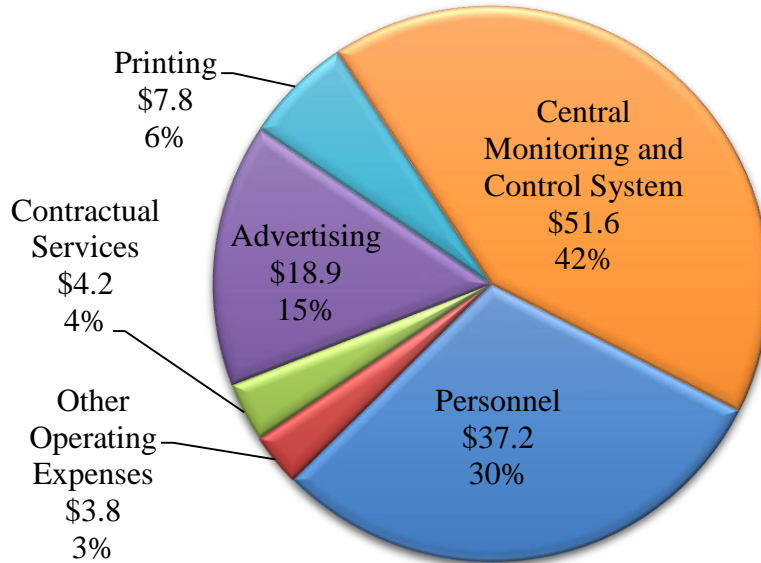
Proposed Deficiency

The fiscal 2025 budget includes three proposed deficiency appropriations for MLGCA totaling \$3.8 million. One of these proposed deficiency appropriations totals \$3.8 million in special funds to pay for higher lottery vendor fees. The remaining two proposed deficiency appropriations realign funds between programs and fund sources related to funding for the iGaming study as well as for funding for VLT operations based on current revenue estimates.

Fiscal 2025 Overview of Agency Spending

The fiscal 2025 allowance for MLGCA totals \$123.4 million. As shown in **Exhibit 1**, the central monitoring and control system totals \$51.6 million, or approximately 42% of the fiscal 2025 allowance. The three central monitoring and control system accounts for all the sales and cashing of lottery tickets, instant ticket lottery machines, and all slot machine activity at the casinos. Personnel reflects salaries and fringe benefits totaling \$37.2 million, or approximately 30% of the budget. Advertising includes creative development and marketing, which totals \$18.9 million, or approximately 15% of the budget. Printing totals \$7.8 million, or approximately 6% of the budget. This includes the design, development, printing, and delivery of instant tickets.

Exhibit 1
Overview of Agency Spending
Fiscal 2025 Allowance
(\$ in Millions)



Note: The fiscal 2025 statewide salary adjustments are centrally budgeted in the Department of Budget and Management and are not included in this agency’s budget.

Source: Department of Budget and Management

Proposed Budget Change

As shown in **Exhibit 2**, the fiscal 2025 allowance reflects a net increase of \$62,000 compared to the fiscal 2024 working appropriation after accounting for the proposed deficiency appropriation. Aside from personnel, the largest increase in the fiscal 2025 allowance is for fiscal service which includes financial and special audit engagements of \$185,000. Beginning on July 1, 2023, MLGCA has a new contract with increased prices for external auditors that includes cybersecurity enhancements. The largest decrease (\$349,311) is related to the elimination of 4 contractual full-time equivalents (FTE).

Exhibit 2
Proposed Budget
Maryland Lottery and Gaming Control Agency
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Total
Fiscal 2023 Actual	\$7,879	\$115,007	\$122,886
Fiscal 2024 Working Appropriation	12,104	111,225	123,329
Fiscal 2025 Allowance	<u>11,961</u>	<u>111,430</u>	<u>123,391</u>
Fiscal 2024-2025 Amount Change	-\$143	\$205	\$62
Fiscal 2024-2025 Percent Change	-1.2%	0.2%	0.1%

Where It Goes:	Change
Personnel Expenses	
Salary increases and associated fringe benefits including fiscal 2024 cost-of-living adjustment and increments.....	\$1,104
Workers’ compensation	-48
Turnover expectancy increases from 5.08% to 7.65%	-838
Other Changes	
Financial services including financial and special audit engagements	185
Agency share of the Department of Information Technology cost allocation.....	159
Contract for design, development, printing and delivery of instant tickets	85
Contracts for advertising and creative development.....	55
Software and information technology support/maintenance	50
Security services	25
Motor vehicle purchases	-31
Central monitor and control system.....	-35
Cost-of-living adjustments for contractual full-time equivalents	-44
Contractual services to assist personnel.....	-60
Electricity	-65
Equipment rental and maintenance.....	-72
Data processing equipment – microcomputer & mainframe	-82
Consultant services primarily due to one-time funds for the third-party vendor for the iGaming study	-116
Decrease in 4 contractual full-time equivalent positions.....	-349
Other expenses.....	139
Total	\$62

Note: Numbers may not sum to total due to rounding. The fiscal 2024 working appropriation includes deficiencies. The fiscal 2024 impacts of statewide salary adjustments appear in the Statewide Account in the Department of Budget and Management (DBM), and adjustments are not reflected in this agency’s budget. The fiscal 2025 impacts of the fiscal 2024 statewide salary adjustments appear in this agency’s budget. The fiscal 2025 statewide salary adjustments are centrally budgeted in DBM and are not included in this agency’s budget.

Personnel Data

	<u>FY 23 Actual</u>	<u>FY 24 Working</u>	<u>FY 25 Allowance</u>	<u>FY 24-25 Change</u>
Regular Positions	364.10	364.10	364.10	0.00
Contractual FTEs	<u>16.75</u>	<u>16.75</u>	<u>12.75</u>	<u>-4.00</u>
Total Personnel	380.85	380.85	376.85	-4.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	27.85	7.65%
Positions and Percentage Vacant as of 12/31/23	34.00	9.34%
Vacancies Above Turnover	6.15	

- As of December 31, 2023, 11 of the 34 vacant positions have been vacant for less than six months, while 20 positions have been vacant for more than one year.
- MLGCA has a decrease of 4 contractual FTE positions between the fiscal 2024 working appropriation and fiscal 2025 allowance. Of the eliminated FTEs, 4 were financial investigators for the gaming licensing department. **MLGCA should discuss the reason for the decrease and how these functions will be performed in fiscal 2025.**

Key Observations

1. Lottery Agent Sales and Cashing Commissions

In exchange for selling State lottery products, licensed agents earn a commission of 6% of gross lottery sales. In addition, a licensed agent may receive a cashing fee of up to 3% of valid prizes paid for services rendered in cashing winning tickets for prizes up to \$600 for most retailers, and up to \$5,000 for certain retailers that have passed more stringent licensing requirements.

Exhibit 3 provides information comparing compensation for retailers among various jurisdictions, including Maryland’s neighboring states. Data is for fiscal 2023, except where noted. Commissions on sales vary from 5% to 7%. With the exception of West Virginia, Maryland’s neighboring states had a 5% commission on sales. Maryland’s 3% cashing commission was generally higher than the cashing commissions provided in the other jurisdictions.

Exhibit 3
Retailer Compensation in Maryland and Other States
(\$ Millions)

<u>Jurisdiction</u>	<u>Sales Commission</u>	<u>Cashing Commission</u>
North Carolina	7.00%	0.00%
West Virginia	7.00%	N/A
Maryland	6.00%	3.00%
Georgia	6.00%	0.00%
Michigan (Fiscal 2022)	6.00%	2.00%
New York	6.00%	0.00%
Ohio	5.50%	1-1.5%
Delaware (Fiscal 2022)	5.00%	1.00%
District of Columbia (Fiscal 2022)	5.00%	Varied
Florida (Fiscal 2022)	5.00%	1.00%
Missouri	5.00%	2.00%
New Jersey (Fiscal 2022)	5.00%	1.25% on prizes up to \$600
Pennsylvania	5.00%	N/A
Virginia	5.00%	1.00%

Note: Data for fiscal 2022 used where fiscal 2023 data was not available.

Source: Maryland Lottery and Gaming Control Agency

A provision in the Budget Reconciliation and Financing Act of 2024 would reduce lottery agent sales commissions from 6% to 5.5% of gross lottery sales and the prize ticket cashing

commission from 3% to 2%. Reduced commissions result in an increase in revenue to the General Fund. As shown in **Exhibit 4**, general fund revenues are expected to increase by \$2.2 million in fiscal 2024 and by \$27.2 million in fiscal 2025 due to reduced lottery agent sales commissions and prize ticket cashing commissions. Higher revenue in the out-years reflects anticipated growth in lottery sales.

Exhibit 4
Estimated Impact of Reduced Lottery Agent Sales and Cashing Commissions
Fiscal 2024-2029
(\$ in Millions)

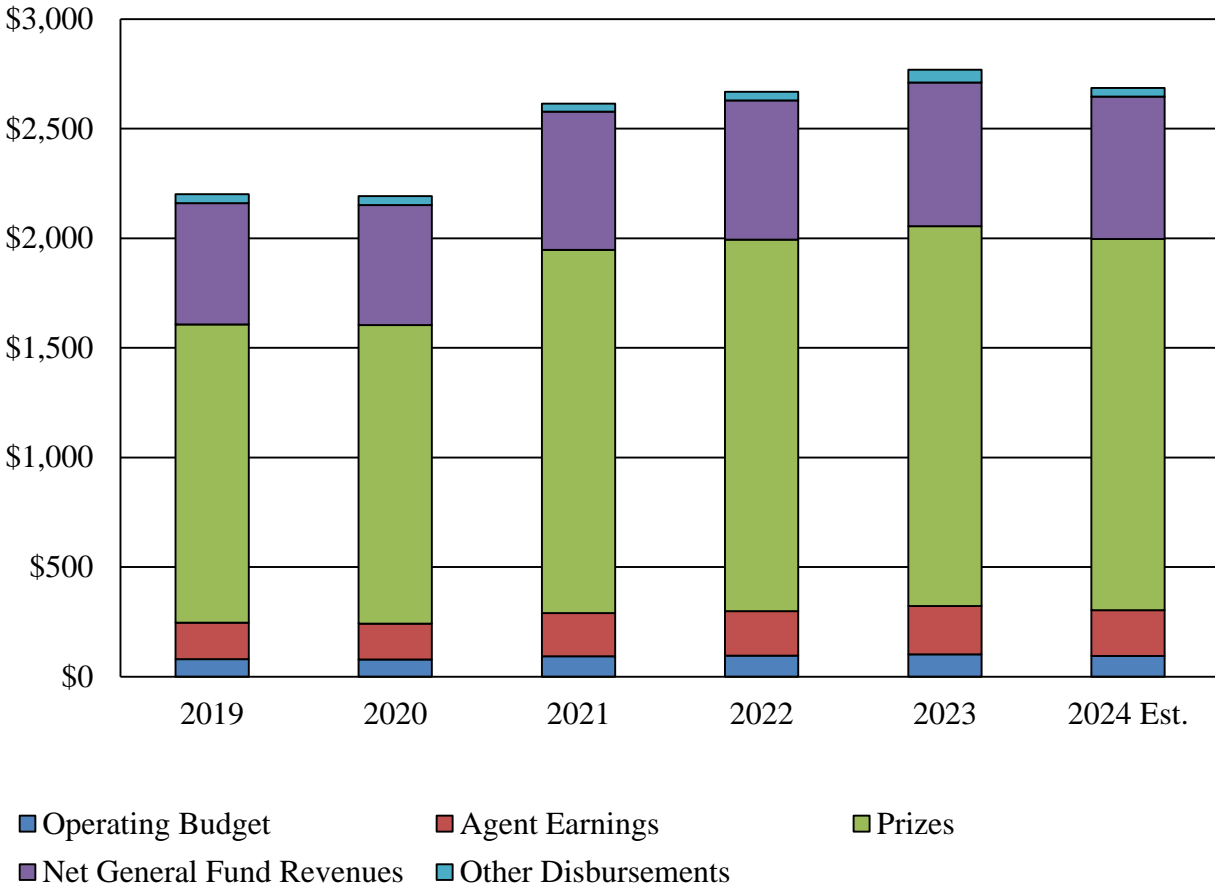
	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
General Fund Revenue	\$2.2	\$27.2	\$27.4	\$27.6	\$27.8	\$28.0

Source: Department of Budget and Management

2. Lottery Revenue Performance

Lottery sales in fiscal 2023 were \$2.8 billion, a 3.8% increase compared to fiscal 2022. Proceeds from the lottery games pay for prizes, agent earnings, and all operating expenses of MLGCA for the lottery program. **Exhibit 5** shows total lottery sales and the distribution of those revenues from fiscal 2019 through 2024. In fiscal 2023, 62.6% of sales paid for prizes, 7.9% paid for agent commissions and redemption fees, 3.7% paid for operations of the lottery program, 23.7% was credited as revenue to the General Fund, and 2.1% paid for all other disbursements. In fiscal 2023, the State Lottery Fund provided \$14.6 million to the Maryland Stadium Facilities Fund and another \$14.6 million to the Maryland Department of Transportation for bus rapid transit system grants. From fiscal 2022 to 2023, the operating budget increased by 7.3%, agent commission earnings increased by 7.8%, prizes increased by 2.2%, net general fund revenues increased by 3.2%, and the other disbursements increased by 52.4%. In fiscal 2024, estimated lottery sales and disbursements are expected to decrease by 3.0% compared to fiscal 2023.

Exhibit 5
Lottery Earnings and Disbursements
Fiscal 2019-2024 Est.
(\$ in Millions)

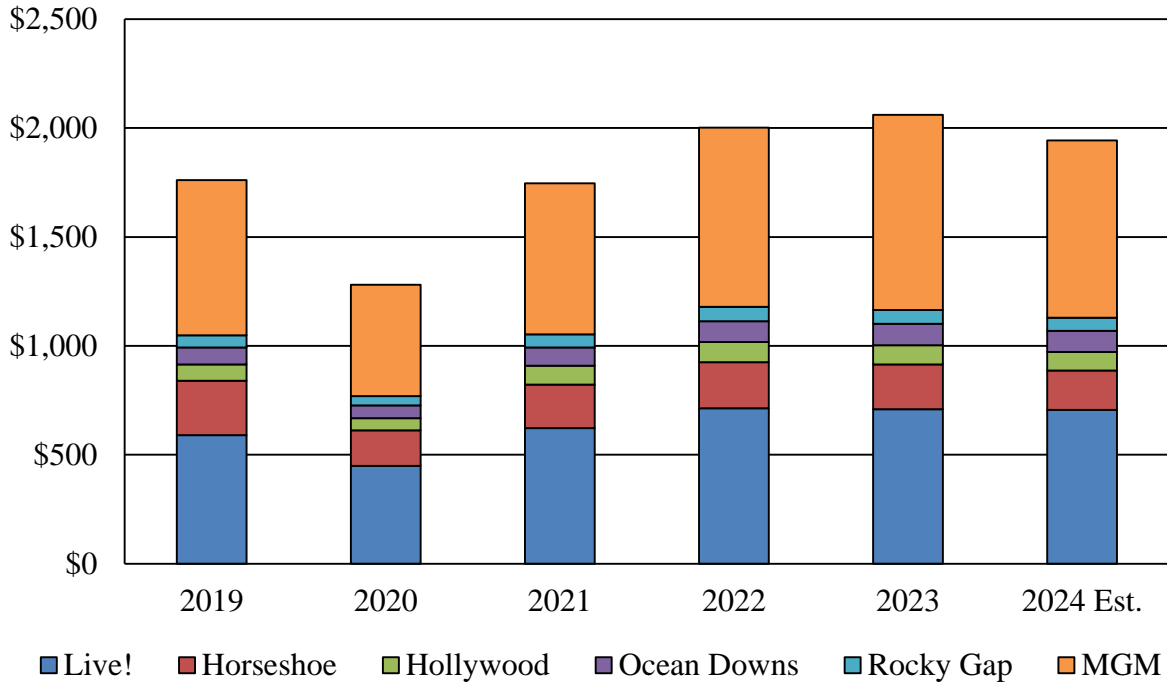


Source: Department of Budget and Management; Maryland Lottery and Gaming Control Agency

3. Casino Earnings and Contributions

Casino revenues, which include VLTs and table games, increased by \$58.5 million, or 2.9%, in fiscal 2023 compared to fiscal 2022. Gross revenues by casino since fiscal 2019 are shown in **Exhibit 6**. MGM National Harbor had the highest casino revenues in fiscal 2023, at \$895.7 million. Revenues for MGM National Harbor and Ocean Downs increased by 8.8% and 4.2%, respectively, from fiscal 2022 to 2023. However, revenues decreased at all other facilities in fiscal 2023, with decreases ranging from 0.7% at Live! to 5.5% at Hollywood Casino Perryville.

**Exhibit 6
Casino Earnings
Fiscal 2019-2024 Est.
(\$ in Millions)**

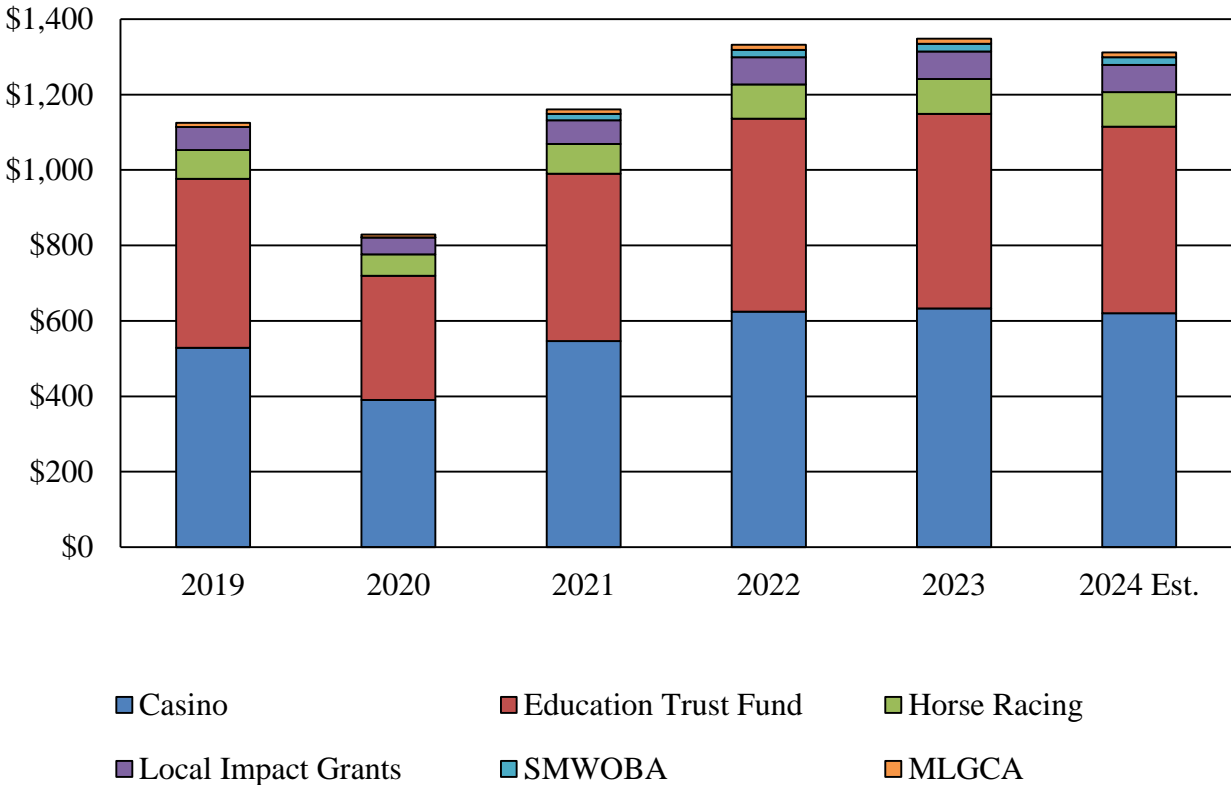


Source: Board of Revenue Estimates

VLT Revenues

The distribution of VLT revenues since fiscal 2019 is displayed in **Exhibit 7**. After all specified distributions have been made, including to casino licensees, the Education Trust Fund (ETF) receives the remainder of the revenues. In fiscal 2023, the ETF received \$515.8 million, an increase of 0.9% compared to fiscal 2022. From fiscal 2022 to 2023, licensee distributions increased by 1.4%; horse racing distributions increased by 1.6%; local impact grant distributions increased by 1.2%; the Small, Minority, and Women-Owned Businesses Account distribution increased by 1.6%; and MLGCA’s operating expense distribution increased by 1.7%. Overall, VLT revenues for fiscal 2023 were approximately \$1.35 billion, an increase of 1.2% compared to fiscal 2022.

Exhibit 7
VLT Revenue Disbursements
Fiscal 2019-2024 Est.
(\$ in Millions)



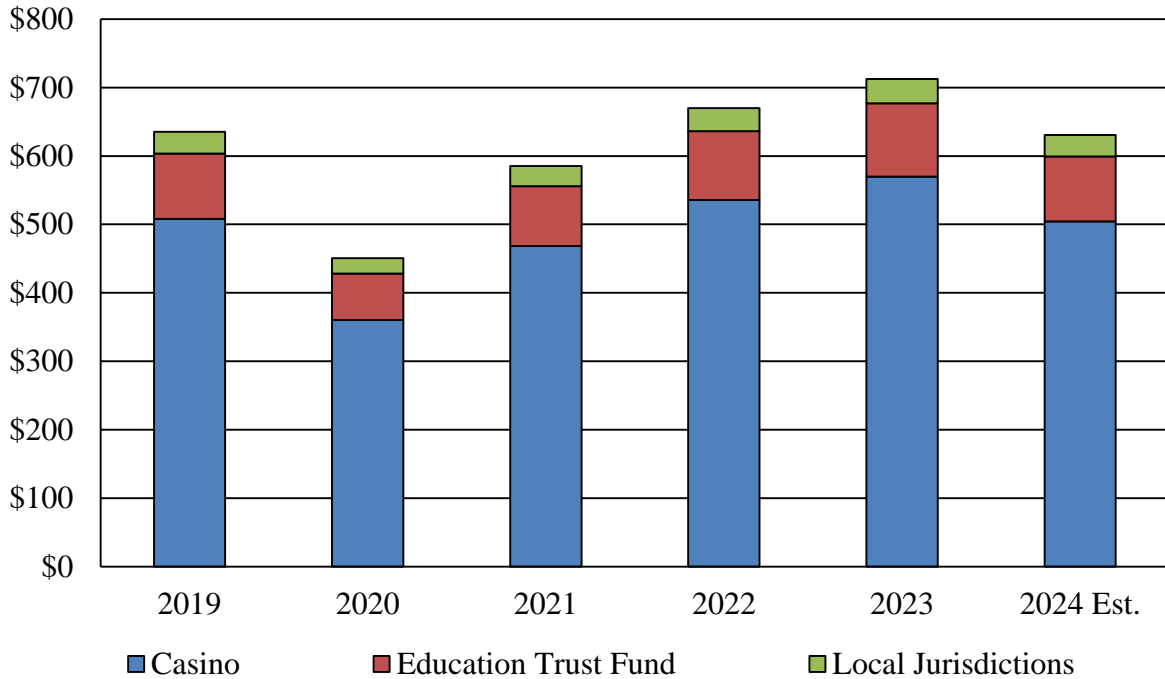
MLGCA: Maryland Lottery and Gaming Control Agency
 SMWOBA: Small, Minority, and Women-Owned Businesses Account
 VLT: video lottery terminal

Source: Department of Budget and Management; Maryland Lottery and Gaming Control Agency

Table Game Revenues

Gross revenues from table games are distributed as follows: the facility operators retain 80%; ETF receives 15%; and the local jurisdiction of the facility receives 5%. In fiscal 2023, total table game revenues increased by 6.3% compared to fiscal 2022. As shown in **Exhibit 8**, the ETF received \$106.9 million from table games in fiscal 2023, a 6.4% increase over fiscal 2022.

Exhibit 8
Table Game Revenue Disbursements
Fiscal 2019-2024 Est.
(\$ in Millions)



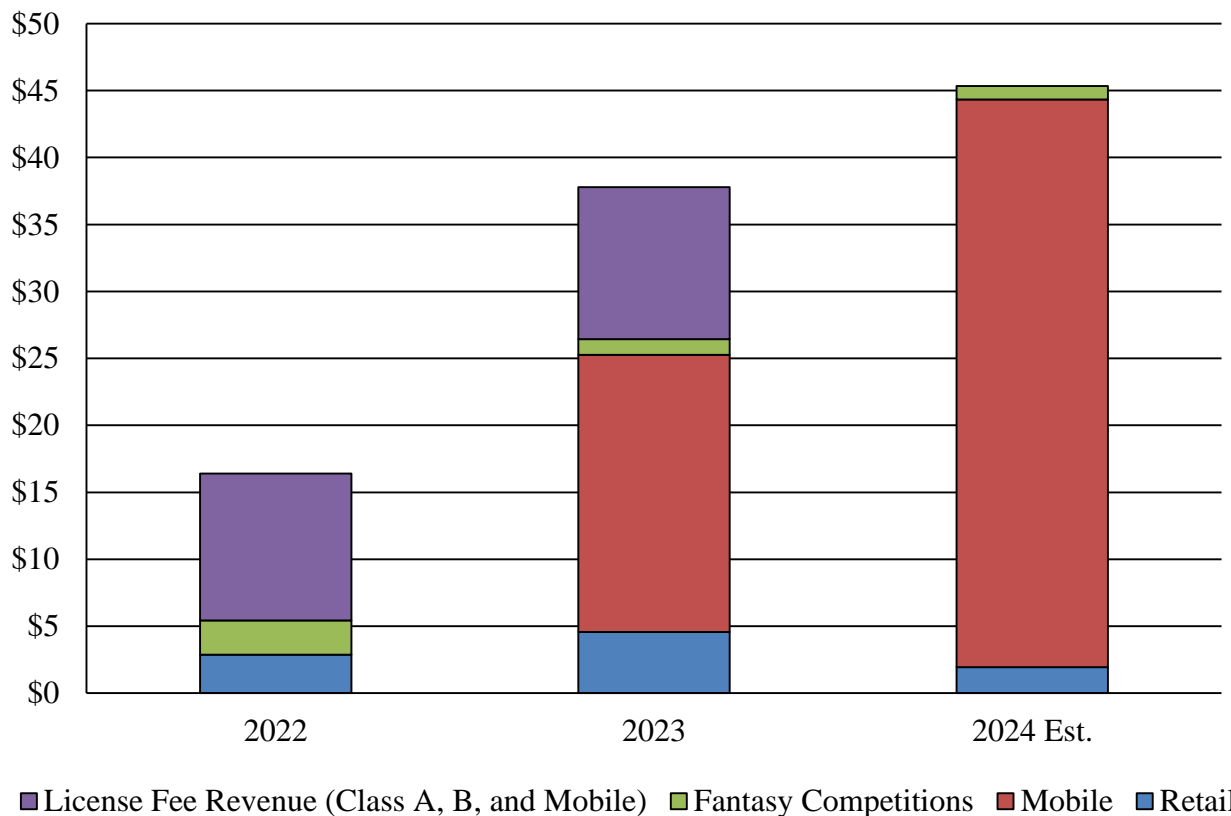
Source: Department of Budget and Management; Maryland Lottery and Gaming Control Agency

4. Sports Wagering Revenue

In November 2020, Maryland voters approved a constitutional amendment to authorize sports betting in the State. Chapter 356 of 2021 established an operational and regulatory framework for the State’s sports wagering program. MLGCA is responsible for issuing licenses to sports betting operators, after approval by the Sports Wagering Application Review Commission. State revenues from sports wagering and fantasy competitions are dedicated to the Blueprint for Maryland’s Future Fund.

Exhibit 9 shows total State sports wagering and fantasy competition revenues for fiscal 2022 through 2024. In fiscal 2023, revenues distributed to the Blueprint for Maryland’s Future Fund totaled \$37.8 million. Of this amount, \$20.7 million (55%) came from mobile sports wagering proceeds and \$11.4 million (30%) came from license fees. The estimated amount of sports wagering and fantasy competition proceeds distributed to the Blueprint for Maryland’s Future Fund in fiscal 2024 is \$45.3 million, a 20% increase over fiscal 2023. The vast majority of the fiscal 2024 revenues are expected to come from mobile sports wagering.

Exhibit 9
State Sports Wagering and Fantasy Competition Revenues
Fiscal 2022-2024 Est.
(\$ in Millions)



Note: Numbers presented are based on the Governor’s Fiscal 2025 Budget Books, however, the State Lottery and Gaming Control Agency reports all license fee revenue was collected in fiscal 2022.

Source: Department of Budget and Management

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Appendix 1
2023 Joint Chairmen’s Report Responses from Agency

The 2023 *Joint Chairmen’s Report* (JCR) requested that MLGCA prepare Sports Wagering Revenue Reports. Electronic copies of the full JCR responses can be found on the Department of Legislative Services Library website.

- **Monthly Sports Wagering Revenue Reports:** Committee narrative in the 2023 JCR requested that MLGCA submit published monthly reports for sports wagering with additional information on the major types of bets being placed including promotional play spending, parlays, the total handle, the hold, as well as the type of sport(s) events being wagered on. In fiscal 2024, to date, MLGCA submitted and posted the reports on its website from June to December in calendar 2023.
- **Report on iGaming:** Language in the fiscal 2024 Budget Bill required that MLGCA submit a report on iGaming to the budget committees. In fiscal 2024, MLGCA submitted a full report in November 2023, detailing the revenue potential of a legal iGaming market in Maryland, impact of iGaming on casinos and lottery, the iGaming landscape in other states, the use of multijurisdictional gaming agreements, and methods to transition players from the illegal to the regulated market. MLGCA contracted with The Innovation Group to produce the study. The study estimates that the market potential for iGaming in Maryland is more than \$900 million in gross revenue. The report also includes an estimate of the impact of iGaming on land-based casino gross gaming revenue, which was noted to be approximately a 10% decline in growth, lottery sales 0.04% decline in growth, electronic bingo machines approximately 10% decline in growth, and off-track betting near zero growth.

Appendix 2
Object/Fund Difference Report
Maryland Lottery and Gaming Control Agency

<u>Object/Fund</u>	<u>FY 23</u> <u>Actual</u>	<u>FY 24</u> <u>Working</u> <u>Appropriation</u>	<u>FY 25</u> <u>Allowance</u>	<u>FY 24 - FY 25</u> <u>Amount Change</u>	<u>Percent</u> <u>Change</u>
Positions					
01 Regular	364.10	364.10	364.10	0.00	0%
02 Contractual	16.75	16.75	12.75	-4.00	-23.9%
Total Positions	380.85	380.85	376.85	-4.00	-1.1%
Objects					
01 Salaries and Wages	\$ 32,237,945	\$ 36,196,005	\$ 36,414,323	\$ 218,318	0.6%
02 Technical and Special Fees	466,443	1,136,437	734,963	-401,474	-35.3%
03 Communication	205,691	274,485	275,720	1,235	0.4%
04 Travel	83,559	161,757	161,500	-257	-0.2%
06 Fuel and Utilities	121,902	186,571	121,902	-64,669	-34.7%
07 Motor Vehicles	1,188,028	616,458	586,458	-30,000	-4.9%
08 Contractual Services	86,283,670	78,447,553	82,485,266	4,037,713	5.1%
09 Supplies and Materials	146,941	213,500	218,500	5,000	2.3%
10 Equipment – Replacement	190,107	344,999	314,999	-30,000	-8.7%
11 Equipment – Additional	230,437	224,000	167,000	-57,000	-25.4%
13 Fixed Charges	1,731,382	1,757,744	1,910,130	152,386	8.7%
Total Objects	\$ 122,886,105	\$ 119,559,509	\$ 123,390,761	\$ 3,831,252	3.2%
Funds					
01 General Fund	\$ 7,878,758	\$ 11,749,510	\$ 11,960,671	\$ 211,161	1.8%
03 Special Fund	115,007,347	107,809,999	111,430,090	3,620,091	3.4%
Total Funds	\$ 122,886,105	\$ 119,559,509	\$ 123,390,761	\$ 3,831,252	3.2%

Note: The fiscal 2024 appropriation does not include deficiencies. The fiscal 2025 allowance does not include salary adjustments budgeted within the Department of Budget and Management.