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# **Overview of Video Lottery Terminals in Maryland and Gambling in Surrounding States**

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**Presentation to the  
Workgroup to Consider Gaming Expansion**

**Department of Legislative Services  
Office of Policy Analysis**

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# Overview

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- Legislation authorizing video lottery terminal (VLT) gambling has been considered in Maryland since the mid-1990s.
- Interest in VLTs as a new revenue source increased after the 2002-2003 economic recession, and VLTs were ultimately approved by the voters in November 2008.
- The first Maryland VLT facility opened in 2010.
- All of Maryland's surrounding states except the District of Columbia and Virginia have both VLTs and table games.

# VLT Law

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- During the 2007 special session, the General Assembly adopted two pieces of legislation pertaining to VLT gambling – Senate Bill 3 (Chapter 4) and House Bill 4 (Chapter 5).
- Chapter 5 was a constitutional amendment approved by the voters at the November 2008 general election that authorized up to 15,000 VLTs at five geographic locations in the State.
- Chapter 4, which was contingent on ratification of Chapter 5, established the operational and regulatory framework for the VLT program.
- Portions of the VLT law have been amended in subsequent legislation, most notably by Chapter 624 of 2010 and Chapter 240 of 2011.
- VLT operation licenses are awarded by the Video Lottery Facility Location Commission (Location Commission), and the State Lottery Commission regulates the VLT program.

# Geographic Areas for VLT Facilities

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- Anne Arundel County – 4,750 VLTs at a location within two miles of Route 295;
- Baltimore City – 3,750 VLTs at a location in a nonresidential area within one-half mile of Interstate 95 and Route 295 and not adjacent to or within one-quarter mile of residential property and on city-owned land;
- Cecil County – 2,500 VLTs at a location within two miles of Interstate 95;
- Worcester County – 2,500 VLTs at a location within one mile of the intersection of Route 50 and Route 589; and
- Allegany County – 1,000 VLTs on State property associated with the Rocky Gap State Park.

# Video Lottery Facility Location Commission Responsibilities

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- Evaluate proposals for video lottery facility licenses, using statutory criteria;
- award the facility licenses, at which point the State Lottery Commission takes over the subsequent regulatory process;
- may award no more than one license in a county or Baltimore City; and
- may alter the allocation of VLTs if warranted by market conditions, but no more than 4,750 VLTs may be placed at a single location.

# Criteria for Awarding Video Lottery Facility Licenses

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- Evaluation criteria used by the Location Commission per VLT law :
  - *70% on business and market factors:*
    - the highest potential benefit and total revenues for the State and potential revenues based on a market analysis;
    - the extent to which Maryland gaming participants would remain in the State and that a proposed facility would also become a regional/national tourist destination;
    - capital construction plans;
    - gross revenues to a facility operator;
    - the percentage of minority business enterprise ownership and proposed achievement of minority business participation goals; and
    - the preservation of existing Maryland jobs and the creation of new jobs.

# Criteria for Awarding Video Lottery Facility Licenses (Cont.)

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- *15% on economic development factors:*
  - wages and benefits for newly created jobs; and
  - any additional economic development in the area of a proposed facility.
  
- *15% on location siting factors:*
  - existing transportation infrastructure surrounding a proposed facility;
  - any negative impacts on residential communities; and
  - the need for any public infrastructure expenditures.

# Criteria for Awarding Video Lottery Facility Licenses (Cont.)

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- Except for the Allegany County location, a licensee may receive up to 33% of VLT revenues.
  - A licensee for the Allegany County location may receive up to 50% of the VLT revenues for the first 10 years of operations.
- Except for the Allegany County location, an initial license fee of \$3 million for every 500 VLTs proposed must be submitted – revenues accrue to the Education Trust Fund.
  - The initial license fee for up to 500 VLTs (up to \$3 million) is waived for an applicant for the Allegany County license.
- A facility license applicant must invest at least \$25 million in construction and related costs for every 500 VLTs proposed.

# State Lottery Commission/ Agency Responsibilities

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- Conduct background and financial checks of potential facility licensees and advise the Location Commission as to its findings; and
- regulate the VLT program, including construction of VLT facilities; owning/leasing VLTs and the central monitor and control system; and licensing VLT facility employees.

# Location Commission – Proposal Evaluation and Award of VLT Licenses

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- Pursuant to a request for proposals (RFP) issued in December 2008, on February 2, 2009, a total of six proposals were submitted for the five locations – two for the Anne Arundel County location and one each for the remaining locations.
- One of the proposals for the Anne Arundel County location and the single proposal for the Allegany County location were rejected by the Location Commission on February 12, 2009, for failing to meet the minimum requirements of the statute and the RFP.
- In fall 2009, licenses were awarded for the Anne Arundel County, Cecil County, and Worcester County locations. The single proposal submitted for the Baltimore City location was rejected in December 2009, as the Location Commission found the proposal to not be in the best interest of the State.
- New RFPs were subsequently issued for the Allegany County and Baltimore City locations. In April 2012, a license was awarded for the Allegany County location. A decision on award of the Baltimore City license will be made in summer 2012.

# Worcester County

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- In September 2009, the Location Commission awarded a license to Ocean Enterprise, LLC for 800 VLTs at the Ocean Downs Racetrack.
- The facility opened on January 4, 2011, with 750 VLTs, with the additional 50 VLTs added in spring 2011.
- Through April 30, 2012, the Worcester County facility has generated \$59.5 million in revenues.

# Cecil County

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- In October 2009, the Location Commission awarded a license to Penn Cecil Maryland, Inc. for 1,500 VLTs at a facility just off of Interstate 95 in Perryville.
- The facility opened on September 27, 2010, with the full complement of 1,500 VLTs.
- Through April 30, 2012, the Cecil County facility has generated \$182.7 million in revenues.

# Anne Arundel County

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- On December 7, 2009, the Location Commission awarded a license to PPE Casino Resorts Maryland, LLC for 4,750 VLTs at a facility adjacent to Arundel Mills Mall, contingent on local zoning approval.
- County zoning legislation became law on December 22, 2009, and was affirmed by county voter referendum on November 2, 2010.
- The facility is scheduled to open with 3,200 VLTs on June 6, 2012, with the full complement of 4,750 VLTs in operation by October 2012. It is expected to generate \$363 million in its first year of operations.

# Allegheny County

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- In response to a third RFP issued in June 2011, three proposals were received for the Allegheny County license. The Location Commission subsequently rejected two of the proposals for not meeting the requirements of the RFP.
- On April 26, 2012, the Location Commission awarded a license to Evitts Resort, LLC (Evitts) for 850 VLTs at a facility adjacent to the Rocky Gap Lodge and Resort.
- The award is subject to a number of contingencies, including Board of Public Works approval and purchase of the Resort by Evitts. The facility is expected to generate \$40 million in its first year of operations.

# Baltimore City

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- In December 2009, the Location Commission rejected the single proposal for Baltimore City from the Baltimore City Entertainment Group (BCEG), finding that the proposal was not in the best interest of the State. BCEG's appeal of the Location Commission's decision was denied by the State Board of Contract Appeals in December 2010 and also denied by the Baltimore City Circuit Court in June 2011.
- BCEG appealed the Baltimore City Circuit Court's decision to the Maryland Court of Special Appeals, which heard the case in March 2012. A decision by the Court of Special Appeals is pending.
- The Location Commission issued another RFP for the Baltimore City license in April 2011, and two proposals were received in September. However, one of the proposals was subsequently rejected by the Location Commission for failing to submit an initial license fee as required by statute and the RFP.
- The Location Commission is currently evaluating the remaining proposal from CBAC Gaming, LLC, and will make a decision on that proposal this summer.

# Gambling in Surrounding States

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- VLTs have been in operation at racetrack and nontrack locations in Delaware, Pennsylvania, and West Virginia for a number of years.
- After VLT facility locations were authorized in Maryland, each of these states authorized table games to be added at VLT facilities.

# Delaware

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- Delaware was the first neighboring state to approve VLTs in 1994. It now has three racetrack locations with a total of 6,736 VLTs and 198 table games (approved in 2010):
  - Dover Downs
    - 2,490 VLTs and 62 table games.
  - Delaware Park
    - 2,444 VLTs and 87 table games.
  - Harrington Raceway
    - 1,802 VLTs and 49 table games.

# Pennsylvania

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- Pennsylvania approved VLTs in 2004 and table games in 2010, with the first facility opening in late 2006.
- It now has 11 racetrack and nontrack locations with a total of approximately 27,000 VLTs and just over 1,000 table games.
- Philadelphia area facilities:
  - Parx (formerly Philadelphia Park) » 3,536 VLTs and 183 table games;
  - Harrah's Chester » 2,889 VLTs and 125 table games;
  - Sugarhouse » 1,602 VLTs and 54 table games; and
  - Valley Forge (opened in spring 2012) » 600 VLTs and 50 table games.

# West Virginia

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- West Virginia has four racetrack locations with a total of 8,649 VLTs (approved in 1994) and 350 table games, one of which competes with the Maryland market:
  - Charles Town
    - 4,008 VLTs and 134 table games (table games were approved in December 2009).
- Approximately 7,600 video lottery terminals (known as limited video lottery) are found in bars and restaurants in West Virginia.

# Where VLT Revenues Go

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- Education Trust Fund – 48.5% (42.0% in Allegany County);
- Facility Licensees – 33.0% (50.0% in Allegany County);
- Purse Dedication Account – 7.0% (2.5% in Allegany County);
- Local Impact Grants – 5.5% (2.75% in Allegany County);
- Racetrack Facility Renewal Account – 2.5% for eight years (no allocation from Allegany County);
- State Lottery Agency – 2.0%; and
- Small, Minority, and Women-owned Businesses Account – 1.5% (0.75% in Allegany County).

# Distribution of VLT Revenues Through April 2012

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<b>Total Gross</b>	<b>\$242,178,427</b>
Education Trust Fund	117,456,537
Facility Licensees	79,918,881
Racing Purses/Bred Funds	16,952,490
Local Impact Grants	13,319,813
Racetrack Renewal	6,054,461
State Lottery Operations	4,843,569
Small/Minority/Women-owned Business	3,632,676

# Revenue Estimates

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- The Department of Legislative Services (DLS) has estimated total annual gross VLT revenues of approximately \$1.1 billion at full implementation (fiscal 2016) of the five authorized locations.
- DLS has engaged PricewaterhouseCoopers (PwC) to develop estimates for a sixth VLT location in Prince George's County and table games, and additional information will be presented at the next two scheduled workgroup meetings as described further in the PwC memorandum dated May 2, 2012.