

Department of Legislative Services  
Maryland General Assembly

FISCAL NOTE

House Bill 678 (Delegate Rawlings. *et al.*)

Ways and Means

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State Lottery Commission - Video Lottery Terminals - Revenues and Funding

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This bill proposes a constitutional amendment which authorizes video lottery terminals (VLTs) at up to 10 locations in the State, provides for the distribution of revenue from video lottery terminals, creates the Education Trust Fund and other special funds, and prohibits the General Assembly from adopting any laws authorizing any additional forms or expansion of commercial gaming.

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Fiscal Summary

**State Effect:** Special fund revenues would increase by an estimated \$54.6 million in FY 1999, increasing to \$428.1 million in FY 2001, the first full year of operation for all authorized VLTs. Income and other tax revenues could increase an indeterminate amount through economic activity generated by VLT operations. Expenditures could increase for education, horse racing purses, and tourism development to the extent included in future years' proposed budgets and appropriated by the General Assembly. Fee revenues will offset administrative costs of the State Lottery Commission.

(in millions)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
SF Revenues	\$54.6	\$354.6	\$428.1	\$427.9	\$427.6
SF Expenditures	--	--	--	--	--
Net Effect	\$54.6	\$354.6	\$428.1	\$427.9	\$427.6

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

**Local Effect:** Revenues for localities with VLTs would increase by an estimated \$11.7 million in FY 1999, and \$29.1 million in FY 2000. In the out-years, this amount would increase by 2% annually. Expenditures would not be affected.

**Small Business Effect:** Meaningful.

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## Fiscal Analysis

**Bill Summary:** This bill permits video lottery operations at Laurel, Pimlico, and Rosecroft racetracks, all five existing off-track betting facilities (OTBs) (in Cecil, Dorchester, and Frederick counties, and two in Charles County), and at tourist destination locations in Western Maryland and on the Eastern Shore. Licenses may only be issued at OTBs and tourist destination locations if this constitutional amendment receives a majority of the votes cast in each respective county. Video lottery licensees at OTBs may have 250 VLTs; all others may have 2,000 VLTs for a total of 11,250 authorized VLTs. The bill also establishes the Education Trust Fund (ETF), and details the programs on which expenditures from the fund may be made.

### *Regulation*

The State Lottery Commission is the regulatory body for video lotteries. The commission shall own or lease and control each VLT, associated equipment, and the central computer. Among other duties, the commission must establish application and license fees to cover administrative costs; establish the rules, odds, and method of operation of VLTs; prescribe the grounds and procedures for reprimands and revocation or suspension of licenses; oversee the manufacture, distribution, and servicing of VLTs; require periodic financial reports from licensees; prohibit licensees from allowing minors to play VLTs; and establish the payout percentage, which must not be less than 83% on an annual basis. The commission shall also license video lottery operators, video lottery employees, service technicians, and manufacturers. The commission has the authority to inspect and examine all premises in which video lottery operations are conducted and any VLTs and associated equipment, and to seize any VLTs and associated equipment. The commission may also inspect, examine, audit and seize books, records and documents relating to a licensee's VLT operations.

At least \$100 million must be invested by each licensee on construction and related costs, except for OTB licensees, who must invest at least \$10 million each. License holders at race tracks must provide 500 additional full-time jobs; those at tourist destination facilities must provide 800 full-time jobs; those at OTBs must provide at least 200 additional full-time jobs.

If licenses are issued to tourist destination facilities, the State Racing Commission is to issue OTB permits to the license holders. All video lottery licensees must endeavor to spend 14% of the total dollars spent on construction and procurement on services and goods provided by minority businesses.

### *Distribution of Revenue*

The first allocation of revenue is for the costs of leasing, purchasing, repair, and maintenance of VLTs and associated equipment, as well as impact aid for counties where VLT facilities

are located. If, at the end of the fiscal year, the proceeds from all VLTs average \$250 per day per machine or less:

- up to 47% of the remaining proceeds (after the above costs) are distributed to the video lottery facility licensee;
- 9% is distributed to the purse dedication account;
- 1% is distributed to the Maryland Tourism Development Board;
- 0.5% is distributed to holders of track licenses except those who have video lottery facilities;
- the remainder (at least 42.5%) is distributed to the Education Trust Fund.

If proceeds from all VLTs exceed \$250 per day per machine, the above distribution is followed for the first \$250. Of the excess, no more than half, as determined by the commission, is distributed to the VLT licensees, and the remainder (at least half) is distributed to the ETF.

#### *Education Trust Fund*

A nine-member Education Trust Fund Board, chaired by the State Superintendent of Schools, is created to oversee the allocation of expenditures from the ETF. The State Superintendent of Schools is the chairman of the board. The board is required to report to the Governor and General Assembly by November 1 each year on the beginning balance and projected revenues of the fund, multi-year commitments for operating or capital purposes, and the proposed overall budget and allocation of funds for the upcoming fiscal year. The Governor may adjust the board's proposed allocation of funds within the overall ETF budget and purposes for which the funds are designated.

Expenditures on the following programs are authorized from the fund:

- the extended elementary education program, which is an existing program providing pre-kindergarten programs to four-year olds from low-income families;
- full-day kindergarten with before and after school care for "at risk" children eligible for free and reduced price meals (a new program);

- technology in education, to fully fund the Maryland Plan for Technology in Education, which calls for all schools to be wired for technology and for the provision of hardware, software, and teacher training;
- the State Library Resource Center and regional resource centers, for improved library services and technology enhancements;
- the Opportunities Scholarship Fund, for scholarships of up to the full cost of University of Maryland, College Park tuition for Maryland high school graduates and college students with B averages or higher and family incomes of not more than \$85,000 (a new program);
- the State's student financial assistance programs, to reduce waiting lists for financial assistance;

and for Maryland's public senior higher educational institutions, expenditures from the ETF may be made for:

- the Eminent Scholar Fund, to create endowed chairs;
- raising faculty salaries to the 90th percentile of their peer institutions;
- providing and maintaining information technology infrastructure.

Expenditures may also be made from the fund for the public school construction program or any other education related purpose approved by the board. The Governor is to include in each year's proposed budget for these programs an amount not less than the amount appropriated in the prior fiscal year.

#### *Other Revenue Uses*

The Purse Dedication Account is created to enhance purses at the racetracks. Expenditures may only be made through an appropriation in the State budget or by budget amendment, and only by the following allocation: 62.3% to mile thoroughbred purses; 7.7% to the Maryland-Bred Race Fund; 26.67% to standardbred purses; and 3.33% to the standardbred race fund.

Funds distributed to the Maryland Tourism Development Board shall be expended for statewide tourism promotion, including heritage and other tourism areas. A Compulsive Gambling Fund is established, and funded by a \$350 annual fee for each VLT. The fund is to be used by the Department of Health and Mental Hygiene for a 24-hour hotline for compulsive gamblers, and to provide counseling and other support services.

**State Revenues:** The table below shows the estimated proceeds of VLTs and their distribution for fiscal 1999, the first year of operation, through fiscal 2001, the first year in

which the full allotment of VLTs would be in operation for the entire year (numbers may not add due to rounding).

**Distribution of Estimated VLT Revenues**  
Fiscal 1999 through Fiscal 2001

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Vendor Costs	\$10,758,000	\$65,443,000	\$78,750,000
Impact Aid	11,742,000	29,143,000	29,725,000
VLT Licensees	48,910,000	317,408,000	383,253,000
Purse Dedication Account	9,366,000	60,780,000	73,389,000
Tourism Promotion	1,041,000	6,753,000	8,154,000
Non-VLT Tracks	520,000	3,377,000	4,077,000
Education Trust Fund	44,227,000	287,018,000	346,558,000
<b>Gross Proceeds</b>	<b>\$126,563,000</b>	<b>\$769,922,000</b>	<b>\$923,906,000</b>

These estimates are based on average proceeds per VLT per day of \$225, and assume one-third of the VLTs are operational in February, 1999, one-third in July 1999, and the final third in January 2000. It is assumed that vendor costs would total approximately 8.5% of gross proceeds. The estimates show the maximum distribution to VLT licensees; the commission could distribute a lesser amount. If so, the difference would be credited to the ETF.

If the average proceeds per VLT per day were \$300, the distribution to the ETF would be an estimated \$481.8 million in fiscal 2001, and the distribution to VLT licensees would be an estimated \$522.0 million.

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.

An additional revenue increase of \$350 per VLT, or \$3,937,500 annually, would be credited to the Compulsive Gambling Fund. Any fines levied under this bill would be credited to the ETF. Revenues could also increase due to increases in wagering tax revenues. If both tourist destination locations receive VLT licenses, they would also receive OTB permits, which could lead to an increase in total wagering.

To the extent that new jobs are created pursuant to this bill, 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 business are lost. These indirect effects cannot be reliably estimated at this time.

**State Expenditures:** Expenditures would increase for the regulation and operation of VLTs, for local impact aid, and through expenditures from the special funds established under this bill.

#### *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 \$4 million to \$5 million to regulate 11,250 devices at 10 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. If the actual amount should be less than 8.5% of gross proceeds, all revenue distributions except impact aid would increase proportionally.

#### *Local Impact Aid*

The bill provides local impact aid for jurisdictions in which VLT operations are located. This aid is to be used for infrastructure, facilities, services, and other improvements. The table below shows the estimated aid for each jurisdiction in the first two years of VLT operations, assuming operations begin February 1, 1999 (numbers may not add due to rounding).

#### Local Impact Aid Distributions

<u>VLT Location</u>	<u>Grantee</u>	<u>Fiscal 1999</u>	<u>Fiscal 2000</u>
Pimlico	Baltimore City	\$4,110,000	\$10,201,000
Rosecroft	Prince George's	3,289,000	8,163,000
Laurel	Anne Arundel	1,481,000	3,675,000
	Howard	494,000	1,225,000
	Laurel	494,000	1,225,000
Tourist Destination Locations	County in Western Maryland	413,000	1,024,000
	County on Eastern Shore	413,000	1,024,000
OTBs	Cecil	210,000	521,000
	Charles	420,000	1,042,000
	Dorchester	210,000	521,000
	Frederick	210,000	521,000
Total		\$11,742,000	\$29,142,000

The fiscal 1999 amounts will grow by 2% each year in which VLT proceeds exceed the proceeds from the prior year.

#### *Education Trust Fund Expenditures*

The bill does not mandate items or amounts of expenditure from the ETF; the ETF board is to establish these. If the items specified in the bill were to be fully funded, however, the estimated costs would be as follows.

The extended elementary education program currently serves less than half of the four-year olds eligible for free and reduced price meals in the State, which is the basis of new eligibility criteria developed by the Maryland State Department of Education (MSDE). To serve the remaining eligible children would cost an estimated \$19.6 million in the first year and \$18.2 million annually thereafter. An additional \$36.1 million would be required to build 280 classrooms for the expanded program.

Full-day kindergarten provided to "at risk" children would cost an estimated \$21.4 million in the first year and \$18.9 million annually thereafter. The cost for an additional 271 classrooms would be approximately \$35 million. Before and after-school care could cost

from \$10.6 million to \$44.4 million. These costs are based on serving only at risk children; it may be difficult to limit these programs to only this population. These costs would increase for any other children included in the program.

The Maryland Plan for Technology in Education, developed by the Maryland Blue Ribbon Committee on Technology in Education in 1995, includes wiring all schools in Maryland for technology and providing hardware, software, and teacher training. The State's share of these costs is \$64.4 million over five years, with continuing costs of about \$14 million annually. The Governor is committed to providing \$58.2 million over five years, and the State has provided a total of \$13.9 million in fiscal 1997 and 1998. Thus, \$50.5 million remains to be funded over five years, plus an additional \$14 million annual cost.

Estimated costs for improved services and technology enhancements at the State Library Resource Center and the regional resource centers are \$5 million.

The Opportunities Scholarship Fund would provide a scholarship up to the full cost of tuition at University of Maryland, College Park, to Maryland high school graduates with a cumulative high school grade point average of B or higher in college preparatory courses and an annual family income of not more than \$85,000. The scholarship could be renewed up to three times for those who continue to maintain a B average in each academic year. If all students with a B average are initially eligible, costs could reach \$40 million in fiscal 1999, increasing by about 8% annually accounting for inflation and increased numbers of eligible students.

Further aid to students would be provided to reduce waiting lists in the State's programs. The State is currently meeting 28% of a student's demonstrated need in the Educational Assistance Grant Program. The Maryland Higher Education Commission has set a goal to fund 40% of the demonstrated financial need of eligible students, which would cost an additional \$27.7 million over the fiscal 1998 appropriation. To fully reduce waiting lists in the other financial assistance programs would cost an additional \$6.3 million. These costs could decline over time as students participate in the Opportunities Scholarship Program.

The Eminent Scholar Fund would accept private donations of at least \$500,000 which would then be matched by an equal amount of State funds. Up to six professorships could be created in any one year, at an annual cost of \$6 million.

For faculty salaries to reach the 90<sup>th</sup> percentile of peer institutions, an estimated \$22 million would be required. This would be funding over and above an additional \$1 million in fiscal 1997 and \$5 million in fiscal 1998 provided to help raise faculty salaries to the 85<sup>th</sup> percentile. Additional funds may be needed to enhance salaries at Morgan State University and St. Mary's College.



Providing and maintaining technology infrastructure at the senior public higher education institutions, including building modern telecommunications systems, classrooms, and laboratories; creating digital libraries; providing ample computer workstations for students; and enhancing distance learning technologies could cost \$15 to \$20 million annually.

Additional funds would be required each year to meet local requests for public school construction. In fiscal 1998 the State provided over \$150 million for school construction. In the last decade, local requests have exceeded appropriated State funds by \$120 million to \$200 million.

If all of these programs except public school construction were fully funded, annual operating costs would be an estimated \$196 to \$242 million, and one-time capital expenses would total an estimated \$71.1 million. This compares with approximately \$346 million for the ETF when all VLTs are in operation.

The only program requiring additional costs for administration would be the Opportunity Scholarship Program. This program would require four Program Specialists, at a cost of \$100,300 in fiscal 1999, and costs for equipment, contractual services and program start-up of about \$139,700, for a total cost of \$240,000 in fiscal 1999. The fiscal 2000 cost would be an estimated \$171,300, increasing at about 3% annually. The ETF Board could recommend that these costs be paid from the fund.

#### *Other Required Expenditures*

Funds from the Purse Dedication Account may only be expended in accordance with an appropriation in the State budget, or through a budget amendment, and must be distributed as indicated above. Assuming a full appropriation of the amount in the account in fiscal 2001 (the first year in which all authorized VLTs will be operating for the entire year), the mile thoroughbred purses would receive an estimated \$45.7 million; the Maryland-Bred Race Fund would receive an estimated \$5.7 million; standardbred purses would receive an estimated \$19.6 million; and the Standardbred Race Fund would receive an estimated \$2.4 million.

The estimated \$8.2 million dedicated for tourism promotion would not require any additional administrative expenditures. The Maryland Tourism Development Board issued \$1.2 million of grants in fiscal 1997; \$900,000 is included in the Governor's proposed fiscal 1999 budget.

The Compulsive Gambling Fund would be used to fund a 24-hour hotline for compulsive gamblers, and to provide counseling and other support services. Administrative expenses

would be deducted from the annual VLT fees credited to the fund, which would be an estimated \$1.3 million in fiscal 1999 and \$3.9 million in fiscal 2000 and thereafter.

**Local Revenues:** Revenues would increase for up to 10 counties and one municipality due to the distribution of impact aid (as shown in the table above). Impact aid will total \$11.7 million in fiscal 1999, and \$29.1 million in fiscal 2000, increasing by 2% annually.

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. This effect 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 \$73.4 million increase in fiscal 2000 represents an increase of almost 150%. 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):** Maryland State Department of Education, Maryland Higher Education Commission, Department of Business and Economic Development, Department of Legislative Services

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