

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 228

(Senator Salling, *et al.*)

Budget and Taxation

Ways and Means

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% for 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 \$332,600 in FY 2018 and \$469,900 in FY 2022 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 \$9,400 in FY 2018 and \$13,200 in FY 2022. Special fund revenues and expenditures to the PDA, RFRA, and SMWOBA increase beginning in FY 2018.

(in dollars)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
SF Revenue	\$374,700	\$506,200	\$513,900	\$521,600	\$529,400
GF Expenditure	(\$323,200)	(\$436,700)	(\$443,400)	(\$450,000)	(\$456,700)
SF Expenditure	\$374,700	\$506,200	\$513,900	\$521,600	\$529,400
Net Effect	\$323,200	\$436,700	\$443,400	\$450,000	\$456,700

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

Local Effect: Local government revenues increase by approximately \$37,000 in FY 2018 and by \$52,300 in FY 2022 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 \$9,300 more in FY 2018 and \$13,100 more in FY 2022 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, 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 bred funds, 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 \$782,503 in fiscal 2016. Unclaimed jackpots at the Anne Arundel County and Baltimore City facilities averaged approximately 0.11% of VLT revenues, so the Department of Legislative Services assumes unclaimed jackpots at the Prince George's County facility will be about 0.11% of its estimated VLT revenues.

Assuming unclaimed jackpots are similar to those in fiscal 2016, ETF revenues increase by approximately \$332,600 in fiscal 2018, which reflects the bill's October 1, 2017 effective date, and by \$469,900 in fiscal 2022, as shown in **Exhibit 1**. Special fund revenues and expenditures for SLGCA decrease by \$9,400 in fiscal 2018, resulting in a corresponding increase in general fund expenditures. Special fund revenues and expenditures to PDA, RFRA, and SMWOBA increase by \$37,300, \$4,900, and \$9,300, respectively, in fiscal 2018. The Department of Legislative Services assumes that to the extent more funds are available to PDA, RFRA, 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 \$411,700 in fiscal 2018 and by \$581,700 in fiscal 2022.

Exhibit 1
Revenue Effect of Altering the Distribution of Unclaimed VLT Jackpots
Fiscal 2018-2022

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
ETF	\$332,600	\$449,400	\$456,200	\$463,000	\$469,900
SLGCA	(9,400)	(12,700)	(12,800)	(13,000)	(13,200)
PDA	37,300	50,400	51,100	51,900	52,700
RFRA	4,900	6,600	6,700	6,800	6,900
SMWOBA	9,300	12,500	12,700	12,900	13,100
Local Impact Grants	37,000	50,000	50,800	51,500	52,300
Licensees	(411,700)	(556,300)	(564,600)	(573,100)	(581,700)

ETF: Education Trust Fund

PDA: Purse Dedication Account

RFRA: Racetrack Facility Renewal Account

SLGCA: State Lottery and Gaming Control Agency

SMWOBA: Small, Minority, and Women-Owned Businesses Account

VLT: video lottery terminal

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

Local Revenues: Local government revenues increase by approximately \$37,000 in fiscal 2018 and by \$52,300 in fiscal 2022, as shown in Exhibit 1, due to local impact grants receiving a larger portion of the unclaimed VLT jackpot revenues.

Additional Information

Prior Introductions: SB 1108 of 2016 passed the Senate and was issued a favorable report from the House Ways and Means Committee, but no further action was taken. Its cross file, HB 300, passed the House and received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

Cross File: None designated; however, HB 300 (Delegate Fennell, *et al.* – Ways and Means) is identical.

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

Fiscal Note History: First Reader - February 3, 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
Licensees	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
Licensees	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
