



February 9, 2023

Ways and Means Committee  
Room 131, House Office Building  
Annapolis, MD 21401

## **Re: Letter of Information – House Bill 224 - State Lottery – Instant Ticket Lottery Machines - Fraternal Organizations (ITLMs for Homeless Veterans Act)**

Dear Chair Atterbeary, Vice Chair Wilkins, 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 224 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 (“MVTF”) 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 so it is unclear what organizations may apply.

### **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 through 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.

If this program expansion were to be pursued, the Agency submits that a new RFP for a central monitoring and reporting system and ITLMs will be required.

### **Lottery Retailer Commissions**

As a lottery retailer, a VSO post receives a regular commission of 6% of gross receipts from ticket sales, plus a cashing commission of 1.7678% 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 numerous additional ITLM locations will require additional staff.

**Development and Implementation**

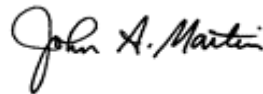
Writing and issuing an RFP, evaluating proposals and awarding multiple contracts could take 6 to 9 months. Deployment of the program could be another 6 to 9 months.

**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 Sean Ford, MLGCA's Director of Legislation and Policy Development, at 410-230-8988 or [sean.ford@maryland.gov](mailto:sean.ford@maryland.gov).

Sincerely,



John A. Martin  
Director

cc: All Committee Members  
Delegates Charles, Grossman, Harris, Phillips, and Taylor