

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

House Bill 1270
Ways and Means

(Delegate Impallaria, *et al.*)

Video Lottery Terminals - Gaming Cards

This bill requires video lottery terminals (VLTs) to be operated only by the insertion of a video lottery gaming card. Individuals obtaining such a card must provide proof of identification. The operator of a video lottery facility must use the card to identify, track, and prevent from gambling • gambling addicts; • individuals in arrears of child support payments of or greater than \$150; or • individuals convicted of theft, fraud, tax-related violations, and felonies. The card must also be used to facilitate the collection of taxes imposed on gaming winnings.

The bill is contingent on the ratification of Chapter 5 of the 2007 special session, a constitutional amendment, by the voters of the State.

Fiscal Summary

State Effect: To the extent that legislation authorizing VLTs that are regulated by the bill is ratified, special fund revenues to the Education Trust Fund (ETF) from gaming proceeds would decrease due to the decrease in gaming patrons by the exclusion of individuals from facilities and potentially substantial inconveniences imposed on all gaming patrons. Decreased ETF revenues could result in commensurate increases in general fund expenditures to the extent that ETF revenues are used to support existing education programs. General fund expenditures could also increase for personnel and equipment costs in order to exclude individuals from facilities. If legislation does not authorize VLTs regulated by this bill, the bill will have no fiscal effect.

Local Effect: To the extent that legislation authorizing VLTs that are regulated by the bill is ratified, local revenues in the jurisdictions supported by VLTs would decline due to the reduction in gaming at regulated facilities.

Small Business Effect: None.

Analysis

Current Law: A gaming device is prohibited in the State if it is • a gaming table, except a billiard table, at which a game of chance is played for money or any other thing or consideration of value; or • a game or device at which money or any other thing or consideration of value is bet, wagered, or gambled. Gaming devices include a paddle wheel, wheel of fortune, chance book, and bingo.

A person may not • bet, wager, or gamble; • make or sell a book or pool on the results of a race, contest, or contingency; or • establish, keep, rent, use, or occupy, or knowingly allow to be established, kept, rented, used, or occupied, all or a part of a building, vessel, or place on land or water, within the State for the purpose of:

- betting, wagering, or gambling;
- making, selling, or buying books or pools; or
- receiving, becoming the depository of, or forwarding money or any thing of consideration of value, to be bet, wagered, or gambled on the result of a race, contest, or contingency.

Local Gaming

Each county is responsible for regulating gaming activities conducted by civic and charitable organizations. There is no statewide reporting of gaming activities by civic and charitable organizations. Gaming licensees may use the proceeds of gaming activities for the benefit of their own organizations, but do not need to share them with other organizations. Limited slot machine operations are authorized in eight counties on the Eastern Shore and half of the proceeds from slot machines must be used to benefit a charity. State gaming law requirements currently apply to 15 counties.

Background: Two pieces of legislation were enacted at the 2007 special session pertaining to VLT gambling.

Chapter 5 is a constitutional amendment that will be submitted to the voters at the November 2008 general election proposing that the General Assembly may only authorize expanded forms of gambling subject to the following restrictions: • a maximum of 15,000 VLTs may be authorized; • a maximum of five VLT facility licenses may be issued at locations specified in the bill; and • VLT facilities shall comply with all applicable planning and zoning laws of the local jurisdictions. Under the amendment, the

General Assembly may not authorize any additional forms or expansion of commercial gambling except through enactment of legislation passed by a majority of each house of the General Assembly, which would then be subject to voter approval via referendum. The constitutional amendment does not apply to currently authorized forms of gambling.

Chapter 4 establishes the operational and regulatory framework for the proposed VLT program. Enactment is contingent on ratification of Chapter 5 at the 2008 general election. VLT oversight will be provided by a nine-member State Lottery Commission, and the commission will own/lease the VLTs and the central monitor and control system. Allocation of the gross VLT revenues, after payouts to bettors, is as follows:

- **Business Investment:** 1.5% to a small-, minority-, and women-owned business investment account;
- **State Lottery:** 2% to the Lottery for administrative costs, with other costs provided for in the annual State budget;
- **Local Government:** 5.5% to local governments where a video lottery facility is operating, 18% of which would go for 15 years (starting in fiscal 2012) to Baltimore City through the Pimlico Community Development Authority and to Prince George's County for the community surrounding Rosecroft (\$1 million annually);
- **Horse Racing Industry:** 7% to a purse dedication account to enhance horse racing purses and funds for the horse breeding industry, not to exceed \$100 million annually; and 2.5% for an eight-year period to a Racetrack Renewal Account, not to exceed \$40 million annually;
- **Licensee (Operator):** 33% to video lottery operation licensees; and
- **Education Trust Fund:** the remainder to the Education Trust Fund (48.5-51.0%).

Revenues accruing to the Education Trust Fund are to be used for the Bridge to Excellence in Public Schools Act funding (including the Geographic Cost of Education Index), public school construction, and public higher education construction, including community colleges. Legislative Services estimates of the net effect on State revenues, if the referendum submitted to the voters at the November 2008 general election passes, are presented in **Exhibit 1**.

Exhibit 1
Fiscal Summary
Net State Effect if Video Lottery Terminals are Operational

<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
(\$2,362,400)	\$86,557,600	\$61,071,800	\$422,747,000	\$564,665,200

Federal regulations require casinos and gaming establishments to collect Social Security numbers and provide a W-2G tax form for all winnings over \$1,200. To ensure appropriate filings in the State of Maryland, the State Lottery Agency tracks lottery winnings of \$600 or more to provide for appropriate tax payments.

State Revenues: To the extent that games regulated by the provisions of this bill are authorized in the State, revenues from VLT proceeds would decrease beginning in the year that gaming begins. Special fund revenues from VLT proceeds for the Education Trust Fund would be impacted. VLT revenues would decrease due to the exclusion of certain individuals from gaming facilities and due to the decrease in attendance by nonexcluded patrons who are discouraged by the potential inconveniences.

Due to the exclusion provisions of this bill, it is likely that 650,000 residents or more could be excluded from VLT facilities. This estimate is based on the following facts and assumptions:

- the number of State residents who have ever been convicted of theft, fraud, or any felony is unknown. About 15,000 individuals are released from Division of Correction facilities each year. At least 50% of those releases are likely to have been serving a sentence for a felony conviction. Legislative Services advises that over a 20-year period, the actual total could be greater than 300,000. This does not count the number of persons who either received probation or who served a sentence for one of the covered offenses in a local jail – or people moving into Maryland with the exclusionary convictions;
- according to the Comptroller's Office, there are approximately 150,000 delinquent taxpayers (individuals and businesses) who owed undisputed taxes; and
- according to the Child Support Enforcement Administration, there were approximately 195,000 individuals in arrears for child support obligations in fiscal 2007.

This estimate assumes that these individuals are mutually exclusive. To the extent that individuals might owe child support and owe taxes within the last five years, for example, the number of individuals required to be excluded will be less.

The Department of Public Safety and Correctional Services advises that there are potential serious obstacles in ensuring individuals convicted of certain criminal offenses are excluded from gaming facilities.

The provisions of the bill are likely to reduce gaming revenue by discouraging patronage by individuals not on the exclusion list. The provisions of the bill requiring gaming patrons to acquire gaming cards and for licensees to verify identification will likely result in delays in entering facilities due to the large attendance at these facilities. Such patrons may also be discouraged by State-based monitoring.

To the extent gaming revenues are realized via Chapter 4 and 5 of the 2007 special session and dedicated to the Education Trust Fund, these special fund revenues would decline.

State Expenditures: Any reduction in ETF revenues could increase general fund expenditures by the same amount to the extent that ETF proceeds are used to support existing education programs.

General fund expenditures would increase for the State Lottery Agency due to costs associated with implementing the provisions of the bill. To the extent VLT terminals leased or procured by the Lottery Agency to implement the VLT program authorized in Chapter 4 must be modified to comport with the bill's requirements, State expenditures will increase to procure modified terminals from VLT vendors. State expenditures would also increase to develop and maintain a central database system that monitors data profiles on all individuals to comply with the bill's exclusionary policies. The additional costs cannot be reliably estimated at this time.

Additional Information

Prior Introductions: A similar bill, HB 1013 of 2004, was referred to the House Ways and Means Committee. No further action was taken.

Cross File: None.

Information Source(s): Department of Public Safety and Correctional Services, Department of Human Resources, Judiciary (Administrative Office of the Courts), State Lottery Agency, Comptroller's Office, Department of Legislative Services

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mll/rhh

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