

Department of Legislative Services
 Maryland General Assembly
 2001 Session

FISCAL NOTE

House Bill 1449
 Ways and Means

Delegates C Davis and Rawlings)

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 January 1, 2003 and is contingent on the passage of HB 1170, a Constitutional Amendment, and its ratification by the voters of the State.

Fiscal Summary

State Effect: General fund revenues would increase by approximately \$16.0 million in FY 2004, which includes a \$20.0 million reduction in State lottery revenues. Special fund revenues would increase by approximately \$201.6 million in FY 2004. Future year revenue increases reflect annualization, growth by about 2%, full year VLT operations, as well as decreased lottery revenues. General fund expenditures are expected to increase by approximately \$36.4 million in FY 2004 which reflects funding for local impact aid, local fire equipment, as well as administrative expenditures. Special fund expenditures are expected to increase by approximately \$201.6 million in FY 2004 which reflects funding for the ETF, horse racing purses, compulsive gambling, and tourism. Fee revenues will offset administrative costs of the State Lottery Agency.

(in dollars)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
GF Revenue	\$0	\$0	\$16,030,600	\$21,374,200	\$22,501,700
SF Revenue	0	0	201,593,900	401,725,200	409,707,700
GF Expenditure	0	0	36,401,700	61,758,300	62,904,800
SF Expenditure	0	0	201,593,900	401,725,200	409,707,700
Net Effect	\$0	\$0	(\$20,371,100)	(\$40,384,100)	(\$40,403,100)

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 \$31.0 million in FY 2004, and \$56.4 million in FY 2005. In the out-years, this amount would increase by 2% annually. Expenditures would not be affected.

Small Business Effect: Meaningful.

Analysis

Bill Summary: This bill permits video lottery operations of up to 2,500 VLTs each at up to four locations in the State, of which at least two must be horse racing tracks. The other locations must be tourist destinations approved by the State Lottery Commission. The bill also establishes the 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; oversee the manufacture, distribution, and servicing of VLTs; 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. License holders at race tracks must provide 500 additional full-time jobs and license holders at tourist destinations must provide 800 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 VLTs that are not returned to successful players will be distributed as follows:

- to the commission for the cost incurred for administering the VLT program, which includes the cost of leasing, purchasing, repairing, and maintaining VLTs and associated equipment.

The net proceeds will then be distributed as follows:

- to the ETF, local impact aid, and to support local fire apparatus and equipment;
- 20% of the remainder to the purse dedication account; and
- no more than 80% of the remainder 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 and 50% to the Maryland Tourism Development Board (MTDB).

Education Trust Fund

Money from the ETF must be used to support: (1) an adequate education for the children of Maryland in the public schools, pre-kindergarten through grade 12; and (2) public libraries. Expenditures must be made in accordance with the State budget. In developing the budget, the Governor is required to consult with the State Board of Education on the expenditure of funds from the fund.

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 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.

Current Law: VLTs are not authorized at any of the State's horse racing tracks.

State Revenues:

VLT Revenues

Distributions from VLTs could total \$360 million in fiscal 2004 and \$720 million annually beginning in fiscal 2005. The distribution for fiscal 2004 and 2005 is set forth in **Exhibit 1**. The distributions for fiscal 2004 accounts for the January 1, 2004 operational start-up date, although this figure could be higher due to the novelty of VLTs. The fiscal 2005 estimate reflects the first full year of operation. The estimate is based on the following facts and assumptions:

- 12-month start-up delay;
- 10,000 VLTs (the maximum) will be operational by January 2004;
- 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);
- VLTs will operate 360 days a year (180 in fiscal 2004);
- vendor costs would be approximately 5% of gross proceeds; and
- local impact aid is based on the minimum daily amount specified in the bill.

Exhibit 1
Annualized Distribution of Estimated VLT Revenues
FY 2004 and FY 2005

	FY 2004	FY 2005
Gross Revenues	\$360,000,000	\$720,000,000
Distribution		
Education Trust Fund (SF)	\$171,000,000	\$342,000,000
Local Impact Aid (GF)	\$31,030,560	\$56,374,200
Grants for Fire Apparatus (GF)	\$5,000,000	\$5,000,000
Purchase and Maintain VLTs	\$18,000,000	\$36,000,000
Purse Enhancement Fund (SF)	\$26,993,888	\$56,125,160
Net to Licensees	\$107,975,552	\$224,500,640

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 \$20 million in fiscal 2004 and \$40 million annually, beginning in fiscal 2005.

Other Revenues

An additional revenue increase of \$360 per VLT, or \$3.6 million annually, will be credited 50% to the Compulsive Gambling Fund (\$1.8 million) and 50% to the Tourism Development Board (\$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 and for local impact aid, as well as through expenditures from the special funds established under this bill.

Administrative Expenditures

Based on recent experience in Delaware, annualized administrative expenditures for the State Lottery Agency are estimated to be at least \$2.5 million. The estimate assumes 30 to 35 new employees for the program and it includes benefits, one-time start-up costs, and ongoing operational expenses.

In addition, general fund administrative expenditures for the Maryland State Department of Education would increase by approximately \$240,200 in fiscal 2004. The estimate assumes that one education program manager and two education program specialists would be hired beginning in fiscal 2004 to manage the ETF, review funding requests

from the State's school districts, and other necessary administrative functions. Future year estimates reflect annualization and inflation.

Finally, general fund administrative expenditures for the MSA would increase by \$130,900 in fiscal 2004. The estimate assumes that one project manager would be hired prior to the projected operational date of VLTs beginning in fiscal 2004 to review and oversee possible capital improvement projects at horse racing tracks or tourist destinations. Future year estimates reflect annualization and inflation.

Local Impact Aid

The bill provides local impact aid for jurisdictions in which VLT operations are located, subject to approval by the General Assembly. This aid is to be used for infrastructure, facilities, services, and other improvements. **Exhibit 2** shows the estimated minimum aid amount for each jurisdiction in the first two years of VLT operations.

**Exhibit 2
Local Impact Aid Distributions**

VLT Location	Grantee	Fiscal 2004	Fiscal 2005
Pimlico	Baltimore City	\$9,395,640	\$18,791,280
Rosecroft	Prince George's	\$7,417,620	\$14,835,240
Laurel	Anne Arundel	\$3,412,152	\$6,824,304
	Howard	\$1,137,384	\$2,274,768
	Laurel	\$1,137,384	\$2,274,768
Allegany County Tourist Destination	Allegany	\$8,530,380	\$11,373,840
Total		\$31,030,560	\$56,374,200

Other Required Expenditures

Funds from the Purse Dedication Account 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 2005 (the first year in which all authorized VLTs will be operating for the entire year), the mile thoroughbred purses would receive an estimated \$31.7 million, the Maryland-Bred Race Fund would receive an estimated \$3.9 million, standardbred purses would receive an estimated \$13.6 million, and the Standardbred Race Fund would receive an estimated \$1.7 million.

The estimated \$1.8 million dedicated for tourism promotion would not require any additional administrative expenditures.

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 \$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 Exhibit 2 above). Impact aid will total \$31.0 million in fiscal 2004, and \$56.4 million in fiscal 2005, 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. 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 Introductions: A similar bill (HB 1170) was introduced in the 2000 session. No action was taken. A similar bill (HB 1190) was also introduced during the 1999 session. It was assigned to the House Rules Committee.

Cross File: None.

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

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