Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

House Bill 1324 (Delegate C. Davis)
Ways and Means

Lottery Commission - Video Lottery Terminals at Racetracks

This bill authorizes video lottery terminals (VLTs) at racetracks in the State, provides for the regulation of VLTs by the State Lottery Commission, and provides for the distribution of revenue from VLTs.

This bill is effective July 1, 1998.

Fiscal Summary

State Effect: General fund revenues could increase by an estimated $135.3 million in FY 1999; out-year estimates reflect annualization. Income and other tax revenues could increase an indeterminate amount through economic activity generated by VLT operations. Fee revenues will offset administrative costs of the State Lottery Commission.

(in millions)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
GF Revenues	$135.3	$180.3	$180.3	$180.3	$180.3
GF Expenditures	--	--	--	--	--
Net Effect	$135.3	$180.3	$180.3	$180.3	$180.3

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

Local Effect: Local revenues could increase by an estimated $67.6 million in FY 1999 and $90.2 million annually thereafter. Expenditures would not be affected.

Small Business Effect: Meaningful.

Fiscal Analysis

Bill Summary: This bill permits video lottery operations at mile thoroughbred and harness racetracks in the State. Licenses, which are valid for five-year periods, entitle the licensee to operate 2,000 VLTs. The State Lottery Commission is the regulatory body for VLTs. Licensees violating provisions of law, regulations, or orders of the State Lottery Commission are subject to fines of up to $5,000 per day.

The commission is to: establish a licensing system for video lottery employees; establish and collect application and license fees to cover the costs of regulation; certify revenue from VLTs; define the rules, odds, and methods of operation of VLTs; govern the manufacture and servicing of VLTs; provide financial standards for licensees; prohibit minors from playing VLTs; and establish a payout percentage for VLTs of not less than 83% annually. The commission may inspect and examine all premises in which VLT operations are conducted; seize and remove any VLTs or associated equipment; and inspect, examine, and seize any books, records, cash boxes, or any other physical objects relating to video lottery operations.

The commission is to submit to the Governor and the General Assembly a monthly report stating the proceeds, total prize disbursements, total costs and other expenses, and an annual report stating the same for the preceding year. The commission shall also submit a report whenever an immediate change in State law is required to prevent an abuse of law or regulation regarding VLTs, or to rectify an undesirable condition in the operation or administration of VLTs.

The first allocation of revenue is for the costs of leasing, purchasing, repairing, and maintaining the VLTs, associated equipment, and the central computer. After those costs have been deducted, the distribution is as follows:

- up to 42% of the remainder for operations costs and a reasonable return for the licensee;
- 11% to increase purses (70% for mile thoroughbred racing tracks and Timonium, 30% for harness racing tracks);
- 3% to increase the bred funds (70% for the Maryland-Bred Race Fund, 30% for the Standardbred Race Fund);
- 30% to the general fund; and
- 15% divided equally among the local subdivisions in which the VLTs are located.

State Revenues: General fund revenues could increase by $135.3 million in fiscal 1999 based on the following facts and assumptions:

- º 8,000 machines will be operational by October 1, 1998;
- º the average win per day per machine is $225; and
- º the machines operate 365 days per year.

The total win for fiscal 1999 is estimated at $493 million, although this figure could be higher due to the novelty of VLTs. In fiscal 2000, the first full year of operation, the total win is estimated at $657 million. The table below shows the estimated distribution of revenues for fiscal 1999 and 2000; it is assumed that vendor costs would total approximately 8.5% of gross proceeds, and that licensees would receive 41% of gross proceeds (rather than the maximum of 42% allocated by the bill, as the bill's distribution of revenue totals to 101%).

Distribution of Estimated VLT Revenues
Fiscal 1999 and Fiscal 2000
($ in millions)

	Fiscal 1999	Fiscal 2000
Total Win	$492.8	$657.0
Operational Costs	41.9	55.8
Remainder	450.9	601.2
Licensees (41%)	184.9	246.5
Purses (11%)	49.6	66.1
Breed Funds (3%)	13.5	18.0
General Fund (30%)	135.3	180.3
Local Governments (15%)	67.6	90.2

Revenues would also increase an indeterminate amount through application, license, and other fees. The commission is to set these fees to cover the costs incurred in the regulation of VLTs. This revenue increase cannot be reliably determined at this time; the commission would set the fees by regulation.

To the extent that new jobs are created, income tax revenues could increase. Revenues could decline if consumers transfer spending from goods or services taxable under the sales tax or from the State lottery to VLT wagering. Revenues could also decline if jobs in competing entertainment-related businesses are lost. These indirect effects cannot be reliably estimated at this time.

State Expenditures: Expenditures would increase for the regulation and operation of VLTs. The State Lottery Commission is to set application, license, and other fees to cover the costs of regulating VLTs, except for payments to vendors. Based on recent experience in Delaware, which spent approximately $1 million to regulate 2,500 devices at three locations, regulatory costs could be expected to total about $3 million to regulate 8,000 devices at four locations.

The costs for the purchase or lease of VLTs, as well as setting up and maintaining the system, would depend on any contracts negotiated between the State and vendors. Vendor fees in Delaware have been about 12.6% of gross proceeds; this amount is currently being renegotiated substantially downward. The above revenue estimate was based on vendor fees totaling about 8.5% of gross proceeds.

Local Revenues: Local jurisdictions in which VLT licensees are located would receive $67.6 million in fiscal 1999 and $90.2 million in fiscal 2000, to be distributed equally. In fiscal 1999, $16.9 million would be distributed to Anne Arundel, Prince George's, and Worcester counties and to Baltimore City. The fiscal 2000 distribution would be $22.6 million.

To the extent that expenditures on items taxed under the admissions and amusements tax are transferred to VLT wagering, local revenues could decline. Local revenues would also be affected by any changes in property values, positive or negative, occurring because of the introduction of VLTs. These effects cannot be reliably estimated at this time.

Small Business Effect: This bill would have substantial direct and indirect effects on small businesses. The provision of supplies, including VLTs, would result in increased revenue for suppliers. Tourism-related businesses could also experience increased business activity. To the extent that VLT wagering replaces other types of entertainment expenditures, revenues of those 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. Purses totaled over $50 million in 1997; the $66.1 million increase in fiscal 2000 represents an increase of almost 130%. 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.

Information Source(s): Department of Labor, Licensing, and Regulation (State Racing Commission), State Lottery Agency, Department of Legislative Services

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