

Department of Legislative Services
Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

Senate Bill 699

(Senator Currie)

Rules

Public Education - Funding - Video Lottery Terminals - Revenues and Operations

This bill authorizes video lottery terminals (VLTs) at up to four locations in the State, provides for one-time license fees, provides for the distribution of revenue from VLTs, creates the Education Trust Fund 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 June 1, 2003.

Fiscal Summary

State Effect: General fund revenues could increase by up to \$500 million in FY 2004, depending on the payment of one-time license fees. Future years generally reflect phased-in VLT operations. General fund revenues increase due to local impact aid collections beginning in FY 2005. General fund expenditures decrease beginning in FY 2005 – increases in local impact aid 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 beginning in FY 2005 for lottery commission administrative expenses, purse dedication, compulsive gambling, and education. General fund lottery revenues could decrease by \$9 million in FY 2005. Future years reflect continuing decreases. **Appendix 1** provides greater detail for all revenues and expenditures.

(in dollars)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
GF Revenue	\$500,000,000	\$11,588,200	\$14,966,700	\$22,966,700	\$32,166,700
SF Revenue	0	91,046,200	441,363,000	669,214,500	688,385,800
GF Expenditure	0	(47,021,900)	(279,268,100)	(452,354,700)	(466,918,000)
SF Expenditure	0	91,046,200	441,363,000	669,214,500	688,385,800
Net Effect	\$500,000,000	\$58,610,100	\$294,234,800	\$475,321,400	\$499,084,700

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 \$20.7 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: Meaningful.

Analysis

Bill Summary: The major provisions of the bill include:

Video Lottery Terminals

- Authorizes a total of 10,000 VLTs in the State – 2,500 VLTs at up to four horse racetracks in different regions of the State. To be eligible, a racetrack must have a mile thoroughbred or harness racing license issued by the State Racing Commission.
- Reiterates the current prohibition on additional forms of gaming, other than those already authorized under State law (e.g., State lottery, horse racing, charitable gaming).
- VLTs would be owned or leased by the State Lottery Commission and under the control of the lottery commission at all times.
- The lottery commission must select applicants for the four video lottery facility licenses based on a competitive process.
- The lottery commission may only consider an applicant for a license if: the county governing body passes a resolution in support of a video lottery facility in the county; and the qualified voters of the county do not petition the local resolution to referendum at a special election; or if the local resolution is petitioned to referendum, the majority of votes cast must be for the video lottery facility.
- A county governing body must pass a resolution in support of a video lottery facility in the county within 60 days after the bill's June 1, 2003 effective date. To petition the local resolution to referendum at a special election in the county, the signatures of 3% of the county's legally qualified voters must be collected and certified within 30 days after passage of the local resolution. If that occurs, a

special election must be held in the county within 30 days after the date the petition is certified. The State must pay for the costs of a special election.

Eligibility Criteria

- An applicant for a facility license must: invest at least \$100 million in construction and related costs; provide at least 150 full-time jobs; meet the State's minority business participation requirements, at a minimum, for construction and procurement; meet the county's minority business participation requirements, to the extent practicable, if they are higher than the State's; and make good faith efforts for participation in ownership by minorities and women.
- All applicants for a facility license are subject to a stringent application process which involves a background investigation of the applicant and each person who owns or controls the applicant. After the background investigation, the commission is required to conduct a hearing on the application.

Fees and Licenses

- Initial one-time fee of \$125 million to be paid by each licensee upon issuance of license, to be distributed to the State general fund for general purposes.
- Annual fee of \$360 per operating VLT paid by licensees and distributed to the Compulsive Gambling Fund (\$3.6 million annually).
- Application and license fees to be established by the commission to cover its administrative expenses, including the costs of the background investigations.
- The commission may impose a license sanction (denial, suspension, or revocation) and civil penalties up to \$5,000 per violation against applicants and licensees.
- Licenses must be renewed annually and are not transferable.
- The commission may require a facility licensee to be bonded.

Distribution of VLT Proceeds

From the gross proceeds of VLTs, after pay out to players, the costs of the State Lottery Commission to purchase or lease and maintain the VLTs and other necessary equipment will be subtracted.

Net proceeds are to be distributed as follows:

- 50% to the Education Trust Fund of the State of Maryland;
- an amount paid to counties in which a video lottery facility is operating (based on formula); and
- of the remainder, 20% to the purse dedication account to enhance horse racing purses; and up to 80% to video lottery facility licensees for operating costs and capital costs associated with a VLT facility and a reasonable return (at discretion of lottery commission).

Education Trust Fund

The Education Trust Fund must be used for the following education programs:

- implementation of the Bridge to Excellence in Public Schools Act of 2002 (Chapter 288);
- implementation of the College Readiness for Disadvantaged and Capable Students Act of 2002 (Chapters 315/429); and
- public libraries.

Expenditures from the trust fund will be made in accordance with the enacted budget bill. The Governor must consult with the K-16 Leadership Council on trust fund expenditures when developing the State budget. In addition to expenditures from the trust fund, in the proposed budget submitted to the General Assembly the Governor must include a general fund allowance for the programs authorized for funding through the trust fund an amount equal to at least the prior fiscal year's appropriation.

Local Development Grants to Counties

Also paid from the proceeds will be local development grants, subject to approval by the General Assembly, for infrastructure, services, economic and community development, and other improvements to counties where the VLT facilities are located as follows:

- \$52,198 per day of operation for Baltimore City;
- \$41,209 per day of operation for Prince George's and Anne Arundel counties (split with Howard County and the City of Laurel); and
- \$31,594 per day of operation for Allegany County.

Purse Dedication Account

The money dedicated to the Purse Dedication Account must be allocated by the commission, in accordance with appropriations approved by the General Assembly, as follows:

- 62.3% to mile thoroughbred purses;
- 7.7% to Maryland-Bred Race Fund;
- 29.67% to standard-bred purses; and
- 3.33% to Standard-Bred Race Fund.

Compulsive Gambling Fund

- The commission will distribute funds collected from the \$360 annual fee to the Compulsive Gambling Fund, which will be administered by the Department of Health and Mental Hygiene. Funds may be used to establish a 24-hour hotline and provide counseling and other support services for compulsive gamblers.

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 1 summarizes the number of states that allow various forms of gambling. **Appendix 2** shows that various types of gambling that are allowed in each State.

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:

License Fee Revenues

The bill requires each licensee to pay a one-time license fee of \$125 million upon being issued a VLT license. These fees are to be distributed to the general fund. Assuming that the licensees determine that the operation of VLTs will be a profitable business venture and that they will be able to earn an appropriate rate of return on their investment, as well

as working out any issues related to zoning, general fund revenues would increase by up to \$500 million in fiscal 2004.

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. No facility may operate more than 2,500 VLTs.

As a result, total revenues generated by VLTs – after payouts to winning players, but **before** any other distributions are made – could total approximately \$146.0 million in fiscal 2005, \$722.1 million in fiscal 2006, \$1.09 billion in fiscal 2007, and approximately \$1.12 billion in fiscal 2008 and later. This estimate is based on the following facts and assumptions:

Pimlico

- Begin VLT operations on July 1, 2005 – 12-month delay due to local zoning processes and 10-12 months of capital improvements;
- 2,500 machines;
- average win per position of \$333; and
- facilities begin operating at approximately 50% of maximum efficiency and will increase by about 10% each quarter until reaching full market potential in October 2006.

Laurel

- Begin VLT operations on July 1, 2005 – 12-month delay due to local zoning processes and 10-12 months of capital improvements;
- 2,500 machines;
- average win per position of \$347; and
- facilities begin operating at approximately 50% of maximum efficiency and will increase 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 – July 1, 2004 - June 30, 2005; facility will operate at approximately 60% efficiency, increasing by about 10% each of the next four quarters;
- 2,500 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;
- 2,500 machines;
- average win per position of \$225; and
- facility will operate at approximately 50% efficiency beginning January 1, 2005, increasing 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 based on estimates provided by the Innovation Group; Innovation Group 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 2 details the revenue distribution resulting from VLTs for fiscal 2005 through 2008.

**Exhibit 2
Distribution of VLT Revenues**

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Gross Proceeds	\$146,031,938	\$722,084,063	\$1,088,404,906	\$1,119,226,875
Administrative Expenses	9,931,757	41,614,623	61,762,270	63,457,478
Net Proceeds	136,100,181	680,469,439	1,026,642,636	1,055,769,397
Education Trust Fund	68,050,090	340,234,720	513,321,318	527,884,698
Local	20,728,205	60,666,650	60,666,650	60,666,650
Purse Dedication Account	9,464,377	55,913,614	90,530,934	93,443,610
Licensees	\$37,857,508	\$223,654,456	\$362,123,735	\$ 373,774,439

Exhibit 3 details the estimated gross revenues that will be generated at each track for fiscal 2005 through 2008.

**Exhibit 3
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	-	\$173,306,563	\$276,784,063	\$286,981,250
Laurel	-	172,330,188	285,744,813	299,391,250
Rosecroft	\$95,274,125	213,337,938	331,969,781	338,948,125
Allegany	<u>50,757,813</u>	<u>163,109,375</u>	<u>193,906,250</u>	<u>193,906,250</u>
Total	\$146,031,938	\$722,084,064	\$1,088,404,907	\$1,119,226,875

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% 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.

Compulsive Gambling Fund

An additional revenue increase of \$360 per VLT, or \$3.6 million annually, will be credited to the Compulsive Gambling Fund. Any fines levied under this bill would be credited to the Education Trust Fund. Revenues could also increase due to increases in wagering tax revenues.

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 624 new employees. The average wage of the employees is estimated at \$34,700.

New jobs would generate new incomes that 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 \$3.1 million, and local income taxes could increase by approximately \$1.7 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 of these employees would generate more sales tax collections through increased spending.

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. It is estimated that approximately 31% of the revenues generated by VLTs would come from Maryland residents that currently gamble outside of the State; 11% would come from out-of-state residents that 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 that 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 they are currently spending on.

State Real Property Tax

Exhibit 4 shows the potential State real property tax revenues resulting from the installation of 2,500 VLTs in Baltimore City and Anne Arundel and Prince George’s counties. The estimate assumes a 1.5% real property assessment increase and constant tax rates.

**Exhibit 4
Potential Real Property Tax Revenue**

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

State Expenditures:

Administrative Expenditures

Lottery Agency

Administrative costs for the State Lottery Commission associated with operating video terminals would be approximately \$9.9 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.

Maryland State Department of Education (MSDE)

MSDE estimates that its general fund expenditures could increase by approximately \$410,000 in fiscal 2005 as a result of hiring one education program manager, two education program specialists, and two administrative specialists. The estimate includes benefits, one-time start-up costs, and ongoing operational expenses.

DLS advises that MSDE is already required to implement the Bridge to Excellence Act regardless of the passage of this bill. As a result, it is assumed that any additional expenditures associated with this bill could be handled with MSDE’s existing budgeted resources. If existing resources should prove to be insufficient, MSDE may request additional resources through the annual budget process.

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 \$3.6 million (\$360 per machine fee) to be paid into the Compulsive Gambling Fund for compulsive gambling related problems. As a result, DHMH’s expenditures could increase by approximately \$300,000 annually.

Exhibit 5 outlines projected total expenditures related to the VLT program.

**Exhibit 5
Total Administrative Costs**

<u>Agency</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Lottery Commission	\$9,931,757	\$41,614,623	\$61,762,270	\$63,457,478
DHMH	<u>3,900,000</u>	<u>3,900,000</u>	<u>3,900,000</u>	<u>3,900,000</u>
Total	\$13,831,757	\$45,514,623	\$65,662,270	\$67,357,478

Education Expenditures

The legislation dedicates 50% of the net proceeds from VTL operations to the Education Trust Fund to be used for public education and library programs. As a result of the Bridge to Excellence in Public Schools Act of 2002 (Chapter 288) 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 could also incur significant cost 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 Impact Aid

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 6** shows the estimated minimum aid amount for each jurisdiction in the first three years of VLT operations.

Exhibit 6
Local Impact Aid Distributions

<u>Location</u>	<u>Grantee</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Pimlico	Baltimore	-	\$19,052,270	\$19,052,270	\$19,052,270
Rosecroft	Prince George's	\$15,041,285	15,041,285	15,041,285	15,041,285
Allegany	Allegany	5,686,920	11,531,810	11,531,810	11,531,810
Laurel	Anne Arundel	-	9,024,711	9,024,711	9,024,711
	Howard	-	3,008,257	3,008,257	3,008,257
	Laurel	-	<u>3,008,257</u>	<u>3,008,257</u>	<u>3,008,257</u>
Total		\$20,728,205	\$60,666,650	\$60,666,650	\$60,666,650

Other Required Expenditures

Funds from the Purse Dedication Account (PDA) may only be expended through an appropriation in the State budget or through a budget amendment, and must be distributed as indicated above. **Exhibit 7** details the distribution from the PDA, for fiscal 2005 through 2007, assuming that the account is fully appropriated in each of those years.

Exhibit 7
Distributions From the Purse Dedication Account

<u>Purse Dedication Account</u>	<u>Percentage</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Mile Thoroughbred Purses	62.30%	\$5,896,307	\$34,834,181	\$56,400,772
Maryland-Bred Race Fund	7.70%	728,757	4,305,348	6,970,882
Standardbred Purses	26.67%	2,524,149	14,912,161	24,144,600
Standardbred Race Fund	3.33%	<u>315,164</u>	<u>1,861,923</u>	<u>3,014,680</u>
Total		\$9,464,377	\$55,913,614	\$90,530,934

Other Funds

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 \$3.6 million in annual VLT fees credited to the fund.

In addition, special fund expenditures would increase to the extent that Education Trust Fund funds are appropriated in future year budgets.

Indirect State Expenditures

In addition to the positive indirect effects to the economy, negative impacts can be expected as well. These effects could include increased crime and gambling addiction, which could result in additional 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 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 8 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 from 50 to 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 8
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		<u>4,400,750</u>	48	<u>2,946,096</u>	<u>7,346,846</u>
Total			\$16,722,850		\$12,367,466	\$29,090,316

Source: Innovation Group Central Maryland Racetrack VLT Venues: Revenue Projections; U.S. Census Bureau, Census 2000; Cost data from National Opinion Research Center, Gambling Impact and Behavioral Study, 1999

Local Revenues:

VLT Distributions

Revenues would increase for up to five counties and one municipality due to the distribution of impact aid (as shown in **Exhibit 6**). Impact aid will total \$20.7 million in fiscal 2005, \$60.7 million in fiscal 2006, and \$60.7 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 9** 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 9
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	\$95,000
2007	1,735,650	71,250
2008	1,761,300	47,500
2009	1,786,950	29,688
2010	1,812,600	29,688
Baltimore City		
2006	\$4,190,400	232,800
2007	4,253,256	174,600
2008	4,316,112	116,400
2009	4,378,968	72,750
2010	4,441,824	72,750
Prince George's		
2005	\$2,405,000	38,464
2006	2,441,075	86,544
2007	2,477,150	62,504
2008	2,513,225	40,868
2009	2,549,300	30,050
2010	2,549,300	30,050

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 expenditures would increase by approximately \$910,300 annually 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.

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 NORC, 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. As mentioned above, 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.

Enhancing the purses would result in increased income for horse owners, breeders, and trainers, many of whom are presumed to be small businesses. Purses totaled over \$50 million in 1997. To the extent that increased purses result in more out-of-state horse racing in Maryland, the increased income for Maryland owners, breeders, and trainers would be reduced.

Additional Information

Prior Introductions: Legislation authorizing video lottery terminals 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: HB 78 (Delegates Rawlings and C. Davis) – Ways and Means.

Information Source(s): City of Laurel; Allegany County; Prince George’s County; Maryland State Lottery Agency; Maryland State Board of Elections; Comptroller’s Office; Maryland Association of Boards of Education; Maryland State Department of Education; Maryland Stadium Authority; Anne Arundel County; Department of Health and Mental Hygiene; Department of Labor, Licensing, and Regulation; The Innovation Group; Department of Legislative Services

Fiscal Note History: First Reader - February 25, 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	--	\$146,031,938	\$722,084,063	\$1,088,404,906	\$1,119,226,875
Distributions to Licensees	--	37,857,508	223,654,456	362,123,735	373,774,439
GF Revenues					
License Fees	\$500,000,000	--	--	--	--
Lost Lottery Revenue	--	(9,140,000)	(45,700,000)	(37,700,000)	(28,500,000)
Local Impact Aid	--	20,728,205	60,666,650	60,666,650	60,666,650
Total GF Revenues	500,000,000	11,588,205	14,966,650	22,966,650	32,166,650
SF Revenues					
Education Trust Fund (ETF)	--	68,050,090	340,234,720	513,321,318	527,884,698
Lottery VLT Administrative Costs	--	9,931,757	41,614,623	61,762,270	63,457,478
Purse Dedication Account	--	9,464,377	55,913,614	90,530,934	93,443,610
Compulsive Gambling	--	3,600,000	3,600,000	3,600,000	3,600,000
Total SF Revenues	--	91,046,224	441,362,957	669,214,522	688,385,786
GF Expenditures					
Local Impact Aid	--	20,728,205	60,666,650	60,666,650	60,666,650
DHMH Expenditures	--	300,000	300,000	300,000	300,000
Education - Funded from ETF	--	(38,050,090)	(340,234,720)	(513,321,318)	(527,884,698)
Total GF Expenditures	--	(47,021,885)	(279,268,070)	(452,354,668)	(466,918,048)
Special Fund Expenditures	--	61,046,224	441,362,957	669,214,522	688,385,786
Total Revenues	500,000,000	72,634,429	456,329,607	692,181,172	720,552,436
Total Expenditures	--	44,024,339	162,094,887	216,859,854	221,467,738
Net Effect	\$500,000,000	\$58,610,090	\$294,234,720	\$475,321,318	\$499,084,698

Appendix 2 Types of Gambling in the United States

State	Land-based Casino	Riverboat Docksides	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

