

**Department of Legislative Services**

Maryland General Assembly

2012 Second Special Session

**FISCAL AND POLICY NOTE**

**Revised**

Senate Bill 1

(The President)(By Request - Administration)

Budget and Taxation

Ways and Means

**Gaming Expansion - Video Lottery Terminals and Table Games - Lottery  
Machines - Veterans' Organizations**

This Administration bill, which includes provisions subject to voter referendum, (1) authorizes a video lottery operation license to be awarded for a video lottery facility within Prince George's County; (2) increases from 15,000 to 16,500 the maximum number of video lottery terminals (VLTs) that may be authorized; (3) alters the distribution of VLT proceeds; (4) authorizes a video lottery licensee to offer table games; (5) provides for the distribution of revenues from table games and from a facility located in Prince George's County; (6) transfers leasing/ownership of most VLTs, from the State to licensees; (7) renames the State Lottery Agency and reconstitutes and renames the State Lottery Commission; (8) authorizes VLT facilities to operate 24 hours per day; (9) authorizes the State Lottery and Gaming Control Agency (SLGCA) to issue qualifying veterans' organizations in certain counties a license for up to five instant ticket lottery (pull tab) machines; and (10) increases State lottery agent commissions.

The bill's provisions regarding the referendum take effect August 15, 2012; however, most provisions take effect October 1, 2012, some of which are contingent on passage of the referendum. Certain provisions related to distribution of proceeds take effect upon issuance of a license for a facility in Prince George's County.

**Fiscal Summary**

**State Effect:** Special fund revenues increase beginning in FY 2013 due to 24-hour operations and table game revenues and beginning in FY 2017 due to additional revenues from a sixth facility. General fund revenues decrease beginning in FY 2013 due to increased lottery agent commissions. Net general fund expenditures decrease in FY 2013 due to special funds available for education expenses and beginning in FY 2015 due to a decrease in lottery agency expenses for VLT ownership. Special fund revenues and expenditures increase for the purposes specified by the bill beginning in FY 2013. Nonbudgeted revenues and expenditures reflect licensees retaining most of their shares of VLT and table game revenues.

(\$ in millions)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
GF Revenue	(\$4.4)	(-)	(\$8.8)	(\$8.8)	(\$13.6)
SF Revenue	\$17.7	\$61.3	\$110.1	\$103.4	\$252.6
NonBud Rev.	\$34.5	\$124.9	\$225.7	\$300.3	\$460.5
GF Expenditure	(\$16.6)	(\$58.3)	(\$119.4)	(\$120.8)	(\$174.5)
SF Expenditure	\$17.7	\$61.3	\$110.1	\$103.4	\$252.6
NonBud Exp.	\$34.5	\$124.9	\$225.7	\$300.3	\$460.5
Net Effect	\$12.2	\$58.3	\$110.6	\$112.0	\$160.9

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

**Local Effect:** Net local government revenues will increase by \$0.9 million beginning in FY 2013 and by \$30 million beginning in FY 2017 due to the impact of the facility in Prince George’s County as well as the 5% share of table game proceeds for counties where VLT facilities are located. Local impact grants from VLT proceeds for Anne Arundel County and Baltimore City are held harmless from the impact of a Prince George’s County facility. Distributions to the Pimlico Community Development Authority are altered beginning in FY 2015, with commensurate changes to the counties’ distributions.

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

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## Analysis

**Bill Summary:** Specifically, the bill:

*Expands VLT Gambling*

The bill increases the limit on the number of VLTs in the State from 15,000 to 16,500 and increases the statewide limit on the number of VLT facilities from five to six, subject to voter referendum in November 2012.

*Authorizes a Video Lottery Facility in Prince George’s County*

The Video Lottery Facility Location Commission (Location Commission) is authorized to award a license to operate a maximum of 3,000 VLTs at a location in Prince George’s County within a four-mile radius of the intersection of Bock Road and St. Barnabas Road. This provision is also subject to referendum. An applicant for the Prince George’s County license may request up to 38% of proceeds as the licensee’s share, compared to 33% to most licensees under current law. The bill states legislative intent that the commission may not award a license for a facility in Prince George’s County unless the

majority of voters in the county approve the referendum authorized by the bill. VLT operations may not begin at the Prince George's County facility until the earlier of July 1, 2016, or 30 months after the VLT facility in Baltimore City is open to the public. An applicant for a Prince George's County facility may have more than 18 months, but not more than 30 months, to build a permanent VLT and table games facility, and may not operate VLTs or table games in a temporary facility or in a structure, including a hotel or conference center, that exists on August 15, 2012. A current holder of a video lottery operation license may apply to the Location Commission to be awarded an additional video lottery operation license, provided that the application includes a plan for divesting from the video lottery operation license held at the time of the application.

Except as specified, the operator of a Prince George's County facility must adhere to the current regulation of video lottery operator licenses specified in current law, including the requirement that the licensee submit an initial license fee equal to at least \$3.0 million for each 500 VLTs.

#### *Alters the Distribution of VLT Proceeds – Marketing and Capital Investment*

Upon the *issuance* of a Prince George's County video lottery operation license, the licensee in Baltimore City will receive an additional 7% of VLT revenues and the Anne Arundel County licensee will receive an additional 8% of VLT revenues at the facility for (1) required marketing, advertising, and promotional costs; or (2) capital improvements at the VLT facility. The State Lottery and Gaming Control Commission (SLGCC) may further increase this distribution to the Baltimore City and Anne Arundel County licensees by up to three and two percentage points, respectively; however if the Anne Arundel County licensee receives such an additional adjustment, the Baltimore City licensee must receive at least the same additional percentage point increase. The commission may also provide an adjustment of up to 5% of VLT revenues to the Cecil County licensee from proceeds at that facility for marketing, advertising, and promotional costs or for capital improvements. Any adjustment(s) must be preceded by a specified report from the SLGCC to the Governor and the General Assembly regarding the implications of the adjustment, must be determined by the SLGCC by January 1, 2019, and may not take effect until the Prince George's County video lottery operation license is issued and no earlier than July 1, 2019.

#### *Alters the Distribution of VLT Proceeds – Horse Racing Industry*

Also upon the issuance of the Prince George's County license, the bill reduces from 7% to 6% of VLT revenues the distribution to the Purse Dedication Account (PDA).

Beginning October 1, 2012, the bill also (1) reduces from 2.5% to 1.75% of VLT revenues (except for the Allegany County facility) the distribution to the Racetrack Facility Renewal Account (RFRA) until the VLT license for Baltimore City is issued, after which time the percentage is reduced to 1.0%; (2) reduces the annual cap on the

RFRA from \$40 million to \$20 million; and (3) extends distributions to the account from 8 to 16 years from the beginning of gaming operations at a VLT facility. Racing licensees eligible to receive funds from the RFRA must submit preliminary capital improvement plans to the State Racing Commission and the Department of Budget and Management on or before February 1, 2013, or forfeit any right to access funds from the RFRA. Any unencumbered funds remaining in the RFRA after a video lottery facility has been in operation for 16 years are paid to the Education Trust Fund (ETF).

#### *Alters the Distribution of VLT Proceeds – Local Impact Grants*

The bill specifies that, once a Baltimore City license is issued, of the revenues dedicated to local impact grants, 100% of the local impact grants from the proceeds of the video lottery facilities in Allegany, Cecil, and Worcester counties must be distributed to those jurisdictions. The bill also specifies that, once a Prince George's County license is issued, of the revenues dedicated to local impact grants, \$200,000 is distributed annually to Allegany and Worcester counties, \$130,000 is distributed to Cecil County, and \$70,000 is distributed to the Town of Perryville. The bill also extends the 18% distribution of local impact grants provided to Baltimore City and Prince George's County through fiscal 2032. Under current law (except for Allegany County), 5.5% of VLT revenues is distributed in the form of impact grants to local governments, of which 18% goes through fiscal 2027 to Baltimore City via the Pimlico Community Development Authority and to Prince George's County for the community surrounding Rosecroft (\$1 million annually). The remaining 82% is distributed to local governments where VLT facilities are located. Under current law, the 82% distribution is apportioned to local governments based upon the revenues generated by the facility in the county. The bill divides equally among Baltimore City and Anne Arundel and Prince George's counties their combined share of the 82% distribution, except that the share to Baltimore City and to Anne Arundel County may not be less than in the fiscal year prior to issuance of the Prince George's County license.

Under the bill, the \$1 million annual local impact grant allocation to Prince George's County for the community surrounding Rosecroft Raceway must be spent on public safety projects within five miles surrounding the racetrack. Under current law, the money must be used for capital projects within 10 miles of the racetrack. The bill also requires that 40% of any local impact grants provided to Prince George's County after a Prince George's County facility opens must be used to address infrastructure needs related to Maryland Route 210 in the county, not to exceed \$15 million annually. These funds may be reimbursed by the State.

Under current law, 82% of local impact grants must be used for improvements in the communities in immediate proximity to the VLT facilities for specified purposes. Beginning October 1, 2012, the bill allows the grants to be used for improvements *primarily* in those communities, except in Baltimore City.

### *Alters Ownership and Leasing of VLTs*

Under current law, VLTs and associated equipment and software are owned or leased by the State Lottery Commission. Under the bill, the Baltimore City and Prince George's County facility operators will own or lease VLTs at their respective facilities and the SLGCC retains responsibility for ownership or leasing of VLTs and associated equipment at the VLT facilities in Allegany and Worcester counties. However, the facilities in Allegany and Worcester counties may apply to the SLGCC for permission to assume ownership or the right to lease each VLT used by the facility. For the existing facilities in Anne Arundel and Cecil counties, the facilities will own or lease the machines beginning April 1, 2015, after the State Master Contract with VLT manufacturers expires on March 31, 2015. The savings to the State from requiring VLT facilities to own or lease the VLTs must be appropriated to the ETF.

Upon assuming ownership of the VLTs, the Anne Arundel County licensee receives an additional 8% of VLT revenues at the facility and the Baltimore City, Cecil County, and Prince George's County licensees receive an additional 6% of VLT revenues from their facilities. Also beginning April 1, 2015, the bill reduces from 2% to 1% of VLT revenues the distribution to the SLGCA for administrative costs associated with the VLT program (except for Allegany County).

### *VLT Facilities in Allegany and Worcester Counties*

Under current law, distributions to video lottery operation licensees (except for the Allegany County licensee), may not exceed 33% of VLT revenues. Beginning July 1, 2013, the licensee in Worcester County receives 43% of revenues generated at the facility, if the facility has less than 1,000 VLTs and the equivalent of 2.5% of the facility's proceeds are spent each year on capital improvements at the facility. Under current law, the licensee share of 50% for the Allegany County VLT facility is reduced to 33% of proceeds after 10 years of operations. The bill specifies that the operator share for the Allegany County facility will be 50% after 1 year of operations and meeting a 0.5% annual capital investment requirement; after 10 years of operations, the operator share will be 43% if a 2.5% capital investment requirement is met.

The maximum number of VLTs that may be awarded for the Allegany County video lottery facility is increased from 1,000 to 1,500. The bill prohibits any table game operations at the Allegany County facility until evidence is submitted that replacement work has begun that will provide meeting space at the Rocky Gap Lodge and Resort that is equal to or greater than the space eliminated as a result of the installation of VLTs.

Under current law, the holder of the video lottery operation license or any other person with an interest in the Ocean Downs Racetrack is prohibited from (1) within 10 miles of the facility, building or converting an existing property into any type of hotel or other

public lodging accommodation; (2) within 10 miles of the facility, building or operating a conference center, convention center, amusement park, or other specified entertainment facilities; or (3) offering video lottery patrons live music or any other form of entertainment except for live fireworks displays and piano music played by an individual. The bill eliminates entirely the last restriction on the Ocean Downs operator/licensee.

### *Authorizes Table Games*

Subject to voter referendum, the bill requires the SLGCC to allow the holder of a video lottery operation license to offer specified table games and requires the SLGCC to regulate table game operations. Prior to the issuance of a Prince George's County video lottery operation license, 80% of table game revenues are distributed to licensees and 20% of table game revenues are distributed to the ETF. Upon issuance of a Prince George's County license, licensees continue to receive 80% of table game revenues, 15% is distributed to the ETF, and 5% is distributed to local jurisdictions where a VLT facility is located. Proceeds distributed to Baltimore City must be used equally to fund school construction projects and maintenance, operation, and construction of recreational facilities.

The State is prohibited from charging a table game *license* fee. However, the SLGCC *may* establish an annual fee for each table game, capped at \$500 per table, to benefit the Problem Gambling Fund.

Authorized table games are defined as:

- roulette, baccarat, blackjack, craps, big six wheel, minibaccarat, poker, pai gow poker, and sic bo – or any variation and composites of these games; and
- gaming tournaments in which players compete against one another in one or more of the games previously described.

The SLGCC may determine the suitability of any composites or variations of authorized table games, as well as additional games, after an appropriate test or experimental period as determined by the commission. The SLGCC may, through regulations, define and limit the method of operation, type, and number of table games. SLGCC regulations must also establish procedures for accounting for money exchanged at table games and for the removal of VLTs (including the number that may be removed) to accommodate table games. The bill also defines “table game equipment” and adjusts the definition of “manufacturer” to include manufacturers of table games and related equipment.

### *Establishes a State Lottery and Gaming Control Commission*

The bill reconstitutes the nine-member State Lottery Commission as a seven-member State Lottery and Gaming Control Commission, within the renamed State Lottery and

Gaming Control Agency. Members are appointed by the Governor with the advice and consent of the Senate and may not serve for more than two full terms. The President of the Senate and Speaker of the House may recommend to the Governor a list of individuals for appointment to the commission. Qualifications for service on the commission are specified, including a requirement that at least one member reside in a jurisdiction in which a video lottery facility is located, and certain financial disclosures and various prohibitions are also specified. A majority of members must concur in order to approve an action.

Members are entitled to a salary and to reimbursement for reasonable expenses, as provided in the budget for the SLGCC. The commission may hire, develop, and organize a staff to perform commission functions. The commission must engage an outside consultant to provide continual analysis of the gaming industry and support licensing activities. The cost of the consultant may be divided proportionally among video lottery operation licensees.

The SLGCC generally performs functions formerly carried out by the State Lottery Commission as well as new functions specific to gaming, especially table gaming. The commission oversees SLGCA regulations and must conduct specified studies of lottery and gaming activities. The commission must also submit specified monthly and annual reports on the State lottery and gaming program to the Governor and the General Assembly. The bill provides for the transfer of authority, duties, and staff from the State Lottery Commission and State Lottery Agency to the SLGCC and SLGCA.

The commission may recommend changes to State law regarding the State lottery and the State gaming program, including laws regulating alcoholic beverages at VLT facilities. The commission must do so at the request of the Governor or the Presiding Officer of either house of the General Assembly. On matters within or related to its jurisdiction, the commission may recommend or propose legislation, and it must review and comment on legislation that is introduced, prior to a hearing on the legislation. A VLT facility may request that the commission consider and make recommendations on proposed changes to relevant law.

On or before December 1, 2019, and every year thereafter, the commission must report on the distribution of VLT proceeds for VLT procurement, capital improvements, marketing, advertising, promotional costs, and local impact grants.

#### *Eliminates State Limits on VLT Facility Hours of Operation*

Contingent on passage of the voter referendum, the bill eliminates restrictions on the hours that a VLT facility may operate, instead authorizing facilities to be open for 24 hours a day, seven days a week.

### *Expands Authorized Uses of the Education Trust Fund*

The authorized uses of the ETF are broadened to encompass funding that expands public early childhood education programs in Maryland. Under current law, the ETF is used to fund public elementary and secondary education, public school construction, and capital projects at community colleges and public senior higher education institutions.

### *Expedites the License Award Appeals Process*

Certain timeframes and processes are specified to expedite appeals of the award of a video lottery operation license by the Location Commission at the State Board of Contract Appeals and to the Court of Appeals. The provisions of the bill related to the courts take effect August 15, 2012, and apply to any appeal pending as of that date.

### *Requires Certain License Applicants and Awardees to Solicit Minority Investors*

Before and after being awarded a video lottery operation license, an applicant for/awardee of a license that is seeking investors must make specified efforts to solicit minority investors and provide specified documentation of these efforts. The Governor's Office of Minority Affairs and the Office of the Attorney General must provide assistance to those who must meet these requirements. The bill also clarifies that existing minority business participation requirements apply to the procurement of equipment and ongoing services related to VLT operations.

### *Alters State Election Law and Public Ethics Law*

The bill prohibits applicants for and owners and license holders of a VLT facility from directly or indirectly making a contribution to (1) the campaign finance entity of a candidate for any nonfederal office in the State; or (2) any other campaign finance entity organized in support of a candidate for any nonfederal office in the State.

The bill also establishes additional reporting requirements for (1) ballot issue committees formed to support or oppose the ballot question required by the bill; and (2) persons or entities subject to independent expenditure or electioneering communications reporting requirements as a result of expenditures to support or oppose the ballot question.

Statements must be submitted to the State Board of Elections within 48 hours of contributions or expenditures over (1) \$10,000, for the period from the bill's enactment through October 21, 2012, and (2) \$5,000, for the period from October 22, 2012, through November 9, 2012 (the Friday after the election). The State board must post the statements on its website on the next business day. The State Prosecutor is authorized to assess a penalty for the late filing of reports.

In addition, the bill requires regulated lobbyists to report expenditures related to the second special session by September 17, 2012, to the State Ethics Commission.

The additional reporting requirements and related enforcement provisions for both the ballot question and special session expenditures by lobbyists take effect on enactment of the bill.

#### *Alters Provisions Related to the Location Commission*

Beginning October 1, 2012, the Department of Legislative Services (DLS) is no longer required to provide staff support to the Location Commission, and DLS is no longer required to engage an outside consultant to assist the Location Commission. (As discussed elsewhere in this note, the SLGCC must engage an outside consultant.)

#### *Authorizes Instant Ticket Lottery Machines for Veterans' Organizations*

Effective October 1, 2012, the bill authorizes the SLGCA to issue certain veterans' organizations a license for up to five instant ticket lottery (pull tab) machines. Veterans' organizations in counties on the Eastern Shore and in Montgomery County are not eligible. After deductions for commissions and prize payouts, the proceeds go to the general fund. Beginning July 1, 2014, 10% of the proceeds will be distributed to the Maryland Veterans Trust Fund (MVTF). The bill also requires the SLGCA to ensure that the conduct of gaming and the operation of pull tab machines are consistent with the holding in the case of *Chesapeake Amusements Inc. v. Riddle*, 363 Md. 16 (2001).

#### *Increases State Lottery Agent Commissions*

The bill provides that State lottery agent commissions will increase from 5.0% to 5.5% on January 1, 2013 – under current law, the commissions will increase to 5.5% on July 1, 2013. The bill also increases State lottery agent commissions from 5.5% to 6.0% upon the issuance of a video lottery operation license in Baltimore City.

#### *Creates the Joint Committee on Gaming Oversight*

The bill creates the Joint Committee on Gaming Oversight to examine the status of the State's gaming program and the implementation of new laws relating to gaming. The committee consists of four senators and four delegates, and at least one senator and one delegate serving on the committee must be a member of the minority party. The committee must report any findings and recommendations on or before December 31 of each year.

### *Prohibits Certain Negotiable Transactions at ATMs in Video Lottery Facilities*

The bill requires that regulations adopted by the SLGCC include provisions that prohibit automated teller machines located in video lottery facilities from accepting certain electronic benefit cards, debit cards, or similar negotiable instruments issued by the Department of Human Resources for certain purposes.

### *Alters Regulation of Amusement Devices in Baltimore City and Baltimore County*

The bill requires the SLGCC to refer a certain matter regarding the legal operation of amusement devices in Baltimore City or Baltimore County to the State's Attorney under certain circumstances.

### *Exempts VLTs and Table Games from Local Personal Property Taxes*

The bill exempts VLT licensees that own or lease VLTs and table games from local personal property taxes. Under current law, VLTs owned by the State are exempt from personal property taxes.

### *Alters the Distribution of VLT and Table Game Proceeds to VLT Licensees*

The bill specifies that the amount of the proceeds to be paid to VLT licensees from VLTs and table games, including proceeds for VLT procurement, is to be retained by the licensee. Under current law, all VLT proceeds are deposited into the State Lottery Fund and then the licensees' share of the proceeds is paid to the licensees.

**Current Law:** Two VLT gambling bills passed during the 2007 special session – House Bill 4 (Chapter 5) and Senate Bill 3 (Chapter 4). Chapter 5 was a constitutional amendment approved by Maryland voters at the November 2008 general election that authorized 15,000 VLTs at five locations in the State. The amendment also specified that the General Assembly may only authorize expanded forms of gambling subject to certain restrictions. Chapter 4, which was contingent on ratification of Chapter 5, established the operational and regulatory framework for the authorized VLT program. Under Chapter 4, gross VLT proceeds are distributed as follows from the proceeds of VLTs at each facility:

- Business Investment – 1.5% to a small, minority, and woman-owned business investment account;
- Lottery (Administration) – 2% to the State lottery for administrative costs, with other costs provided for in the State budget;
- Local Government Impact Grants – 5.5% to local governments in which a video lottery facility is operating, 18% of which would go for 15 years (starting in fiscal 2012 and ending in fiscal 2027) to Baltimore City through the Pimlico

Community Development Authority and to Prince George's County for the community surrounding Rosecroft (\$1 million annually);

- Purse Dedication Account – 7% to a PDA to enhance horse racing purses and funds for the horse breeding industry, not to exceed \$100 million annually;
- Racetrack Facility Renewal Account – 2.5% for an eight-year period to the RFRA, not to exceed \$40 million annually;
- Licensee (Operator) – no more than 33% to video lottery operation licensees; and
- Education Trust Fund – remainder to the ETF (48.5%-51.0%).

Chapter 624 of 2010 made a variety of clarifying and technical changes to the VLT law and also altered provisions regarding the authorized VLT facility in Allegany County, which were further altered by Chapter 240 of 2011.

A seven-member Video Lottery Facility Location Commission established under Chapter 4 awards the video lottery operation licenses. Three members (including the chair) are appointed by the Governor, two each are appointed by the Senate President and the Speaker of the House of Delegates. Members may not be elected officials and must file annual financial disclosure statements.

The nine-member State Lottery Commission provides oversight for VLT implementation in the State. The State Lottery Commission owns and leases VLTs and the central monitor and control system. No elected officials may be appointed to the commission, and a member of the commission serves as a liaison to the Racing Commission and vice versa.

A maximum of 15,000 VLTs are authorized in the State, as follows:

- 4,750 VLTs at a location in Anne Arundel County within two miles of Route 295;
- 3,750 VLTs in Baltimore City, in a nonresidential area within one-half mile of Interstate 95 and Route 295, on city-owned land that is not adjacent to or within one-quarter mile of residential property;
- 2,500 VLTs at a location in Worcester County within one mile of the intersection of Route 50 and Route 589;
- 2,500 VLTs at a location in Cecil County within two miles of Interstate 95; and
- 1,500 VLTs on State property in Allegany County associated with the Rocky Gap State Park in a building physically separate from the Rocky Gap Lodge and Golf Resort. Chapter 240 of 2011 reduced the maximum VLT allocation to 1,000.

VLT facilities must comply with all applicable planning and zoning laws of the local jurisdiction. The Location Commission may alter 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, and no more than one video lottery operating license may be awarded in a single county or Baltimore City. The commission is to evaluate bids based 70% on business and market factors, including the highest potential benefit to the State and percentage of Minority Business Enterprise (MBE) equity ownership; 15% on economic development factors; and 15% on location siting factors. There is no requirement for all five video lottery operation licenses to be issued.

### *Video Lottery Operation Licensing and Licensees*

An individual or business entity may not own an interest in more than one video lottery facility. An initial license fee of at least \$3 million for every 500 VLTs is required, which accrues to the ETF. The initial term of a video lottery operation license (of which up to five may be awarded through a competitive bidding process) is 15 years; a licensee may subsequently reapply for an additional 10-year term.

Licensees must meet State MBE requirements for construction/procurement contracts and to the extent possible meet county MBE requirements if they exceed the State requirement. License applicants must also invest \$25 million in construction and related costs for every 500 VLTs proposed. VLT licensees must begin operations in a permanent facility within 18 months after the license is issued, which may be extended for two six-month periods by the State Lottery Commission. VLT licensees must pay an annual fee of \$425 per VLT for a Problem Gambling Fund administered by the Department of Health and Mental Hygiene (DHMH). DHMH is required to conduct a problem and pathological gambling prevalence study to measure the rate of problem and pathological gambling in the State.

### *Other Provisions of Current VLT Law*

A VLT facility may operate daily from 8 a.m. to 2 a.m. and may extend operations until 4 a.m. on Saturday and Sunday. VLTs must have an average payout percentage of at least 87%. Free food and alcoholic beverages are generally prohibited at VLT facilities. By regulation, the State Lottery Commission must establish a list of individuals who are mandatorily excluded from VLT facilities. VLT facilities must develop procedures that permit self-exclusion from facilities for individuals with gambling problems. Regulations are also required for the protection of consumers, including a prohibition on cashing of paychecks at VLT facilities. A VLT facility may offer any State lottery game.

### *Lottery Agent Commissions and the State Lottery Fund*

State criminal law prohibits all lotteries except the State lottery or multijurisdictional lotteries authorized under the State Government Article. The State Lottery Agency must

issue licenses to persons and governmental units that will best serve the public convenience and promote the sale of State lottery tickets or shares.

An agent licensed by the State Lottery Agency receives a commission of 5% of gross receipts from the agent's lottery ticket sales in fiscal 2012 and 2013, as enacted by Chapter 1 (Senate Bill 1301) of the first special session of 2012; the commission increases to 5.5% beginning in fiscal 2014. A licensed agent may also receive a cashing fee not to exceed 3% of valid prizes paid for services rendered in cashing winning tickets.

Each month, after payments to lottery winners and to the State Lottery for operating expenses, the Comptroller must make payments from the State Lottery Fund to:

- the Maryland Stadium Facilities Fund, from revenues generated by sports lotteries conducted on behalf of the Maryland Stadium Authority; and
- the State's general fund.

#### *Maryland Veterans Trust Fund*

Chapter 742 of 2009 established the MVTF which consists of gifts and grants received by the Maryland Department of Veterans Affairs (MDVA). Money in the fund may be used to make grants and loans to veterans and their families, support public and private programs that serve veterans in the State, or support the Charlotte Hall Veterans Home. Money in the fund may also be used to invest in general obligations of the State or other securities, pay for the cost of administering the fund, or support any other programs that the Secretary considers appropriate. Money expended from the fund is supplemental to and is not intended to take the place of funding otherwise appropriated to MDVA.

#### *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, except for the slot machines operated by certain nonprofit organizations in the nine Eastern Shore counties. Gaming licensees may use the proceeds of gaming activities for the benefit of their own organizations, but they do not need to share them with other organizations. However, slot machine operators must use at least one-half of the proceeds from slot machines to benefit a charity.

Paper gaming provides two sources of revenues to counties: (1) the sale of paper gaming licenses and tickets to operators; and (2) 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. Basic electronic pull tab dispensers are currently available at a cost ranging from about \$2,500 to \$5,000 each, and manual lock and key dispensers are available for as low as \$150. Price points on pull

tab games typically range from 25 cents to \$2.00. Information from other states indicates a payout rate of approximately 66% on pull tabs, meaning that two-thirds of the amount bet is returned to gamblers (considerably lower than the average payout of about 88% for Eastern Shore slot machines).

### *Prohibited Gaming*

In *Chesapeake Amusements Inc. v. Riddle*, the Maryland Court of Appeals took up the issue of “whether a dispensing machine with a video screen that displays the contents of the tickets that it dispenses and emits a musical tone that signals when a winning ticket is being dispensed is a ‘slot machine,’” as defined by Maryland law. The Court of Appeals found that the machine in question was not a slot machine. In response to this decision, Chapter 474 of 2008 altered the definition of “slot machine” to include a machine that reads a game of chance and a machine that delivers a game of chance.

Chapter 474 of 2008 also prohibited certain gaming machines licensed by local jurisdictions, primarily electronic bingo and tip jar machines, from operating after July 1, 2009. Chapter 661 of 2009 extended this termination date to July 1, 2012, and Chapter 603 of 2012 made permanent the authority for certain existing qualified organizations and licensed commercial bingo licensees to operate electronic instant bingo machines that would otherwise be illegal under State law after July 1, 2012. Under Chapter 603, the State Lottery Commission must regulate certain electronic gaming devices and determine if they are operating lawfully. A gaming device that is not compliant by January 1, 2013, is an illegal gaming device that may not legally operate in the State.

The law also provides for exceptions for certain machines that are not considered slot machines:

- machines that award the user additional free games;
- machines that are arcade-type games that provide noncash prizes of minimal value; and
- paper pull tab tip jars and paper pull tab instant bingo tickets that must be opened manually as long as the machine does not electronically read the ticket, does not alert the user to winnings, or does not tabulate the winnings.

Personal electronic bingo machines are also excluded as long as the machine does not allow a person to play more than 54 cards at one time. State lottery machines that dispense lottery tickets and VLTs are also excluded.

## **Background:**

### *VLT Program Implementation*

The Location Commission has awarded video lottery operation licenses for the five currently authorized VLT facility locations in Baltimore City and Allegany, Anne Arundel, Cecil, and Worcester counties.

Penn Cecil, in Cecil County, opened in late September 2010 with 1,500 VLTs, and Ocean Downs, in Worcester County, opened in January 2011 and currently is operating 800 VLTs. Power Plant Entertainment (PPE) Casino Resorts, LLC was awarded a license in December 2009 to operate a 4,750 VLT facility adjacent to Arundel Mills Mall in Anne Arundel County, contingent upon local zoning approval. County officials subsequently approved zoning legislation, but the legislation was petitioned to a local voter referendum at the November 2010 election. Anne Arundel County voters approved the legislation, allowing the VLT facility to go forward. That facility opened with approximately 3,171 VLTs on June 6, 2012, increased the number of VLTs to approximately 3,702 on July 26, and the full complement of 4,750 VLTs is expected to be in operation by October 2012.

After licenses for the proposed VLT facilities in Allegany County and Baltimore City were not awarded in previous rounds of bidding, the Location Commission issued new Requests for Proposals (RFPs) for those licenses in 2011. On September 23, 2011, the Location Commission received three proposals for Allegany County and two proposals for Baltimore City. However, one proposal for Baltimore City and two proposals for Allegany County were subsequently rejected by the Location Commission for failing to meet requirements contained in the RFPs.

On April 26, 2012, Evitts Resort, LLC (Evitts) was awarded a video lottery operation license to own and operate a video lottery facility adjacent to the existing lodge at the Rocky Gap Lodge and Resort, contingent on a number of actions by Evitts and others. However, Evitts, unable to secure the requisite construction financing for the facility in time for a scheduled August 3, 2012 closing date, was granted approval from the Location Commission to instead design, build, and operate a facility with 500 VLTs in the existing lodge conference and meeting space. This approval is contingent on (1) financial settlement on purchase of the lodge and resort on August 3, 2012 (this contingency has been met); (2) review and approval of the site and design plans by the Department of Natural Resources; and (3) replacement of the conference and meeting space as soon as feasible and no later than 36 months after license issuance, in accordance with current law.

On July 31, 2012, the Location Commission awarded a video lottery operation license to CBAC Gaming, LLC for a facility with 3,750 VLTs in Baltimore City. The facility is expected to open in spring 2014.

Through June 2012, VLT facilities have generated a total of \$297.6 million in revenues. Of this amount, \$144.3 million has been distributed to the ETF. **Exhibit 1** shows the estimated distribution of VLT revenues through fiscal 2017 under current law.

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**Exhibit 1**  
**Distribution of Estimated VLT Revenues in Maryland – Current Law**  
**(\$ in Millions)**

	<u><b>FY 2013</b></u>	<u><b>FY 2014</b></u>	<u><b>FY 2015</b></u>	<u><b>FY 2016</b></u>	<u><b>FY 2017</b></u>
Education Trust Fund	\$259.6	\$311.1	\$504.1	\$541.8	\$578.9
Licensees	176.7	215.7	348.1	374.4	399.9
Local Impact Grants	29.4	34.9	56.7	60.9	65.1
Business Investment	8.0	9.5	15.5	16.6	17.8
Purse Dedication Account <sup>1</sup>	37.5	44.2	71.9	77.2	82.6
Racetrack Renewal <sup>2</sup>	13.4	15.6	25.5	27.3	29.2
Lottery Operations	10.7	12.9	20.9	22.4	23.9
<b>Total (100%)</b>	<b>\$535.3</b>	<b>\$644.1</b>	<b>\$1,042.6</b>	<b>\$1,120.7</b>	<b>\$1,197.4</b>

<sup>1</sup>Up to \$100 million annually.

<sup>2</sup>Up to \$40 million annually for eight years, after which the monies accrue to the Education Trust Fund. Chapter 624 of 2010 and Chapter 240 of 2011 altered provisions regarding the authorized VLT facility in Allegany County. Contingent upon the purchase of the Rocky Gap Lodge and Golf Resort by the licensee, the operator will receive for the first 10 years of operations 50% of proceeds; distributions to other funds are decreased correspondingly. For more detail, please see the fiscal and policy note for SB 512 of 2011.

Source: Department of Legislative Services

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*Gaming Workgroup*

In May 2012, Governor O'Malley appointed a Workgroup to Consider Gaming Expansion to consider the issues surrounding authorizing a sixth VLT facility in Prince George's County and table games at VLT facilities and to make consensus recommendations for legislation to be considered during a special session, if appropriate. This followed the failure of legislation that would have authorized such gaming expansion, subject to voter referendum, on *sine die* of the 2012 regular session

(Senate Bill 892 of 2012). The Presiding Officers of the General Assembly requested that DLS engage a consultant to estimate the potential revenues from a sixth VLT facility and table games on gross gaming revenues and whether the Maryland gaming market could support the additional gaming.

During a series of meetings in June 2012, DLS and its consultant PricewaterhouseCoopers presented information to the Gaming Workgroup on the estimated increase in VLT revenues from table games and from a facility in Prince George's County, including the impact on currently authorized facilities. The workgroup also considered whether the State should shift responsibility for owning/leasing VLTs to the licensees and whether restrictions on hours of operations should be eliminated. On June 20, 2012, the workgroup reported that it had not reached complete consensus on authorizing a sixth facility in Prince George's County but made a series of recommendations related to shifting VLT ownership, authorizing table games, and setting up a process for authorizing a Prince George's County facility with up to 3,000 VLTs and making adjustments to the share of proceeds received by licensees that would be impacted by the Prince George's County facility.

**State Revenues:** The bill removes limits on authorized video lottery facility hours of operation; authorizes a video lottery operation license to be awarded for a video lottery facility at a specified area within Prince George's County; alters the percentage of video lottery revenues distributed to licensees, horseracing, the ETF, and the Lottery for operations; authorizes a video lottery operation licensee to offer table games; authorizes electronic pull tab machines at certain veterans' organizations; and increases State lottery agent commissions. Each of these revenue impacts is discussed below.

#### *VLT Revenues*

As shown in **Exhibits 2 and 3**, gross VLT revenues increase by \$15.5 million beginning in fiscal 2013 as a result of 24-hour-per-day operations, increasing to \$56 million in fiscal 2016. Distributions to the ETF from VLT revenues are lower compared to current law beginning in fiscal 2016 due to the impact of compensating licensees for VLT ownership. There is a significant State expenditure savings that more than offsets the reduced distribution from VLT proceeds to the ETF. (Exhibit 10 shows this net positive impact to the State of shifting VLT machine expenditures to most of the licensees.) Revenues increase significantly beginning in fiscal 2017 when the Prince George's County facility opens (assumed in July 2016).

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**Exhibit 2**  
**Distribution of Estimated VLT Revenues in Maryland – Under the Bill**  
**(\$ in Millions)**

	<b><u>FY 2013</u></b>	<b><u>FY 2014</u></b>	<b><u>FY 2015</u></b>	<b><u>FY 2016</u></b>	<b><u>FY 2017</u></b>
Education Trust Fund	\$270.2	\$326.4	\$524.8	\$515.4	\$568.6
Licensees (Total)	181.8	231.9	388.9	475.4	659.6
Licensee	181.8	231.9	371.0	398.8	504.4
Marketing/Capital Investment	-	-	-	-	64.7
VLT Ownership	-	-	17.8	76.5	90.5
Local Impact Grants	30.3	36.7	59.5	63.9	78.5
Business Investment	8.3	10.0	16.2	17.4	21.4
Purse Dedication Account	38.6	46.4	75.4	81.0	85.4
Racetrack Renewal	10.7	11.5	10.7	11.5	14.1
Lottery Operations	11.0	13.5	19.2	12.0	14.7
<b>Total (100%)</b>	<b>\$550.8</b>	<b>\$676.3</b>	<b>\$1,094.7</b>	<b>\$1,176.7</b>	<b>\$1,442.4</b>

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**Exhibit 3**  
**Net Effect of Bill on Estimated VLT Revenues in Maryland**  
**(\$ in Millions)**

	<b><u>FY 2013</u></b>	<b><u>FY 2014</u></b>	<b><u>FY 2015</u></b>	<b><u>FY 2016</u></b>	<b><u>FY 2017</u></b>
Education Trust Fund	\$10.6	\$15.2	\$20.7	(\$26.3)	(\$10.3)
Licensees (Total)	5.1	16.1	40.8	101.0	259.8
Local Impact Grants	0.9	1.7	2.8	3.0	13.4
Business Investment	0.2	0.5	0.8	0.8	3.7
Purse Dedication Account	1.1	2.1	3.5	3.7	2.8
Racetrack Renewal	(2.7)	(4.1)	(14.8)	(15.9)	(15.1)
Lottery Operations	0.3	0.6	(1.6)	(10.4)	(9.2)
<b>Total (100%)</b>	<b>\$15.5</b>	<b>\$32.2</b>	<b>\$52.1</b>	<b>\$56.0</b>	<b>\$245.0</b>

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*Prince George's County VLT Facility*

After payouts to winning players, but *before* any other distributions are made, revenues generated from a Prince George's County facility could total approximately \$350.7 million in fiscal 2017, increasing to \$460.5 million by fiscal 2019. These estimates assume that the Prince George's County facility will begin operations in July 2016. Revenues will be potentially higher (lower) than estimated to the extent that operations begin earlier (later) than estimated in a permanent facility.

It is assumed that an application with an initial license fee will be submitted in fiscal 2014. Assuming that a license applicant opts to participate and pay the license fee by this date, ETF revenues will increase by \$18.0 million in fiscal 2014.

DLS estimates that a video lottery facility in Prince George's County will cause a reduction of about 23% and 16% respectively in revenues generated from facilities located in Anne Arundel County and Baltimore City due to their proximity. These reductions are partially offset by the provisions in the bill expanding VLT facility operating hours. Accordingly, total VLT proceeds, before any distributions, will increase by \$245 million in fiscal 2017 as shown in **Exhibit 4** and by \$303 million in fiscal 2019. The bill increases revenue distributions to video lottery licensees to compensate licensees for leasing/purchasing VLTs and to compensate for a sixth license, beginning when the license is issued (assumed to be fiscal 2017) with corresponding reductions in revenues to the ETF. The net impact of this and table game revenues on the ETF is shown in Exhibit 7. For more information on the impact on licensees, see **Appendix 1**.

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**Exhibit 4**  
**Net Impact of Bill on VLT Revenues by Facility**  
**(\$ in Millions)**

	<b><u>FY 2013</u></b>	<b><u>FY 2014</u></b>	<b><u>FY 2015</u></b>	<b><u>FY 2016</u></b>	<b><u>FY 2017</u></b>
Anne Arundel	\$10.6	\$22.5	\$25.5	\$26.4	(\$79.5)
Baltimore City	-	-	16.3	18.8	(37.4)
Cecil	3.5	6.3	6.5	6.7	7.0
Worcester	1.4	2.5	2.6	2.7	2.8
Allegany	-	0.9	1.2	1.3	1.4
Prince George's	-	-	-	-	350.7
<b>Total</b>	<b>\$15.5</b>	<b>\$32.2</b>	<b>\$52.1</b>	<b>\$56.0</b>	<b>\$245.0</b>

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### *Problem Gambling Fund*

Approximately \$1.3 million annually beginning in fiscal 2017, based on \$425 per VLT at the full implementation of 3,000 VLTs at the Prince George's County facility, will be credited to the Problem Gambling Fund administered by DHMH. The fund must be used to establish a 24-hour hotline, provide counseling for problem gamblers, and establish problem gambling prevention programs and other support services.

### *Indirect Economic Development Revenues*

In addition to the direct revenues generated, the introduction of up to 3,000 VLTs could generate other revenues due to the increased economic activity. As a result of licensure requirements, if the maximum VLTs are awarded, the Prince George's County licensee would undertake at least \$150.0 million in required one-time capital improvements and construction costs. According to published reports, licensed video lottery operators have expended about \$462.5 million in capital expenditures – Anne Arundel (\$320.0 million), Perryville (\$97.5 million), and Ocean Downs (\$45.0 million).

Any construction jobs associated with an additional VLT facility could bring dollars into the surrounding area, providing an economic boost to the local economy. To the extent that the annual capital improvement activity increases, the local economy will receive a boost from annual capital improvements. New jobs would generate new incomes which would be subject to the income tax – revenues that are not currently generated. If substitute jobs are higher (lower) paying than the previously held jobs, taxes paid by those individuals would be higher (lower) than paid previously.

### *Effect on Lottery Sales*

DLS estimates that the additional VLTs proposed by the bill will decrease lottery revenues by \$5.0 million in fiscal 2017. This reduction is in addition to the reduction already estimated for the authorized VLT program.

### *Table Games*

**Exhibit 5** shows the estimated revenues from table games. This estimate is based on the projected VLT revenues and an estimated correlation of 23% between VLT revenues and table game revenues at existing casinos. DLS advises that the actual amount of revenue will depend on the number, distribution, and type of table games awarded. It is assumed that there is about a six-month implementation delay between approval of table games and introduction of table games at VLT facilities.

**Exhibit 5**  
**Revenues from Table Games**  
**(\$ in Millions)**

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Anne Arundel	\$28.6	\$108.4	\$123.0	\$127.4	\$107.1
Baltimore City	-	-	78.9	91.0	89.9
Cecil	6.4	20.6	21.6	22.5	23.4
Worcester	1.7	5.5	5.7	6.0	6.2
Allegany	-	1.5	1.9	2.2	2.3
Prince George's	-	-	-	-	102.7
<b>Total Gross Revenues</b>	<b>\$36.7</b>	<b>\$136.0</b>	<b>\$231.1</b>	<b>\$249.1</b>	<b>\$331.8</b>
Education Trust Fund	\$7.3	\$27.2	\$46.2	\$49.8	\$49.8
Local Jurisdictions					\$16.6

Table game operations are more labor intensive than VLT operations, which are primarily electronic and automated. Based on a review of the experience in several other states before and after the introduction of table games, particularly Pennsylvania, DLS has estimated that table games will increase employment at VLT facilities by approximately 40% when gaming operations are fully stabilized. In total, DLS estimates an increase of 1,880 full- and part-time employees from the introduction of table games at the five currently authorized facilities, escalating to 2,240 when the Prince George's County facility is operational. Most (two-thirds) of the jobs would be held by gaming dealers with an average salary of \$25,000 (before benefits or tips). Another 10% of the jobs would include supervisors (\$43,000-\$71,000 average salary) and pit clerks (\$35,000); the remaining 25% would be security personnel (\$32,000), cash cage employees (\$26,000), and other "back of the house" employees.

Additional revenue may accrue to the Problem Gambling Fund if the SLGCC exercises its authority to charge a fee for each table game.

*Expanded VLT Facility Operating Hours*

Although authorizing VLT facilities to operate for 24 hours each day increases the maximum number of hours by over 20%, DLS estimates the change will lead to an increase in total VLT proceeds of approximately 5%. Some facilities may choose to operate below the maximum hours allowed, the additional hours that are added will be during what are normally considered off-peak hours for patronage, and some amount of gambling that takes place during added hours will displace gambling that would have

occurred during currently authorized hours. The impact of expanded hours on gross revenues is shown in **Exhibit 6**.

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**Exhibit 6**  
**Impact of 24-hour Operations on Gross Table and VLT Revenues**  
(\$ in Millions)

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Tables	\$1.9	\$7.1	\$11.9	\$12.8	\$16.6
VLTs	15.5	32.2	52.1	56.0	68.7
<b>Total</b>	<b>\$17.4</b>	<b>\$39.3</b>	<b>\$64.0</b>	<b>\$68.8</b>	<b>\$85.3</b>

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*Combined Impact on the Education Trust Fund*

**Exhibit 7** shows the combined impact of revenues from VLTs, table games, and shifting VLT ownership to the licensees on the ETF. Overall, ETF special fund revenues increase by approximately \$60 million in fiscal 2014, increasing to \$175 million in fiscal 2017 when the Prince George’s County facility is expected to open. By fiscal 2019, when the Prince George’s County facility should be operating at full capacity, the ETF receives \$199 million in additional revenues annually. **Appendix 2** has more detail on the combined impact of revenues and savings on all of the distributions including the ETF.

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**Exhibit 7**  
**Increase in Revenues to the Education Trust Fund**  
(\$ in Millions)

	<u>FY 2014</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2019</u>
Video Lottery Terminals	\$15	\$37	\$66	\$88
Table Games	27	50	50	55
Shift of VLT Costs to Licensees	0	34	59	56
License Fees*	18			
<b>Total to Education Trust Fund</b>	<b>\$60</b>	<b>\$121</b>	<b>\$175</b>	<b>\$199</b>

\*Assumes award of a license to Prince George’s County site.

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However, some of the new revenues to the ETF are contingent on passage of the referendum statewide and in Prince George’s County. If the referendum passes statewide but not in Prince George’s County, the table games expansion and 24/7 facility operating hours would occur, but there would not be a sixth site. **Exhibit 8** shows the additional revenues that would accrue to the ETF. Overall ETF revenues would increase from \$42 million in fiscal 2014 to \$133 million in fiscal 2019. Relative to Exhibit 7, except for the initial license fees from a Prince George’s site, fiscal 2014 and 2016 do not change because the sixth site would not have opened until fiscal 2017. In fiscal 2017 and 2019 table games revenues are a little higher. If a sixth site license is issued local governments receive a 5% share of table game revenues and the ETF receives a 15% rather than 20% share. Without a sixth site the ETF share remains at 20%. VLT revenues and machine costs avoided are less because there is not a sixth site.

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**Exhibit 8**  
**Education Trust Fund Revenues**  
**Referendum Passing Statewide But Not in Prince George’s County**  
**(\$ in Millions)**

	<u><b>FY 2014</b></u>	<u><b>FY 2016</b></u>	<u><b>FY 2017</b></u>	<u><b>FY 2019</b></u>
Video Lottery Terminals	\$15	\$37	\$41	\$44
Table Games	27	50	53	57
Shift of VLT Costs to Licensees	0	34	33	32
<b>Total to Education Trust Fund</b>	<b>\$42</b>	<b>\$121</b>	<b>\$127</b>	<b>\$133</b>

**Education Trust Fund Revenues**  
**Referendum Fails Statewide**  
**(\$ in Millions)**

	<u><b>FY 2014</b></u>	<u><b>FY 2016</b></u>	<u><b>FY 2017</b></u>	<u><b>FY 2019</b></u>
Video Lottery Terminals	\$0	\$10	\$11	\$13
Table Games	0	0	0	0
Shift of VLT Costs to Licensees	0	38	37	36
<b>Total to Education Trust Fund</b>	<b>\$0</b>	<b>\$48</b>	<b>\$48</b>	<b>\$49</b>

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If the gaming expansion referendum fails statewide, table games and 24/7 operations cannot be implemented and there would not be a sixth site in Prince George’s County. As also shown in Exhibit 8, when the five currently authorized sites have commenced operations annual ETF revenues would be about \$50 million through fiscal 2019.

### *Veterans' Organizations*

The provisions of the bill authorizing veterans' organizations to apply for licenses for up to five pull tab machines take effect October 1, 2012. However, it is assumed that the regulatory and machine procurement process will take approximately eight months. Therefore, the general fund receives proceeds from pull tab machines beginning in fiscal 2014, after deducting payments to licensed agents (veterans' organizations) and Lottery Agency administrative expenses. Beginning in fiscal 2015, 10% of proceeds are distributed to the MVTF, leaving 90% for the general fund.

The impact on general fund and special fund revenues and expenditures will depend on the number of war veterans' organizations that operate authorized pull tab machines, their location with respect to VLT facility locations, the actual payout rates on pull tabs that are offered, and the degree to which pull tab machines authorized by the bill constitute a substitute for VLT gambling in the State. Although these impacts cannot be determined at this time, they are likely to generate minimal increased revenues for the MVTF and the general fund, offset by minimal decreases in special fund revenues from VLTs.

### *Lottery Agent Commissions*

Lottery agent commissions increase to 5.5% on January 1, 2013, under the bill, reducing general fund revenues from the Lottery by approximately \$4.4 million in fiscal 2013. Under current law, commissions were scheduled to increase to 5.5% on July 1, 2013. The bill further increases commissions to 6% beginning with the issuance of a video lottery operation license in Baltimore City. Assuming the Baltimore City license is issued by the summer of 2014, general fund revenues decrease by \$8.8 million annually beginning in fiscal 2015.

**Appendix 3** shows the net impact from all of the bill's provisions on State revenues and expenditures including the licensees' share of VLT and table game proceeds, most of which will be retained by the licensees as nonbudgeted funds under the bill.

### **State Expenditures:**

#### *Maryland State Lottery Agency*

As shown in **Exhibit 9**, State lottery administrative costs increase by \$1.7 million in fiscal 2013 and by \$5.0 million in fiscal 2017. Costs in fiscal 2013 through 2016 are largely driven by an estimated 6 new positions due to 24-hour per day operations at VLT facilities and an estimated increase of 20 positions due to commencement of table game operations. An additional 10 positions will be required in fiscal 2017 for regulation of the Prince George's County facility. Central computer system expenditures will increase by \$1.1 million in fiscal 2017 to add a sixth facility to the system.

Assuming an average salary of \$25,000 for SLGCC members, increasing by 2% annually, costs increase by an additional \$131,300 in fiscal 2013 and by \$189,400 in fiscal 2017. Also, assuming an annual cost of \$500,000 for the required consultant, increasing by 2% annually, costs further increase.

Fiscal 2013 figures represent an adjustment for estimated start dates of October 1, 2012, for SLGCC salaries and consultant expenditures; December 1, 2012, for 24-hour operations at VLT facilities; and March 1, 2013, for table game operations. Fiscal 2017 figures assume a full year of operations for the Prince George's County VLT facility.

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**Exhibit 9**  
**State Lottery Administrative Costs**

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Positions	26	26	26	26	36
Salaries and Fringe Benefits	\$637,900	\$1,671,900	\$1,786,300	\$1,871,500	\$2,642,700
One-time Equipment Purchases	310,400				1,175,900
Operating Expenses	203,500	406,400	412,600	418,700	535,600
Consultant	375,000	510,000	520,200	530,600	541,200
Commission Salaries	131,300	178,500	182,100	185,700	189,400
<b>Total State Expenditures</b>	<b>\$1,658,100</b>	<b>\$2,766,800</b>	<b>\$2,901,200</b>	<b>\$3,006,500</b>	<b>\$5,084,800</b>

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However, transferring to licensees (except for the Allegany County and Worcester County licensees) responsibility for leasing/ownership of VLTs will save the State approximately \$57 million in fiscal 2015 and approximately \$150 million annually beginning in fiscal 2017. Currently, the cost of the machines exceeds the 2% distribution from VLT proceeds for lottery costs, with the balance provided by the general fund. **Exhibit 10** shows the savings to the State from no longer leasing/purchasing VLTs, offset by the increased distribution of VLT revenues to facilities that must lease/purchase the VLTs. Under the bill, the resulting savings are appropriated to the ETF.

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**Exhibit 10**  
**Video Lottery Terminal Lease/Purchase Savings**  
**(\$ in Millions)**

	<u><b>FY 2015</b></u>	<u><b>FY 2016</b></u>	<u><b>FY 2017</b></u>
State VLT Lease/Purchase Costs	(\$57.1)	(\$110.9)	(\$149.6 )
Offset to Licensees under SB 1	17.8	76.5	90.5
<b>Net Savings to ETF</b>	<b>(\$39.3)</b>	<b>(\$34.4)</b>	<b>(\$59.1 )</b>

Under the bill, the Anne Arundel County facility operator will receive 8% to offset the cost of leasing/purchasing the video lottery terminals. The other facilities, except the Allegany and Worcester county facilities, will receive 6%. VLTs for Allegany and Worcester counties will continue to be leased/purchased by the State.

Numbers may not sum to total due to rounding.

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*Infrastructure Costs*

The State could incur significant costs associated with infrastructure and transportation upgrades near the proposed facility in Prince George's County. The actual impact will depend upon specific plans for any future video lottery facility.

*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, unemployment, and personal bankruptcies which could result in a need to significantly increase the State and local spending directed toward these effects. Although these costs cannot be reliably estimated, DLS estimates that these costs are likely to be greater than the additional funds dedicated to the Problem Gambling Fund under this bill. For a more in-depth discussion about the possible social costs as a result of authorizing VLTs, consult the *Legislator's Guide to Video Lottery Terminal Gambling*.

**Local Revenues:** Net local government revenues will increase by \$0.9 million beginning in fiscal 2013 due to increased VLT revenues from 24-hour operations. Revenues increase by \$30.0 million beginning in fiscal 2017. This reflects an increase in local revenues for Prince George's County as well as the 5% share of table game proceeds that accrues to counties where a VLT facility is located once a Prince George's County facility is operational. Local impact grants from VLT revenues in Anne Arundel County

and Baltimore City are held harmless from the impact of the Prince George’s County facility. Beginning in fiscal 2015, Allegany, Cecil, and Worcester counties receive 100% of the local impact grant revenues generated by facilities in those counties (instead of contributing 18% to the area surrounding Pimlico), with a commensurate decrease in revenues for the Pimlico area compared to current law until the Prince George’s County facility is operational in fiscal 2017. The bill also extends the 18% distribution to the Pimlico area by five years to 2032.

**Exhibits 11 and 12** detail the net and total impact of the bill on local government revenues.

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**Exhibit 11**  
**Net Impact on Local Revenues**  
**From VLTs and Table Games**  
**(\$ in Millions)**

<b><u>County</u></b>	<b><u>FY 2013</u></b>	<b><u>FY 2014</u></b>	<b><u>FY 2015</u></b>	<b><u>FY 2016</u></b>	<b><u>FY 2017</u></b>
Allegany	\$0.0	\$0.0	(\$0.4)	(\$0.4)	(\$0.1)
Anne Arundel	0.5	1.0	1.4	1.4	5.9
Baltimore City	0.0	0.0	0.9	1.0	3.4
Cecil*	0.2	0.3	1.7	1.8	3.2
Prince George’s	0	0	0	0	16.3
Worcester	0.1	0.1	0.7	0.7	1.3
Pimlico Development	0.2	0.3	(1.5)	(1.6)	0.1
<b>Total</b>	<b>\$0.9</b>	<b>\$1.7</b>	<b>\$2.8</b>	<b>\$3.0</b>	<b>\$30.0</b>

\*Cecil amount includes funding for the Town of Perryville and Cecil County.

Numbers may not sum to total due to rounding.

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**Exhibit 12**  
**Total Local Impact Grants under Senate Bill 1**

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Allegany	\$0.0	\$0.9	\$0.7	\$0.8	\$1.1
Anne Arundel	16.9	21.0	24.1	25.0	30.2
Baltimore City	0.0	0.0	15.5	17.8	22.5
Cecil*	5.6	5.8	7.5	7.8	9.4
Prince George's**	1.0	1.0	1.0	1.0	17.3
Worcester	2.3	2.4	3.1	3.2	3.8
Pimlico	4.5	5.6	7.7	8.4	10.8
<b>Total</b>	<b>\$30.3</b>	<b>\$36.7</b>	<b>\$59.5</b>	<b>\$63.9</b>	<b>\$95.1</b>

\* Cecil amount includes funding for the Town of Perryville and Cecil County.

\*\*Prince George's amount includes \$1 million annually from the 18% distribution for the area surrounding Rosecroft Raceway.

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**Additional Information**

**Prior Introductions:** Senate Bill 892 of 2012 is similar as passed by the Senate. The House Ways and Means Committee reported the bill with amendments to the House floor on the last day of the session, but the bill did not receive a vote prior to *sine die*.

**Cross File:** HB 1 (The Speaker)(By Request – Administration) – Ways and Means.

**Information Source(s):** Delaware Lottery, Illinois Gaming Board, Indiana Gaming Commission, Iowa Racing and Gaming Commission, Maryland State Lottery Agency, Pennsylvania Gaming Control Board, West Virginia Lottery, Department of Legislative Services

**Fiscal Note History:** First Reader - August 9, 2012  
ncs/rhh Revised - Correction - August 10, 2012  
Revised - Senate Third Reader/Clarification - August 13, 2012  
Revised - Enrolled Bill - September 5, 2012  
Revised - Correction - September 19, 2012

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**Appendix 1**  
**Licensees' Shares of VLT and Table Games Revenues**  
**Senate Bill 1 Compared to Current Law**  
**(\$ in Millions)**

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2019</u>
<b>Anne Arundel</b>						
VLTs	3.5	7.4	8.4	8.7	11.0	0.1
VLT Ownership	0.0	0.0	10.7	44.3	37.3	37.6
Table Games	<u>22.9</u>	<u>86.8</u>	<u>98.4</u>	<u>101.9</u>	<u>85.7</u>	<u>86.6</u>
	<b>26.4</b>	<b>94.2</b>	<b>117.5</b>	<b>154.9</b>	<b>134.0</b>	<b>124.3</b>
<b>Baltimore City</b>						
VLTs	0.0	0.0	5.4	6.2	15.0	9.8
VLT Ownership	0.0	0.0	5.1	23.7	23.5	24.2
Table Games	<u>0.0</u>	<u>0.0</u>	<u>63.1</u>	<u>72.8</u>	<u>72.0</u>	<u>74.2</u>
	<b>0.0</b>	<b>0.0</b>	<b>73.6</b>	<b>102.8</b>	<b>110.5</b>	<b>108.2</b>
<b>Prince George's</b>						
VLTs	0.0	0.0	0.0	0.0	133.3	175.0
VLT Ownership	0.0	0.0	0.0	0.0	21.0	27.6
Table Games	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>82.2</u>	<u>103.2</u>
	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>236.5</b>	<b>305.8</b>
<b>Cecil</b>						
VLTs	1.2	2.1	2.1	2.2	2.3	2.5
VLT Ownership	0.0	0.0	2.0	8.5	8.8	9.4
Table Games	<u>5.1</u>	<u>16.5</u>	<u>17.2</u>	<u>18.0</u>	<u>18.7</u>	<u>20.4</u>
	<b>6.3</b>	<b>18.5</b>	<b>21.4</b>	<b>28.7</b>	<b>29.8</b>	<b>32.3</b>
<b>Worcester</b>						
VLTs	0.5	6.2	6.4	6.6	6.9	7.4
VLT Ownership	0.0	0.0	0.0	0.0	0.0	0.0
Table Games	<u>1.4</u>	<u>4.4</u>	<u>4.6</u>	<u>4.8</u>	<u>5.0</u>	<u>5.4</u>
	<b>1.8</b>	<b>10.6</b>	<b>11.0</b>	<b>11.4</b>	<b>11.9</b>	<b>12.8</b>
<b>Allegany</b>						
VLTs	0.0	0.5	0.6	0.7	0.7	0.7
VLT Ownership	0.0	0.0	0.0	0.0	0.0	0.0
Table Games	<u>0.0</u>	<u>1.2</u>	<u>1.5</u>	<u>1.8</u>	<u>1.9</u>	<u>2.0</u>
	<b>0.0</b>	<b>1.6</b>	<b>2.1</b>	<b>2.5</b>	<b>2.6</b>	<b>2.8</b>
<b>Total</b>						
VLTs	5.1	16.1	23.0	24.5	169.2	195.5
VLT Ownership	0.0	0.0	17.8	76.5	90.5	98.9
Table Games	<u>29.4</u>	<u>108.8</u>	<u>184.9</u>	<u>199.3</u>	<u>265.4</u>	<u>291.8</u>
	<b>34.5</b>	<b>124.9</b>	<b>225.7</b>	<b>300.3</b>	<b>525.2</b>	<b>586.2</b>

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**Appendix 2**  
**Net Impact – VLT, Table Game Revenues and VLT Cost Savings**  
**(\$ in Millions)**

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2019</u>
Total ETF	\$17.9	\$60.4	\$119.4	\$120.8	\$174.5	\$198.9
VLT License Fee	0	18.0	0	0	0	0
VLT ETF	10.6	15.2	33.9	36.6	65.7	88.2
Net VLT Cost Savings			39.3	34.4	59.0	56.0
Table ETF	7.3	27.2	46.2	49.8	49.8	54.7
Total Licensee	34.5	124.9	225.7	300.3	525.2	586.2
Total VLT	5.1	16.1	40.8	101.0	259.8	294.2
Licensee	5.1	16.1	23.0	24.5	104.6	129.7
VLT Ownership	0	0	17.8	76.5	90.5	98.9
VLT Marketing	0	0	0	0	64.7	65.8
Table	29.4	108.8	184.9	199.3	265.4	291.8
Total Local Impact Grants	.9	1.7	2.8	3.0	30.0	34.9
VLT	.9	1.7	2.8	3.0	13.4	16.6
Table	0	0	0	0	16.5	18.2
Lottery Operations	.3	.6	-1.6	-10.4	-9.2	-9.5
Purse Dedication Account	1.1	2.1	3.5	3.7	2.8	5.4
Racetrack Renewal	-2.7	-4.1	-14.8	-15.9	-15.1	-12.2
Business Investment	.2	.5	.8	.8	3.7	4.5
<b>Total Revenues &amp; Savings</b>	<b>\$52.2</b>	<b>\$186.2</b>	<b>\$335.8</b>	<b>\$402.5</b>	<b>\$711.8</b>	<b>\$808.2</b>

ETF: Education Trust Fund  
VLT: Video Lottery Terminal

Numbers may not sum to total due to rounding.

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**Appendix 3**  
**Net Impact of Senate Bill 1 on State Funds and Licensees**

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
<b><u>Revenues</u></b>					
<b>General Funds</b>					
State Lottery Sales	(-)	(-)	(-)	(-)	(4,841,000)
Lottery Agent Commissions	(4,400,000)	(-)	(8,800,000)	(8,800,000)	(8,800,000)
<b>Total General Funds</b>	<b>(4,400,000)</b>	<b>(-)</b>	<b>(8,800,000)</b>	<b>(8,800,000)</b>	<b>(13,641,000)</b>
<b>Special/Nonbudgeted Funds</b>					
Education Trust Fund	17,932,000	60,429,900	119,377,500	120,766,000	174,547,000
Licensees <sup>1</sup> (Nonbudgeted)	34,479,000	124,908,200	225,683,700	300,302,200	525,157,100
Local Impact Grants	851,000	1,745,300	2,834,900	3,045,000	29,981,800
Business Development	232,100	476,000	773,200	830,400	3,665,300
State Lottery - Admin. Costs	309,500	644,100	(1,625,300)	(10,365,000)	(9,230,400)
Purse Dedication	1,083,100	2,113,500	3,473,000	3,721,400	2,812,800
Racetrack Renewal	(2,697,600)	(4,142,500)	(14,777,300)	(15,861,200)	(15,105,800)
Problem Gambling	-	-	-	1,275,000	1,275,000
<b>Total Special/Nonbudgeted Funds</b>	<b>52,189,100</b>	<b>186,174,400</b>	<b>335,739,700</b>	<b>403,713,700</b>	<b>713,102,800</b>
<b><u>Expenditures</u></b>					
<b>General Funds</b>					
Education	(17,932,000)	(60,429,900)	(119,377,500)	(120,766,000)	(174,547,000)
State Lottery - Admin. Costs	1,348,600	2,122,700			
<b>Total General Funds</b>	<b>(16,583,400)</b>	<b>(58,307,200)</b>	<b>(119,377,500)</b>	<b>(120,766,000)</b>	<b>(174,547,000)</b>
<b>Special/Nonbudgeted Funds</b>					
Education Trust Fund	17,932,000	60,429,900	119,377,500	120,766,000	174,547,000
Licensees <sup>1</sup> (Nonbudgeted)	34,479,000	124,908,200	225,683,700	300,302,200	525,157,100
Local Impact Grants	851,000	1,745,300	2,834,900	3,045,000	29,981,800
Business Development	232,100	476,000	773,200	830,400	3,665,300
State Lottery - Admin. Costs	309,500	644,100	(1,625,300)	(10,365,000)	(9,230,400)
Purse Dedication	1,083,100	2,113,500	3,473,000	3,721,400	2,812,800
Racetrack Renewal	(2,697,600)	(4,142,500)	(14,777,300)	(15,861,200)	(15,105,800)
Problem Gambling	-	-	-	1,275,000	1,275,000
<b>Total Special/Nonbudgeted Funds</b>	<b>52,189,100</b>	<b>186,174,400</b>	<b>335,739,700</b>	<b>403,713,700</b>	<b>713,102,800</b>
<b>Net Effect</b>	<b>12,183,400</b>	<b>58,307,200</b>	<b>110,577,500</b>	<b>111,966,000</b>	<b>160,906,000</b>

<sup>1</sup>The licensees' share of VLT and table game revenues, except the VLT marketing allowance which will begin in fiscal 2017, will be retained by the licensees and the remaining revenues will be deposited in the State Lottery Fund.

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Gaming Expansion - Video Lottery Terminals and Table Games

BILL NUMBER: Senate Bill 1

PREPARED BY: Governor's Office

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

**Small Business Effect:** To the extent that the VLT facility purchases goods from local businesses that are small businesses, these small businesses will benefit. Expenditures from the Small, Minority, and Woman-owned Business Investment Account will benefit small businesses. Other small businesses will be harmed by the substantial substitution of consumer spending away from other consumption to gambling. Small businesses in the entertainment and retail food service near VLTs could be particularly harmed.