

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1540 (Allegany County Delegation)
 Rules and Executive Nominations

Allegany County - Video Lottery Terminals - Ownership Costs

This bill alters the distribution of video lottery terminal (VLT) proceeds, so that the video lottery operation licensee in Allegany County receives 12% of VLT proceeds if the video lottery operation licensee owns or leases each VLT device and the associated equipment and software.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: General fund expenditures decrease by a total of \$2.27 million in FY 2017 and by \$2.06 million in FY 2021, which is due to the State Lottery and Gaming Control Agency (SLGCA) no longer leasing and maintaining VLTs for the Allegany County video operation facility, offset partially by an increase in general fund education spending. Special fund revenues to the Education Trust Fund (ETF) decrease by approximately \$4.73 million in FY 2017 and by \$4.94 million in FY 2021 as a result of increasing the percentage of VLT proceeds distributed to a video lottery operation licensee in Allegany County by 12 percentage points for owning or leasing VLT devices and the associated equipment and software, with corresponding decreases in expenditures annually.

(\$ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
SF Revenue	(\$4.73)	(\$4.75)	(\$4.79)	(\$4.86)	(\$4.94)
GF Expenditure	(\$2.27)	(\$2.25)	(\$2.21)	(\$2.14)	(\$2.06)
SF Expenditure	(\$4.73)	(\$4.75)	(\$4.79)	(\$4.86)	(\$4.94)
Net Effect	\$2.27	\$2.25	\$2.21	\$2.14	\$2.06

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: For the first 10 years of operations at a video lottery facility in Allegany County, gross VLT proceeds are distributed as follows from the proceeds of VLTs at the facility in Allegany County:

- 0.75% to a small, minority, and woman-owned business investment account;
- 2% to SLGCA for administrative costs;
- 2.75% to local governments in which a video lottery facility is operating;
- 2.5% to the Purse Dedication Account to enhance horse racing purses and funds for the horse breeding industry;
- 50% to the licensee (operator); and
- the remainder to ETF (42%).

After 10 years of operations, the distribution of VLT proceeds at the facility in Allegany County is generally similar to the distribution at other video lottery facilities, except the licensee share will be 43% if a 2.5% capital investment requirement is met and the distribution to SLGCA continues to be 2%. SLGCA is responsible for owning or leasing VLTs for the Allegany County facility.

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

State Fiscal Effect: SLGCA general fund expenditures decrease by \$7.0 million annually from no longer incurring expenses for leasing and maintaining VLTs at the Allegany County video operation facility. However, the decrease is partially offset by an increase in general fund expenditures on education because the bill decreases the percentage of VLT proceeds being distributed to ETF. ETF revenues are currently budgeted for the State foundation program, the State's largest education aid formula. Thus, any decrease in ETF revenues increases general fund appropriations for the State foundation program by an equal amount. ETF revenues decrease by approximately \$4.73 million in fiscal 2017 and by \$4.94 million in fiscal 2021, as shown in **Exhibit 1**. The distribution of VLT proceeds to the Allegany County video lottery operation licensee increases by \$4.73 million in fiscal 2017 and by \$4.94 million in fiscal 2021.

Exhibit 1
Revenue Effect of Increasing the VLT Distribution to the Allegany County Licensee
Fiscal 2017-2021
(\$ in Millions)

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
Allegany County Licensee	\$4.73	\$4.75	\$4.79	\$4.86	\$4.94
Education Trust Fund	(\$4.73)	(\$4.75)	(\$4.79)	(\$4.86)	(\$4.94)

Source: Board of Revenue Estimates; Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: SB 1025 (Senator Edwards) - Budget and Taxation.

Information Source(s): Allegany County, Maryland State Lottery and Gaming Control Agency, Department of Legislative Services

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min/rhh

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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
