

**E75D**  
**Maryland Lottery and Gaming Control Agency**

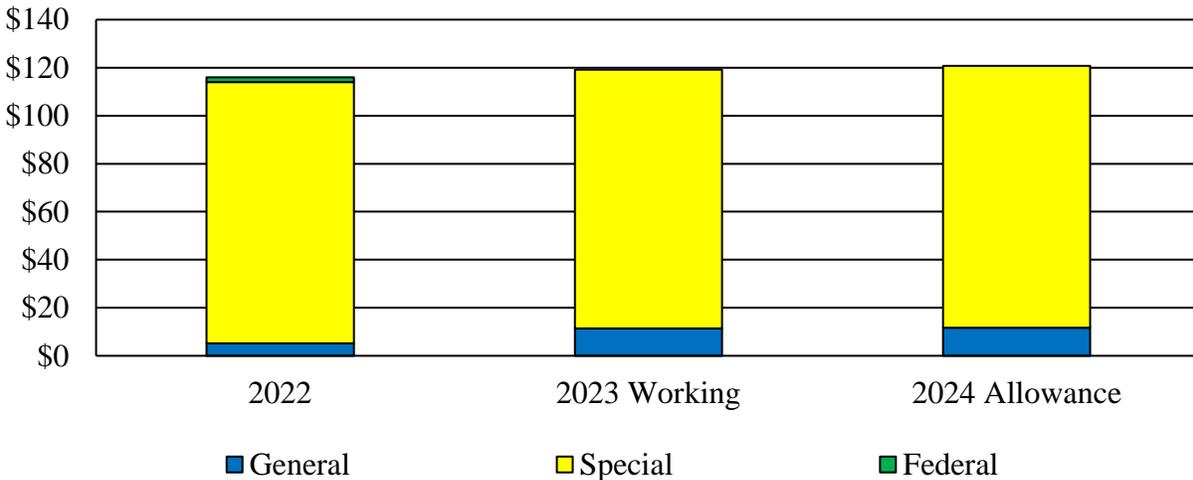
**Program Description**

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. Draw games are those where 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. FAST PLAY tickets are similar to instant ticket games but without the scratching; they are printed by Lottery terminals and self-service vending machines. 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 administration of the video lottery terminal (VLT) program, including accounting for and distributing VLT revenues, managing the program’s video lottery central system, and regulating and licensing of operators. In fiscal 2012, MLGCA’s responsibilities were further expanded to include the regulation of table games at the previously authorized VLT facilities. Lastly, under Chapter 356 of 2021, MLGCA is responsible for regulating sports wagering and fantasy gaming in the State.

***Operating Budget Summary***

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**Fiscal 2024 Budget Increases \$1.6 Million, or 1.3%, to \$120.7 Million**  
**(\$ in Millions)**



Note: The fiscal 2023 working appropriation includes deficiency appropriations including this agency’s share of a deficiency appropriation budgeted in the Statewide Account within the Department of Budget and Management (DBM). Fiscal 2024 salary enhancements are budgeted in the Statewide Account within DBM. Numbers may not add due to rounding.

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## Fiscal 2023

### Proposed Deficiency

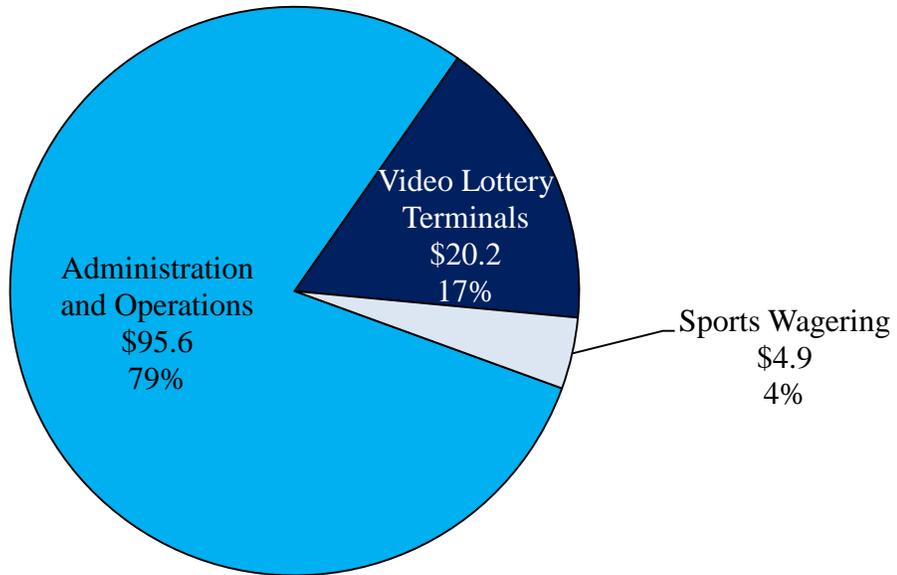
The fiscal 2024 budget includes one proposed deficiency for MLGCA to replace \$263,720 in special funds with the same amount of general funds for personnel expenses, to align funding for VLT operations to current estimates.

## Fiscal 2024 Overview of Agency Spending

The fiscal 2024 allowance for the agency totals \$120.7 million. As shown in **Exhibit 1**, MLGCA is divided into three units: (1) Administration and Operations, which handles lottery gaming; (2) VLT and Gaming Operations, which is responsible for the regulation of the State’s VLT and table game operations; and (3) the Sports Wagering and Fantasy Gaming program. Lottery administration accounts for 79% of agency spending.

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**Exhibit 1**  
**Overview of Agency Spending by Program**  
Fiscal 2024 Allowance  
(\$ in Millions)



Note: The fiscal 2024 allowance does not include salary enhancements that are budgeted in the Statewide Account within the Department of Budget and Management.

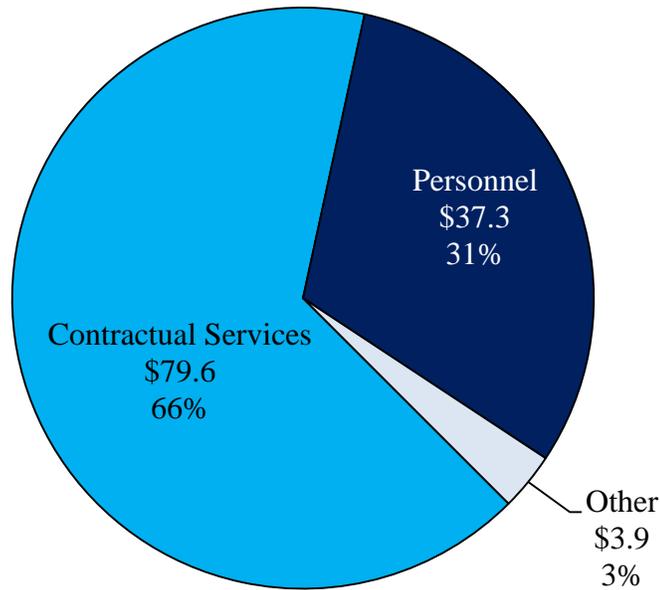
Source: Governor’s Fiscal 2024 Budget Books

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**Exhibit 2** divides MLGCA spending into contractual, personnel, and other spending. MLGCA’s expenses are primarily contractual services (66% of the allowance) and personnel costs for the agency’s 364.1 regular positions (31%). The largest contract that MLGCA has is for the Lottery Central Monitoring and Control System, comprising 50% (\$39.6 million) of their contractual spending. Media planning and advertising contracts comprise 17% (\$13.9 million), and an additional 11% (\$8.6 million) is for Instant Ticket Lottery Machines (ITLM). Other smaller items shown in contractual services include vendor fees for the ITLM’s (\$4.2 million) and \$5.0 million for development of advertising and marketing material.

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**Exhibit 2**  
**Overview of Agency Spending by Use**  
**Fiscal 2024 Allowance**  
**(\$ in Millions)**



Note: The fiscal 2024 allowance does not include salary enhancements that are budgeted in the Statewide Account within the Department of Budget and Management.

Source: Governor’s Fiscal 2024 Budget Books

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MLGCA also has \$1.2 million in contracts for televised drawings of lottery games. In December 2022, MLGCA announced that it was no longer televising drawings. **The Department of Legislative Services recommends deleting the funds dedicated to this purpose.**

**Proposed Budget Change**

As shown in **Exhibit 3**, MLGCA’s fiscal 2024 allowance increases by \$1.6 million compared to the fiscal 2023 working appropriation, after accounting for proposed deficiency appropriations including this agency’s share of the statewide deficiency appropriation for the 4.5% cost-of-living adjustment. The largest increase in funding is \$2.1 million for the Lottery Central Monitoring and Control System. This increase is driven by debit card equipment costs and transaction fees as well as fees for lottery vendors.

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

<b>How Much It Grows:</b>	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Total</u></b>
Fiscal 2022 Actual	\$5,205	\$108,755	\$2,000	\$115,961
Fiscal 2023 Working Appropriation	11,470	107,645	0	119,115
Fiscal 2024 Allowance	<u>11,660</u>	<u>109,052</u>	<u>0</u>	<u>120,712</u>
Fiscal 2023-2024 Amount Change	\$190	\$1,407	\$0	\$1,597
Fiscal 2023-2024 Percent Change	1.7%	1.3%		1.3%

<b>Where It Goes:</b>	<b><u>Change</u></b>
<b>Personnel Expenses</b>	
Employee and retiree health insurance.....	\$661
Annualization of the November 2022 4.5% cost of living adjustment .....	412
Employees’ Retirement System .....	48
Other fringe benefits.....	-5
Turnover expectancy .....	-24
Salary and wages .....	-91
<b>Other Changes</b>	
State Lottery Central Monitoring and Control System.....	2,157
Scheduled replacement of vehicles for the lottery program.....	162
Software licenses .....	95
Service allocations.....	-13
Ending of funding for employee cellphones based off internal review.....	-30
Equipment costs.....	-48
Office assistance contracts .....	-50
Vendor fees for Instant Ticket Lottery Machine operations .....	-757

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<b>Where It Goes:</b>	<b><u>Change</u></b>
One-time funding in fiscal 2023 for new vehicles for the Sports Wagering program.....	-934
Other .....	15
<b>Total</b>	<b>\$1,597</b>

Note: Numbers may not sum to total due to rounding. The fiscal 2023 working appropriation includes deficiency appropriations including this agency’s share of a deficiency appropriation budgeted in the Statewide Account within the Department of Budget and Management (DBM). Fiscal 2024 salary enhancements are budgeted in the Statewide Account within DBM.

***Personnel Data***

	<b><u>FY 22</u></b>	<b><u>FY 23</u></b>	<b><u>FY 24</u></b>	<b><u>FY 23-24</u></b>
	<b><u>Actual</u></b>	<b><u>Working</u></b>	<b><u>Allowance</u></b>	<b><u>Change</u></b>
Regular Positions	364.10	364.10	364.10	0.00
Contractual FTEs	<u>11.45</u>	<u>16.75</u>	<u>16.75</u>	<u>0.00</u>
<b>Total Personnel</b>	<b>375.55</b>	<b>380.85</b>	<b>380.85</b>	<b>0.00</b>

***Vacancy Data: Regular Positions***

Turnover and Necessary Vacancies, Excluding New Positions	18.50	5.08%
Positions and Percentage Vacant as of 12/31/22	42.00	11.54%
Vacancies Above Turnover	23.5	

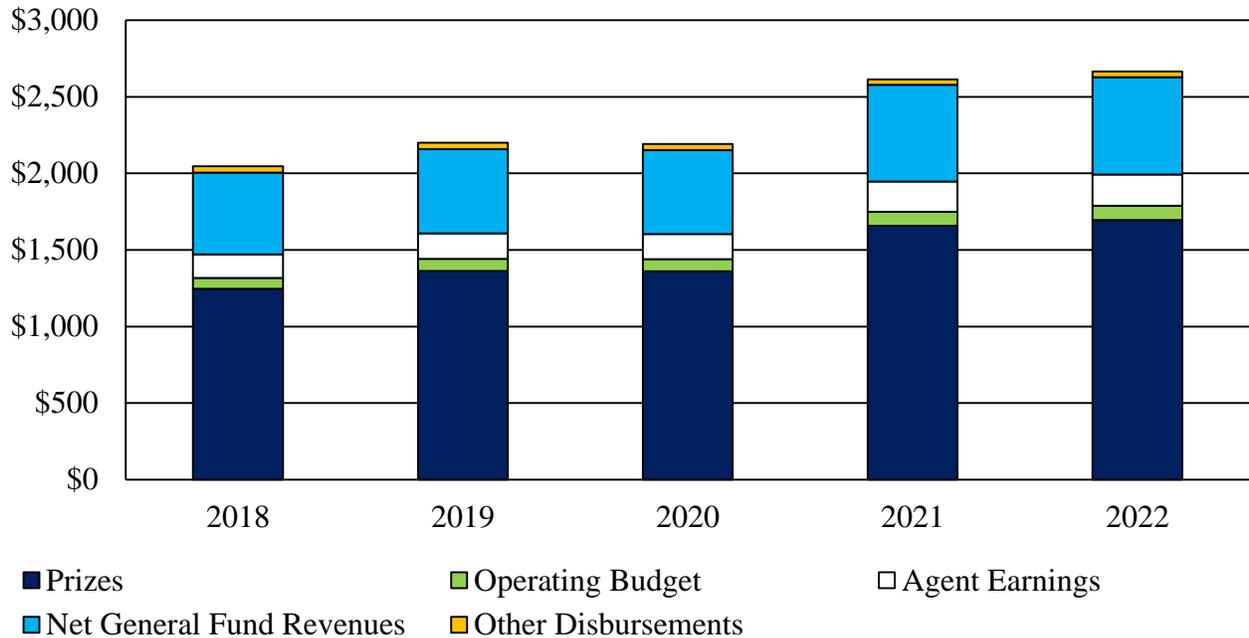
- MLGCA has 42 vacancies as of December 31, 2022, more than double the number needed to meet the budgeted turnover expectancy. Of the 42 vacancies, 10 have been vacant for less than three months, and 3 have been vacant for more than a year.
- The Sports Wagering and Fantasy Gaming program has 23 vacancies that have been open for between seven and nine months. MLGCA expected some delays in the program start up and purposefully waited to fill some positions until there was a better understanding of how many licenses would be awarded. Additionally, there were delays in the recruiting process due to the classifications of the positions. MLGCA is currently in the process of filling 18 positions.

## Key Observations

### 1. Lottery Revenue Performance Matches Previous Year

Lottery sales in fiscal 2022 increased by 2% compared to fiscal 2021. Proceeds from the lottery games pay for prizes, agent earnings, and all operating expenses of MLGCA for the lottery program. In fiscal 2022, 64.8% of sales paid for prizes, 7.8% paid for agent commissions and redemption fees, 3.5% paid for operations of the lottery program, 24.3% was credited as revenue to the General Fund, and 1.5% paid for all other disbursements. Chapter 61 of 2022 mandates that when a deposit is made from the State Lottery Fund to the Maryland Stadium Facilities Fund, an equal amount, but no more than \$27 million, shall be paid to the Maryland Department of Transportation for bus rapid transit system grants. In fiscal 2023, \$15 million is expected for this disbursement and \$14 million in fiscal 2024. Net general fund revenues increased by 0.5% to \$635.1 million in fiscal 2022. **Exhibit 4** shows total lottery sales and the distribution of those revenues from fiscal 2018 through 2022.

**Exhibit 4**  
**Lottery Earnings**  
**Fiscal 2018-2022**  
**(\$ in Millions)**

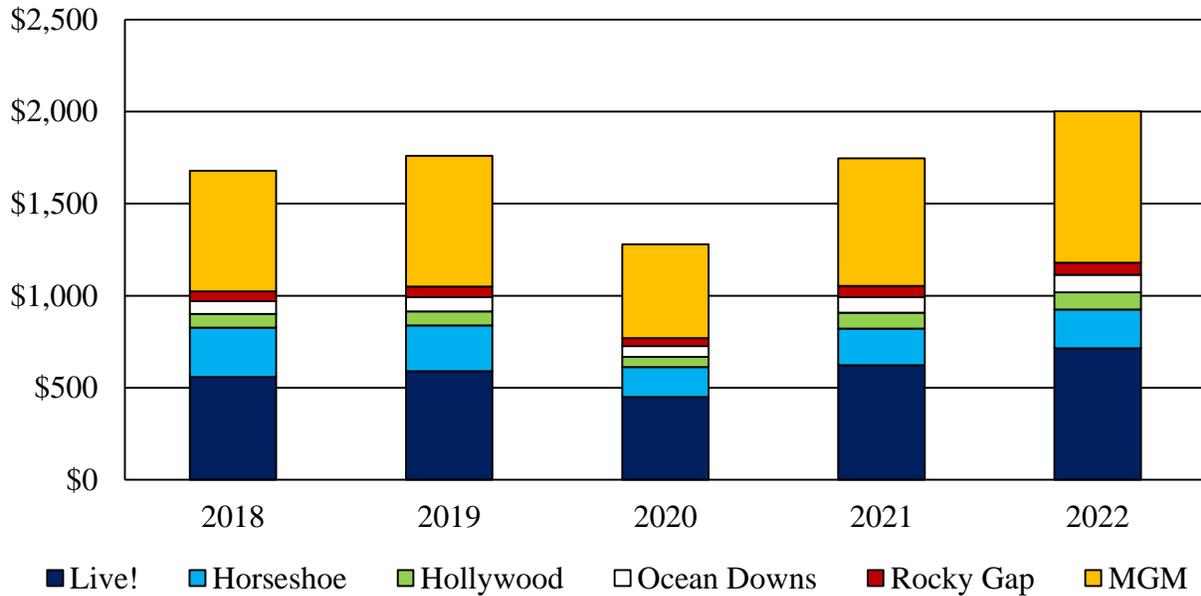


Source: Governor’s Fiscal 2024 Budget Books; Maryland Lottery and Gaming Control Agency

## 2. Casino Earnings Continue to Rise

Overall, casino revenues – including both VLTs and table games – in the State increased in fiscal 2022 by \$256 million, or 15%, compared to fiscal 2021. This is largely driven by a reduction in pandemic-related effects on casino use. Gross revenues by casino are shown in **Exhibit 5**.

**Exhibit 5**  
**Casino Earnings**  
**Fiscal 2018-2022**  
**(\$ in Millions)**



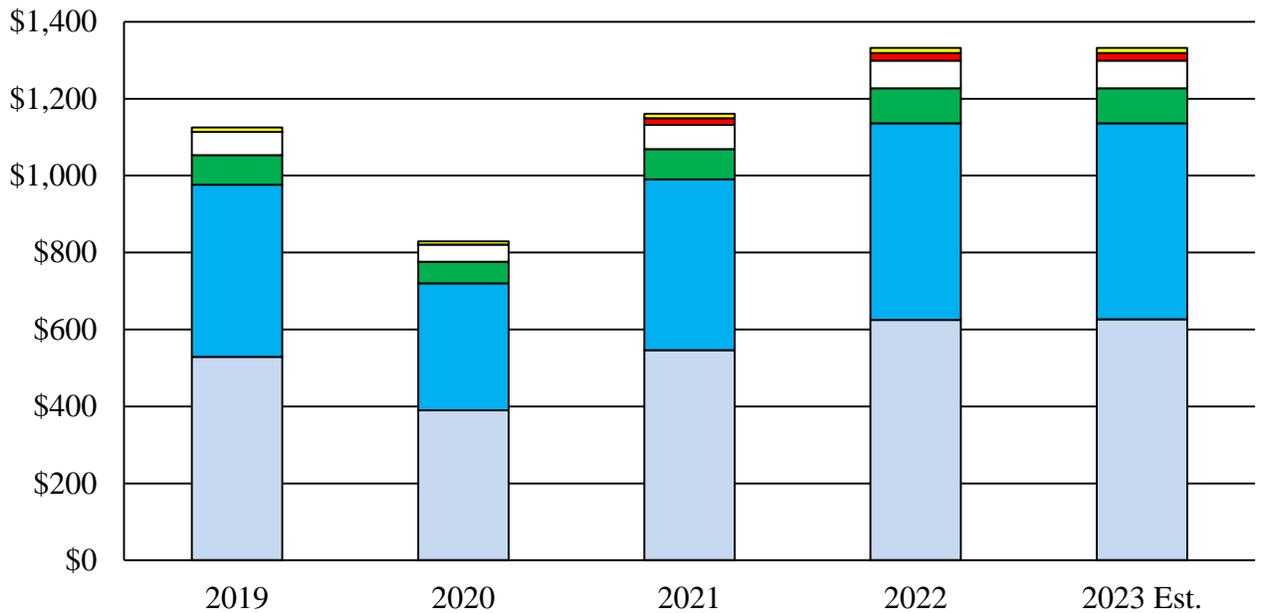
Source: Board of Revenue Estimates

### VLT Revenue Exceeds Previous Year

Proceeds from VLTs are distributed to a variety of recipients, as shown in **Exhibit 6**. The amount that operators retain from VLTs is set in statute and currently varies between 39% and 60%, depending on the facility. After all other specified distributions have been made, the Education Trust Fund (ETF) receives the remainder. In fiscal 2022, the ETF received \$511 million from VLT revenues, a 15% increase compared to fiscal 2021. Across the board, disbursements from VLT revenues increased in fiscal 2022 with funding for the Small, Minority, and Women-Owned Businesses Account (SMWOBA), MLGCA, and local impact grants seeing an average 15% increase compared to fiscal 2021, consistent with the overall increase in revenue.

Overall, VLT revenues for fiscal 2022 exceeded \$1.33 billion, 15% more than fiscal 2021 and 32% more than the preceding five-year average. Overall revenue in fiscal 2023 is projected to be largely level compared to fiscal 2022.

**Exhibit 6**  
**VLT Revenue Disbursements**  
**Fiscal 2019-2023 Est.**  
**(\$ in Millions)**



Casino
  Education Trust Fund
  Horse Racing
  Local Impact Grants  
 SMWOBA
  MLGCA
  General Fund

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

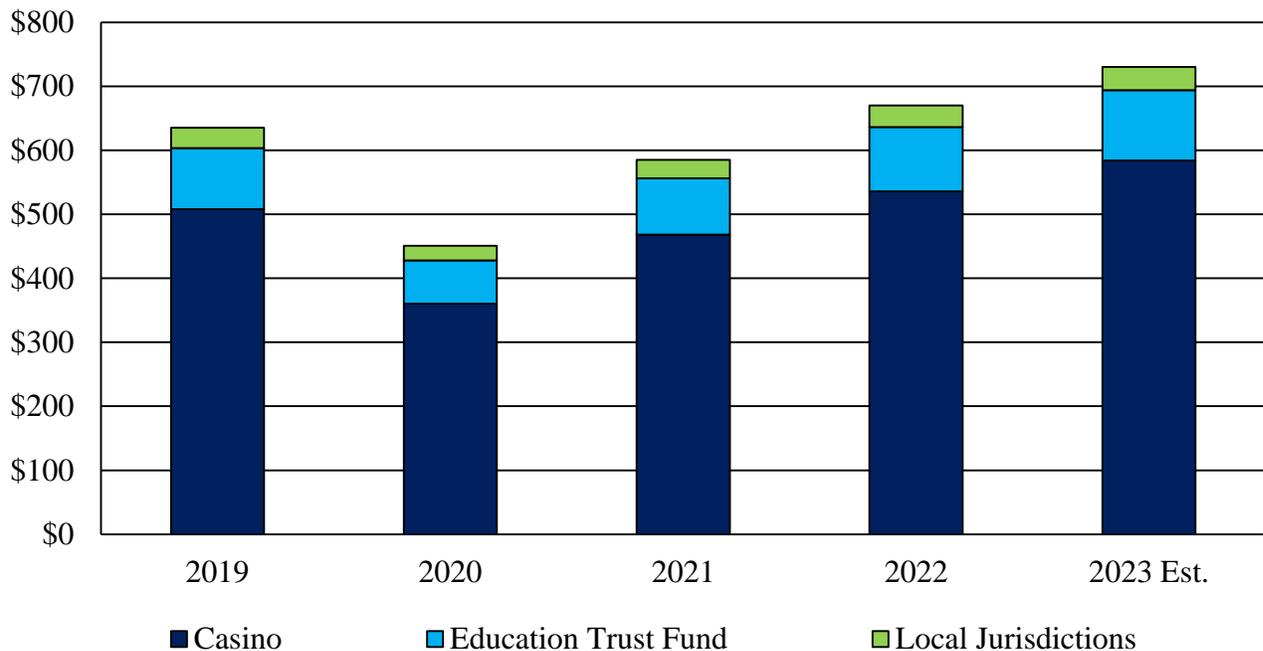
Source: Board of Revenue Estimates

### Table Game Revenue Exceeds Prepandemic Levels

Casinos began offering table games in fiscal 2013 with the operators retaining 80% of gross revenue and, until fiscal 2016, the remainder going 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 7**, the ETF received \$100.5 million from table game revenue in fiscal 2022, a 14.5% increase from the prior year. Table game revenue was 5.5% above the prepandemic fiscal 2019 level and is expected to remain above the prepandemic level in fiscal 2023 with a projected increase of 9% compared to fiscal 2022.

**Exhibit 7**  
**Table Game Revenue Disbursements**  
**Fiscal 2019-2023**  
**(\$ in Millions)**



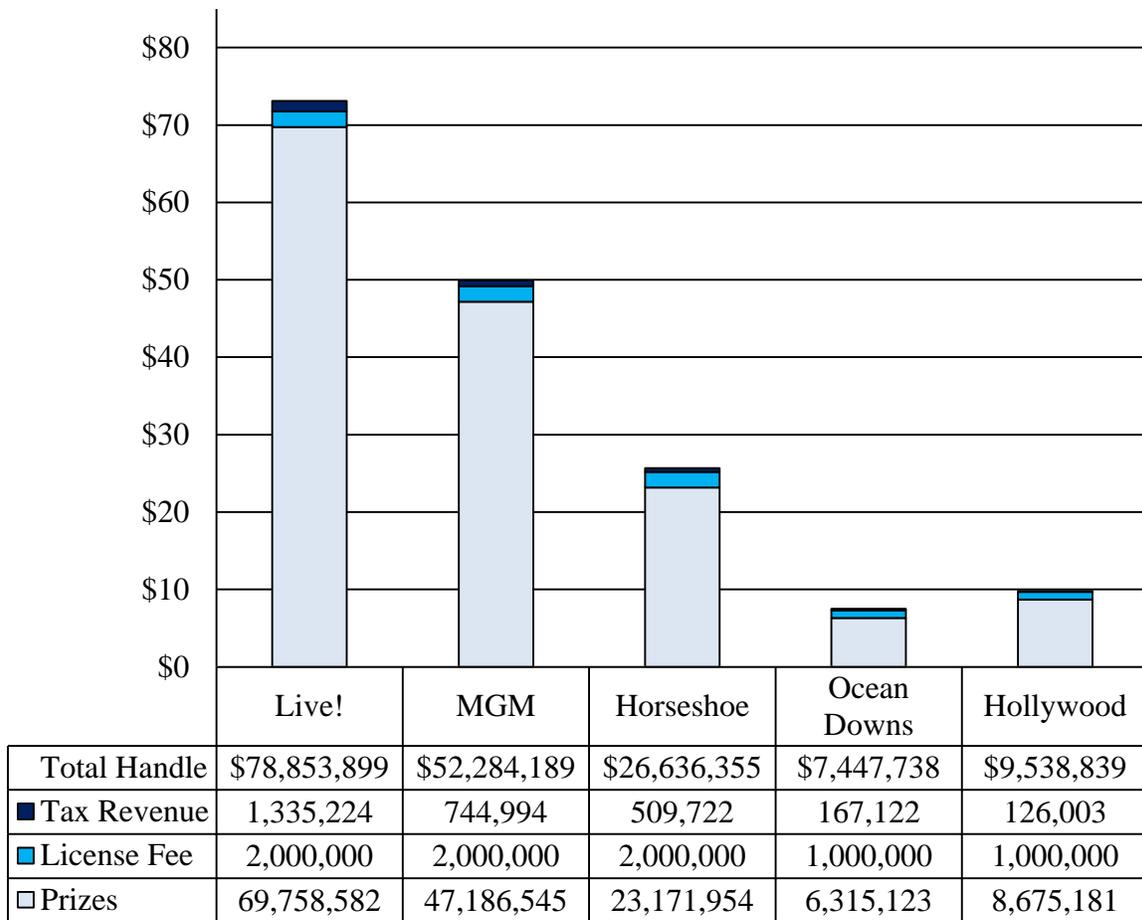
Source: Board of Revenue Estimates

### 3. Sports Wagering Contributes Millions to the State

In November 2020, Maryland voters approved a constitutional amendment to authorize sports betting in the State. Following approval, however, legislation was required to establish an operational and regulatory framework for the State’s sports wagering program. Subsequently, Chapter 356 of 2021 established such a framework. MLGCA is responsible for issuing licenses to sports betting operators, after approval by the Sports Wagering Application Review Commission (SWARC). In addition, Chapter 356 also mandated \$1.5 million each for Bowie State University and Morgan State University to establish centers for the study of data analytics and sports gaming,

which was included in the fiscal 2023 budget only. In fiscal 2022, sports wagering license fees totaled \$11 million, and proceeds totaled \$5.4 million, including fantasy gaming. Combined, the \$16.4 million was distributed to the Blueprint for Maryland’s Future (\$14.2 million), agency operations (\$1.7 million), and the Small, Minority-Owned, Women-Owned Business Sports Wagering Assistance Fund (\$500,000). **Exhibit 8** shows the total handle, tax revenues, license fees, and prizes for fiscal 2022 for the five retail sportsbook operations within the State.

**Exhibit 8**  
**Retail Sports Wagering Summary**  
**Fiscal 2022**



Note: Handle is the total amount of all wagers made. Tax revenue, licensee revenues, and prizes do not sum to the total handle due to other small deductions, such as federal excise taxes.

Source: Maryland Lottery and Gaming Control Agency

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Mobile sports wagering, sports wagering through the Internet on a computer or mobile device, began in Maryland in late November 2022. There are currently eight mobile sports wagering operators licensed within the State. An additional six have applied and been approved by SWARC and are expected to begin operations during fiscal 2023. Seven other vendors have applied for licenses and have not yet been approved by SWARC and would begin, if approved, sometime in fiscal 2024. **Exhibit 9** shows the total handle, prizes paid, promotional play, other deductions, and taxable wins for November and December 2022. The low taxable win figure and final tax contributions relative to the handle are because free promotional play wagering money is deducted from taxable wins. Going forward, tax contributions should see significant increases, as regulations require that after the first full fiscal year for each sportsbook, the sportsbook’s promotional play amount may not exceed 20% of its taxable win from the prior fiscal year. Additionally, the amount of promotional play currently being provided is not considered sustainable by MLGCA and should decline later in fiscal 2023. The Board of Revenue Estimates estimates mobile sports wagering to provide \$27.9 million in contributions to the State in fiscal 2023, largely driven by decreases in promotional play spending compared to current levels.

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**Exhibit 9**  
**Mobile Sports Wagering**  
**November 2022 through December 2022**  
**(\$ in Thousands)**

	<u>Handle</u>	<u>Prizes</u>	<u>Promotional Play</u>	<u>Other Deductions</u>	<u>Taxable Win</u>	<u>Tax Contributions</u>
<b>November 2022</b>	\$186,084.5	\$160,216.0	\$63,835.3	\$310.0	\$28.4	\$4.3
<b>December 2022</b>	478,270.3	395,966.8	70,940.0	1,024.7	298.6	44.8
<b>Total</b>	<b>\$664,354.8</b>	<b>\$556,182.8</b>	<b>\$134,775.3</b>	<b>\$1,334.7</b>	<b>\$327.0</b>	<b>\$49.1</b>

Note: Sportsbooks are allowed to carryforward losses for three months. The December taxable win was approximately \$10.3 million before deductions for losses carryforward.

Source: Maryland Lottery and Gaming Control Agency

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***Operating Budget Recommended Actions***

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	<b><u>Amount</u></b>	
	<b><u>Change</u></b>	
1. Delete funds budgeted for the televised lottery drawings. The Maryland Lottery and Gaming Control Agency has ended televised drawings.	-\$ 1,175,000	SF
<b>Total Special Fund Net Change</b>	<b>-\$ 1,175,000</b>	

**Appendix 1  
Audit Findings**

Audit Period for Last Audit:	January 3, 2017 – October 15, 2020
Issue Date:	March 15, 2022
Number of Findings:	7
Number of Repeat Findings:	1
% of Repeat Findings:	14.3%
Rating: (if applicable)	n/a

**Finding 1:** MLGCA did not investigate individuals who won multiple high-dollar lottery prizes to identify patterns of potential collusion between players and lottery-related vendors or officials.

**Finding 2:** MLGCA did not conduct periodic reviews of critical user access to the Lottery Gaming System to ensure that all access was necessary and proper and had no procedures to verify that transactions processed on the system by vendor employees were proper.

**Finding 3:** **Monthly testing of VLTs was either not conducted or was not sufficiently comprehensive to ensure that VLTs were operating properly and player activity was accurately reported.**

**Finding 4:** Specific working relationships between family members that existed during our audit period, including the processing and approval of certain MLGCA-related personnel and payroll transactions, may have violated State ethics law.

**Finding 5:** MLGCA did not always follow State procurement regulations and did not adequately monitor certain contracts.

**Finding 6:** MLGCA lacked assurance that adequate information technology security and operational controls existed over its VLT computing system at the State’s casinos that a primary service provider hosted, operated, and maintained.

**Finding 7:** Remote access to the internal MLGCA network by employees and authorized contractors used a single authentication measure rather than the more secure multi-factor authentication.

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

**Appendix 2**  
**Central Monitor and Control System for a Video Lottery Terminal Program**  
**Major Information Technology Project**  
**Maryland Lottery and Gaming Control Agency**

<b>New/Ongoing:</b> Ongoing								
<b>Start Date:</b> June 2019					<b>Est. Completion Date:</b> September 2022			
<b>Implementation Strategy:</b> Agile								
<b>(\$ in Millions)</b>	<b>Prior Year</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>Remainder</b>	<b>Total</b>
<b>SF</b>	\$7.175	\$3.975	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$11.150
<b>Total</b>	<b>\$7.175</b>	<b>\$3.975</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$11.150</b>

- **Project Summary:** MLGCA is responsible for managing the State’s VLT system and contracts with a vendor for its VLT central monitoring and control system. System capabilities must include the reliable and confidential reporting of data from VLTs, remote enabling or disabling of VLTs, security monitoring, and performance tracking
- **Observations and Milestones:** The project was completed in September 2022. It was originally projected to be completed in July 2022 but was delayed due to hardware issues. Funds beyond fiscal 2023 for the project remain for operation and maintenance, which total \$4.0 million in fiscal 2024.

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

<u>Object/Fund</u>	<u>FY 22</u> <u>Actual</u>	<u>FY 23</u> <u>Working</u> <u>Appropriation</u>	<u>FY 24</u> <u>Allowance</u>	<u>FY 23 - FY 24</u> <u>Amount Change</u>	<u>Percent</u> <u>Change</u>
<b>Positions</b>					
01 Regular	364.10	364.10	364.10	0.00	0%
02 Contractual	11.45	16.75	16.75	0.00	0%
<b>Total Positions</b>	<b>375.55</b>	<b>380.85</b>	<b>380.85</b>	<b>0.00</b>	<b>0%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 28,767,849	\$ 34,449,020	\$ 36,273,102	\$ 1,824,082	5.3%
02 Technical and Special Fees	582,311	1,092,230	1,136,437	44,207	4.0%
03 Communication	248,665	279,485	274,485	-5,000	-1.8%
04 Travel	51,489	161,757	161,757	0	0%
06 Fuel and Utilities	127,700	186,571	186,571	0	0%
07 Motor Vehicles	305,478	1,392,243	616,458	-775,785	-55.7%
08 Contractual Services	81,597,072	78,131,832	79,522,553	1,390,721	1.8%
09 Supplies and Materials	153,625	242,500	213,500	-29,000	-12.0%
10 Equipment – Replacement	288,903	256,000	344,999	88,999	34.8%
11 Equipment – Additional	203,862	332,000	224,000	-108,000	-32.5%
12 Grants, Subsidies, and Contributions	2,000,000	0	0	0	0.0%
13 Fixed Charges	1,633,965	1,740,740	1,757,744	17,004	1.0%
<b>Total Objects</b>	<b>\$ 115,960,919</b>	<b>\$ 118,264,378</b>	<b>\$ 120,711,606</b>	<b>\$ 2,447,228</b>	<b>2.1%</b>
<b>Funds</b>					
01 General Fund	\$ 5,205,432	\$ 11,074,544	\$ 11,659,659	\$ 585,115	5.3%
03 Special Fund	108,755,487	107,189,834	109,051,947	1,862,113	1.7%
05 Federal Fund	2,000,000	0	0	0	0.0%
<b>Total Funds</b>	<b>\$ 115,960,919</b>	<b>\$ 118,264,378</b>	<b>\$ 120,711,606</b>	<b>\$ 2,447,228</b>	<b>2.1%</b>

Note: The fiscal 2023 appropriation does not include deficiencies. The fiscal 2024 allowance does not include salary adjustments budgeted within the Department of Budget and Management.