

Department of Legislative Services  
2012 Session

FISCAL AND POLICY NOTE

House Bill 1366  
Ways and Means

(Delegate Impallaria, *et al.*)

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**Baltimore County - Slot Machines - Ownership and Operation by Eligible War Veterans' Organizations**

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This bill authorizes a bona fide war veterans' organization that has been located in Baltimore County for at least five years to own and operate up to five slot machines at its principal meeting hall. At least one-half of the proceeds must go to charity and the remainder to further the organizations' purposes.

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**Fiscal Summary**

**State Effect:** Potential decrease in special fund revenues and expenditures from the Video Lottery Terminal (VLT) Program beginning in FY 2013. Under one set of assumptions, State revenues may decrease by \$208,400 annually, with approximately half of the revenue loss needing to be replaced with general funds to support mandated expenses. Comptroller's Office special fund revenues and expenditures each increase annually beginning in FY 2013 by approximately \$5,500 due to regulation of slot machines.

**Local Effect:** Potential minimal decrease in local impact grants distributed to certain counties from the VLT program beginning in FY 2013, especially from VLT sites in Baltimore City and in Anne Arundel and Cecil counties. Baltimore County finances are not materially affected.

**Small Business Effect:** None.

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**Analysis**

**Current Law:** Generally, it is a misdemeanor crime to possess or operate a slot machine in Maryland. However, legislation was enacted in 1987 and 2007 authorizing certain nonprofit organizations to operate slot machines in the following eight Eastern Shore

counties: Caroline, Cecil, Dorchester, Kent, Queen Anne's, Somerset, Talbot, and Wicomico. The 1987 legislation required a nonprofit organization to be located in the county for at least five years prior to the application for a license and to be a fraternal, religious, or war veterans' organization. Chapter 645 of 2007 expanded the list of eligible organizations that may be licensed to operate slot machines to include those that have been 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.

Chapter 315 of 2011 added Worcester County (except a specified area within Ocean City) to the list of counties in which eligible nonprofit fraternal, religious, and war veterans' organizations may own and operate up to five slot machines at its principal meeting hall. Pursuant to Chapter 315, the Comptroller's Office must regulate the specified slot machines and charge a license fee to cover the costs of regulating the machines.

A qualified organization may not own more than five slot machines and must own each slot machine in operation. The slot machines must be located at the principal meeting hall of the organization and cannot be operated at a private commercial facility. The slot machine must be equipped with a tamperproof meter or counter that accurately records gross receipts. At least one-half of the proceeds generated from slot machines must go to charity. The remainder of the proceeds must go to the organization. An individual cannot benefit financially from the proceeds. The organization must keep accurate records of gross receipts and payouts from slot machines and must report annually under affidavit to the Comptroller's Office on the income of each machine and the disposition of these proceeds.

During the 2007 special session, the General Assembly adopted two pieces of legislation pertaining to VLT gambling – Chapter 4 (Senate Bill 3) and Chapter 5 (House Bill 4). Chapter 5 was a constitutional amendment approved by the voters at the November 2008 general election that authorized the expansion of gambling subject to specified restrictions. The constitutional amendment provided that (1) a maximum of five VLT facility licenses may be awarded within specified areas of the State; (2) no more than one facility license may be awarded in any county or Baltimore City; (3) a maximum of 15,000 VLTs may be authorized; and (4) VLT facilities must comply with any applicable planning and zoning laws of a local jurisdiction. Chapter 4, which was contingent on ratification of Chapter 5, established the operational and regulatory framework for the VLT program. Chapter 624 of 2010 and Chapter 240 of 2011 made several changes to the VLT program implemented by Chapter 4.

Under Chapter 4, VLT facility operation licenses are awarded by the Video Lottery Facility Location Commission. The State Lottery Commission oversees VLT operations and owns/leases VLTs and a central monitor and control system. Chapter 4 allows for a

maximum of 15,000 VLTs, distributed as follows: 4,750 VLTs in Anne Arundel County; 3,750 VLTs in Baltimore City; 2,500 VLTs in Worcester County; 2,500 VLTs in Cecil County; and 1,500 VLTs in Allegany County (Rocky Gap State Park). Chapter 240 of 2011 reduced the maximum number of VLTs that may be awarded to Allegany County to 1,000 while changing other provisions of law regarding a VLT site in Allegany County.

**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 Comptroller’s Office assesses a \$50 license fee per slot machine to cover costs for regulating their operation.

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**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           |
| <b>Total</b>  | <b>280</b>           | <b>\$43.8</b> |

Source: Department of Legislative Services

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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.

### *VLT Program Implementation*

The Video Lottery Facility Location Commission has awarded video lottery operation licenses for VLT facility locations in Anne Arundel, Cecil, and Worcester counties. The Cecil County VLT facility opened on September 27, 2010, with 1,500 VLTs and the Worcester County VLT facility opened on January 4, 2011, with 750 VLTs and currently operates 800 VLTs. Power Plant Entertainment Casino Resorts, LLC plans to open its VLT facility adjacent to Arundel Mills Mall in Anne Arundel County in June 2012. The licenses for Baltimore City and Allegany County have yet to be awarded.

**State Fiscal Effect:** State special fund revenues and expenditures may be reduced, depending on the degree to which eligible war veterans' organizations in Baltimore County are licensed to operate and implement slot machines. These machines may serve as a substitute for gambling at VLT facilities in the State, especially in Baltimore City and in Anne Arundel and Cecil counties.

Gambling at the newly eligible war veterans' organizations would represent a shift of spending from other activities, a portion of which are taxable by the State. Numerous studies have examined the relationship between expanded VLT gambling and the substitution effect this expansion has on existing VLT revenues or other State revenues such as the lottery and sales tax. Most of these studies conclude that although total revenues might increase from expanded gambling, there is a negative impact on existing revenue streams that partially offsets the revenue from expanded gambling. For example, DLS estimates that VLTs, when fully implemented, will cause a permanent 10% reduction in annual revenues from lottery.

The average annual revenue generated from existing gambling at eligible nonprofits is approximately \$94,700 (*i.e.*, total handle minus total amount returned to players) per organization. The bill will add an estimated 22 war veterans' organizations offering slots play; assuming 5 machines at each results in 110 slot machines generating approximately \$2.1 million in revenue annually. A small portion of this would likely have otherwise been spent at State VLT facilities. If that portion is 10%, the result is an annual loss of \$208,350 in special fund revenues. The impact to the State includes a \$101,050 reduction in Education Trust Fund revenues and a \$4,175 loss in revenues for State lottery administration of the VLT program. These lost revenues will likely need to be replaced with general funds to cover mandated K-12 education aid and VLT lease costs. **Exhibit 2** shows the reduction in special fund distributions from the total

reduction of \$208,350 illustrated above and based on the distribution of VLT revenues from facilities other than Rocky Gap.

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**Exhibit 2**  
**Illustration of Reduced VLT Program Distribution**

|                                     |                  |
|-------------------------------------|------------------|
| Education Trust Fund (48.5%)        | \$101,050        |
| Licensees (33%)                     | 68,750           |
| Purse Dedication Account (7%)       | 14,600           |
| Local Impact Grants (5.5%)          | 11,450           |
| Racetrack Renewal (2.5%)            | 5,200            |
| Lottery Operations (2%)             | 4,175            |
| Minority Business Investment (1.5%) | 3,125            |
| <b>Total Reduction</b>              | <b>\$208,350</b> |

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Given the addition of approximately 110 slot machines and a license fee of \$50 per machine, special fund revenues increase by approximately \$5,500 annually beginning in fiscal 2013. Special fund expenditures increase by an equivalent amount at the Comptroller's Office beginning in fiscal 2013 due to increased administrative costs for regulating slot machines operated by eligible organizations.

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

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