

Department of Legislative Services
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 433 (Senator Stone)
Budget and Taxation

Baltimore County - Service Clubs and Fraternal Organizations - Slot Machines

This bill authorizes Baltimore County to license service clubs and fraternal organizations to own and operate up to five slot machines at their principal meeting hall. At least one-half of the proceeds must go to charity and the remainder to further the organizations' purposes.

The bill takes effect July 1, 2010.

Fiscal Summary

State Effect: Potential decrease in special fund revenues and expenditures from the Video Lottery Terminal (VLT) Program beginning in FY 2011. Under one set of assumptions, VLT special fund revenues may decrease by \$360,000 annually. General fund revenues from lottery sales may decrease in Baltimore County and nearby jurisdictions by approximately \$140,000 annually, under one set of assumptions. The Comptroller's Office can collect additional reports with existing resources.

Local Effect: Minimal increase in Baltimore County revenues from annual slot machine license fees. County expenditures are not affected.

Small Business Effect: None.

Analysis

Bill Summary: In order to operate a slot machine, an eligible organization must obtain a license from the Baltimore County Sheriff's Office and pay a fee of \$50 per machine annually to the county. The organization must have been located in Baltimore County for at least five years before applying for a license. 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 income from each slot machine and the disposition of these proceeds. The Comptroller's Office, however, does not have authority to audit these reports.

Current Law: Generally, it is a misdemeanor crime to possess or operate a slot machine in Maryland. However, legislation was enacted in 1987 and 2007 authorizing certain nonprofit organizations to operate slot machines in the following eight Eastern Shore counties: 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 to be a fraternal, religious, or war veterans' organization.

Chapter 645 of 2007 expanded the list of eligible organizations that may be licensed to operate slot machines to include those 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.

During the 2007 special session, the General Assembly adopted two pieces of legislation pertaining to VLT gambling – Chapter 4 (Senate Bill 3) and Chapter 5 (House Bill 4). Chapter 5 was a constitutional amendment approved by the voters at the November 2008 general election that authorized the expansion of gambling subject to specified restrictions. The constitutional amendment provided that (1) a maximum of five VLT facility licenses may be awarded within specified areas of the State; (2) no more than one facility license may be awarded in any county or Baltimore City; (3) a maximum of 15,000 VLTs may be authorized; and (4) VLT facilities must comply with any applicable planning and zoning laws of a local jurisdiction.

Chapter 4, which was contingent on ratification of Chapter 5, established the operational and regulatory framework for the VLT program. Under Chapter 4, VLT facility operation licenses are awarded by a Video Lottery Facility Location Commission (Location Commission). The State Lottery Commission will oversee VLT operations and will own/lease the VLTs and a central monitor and control system. Chapter 4 allows for a maximum of 15,000 machines, distributed as follows: 4,750 VLTs in Anne Arundel

County; 3,750 VLTs in Baltimore City; 2,500 VLTs in Worcester County; 2,500 VLTs in Cecil County; and 1,500 VLTs in Allegany County. In addition, geographic parameters for each jurisdiction within which a VLT facility may be located are provided. The Location Commission may alter VLT allocations if warranted by an evaluation of market and other factors; however, no more than 4,750 VLTs may be placed at any one location.

Background: In fiscal 2008, 52 nonprofit organizations on the Eastern Shore operated slot machines. These organizations donated approximately \$3.6 million to charity. Unaudited reports with complete data were available for 50 of the organizations. The total amount bet at these 50 organizations was approximately \$52 million, 87% of which was returned to gamblers. Of the approximately \$6.6 million in net proceeds, \$3.3 million (51%) was disbursed to charity. The Department of Legislative Services (DLS) notes that in reviewing the fiscal 2008 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.

The State Lottery Agency conducted a study of local gaming in Maryland required by Chapter 474 of 2008. The report indicates (similar to DLS findings) that in fiscal 2008, 273 slot machines on the Eastern Shore generated \$54.8 million in total “handle” or bets. However, the report shows no reliable or consistent relationship between the current presence of slot machines and lottery sales. **Exhibit 1** shows the slot machine handle by county.

The Location Commission has awarded three video lottery operation licenses to date. Some Baltimore County residents are in close proximity to the Cecil County VLT facility that is scheduled to open with 1,500 VLTs in October 2010. Baltimore County shares its southern border with both Anne Arundel County and Baltimore City. A 4,750 VLT facility is scheduled to open in December 2011 in Anne Arundel County adjacent to Arundel Mills Mall. The Location Commission rejected the sole bid for a Baltimore City VLT facility and plans to rebid this location, which may include a maximum of 3,750 VLTs, sometime in 2010.

State Fiscal Effect: State special fund revenues and expenditures may be reduced, depending on the degree to which eligible organizations in Baltimore County are licensed to operate and implement slot machines. These machines may serve as a substitute for gambling at future VLT facilities in the State, particularly those in Anne Arundel and Cecil counties and Baltimore City.

Exhibit 1
Slot Machine Handle for Eastern Shore Counties
Fiscal 2008
(\$ in Millions)

<u>County</u>	<u>Slot Machines</u>	<u>Handle*</u>
Caroline	20	\$2.4
Cecil	55	14.9
Dorchester	30	4.5
Kent	25	1.5
Queen Anne's	30	6.3
Somerset	24	2.5
Talbot	30	4.6
Wicomico	59	18.0
Total	273	\$54.8

*Numbers may not sum to the total due to rounding.

Source: Maryland State Lottery Agency

Gambling at the newly eligible organizations would represent a shift of spending from other activities, a portion of which are taxable by the State. Numerous studies have examined the relationship between expanded VLT gambling and the substitution effect this expansion has on existing VLT revenues or other State revenues such as the lottery and sales tax. Most of these studies conclude that although total revenues might increase from expanded gambling there is a negative impact on existing revenue streams that partially offsets the revenue from expanded gambling. For example, DLS estimates that VLTs, when fully implemented, will cause a permanent 10% reduction in annual revenues from the lottery.

The average annual revenue generated from existing gambling at eligible nonprofits is approximately \$130,000 (*i.e.*, total handle minus total amount returned to players) per organization. The bill would add an estimated 28 organizations offering slots play; assuming 5 machines at each results in 140 slot machines generating approximately \$3.6 million in revenue annually. A small portion of this would likely have otherwise been spent at State VLT facilities. If that portion is 10%, the result is an annual loss of \$360,000 in special fund revenues. The impact to the State would include a \$175,000 reduction in Education Trust Fund revenues and a \$7,000 loss in revenues for State lottery administration of the VLT program. **Exhibit 2** shows the reduction in special fund distributions from the total reduction of \$360,000 illustrated above.

Exhibit 2
Illustration of Reduced VLT Program Distribution

Education Trust Fund (48.5%)	\$174,600
Licensees (33%)	118,800
Purse Dedication Account (7%)	25,200
Local Impact Grants (5.5%)	19,800
Racetrack Renewal (2.5%)	9,000
Lottery Operations (2%)	7,200
Minority Business Investment (1.5%)	5,400
Total Reduction	\$360,000

The impact of new slot machines on lottery sales and revenue is difficult to quantify. The magnitude of the impact will depend on the number of organizations that are licensed for slot machines and the location of the machines, as well as the substitution of slot machine for lottery spending. As noted, Legislative Services has estimated a permanent 10% reduction in lottery sales with full VLT program implementation (approximately \$1.4 billion in total revenues). Applying this assumption to the scenario described above (\$3.6 million in revenue from 140 slot machines), lottery sales would decrease by 0.03%, which equates to a general fund revenue reduction of approximately \$140,000 annually.

Additional Comments: Current law authorizes certain nonprofit organizations to operate slot machines in eight Eastern Shore counties. The bill does not explicitly require a service club or fraternal organization in Baltimore County to be a nonprofit in order to be eligible for a slot machine license.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Baltimore County, Comptroller's Office, Maryland State Lottery Agency, Department of Legislative Services

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