Maryland Lottery and Gaming Control Commission

STAFF AGENDA MEMORANDUM

DATE OF MEETING: August 17, 2016

AGENDA ITEM: Approval of plan to apply for membership in the Mega Millions Consortium

PRESENTER: Gordon Medenica, Director

ISSUE SUMMARY: Staff seeks approval to re-join the *Mega Millions* consortium and resign our membership in the Multi-State Lottery Association (MUSL). The two organizations manage the two national jackpot lottery games of *Mega Millions* and *Powerball*, respectively. Both games are sold in all lottery jurisdictions in the United States, and all jurisdictions must be a member of one or the other of these organizations, but not both, in order to offer the games.

The Maryland Lottery was a founding member of the *Mega Millions* consortium in 1996, which originally organized "*The Big Game*" that evolved into *Mega Millions*. It operates as a confederation of lottery states and incorporates all management, operations, security and financial functions within the infrastructure of the member states; there is no separate staff or office. Governance is by direct vote of the members. Member states tend to be the largest and most successful lotteries in the US; current members are New York, New Jersey, Virginia, Massachusetts, Georgia, California, Michigan, Ohio, Illinois and Washington. All these states have robust product portfolios similar to Maryland's.

The MUSL organization was founded in Iowa in 1987 as a way for smaller states to join together to offer a multi-jurisdiction game with larger prizes than what was possible in their respective states (the original game "*Lotto America*" evolved into *Powerball* in 1992). It also offered infrastructure services (management, operations, computer systems, security and finance) for small lotteries that could not afford the level of investment required to provide such services alone. It is governed by a board made up of all member jurisdictions (currently 37) with an Executive Board that rotates officers annually. Over the years, MUSL expanded its scope to offer additional multi-jurisdictional games that have various subsets of participating members, as well as computer services such as Random Number Generator (RNG) software. It operates with a staff of 13 in Urbandale, Iowa, with operations funded by member assessments.

In 2011, a groundbreaking agreement was reached which allowed all lottery jurisdictions to sell both *Mega Millions* and *Powerball* through a cross-sell arrangement. At the time, the Mega Millions states had a population of 165 million and the MUSL states had a population of 125 million.

In 2014, Maryland followed along with Texas to leave the *Mega Millions* consortium and join MUSL. The reasons given for the switch included access to additional games, a potential new national game and a decrease in Maryland Lottery staff responsibilities. In the two years since the switch, Maryland has not joined in any additional MUSL games but did participate in a new national game *Monopoly Millionaires Club*, which failed soon after launch. The Maryland Lottery's recent joining of the *Cash4Life* game was unconnected to MUSL, which offers a similar game, *Lucky for Life*, for a group of MUSL and non-MUSL states. The Maryland Lottery did benefit from decreases in staff responsibilities since the move to MUSL, but MUSL's annual assessments are approximately $83,000 higher than under *Mega Millions*. In addition, MUSL requires members to fund various reserves, and Maryland currently has a balance of $1.3 million in its reserve account; those funds would be returned one year after withdrawing from MUSL.

The reasons for re-joining the *Mega Millions* consortium are subtle but significant. The *Mega Millions* governance structure is direct and responsive; Directors have twice-weekly conference calls to set jackpot levels and discuss any issues with their peers. There is a high level of collegiality and cooperation among the *Mega Millions* states. Member lotteries divide various functions among themselves and embed them into their existing infrastructures (e.g., Georgia conducts the drawings, Virginia handles the financial clearinghouse, New Jersey processes accounts payable, Ohio provides the back-up data center, etc.). The *Mega Millions* group also has a strong Standards and Guidance Committee that focuses on Security and Auditing, led by California and Georgia. Very importantly, issues of security and integrity - of games, finance, operations, transparency, processes – are integral to the lotteries themselves; there is no separate private organization.

Maryland stands to benefit more from a deeper level of interaction with the high-performing states of the *Mega Millions* consortium. We have more to learn from the *Mega Millions* states, who have similar game portfolios, player characteristics, marketing abilities and management experience. (*Mega Millions* states occupy the top four spots in national rankings in per capita sales and six of the top ten if we include Maryland.) In terms of total US lottery sales, the ten *Mega Millions* states account for 52% of all sales, which would increase to 54.5% with our joining.

The MUSL governance structure includes a two-tier voting system for important strategic issues. It requires two-thirds approval on both a sales-weighted vote (states with more sales get more votes) and a one-state/one-vote basis. In the past, the organization has suffered gridlock on critical votes which were blocked by a minority of smaller states. A complex structure of committees, professional staff, board and executive board meet monthly or as needed. The quality of management oversight of the professional staff varies with the volunteer executive board members' time, commitment, experience and ability.

As far as our players are concerned, the shift back to *Mega Millions* will be completely transparent. We will continue to offer both *Mega Millions* and *Powerball*, seamlessly and without interruption. The entire issue is very much "inside baseball." And aside from recouping the $1.3 million reserve

fund from MUSL, our annual member assessments are estimated to be $83,000 less under *Mega Millions* membership.

In summary, Maryland's experiment with MUSL membership has not produced the hoped-for benefits originally anticipated. Given that the advantages of *Mega Millions* membership are not speculative, we believe re-joining the larger, more efficient organization is in our best interest.

COMMISSION ACTION REQUIRED/REQUESTED: Commission review and approval

STAFF RECOMMENDATIONS: Staff recommends approval.