

Department of Legislative Services
 Maryland General Assembly
 2003 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 322

(The President) (By Request – Administration)

Budget and Taxation

Ways and Means

Public Education Bridge to Excellence - Funding - Video Lottery Terminals

This Administration bill authorizes up to 11,500 video lottery terminals (VLTs) at up to four horse racing tracks in the State, provides for one-time application fees, creates the Education Trust Fund and other special funds, and continues the current prohibition on additional forms of commercial gaming.

The bill takes effect June 1, 2003.

Fiscal Summary

State Effect: General fund revenues could increase by up to \$15 million in FY 2004, depending on the payment of one-time application fees. Future years reflect phased-in VLT operations. General fund revenues associated with lottery commission administrative costs increase beginning in FY 2005. General fund expenditures decrease beginning in FY 2005 – increases in administrative costs and gambling addiction treatment expenditures are offset by lower education expenditures due to the availability of revenues from the Education Trust Fund. Special fund revenues and expenditures increase for local aid, purse dedication, bred funds, and education beginning in FY 2005. General fund revenues would decrease by \$9 million as a result of decreased lottery revenues in FY 2005. Future years reflect a continuing decrease. **Appendix 1** shows the revenues and expenditures by fund in greater detail.

(in dollars)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
GF Revenue	\$15,000,000	(\$4,376,300)	(\$10,639,100)	\$16,529,800	\$27,204,300
SF Revenue	0	57,448,500	466,410,200	719,171,300	738,614,500
GF Expenditure	0	(38,815,300)	(339,676,600)	(525,551,500)	(539,831,300)
SF Expenditure	0	57,253,500	466,215,200	718,976,300	738,419,500
Net Effect	\$15,000,000	\$34,634,000	\$329,232,500	\$542,276,300	\$567,230,600

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

Local Effect: Revenues for localities with VLT facilities would increase by approximately \$4.5 million in FY 2005. Future year revenues represent increased VLT operation and efficiency. Significant expenditure increase in Baltimore City and Laurel associated with infrastructure and public safety.

Small Business Effect: The Administration has determined that this bill has a meaningful impact on small business (attached). (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary: The major provisions of the bill are as follows:

Video Lottery Terminals and Locations

The bill authorizes a total of 11,500 video lottery terminals (VLTs) in the State – 3,500 VLTs each at Pimlico Race Course, Laurel Park, and Rosecroft Raceway, and 1,000 at a race track built in Allegany County. An eligible race track must have a mile thoroughbred or harness racing license issued by the State Racing Commission.

The bill reiterates the current prohibition on additional forms of gaming, other than those currently authorized under State law (lottery, horse racing, and charitable gaming).

The State Lottery Commission will provide regulation and oversight of the VLT program.

Lottery Commission Authority and Duties

VLTs will be owned or leased by the State Lottery Commission and under the control of the commission at all times.

The membership of the State Lottery Commission increases from five to nine members. One member will serve as a liaison to the State Racing Commission and one member of the State Racing Commission will serve as a liaison to the lottery commission.

The commission has authority to issue subpoenas and conduct investigations and hearings and require a bond for faithful performance of the requirements of the bill. Commission employees must be present at VLT facilities during all hours of VLT operation for the purpose of certifying revenue from the VLTs and receiving complaints from the public.

Video Lottery Terminal Licenses

Licenses must be obtained by VLT operators, VLT manufacturers, VLT employees, and anyone hired by a VLT operator to manage a VLT facility. In addition, the commission may require others to be licensed.

All applicants for VLT-related licenses are subject to an application process that involves a State and national criminal history records check. All applicants for VLT-related licenses must establish their qualifications including: financial stability and background of the applicant and all individuals and business entities associated with the applicant; integrity of financial backers and investors; good character and honesty; and sufficient business ability and experience.

A VLT operation license applicant must provide information that includes: the financial structure of the entity and names, personal history, and criminal history of all officers, partners, and principal employees; the names of all holding companies, subsidiaries, or other business entities of the applicant; and the names of all persons who own or control the business entity as well as a description of all bonus and profit-sharing agreements.

An applicant for a VLT operation license must submit an application and a \$5 million application fee by October 1, 2003. No applications or application fees may be accepted by the commission after that time, unless submitted by the race track in Allegany County, which has until October 1, 2005 to apply and pay the application fee.

An applicant for a VLT operation license must also: invest at least \$150 million in construction and related costs; provide at least 500 full-time jobs (the Allegany track is required to invest \$43 million and provide at least 150 jobs); offer at least 15% of equity investment to minority businesses if the licensee holds one license and 10% if the licensee holds two or more licenses; meet the State's minority business participation requirements for facility construction and procurement; and meet the county's minority business participation requirements, to the extent practicable, if they are higher than the State's.

A VLT-related license will be denied on the basis of specified criteria, including: failure to provide proof that the applicant meets the qualifications required in the bill; conviction or current prosecution of the applicant or any person required to be qualified under the act of a criminal offense involving moral turpitude or gambling; and identification of the applicant or a person required to be qualified under the bill as a career offender or a member of a career offender cartel as defined in the bill. The term of manufacturer and employee licenses are one year.

The term of a VLT operation license is 15 years. At the end of the 15-year term, the licensee may reapply for a license. The bill provides that a VLT-related license is a

revocable privilege and that it is the intent of the bill to prohibit the creation of a property right in a license granted under the bill.

Any VLT license issued under the bill may not be transferred, sold, or pledged as collateral. A licensee may not sell or transfer more than 5% of the legal or beneficial ownership in the licensee without the approval of the commission.

Assistance for the Horse Racing Industry

As a condition of licensure, a VLT operation licensee must maintain the following number of live racing days:

- 220 days for the combined licenses at Laurel and Pimlico;
- 180 days for the Rosecroft license; and
- 21 days for the Allegany County license.

If the Preakness Stakes is transferred from the Pimlico Race Course or out of the State, the VLT operation license may be revoked.

As a condition of licensure, each VLT operation licensee must develop a racing improvement plan to improve the quality and marketing of horse racing at the track. The plan must include \$4 million of annual capital maintenance and improvements of the horse racing facilities (the Allegany track is required to make \$1.15 million in improvements annually).

Other Regulation of Video Lottery Operations and Consumer Protections

The bill prohibits a VLT operation licensee from offering food and beverages, including alcoholic beverages, for free or for a price that is lower than the prices in the county where the VLT facility is located.

The commission must adopt regulations to reduce or mitigate the effects of problem gaming, including provisions that provide for: mandatory exclusion of career offenders from VLT facilities; procedures that permit self-exclusion from VLT facilities for individuals with gambling problems; limits on the dollar amount that VLT machines will accept; payouts of winnings above a certain amount by check; limits on the number, location, and maximum withdrawal amounts for ATMs; conspicuous disclosures related to VLT payouts and odds; and consumers to be given a record of spending levels to the extent that marketing measures that track customer spending are used.

Distribution of VLT Proceeds

The Comptroller is required to distribute the proceeds of the VLT operations, which must be transferred electronically on a daily basis to the State Lottery Fund.

From the gross proceeds of VLTs, after pay out to players, proceeds are distributed as follows:

- 46% to the Education Trust Fund established under the bill;
- 5% to the State Lottery Agency for administrative costs (after the first year, the distribution is 4.3%);
- 39% to VLT operation licensees;
- 4.75% to the local governments in which video lottery facilities are operating; and
- 5.25% to the Purse Dedication Account to enhance horse racing purses and to provide funds for the horse breeding industry (after the first year, the distribution increases to 5.95%).

Purse Dedication Account

The bill creates a Purse Dedication Account to which 5.25% of gross proceeds will be distributed in the first year and 5.95% in the following years. Funds from the account are to be distributed as follows:

- from the proceeds at Laurel and Pimlico: 89% to mile thoroughbred purses; 11% to the Maryland-bred Race Fund;
- from the proceeds at Rosecroft: 89% to standardbred purses; 11% to the Standardbred Race Fund; and
- from the proceeds at Allegany County, an amount to the thoroughbred industry and the standardbred industry prorated by the number of days of each type of racing at the track.

Education Trust Fund

The bill creates an Education Trust Fund as a special, nonlapsing fund that will receive 46% of gross VLT revenues and fund the Bridge to Excellence in Public Schools Act of 2002 (Chapter 288).

Local Development Councils and Transportation

From the local development grants provided to the areas where VLT facilities are located, the proceeds should be used for infrastructure improvements, public safety, and other needs in the communities in the immediate proximity to where the facility is located.

A Local Development Council will be created in each area where a VLT facility is located to advise, comment, and make recommendations on a plan developed by the county providing for the use of the Local Development Grant funds.

The bill also provides that the State may pay for the reasonable transportation costs necessary to mitigate the impact on the communities in immediate proximity to the VLT facilities and to make VLT facilities accessible to the public.

Compulsive Gambling Fund

The bill assesses a \$390 fee per VLT terminal to be paid by VLT operation licensees that will be placed into a Compulsive Gambling Fund administered by the Department of Health and Mental Hygiene (DHMH). The fund must be used to establish a 24-hour hotline, provide counseling and other support services for compulsive gamblers, and establish problem gambling prevention programs.

Other Provisions

The bill requires a study of the minority business equity ownership and participation requirements by the State Minority Business Enterprise (MBE) certification entity (currently the Maryland Department of Transportation). One report is required by December 1, 2003, and a second report is required by September 20, 2005.

The bill also requires the Maryland Department of Transportation to study the highway system surrounding the Pimlico Race Course and to report the General Assembly by December 1, 2003.

Current Law: Specified types of gambling are allowed in Maryland. This includes the State lottery and wagering on horse racing. Bingo, bazaars, and gaming nights are allowed for some nonprofit organizations on a county-by-county basis. Several counties permit for-profit bingo. In addition, some nonprofit organizations in Eastern Shore counties are allowed to operate up to five slot machines, provided that at least 50% of the proceeds go to charity. VLTs are not authorized for operation in the State.

Background: Over the past several legislative sessions, various proposals have been introduced to authorize VLTs at the State's horse racing tracks or other tourist destinations in the State.

Gambling in Maryland

Regulated gambling in Maryland dates back to 1743 with the regulation of horse racing. Pari-mutuel betting was introduced in 1912 and the State Racing Commission was established in 1920.

The State lottery was established in 1972 through legislative action and a constitutional amendment that was approved by voters.

Slot machines were authorized for use across the State from 1937 through 1939. Legislation to authorize slot machines in Southern Maryland was passed in the 1940s.

By the early 1960s, the only legal slot machines in the United States, outside of Nevada, were located in Calvert, Charles, St. Mary's, and Anne Arundel counties. Legislation passed in 1966 prohibiting slot machines as of July 1, 1968.

In 1987 legislation was passed that authorized the operation of slot machines by nonprofit organizations in all Eastern Shore counties, except Worcester.

Legislation enacted in 1995 established a commission to study gambling in Maryland. In its final report to the Governor and the General Assembly in December 1995, the commission, known as the Tydings Commission, made several recommendations including a recommendation that the General Assembly and the Governor should maintain the current prohibitions against commercial casino gambling activities in Maryland, including slot machines at racetracks.

Gambling in the United States

Prior to 1980, state lotteries, along with pari-mutuel wagering on racing and jai-lai were the prevalent forms of legal gambling. Casinos operated only in Nevada and Atlantic City, New Jersey. Since that time, gambling opportunities have become much more prevalent and varied.

Exhibit 1 summarizes the number of states that allow various forms of gambling. **Appendix 2** shows that various types of gambling that are allowed in each State.

Exhibit 1 Types of Gambling in the United States, Summary

<u>Type of Gambling</u>	<u>Number of States</u>
Land-based Casino	4
Dockside Riverboat Casino	5
Cruising Riverboat Casino	1
Native American Gaming	25
Limited Stakes	2
Card Room	5
Lottery	42
Pari-mutuel	41
Bingo	48
None	2

Surrounding State VLT Revenues

Delaware and West Virginia currently allow VLTs. In Delaware, VLTs generated approximately \$565 million in net revenues (after prize payouts) in fiscal 2002.

Approximately 60% of these revenues were distributed to racetracks and purses, 35% to the state's general fund, and the remaining 5% to cover administrative costs.

In fiscal 2002, VLTs in West Virginia generated approximately \$595 million in net revenues, of which 60% was distributed to racetracks and purses and 30% to the state lottery fund. The remaining 10% was distributed to tourism initiatives, local governments, the state racing commission, the state pension fund, greyhound and thoroughbred development, and administrative costs.

In 2001, New York enacted legislation authorizing VLTs at several racetracks as well as at a number of Native American casinos. Pennsylvania is also reported to be considering legislation to authorize VLTs. Although both Virginia and the District of Columbia operate lotteries, and Virginia conducts limited horse racing, neither jurisdiction is presently considering legalizing casinos or VLT-type gambling.

State Revenues:

Application Fee Revenues

The bill requires the licensees for Pimlico, Laurel, and Rosecroft to pay an application fee of \$5 million, and the licensee of the Allegany track to pay \$1.5 million, upon being issued a VLT license. Application fees must be paid by October 1, 2003, except for the Allegany track, which has until October 1, 2005. These fees are to be distributed to the general fund. Assuming that the applicants determine that the operation of VLTs will be a successful business venture and that appropriate rates of return on their investment could be attained, prior to the October 1 deadline, general fund revenues would increase by up to \$15 million in fiscal 2004.

VLT Revenues

No more than four locations in the State will be licensed to operate VLTs, with all located at horse racing tracks. Pimlico, Laurel, and Rosecroft are authorized to operate up to 3,500 VLTs and the Allegany County track, when built, is authorized to operate 1,000 VLTs.

As a result, total revenues generated – after payouts to winning players, but **before** any other distributions are made – could total approximately \$95.3 million in fiscal 2005, \$815.4 million in fiscal 2006, \$1.26 billion in fiscal 2007, and approximately \$1.29 billion in fiscal 2008 and later. This estimate is based on the following facts and assumptions:

Pimlico

- Begin permanent VLT operations on July 1, 2005 – 12-month delay due to local zoning processes and 12 months of capital improvements;

- 3,500 machines with an average win per position of \$315; and
- facilities begin operating at approximately 50% of maximum efficiency, increasing by about 10% each quarter until reaching full market potential in October 2006.

Laurel

- Begin permanent VLT operations on July 1, 2005 – 12-month delay due to local zoning processes and 12 months of capital improvements;
- 3,500 machines with an average win per position of \$328; and
- facilities begin operating at approximately 50% of maximum efficiency, increasing by about 10% each quarter until reaching full market potential in October 2006.

Rosecroft

- Begin temporary VLT operations on July 1, 2004 – 12-month delay due to local zoning processes;
- 1,000 machines for one year while capital improvements are made;
- average win per position of \$335 at temporary facility from July 1, 2004 - June 30, 2005; facility will operate at approximately 60% efficiency, increasing by about 10% each of the next four quarters;
- 3,500 machines in operation beginning July 1, 2005; and
- average win per position of \$372 beginning July 1, 2005; efficiency will increase by about 10% for each of the following five quarters until achieving full market potential beginning October 2006.

Other Assumptions

- VLTs will operate 365 days a year at each track, once operational; and
- average daily win estimates provided by the Innovation Group, with estimates discounted 15% by the Department of Legislative Services (DLS).

Distribution of Revenues

Exhibit 2 details the revenue distribution resulting from VLTs for fiscal 2005 through 2008.

Exhibit 2 Distribution of VLT Revenues

	<u>Distribution</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Total Annual Gross		\$95,274,125	\$815,370,763	\$1,261,157,581	\$1,295,448,875
Lottery Operations ¹	5.00%	4,763,706	35,060,943	54,229,776	55,704,302
ETF	46.00%	43,826,098	375,070,551	580,132,478	595,906,483
Licensees	39.00%	37,156,909	317,994,597	491,851,457	505,225,061
Local	4.75%	4,525,521	38,730,111	59,904,985	61,533,822
PDA ²	5.25%	5,001,892	48,514,560	75,038,876	77,079,208

¹For the second year and later, the distribution decrease to 4.3%.

²For the second year and later, the distribution increases to 5.95%.

Exhibit 3 details the estimated revenue that will generated at each track for fiscal 2005 through 2008.

Exhibit 3 Estimated Revenue Generated By Track Fiscal 2005 - 2008

<u>Location</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Pimlico	--	\$252,881,125	\$391,138,563	\$401,773,750
Laurel	--	263,816,525	408,052,663	419,147,750
Rosecroft	\$95,274,125	298,673,113	461,966,356	474,527,375
Total	\$95,274,125	\$815,370,763	\$1,261,157,581	\$1,295,448,875

Lottery Revenues

Based on the experience of other states, State lottery revenues could decline due to the introduction of VLTs by about 10% in the first year that VLTs are fully operational. This percentage would decrease by 2% annually over the next five years. Based on current lottery revenue estimates, general fund lottery revenues are estimated to decrease by approximately \$9 million in fiscal 2005, which reflects partial VLT operations, \$45.7 million in fiscal 2006, \$37.3 million in fiscal 2007, and, \$28.5 million in fiscal 2008.

Compulsive Gambling Fund

\$390 per VLT, or \$4.1 million annually, will be credited to the Compulsive Gambling Fund. Any fines levied under this bill go to the Education Trust Fund. Revenues could also increase due to increases in wagering tax revenues.

Indirect State Revenues

In addition to the direct revenues generated, the introduction of VLTs could generate other revenues due to the increased economic activity associated with VLTs.

Each of the horse racing tracks would have to undertake major capital improvements in order to house the VLTs as well as transforming the tracks into entertainment centers. The construction jobs associated with track improvements could bring dollars into the areas surrounding the tracks, providing an economic boost to the local economy. This effect would be temporary and is difficult to quantify.

Once up and running, the VLT facilities will need to employ many more people than are currently employed at the tracks. The Innovation Group has estimated that Pimlico, Laurel, and Rosecroft would each employ about 927 new employees at those tracks. The average wage of the employees is estimated at \$35,500.

New jobs would generate new incomes which would be subject to the income tax – revenues that are not currently generated. To the extent that substitute jobs are higher paying than the previously held jobs, taxes paid by those individuals would be higher than paid previously. If it is assumed that these are new jobs, State income taxes could increase by approximately \$4.7 million, and local income taxes could increase by approximately \$2.6 million. To the extent that some of these jobs are substitutes for existing jobs, income tax collections would be lower.

In addition, it is likely that all these employees would generate more sales tax collections through increased spending.

Finally, the companies that own the tracks could pay higher corporate income taxes due to increased earnings.

The introduction of VLTs in Maryland could lead to the recapture of money that is currently being spent in other States, primarily Delaware and West Virginia. In addition, VLTs could generate new money being spent in the State by Maryland residents and by out-of-state residents. Approximately 31% of the revenue generated by VLTs would come from Maryland residents who currently gamble outside of the State; 11% would come from out-of-state residents who currently gamble somewhere else; 21% would come from new Maryland gamblers; and 37% from new out-of-state gamblers. The gaming trips made by current gamblers is new spending to the State, and to the extent these individuals spend outside of the gaming facility, it would be a boost to the local economy. The money spent by new out-of-state gamblers is also new spending, and as with the current gamblers, any spending outside of the gaming facility would be a boost to the local economy. However, the estimated 21% of revenues generated by new Maryland gamblers could hurt the local economy to the extent that these individuals are

now going to spend their money on gambling rather than on the other activities that they are currently spending on.

State Real Property Tax

Exhibit 4 shows the potential State real property tax revenues resulting from the installation of 3,500 VLTs in Baltimore, Anne Arundel, and Prince George's counties. The estimate assumes a 1.5% real property assessment increase and constant tax rates.

Exhibit 4 Potential State Property Tax Revenue

<u>Fiscal Year</u>	<u>Property Tax Revenues</u>
2005	\$126,000
2006	625,170
2007	634,519
2008	643,868
2009	653,218

State Expenditures:

Administrative Expenditures

Lottery Agency and Commission

Administrative costs for the State Lottery Agency associated with operating video terminals would be approximately \$4.8 million in fiscal 2005. This estimate assumes that the cost of leasing and maintaining the VLT terminals and central computer system as well as providing for additional staff will be equal to approximately 5% of gross revenues in the first year and 4.3% of gross revenues in the following years. The Lottery Agency will need 37 new employees: 13 security investigators, 8 license coordinators for the licensing process, 1 daily payment analyst, 1 accountant, and 1 assistant Attorney General to assist in the operation and administration of the VLT program and 13 employees to operate and maintain the central computer system. The estimate includes benefits, one-time start-up costs, and ongoing operational expenses.

Attorney General

It is estimated that the Office of the Attorney General would incur increased general fund expenditures of approximately \$247,000 in fiscal 2005 as a result of hiring three Assistant Attorneys General to provide legal support to the VLT program.

Department of Health and Mental Hygiene

Expenditures could increase to the extent that individuals with gambling problems seek counseling from DHMH's Alcohol and Drug Abuse Administration. It is estimated that treatment costs could approximate \$3.9 million annually (see **Exhibit 8**). The bill provides for approximately \$4.1 million (\$390 per machine fee) to be paid into the Compulsive Gambling Fund for compulsive gambling related problems.

Exhibit 5 outlines projected total expenditures related to the VLT program.

Exhibit 5 Total Administrative Costs Fiscal 2005 – 2008

Administrative Costs	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Lottery Agency	\$4,763,706	\$35,060,943	\$54,229,776	\$55,704,302
DHMH	3,900,000	3,900,000	3,900,000	3,900,000
Attorney General	<u>\$247,074</u>	<u>\$332,980</u>	<u>\$351,244</u>	<u>\$370,839</u>
Total	\$8,910,780	\$39,293,923	\$58,481,020	\$59,975,141

Education Expenditures

The legislation dedicates approximately 46% of the net proceeds from VTL operations to the Education Trust Fund to be used for public education programs associated with the Bridge to Excellence in Public Schools Act of 2002 (Chapter 288). Under that legislation there are significant increases in education aid beginning with fiscal 2005. It is assumed that the availability of Education Trust Fund revenues to fund these increases will result in an equivalent decrease in general fund expenditures beginning in fiscal 2005.

Infrastructure Costs

The State and local governments could also incur significant costs associated with infrastructure upgrades at each of the racetracks. The actual costs are site specific and could range from adding more traffic signs and lights to significantly altering existing traffic routes and adding access from other major thoroughfares.

Local Distribution

The bill provides, subject to approval by the General Assembly, local impact aid for jurisdictions in which VLT operations are located. This aid is to be used for infrastructure, facilities, services, and other improvements. **Exhibit 6** shows the

estimated minimum aid amount for each jurisdiction in the first four years of VLT operations.

**Exhibit 6
Local Distributions**

<u>Local Distribution</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Baltimore	\$1,695,879	\$14,513,600	\$22,448,605	\$23,058,990
Prince George's	1,695,879	14,513,600	22,448,605	23,058,990
Anne Arundel	666,919	5,707,595	8,828,103	9,068,142
Howard	314,405	2,690,724	4,161,820	4,274,981
Laurel	152,439	1,304,593	2,017,852	2,072,718

Purse Dedication Account (PDA)

Funds from the PDA may only be expended through an appropriation in the State budget or through a budget amendment. **Exhibit 7** details the distribution from the PDA, for fiscal 2005 through 2007, assuming that the account is fully funded in each of those years.

**Exhibit 7
Distributions From the Purse Dedication Account**

<u>Purse Dedication Account</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
<i>Thoroughbred</i>				
Purses	-	\$27,361,724	\$42,321,171	\$43,471,898
Bred Fund	-	3,381,786	5,230,707	5,372,931
<i>Standardbred</i>				
Purses	\$4,451,683	15,816,235	24,463,428	25,128,597
Bred Fund	550,208	1,954,816	3,023,570	3,105,782

Indirect State Expenditures

In addition to the positive indirect effects to the economy, negative impacts could be expected as well. These effects could include increased levels of crime and gambling addiction which could result in a need to increase the State and local spending directed toward these effects.

A comprehensive study of the incidence and social impact of pathological and problem gambling was conducted in 1998 by the National Opinion Research Center (NORC) at the University of Chicago. The research was conducted on behalf of the National Gaming Impact Study. Using a variety of methods, NORC concluded that, based on

behaviors reported in the prior year, about 0.6% of the U.S. population could be classified as “pathological” gamblers while 0.7% were classified as “problem” gamblers. Another 2.9% were classified as at risk. Among the problems associated with these conditions were greater incidence of poor health, mental health problems, family difficulties, depression, alcohol and drug dependency, job loss, bankruptcy, and arrest and incarceration.

Some of the costs and burdens resulting from problems and pathological gambling are of course borne by the gambler, but some are borne by society. For example, a gambler who loses his/her job assumes the burden of being without a job, but to the extent that this individual receives unemployment benefits, government pays for that. The government would also bear the burden of increased health care costs, public safety and incarceration costs, and alcohol and drug dependency treatment costs.

Exhibit 8 outlines some of the potential social costs to the State resulting from problem and pathological gamblers. The Innovation Group estimates that roughly 4.8 million persons live within 50 miles of one of the proposed casinos. NORC at the University of Chicago has estimated that approximately 1.3% of them would exhibit the characteristics of pathological gambling and 1.1% would exhibit the characteristics of problem gambling. The remaining State population of approximately 500,000 are those individuals residing between 50 and 250 miles of one of these venues. Based on these figures, the cost to the State and localities of treatment, welfare, corrections, and arrests could approximate \$29 million annually following the beginning of VLT operations.

**Exhibit 8
Potential Costs of Pathological and Problem Gambling**

		<u>Pathological</u>		<u>Problem</u>		<u>Total</u>
Total Population	5,296,486	1.30%	70,412	1.10%	61,377	
Treatment	\$30		\$2,112,360		1,841,310	\$3,953,670
Welfare	60		4,224,720	\$90	5,523,930	9,748,650
Corrections	85		5,985,020	34	2,056,130	8,041,150
Arrests (Local)	63		<u>4,400,750</u>	48	<u>2,946,096</u>	<u>7,346,846</u>
Total			\$16,722,850		\$12,367,466	\$29,090,316

Local Revenues:

VLT Distributions

Revenues would increase for up to five counties and one municipality due to the local distribution required by the bill (as shown in Exhibit 6). Local aid will total \$4.5 million in fiscal 2005, \$38.7 million in fiscal 2006, and \$59.9 million in fiscal 2007.

Real and Personal Property Tax Revenues

The local jurisdictions where VLTs are located would also benefit from increased real property tax and personal property tax collections. **Exhibit 9** shows the possible increase in these local tax collections if it is assumed that Laurel is assessed at \$255.0 million and Pimlico is assessed at \$337.0 million (the estimated cost to make capital improvements), and Rosecroft is assessed at \$150.0 million (the estimated cost to make capital improvements), and each facility has 3,500 VLTS beginning in fiscal 2006. Rosecroft is assumed to have 1,000 VLTs operating in fiscal 2005.

Exhibit 9 Potential Real and Personal Property Tax Revenues

	<u>Fiscal Year</u>	<u>Local Real Property Tax Revenues</u>	<u>Local Personal Property Tax Revenues</u>
Anne Arundel			
	2006	\$2,422,500	\$133,000
	2007	2,458,838	99,750
	2008	2,495,175	66,500
	2009	2,531,513	41,563
	2010	2,567,850	41,563
Baltimore City			
	2006	\$7,845,360	\$325,920
	2007	7,963,040	244,440
	2008	8,080,721	162,960
	2009	8,198,401	101,850
	2010	8,316,082	101,850
Prince George's			
	2005	\$1,443,000	\$38,464
	2006	1,464,645	125,008
	2007	1,486,290	91,352
	2008	1,507,935	60,100
	2009	1,529,580	42,070
	2010	1,529,580	42,070

Indirect Local Revenues

To the extent that expenditures on items subject to admissions and amusement taxes are transferred to VLT wagering, local revenues could decline. Local revenues would also be affected by any changes in property values, positive or negative, occurring because of the introduction of VLTs. This effect cannot be reliably estimated at this time.

Local Expenditures: The following jurisdictions have estimated increased expenditures resulting from the authorization of VLTs.

Baltimore City estimates that the annual operating costs for public safety, sanitation, and transportation is approximately \$9.3 million. These new annual operating costs involve creating police posts, augmenting cleaning efforts, and managing the flow of vehicle and pedestrian traffic in and around the impacted area. In addition to these recurring costs, the city estimates approximately \$1.8 million in one-time operating start-up costs to acquire equipment such as police cars, medic units, load packers, and street sweepers.

It is also estimated that approximately \$65 million in transportation-related capital improvements would be necessary to accommodate the expected influx of activity in and around the impacted area. These improvements include intersection improvements, signal system installations, and street widening and rehabilitation.

The City of Laurel estimates that annually expenditures would increase by approximately \$910,300 as a result of the bill. This reflects hiring one police sergeant, one police corporal; two police PFC, two police officers, one crew leader, and two laborers. It includes benefits as well as other operating costs.

Additional Information

Prior Introductions: Legislation authorizing VLTs has been introduced during the past several sessions. Examples of this type of legislation include HB 732 in the 2002 session, HB 1170 in the 2001 session, and HB 1170 in the 2000 session. No action was taken on any of these bills.

Cross File: HB 359 (The Minority Leader) – Ways and Means.

Information Source(s): City of Laurel; Allegany County; Prince George’s County; Howard County; Maryland State Lottery Agency; Comptroller’s Office; Maryland State Department of Education; Department of State Police; Anne Arundel County; Department of Health and Mental Hygiene; Department of Labor, Licensing, and Regulation; Baltimore City; Office of the Attorney General; Department of Public Safety and Correctional Services; The Innovation Group; Department of Legislative Services

Fiscal Note History: First Reader - February 25, 2003
ncs/jr Revised - Senate Third Reader - March 25, 2003

Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

**Appendix 1
Summary of Fiscal Impact**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Gross VLT Revenues	--	\$95,274,125	\$815,370,763	\$1,261,157,581	\$1,295,448,875
Distributions to Licensees	--	\$37,156,909	\$317,994,597	\$491,851,457	\$505,225,061
GF Revenues					
Lottery VLT Administrative Cost	--	\$4,763,706	\$35,060,943	\$54,229,776	\$55,704,302
Application Fees	\$15,000,000	--	--	--	--
Lost Lottery Revenue	--	(9,140,000)	(45,700,000)	(37,700,000)	(28,500,000)
Total GF Revenues	\$15,000,000	(\$4,376,294)	(\$10,639,057)	\$16,529,776	\$27,204,302
SF Revenues					
Education Trust Fund (ETF)	--	\$43,826,098	\$375,070,551	\$580,132,487	\$595,906,483
Purse Dedication Account	--	5,001,892	48,514,560	75,038,876	77,079,208
Compulsive Gambling	--	4,095,000	4,095,000	4,095,000	4,095,000
Local Distributions	--	4,525,521	38,730,111	59,904,985	61,533,822
Total SF Revenues	--	\$57,448,511	\$466,410,222	\$719,171,348	\$738,614,513
GF Expenditures					
Attorney General Expenditures		247,074	332,980	351,244	370,839
Education - Funded from ETF	--	(43,826,098)	(375,070,551)	(580,132,487)	(595,906,483)
Lottery VLT Administrative Cost	--	4,763,706	35,060,943	54,229,776	55,704,302
Total GF Expenditures	--	(\$38,815,318)	(\$339,676,628)	(\$525,551,467)	(\$539,831,342)
Special Fund Expenditures	--	\$57,253,511	\$466,215,222	\$718,976,348	\$738,419,513
Net Effect	\$15,000,000	\$34,634,024	\$329,232,571	\$542,276,243	\$567,230,644

Appendix 2 Types of Gambling in the United States

State	Land-based Casino	Riverboat Dockside	Cruising	Native American Gaming	Limited Stakes	Card Room	Lottery	Pari- Mutuel	Bingo	None
Alabama								X	X	
Alaska									X	
Arizona				X			X	X	X	
Arkansas								X	X	
California				X		X	X	X	X	
Colorado				X	X		X	X	X	
Connecticut				X			X	X	X	
Delaware							X	X	X	
Florida				X		X	X	X	X	
Georgia							X		X	
Hawaii										X
Idaho				X			X	X	X	
Illinois		X					X	X	X	
Indiana		X					X	X	X	
Iowa			X	X			X	X	X	
Kansas				X			X	X	X	
Kentucky							X	X	X	
Louisiana	X	(Shreveport)		X			X	X	X	
Maine							X	X	X	
Maryland							X	X	X	
Massachusetts							X	X	X	
Michigan	X			X			X	X	X	
Minnesota				X			X	X	X	
Mississippi		X		X					X	
Missouri		X					X		X	
Montana				X		X	X	X	X	
Nebraska				X			X	X	X	
Nevada	X			X				X	X	
New Hampshire							X	X	X	
New Jersey	X						X	X	X	
New Mexico				X			X		X	
New York (1)				X			X	X	X	
North Carolina				X			X		X	
North Dakota				X		X		X	X	
Ohio							X	X	X	
Oklahoma				X			X	X	X	
Oregon				X			X	X	X	
Pennsylvania							X	X	X	
Rhode Island							X	X	X	
South Carolina							X		X	
South Dakota				X	X		X	X	X	
Tennessee								X		
Texas				X			X	X	X	
Utah										X
Vermont							X	X	X	
Virginia							X	X	X	
Washington				X		X	X	X	X	
Washington DC							X		X	
West Virginia							X	X	X	
Wisconsin				X			X	X	X	
Wyoming							X	X	X	

(1) Legalized by legislation

Source: State Regulatory Agencies; Bear, Stearns & Co. Inc.; Innovation Group