

Department of Legislative Services
Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

House Bill 890 (Delegate Pendergrass)
Ways and Means

Public Education - Funding - Video Lottery Terminals

This constitutional amendment: (1) authorizes video lottery terminals (VLTs) at up to six destination tourist locations; (2) provides for the regulation of VLTs by the State Lottery Commission; (3) provides that at least one-half of the net proceeds from VLTs are dedicated to a special fund used to support specified programs 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: Significant VLT revenues beginning in FY 2007. When VLT facilities are fully operational, potential gross revenues (before any distributions) of approximately \$1.3 billion annually from VLT operations beginning in FY 2008. Education special fund revenue increase of approximately \$621 million annually. Potential reduction in lottery revenues. Potentially significant general fund expenditure increases associated with administrative expenses.

Local Effect: Local government revenues would increase as a result of distributions from the special fund for education created by the bill, as well as from local aid distribution. In addition, local government compensation distributions could total approximately \$62 million annually. Significant local expenditures for infrastructure and public safety.

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 State Lottery Commission may issue no more than six VLT facility licenses to operate at six destination tourist locations in six different regions of the State; 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.
- At least one license shall be issued in each of the following regions: (1) Allegany, Frederick, Garrett, and Washington counties; (2) Baltimore, Carroll, and Harford counties; (3) Caroline, Cecil, Kent, and Queen Anne's counties; (4) Dorchester, Somerset, Talbot, Wicomico, and Worcester counties; (5) Calvert, Charles, Prince George's, and St. Mary's counties; and (6) Baltimore City, Anne Arundel, Howard, and Montgomery counties.
- A VLT facility licensee may not operate more than 2,000 VLTs. As a result, no more than 12,000 may be operated in the State.
- The proceeds from VLTs are under the control of the State Lottery Commission.
- At least 50% of the net proceeds must be dedicated to a special fund used to: (1) implement the programs commonly known as the "Bridge to Excellence in Public Schools," first enacted by Chapter 288 of 2002; (2) implement the programs commonly known as College Readiness for Disadvantaged and Capable Students, first enacted by Chapters 315 and 429 of 2002; and (3) public libraries.

- To compensate the counties and localities in or near where a video lottery facility is located for infrastructure, facilities, services, and other improvements, at least 5% of the net proceeds generated at each VLT location must be distributed to the county where the facility is located.
- If a video lottery license is issued for the Laurel Race Course, the net proceeds from that location will be distributed as follows: (1) 3% to Anne Arundel County; (2) 1% to Howard County; and (3) 1% to the City of Laurel.

Current Law: Specified types of gambling are allowed in Maryland. This includes the State lottery and wagering on horse racing. Bingo, bazaars, and gaming nights are allowed for some nonprofit organizations on a county-by-county basis. Several counties permit for-profit bingo. In addition, some nonprofit organizations in Eastern Shore counties are allowed to operate up to five slot machines, provided that at least 50% of the proceeds go to charity. VLTs are not authorized for operation in the State.

Background: Over the past several legislative sessions, various proposals have been introduced to authorize VLTs, i.e., electronic slot machines, at the State's horse racing tracks or other tourist destinations in the State.

Gambling in Maryland

Regulated gambling in Maryland dates back to 1743 with the regulation of horse racing. Pari-mutuel betting was introduced in 1912 and the State Racing Commission was established in 1920.

The State lottery was established in 1972 through legislative action and a constitutional amendment that was approved by voters.

Slot machines were authorized for use across the State from 1937 through 1939. Legislation to authorize slot machines in Southern Maryland was passed in the 1940s. By the early 1960s, the only legal slot machines in the United States, outside of Nevada, were located in Calvert, Charles, St. Mary's, and Anne Arundel counties. Legislation passed in 1966 prohibiting slot machines as of July 1, 1968.

In 1987 legislation was passed that authorized the operation of slot machines by nonprofit organizations in all Eastern Shore counties, except Worcester.

Legislation enacted in 1995 established a commission to study gambling in Maryland. In its final report to the Governor and the General Assembly in December 1995, the commission, known as the Tydings Commission, made several recommendations

including a recommendation that the General Assembly and the Governor should maintain the current prohibitions against commercial casino gambling activities in Maryland, including slot machines at race tracks.

Gambling in the United States

Prior to 1980, state lotteries, along with pari-mutuel wagering on racing and jai-lai were the prevalent forms of legal gambling. Casinos operated only in Nevada and Atlantic City, New Jersey. Since that time, gambling opportunities have become much more prevalent and varied.

Exhibit 1 summarizes the number of states that allow various forms of gambling.

Exhibit 1
Types of Gambling in the United States, Summary

<u>Type of Gambling</u>	<u>Number of States</u>
Land-based Casino	4
Dockside Riverboat Casino	5
Cruising Riverboat Casino	1
Native American Gaming	25
Limited Stakes	2
Card Room	5
Lottery	42
Pari-mutuel	41
Bingo	48
None	2

Surrounding State VLT Revenues

Delaware and West Virginia currently allow VLTs. In Delaware, VLTs generated approximately \$565 million in net revenues (after prize payouts) in fiscal 2002. Approximately 60% of these revenues were distributed to racetracks and purses, 35% to the state’s general fund, and the remaining 5% to cover administrative costs.

In fiscal 2002, VLTs in West Virginia generated approximately \$595 million in net revenues, of which 60% was distributed to racetracks and purses and 30% to the state lottery fund. The remaining 10% was distributed to tourism initiatives, local governments, the state racing commission, the state pension fund, greyhound and thoroughbred development, and administrative costs.

In 2001, New York enacted legislation authorizing VLTs at several racetracks as well as at a number of Native American casinos. Pennsylvania is also reported to be considering legislation to authorize VLTs. Although both Virginia and the District of Columbia operate lotteries, and Virginia conducts limited horse racing, neither jurisdiction is currently considering legalizing casinos or VLT-type gambling.

State Revenues:

VLT Revenues

The bill provides that no more than six destination tourist locations in the State will be licensed to operate VLTs. No facility may operate more than 2,000 VLTs.

As a result, total revenues generated by VLTs – after payouts to winning players, but **before** any other distributions are made – could total approximately \$1.3 billion annually beginning in fiscal 2008, after VLT facilities achieve full market efficiency in July 2007. Some revenue could be attributed to the State during fiscal 2007. This estimate is based on the following facts and assumptions:

- six destination tourist locations in the State operating 2,000 VLTs each;
- two-year start-up delay after passage of constitutional amendment in November 2004;
- VLTs operating at full efficiency beginning July 1, 2007;
- average daily win per position of \$300; and
- machines operate 365 days per year.

At least one-half of the net proceeds must be dedicated to a special fund used: (1) to provide an adequate education for children attending public schools in the State in prekindergarten through grade 12, through implementation of the programs commonly known as the “Bridge to Excellence in Public Schools,” first enacted by Chapter 288 of 2002; (2) to enhance college readiness, teacher preparation, and financial aid for disadvantaged and capable students, through implementation of the programs commonly known as College Readiness for Disadvantaged and Capable Students, first enacted by Chapters 315 and 429 of 2002; and (3) public libraries.

Also, to compensate the counties and localities in or near where a video lottery facility is located for infrastructure, facilities, services, and other improvements, at least 5% of the net proceeds generated at each VLT location must be distributed to the county where the facility is located.

Based on the estimate above, approximately \$621 million could be distributed to the education special fund. Total local government distributions could total approximately \$62 million annually.

Lottery Revenues

Based on the experience of other states, it is estimated that State lottery revenues would decline due to the introduction of VLTs by about 10% in the first year that VLTs are fully operational. This percentage would decrease by 2% over the next five years.

State Expenditures: If a referendum on VLTs passes, administrative costs for the State lottery associated with operating video terminals could be approximately \$71 million annually. This estimate assumes that the cost of leasing and maintaining the VLT terminals and central computer system will be equal to approximately 5.5% of gross revenues. In addition, it assumes approximately \$1.9 million annually to pay for 30 new employees (1 deputy director, 1 administrative assistant, 1 administrative specialist, 1 administrative clerk, 1 assistant Attorney General, 4 security investigators, 1 fiscal clerk, 1 fiscal specialist, 1 fiscal clerk, 1 contract manager, 1 support programmer, and 16 on-site customer service representatives) to operate and administer the VLT program. The estimate includes benefits, one-time start-up costs, and ongoing operational expenses.

Local Fiscal Effect: Local government revenues would increase as a result of distributions from the special fund for education created by the bill if a referendum on VLTs passes. The bill also provides that in order to compensate the counties and localities in or near where a video lottery facility is located for infrastructure, facilities, services, and other improvements, at least 5% of the net proceeds generated at each video lottery terminal location shall be distributed to the county where the facility is located. And, if a video lottery license is issued for the Laurel Race Course, the net proceeds from that location shall be distributed as follows: (1) 3% to Anne Arundel County; (2) 1% to Howard County; and (3) 1% to the City of Laurel.

Based on the estimate above, total local government distributions could total approximately \$62 million annually.

Small Business Effect: This bill would have substantial direct and indirect effects on small businesses. The provision of supplies, including construction supplies, 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.

A study conducted by the National Opinion Research Council in conjunction with the National Gambling Impact Study Commission indicates that per capita earnings for those employed by restaurants and bars could decline by about 19% after the establishment of casinos in the area.

It is anticipated that net economic activity would increase, particularly because of an increase in expenditures in the State from nonresidents. Approximately 31% of the revenue generated by VLTs is estimated to come from Maryland residents who currently gamble outside of the State; 11% would come from out-of-state residents who currently gamble somewhere else; 21% would come from new Maryland gamblers; and 37% from new out-of-state gamblers.

Additional Information

Prior Introductions: A similar constitutional amendment was introduced as HB 732 in the 2002 session. It received an unfavorable report from the House Ways and Means Committee. Another similar constitutional amendment was introduced as HB 1170 in the 2001 session. No action was taken by the House Ways and Means Committee.

Cross File: None.

Information Source(s): Cecil County, Allegany County, Worcester County, Maryland State Lottery Agency, Maryland State Department of Education, The Innovation Group, Department of Legislative Services

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