

**E75D**  
**State Lottery and Gaming Control Agency**

**Program Description**

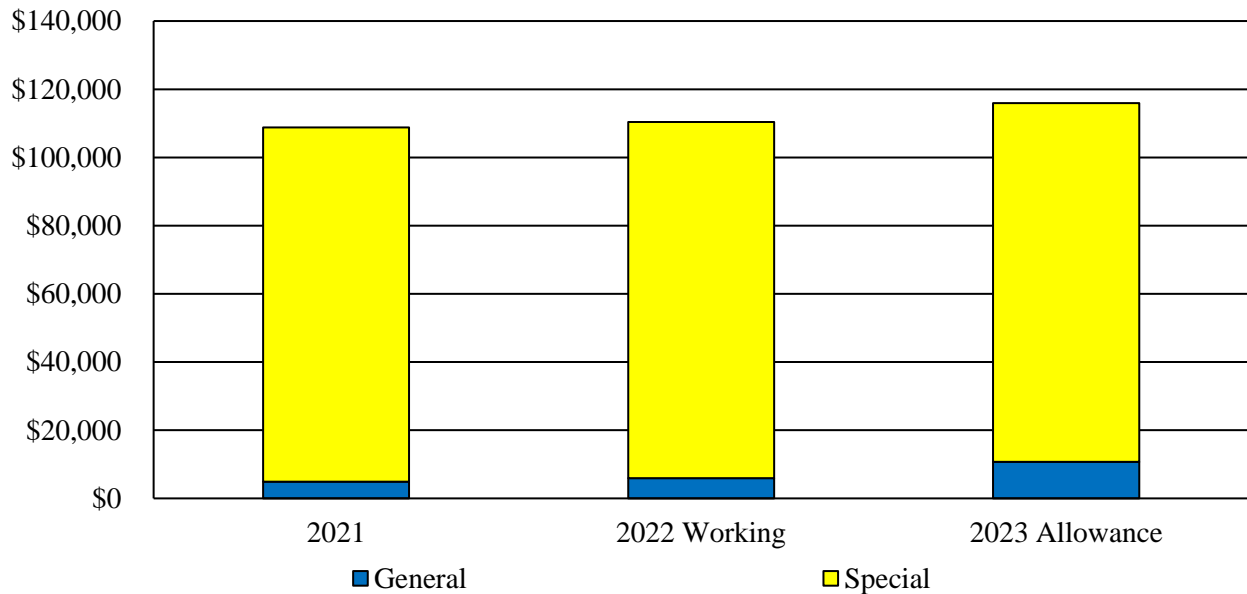
The State Lottery and Gaming Control Agency (SLGCA) administers lottery games and the State’s casino and sports betting programs to generate revenue for the State. The lottery currently offers a mix of instant ticket and draw games. Draw games are those where players pick their numbers or use computer-generated 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. Lastly, under Chapter 356 of 2021, SLGCA is responsible for regulating sports wagering and fantasy gaming in the State.

***Operating Budget Summary***

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**Fiscal 2023 Budget Increases \$5.5 Million, or 4.9%, to \$115.9 Million**  
**(\$ in Thousands)**



Note: The fiscal 2022 working appropriation includes deficiencies. The fiscal 2022 appropriation and fiscal 2023 allowance do not include funds for statewide personnel actions, which are budgeted in the Department of Budget and Management.

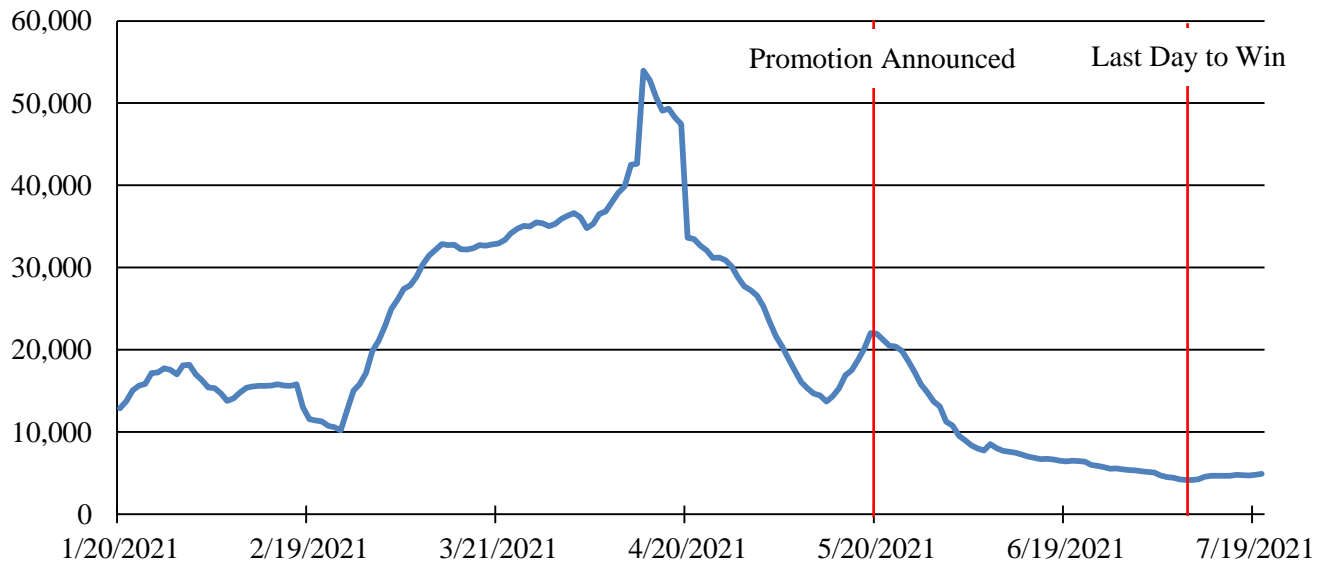
- General funds in the fiscal 2023 allowance increase by \$4.8 million, or 81.7%, to implement sports betting. Sports betting implementation costs in fiscal 2022 are funded through special funds from application fees. Overall, special funds in the fiscal 2023 allowance increase by \$645,000, or 0.6%, after accounting for proposed deficiency appropriations, with increases in lottery central system, personnel, and advertising costs offset by the decrease in special funds for sports betting.

## Fiscal 2021

### VaxCash Promotion

In fiscal 2021, SLGCA used \$2.0 million of its \$21.1 million budget for advertising to incentivize Marylanders to get a COVID-19 vaccine through daily drawings for vaccinated residents. The VaxCash promotion was announced on May 20, 2021, and ran through July 4, 2021, with 40 people winning \$40,000 each and one person winning \$400,000. The impact of the promotion on Marylanders' vaccination choices is unclear. **Exhibit 1** shows the seven-day average of first or single vaccine doses reported to the Maryland Department of Health over time.

**Exhibit 1**  
**COVID-19 Vaccinations**  
**Seven-day Average**  
**January 20, 2021, to July 20, 2021**



Source: Maryland Department of Health

## *E75D – State Lottery and Gaming Control Agency*

In February 2022, the Governor announced a second lottery promotion, known as VaxCash 2.0, to encourage Marylanders to get COVID-19 booster shots. The promotion will use \$2.0 million in federal funds from the American Rescue Plan Act, which are expected to be added to SLGCA’s fiscal 2022 appropriation through either a supplemental budget or budget amendment. The first drawing for \$500,000 took place on February 15, 2022, and will be followed by 10 weekly drawings of \$50,000 each and a grand prize of \$1 million awarded on May 3, 2022.

## **Fiscal 2022**

### **Proposed Deficiencies**

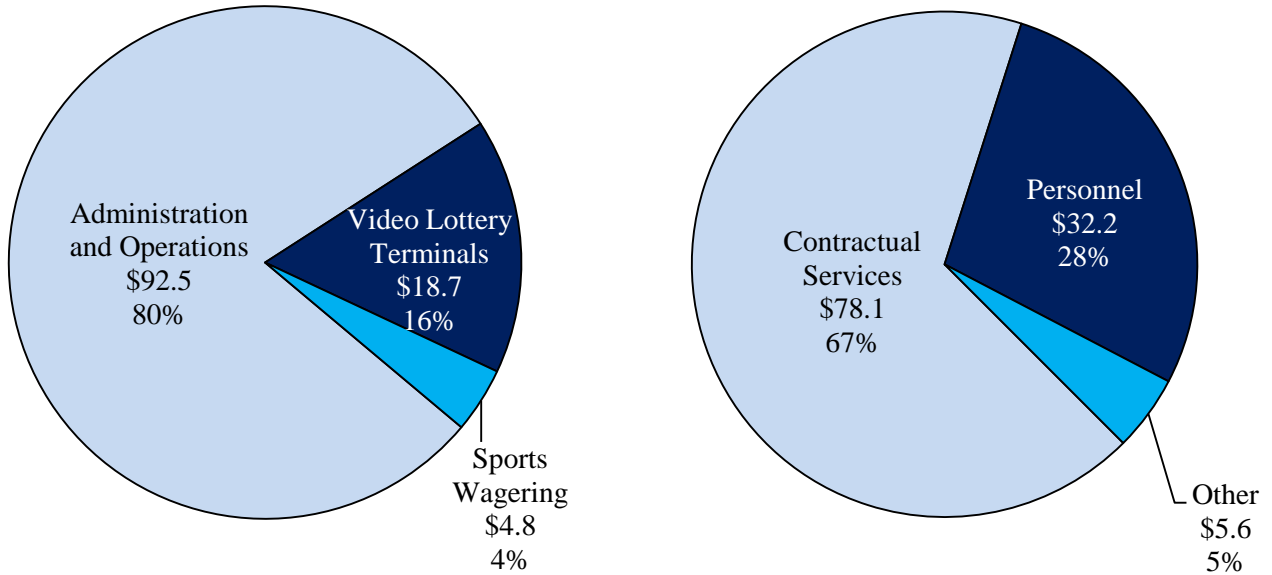
The fiscal 2023 budget includes four proposed deficiency appropriations for SLGCA totaling \$6.1 million. Two of these proposed special fund deficiency appropriations, \$3.0 million to pay fees to lottery retailers and \$927,018 to pay fees to instant ticket lottery machine vendors, are due to higher than estimated sales in fiscal 2022. The fiscal 2023 budget also recognizes negative general fund revenue adjustments of \$1.4 million in fiscal 2022 and \$1.0 million in fiscal 2023 related to modified estimates of vendor fees and lottery sales. An additional proposed deficiency would replace \$500,000 in general funds with special funds in fiscal 2022 due to available VLT revenues.

Lastly, a proposed deficiency of \$2.1 million in special funds from sports betting application fees would support sports betting implementation in fiscal 2022. The proposed deficiency appropriation also adds 40 regular and 6 contractual positions to implement sports betting in fiscal 2022. Sports betting is discussed in more detail in Key Observation 3 of this analysis.

## **Fiscal 2023 Overview of Agency Spending**

The fiscal 2023 allowance for the agency totals \$115.9 million. As shown in **Exhibit 2**, SLGCA is divided into three units: Administration and Operations, which handles lottery gaming; VLT and Gaming Operations, which is responsible for the regulation of the State’s VLT and table game operations; and the newly created Sports Wagering and Fantasy Gaming program. Lottery administration accounts for 80% of agency spending. SLGCA’s expenses are primarily contractual services (67% of the allowance) and personnel costs for the agency’s 364.1 regular positions (28%).

**Exhibit 2**  
**Expenditures by Program and Purpose**  
**Fiscal 2023 Allowance**  
**(\$ in Millions)**



Note: The fiscal 2023 allowance does not reflect funding for statewide personnel actions budgeted in the Department of Budget and Management.

Source: Governor’s Fiscal 2023 Budget Books

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## Proposed Budget Change

As shown in **Exhibit 3**, SLGCA’s fiscal 2023 allowance increases by \$5.5 million compared to the fiscal 2022 working appropriation, after accounting for deficiencies. General funds increase by \$4.8 million, or 81.7%, to implement sports betting. Sports betting implementation costs in fiscal 2022 are funded using \$2.7 million in special funds available from application fees. Excluding sports betting, the fiscal 2023 allowance increases by \$2.8 million in special funds and less than \$40,000 in general funds. The special fund increase is primarily due to increased contract costs for the central lottery system, which is based on sales volume.

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

<b>How Much It Grows:</b>	<b>General Fund</b>	<b>Special Fund</b>	<b>Total</b>
Fiscal 2021 Actual	\$4,943	\$103,824	\$108,767
Fiscal 2022 Working Appropriation	5,902	104,524	110,425
Fiscal 2023 Allowance	<u>10,722</u>	<u>105,169</u>	<u>115,891</u>
Fiscal 2022-2023 Amount Change	\$4,820	\$645	\$5,465
Fiscal 2022-2023 Percent Change	81.7%	0.6%	4.9%

<b>Where It Goes:</b>	<b>Change</b>
<b>Personnel Expenses</b>	
Turnover rate decreased from 6.05% to 5.62% .....	\$263
Accrued leave payout based on prior year trends.....	123
Employee and retiree health insurance .....	118
Reclassification.....	99
Workers’ compensation premium assessment.....	67
Salaries and wages.....	-49
Other fringe benefit adjustments .....	26
<b>Sports Betting</b>	
Annualization of personnel costs for 40 new positions added in fiscal 2022.....	2,156
38 new vehicles for compliance staff to visit licensees throughout the State.....	994
Other sports betting implementation costs .....	236
Ongoing contract costs for software and other information technology services.....	148
One-time costs in fiscal 2022 for software upgrades and background checks .....	-729

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<b>Where It Goes:</b>	<b><u>Change</u></b>
<b>Other Changes</b>	
Contract costs for central lottery system, based on sales.....	\$1,451
Lottery advertising.....	669
Software licenses and maintenance for VLT program .....	176
Contract costs for instant ticket lottery machines at veterans’ organizations.....	73
Contract costs for VLT central system.....	-357
Other changes .....	1
<b>Total</b>	<b>\$5,465</b>

VLT: video lottery terminal

Note: Numbers may not sum to total due to rounding.

***Personnel Data***

	<b><u>FY 21</u></b>	<b><u>FY 22</u></b>	<b><u>FY 23</u></b>	<b><u>FY 22-23</u></b>
	<b><u>Actual</u></b>	<b><u>Working</u></b>	<b><u>Allowance</u></b>	<b><u>Change</u></b>
Regular Positions	324.10	364.10	364.10	0.00
Contractual FTEs	<u>10.75</u>	<u>16.75</u>	<u>16.75</u>	<u>0.00</u>
<b>Total Personnel</b>	<b>334.85</b>	<b>374.85</b>	<b>380.85</b>	<b>0.00</b>

***Vacancy Data: Regular Positions***

Turnover and Necessary Vacancies, Excluding New Positions	18.21	5.62%
Positions and Percentage Vacant as of 12/31/21	32.00	9.87%
Vacancies Above Turnover	13.79	

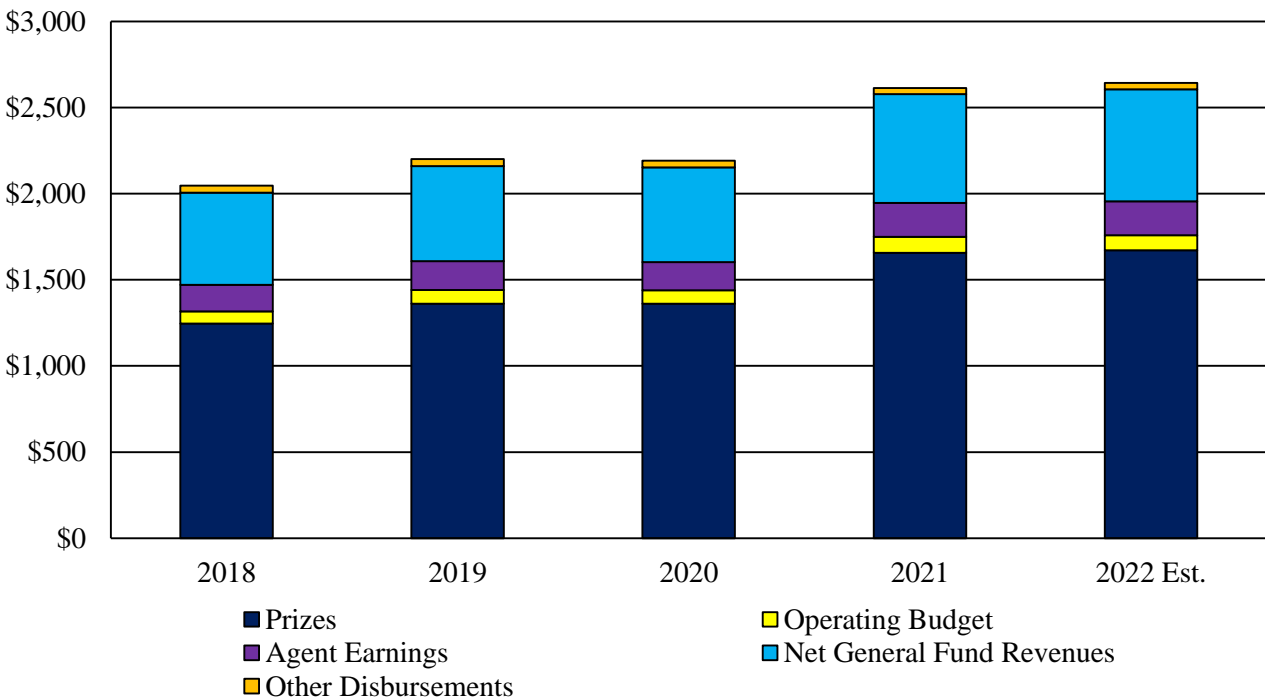
- The fiscal 2023 budget includes funding in fiscal 2022 for an additional 40 regular positions and 6 contractual full-time equivalents (FTE), which are added through a proposed deficiency appropriation, to implement the new sports wagering program, discussed further in Key Observation 3 of this analysis.
- SLGCA’s vacancy rate of 9.87% at the end of calendar 2021 represents a slight decrease from 10.18% at the same time the prior year. However, prior to calendar 2020, the agency maintained a significantly lower vacancy rate of 5.6% for several years. Most of the vacancies (81%) have been open for six months or less, with 41% vacant for three months or less.

## Key Observations

### 1. Lottery Sales Increase 19.2% to Record High \$2.6 Billion

Lottery sales in fiscal 2021 increased by nearly 20% over fiscal 2020 to a total of \$2.6 billion, shattering the previous sales record from fiscal 2019 of \$2.2 billion. The Board of Revenue Estimates (BRE) anticipates sales to remain strong in fiscal 2022, projecting a slight increase of 1.1% over fiscal 2021. Proceeds from the lottery games pay for prizes, agent earnings, and all operating expenses of SLGCA for the lottery program. In fiscal 2021, 63.4% of sales paid for prizes, 7.5% paid for agent commissions and redemption fees, 3.5% paid for operations of the lottery program, 24.2% was credited as revenue to the General Fund, and 1.4% was disbursed to the Maryland Stadium Authority, per statute. Net general fund revenues increased by 15.2% to \$631.7 million in fiscal 2021. **Exhibit 4** shows total lottery sales and the distribution of those revenues from fiscal 2018 through an estimate for fiscal 2022.

**Exhibit 4**  
**Lottery Sales and Disbursements**  
**Fiscal 2018-2022 Est.**  
**(\$ in Millions)**



Note: Operating budget amount does not include funds to operate the casino or sports betting programs.

Source: Governor’s Fiscal 2023 Budget Books; State Lottery and Gaming Control Agency

## 2. Casino Revenues Rebound Following Fiscal 2020 Low

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 5** 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 2021. State law authorizes a total of 16,500 VLTs in State casinos. Casinos currently operate 9,538 VLTs, or 58% of the allowable number of machines, and 588 table games. The number of VLTs available for play increased by 48% compared to December 2020 due to the relaxing of COVID-19 social distancing measures.

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### Exhibit 5 Casino Locations

<u>County</u>	<u>Casino</u>	<u>Date Opened</u>	<u>VLTs</u>	<u>Table Games</u>
Cecil	Hollywood	September 2010	733	18
Worcester	Ocean Downs	January 2011	810	18
Anne Arundel	Live!	June 2012	3,786	187
Allegany	Rocky Gap	May 2013	630	16
Baltimore City	Horseshoe	August 2014	1,451	145
Prince George’s	MGM	December 2016	2,128	204

VLT: video lottery terminal

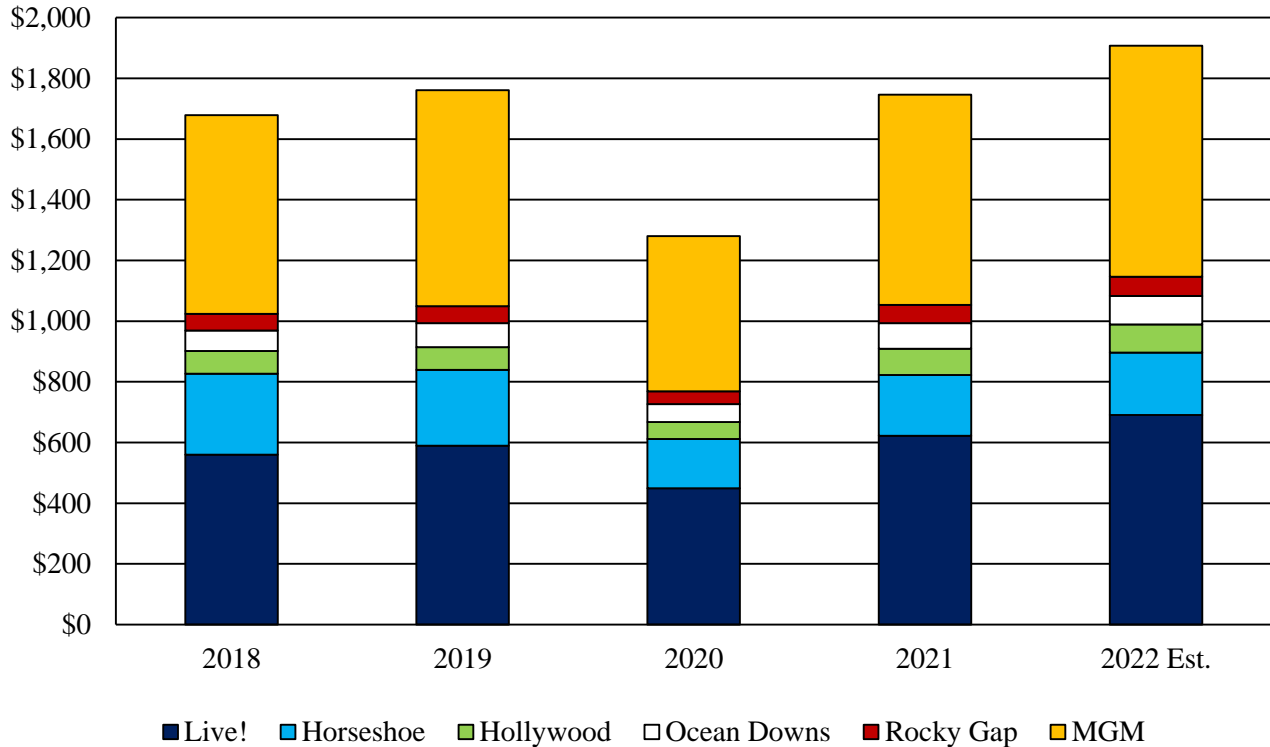
Source: State Lottery and Gaming Control Agency

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Overall, casino revenues – including both VLTs and table games – in the State increased in fiscal 2021 by \$465.7 million, or 36%, compared to fiscal 2020, when casinos were closed for most of the fourth quarter due to pandemic restrictions. Fiscal 2021 revenues were only slightly below the fiscal 2019 level despite capacity restrictions at casinos throughout most of the fiscal year. BRE projects a further increase of 9% to \$1.9 billion in fiscal 2022. Gross revenues by casino are shown in **Exhibit 6**.



**Exhibit 6  
Gross Casino Revenues  
Fiscal 2018-2022 Est.  
(\$ in Millions)**

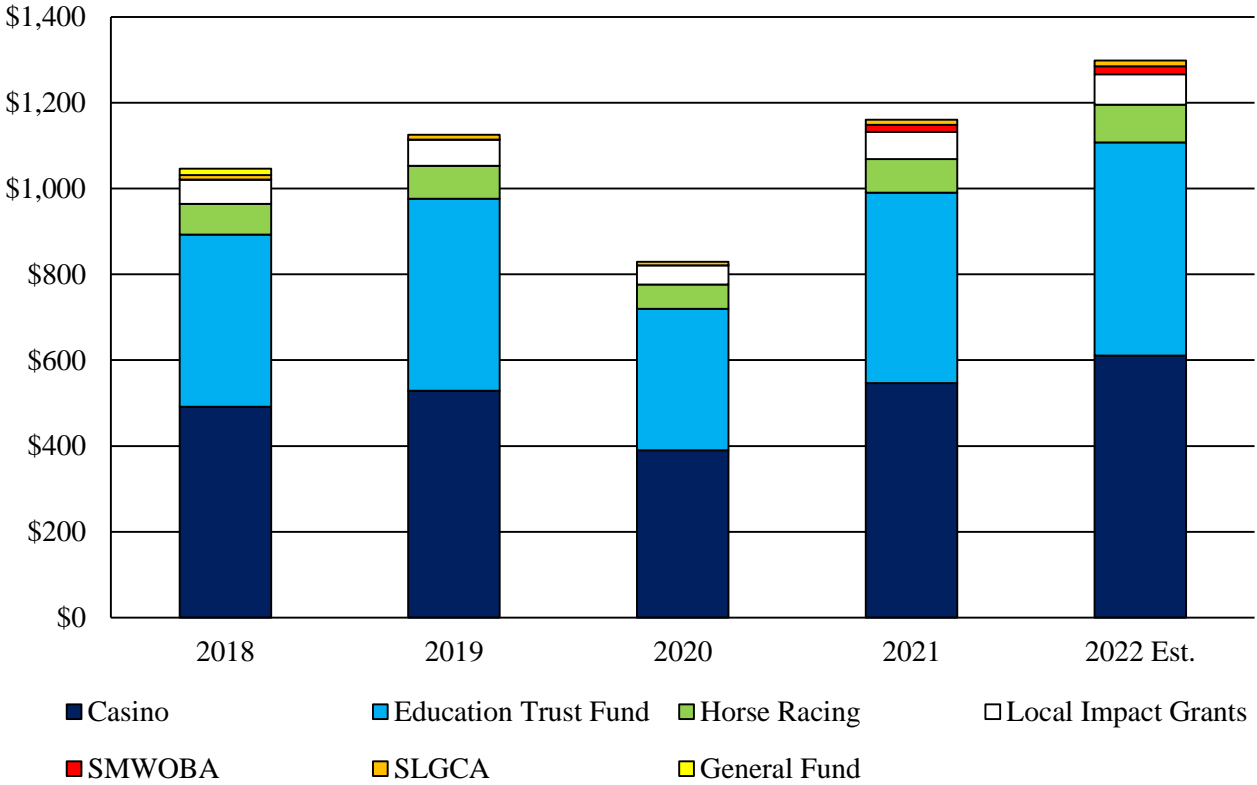


Source: Board of Revenue Estimates

**VLT Revenues Exceed Prepandemic Level**

Proceeds from VLTs are distributed to a variety of recipients, as shown in **Exhibit 7**. 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 2021, the ETF received \$443.6 million from VLT distributions, a 34.7% increase from the prior year. BRE projects a further increase in disbursements for the ETF in fiscal 2022 to \$496.5 million. Funding for the Small, Minority, and Women-Owned Businesses Account (SMWOBA), usually 1.5% of proceeds, was diverted in recent years to the General Fund in fiscal 2018 and to the ETF in fiscal 2019 and 2020. SMWOBA received \$17.0 million of VLT revenues in fiscal 2021 and is projected to receive \$19.1 million in fiscal 2022. Overall, VLT revenues totaled \$1.2 billion, exceeding revenues in fiscal 2019 prior to the COVID-19 pandemic.

**Exhibit 7**  
**VLT Revenue Distributions**  
**Fiscal 2018-2022 Est.**  
**(\$ in Millions)**



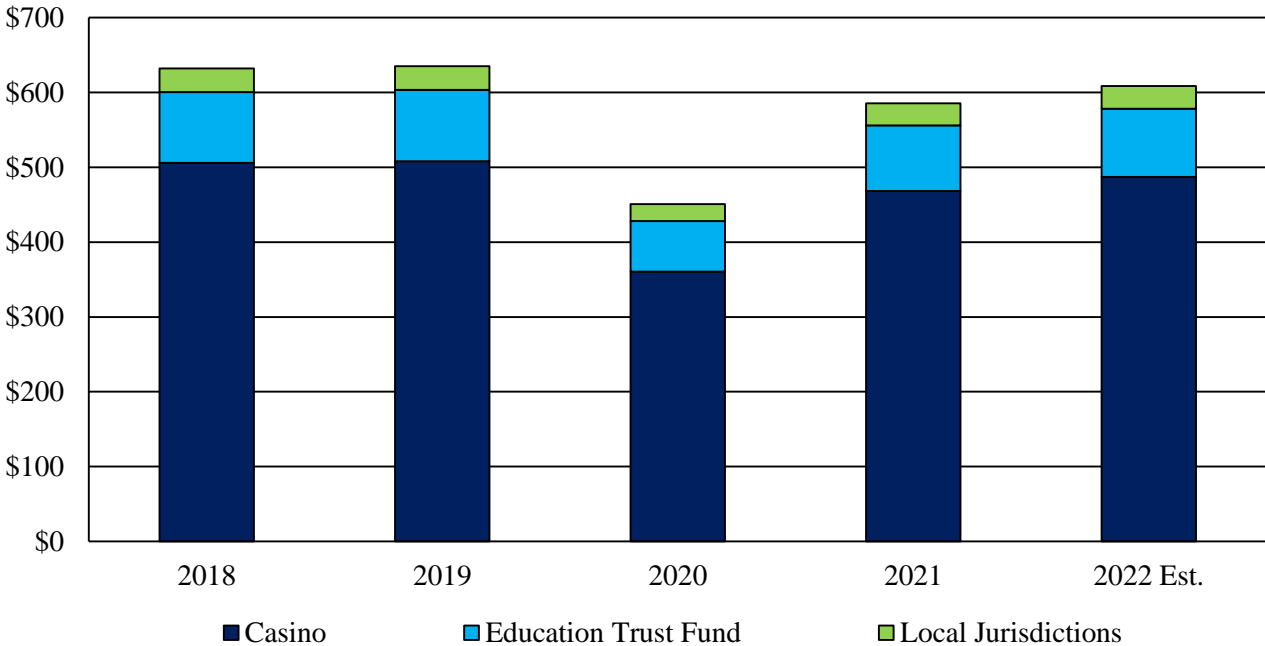
SLGCA: State Lottery and Gaming Control Agency  
 SMWOBA: Small, Minority, and Women-Owned Businesses Account  
 VLT: video lottery terminal

Source: Board of Revenue Estimates

**Table Game Revenues Increase but Remain Below Prepandemic Level**

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 8**, the ETF received \$87.8 million from table game revenue in fiscal 2021, a 30% increase from the prior year. Table game revenues were 7.9% below the prepandemic fiscal 2019 level and are expected to remain below the prepandemic level in fiscal 2022 despite a projected increase of 4%.

**Exhibit 8**  
**Table Game Revenue Distributions**  
**Fiscal 2018-2022 Est.**  
**(\$ in Millions)**



Source: Board of Revenue Estimates

### 3. Sports Betting Implementation Begins

In November 2020, Maryland voters approved a constitutional amendment that authorized sports betting. Following approval, however, legislation was required to establish an operational and regulatory framework for the State’s sports wagering program. Subsequently, Chapter 356 established such a framework. SLGCA is responsible for issuing licenses to sports betting operators, with the approval of the Sports Wagering and Application Review Commission (SWARC). In addition, Chapter 356 also mandated \$1.5 million each for Bowie State University and Morgan State University (MSU) to establish centers for the study of data analytics and sports gaming, which are included in the fiscal 2023 budget.

Application and renewal fees will fund SLGCA’s operating expenses related to the program as well as a newly established Small, Minority, and Women-Owned Sports Wagering Assistance Fund (SWAF) in the Department of Commerce (funded through 5% of licensing fees from larger operators)

with the remainder distributed to the Blueprint for Maryland’s Future Fund (Blueprint Fund). BRE estimates that application fees will total \$14.0 million in fiscal 2022, with \$2.1 million covering SLGCA expenses, \$650,000 distributed to SWAF, and \$11.2 million distributed to the Blueprint Fund. The Blueprint Fund also receives 15% of revenues from sports betting with the remainder retained by sports betting operators.

### **SLGCA Operations**

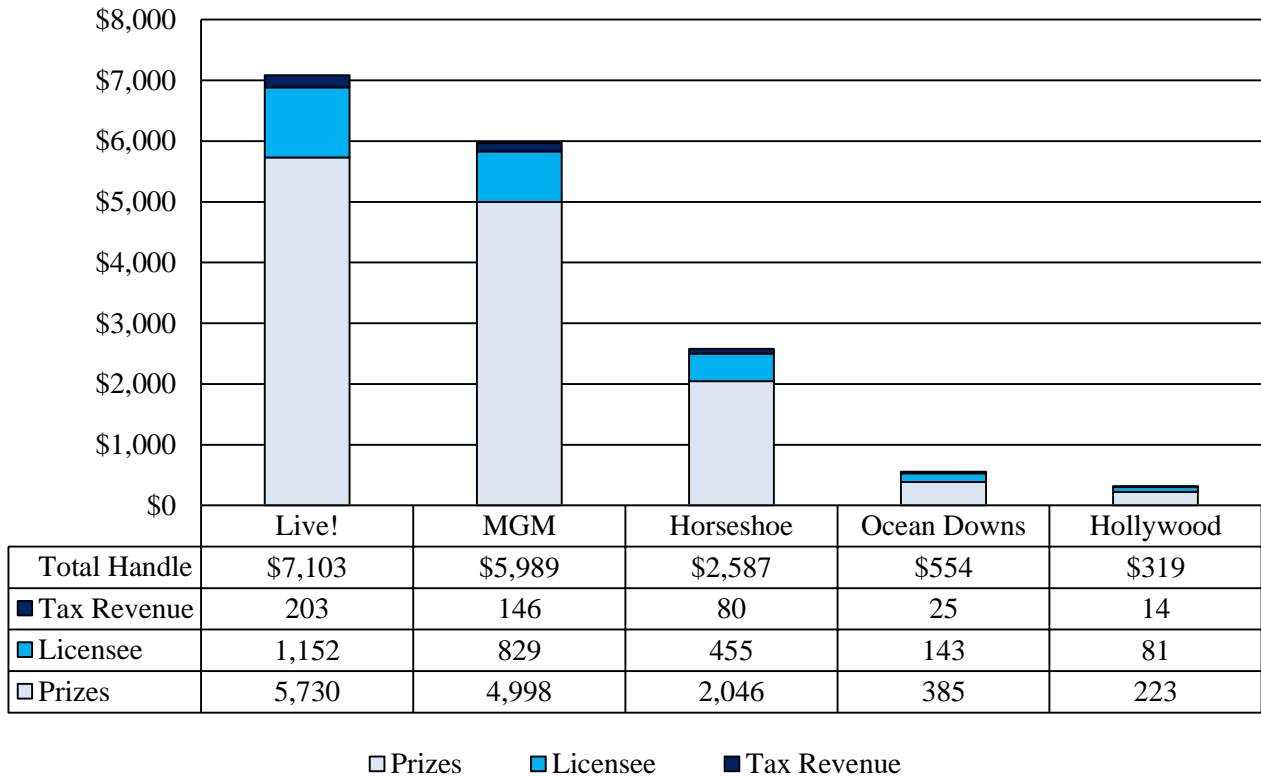
As noted previously, the fiscal 2023 budget includes a proposed deficiency appropriation of \$2.1 million and 40 regular positions and 6 contractual FTEs to begin sports betting implementation in fiscal 2022. These costs increase 125% to \$4.8 million in fiscal 2023, with general funds used in place of special funds. After the largest casino operators apply for licenses in fiscal 2022, application and renewal fees will not generate consistent and reliable funding for SLGCA operations, so the Department of Budget and Management plans to use general funds instead, while any funding from fees will go to the Blueprint Fund.

The largest cost increase in fiscal 2023 is related to the annualization of personnel costs. The 40 additional positions include 20 compliance officers, 7 financial investigators, 6 auditors, 6 accounting staff, and 1 responsible gaming officer. SLGCA has begun hiring for these positions using vacant positions in the lottery administration program as well as contractual FTEs that can later be converted, while existing casino compliance officers have been able to handle licensing responsibilities at casino locations to date. The next largest increase in expenditures (nearly \$1 million) in fiscal 2023 for the program is for the purchase of new vehicles for compliance and auditing staff to visit licensees throughout the State.

### **Sports Wagering Revenues and Distributions**

The first sports betting wagers were placed in Maryland on December 9, 2021, after SWARC approved licenses for five of Maryland’s six casinos. **Exhibit 9** shows the total handle as well as the State revenue generated at each casino in the first month of activity. Across all five casinos, the sports betting handle in December 2021 totaled \$16.6 million, with slightly more than 80% paid out in prizes and a little over \$469,000 in tax revenue generated for the Blueprint Fund. Although expected to account for a small share of revenues once sports betting programs are fully operational, fantasy gaming competitions also provide revenues to the Blueprint Fund. SLGCA has registered 18 fantasy gaming operators to date and collected \$1.4 million in revenues for the Blueprint Fund since the program’s inception in May 2021.

**Exhibit 9**  
**Sports Betting Revenues and Distributions**  
**December 2021**  
**(\$ in Thousands)**



Note: Handle is the total amount of all wagers made. Tax revenue, licensee revenues, and prizes do not sum to the total handle due to other small deductions such as federal excise taxes.

Source: State Lottery and Gaming Control Agency

SWARC has also approved licenses for off-track betting facilities at Riverboat on the Potomac in Charles County, Long Shot’s in Frederick County, and Greenmount Station in Carroll County, although sports betting has not yet begun at these locations. Online or mobile sports betting is expected to provide a significant share of revenues. However, SLGCA anticipates that mobile licenses are not likely to be granted until at least the second quarter of fiscal 2023 after results of a disparity analysis are finalized and SLGCA can issue application guidelines based on those results. BRE estimates that sports betting proceeds will total \$29.7 million in fiscal 2022 and will increase to \$110.7 million in fiscal 2023. The Blueprint Fund will receive an estimated \$4.5 million in fiscal 2022 and \$16.6 million in fiscal 2023.

## ***Operating Budget Recommended Actions***

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1. Concur with Governor's allowance.

**Appendix 1**  
**2021 Joint Chairmen’s Report Responses from SLGCA**

The 2021 *Joint Chairmen’s Report* (JCR) requested that SLGCA prepare one report. An electronic copy of the full JCR response can be found on the Department of Legislative Services Library website.

- ***Report on Minority Business Enterprise Participation (MBE) in Lottery Advertising:*** SLGCA reported that its goal for MBE advertising participation is 3%, which has been reduced over recent years due to the lack of available vendors and the decline of minority-owned community newspapers. The report identified 6 MBE media vendors certified by the Maryland Department of Transportation available in fiscal 2022, compared to 12 in fiscal 2010. Five out of the six current MBE media vendors are based in Maryland. In fiscal 2021, SLGCA spent a total of \$637,503 through MBE advertising vendors, representing approximately 5% of the agency’s total media spending, exceeding its 3% goal. The report also details SLGCA’s spending through non-MBE-certified minority radio stations as well as sponsorships with MSU and minority-focused community events.

**Appendix 2**  
**Central Monitor and Control System for a Video Lottery Terminal Program**  
**Major Information Technology Project**  
**State Lottery and Gaming Control Agency**

<b>New/Ongoing:</b> Ongoing								
<b>Start Date:</b> June 2019					<b>Est. Completion Date:</b> July 2022			
<b>Implementation Strategy:</b> n/a								
<b>(\$ in Millions)</b>	<b>Prior Year</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>Remainder</b>	<b>Total</b>
<b>SF</b>	\$4.075	\$3.100	\$3.975	\$6.475	\$6.475	\$6.475	\$0.000	\$30.575
<b>Total</b>	<b>\$4.075</b>	<b>\$3.100</b>	<b>\$3.975</b>	<b>\$6.475</b>	<b>\$6.475</b>	<b>\$6.475</b>	<b>\$0.000</b>	<b>\$30.575</b>

- **Project Summary:** SLGCA is responsible for managing the State’s VLT system and contracts with a vendor for its VLT central monitoring and control system. System capabilities must include the reliable and confidential reporting of data from VLTs, remote enabling or disabling of VLTs, security monitoring, and performance tracking.
- **Observations and Milestones:** The contract for the system was awarded to the incumbent provider in April 2021, and the vendor is working on updating the existing hardware and software. The new system was deployed in September 2021, although some components needed for full implementation have been delayed due to supply chain issues. SLGCA expects the delivery and installment of the final components to take place by the end of February 2022.
- **Comments:** Although listed with substantial out-year costs, these costs generally represent the ongoing contract costs rather than additional development work.



**Appendix 3**  
**Object/Fund Difference Report**  
**State Lottery and Gaming Control Agency**

<u>Object/Fund</u>	<u>FY 21</u> <u>Actual</u>	<u>FY 22</u> <u>Working</u> <u>Appropriation</u>	<u>FY 23</u> <u>Allowance</u>	<u>FY 22 - FY 23</u> <u>Amount Change</u>	<u>Percent</u> <u>Change</u>
<b>Positions</b>					
01 Regular	324.10	324.10	364.10	40.00	12.3%
02 Contractual	10.75	10.75	16.75	6.00	55.8%
<b>Total Positions</b>	<b>334.85</b>	<b>334.85</b>	<b>380.85</b>	<b>46.00</b>	<b>13.7%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 27,299,605	\$ 28,583,272	\$ 32,155,035	\$ 3,571,763	12.5%
02 Technical and Special Fees	382,500	556,219	1,012,620	456,401	82.1%
03 Communication	206,945	347,725	279,485	-68,240	-19.6%
04 Travel	4,243	98,257	161,757	63,500	64.6%
06 Fuel and Utilities	91,220	186,571	186,571	0	0%
07 Motor Vehicles	198,046	375,486	1,392,243	1,016,757	270.8%
08 Contractual Services	78,633,941	71,865,654	78,131,832	6,266,178	8.7%
09 Supplies and Materials	116,718	207,138	242,500	35,362	17.1%
10 Equipment – Replacement	102,176	172,500	256,000	83,500	48.4%
11 Equipment – Additional	120,257	272,000	332,000	60,000	22.1%
13 Fixed Charges	1,611,663	1,698,778	1,740,740	41,962	2.5%
14 Land and Structures	0	10,000	0	-10,000	-100.0%
<b>Total Objects</b>	<b>\$ 108,767,314</b>	<b>\$ 104,373,600</b>	<b>\$ 115,890,783</b>	<b>\$ 11,517,183</b>	<b>11.0%</b>
<b>Funds</b>					
01 General Fund	\$ 4,943,387	\$ 6,401,656	\$ 10,721,556	\$ 4,319,900	67.5%
03 Special Fund	103,823,927	97,971,944	105,169,227	7,197,283	7.3%
<b>Total Funds</b>	<b>\$ 108,767,314</b>	<b>\$ 104,373,600</b>	<b>\$ 115,890,783</b>	<b>\$ 11,517,183</b>	<b>11.0%</b>

Note: The fiscal 2022 appropriation does not include deficiency appropriations. The fiscal 2022 appropriation and fiscal 2023 allowance do not include funds for statewide personnel actions, which are budgeted in the Department of Budget and Management.