

**Department of Legislative Services**  
 Maryland General Assembly  
 2017 Session

**FISCAL AND POLICY NOTE**  
**First Reader - Revised**

Senate Bill 663 (Senator Edwards)  
 Budget and Taxation

**Allegany County - Gaming - Video Lottery Operation Licensee**

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 licensee owns or leases each VLT device and the associated equipment and software and 2% of VLT proceeds for marketing, advertising, and promotional costs. The bill extends from 10 to 15 years the specified distribution formula of VLT proceeds from the video lottery facility in Allegany County, and during that time period the distribution to local impact grants from the Allegany County facility is increased from 2.75% to 5.5%.

The bill takes effect July 1, 2017.

**Fiscal Summary**

**State Effect:** General fund expenditures decrease by a total of \$3.6 million in FY 2018 and by \$7.1 million in FY 2022 due to an increase in education expenditures, offset by an expenditure reduction resulting from the State Lottery and Gaming Control Agency (SLGCA) no longer leasing and maintaining VLTs for the video lottery facility in Allegany County. Special fund revenues to the Education Trust Fund (ETF) decrease by approximately \$7.6 million in FY 2018 and by \$8.1 million in FY 2022 as a result of increasing the percentage of VLT proceeds distributed to the video lottery operation licensee in Allegany County by 14 percentage points.

(\$ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
SF Revenue	(\$7.62)	(\$7.74)	(\$7.85)	(\$7.97)	(\$8.09)
GF Expenditure	(\$3.58)	(\$4.86)	(\$5.35)	(\$7.23)	(\$7.11)
SF Expenditure	(\$2.02)	(\$1.44)	(\$1.25)	(\$0.37)	(\$0.49)
Net Effect	(\$2.02)	(\$1.44)	(\$1.25)	(\$0.37)	(\$0.49)

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

**Local Effect:** Allegany County revenues increase by approximately \$1.25 million in FY 2018 and by \$1.33 million in FY 2022 due to the increased distribution to local impact grants from VLT proceeds attributable to the video lottery facility in Allegany County for the first 15 years of its operations.

**Small Business Effect:** None.

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## Analysis

**Current Law:** For a video lottery facility located in Allegany or Worcester counties, VLTs and the associated equipment and software must be owned or leased by the State Lottery and Gaming Control Commission. However, these facilities may apply for permission to assume ownership or the right to lease each VLT device used by the facility. The other four video lottery facilities must own or lease their VLT devices and the associated equipment and software. The video lottery operation licensees in Baltimore City and Cecil and Prince George's counties receive 6% of the VLT proceeds from their facilities for owning or leasing each VLT device and associated equipment and software, while the video lottery operation licensee in Anne Arundel County receives 8% for doing so. The savings that are attributable to requiring video lottery facilities to own or lease VLTs must be appropriated to the ETF in the year in which the spending would have otherwise occurred.

### *Allegany County Video Lottery Terminal Revenue Distribution*

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

- 0.75% to the Small, Minority, and Women-Owned Businesses Account;
- 2% to SLGCA for administrative costs;
- 2.75% to local impact grants;
- 2.5% to the Purse Dedication Account for horse racing purses and bred funds;
- 50% to the licensee; 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 that the licensee share will be 43% if a 2.5% capital investment requirement is met and the distribution to SLGCA continues to be 2%.

**Background: Appendix – Maryland Gaming** provides detailed background on gaming in Maryland. **Exhibit 1** shows the percentage of VLT revenues that are currently distributed to each video lottery operation licensee.

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**Exhibit 1**  
**Video Lottery Operation Licensee’s Share of VLT Revenues**  
**Fiscal 2018 under Current Law**

Allegany County	50%
Anne Arundel County	49%
Baltimore City	46%
Prince George’s County	44%
Worcester County	43%
Cecil County	39%

VLT: video lottery terminal

Source: Department of Legislative Services

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Under the bill, the video lottery operation licensee in Allegany County would receive 64% of VLT revenues if the licensee uses 2% of revenues for marketing, advertising, and promotional costs and if the licensee owns or leases the VLTs and the associated equipment and software.

SLGCA advises that it currently leases VLTs at an annual cost of \$9,600 per machine, and the average cost of purchasing a VLT can vary from \$15,000 to \$30,000, depending on the manufacturer. Assuming that the video lottery operation licensee in Allegany County is able to acquire VLTs for \$25,000 per machine beginning in fiscal 2018 and then spend \$2,000 per machine annually on maintenance in subsequent years, **Exhibit 2** shows the net revenue impact for the video lottery operation licensee in Allegany County from owning or leasing its machines, not including the additional 2% of VLT revenues it would receive for marketing, advertising, and promotional costs.

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**Exhibit 2**  
**Estimated VLT Ownership Revenues and Expenditures**  
**For the Allegany County Licensee under the Bill**  
**Fiscal 2018-2022**  
**(\$ in Millions)**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Total</u>
12% Increase in Allegany County Licensee Revenues	\$5.5	\$5.5	\$5.6	\$5.7	\$5.8	\$28.1
Allegany County Licensee VLT Expenditures	16.6	1.3	1.3	1.3	1.3	21.8
<b>Net Impact for Allegany County Licensee</b>	<b>(\$11.1)</b>	<b>\$4.2</b>	<b>\$4.3</b>	<b>\$4.4</b>	<b>\$4.5</b>	<b>\$6.3</b>

VLT: video lottery terminal

Source: Department of Legislative Services

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**State Fiscal Effect:** The Department of Legislative Services assumes the licensee in Allegany County will own or lease its VLTs and associated equipment and software beginning in fiscal 2018 because the licensee can likely own or lease VLTs for less than 12% of its VLT proceeds.

In fiscal 2018, SLGCA general fund expenditures decrease by \$6.3 million from no longer incurring expenses for leasing and maintaining VLTs at the facility in Allegany County. However, SLGCA general fund expenditures increase by \$0.7 million in fiscal 2018 as a result of cancelling a VLT leasing contract prior to the contract's termination date of March 31, 2020, so the net effect in fiscal 2018 is a general fund expenditure decrease of \$5.6 million. These savings must be appropriated to the ETF, so ETF expenditures increase by \$5.6 million in fiscal 2018. However, the increase in ETF expenditures is completely offset by a decrease in ETF expenditures as a result of less ETF revenues 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 \$7.62 million in fiscal 2018 and by \$8.09 million in fiscal 2022, as shown in **Exhibit 3**. ETF expenditures decrease by \$2.02 million in fiscal 2018, which is the net effect of a \$7.62 reduction in ETF revenues and a \$5.6 million increase in ETF expenditures attributable to the savings from no longer owning or leasing VLTs. The distribution of VLT proceeds to the Allegany County licensee increases by \$6.37 million in fiscal 2018 and by \$6.76 million in fiscal 2022.

**Exhibit 3**  
**Fiscal Effect of Altering the VLT Distribution**  
**For the Allegany County Facility**  
**Fiscal 2018-2022**  
**(\$ in Millions)**

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
<b><u>Revenue Effect</u></b>					
Allegany County Licensee	\$6.37	\$6.47	\$6.56	\$6.66	\$6.76
Local Impact Grants	1.25	1.27	1.29	1.31	1.33
ETF Revenues	(7.62)	(7.74)	(7.85)	(7.97)	(8.09)
<b>Net State Revenues</b>	<b>(7.62)</b>	<b>(7.74)</b>	<b>(7.85)</b>	<b>(7.97)</b>	<b>(8.09)</b>
<b><u>Expenditure Effect</u></b>					
SLGCA General Funds	(5.60)	(6.30)	(6.60)	(7.60)	(7.60)
ETF Expenditures	(2.02)	(1.44)	(1.25)	(0.37)	(0.49)
Education General Funds	2.02	1.44	1.25	0.37	0.49
<b>Net Expenditures</b>	<b>(5.60)</b>	<b>(6.30)</b>	<b>(6.60)</b>	<b>(7.60)</b>	<b>(7.60)</b>
<b>Net Fiscal Impact</b>	<b>(\$2.02)</b>	<b>(\$1.44)</b>	<b>(\$1.25)</b>	<b>(\$0.37)</b>	<b>(\$0.49)</b>

ETF: Education Trust Fund  
VLT: video lottery terminal

Source: Board of Revenue Estimates; Department of Legislative Services

**Local Revenues:** As shown in Exhibit 3, Allegany County revenues increase by approximately \$1.25 million in fiscal 2018 and by \$1.33 million in fiscal 2022 due to increasing the distribution to local impact grants from VLT proceeds attributable to the video lottery facility in Allegany County for the first 15 years of its operations.

**Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 811 (Delegate Buckel, *et al.*) - Ways and Means.

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

**Fiscal Note History:** First Reader - February 21, 2017  
md/jrb Revised - Clarification - March 7, 2017

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Analysis by: Heather N. Ruby

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510

## Appendix – Maryland Gaming

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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. The opening date and the number of VLTs and table games for each facility as of January 2017 are shown in **Exhibit 1**.

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### 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	20
Ocean Downs	Worcester	January 2011	800	-
Maryland Live!	Anne Arundel	June 2012	3,906	209
Rocky Gap Casino	Allegany	May 2013	662	17
Horseshoe Casino	Baltimore City	August 2014	2,202	179
MGM National Harbor	Prince George's	December 2016	3,237	165

VLT: video lottery terminal

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

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### *VLT and Table Game Revenues*

The estimated revenues from VLTs and table games in fiscal 2018 through 2022 are shown in **Exhibit 2**. A total of \$1.79 billion in gross gaming revenues is projected in fiscal 2018, including \$546.7 million to be distributed to the Education Trust Fund.

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

	<u><b>FY 2018</b></u>	<u><b>FY 2019</b></u>	<u><b>FY 2020</b></u>	<u><b>FY 2021</b></u>	<u><b>FY 2022</b></u>
<b>VLTs Distribution</b>					
Education Trust Fund	\$447.9	\$454.1	\$460.9	\$467.8	\$474.8
Lottery Operations	11.8	11.9	12.1	12.3	12.5
Purse Dedication Account	66.4	67.3	68.3	69.3	70.3
Racetrack Renewal Account	10.9	11.0	11.2	11.3	11.5
Local Impact Grants	61.0	61.9	62.8	63.7	64.7
Business Investment	16.6	16.9	17.1	17.4	17.6
Licenses	517.8	524.8	532.6	540.6	548.7
<b>Total VLTs</b>	<b>\$1,132.4</b>	<b>\$1,147.8</b>	<b>\$1,165.0</b>	<b>\$1,182.5</b>	<b>\$1,200.3</b>
<b>Table Games Distribution</b>					
Education Trust Fund	\$98.8	\$100.0	\$101.5	\$103.0	\$104.6
Local Impact Grants	32.9	33.3	33.8	34.3	34.9
Licenses	526.8	533.4	541.4	549.5	557.7
<b>Total Table Games</b>	<b>\$658.5</b>	<b>\$666.7</b>	<b>\$676.7</b>	<b>\$686.9</b>	<b>\$697.2</b>
<b>Total VLTs and Table Games</b>	<b>\$1,790.9</b>	<b>\$1,814.5</b>	<b>\$1,841.8</b>	<b>\$1,869.4</b>	<b>\$1,897.4</b>
<b>Total Education Trust Fund</b>	<b>\$546.7</b>	<b>\$554.1</b>	<b>\$562.4</b>	<b>\$570.9</b>	<b>\$579.4</b>

VLT: video lottery terminal

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

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