



MARYLAND LOTTERY AND GAMING

Impact of Payout Percentage Changes and Proposed Casino Video Lottery Terminal Tax Rate Adjustments

In compliance with Chapter 1 of the Acts of the Second Special Session of 2012

December 1, 2022

Maryland Lottery and Gaming Control Commission

1800 Washington Boulevard, Suite 330, Baltimore, MD 21230

Report of the Maryland Lottery and Gaming Control Commission

Impact of Payout Percentage Changes and Proposed Casino Video Lottery Terminal Tax Rate Adjustments

Pursuant to Chapter 1 of the Acts of the Second Special Session of 2012, the Maryland Lottery and Gaming Control Commission (“Commission” or “we”) must report to the Governor and the General Assembly on or before December 1, 2022 on the change in each Video Lottery Facility’s average payout percentage and the impact of the change on the amount of Video Lottery Terminal (VLT) proceeds generated at each facility. The Commission must also report and make recommendations on the tax structure and competitiveness of the Maryland gaming market. Our analysis and recommendations follow.

Payout Percentage Changes:

Video Lottery Facilities, or casinos, were required to have an average VLT payout of at least 87% until June 30, 2021. As of July 1, 2021, the minimum payout percentage was reduced to 85% in an effort to allow the casinos more flexibility in their product offerings. As can be seen below, no facilities had average payouts less than 90.5% at the time the statute became effective and no facilities had average payouts less than 89.9% during all of FY 2022. All of these percentages are higher than even the original minimum payout percentage, and as a result, the Commission is unable to provide any information on the impact of the statutory change.

Maryland Lottery and Gaming Control Commission

Changes in VLT Payouts

Average Payout Percentage - Quarter Ending:

VLT Facility	3/31/2021	6/30/2021	9/30/2021	12/31/2021	3/31/2022	6/30/2022	June 22 vs. June 21
Hollywood	90.26%	90.53%	90.69%	90.68%	90.88%	90.90%	0.37%
Horseshoe	91.00%	90.89%	90.59%	90.77%	91.00%	91.14%	0.25%
Maryland Live!	90.92%	91.14%	90.83%	91.17%	91.24%	90.95%	-0.19%
Ocean Downs	91.02%	91.15%	91.31%	91.05%	91.51%	91.51%	0.36%
MGM	90.72%	90.84%	91.07%	90.96%	91.12%	91.38%	0.54%
Rocky Gap	91.24%	91.15%	89.94%	90.44%	90.68%	90.54%	-0.61%

Effective 7/1/2021 VLT facilities were permitted to have an average VLT payout of at least 85%. Prior to that date, the average was required to be at least 87%.

VLT Gross Gaming Revenue - Quarter Ending:

VLT Facility	3/31/2021	6/30/2021	9/30/2021	12/31/2021	3/31/2022	6/30/2022	June 22 vs. June 21
Hollywood	19,220,020	21,644,157	20,839,110	18,940,543	19,577,731	20,573,548	1,070,609
Horseshoe	33,022,924	39,270,357	36,113,493	33,024,377	33,421,617	34,248,051	5,022,306
Maryland Live!	108,485,671	127,080,928	125,424,472	124,838,721	119,701,262	126,712,393	-368,536
Ocean Downs	16,733,747	22,456,448	25,939,715	18,333,961	17,786,703	22,777,955	321,507
MGM	93,363,927	113,817,954	119,719,577	121,002,696	112,983,884	117,555,561	3,737,608
Rocky Gap	12,327,408	15,282,772	15,619,101	14,252,261	13,620,905	14,913,312	-369,460

GGR is Gross Gaming Revenue, amounts wagered less promotion play less prizes paid.

Change in GGR Vs. Prior Quarter

VLT Facility	3/31/2021	6/30/2021	9/30/2021	12/31/2021	3/31/2022	6/30/2022
Hollywood	N/A	12.61%	-3.72%	-9.11%	3.36%	5.09%
Horseshoe	N/A	18.92%	-8.04%	-8.55%	1.20%	2.47%
Maryland Live!	N/A	17.14%	-1.30%	-0.47%	-4.12%	5.86%
Ocean Downs	N/A	34.20%	15.51%	-29.32%	-2.98%	28.06%
MGM	N/A	21.91%	5.19%	1.07%	-6.63%	4.05%
Rocky Gap	N/A	23.97%	2.20%	-8.75%	-4.43%	9.49%

Maryland VLT Tax Rates:

Below are our thoughts on tax rates in Maryland and the competitive landscape:

1. The Agency has adopted a number of regulatory changes to enhance player experiences, most notably around the procedures followed when cashing larger prizes and cashing player checks. There has also been a legislative change allowing what are called loss carry-forwards that permit casinos to spread gaming day losses across multiple days. This change encourages casinos to market to higher spending players where there is more upside potential to be shared by all stakeholders because it allows a single day's losses to be applied against future winnings. (Previously, if a casino had a net loss for a day, it paid no taxes, but it wasn't able to reduce future winnings, so in effect the casino would pay more than the statutory tax levy if players were "lucky" on a given day.)
2. SG §9-1A-27 adjusts the casino share, with a corresponding decrease to contributions to the ETF, for two facilities effective July 1, 2023 for FY 24. The share retained by Hollywood Casino in Perryville will increase by 3% to 42% and the share retained by Horseshoe Casino in Baltimore will increase by 1% to 47%. Additionally, there are a series of changes to the distribution of VLT revenues from Rocky Gap that reduce both the casino share (by 2%) and the ETF share (by 5%) in order to fund other programs.
3. We recognize that our casinos face stiff competition from neighboring states. On average, casinos in Pennsylvania retain 50.9% of the GGR. Those in Delaware retain 43%, but the state uses 8% to provide slots machines to the casinos, yielding an effective rate of 51%. Further, Pennsylvania permits unlimited promotional play, while Maryland limits promotional play to 20%. Pennsylvania also offers iGaming and permits slot machines in truck stops and airports making for a very competitive market. Maryland casinos must retain enough revenue to stay competitive with neighboring jurisdictions, so periodic reviews are necessary.
4. Because any tax rate adjustment we suggest may reduce contributions to the ETF, we are not recommending any changes at this time.

The table below illustrates the revenue distributions in SG §9-1A-27 for FY 22, and using projections developed by the Bureau of Revenue Estimates (BRE), for FY 23 and FY 24.

Maryland Casino Scheduled Tax Rate Changes - July 2023

	Hollywood		Ocean Downs		Rocky Gap	
	FY 23	7/1/2023	FY 23	7/1/2023	FY 23	7/1/2023
VLT Proceeds Distribution						
Casino Share	33.0%	36.0%	43.0%	43.0%	50.0%	48.0%
VLT Ownership & Maintenance	6.0%	6.0%	10.0%	10.0%	10.0%	10.0%
Marketing/Capital Improvements	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Combined Casino Share	39.0%	42.0%	53.0%	53.0%	60.0%	58.0%
MLGCA Administrative Costs	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Purse Dedication Account	6.0%	6.0%	6.0%	6.0%	2.5%	6.0%
Racetrack Facility Renewal Account	1.0%	1.0%	1.0%	1.0%	0.00%	1.0%
Small Minority & Women-Owned Business	1.5%	1.5%	1.5%	1.5%	0.75%	1.5%
Local Impact Grants	5.5%	5.5%	5.5%	5.5%	3.75%	5.5%
Education Trust Fund	46.00%	43.00%	32.00%	32.00%	32.00%	27.00%

	Live!		Horseshoe		MGM	
	FY 23	7/1/2023	FY 23	7/1/2023	FY 23	7/1/2023
VLT Proceeds Distribution						
Casino Share	33.0%	33.0%	33.0%	34.0%	38.0%	38.0%
VLT Ownership & Maintenance	8.0%	8.0%	6.0%	6.0%	6.0%	6.0%
Marketing/Capital Improvements	8.0%	8.0%	7.0%	7.0%	0.0%	0.0%
Combined Casino Share	49.0%	49.0%	46.0%	47.0%	44.0%	44.0%
MLGCA Administrative Costs	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Purse Dedication Account	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Racetrack Facility Renewal Account	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Small Minority & Women-Owned Business	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Local Impact Grants	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Education Trust Fund	36.00%	36.00%	39.00%	38.00%	41.00%	41.00%

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Green highlight indicates a scheduled change in the distribution of VLT revenues

The table below shows the casino revenue distributions for FY 22 to FY 24.

VIDEO LOTTERY REVENUE DISTRIBUTION

	Hollywood	Ocean Downs	Rocky Gap	Live!	Horseshoe	MGM	Combined
FY 22 VLT GGR (000's)	\$80,065	\$84,998	\$58,526	\$498,442	\$137,111	\$472,670	\$1,331,812
Casino Share (1)	39.00%	53.00%	60.00%	49.00%	46.00%	44.00%	47.05%
Education Trust Fund	46.00%	32.00%	32.00%	36.00%	39.00%	41.00%	38.25%
ETF Contribution	\$36,830	\$27,199	\$18,728	\$179,439	\$53,473	\$193,795	\$509,464

FY 23 VLT Projected GGR (000's)	\$76,804	\$87,425	\$57,263	\$496,545	\$132,848	\$485,857	\$1,336,741
Casino Share (1)	39.00%	53.00%	60.00%	49.00%	46.00%	44.00%	47.04%
Education Trust Fund	46.00%	32.00%	32.00%	36.00%	39.00%	41.00%	38.26%
Projected ETF Contribution	\$35,330	\$27,976	\$18,324	\$178,756	\$51,811	\$199,201	\$511,398

FY 24 VLT Projected GGR (000's)	\$77,495	\$88,736	\$58,122	\$503,993	\$130,856	\$495,574	\$1,354,776
Casino Share (1)	42.00%	53.00%	58.00%	49.00%	47.00%	44.00%	47.23%
Education Trust Fund	43.00%	32.00%	27.00%	36.00%	38.00%	41.00%	37.77%
Projected ETF Contribution	\$33,323	\$28,396	\$15,693	\$181,437	\$49,725	\$203,185	\$511,759

(1) Casino share includes funding for the purchase and maintenance of VLTs.

Note: Hollywood share to increase by 3%, Horseshoe by 1% and Rocky Gap to decrease by 2%, all effective 7/1/2023.

Green highlight indicates a scheduled change in the distribution of VLT revenues

Discussion:

We are not recommending any specific changes to tax rates at this time. However, we believe that a comprehensive review by an independent third party would be beneficial. Such a study would evaluate any disparities in the amounts being retained by casinos of similar sizes, as well as contributions to the Education Trust Fund (ETF) and other beneficiaries. This would help assure the long-term sustainability of the casino operations and funding for the ETF in times of expansion of gaming.

Impact to Education Trust Fund:

Statewide revenue estimates for FY 23 and FY 24 were provided by the BRE. FY 23 is essentially flat at growth of just 0.4% year-over-year for GGR and ETF contributions. FY 24 projections have 1.35% GGR growth and 0.07% growth in ETF contributions. It is not possible to accurately project revenues for the casinos under the scheduled tax rate adjustments because of the changing regional gaming environment, uncertainty about marketing programs, and what amenities may be added to the casinos.