

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

Senate Bill 1042 (Senator Colburn)
Budget and Taxation

Gaming - Taking Delivery of, Possessing, or Transporting Slot Machines

This bill authorizes a distributor or vendor of slot machines to deliver, possess, or transport a slot machine, regardless of any direct affiliation to a manufacturer. The bill applies to slot machines that certain nonprofit organizations are currently authorized to operate in nine specified Eastern Shore counties. Violators are subject to penalties specified in existing law.

Fiscal Summary

State Effect: No material decrease in State law enforcement expenditures. The criminal penalty provisions of the bill do not have a material impact on State finances or operations.

Local Effect: No material decrease in local law enforcement expenditures. The criminal penalty provisions of the bill do not have a material impact on local finances or operations.

Small Business Effect: Some small businesses that are vendors or distributors of authorized slot machines benefit from expanded opportunities to sell and distribute the machines.

Analysis

Current Law: 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 on the Eastern Shore. Gaming licensees may use the proceeds of gaming activities for the

benefit of their own organizations, but 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.

Generally, it is a misdemeanor crime to possess or operate a slot machine in Maryland. However, certain nonprofit organizations are authorized to operate slot machines in the following nine Eastern Shore counties: Caroline, Cecil, Dorchester, Kent, Queen Anne's, Somerset, Talbot, Wicomico, and Worcester. Nonprofit organizations must be located in the county for at least five years prior to the application for a license and be a fraternal, religious, or war veterans' organization, or be affiliated with a national fraternal organization for less than 5 years but have been located within an eligible county for at least 50 years before applying for a license. The Comptroller's Office must regulate the specified slot machines and charge a license fee to cover the costs of regulating the machines.

A person may take delivery of, possess, or transport a slot machine to demonstrate or sell the slot machine to a prospective customer who is allowed to purchase a slot machine if the person:

- operates with or under a distributorship contract with a slot machine manufacturer;
- is registered with the U.S. Department of Justice as a slot machine distributor; and
- has provided the Secretary of State Police with a copy of the person's current federal registration.

Violators are guilty of a misdemeanor and are subject to a maximum prison sentence of one year, a maximum fine of \$1,000, or both, for each violation.

Background: In fiscal 2011, 60 nonprofit organizations on the Eastern Shore operated slot machines. Unaudited reports with complete data were available for 56 of the organizations. The total amount bet at these 56 organizations was approximately \$42.3 million, 88% of which was returned to gamblers. Of the approximately \$5.2 million in proceeds after payouts, \$2.6 million (50%) was disbursed to charity. The Department of Legislative Services (DLS) notes that in reviewing the fiscal 2011 data, it appeared that several organizations were not in compliance with the 50% charity requirement or misclassified some contributions as charitable. Several organizations submitted returns that were incomplete or mathematically incorrect. **Exhibit 1** shows the slot machine "handle" (or amount bet) by county for 57 organizations (one of which did not submit a complete set of data).

The Maryland State Lottery Agency conducted a study of local gaming in Maryland required by Chapter 474 of 2008. The report indicates (similar to DLS findings for

fiscal 2008) that in fiscal 2008, 273 slot machines on the Eastern Shore generated \$54.8 million in total handle.

Exhibit 1
Slot Machine Handle for Eastern Shore Counties
Fiscal 2011
(\$ in Millions)

<u>County</u>	<u>Slot Machines</u>	<u>Handle</u>
Caroline	20	\$1.8
Cecil	45	13.7
Dorchester	25	3.4
Kent	25	1.6
Queen Anne's	35	7.2
Somerset	35	1.8
Talbot	25	2.7
Wicomico	60	11.4
Worcester	10	0.2
Total	280	\$43.8

Source: Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: None.

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

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ncs/rhh

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