

Department of Legislative Services  
Maryland General Assembly

FISCAL NOTE

House Bill 1170 (Delegate Rawlings)

Ways and Means

---

**State Lottery Commission - Video Lottery Terminals - Revenues and Funding**

---

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

The bill takes effect July 1, 2000.

---

**Fiscal Summary**

**State Effect:** General fund revenues would increase by about \$17.3 million in FY 2002. Special fund revenues would increase by \$238.4 million in FY 2002. Future year revenue increases reflect annualization and growth by about 2% annually. General fund administrative expenditures will increase by \$77,000 in FY 2001. Out-year estimates reflect annualization and inflation. Special and general fund expenditures could increase for education, horse racing purses, local impact aid, tourism development, and grants to local fire departments to the extent that they are included in future years' proposed budgets and appropriated by the General Assembly. Fee revenues will offset administrative costs of the State Lottery Agency.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	\$0	\$17.30	\$21.40	\$22.50	\$23.70
SF Revenues	0	238.40	317.60	323.60	330.40
GF Expenditures	0.08	0.09	0.10	0.10	0.10
SF Expenditures	-	-	-	-	-
Net Effect	(\$0.08)	\$255.61	\$338.90	\$346.00	\$353.60

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

**Local Effect:** Revenues for localities with VLTs would increase due to impact aid by an

estimated \$42.3 million in FY 2002, and \$56.4 million in FY 2003. In the out-years, this amount would increase by 2% annually. Expenditures would not be affected.

**Small Business Effect:** Meaningful.

---

## Analysis

**Current Law:** Video lottery terminals are not authorized at any of the State's horse racing tracks.

**Bill Summary:** This bill permits video lottery operations of up to 2,500 VLTs each at Laurel, Pimlico, and Rosecroft racetracks and at a licensed track in Allegany County. The bill also establishes the Education Trust Fund (ETF), and details the programs which may be funded.

### *Regulation*

The State Lottery Commission is the regulatory body for video lotteries, and 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; establish the rules, odds, and method of operation of VLTs; prescribe procedures for reprimands, 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 on which video lottery operations are conducted, 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 VLT operation.

At least \$100 million must be invested by each licensee on construction and related costs, and license holders at race tracks must provide 500 additional full-time jobs. 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 proceeds from the VLT will be distributed as follows:

- local impact aid, to the ETF and to support local fire apparatus and equipment;
- cost of leasing, purchasing, repairing, and maintaining VLTs and associated equipment;
- 9% of the remainder to the purse dedication account; and
- no more than 45% of the remainder of the proceeds to operating costs of, and a reasonable return for the VLT facility licensees.

In addition, the bill provides that an annual fee of \$360 be assessed on each VLT and the revenues be distributed 50% to the Compulsive Gambling Fund (CGF) and 50% to the Maryland Tourism Development Board (MTDB).

#### *Education Trust Fund*

A nine-member ETF Board is created to oversee the ETF's allocation of expenditures. The board is required to report to the Governor and the 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 and designated purposes.

Authorized expenditures from the fund include: (1) the extended elementary education program; (2) full-day kindergarten with before and after school care for "at risk" children eligible for free and reduced price meals; (3) technology in education (to fully fund the Maryland Plan for Technology in Education); (4) the State Library Resource Center and regional resource centers; (5) the State's Student Financial Assistance programs; (6) the Pre-K to 12 Academic Intervention Initiative; (7) Teacher Quality Initiatives; (8) K-16 Initiatives; and (9) other education-related purposes 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 (PDA) 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 MTDB shall be expended for statewide tourism promotion, including heritage and other tourism areas. A Compulsive Gambling Fund is established for a 24-hour hotline for compulsive gamblers, and to provide counseling and other support services.

The bill requires the Maryland Stadium Authority (MSA) to review, approve, and manage any capital improvement project of \$1 million or more at a horse racing track or other related facility financed directly or indirectly with VLT proceeds. Before the MSA may enter into any contracts regarding proposed projects, it must notify the Legislative Policy Committee (LPC) of the proposed project and wait for the LPC's review and comments.

**State Revenues:**

*VLT Revenues*

Distributions from VLTs will total \$540 million in fiscal 2002 and \$720 million annually, beginning in fiscal 2003. Of the fiscal 2002 amount, \$42.2 million will be distributed as local impact aid, \$5 million will be used as grants for fire equipment, \$196.4 million will be distributed to the ETF, \$38.4 million will be used to enhance bred purse funds, and \$192 million will be retained by VLT licensees. The estimate is based on the following facts and assumptions:

- there will be a start-up delay of about 15 months;
- 10,000 VLTs (the maximum) will be operational by October 1, 2001;
- the average play per day per machine is \$2,000 and 90% of the total play is paid out in prizes (thus, the average win is \$200);
- the VLTs will operate 360 days a year (270 in fiscal 2002);
- vendor costs would be approximately 12.19% of gross proceeds; and
- local impact aid will be based on the minimum daily amount specified in the bill.

The distributions for fiscal 2002 accounts for the October 1, 2001, start-up date, although this figure could be higher due to the novelty of VLTs. The fiscal 2003 estimate reflects the first full year of operation. The table below shows the estimated distribution of revenues for fiscal 2002 and 2003. If a larger amount is paid in local impact aid, the distribution to the ETF would decline by a corresponding amount.

<b>Annualized Distribution of Estimated VLT Revenues FY 2002 and FY 2003</b>		
	Fiscal 2002	Fiscal 2003
<b>Gross Revenues</b>	\$540,000,000	\$720,000,000

<b>Distribution</b>		
Local Impact Aid (GF)	\$42,280,650	\$56,374,200
Grants for Fire Apparatus/Equip.(GF)	\$5,000,000	\$5,000,000
Education Trust Fund (SF)	\$196,370,941	\$262,594,588
Purchase and Maintain VLTs	\$42,280,650	\$56,374,200
Purse Enhancement Fund (SF)	\$38,420,402	\$51,377,202
Net to Licensees	\$192,102,008	\$256,886,010

### *Fee Revenues*

General fund revenues would increase from application, license, and VLT usage fees assessed by the Lottery Agency to cover the cost of regulating and monitoring VLT operation. Thus, general fund revenues could increase by at least \$2.5 million, the estimated administrative costs.

### *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 \$30 million in fiscal 2002 and \$40 million annually, beginning in fiscal 2003.

### *Other Revenues*

An additional revenue increase of \$360 per VLT, or \$3.6 million annually, will be credited 50% to the CGF (\$1.8 million) and 50% to the MTDB (\$1.8 million). Any fines levied under this bill would be credited to the ETF. Revenues could also increase due to increases in wagering tax revenues.

To the extent that new jobs are created pursuant to this bill, income tax revenues could increase. Sales tax revenues could decline if consumers transfer spending from taxable goods or services 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.

### *Administrative Expenditures*

As noted above, annualized administrative expenditures for the State Lottery Agency are estimated to be at least \$2.5 million. The estimate assumes between 30 to 35 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 \$2.5 million to regulate the 10,000 terminals at various State locations.

In addition, general fund administrative expenditures for the MSA increase by \$77,217 in fiscal 2001, which reflects the July 1, 2000, effective date. The estimate assumes that one project manager would be hired prior to the projected operational date of VLTs (October 2001) to review and oversee possible capital improvement projects at horse racing tracks or tourist destinations. The estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operational expenses. Future year estimates reflect annualization and inflation.

*Local Impact Aid*

The bill provides, subject to approval by the General Assembly, 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 minimum aid amount for each jurisdiction in the first two years of VLT operations.

---

<b>Local Impact Aid Distributions*</b>			
<u>VLT Location</u>	<u>Grantee</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>
Pimlico	Baltimore City	\$14,093,460	\$18,791,280
Rosecroft	Prince George's	11,126,430	14,835,240
Laurel	Anne Arundel	5,118,228	6,824,304
	Howard	1,706,076	2,274,768
	Laurel	1,706,076	2,274,768
Allegany County Track	Allegany County	8,530,380	11,373,840
<b>Total</b>		<b>\$42,280,650</b>	<b>\$56,374,200</b>

\* Numbers may not add due to rounding

---

*Other Required Expenditures*

Funds from the PDA may only be expended through an appropriation in the State budget or through a budget amendment, and must be distributed as indicated above. Assuming that the account is fully appropriated in fiscal 2003 (the first year in which all authorized VLTs will be operating for the entire year), the mile thoroughbred purses would receive an estimated \$24.0 million, the Maryland-Bred Race Fund would receive an estimated \$2.9 million, standardbred purses would receive an estimated \$10.2 million, and the Standardbred Race

Fund would receive an estimated \$1.3 million.

The estimated \$1.8 million dedicated for tourism promotion would not require any additional administrative expenditures. The MTDB issued \$1.2 million of grants in fiscal 1997.

The CGF 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 \$1.8 million in annual VLT fees credited to the fund.

In addition, special fund expenditures would increase to the extent that ETF funds are appropriated in future year budgets.

**Local Revenues:** Revenues would increase for up to five counties and one municipality due to the distribution of impact aid (as shown in the table above). Impact aid will total \$42.3 million in fiscal 2002, and \$56.4 million in fiscal 2003, increasing by 2% annually.

To the extent that expenditures on items subject to admissions and amusements taxes 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 some small businesses. 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 \$51.4 million increase in fiscal 2003 represents an increase of almost 103%. 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.

---

### **Additional Information**

**Prior Introduction:** A similar bill (HB 1190) was introduced during the 1999 session. It was assigned to the House Rules Committee.

**Cross File:** None.

**Information Source(s):** Maryland State Department of Education, Department of Business and Economic Development, Maryland Stadium Authority, State Lottery Agency, Department of Health and Mental Hygiene (Alcohol and Drug Abuse Administration), Department of Legislative Services

**Fiscal Note History:** First Reader - March 13, 2000  
drg/jr

---

Analysis by: Michael Sanelli

Direct Inquiries to:  
John Rixey, Coordinating Analyst  
(410) 946-5510  
(301) 970-5510