

E75D
State Lottery and Gaming Control Agency

Program Description

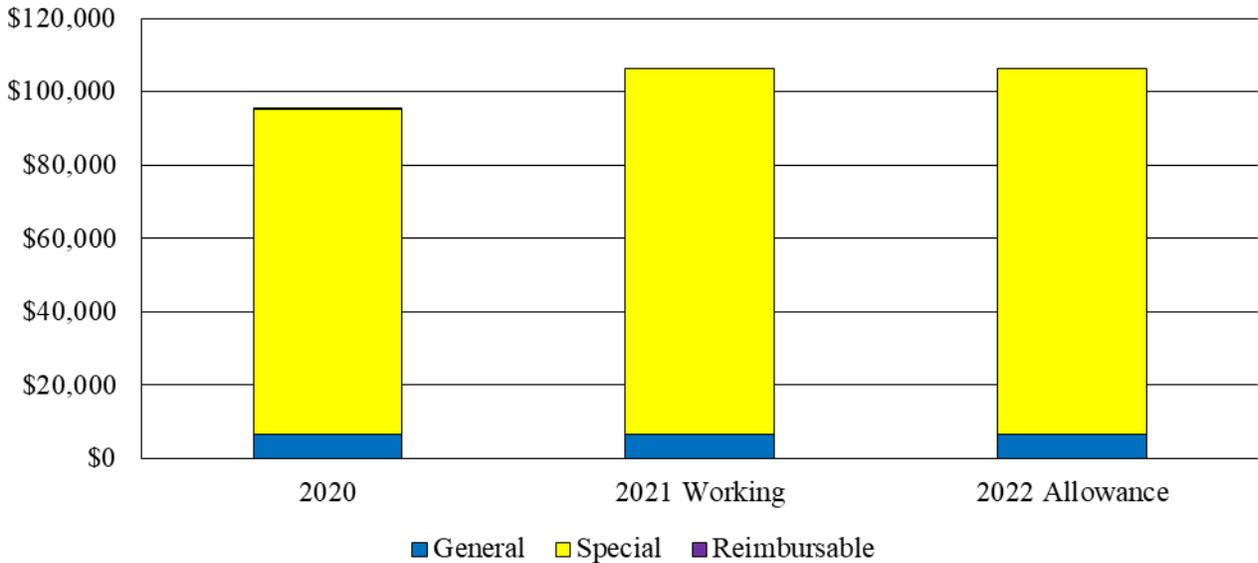
The State Lottery and Gaming Control Agency (SLGCA) administers and operates lottery games to generate revenue for the State and also administers the State’s casino program.

The lottery currently offers a mix of instant ticket 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. Games are sold through lottery agents, which are private businesses that receive commissions and fees in exchange for selling the games to the public.

SLGCA is also responsible for the administration of the video lottery terminal (VLT) program, including accounting for and distributing VLT revenues, managing the program’s central system, and regulating and licensing of operators. In fiscal 2012, SLGCA’s responsibilities were further expanded to include the regulation of table games at the previously authorized VLT facilities.

Operating Budget Summary

Fiscal 2022 Budget Decreases \$25,000 to Remain at \$106.4 Million
(\$ in Thousands)



Note: The fiscal 2021 appropriation includes deficiencies and general salary increases. The fiscal 2022 allowance includes annual salary review funding and annualization of general salary increases.

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Fiscal 2021

Proposed Deficiency

The fiscal 2022 allowance includes a deficiency appropriation of \$2.7 million in special funds for fiscal 2021. The deficiency provides \$2.4 million to pay fees to lottery retailers and \$362,800 to pay fees to instant ticket lottery machine vendors, both as a result of higher than estimated sales in fiscal 2021. Because revenues from the lottery program flow to the General Fund after operating expenses, prizes, and other disbursements are made, the fiscal 2022 budget plan also recognizes a negative general fund revenue adjustment in fiscal 2021 equal to the deficiency appropriation.

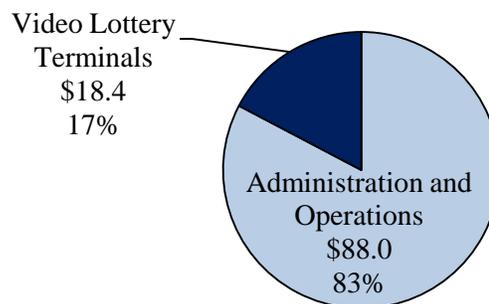
Cost Containment

The Board of Public Works made statewide reductions to the fiscal 2021 budget on July 1, 2020, including \$119,756 in SLGCA. This reduction consists of \$16,778 in general funds for across-the-board reductions and out-of-state travel and \$102,978 in special funds for across-the-board reductions and postage.

Fiscal 2022 Overview of Agency Spending

The fiscal 2022 allowance for the agency totals \$106.4 million. As shown in **Exhibit 1**, SLGCA is divided into two units: Administration and Operations, which handles lottery gaming; and VLT and Gaming Operations, which is responsible for the regulation of the State’s VLT and table game operations. Lottery administration accounts for 83% of agency spending.

Exhibit 1
Expenditures by Program
Fiscal 2022 Allowance
(\$ in Millions)



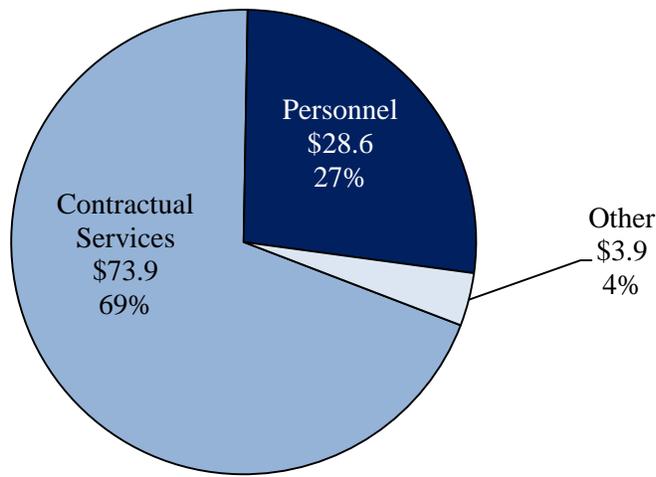
Note: Includes annual salary review funding and annualization of general salary increases.

Source: Governor’s Fiscal 2022 Budget Books

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SLGCA’s expenses are primarily personnel costs (27% of the allowance) and costs for contractual services (69%), as shown in **Exhibit 2**.

Exhibit 2
Expenditures by Purpose
Fiscal 2022 Allowance
(\$ in Millions)



Note: Includes annual salary review funding and annualization of general salary increases.

Source: Governor’s Fiscal 2022 Budget Books

Proposed Budget Change

As shown in **Exhibit 3**, SLGCA’s fiscal 2022 allowance decreases by \$25,000 compared to the adjusted fiscal 2021 working appropriation, with general funds decreasing by \$188,000 and special funds increasing by \$162,000.

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

How Much It Grows:	General Fund	Special Fund	Reimb. Fund	Total
Fiscal 2020 Actual	\$6,461	\$88,615	\$96	\$95,172
Fiscal 2021 Working Appropriation	6,589	99,806	0	106,396
Fiscal 2022 Allowance	<u>6,402</u>	<u>99,969</u>	<u>0</u>	<u>106,370</u>
Fiscal 2021-2022 Amount Change	-\$188	\$162	\$0	-\$25
Fiscal 2021-2022 Percent Change	-2.8%	0.2%	0.0%	0.0%

Where It Goes:	Change
Personnel Expenses	
Employee and retiree health insurance	\$332
Fiscal 2022 cost of fiscal 2021 salary increase (2% effective January 2021).....	233
Fiscal 2022 annual salary review for 33 fiscal services positions	144
Unemployment compensation	53
Employee retirement.....	-56
Workers' compensation premium assessment	-64
Salaries and wages, due to vacant positions budgeted at base step	-194
Turnover adjustments	-256
Other fringe benefit adjustments	-14
Other Changes	
Contract costs for central lottery system, based on sales.....	2,034
Contract costs for instant ticket lottery machines at veterans' organizations.....	421
Purchase of a commercial shredder for instant tickets.....	105
Real estate taxes.....	37
Office supplies.....	-65
Fiscal 2021 deficiency for fees paid to instant ticket lottery machine vendors	-363
Fiscal 2021 deficiency for fees paid to lottery retailers, based on sales	-2,372
Total	-\$25

Note: Numbers may not sum to total due to rounding. The fiscal 2021 appropriation includes deficiencies and general salary increases. The fiscal 2022 allowance includes annual salary review funding and annualization of general salary increases.

Distribution for Racetrack Improvements

Beginning in fiscal 2022, \$17 million must be transferred annually from the State Lottery Fund to the Racing and Community Development Financing Fund until the bonds issued for a racing facility have matured, per the Racing and Community Development Act of 2020 (Chapter 590). This transfer is not reflected in the budget. These funds are available from transfers to the State Lottery Fund from the Purse Dedication Account (\$5 million annually), Baltimore City VLT proceeds (\$3.5 million annually), and the Racetrack Facility Renewal Account (80% of the account’s VLT proceeds annually, estimated at \$9.0 million in fiscal 2022).

Personnel Data

	FY 20 <u>Actual</u>	FY 21 <u>Working</u>	FY 22 <u>Allowance</u>	FY 21-22 <u>Change</u>
Regular Positions	324.10	324.10	324.10	0.00
Contractual FTEs	<u>7.75</u>	<u>10.75</u>	<u>10.75</u>	<u>0.00</u>
Total Personnel	331.85	334.85	334.85	0.00

Vacancy Data: Regular Positions

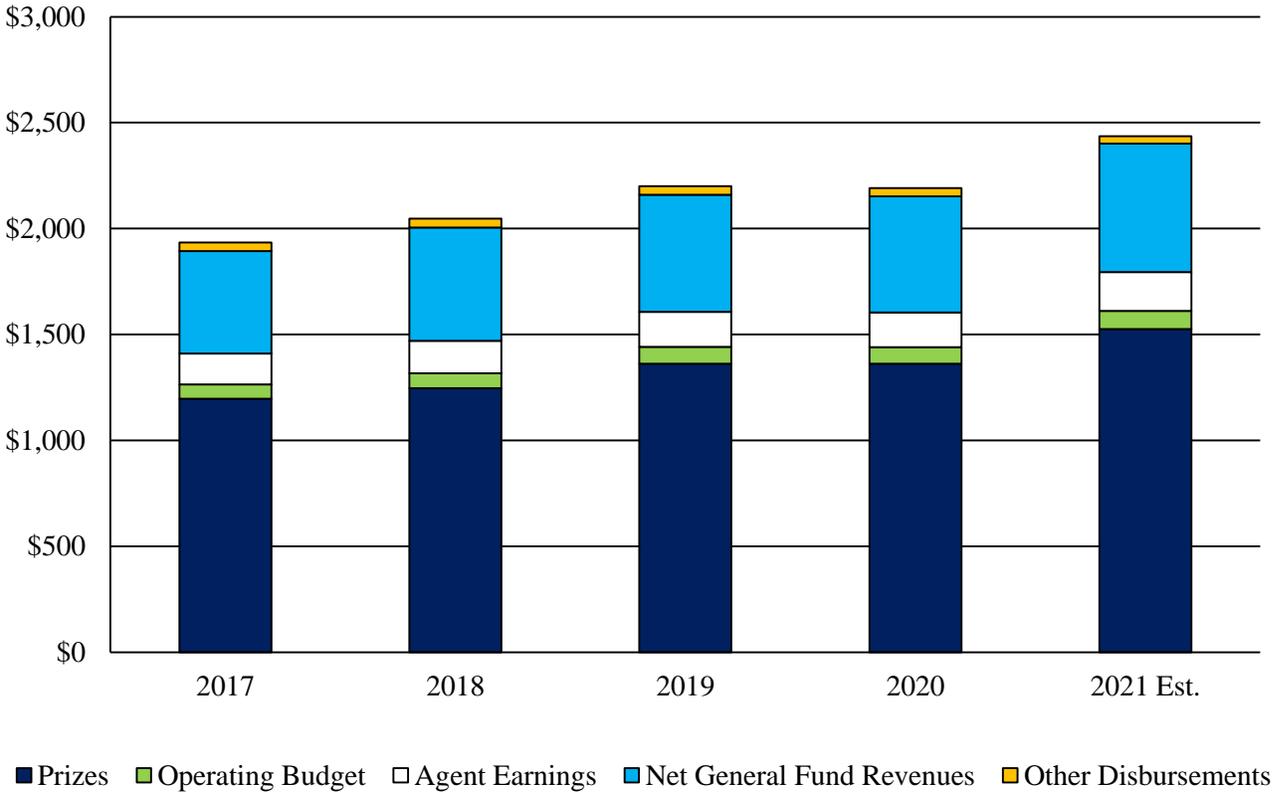
Turnover and Necessary Vacancies, Excluding New Positions	19.61	6.05%
Positions and Percentage Vacant as of 12/31/20	33.00	10.18%
Vacancies Above Turnover	13.39	

Key Observations

1. Lottery Sales Remain Strong despite COVID-19 Pandemic

Lottery sales decreased slightly in fiscal 2020, breaking a five-year streak of sales increases. Despite the COVID-19 pandemic, which caused closures for some retailers and led SLGCA to temporarily suspend all paid advertising for part of the fourth quarter of fiscal 2020, sales decreased only 0.4% to a near record high of \$2.2 billion. The Board of Revenue Estimates (BRE) anticipates sales to remain strong in fiscal 2021, projecting an increase of 11.1% over fiscal 2020. Proceeds from the lottery games pay for prizes, agent earnings, and all operating expenses of SLGCA. In fiscal 2020, 62.1% of sales paid for prizes, 7.5% paid for agent commissions and redemption fees, 3.5% paid for operations of the lottery program, 25.0% was credited as revenue to the General Fund, and 1.8% was disbursed to the Maryland Stadium Authority, per statute. Net general fund revenues decreased by 0.7% to \$548.5 million in fiscal 2020. **Exhibit 4** shows total lottery sales and the distribution of those revenues from fiscal 2017 through an estimate for fiscal 2021.

Exhibit 4
Lottery Sales and Expenditures
Fiscal 2017-2021 Est.
(\$ in Millions)

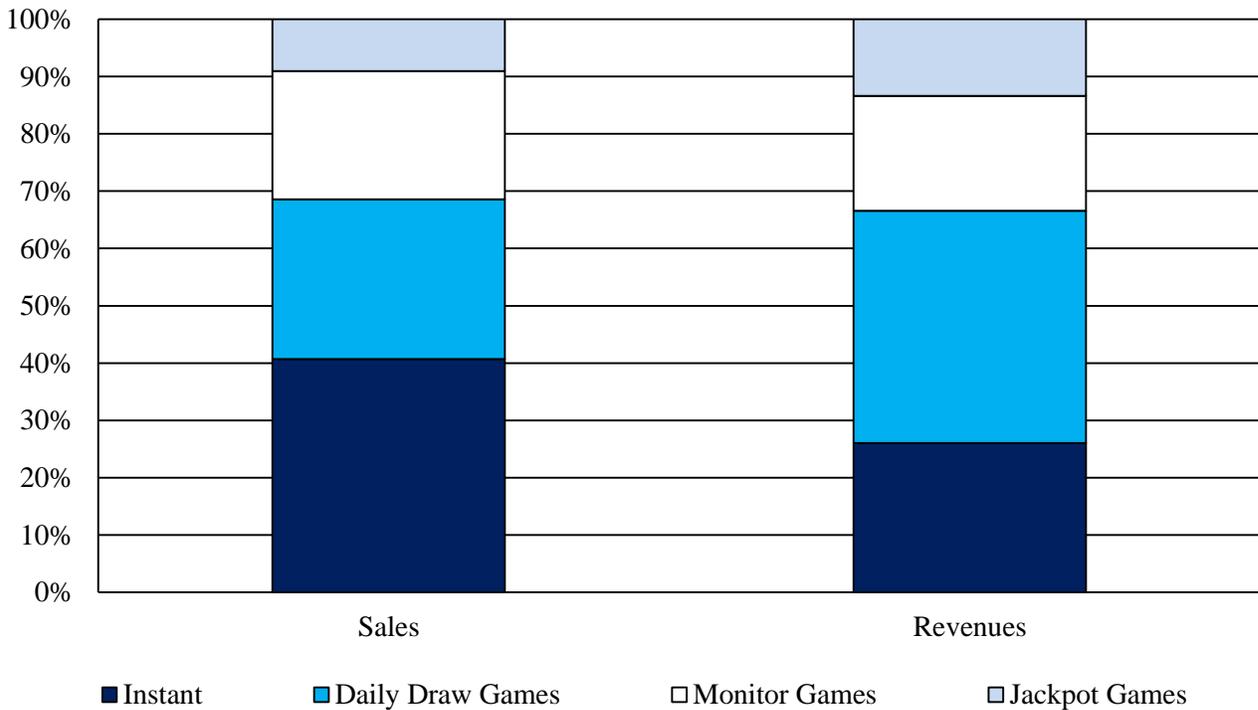


Note: Operating budget amount does not include funds to operate the video lottery terminal program.

Source: State Lottery and Gaming Control Agency

Exhibit 5 shows sales and revenues for each game type in fiscal 2020. Several years ago, SLGCA noted that its sales of instant tickets were underperforming compared to other states, so the agency increased its efforts to market these games. SLGCA also launched a new instant ticket game in February 2020 called Fast Play, which had sales of \$31.2 million and contributed \$5.6 million to revenues in fiscal 2020. Sales of instant tickets grew by 8.8% in fiscal 2020. As shown in Exhibit 5, instant ticket games make up 41% of sales but only 26% of revenues. The exhibit shows the relative popularity of the games, with instant ticket and daily draw games claiming most of the sales. Instant tickets are popular, in part, because of the relatively high payout rates, which result in less return to the State. Conversely, daily draw games make up 28% of sales and 40% of revenues, and daily draw sales increased by 4.5% in fiscal 2020. This is worth considering as SLGCA continues to place advertising emphasis on increasing instant ticket sales.

**Exhibit 5
Lottery Sales and Revenues
Fiscal 2020**



Note: Instant includes instant ticket lottery machines.

Source: State Lottery and Gaming Control Agency

Lottery Advertising

The fiscal 2022 allowance includes \$21.4 million for lottery advertising, which is level funded from the fiscal 2021 working appropriation but \$4.5 million more than fiscal 2020 expenditures and \$3.5 million more than fiscal 2019 expenditures. Fiscal 2020 sales continued to be high despite lower spending on advertising. **The Department of Legislative Services (DLS) recommends reducing funding for lottery advertising by \$3 million.** This reduction would still provide \$18.4 million for advertising, which is higher than historical levels of spending.

2. Casino Revenues Decline Amid Restricted Operations

Since fiscal 2008, SLGCA has been tasked with the responsibility of administering the VLT program for the State. This includes the regulation and licensing of operators, accounting for and

distributing VLT and table game revenues, and managing the program’s central system. **Exhibit 6** shows background information on the locations that have video lottery operation licenses, including the number of VLTs and table games at each facility as of December 2020. State law authorizes 16,500 VLTs in State casinos. Casinos currently operate 6,458 VLTs, or 39% of the allowable number of machines, and 590 table games. The number of VLTs declined 44% compared to December 2019 due to social distancing measures.

**Exhibit 6
Casino Locations**

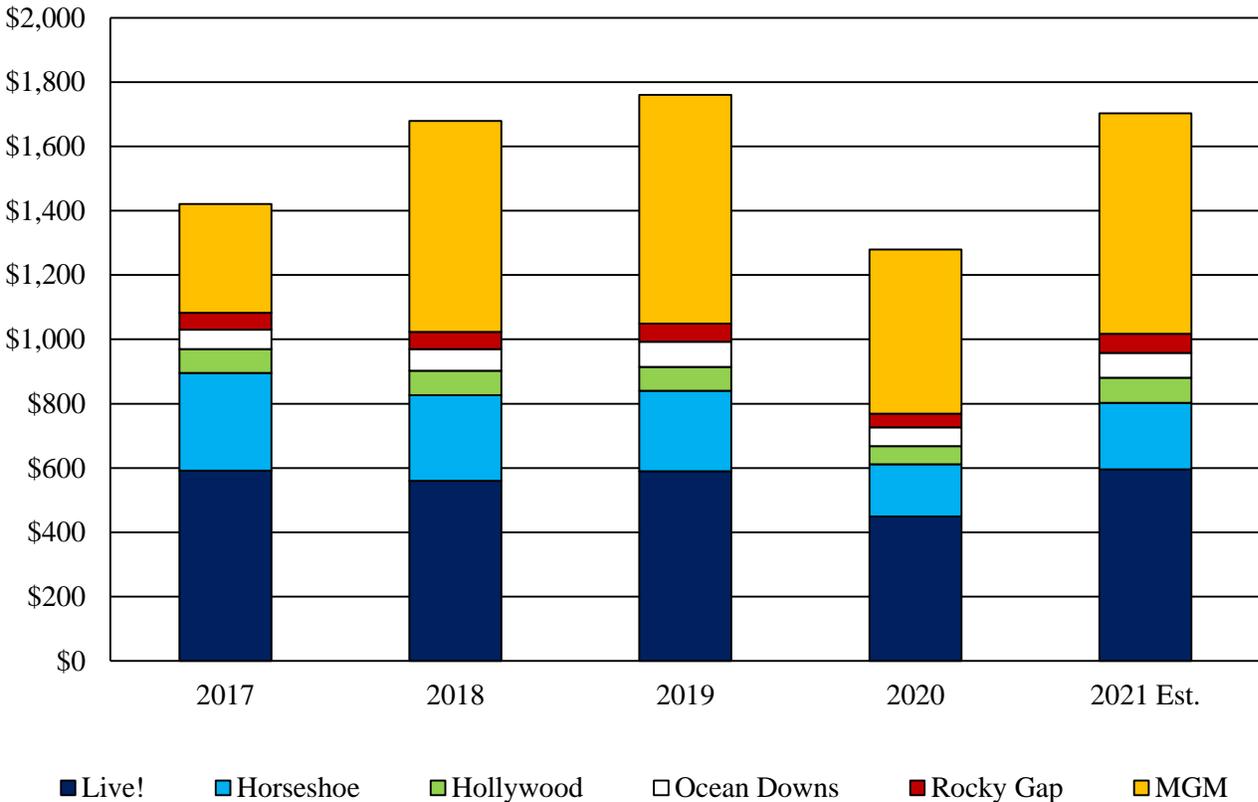
<u>County</u>	<u>Casino</u>	<u>Date Opened</u>	<u>VLTs</u>	<u>Table Games</u>
Cecil	Hollywood	September 2010	502	16
Worcester	Ocean Downs	January 2011	601	18
Anne Arundel	Live!	June 2012	2,614	184
Allegany	Rocky Gap	May 2013	405	16
Baltimore City	Horseshoe	August 2014	817	152
Prince George’s	MGM	December 2016	1,519	204

VLT: video lottery terminal

Source: State Lottery and Gaming Control Agency

Overall, casino revenues – including both VLTs and table games – in the State decreased by \$480.4 million, or 27%, in fiscal 2020. Due to pandemic-related restrictions, all of the State’s casinos were closed from March 16 to mid- to late June, when casinos began to reopen with capacity limits. As of December 2020, Live!, Horseshoe, and MGM casinos were limited to 25% capacity, while Hollywood, Ocean Downs, and Rocky Gap were operating at 50% capacity. In spite of these capacity restrictions, BRE projects that revenues will rebound in fiscal 2021, growing 33% to \$1.7 billion. Gross revenues by casino are shown in **Exhibit 7**.

**Exhibit 7
Gross Casino Revenues
Fiscal 2017-2021 Est.
(\$ in Millions)**

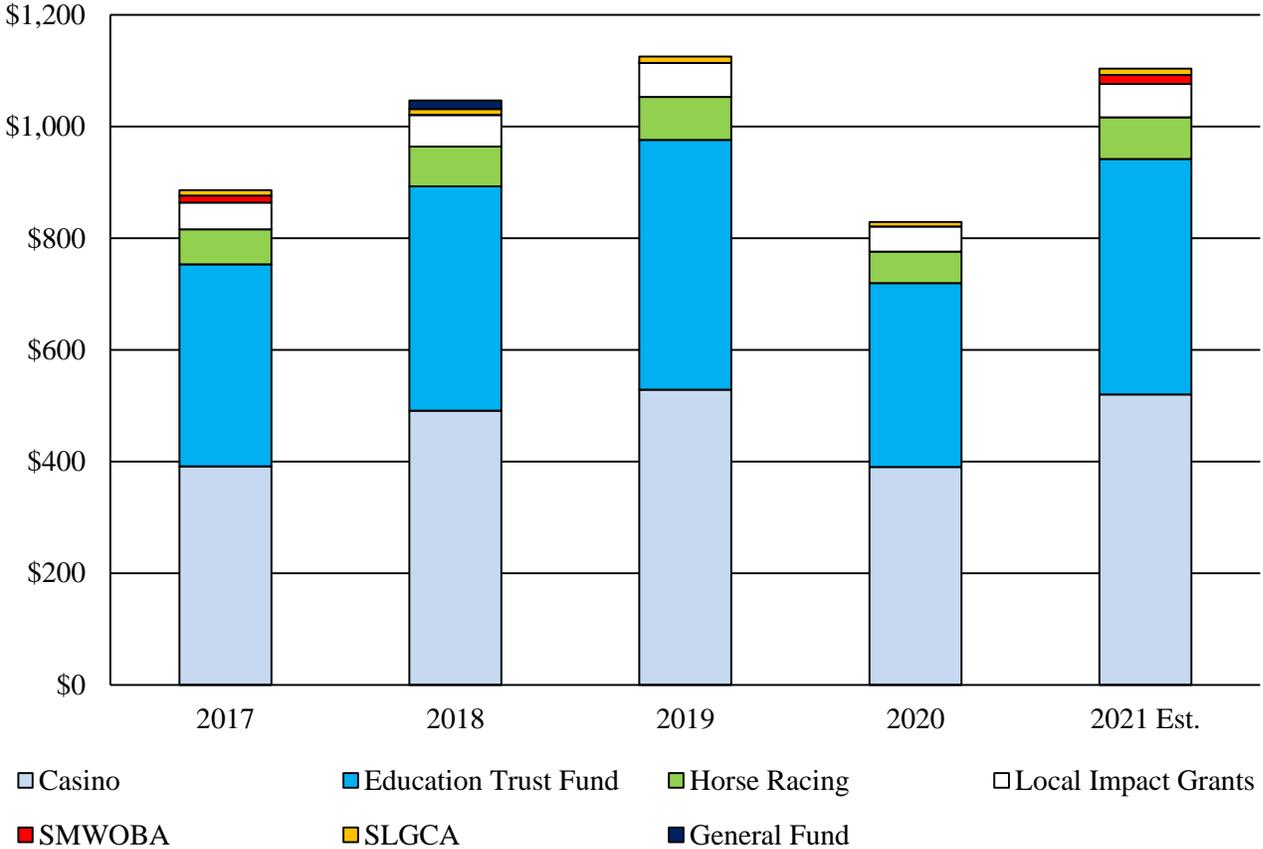


Source: Board of Revenue Estimates

VLT Revenue Distributions Decline

Proceeds from VLTs are distributed to a variety of recipients, as shown in **Exhibit 8**. 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 2020, the ETF received \$329.2 million from VLT distributions, a 26.4% decrease from the prior year. BRE estimates a rebound in distributions to the ETF in fiscal 2021 (\$421.7 million), followed by a further increase in fiscal 2022 (\$449.0 million). Funding for the Small, Minority, and Women-Owned Businesses Account (SMWOBA), usually 1.5% of proceeds, has been diverted in recent years to the General Fund in fiscal 2018 and to the ETF in fiscal 2019 and 2020. SMWOBA is estimated to receive \$16.2 million of VLT revenues in fiscal 2021 and \$17.2 million in fiscal 2022.

**Exhibit 8
Gross VLT Revenue Distributions
Fiscal 2017-2021 Est.
(\$ in Millions)**



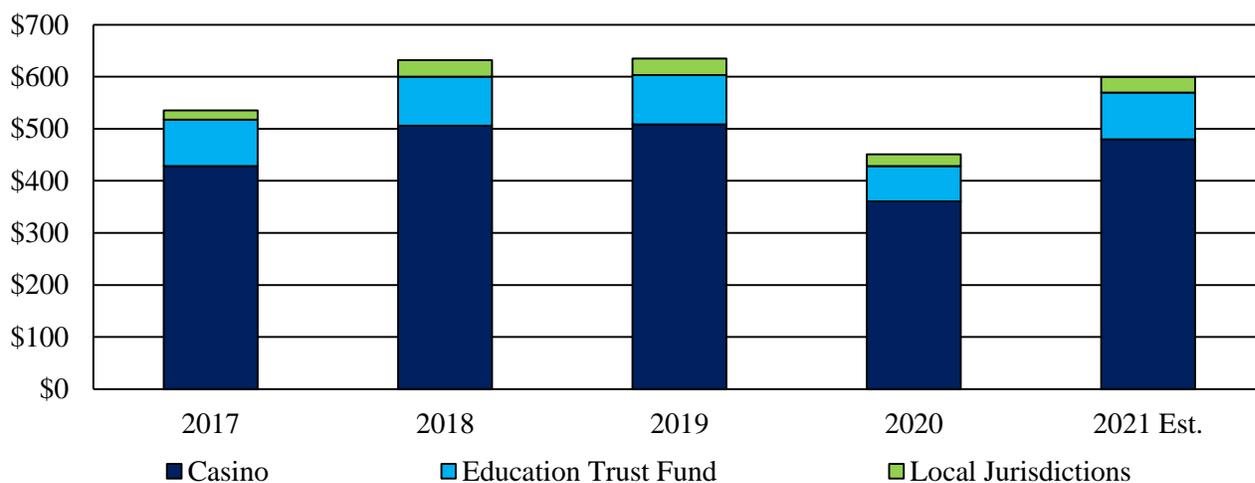
SLGCA: State Lottery and Gaming Control Agency
 SMWOBA: Small, Minority, and Women-Owned Businesses Account
 VLT: video lottery terminal

Source: Board of Revenue Estimates

Table Game Revenues Decline

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 9**, the ETF received \$67.6 million from table game revenue in fiscal 2020, a 29% decrease from the prior year.

Exhibit 9
Table Game Revenue Distributions
Fiscal 2017-2021 Est.
(\$ in Millions)



Source: Board of Revenue Estimates

3. Sports Betting Approved in Referendum

In May 2018, the U.S. Supreme Court struck down the federal Professional Amateur Sports Protection Act (PASPA), allowing states to authorize sports betting. In addition to Nevada, which had an exception under the PASPA, 19 states and Washington, DC now offer sports betting. In Maryland, Chapter 492 of 2020 authorized sports and events betting generally, subject to voter referendum, and Maryland voters approved the question in the November 2020 general election. However, before sports betting operations can begin, the General Assembly must pass implementation legislation. Key considerations include the criteria for eligible applications for a licensee and specifications of the permissible forms, means of conduct, and premises of wagering.

Sports Betting in Other States

Since the PASPA was struck down, there has been a rush of legislative activity in states hoping to capture a new source of gaming revenue. Sports betting operations are now underway in 19 of those states and Washington, DC as of January 2021. **Exhibit 10** shows how these states have structured their sports betting operations and the revenues generated since going live. In addition, North Carolina and Washington State are expected to launch sports betting operations in the coming year, and Connecticut, Louisiana, and South Dakota are positioned to move forward once lawmakers and regulators make necessary implementation decisions.

Exhibit 10
Post-PASPA Sports Betting States and Revenues

<u>State</u>	<u>First Bet Placed</u>	<u>Tax Rate</u>	<u>Authorized Retail Betting Locations</u>	<u>Mobile Betting</u>	<u>Sportsbook Data (Launch Date through December 2020)¹</u>
Delaware	6/5/2018	59.8% – 60.2% (includes % for race purses)	Racetracks	No	Handle ² – \$247,235,196 Revenue ³ – \$29,771,561 State Share – \$14,885,805
New Jersey	6/14/2018	8.5% retail/ 13% mobile	Casinos and racetracks	Yes	Handle – \$11,854,210,385 Revenue – \$792,094,454 State Share – \$96,828,059
Mississippi	8/1/2018	12% (includes a 4% local share)	Casinos	No	Handle – \$890,088,893 Revenue – \$103,368,569 State Share – \$12,411,696
West Virginia	8/30/2018	10%	Racetracks and the private club at Greenbrier	Yes	Handle – \$664,941,748 Revenue – \$52,145,904 State Share – \$5,231,516
New Mexico ⁴	10/16/2018	Not available	Tribal casinos	No	Not available
Pennsylvania	11/17/2018	36% (includes a 2% local share)	Casinos and racetracks	Yes	Handle – \$5,087,846,507 Revenue – \$278,135,707 State Share – \$100,173,834
Rhode Island	11/26/2018	51%	Casinos	Yes	Handle – \$481,566,218 Revenue – \$43,188,818 State Share – \$22,913,776
Arkansas	7/1/2019	13%/revenues above \$150 million at 20%	Casinos and racetracks	No	Handle – \$44,157,822 Revenue – \$5,642,181 State Share – \$769,275
New York	7/16/2019	10%	Casinos	No	Handle – Not available Revenue – \$18,552,152 State Share – \$1,873,174
Iowa	8/15/2019	6.75%	Casinos and racetracks	Yes	Handle – \$787,459,320 Revenue – \$60,894,849 State Share – \$4,160,206
Oregon	8/27/2019	Not available	Tribal casinos	Yes	Handle – \$263,518,470 Revenue – \$22,996,708 State Share – Not available

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<u>State</u>	<u>First Bet Placed</u>	<u>Tax Rate</u>	<u>Authorized Retail Betting Locations</u>	<u>Mobile Betting</u>	<u>Sportsbook Data (Launch Date through December 2020)¹</u>
Indiana	9/1/2019	9.50%	Casinos, racetracks, and OTBs	Yes	Handle – \$2,205,033,254 Revenue – \$180,011,658 State Share – \$17,101,106
New Hampshire	12/30/2019	Per agreement with operator	Voter-approved locations and lottery retailers	Yes	Handle – \$292,954,814 Revenue – \$23,682,372 State Share – \$11,020,218
Illinois	3/9/2020	15%	Casinos, racetracks, OTBs, sports facilities, and lottery retailers	Yes	Handle – \$1,390,900,214 Revenue – \$60,335,613 State Share – \$10,406,566
Michigan	3/11/2020	8.40%	Casinos	Yes	Handle – \$130,763,498 Revenue – \$18,276,858 State Share – \$2,211,571
Montana	3/12/2020	Per agreement with operator	Lottery retailers with alcohol license	No	Not available
Colorado	5/1/2020	10%	Casinos	Yes	Handle – \$1,185,754,617 Revenue – \$32,103,108 State Share – \$2,962,865
Washington, DC	5/8/2020	10%	Licensed businesses, lottery retailers, and sports facilities	Yes	Handle – \$80,527,759 Revenue – \$13,548,200 District Share – \$1,008,014
Tennessee	11/1/2020	20%	Online only	Yes	Handle – \$131,444,523 Revenue – \$13,244,908 State Share – \$2,363,918
Virginia	1/21/2021	15%	Online only	Yes	Not available

OTB: off-track betting facility

PASPA: Professional Amateur Sports Protection Act

¹ Sportsbook data for December is not currently available in Illinois.

² Handle is the total amount of all wagers.

³ Revenue is gross gaming revenue (handle minus total win) minus various payouts (*e.g.*, promotional credits, excise taxes, vendor fees) to arrive at “taxable” revenue.

⁴ In New Mexico, five of that state’s nine tribal casinos offer sports betting under the existing tribal gaming compact, although the activity remains unsanctioned under state law.

Source: Department of Legislative Services

Revenue Potential

DLS notes that prior to the pandemic, retail sports betting revenues in surrounding states averaged approximately 2% of those states' total gaming revenues from VLTs and table games. Thus, if sports betting revenues in Maryland total 2% of Maryland's gaming revenues, gross revenues after payouts to bettors could increase by \$36.1 million in fiscal 2022. Assuming that the current table games tax rate of 20% is applied, the State share of gross revenues in fiscal 2022 would be \$7.2 million. Authorizing mobile sports betting in addition to betting at Maryland's casinos and racetracks could significantly increase revenues to an estimated 5% of Maryland's total gaming revenues, resulting in up to \$90.4 million in sports betting revenues in fiscal 2022. Assuming a 20% tax rate, the State share of revenues would be \$18.1 million.

Operating Budget Recommended Actions

	<u>Amount Reduction</u>	
1. Reduce funding for lottery advertising to a level more in line with historical spending.	\$ 3,000,000	SF
Total Special Fund Reductions	\$ 3,000,000	

Appendix 1
Central Monitor and Control System for a Video Lottery Terminal Program
Major Information Technology Project
State Lottery and Gaming Control Agency

New/Ongoing: New								
Start Date: June 2019					Est. Completion Date: March 2022			
Implementation Strategy: n/a								
(\$ in Millions)	Prior Year	2021	2022	2023	2024	2025	Remainder	Total
SF	\$0.000	\$4.075	\$3.100	\$4.200	\$4.200	\$4.200	\$8.400	\$32.375
Total	\$0.000	\$4.075	\$3.100	\$4.200	\$4.200	\$4.200	\$8.400	\$32.375

- Project Summary:** The State Lottery and Gaming Control Agency (SLGCA) is responsible for managing the State’s video lottery terminal (VLT) program, and SLGCA’s contract for its VLT central monitoring and control system expires in September 2021. System capabilities must include the reliable and confidential reporting of data from VLTs, remote enabling or disabling of VLTs, security monitoring, and performance tracking. If a new vendor is chosen, the project will require migration to a new system, while if the current vendor is selected, the project will consist of updates to the existing hardware and software.
- Observations and Milestones:** The request for proposals (RFP) was issued in October 2020. SLGCA received proposals in December 2020 and expects to make an award by March 2021.
- Concerns:** This project is low risk, and the only identified potential concern is the short timeframe. SLGCA had planned to issue an RFP earlier in calendar 2020 but was delayed by the pandemic and, as a result, the existing contract for the VLT system was extended by one year to September 2021.

Appendix 2
Object/Fund Difference Report
State Lottery and Gaming Control Agency

<u>Object/Fund</u>	<u>FY 20</u> <u>Actual</u>	<u>FY 21</u> <u>Working</u> <u>Appropriation</u>	<u>FY 22</u> <u>Allowance</u>	<u>FY 21 - FY 22</u> <u>Amount Change</u>	<u>Percent</u> <u>Change</u>
Positions					
01 Regular	324.10	324.10	324.10	0.00	0%
02 Contractual	7.75	10.75	10.75	0.00	0%
Total Positions	331.85	334.85	334.85	0.00	0%
Objects					
01 Salaries and Wages	\$ 27,956,133	\$ 28,171,934	\$ 27,973,295	-\$ 198,639	-0.7%
02 Technical and Special Fees	415,317	552,727	556,219	3,492	0.6%
03 Communication	235,807	346,225	347,725	1,500	0.4%
04 Travel	51,282	98,257	98,257	0	0%
06 Fuel and Utilities	157,444	186,571	186,571	0	0%
07 Motor Vehicles	135,446	375,486	375,486	0	0%
08 Contractual Services	64,509,630	71,416,730	73,865,654	2,448,924	3.4%
09 Supplies and Materials	133,747	272,138	207,138	-65,000	-23.9%
10 Equipment – Replacement	35,544	172,500	172,500	0	0%
11 Equipment – Additional	17,543	167,000	272,000	105,000	62.9%
13 Fixed Charges	1,524,302	1,662,145	1,698,778	36,633	2.2%
14 Land and Structures	0	10,000	10,000	0	0%
Total Objects	\$ 95,172,195	\$ 103,431,713	\$ 105,763,623	\$ 2,331,910	2.3%
Funds					
01 General Fund	\$ 6,461,424	\$ 6,574,900	\$ 6,380,609	-\$ 194,291	-3.0%
03 Special Fund	88,615,120	96,856,813	99,383,014	2,526,201	2.6%
09 Reimbursable Fund	95,651	0	0	0	0.0%
Total Funds	\$ 95,172,195	\$ 103,431,713	\$ 105,763,623	\$ 2,331,910	2.3%

Note: The fiscal 2021 appropriation does not include deficiencies, targeted reversions, general salary increases, or across-the-board reductions. The fiscal 2022 allowance does not include annual salary reviews or annualization of general salary increases.