

Department of Legislative Services
Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

Senate Bill 708 (Senator Gladden)
Budget and Taxation

Video Lottery Terminals - Distribution of Proceeds - Nonprofit Organizations

This bill requires a county or city that receives distributions from the operation of video lottery terminals (VLTs), as described in HB 359/SB 322, to distribute 50% of that revenue to a nonprofit organization located within a one-mile radius (target zone) of the VLT facility. The bill establishes selection criteria for choosing a nonprofit and provides for the distribution of revenue from the nonprofit.

The bill is contingent upon passage of HB 359/SB 322.

Fiscal Summary

State Effect: None. This bill would not alter the portion of net VLT proceeds distributed to the State under HB 359/SB 322.

Local Effect: Total local government distributions from VLTs are estimated to be reduced by approximately \$1.9 million in FY 2005, \$11.5 million in FY 2006, \$17.8 million in FY 2007, and \$18.4 million in FY 2008.

Small Business Effect: Meaningful. Small business could benefit if funds distributed from nonprofit organizations stimulate additional economic activity in the respective areas.

Analysis

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 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 racetracks.

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.

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 presently considering legalizing casinos or VLT-type gambling.

Local Fiscal Effect: Pursuant to HB 359/SB 322, it is estimated that total revenues generated from VLTs – after payouts to winning players, but **before** any other distributions are made – could total approximately \$125.7 million in fiscal 2005, \$768.6 million in fiscal 2006, \$1.19 billion in fiscal 2007, and approximately \$1.23 billion in fiscal 2008 and later.

HB 359/SB 322 require that 3% of proceeds from VLT facilities be distributed to the jurisdiction in which the facility is located. It is estimated that total local aid will total \$1.8 million in fiscal 2005, \$23.1 million in fiscal 2006, and \$35.6 million in fiscal 2007.

Subject to approval by the General Assembly, local impact aid for jurisdictions in which VLT operations are located is to be used for infrastructure, facilities, services, and other improvements. **Exhibit 1** shows the estimated minimum aid amount for each jurisdiction in the first four years of VLT operations.

**Exhibit 1
Local Distributions**

<u>Location</u>	<u>Grantee</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Laurel	Anne Arundel	--	\$4,549,517	\$ 7,543,663	\$7,903,929
	Howard	--	1,033,981	1,714,469	1,796,348
	Laurel	--	620,389	1,028,681	1,077,809
Pimlico	Baltimore	--	6,239,036	9,964,226	10,331,325
Rosecroft	Prince George's	\$2,858,224	7,680,166	11,879,135	12,202,133
Allegany	Allegany	<u>913,641</u>	<u>2,935,969</u>	<u>3,490,313</u>	<u>3,490,313</u>
Total		\$3,771,864	\$23,059,058	\$35,620,487	\$36,801,855

Local direct distributions would be reduced by 50% as a result of the bill. Therefore, based on the estimates above, total local government distributions from VLTs would total approximately \$1.9 million in fiscal 2005, \$11.5 million in fiscal 2006, \$17.8 million in fiscal 2007, and \$18.4 million in fiscal 2008.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Labor, Licensing, and Regulation; Department of Legislative Services

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ncs/jr

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