

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 541

(Senator Charles, *et al.*)

Budget and Taxation

Rules and Executive Nominations

State Lottery - Instant Ticket Lottery Machines - Veterans' and Fraternal Organizations

This bill adds fraternal organizations to the organizations that the State Lottery and Gaming Control Agency (SLGCA) may issue a license to for instant ticket lottery machines (ITLM or pull tab machines). The bill alters the distribution of proceeds from ITLM sales by veterans' organizations and specifies the distribution of proceeds from ITLM sales by fraternal organizations, with the remainder of each being distributed to the Education Trust Fund (ETF) after specified distributions. **The bill takes effect July 1, 2025.**

Fiscal Summary

State Effect: Under the assumptions below, general fund revenues decrease by at least \$3.5 million annually beginning in FY 2026 from altering the distribution of ITLM proceeds by veterans' organizations. Special fund revenues increase by at least \$4.6 million beginning in FY 2026, of which \$2.4 million is for ETF. Special fund expenditures increase by \$0.9 million in FY 2026, \$8.2 million in FY 2027, and by at least \$5.9 million annually thereafter with decreases in general fund expenditures for education corresponding with increases in ETF expenditures. Other gaming revenues may decrease due to substitution effects beginning in FY 2026.

(\$ in millions)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
GF Revenue	(\$3.5)	(\$3.5)	(\$3.6)	(\$3.6)	(\$3.7)
SF Revenue	\$4.6	\$7.2	\$7.3	\$7.4	\$7.5
GF Expenditure	\$0	(\$5.5)	(\$3.1)	(\$3.1)	(\$3.2)
SF Expenditure	\$0.9	\$8.2	\$5.9	\$6.0	\$6.1
Net Effect	\$0.2	\$1.0	\$1.0	\$1.0	\$1.0

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

Local Effect: Minimal. To the extent that video lottery terminal and table game revenues decrease due to substitution effects, local impact grants decrease.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill authorizes, instead of requires, the Director of SLGCA to consider factors specified in current law before issuing a license to sell State lottery tickets or shares. As a retailer under the ITLM program, a veterans' or fraternal organization must be compensated based on a percentage of proceeds.

SLGCA must ensure that the element of chance in the conduct of a ITLM is contained wholly within the predetermined instant lottery ticket instead of being wholly within the pre-printed instant lottery ticket.

Instant Ticket Lottery Machines Operated by Veterans' Organizations

The bill alters the distribution of proceeds from ITLMs operated by veterans' organizations so that after the deduction of prizes (and not commissions as authorized under current law), 50% of net proceeds are retained by veterans' organizations, an amount goes to SLGCA to cover the purchase or lease of ITLMs, plus administration fees for the program, 5% goes to the Maryland Veterans' Trust Fund (MVTF), and the remainder goes to ETF. The bill no longer requires a veterans' organization to purchase or lease ITLMs.

Instant Ticket Lottery Machines Operated by Fraternal Organizations

The bill defines a fraternal organization and excludes any fraternity or sorority restricted to students or graduates of an educational institution or a professional school. Fraternal organizations in counties on the Eastern Shore are not eligible. The bill places restrictions on where fraternal organizations may locate or operate their ITLMs. The Director of SLGCA may issue up to three ITLMs to a fraternal organization.

After deducting prizes paid out, a fraternal organization must retain 25% of the net proceeds to be used for undergraduate, graduate, or trade school scholarships or capital improvements, capital outlays, acquisitions, or existing community outreach programs and resources. A fraternal organization must remit the remainder to SLGCA, and SLGCA must distribute net proceeds as follows:

- 20% to the Homelessness Solutions Program (HSP) in the Department of Housing and Community Development (DHCD) as specified;

- 5% to MVTF;
- an amount needed to pay for the purchase or lease of ITLMs and administration fees to SLGCA; and
- any remaining amount to ETF.

Current Law: SLGCA may issue specified veterans' organizations a license for up to five pull tab machines. Veterans' organizations in counties on the Eastern Shore are not eligible.

A licensed veterans' organization must locate and operate its pull tab machines at its principal meeting hall in the county. After deductions for commissions and prize payouts, 10% of the proceeds are distributed to MVTF and the remainder goes to the State Lottery Fund. A licensed veterans' organization must purchase or lease the pull tab machines from SLGCA but may not use receipts from the sale of pull tabs that would otherwise go to the State Lottery Fund to purchase or lease the machines.

Before issuing a license to an applicant, the Director of SLGCA must consider such factors as (1) the financial responsibility and security of the applicant and the business or activity of the applicant; (2) the accessibility of the place of business or activity to the public; (3) the sufficiency of existing licenses to serve the public convenience; and (4) the volume of expected sales.

In *Chesapeake Amusements Inc. v. Riddle*, 363 Md. 16 (2001), the Maryland Court of Appeals took up the issue of "whether a dispensing machine with a video screen that displays the contents of the tickets that it dispenses and emits a musical tone that signals when a winning ticket is being dispensed is a 'slot machine,'" as defined by Maryland law. The Court of Appeals found that the machine in question was not a slot machine. In response to this decision, Chapter 474 of 2008 altered the definition of "slot machine" to include a machine that reads a game of chance and a machine that delivers a game of chance.

Chapter 629 of 2013 clarified that SLGCA must ensure that the element of chance in the conduct of gaming through ITLMs is consistent with the holding in *Chesapeake Amusements Inc. v. Riddle* in that the element of chance must be wholly within the pre-printed instant lottery ticket, and that player enhancements may not affect the element of chance being wholly within the pre-printed instant lottery ticket.

Homelessness Solutions Program

DHCD administers HSP, which serves as a statewide response to address the issue of homelessness in Maryland, providing technical support and funding to Continuums of Care and Local Homeless Coalitions, which coordinate funding and resources for service

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providers across the State. The goals of HSP are to reduce the number of individuals/households who become homeless or return to homelessness and to shorten the length of time an individual or household is homeless. HSP funds can be used for rapid rehousing, homelessness prevention, and other related services.

Education Trust Fund

ETF provides funding for education and public schools. After specified allocations for school construction financing under the Built to Learn Act (Chapter 20 of 2020), ETF funds are directed to the Blueprint for Maryland's Future Fund (BMFF), which serves as the primary funding source for Blueprint for Maryland's Future education programs.

Maryland Veterans Trust Fund

Money in MVTF may be used to make grants and loans to veterans and their families and support public and private programs that serve veterans in the State. Money in the fund may also be used to invest in general obligations of the State or other securities and pay for the cost of administering the fund. Money expended from the fund is supplemental to and not intended to supplant funding otherwise appropriated to the Department of Veterans and Military Families (DVMF).

State Fiscal Effect:

Instant Ticket Lottery Machine Proceeds from Veterans' Organizations

As shown in **Exhibit 1**, altering the distribution of ITLM proceeds from veterans' organizations annually increases ETF revenues by at least \$2.3 million, MVTF revenues by at least \$0.7 million, and SLGCA administrative fee revenues by at least \$0.4 million beginning in fiscal 2026. This estimate reflects SLGCA retaining 2% of ITLM proceeds from veterans' organizations to cover administrative expenses related to regulating ITLMs. General fund revenues decrease by at least \$3.5 million annually as remaining ITLM proceeds are distributed to ETF instead of the general fund.

Instant Ticket Lottery Machine Proceeds from Fraternal Organizations

Based on U.S. Census data, the Department of Legislative Services (DLS) estimates that there are approximately 250 fraternal organizations in the State that may be eligible to operate ITLMs. However, the bill earmarks how fraternal organizations must spend their proceeds, so DLS assumes only a fraction of eligible organizations will operate ITLMs.

Exhibit 1
Veterans' Organizations ITLM Distribution of Net Proceeds
Current Law vs. under the Bill
(\$ in Millions)

	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>
ITLM under Current Law					
Maryland Veterans Trust Fund	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4
General Fund	3.5	3.5	3.6	3.6	3.7
<i>Veterans' ITLM Net Proceeds</i>	<i>3.8</i>	<i>3.9</i>	<i>4.0</i>	<i>4.0</i>	<i>4.1</i>
ITLM under the Bill					
SLGCA Administrative Costs	\$0.4	\$0.4	\$0.5	\$0.5	\$0.5
Education Trust Fund	2.3	2.3	2.4	2.4	2.4
Maryland Veterans Trust Fund	1.1	1.1	1.1	1.1	1.2
General Fund	0.0	0.0	0.0	0.0	0.0
<i>Veterans' ITLM Net Proceeds</i>	<i>3.8</i>	<i>3.9</i>	<i>4.0</i>	<i>4.0</i>	<i>4.1</i>
Change in Proceeds					
SLGCA Administrative Costs	\$0.4	\$0.4	\$0.5	\$0.5	\$0.5
Education Trust Fund	2.3	2.3	2.4	2.4	2.4
Maryland Veterans Trust Fund	0.7	0.7	0.7	0.7	0.8
General Fund	(3.5)	(3.5)	(3.6)	(3.6)	(3.7)
<i>Veterans' ITLM Net Proceeds</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>

ITLM: instant ticket lottery machine
SLGCA: State Lottery and Gaming Control Agency

Source: Department of Legislative Services

This analysis assumes 40 fraternal organizations operate three pull tab machines per organization and that pull tab machines commence operations in March 2026, after accounting for a delay to procure systems and equipment. Thus, net sales from ITLMs operated by fraternal organizations are \$1.5 million in fiscal 2026, increasing to \$4.9 million in fiscal 2027, based on net sales data from veterans' organizations in fiscal 2024. SLGCA must distribute 20% of net proceeds, or \$0.3 million, to HSP. Fraternal organizations retain 25% of net proceeds, approximately \$0.4 million, to be used for scholarships or other specified purposes, SLGCA receives approximately \$0.6 million to pay for the lease or purchase of pull tab machines and for administrative fees, MVTF receives 5% of net

proceeds (\$0.1 million), and the remainder of approximately \$0.1 million is distributed to ETF in fiscal 2026. These effects can be seen in **Exhibit 2**.

Exhibit 2
Overall Revenue Effects of the Bill
(\$ in Millions)

	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>
Veterans' Organizations Proceeds					
ETF	\$2.3	\$2.3	\$2.4	\$2.4	\$2.4
MVTF	0.7	0.7	0.7	0.7	0.8
SLGCA	0.4	0.4	0.5	0.5	0.5
General Fund	(3.5)	(3.5)	(3.6)	(3.6)	(3.7)
Fraternal Organizations Proceeds					
HSP	\$0.3	\$1.0	\$1.0	\$1.0	\$1.0
ETF	0.1	0.7	0.7	0.7	0.7
Fraternal Organizations	0.4	1.2	1.3	1.3	1.3
MVTF	0.1	0.2	0.3	0.3	0.3
SLGCA	0.6	1.8	1.8	1.8	1.9
Total Fraternal Organizations Proceeds	\$1.5	\$4.9	\$5.0	\$5.1	\$5.2
Overall State Revenue Effect					
ETF	\$2.4	\$3.0	\$3.1	\$3.1	\$3.2
MVTF	0.8	1.0	1.0	1.0	1.0
HSP	0.3	1.0	1.0	1.0	1.0
SLGCA	1.1	2.2	2.3	2.3	2.3
General Fund	(3.5)	(3.5)	(3.6)	(3.6)	(3.7)

ETF: Education Trust Fund
HSP: Homelessness Solutions Program
MVTF: Maryland Veterans Trust Fund
SLGCA: State Lottery and Gaming Control Agency

Source: Department of Legislative Services

Overall Revenue Effects from Instant Ticket Lottery Machines

Exhibit 2 shows the combined revenue effects for the funds affected by the bill as a result of altering the distribution of instant ticket proceeds from veterans' organizations and from authorizing fraternal organizations to operate ITLMs. These amounts do not take into

account any substitution effects. The bill may minimally decrease special fund revenues from casinos. The actual impact of the bill on general fund and special fund revenues and expenditures will depend on the number of fraternal organizations that operate authorized ITLMs, their location with respect to casinos and to veterans' organizations with ITLMs, the actual payout rates on ITLMs, and the degree to which ITLMs authorized by the bill constitute a substitute for other gambling in the State, and could vary significantly from what is shown below.

DHCD advises that it can likely implement the bill with existing resources, and special fund expenditures would be commensurate with the increased revenue. Likewise, DVMF does not anticipate a significant impact on its operations.

ETF revenues are redirected to the BMFF, and BMFF revenues are projected to be sufficient to cover mandated annual increases in expenditures for the Blueprint for Maryland's Future in fiscal 2026. However, current projections indicate that, under current law, revenues in the BMFF, including prior-year fund balances, will be less than the required increases to annual expenditures under the Blueprint for Maryland's Future beginning in fiscal 2027. It is, therefore, assumed that the cumulative revenues of \$5.5 million in fiscal 2026 and 2027 are expended in fiscal 2027 rather than being used for other BMFF costs before then, thereby reducing the need for \$5.5 million of general fund expenditures in fiscal 2027. Beginning in fiscal 2028, general fund expenditures for education decrease to the same extent that any BMFF revenues and expenditures increase under the bill.

State Lottery and Gaming Control Agency Expenditures

SLGCA advises that, if a significant number of fraternal organizations operate ITLMs, additional staff will be needed to oversee the machines. SLGCA anticipates needing one program administrator and one fiscal technician for every 50 new organizations operating ITLMs. Shifting to multiple vendors may also impact program costs. Thus, special fund expenditures for SLGCA increase by \$612,949 in fiscal 2026, which accounts for a 90-day start-up delay from the bill's July 1, 2025 effective date. This estimate reflects the cost of hiring one program administrator and one fiscal technician to oversee the additional ITLMs operated by fraternal organizations. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses, as well as vendor costs that are 32.5% of net proceeds from ITLMs.

Positions	2.0
Salaries and Fringe Benefits	\$124,263
Vendor Expenses	473,948
Other Operating Expenses	<u>14,738</u>
Total FY 2026 State Expenditures	\$612,949

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses. It is assumed that these costs will be offset by the increased revenues to SLGCA as shown above. To the extent that administrative costs for SLGCA are greater than estimated, less funds are available to BMFF.

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See HB 1159 of 2024.

Designated Cross File: HB 328 (Delegate Ebersole, *et al.*) - Ways and Means.

Information Source(s): Comptroller's Office; University System of Maryland; Morgan State University; St. Mary's College of Maryland; Department of Housing and Community Development; Department of Veterans and Military Families; Maryland State Lottery and Gaming Control Agency; U.S. Census Bureau; Department of Legislative Services

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