

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Preliminary Estimate

House Bill 1435 (Delegate Arnick)
Ways and Means

Racing Commission - Slot Machines at Racetracks

This bill authorizes slot machines at racetracks.

This bill is effective July 1, 1996.

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, nor the revenue increases due to additional jobs and economic aspects at the race tracks. The data in this estimate reflect the State and local revenue that would be generated from the number of slot machines authorized in this bill and the expenditures for regulatory activities of State agencies.

General fund revenues could increase by \$74.0 million in FY 1997; general fund expenditures could increase about \$2.5 million. Out-year estimates are annualized and reflect 3% inflation.

(\$ in millions)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
GF Revenues	\$74.0	\$101.6	\$104.6	\$107.8	\$111.0
GF Expenditures	2.5	2.6	2.7	2.7	2.8
Net Effect	\$71.5	\$99.0	\$101.9	\$105.1	\$108.2

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

Local Effect: Local revenues could increase by \$24.7 million in FY 1997 and \$33.8 million in FY 1998. Expenditures would not be affected.

Fiscal Analysis

Bill Summary: The Racing Commission is authorized to issue slot machine licenses. An applicant for a slot machine license must be a mile thoroughbred racing licensee or a harness racing licensee. A license allows the operation of up to 2,000 slot machines at each track at which the license holder conducts racing. The slot machines must pay out from 87% to not more than 95% on an annual basis. The win is taxed at 30%. The general fund receives 15%, the host county or counties receive 3%, the other counties receive 2%, and purses receive 10%. At least 22% of the remaining funds must be used for activities which promote the well-being of the racing industry.

The commission is the regulatory authority for slot machines. The commission must submit monthly and annual reports showing total slot machine revenue, prize disbursements, and other expenses for the preceding month and year. The commission may impose a penalty of \$5,000 per day on license holders who are in violation of regulations or other conditions the commission sets. Violation of other provisions is a misdemeanor, and violators are subject to a fine not exceeding \$2,500, imprisonment not exceeding 2 years, or both.

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 slot machines, nor the revenue increases due to additional jobs and economic aspects at the race tracks. The data in this preliminary estimate of fiscal impact reflects the State and local revenues that would be generated from the number of slot machines authorized in this bill and the expenditures for regulatory activities of State agencies.

General fund revenues could increase by \$74.0 million in fiscal 1997. This estimate is based on the following facts and assumptions:

- 8,000 machines would be operational by October 1, 1996;
- 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 \$493 million, although this figure could be higher due to the novelty of slot machines. For fiscal 1998, the first full year of operation, the win would be \$677 million assuming 3% growth in win per day. The 15% tax going to the general fund would result in a revenue increase of \$74.0 million in fiscal 1997 and \$101.6 million in fiscal 1998.

Some portion of gross revenues of the slot machines will be expenditures diverted from other spending in the State. To the extent that expenditures on lottery games are spent instead on

slot machines, 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 will also increase for license fees, but the bill does not specify the license fee.

Any benefit to the State in terms of increased revenue, either from any jobs 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 \$2.5 million for 8,000 devices at four locations. Revenue from license fees would presumably cover some portion, but probably not all, of these expenditures.

Local Revenues: Local governments receive 5% of the slot machine win. Those counties which host racetracks will receive 3%, while the other 2% will be distributed to all other counties. In fiscal 1997, the host counties will receive a total of \$14.8 million, while the remaining counties will receive \$9.9 million. In fiscal 1998, these figures are \$20.3 million and \$13.5 million, respectively.

To the extent that gross revenues of slot machines 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 Fiscal Services

Fiscal Note History: First Reader - April 4, 1996
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