

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 785
Budget and Taxation

(Senator Klausmeier)

Maryland Vessel Gaming Act

This bill authorizes up to 15,500 video lottery terminals (VLTs) at 16 licensed gaming vessels subject to approval by the county in which the vessels plan to dock; provides for one-time application fees; and provides for the distribution of VLT proceeds.

Fiscal Summary

State Effect: If none of the VLT licensees meet the specified local approval provisions, the bill would have no fiscal effect. Any impact would depend on how many VLT licensees would receive approval and the type of approval that they receive. This cannot be reliably estimated. To the extent that local approval provisions are met, special fund revenues and expenditures would increase for administrative expenses, local aid, and bay restoration funding. General fund revenues could increase due to one-time application fees, offset by any decrease in lottery sales.

Local Effect: Revenues for localities that grant approval to gaming vessels would increase significantly. Local expenditures could increase significantly for local governments with gaming vessels.

Small Business Effect: Meaningful.

Analysis

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

Distribution of VLT Tax

Vessel gaming operators retain 80% of the proceeds of VLTs, after pay out to players. The bill imposes a tax of 20% on the proceeds of VLTs, of which the Comptroller is required to distribute the amount necessary to pay for administrative costs at the Department of Labor, Licensing, and Regulation (DLLR) and local and State law enforcement agencies. After these administrative expenses, the remaining proceeds are distributed:

- 50% to counties that are designated as the home docks of any gaming vessels. The amount distributed is to be used to “help provide an adequate education for children attending prekindergarten through grade 12 public schools.”
- 50% to the Bay Restoration Fund.

State Commission on Vessel Gaming

This bill creates a State Commission on Vessel Gaming within DLLR. The commission is composed of seven members appointed by the Governor. The Governor also appoints the chairman of the commission. The commission is required to meet at least once every three months. The Secretary of Labor, Licensing, and Regulation with approval of the Governor, is required to appoint an executive director. The duties of the executive director include: (1) collecting taxes and fees imposed by the bill; (2) administering licensing requirements; and (3) issuing commission reports.

Commission Authority and Duties

The commission has authority to issue subpoenas and conduct investigations. The commission is required to adopt regulations by April 1, 2007 that:

- establish minimum levels of insurance to be maintained by licensees;
- set standards for VLTs, gaming vessels, and facilities for gaming vessels; and
- provide for enforcement of the provisions of the bill.

The commission is required to coordinate with State and local law enforcement to enforce provisions of the bill. The enforcement costs of law enforcement agencies will

be paid by a portion of VLT proceeds. All fees collected by the commission are deposited into the State's general fund.

County Approval Required

The bill requires that gaming vessels must have approval from the county where the vessel intends to have its home dock. A county may also regulate the times at which VLT gaming can be conducted on the vessel and whether gaming can be conducted while docked or only when cruising on a waterway.

VLT Licenses

Licenses must be obtained to operate VLTs, supply a gaming vessel, and operate a gaming vessel. An applicant to operate a gaming vessel is required to obtain a surety bond in the amount of \$200,000. An individual or business entity may only be licensed to operate one gaming vessel. The term of licenses is five years. At the end of the five-year term, the licensee may reapply for a license renewal of five years.

Other Regulation of Video Lottery Operations and Consumer Protections

Gaming vessels are required to operate a cashless wagering system that can only be operated with a token, chip, or electronic card. Individuals under the age of 21 may not board a gaming vessel or participate in any gaming on a gaming vessel.

Gaming vessels are required:

- to have a capacity of at least 400 individuals;
- to have applicable licenses from the U.S. Coast Guard;
- be accessible to individuals with disabilities;
- to be fully registered and licensed with any other applicable laws; and
- meet any other qualifications specified by regulations adopted by the commission.

The bill also requires the commission to study the patterns of wagering and by December 31, 2006 make recommendations to the Governor and the General Assembly as to whether limits on wagering losses should be imposed.

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*.

Chapter 428 of 2004 established the Bay Restoration Fund to be administered by the Maryland Water Quality Financing Administration within the Maryland Department of the Environment. The main goal of the fund is to provide grants to waste water treatment plant (WWTP) owners to reduce nutrient pollution to the Chesapeake Bay by upgrading the systems with ENR technology. As a revenue source for the fund, Chapter 428 established a bay restoration fee on users of wastewater facilities, septic systems, and sewage holding tanks. Priority for WWTP funding is given to major WWTPs (those with a design capacity of at least 500,000 gallons per day). Major facilities not owned by local governments, as well as minor facilities (those with a design capacity of less than 500,000 gallons per day), will be targeted for funding only after the 66 major locally-owned WWTPs are upgraded.

State Fiscal Effect: Special fund revenues and expenditures could increase significantly to the extent that local approval provisions of the bill are met. The amount of increase depends on the number of counties that grant approval to gaming vessels, the hours of operations that VLT gaming can be conducted, and whether or not gaming could be conducted while the vessel is docked or only when cruising on a waterway.

The Department of Legislative Services estimates that VLTs will cause a permanent reduction in lottery revenues. Full implementation of the 15,500 VLTs proposed by the bill would cause a permanent reduction in lottery revenues of 15% annually versus what is currently forecasted.

Local Fiscal Effect: The bill provides that local governments receive, after administrative expenses, 50% of VLT proceeds generated by a gaming vessel that docks in the county. The amount of revenue distributed to counties is to be used to provide for public school education for prekindergarten through grade 12.

VLT facilities could have substantial impact on the local areas in which they are located and might necessitate additional local expenditures.

Small Business Impact: To the extent that gaming vessels purchase goods from local small businesses, these businesses 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 wagering for other spending.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland State Lottery Agency; Department of Natural Resources; Comptroller's Office; Department of Labor, Licensing, and Regulation; Department of Legislative Services

Fiscal Note History: First Reader - March 21, 2006
mam/rhh

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