

Department of Legislative Services  
 Maryland General Assembly  
 2024 Session

FISCAL AND POLICY NOTE  
 First Reader

Senate Bill 603 (Senator Watson)  
 Budget and Taxation

Internet Gaming - Authorization and Implementation

This bill, which is subject to voter referendum, authorizes the State Lottery and Gaming Control Commission (SLGCC) to license video lottery operators and up to five other specified qualified applicants to conduct and operate Internet gaming in the State. A licensee retains 53% of proceeds from Internet gaming and the other distributions of Internet gaming proceeds are as follows: 1% to the State Lottery and Gaming Control Agency (SLGCA) for regulatory activities, 1% to the Problem Gambling Fund, and the remainder (45%) to the Blueprint for Maryland’s Future Fund (BMFF). **The bill takes effect July 1, 2024, contingent on passage of a referendum by voters in November 2024.**

Fiscal Summary

**State Effect:** If Internet gaming is approved by voters, and SLGCC issues licenses, special fund revenues from licensee fees increase by \$6.0 million in FY 2025. Special fund revenues increase by at least \$210.9 million beginning in FY 2026. General fund expenditures increase by \$80,000 in FY 2025, but decrease by \$254.8 million in FY 2027, when increased BMFF funds help to fill estimated BMFF shortfalls. Special fund expenditures increase by at least \$1.4 million beginning in FY 2025, but SLGCA’s expenses are more than covered by license fees and a percentage of Internet gaming revenues collected under the bill.

(\$ in millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
SF Revenue	\$6.0	\$210.9	\$258.6	\$311.7	\$347.8
GF Expenditure	\$0.1	\$0.1	(\$254.8)	(\$307.2)	(\$342.4)
SF Expenditure	\$1.4	(\$0.1)	\$254.6	\$306.5	\$342.0
Net Effect	\$4.5	\$210.9	\$258.9	\$312.4	\$348.3

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

**Local Effect:** Local impact grant revenues from video lottery terminals (VLTs) and table games likely decrease by \$6.5 million in FY 2026 and by \$11.3 million in FY 2029.

**Small Business Effect:** Potential meaningful.

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## Analysis

**Bill Summary:** An Internet gaming licensee that is a video lottery operator may enter into an agreement with up to two operators to conduct and operate Internet gaming on its behalf while all other Internet gaming licensees may enter into an agreement with up to one operator.

Specified video lottery laws generally apply to SLGCC, licensees, and Internet gaming employees or contractors. SLGCC must adopt regulations necessary to carry out the provisions of the bill and must regulate Internet gaming to the same extent as with VLTs, table games, and mobile sports wagering.

The bill expresses the General Assembly's intent to maximize the ability of minorities, women, and minority- and women-owned businesses to participate in the Internet gaming industry.

In addition to issuing an Internet gaming license to a video lottery operator in the State, SLGCC may issue up to five licenses to applicants that:

- have maintained the applicant's headquarters in the State for at least 10 years;
- employ at least 250 employees in the State as specified;
- filed an application or renewal application between calendar 2018 and 2023 to own at least a 5% equity interest in a video lottery operator and were found qualified by SLGCC;
- agree to operate the Internet gaming business using a brand associated with the Maryland-based applicant, subject to be waived after one year of operation; and
- commit to spend at least \$5.0 million during the initial license term to build and operate a live gaming studio or a studio for television and film productions.

SLGCC may contract with a consultant to assist with the development of an application and the review of the applicants, and SLGCC must determine whether the issuance of a license to the applicant serves the public interest.

The initial license fee for an Internet gaming license is \$1.0 million. The term of an Internet gaming license is five years. If an Internet gaming licensee applies for renewal and pays the renewal fee, and complies with all statutory and regulatory requirements, SLGCC must

renew the license for five years. The license renewal fee is equal to 1% of the Internet gaming licensee's average annual proceeds retained by the licensee for the preceding three-year period. From the license fees collected by SLGCC, the Comptroller must pay (1) an amount to SLGCA to reimburse related expenses; (2) 1% to SLGCA for regulatory activities; (3) 1% to the Problem Gambling Fund; and (4) the remainder to BMFF.

On recommendation of SLGCC, the Governor is authorized to enter into agreements with other governments allowing participation in multijurisdictional Internet gaming. SLGCC may adopt regulations regarding the nature of such an agreement.

SLGCC may impose a penalty not exceeding \$1.0 million against any person who knowingly:

- tampers with equipment used to conduct Internet gaming, to alter the odds, payout, or operation of a game or disable a game; or
- offers or allows to be offered an Internet game that has been tampered with in the manner described above.

SLGCC may also suspend, for not less than 30 days, the license of an Internet gaming licensee or other licensed person who engages in the above-listed activities.

Internet gaming licensees must provide certain safeguards, controls, and mechanisms to assist individuals who may have a gambling problem and must define the permissible use of credit cards for any Internet gaming-related transactions. The Maryland Center of Excellence on Problem Gambling must report annually to the Governor and the General Assembly relating to Internet gaming and problem gambling as specified, and Internet gaming licenses must annually provide transactional data and metrics as specified to Morgan State University and Bowie State University.

Subject to SLGCC approval, an Internet gaming licensee may offer authorized interactive games, and an Internet gaming operator may use live studio dealers to administer these games. A live gaming studio must be located within the State, but it is not required to be located within a video lottery facility.

**Current Law:** The General Assembly may only authorize additional forms or expansion of gaming if approved through a referendum by a majority of voters in a general election. The State of Maryland has authorized video lottery operation licenses in Allegany, Anne Arundel, Cecil, Prince George's, and Worcester counties and Baltimore City with a maximum number of 16,500 VLTs allotted in the State. Licensees are also authorized to have table games with approval of SLGCC.

VLT proceeds are generally distributed from the proceeds of VLTs at each facility to a small, minority, and woman-owned business investment account; the State lottery for administrative costs; local impact grants; horse racing purses, bred funds, and track renewal; licensees; and the Education Trust Fund (ETF).

Licensees receive 80% of table game revenues of the balance, 15% is distributed to ETF, and 5% is distributed to local jurisdictions where a VLT facility is located.

Chapter 492 of 2020 authorized sports and event wagering generally, subject to voter referendum, which was approved by Maryland voters in November 2020. The Act also provided that revenues from sports and event wagering must primarily be used for public education. Chapter 356 of 2021 implemented sports and event wagering in the State and provided for regulation of sports wagering by SLGCC. The Act also established the Sports Wagering Application Review Commission to review and award applications for sports wagering facility and mobile sports wagering licensure. Certain revenues under Chapter 356 are distributed to BMFF, the Problem Gambling Fund, and a Small, Minority-Owned, and Women-Owned Business Sports Wagering Assistance Fund.

ETF provides funding for education and public schools. After specified allocations for school construction financing under the Built to Learn Act (Chapter 20 of 2020), ETF funds are directed to BMFF, which serves as the primary funding source for Blueprint for Maryland's Future education programs.

**Appendix – Maryland Gaming** provides the status of gaming in Maryland as of December 2023.

The fiscal 2024 budget bill required SLGCA to conduct an iGaming study and submit a report on iGaming to the budget committees. SLGCA engaged the Innovation Group to conduct the study, which was completed in November 2023. Among other topics, the report discusses the current regulatory landscape for iGaming and the estimated market in Maryland; the potential economic impact of legal regulated iGaming on Maryland's brick-and-mortar casinos, other gaming venues, and the State Lottery; and the experience of other states.

**State Fiscal Effect:** This analysis assumes that:

- voters approve the referendum in November 2024;
- SLGCC hires 16 additional employees as of December 1, 2024, after accounting for the November election results;
- each of the six video lottery operators in the State apply for Internet gaming licenses and pay the \$1.0 million license fee before the end of fiscal 2025, and Internet gaming for these licensees commences in fiscal 2026;

- SLGCC awards five additional Internet gaming licenses and collects license fees from those licensees in fiscal 2026, with Internet gaming for these licensees commencing in fiscal 2027;
- it takes four years to reach Internet gaming's full annual revenue maturity of over \$900 million annually, with 60% of revenue maturity in fiscal 2026, 75% in fiscal 2027, 90% in fiscal 2028, and full maturity in fiscal 2029; and
- Internet gaming reduces VLT and table game revenues at casinos by 10.2% once the Internet gaming market is fully mature but does not materially affect other legalized gambling in the State.

The above assumptions rely primarily upon The Innovation Group's study on [iGaming in Maryland](#) that was prepared for SLGCA. **Exhibit 1** shows the distribution of revenues under the bill. Internet gaming license fee revenues increase by \$6.0 million in fiscal 2025, of which \$4.6 million is distributed to BMFF, \$1.4 million is distributed to SLGCA, and \$60,000 is distributed to the Problem Gambling Fund. Once Internet gaming commences, Internet gaming proceeds and license fee revenues increase by \$538.4 million in fiscal 2026, of which \$282.7 million is retained by the Internet gaming licensee, and \$255.7 million is distributed to the State as shown below. By fiscal 2029, the Internet gaming market is anticipated to be fully mature; at that time, Internet gaming proceeds total \$904.9 million, of which \$425.3 million is distributed to the State as shown below.

Internet gaming is expected to reduce VLT and table game proceeds at casinos by 10.2% once the Internet gaming market is fully mature. Thus, VLT and table game proceeds decrease by \$121.7 million in fiscal 2026 and by \$210.8 million in fiscal 2029, as shown in Exhibit 1, of which \$51.3 million and \$88.7 million, respectively, is distributed to the State and local jurisdictions. The net effect is gaming revenues increase by \$416.7 million in fiscal 2026 and by \$694.1 million in fiscal 2029, of which \$208.0 million and \$342.5 million, respectively, is distributed to BMFF.

Specified video lottery laws generally apply to Internet gaming, so license fee revenues may increase further to license others associated with Internet gaming, such as employees, manufacturers, and contractors. Assuming general compliance with the bill, the bill's fine and penalty provisions do not materially affect general fund revenues.

**Exhibit 1**  
**Revenue Effects under the Bill**  
**Fiscal 2025-2029**  
**(\$ in Millions)**

	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
<b>iGaming Revenues</b>					
iGaming Licensees (53%)	\$0.0	\$282.7	\$355.5	\$429.1	\$479.6
SLGCA (1%)	1.4	5.4	6.7	8.1	9.0
Problem Gambling Fund (1%)	0.1	5.4	6.7	8.1	9.0
BMFF (Remainder)	4.6	244.9	301.8	364.3	407.2
<b>Total iGaming Revenues</b>	<b>\$6.0</b>	<b>\$538.4</b>	<b>\$670.7</b>	<b>\$809.6</b>	<b>\$904.9</b>
<b>Cannibalization at Casinos</b>					
Education Trust Fund	\$0.0	(\$36.9)	(\$46.9)	(\$57.0)	(\$64.7)
Casino Licensees	0.0	(70.5)	(89.2)	(108.4)	(122.1)
Local Impact Grants	0.0	(6.5)	(8.2)	(10.0)	(11.3)
Small, Minority, and Women-owned Businesses Account	0.0	(1.2)	(1.6)	(1.9)	(2.1)
Purse Dedication Account	0.0	(4.9)	(6.2)	(7.6)	(8.5)
Racetrack Facility Renewal Account	0.0	(0.8)	(0.9)	(1.1)	(0.7)
SLGCA	0.0	(0.8)	(1.0)	(1.3)	(1.4)
<b>Total VLT and Table Game Revenues</b>	<b>\$0.0</b>	<b>(\$121.7)</b>	<b>(\$4,154.0)</b>	<b>(\$187.2)</b>	<b>(\$210.8)</b>
<b>Net Revenue Effect</b>					
iGaming Licensees	\$0.0	\$282.7	\$355.5	\$429.1	\$479.6
Casino Licensees	0.0	(70.5)	(89.2)	(108.4)	(122.1)
BMFF/ETF	4.6	208.0	255.0	307.4	342.5
SLGCA	1.4	4.6	5.7	6.8	7.6
Problem Gambling	0.1	5.4	6.7	8.1	9.0
Local Jurisdictions	0.0	(6.5)	(8.2)	(10.0)	(11.3)
Small, Minority, and Women-owned Businesses Account	0.0	(1.2)	(1.6)	(1.9)	(2.1)
Purse Dedication Account	0.0	(4.9)	(6.2)	(7.6)	(8.5)
Racetrack Facility Renewal Account	0.0	(0.8)	(0.9)	(1.1)	(0.7)
<b>Net Gaming Revenue Effect</b>	<b>\$6.0</b>	<b>\$416.7</b>	<b>\$516.7</b>	<b>\$622.4</b>	<b>\$694.1</b>

BMFF: Blueprint for Maryland's Future Fund  
ETF: Education Trust Fund  
SLGCA: State Lottery and Gaming Control Agency  
VLT: video lottery terminals

Source: Department of Legislative Services

ETF revenues from VLTs and table games are redirected to BMFF, and BMFF revenues are projected to be sufficient to cover mandated annual increases in expenditures for the Blueprint for Maryland's Future through fiscal 2026. However, current projections indicate that, under current law, revenues in BMFF, including prior-year fund balances, will be less

than the required increases to annual expenditures under the Blueprint for Maryland’s Future beginning in fiscal 2027. Thus, beginning in fiscal 2027, general fund expenditures for education decrease to the same extent that any BMFF revenues and expenditures increase under the bill.

*State Lottery and Gaming Control Agency Expenditures*

SLGCA advises that it requires an additional 16 positions in order to oversee Internet gaming, thus special fund expenditures for SLGCA increase by approximately \$1.4 million, which accounts for employees starting on December 1, 2024, after the general election. This estimate includes associated costs, such as a software expense of \$260,000. License fee revenues realized during certain years under the bill and a percentage of Internet gaming proceeds are assumed to be more than sufficient to cover this level of staffing costs on an annual basis.

Positions	16.0
Salaries and Fringe Benefits	\$882,293
Software and Licensing Expenses	260,000
Other Operating Expenses	<u>213,040</u>
<b>Total FY 2025 SLGCA Expenditures</b>	<b>\$1,355,333</b>

The bill authorizes SLGCC to contract with a consultant to assist SLGCC with developing a license application and reviewing applicants. To the extent that SLGCC opts to do this, expenditures for SLGCA increase further, potentially by up to \$1.0 million. Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

*Office of the Attorney General Expenditures*

General fund expenditures for OAG increase by \$80,009 in fiscal 2025, which accounts for an implementation delay until after the general election. This estimate reflects the cost of hiring one assistant Attorney General to assist with the regulatory functions of Internet gaming. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1.0
Salary and Fringe Benefits	\$72,937
Operating Expenses	<u>7,072</u>
<b>Total FY 2025 OAG Expenditures</b>	<b>\$80,009</b>

Future year expenditures reflect a full salary with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

Other impacts of implementation can be handled with existing resources for State agencies, such as the State Board of Elections and the Comptroller's Office.

**Local Fiscal Effect:** Assuming Internet gaming reduces VLT and table game proceeds at casinos by 10.2% once the Internet gaming market is matured, local impact grants from VLTs and table games decrease by \$6.5 million in fiscal 2026, escalating up to \$11.3 million in fiscal 2029.

It is assumed that local elections costs are not substantially affected.

**Small Business Effect:** Some small businesses, including minority and women-owned businesses, may benefit from Internet gaming. However, less funds may be available for small businesses from the Small, Minority, and Women-Owned Businesses Account due to the cannibalization effect of Internet gaming on casinos.

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### Additional Information

**Recent Prior Introductions:** Similar legislation has been introduced within the last three years. See SB 267 of 2023.

**Designated Cross File:** None.

**Information Source(s):** Governor's Office of Small, Minority, and Women Business Affairs; Office of the Attorney General; Comptroller's Office; Maryland Department of Health; Maryland Department of Transportation; Maryland State Board of Elections; Maryland State Lottery and Gaming Control Agency; The Innovation Group; Department of Legislative Services

**Fiscal Note History:** First Reader - February 26, 2024  
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## 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 in operation for each facility as of December 2023 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	709	22
Ocean Downs	Worcester	January 2011	845	19
Maryland Live!	Anne Arundel	June 2012	3,849	179
Rocky Gap Casino	Allegany	May 2013	616	16
Horseshoe Casino	Baltimore City	August 2014	1,401	122
MGM National Harbor	Prince George’s	December 2016	2,266	207

VLT: video lottery terminal

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

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### *Video Lottery Terminals and Table Game Revenues*

The estimated revenues from VLTs and table games in fiscal 2025 through 2029 are shown in **Exhibit 2**. A total of \$2.0 billion in gross gaming revenues is projected in fiscal 2025, including \$596.7 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 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
<b>VLTs Distribution</b>					
Education Trust Fund	\$500.9	\$506.7	\$514.3	\$521.0	\$533.3
Lottery Operations	13.3	13.4	13.6	13.8	13.9
Purse Dedication Account	79.6	80.6	81.5	82.6	83.7
Racetrack Renewal Account	13.3	13.4	12.0	12.1	6.9
Local Impact Grants	73.0	73.8	74.7	75.7	76.7
Business Investment	19.9	20.1	20.4	20.6	20.9
Licensees	627.2	634.5	641.9	650.4	658.9
<b>Total VLTs</b>	<b>\$1,327.2</b>	<b>\$1,342.6</b>	<b>\$1,358.3</b>	<b>\$1,376.2</b>	<b>\$1,394.3</b>
<b>Table Games Distribution</b>					
Education Trust Fund	\$95.8	\$97.0	\$98.2	\$99.5	\$100.9
Local Impact Grants	31.9	32.3	32.7	33.2	33.6
Licensees	510.8	517.2	523.7	530.8	538.0
<b>Total Table Games</b>	<b>\$638.5</b>	<b>\$646.5</b>	<b>\$654.6</b>	<b>\$663.5</b>	<b>\$672.6</b>
<b>Total VLTs and Table Games</b>	<b>\$1,965.7</b>	<b>\$1,989.1</b>	<b>\$2,012.9</b>	<b>\$2,039.7</b>	<b>\$2,066.8</b>
<b>Total Education Trust Fund</b>	<b>\$596.7</b>	<b>\$603.7</b>	<b>\$612.5</b>	<b>\$620.6</b>	<b>\$634.2</b>

VLT: video lottery terminal

Note: Numbers may not sum to total due to rounding.

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

Chapter 492 of 2020, a constitutional amendment approved by the voters at the November 2020 general election, authorized sports and event wagering, contingent upon implementation legislation passed by the General Assembly. Chapter 356 of 2021 implemented sports wagering in the State and provides for regulation of sports wagering and fantasy gaming competitions. Licensees receive 85% of proceeds from sports wagering and fantasy gaming and the State receives 15%, as well as license fee revenues. State revenues from sports wagering and fantasy gaming and their distributions are shown in **Exhibit 3**.

**Exhibit 3**  
**Distribution of Estimated State Sports Wagering and**  
**Fantasy Competition Revenues**  
**Current Law**  
**(\$ in Millions)**

	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
<b>State Revenues</b>					
Sports Wagering – Retail	\$2.1	\$2.1	\$2.1	\$2.2	\$2.2
Sports Wagering – Mobile	47.2	47.9	48.6	49.4	50.1
Sports Wagering License Fees	0.0	0.0	0.0	0.1	1.8
Fantasy Competition	1.0	1.0	1.0	1.1	1.1
<b>Total</b>	<b>\$50.3</b>	<b>\$51.0</b>	<b>\$51.8</b>	<b>\$52.7</b>	<b>\$55.2</b>
<b>Distribution</b>					
Blueprint for Maryland’s Future Fund <sup>1</sup>	\$50.3	\$51.0	\$51.8	\$52.8	\$55.2
SMWOBSWA Fund <sup>2</sup>	0.0	0.0	0.0	0.0	0.0
Problem Gambling Fund <sup>3</sup>	1.3	1.3	1.3	1.4	1.4

SMWOBSWA: Small, Minority-Owned, and Women-Owned Business Sports Wagering Assistance

<sup>1</sup> The Blueprint for Maryland’s Future Fund is intended to assist in providing adequate funding for early childhood education and primary and secondary education to provide a world-class education to students in Maryland.

<sup>2</sup> Five percent of the class A-1 license fees (\$2.0 million each) and of the class A-2 license fees (\$1.0 million each) are paid into the SMWOBSWA Fund. Five percent of renewal fees are transferred to the SMWOBSWA Fund.

<sup>3</sup> Player winnings not claimed within 182 days are distributed to the Problem Gambling Fund.

Note: Numbers may not sum to total due to rounding.

Source: Board of Revenue Estimates; Department of Legislative Services