

February 28, 2022

The Honorable Vanessa E. Atterbeary
Chair, Ways and Means Committee
Room 131, House Office Building
Annapolis, MD 21401

**Re: Letter of Information – House Bill 1257 - State Lottery –
Instant Ticket Lottery Machines - Fraternal Organizations
(ITLMs for Homeless Veterans Act)**

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

The Maryland Lottery and Gaming Control Agency (“MLGCA” or “Agency”) submits this letter of information to the Ways and Means Committee (“Committee”), as background information regarding the Instant Ticket Lottery Machine (“ITLM”) program. As House Bill 1257 is currently drafted, it is different in scope and application than the current ITLM program that we oversee for the Veteran Service Organizations (“VSO”).

Under Senate Bill 1 (Chapter 1 of 2013 Laws of Maryland), the Agency was tasked to develop an ITLM program for VSOs, which the Agency established and implemented in September 2014. The ITLM program for VSOs was not designed to be a revenue generator for the State. Rather, the revenue emphasis was placed on assisting VSOs in maintaining their membership and preserving their posts’ facilities. As of January 12, 2022, the ITLM Program has contributed over \$31.4 million in total profits to the participating Veterans’ Posts since its inception in September 2014, and over \$654,849 to the Maryland Veterans Trust Fund for its good causes. ITLMS are located in 88 VSO posts in almost all jurisdictions in Maryland, except the Eastern Shore.

Unknown Number of Fraternal Organizations

The number of fraternal organizations that could qualify for ITLMs under this proposed program is unknown. In addition, in order for a VSO to qualify for the ITLM program, an organization must be tax exempt and organized as a veterans’ organization under § 501(c)(19) or § 501(c)(4) of the Internal Revenue Code. No such requirement exists under the proposed bill for fraternal organizations.

ITLM Central System Vendor

Under the Agency’s current ITLM program, the Agency utilizes the services of a single vendor – Diamond Game (“DG”) - that operates a central monitoring and reporting system and supplies and maintains the ITLMs for our VSO retailers. The current contract with DG runs to until February 28, 2024, and is specific to VSO retailers; no other types of organizations can participate in this program and be provided with ITLMs under the contract or existing law.

Under the proposed bill, it is envisioned that the Agency would solicit proposals from multiple ITLM device vendors that would be selected through a normal procurement process. However, the bill is silent on the procurement of the required central system for the ITLMs. The Agency did not envision the use of a single, statewide central system operator with multiple device providers when it developed the current ITLM program. If this program expansion were to be pursued, the Agency submits that a new central monitoring and reporting system will be required to monitor activity at each location to ensure fair play and accurate reporting from multiple vendors. This would require a separate Request for Proposals (“RFP”) process and the development of a standard statewide protocol that all machine providers would have to adhere to for communication with the central system. Some device manufacturers might be unwilling or unable to interface with the new protocol, especially without knowing how many locations would qualify or select their equipment.

Lottery Retailer Commissions

As a lottery retailer, a VSO post receives a regular commission of 5.5% of gross receipts from ticket sales, plus a bonus commission of 0.5% and a cashing commission of 3% for validating and cashing winning ITLM tickets, which equates to 50% of the net proceeds after payment of prizes. Under State Government Article §9-120(b)(1)(ii), the MVTF receives 10% of the Agency's share of ITLM proceeds. No such requirement exists under the proposed bill so revenue splits at fraternal organizations would be different than at VSOs. Further, the Agency did not factor additional administrative costs into its budget, and no funding is provided for Agency operations under the proposed bill. Managing multiple ITLM contracts for both VSOs and fraternal organizations will require additional staff.

Development and Implementation

Writing and issuing two RFPs, one for a new central system and one for multiple device providers, evaluating proposals and awarding multiple contracts could take 6 to 9 months. Deployment of the program could be another 6 months.

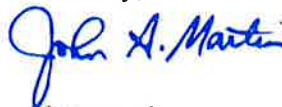
Alternatively, the Agency could require that each ITLM device vendor will be responsible for providing their own central system, network connectivity and local servers in each location, ITLM devices, ITLM tickets and all supplies and maintenance, and collecting revenues from each location on a weekly basis and remitting it to the MLGCA. In this scenario, potential bidders may have difficulty structuring their proposals because the overall number and size of fraternal organizations that may apply is unknown. There can be no guaranteed minimum number of sites or machines awarded to each vendor.

Cross-Membership & Revenue Impacts

The Agency submits that members of VSO posts may also have membership in various fraternal organizations, and thus there could be unintended financial consequences due to this cross-membership. VSO revenues could diminish because offering this similar gaming activity in close proximity to where VSO posts are located may have a financial effect on the VSO's if their members start to frequent fraternal organizations rather than VSO posts. Given the unknown number of fraternal organizations, the impact on VSO retailers would likely depend on the number of ITLM placements and the location of these fraternal organizations. Since there are limited entertainment dollars available for gaming activities, the expansion of this program to fraternal organizations could move the spending habits of members away from VSOs to fraternal organizations with ITLMs.

Thank you for your consideration of this information, as the Agency takes no position on this proposed bill. If you should have any questions or need more information about this subject, please do not hesitate to contact James B. Butler, MLGCA's Assistant Deputy Director, Chief of Staff, at 410-230-8781, or jbutler@maryland.gov.

Sincerely,



John Martin
Director

cc: The Honorable Pat Young, Delegate
All Committee Members