STATE OF MAINE
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES
BUREAU OF ALCOHOLIC BEVERAGES AND LOTTERY OPERATIONS

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March 5, 2025

Testimony of the Bureau of Alcoholic Beverages and Lottery Operations
Joint Standing Committee on Veterans and Legal Affairs

Neither For nor Against LD 683
An Act to Clarify the Law Governing the Minimum Indirect Financial Interest Disclosure Requirement for Liquor Licenses

Senator Hickman, Representative Supica, and members of the Joint Standing Committee on Veterans and Legal Affairs: I am Louis Luchini and I'm the Director of the Bureau of Alcoholic Beverages and Lottery Operations. I'm here to testify neither for nor against LD 683, *An Act to Clarify the Law Governing the Minimum Indirect Financial Interest Disclosure Requirement for Liquor Licenses.*

Current law requires applicants for liquor licenses to disclose all persons with an indirect financial interest in the person applying for a license. By law, "indirect financial interest" means:

1. An option, warrant or other right to acquire an equity interest in the person for which a license or certificate of approval is sought; or
2. A right to payment of, or a right to payment based upon, all or any portion of revenues, profits or losses derived from the operations under a license or certificate of approval issued under this Title of the person for which a license or certificate of approval is sought, including, but not limited to, profit sharing, revenue sharing or royalty payments.

The Bureau has heard from industry members that feel this threshold is too low.

Ownership disclosure has become an issue nationwide as corporate ownership structures have grown increasingly complex, often due to ownership through investment groups, private equity funds, or trusts, to name a few.

You may recall that last session, the Bureau proposed LD 2069 (PL 2023, c. 633, §§1,2), which raised the threshold for disclosing persons with direct ownership in the applicant to 10%. This sought to simplify the disclosure process for those with complex ownership structures.

Similarly, this bill seeks to change the disclosure provision related to indirect financial interest by raising the disclosure threshold to persons with 10% indirect financial interest in the person applying for the license.

The Bureau will be able to implement this change should the committee choose to move forward with the bill.

Thanks for your time and I'm happy to answer any questions.

LOTTERY

Analytics & Insights Team

March 2020

Instant Payout Changes

An exploration of how Instant product prize payout changes have impacted lottery performance

Contents

Introduction

Prize payout is the fundamental driver of the Lottery industry. At its core, it is the fuel that the industry uses to create excitement and offer credible products to consumers. Of course, there are several questions and issues that surround the effective *use* of prize payout.

This is particularly true with instant products, where payouts substantially exceed that of draw based products. Unfortunately for the industry, this is the price that lotteries must pay in order to establish the category as a true form of entertainment. Providing instant gratification has simply proven to be more expensive than other slower types of lottery.

Not all lotteries are created equal—organizations differ in their missions, products, structure, staffing, and of course, the ability (or lack thereof) to pay out prizes to consumers. Some lotteries have legislatively mandated returns, and some are freer to make their own decisions. Many lotteries have shifted their payout strategies over time in an attempt to maximize demand. This often comes following legislative changes that allows for this flexibility.

Numerous research studies have expressed a positive relationship between payout and consumer demand. However, lotteries should be careful to consider maximizing profit, rather than revenue, as a part of making regular changes to payout. While revenue will almost always increase, costs also increase in this situation.

State of the Industry

The United States Instant Lottery Industry just keeps on growing. In the last 10 years Revenue has gone from $30 billion (FY'09) to a staggering $52 billion (FY'19). During that same time, Gross Gaming Revenue (GGR), which is defined as Revenue less Prizes Paid, has increased from $10 billion to $15 billion. While Revenue has grown by 70%, GGR has also grown by an impressive 52%. Aggregate instant payout percentages grew from 68.5% to 71.8% during this same time frame. This shows that there has been a clear trend towards higher payout within the industry, which has not only benefitted Revenue, but has also tremendously improved the industry's GGR figure. From FY'09 to FY'19 40 of the 44 US lotteries with instant ticket sales have increased payout. One lottery (Oklahoma) who decreased payout is shown as an example in this study. Oklahoma has since reversed its legislation and increased payouts again.

Figure 1. Instant and Draw Revenue and GGR

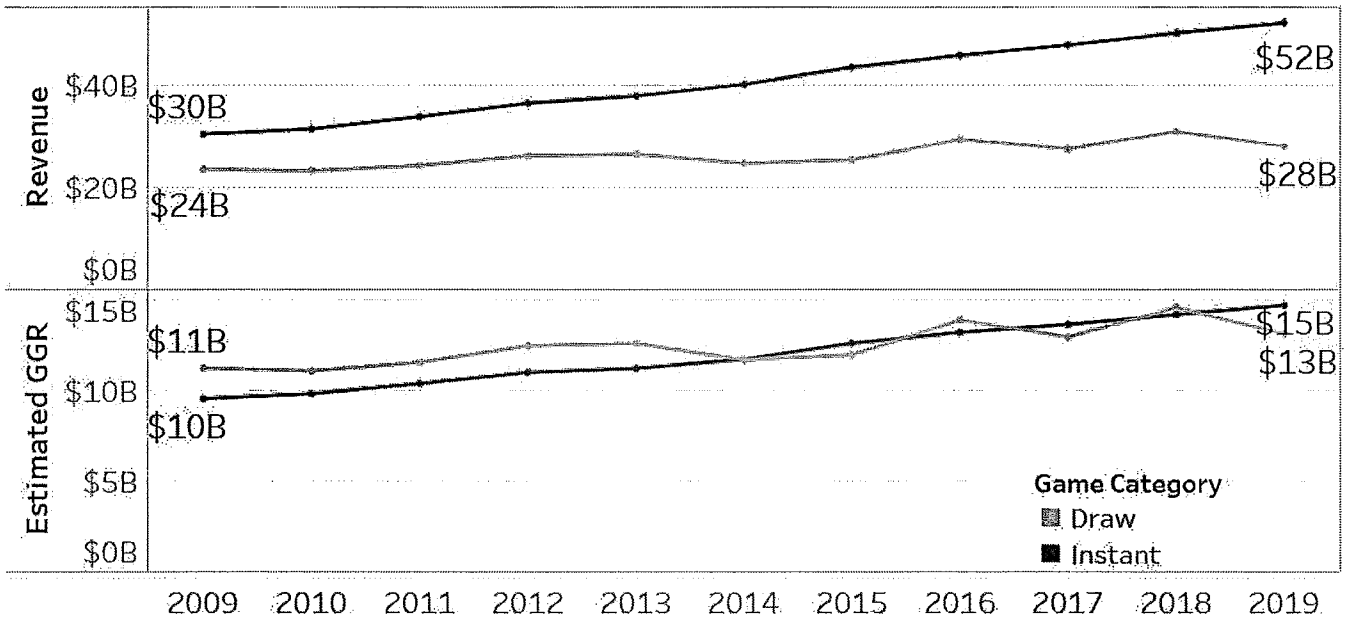
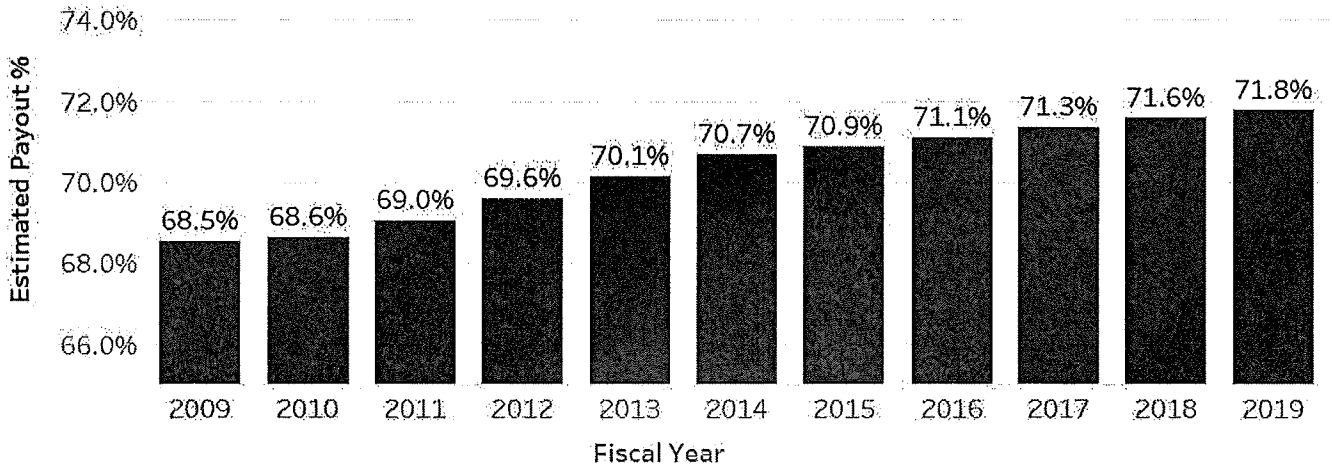


Figure 2. A Trend Towards Higher Instant Payouts



Consumers shifted their spending preferences towards $5 and up instant products, which tend to have higher payouts by design. Unit volume largely remained steady, but consumers on average spent more money on a per purchase basis. While this market shift has also brought increased payout costs, this has been more than offset by the large increase in consumer demand.

Figure 3. Fiscal Year 2019 Estimated Aggregate Instant Payout %

Jurisdict..	Rank of Estimated Pay..	Estimated Payout %	WPC Sales	WPC GGR	Rank of WPC GGR
MA	1	78.5%	$10.24	$2.20	1
AR	2	74.3%	$2.57	$0.66	24
SC	3	73.8%	$5.46	$1.43	3
MI	4	73.7%	$3.20	$0.84	15
FL	5	73.6%	$4.38	$1.16	9
MD	6	73.5%	$2.57	$0.68	23
GA	7	73.0%	$5.83	$1.57	2
DC	8	72.7%	$1.43	$0.39	35
AZ	9	72.5%	$2.01	$0.55	26
OH	10	72.5%	$2.72	$0.75	21
IL	11	72.4%	$2.76	$0.76	20
PA	12	72.3%	$4.48	$1.24	6
NC	13	72.0%	$3.48	$0.98	12
MO	14	71.2%	$2.77	$0.80	18
VA	15	71.2%	$2.72	$0.78	19
KY	16	71.0%	$2.86	$0.83	16
CA	17	71.0%	$2.50	$0.72	22
NH	18	70.9%	$3.55	$1.03	10
ME	19	70.7%	$3.25	$0.95	13
TX	20	70.5%	$3.22	$0.95	14
CT	21	70.2%	$3.91	$1.17	8
IN	22	70.1%	$2.67	$0.80	17
CO	23	70.0%	$1.50	$0.45	32
WA	24	69.9%	$1.34	$0.40	33
ID	25	69.8%	$1.75	$0.53	27
VT	26	69.7%	$3.28	$0.99	11
NY	27	69.4%	$3.98	$1.22	7
SD	28	68.8%	$0.67	$0.21	40
RI	29	68.7%	$1.86	$0.58	25
MN	30	68.5%	$1.48	$0.47	31
OK	31	68.5%	$0.66	$0.21	41
WI	32	68.4%	$1.50	$0.48	30
IA	33	68.2%	$1.52	$0.48	29
TN	34	67.9%	$4.09	$1.31	4
OR	35	67.8%	$0.63	$0.20	42
NJ	36	67.7%	$3.96	$1.28	5
MT	37	67.6%	$0.35	$0.11	43
DE	38	67.5%	$1.57	$0.51	28
KS	39	67.5%	$1.11	$0.36	38
WV	40	67.1%	$1.21	$0.40	34
NE	41	66.6%	$1.09	$0.36	37
PR	42	66.4%	$0.33	$0.11	44
LA	43	63.7%	$1.02	$0.37	36
NM	44	61.4%	$0.70	$0.27	39

Figure 3 provides a view of industry payouts and performance, sorted by the lotteries with the highest levels of instant payout.

Two common industry benchmarks to consider are Weekly per Capita (WPC) Sales and Weekly per Capita GGR. This assesses industry performance based on population size. In Massachusetts the average person generated $2.20 in Gross Gaming Revenue each week in Fiscal Year 2019. Massachusetts is the number one performing Instant Lottery within the United States, based on both per capita sales and per capita profit dollars. They have the highest payouts in the industry at 78.5%. There is a substantial drop off in both sales and profit performance once payout percentages drop below a certain threshold. **No Lottery with an aggregate payout below 67% performs strongly from a sales or profit margin perspective.** Lotteries with payout levels in the mid to low 60's are not able to create credible and exciting products that appeal to the consumer. Over the last decade, Lotteries have realized that in order to generate the most profit, payout levels must rise. Critically, any lottery with low levels of payout will not be able to sustain their Higher Price Point (HPP) instant business—$10 games and up, which is an incredible growth driver of profit for the industry, now and over the last decade.

It is important to understand that payout is not the only factor influencing performance—it is fundamentally an enabler of great products and experiences for the industry. A lottery with high degrees of payout is not guaranteed to be a leader. Guaranteed, is the negative effect of reducing payout on consumer demand. As payout levels become constricted, prize structure design becomes substantially more challenging. The prize structure represents the mathematics of the game, defining how players experience different types of wins. Reductions to payout results in a clamp—necessitating fewer winning experiences, less exciting winning experiences, and also imposes limitations on overarching game design, advertising, and promotions. Players engage in lottery due to the credibility and excitement of the possibilities, and *decreasing payouts effectively increases the price of the product for your consumer base.*

Consumer spending over the last 10 years has shifted towards higher price products that feature a more compelling effective price. That means that the industry's Average Selling Price (ASP) has increased, while the overall effective price has decreased. In other words, consumers are receiving a better value proposition per dollar spent today than 10 years ago.

Figure 3. A Trend Towards Higher Price Points

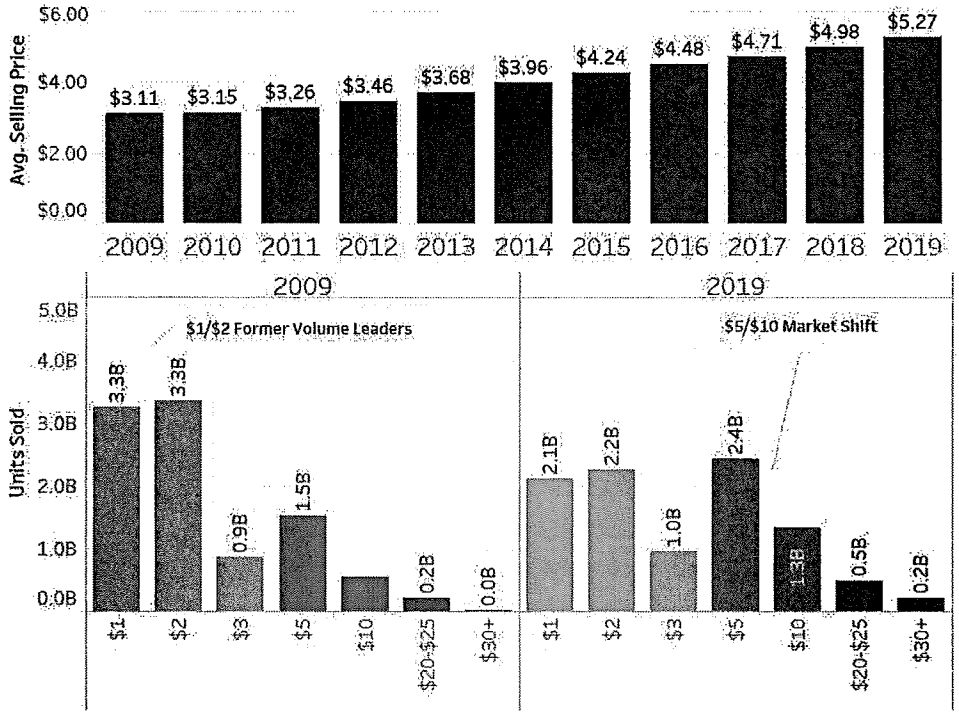
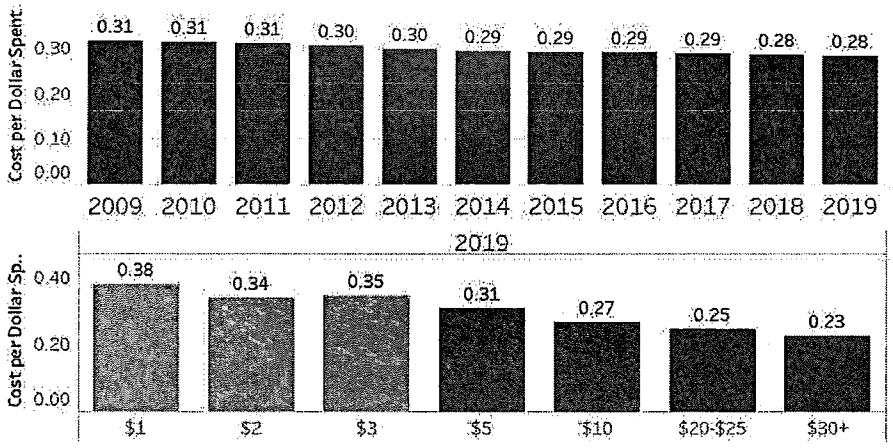


Figure 4. Player Cost per Dollar Spent



This is not just evident in spending over time, but plays into the economics of why Higher Price Point games have seen such appeal and growth, and why jurisdictions that offer higher aggregate payouts tend to have great success in stimulating consumer demand.

Lottery is no different than other consumer packaged goods categories in such that players are price sensitive. Generally, increasing the price on consumer goods will result in a demand decrease, and vice versa. The relationship between price and demand can be explained through price elasticity modeling, which has been undertaken through numerous industry studies across the United States.

As an example, a 2016 study by Coon & Whieldon titled *Elasticity of Demand and Optimal Prize Distribution*[1] *for Instant Lottery Games* analyzed for 185 instant games in Maryland from 2007-2011. Their findings reiterate the importance of why instant games must maintain higher levels of payout, particularly as compared to draw games.

Excerpts from *Elasticity of Demand and Optimal Prize Distribution for Instant Lottery Games*

"Our findings suggest that increasing the payout rate of scratch-off tickets will increase revenue, particularly among low denomination tickets."

"As expected, in both columns the coefficients on both the effective price of the tickets and their denomination are negative and significant. The coefficient on the interaction term is positive and significant. This indicates that while consumers respond positively to increases in the payout rate, i.e. a decrease in effective price, the response is smaller for individuals purchasing larger denomination tickets. Thus, ticket sales can be increased by reducing the effective price of the tickets, i.e. increasing the payout rate."

"Based on our estimates, we can expect that raising payout rates by 20% will increase 13 week sales of $20 tickets by approximately 30%. Raising payout rates of $1 tickets by the same amount will cause 13 week sales to more than double. However, given the large disparity in the elasticities across ticket prices, payout rates for lower denomination tickets should be increased significantly more than higher denomination tickets"

Legislators are sometimes tempted to reduce payout or enact profit margin percentage laws, thinking that this will result in easy profit, but this is universally the wrong strategy to generate profit growth and maintain the health and credibility of any lottery. In fact, it can have effects that are felt in the market for years and beyond.

The instant or scratch off product cannot be replaced in market at a moment's notice, and prize structures and prize payouts cannot be dynamically changed. A big change to payout is tantamount to an entire product line refresh, whereby new product with varying levels of payout is introduced game by game over time. Once this product is in market it may take time for consumers to adjust, realize there is a difference, and react. An increase in cost will result in negative experiences for the consumer and can create a breach of trust that is very difficult to recover from. In a situation where payouts are slashed and then reversed, it may take substantial marketing and advertising investment to convince players that games have returned to their previous, exciting form.

[1] https://pdfs.semanticscholar.org/2dd3/a4bd289732109ea26aeefe998147f02dfc24.pdf

Focus on: California

The California Lottery wrestled with legislative payout restrictions for many years. From FY'05 to FY'10, aggregate instant payouts hovered at just below 60%. In 2011 there was an uptick to 61%, and from thereon payout continued to increase year over year. As of the end of FY'16, the California Lottery was paying out at a much healthier 69.7%.

This represented a massive shift in capabilities for the California Lottery. Prior to payout relief, their highest price point offered to consumers was $5. Offering games at higher price points than that was simply not feasible from a product standpoint. As a result, Revenue and GGR from FY'05 to FY'10 largely remained disappointingly static.

Figure 4. California's Payout History

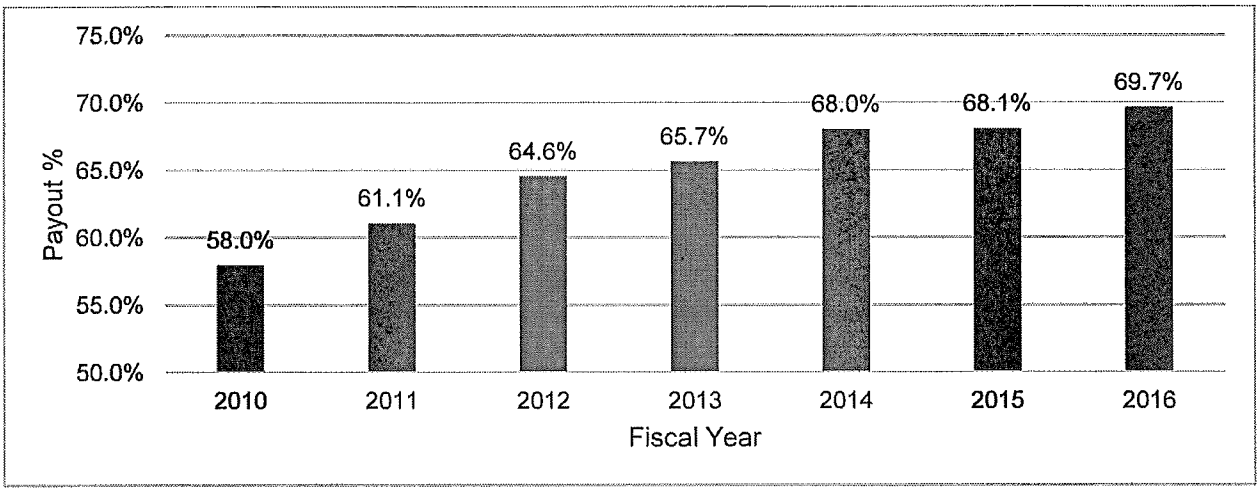


Figure 5. California's Resulting Impact (Revenue)

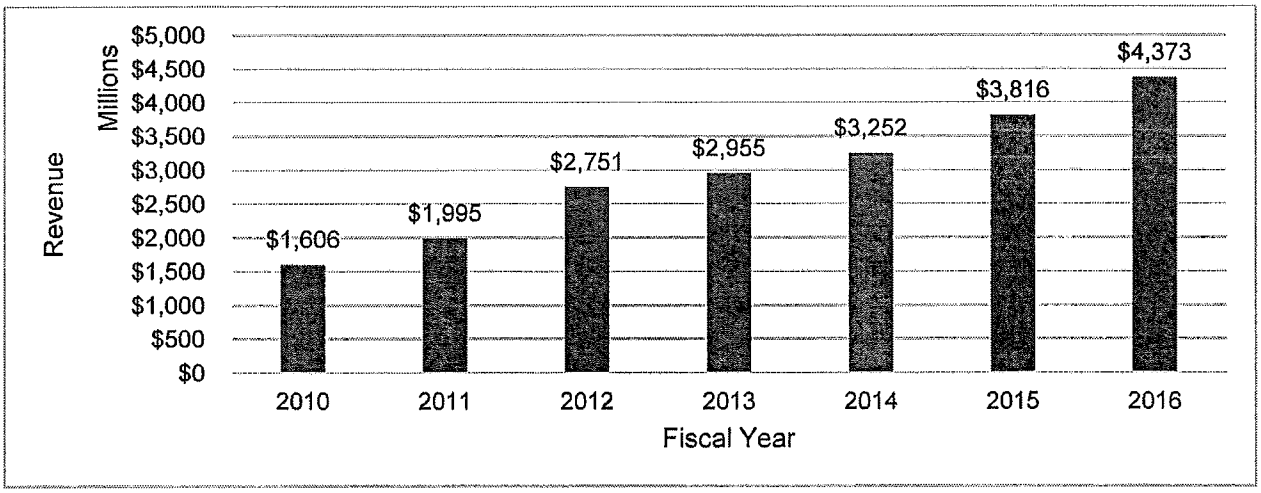
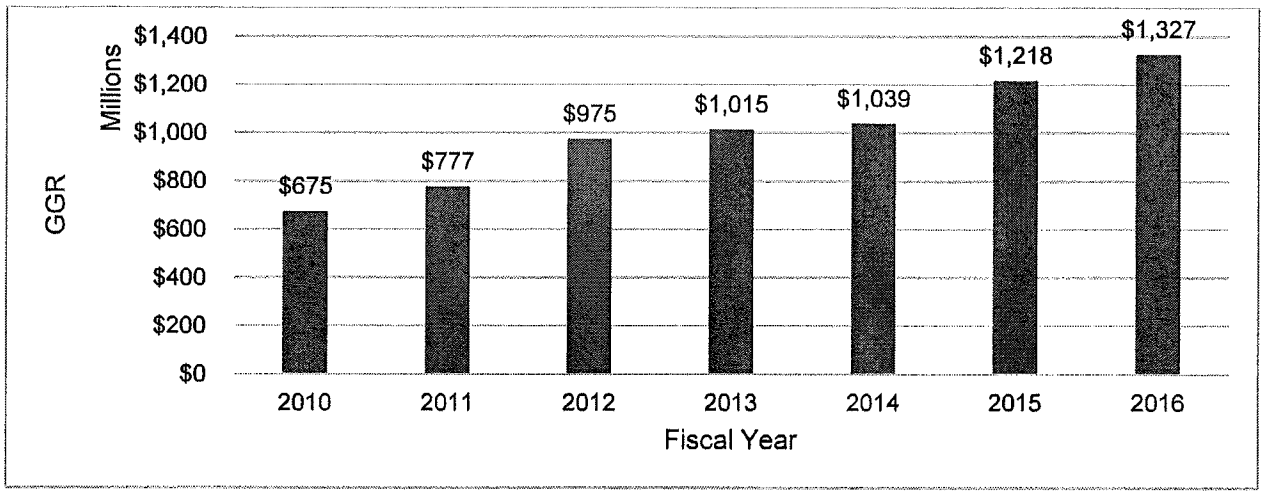


Figure 6. California's Resulting Impact (GGR)



From FY'10 to FY'16 GGR performance more than doubled, while aggregate payout increased from 58% to 70%. While this growth was by virtue of better products in the marketplace, this is directly causal to the 12 percentage point lift that made these changes possible.

Focus on: North Carolina

The North Carolina Education Lottery was launched in FY'06, which means that it is one of America's youngest lotteries. Since that time the Lottery has moved from one of the lowest instant payout jurisdictions (52% in FY'06) to the U.S. average amount (71% in FY'16). This evolution in payout has allowed the Lottery to grow tremendously in both Revenue and GGR.

Figure 7. North Carolina's Payout History

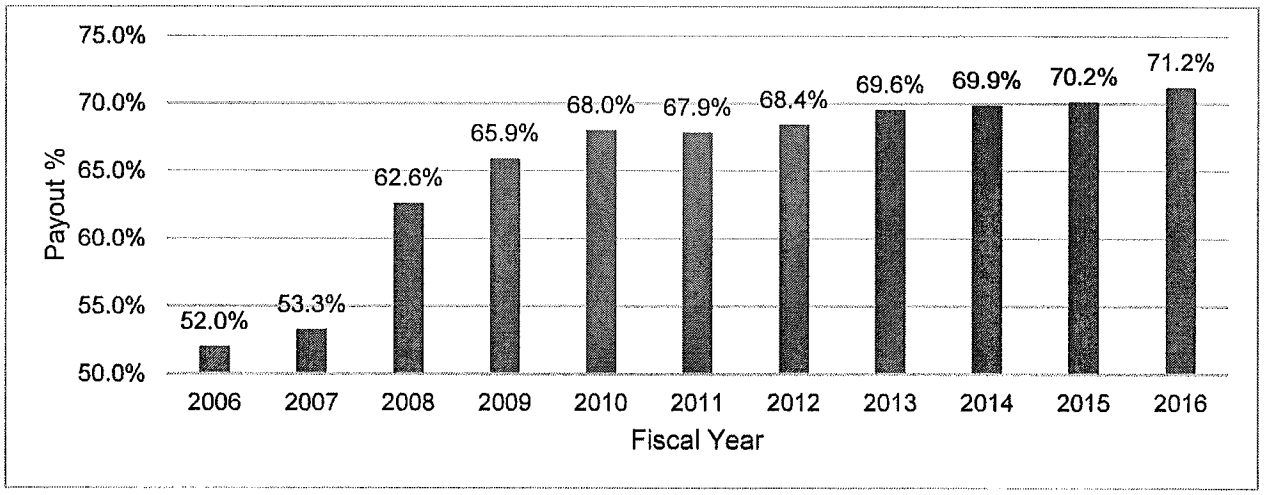


Figure 8. North Carolina's Resulting Impact (Revenue)

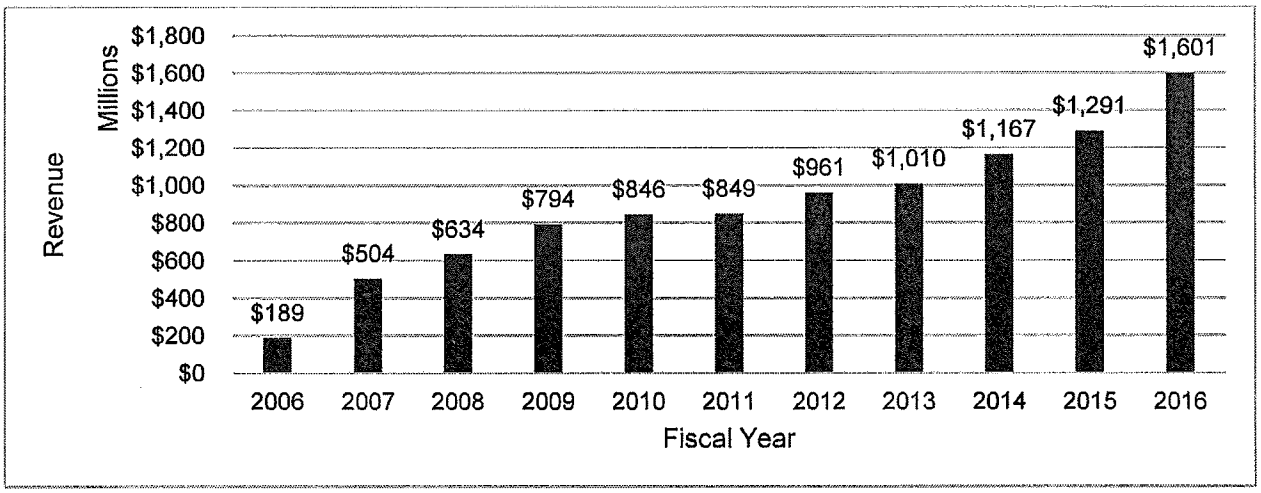
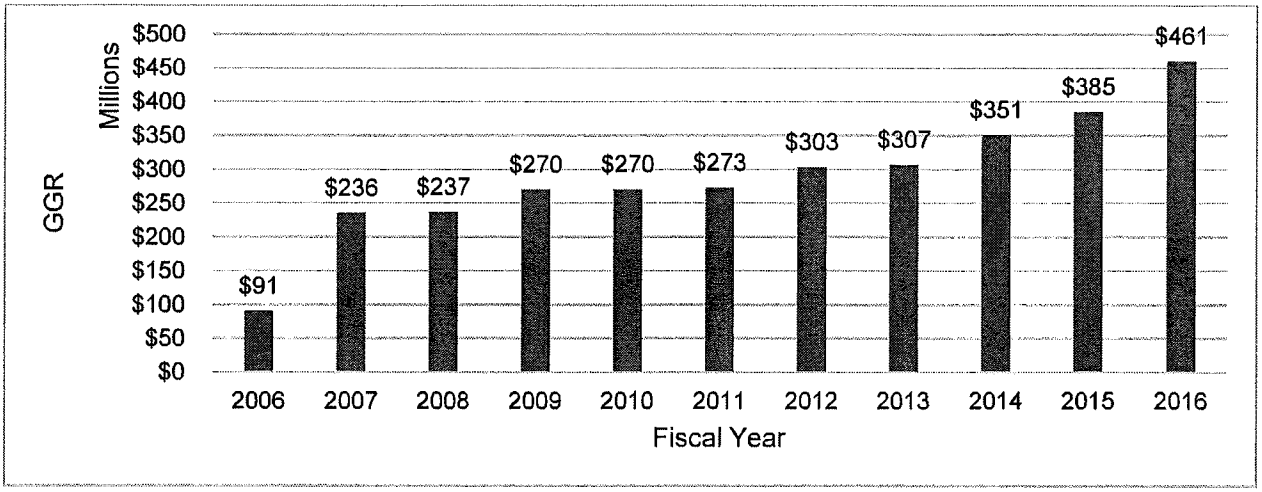


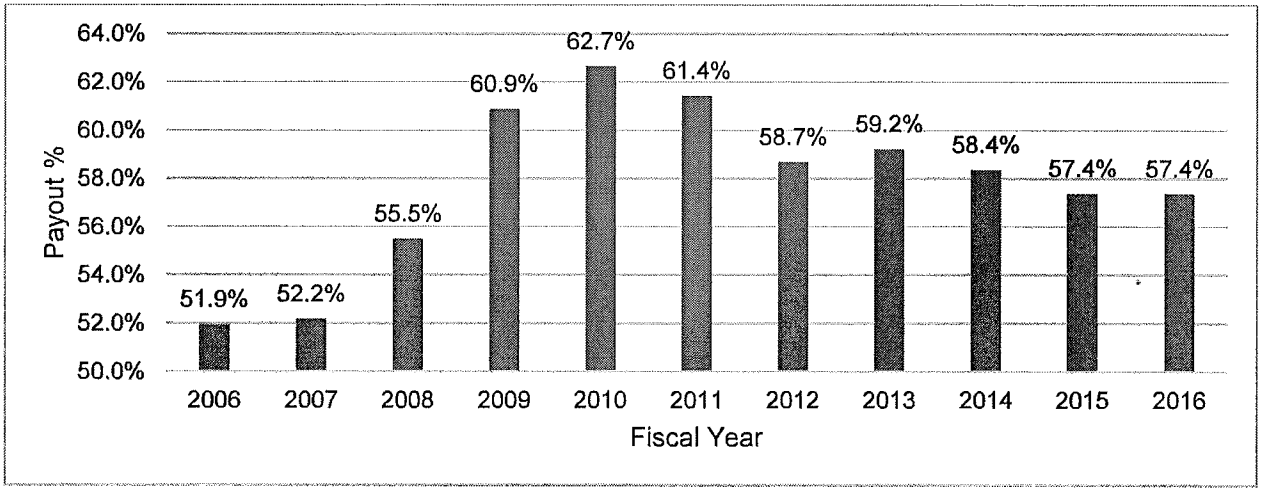
Figure 9. North Carolina's Resulting Impact (GGR)



Focus on: Oklahoma

Similar to North Carolina, Oklahoma was also launched in FY'06. However, instead being able to grow payout, the Lottery has been hamstrung with legislative restrictions. The payout history within Oklahoma has been interesting—featuring increases and decreases throughout the life of the Lottery.

Figure 10. Oklahoma's Payout History



The Lottery increased payouts from FY'08 to a peak of 62.7% in FY'10. Oklahoma has one of the lowest payout rates within the United States, and even at its peak, it was far below the industry average. This is a clear contrast from North Carolina, who started at similar low levels of payout, but were able to grow far beyond that of Oklahoma. Similar to the California situation, Oklahoma is unable to effectively expand their market to include higher price point games. The situation is very difficult for this lottery, which represents an uphill battle of persuading consumers that these products represent a strong value proposition. The Lottery should not be discounted for their performance given these substantial operating challenges.

Figure 11. Oklahoma's Resulting Impact (Revenue)

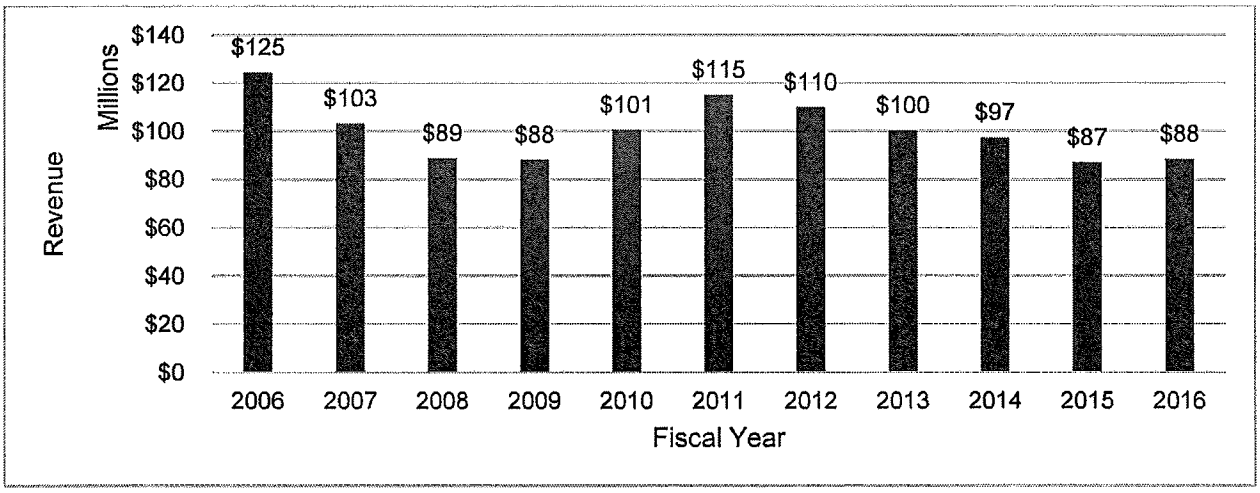
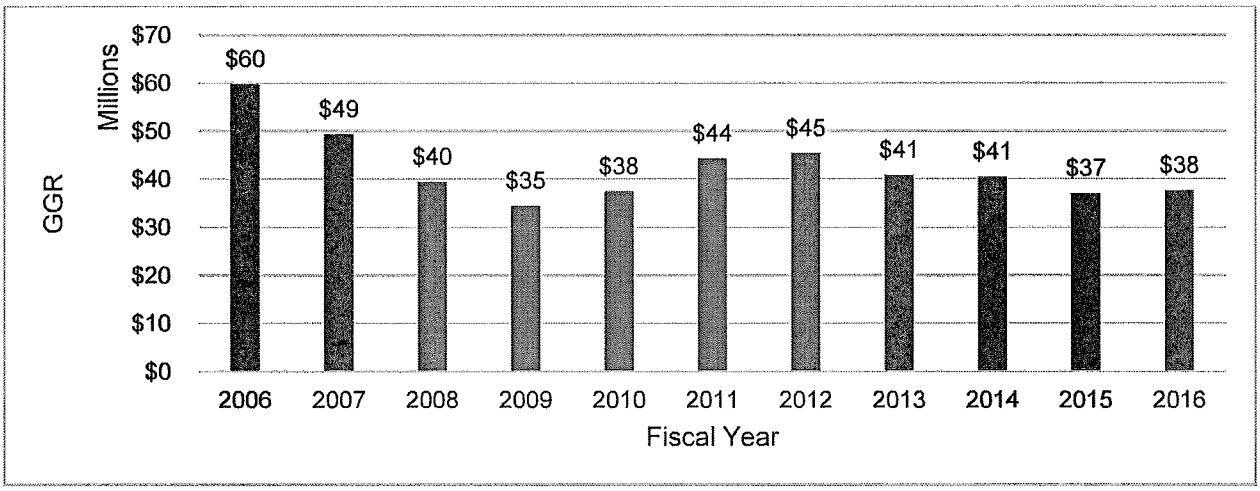


Figure 12. Oklahoma's Resulting Impact (GGR)



Revenue and GGR begin to increase when payout increases. Unfortunately, as soon as payout begins to be cut back, both revenues and GGR falls. 2006 was a substantial year for the lottery as it represented its launch year—a time of much excitement and media. However, given the challenges the Lottery has been unable to effectively grow year over year.

Focus on: Kentucky

The Kentucky Lottery had spent four years slowly increasing their instant payout rates. By FY'08 they had approached 70%, and by FY'09 they reversed payouts to 67.5%. The Lottery was on an upward trend in terms of both revenue and GGR growth. The payout changes directly reversed both of these trends, flattening the growth. The Lottery was able to begin increasing payouts again and started ramping back up in FY'12. By FY'15 they had reached their previous peak of 69.9%.

Figure 13. Kentucky's Payout History

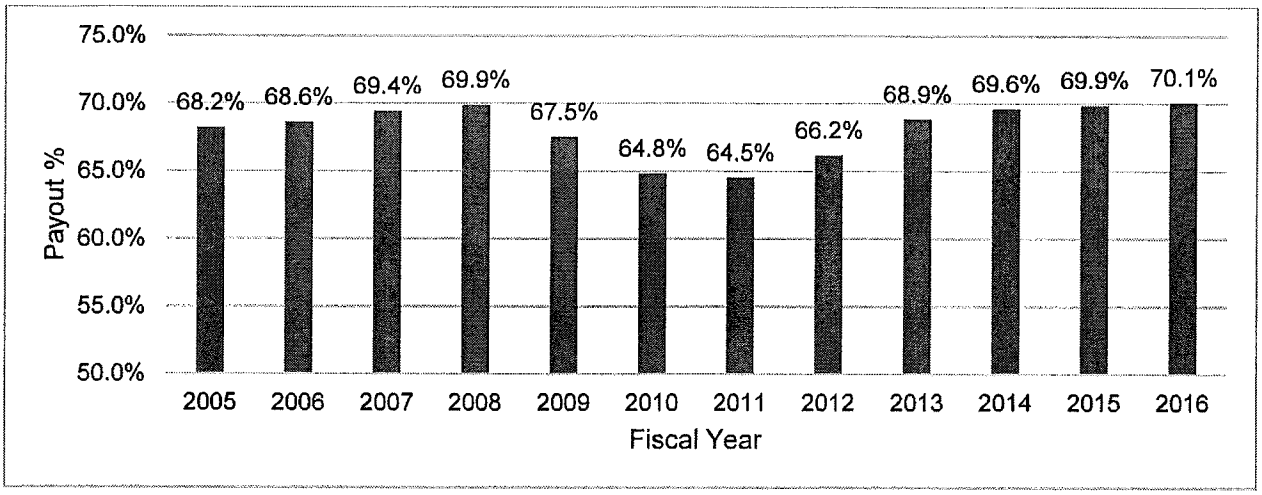


Figure 14. Kentucky's Resulting Impact (Revenue)

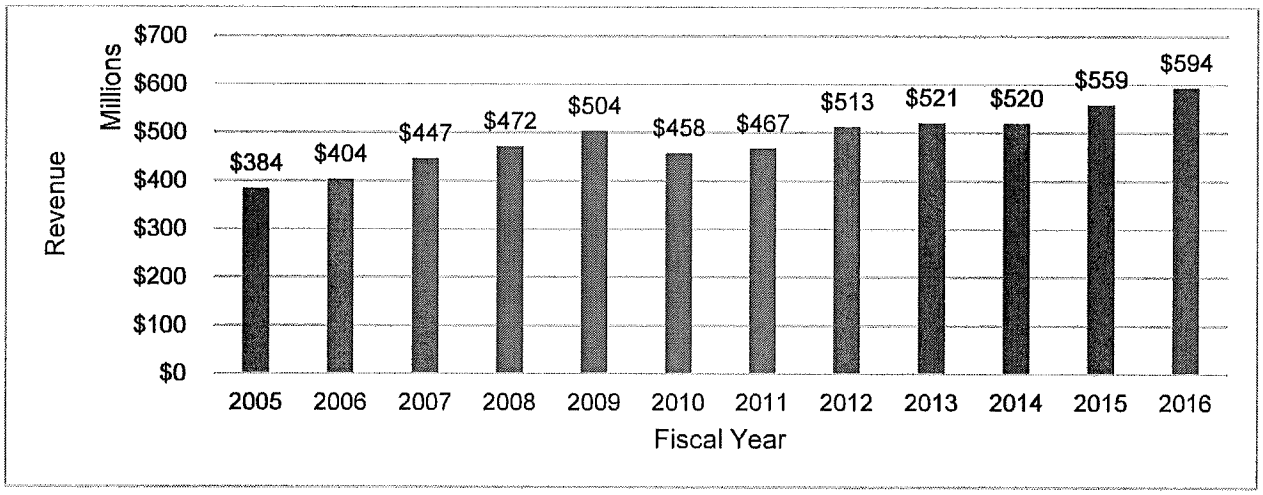
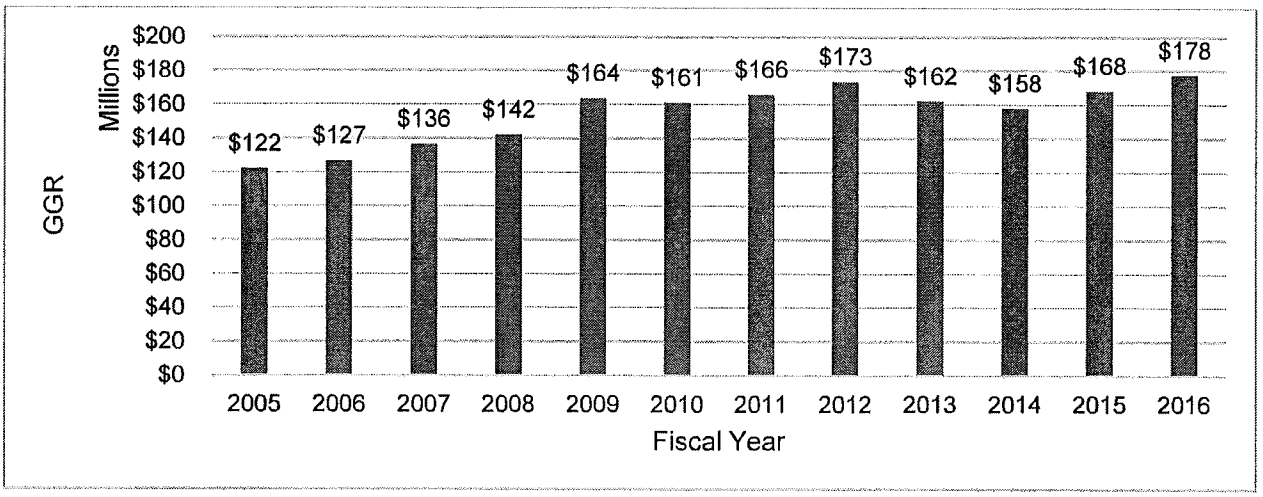


Figure 15. Kentucky's Resulting Impact (GGR)



The process of ramping payout up was difficult, as GGR did suffer for several years in FY'13 and '14. However, as retail volumes picked back up in '15 and '16, the Lottery was able to increase Instant GGR to levels not seen before.

Conclusion

Industry payout levels for the Instant product have been trending towards higher levels, and with it, Revenues and GGR have also grown substantially. However, increasing payout alone is not a recipe for success. It represents enabling the essential foundation of consumer excitement and credibility.

It is apparent from these examples that changes to payout can result in substantial changes to financial performance. Lotteries that have low levels of payout can benefit the most from change, and lotteries that have healthier levels of payout—if tampered with—run the risk of disrupting trends by breaching consumer and retailer trust.

Regardless of the situation, lotteries owe it to their stakeholders and beneficiaries to engage in studies to maximize profit by optimizing payout. Similarly, without experimentation, it is impossible to ascertain what the optimal values are. It is strongly encouraged that lotteries experiment with payout in order to learn what strategy yields the greatest profitability.

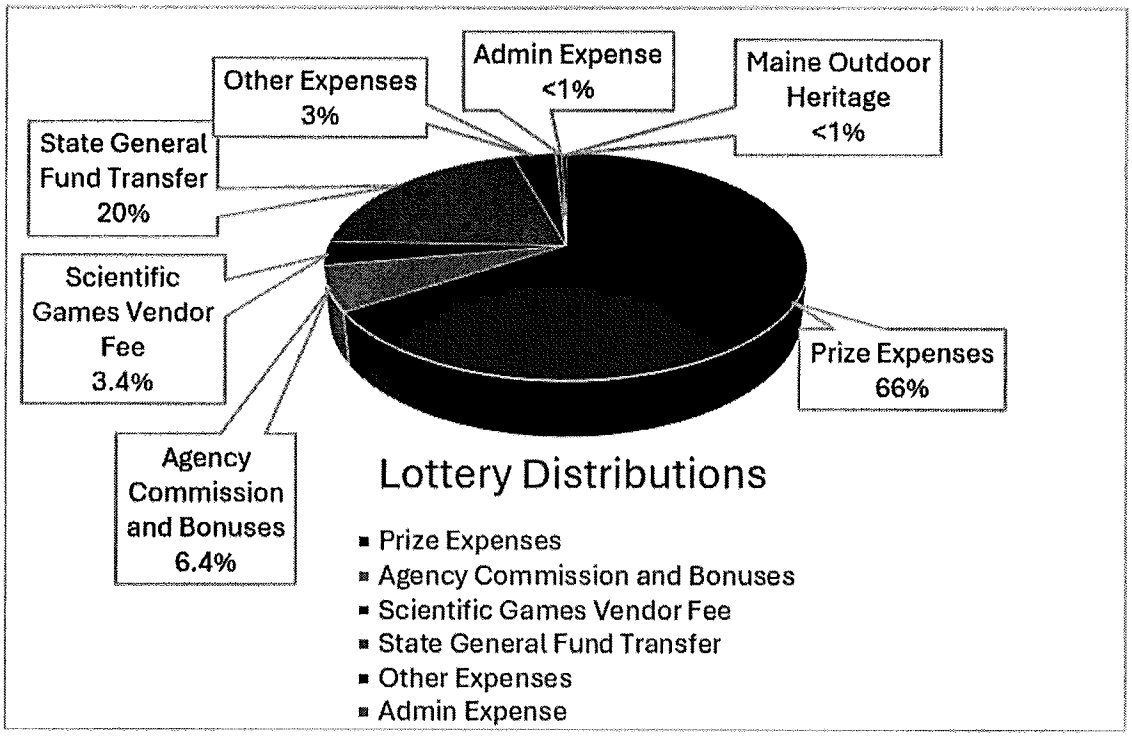
Additional Data and Analysis Information

1. This analysis should not be shared or distributed without prior approval from Scientific Games Corporation.
2. The data used in this analysis are sourced from the Scientific Games MAP™ database, which includes retail sales and game attributes
3. The data residing in MAP™ are collected directly from various lottery jurisdictions.
4. The Revenue and Gross Gaming Revenue figures herein do not represent audited financials.
5. Gross Gaming Revenues have been estimated using the theoretical payout percentage associated with each instant game.

BABLO Response to VLA Committee Information Request – LD 213

- **Q. What is the Maine Lottery's player payout percentage?**
  - During FY24, Maine paid out 66% to players. The below chart shows all distributions from the Maine Lottery.

Breakdown of Lottery Distributions, FY24:



- **Q. What are the dollar amounts paid out?**
  - This table coincides with the above chart, with dollar amounts for each category.

FY24 Breakdown in Dollar Terms:

Lottery Financial Distributions FY24	**%**	**Dollars**
Prize Expenses	65.8%	$288,813,629
Agency Commission and Bonuses	6.4%	$27,955,915
Scientific Games Vendor Fee	3.4%	$14,940,242
State General Fund Transfer	20%	$88,673,283
Other Expenses	3.4%	$14,835,187
Admin Expense	<1%	$2,437,512
Maine Outdoor Heritage	<1%	$1,409,196
Total	100%	**$439,064,965**

- **Q. How much does the Maine Lottery pay in credit card fees?**
  - The Lottery pays Scientific Games a fee of 2.99% on sales, plus $0.065 per transaction on credit card sales through the vending machines (PlayCentral HDs).

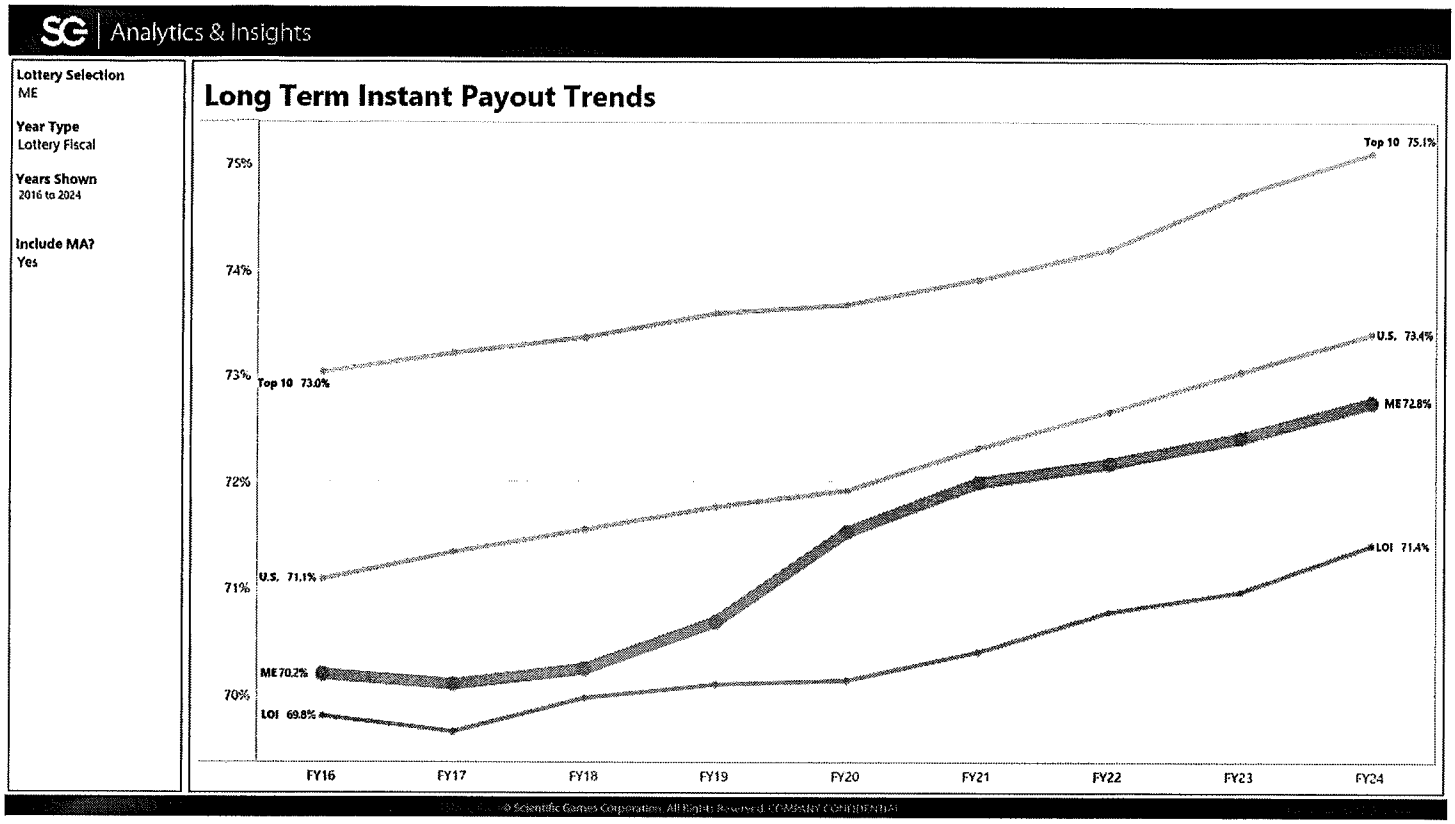
- **Q. How does Maine's player payout compare to other states?**
  - The below chart shows 2024 aggregate payouts by state for instant tickets. Maine ranked 18th.

Calendar Year 2024 Aggregate Payouts by State – Instant Tickets only

			Agg Pay..
1	Massachusetts		[illegible]
2	Arkansas		75.9%
3	Michigan		75.8%
4	Illinois		75.7%
5	Ohio		75.4%
6	Georgia		75.4%
7	Maryland		75.0%
8	Florida		74.9%
9	South Carolina		74.6%
10	Pennsylvania		74.6%
11	North Carolina		74.4%
12	Virginia		74.1%
13	Arizona		73.8%
14	Missouri		73.7%
15	District of Colum..		73.3%
16	Colorado		73.0%
17	New Hampshire	LOI	72.9%
18	Texas		72.8%
19	Maine	■■	72.8%
20	California		72.7%
21	Indiana		72.1%
22	Kentucky		72.0%
23	Oklahoma		72.0%
24	Idaho		71.9%
25	Connecticut	LOI	71.7%
26	Washington		71.1%
27	Vermont	LOI	71.1%
28	Iowa		70.8%
29	Rhode Island		70.5%
30	South Dakota		70.3%
31	Kansas		70.3%
32	Montana		70.1%
33	Wisconsin		69.8%
34	New York		69.6%
35	Minnesota		69.6%
36	Tennessee		69.0%
37	West Virginia		69.0%
38	Louisiana		68.9%
39	Delaware	LOI	68.8%
40	Nebraska		68.6%
41	Puerto Rico		68.6%
42	Oregon		68.3%
43	New Jersey		67.3%
44	New Mexico		64.1%

Draw Games, like Powerball or Mega Millions, have prize payouts determined by rule. Some Tri-State games have payout set in rule, like the Megabucks.

Additional Information - National Trends on Player Payouts



- **Q. What market research shows the impact of player payouts on lottery sales?**
  - See attached white paper from Scientific Games on player payouts.