

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 179
Finance

(Senator Hooper)

State Lottery - Vending Machines - Access by Minors

This bill prohibits a person from selling State lottery tickets from a vending machine unless the vending machine can only be operated by a token or similar device obtained from an employee of the establishment in which the machine is located. Vending machines located in an establishment that minors are prohibited by law from entering or in a veterans or fraternal organization are exempt from this requirement.

A violator is guilty of a misdemeanor and subject to a maximum fine of \$100.

Fiscal Summary

State Effect: Potential significant decrease in general fund revenues in FY 2007 and beyond due to decreased instant ticket lottery sales. Significant special fund expenditure increase in FY 2007 due to expenses at the Lottery Agency in order to conform vending machines to the requirements of the bill.

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: It is illegal to sell lottery tickets to minors. There are no restrictions on the placement of instant ticket vending machines.

Background: The State Lottery Agency advises that it currently owns or leases 902 instant ticket vending machines. At any point, between 800 and 900 of these machines are located at businesses while the remaining are being repaired and/or maintained. Vending machines sold approximately \$90 million worth of instant tickets in fiscal 2005, accounting for a little less than one-quarter of total instant ticket sales and approximately \$16 million in general fund revenues to the State. The Lottery Agency advises that these machines currently accept only paper money and do not accept coins or tokens. These machines are located in a variety of locations, including convenience stores, grocery stores, gas stations, and bars and restaurants. **Exhibit 1** lists the number of machines currently in operation by type of business.

Exhibit 1
Number of Vending Machines by Type of Business

<u>Type of Business</u>	<u>Number of Machines</u>
Grocery Stores	287
Convenience Stores	127
Gas Stations	109
Restaurants and Bars	158
Liquor Stores	83
Service Businesses	48
Newstands/Tobacco Stores	4
Drug Stores	<u>10</u>
Total	826

Source: State Lottery Agency

The Lottery Agency advises that three vending machines are located in either a veterans or fraternal organization. Vending machines consist of 8 - 24 bin units. Each bin unit represents the quantity of tickets that can be placed in a machine. Most of the machines are 16 bin units. The lottery last purchased a 16 bin unit in 2003, at a cost of approximately \$9,000.

State Revenues: General fund revenues could decrease substantially in fiscal 2007 and beyond due to decreased sales at instant ticket vending machines. Any instant ticket vending machines not located in an establishment in which minors are prohibited by law or in a veterans or fraternal organization would be required to be operated only by the use of a token or similar device obtained from an employee of the store in which the machine

is located. The Lottery Agency was unable to provide an estimate on the number of machines that would be affected by the legislation, or an estimate of the total impact on lottery revenues, but estimates that there would be a substantial decrease in lottery revenues.

Legislative Services advises that although the size of the decrease cannot be estimated, it is likely to be substantial given that instant ticket sales from vending machines generate \$16 million in revenues annually. Requiring a customer to purchase a token or similar device in order to purchase an instant ticket from a machine would negate the convenience of instant ticket vending machines. Customers would be required to wait in line along with other patrons purchasing merchandise, and then operate the machine using a token or similar device.

The criminal penalty provisions of the bill are not expected to significantly affect State revenues.

State Expenditures: Special fund expenditures would increase substantially in fiscal 2007 in order to alter vending machines so that they will accept a token or similar device. The Lottery Agency advises that the manufacturer of the vending machines used by the agency was unable to provide an estimate of the cost of complying with the requirement of the bill, but that it was likely to be substantial. The manufacturer advises that it does not currently supply vending machines that accept tokens and would need to design a new vending machine or a way to retrofit existing machines. The manufacturer also advises that based on the amount of total sales, about 20 million counterfeit-resistant tokens would be required to supply token-operated machines at an unknown cost. Legislative Services advises that it is likely that fewer tokens would be needed, but cannot quantify the cost of purchasing these tokens.

Small Business Effect: Retailers are paid a commission for selling (5.5% effective fiscal 2007) and cashing (3%) lottery tickets. A typical retailer receives approximately \$8,500 in commissions annually for having an instant ticket vending machine. To the extent that instant ticket lottery sales decrease due to the bill, small businesses that have these vending machines would be negatively impacted.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland State Lottery Agency, Department of Legislative Services

Fiscal Note History: First Reader - February 8, 2006
ncs/rhh

Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510