

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1553
Ways and Means

(Delegate Conway, *et al.*)

Budget and Taxation

Worcester County - Video Lottery Operations

This bill repeals the requirement that the local development council in Worcester County be jointly appointed by the Worcester County Commissioners and the Mayor of Ocean City. Instead, the council will be solely appointed by the county commissioners. The Senator and Delegates serving on the local development council may appoint designees. The bill also alters the distribution of local impact grant funds within Worcester County to be: 60% to Worcester County (instead of 70%) and 10% to the Ocean Pines Association to be used for a specified public infrastructure purpose.

Fiscal Summary

State Effect: None.

Local Effect: Worcester County revenues decrease by \$146,600 in FY 2011 and by \$617,300 in FY 2014. County expenditures decrease by the same amounts.

Small Business Effect: None.

Analysis

Current Law: Chapter 5 of the 2007 special session, a constitutional amendment authorizing 15,000 VLTs at five locations in the State, was approved by Maryland voters at the November 2008 general election. The amendment also specifies that the General Assembly may only authorize expanded forms of gambling subject to certain restrictions. Chapter 4 (Senate Bill 3) of the 2007 special session establishes the operational and regulatory framework for the authorized VLT program.

Gross VLT proceeds are distributed as follows, pursuant to Chapter 4 of the 2007 special session:

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

A maximum of 15,000 VLTs are authorized in the State. Of these, 2,500 VLTs are authorized at a location in Worcester County within one mile of the intersection of Route 50 and Route 589.

VLT facilities must comply with all applicable planning and zoning laws of the local jurisdiction. The Video Lottery Facility 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.

Local Impact Grant Distribution in Worcester County

Under current law, if a video lottery operation license is awarded to Ocean Downs racetrack, the local impact grant must be distributed in the following manner: 70% to Worcester County; 20% to Ocean City; and 10% to the Town of Berlin.

A local development council must consist of the following 15 members:

- one Senator who represents the district where the facility is located;

- two Delegates who represent the districts where the communities surrounding the facility are located;
- one representative of the video lottery operation licensee;
- seven residents of the communities in immediate proximity to the facility; and
- four representatives of businesses or institutions located in immediate proximity to the facility.

Local development councils must assist local governments in developing a multiyear plan for authorized expenditure of local impact grant funds. If a video lottery facility is at a racetrack location at the Ocean Downs Race Course, the County Commissioners of Worcester County and the Mayor of Ocean City must jointly appoint the local development council.

Background: The Video Lottery Facility Location Commission was appointed in November 2008 and issued a request for proposals for video lottery facility operation licenses in December. Initial bids for the five video lottery terminal operating licenses currently authorized were due February 2, 2009, and supplemental bid information must be submitted by April 15, 2009. The commission will evaluate proposals and expects to make license awards in fall 2009. The State Lottery Commission will be responsible for issuing the licenses to the awardees and will administer the VLT program.

Projected revenues from the VLT operations are shown in **Exhibit 1**.

Projected local impact grant revenues from VLT operations going to Worcester County, assuming that Ocean Downs racetrack is the awarded site, are shown in **Exhibit 2**. These estimates assume that (1) the facility will initially operate at 50% capacity in February 2011 and reach full capacity one year later; and (2) 2,500 VLTs are awarded. Revenues will be potentially higher (lower) than estimated to the extent that operations begin earlier (later) than estimated in temporary or permanent facilities.

A win per day (WPD) estimate of \$150 at peak capacity for the VLT facility is based on the location and an independent analysis of the market for VLTs in Maryland by DLS. The market analysis includes the impact of VLT operations in Delaware, Pennsylvania, and West Virginia, and the proximity of proposed Maryland locations to other VLT facilities and population centers. Legislative Services advises that the gross VLT revenue estimate could be higher or lower than estimated depending on the economic and market conditions that develop as the bill is implemented, including expansion of gaming in the surrounding states. Other assumptions used in estimating VLT revenues are:

- 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.

Exhibit 1
Gross VLT Revenue Projections

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Education Trust Fund	\$90,000,000*	\$12,931,123	\$365,856,738	\$613,860,465	\$663,525,658
Licensees		8,798,496	248,933,450	417,678,254	451,471,066
Local Impact Grants		1,466,416	41,488,908	69,613,042	75,245,178
Small, Minority, Woman-owned Businesses		399,932	11,315,157	18,985,375	20,521,412
Purse Dedication Account		1,866,348	52,804,065	88,598,418	95,766,590
Racetrack Renewal Account		666,553	18,858,595	31,642,292	34,202,354
Lottery Operations		533,242	15,086,876	25,313,834	27,361,883
Total Annual Gross	\$90,000,000	\$26,662,109	\$754,343,789	\$1,265,691,680	\$1,368,094,141

*Assumes initial license fee payment for maximum VLTs authorized. A total of \$39.3 million in initial license fees has been received to date.

Source: Department of Legislative Services

Exhibit 2
Worcester County Local Impact Grant Projections

	<u>%</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Worcester County	70%	\$1,026,491	\$3,402,901	\$4,105,086	\$4,321,144
Ocean City	20%	293,283	972,257	1,172,882	1,234,613
Town of Berlin	<u>10%</u>	<u>146,642</u>	<u>486,129</u>	<u>586,441</u>	<u>617,306</u>
Total	100%	\$1,466,416	\$4,861,287	\$5,864,409	\$6,173,063

Source: Department of Legislative Services

Local Fiscal Effect: Local impact grant funding to Worcester County from video lottery facility revenues decreases by an estimated \$146,642 in fiscal 2011 and by an estimated \$617,306 in fiscal 2014. As shown in **Exhibit 3**, the Ocean Pines Association gains local impact grant funding in proportion to the county's decrease.

Exhibit 3
Worcester County Local Impact Grant Projections
Selected Allocations

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Worcester County (60%)	\$879,850	\$2,916,772	\$3,518,645	\$3,703,835
Ocean Pines Association (10%)	<u>146,642</u>	<u>486,129</u>	<u>586,441</u>	<u>617,306</u>
Total* (70%)	\$1,026,491	\$3,402,901	\$4,105,086	\$4,321,144

*Equals current estimated local impact grant projections for Worcester County. Numbers may not sum to the total due to rounding.

Source: Department of Legislative Services

The negative effect upon Worcester County and the positive effect for Ocean Pines Association are largely offset by the fact that Ocean Pines is within Worcester County, and to the extent that the county would have chosen to expend funds toward the specified public purpose for which the Ocean Pines Association will use local impact grant funds.

Removing the Mayor of Ocean City's local development council appointment authority does not directly impact Ocean City finances; however Ocean City advises that it may receive less development funding than it would under current law.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Ocean City; Worcester County; Department of Labor, Licensing, and Regulation (Racing Commission); State Lottery Agency; Maryland Department of Transportation; Department of Legislative Services

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