

Department of Fiscal Services  
Maryland General Assembly

FISCAL NOTE

House Bill 1433 (Delegate C. Davis, *et al.*)  
Ways and Means

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**Racing Commission - Slot Machines at Racetracks**

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This bill authorizes slot machines at thoroughbred and harness racetracks in the State. The State Racing Commission is the regulatory authority, and is responsible for issuing licenses, conducting background investigations, and establishing regulations regarding license fees, advertising, accounting procedures, hours of operation, security requirements and other aspects of slot machine activity. The commission must submit to the Governor and the General Assembly monthly and annual reports showing total slot machine revenues, prize disbursements, and other expenses for the preceding month and year.

A license is valid for five years and authorizes the holder to operate 2,000 slot machines. The payout from the slots shall be between 87% and 95% on an annual basis. The licensee shall allocate 10% of the win to the general fund of the State, 10% to the counties for education, half of which is for the host county, and 10% to purses. An additional 22% of the remaining funds shall be used by the licensee to maintain and upgrade track facilities and market racing.

This bill is effective July 1, 1997.

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**Fiscal Summary**

**State Effect:** General fund revenues could increase by \$49.3 million in FY 1998; out-year revenues reflect annualization. General fund expenditures could increase by an estimated \$3.0 million. Out-year estimates reflect annualization and 2% inflation.

(in millions)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	\$49.3	\$65.7	\$65.7	\$65.7	\$65.7
GF Expenditures	3.0	3.1	3.1	3.2	3.2
Net Effect	\$46.3	\$62.6	\$62.6	\$62.5	\$62.5

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

**Local Effect:** Local revenues could increase an estimated \$49.3 million in FY 1998 and \$65.7 million annually thereafter. Expenditures would not be affected.

**Small Business Effect:** Meaningful impact on small businesses as discussed below.

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## Fiscal Analysis

**State Revenues:** General fund revenues could increase by \$49.3 million in fiscal 1998. This estimate is based on the following facts and assumptions:

- 8,000 machines would be operational by October 1, 1997;
- the average win per day per machine is \$225; and
- the machines operate 365 days per year.

The total win for fiscal 1998 is estimated at \$493 million, although this figure could be higher due to the novelty of slot machines. For fiscal 1999, the first full year of operation, the win would be \$657 million. The 10% distribution to the general fund would result in a revenue increase of \$49.3 million in fiscal 1998 and \$65.7 million in fiscal 1999.

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 spends approximately \$1 million to regulate 2,500 devices at three locations, regulatory costs can be expected to total about \$3.0 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 would receive 10% of the slot machine win. Those counties which host racetracks would receive 5%, while the other 5% would be distributed to

all other counties. In fiscal 1998, the host counties would receive a total of \$24.7 million, and the other counties would receive \$24.7 million. In fiscal 1999, each distribution would be \$32.9 million.

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.

**Small Business Effect:** This bill would have substantial direct and indirect effects on small businesses. The provision of supplies, including slot machines, would result in increased revenue for suppliers. Tourism related businesses could also experience increased business activity. Additionally, to the extent that gaming device wagering replaces other types of entertainment expenditures, revenues of these businesses would decline.

It is anticipated that net economic activity would increase, particularly because of an increase in expenditures in the State from non-residents.

Enhancing the purses would result in increased income for horse owners, breeders and trainers, many of whom are presumed to be small businesses. Harness purses totaled \$7.9 million in 1996, while thoroughbred purses totaled \$41.0 million. This bill would increase total purses by \$49.3 million in fiscal 1998, or about 100%. To the extent that increased purses result in more out-of-state horses racing in Maryland, the increased income for Maryland owners, breeders and trainers would be reduced.

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**Information Source(s):** Department of Labor, Licensing and Regulation (State Racing Commission), Department of Fiscal Services

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