

Department of Legislative Services
 Maryland General Assembly
 2012 Session

FISCAL AND POLICY NOTE

House Bill 1265 (Delegate Frush)
 Ways and Means

Gaming - Video Lottery Terminals and Table Games

This bill, subject to voter referendum, (1) authorizes a video lottery operation license be awarded for a video lottery facility at a specified area within Prince George’s County; (2) increases from 15,000 to 19,500 the maximum number of video lottery terminals (VLTs) that may be authorized; (3) increases to 40% the percentage of video lottery revenues distributed to licensees; (4) authorizes a video lottery operator to offer table games; (5) provides for the distribution of revenues from a facility located in Prince George’s County; and (6) removes certain restrictions on video lottery operators, including the prohibition on multiple license ownership.

The bill takes effect July 1, 2012, for the sole purpose of providing for the bill to be submitted to the voters at the 2012 general election, as required by Article XIX of the Maryland Constitution.

Fiscal Summary

State Effect: Special fund revenues increase in FY 2013 due to one-time license fees and beginning in FY 2016 due to additional VLT revenues. General fund revenues decrease beginning in FY 2016 due to decreased lottery revenues. Net general fund expenditures decrease beginning in FY 2016 due to a decrease in education expenses, partially offset by an increase in lottery agency expenditures. Special fund revenues and expenditures increase for the purposes specified by the bill beginning in FY 2016.

(\$ in millions)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
GF Revenue	\$0	\$0	\$0	(\$4.9)	(\$5.0)
SF Revenue	\$0	\$0	\$0	\$365.2	\$372.5
GF Expenditure	\$.3	\$0	\$0	(\$28.3)	(\$31.9)
SF Expenditure	\$0	\$0	\$0	\$365.2	\$372.5
Net Effect	(\$.3)	\$.0	\$.0	\$23.4	\$26.8

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

Local Effect: Net local revenues will increase by \$20.0 million in FY 2016 and \$20.4 million in FY 2017 which reflects an increase in local revenues for economic development in Prince George's County, partially offset by a decrease in local impact grants in Anne Arundel County and Baltimore City.

Small Business Effect: Small businesses will benefit from increased funds to the business investment account and to horse industry investments. Additional benefits from any construction and operation of VLT facilities will be partially offset by the substitution of VLT wagering for other expenditures.

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 19,500 and increases the statewide limit on the number of VLT facilities from five to six.

Increases Licensee Proceeds: The percentage of VLT revenues that are distributed to all video lottery operation licensees is increased to 40%. Under current law, distributions to operators may not exceed 33% of revenues. Distributions to the Education Trust Fund (ETF) are reduced by 7% to 41.5%.

Authorizes a Video Lottery Facility in Prince George's County: The Video Lottery Facility Location Commission is authorized to award a license to operate a maximum of 4,750 VLTs at a location in Prince George's County within four miles of the intersection of Bock Road and St. Barnabas Road. The commission may not, however, 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 revenues generated at a facility in Prince George's County will be distributed in the same manner as other licensees (including a 40% operator distribution) except revenue will not be distributed to the Racetrack Facility Renewal Account. Instead, 2.5% of revenues will be distributed to the State Capital Account established by the bill. In addition, 5.5% of VLT revenues is distributed to an economic development incentive fund for Prince George's County, rather than distributed as local impact aid.

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.

Establishes a State Capital Account: Under current law, initial video lottery operation license fees accrue to the ETF. However, license fees paid by a Prince George's County facility are distributed to the State Capital Account established by the bill to develop and construct a hospital in Prince George's County. The State Capital Account also receives 2.5% of VLT proceeds generated from a Prince George's County facility; subject to a cumulative maximum of \$200 million.

Funds may be used to (1) assist in the capital and operating funding necessary to support the transfer of a hospital in Prince George's County to new ownership; and (2) address any long-term liabilities involved in the transfer.

Economic Development: Under current law, 5.5% of VLT proceeds is distributed as local impact aid to the jurisdiction in which the facility is located. The bill instead distributes the revenues to an economic development incentive fund to be established by Prince George's County.

Removes the Prohibition on Multiple License Ownership: Under current law, operators are prohibited from ownership in more than one video lottery operation license. The bill removes this restriction.

Eliminates Free Food and Beverage Restrictions: The bill eliminates the current law provision that generally prohibits a video lottery operator from offering free food and alcoholic beverages.

Removes Certain Ocean Downs Restrictions: 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 the last two restrictions on the Ocean Downs operator/licensee.

Authorizes Table Games: The bill authorizes the State to allow the holder of a video lottery operation license to offer specified table games. All of the proceeds from the operation of table games are retained by the licensee. The State is prohibited from charging a table game license fee.

Authorized table games include:

- 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 State Lottery Commission may determine the suitability of the type of table games to be offered at VLT facilities after an appropriate test or experimental period as determined appropriate by the commission.

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 is a constitutional amendment that was approved by Maryland voters at the November 2008 general election authorizing 15,000 VLTs at five locations in the State. The amendment also specifies 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, establishes 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 purse dedication account to enhance horse racing purses and funds for the horse breeding industry, not to exceed \$100 million annually;
- Racetrack Facility Renewal Account (RFRA) – 2.5% for an 8-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 Education Trust Fund (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.

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 of the 2007 special session establishes the operational and regulatory framework for the authorized VLT program.

A seven-member Video Lottery Facility Location Commission (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 on: 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 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.

License applicants 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 Law

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.

Background:

VLT Program Implementation

The location commission has awarded video lottery operation licenses for VLT facility locations in 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

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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. Phase one of that facility is currently scheduled to open with approximately 3,000 VLTs in June 2012, with the full complement of 4,750 VLTs 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 (RFP) for those licenses earlier this year. 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. The location commission plans to make final decisions on the remaining proposals sometime in early 2012.

Through January 2012 VLT facilities have generated a total of \$196.2 million in revenues. Of this amount, \$95.1 million has been distributed to the ETF. **Exhibit 1** shows the estimated distribution of VLT revenues through fiscal 2017.

Exhibit 1
Distribution of Estimated VLT Revenues in Maryland
(\$ in Millions)

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Education Trust Fund (48.5%)	\$78.1	\$254.4	\$386.2	\$483.4	\$513.3	\$523.6
Licensees (33%)	53.1	173.1	265.0	333.5	353.9	361.0
Local Impact Grants (5.5%)	8.9	28.9	43.6	54.4	57.8	58.9
Business Investment (1.5%)	2.4	7.9	11.9	14.8	15.8	16.1
Purse Dedication Account (7%) ¹	11.3	36.7	55.4	69.0	73.3	74.8
Racetrack Renewal (2.5%) ²	4.0	13.1	19.7	24.5	26.0	26.5
Lottery Operations (2%)	3.2	10.5	16.0	20.0	21.2	21.7
Total (100%)	\$161.0	\$524.6	\$797.8	\$999.6	\$1,061.3	\$1,082.6

¹Up to \$100 million annually.

²Up 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 ten 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

Surrounding State Gambling Revenues

Maryland's competition for gambling revenues is primarily from three surrounding states: Delaware, Pennsylvania, and West Virginia. Three racetrack facilities with slightly more than 7,000 VLTs are operating in Delaware, 10 facilities with approximately 26,800 VLTs are operating in Pennsylvania, and 5 facilities with slightly more than 10,000 VLTs are operating in West Virginia.

Limited numbers of VLTs (Limited Video Lottery, or LVL) are also available at licensed West Virginia bars, clubs, and fraternal organizations. In fiscal 2011, 7,889 of the 9,000 maximum authorized were operating at over 1,600 licensed locations throughout the state. In fiscal 2011, LVL generated a total of \$396.5 million in revenue, a win-per-day of \$138.

In early 2010, Delaware authorized table games for the state's three existing VLT racetrack facilities – Delaware Park, Dover Downs, and Harrington Raceway. Delaware requires 29.4% of table game revenue to be returned to the state, 4.5% of table game revenue be used to supplement horse racing purses, and the remaining 66.1% to be paid to the licensees. Delaware collects \$13.5 million in annual table game licensing fees based on the percentage of total VLT proceeds generated by each licensee. The Delaware fee structure rewards licensees for making capital improvements to their facilities; if a licensee makes qualified improvements worth \$2.5 million in a 12-month period, that licensee is permitted to reduce its annual fee by 50.0% to account for the cost of the capital project. The fees may be further reduced if Delaware's gross table game revenues meet or exceed \$80.0 million per year.

The first table games in Delaware began in May 2010. In fiscal 2011, Delaware's three facilities operated a total of 188 table games that generated \$74.1 million in total revenue, an average of \$394,173 per table game.

Under legislation passed in January 2010, most stand-alone VLT facilities and racetrack facilities with VLTs in Pennsylvania are authorized to have up to 250 table games. Each licensee is required to pay a one-time \$16.5 million fee to operate table games, except that two smaller resort facility locations are limited to 50 table games per facility and must pay a \$7.5 million fee. The Pennsylvania state tax on table games is currently 14%; the rate will decline to 12% on the second anniversary of the introduction of table games at a facility. In addition to the aforementioned state tax, licensees must pay an additional 2% tax to local jurisdictions.

Pennsylvania table gaming began in July 2010; as of August 2011, there were a total of 911 table games at 10 Pennsylvania facilities. In fiscal 2011, the 10 licensed facilities

operated a total of 791 table games that generated \$508.3 million in total revenue, an average of \$678,235 per table game.

In 2007, West Virginia authorized the four existing VLT racetrack facilities to offer table games, subject to voter approval via local referendum. The Greenbrier Resort became the state's fifth VLT location with table games in 2009. West Virginia imposes a \$1.5 million initial license fee for table games along with a \$2.5 million annual renewal fee. The state tax is 35% of the licensee's adjusted gross table game revenues; these revenues are distributed to horsemen's purse and bred funds, state debt reduction efforts, counties and municipalities, and programs to support home health care for senior citizens. In fiscal 2011, the state's five licensed facilities operated a total of 350 table games that generated \$200.8 million in total revenue, an average of \$578,276 per table game.

Exhibit 2 includes a breakdown of fiscal 2011 gross gambling revenues in West Virginia, Delaware, and Pennsylvania. Only a portion of the gross revenue shown was distributed to each state as tax revenue.

Exhibit 2
Fiscal 2011 Gambling Revenues
Delaware, Pennsylvania, West Virginia

	<u>Delaware</u>	<u>Pennsylvania</u>	<u>West Virginia*</u>
Facilities	3	10	5
Total Gambling Revenue (\$ millions)	\$573.5	\$2,854.5	\$934.9
<u>VLTs</u>			
VLTs	7,014	26,048	10,148
VLT Revenue (\$ millions)	\$499.4	\$2,346.2	\$734.1
Win-per-day	\$195	\$253	\$198
<u>Table Games</u>			
Table Games	188	791	350
Table Game Revenue (\$ millions)	\$74.1	\$508.3	\$200.8
Table Game Average	\$394,173	\$678,235	\$578,276

*VLT figures for West Virginia do not reflect additional LVL revenues of \$396.5 million.

Source: Delaware Lottery; Pennsylvania Gaming Control Board; West Virginia Lottery; Department of Legislative Services

Overall, a facility has about 30 table games for every 1,000 VLTs; this ratio is slightly higher at larger facilities. Table game and VLT revenues vary significantly based on the size of the facility. In general, larger facilities generate a higher average revenue for each VLT and table game at the facility, reflecting the larger draw of these facilities and fact that larger facilities are typically located in more populous areas. For example, each table game at a facility with less than 50 table games generated on average less than one-half of the revenue at the largest facilities. **Exhibit 3** shows the average fiscal 2011 VLT and table game revenues for facilities in the surrounding states, based on the number of table games at the facility.

Exhibit 3
Average VLT and Table Game Revenues by Number of Table Games
Delaware, Pennsylvania, West Virginia

	<u>All Facilities</u>	<u>Number of Table Games</u>			
		<u>26-50</u>	<u>51-75</u>	<u>76-100</u>	<u>Over 100</u>
Number of Facilities	17	4	6	4	3
VLTs	2,484	1,813	2,522	2,706	3,431
VLT Revenues (\$ millions)	\$197.8	\$119.7	\$176.2	\$244.1	\$380.1
Win-per-day	\$230	\$207	\$183	\$242	\$264
Table Games	72	49	64	88	114
Table Revenue (\$ millions)	\$37.6	\$17.5	\$31.3	\$49.5	\$95.0
Table Game Average	\$489,890	\$361,159	\$448,611	\$557,838	\$833,714

Source: Delaware Lottery; Pennsylvania Gaming Control Board; West Virginia Lottery; Department of Legislative Services

State Revenues: The bill authorizes a video lottery operation license be awarded for a video lottery facility at a specified area within Prince George’s County, increases to 40% the percentage of video lottery revenues distributed to licensees, and authorizes a video lottery operation licensee to offer table games. Each of these revenue impacts are discussed below.

VLT Revenues

Prince George’s VLT Facility

After payouts to winning players, but **before** any other distributions are made, total revenues generated could total approximately \$450.0 million in fiscal 2016 and
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\$459.0 million in fiscal 2017. These estimates assume that the facility will begin operations in July 2015. Revenues will be potentially higher (lower) than estimated to the extent that operations begin earlier (later) than estimated in temporary or permanent facilities.

Other assumptions used in estimating VLT revenues are:

VLTs will operate 365 days a year, once operational:

- Virginia and the District of Columbia do not authorize VLT gambling; and
- Pennsylvania, West Virginia, and Delaware do not expand gambling.

Exhibit 4 details the revenue distribution resulting from authorizing a video lottery facility in Prince George’s County.

Exhibit 4
Distribution of Prince George’s VLT Revenues
(\$ in Millions)

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Education Trust Fund (41.5%)	\$0	\$0	\$0	\$186.8	\$190.5
Licensee (40%)	0	0	0	180.0	183.6
Economic Development (5.5%)	0	0	0	24.8	25.2
Business Investment (1.5%)	0	0	0	6.8	6.9
Purse Dedication Account (7%) ¹	0	0	0	31.5	32.1
State Capital Account (2.5%)	0	0	0	11.3	11.5
Lottery Operations (2%)	0	0	0	9.0	9.2
Total (100%)	\$0	\$0	\$0	\$450.0	\$459.0
Revenue Loss – Anne Arundel/Baltimore City				\$86.8	\$88.5
Net Income	\$0	\$0	\$0	\$363.2	\$370.5

¹Annual distributions from all facilities to the PDA may not exceed \$100 million. It is estimated that under the bill this cap will be reached in fiscal 2017 – amounts in excess of this cap will accrue to ETF.

Although the bill does not specify, it is assumed that an application with an initial license fee will be submitted by June 30, 2013. Assuming that a license applicant opts to participate and pay the license fee by this date, State Capital Account revenues will increase by \$28.5 million in fiscal 2013.

Total VLT Revenues

Legislative Services estimates that a video lottery facility in Prince George's County will cause a reduction of about 10% in revenues generated from facilities located in Anne Arundel County and Baltimore City due to their proximity. Accordingly, total VLT proceeds, before any distributions, will increase by \$363.2 million in fiscal 2016 and \$370.5 million in fiscal 2017. The bill increases revenue distributions to all video lottery licensees by 7% with a corresponding reduction in revenues to ETF. For the purpose of this fiscal and policy note, it is assumed that this provision takes effect when the Prince George's County facility is operational. In addition, the bill specifies the distribution of revenues from the Prince George's County facility. The net impact is shown in **Appendix 1**.

Problem Gambling Fund

Approximately \$2.0 million annually beginning in fiscal 2016, based on \$425 per VLT at the full implementation of VLTs, 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 4,750 VLTs could generate other revenues due to the increased economic activity. As a result of licensure requirements, if the maximum VLTS are awarded the licensee would undertake at least \$237.5 million in required one-time capital improvements and construction costs. According to published reports, licensed video lottery operators have expended about \$463 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

Legislative Services estimates that the additional VLTs proposed by the bill will decrease lottery revenues by \$20.4 million in fiscal 2016 and by \$20.9 million in fiscal 2017. This reduction is in addition to the reduction already estimated for the authorized VLT program.

Table Games

The bill authorizes the holder of a video lottery operation license to offer table games. The bill specifies that all table game revenues are retained by video lottery licensees. Based on the casino data for surrounding states and Illinois, Indiana, and Iowa analyzed by DLS and the current VLT forecast and, *for illustrative purposes only*, **Exhibit 5** shows the potential total revenue generated from 500 total table games, which assumes that facilities, including Prince George’s County, will have a similar number of table games as in other states.

Exhibit 5
Potential Table Game Revenues –
Total Gross Revenues Before Distribution
(\$ in Millions)

<u>Total Table Games</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
500	\$0	\$158.3	\$197.8	\$296.6	\$310.0

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. This estimate is also based on the current VLT forecast and estimated correlation 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.

State Expenditures:

Maryland State Lottery Agency

Authorizing an additional facility will increase administrative costs at the State Lottery Agency. These costs include additional VLT leasing costs, personnel, and expenditures to install central computer system components at the facility.

The Maryland State Lottery Agency will need to lease additional VLTs to be placed in a Prince George’s County video lottery facility at an estimated cost of \$55.0 million annually. This estimate is based on the VLT lease costs for the Anne Arundel facility which total \$52.7 million annually. Central computer system expenditures will increase by \$1.1 million in fiscal 2016 to add a sixth facility to the system. Legislative Services estimates that the State Lottery Agency will require 12 additional security investigators; these expenditures will total \$763,000 in fiscal 2016 and \$791,000 in fiscal 2017.

Maryland State Lottery Agency

Exhibit 6 shows in fiscal 2016 and 2017 the additional direct State lottery administrative costs from authorizing an additional facility. From the VLT proceeds generated at Prince George’s, \$9.0 million will be distributed to the Lottery Agency in fiscal 2016 and \$9.2 million in fiscal 2017 and will be insufficient to pay for increased Lottery expenditures. Accordingly, general fund expenditures will increase by \$47.9 million in fiscal 2016 and by \$46.6 million in fiscal 2017.

In addition, VLT revenues at Baltimore City and Anne Arundel County facilities will decrease due to the Prince George’s County facility, reducing special fund lottery revenues and expenditures by \$1.7 million in fiscal 2016 and by \$1.8 million in fiscal 2017. This will require a corresponding increase of \$1.7 million and \$1.8 million in general fund expenditures to cover lottery administrative costs. The combined impact on the State Lottery Agency, as a result of the bill, will require general fund expenditures to increase by a total of \$49.6 million in fiscal 2016 and by \$48.4 million in fiscal 2017, as shown in Appendix 1.

Exhibit 6
Direct Lottery Administrative Costs
Prince George’s Facility

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
VLT Leasing	0	0	0	\$55.0	\$55.0
Central Computer	0	0	0	1.1	0
Personnel	0	0	0	0.8	0.8
SF Expenditures	\$0.0	\$0.0	\$0.0	\$9.0	\$9.2
GF Expenditures	\$0.0	\$0.0	\$0.0	\$47.9	\$46.6
Total Expenditures	\$0.0	\$0.0	\$0.0	\$56.9	\$55.8

Education Trust Fund

In light of the substantial structural deficit currently forecasted, it is assumed that ETF revenues are used to support existing operating programs and, therefore, offset general fund expenditures. A decrease in these revenues will require additional general fund expenditures; conversely additional revenues will reduce general fund expenditures.

Special fund expenditures for education will increase by \$78.0 million in fiscal 2016 and by \$80.2 million. This will result in a corresponding decrease in general fund expenditures for education by \$78.0 million and \$80.2 million, respectively.

Other VLT Special Fund Expenditures

Special fund expenditures will increase by \$285.3 million in fiscal 2016 and by \$290.2 million in fiscal 2017, which reflects the additional net distribution of VLT proceeds to the licensee of the facility; to the local economic development fund; purse dedication accounts; State capital account; and small, minority, and woman-owned business accounts.

Infrastructure Costs

The State could incur significant costs associated with infrastructure and transportation upgrades near the proposed facility. 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, Legislative Services 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: Net local revenues will increase by \$20.0 million in fiscal 2016 and \$20.4 million in fiscal 2017. This reflects an increase in local revenues for economic development in Prince George's County, partially offset by a decrease in local impact grants in Anne Arundel County and Baltimore City. **Exhibit 7** details the impact of the bill on local revenues.

Exhibit 7
Impact on Local Revenues
HB 1265

<u>County</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Anne Arundel	0	0	0	(\$2.5)	(\$2.6)
Baltimore City	0	0	0	(\$2.3)	(\$2.3)
Prince George's ¹	0	0	0	24.8	25.2
Total	\$0.0	\$0.0	\$0.0	\$20.0	\$20.4

¹The bill specifies that revenues go to Prince George's economic development incentive fund.

Small Business Effect: To the extent that the VLT facility purchases goods from local businesses that are small businesses, these small businesses will benefit. Small business horse industry breeders and owners in the thoroughbred and standardbred racing industry 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.

Additional Comments: A technical amendment is needed to clarify when the specified change in the distribution of VLT revenues takes effect.

Additional Information

Prior Introductions: None.

Cross File: SB 892 (Senator Peters, *et al.*) - Budget and Taxation.

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 - March 13, 2012
mc/rhh

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Appendix 1

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Revenues					
General Funds					
State Lottery Sales	\$0	\$0	\$0	-\$4,898,000	-\$5,021,000
Special Funds					
ETF	0	0	0	77,954,500	80,233,400
Licensees	0	0	0	218,064,200	222,425,500
Local Impact Grants ¹	0	0	0	19,976,700	20,376,300
Business Development	0	0	0	5,448,200	5,557,000
State Lottery – Admin. Costs	0	0	0	7,264,300	7,409,500
PDA	0	0	0	25,424,900	25,213,600
Racetrack Renewal	0	0	0	(2,169,700)	(2,213,100)
Problem Gambling	0	0	0	2,018,750	2,018,750
State Capital Account	28,500,000	0	0	11,250,000	11,475,000
Total Special Funds	\$28,500,000	\$0	\$0	\$365,231,850	\$372,495,950
Expenditures					
General Funds					
Education	0	0	0	(77,954,500)	(80,233,400)
State Lottery – Admin. Costs	0	0	0	49,609,822	48,381,377
DLS	250,000	0	0	0	0
Total General Funds	\$250,000	\$0	\$0	-\$28,344,678	-\$31,852,023
Special Funds					
ETF	0	0	0	77,954,500	80,233,400
Licensees	0	0	0	218,064,200	222,425,500
Local Impact Grants ¹	0	0	0	19,976,700	20,376,300
Business Development	0	0	0	5,448,200	5,557,000
State Lottery – Admin. Costs	0	0	0	7,264,300	7,409,500
PDA	0	0	0	25,424,900	25,213,600
Racetrack Renewal	0	0	0	(2,169,700)	(2,213,100)
Problem Gambling	0	0	0	2,018,750	2,018,750
State Capital Account	28,500,000	0	0	11,250,000	11,475,000
Total Special Funds	\$28,500,000	\$0	\$0	\$365,231,850	\$372,495,950
Net Effect	-\$250,000	\$0	\$0	\$23,446,678	\$26,831,023

¹Includes amounts distributed for economic development in Prince George's County.