

Department of Legislative Services
 Maryland General Assembly
 2017 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 495

(Chair, Budget and Taxation Committee)(By Request -
 Departmental - Lottery and Gaming Control Agency)

Budget and Taxation

Ways and Means

Gaming - Video Lottery Terminals - Transfer of Ownership and Local Impact Grants

This departmental bill requires a video lottery facility located in Allegany or Worcester counties to own or lease video lottery terminal (VLT) devices and the associated equipment and software after March 31, 2020. The bill also alters the distribution of VLT proceeds so that the video lottery operation licensee in Allegany or Worcester counties receives 10% of VLT proceeds if the licensee owns or leases each VLT device and the associated equipment and software before January 1, 2019. For the first 10 years of operations at a video lottery facility in Allegany County, 1% of VLT proceeds from the facility in Allegany County is distributed as local impact grants instead of to the State Lottery and Gaming Control Agency (SLGCA).

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: Special fund revenues and expenditures to the Education Trust Fund (ETF) increase by \$1.7 million in FY 2018 and by \$2.7 million in FY 2022, and general fund expenditures decrease by equivalent amounts due to SLGCA no longer owning or leasing VLTs and increasing the distribution of revenues to video lottery operation licensees in Allegany and Worcester counties. Special fund revenues to SLGCA decrease by \$0.5 million beginning in FY 2018 due to altering the distribution of VLT proceeds attributable to the video lottery facility in Allegany County.

(\$ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
SF Revenue	\$1.3	\$2.7	\$2.6	\$2.4	\$2.2
GF Expenditure	(\$1.7)	(\$3.2)	(\$3.0)	(\$2.9)	(\$2.7)
SF Expenditure	\$1.7	\$3.2	\$3.0	\$2.9	\$2.7
Net Effect	\$1.3	\$2.7	\$2.6	\$2.4	\$2.2

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

Local Effect: Allegany County revenues increase by approximately \$455,000 in FY 2018 and by \$482,900 in FY 2022 due to the increased distribution to local impact grants from VLT proceeds attributable to the video lottery facility in Allegany County.

Small Business Effect: SLGCA has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

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, Cecil County, and Prince George's County 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%.

Worcester County Video Lottery Terminal Revenue Distribution

Gross VLT proceeds from the Worcester County facility are distributed as follows:

- 1.5% to the Small, Minority, and Women-Owned Businesses Account;
- 1% to SLGCA for administrative costs;
- 5.5% to local impact grants;
- 6% to the Purse Dedication Account for horse racing purses and bred funds;
- 1% to the Racetrack Facility Renewal Account;
- 43% to the licensee, provided that 2.5% of the proceeds from VLTs is spent on capital improvements; and
- the remainder to ETF (42%).

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.

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

Under the bill, the video lottery operation licensee in Allegany County would receive 60% of VLT revenues and the video lottery operation licensee in Worcester County would receive 53% of VLT revenues if the licensees own or lease their VLTs and the associated equipment and software before January 1, 2019.

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 video lottery operation licensees in Allegany and Worcester counties are 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 licensees in Allegany and Worcester counties.

Exhibit 2
Estimated VLT Revenues and Expenditures
For Video Lottery Operation Licensees 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>
10% Increase in Allegany County Licensee Revenues	\$4.5	\$4.6	\$4.7	\$4.8	\$4.8	\$23.4
Allegany County Licensee VLT Expenditures	16.6	1.3	1.3	1.3	1.3	21.8
Net Impact for Allegany County Licensee	(\$12.0)	\$3.3	\$3.4	\$3.4	\$3.5	\$1.6
10% Increase in Worcester County Licensee Revenues	\$6.1	\$6.2	\$6.3	\$6.4	\$6.5	\$31.4
Worcester County Licensee VLT Expenditures	20.0	1.6	1.6	1.6	1.6	26.4
Net Impact for Worcester County Licensee	(\$13.9)	\$4.6	\$4.7	\$4.8	\$4.9	\$5.0

VLT: video lottery terminal

Source: Department of Legislative Services

State Fiscal Effect: The bill requires video lottery operation licensees in Allegany and Worcester counties to own or lease VLTs and the associated equipment after March 31, 2020. If these licensees assume VLT ownership before January 1, 2019, they will receive 10% of the VLT proceeds from their facility; otherwise they will receive 6% of the proceeds. The Department of Legislative Services assumes the licensees in Allegany and Worcester counties will own or lease their VLTs and associated equipment and software beginning in fiscal 2018 because the licensees can likely own or lease VLTs for less than 10% of their VLT proceeds.

Beginning in fiscal 2018, SLGCA general fund expenditures decrease by \$14.0 million annually from no longer incurring expenses for leasing and maintaining VLTs at the facilities in Allegany and Worcester counties. However, SLGCA general fund expenditures increase by \$1.6 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 \$12.4 million. This savings must be appropriated to the ETF, so ETF revenues and expenditures increase by an equivalent amount.

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 \$10.7 million in fiscal 2018 and by \$11.3 million in fiscal 2022 as a result of decreasing the percentage of VLT proceeds distributed to ETF. However, since the savings from no longer leasing and maintaining VLTs must be appropriated to ETF, the net effect is ETF revenues increase by \$1.7 million in fiscal 2018 and by \$2.7 million in fiscal 2022, as shown in **Exhibit 3**. The distribution of VLT proceeds to the Allegany County licensee increases by \$4.55 million in fiscal 2018 and by \$4.83 million in fiscal 2022, and the distribution of VLT proceeds to the Worcester County video lottery operation licensee increases by \$6.10 million in fiscal 2018 and by \$6.48 million in fiscal 2022.

For the first 10 years of operations at a video lottery facility in Allegany County, 1% of VLT proceeds from the facility in Allegany County is distributed as local impact grants instead of to the SLGCA, so special fund revenues to SLGCA decrease by \$455,000 in fiscal 2018 and by \$482,900 in fiscal 2022.

Exhibit 3
Fiscal Effect of Increasing the VLT Distribution to Licensees
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>
Allegany County Licensee	\$4.55	\$4.62	\$4.69	\$4.76	\$4.83
Worcester County Licensee	6.10	6.19	6.29	6.38	6.48
State Fiscal Effect					
Education Trust Fund Revenues	1.75	3.19	3.03	2.86	2.70
SLGCA Revenues	(0.45)	(0.46)	(0.47)	(0.48)	(0.48)
Education Trust Fund Expenditures	1.75	3.19	3.03	2.86	2.70
General Fund Education Expenditures	10.65	10.81	10.97	11.14	11.30
General Fund SLGCA Expenditures	(12.40)	(14.00)	(14.00)	(14.00)	(14.00)
Net State Fiscal Impact	\$1.29	\$2.73	\$2.56	\$2.39	\$2.21

SLGCA: State Lottery and Gaming Control Agency
VLT: video lottery terminal

Source: Board of Revenue Estimates; Department of Legislative Services

While the Department of Legislative Services assumes video lottery operation licensees in Allegany and Worcester counties will own or lease VLTs and the associated equipment beginning in fiscal 2018, they are not required to do so until after March 31, 2020. If the licensees in Allegany and Worcester counties opt to wait until after March 31, 2020, to own or lease VLTs, ETF revenues and expenditures increase by approximately \$1.85 million in fiscal 2020 and by \$7.22 million in fiscal 2022 as a result of the savings attributable to no longer leasing and maintain VLTs being appropriated to the ETF, offset partially by decreasing the percentage of VLT proceeds distributed to ETF. SLGCA general fund expenditures would decrease by \$3.5 million in fiscal 2020 and by \$14.0 million annually thereafter from no longer incurring expenses for leasing and maintaining VLTs at the facilities in Allegany and Worcester counties. The distribution of VLT proceeds to the Allegany County video lottery operation licensee would increase by \$0.7 million in fiscal 2020 and by \$2.9 million in fiscal 2022, and the distribution of VLT proceeds to the Worcester County video lottery operation licensee would increase by \$0.94 million in fiscal 2020 and by \$3.89 million in fiscal 2022.

Local Revenues: Allegany County revenues increase by approximately \$455,000 in fiscal 2018 and by \$482,900 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 10 years of its operations.

Additional Information

Prior Introductions: None.

Cross File: HB 91 (Chair, Ways and Means Committee)(By Request - Departmental - Lottery and Gaming Control Agency) - Ways and Means.

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

Fiscal Note History: First Reader - February 6, 2017
fn/jrb Revised - Clarification - March 7, 2017
Third Reader - March 21, 2017
Revised - Amendment(s) - March 21, 2017
Revised - Clarification - March 24, 2017

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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. The opening date and the number of VLTs and table games for each facility as of January 2017 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	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

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.

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

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
VLTs Distribution					
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
Total VLTs	\$1,132.4	\$1,147.8	\$1,165.0	\$1,182.5	\$1,200.3
Table Games Distribution					
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
Total Table Games	\$658.5	\$666.7	\$676.7	\$686.9	\$697.2
Total VLTs and Table Games	\$1,790.9	\$1,814.5	\$1,841.8	\$1,869.4	\$1,897.4
Total Education Trust Fund	\$546.7	\$554.1	\$562.4	\$570.9	\$579.4

VLT: video lottery terminal

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

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Gaming – Video Lottery Terminal – Transfer of Ownership

BILL NUMBER: SB 495 and HB 91

PREPARED BY: James B. Butler

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS