

Department of Legislative Services
Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 131 (Delegate Krimm)
Ways and Means

State Lottery - Instant Ticket Lottery Machines - Fraternal Organizations
("ITLM" for Homeless Veterans Act)

This bill adds fraternal organizations to the organizations that the State Lottery and Gaming Control Agency (SLGCA) may issue a license to for up to five instant ticket lottery (pull tab) machines. After deducting prizes paid out, a fraternal organization must remit the receipts from the sale of pull tab tickets to SLGCA, who must distribute 10% to a special fund to be used by the Division of Neighborhood Revitalization in the Department of Housing and Community Development (DHCD) to assist veterans and their families, provided that, annually, the first \$100,000 is distributed to the outreach and advocacy program in the Department of Veterans Affairs. Half of the remaining proceeds must be distributed to the fraternal organization. The remainder must be used to pay for the purchase or lease of the pull tab machines by SLGCA and any remaining amount is to be distributed to the general fund. **The bill takes effect July 1, 2020.**

Fiscal Summary

State Effect: General and special fund revenues increase beginning in FY 2021. Special fund revenues and expenditures from table games and the video lottery terminal (VLT) program may decrease and Maryland Veterans Trust Fund (MVTF) special fund revenues may decrease due to substitution effects of gaming revenues beginning in FY 2021. General fund expenditures for SLGCA may increase to implement and enforce the bill.

Local Effect: Minimal. To the extent that VLT and table game revenues decrease as a result of fraternal organizations operating pull tab machines, local impact grants decrease.

Small Business Effect: Minimal.

Analysis

Bill Summary: A fraternal organization, which includes a sororal organization, is any nonprofit organization that is a bona fide fraternal organization operated on a lodge system, conducted solely for the benefit of its members and its beneficiaries, and has been located in an applicable county for at least five years before the organization applies for a license. It does not include fraternal or sororal organizations related to an educational institution or a professional school. A licensed fraternal organization must remit receipts from instant ticket lottery sales to SLGCA.

It is the intent of the General Assembly that SLGCA solicits proposals from multiple vendors for the lease or purchase of pull tab machines.

Current Law: SLGCA may issue specified veterans' organizations a license for up to five pull tab machines. Veterans' organizations in counties on the Eastern Shore are not eligible.

A licensed veterans' organization must locate and operate its pull tab machines at its principal meeting hall in the county. After deductions for commissions and prize payouts, 10% of the proceeds are distributed to MVTF and the remainder goes to the general fund (via the State Lottery Fund). A licensed veterans' organization must purchase or lease the pull tab machines from SLGCA but may not use receipts from the sale of pull tabs that would otherwise go to the general fund to purchase or lease the machines.

Background: There were 90 veterans' organizations that were licensed for pull tab machines in fiscal 2019. SLGCA reports that net after payout sales for pull tab machines was \$9.6 million in fiscal 2019. After agent commissions and expenses, general fund revenues increased by \$702,000 and MVTF funds increased by \$78,000 in fiscal 2019.

State Fiscal Effect: The impact on general fund and special fund revenues and expenditures will depend on the number of fraternal organizations that operate authorized pull tab machines, their location with respect to casinos and to veterans' organizations with pull tab machines, the actual payout rates on pull tabs that are offered, and the degree to which pull tab machines authorized by the bill constitute a substitute for casino gambling in the State. MVTF receives 10% of instant ticket proceeds only from veterans' organizations, so to the extent that revenues from pull tab machines at veterans' organizations decrease, special fund revenues to MVTF decrease. Although these impacts cannot be determined at this time, the additional machines are likely to generate increased revenues for the general fund, the special fund in DHCD's Division of Neighborhood Revitalization, and \$100,000 to the outreach and advocacy program in the Department of Veterans Affairs, offset by minimal decreases in MVTF special fund revenues and special

fund revenues from casinos. SLGCA advises that if a significant number of fraternal organizations operate pull tab machines, additional staff will be needed to manage the machines.

DHCD notes there are approximately 2,100 homeless veterans in Maryland, of which approximately 20% are considered chronically homeless. On average, it costs DHCD \$18,540 annually to house the chronically homeless in permanent supportive housing while a nonchronic homeless household can be housed through rapid re-housing at an average annual cost of \$6,000. The number of homeless veterans served by DHCD would be commensurate with the increased revenue. DHCD advises that it can likely implement the bill with existing resources.

Based on U.S. Census data, the Department of Legislative Services estimates that there are approximately 250 fraternal organizations in the State that may be eligible to operate pull tab machines, but it is unknown how many will actually do so. *For illustrative purposes only*, if 100 fraternal organizations operate pull tab machines, net sales from pull tab machines operated by fraternal organizations are \$10.7 million. Of this amount, special fund revenues at the Department of Veterans Affairs increase by \$100,000 for developing and maintaining a website and social media pages to publicize veterans' programs, and special funds to the Division of Neighborhood Revitalization increase by \$972,000 to assist veterans and their families beginning in fiscal 2021. After commissions paid to fraternal organizations of approximately \$4.8 million, the remainder of approximately \$4.8 million is to be distributed to pay for the lease or purchase of pull tab machines and to the general fund in fiscal 2021. These amounts do not take into account any substitution effects.

Additional Information

Prior Introductions: SB 326 of 2019, a similar bill, received an unfavorable report by the Senate Budget and Taxation Committee. Its cross file, HB 1015, and a similar bill, HB 317 of 2018, each received a hearing in the House Ways and Means Committee, but no further action was taken. Another similar bill, HB 340 of 2019, received a hearing in the House Ways and Means Committee, but was subsequently withdrawn. The cross file of HB 317, SB 260, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

Designated Cross File: SB 59 (Senator Young) - Budget and Taxation.

Information Source(s): Comptroller's Office; Department of Housing and Community Development; Department of Veterans Affairs; Maryland State Lottery and Gaming Control Agency; U.S. Census Bureau; Department of Legislative Services

Fiscal Note History: First Reader - January 20, 2020
mr/jrb

Analysis by: Heather N. MacDonagh

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