

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Preliminary Estimate

House Bill 1380 (Delegate C. Davis, et al.)
Ways and Means

Maryland Racing and Electronic Gaming Act

This bill allows electronic gaming devices at eligible racetracks and satellite simulcast facilities. Provisions are made for the taxation of the win from electronic gaming devices.

Fiscal Summary

State Effect: This is a preliminary estimate of the fiscal impact of this bill. It does not reflect offsetting reductions to current revenue resulting from changes in spending patterns from Marylanders wagering on electronic gaming devices, nor the revenue increases due to additional jobs and economic aspects at the race tracks and satellite simulcast facilities. The data in this preliminary estimate of fiscal impact reflects the State and local revenues that would be generated from the number of electronic gaming devices authorized in this bill and the expenditures for regulatory activities of State agencies.

General fund revenues could increase by \$46.2 million and special fund revenues could increase by \$600,000 in FY 1997. General and special fund expenditures could increase by \$3.5 million and \$600,000, respectively. Out-year estimates assume 3% growth in revenue and regulatory costs.

(\$ in millions)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
GF Revenues	\$46.2	\$102.1	\$105.2	\$108.3	\$111.6
SF Revenues	0.6	0.6	0.6	0.6	0.6
GF Expenditures	3.5	3.6	3.7	3.8	3.9
SF Expenditures	0.6	0.6	0.6	0.6	0.6
Net Effect	\$42.7	\$98.5	\$101.5	\$104.5	\$107.7

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

Local Effect: Local revenues could increase by \$19.8 million in FY 1997. Expenditures would not be affected. This estimate does not include revenue losses from a diversion of spending from items taxable under the admissions and amusement tax.

Fiscal Analysis

Bill Summary: This bill authorizes the State Racing Commission to issue licenses to conduct electronic gaming and to regulate such gaming, and levies a State tax of 25% of the win and provides for the distribution of the tax.

Licensing and Regulation

The fee for the license to conduct electronic gaming is \$100,000, which shall be used by the State to fund programs for the treatment and assistance of compulsive gamblers and their families.

Laurel Race Course is allowed to operate 3,000 electronic gaming devices; Pimlico Race Course and Rosecroft Raceway are allowed to operate 1,000 devices each. These licenses shall remain in force so long as the licensee maintains live racing at 1995 levels, or at levels agreed upon by the licensee, the group representing a majority of applicable owners and trainers, and the group representing a majority of applicable breeders.

Three licenses may also be issued to satellite simulcast facilities. These licenses shall remain in force as long as the licensee allows betting on all races offered for betting by the Maryland tracks with which the licensee has an agreement, and as long as the licensee meets with all conditions and requirements set by the Racing Commission. Licenses may only be issued to satellite simulcast applicants under these conditions:

- the local governing body must have authorized by local ordinance the conduct of electronic gaming at the facilities within its jurisdiction;
- the applicant must have completed or planned and made commitments for the construction of a resort complex in conjunction with local economic development plans. The resort shall include a hotel and retail complex with at least \$100 million in capital expenditures;
- the applicant must certify that the facility and resort complex will generate at least 1,500 new jobs, including construction, maintenance and operation of the complex; and
- the commission determines that issuance of the license is in the best interest of racing in the State.

No satellite simulcast facility licensee shall be allowed to operate more than 2,500 devices,

and the total number of devices at simulcast facilities shall not exceed 6,500.

The State Racing Commission has jurisdiction over all electronic gaming and related activities to the extent that the licensee's racing activities are regulated. The commission must review the personal and financial background of the individual responsible for the daily operations of the devices. The commission may reprimand a licensee, and may levy fines up to \$5,000 for each day the licensee is in violation of any law or regulation concerning electronic gaming, or any condition set by the commission. The State Lottery Agency shall assist the commission in areas where it has expertise. Suppliers of electronic gaming devices must also be licensed by the commission.

The commission is required to report to the Governor and the General Assembly monthly and annually detailing total revenues from electronic gaming and the total prize disbursements and other expenses. The commission must also submit a report whenever a change in State law is required to prevent abuse of regulation or to rectify an undesirable condition related to electronic gaming. The commission and the State Lottery Commission shall regularly audit electronic gaming operations to protect the interest of the State.

State Tax and Distribution of Revenue

An aggregate State tax of 25% of the win is to be collected, composed of the following:

- 10.5% to cover the costs of regulation, with the remainder going to the general fund;
- 1% to pay for redevelopment in communities within three miles of Laurel Race Course or two miles of Pimlico Race Course and Rosecroft Raceway;
- 2.5% for payment to the jurisdiction in which the licensee is located (distributed to four jurisdictions from Laurel Race Course);
- 1% distributed to counties in which no electronic gaming devices are located, proportional to population; and
- 10% for the purse dedication account.

An additional 10% shall be paid from the win at a racetrack to the purse dedication account, and an additional 5% shall be paid to the account from the win at a satellite simulcast facility licensee located within a 35-mile radius of a currently existing mile thoroughbred track or harness track. Funds in the purse dedication account are distributed predominantly to mile thoroughbred purses, and also to standardbred purses, the Maryland-bred race fund, and the Maryland standardbred race fund.

State Revenues: This is a preliminary estimate of the fiscal impact of this bill. It does not reflect offsetting reductions to current revenue resulting from changes in spending patterns

from Marylanders wagering on electronic gaming devices, nor the revenue increases due to additional jobs and economic aspects at the race tracks and satellite simulcast facilities. The data in this preliminary estimate of fiscal impact reflects the State and local revenues that would be generated from the number of electronic gaming devices authorized in this bill and the expenditures for regulatory activities of State agencies.

State revenues could increase by \$110 million in fiscal 1997. This estimate is based on the following assumptions:

- the 5,000 machines at race tracks are operational by October 1, 1996;
- half of the 6,500 machines at satellite simulcast facilities are operational by January 1, 1997, and the other half are operational by July 1, 1997;
- the average win per day per machine is \$225; and
- the machines operate 365 days per year.

The total win for fiscal 1997 is estimated at \$440 million, although this figure could be higher due to the novelty of electronic gaming devices. For fiscal 1998, the first full year of operation, the win would be \$973 million assuming 3% growth in win per day. The 25% tax would therefore result in \$110 million and \$243 million, respectively. Exhibit 1 shows the distribution of this revenue.

Exhibit 1
Distribution of State Tax on Electronic Gaming

	<u>FY 97</u>	<u>FY 98</u>
25% of win	\$110,000,000	\$243,000,000
Regulation/general fund	46,200,000	102,060,000
Facilities, services, and redevelopment	4,400,000	9,720,000
Jurisdiction of devices	11,000,000	24,300,000
Remainder of jurisdictions	4,400,000	9,720,000
Purse dedication account	44,000,000	97,200,000

The net increase in revenue would be slightly less than these amounts, as the costs of regulation are deducted from the portion of revenue distributed to the general fund. As described below, regulatory costs are estimated to total \$3.5 million, resulting in a net general fund revenue increase of \$42.7 million in fiscal 1997.

Some portion of gross revenues of the electronic gaming devices will be expenditures diverted from other spending in the State. To the extent that expenditures on lottery games

are spent instead on electronic gaming devices, current general fund revenues would decline accordingly. Additionally, current general fund revenues would also decline to the extent that this spending would have been on goods or services taxable under the sales tax.

Revenues to be used for the treatment of compulsive gambling would increase by \$600,000, assuming all six licenses are issued in fiscal 1997. Revenues will also increase for the licenses issued to electronic gaming device suppliers. The bill is silent on fees for these licenses; it is assumed that fees would cover costs of investigating and regulating electronic gaming device suppliers.

Any benefit to the State in terms of increased revenue, either from the jobs to be created or increased wagering on horse racing due to more people attending betting facilities, cannot be reliably estimated at this time.

State Expenditures: State expenditures will increase for regulatory costs. The amount of these costs depends upon the regulatory structure decided upon by the commission. Based on recent experience in Delaware, which expects to spend approximately \$1 million to regulate 2,000 devices at two locations, regulatory costs can be expected to total about \$3.5 million for 11,500 devices at six locations. This amount would be deducted from the general fund's share of the revenue distribution.

The \$600,000 in license fees would presumably be spent on activities related to compulsive gambling.

Local Revenues: Local revenues will increase primarily due to the distributions of revenue to those jurisdictions in which the licensees operate. Revenues will also increase for other jurisdictions because 4% of the State revenue will be distributed to those jurisdictions without devices. The total amount of electronic gaming device tax distributed to local governments is estimated at \$19.8 million in fiscal 1997.

To the extent that gross revenues of electronic gaming devices are diversions of expenditures on items taxed under the admissions and amusement tax, current local revenues could decline accordingly.

Information Source(s): Department of Labor, Licensing, and Regulation (State Racing Commission); Department of State Police; Office of the Comptroller (General Accounting Division); Department of Fiscal Services

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