

Department of Fiscal Services  
Maryland General Assembly

FISCAL NOTE

House Bill 955 (Delegates C. Davis and Bonsack)  
Ways and Means

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Maryland Racing and Electronic Gaming Act

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

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Fiscal Summary

**State Effect:** General fund revenues could increase by an estimated \$61.0 million in FY 1998. Special fund revenues and expenditures could increase in FY 1998 by an estimated \$37.0 million for regulatory costs, \$9.4 million for purses, \$1.2 million for the Agricultural Land Preservation Fund, and \$700,000 for compulsive gambling programs. Out-years reflect annualization and full implementation of the bill. General fund revenues could increase an additional amount for regulatory and vendor costs, as discussed below.

(in millions)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	\$61.0	\$81.3	\$81.3	\$81.3	\$81.3
SF Revenues	48.3	188.0	188.0	188.0	188.0
SF Expenditures	48.3	188.0	188.0	188.0	188.0
Net Effect	\$61.0	\$81.3	\$81.3	\$81.3	\$81.3

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

**Local Effect:** Local revenues could increase by an estimated \$37.6 million in FY 1998 and \$61.1 million annually thereafter. Expenditures would be affected as discussed below.

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

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## Fiscal Analysis

**Bill Summary:** This bill authorizes the State Racing Commission, in conjunction with the State Lottery Agency, to issue licenses to conduct electronic gaming and to regulate such gaming. The bill also levies a State tax 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, Pimlico Race Course, and Rosecroft Raceway are each allowed to operate 2,500 electronic gaming devices. These licenses shall remain in force so long as the licensee maintains live racing at 1996 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.

Four 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 all conditions and requirements set by the Racing Commission. Licenses may only be issued to satellite simulcast applicants under the following conditions:

- the local governing body must have authorized by local ordinance or through a referendum 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 1,000 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 10,000.

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 State Lottery Agency is responsible for testing the electronic gaming devices, and for providing real-time monitoring and accounting for the gaming device network.

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*

A State tax, computed on a monthly basis, is imposed on the win from electronic gaming devices at racetracks in the following rates: 18% of the first \$100 of the statewide average daily win per machine; 24% of the next \$100; 30% of the next \$100; and 36% of the statewide average daily win per machine over \$300.

An additional tax is imposed, the proceeds of which are dedicated to the purse dedication account that is created by this bill. This tax, computed on a monthly basis, is imposed on the win from electronic gaming devices in the following rates: 12% of the first \$100 of the statewide average daily win per machine; 16% of the next \$100; 20% of the next \$100; and 24% of the statewide average daily win per machine over \$300. Up to 5% of the monies received by the Maryland-bred race fund through this distribution can be used by the organization representing a majority of the thoroughbred breeders licensed in the State for marketing and promotion of the State's thoroughbred racing and breeding industry.

The distribution of revenues from these taxes is shown in **Exhibit 1**, below.

The remaining win, after deduction of the above taxes, is to be shared among licensees in proportion to the number of electronic gaming devices operated by each licensee. At least 20% of the win must be used to improve the facilities and services of the tracks and to increase marketing activity for racing. The licensees must also retain 0.25% of the win for the appropriate pension fund.

Each of the local jurisdictions receiving funds from this tax must use 10% of the distribution

for improvements in infrastructure and services in the areas surrounding the tracks.

A tax of 24.57% is imposed on the win of a licensee at a satellite simulcast facility, composed of the following: 18% to pay costs of regulation, 2% to the local governing body where the facility is located, and 4.57% to the purse dedication account. This distribution is shown in **Exhibit 1**, below.

**State Revenues:** State revenues could increase by \$109.3 million in fiscal 1998. This estimate is based on the following assumptions:

- the 7,500 machines at race tracks are operational by October 1, 1997;
- half of the 10,000 machines at satellite simulcast facilities are operational by January 1, 1998, and the other half are operational by July 1, 1998;
- the average win per day per machine is \$225; and
- the machines operate 365 days per year.

**Exhibit 1**  
**Distribution of Revenues from Slot Machines - FY 1998 and 1999**  
(\$ in millions)

<u>Distribution</u>	<u>FY 98</u>	<u>FY 99</u>	<u>Distribution</u>	<u>FY 98</u>	<u>FY 99</u>
<i>Tax on EGD at Tracks</i>	\$101.6	\$135.5	<i>Additional Tax on EGD at Tracks</i>	\$67.8	\$90.3
General Fund (60%)	61.0	81.3	Thoroughbred Purses (59.34%)	40.2	53.6
Baltimore City (11%)	11.2	14.9	Standardbred Purses (29.67%)	20.1	26.8
Prince George's County (11%)	11.2	14.9	Maryland-Bred Race Fund (7.33%)	5.0	6.6
Anne Arundel County (8.5%)	8.6	11.5	Standardbred Race Fund (3.66%)	2.5	3.3
Howard County (1.5%)	1.5	2.0			
Laurel (1%)	1.0	1.4	<i>Tax on EGD at Satellite Facilities</i>	\$50.5	\$201.8
508 Fund (5%)	5.1	6.8	Costs of Regulation (73.3%)	37.0	147.8
Agr. Land Pres. Fund (1.5%)	1.2	2.0	Local Governments (8.1%)	4.1	16.4
Maryland State Fair (0.5%)	0.5	0.7	Purse Dedication Account (18.6%)	9.4	37.5

The total win for fiscal 1998 is estimated at \$667 million, although this figure could be higher due to the novelty of electronic gaming devices. For fiscal 1999, the first full year of operation, the win would be \$1.4 billion. The tax on machines at the tracks, at an effective

rate of 22%, would generate \$101.6 million in fiscal 1998 and \$135.5 million in fiscal 1999. The additional tax on machines at the tracks, at an effective rate of 14.7%, would generate \$67.8 million in fiscal 1998 and \$90.3 million in fiscal 1999. The 24.57% tax on machines at satellite simulcast facilities would generate \$50.5 million in fiscal 1998 and \$201.8 million in fiscal 1999. **Exhibit 1** shows the distribution of this revenue.

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 \$700,000 annually, assuming all seven licenses are issued in fiscal 1998. 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 revenues, 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 spends approximately \$1 million to regulate 2,500 devices at three locations, regulatory costs can be expected to total about \$7.0 million for 17,500 devices at seven locations. These funds would come from the portion of the tax on gaming devices at satellite simulcast facilities distributed for this purpose.

It is assumed that expenses incurred by the State Lottery Agency would be paid from this source as well. The majority of increased expenditures for the agency would likely be for a contractor to provide real-time accounting and monitoring of the electronic gaming device network, and for testing the gaming devices. These costs would depend on bids from interested vendors, and cannot be reliably estimated at this time. For comparative purposes, the lottery's contract with its current provider of lottery games costs 0.789% of sales. Distributions to vendors under contract with Delaware for its video lottery machines totaled about 1.625% of the total handle (about 12.5% of the win). At 12.5% of the win, contractor costs could reach \$175 million in fiscal 1999. This amount would exceed that set aside for regulatory costs; the remainder would presumably come from the general fund. Additional positions required by the Lottery Agency would add to the total expenditures.

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

**Local Revenues:** As shown in **Exhibit 1**, distributions to local governments could total \$37.6 million in fiscal 1998 and \$61.1 million in fiscal 1999. To the extent that gross revenues of electronic gaming devices are diversions of expenditures on items taxed under the admissions and amusement tax, local revenues could decline accordingly.

**Local Expenditures:** This bill requires that 10% of the funds received by local governments from the tax on devices at racetracks to be spent on infrastructure and other improvements. These expenditures could total \$3.35 million in fiscal 1998.

**Small Business Effect:** The bill requires the construction of resort complexes and the employment of 1,000 people, thus, this bill would have substantial direct and indirect effects on small businesses. The construction of resort complexes would increase business for construction-related businesses. The provision of supplies for the resorts, including electronic gaming devices and related supplies, would result in increased revenue for suppliers. Tourism related businesses could also experience increased business activity.

It is assumed that existing restaurants, hotels, and other similar establishments would realize a loss in business activity as a result of the additional competition from resort complexes. 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 expected 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 double the purses for thoroughbred races, and increase harness purses by about 300%. 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); Delaware State Lottery; Department of Fiscal Services

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