

# Maryland Lottery and Gaming Control Agency

Larry Hogan, Governor • Gordon Medenica, Director



Montgomery Park Business Center  
1800 Washington Blvd., Suite 330  
Baltimore, Maryland 21230

Tel: 410-230-8800  
TTY users call Maryland Relay  
www.mdlottery.com

February 20, 2020

The Honorable Anne R. Kaiser  
Chair, Ways and Means Committee  
Room 130, House Office Building  
Annapolis, MD 21401-1991

**Re: Letter of Concern – House Bill 500 - State Lottery - Unclaimed Prizes –  
Distribution to Local Boards of Education**

Dear Chair Kaiser and Members of the Ways and Means Committee:

The Maryland Lottery and Gaming Control Agency (“MLGCA” or “Agency”) submits this letter of concern to the House Ways and Means Committee (“Committee”) regarding provisions in House Bill 500, which would transfer all funds in the Agency’s promotion fund (which is funded from unclaimed player prizes) to county boards of education. As the proposed bill is currently drafted, the Agency is concerned that it will have a detrimental impact on the operations of the Agency and on its ability to meet its aggressive sales and revenue estimates.

By removing all funds from the promotion fund, the immediate effect will be that MLGCA will be unable to conduct promotions to provide additional prizes to players as is statutorily mandated by State Government Article §9-122(f) of the Annotated Code of Maryland. MLGCA’s enabling legislation recognizes that any prizes not paid by the Agency are directly attributable to a player not redeeming a winning ticket and requires that the Agency Director return these funds back to the players as additional prizes. Such use of unclaimed prizes, which essentially allows players a second chance to claim prizes that were won but not collected, is an industry best practice followed by the most successful US lotteries.

A critical element of the MLGCA’s marketing effort involves identifying creative and profitable methods to return these funds back to our players in the form of additional prizes. MLGCA currently utilizes unclaimed prizes as a funding source for the prizes awarded in the numerous promotional games and programs conducted during each fiscal year. If the Agency were unable to continue this current practice of promoting and providing these additional prizes at current levels, players could change their gaming spending habits and could ultimately stop playing. We believe that players would become dissatisfied with our games since we would not be able to offer the same promotions to which players have become accustomed.

The lottery industry is a mass-market consumer entertainment business that relies heavily on marketing and promotions to achieve its revenue goals. Promotional spending goes hand-in-hand with advertising spending and has a similar impact on profitability. A study performed by the New York Lottery showed that an incremental dollar of advertising generated \$3-\$4 of incremental profit. Another study in Texas showed an increase in profit of \$7 for every \$1 invested in advertising. While the impact of promotional spending cannot be quantified as precisely, we firmly believe it generates a positive return

on investment. As such, diverting funds from the promotion fund could significantly decrease overall revenues.

Over the years, MLGCA's promotion fund has been and continues to be a vital tool used by the Agency to directly maintain and increase sales and revenues. Funds in the promotion fund provide the Agency with the ability to conduct numerous promotions each year, which, in turn, generates immediate results in the form of record sales and revenues. These promotions are paid for by the promotion fund; therefore, money in the promotion fund goes directly back to the State in the form of revenue generated.

As the Lottery's profit (revenue to the State) is allocated to a variety of areas, the Committee may wish to devote funds for new areas from the profit line, rather than from core operational needs. Such a change would not limit the Agency's ability to generate revenue in the first place. It should be noted that redirecting Lottery operational funds, whether advertising, promotion, personnel, printing, distribution or any others, would limit the Agency's ability to generate revenue. The Lottery is a highly efficient operation, needing only 3.5% of sales to fund its entire operation. Thus, we believe that it would be more appropriate and preferable to allocate funds for specific purposes (such as this bill) from the Agency's *profits* under SG §9-120(b) as a statutory financial reduction rather than to transfer funds out of the Agency's promotion fund.

In FY19, MLGCA generated an all-time profit record of \$593 million in lottery revenue for the State, an increase of \$18 million from FY18. Last year, the Agency's BRE estimate for lottery revenue was \$585.5million; this year's BRE estimate is projected to be \$571 million. MLGCA believes that its inability to utilize funds in the promotion fund would reduce overall lottery revenues, over time, by a minimum of \$30 million. Thus, without the full use of the promotion fund to support lottery games, the Agency believes that revenue to the General Fund would decline as players would lose interest in our offerings.

Thank you for your consideration about our concerns on HB 500. If you should have any questions or need more information about this subject, please do not hesitate to contact James B. Butler, MLGCA's Managing Director, Organizational Compliance, at (410) 230-8781 or [jbutler@maryland.gov](mailto:jbutler@maryland.gov).

Sincerely,



Gordon Medenica  
Director

cc: Delegate Jay Walker  
All Committee Members