

Department of Legislative Services

Maryland General Assembly

2001 Session

FISCAL NOTE

House Bill 1170

(Delegate Rawlings, *et al.*)

Ways and Means

Public Education - Funding - Video Lottery Terminals

This constitutional amendment: (1) authorizes video lottery terminals (VLTs) at up to four locations in the State; (2) provides for the regulation of VLTs by the State Lottery Agency; (3) provides that at least one-half of the net proceeds from VLTs are dedicated to a special fund used to support K-12 education and public libraries; and (4) prohibits the General Assembly from adopting any laws authorizing any additional forms or expansion of commercial gaming.

Fiscal Summary

State Effect: General and special fund revenues could each increase by approximately \$180 million in FY 2004 from VLT proceeds, assuming four VLT facilities and 10,000 VLTs, increasing to \$360 million each beginning in FY 2005, which reflects a full year of VLT play. General fund revenue decrease of approximately \$40 million beginning in FY 2004 from decreased lottery revenues. Special fund expenditure increase of approximately \$100 million in FY 2004 for administrative and one-time purchase costs for the State Lottery Agency. Future years reflect only administrative costs. Special fund expenditure increase of \$180 million in FY 2004 and \$360 million annually beginning in FY 2005 to support public education.

(\$ in millions)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
GF Revenue	\$140.0	\$320.0	\$320.0	\$320.0	\$320.0
SF Revenue	180.0	360.0	360.0	360.0	360.0
GF Expenditure	100.0	2.5	2.5	2.5	2.5
SF Expenditure	180.0	360.0	360.0	360.0	360.0
Net Effect	\$40.0	\$317.5	\$317.5	\$317.5	\$317.5

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

Local Effect: Local government revenues would increase as a result of distributions from the special fund for education created by the bill. The amount of any distributions depends on the amount of money generated from VLTs.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The main provisions of the bill are as follows:

- The State Lottery Commission must regulate the operation of VLTs.
- Only a bona fide corporation, partnership, business trust, limited liability company, or other business entity that has been issued a VLT facility license by the Lottery Commission may offer a video lottery terminal for public use.
- Each VLT, any associated equipment, and any centralized computer system that is used to control VLTs must be owned or leased by the commission, and under its control.
- The Lottery Commission can issue no more than four VLT facility licenses to operate at locations in four different regions of the State.
- At least two VLT facility licenses must be issued to holders of a racetrack license issued by the State Racing Commission.
- Applicants for a VLT license must either: (1) hold a racetrack license issued by the State Racing Commission; or (2) operate a tourist destination location in the State.
- A VLT facility licensee may not operate more than 2,500 video lottery terminals.
- The proceeds from VLTs are under the control of the State Lottery Commission.
- At least one-half of the net proceeds must be dedicated to a special fund and used to support: (1) an adequate education for the children of Maryland in public schools, prekindergarten through grade 12; and (2) public libraries.

Current Law: Video lottery terminals are not authorized for use in the State.

State Revenues:

VLT Revenues

The bill states that there can be no more than four locations in the State that will be licensed to operate VLTs. At least two of these must be located at horse racing tracks. The bill also provides that VLT facilities may be located at tourist destinations approved by the Lottery Commission. No facility may operate more than 2,500 VLTs. As a result, up to 10,000 VLTs may be in operation in fiscal 2004.

Distributions from VLTs could total \$360 million in fiscal 2004 and \$720 million annually beginning in fiscal 2005, based on the following facts and assumptions:

- 10,000 VLTs (the maximum) will operate in the State;
- 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); and
- the VLTs will operate 360 days a year (180 days in fiscal 2004).

At least one-half of the net proceeds (less administrative costs incurred by the Lottery Commission) is to be dedicated to a special fund and used to support K-12 education and public libraries. As a result, approximately \$180 million could be dedicated for education in fiscal 2004 and \$360 million in fiscal 2005. Though the bill does not specify how the other half of net proceeds is to be distributed, it is assumed that the nondedicated portion would go to the general fund.

Lottery Revenues

Based on the experience of other states, it is estimated that a 10% decline in lottery revenues would occur as a result of VLTs being introduced. As a result, general fund lottery revenues are estimated to decrease by approximately \$40 million annually, beginning in fiscal 2004 or fiscal 2005.

State Expenditures: Based on prior year estimates, annualized administrative expenditures for the State Lottery Agency are estimated to be at least \$2.5 million. This estimate assumes from 30 to 35 new employees for the program and 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, a one-time expenditure of \$100-\$125 million will be necessary to purchase the VLTs and the computer system to operate and control them.

Local Fiscal Effect: Local government revenues would increase as a result of distributions from the special fund for education created by the bill. The amount of any distributions depends on the amount of money generated from VLTs.

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.

Additional Information

Prior Introductions: Similar bills dealing with video lottery terminals have been introduced in the past several sessions, including HB 1170 in the 2000 session. No action was taken.

Cross File: None.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates), Maryland State Lottery Agency, Department of Legislative Services

Fiscal Note History: First Reader – March 8, 2001
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