

Department of Legislative Services  
 Maryland General Assembly  
 2006 Session

**FISCAL AND POLICY NOTE**

House Bill 970  
 Ways and Means

(Delegate C. Davis)

**Lottery Commission - Video Lottery Terminals**

This bill authorizes up to 13,500 video lottery terminals (VLTs); provides for one-time license fees; provides for the distribution of VLT proceeds; creates the Education Trust Fund (ETF) to fund public school construction and the Geographic Cost of Education Index (GCEI); creates other special funds; mandates funding for the GCEI; and repeals the geographic limitation on where slot machines may be operated by eligible fraternal, religious, or war veterans' organizations.

The bill takes effect June 1, 2006.

**Fiscal Summary**

**State Effect:** Special fund revenues increase in FY 2007 due to one-time license fees. General fund revenues decrease beginning in FY 2008 due to decreased lottery sales; future year losses increase with increased VLT implementation, totaling \$83.1 million in FY 2011. General fund expenditure increase in FY 2008 and beyond due to State Police expenses. General fund expenditures increase in FY 2008 due to mandated GCEI funding. Special fund revenues and expenditures increase for lottery agency administrative expenses, local aid, purse dedication, bred funds, distributions for capital improvements at horseracing tracks, gambling addiction treatment expenditures, minority-businesses, and education beginning in FY 2008, except school construction and lottery start-up expenditures which begin in FY 2007. **Appendix 1** shows the revenues and expenditures by fund in greater detail.

(\$ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	\$0	(\$1.6)	(\$39.4)	(\$76.7)	(\$83.1)
SF Revenue	81.0	18.0	424.6	819.3	862.0
GF Expenditure	.5	51.1	.3	.3	.4
SF Expenditure	94.0	18.1	424.6	819.3	862.0
Net Effect	(\$13.5)	(\$52.7)	(\$39.7)	(\$77.0)	(\$83.5)

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

**Local Effect:** Local distributions would total approximately \$1.5 in FY 2008, increasing to \$70.2 million at VLT full implementation in FY 2011. Local expenditures increase significantly for local governments with VLT facilities.

**Small Business Effect:** Meaningful.

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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 13,500 VLTs at nontrack and track locations. The VLT facility locations are to be determined by a commission created by the bill. The distribution of VLTs among the facilities is also to be determined by the commission.

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.

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%);
- 5% to the local governments in which video lottery facilities are operating;
- 1.5% to support small, minority- and women-owned businesses in economically distressed communities in the State;
- 5.1% 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 is increased to 5.8%);
- 3% to the Racetrack Facility Renewal Account fund in the first five years of VLT operations (not to exceed \$40 million annually);

- the operators will receive the amount stated on the bid proposals selected by the State Video Lottery Facility Commission, not to exceed 30% for nontrack and 38% for track operators; 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 select the potential licensees and the percentage of operator VLT gross proceeds. Eligible applicants for VLT licenses must submit a bid by October 1, 2006. The amount of the initial application fee is equal to \$3 million per 500 VLTs awarded.

When considering all facility applications, the commission must consider an application:

- 70% based on business and market factors;
- 15% based on economic development factors; and
- 15% based on siting factors.

Bonus preference is awarded to applicants with joint investors who are:

- minority business enterprises;
- local business enterprises in close proximity to the proposed VLT facility; or
- businesses located in a federal or State enterprise zone.

The commission is composed of seven members, of whom two are appointed by the Governor; two by the Speaker of the House; and two by the President of the Senate; and one by the State Treasurer. These members elect a chairman. The Department of Budget and Management is required to contract with an independent consultant with at least 10 years' experience in gaming industry consulting that will provide advice on bids to the location committee.

#### *Lottery Commission Authority and Duties*

The Lottery Commission and Lottery Agency would be moved to the Comptroller's Office. 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.

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. It is a misdemeanor offense punishable by maximum penalties of three years imprisonment and/or a \$5,000 fine for any person that requires licensure under the bill and knowingly provides false information to the commission.

The term of a VLT operation license is 15 years. 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 VLT facility procurement, construction, and specified services; and meet the county's minority business participation requirements, to the extent practicable, if they are higher than the State's. These provisions do not apply after July 1, 2008. From the time a license is issued, a VLT license is required to commence operations within 18 months (the State Lottery Commission is authorized to extend this deadline for up one year). VLT license applicants must propose capital construction expenditures of at least \$15 million for each 500 VLTs.

## *Assistance Provided to the Horseracing Industry*

The bill provides that certain requirements must be met in order for a racetrack to receive funds under the Racetrack Facility Renewal Account or Purse Dedication Account. All racetrack licensees must maintain the number of live racing days conducted in 2004. The racetrack licensee for Pimlico and Laurel Park will be revoked and ineligible for

fund assistance provided by the bill if either the Preakness Stakes or Woodlawn Vase is transferred out of the State. In addition, the Maryland Million must be conducted annually at Laurel Park.

As a condition of continued 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 \$1.0 million of annual capital maintenance and improvements of the horse racing facilities. The capital improvements must include the improvements necessary to make residential areas of the tracks conform to minimum county housing and sanitation standards. In addition, part of the capital improvements at Pimlico must include the creation of a premier classic race track and museum.

#### *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 their VLT 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) that provides for distributions to the thoroughbred and harness racing. Funds from the account are to be distributed 80% to thoroughbred racing and 20% to standardbred racing.

From the proceeds allocated to thoroughbred racing, 85% is to be distributed to mile thoroughbred purses at Pimlico, Laurel Park, Allegany, and Timonium and 15% to the Maryland-bred Race Fund. From the thoroughbred racing proceeds, \$100,000 is to be provided to Fair Hill. The bill does not specify a distribution for standardbred racing.

#### *Racetrack Facility Renewal Fund*

The bill creates a racetrack facility renewal fund as a special, nonlapsing fund that will receive a 3% share from the VLT facilities in the first five years of VLT operations.

Funds are to be used to provide matching grants to horse tracks for capital construction and improvements. Funds are to be distributed:

- 80% to Pimlico, Laurel Park, and Timonium Racecourse; and
- 20% to Rosecroft Raceway and Ocean Downs Race Course.

In order to receive funds, a racetrack must have a capital construction plan approved by the State Racing Commission. The bill provides that Timonium is not required to provide a matching grant in order to receive funds. The bill requires that Timonium receive \$1 million annually for five years for racetrack facility capital construction and improvements. The racetrack at Allegany County is not eligible to receive racetrack renewal funds. The State Racing Commission is required to monitor the implementation of the plan and adopt regulations that provide for recapture of the grant if the racetrack fails to complete the construction plan within the time frame approved by the commission.

#### *Education Trust Fund*

The bill creates an Education Trust Fund (ETF) as a special, nonlapsing fund that will receive an indeterminate share from the VLT proceeds to fund construction and renovation needs for public schools and the GCEI. In addition, the initial application fees will be credited to the fund. The bill mandates that in fiscal 2007 through 2014, the Governor include at least \$150 million of the ETF for school construction and capital improvements.

In expending ETF funds for public school construction, the bill requires the Interagency Committee on School Construction to give the highest priority to projects that address public school facility deficiencies, particularly those deficiencies that affect health, safety, and student achievement, identified in the 2004 Final Report of the Task Force to Study Public School Facilities.

#### *Local Development Councils and Transportation*

From the local development grants and local impact grants provided, 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 county to advise, comment, and make recommendations on a plan developed by the county providing for the use of the local development and impact 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.

Of the 5% of VLT net revenues provided to local governments in which video lottery facilities are located, each county receives revenues based on the share of total VLT revenues the facility in the county generates. If a video lottery license is awarded to Laurel Park, the local government revenue is split among: • 73% to Anne Arundel County; • 17% to Howard County; • 10% to the City of Laurel.

### *Compulsive Gambling Fund*

The bill assesses a \$400 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 (MDOT) to review, coordinate, and approve county transportation studies. The Governor's Office of Minority Affairs must monitor compliance with applicable minority participation requirements in VLT procurement. DHMH is required to contract with an independent researcher to conduct a pathological and problem gambling prevalence study every five years. The initial study is due September 30, 2006. Two studies must be conducted to evaluate the State's continued compliance with federal and constitutional requirements related to minority participation provisions. The State Lottery Agency must conduct a market analysis of VLT gambling and State Lottery games every two years. This analysis must contain information on consumer spending, demographics, and location. The first report must be submitted by June 30, 2007.

The bill repeals the geographic limitation on where slot machines may be owned and operated by eligible nonprofit organizations. The provisions of current law regarding licensing and administrative procedures continue to apply. In 1987, legislation authorized certain nonprofit to operate slot machines in the following counties: Caroline, Cecil, Dorchester, Kent, Queen Anne's, Somerset, Talbot, and Wicomico. The nonprofit organization must be located in the county for at least five years prior to the application for a license and must be a fraternal, religious, or war veterans' organization. An organization may not own more than five slot machines and must own each slot machine in operation. One-half of the proceeds must go to charity.

**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. 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*.

One of the recommendations of the Commission on Education Finance, Equity, and Excellence (Thornton Commission) was to adjust State aid to reflect regional differences in the cost of education that are outside the control of local jurisdictions. The Thornton Commission defined adequate funding as revenues sufficient to acquire the resources needed to reasonably expect that students can meet the State's academic performance standards. Because these resources cost different amounts in different places, the Thornton Commission recommended that State aid be adjusted to account for the variations. However, the commission did not believe that an acceptable index existed at the time it was completing its work. The commission recommended that the Maryland State Department of Education (MSDE) contract with a private entity to develop a Maryland-specific index to be used to adjust State aid beginning in fiscal 2005. This recommendation was codified in the Bridge to Excellence in Public Schools Act of 2002.

The consultants hired by MSDE submitted a final report entitled *Adjusting for Regional Differences in the Cost of Educational Provision in Maryland* on December 31, 2003. The report includes a GCEI with index values that range from 0.948 in Garrett County to 1.048 in Prince George's County. The Budget Reconciliation and Financing Act (BRFA) of 2004 (Chapter 440) codified the index recommended by the consultants except that no adjustment in aid is made for counties that have an index value below one. The 2004 BRFA did not mandate funding for the index and provided that if the index was not fully funded the amount distributed to each jurisdiction would be proportional to what would have been funded at the full level. The Governor's fiscal 2007 allowance includes no funding for the GCEI.

The Public School Facilities Act of 2004 (Chapters 306 and 307 of 2004) 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, for eight years would allow the State to meet the goal by fiscal 2013.

The State provided \$253.8 million for public school construction in fiscal 2006. The Governor's proposed fiscal 2007 capital budget includes \$261.3 million for school construction.

## **State Revenues:**

### *License Fee Revenues*

The bill requires licensees to pay an application fee of \$3 million for each 500 VLTs awarded. Application fees must be paid by October 1, 2006. These fees are distributed to the ETF. Assuming that the commission awards all of the VLTs and licensees opt to participate, special fund revenues would increase by \$81 million in fiscal 2007.

### *VLT Revenues*

Locations in the State may be licensed to operate a total of 13,500 VLTs. As a result, total revenues generated – after payouts to winning players, but **before** any other distributions are made – could total approximately • \$29.3 million in fiscal 2008; • \$709.5 million in fiscal 2009; • \$1.3 billion in fiscal 2010; and • \$1.4 billion in fiscal 2011 and later.

These estimates assume that: (1) licenses will be awarded to race tracks and nontrack facilities; (2) each VLT will average \$285 win-per-day; (3) facilities will initially operate at 50% capacity and reach full capacity one year later; and (4) all 13,500 VLTs are awarded. It is assumed that the nontrack locations begin operations January 2009 and horse track locations begin operations in June 2008. Revenues will be potentially higher than estimated in fiscal 2007 and 2008 to the extent that facilities begin operations earlier than estimated and/or race track operators receive approval to operate temporary facilities.

The Department of Legislative Services (DLS) advises that the final location of the facilities may substantially alter both the total revenue and distribution thereof generated by the seven VLT facilities. These estimates have taken into consideration some degree of competition between the central Maryland facilities. To the extent that a VLT facility is located in close proximity to another VLT facility, total gross proceeds could be substantially less.

Win-per-day estimates are based on previous estimates of the market for VLTs in Maryland and are adjusted by DLS to reflect the effects of the additional machines at nontrack facilities 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**. The win-per-day estimates for the facilities are the average of the three central Maryland track facilities. To the extent that win-per-days are higher at the nontrack facilities, relative to the racetrack facilities, annual revenues to the ETF will be greater.

It is assumed that racetrack VLT operators will receive 38% of gross proceeds and nontrack VLT operators will receive 30% of gross proceeds. As a result, it is assumed

that at least 42.4% of the gross proceeds from the racetrack facilities will go to the ETF (50.4% for nontrack locations). To the extent that market forces cause facilities to accept less than the respective maximum shares, then the ETF revenues could be higher.

*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 1** details the revenue distribution resulting from VLTs for fiscal 2008 through 2011.

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<b>Exhibit 1</b>				
<b>Distribution of Annual VLT Revenues</b>				
(\$ in Millions)				
	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Total Annual Gross	\$29.3	\$709.5	\$1,338.5	\$1,404.3
ETF	\$12.4	\$316.6	\$618.6	\$653.7
Licensees	\$11.1	\$253.8	\$457.7	\$477.5
PDA	\$1.5	\$36.6	\$75.6	\$81.5
Local	\$1.5	\$35.5	\$66.9	\$70.2
Lottery Operations	\$1.5	\$35.1	\$59.6	\$60.4
MBE	\$0.4	\$10.6	\$20.1	\$21.1
Racetrack Renewal	\$0.9	\$21.3	\$40.0	\$40.0

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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 2** 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.

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**Exhibit 2**  
**Estimated Loss in General Fund Revenue**  
**Due to Decreased State Lottery Sales**  
**(\$ in Millions)**

<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
\$1.6	\$39.4	\$76.7	\$83.1

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*Compulsive Gambling Fund*

Approximately \$5.4 million annually, based on \$400 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. 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 3**.

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**Exhibit 3**  
**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 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

HB 970 / Page 12

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 40 additional employees. The agency estimates a budget request of approximately \$13 million will be needed for fiscal 2007 to pay for start-up costs associated with VLT operations. Administrative costs for the State Lottery to operate video terminals would be approximately \$1.5 million in fiscal 2008. 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 VLT facilities would be distributed to the ETF.

#### Department of State Police

The Department of State Police would incur increased general fund expenditures of approximately \$426,600 in fiscal 2008 as a result of equipment costs and hiring two full-time troopers and one office secretary to handle the anticipated volume of background checks.

#### Maryland Department of Transportation

The bill 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. MDOT did not provide an estimated cost of the studies. Legislative Services estimates that the studies will cost \$50,000 each.

#### DHMH Expenditures – Prevalence Study

DHMH estimates that a prevalence study will cost up to approximately \$1.2 million. This estimate is based on conducting a four-month study that samples 38,000

Marylanders or approximately 1% of the State adult population. DLS estimates that the first study required would cost approximately \$500,000 to conduct.

Education Expenditures

The bill provides that ETF revenues are to be expended for public school construction and the GCEI. The bill increases education aid beginning in fiscal 2008 by requiring that the GCEI be funded under a five-year phase-in. Under current law, the GCEI is funded to the extent provided in the State budget. **Exhibit 4** lists the breakdown of education expenditures in fiscal 2007 through 2011.

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**Exhibit 4**  
**Education Expenditures**

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
GCEI Mandated	\$0.0	\$63.1	\$80.0	\$97.2	\$115.1
Total ETF Funds	81.0	12.4	316.6	618.6	653.7
GCEI	0	12.4	80.0	97.2	115.1
School Construction	81.0	0.0	236.6	521.4	538.6
Impact on GF Expenditures	0.0	50.7	0.0	0.0	0.0

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GCEI expenses are mandated beginning in fiscal 2008. Initial VLT application fees of \$81 million accrue to the ETF in fiscal 2007. It is assumed that although the bill mandates that the Governor include \$150 million in the budget for school construction, funding will be provided only to the extent of total revenues in the ETF. In fiscal 2008 ETF revenues are not sufficient to fund the GCEI. As a result, general fund expenditures would increase by approximately \$50.7 million in fiscal 2008. It is assumed that after funding the GCEI all remaining revenue is expended on school construction and capital improvements. **Appendix 3** lists a breakdown of GCEI funding by county in fiscal 2008 through 2011.

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.

### *Other Expenditures*

Appendix 1 lists the expenditures for the Purse Dedication Account, Racetrack Renewal, and Minority-Business Enterprises.

### *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 and grants to MBE businesses. For all facilities except Laurel Park, 5% of gross proceeds will be distributed to the county in which they are located. Of the 5% of VLT gross proceeds generated by Laurel (if it receives a license), Anne Arundel County is to receive 73%, Howard County 17%, and Laurel 10%. Based on the assumed VLT-implementation schedule, local aid will total \$1.5 million in fiscal 2008, \$35.5 million in fiscal 2009, \$66.9 million in fiscal 2010, and \$70.2 million in fiscal 2011. **Exhibit 5** shows the local aid that would be distributed at full implement for different sized VLT facilities.

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#### **Exhibit 5 Local Revenue Distributions at Full Implementation**

<u>Number of VLTs</u>	<u>5% Local Distribution</u>
1,000	\$5.2
1,500	7.8
2,000	10.4
2,500	13.0
3,000	15.6
3,500	18.2
4,000	20.8
4,500	23.4
5,000	26.0

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## *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.

Local governments must provide matching funds in order to receive State school construction funds. The local match currently ranges from 3% to 50% of eligible school construction costs, depending on the county.

Baltimore City estimates that if Pimlico is granted a license the annual operating costs for public safety, sanitation, and transportation would total approximately \$9.7 million. In addition to these recurring costs, the city estimates approximately \$1.9 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 Pimlico Raceway. These improvements include intersection improvements, signal system installations, and street widening and rehabilitation.

Prince George's County advises that if Laurel and Rosecroft are awarded licenses it would incur expenditures of up to \$20 million and \$4.2 million annually as a result of infrastructure improvements and expanded public services.

The City of Laurel estimates that expenditures would increase by approximately \$1.2 million annually if Laurel Park is awarded a license. This reflects hiring additional police and public works personnel as well as other operating costs. Howard County states that if Laurel Park is awarded a license, the county would need to hire additional police personnel and widen access roads to Laurel Park.

Anne Arundel County estimates that the annual operating costs for public safety, infrastructure, and social services would total \$9 million if Laurel Park is awarded a license. In addition to these recurring costs, the County estimates approximately \$1 million in one-time operating start-up costs to acquire equipment.

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

**Small Business Effect:** DLS advises that 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.

Other small businesses will be harmed by the substantial substitution of consumer spending away from other consumption to gambling. Small businesses in the entertainment and retail food service near VLT facilities could be particularly harmed.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Prince George's County, Harford County, Maryland State Lottery Agency, Department of General Services, Comptroller's Office, Maryland State Department of Education, Department of State Police, Anne Arundel County, Department of Health and Mental Hygiene, Maryland Department of Transportation, Baltimore City, Department of Public Safety and Correctional Services, Department of Legislative Services

**Fiscal Note History:** First Reader - March 16, 2006  
ncs/rhh

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## Appendix 1

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Gross VLT Revenues</b>	\$0	\$29,257,031	\$709,483,008	\$1,338,509,180	\$1,404,337,500
<b>Licenseses</b>	\$0	\$11,117,672	\$253,804,746	\$457,726,254	\$477,474,750
<b>Special Fund Revenues</b>					
Education Trust Fund	\$0	\$12,404,981	\$316,619,592	\$618,590,402	\$653,742,725
Purse Dedication Account	0	1,492,109	36,593,232	75,636,740	81,451,575
Compulsive Gambling	0	1,350,000	4,387,500	5,400,000	5,400,000
Local Distributions	0	1,462,852	35,474,150	66,925,459	70,216,875
Minority-Business Enterprises	0	438,855	10,642,245	20,077,638	21,065,063
Racetrack Renewal	0	877,711	21,284,490	40,000,000	40,000,000
Lottery VLT Administrative	0	1,462,852	35,064,552	59,552,687	60,386,513
License Fees - to ETF	81,000,000				
<b>Total SF Revenues</b>	<b>\$81,000,000</b>	<b>\$19,489,359</b>	<b>\$460,065,762</b>	<b>\$886,182,926</b>	<b>\$932,262,750</b>
<b>GF Revenues</b>					
Lost Lottery Revenue	0	(1,569,069)	(39,393,822)	(76,731,042)	(83,102,100)
<b>Total GF Revenues</b>	<b>\$0</b>	<b>(\$1,569,069)</b>	<b>(\$39,393,822)</b>	<b>(\$76,731,042)</b>	<b>(\$83,102,100)</b>
<b>Special Fund Expenditures</b>					
Education Trust Fund	81,000,000	\$12,404,981	\$316,619,592	\$618,590,402	\$653,742,725
Purse Dedication Account	0	1,492,109	36,593,232	75,636,740	81,451,575
Compulsive Gambling	0	1,350,000	4,387,500	5,400,000	5,400,000
Local Distributions	0	1,462,852	35,474,150	66,925,459	70,216,875
Minority-Business Enterprises	0	438,855	10,642,245	20,077,638	21,065,063
Racetrack Renewal	0	877,711	21,284,490	40,000,000	40,000,000
Lottery VLT Administrative	13,000,000	1,462,852	35,064,552	59,552,687	60,386,513
Transportation - Studies	0	50,000	50,000		
<b>Total SF Expenditure</b>	<b>94,000,000</b>	<b>19,539,359</b>	<b>460,115,762</b>	<b>886,182,926</b>	<b>932,262,750</b>
<b>GF Expenditures</b>					
State Police		426,557	304,059	310,423	387,104
GCEI	0	50,653,604			
DHMH - Prevalence Study	500,000				
<b>Total GF Expenditures</b>	<b>\$500,000</b>	<b>\$51,080,161</b>	<b>\$304,059</b>	<b>\$310,423</b>	<b>\$387,104</b>
<b>Net Effect</b>	<b>(\$13,500,000)</b>	<b>(\$52,699,230)</b>	<b>(\$39,747,881)</b>	<b>(\$77,041,465)</b>	<b>(\$83,489,204)</b>

## Appendix 2

	<u>St. Louis</u>	<u>Chicago</u>	<u>Kansas City</u>	<u>Maryland</u>
VLTs	9,204	13,455	6,200	9,500
VLT Revenue (millions)	\$772.7	\$1,941.43	\$455.5	\$1,047.55
Table Revenue (millions)	\$105.7	\$377.9	\$70.2	N/A
Estimated Direct State and Local Revenues	\$270.0	\$888.7	\$145.2	\$569.2
Estimated Tax Rate	31%	38%	28%	54%
Win per Day	\$230	395	201	\$302
Total Population (millions)	2.6	8.3	1.8	5.5
Population over age 21 (millions)	1.8	5.8	1.3	3.8
Population over 21 per VLT	199	431	206	401
VLT Revenues per person over 21 years old	\$422	335	357	\$275
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 estimated for Maryland and are from either calendar 2003 or fiscal 2004 for other locations.

Source: Illinois, Indiana, and Missouri Gaming Commissions; U.S. Census Bureau

### Appendix 3 GECI Expenditures

<u>County</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Allegany	\$0	\$0	\$0	\$0	\$0
Anne Arundel	\$4,206,875	\$5,325,086	\$6,494,260	\$7,722,825	\$9,174,587
Baltimore City	\$11,198,831	\$13,931,038	\$16,589,242	\$19,244,671	\$22,389,527
Baltimore	\$2,662,790	\$3,365,143	\$4,086,178	\$4,839,171	\$5,722,758
Calvert	\$1,182,903	\$1,515,815	\$1,859,275	\$2,217,599	\$2,649,003
Caroline	\$0	\$0	\$0	\$0	\$0
Carroll	\$1,304,912	\$1,662,455	\$2,029,621	\$2,414,137	\$2,875,857
Cecil	\$0	\$0	\$0	\$0	\$0
Charles	\$1,679,933	\$2,157,489	\$2,667,448	\$3,205,060	\$3,842,999
Dorchester	\$0	\$0	\$0	\$0	\$0
Frederick	\$3,067,148	\$3,951,316	\$4,874,577	\$5,862,111	\$7,034,246
Garrett	\$0	\$0	\$0	\$0	\$0
Harford	\$0	\$0	\$0	\$0	\$0
Howard	\$2,341,408	\$3,006,569	\$3,689,071	\$4,399,161	\$5,249,561
Kent	\$72,938	\$89,544	\$104,897	\$121,444	\$142,420
Montgomery	\$15,081,038	\$19,266,737	\$23,612,406	\$28,295,224	\$33,865,199
Prince George's	\$19,892,489	\$25,276,078	\$30,600,093	\$36,122,898	\$42,700,202
Queen Anne's	\$264,079	\$340,832	\$421,888	\$505,712	\$609,210
St. Mary's	\$103,241	\$132,857	\$163,025	\$196,111	\$235,928
Somerset	\$0	\$0	\$0	\$0	\$0
Talbot	\$0	\$0	\$0	\$0	\$0
Washington	\$0	\$0	\$0	\$0	\$0
Wicomico	\$0	\$0	\$0	\$0	\$0
Worcester	\$0	\$0	\$0	\$0	\$0
Unallocated	\$0	\$0	\$0	\$0	\$0
<b>Total</b>	<b>\$63,058,585</b>	<b>\$80,020,959</b>	<b>\$97,191,981</b>	<b>\$115,146,124</b>	<b>\$136,491,497</b>