

Maryland Lottery and Gaming



FY 2017 BUDGET PRESENTATION

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DIRECTOR**

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Overview

In fiscal year 2015, Maryland Lottery and Gaming contributed more than \$1.013 billion to the State of Maryland to support good causes, such as the Maryland Education Trust Fund; public health and safety; small, minority and women owned businesses; horse racing and more. \$526 million was generated through lottery operations and \$487 million was contributed by the casinos.

In fiscal year 2015, lottery sales increased for the first time since fiscal year 2012, although still below the record set in 2012. Fiscal year 2015 lottery sales totaled \$1.760 billion, an increase of \$36.8 billion or 2.1% compared to the previous fiscal year. Lottery profit generated in fiscal year 2015 totaled \$526 million, which represented an increase in profit of \$5.5 million or a 1.0% increase compared to the previous fiscal year. Refer to page 4 for the fiscal year 2015 sales breakdown. Other notable fiscal year 2015 highlights include commissions paid to retailers totaling \$128.6 million and prizes paid to players totaling \$1.050 billion.

Maryland's casino industry continued to grow in fiscal year 2015, highlighted by the August 2014 opening of Horseshoe Casino Baltimore, the state's fifth casino. Gaming revenue at these five casinos totaled \$1.038 billion, a \$204.2 million or a 24.5% increase compared to fiscal year 2014. The casinos \$387.7 million contribution to the Maryland Education Trust Fund increased \$59.3 million or 18.1% compared to the previous fiscal year.

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Lottery Sales and Revenue Comparison

Fiscal Year 2014-2015

SALES:	FY 2014	% of Total Sales	FY 2015	% of Total Sales	DIFFERENCE	% of Change
MEGA-MILLIONS	100,493,295	5.8%	82,020,637	4.7%	-18,472,658	-18.4%
POWERBALL	105,762,245	6.2%	89,507,596	5.1%	-16,254,649	-15.4%
KENO	308,104,967	17.9%	302,987,619	17.2%	-5,117,348	-1.7%
RACE TRAX	158,125,625	9.2%	154,668,357	8.8%	-3,457,268	-2.2%
PICK 3	244,538,835	14.2%	240,910,861	13.7%	-3,627,974	-1.5%
PICK 4	270,825,588	15.7%	276,957,939	15.7%	6,132,351	2.3%
MULTI-MATCH	26,699,000	1.5%	34,499,811	2.0%	7,800,811	29.2%
BONUS MATCH-5	21,444,445	1.2%	21,320,570	1.2%	-123,875	-0.6%
5 CARD CASH	8,365,105	0.5%	6,534,023	0.4%	-1,831,082	-21.9%
MONOPOLY	-	-	1,592,835	0.0%	1,592,835	N/A
INSTANT	479,631,463	27.8%	546,053,764	31.0%	66,422,301	13.9%
ITLM	-	-	3,812,016	0.2%	3,812,016	N/A
TOTAL	1,723,990,568	100%	1,760,866,028	100%	36,875,460	2.1%
REVENUE:						
LOTTERY TOTAL	521,106,646	30.23%	526,526,915	29.90%	5,420,269	1.0%
STADIUM AUTHORITY	20,000,000	1.6%	20,000,000	1.1%	0	0.0%
VETERANS TRUST	-	-	34,267	0.0%	34,267	N/A
GENERAL FUND	501,106,646	29.07%	506,492,648	28.76%	5,386,002	1.0%

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Gaming Revenue Comparison

Fiscal Year 2014-2015

	Fiscal Year 2015	Fiscal Year 2014	Difference	% of Change
Gaming Revenue	\$1,038,223,816	\$834,003,249	\$204,220,567	24.5%
Education Trust Fund	\$387,775,613	\$328,428,368	\$59,347,245	18.1%
Casino Operators	\$538,999,870	\$406,227,926	\$132,771,944	32.7%
Horse Racing	\$53,119,111	\$48,463,126	\$4,655,985	9.6%
Local Impact Grants	\$36,453,259	\$30,879,481	\$5,573,778	18.1%
MLGCA	\$11,934,165	\$11,582,673	\$351,492	3.0%
Small, Minority, and Women-Owned Businesses	\$9,941,798	\$8,421,675	\$1,520,123	18.1%

Department of Legislative Services (DLS) Issues and Recommended Actions

The DLS recommends that the Agency comment on the current trends of sales and revenues, and in particular, the increase in sales of instant ticket games. Additionally, the Agency should comment on its new multistate jackpot game and how it expects to ensure its success. Finally, the Agency should comment on its white paper on the *Perspective on the Future of the Lottery*.

In August 2015, the Agency issued a white paper titled *Perspective on the Future of the Lottery*. The purpose of the paper was to offer a combination of objective data and subjective assessments to explain past performance of the Lottery and to suggest future trends and opportunities. As the State of Maryland implemented its casino gaming program, there was understandable concern about the impact of the casinos on the Maryland Lottery. As casinos opened, the Lottery was indeed experiencing declines in its revenues, reinforcing the assumption that the casinos were taking market share from the Lottery. Consultants who studied the issue released reports estimating the size of these impacts as ranging from a negative 1.5% to negative 5.5%, depending on the timing of various casino openings. Reinforcing those estimates, Lottery revenues did decline 2.2% in FY 2013 and another 1.8% in FY 2014. This slump was reversed in FY 2015, with Lottery revenue increasing by 2.1%, although still below the record level of FY 2012.

Our view of the market and competitive situation in Maryland takes in additional factors that we believe also had significant impacts upon Lottery performance, not just the introduction of casinos. These factors include: 1] the significant reduction in the Lottery's marketing budget in 2010 (down 43%, from \$20.1 million to \$11.4 million); 2] the distraction of management time and attention away from the Lottery during the launch of the casino program; 3] the poor performance of the national jackpot games (*Mega Millions* and *Powerball*) and 4] the relatively weak performance of the instant (scratch-off) game category in Maryland.

The lottery industry is a mass market consumer entertainment business that relies heavily on marketing to achieve its revenue goals, as is the case for most consumer products. Overall, advertising spending accounts for roughly 2% of national GDP. Advertising spending is usually expressed as a percentage of sales, a metric known as the ad/sales ratio. Ad/sales ratios vary by product and by industry, with some industries, such as casinos, spending over 20% of sales on advertising and promotion (N.B., "promotion" spending - e.g., coupons, rebates, discounts, etc. - often exceeds spending on media and advertising). In many consumer businesses, 2% is a useful rule-of-thumb for their ad/sales ratio. In the lottery industry, the average ad/sales ratio across all U.S. lotteries is 1.2%. In Maryland, it is only 0.7%.

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At the New York Lottery, it was conventional wisdom that a dollar of advertising spending generated an incremental \$5.00 in *profit* (not just sales). To test this, the lottery engaged an econometrics-based brand research agency to study the relationship between advertising, sales and profits. The findings actually supported the old rule-of-thumb, that an incremental dollar of advertising generated \$5.00 of incremental profit. (As an aside, the New York Lottery is the largest and most profitable in the country, with a total marketing budget of \$92 million.)

With such a limited marketing budget, the Maryland Lottery has significantly under-invested in consumer advertising and promotion. We believe this has been one of the reasons for the revenue declines.

A second factor in the decline is the distraction of management time and attention away from the Lottery during the implementation of the casino initiative in Maryland. The roll-out of casinos was an all-consuming, intense effort for the entire organization, with Lottery issues, creativity, direction and focus all suffering. Clearly, this is a highly subjective assessment, but it is supported by managers, staff, partners, vendors and industry observers. The build-up of the regulatory apparatus and infrastructure to support casino gaming was a monumental task, and the results were exemplary. It is to the credit of management and staff that so much was accomplished in this time, but unfortunately, the Lottery did lose some momentum.

A third factor in the weak results was the ongoing decline in the national jackpot games, *Mega Millions* and *Powerball*. After the lottery industry achieved its ground-breaking agreement in 2009 to allow all lotteries to cross-sell both games, sales soared along with a string of record setting jackpots. Then, two years later, *Powerball* was moved to a \$2 price point, and another surge of sales followed. However, since then, a lack of large jackpots has caused substantial declines in total sales of *Mega Millions* and *Powerball* nationwide. In Maryland, these games went from 11.9% of sales in 2014 to 9.7% in 2015.

A final issue for the Lottery during this time was the relatively weak (although historical) performance of the instant (scratch-off) game category. Across the industry, instant sales accounted for 60% of total sales in 2014; In Maryland, they generated less than 28%. Although this was always the case, even in the early days of the Lottery, it tempers the argument from the impact of casinos. As the consultants noted, the most vulnerable games from casinos are *Keno* and instants. *Keno* is indeed a very strong game in Maryland, and losses there can be partially attributed to the casinos. But the instant category was weak to begin with, and its decline during the period was not simply from casino erosion.

Fortunately, the instant business has begun a very strong recovery, growing almost 14% to an all-time record of \$546 million in FY 2015. Growth continues to be strong in fiscal year 2016. As of January 31, 2016, instant ticket sales have increased by \$39 million or 12.4% over the same period the previous year. Currently, instant ticket sales make up 31% of total lottery sales. We plan to continue growing our instant ticket product by offering high quality, attractive tickets, improving our distribution methods and outlets to include growing our retail network so that we can reach our goal of instant ticket sales comprising 50% of our lottery sales.

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Another area of opportunity for growth in the lottery is draw games. Recognizing this, in January 2016, Cash4Life was launched. Cash4Life is a multi-jurisdictional game offered in Maryland, New York, New Jersey, Pennsylvania, Virginia and Tennessee. For \$2, this game gives players a chance to win \$1,000 a day for life or a \$1,000 a week for life as well as other various prizes. Initial projections for this game, assuming a midyear launch, were \$8 million in sales and \$3.6 million in profit for fiscal year 2016 with annualized sales and profit projected at \$18 million in sales and \$8 million in profit. Since the launch through February 7th, sales for this game have totaled almost \$1.3 million, so far exceeding our expectations. While still too early to determine long term success, several marketing initiatives have been put in place to call awareness to this game. Advertising introduced the game and built anticipation. Several television and radio spots were run, interactive digital media was used which included the use of banners, Facebook and Instagram, billboards were purchased and point of sale kits were placed in retailer locations. Since continued support is imperative to the success of the game, we have continued to advertise on radio, television and billboards. Consumer promotions are being run which include free play, promotions at various off-site events as well as a "Name the Groundhog" promotion where lottery Facebook fans are being asked to name the groundhog that stars in our television commercials.

In addition to our success so far this fiscal year with instant ticket sales and our newest game launch, we have seen an increase in both of our monitor games, Keno and Racetrax. Combined, as of January 31, 2016, these games are up \$12.7 million or 4.8% over the same period the previous year. Our other growth product this year has been Powerball, thanks to the record setting \$1.6 billion jackpot. Powerball sales are up over \$57 million or 119.6% over the previous year and so far, has outsold last year's total Powerball sales by over \$15.2 million. Overall lottery profit is also up \$25.4 million over the same time as the previous year. See page 10 for detailed sales and profit as of January 31, 2016.

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DLS recommends that the Agency comment on the status of the State's gaming program including the agency's preparations for the impending introduction of the sixth gaming facility.

As noted previously, Maryland's casino industry continued to grow in fiscal year 2015, highlighted by the August 2014 opening of Horseshoe Casino Baltimore, the state's fifth casino. Gaming revenue at these five casinos totaled \$1.038 billion, a \$204.2 million or a 24.5% increase compared to fiscal year 2014. The casino industry has continued its growth into fiscal year 2016. As of January 31, 2016, total gaming revenue is up by \$64.3 million and total profit is up by \$7 million over the same time the previous year. The industry is expected to grow further with the opening of MGM sometime in the fourth quarter of calendar year 2016.

The Agency currently meets at least weekly with MGM to review its project schedule and to discuss and resolve any issues that may arise. Topics of discussion include hiring timeframes, licensing, security, surveillance, internal controls submissions, and slot and table game floor layouts. Several license applications have already been submitted and are currently being investigated by the Agency.

Recommended Action

Concur with Governor's allowance.

The Agency Concurs.

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Week to Week Cash Basis Sales and Profit Comparison
Fiscal Year to Date Thru Week Ended 1/31/2016 (weeks 1-31)

	Period Ended 1/31/2016	Period Ended 2/1/2015	\$ Change	% Change
Lottery Sales				
Draw Games				
Mega Millions	\$41,090,067	\$51,106,816	-\$10,016,749	-19.6%
Powerball	\$104,725,595	\$47,689,062	\$57,036,533	119.6%
Cash4Life	\$365,504	\$0	\$365,504	
Sub-Total	\$146,181,166	\$98,795,878	\$47,385,288	48.0%
Keno	\$182,804,435	\$175,844,017	\$6,960,418	4.0%
Racetrax	\$92,979,119	\$87,212,304	\$5,766,814	6.6%
Sub-Total	\$275,783,554	\$263,056,321	\$12,727,233	4.8%
Pick 3	\$142,095,136	\$142,446,333	-\$351,197	-0.2%
Pick 4	\$165,853,888	\$163,112,478	\$2,741,410	1.7%
Multi-Match	\$19,201,024	\$18,805,944	\$395,080	2.1%
Bonus Match 5	\$12,462,542	\$12,320,682	\$141,860	1.2%
5 Card Cash	\$3,523,300	\$4,121,370	-\$598,070	-14.5%
Monopoly Millions	\$0	\$1,592,835	-\$1,592,835	-100.0%
Total Draw Games	\$765,100,609	\$704,251,841	\$60,848,768	8.6%
Instant Game Sales				
\$1 Games	\$18,465,203	\$17,476,568	\$988,635	5.7%
\$2 Games	\$24,088,864	\$25,701,316	-\$1,612,452	-6.3%
\$3 Games	\$22,985,517	\$21,844,968	\$1,140,549	5.2%
\$5 Games	\$135,870,586	\$133,057,275	\$2,813,311	2.1%
\$10 Games	\$91,455,700	\$70,824,320	\$20,631,380	29.1%
\$20 Games	\$54,530,320	\$39,522,600	\$15,007,720	38.0%
Total Instant Games	\$347,396,190	\$308,427,047	\$38,969,143	12.6%
ITLMs (net win)	\$3,662,932	\$1,497,940	\$2,164,992	144.5%
Total Lottery Sales	\$1,116,159,732	\$1,014,176,828	\$101,982,904	10.1%
Casino Revenue				
Slots				
Hollywood Casino Perryville	\$37,328,712	\$38,550,096	-\$1,221,383	-3.2%
The Casino at Ocean Downs	\$34,557,338	\$31,451,016	\$3,106,322	9.9%
Maryland Live Casino	\$239,663,001	\$231,219,325	\$8,443,676	3.7%
Rocky Gap Casino and Resort	\$23,635,223	\$21,992,739	\$1,642,484	7.5%
Horseshoe Baltimore	\$93,704,695	\$68,087,248	\$25,617,446	37.6%
Sub-Total	\$428,888,970	\$391,300,425	\$37,588,545	9.6%
Table Games				
Hollywood Casino Perryville	\$6,739,456	\$6,933,755	-\$194,300	-2.8%
Maryland Live Casino	\$134,379,731	\$136,801,355	-\$2,421,624	-1.8%
Rocky Gap Casino and Resort	\$3,772,401	\$3,597,722	\$174,679	4.9%
Horseshoe Baltimore	\$81,784,637	\$52,617,410	\$29,167,228	55.4%
Sub-Total	\$226,676,225	\$199,950,242	\$26,725,983	13.4%
Total Casino Revenue	\$655,565,194	\$591,250,666	\$64,314,528	10.9%
Combined Lottery Sales and Casino Revenue	\$1,771,724,926	\$1,605,427,494	\$166,297,432	10.4%
Lottery Profit				
Draw Games				
Mega Millions	\$15,562,739	\$19,840,949	-\$4,278,210	-21.6%
Powerball	\$42,202,831	\$18,550,134	\$23,652,697	127.5%
Cash4Life	\$113,386	\$0	\$113,386	
Sub-Total	\$57,878,957	\$38,391,083	\$19,374,487	50.5%
Keno	\$49,346,030	\$49,323,651	\$22,379	0.0%
Racetrax	\$20,487,749	\$20,994,542	-\$506,793	-2.4%
Sub-Total	\$69,833,779	\$70,318,193	-\$484,414	-0.7%
Pick 3	\$53,837,477	\$59,010,386	-\$5,172,909	-8.8%
Pick 4	\$74,513,280	\$68,731,933	\$5,781,347	8.4%
Multi-Match	\$6,683,157	\$6,569,215	\$113,942	1.7%
Bonus Match 5	\$4,315,250	\$4,683,524	-\$368,274	-7.9%
5 Card Cash	\$1,075,113	\$1,388,083	-\$312,970	-22.5%
Monopoly Millions	\$0	\$656,884	-\$656,884	-100.0%
Total Draw Games	\$268,137,012	\$249,749,301	\$18,274,325	7.3%
Instant Games	\$61,859,517	\$54,864,792	\$6,994,725	12.7%
ITLM	\$305,949	\$120,194	\$185,755	154.5%
Total Lottery Profit	\$330,302,478	\$304,734,287	\$25,454,805	8.4%
Casino Contributions				
Slots				
Hollywood Casino Perryville	\$22,770,514	\$25,827,894	-\$3,057,380	-11.8%
The Casino at Ocean Downs	\$19,697,683	\$17,927,080	\$1,770,603	9.9%
Maryland Live Casino	\$141,401,171	\$154,916,948	-\$13,515,777	-8.7%
Rocky Gap Casino and Resort	\$11,817,612	\$10,996,369	\$821,242	7.5%
Horseshoe Baltimore	\$57,159,864	\$41,533,221	\$15,626,642	37.6%
Total Slots	\$252,846,843	\$251,201,513	\$1,645,331	0.7%
Table Games				
Hollywood Casino Perryville	\$1,347,897	\$1,386,661	-\$38,764	-2.8%
Maryland Live Casino	\$26,896,003	\$27,360,271	-\$464,268	-1.7%
Rocky Gap Casino and Resort	\$754,480	\$719,544	\$34,936	4.9%
Horseshoe Baltimore	\$16,356,927	\$10,523,482	\$5,833,446	55.4%
Total Table Games	\$45,355,308	\$39,989,958	\$5,365,349	13.4%
Total Casino Contributions	\$298,202,151	\$291,191,471	\$7,010,680	2.4%
Combined Lottery Profit and Casino Contributions	\$628,504,629	\$595,925,758	\$32,465,485	5.4%