

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

Senate Bill 49
Budget and Taxation

(Senator Klausmeier)

Gaming - Slot Machines - Ownership and Operation by Eligible Nonprofit Organizations

This bill authorizes all counties to license slot machines that are owned and operated by eligible nonprofit organizations. Other provisions of current law regarding licensing and administrative procedures continue to apply. This includes the requirement that the nonprofit organization must be located in the State for at least five years prior to the application for a license and must be a fraternal, religious, or war veterans' organization, or be an organization that has been affiliated with a national fraternal organization for less than 5 years, but has been located in the State for at least 50 years before applying for a license.

Fiscal Summary

State Effect: General fund revenues from lottery sales may decrease in the counties that license new slot machines under the bill. Although the impact cannot be quantified, it is expected to be minimal. The Comptroller's Office can collect additional reports with existing resources.

Local Effect: Potential minimal revenue increase to the extent that the 16 counties not currently authorized to license slot machines elect to do so. Counties would collect \$50 in licensing fees from eligible organizations for each slot machine license. Counties that earn revenues from paper gaming but do not currently license slot machines could experience decreased revenue from paper gaming due to competition from slot machines. Potential increase in expenditures from those counties that elect to license slot machines and cannot handle the administrative costs with existing resources.

Small Business Effect: Minimal.

Analysis

Current Law: Legislation was enacted in 1987 and 2007 authorizing certain nonprofit organizations to operate slot machines in eight counties on the Eastern Shore (Caroline, Cecil, Dorchester, Kent, Queen Anne's, Somerset, Talbot, and Wicomico). The 1987 legislation required a nonprofit organization to be located in the county for at least five years prior to the application for a license and must be a fraternal, religious, or war veterans' organization. Legislation enacted in 2007 also made eligible organizations that have been affiliated with a national fraternal organization for less than 5 years but have been located within an eligible county for at least 50 years before applying for a license.

In order to operate a slot machine, an organization must obtain a license from the sheriff's office and pay a fee of \$50 per machine annually to the applicable county. An organization may not own more than five slot machines and must own each slot machine in operation. The slot machines must be located at the principal meeting hall of the organization and cannot be operated at a private commercial facility. The slot machine must be equipped with a tamperproof meter or counter that accurately records gross receipts.

At least one-half of the proceeds generated from slot machines must go to charity. The remainder of the proceeds must go to the organization. An individual cannot benefit financially from the proceeds. The organization must keep accurate records of gross receipts and payouts from slot machines and must report annually under affidavit to the Comptroller's Office the disposition of these proceeds. The Comptroller's Office, however, does not have authority to audit these reports.

Background: In fiscal 2006, 49 Eastern Shore nonprofit organizations operated slot machines. These organizations donated approximately \$3.6 million to charity. Unaudited reports with complete data were available for 46 of the organizations. These 46 organizations operated 241 machines; the total amount bet was approximately \$55.5 million, 87% of which was returned to gamblers. Of the net proceeds of approximately \$7.1 million, \$3.6 million (51%) was disbursed to charity. The Department of Legislative Services notes that in reviewing the fiscal 2006 data, it appeared that several organizations were not in compliance with the 50% charity requirement or misclassified some contributions as charitable. Several organizations submitted returns that were incomplete or mathematically incorrect.

Paper gaming is a game of chance in which prizes are awarded, and the devices used to play the game are constructed of paper. The most common forms of paper gaming are punchboards, instant bingo, and tip jars. A punchboard is a square piece of wood or cardboard with dozens or hundreds of holes punched in it, each filled with a piece of paper with numbers or symbols printed on it. The holes are covered with foil or paper,

and players pay for the right to punch one or more holes. If the numbers or symbols on their slips of paper match a winning combination, they receive a prize, either cash or another item. Tip jars dispense instant winning game tickets similar to scratch lottery games.

Paper gaming provides two sources of revenues to counties: the sale of paper gaming licenses and tickets to operators, and taxes on paper gaming sales. The State Lottery Agency advises that paper gaming occurs in at least 15 Maryland counties, and is most prevalent in Allegany, Frederick, Garrett, and Washington counties.

The State Lottery Agency conducted a study of local gaming in Maryland required by Chapter 474 of 2008. The report showed some relationship between State lottery sales and the existence of local gaming activities. However, the specific relationship between lottery sales and local slot machines was difficult to determine and very weak. **Exhibit 1** shows lottery sales by jurisdiction in fiscal 2008. Overall, 95% of lottery sales in fiscal 2008 were made in the 16 counties that could be affected by this bill.

Additional Information

Prior Introductions: SB 29 of 2008 received an unfavorable report from the Senate Budget and Taxation Committee. SB 98 of 2007 had a hearing in the Senate Budget and Taxation Committee but no further action was taken. SB 132 of 2006 was scheduled for hearing by Budget and Taxation, but the hearing was cancelled. SB 897 of 2005 was heard by Budget and Taxation but no further action was taken.

Cross File: None, however, Senate Bill 102 is similar.

Information Source(s): Charles, Frederick, Montgomery, Prince George's, and Somerset counties; Comptroller's Office; State Lottery Agency; Department of Legislative Services

Fiscal Note History: First Reader - February 3, 2009
mcp/rhh

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Exhibit 1
State Lottery Sales by County
Fiscal 2008

County	Total Sales	% of Sales
Allegany	\$10,433,497	0.6%
Anne Arundel	173,318,271	10.4%
Baltimore City	301,338,904	18.1%
Baltimore	263,125,362	15.8%
Calvert	23,534,715	1.4%
Caroline	7,544,477	0.5%
Carroll	33,070,209	2.0%
Cecil	18,918,076	1.1%
Charles	55,424,912	3.3%
Dorchester	8,240,275	0.5%
Frederick	34,148,399	2.1%
Garrett	3,008,493	0.2%
Harford	56,447,538	3.4%
Howard	39,173,237	2.4%
Kent	4,253,818	0.3%
Montgomery	158,925,393	9.6%
Prince George's	336,816,778	20.3%
Queen Anne's	10,276,470	0.6%
St. Mary's	36,006,412	2.2%
Somerset	6,209,423	0.4%
Talbot	8,159,951	0.5%
Washington	26,147,757	1.6%
Wicomico	20,990,803	1.3%
Worcester	26,895,057	1.6%
Total	\$1,662,408,221	100.0%

Source: State Lottery Agency
