

Department of Legislative Services
 Maryland General Assembly
 2002 Session

FISCAL NOTE

House Bill 732
 Ways and Means

(Delegate Rawlings, *et al.*)

Public Education - Funding - Video Lottery Terminals

This constitutional amendment: (1) authorizes video lottery terminals (VLT) at up to four locations in the State (applicants must have a license for a horse racing track); (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 the recommendations of specified commissions and task forces 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: Net general fund revenue increase of approximately \$28.9 million in FY 2004. Special fund revenue and expenditure increase of approximately \$87.3 million in FY 2004, which reflects administrative costs as well as increased support for public education and libraries. Future year estimates reflect an increased number of VLTs in operation.

(\$ in millions)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
GF Revenue	\$0	\$28.9	\$242.6	\$320.4	\$347.1
SF Revenue	0	87.3	349.4	445.5	433.7
SF Expenditure	0	87.3	349.4	445.5	433.7
Net Effect	\$0	\$28.9	\$242.6	\$320.4	\$347.1

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 will 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 VLT 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.
- Applicants for a VLT license must hold a racetrack license issued by the State Racing Commission; a VLT license may only be issued to a facility located in a county or Baltimore City in which a majority of the votes were cast in favor of this constitutional amendment.
- 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) implementation of the final recommendations of the Commission on Education Finance, Equity, and Excellence (Thorton Commission) to provide adequate funding for Maryland's children in public schools from prekindergarten through grade 12; (2) implementation of the final recommendations of the Task Force to Study College Readiness for Disadvantaged and Capable Students to Enhance College Readiness, Teacher Preparation, and Financial Aid for Maryland's Disadvantaged and Capable Students; and (3) public libraries.

Current Law: VLTs are not authorized for use in the State.

State Revenues:

VLT Revenues

No more than four locations in the State will be licensed to operate VLTs. All VLTs must be located at horse racing tracks in the State. No facility may operate more than 2,500 VLTs.

Distributions from VLTs could total \$158.8 million in fiscal 2004, \$635.2 million in fiscal 2005, and by approximately \$810.0 million in fiscal 2006, and \$826.1 million in fiscal 2007 based on the following facts and assumptions:

- 4,000 VLTs will operate in the State during fiscal 2004;
- 8,000 VLTs will operate in the State during fiscal 2005;
- 10,000 VLTs will be in operation beginning fiscal 2006;
- the average revenue generated per machine is \$217.55 per day (based on a weighted average of revenue generated per machine in Delaware and West Virginia; and
- the VLTs will operate 365 days a year (183 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 \$71.5 million could be dedicated for education in fiscal 2004 and \$285.9 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.

In Delaware, the fiscal 2001 distribution of VLT proceeds was as follows: administrative costs -- 5%; race tracks -- 49%; purses -- 11%; and the general fund -- 35%.

In West Virginia, VLT proceeds are distributed as follows: administrative costs -- 1%; race tracks -- 46.5%; lottery fund -- 29.7%; purses -- 14%; pension fund -- 0.5%; greyhound development -- 0.5%; thoroughbred development -- 0.5%; racing commission -- 1%; tourism -- 3%; counties and cities -- 2%; and miscellaneous -- 1%.

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 \$42 million - \$45 million annually, beginning in fiscal 2004, based on current lottery estimates.

State Expenditures: Based on Delaware's experience, it is estimated that Lottery Agency administrative costs associated with operating video terminals would equal approximately 10% of total revenues for the first several years of VLT operation. This results in administrative costs of \$15.9 million in fiscal 2004, \$63.5 million in fiscal 2005, and \$81.0 million in fiscal 2006. This estimate assumes 34 new employees for the program and includes benefits, one-time start-up costs, and ongoing operational expenses that include an increased number of VLTs in operation until the 10,000 maximum is reached in fiscal 2006, VLT and central computer related equipment leases, and maintenance. Beginning in fiscal 2007, costs would total approximately 5% of revenues or approximately \$41.3 million.

Exhibit 1 illustrates the distribution of VLT revenues and administrative costs for fiscal 2004 through 2006.

Exhibit 1
Distribution of VLT Revenues for FY 2004-2006

	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
Number of VLTs	4,000	8,000	10,000
Total Gross VLT Proceeds	\$158,811,500	\$635,246,000	\$809,938,650
Administrative Costs	\$15,881,150	\$63,524,600	\$80,993,865
Education Funding	\$71,465,175	\$285,860,700	\$364,472,393
General Fund	\$71,465,175	\$285,860,700	\$364,472,393
Lottery Revenues-GF	(\$42,540,000)	(\$43,310,000)	(\$44,090,000)
Net General Fund Revenues	\$28,925,175	\$242,550,700	\$320,382,393

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: A similar constitutional amendment was introduced as HB 1170 in the 2001 session. No action was taken by the House Ways and Means Committee. In addition, 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 Labor, Licensing, and Regulation; Department of Legislative Services

Fiscal Note History: First Reader - March 13, 2002
mam/jr

Analysis by: Michael Sanelli

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