

**Department of Legislative Services**  
 Maryland General Assembly  
 2004 Session

**FISCAL AND POLICY NOTE**  
**Revised**

House Bill 293 (The Speaker and the Minority Leader)  
 (By Request – Administration)

Ways and Means

**Public Education Bridge to Excellence - Funding - Video Lottery Terminals**

This Administration bill authorizes up to 15,500 video lottery terminals (VLTs) at six locations (four horse racing tracks and two nontrack unspecified locations); provides for one-time application fees; creates the Education Trust Fund (ETF) and other special funds; and continues the current prohibition on additional forms of commercial gambling.

The bill takes effect June 1, 2004.

**Fiscal Summary**

**State Effect:** General fund revenues increase in FY 2005 and FY 2006 due to one-time application fees. General fund revenues decrease beginning in FY 2006 due to decreased lottery sales; future year losses increase with increased VLT implementation, totaling \$69 million in FY 2009. General fund expenditures increase in FY 2006 and beyond due to Attorney General expenses. General fund expenditures decrease in FY 2006 and beyond due to the availability of revenues from the ETF. Special fund revenues and expenditures increase for lottery agency administrative expenses, local aid, purse dedication, bred funds, gambling addiction treatment expenditures, and education beginning in FY 2006, except lottery expenditures which begin in FY 2005. **Appendix 1** shows the revenues and expenditures by fund in greater detail.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	\$15,000,000	(\$2,985,100)	(\$43,873,500)	(\$67,022,800)	(\$69,747,100)
SF Revenue	0	71,818,400	634,863,400	951,850,700	975,630,700
GF Expenditure	0	(52,284,300)	(480,964,000)	(734,207,500)	(755,612,100)
SF Expenditure	13,000,000	71,818,400	634,863,400	951,850,700	975,630,700
Net Effect	\$2,000,000	\$49,299,200	\$437,090,500	\$667,184,700	\$685,865,000

*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 \$5.4 million in FY 2006, increasing to \$75.5 million at VLT full implementation in FY 2009. Future year revenues represent increased VLT operation and efficiency and revenues distributed from nontrack VLT facilities. Local expenditures increase significantly for local governments with VLT facilities.

**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.

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## Analysis

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

### *Video Lottery Terminals and Locations*

The bill authorizes a total of 15,500 VLTs in the State – 3,500 VLTs each at Pimlico Race Course, Laurel Park, and Rosecroft Raceway; 1,000 at a race track built in Allegany County; and a total of 4,000 VLTs at two nontrack locations (emporia) to be determined by a committee created by this bill.

The bill reiterates the current prohibition on additional forms of gambling, other than those currently authorized under State law (lottery, horse racing, and charitable gambling). The State Lottery Commission will provide regulation and oversight of the VLT program.

### *Distribution of Video Lottery Terminals Proceeds*

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

For the four racetrack locations, from the gross proceeds of VLTs, after pay out to players, proceeds are distributed as follows:

- 5% to the State Lottery Agency for administrative costs (after the first year, the distribution is 4.3%);
- 4.75% to the local governments in which video lottery facilities are operating;

- 5.25% to the Purse Dedication Account (PDA) to enhance horse racing purses and to provide funds for the horse breeding industry (after the first year, the distribution increases to 5.95%);
- 39% to VLT operation licensees; and
- 46% to the ETF established under the bill.

For the two nontrack locations, from the gross proceeds of VLTs, after pay out to players, proceeds are distributed as follows:

- 5% to the State Lottery Agency for administrative costs (after the first year, the distribution is 4.3%);
- 4.75% to the county(s) in which the video lottery facilities operate;
- the operators will receive the amount stated on the bid proposals selected by the State Video Lottery Facility Commission; and
- the remainder of the proceeds will be distributed to the ETF.

#### *Video Lottery Facility Location Commission*

This bill creates a Video Lottery Facility Location Commission that will determine: (1) what entity(s) will operate the emporia; (2) the percent of operator VLT gross proceeds; (3) the emporium locations from among the following eligible locations: Prince George's, Howard, Baltimore, Harford, and Cecil counties, and Baltimore City; and (4) the distribution of the 4,000 VLTs between the two emporia. The commission is composed of nine members, of whom five are appointed by the Governor, two by the Speaker of the House, and two by the President of the Senate. These nine members elect a chairman. In awarding the two nontrack VLT licenses, the commission is to consider various factors including the highest potential benefit to the State, the capital construction proposal, number of jobs created, licensee fees, and minority participation in the ownership group. Qualified bidders may submit bids according to the competitive sealed process established under Title 13 of the State Finance and Procurement Article. This bill does not specify a deadline for submitting bids or a decision deadline.

#### *Lottery Commission Authority and Duties*

VLTs will be owned or leased by the State Lottery Commission and under the control of the commission at all times. The membership of the State Lottery Commission increases from five to nine. One member will serve as a liaison to the State Racing Commission and one member of the State Racing Commission will serve as a liaison to the lottery commission.

The commission has authority to issue subpoenas and conduct investigations and hearings and require a bond for faithful performance of the requirements of the bill. Commission employees must be present at VLT facilities during all hours of VLT operation for the purpose of certifying revenue from VLTs and receiving complaints from the public.

### *VLT Licenses*

Licenses must be obtained by VLT operators, VLT manufacturers, VLT employees, and anyone hired by a VLT operator to manage a VLT facility. In addition, the commission may require others to be licensed.

All applicants for VLT-related licenses are subject to an application process that involves a State and national criminal history records check. All applicants for VLT-related licenses must establish their qualifications including financial stability and background of the applicant and all individuals and business entities associated with the applicant; integrity of financial backers and investors; good character and honesty; and sufficient business ability and experience.

A VLT operation license applicant must provide additional information that includes the financial structure of the entity and names, personal history, and criminal history of all officers, partners, and principal employees; the names of all holding companies, subsidiaries, or other business entities of the applicant; and the names of all persons who own or control the business entity as well as a description of all bonus and profit-sharing agreements.

The term of a VLT operation license is 15 years. At the end of the 15-year term, the licensee may reapply for a license renewal of 10 years, with the fee to be determined by future statute. The bill provides that a VLT-related license is a revocable privilege and that it is the intent of the bill to prohibit the creation of a property right in a license granted under the bill.

Any VLT license issued under the bill may not be transferred, sold, or pledged as collateral. A licensee may not sell or transfer more than 5% of the legal or beneficial ownership in the licensee without the approval of the commission.

VLT licensees must meet the State's minority business participation requirements for facility construction and procurement; and meet the county's minority business participation requirements, to the extent practicable, if they are higher than the State's.

### *Additional Requirements for Horse Track VLT Operation Licensees*

None of the requirements in this section apply to the nontrack VLT facilities.

Applicants for horse track VLT licenses must submit a \$5 million application fee by October 1, 2004. The race track in Allegany County applicant has until October 1, 2005 to apply and pay the application fee.

In addition, applicants must also invest at least \$150 million in construction and related costs; provide at least 500 full-time jobs (the Allegany track is required to invest \$43 million and provide at least 150 jobs); and offer at least 15% of equity investment to minority businesses if the licensee holds one license and 10% if the licensee holds two or more licenses.

As a condition of licensure, a track licensee must maintain the following number of live racing days:

- 220 days for the combined licenses at Laurel and Pimlico;
- 180 days for the Rosecroft license; and
- 21 days for the Allegany County license.

If either the Preakness Stakes or Woodlawn Vase is transferred out of the State, the VLT operation license for Pimlico and Laurel Park will be revoked. In addition, the Maryland Million must be conducted annually at Laurel Park.

As a condition of licensure, each track licensee must develop a racing improvement plan to improve the quality and marketing of horse racing at the track. The plan must include \$4 million of annual capital maintenance and improvements of the horse racing facilities (the Allegany track is required to make \$1.15 million in improvements annually).

### *Other Regulation of Video Lottery Operations and Consumer Protections*

The bill prohibits a VLT operation licensee from offering food (except finger food and the like) and beverages, including alcoholic beverages, for free or for a price that is lower than the prices in the county where the VLT facility is located.

The commission must adopt regulations to reduce or mitigate the effects of problem gambling, including provisions that provide for mandatory exclusion of career offenders from VLT facilities; procedures that permit self-exclusion from VLT facilities for individuals with gambling problems; limits on the dollar amount that VLT machines will accept; payouts of winnings above a certain amount by check; limits on the number,

location, and maximum withdrawal amounts for ATMs; conspicuous disclosures related to VLT payouts and odds; and consumers to be given a record of spending levels to the extent that marketing measures that track customer spending are used.

#### *Purse Dedication Account*

The bill creates a Purse Dedication Account to which 5.25% of gross proceeds from the four track facilities will be distributed in the first year and 5.95% in the following years. Funds from the account are to be distributed as follows:

- from the proceeds at Laurel and Pimlico: 89% to mile thoroughbred purses; 11% to the Maryland-bred Race Fund;
- from the proceeds at Rosecroft: 89% to standardbred purses; 11% to the Standardbred Race Fund;
- from the proceeds at Allegany County, an amount to the thoroughbred industry and the standardbred industry prorated by the number of days of each type of racing at the track; and
- \$250,000 is to be dedicated annually to improving health care for Maryland jockeys. To pay for these benefits, \$125,000 will be deducted annually from both the mile thoroughbred and standardbred purses.

#### *Education Trust Fund*

The bill creates an Education Trust Fund (ETF) as a special, nonlapsing fund that will receive 46% of gross VLT revenues from the four track facilities and an indeterminate share from the nontrack facilities to fund the Bridge to Excellence in Public Schools Act of 2002 (Chapter 288 of 2002).

#### *Local Development Councils and Transportation*

From the local development grants provided to the areas where VLT facilities are located, the proceeds are intended to be used for infrastructure improvements, public safety, and other needs in the communities in the immediate proximity of the facility. A Local Development Council would be created in each area where a VLT facility is located to advise, comment, and make recommendations on a plan developed by the county providing for the use of the Local Development Grant funds. The bill also provides that the State may pay for the reasonable transportation costs necessary to mitigate the impact on the communities in immediate proximity to the VLT facilities and to make VLT facilities accessible to the public.

### *Compulsive Gambling Fund*

The bill assesses a \$390 fee per VLT terminal to be paid by VLT operation licensees that will be placed into a Compulsive Gambling Fund administered by the Department of Health and Mental Hygiene (DHMH). The fund must be used to establish a 24-hour hotline, provide counseling and other support services for compulsive gamblers, and establish problem gambling prevention programs.

### *Other Provisions*

The bill also requires the Maryland Department of Transportation to review, coordinate, and approve county transportation studies. The Governor's Office of Minority Affairs must monitor compliance with applicable minority participation requirements in equity sales and facility construction.

**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. For more information on gambling and horse racing in Maryland, consult the *Legislators' Guide to Video Lottery Terminal Gambling*.

**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. Numerous states have authorized VLT gambling. For more information on prior year introductions and other state VLT regimes, consult the *Legislators' Guide to Video Lottery Terminal Gaming*.

### **State Revenues:**

#### *Application Fee Revenues*

The bill requires the licensees for Pimlico, Laurel, and Rosecroft to pay an application fee of \$5 million, and the licensee of the Allegany track to pay \$1.5 million. Application fees must be paid by October 1, 2004, except for the Allegany track, which has until October 1, 2005. These fees are to be distributed to the general fund. Assuming that all the tracks opt to participate and pay their license fees by the required deadlines, general fund revenues would increase by up to \$15 million in fiscal 2005 and by \$1.5 million in

fiscal 2006. The nontrack facilities are not required to pay upfront fees, although they may opt to do so as part of their competitive bid.

*VLT Revenues*

Six locations in the State may be licensed to operate a total of 15,500 VLTs; 11,500 VLTs must be located at horse racing tracks; 4,000 VLTs must be located at two nontrack locations to be determined by the Location Committee. Pimlico, Laurel, and Rosecroft are authorized to operate up to 3,500 VLTs, and the Allegany County track is authorized to operate 1,000 VLTs.

As a result, total revenues generated – after payouts to winning players, but **before** any other distributions are made – could total approximately \$114.1 million in fiscal 2006, \$1.03 billion in fiscal 2007, \$1.55 billion in fiscal 2008, and approximately \$1.59 billion in fiscal 2009 and later.

**Exhibit 1** details many of the important assumptions in these estimates. It is assumed that each facility begins operating at 50% of capacity and will reach full capacity one year later. An additional six-month delay due to the bid process is assumed for the emporia.

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**Exhibit 1**  
**Assumed Start of Operations**  
**and Win-per-days**

<u>Location</u>	<u>VLTs</u>	<u>WPD</u>	<u>Begin Operations</u>	<u>Full Capacity</u>	<u>Planning/ Zoning</u>	<u>Construction</u>
Pimlico	3,500	\$262	May 2006	May 2007	10 months	12 months
Laurel	3,500	\$276	May 2006	May 2007	10 months	12 months
Rosecroft	3,500	\$316	May 2006	May 2007	10 months	12 months
Allegany	1,000	\$225	January 2006	January 2007	8 months	10 months
Emporium 1	2,000	\$285	January 2007	January 2008	12 months	12 months
Emporium 2	2,000	\$285	January 2007	January 2008	12 months	12 months

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The Department of Legislative Services (DLS) advises that the final location of the emporia may substantially alter both the total revenue and distribution thereof generated by the six VLT facilities. These estimates have taken into consideration some degree of competition between the central Maryland facilities. To the extent that an emporium is



located in close proximity to another VLT facility, total gross proceeds could be substantially less.

Win-per-day estimates for the three central Maryland facilities are based on a gravity model utilized last year by the Innovation Group, under contract with Magna Entertainment, Corp., and are adjusted by DLS to reflect the effects of the additional machines at the two nontrack facilities. The win-per-day estimates for the two nontrack facilities are the average of the three central Maryland track facilities. To the extent that win-per-days are higher at the emporia, annual revenues to the ETF will be greater, and Purse Dedication amounts will be less.

It is assumed that nontrack VLT operators will receive 39% of gross proceeds – the same level provided under this bill to the track facilities. As a result, it is assumed that 51.25% of the gross proceeds from the two emporia will go to the ETF (51.95% in the second year and later of operations). To the extent that market forces cause the nontrack facilities to accept less than the 39% share that track operators receive, then the ETF revenues could be higher. For each 1% that the nontrack facilities underbid the amount received by horse track VLT facilities, the ETF revenues (at full implementation) would increase by approximately \$4.2 million annually.

#### *Other Assumptions*

- VLTs will operate 365 days a year, once operational.
- Pennsylvania, Washington, DC, and Virginia do not authorize VLT gambling.
- West Virginia and Delaware do not expand VLT operations, either by adding additional VLT facilities or authorizing casino-style gambling.
- The Innovation Group's gravity model estimated that 13,500 machines is the optimal number for central Maryland and that increasing the number of machines beyond that level results in diminishing win-per-days. To the extent that there is unmet demand beyond what was estimated by the Innovation Group, then win-per-days could be higher at all facilities, resulting in greater total gross proceeds.

#### *Distribution of Revenues*

**Exhibit 2** details the revenue distribution resulting from VLTs for fiscal 2006 through 2009.

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**Exhibit 2**  
**Distribution of VLT Revenues**  
**(\$ in Millions)**

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Total Annual Gross	\$114.1	\$1,032.8	\$1,550.5	\$1,589.5
ETF	52.5	481.2	734.5	755.9
Licensees	44.5	402.8	604.7	619.9
PDA	6.0	51.3	69.8	69.8
Local	5.4	49.1	73.6	75.5
Lottery Operations	5.7	48.4	67.9	68.3

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**Exhibit 3** details the estimated revenue that will generated at each facility for fiscal 2006 through 2009.

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**Exhibit 3**  
**Estimated Revenues Generated by Facility**  
**Fiscal 2006-2009**  
**(\$ in Millions)**

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Pimlico	\$27.9	\$257.9	\$334.6	\$334.6
Laurel	29.4	272.2	353.1	353.1
Rosecroft	33.7	311.3	403.9	403.9
Allegany	23.1	74.4	82.1	82.1
Emporium 1	-	58.5	188.4	207.9
Emporium 2	-	58.5	188.4	207.9
Total	\$114.1	\$1,032.8	\$1,550.5	\$1,589.5

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*Effect on Lottery Sales*

DLS estimates that VLTs, when fully implemented, will cause a permanent reduction in lottery revenues of 15% annually versus what is currently forecasted. This estimate is based on the experience of other states that have authorized additional gambling and

experienced substantial decreases in lottery sales. In addition, for those states where data are available, Maryland has substantially greater lottery operations, measured on both a gross volume and per capita basis. Therefore, it is possible that lottery sales might decrease more sharply than these other states. **Exhibit 4** details the estimated decline in the general fund revenue in each fiscal year as a result of decreased lottery sales. The impact on lottery revenues incorporates current lottery revenue forecasts and increases with increased VLT implementation.

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**Exhibit 4**  
**Estimated Loss in General Fund Revenue**  
**Due to Decreased State Lottery Sales**  
**(\$ in Millions)**

<u><b>FY 2006</b></u>	<u><b>FY 2007</b></u>	<u><b>FY 2008</b></u>	<u><b>FY 2009</b></u>
\$4.5	\$43.9	\$67.0	\$69.7

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The Lottery Agency estimates that lottery revenues would decline by 1% in fiscal 2005, 5% in fiscal 2006, 3% in fiscal 2007, and 1% in fiscal 2008 before rebounding in fiscal 2009 and beyond.

*Compulsive Gambling Fund*

Approximately \$6.0 million annually, based on \$390 per VLT at full implementation, will be credited to the Compulsive Gambling Fund administered by DHMH. The fund must be used to establish a 24-hour hotline, provide counseling and other support services for compulsive gamblers, and establish problem gambling prevention programs.

*Indirect State Revenues*

Economic Development Impacts

In addition to the direct revenues generated, the introduction of VLTs could generate other revenues due to the increased economic activity associated with VLTs. As a result of the licensure requirements in this bill, horse race track VLT facilities must (1) create 1,650 jobs; (2) undertake \$493 million of one-time capital improvements and construction costs; and (3) spend \$13.2 million annually in capital improvements to the horseracing track facilities.

The construction jobs associated with track improvements could bring dollars into the areas surrounding the tracks, providing an economic boost to the local economy. Construction costs of \$493 million compare roughly to the cost of building two professional football stadia. To the extent that the annual capital improvements are not being currently done, the local economy will receive a boost from annual capital improvements. New jobs would generate new incomes which would be subject to the income tax – revenues that are not currently generated. If substitute jobs are higher (lower) paying than the previously held jobs, taxes paid by those individuals would be higher (lower) than paid previously.

The emporia are not subject to minimum job or capital expenditures requirements. The amount of capital expenditures or jobs created by these facilities cannot be reliably estimated. For comparison purposes, Lincoln Park, a 2,000 VLT dog-racing facility in Rhode Island, employs 800 persons (at both the VLT and dog-track operations) with an average wage of \$18,750. If the nontrack facilities are located at existing structures, capital expenditures can be expected to be significantly less than the expenditures at the track facilities.

Substitution and Cross-border Effects

The group of potential VLT players at a Maryland facility can be divided into four cohorts. The theoretical impact of each of these cohorts on direct and indirect revenues to the State are illustrated in **Exhibit 5**.

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**Exhibit 5**  
**Cross-border and Substitution Effect Impacts**

<u>Cohort</u>	<u>Cross-border and/or Substitution Impact</u>
Marylanders who currently travel out-of-state to play VLTs	Additional direct and indirect revenue to the State
Marylanders who do not currently travel out-of-state to play VLTs but would play in Maryland	Additional direct revenue to the State, offset by any lost revenue from substitution effects
Out-of-state residents who currently play VLTs elsewhere but who would come to Maryland to play VLTs	Additional direct and indirect revenues to the State
Out-of-state residents who do not currently play VLTs elsewhere but who would come to Maryland to play VLTs	Additional direct revenue to the State. If VLT spending substitutes for other consumption in Maryland, then other tax revenues could decline

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For all four cohorts, direct revenue to the State increases as a result of VLT gambling. Indirect State revenues increase as a result of (1) the recapture of Marylanders who play VLTs out-of-state; and (2) out-of-state residents who travel to Maryland explicitly to play VLTs and would not have otherwise visited Maryland in the absence of VLTs.

Indirect State revenues decrease as a result of out-of-state residents and Marylanders who substitute playing VLTs for other forms of taxable activities. For instance, out-of-town conventioners may opt to go to Pimlico and play VLTs instead of attending an Orioles game. In this case, the State gains VLT gaming revenue but would lose the admissions and amusement tax that would have been generated if the conventioner attended the Orioles game. Part of the substitution effect for Marylanders is captured by the estimated decline in lottery revenues resulting from individuals opting to play VLTs instead of purchasing lottery tickets. To the extent that Marylanders substitute playing VLTs for additional forms of taxable entertainment and consumption, indirect State revenues will decrease further. Examples of this include a Marylander opting to play VLTs instead of going to a bar or to the movies which generate liquor and admissions and amusement taxes respectively.

Estimates vary as to the share of total VLT revenues that Marylanders will contribute. *For illustrative purposes only*, if it is assumed that 25% of VLT revenue will come from Marylanders who do not currently play VLTs, VLTs at full implementation could lead to the reallocation of approximately \$397 million annually in Marylanders' consumption to VLTs and away from other forms of entertainment and spending. Some of this reallocated spending was subject to State taxation while other consumption such as services and Internet purchases are not. *For illustrative purposes only*, if half of this reallocated spending was subject to the sales tax, sales tax revenues could decline by approximately \$10 million annually at VLT full implementation.

### *State Real Property Tax*

Real property tax revenues would increase as a result of capital improvements and expenditures at VLT facilities. The State Department of Assessments and Taxation (SDAT) estimates that real property tax revenues would increase by approximately \$520,000 at the four horse track VLT facilities in the first year of operations. DLS estimates that these increased real property tax revenues will be realized beginning in fiscal 2007. Future year additional real property tax revenues from these facilities increase by approximately 3% annually. Based on DLS' assumed implementation schedules, SDAT estimates that for nontrack facilities, real property tax revenues could increase by approximately \$120,000 in fiscal 2007, approximately \$245,000 in fiscal 2008, and increase by approximately 3% annually in future years.

## **State Expenditures:**

### *Administrative Expenditures*

#### Lottery Agency

The Lottery Agency states that it will need 50 additional employees. The agency estimates a supplemental request of approximately \$13 million will be needed for fiscal 2005 to pay for start-up costs associated with VLT operations. Administrative costs for the State Lottery to operate video terminals would be approximately \$5.7 million in fiscal 2006. This estimate assumes that the cost of leasing and maintaining VLT terminals and central computer system as well as providing for additional staff will be equal to approximately 5% of gross revenues in the first year and 4.3% of gross revenues in the following years. Lottery Agency administration expenses are assumed to be consistent with the percent of gross proceeds allocated to it, so no net effect is assumed. To the extent that expenses are higher or lower than estimated, the net effect could change accordingly. If administration expenses are less than the amount allocated in each year under the bill, the additional gross proceeds from horse track VLT facilities would be split equally between the PDA and the ETF. Additional gross proceeds as a result of lower than estimated agency administrative costs at nontrack VLT facilities would be distributed to the ETF.

#### Attorney General

The Office of the Attorney General would incur increased general fund expenditures of approximately \$182,762 in fiscal 2006 as a result of hiring two Assistant Attorneys General and one legal secretary to provide legal support to the VLT program.

#### Education Expenditures

State VLT revenues after operating costs are dedicated to the ETF 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 the ETF 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. The Maryland Department of Transportation states that estimating these costs is not possible until the locations of the facilities are determined.

Purse Dedication Account

**Exhibit 6** details the distribution from the PDA, for fiscal 2006 through 2009, assuming that the account is fully funded in each of those years.

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<b>Exhibit 6</b>				
<b>Purse Dedication Account</b>				
<u>Purse Dedication Account</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
<i>Thoroughbred (Pimlico, Laurel)</i>				
Purses	\$2,677,597	\$25,481,802	\$36,415,325	\$36,415,325
Bred Fund	330,939	3,149,436	4,500,771	4,500,771
<i>Standardbred (Rosecroft)</i>				
Purses	1,572,565	16,485,728	21,386,891	21,386,891
Bred Fund	194,362	2,037,562	2,643,324	2,643,324
<i>To Be Allocated (Allegany)</i>				
Purses	1,079,238	3,733,364	4,348,929	4,348,929
Bred Fund	133,389	461,427	537,508	537,508
Total Purses	5,329,400	45,700,894	62,151,145	62,151,145
Total Bred Funds	<u>658,690</u>	<u>5,648,425</u>	<u>7,681,603</u>	<u>7,681,603</u>
Total Expenditures	\$5,988,091	\$51,349,320	\$69,832,747	\$69,832,747

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This bill mandates that \$250,000 is to be spent annually on improving Maryland jockey health benefits. To pay for this, \$125,000 would be deducted annually from the standardbred and thoroughbred purses.

*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, unemployment, and personal bankruptcies which could result in a need to significantly increase the State and local spending directed toward these effects. Although these costs cannot be reliably estimated, DLS estimates that these costs are likely to be greater than the funds dedicated to the Compulsive Gambling Fund under this bill. *DHMH did not respond to a request to provide information about this bill.*

For a more in-depth discussion about the possible social costs as a result of authorizing VLTs, consult the *Legislator’s Guide to Video Lottery Terminal Gambling*.

**Local Revenues:** The bill provides local impact aid for jurisdictions in which VLT operations are located. This aid is to be used for infrastructure, facilities, services, and other improvements. Revenues would increase for up to seven counties and one municipality due to the local distribution required by the bill as shown in **Exhibit 7**. Of VLT gross proceeds generated by Laurel, Pimlico, and Rosecroft collectively; Baltimore City and Prince George’s County are to receive 1.78% each, Anne Arundel County 0.7%, Howard County 0.33%, and Laurel 0.16%. For the Allegany track and emporia, 4.75% of gross proceeds will be distributed to the county in which they are located. Based on the assumed VLT-implementation schedule, local aid will total \$5.4 million in fiscal 2006, \$49.1 million in fiscal 2007, \$73.6 million in fiscal 2008, and \$75.5 million in fiscal 2009.

**Exhibit 7  
Local Revenue Distributions**

<u>Location</u>	<u>Grantee</u>	<u>Percent Share</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Laurel/ Pimlico/ Rosecroft:	Anne Arundel	0.7%	\$636,729	\$5,889,739	\$7,640,742	\$7,640,742
	Howard	0.33%	300,172	2,776,591	3,602,064	3,602,064
	Laurel	0.16%	145,538	1,346,226	1,746,455	1,746,455
	Baltimore City	1.78%	1,619,110	14,976,765	19,429,316	19,429,316
	Prince George’s	1.78%	1,619,110	14,976,765	19,429,316	19,429,316
Allegany	Allegany	4.75%	1,097,139	3,535,225	3,900,938	3,900,938
Emporium 1	County	4.75%	-	2,777,599	8,950,042	9,875,908
Emporium 2	County	4.75%	-	2,777,566	8,949,934	9,875,789
<b>Total</b>			<u>\$5,417,797</u>	<u>\$49,056,475</u>	<u>\$73,648,808</u>	<u>\$75,500,529</u>



*Real Property Tax Revenues*

The local jurisdictions where VLTs are located would also benefit from increased real property tax collections. **Exhibit 9** lists these potential increased local tax collections.

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**Exhibit 9**  
**Potential Local Real Property Tax Revenues**  
**Fiscal 2007**

	<b>Local Real Property Tax Revenues</b>
Anne Arundel	\$1,146,000
Baltimore City	2,793,600
Prince George's	1,152,000
Allegany	<u>354,000</u>
<b>Total</b>	<b>\$5,445,600</b>

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Future year tax revenues would increase by approximately 3% annually. In addition, the county(s) that the emporia are located in would receive increased real property tax revenues. In addition, if the Lottery Agency decides to lease VLTs from a VLT manufacturer, local jurisdictions would benefit from increased personal property taxes assessed on VLT machines and paid by the lessor.

*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:** VLT facilities will have a substantial impact on the local areas in which they are located and will necessitate additional local expenditures. For example, Dover Downs and Delaware Park each attracted over 2 million visitors in 2003. These facilities have approximately 2,000 VLTs, substantially less than the 3,500 VLTs proposed at the three Maryland horse tracks.

Baltimore City estimates that the annual operating costs for public safety, sanitation, and transportation approximate \$9.3 million. In addition to these recurring costs, the city estimates approximately \$1.8 million in one-time operating start-up costs to acquire equipment. 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 \$1.2 million annually as a result of the bill. This reflects hiring additional police and public works personnel as well as other operating costs. Howard County stated that as a result of VLT operations at Laurel, the county would need to hire additional police personnel and widen access roads to Laurel Park. Allegany County, in its submitted fiscal estimate, did not address the possibility of additional local expenditures as a result of the new Allegany VLT facility. *Prince George's and Anne Arundel counties did not respond to a request to estimate local expenditures required as a result of this bill.*

In addition, the nontrack VLT facilities will likely impose substantial local expenditures in the county(s) in which they are located.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 197 (The President) (By Request – Administration) – Budget and Taxation.

**Information Source(s):** City of Laurel, Allegany County, Howard County, Maryland Department of Transportation, Innovation Group, State Lottery Agency, Office of the Attorney General, Department of Assessments and Taxation, Baltimore City, Department of Legislative Services

**Fiscal Note History:** First Reader - February 10, 2004  
ncs/mdr Revised - Clarification - February 12, 2004

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**Appendix 1  
Summary of Fiscal Impact**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b>Gross VLT Revenues</b>	\$0	\$114,058,875	\$1,032,767,891	\$1,550,501,215	\$1,589,484,828
<b>Licensees</b>	\$0	\$44,482,961	\$402,779,478	\$604,695,474	\$619,899,083
<b>GF Revenues</b>					
Application Fees	\$15,000,000	\$1,500,000	\$0	\$0	\$0
Lost Lottery Revenue	0	(4,485,110)	(43,873,539)	(67,022,828)	(69,747,071)
<b>Total GF Revenues</b>	<b>\$15,000,000</b>	<b>(\$2,985,100)</b>	<b>(\$43,873,539)</b>	<b>(\$67,022,828)</b>	<b>(\$69,747,071)</b>
<b>SF Revenues and Expenditures</b>					
Education Trust Fund	\$0	\$52,467,082	\$481,213,149	\$734,470,131	\$755,904,621
Purse Dedication Account	0	5,988,091	51,349,320	69,832,747	69,832,747
Compulsive Gambling	0	2,242,500	4,875,000	6,045,000	6,045,000
Local Distributions	0	5,417,797	49,056,475	73,648,808	75,500,529
Lottery VLT Administrative	0	5,702,944	48,369,470	67,854,055	68,347,848
Lottery Agency Start-up Costs	13,000,000	0	0	0	0
<b>Total SF Revenues</b>	<b>\$0</b>	<b>\$71,818,414</b>	<b>\$634,863,414</b>	<b>\$951,850,741</b>	<b>\$975,630,745</b>
<b>GF Expenditures</b>					
Attorney General	0	182,762	249,119	262,677	292,488
Education - from ETF	\$0	(\$52,467,082)	(\$481,213,149)	(\$734,470,131)	(\$755,904,621)
<b>Total GF Expenditures</b>	<b>\$0</b>	<b>(\$52,284,320)</b>	<b>(\$480,964,030)</b>	<b>(\$734,207,454)</b>	<b>(\$755,612,133)</b>
<b>Net Effect</b>	<b>\$2,000,000</b>	<b>\$49,299,210</b>	<b>\$437,090,491</b>	<b>\$667,184,626</b>	<b>\$685,865,062</b>