

Department of Legislative Services  
 Maryland General Assembly  
 2024 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 1218 (Delegate Patterson, *et al.*)  
 Ways and Means

State Lottery – Internet Sales Authorization and Distribution of Proceeds

This bill authorizes the State Lottery and Gaming Control Agency (SLGCA) to allow the establishment of any system or program that allows a person to purchase a State lottery ticket through an electronic device that connects to the Internet. SLGCA must adopt regulations to implement this. After payments to lottery winners and agents and to the State lottery for operating expenses and after specified statutory distributions, after June 30, 2025, the Comptroller must deposit 1% of the remaining money in the State Lottery Fund, except money from instant ticket lottery machines, in the Problem Gambling Fund. **The bill takes effect July 1, 2024.**

Fiscal Summary

**State Effect:** Likely no material effect in FY 2025. General fund revenues increase by \$29.9 million in FY 2026, escalating up to \$106.4 million in FY 2029. Special fund revenues and expenditures for the Problem Gambling Fund increase by at least \$5.2 million annually beginning in FY 2026. Special fund revenues and expenditures for SLGCA increase by \$2.2 million in FY 2026 with ongoing revenues and costs.

(\$ in millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
GF Revenue	\$0	\$29.9	\$67.7	\$83.1	\$106.4
SF Revenue	\$0	\$7.4	\$7.4	\$7.6	\$7.9
SF Expenditure	\$0	\$7.4	\$7.4	\$7.6	\$7.9
Net Effect	\$0.0	\$29.9	\$67.7	\$83.1	\$106.4

*Note: ( ) = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease*

**Local Effect:** None. Local impact grants from gaming revenues are not materially affected.

**Small Business Effect:** Potential meaningful.

## Analysis

**Current Law:** Chapter 447 of 2017 prohibited SLGCA from allowing the establishment of any system or program that allows a person to purchase a State lottery ticket through an electronic device that connects to the Internet, such as a personal computer or mobile device. SLGCA must issue licenses to persons and governmental units that will best serve the public convenience and promote the sale of State lottery tickets or shares.

### *State Lottery Fund*

Each month, after payments to lottery winners and agents and to the State lottery for operating expenses, the Comptroller must make payments from the State Lottery Fund for various purposes. After specified statutory distributions are made from the State Lottery Fund, the remainder is deposited into the State's general fund.

### *Problem Gambling*

Video lottery operation licensees must pay an annual fee of \$425 per video lottery terminal for a Problem Gambling Fund administered by the Maryland Department of Health (MDH), and the State Lottery and Gaming Control Commission may establish an annual fee of up to \$500 per table game for the Problem Gambling Fund. The Problem Gambling Fund is used to fund programs to treat and prevent gambling addiction. After satisfying specified requirements, any unspent funds in the Problem Gambling Fund may be expended by MDH on drug and other addiction treatment services.

MDH is required to conduct a problem and pathological gambling prevalence study to measure the rate of problem and pathological gambling in the State. Replication prevalence studies must be conducted at least every five years with measures taken to permit comparisons between the initial prevalence study and subsequent replication prevalence studies.

**State Revenues:** This analysis assumes that:

- it takes 12 to 18 months for Internet lottery (iLottery) sales to commence;
- existing staff can issue a request for proposals in fiscal 2025, but once iLottery software is procured, SLGCA hires 19 additional employees at the start of fiscal 2026 to implement iLottery;
- iLottery sales make up approximately 17% of traditional lottery sales based on Pennsylvania's experience with iLottery;
- iLottery revenues are a quarter of iLottery sales based on the profit margin of traditional lottery sales and revenues in the State;

- it takes four years to reach iLottery’s full annual revenue maturity, with 33% of revenue maturity in fiscal 2026, 67% in fiscal 2027, 80% in fiscal 2028, and full maturity in fiscal 2029; and
- iLottery sales do not reduce traditional lottery sales or other forms of gambling.

**Exhibit 1** shows the distribution of revenues under the bill based on the assumptions above and the December 2023 projections of State lottery revenues by the Board of Revenue Estimates. Revenues from iLottery sales increase by \$37.3 million in fiscal 2026, of which \$34.7 million is distributed to the general fund, \$2.2 million is distributed to SLGCA for operating expenses, and approximately \$350,000 is distributed to the Problem Gambling Fund.

The bill generally requires 1% of lottery revenues to be distributed to the Problem Gambling Fund, so \$4.9 million of general funds from traditional lottery revenues are redirected to the Problem Gambling Fund beginning in fiscal 2026, as shown in Exhibit 1. The net effect is general fund revenues increase by \$29.9 million, SLGCA special fund revenues increase by \$2.2 million, and Problem Gambling Fund revenues increase by \$5.2 million in fiscal 2026.

**Exhibit 1**  
**Revenue Effects under the Bill**  
**Fiscal 2025-2029**  
**(\$ in Millions)**

	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
<b>iLottery Revenues</b>					
General Fund	\$0	\$34.7	\$72.5	\$87.9	\$111.2
SLGCA	0	2.2	1.8	1.9	2.0
Problem Gambling Fund	0	0.4	0.7	0.9	1.1
<b>Total iLottery Revenues</b>	<b>\$0</b>	<b>\$37.3</b>	<b>\$75.1</b>	<b>\$90.7</b>	<b>\$114.3</b>
<b>Traditional Lottery Revenues</b>					
General Fund	\$0	(\$4.9)	(\$4.8)	(\$4.8)	(\$4.8)
Problem Gambling Fund	0	4.9	4.8	4.8	4.8
<b>Total Traditional Lottery Revenues</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Net Lottery Revenues</b>					
General Fund	\$0	\$29.9	\$67.7	\$83.1	\$106.4
SLGCA	0	2.2	1.8	1.9	2.0
Problem Gambling Fund	0	5.2	5.6	5.7	5.9
<b>Total Lottery Revenues</b>	<b>\$0</b>	<b>\$37.3</b>	<b>\$75.1</b>	<b>\$90.7</b>	<b>\$114.3</b>

SLGCA: State Lottery and Gaming Control Agency

Source: Department of Legislative Services

**State Expenditures:**

*Problem Gambling Fund*

Based upon the December 2023 projections of State lottery revenues and the Department of Legislative Services’ (DLS) iLottery revenue projections, special fund expenditures from the Problem Gambling Fund increase by at least \$5.2 million annually beginning in fiscal 2026 as shown in Exhibit 1. MDH can likely administer the additional funds with existing resources.

*State Lottery and Gaming Control Agency*

SLGCA advises that it requires an additional 19 positions in order to oversee iLottery; thus, special fund expenditures for SLGCA increase by approximately \$2.2 million in fiscal 2026, which accounts for a one-year start-up delay from the bill’s July 1, 2024 effective date as it will take time to issue a request for proposals and put systems in place. This estimate includes associated costs, such as a software expense of \$260,000. Internet lottery proceeds are assumed to be more than sufficient to cover this level of staffing costs on an annual basis.

Positions	19.0
Salaries and Fringe Benefits	\$1,656,556
Software and Licensing Expenses	260,000
Other Operating Expenses	<u>273,629</u>
<b>Total FY 2025 SLGCA Expenditures</b>	<b>\$2,190,185</b>

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

**Small Business Effect:** Based on data from other states with iLottery, retail lottery sales are not expected to diminish, so DLS does not expect lottery retailers to be negatively impacted by the bill. Assuming there is no cannibalization of retail lottery sales, lottery retailers may stand to benefit from the expansion to iLottery. SLGCA advises that it expects lottery retailers to have the ability to facilitate the reloading of iLottery account funds and cashing of iLottery tickets at their retail locations. Thus, lottery retailers may potentially receive commissions for reloading accounts and cashing any iLottery winnings redeemed at retail.

## Additional Information

**Recent Prior Introductions:** Similar legislation has not been introduced within the last three years.

**Designated Cross File:** None.

**Information Source(s):** Comptroller's Office; Maryland Department of Health; Maryland State Lottery and Gaming Control Agency; Spectrum Gaming Group; Pennsylvania Lottery; Department of Legislative Services

**Fiscal Note History:** First Reader - February 27, 2024  
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