

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE

House Bill 108 (Delegate G. Clagett)
 Ways and Means

Public School Construction - Funding - Video Lottery Terminals

This bill authorizes up to 12,500 video lottery terminals (VLTs) at five horse racing tracks; provides for one-time application fees; provides for the distribution of VLT proceeds; creates the Public School Construction Fund (PSCF) and other special funds; and continues the current prohibition on additional forms of commercial gambling.

The bill takes effect June 1, 2005.

Fiscal Summary

State Effect: General fund revenues increase in FY 2006 and FY 2007 due to one-time application fees. General fund revenues decrease beginning in FY 2007 due to decreased lottery sales; future year losses increase with increased VLT implementation, totaling \$81 million in FY 2010. General fund expenditure increase beginning in FY 2006 due to Attorney General and State Police expenses. Special fund revenues and expenditures increase for lottery agency administrative expenses, local aid, fire and rescue funds, purse dedication, bred funds, gambling addiction treatment expenditures, and public school construction beginning in FY 2007, except lottery which begins in FY 2006. **Appendix 1** shows the revenues and expenditures by fund in greater detail.

(\$ in millions)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revenue	\$20.0	(\$5.3)	(\$62.7)	(\$78.1)	(\$81.4)
SF Revenue	0	83.5	753.9	976.7	976.7
GF Expenditure	.3	.3	.3	.3	.3
SF Expenditure	13.7	84.0	754.4	977.3	977.2
Net Effect	\$6.0	(\$6.1)	(\$63.5)	(\$79.0)	(\$82.2)

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 \$11.6 million in FY 2007, increasing to \$138.8 million at VLT full implementation in FY 2009 and beyond. Local expenditures increase significantly for local governments with VLT facilities.

Small Business Effect: Meaningful.

Analysis

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

Video Lottery Terminals and Locations

The bill authorizes a total of 12,500 VLTs in the State – 3,500 VLTs each at Pimlico Race Course, Laurel Park, and Rosecroft Raceway; and 1,000 each at a race track built in Allegany County and Ocean Downs Raceway.

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 five 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;
- 10% to the local governments in which video lottery facilities are operating;
- 10% to the Purse Dedication Account (PDA) to enhance horse racing purses and to provide funds for the horse breeding industry;
- 5% to the Senator William H. Amoss Fire, Rescue, and Ambulance Fund
- 30% to VLT operation licensees; and
- 40% to the PSCF established under the bill.

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 and manufacturer 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.

Applicants for VLT licenses must submit a \$5 million application fee by October 1, 2005. The race track in Allegany County applicant has until October 1, 2006 to apply and pay an application fee of \$1.5 million.

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 and Ocean Downs are required to invest \$43 million and provide at least 150 jobs); and offer at least 15% of equity investment to minority investors if the licensee holds one license and 10% if the licensee holds two or more licenses.

Licensees must begin VLT operations within 18 months after a license is issued, with up to one-year extension.

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;
- 21 days for the Allegany County license; and
- The same number of days authorized for Ocean Downs in 2004.

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 annual capital maintenance and improvements of the horse racing facilities equal to one-third of total operator VLT revenues received.

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 being 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 (PDA) to which 10% of VLT gross revenues are credited. Funds from the account are to be distributed between standardbred and thoroughbred racing based on the percentage of total live wagering each type of racing had in the previous year.

- from the proceeds allocated to thoroughbred racing: 89% to mile thoroughbred purses; 11% to the Maryland-bred Race Fund; and
- from the proceeds allocated to standardbred racing: 89% to standardbred purses; 11% to the Standardbred Race Fund.

Senator William H. Amoss Fire, Rescue, and Ambulance Fund

The bill provides that 5% of VLT gross revenues are to be distributed to the Senator William H. Amoss Fire, Rescue, and Ambulance Fund. Funds are to be used to increase financial support for State, county, and volunteer fire, rescue, and ambulance companies.

Public School Construction Fund

The bill creates a Public School Construction Fund (PSCF) as a special, nonlapsing fund that will receive 40% of gross VLT revenues from the VLT facilities. Revenues from the fund are to be used to fund public school construction.

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. In addition, two studies must be conducted to evaluate the State's continued compliance with federal and constitutional requirements related to minority participation provisions. The bill provides that State lottery games may be sold at VLT facilities. The State Lottery Commission must submit an annual report detailing the finances of VLT facilities and information on crimes that occur on and around VLT facilities.

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*.

The Public School Facilities Act of 2004, Chapters 306 and 307, set a goal to fully fund school construction by fiscal 2013 to meet minimum required standards for new construction as of July 2003. Based on the work of the Task Force to Study Public School Facilities the total cost to meet standards is estimated at \$3.85 billion with the State's share at approximately \$2 billion and local governments' share at \$1.85 billion. Increasing the funding by \$150 million annually, in addition to the \$100 million annually the State has already committed (the Governor's fiscal 2006 allowance includes \$157 million), for eight years would allow the State to meet the goal by fiscal 2013.

Although the Capital Debt Affordability Committee concluded that authorizing an additional \$1.2 billion in debt to provide the additional \$150 million per year would meet current affordability criteria, the committee recommended that other options, including alternative financing mechanisms, new revenue streams, and shifting capital projects, should be fully explored before increasing the bond authorization.

State Revenues:

Application Fee Revenues

The bill requires the licensees for Pimlico, Laurel, Ocean Downs, 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, 2005, except for the Allegany track, which has until October 1, 2006. 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 \$20 million in fiscal 2006 and by \$1.5 million in fiscal 2007.

VLT Revenues

Five locations in the State may be licensed to operate a total of 12,500 VLTs. As a result, total revenues generated – after payouts to winning players, but **before** any other distributions are made – could total approximately \$115.8 million in fiscal 2007, \$1.07 billion in fiscal 2008, and approximately \$1.39 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. It is assumed that facilities open 18 months after a license is issued, with a six-month period for license issuance. To the extent a facility opens earlier or later than assumed, revenues would be affected.

Exhibit 1
Assumed Start of Operations
and Win-per-day

<u>Location</u>	<u>VLTs</u>	<u>WPD</u>	<u>Begin Operations</u>	<u>Full Capacity</u>
Pimlico	3,500	\$294	May 2007	May 2008
Laurel	3,500	\$309	May 2007	May 2008
Rosecroft	3,500	\$348	May 2007	May 2008
Allegany	1,000	\$225	January 2007	January 2008
Ocean Downs	1,000	\$250	May 2007	May 2008

Win-per-day estimates for the three central Maryland facilities are based on previous estimates of the market for VLTs in Maryland and are adjusted by the Department of Legislative Services (DLS) to reflect the total number of machines authorized and authorization of VLT facilities in Pennsylvania. For a comparison of these revenue estimates and the market for VLTs in Maryland with several other VLT markets, see **Appendix 2**.

Other Assumptions

- VLTs will operate 365 days a year, once operational.
- Virginia and Washington, DC 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.
- Pennsylvania does not expand gambling beyond VLT facilities authorized in 2004.

Distribution of Revenues

Exhibit 2 details the revenue distribution resulting from VLTs for fiscal 2007 through 2010.

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

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
PSCF	\$46.3	\$428.0	\$555.3	\$555.3
Licensees	34.7	321.0	416.5	416.5
PDA	11.6	107.0	138.8	138.8
Local	11.6	107.0	138.8	138.8
Fire Rescue	5.8	53.5	69.4	69.4
Lottery Operations	<u>5.8</u>	<u>53.5</u>	<u>69.4</u>	<u>69.4</u>
Total Annual Gross	\$115.8	\$1,070.0	\$1,388.3	\$1,388.3

Exhibit 3 details the estimated revenue that will be generated at each facility for fiscal 2007 through 2010.

Exhibit 3
Estimated Revenues Generated by Facility
Fiscal 2007 – 2010
(\$ in Millions)

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Laurel Park	\$32.9	\$304.3	\$394.7	\$394.7
Pimlico	31.3	289.5	375.6	375.6
Rosecroft	37.1	342.7	444.6	444.6
Allegany	6.8	63.3	82.1	82.1
Ocean Downs	<u>7.6</u>	<u>70.3</u>	<u>91.3</u>	<u>91.3</u>
Total	\$115.8	\$1,070.0	\$1,388.3	\$1,388.3

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 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.

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

<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
\$6.8	\$62.7	\$78.1	\$81.4

The Lottery Agency estimates that lottery revenues would decline by 1% in fiscal 2006, 5% in fiscal 2007, 3% in fiscal 2008, and 1% in fiscal 2009 before rebounding in fiscal 2010 and beyond.

Compulsive Gambling Fund

Approximately \$4.9 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.

Senator William H. Amoss Fire, Rescue, and Ambulance Fund

The bill provides that 5% of VLT gross revenues are to be distributed to the Senator William H. Amoss Fire, Rescue, and Ambulance Fund. Funds are to be used to increase financial support for State, county, and volunteer fire, rescue, and ambulance companies. Appendix 1 lists the revenue received by the fund in each fiscal year.

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. Construction jobs associated with the construction of new VLT facilities or renovation of existing structures could bring dollars into the areas surrounding the tracks, providing an economic boost to the local economy. New jobs would generate incomes which would be subject to the income tax – revenues that are not currently being generated. If these jobs are higher (lower) paying than previously held jobs, taxes paid by those individuals would be higher (lower) than paid previously.

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**.

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

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 each cohort will contribute. Of particular interest has been the amount of VLT revenue that would be recaptured from Marylanders playing VLTs in neighboring states. Legislative Services estimates that approximately \$360 million or approximately one-quarter of total revenue generated by West Virginia and Delaware VLT facilities comes from Marylanders. Further, it is estimated that these Marylanders contribute approximately \$138 million in revenue to West Virginia and Delaware local and state governments. Authorizing VLTs will not recapture all of this revenue; the amount of players that would be recaptured depends on multiple factors, including the ultimate location of the nontrack facilities. In addition, although Pennsylvania has authorized VLTs, the Pennsylvania Gaming Board has not determined the location of these facilities. The location of these facilities could impact the annual revenue “recaptured” by Maryland VLT facilities.

State Expenditures:

Administrative Expenditures

Lottery Agency

The Lottery Agency states that it will need 46 additional employees. The agency estimates a budget request of approximately \$13 million will be needed for fiscal 2006 to pay for start-up costs associated with VLT operations. Administrative costs for the State Lottery to operate video terminals would be approximately \$5.8 million in fiscal 2007. 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. 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 VLT facilities would be distributed to the PSCF.

Attorney General

The Office of the Attorney General would incur increased general fund expenditures of approximately \$259,600 in fiscal 2006 as a result of hiring two Assistant Attorneys General and one legal secretary to provide legal support to the VLT program.

Department of State Police

The Department of State Police would incur increased general fund expenditures of approximately \$639,400 in fiscal 2006 as a result of equipment costs and hiring four full-time troopers, one corporal, and one office secretary to handle the anticipated volume of background checks.

Maryland Department of Transportation

The bill requires the Maryland Department of Transportation (MDOT) to study the impact of increased traffic resulting from VLTs at Pimlico Race Course and submit the findings of the report to the General Assembly by December 1, 2005. MDOT advises that it will incur increased special fund expenditures of \$100,000 in order to complete this study. The bill also requires MDOT as the State's MBE certifying agency, to conduct a study regarding specified aspects of the minority business enterprise requirements of the bill and report to the Legislative Policy Committee by December 1, 2006 for the first study and by September 30, 2008 for the second study. Legislative Services estimates that the studies will cost \$50,000 each.

Education Expenditures

State VLT revenues after operating costs are dedicated to the PSCF to be used for public school construction. **Appendix 1** lists the amount of funds for school construction in each year.

Infrastructure Costs

The State and local governments could also incur significant costs associated with infrastructure upgrades at each of the racetracks and nontrack locations. 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. MDOT

states that estimating these costs is not possible until plans are developed and traffic studies are completed.

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. 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 6**. Of the VLT gross proceeds generated by Laurel: Anne Arundel County is to receive 7.3%; Howard County 1.7%; and Laurel 1.0%. For the other tracks, 10% 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 \$11.6 million in fiscal 2007, \$107 million in fiscal 2008, \$138.8 million in fiscal 2009, and \$138.8 million in fiscal 2010.

**Exhibit 6
Local Revenue Distributions**

<u>Location</u>	<u>Grantee</u>	<u>Percent Share</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Laurel	Anne Arundel	7.3%	\$2.4	\$22.2	\$28.8	\$28.8
	Howard	1.7%	0.6	5.2	6.7	6.7
	Laurel	1.0%	0.3	3.1	4.0	4.0
Ocean Downs	Worcester	10.0%	0.8	7.0	9.1	9.1
Pimlico	Baltimore City	10.0%	3.1	29.0	37.6	37.6
Rosecroft	Prince George’s	10.0%	3.7	34.2	44.5	44.5
Allegany	Allegany	10.0%	<u>0.7</u>	<u>6.3</u>	<u>8.2</u>	8.2
Total			\$11.6	\$107.0	\$138.9	\$138.9

Indirect Local Revenues

The local jurisdictions where VLT facilities are located would also benefit from increased real property tax collections. 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. 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.

Small Business Impact: To the extent that VLT facilities purchase goods from local businesses that are small businesses, these small businesses would benefit. Small business horse industry breeders and owners in the thoroughbred and standardbred racing industry would benefit. Some small businesses would benefit from additional tourists, partially offset by some small businesses that would be harmed as a result of tourists substituting VLT wagering for other expenditures.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland State Lottery Agency, Department of State Police, Department of Health and Mental Hygiene, Maryland Department of Transportation, Public School Construction Program, Office of the Attorney General, Innovation Group, Department of Legislative Services

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Appendix 1

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Gross VLT Revenues	\$0	\$115,758,943	\$1,070,044,134	\$1,388,277,500	\$1,388,277,500
Licensees	\$0	\$34,727,683	\$321,013,240	\$416,483,250	\$416,483,250
Special Fund Revenues					
Public School Construction Fund	0	46,303,577	428,017,654	555,311,000	555,311,000
Local Distributions	0	11,575,894	107,004,413	138,827,750	138,827,750
PDA	0	11,575,894	107,004,413	138,827,750	138,827,750
Compulsive Gambling	0	2,437,500	4,875,000	4,875,000	4,875,000
Lottery VLT Administrative	0	5,787,947	53,502,207	69,413,875	69,413,875
Amoss Fund		5,787,947	53,502,207	69,413,875	69,413,875
Total SF Revenues	\$0	\$83,468,759	\$753,905,894	\$976,669,250	\$976,669,250
GF Revenues					
Application Fees	\$20,000,000	1,500,000	0	0	0
Lost Lottery Revenue		(6,786,654)	(62,733,982)	(78,135,552)	(81,391,200)
Total GF Revenues	\$20,000,000	(\$5,286,654)	(\$62,733,982)	(\$78,135,552)	(\$81,391,200)
Special Fund Expenditures					
Public School Construction Fund	0	\$46,303,577	\$428,017,654	\$555,311,000	\$555,311,000
Local Distributions	0	11,575,894	107,004,413	138,827,750	138,827,750
PDA	0	11,575,894	107,004,413	138,827,750	138,827,750
Compulsive Gambling	0	2,437,500	4,875,000	4,875,000	4,875,000
Lottery VLT Administrative	13,000,000	5,787,947	53,502,207	69,413,875	69,413,875
Amoss Fund		5,787,947	53,502,207	69,413,875	69,413,875
Transportation - Studies	100,000	50,000	50,000		
Total SF Expenditure	\$13,100,000	\$83,518,759	\$753,955,894	\$976,669,250	\$976,669,250
GF Expenditures					
Attorney General	259,611	273,972	289,282	305,619	322,878
State Police	639,427	462,783	472,451	599,293	492,100
Total GF Expenditures	\$899,038	\$736,755	\$761,733	\$904,912	\$814,978
Net Effect	\$6,000,962	(\$6,073,409)	(\$63,545,715)	(\$79,040,464)	(\$82,206,178)

Appendix 2
Maryland VLT Market Comparisons

	<u>St. Louis</u>	<u>Chicago</u>	<u>Kansas City</u>	<u>Maryland</u>
VLTs	9,204	13,455	6,200	12,500
VLT Revenue (millions)	\$772.7	\$1,941.43	\$455.5	\$1,388.27
Table Revenue (millions)	\$105.7	\$377.9	\$70.2	N/A
Estimated Direct State and Local Revenues	\$270.0	\$888.7	\$145.2	\$694.1
Estimated Tax Rate	31%	38%	28%	50%
Win per Day	\$230	\$395	\$201	\$304
Total Population	2.6 million	8.3 million	1.8 million	5.5 million
Population over age 21	1.8 million	5.8 million	1.3 million	3.8 million
Population over 21 per VLT	199	431	206	305
VLT Revenues per person over 21 years old	\$422	\$335	\$357	\$364
Percent over age 65	12%	10%	11%	11%
Median Age	37.1	34.4	35.6	36.9
Percent White	78%	68%	81%	62%
Percent African American	19%	18%	13%	28%
Percent Hispanic	2%	19%	6%	5%
Median Household Income	\$46,803	\$53,462	\$47,428	\$57,218
Percent Below Poverty	10.0%	10.6%	9.1%	8.2%
Unemployment Rate	7.0%	8.8%	7.4%	4.5%
Percent with College Education or Higher	28%	32%	31%	31%

Revenues are estimated for Maryland and are for 2003 or fiscal 2004 for other locations, other data are from 2003.
Source: Missouri, Illinois, Indiana Gaming Commissions; U.S. Census Bureau