HB 854

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 854 (Delegate C. Davis)
Ways and Means

Lottery Commission - Video Lottery Terminals

This bill authorizes video lottery terminals (VLTs) 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, 1999.

Fiscal Summary

State Effect: Special fund revenues could increase by $64.3 million in FY 2001 and $85.6 million annually beginning in FY 2002. General fund lottery revenues could decrease by $30 million in FY 2001 and $40 million annually beginning in FY 2002. General fund increase in fee revenues would be offset by administrative expenditures associated with regulating VLTs.

(in millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	($30.0)	($40.0)	($40.0)	($40.0)	($40.0)
SF Revenues	$64.3	$85.6	$85.6	$85.6	$85.6
GF Expenditures	-	-	-	-	-
Net Effect	$34.3	$45.6	$45.6	$45.6	$45.6

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

Local Effect: Local revenues could increase by an estimated $192.8 million in FY 2001 and $256.8 million annually beginning in FY 2002. 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, tourist destination locations in Baltimore City, Western Maryland, and the Eastern Shore (excluding Worcester County), and satellite simulcast facilities throughout the State. Licenses to operate VLTs are valid for one year. A racetrack or tourist destination with a license may operate up to 2,000 VLTs at each location while a satellite simulcast facility with a license may operate up to 250 VLTs at each location. The State Lottery Commission is the regulatory body for VLTs. Licensees that violate 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, manufacturers, and service technicians; 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 must 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 VLTs, associated equipment, and the central computer. After those costs have been deducted, the distribution is as follows:

- up to one-third of the remainder for operations costs and a reasonable return for the licensee;
- one-third to the jurisdiction in which the facility is located or, for locations with multiple jurisdictions, one-third apportioned to the affected jurisdictions based on the distribution of impact aid received by the jurisdictions;
- one-sixth to all counties without a VLT facility, divided among the counties based on a per capita basis; and
- one-sixth to the Transportation Trust Fund (TTF).

State Effect:

VLT Revenues

Distributions from VLTs will total $386 million in fiscal 2001 and $514 million annually beginning in fiscal 2002. Of these amounts, 16.67% will be distributed to the TTF, thus TTF revenues will increase by $64.3 million in fiscal 2001 and $85.6 million annually beginning in fiscal 2002. The estimate is based on the following facts and assumptions:

- there will be a start-up delay of about 15 months;
- 7,625 machines will be operational by October 1, 2000;
- the average play per day per machine is $2,000;
- each machine operates 360 days per year;
- 90% of the total play is paid out in prizes; and
- vendor costs would be approximately 6.4% of gross proceeds.

The total proceeds after prize payouts (gross proceeds) for fiscal 2001 is estimated at $412 million, which reflects the October 1, 2000 start-up date, although this figure could be higher due to the novelty of VLTs. In fiscal 2002, the first full year of operation, the gross proceeds are estimated at $549 million. After vendor costs of 6.4% are subtracted, the total available for distribution is $386 million in fiscal 2001 and $514 million in fiscal 2002. The table below shows the estimated distribution of revenues for fiscal 2001 and 2002. It assumes that licensees will receive one-third of the gross proceeds.

Distribution of Estimated VLT Revenues Fiscal 2001 and Fiscal 2002 ($ in Millions)		
	Fiscal 2001	Fiscal 2002
Total Gross Proceeds	$412.0	$549.0
Operational Costs	26.4	35.4
Remainder	385.6	513.6
Licensees (33.33%)	128.5	171.2
VLT Counties (33.33%)	128.5	171.2
Non-VLT Counties (16.67%)	64.3	85.6
TTF-special funds(16.67%)	64.3	85.6

Fee Revenues

General fund revenues would increase from application, license, and VLT usage fees. The bill specifies that fees should be established to cover the cost of regulating and monitoring VLT operation, thus general fund revenues could increase by at least $1.5 million, which is the estimated administrative costs for the program.

Lottery Revenues

Based on the experience of Delaware, which noted a 10% decline in lottery revenues when VLTs were introduced, general fund lottery revenues are estimated to decrease by about $30 million in fiscal 2001 and $40 million annually beginning in fiscal 2002.

Administrative Expenditures

As noted above, annualized administrative expenditures are estimated to be at least $1.5 million. The estimate assumes between 20 to 25 new employees for the program and it includes benefits, one-time start-up costs, and ongoing operational expenses. 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 exceed $1.5 million to regulate the 7,625 terminals at various locations throughout the State.

The 6.4% vendor costs mentioned above includes the cost of leasing and maintaining VLTs, and the cost of contracting for a central computer system to monitor VLT operations and revenue collections. This cost could vary depending on the contracts negotiated between the State and the vendors. Vendor fees in Delaware have been about 12.6% of gross proceeds; this amount is currently being negotiated downwards.

Other Effects

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 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.

Local Revenues: Local revenues could increase by the amounts presented in the table above: a total of $192.8 million in fiscal 2001 and $256.8 million annually beginning in fiscal 2002.
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 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.

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.

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

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