

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

Senate Bill 1080

(Senator Pugh)

Rules

Harness Racing - Purses - Deductions Paid to an Organization

This bill requires the organization that represents a majority of the standardbred owners and trainers in the State to set an amount between 1% and 2% of all open purses that must be deducted and paid to the organization. An “open purse” is any purse, except for one offered in a race funded by the Maryland Standardbred Race Fund.

The bill takes effect June 1, 2014.

Fiscal Summary

State Effect: The bill does not affect overall revenue for the Purse Dedication Account (PDA); however, the deduction by the organization that represents a majority of the standardbred owners and trainers in the State for operating expenses reduces standardbred purses by a commensurate amount of the deduction beginning in FY 2015.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law/Background:

Maryland Standardbred Race Fund

The Standardbred Race Fund, created in 1971, serves as an incentive program to promote the breeding and racing of standardbred horses in Maryland.

The Standardbred Race Fund receives a percentage of the daily handle collected at harness racetracks (the gross amount of money bet, less any refunds); a percentage of the breakage (in pari-mutuel betting, the odd cents left over after paying the successful bettors to the nearest \$0.10); and revenues received from various fees paid by horse owners.

In addition, the fund receives an annual distribution of 30% of \$300,000 from the Horse Racing Special Fund. Any revenues remaining in the Horse Racing Special Fund, after all required deductions and allocations are made, must be divided equally among the Maryland-Bred Race Fund, the Standardbred Race Fund, and the Maryland Agricultural Education and Rural Development Assistance Fund. The fund also receives a portion of video lottery terminal (VLT) revenues designated for racing.

Revenues from the fund are distributed as purse money and as awards to owners and breeders of Maryland standardbred horses. In 2012, distributions from the Maryland Standardbred Race Fund totaled \$970,850.

Horsemen's Associations

Cloverleaf Standardbred Owners' Association, Inc. (CSOA) is a nonprofit organization formed in 1960 for owners, trainers, drivers, grooms, and other interested parties involved in the standardbred racing industry in Maryland.

The Maryland Thoroughbred Horsemen's Association uses 2% of open purses at thoroughbred races for the operating expenses of the organization under current law.

Video Lottery Terminals

A discussion of recent VLT legislation, including the allocation of VLT revenues, is found in **Appendix 1**.

State Fiscal Effect: The bill does not alter overall revenues for the PDA, but instead authorizes CSOA to deduct between 1% and 2% of standardbred open purses for operating expenses of the organization. As a result, less money is available for standardbred purses beginning in fiscal 2015.

The Maryland Racing Commission (MRC) advises that standardbred purses are currently made up entirely of funds from the PDA through an agreement between the standardbred tracks and the standardbred horsemen. PDA consists of 7% of VLT revenues to enhance horse racing purses and funds for the horse breeding industry, up to \$100 million annually. The standardbred industry receives 20% of PDA revenues, of which 89% is allocated for purses.

As shown in Appendix 1, the Department of Legislative Services projects PDA revenues to be \$51.5 million in fiscal 2015, increasing to \$73.9 million in fiscal 2019 as the Baltimore City and Prince George's County video lottery facilities begin operations. Based on current PDA purse projections, it is estimated that standardbred purses will be approximately \$9.2 million in fiscal 2015 and \$13.2 million in fiscal 2019.

If CSOA deducts the maximum allowable 2% of purses for operations, the bill results in approximately \$183,300 for the organization in fiscal 2015 and \$263,000 in fiscal 2019. As a result of this reallocation of purse money to CSOA, standardbred purses decrease by a commensurate amount beginning in fiscal 2015. The bill does not affect purse distributions from the Standardbred Race Fund.

Additional Information

Prior Introductions: None.

Cross File: HB 1426 (Delegate Walker) - Ways and Means.

Information Source(s): Department of Labor, Licensing, and Regulation; Department of Legislative Services

Fiscal Note History: First Reader - March 7, 2014
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Appendix – Maryland Gaming

The State of Maryland has authorized six video lottery operation licenses in Baltimore City and Allegany, Anne Arundel, Cecil, Prince George's, and Worcester counties with a maximum number of 16,500 video lottery terminals (VLTs) allotted in the State. Licensees are also authorized to have table games with approval of the State Lottery and Gaming Control Commission.

VLT Law

VLT gambling in Maryland was authorized by Chapter 4 and Chapter 5 of the 2007 special session. Chapter 5 was a constitutional amendment approved by the voters at the November 2008 general election that also authorized the expansion of gambling subject to specified restrictions. After November 15, 2008, the General Assembly may only authorize additional forms or expansion of gaming if approved through a referendum by a majority of voters in a general election. Chapter 4, which was contingent on ratification of Chapter 5, established the operational and regulatory framework for the VLT program. The Video Lottery Facility Location Commission (Location Commission) was established in the law to solicit and evaluate proposals for, and award, video lottery operation licenses.

Chapter 4 specified geographic locations and VLT allocations for five authorized video lottery facilities in Allegany (1,500 VLTs), Anne Arundel (4,750 VLTs), Cecil (2,500 VLTs), and Worcester (2,500 VLTs) counties and Baltimore City (3,750 VLTs).

During the 2012 second special session, the General Assembly adopted Chapter 1, which was approved by voter referendum at the November 2012 general election. Among its provisions, Chapter 1 authorizes a sixth video lottery operation license to be awarded for a video lottery facility to operate a maximum of 3,000 VLTs at a location in Prince George's County within a four-mile radius of the intersection of Bock Road and St. Barnabas Road. VLT operations may not begin at the Prince George's County facility until the earlier of July 1, 2016, or 30 months after the VLT facility in Baltimore City is open to the public.

Chapter 1 also authorized video lottery operation licensees to operate table games, with the approval of the State Lottery and Gaming Control Commission (previously the State Lottery Commission). VLT facilities were also authorized to remain open to the public 24 hours per day, seven days per week.

VLT Implementation

The first video lottery operation licenses were awarded by the Location Commission in fall 2009. Penn Cecil, in Cecil County, opened in September 2010 with 1,500 VLTs, and Ocean Downs, in Worcester County, opened in January 2011 and is currently operating 800 VLTs. Power Plant Entertainment (PPE) Casino Resorts, LLC operates approximately 4,300 VLTs in a facility adjacent to Arundel Mills Mall in Anne Arundel County that opened on June 6, 2012.

On April 26, 2012, Evitts Resort, LLC (Evitts) was awarded a video lottery operation license to own and operate a video lottery facility adjacent to the existing lodge at the Rocky Gap Lodge and Resort, contingent on a number of actions by Evitts and others. However, Evitts was subsequently granted approval from the Location Commission to instead design, build, and operate a facility in the existing lodge conference and meeting space, assuming certain contingencies are met. The facility opened in May 2013 with 554 VLTs and 10 table games.

On July 31, 2012, the Location Commission awarded a video lottery operation license to CBAC Gaming, LLC for a facility with 3,750 VLTs in Baltimore City. The facility is expected to open in September 2014 with approximately 2,500 VLTs and 130 table games.

On December 20, 2013, the Location Commission awarded a video lottery operation license to MGM National Harbor, LLC for a facility with 3,600 VLTs and 140 table games in Prince George's County. The facility is expected to open in fiscal 2017.

Distribution of VLT Proceeds

Under Chapter 4 of the 2007 special session and Chapter 1 of the 2012 second special session, gross VLT proceeds are distributed as follows from the proceeds of VLTs at each facility until a license is issued for the Prince George's County facility, with some exceptions as discussed below:

- 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 20 years (starting in fiscal 2012 and ending in fiscal 2032) to Baltimore City through the Pimlico Community Development Authority and to Prince George's County for the

community surrounding Rosecroft (\$1 million annually), except that the 18% dedication does not apply to Allegany, Cecil, and Worcester county facilities upon issuance of the Baltimore City license (described further below);

- Purse Dedication Account (PDA) – 7% to a PDA to enhance horse racing purses and funds for the horse breeding industry, not to exceed \$100 million annually;
- Racetrack Facility Renewal Account (RFRA) – 1.75% (except for the Allegany County facility) beginning October 1, 2012 (previously 2.5%), for a 16-year period to the RFRA, not to exceed \$20 million annually, until the VLT license for Baltimore City is issued, after which time the percentage is reduced to 1.0%;
- Licensee (Operator) – no more than 33% to video lottery operation licensees, except the Allegany (50% for the first 10 years) and Worcester (43%, effective July 1, 2013) licensees and as described below; and
- Education Trust Fund (ETF) – remainder to the ETF (49.25%-52.0%).

Upon the issuance of a Prince George’s County video lottery operation license, the licensee in Baltimore City will receive an additional 7% of VLT revenues and the Anne Arundel County licensee will receive an additional 8% of VLT revenues at the facility for (1) required marketing, advertising, and promotional costs or (2) capital improvements at the VLT facility. The State Lottery and Gaming Control Commission (SLGCC) may further increase this distribution to the Baltimore City and Anne Arundel County licensees by up to three and two percentage points, respectively; however if the Anne Arundel County licensee receives an additional adjustment, the Baltimore City licensee must receive at least the same additional percentage point increase. The commission may also provide an adjustment of up to 5% of VLT revenues to the Cecil County licensee from proceeds at that facility for marketing, advertising, and promotional costs or for capital improvements. Any adjustment(s) must be preceded by a specified report from SLGCC to the Governor and the General Assembly regarding the implications of the adjustment, must be determined by January 1, 2019, and may not take effect until the Prince George’s County video lottery operation license is issued and no earlier than July 1, 2019.

Also upon the issuance of the Prince George’s County license, the bill reduces from 7% to 6% of VLT revenues the distribution to PDA.

Chapter 1 specifies that, once a Baltimore City license is issued, of the revenues dedicated to local impact grants, 100% of the local impact grants from the proceeds of the video lottery facilities in Allegany, Cecil, and Worcester counties must be distributed to those jurisdictions. The bill also specifies that, once a Prince George’s County license is issued, of the revenues dedicated to local impact grants, \$200,000 is distributed annually to Allegany and Worcester counties, \$130,000 is distributed to Cecil County, and \$70,000 is distributed to the Town of Perryville. The bill also extended the

18% distribution of local impact grants provided to Baltimore City and Prince George's County through fiscal 2032.

Beginning July 1, 2013, the licensee in Worcester County receives 43% of revenues generated at the facility, if the facility has less than 1,000 VLTs and the equivalent of 2.5% of the facility's proceeds are spent each year on capital improvements at the facility. Under previous law, the licensee share of 50% for the Allegany County VLT facility is reduced to 33% of proceeds after 10 years of operations. Chapter 1 specifies that the operator share for the Allegany County facility will be 50% after 1 year of operations and meeting a 0.5% annual capital investment requirement; after 10 years of operations, the operator share will be 43% if a 2.5% capital investment requirement is met.

Ownership and Leasing of VLTs

Under Chapter 1, the Baltimore City and Prince George's County facility operators will own or lease VLTs at their respective facilities and SLGCC retains responsibility for ownership or leasing of VLTs and associated equipment at the VLT facilities in Allegany and Worcester counties. However, the facilities in Allegany and Worcester counties may apply to SLGCC for permission to assume ownership or the right to lease each VLT used by the facility. For the existing facilities in Anne Arundel and Cecil counties, the licensees will own or lease the machines beginning April 1, 2015, after the State's master contract with VLT manufacturers expires on March 31, 2015. The savings to the State from requiring VLT facilities to own or lease VLTs must be appropriated to ETF.

Upon assuming ownership of VLTs, the Anne Arundel County licensee receives an additional 8% of VLT revenues at the facility and the licensees in Baltimore City, Cecil County, and Prince George's County receive an additional 6% of VLT revenues from their facilities. Beginning April 1, 2015, Chapter 1 also reduces from 2% to 1% of VLT revenues the distribution to the State Lottery and Gaming Control Agency (SLGCA) for administrative costs associated with the VLT program (except for Allegany County).

Table Games

Chapter 1 of the 2012 second special session requires SLGCC to allow the holder of a video lottery operation license to offer specified table games and requires SLGCC to regulate table game operations. Prior to the issuance of a Prince George's County video lottery operation license, 80% of table game revenues are distributed to licensees and 20% of table game revenues are distributed to ETF. Upon issuance of a Prince George's County license, licensees continue to receive 80% of table game revenues, 15% is distributed to ETF, and 5% is distributed to local jurisdictions where a VLT facility is located. Proceeds distributed to Baltimore City must be used equally to fund school

construction projects and for the maintenance, operation, and construction of recreational facilities.

The State is prohibited from charging a table game *license* fee. However, SLGCC *may* establish an annual fee for each table game, capped at \$500 per table, to benefit the Problem Gambling Fund. SLGCC has adopted regulations that set the fee at \$500.

Authorized table games are defined as:

- 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.

SLGCC may determine the suitability of any composites or variations of authorized table games, as well as additional games, after an appropriate test or experimental period as determined by the commission. SLGCC may, through regulations, define and limit the method of operation, type, and number of table games. SLGCC regulations must also establish procedures for accounting for money exchanged at table games and for the removal of VLTs (including the number that may be removed) to accommodate table games.

VLT and Table Game Revenues

The estimated revenues from VLTs and table games in fiscal 2015 through 2019 are shown in **Exhibit 1**. In total, \$1.09 billion in gross gaming revenues is projected in fiscal 2015, including \$417 million to be distributed to ETF.

Exhibit 1
Distribution of Estimated VLT and Table Game Revenues in Maryland –
Current Law
(\$ in Millions)

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
VLTs					
Education Trust Fund (ETF)	\$351.7	\$355.9	\$466.5	\$490.3	\$496.8
Lottery Operations	13.3	8.5	12.2	12.8	12.9
Purse Dedication Account	51.5	55.3	69.5	72.9	73.9
Racetrack Renewal Account	7.2	7.8	11.4	12.0	12.2
Local Impact Grants	40.7	43.8	63.9	67.0	67.9
Business Investment	11.1	11.9	17.4	18.3	18.5
Licensees	283.9	331.6	539.4	564.5	571.7
Total VLTs	\$759.4	\$814.8	\$1,180.2	\$1,237.8	\$1,253.9
Table Games					
Anne Arundel	\$178.6	\$171.9	\$143.1	\$140.1	\$141.1
Baltimore City	123.7	159.5	146.7	145.9	147.2
Cecil	12.6	12.3	11.5	11.5	11.6
Worcester	5.8	6.1	6.2	6.2	6.2
Allegany	5.7	5.9	5.8	5.8	5.9
Prince George's	-	-	183.1	209.7	213.9
Total Table Games	\$326.4	\$355.6	\$496.4	\$519.2	\$525.9
Table Games					
Education Trust Fund	\$65.3	\$71.1	\$74.5	\$77.9	\$78.9
Local Impact Grants	-	-	24.8	26.0	26.3
Licensee	261.1	284.5	397.1	415.4	420.7
Total Table Games	\$326.4	\$355.6	\$496.4	\$519.2	\$525.9
Total VLT and Table Games	\$1,085.8	\$1,170.4	\$1,676.6	\$1,757.0	\$1,779.8
Total Education Trust Fund	\$417.0	\$427.0	\$540.9	\$568.2	\$575.7
VLT Lease Savings to ETF	\$44.2	\$93.3	\$93.3	\$93.3	\$93.3

Source: Department of Legislative Services; Board of Revenue Estimates; Department of Budget and Management

