

Department of Legislative Services
 Maryland General Assembly
 2003 Session

FISCAL AND POLICY NOTE

House Bill 359 (The Minority Leader)
 (By Request – Administration)
 Ways and Means

State Lottery and Racing Commission and Agency - Video Lottery Terminals

This Administration bill authorizes up to 10,500 video lottery terminals (VLTs) at up to four horse racing tracks in the State, provides for one-time license fees, abolishes the State Lottery Agency and State Racing Commission and establishes the State Lottery and Horse Racing Agency and Commission, creates the Education Trust Fund and other special funds, and continues the current prohibition on additional forms of commercial gaming.

The bill takes effect June 1, 2003.

Fiscal Summary

State Effect: General fund revenues could increase by up to \$350 million in FY 2004, depending on the payment of one-time license fees. Future years reflect phased-in VLT operations. General fund revenues associated with lottery commission administrative costs increase beginning in FY 2005. General fund expenditures decrease beginning in FY 2005 – increases in administrative costs and gambling addiction treatment expenditures are offset by lower education expenditures due to the availability of revenues from the Education Trust Fund. Special fund revenues and expenditures increase for local aid, purse dedication, bred funds, and education beginning in FY 2005. General fund revenues would decrease by \$9 million as a result of decreased lottery revenues in FY 2005. Future years reflect a continuing decrease. **Appendix 1** shows the revenues and expenditures by fund in greater detail.

(in dollars)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
GF Revenue	\$350,000,000	(\$324,900)	(\$1,525,100)	\$29,504,200	\$40,870,100
SF Revenue	0	87,919,100	544,794,200	842,349,300	870,333,500
GF Expenditure	0	(61,481,300)	(413,197,000)	(642,301,300)	(663,830,000)
SF Expenditure	0	87,919,100	544,794,200	842,349,300	870,333,500
Net Effect	\$350,000,000	\$61,156,400	\$411,671,900	\$671,805,500	\$704,700,100

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

Local Effect: Revenues for localities with VLT facilities would increase by approximately \$3.8 million in FY 2005. Future year revenues represent increased VLT operation and efficiency. Significant expenditure increase in Baltimore City and Laurel associated with infrastructure and public safety.

Small Business Effect: A small business impact statement was not provided by the Administration in time for inclusion in this fiscal note. A revised fiscal note will be issued when the Administration's assessment becomes available.

Analysis

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

Video Lottery Terminals and Locations

The bill provides for a total of 10,500 VLTs limited to the following four racetracks:

- 3,000 VLTs may be operated at Laurel Park in Anne Arundel County;
- 3,000 VLTs may be operated at Pimlico Race Course in Baltimore City;
- 3,000 VLTs may be operated at Rosecroft Raceway in Prince George's County;
and
- 1,500 VLTs may be operated by a horse racing track to be built in Allegany County.

State Lottery and Horse Racing Agency and Commission

The bill abolishes the State Lottery Agency, the State Lottery Commission, and the State Racing Commission and provides for the creation of a State Lottery and Horse Racing Agency (the agency) and a State Lottery and Horse Racing Commission (the commission) within the agency. All individuals employed by the State Racing Commission and the State Lottery Agency, except the Executive Director of the Racing Commission, are transferred to the State Lottery and Horse Racing Agency. The position of Executive Director of the Racing Commission is abolished.

The commission has authority to issue subpoenas and conduct investigations and hearings. The commission also has the authority to be present at the operations of VLTs through employees or agents and to inspect and examine all premises where VLT operations are conducted, as well as any VLTs, associated equipment, audit books, and

financial records. The commission is further authorized to seize VLTs, associated equipment, financial records, or other physical objects relating to VLT operations.

The commission is authorized to require a bond from a VLT applicant to ensure a licensee's compliance with the Act and any regulations adopted to deny a license, reprimand a licensee, and revoke licenses for violations of the Act, regulations, or conditions set by the commission. The commission may also impose a civil penalty not exceeding \$5,000 for each day that a violation of the Act exists.

The commission is required to report annually to the Governor and the General Assembly on the operation and finances of VLTs and, with assistance from the State Police, information detailing crimes that occur within the communities surrounding a VLT facility.

Licensing

The bill requires the licensure of VLT operators, VLT manufacturers, VLT employees who manage, operate, supply, or service VLTs, and VLT facility employees. The commission is required to refer all applications for licensure to the State Police for background investigations. Licenses other than VLT operation licenses are valid for one year and are subject to an annual fee determined by the commission.

The commission is required to deny a VLT operation license if the applicant provides false information, fails to provide information proving applicant qualification or required documentation, or if any person required to be qualified under the Act has been convicted of a crime of moral turpitude or a gambling offense.

By March 31, 2004, an applicant for a VLT license is required to submit: (1) an application fee of \$100 million for the racetrack locations at Laurel, Pimlico, and Rosecroft; and (2) and an application fee of \$50 million for the racetrack location in Allegany County.

If the holder of the license has made good faith efforts to obtain and pay the license fee but has not been able to do so by March 31, 2004, the commission may grant the person an additional three months to obtain the required fee amount (until June 30, 2004).

The term of the VLT license is 20 years. At the end of the 20-year license term, the license may be renewed annually for a fee to be designated later by statute.

If the VLT license is revoked or surrendered prior to the expiration of the 20-year term, the State is required to reimburse the licensee for a portion of the application fee based on the cost of the license divided by 20 years times the number of years remaining on the license. The State is permitted to make the reimbursement in a lump sum or annually over the remaining years of the license.

If a VLT licensee makes capital improvements or renovations reasonably related to VLT operation and the license is revoked or surrendered within ten years of the capital improvements, the licensee is entitled to reimbursement by the State for the costs of the improvements on a pro rata basis (total cost of improvements divided by ten times the number of years less than ten since improvements were made).

The State is not required to make payments for the capital improvements until the award of a license to another VLT operator for the racetrack, unless the State intends to assume the VLT license and operate the VLT facility.

VLT operation licenses are specifically designated as a revocable privilege conditioned on the continued qualification of a licensee. The bill prohibits a VLT license from being transferred or assigned or pledged as collateral. A licensee may not sell or transfer more than 20% of interest in the licensee's business without notifying the commission and receiving commission approval.

Minority Business Enterprise (MBE) Goals

When awarding a VLT license, the commission is required to ensure that the State's 25% MBE procurement goal is applicable. A VLT licensee or applicant is required to meet the State's MBE goal for construction of facilities and procurement related to the operation of VLTs. If a county in which a VLT is located has a higher MBE goal, an applicant or licensee is required to meet or exceed the local MBE goal to the extent possible.

VLT Ownership and Operation

The VLTs, associated equipment, and central computer would be owned or leased by the commission and under the control of the commission. The bill exempts procurement of VLTs, associated equipment, and the central computer system from the procedural requirements of State procurement law, including MBE provisions.

A VLT operation licensee is permitted to select the types of VLT machines to be installed from a licensed manufacturer and the commission is required to lease or purchase the selected VLTs unless the request is unreasonable.

The minimum average annual payout percentage for a VLT is 87%, but the commission may by regulation establish an average annual payout of between 87% and 95%. VLT facilities are permitted to operate daily from 8:00 a.m. to 2:00 a.m. (18 hours). VLT operation licensees are responsible for all marketing, advertising, and promotion of the VLT operations.

Distribution of VLT Proceeds

The bill requires the Comptroller to distribute the proceeds of the VLT operations, which must be transferred electronically on a daily basis to the State Lottery Fund.

From the gross proceeds of VLTs, after pay out to players, the Comptroller is required to deduct and pay the actual costs incurred by the commission, including costs to purchase or lease and maintain the VLTs, the central computer system, and other necessary equipment.

Exhibit 1 outlines the distribution of net proceeds (after administrative costs).

Exhibit 1 Distribution of Net Proceeds

	<u>Percentage/Amount</u>
VLT Operation Licensees	24.8%
Maryland-Bred Race Fund	1.4% from the Pimlico and Laurel location net proceeds; 1.4% from the Allegany County track location net proceeds, allocated on a pro rata basis related to number of thoroughbred days
Maryland Standardbred Race Fund	1.4% from the Rosecroft track location net proceeds; 1.4% of the Allegany County track location net proceeds allocated to each fund on a pro rata basis related to number of standardbred racing days
Purse Dedication Account	5.8%
Anne Arundel County (2.2%) Howard County (.5%) City of Laurel (.2%)	3% of net proceeds at Laurel
Baltimore City	3% of net proceeds at Pimlico
Prince George's County	3% of net proceeds at Rosecroft
Allegany County	3% of net proceeds at Allegany County location
Ocean Downs	0.3%
To the Maryland State Fair and Agricultural Society, Inc	0.8%
Department of Health and Mental Hygiene for treatment services for compulsive gambling	\$500,000
Education Trust Fund	the remainder of proceeds

Exhibit 2 outlines the distribution from the Purse Dedication Account.

Exhibit 2
Distributions from the Purse Dedication Account

	<u>Percentage/Amount</u>
Maryland Horse Industry Board, the University of Maryland Equine Science Department, and the Maryland Agricultural Fair Board for equine studies	1%
Mile Thoroughbred Purses	70% of the remainder
Cecil County Breeders Fair	\$140,000
Downs at Shawan	\$ 55,000
Standardbred Purses	30%

Education Trust Fund

The bill creates the Education Trust Fund (a special, nonlapsing fund) that will contain all proceeds remaining after the specified distributions (discussed above). Funds from the Education Trust Fund must be used for implementation of the Bridge to Excellence in Public Schools Act of 2002 (Chapter 288).

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.

Exhibit 3 summarizes the number of states that allow various forms of gambling. **Appendix 1** shows that various types of gambling that are allowed in each State.

Exhibit 3 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 presently considering legalizing casinos or VLT-type gambling.

State Revenues:

License Fee Revenues

The bill requires the licensees for Pimlico, Laurel, and Rosecroft to pay a one-time license fee of \$100 million, and the licensee of the Allegany track to pay a one-time fee of \$50 million, upon being issued a VLT license. License fees must be paid by March 31, 2004. These fees are to be distributed to the general fund. Assuming that the licensees determine that the operation of VLTs will be a successful business venture and that appropriate rates of return on their investment could be attained, as well as working out any issues related to zoning prior to the March 31 deadline, general fund revenues would increase by up to \$350 million in fiscal 2004.

VLT Revenues

No more than four locations in the State will be licensed to operate VLTs, and VLTs must be located at horse racing tracks. Pimlico, Laurel, and Rosecroft are authorized to operate up to 3,000 VLTs and the Allegany County track is authorized to operate 1,500 VLTs.

As a result, total revenues generated – 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. This estimate is based on the following facts and assumptions:

Pimlico

- Begin permanent VLT operations on July 1, 2005 – 12-month delay due to local zoning processes and 12 months of capital improvements;
- 3,000 machines with an average win per position of \$333; and
- facilities begin operating at approximately 50% of maximum efficiency, increasing by about 10% each quarter until reaching full market potential in October 2006.

Laurel

- Begin permanent VLT operations on July 1, 2005 – 12-month delay due to local zoning processes and 12 months of capital improvements;
- 3,000 machines with an average win per position of \$347; and
- facilities begin operating at approximately 50% of maximum efficiency, increasing by about 10% each quarter until reaching full market potential in October 2006.

Rosecroft

- Begin temporary VLT operations on July 1, 2004 – 12-month delay due to local zoning processes;
- 1,000 machines for one year while capital improvements are made;
- average win per position of \$355 at temporary facility from July 1, 2004 - June 30, 2005; facility will operate at approximately 60% efficiency, increasing by about 10% each of the next four quarters;
- 3,000 machines in operation beginning July 1, 2005; and
- average win per position of \$393 beginning July 1, 2005; efficiency will increase by about 10% for each of the following five quarters until achieving full market potential beginning October 2006.

Allegany

- The new track will be completed and VLT operations will begin by January 1, 2005;
- 1,500 machines with an average win per position of \$225; and
- facility will operate at approximately 50% efficiency beginning January 1, 2005, and will increase by about 10% for each of the following five quarters until reaching full market potential beginning April 2006.

Other Assumptions

- VLTs will operate 365 days a year at each track, once operational;
- average daily win estimates provided by the Innovation Group, with estimates discounted 15% by the Department of Legislative Services (DLS); and
- average daily win for Allegany track based on average daily win at Charles Town, West Virginia, discounted by approximately 15% by DLS.

Distribution of Revenues

Exhibit 4 details the revenue distribution resulting from VLTs for fiscal 2005 through 2008.

Exhibit 4
Distribution of VLT Revenues

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Gross Proceeds	\$125,728,813	\$768,635,250	\$1,187,349,563	\$1,226,728,500
Administrative Expenses	8,815,085	44,174,939	67,204,226	69,370,068
Net Proceeds	116,913,728	724,460,311	1,120,145,337	1,157,358,433
Licensees	28,994,604	179,666,157	277,796,043	287,024,891
Bred Funds	1,636,792	10,142,444	15,682,035	16,203,018
Purse Dedication Account	6,780,996	42,018,698	64,968,430	67,126,789
Local*	3,771,864	23,059,058	35,620,487	36,801,855
Ocean Downs	350,741	2,173,381	3,360,436	3,472,075
State Fair	935,310	5,795,682	8,961,163	9,258,867
Compulsive Gambling	500,000	500,000	500,000	500,000
Education Trust Fund	\$73,943,420	\$461,104,891	\$713,256,743	\$736,970,936

Exhibit 5 details the estimated revenue that will generated at each track for fiscal 2005 through 2008.

Exhibit 5
Estimated Revenue Generated By Track
Fiscal 2005 - 2008

<u>Location</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Pimlico	--	\$207,967,875	\$332,140,875	\$344,377,500
Laurel	--	206,796,225	342,893,775	359,269,500
Rosecroft	\$95,274,125	256,005,525	395,971,163	406,737,750
Allegany	<u>30,454,688</u>	<u>97,865,625</u>	<u>116,343,750</u>	<u>116,343,750</u>
Total	\$125,728,813	\$768,635,250	\$1,187,349,563	\$1,226,728,500

Lottery Revenues

Based on the experience of other states, State lottery revenues could 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% annually over the next five years. Based on current lottery revenue estimates, general fund lottery revenues are estimated to decrease by approximately \$9 million in fiscal 2005, which reflects partial VLT operations, \$45.7 million in fiscal 2006, \$37.3 million in fiscal 2007, and, \$28.5 million in fiscal 2008.

Indirect State Revenues

In addition to the direct revenues generated, the introduction of VLTs could generate other revenues due to the increased economic activity associated with VLTs.

Each of the horse racing tracks would have to undertake major capital improvements in order to house the VLTs as well as transforming the tracks into entertainment centers. The construction jobs associated with track improvements could bring dollars into the areas surrounding the tracks, providing an economic boost to the local economy. This effect would be temporary and is difficult to quantify.

Once up and running, the VLT facilities will need to employ many more people than are currently employed at the tracks. The Innovation Group has estimated that Pimlico, Laurel, and Rosecroft would each employ about 927 new employees at those tracks. The average wage of the employees is estimated at \$35,500.

New jobs would generate new incomes which would be subject to the income tax – revenues that are not currently generated. To the extent that substitute jobs are higher paying than the previously held jobs, taxes paid by those individuals would be higher than paid previously. If it is assumed that these are new jobs, State income taxes could increase by approximately \$4.7 million, and local income taxes could increase by approximately \$2.6 million. To the extent that some of these jobs are substitutes for existing jobs, income tax collections would be lower.

In addition, it is likely that all these employees would generate more sales tax collections through increased spending.

Finally, the companies that own the tracks could pay higher corporate income taxes due to increased earnings.

The introduction of VLTs in Maryland could lead to the recapture of money that is currently being spent in other States, primarily Delaware and West Virginia. In addition, VLTs could generate new money being spent in the State by Maryland residents and by out-of-state residents. Approximately 31% of the revenue generated by VLTs would 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. The gaming trips made by current gamblers is new spending to the State, and to the extent these individuals spend outside of the gaming facility, it would be a boost to the local economy. The money spent by new out-of-state gamblers is also new spending, and as with the current gamblers, any spending outside of the gaming facility would be a boost to the local economy. However, the estimated 21% of revenues generated by new Maryland gamblers could hurt the local economy to the extent that these individuals are now going to spend their money on gambling rather than on the other activities that they are currently spending on.

State Real Property Tax

Exhibit 6 shows the potential State real property tax revenues resulting from the installation of 3,000 VLTs in Baltimore, Anne Arundel, and Prince George's counties. The estimate assumes a 1.5% real property assessment increase and constant tax rates.

**Exhibit 6
Potential State Property Tax Revenue**

<u>Fiscal Year</u>	<u>Property Tax Revenues</u>
2005	\$210,000
2006	515,550
2007	523,236
2008	530,922
2009	538,608

State Expenditures:

Administrative Expenditures

Lottery and Racing Agency and Commission

Administrative costs for the State Lottery and Racing Agency associated with operating video terminals would be approximately \$8.8 million in fiscal 2005. 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. It also 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.

Attorney General

It is estimated that the Office of the Attorney General would incur increased general fund expenditures of approximately \$247,000 in fiscal 2005 as a result of hiring three Assistant Attorneys General to provide legal support to the VLT program.

Department of Health and Mental Hygiene (DHMH)

Expenditures could increase to the extent that individuals with gambling problems seek counseling from DHMH's Alcohol and Drug Abuse Administration. It is estimated that treatment costs could approximate \$3.9 million annually (see **Exhibit 8**). The bill provides for \$500,000 for compulsive gambling related problems. As a result, DHMH's expenditures could increase by approximately \$3.4 million annually.

Exhibit 7 outlines projected total expenditures related to the VLT program.

Exhibit 7 Total Administrative Costs Fiscal 2005 – 2008

Administrative Costs	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Lottery and Racing Agency	\$8,815,085	\$44,174,939	\$67,204,226	\$69,370,068
DHMH	3,900,000	3,900,000	3,900,000	3,900,000
Attorney General	<u>\$247,074</u>	<u>\$332,980</u>	<u>\$351,244</u>	<u>\$370,839</u>
Total	\$12,962,159	\$48,407,919	\$71,455,470	\$73,640,907

Education Expenditures

The legislation dedicates approximately 63% of the net proceeds from VTL operations to the Education Trust Fund to be used for public education programs associated with the Bridge to Excellence in Public Schools Act of 2002 (Chapter 288). Under that legislation there are significant increases in education aid beginning with fiscal 2005. It is assumed that the availability of Education Trust Fund revenues to fund these increases will result in an equivalent decrease in general fund expenditures beginning in fiscal 2005.

Infrastructure Costs

The State and local governments could also incur significant costs associated with infrastructure upgrades at each of the racetracks. The actual costs are site specific and

could range from adding more traffic signs and lights to significantly altering existing traffic routes and adding access from other major thoroughfares.

Local Distribution

The bill provides, subject to approval by the General Assembly, local impact aid for jurisdictions in which VLT operations are located. This aid is to be used for infrastructure, facilities, services, and other improvements. **Exhibit 8** shows the estimated minimum aid amount for each jurisdiction in the first four years of VLT operations.

**Exhibit 8
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	913,641	2,935,969	3,490,313	3,490,313
Total		\$3,771,864	\$23,059,058	\$35,620,487	\$36,801,855

Purse Dedication Account (PDA)

Funds from the PDA may only be expended through an appropriation in the State budget or through a budget amendment. **Exhibit 9** details the distribution from the PDA, for fiscal 2005 through 2007, assuming that the account is fully funded in each of those years.

**Exhibit 9
Distributions From the Purse Dedication Account**

<u>Purse Dedication Account</u>		<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
		\$6,780,996	\$42,018,698	\$64,968,430
Horse and Equine	1%	\$67,810	\$420,187	\$649,684
	net after horse and equine	\$6,713,186	\$41,598,511	\$64,318,745
Thoroughbred Purses	70%	\$4,504,230	\$28,923,958	\$44,828,122
Fair Hill		\$140,000	\$140,000	\$140,000
Downs at Shawan		\$55,000	\$55,000	\$55,000
Standardbred Purses	30%	\$2,013,956	\$12,479,553	\$19,295,624

Indirect State Expenditures

In addition to the positive indirect effects to the economy, negative impacts could be expected as well. These effects could include increased levels of crime and gambling addiction which could result in a need to increase the State and local spending directed toward these effects.

A comprehensive study of the incidence and social impact of pathological and problem gambling was conducted in 1998 by the National Opinion Research Center (NORC) at the University of Chicago. The research was conducted on behalf of the National Gaming Impact Study. Using a variety of methods, NORC concluded that, based on behaviors reported in the prior year, about 0.6% of the U.S. population could be classified as “pathological” gamblers while 0.7% were classified as “problem” gamblers. Another 2.9% were classified as at risk. Among the problems associated with these conditions were greater incidence of poor health, mental health problems, family difficulties, depression, alcohol and drug dependency, job loss, bankruptcy, and arrest and incarceration.

Some of the costs and burdens resulting from problems and pathological gambling are of course borne by the gambler, but some are borne by society. For example, a gambler who loses his/her job assumes the burden of being without a job, but to the extent that this individual receives unemployment benefits, government pays for that. The government would also bear the burden of increased health care costs, public safety and incarceration costs, and alcohol and drug dependency treatment costs.

Exhibit 10 outlines some of the potential social costs to the State resulting from problem and pathological gamblers. The Innovation Group estimates that roughly 4.8 million persons live within 50 miles of one of the proposed casinos. NORC at the University of Chicago has estimated that approximately 1.3% of them would exhibit the characteristics of pathological gambling and 1.1% would exhibit the characteristics of problem gambling. The remaining State population of approximately 500,000 are those individuals residing between 50 and 250 miles of one of these venues. Based on these figures, the cost to the State and localities of treatment, welfare, corrections, and arrests could approximate \$29 million annually following the beginning of VLT operations.

**Exhibit 10
Potential Costs of Pathological and Problem Gambling**

		<u>Pathological</u>		<u>Problem</u>		<u>Total</u>
Total Population	5,296,486	1.30%	70,412	1.10%	61,377	
Treatment	\$30		\$2,112,360		1,841,310	\$3,953,670
Welfare	60		4,224,720	\$90	5,523,930	9,748,650
Corrections	85		5,985,020	34	2,056,130	8,041,150
Arrests (Local)	63		4,400,750	48	2,946,096	7,346,846
Total			\$16,722,850		\$12,367,466	\$29,090,316

Local Revenues:

VLT Distributions

Revenues would increase for up to five counties and one municipality due to the local distribution required by the bill (as shown in Exhibit 8). Local aid will total \$1.8 million in fiscal 2005, \$23.1 million in fiscal 2006, and \$35.6 million in fiscal 2007.

Real and Personal Property Tax Revenues

The local jurisdictions where VLTs are located would also benefit from increased real property tax and personal property tax collections. **Exhibit 11** shows the possible increase in these local tax collections if it is assumed that both Laurel and Pimlico are assessed at \$180 million (the estimated cost to make capital improvements), and Rosecroft is assessed at \$250 million (the estimated cost to make capital improvements), and each facility has 2,500 VLTS beginning in fiscal 2006. Rosecroft is assumed to have 1,000 VLTs operating in fiscal 2005.

Exhibit 11 Potential Real and Personal Property Tax Revenues

	Fiscal Year	Local Real Property Tax Revenues	Local Personal Property Tax Revenues
Anne Arundel			
	2006	\$1,710,000	\$114,000
	2007	1,735,650	85,500
	2008	1,761,300	57,000
	2009	1,786,950	35,625
	2010	1,812,600	35,625
Baltimore City			
	2006	\$4,190,400	\$279,360
	2007	4,253,256	209,520
	2008	4,316,112	139,680
	2009	4,378,968	87,300
	2010	4,441,824	87,300
Prince George's			
	2005	\$2,405,000	\$38,464
	2006	2,441,075	105,776
	2007	2,477,150	76,928
	2008	2,513,225	50,484
	2009	2,549,300	36,060
	2010	2,549,300	36,060

Indirect Local Revenues

To the extent that expenditures on items subject to admissions and amusement 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.

Local Expenditures: The following jurisdictions have estimated increased expenditures resulting from the authorization of VLTs.

Baltimore City estimates that the annual operating costs for public safety, sanitation, and transportation is approximately \$9.3 million. These new annual operating costs involve creating police posts, augmenting cleaning efforts, and managing the flow of vehicle and pedestrian traffic in and around the impacted area. In addition to these recurring costs, the city estimates approximately \$1.8 million in one-time operating start-up costs to acquire equipment such as police cars, medic units, load packers, and street sweepers.

It is also estimated that approximately \$65 million in transportation-related capital improvements would be necessary to accommodate the expected influx of activity in and around the impacted area. These improvements include intersection improvements, signal system installations, and street widening and rehabilitation.

The City of Laurel estimates that annually expenditures would increase by approximately \$910,300 as a result of the bill. This reflects hiring one police sergeant, one police corporal; two police PFC, two police officers, one crew leader, and two laborers. It includes benefits as well as other operating costs.

Additional Information

Prior Introductions: Legislation authorizing VLTs has been introduced during the past several sessions. Examples of this type of legislation include HB 732 in the 2002 session, HB 1170 in the 2001 session, and HB 1170 in the 2000 session. No action was taken on any of these bills.

Cross File: SB 322 (The President) – Budget and Taxation.

Information Source(s): City of Laurel; Allegany County; Prince George's County; Howard County; Maryland State Lottery Agency; Comptroller's Office; Maryland State Department of Education; Department of State Police; Anne Arundel County; Department of Health and Mental Hygiene; Department of Labor, Licensing, and Regulation; Baltimore City; Office of the Attorney General; Department of Public Safety and Correctional Services; The Innovation Group; Department of Legislative Services

Fiscal Note History: First Reader - February 24, 2003
ncs/jr

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**Appendix 1
Summary of Fiscal Impact**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Gross VLT Revenues	--	\$125,728,813	\$768,635,250	\$1,187,349,563	\$1,226,728,500
Distributions to Licensees	--	28,994,604	179,666,157	277,796,043	287,024,891
GF Revenues					
Lottery VLT Administrative Cost	--	8,815,085	44,174,939	67,204,226	69,370,068
License Fees	\$350,000,000	--	--	--	--
Lost Lottery Revenue	--	(9,140,000)	(45,700,000)	(37,700,000)	(28,500,000)
Total GF Revenues	350,000,000	(324,915)	(1,525,061)	29,504,226	40,870,068
SF Revenues					
Education Trust Fund (ETF)	--	73,943,420	461,104,891	713,256,743	736,970,936
Purse Dedication Account	--	6,780,996	42,018,698	64,968,430	67,126,789
Compulsive Gambling	--	500,000	500,000	500,000	500,000
Bred Funds	--	1,636,792	10,142,444	15,682,035	16,203,018
Ocean Downs	--	350,741	2,173,381	3,360,436	3,472,075
Fair Hill	--	935,310	5,795,682	8,961,163	9,258,867
Local Distributions	--	3,771,864	23,059,058	35,620,487	36,801,855
Total SF Revenues	--	87,918,123	544,794,154	842,349,294	870,333,540
GF Expenditures					
DHMH Expenditures	--	3,400,000	3,400,000	3,400,000	3,400,000
Attorney General Expenditures	--	247,074	332,980	351,244	370,839
Education - Funded from ETF	--	(73,943,420)	(461,104,891)	(713,256,743)	(736,970,936)
Lottery VLT Administrative Cost	--	8,815,085	44,174,939	67,204,226	69,370,068
Total GF Expenditures	--	(61,481,261)	(413,196,972)	(642,301,273)	(663,830,029)
Special Fund Expenditures	--	87,919,123	544,784,154	842,349,294	870,333,540
Net Effect	\$350,000,000	\$61,156,346	\$411,671,911	\$671,805,499	\$704,700,097

Appendix 2 Types of Gambling in the United States

State	Land-based Casino	Riverboat Dockside	Cruising	Native American Gaming	Limited Stakes	Card Room	Lottery	Pari-Mutuel	Bingo	None
Alabama								X	X	
Alaska									X	
Arizona				X			X	X	X	
Arkansas								X	X	
California				X		X	X	X	X	
Colorado				X	X		X	X	X	
Connecticut				X			X	X	X	
Delaware							X	X	X	
Florida				X		X	X	X	X	
Georgia							X		X	
Hawaii										X
Idaho				X			X	X	X	
Illinois		X					X	X	X	
Indiana		X					X	X	X	
Iowa			X	X			X	X	X	
Kansas				X			X	X	X	
Kentucky							X	X	X	
Louisiana	X	(Shreveport)		X			X	X	X	
Maine							X	X	X	
Maryland							X	X	X	
Massachusetts							X	X	X	
Michigan	X			X			X	X	X	
Minnesota				X			X	X	X	
Mississippi		X		X					X	
Missouri		X					X		X	
Montana				X		X	X	X	X	
Nebraska				X			X	X	X	
Nevada	X			X				X	X	
New Hampshire							X	X	X	
New Jersey	X						X	X	X	
New Mexico				X			X	X	X	
New York (1)				X			X	X	X	
North Carolina				X			X		X	
North Dakota				X		X		X	X	
Ohio							X	X	X	
Oklahoma				X			X	X	X	
Oregon				X			X	X	X	
Pennsylvania							X	X	X	
Rhode Island							X	X	X	
South Carolina							X		X	
South Dakota				X	X		X	X	X	
Tennessee								X		
Texas				X			X	X	X	
Utah										X
Vermont							X	X	X	
Virginia							X	X	X	
Washington				X		X	X	X	X	
Washington DC							X		X	
West Virginia							X	X	X	
Wisconsin				X			X	X	X	
Wyoming							X	X	X	

(1) Legalized by legislation

Source: State Regulatory Agencies; Bear, Stearns & Co. Inc.; Innovation Group