HB 1361

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1361 (Delegate Bromwell, *et al.*)
Ways and Means Budget and Taxation

Maryland Education Trust Fund - Video Lottery Terminals

This bill authorizes up to 9,500 video lottery terminals (VLTs) at four locations, provides for one-time license fees, provides for the distribution of VLT proceeds, creates the Education Trust Fund (ETF) for public school construction and the Geographic Cost of Education Index (GCEI), creates other special funds, mandates funding for the GCEI, and continues the current prohibition on additional forms of commercial gambling.

The bill takes effect June 1, 2005.

Fiscal Summary

State Effect: Special fund revenues increase in FY 2006 due to one-time license fees. General fund revenues decrease beginning in FY 2007 due to decreased lottery sales; future year losses increase with increased VLT implementation, totaling $54.3 million in FY 2010. General fund expenditure increase in FY 2006 due to lottery startup costs and in FY 2007 and beyond due to Attorney General and State Police expenses. General fund expenditures increase in FY 2007 due to mandated GCEI expenses. Special fund revenues and expenditures increase for lottery agency administrative expenses, local aid, purse dedication, bred funds, distributions for capital improvements at horseracing tracks, gambling addiction treatment expenditures, and education beginning in FY 2007, except lottery expenditures which begin in FY 2006. **Appendix 1** shows the revenues and expenditures by fund in greater detail.

($ in millions)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revenue	$0	($.2)	($15.3)	($47.9)	($54.3)
SF Revenue	40.0	2.6	223.8	673.7	739.9
GF Expenditure	13.5	17.0	.5	.6	.6
SF Expenditure	0	42.6	223.8	673.7	739.9
Net Effect	$26.5	($57.2)	($15.8)	($48.5)	($54.8)

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

Local Effect: The bill provides for two distributions to local governments – one for counties in which VLT facilities are located and one for all counties and Baltimore City. Local distributions would total approximately $574,875 in FY 2007, increasing to $188.6 million at VLT full implementation in FY 2010. Local expenditures increase significantly for local governments with VLT facilities.

Small Business Effect: Meaningful.

Analysis

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

Video Lottery Terminals and Locations

The bill reiterates the current prohibition on additional forms of gambling, other than those currently authorized under State law (lottery, horse racing, and charitable gambling). The State Lottery Commission will provide regulation and oversight of the VLT program.

The bill authorizes a total of 9,500 VLTs at four potential locations – 3,500 in Anne Arundel County, 2,500 each in Harford and Frederick counties, and 1,000 at State property associated with the Rocky Gap Lodge and Golf Resort in Allegany County. The potential Anne Arundel, Harford, and Frederick county sites must be located within specified areas:

Potential Location:	**Facility Must Be Within:**
Anne Arundel	2 miles of I-295
Harford	2 miles of I-95
Frederick	5 miles within Intersection of I-270 & I-70

Distribution of Video Lottery Terminals Proceeds

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

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

- 5% to the State Lottery Agency for administrative costs (after the first year, the distribution is 4.3%);

- 3% to the local governments in which video lottery facilities are operating;
- 15% to local development grants for all counties and Baltimore City;
- 9% to the Purse Dedication Account (PDA) to enhance horse racing purses and to provide funds for the horse breeding industry (not to exceed $100 million annually);
- 3% to the Racetrack Facility Renewal Account fund in the first five years of VLT operations (not to exceed $40 million annually);
- the operators will receive the amount stated on the bid proposals selected by the State Video Lottery Facility Commission, not to exceed 30%; and
- the remainder of the proceeds will be distributed to the ETF (a minimum of 35% in the first year and 35.7% thereafter).

Video Lottery Facility Location Commission

This bill creates a Video Lottery Facility Location Commission that will select the four potential licensees and the percentage of operator VLT gross proceeds. Eligible applicants for VLT licenses must submit a bid and a $10 million initial license fee by October 1, 2005.

When considering all facility applications, the commission must consider an application: (1) 70% based on business and market factors; (2) 15% based on economic development factors; and (3) 15% based on siting factors. No applicant may own or have interest in more than one VLT license. The commission may not approve more than one license in any county or Baltimore City.

The commission is composed of seven members, of whom two are appointed by the Governor; two by the Speaker of the House; and two by the President of the Senate; and one by the State Treasurer, who acts as chairman. The Department of Legislative Services is required to contract with an independent consultant with at least 10 years' experience in gaming industry consulting that will provide advice on bids to the location committee. The bill does not specify a decision deadline. An individual or business entity may not have interest in more than one VLT facility.

Lottery Commission Authority and Duties

The Lottery Commission and Lottery Agency would be moved to the Comptroller's Office. The Comptroller would appoint the Director of the Lottery. VLTs will be owned or leased by the State Lottery Commission and under the control of the commission at all times. The membership of the State Lottery Commission increases from five to nine. One member will serve as a liaison to the State Racing Commission and one member of the State Racing Commission will serve as a liaison to the lottery commission.

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

VLT Licenses

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

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

A VLT operation license applicant must provide additional information that includes the financial structure of the entity and names, personal history, and criminal history of all officers, partners, and principal employees; the names of all holding companies, subsidiaries, or other business entities of the applicant; and the names of all persons who own or control the business entity as well as a description of all bonus and profit-sharing agreements. It is a misdemeanor offense punishable by up to three years in jail and/or a $5,000 fine for any person that requires licensure under the bill and knowingly provides false information to the commission.

The term of a VLT operation license is 15 years. At the end of the 15-year term, the licensee may reapply for a license renewal of 10 years, with the fee to be determined by future statute. The bill provides that a VLT-related license is a revocable privilege and that it is the intent of the bill to prohibit the creation of a property right in a license granted under the bill.

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

VLT licensees must meet the State's minority business participation requirements for VLT facility procurement and construction; and meet the county's minority business participation requirements, to the extent practicable, if they are higher than the State's. These provisions do not apply after July 1, 2007. From the time a license is issued, a VLT license is required to commence operations within 24 months (the State Lottery

Commission is authorized to extend this deadline for up to six months). VLT license applicants must propose capital construction expenditures of at least $15 million for each 500 VLTs.

Assistance Provided to the Horseracing Industry

The bill provides that certain requirements must be met in order for a racetrack to receive funds under the Racetrack Facility Renewal Account or Purse Dedication Account. All racetrack licensees must maintain the number of live racing days conducted in 2004. Pimlico must conduct 40 racing days in each year. The racetrack licensee for Pimlico and Laurel Park will be revoked and ineligible for fund assistance provided by the bill if either the Preakness Stakes or Woodlawn Vase is transferred out of the State. In addition, the Maryland Million must be conducted annually at Laurel Park.

As a condition of continued licensure, each track licensee must develop a racing improvement plan to improve the quality and marketing of horse racing at the track. The plan must include $1.5 million of annual capital maintenance and improvements of the horse racing facilities.

Other Regulation of Video Lottery Operations and Consumer Protections

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

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

Purse Dedication Account

The bill creates a Purse Dedication Account (PDA) that provides for distributions to the thoroughbred and harness racing. Funds from the account are to be distributed 70% to thoroughbred racing and 30% to standardbred racing.

- from the proceeds allocated to thoroughbred racing: 85% to mile thoroughbred purses at Pimlico, Laurel Park, Allegany, and Timonium; 15% to the Maryland-bred Race Fund; and

- from the proceeds allocated to standardbred racing: 85% to standardbred purses at Rosecroft, Ocean Downs, and Allegany; 15% to the Standardbred Race Fund.

From the thoroughbred racing proceeds, $100,000 is to be provided to Fair Hill. If the Racing Commission determines that a racetrack licensee did not meet specified capital improvement requirements or other criteria developed by the commission, distributions to the licensee are reduced by at least 25%.

Racetrack Facility Renewal Fund

The bill creates a racetrack facility renewal fund as a special, nonlapsing fund that will receive a 3% share from the VLT facilities in the first five years of VLT operations. Funds are to be used to provide matching grants to horse tracks for capital construction and improvements. Funds are to be distributed:

- 80% to Pimlico, Laurel Park, and Timonium Racecourse; and
- 20% to Rosecroft Raceway and Ocean Downs Race Course.

In order to receive funds, a racetrack must have a capital construction plan approved by the State Racing Commission. The bill provides that Timonium is not required to provide a matching grant in order to receive funds. The bill requires that Timonium receive $1 million annually for five years for racetrack facility capital construction and improvements. The racetrack at Allegany County is not eligible to receive racetrack renewal funds. The State Racing Commission is required to monitor the implementation of the plan and adopt regulations that provide for recapture of the grant if the racetrack fails to complete the construction plan within the time frame approved by the commission.

Education Trust Fund

The bill creates an Education Trust Fund (ETF) as a special, nonlapsing fund that will receive at least 35% in the first year and 35.7% in the second year and thereafter, from the VLT proceeds to fund construction and renovation needs for public schools and the GCEI. In addition, the initial application fees will be credited to the fund.

In expending ETF funds for public school construction the bill requires the Interagency Committee on School Construction to give the highest priority to projects that address public school facility deficiencies, particularly those deficiencies that affect health, safety, and student achievement, identified in the 2004 Final Report of the Task Force to Study Public School Facilities.

Local Development Councils and Transportation

From the local development grants and local impact grants provided, the proceeds are intended to be used for infrastructure improvements, public safety, and other needs in the communities in the immediate proximity of the facility. A Local Development Council would be created in each county to advise, comment, and make recommendations on a plan developed by the county providing for the use of the local development and impact grant funds. The bill also provides that the State may pay for the reasonable transportation costs necessary to mitigate the impact on the communities in immediate proximity to the VLT facilities and to make VLT facilities accessible to the public. Counties must allocate at least 10% of their local grants to provide grants to minority business enterprise (MBE) small businesses in the county. These grants are to be focused on communities that are in close proximity to a VLT facility. At least 50% of local grants must be used for improvements in communities in immediate proximity to VLT facilities.

At least 45% of the local development grants provided to Baltimore City must be utilized in the following manner: (1) 75% consistent with the Park Heights master plan; and (2) 25% consistent with needs identified by the Baltimore City Department of Housing and Community Development for the area that is within 1 mile of Pimlico Race Course and not within the boundaries of the Park Heights master plan.

Of the 3% of VLT net revenues provided to local governments in which video lottery facilities are located, each county receives revenues based on the share of total VLT revenues the facility in the county generates. If a video lottery license is awarded to Laurel Park, the local government revenue is split among: (1) 73% Anne Arundel County; (2) 17% Howard County; (3) 10% City of Laurel.

Compulsive Gambling Fund

The bill assesses a $700 fee per VLT terminal to be paid by VLT operation licensees that will be placed into a Compulsive Gambling Fund administered by the Department of Health and Mental Hygiene (DHMH). The fund must be used to establish a 24-hour hotline, provide counseling and other support services for compulsive gamblers, and establish problem gambling prevention programs.

Other Provisions

The bill also requires the Maryland Department of Transportation (MDOT) to review, coordinate, and approve county transportation studies. The Governor's Office of Minority Affairs must monitor compliance with applicable minority participation requirements in VLT procurement. DHMH is required to contract with an independent researcher to conduct a pathological and problem gambling prevalence study every five years. Two studies must be conducted to evaluate the State's continued compliance with federal and constitutional requirements related to minority participation provisions. The State Lottery Agency must conduct a market analysis of VLT gambling and State Lottery games every two years. This analysis must contain information on consumer spending, demographics, and location. The first report must be submitted by June 30, 2007.

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

Background: Over the past several legislative sessions, various proposals have been introduced to authorize VLTs at the State's horse racing tracks or other tourist destinations in the State. Numerous states have authorized VLT gambling. For more information on prior year introductions and other state VLT regimes, consult the *Legislators' Guide to Video Lottery Terminal Gaming*.

One of the recommendations of the Commission on Education Finance, Equity, and Excellence (Thornton Commission) was to adjust State aid to reflect regional differences in the cost of education that are outside the control of local jurisdictions. The Thornton Commission defined adequate funding as revenues sufficient to acquire the resources needed to reasonably expect that students can meet the State's academic performance standards. Because these resources cost different amounts in different places, the Thornton Commission recommended that State aid be adjusted to account for the variations. However, the commission did not believe that an acceptable index existed at the time it was completing its work. The commission recommended that the Maryland State Department of Education (MSDE) contract with a private entity to develop a Maryland-specific index to be used to adjust State aid beginning in fiscal 2005. This recommendation was codified in the Bridge to Excellence in Public Schools Act of 2002.

The consultants hired by MSDE submitted a final report entitled *Adjusting for Regional Differences in the Cost of Educational Provision in Maryland* on December 31, 2003. The report includes a GCEI with index values that range from 0.948 in Garrett County to 1.048 in Prince George's County. The Budget Reconciliation and Financing Act (BRFA) of 2004 (Chapter 440) codified the index recommended by the consultants except that no adjustment in aid is made for counties that have an index value below one. The 2004 BRFA did not mandate funding for the index and provided that if the index was not fully funded the amount distributed to each jurisdiction would be proportional to what would have been funded at the full level. The Governor's fiscal 2006 allowance includes no funding for the GCEI. HB 1361 mandates a phased in GCEI formula beginning in fiscal 2007.

The Public School Facilities Act of 2004 (Chapters 306 and 307 of 2004) set a goal to fully fund school construction by fiscal 2013 to meet minimum required standards for new construction as of July 2003. Based on the work of the Task Force to Study Public School Facilities the total cost to meet standards is estimated at $3.85 billion with the State's share at approximately $2 billion and local governments' share at $1.85 billion. Increasing the funding by $150 million annually, in addition to the $100 million annually the State has already committed (the Governor's fiscal 2006 capital budget includes $157 million), for eight years would allow the State to meet the goal by fiscal 2013.

Although the Capital Debt Affordability Committee concluded that authorizing an additional $1.2 billion in debt to provide the additional $150 million per year would meet current affordability criteria, the committee recommended that other options, including alternative financing mechanisms, new revenue streams, and shifting capital projects, should be fully explored before increasing the bond authorization.

State Revenues:

License Fee Revenues

The bill requires the licensees to pay an initial license fee of $10 million. Initial license fees must be paid by October 1, 2005. These fees are to be distributed to the ETF. Assuming one applicant for each of the four eligible locations, special fund revenues would increase by up to $40 million in fiscal 2006.

VLT Revenues

Four locations in the State may be licensed to operate a total of 9,500 VLTs. As a result, total revenues generated – after payouts to winning players, but **before** any other distributions are made – could total approximately, $3.2 million in fiscal 2007, $313.4 million in fiscal 2008, $952.9 million in fiscal 2009, and approximately $1.048 billion in fiscal 2010 and later.

Exhibit 1 details many of the important assumptions in these estimates. It is assumed that each facility will initially operate at 50% capacity and reach full capacity one year later.

Exhibit 1
Assumed Status of Operations
and Win-per-day (WPD)

Location	VLTs	WPD	Begin Operations	Full Capacity
Anne Arundel	3,500	415	January 2008	January 2009
Rocky Gap	1,000	105	May 2007	May 2008
Harford	2,500	265	January 2008	January 2009
Frederick	2,500	260	January 2008	January 2009

It is assumed that for facilities other than Rocky Gap there is a six-month bid process and facilities open two years after receiving a license. To the extent that facilities open earlier or later than assumed, revenues would be greater than estimated in fiscal 2007 and 2008.

Win-per-day estimates for the VLT facilities are based on previous estimates of the market for VLTs in Maryland and are adjusted by the Department of Legislative Services (DLS) to reflect the number of total machines and authorization of VLT facilities in Pennsylvania. For a comparison of these revenue estimates and the market for VLTs in Maryland with several other VLT markets, see **Appendix 2**.

It is assumed that VLT operators will receive 30% of gross proceeds. As a result, it is assumed that 35% of the gross proceeds will go to ETF (35.7% in the second year and later of operations). To the extent that market forces cause the VLT facilities to accept less than the 30% share, then ETF revenues could be higher. For each 1% bid under 30%, ETF revenues (at full implementation) would increase by approximately $10.5 million annually.

Other Assumptions

- VLTs will operate 365 days a year, once operational.
- Virginia and Washington, DC do not authorize VLT gambling.
- West Virginia and Delaware do not expand VLT operations, either by adding additional VLT facilities or authorizing casino-style gambling.
- Pennsylvania does not expand gambling beyond VLT facilities authorized in 2004.

Distribution of Revenues

Exhibit 2 details the revenue distribution resulting from VLTs for fiscal 2007 through 2010.

Exhibit 2
Distribution of VLT Revenues
($ in Millions)

	FY 2007	FY 2008	FY 2009	FY 2010
Total Annual Gross	$3.2	$313.4	$952.9	$1,047.5
ETF	$1.1	$109.7	$337.3	$374.0
Licensees	1.0	94.0	285.9	314.3
Local Development Grants	0.5	47.0	142.9	157.1
Local Impact Fund	0.1	9.4	28.6	31.4
PDA	0.3	28.2	85.8	94.3
Racetrack Renewal	0.1	9.4	28.5	31.4
Lottery Operations	0.2	15.6	43.8	45.0

Exhibit 3 details the estimated revenue that will be generated at each facility for fiscal 2007 through 2010.

Exhibit 3
Estimated Revenues Generated by Facility
($ in Millions)

	FY 2007	FY 2008	FY 2009	FY 2010
Anne Arundel	$0.0	$149.1	$480.5	$530.2
Frederick	0.0	66.7	215.0	237.3
Harford	0.0	68.0	219.1	241.8
Rocky Gap	3.2	29.5	38.3	38.3
Total	**$3.2**	**$313.4**	**$952.9**	**$1,047.6**

Effect on Lottery Sales

DLS estimates that 9,500 VLTs, when fully implemented, will cause a permanent reduction in lottery revenues of 10% annually versus what is currently forecasted. This estimate is based on the experience of other states that have authorized additional gambling and experienced substantial decreases in lottery sales. In addition, for those states where data are available, Maryland has substantially greater lottery operations, measured on both a gross volume and per capita basis. Therefore, it is possible that lottery sales might decrease more sharply than these other states. **Exhibit 4** details the estimated decline in general fund revenue in each fiscal year as a result of decreased lottery sales. The impact on lottery revenues incorporates current lottery revenue forecasts and increases with increased VLT implementation.

Exhibit 4
Estimated Loss in General Fund Revenue
Due to Decreased State Lottery Sales
($ in Millions)

FY 2007	FY 2008	FY 2009	FY 2010
$0.2	$15.3	$47.9	$54.3

Compulsive Gambling Fund

Approximately $26.7 million annually, based on $700 per VLT at full implementation, will be credited to the Compulsive Gambling Fund administered by DHMH. The fund must be used to establish a 24-hour hotline, provide counseling and other support services for compulsive gamblers, and establish problem gambling prevention programs.

Indirect State Revenues

Economic Development Impacts

In addition to the direct revenues generated, the introduction of VLTs could generate other revenues due to the increased economic activity associated with VLTs. Construction jobs associated with the construction of new VLT facilities or renovation of existing structures could bring dollars into the areas surrounding the tracks, providing an economic boost to the local economy. New jobs would generate incomes which would be subject to the income tax – revenues that are not currently being generated. If these jobs are higher (lower) paying than previously held jobs, taxes paid by those individuals would be higher (lower) than paid previously.

Substitution and Cross-border Effects

The group of potential VLT players at a Maryland facility can be divided into four cohorts. The theoretical impact of each of these cohorts on direct and indirect revenues to the State are illustrated in **Exhibit 5**.

Exhibit 5
Cross-border and Substitution Effect Impacts

Cohort	Cross-border and/or Substitution Impact
Marylanders who currently travel out-of-state to play VLTs	Additional direct and indirect revenue to the State
Marylanders who do not currently travel out-of-state to play VLTs but would play in Maryland	Additional direct revenue to the State, offset by any lost revenue from substitution effects
Out-of-state residents who currently play VLTs elsewhere but who would come to Maryland to play VLTs	Additional direct and indirect revenues to the State
Out-of-state residents who do not currently play VLTs elsewhere but who would come to Maryland to play VLTs	Additional direct revenue to the State. If VLT spending substitutes for other consumption in Maryland, then other tax revenues could decline

For all four cohorts, direct revenue to the State increases as a result of VLT gambling. Indirect State revenues increase as a result of (1) the recapture of Marylanders who play VLTs out-of-state; and (2) out-of-state residents who travel to Maryland explicitly to play VLTs and would not have otherwise visited Maryland in the absence of VLTs.

Indirect State revenues decrease as a result of out-of-state residents and Marylanders who substitute playing VLTs for other forms of taxable activities. For instance, out-of-town conventioneers may opt to go to Pimlico and play VLTs instead of attending an Orioles game. In this case, the State gains VLT gaming revenue but would lose the admissions and amusement tax that would have been generated if the conventioneer attended the Orioles game. Part of the substitution effect for Marylanders is captured by the estimated decline in lottery revenues resulting from individuals opting to play VLTs instead of purchasing lottery tickets. To the extent that Marylanders substitute playing VLTs for additional forms of taxable entertainment and consumption, indirect State revenues will decrease further. Examples of this include a Marylander opting to play VLTs instead of going to a bar or to the movies which generate liquor and admissions and amusement taxes respectively.

Estimates vary as to the share of total VLT revenues that each cohort will contribute. Of particular interest has been the amount of VLT revenue that would be recaptured from Marylanders playing VLTs in neighboring states. Legislative Services estimates that approximately $360 million or approximately one-quarter of total revenue generated by West Virginia and Delaware VLT facilities comes from Marylanders. Further, it is estimated that these Marylanders contribute approximately $138 million in revenue to West Virginia and Delaware local and state governments. Authorizing VLTs will not recapture all of this revenue; the amount of players that would be recaptured depends on multiple factors, including the ultimate location of the nontrack facilities. In addition, although Pennsylvania has authorized VLTs, the Pennsylvania Gaming Board has not determined the location of these facilities. The location of these facilities could impact the annual revenue "recaptured" by Maryland VLT facilities.

State Expenditures:

Administrative Expenditures

Lottery Agency

The Lottery Agency states that it will need 40 additional employees. The agency estimates a budget request of approximately $13 million will be needed for fiscal 2006 to pay for start-up costs associated with VLT operations. Administrative costs for the State Lottery to operate video terminals would be approximately $159,700 in fiscal 2007 and increase to $45.0 million in fiscal 2010. This estimate assumes that the cost of leasing and maintaining VLT terminals and central computer system as well as providing for additional staff will be equal to approximately 5% of gross revenues in the first year and 4.3% of gross revenues in the following years. Lottery Agency administration expenses are assumed to be consistent with the percent of gross proceeds allocated to it, so no net effect is assumed. To the extent that expenses are higher or lower than estimated, the net effect could change accordingly. If administration expenses are less than the amount allocated in each year under the bill, the additional gross proceeds from VLT facilities would be distributed to the ETF.

Attorney General

The Office of the Attorney General would incur increased general fund expenditures of approximately $259,600 in fiscal 2007 as a result of hiring two Assistant Attorneys General and one legal secretary to provide legal support to the VLT program.

Department of State Police

The Department of State Police would incur increased general fund expenditures of approximately $277,239 in fiscal 2007 as a result of equipment costs and hiring two full-time troopers and one office secretary to handle the anticipated volume of background checks.

Maryland Department of Transportation

The bill requires MDOT as the State's MBE certifying agency, to conduct a study regarding specified aspects of the minority business enterprise requirements of the bill and report to the Legislative Policy Committee by December 1, 2005 for the first study and by September 30, 2007 for the second study. MDOT did not provide an estimated cost of the studies. Legislative Services estimates that the studies will cost $50,000 each.

DHMH Expenditures – Prevalence Study

DHMH estimates that a prevalence study will cost up to approximately $1.2 million. This estimate is based on conducting a four-month study that samples 38,000 Marylanders or approximately 1% of the State adult population. DLS estimates that the first study required would cost approximately $500,000 to conduct.

Education Expenditures

The bill provides that ETF revenues are to be expended for public school construction and the GCEI. The bill increases education aid beginning in fiscal 2007 by requiring that the GCEI be funded under a proposed phase-in. Under current law, the GCEI is funded to the extent provided in the State budget. **Exhibit 6** lists the breakdown of education expenditures in fiscal 2007 through 2010.

Exhibit 6
Education Expenditures

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GCEI Mandated	$0.0	$57.3	$77.2	$93.6	$110.7
Total ETF Funds	40.0	1.1	109.7	337.3	374.0
GCEI		41.1	77.2	93.6	110.7
School Construction		0.0	32.5	243.7	263.2
Impact on GF Expenditures	0.0	16.2	0.0	0.0	0.0

GCEI expenses are mandated beginning in fiscal 2007. Initial VLT application fees of $40 million accrue to the ETF in fiscal 2006. It is assumed that the funds are expended in fiscal 2007 in order to offset the costs of the GCEI. In fiscal 2007 ETF revenues are not sufficient to fund the GCEI. As a result, general fund expenditures would increase by approximately $16.2 million in fiscal 2007. **Appendix 3** lists a breakdown of GCEI funding by county in fiscal 2007 through 2010.

Purse Dedication Account

Nine percent of VLT revenues are to be distributed to the PDA. **Exhibit 7** lists the breakdown of PDA revenues by fiscal year.

Exhibit 7
PDA Distribution

Purse Dedication Account	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2010**
Thoroughbred (70%)				
Purses	$171,025	$16,781,859	$51,029,678	$56,096,303
Bred Fund	30,181	2,961,504	9,005,237	9,899,348
Standardbred (30%)				
Purses	73,297	7,192,225	21,869,862	24,041,273
Bred Fund	12,935	1,269,216	3,859,387	4,242,578
Total Expenditures	$287,438	$28,204,805	$85,764,164	$ 94,279,500

Infrastructure Costs

The State and local governments could also incur significant costs associated with infrastructure upgrades at each of the VLT locations. The actual costs are site specific and could range from adding more traffic signs and lights to significantly altering existing traffic routes and adding access from other major thoroughfares. MDOT states that estimating these costs is not possible until plans are developed and traffic studies are completed.

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 funds dedicated to the Compulsive 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: The bill provides local impact aid for jurisdictions in which VLT operations are located and local distributions for all counties and Baltimore City. This aid is to be used for infrastructure, facilities, services, and other improvements.

The distribution of local aid to counties in which VLT facilities are located is shown in **Exhibit 8**.

Exhibit 8
Local Revenue Distributions
($ in Millions)

	FY 2007	FY 2008	FY 2009	FY 2010
Anne Arundel	0	$4.5	$14.4	$15.9
Frederick	0	2.0	6.5	7.1
Harford	0	2.0	6.6	7.3
Allegany	$0.1	0.9	1.1	1.1
Total	**$0.1**	**$9.4**	**$28.6**	**$31.4**

If the license to a facility in Anne Arundel is awarded to Laurel Park, the local revenue distributions shown above for Anne Arundel County would be split: (1) 73% to Anne Arundel; (2) 17% to Howard County; and (3) 10% to the City of Laurel.

The bill also provides that 15% of VLT revenues be provided to all counties and Baltimore City. Funds are distributed to each jurisdiction based on the percentage of total lottery sales each jurisdiction had in the prior fiscal year. **Appendix 4** estimates the amount of funding each jurisdiction will receive in each fiscal year based on fiscal 2004 lottery sales.

Indirect Local Revenues

The local jurisdictions where VLT facilities are located would also benefit from increased real property tax collections. In addition, if the Lottery Agency decides to lease VLTs from a VLT manufacturer, local jurisdictions would benefit from increased personal property taxes assessed on VLT machines and paid by the lessor. To the extent that expenditures on items subject to admissions and amusement taxes are transferred to VLT wagering, local revenues could decline. Local revenues would also be affected by any changes in property values, positive or negative, occurring because of the introduction of VLTs. This effect cannot be reliably estimated at this time.

Local Expenditures: VLT facilities will have a substantial impact on the local areas in which they are located and will necessitate additional local expenditures. For example, Dover Downs and Delaware Park each attracted over 2 million visitors in 2003. These facilities have approximately 2,000 VLTs.

Small Business Impact: To the extent that VLT facilities purchase goods from local businesses that are small businesses, these small businesses would benefit. Small business horse industry breeders and owners in the thoroughbred and standardbred racing industry would benefit. Some small businesses would benefit from additional tourists, partially offset by some small businesses that would be harmed as a result of tourists substituting VLT wagering for other expenditures.

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 VLT facilities could be particularly harmed.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Attorney General's Office, State Lottery Agency; Governor's Office; Department of State Police; Maryland Department of Transportation; Department of Legislative Services

Fiscal Note History: First Reader - February 15, 2005
ncs/jr Revised - House Third Reader - April 9, 2005

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Appendix 1

	2006	2007	2008	2009	2010
Gross VLT Revenues	$0	$3,193,750	$313,386,719	$952,935,156	$1,047,550,000
Licensees	$0	$958,125	$94,016,016	$285,880,547	$314,265,000
Special Fund Revenues					
ETF	$40,000,000	$1,117,813	$109,749,626	$337,327,867	$373,975,350
Local Distributions	0	574,875	56,409,609	171,528,328	188,559,000
PDA	0	287,438	28,204,805	85,764,164	94,279,500
Racetrack Renewal	0	95,813	9,401,602	28,588,055	31,426,500
Compulsive Gambling	0	350,000	4,418,750	6,650,000	6,650,000
Lottery VLT Administrative	0	159,688	15,605,062	43,846,195	45,044,650
Total SF Revenues	**$40,000,000**	**$2,585,625**	**$223,789,453**	**$673,704,609**	**$739,935,000**
GF Revenues					
Lost Lottery Revenue		(151,391)	(15,300,915)	(47,922,271)	(54,260,780)
Total GF Revenues	**$0**	**($151,391)**	**($15,300,915)**	**($47,922,271)**	**($54,260,780)**
Special Fund Expenditures					
ETF	0	41,117,813	$109,749,626	$337,327,867	$373,975,350
Local Distributions	0	574,875	56,409,609	171,528,328	188,559,000
PDA	0	287,438	28,204,805	85,764,164	94,279,500
Racetrack Renewal	0	95,813	9,401,602	28,588,055	31,426,500
Compulsive Gambling	0	350,000	4,418,750	6,650,000	6,650,000
Lottery VLT Administrative	0	159,688	15,605,062	43,846,195	45,044,650
Transportation – Studies	0	50,000	50,000	0	0
Total SF Expenditure	0	**$42,635,625**	**$223,839,453**	**$673,704,609**	**$739,935,000**
GF Expenditures					
Attorney General	0	259,611	273,972	289,282	305,619
State Police	0	277,239	206,890	211,247	262,484
GCEI	0	16,205,217	0	0	0
DHMH – Prevalence Study	500,000	0	0	0	0
Lottery VLT Administrative	13,000,000	250,000	0	125,000	0
Total GF Expenditures	**$13,500,000**	**$16,992,067**	**$480,862**	**$625,529**	**$568,103**
Net Effect	**26,500,000**	**($57,193,458)**	**($15,831,777)**	**($48,547,800)**	**($54,828,883)**

Appendix 2

	St. Louis	Chicago	Kansas City	Maryland
VLTs	9,204	13,455	6,200	9,500
VLT Revenue (millions)	$772.7	$1,941.43	$455.5	$1,047.55
Table Revenue (millions)	$105.7	$377.9	$70.2	N/A
Estimated Direct State and Local Revenues	$270.0	$888.7	$145.2	$569.2
Estimated Tax Rate	31%	38%	28%	54%
Win per Day	$230	395	201	$302
Total Population (millions)	2.6	8.3	1.8	5.5
Population over age 21 (millions)	1.8	5.8	1.3	3.8
Population over 21 per VLT	199	431	206	401
VLT Revenues per person over 21 years old	$422	335	357	$275
Percent over age 65	12%	10%	11%	11%
Median Age	37.1	34.4	35.6	36.9
Percent White	78%	68%	81%	62%
Percent African American	19%	18%	13%	28%
Percent Hispanic	2%	19%	6%	5%
Median Household Income	$46,803	$53,462	$47,428	57,218
Percent Below Poverty	10.0%	10.6%	9.1%	8.2%
Unemployment Rate	7.0%	8.8%	7.4%	4.5%
Percent with College Education or Higher	28%	32%	31%	31%

*Revenues estimated for Maryland and are from either calendar 2003 or fiscal 2004 for other locations.

Source: Illinois, Indiana, and Missouri Gaming Commissions; U.S. Census Bureau

Appendix 3
GECI Expenditures

County	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Allegany	$0	$0	$0	$0	$0
Anne Arundel	0	3,771,643	5,081,451	6,172,855	7,295,326
Baltimore City	0	10,394,280	13,817,173	16,416,160	19,147,553
Baltimore	0	2,405,283	3,223,275	3,887,478	4,582,413
Calvert	0	1,057,942	1,441,136	1,774,930	2,099,744
Caroline	0	0	0	0	0
Carroll	0	1,163,314	1,567,597	1,906,995	2,272,207
Cecil	0	0	0	0	0
Charles	0	1,485,754	2,019,607	2,491,310	2,985,768
Dorchester	0	0	0	0	0
Frederick	0	2,728,754	3,738,776	4,613,312	5,517,505
Garrett	0	0	0	0	0
Harford	0	0	0	0	0
Howard	0	2,085,971	2,835,675	3,495,595	4,163,538
Kent	0	68,319	89,286	104,683	120,918
Montgomery	0	13,522,174	18,326,338	22,434,696	26,787,524
Prince George’s	0	18,309,521	24,651,492	29,784,517	35,098,721
Queen Anne’s	0	237,935	322,862	398,659	477,793
St. Mary’s	0	92,140	124,428	152,580	181,896
Somerset	0	0	0	0	0
Talbot	0	0	0	0	0
Washington	0	0	0	0	0
Wicomico	0	0	0	0	0
Worcester	0	0	0	0	0
Total	**$0**	**$57,323,030**	**$77,239,096**	**$93,633,770**	**$110,730,906**

Appendix 4
Local Impact Fund Distributions

County	Estimated Percent	FY 2007	FY 2008	FY 2009	FY 2010
Allegany	0.78%	$3,737	$366,662	$1,114,934	$1,225,634
Anne Arundel	9.84%	47,140	4,625,588	14,065,323	15,461,838
Baltimore	15.36%	73,584	7,220,430	21,955,626	24,135,552
Calvert	1.48%	7,090	695,719	2,115,516	2,325,561
Caroline	0.44%	2,108	206,835	628,937	691,383
Carroll	1.93%	9,246	907,255	2,758,747	3,032,657
Cecil	1.09%	5,222	512,387	1,558,049	1,712,744
Charles	3.09%	14,803	1,452,547	4,416,854	4,855,394
Dorchester	0.54%	2,587	253,843	771,877	848,516
Frederick	2.12%	10,156	996,570	3,030,334	3,331,209
Garrett	0.19%	910	89,315	271,587	298,552
Harford	3.21%	15,378	1,508,957	4,588,383	5,043,953
Howard	2.28%	10,923	1,071,783	3,259,038	3,582,621
Kent	0.27%	1,293	126,922	385,939	424,258
Montgomery	9.23%	44,217	4,338,839	13,193,387	14,503,330
Prince George's	20.36%	97,537	9,570,830	29,102,640	31,992,177
Queen Anne's	0.56%	2,683	263,245	800,466	879,942
St. Mary's	2.10%	10,060	987,168	3,001,746	3,299,783
Somerset	0.42%	2,012	197,434	600,349	659,957
Talbot	0.50%	2,395	235,040	714,701	785,663
Washington	1.61%	7,713	756,829	2,301,338	2,529,833
Wicomico	1.22%	5,845	573,498	1,743,871	1,917,017
Worcester	1.68%	8,048	789,735	2,401,397	2,639,826
Baltimore City	19.70%	94,375	9,260,578	28,159,234	30,955,103
Total		**$479,063**	**$47,008,008**	**$142,940,273**	**$157,132,500**