

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 300
 Ways and Means

(Delegate Fennell, *et al.*)

Budget and Taxation

Video Lottery Terminals - Disposition of Unclaimed Winnings

This bill requires a jackpot won at a video lottery terminal (VLT) that is not claimed by the winner within 182 days after the jackpot is won to become the property of the State and be deposited as follows: 2.5% into the Small, Minority, and Women-Owned Businesses Account (SMWOBA); 9.5% into local impact grants; 10% into the Purse Dedication Account (PDA); 1.5% into the Racetrack Facility Renewal Account (RFRA); and the remainder (76.5%) into the Education Trust Fund (ETF).

Fiscal Summary

State Effect: General fund expenditures decrease due to an increase in special fund revenues to ETF of approximately \$314,600 in FY 2017 and \$513,600 in FY 2021 as a result of distributing a larger portion of unclaimed jackpot revenues won at VLTs to ETF instead of being distributed as specified for VLT proceeds, offset by an increase in general fund expenditures to replace State Lottery and Gaming Control Agency (SLGCA) special fund expenditures. Special fund revenues and expenditures from VLT proceeds to SLGCA decrease by \$8,700 in FY 2017 and \$14,400 in FY 2021. Special fund revenues and expenditures to the Purse Dedication Account (PDA); Racetrack Facility Renewal Account (RFRA); and the Small, Minority, and Women-Owned Businesses Account (SMWOBA) increase beginning in FY 2017.

(in dollars)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
SF Revenue	\$350,300	\$554,000	\$561,200	\$569,500	\$578,100
GF Expenditure	(\$305,900)	(\$478,400)	(\$484,600)	(\$491,800)	(\$499,200)
SF Expenditure	\$350,300	\$554,000	\$561,200	\$569,500	\$578,100
Net Effect	\$305,900	\$478,400	\$484,600	\$491,800	\$499,200

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

Local Effect: Local government revenues increase by approximately \$34,000 in FY 2017 and by \$56,600 in FY 2021 due to local impact grants receiving a larger portion of the unclaimed VLT jackpot revenues.

Small Business Effect: Minimal. Small, minority-, and women-owned businesses receive approximately \$8,500 more in FY 2017 and \$14,200 more in FY 2021 in funds through SMWOBA.

Analysis

Current Law: Regulation specifies that a VLT player must have a maximum of 182 days from the date an unclaimed jackpot is won to claim it. After 182 days, an unclaimed jackpot must be distributed as VLT proceeds. The distribution of VLT proceeds differs by each video lottery facility. However, once a license is issued for the Prince George's County facility in fiscal 2017, gross VLT proceeds are generally distributed as follows from the proceeds of VLTs at each facility:

- 1.5% to SMWOBA to provide investment capital and loans to small, minority-, and women-owned businesses in the State;
- 1% to SLGCA for administrative costs;
- 5.5% to local impact grants;
- 6% to PDA to enhance horse racing purses and funds for the horse breeding industry, not to exceed \$100 million annually;
- 1.0% to RFRA for a 16-year period beginning October 1, 2012, not to exceed \$20 million annually;
- 39%-50% to video lottery operation licensees; and
- the remainder to ETF (36%-46%).

Generally, State lottery winners have 182 days to claim their prize money. After that, SLGCA deposits the unclaimed prize money in an unclaimed prize fund that must be used for prize money in other lottery games.

ETF is a nonlapsing, special fund to be used for continued funding of the Bridge to Excellence formulas and programs, including the Geographic Cost of Education Index. The fund may also be used to support capital projects for public schools, community colleges, and public four-year institutions as well as to expand public early childhood education programs in the State. A portion of the proceeds from VLTs and table games is dedicated to ETF.

Background: Appendix – Maryland Gaming provides detailed background on gaming in Maryland.

State Fiscal Effect: ETF revenues are currently budgeted for the State Foundation program, the State’s largest education aid formula. Thus, any increase in ETF revenues reduces general fund appropriations for the State Foundation program by an equal amount. The increase in ETF revenues depends on the amount of unclaimed VLT jackpots won at each video lottery facility. Unclaimed jackpots totaled \$829,816 in fiscal 2015. Unclaimed jackpots at the Anne Arundel and Baltimore City facilities averaged 0.11% of VLT revenues, so the Department of Legislative Services assumes unclaimed jackpots at the Prince George’s facility will be about 0.11% of its estimated VLT revenues.

Assuming unclaimed jackpots are similar to fiscal 2015, ETF revenues increase by approximately \$314,600 in fiscal 2017, which reflects the bill’s October 1, 2016 effective date, and by \$513,600 in fiscal 2021, as shown in **Exhibit 1**. This estimate reflects the Prince George’s facility opening in January 2017. Thus, general fund expenditures decrease by an equal amount each year. Special fund revenues and expenditures for SLGCA decrease by \$8,700 in fiscal 2017, resulting in a corresponding increase in general fund expenditures. Special fund revenues and expenditures to PDA, RRFA, and SMWOBA increase by \$31,300, \$4,600, and \$8,500, respectively, in fiscal 2017. The Department of Legislative Services assumes that to the extent more funds are available to PDA, RRFA, and SMWOBA, these programs would provide more funding to eligible businesses and individuals. The distribution of VLT proceeds to video lottery operation licensees decreases by \$384,300 in fiscal 2017 and by \$634,800 in fiscal 2021.

Exhibit 1
Revenue Effect of Altering the Distribution of Unclaimed VLT Jackpots
Fiscal 2017-2021

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
ETF	\$314,600	\$492,200	\$498,600	\$506,000	\$513,600
SLGCA	(8,700)	(13,800)	(14,000)	(14,200)	(14,400)
PDA	31,300	54,800	55,500	56,300	57,200
RRFA	4,600	7,200	7,300	7,400	7,500
SMWOBA	8,500	13,600	13,800	14,000	14,200
Local Impact Grants	34,000	54,300	55,000	55,800	56,600
Video Lottery Operation Licensees	(384,300)	(608,300)	(616,200)	(625,400)	(634,800)

Source: State Lottery and Gaming Control Agency; Board of Revenue Estimates; Department of Legislative Services

Local Revenues: Local government revenues increase by approximately \$34,000 in fiscal 2017 and by \$56,600 in fiscal 2021, as shown in Exhibit 1, due to local impact grants receiving a larger portion of the unclaimed VLT jackpot revenues.

Additional Information

Prior Introductions: None.

Cross File: SB 1108 (Senator Salling, *et al.*) – Budget and Taxation.

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

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Appendix – Maryland Gaming

The State of Maryland has authorized and awarded 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. Five casinos are currently operating in Maryland, with the sixth casino, MGM National Harbor, LLC, expected to open in fiscal 2017. The opening date and the number of VLTs and table games for each facility as of January 2016 are shown in **Exhibit 1**.

Exhibit 1 Number of VLTs and Table Games in Maryland

<u>Casino</u>	<u>County</u>	<u>Opening Date</u>	<u>VLTs</u>	<u>Table Games</u>
Hollywood Casino	Cecil	September 2010	850	22
Ocean Downs	Worcester	January 2011	800	-
Maryland Live!	Anne Arundel	June 2012	3,994	206
Rocky Gap Casino	Allegany	May 2013	631	18
Horseshoe Casino	Baltimore City	August 2014	2,202	178
MGM National Harbor	Prince George's	January 2017*	3,600*	140*

*Projected

Source: Department of Legislative Services; State Lottery and Gaming Control Agency

VLT and Table Game Revenues

The estimated revenues from VLTs and table games in fiscal 2017 through 2021 are shown in **Exhibit 2**. In total, \$1.38 billion in gross gaming revenues is projected in fiscal 2017, including \$458.8 million to be distributed to the Education Trust Fund (ETF).

Exhibit 2
Distribution of Estimated VLT and Table Game Revenues in Maryland
Current Law
(\$ in Millions)

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
VLTs Distribution					
Education Trust Fund	\$382.8	\$453.9	\$460.1	\$467.0	\$474.0
Lottery Operations	9.7	11.9	12.0	12.2	12.4
Purse Dedication Account	58.0	67.4	68.3	69.3	70.4
Racetrack Renewal Account	8.9	11.1	11.2	11.4	11.6
Local Impact Grants	50.2	61.9	62.8	63.7	64.7
Business Investment	13.7	16.9	17.1	17.4	17.6
Licenses	408.4	523.1	530.0	537.9	546.0
Total VLTs	\$931.6	\$1,146.1	\$1,161.5	\$1,178.9	\$1,196.6
Table Games Distribution					
Education Trust Fund	\$76.0	\$79.7	\$80.7	\$81.9	\$83.1
Local Impact Grants	12.7	26.6	26.9	27.3	27.7
Licensee	355.0	424.9	430.3	436.8	443.3
Total Table Games	\$443.7	\$531.1	\$537.9	\$545.9	\$554.1
Total VLT and Table Games	\$1,375.4	\$1,677.3	\$1,699.4	\$1,724.9	\$1,750.7
Total Education Trust Fund	\$458.8	\$533.6	\$540.8	\$548.9	\$557.1

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