

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

Senate Bill 98 (Senator Klausmeier)
Budget and Taxation

Gaming - Slot Machines - Ownership and Operation by Eligible Nonprofit Organizations

This bill authorizes all counties to license slot machines that are owned and operated by eligible nonprofit organizations. Other provisions of current law regarding licensing and administrative procedures continue to apply.

Fiscal Summary

State Effect: None. The bill would not directly affect State operations or finances. The Comptroller's Office can collect additional reports with existing resources.

Local Effect: Potential minimal revenue increase to the extent that the 16 counties not currently authorized to license slot machines elect to do so. Counties would collect \$50 in licensing fees from eligible organizations for each slot machine license. Counties that earn revenues from paper gaming but do not currently license slot machines could experience decreased revenue from paper gaming due to competition from slot machines.

Small Business Effect: Minimal.

Analysis

Current Law: Legislation was enacted in 1987 that authorized certain nonprofit organizations 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. In order to

operate a slot machine, the organization must obtain a license from the sheriff's office and pay a fee of \$50 per machine annually to the applicable county.

An organization may not own more than five slot machines and must own each slot machine in operation. The slot machines must be located at the principal meeting hall of the organization and cannot be operated at a private commercial facility. The slot machine must be equipped with a tamperproof meter or counter that accurately records gross receipts.

One-half of the proceeds generated from slot machines must go to charity. The remainder of the proceeds must go to the organization. An individual cannot benefit financially from the proceeds. The organization must keep accurate records of gross receipts and payouts from slot machines and must report annually under affidavit to the Comptroller's Office the disposition of these proceeds. The Comptroller's Office, however, does not have authority to audit these reports.

Under Chapter 234 of 2005, Garrett County joined Allegany, Frederick, and Washington among Maryland counties that authorize paper gaming for certain community and charitable organizations.

Background: In fiscal 2006, 49 Eastern Shore nonprofit organizations operated slot machines. These organizations donated approximately \$3.6 million to charity. Unaudited reports with complete data were available for 46 of the organizations. These 46 organizations operated 241 machines; the total amount bet was approximately \$55.5 million, 87% of which was returned to gamblers. Of the net proceeds of approximately \$7.1 million, \$3.6 million (51%) was disbursed to charity. The Department of Legislative Services notes that in reviewing the fiscal 2006 data, it appeared that several organizations were not in compliance with the 50% charity requirement or misclassified some contributions as charitable. Several organizations also submitted returns that were incomplete or mathematically incorrect.

Paper gaming is a game of chance in which prizes are awarded and the devices used to play the game are constructed of paper. The most common forms of paper gaming are punchboards and tip jars. A punchboard is a square piece of wood or cardboard with dozens or hundreds of holes punched in it, each filled with a piece of paper with numbers or symbols printed on it. The holes are covered with foil or paper, and players pay for the right to punch one or more holes. If the numbers or symbols on their slips of paper match a winning combination, they receive a prize, either cash or another item. Tip jars dispense instant winning game tickets similar to scratch lottery games.

Paper gaming provides two sources of revenues to counties: the sale of paper gaming licenses and tickets to operators, and taxes on paper gaming sales.

Additional Information

Prior Introductions: SB 132 of 2006, an identical bill, was scheduled for hearing in the Senate Budget and Taxation Committee but the hearing was cancelled. The cross filed bill, HB 884, received an unfavorable report in the House Ways and Means Committee. Similar bills, HB 1456 of 2005 and HB 742 of 2004, were assigned to Ways and Means but neither received a hearing. SB 897 of 2005 was heard by Budget and Taxation but no further action was taken.

Cross File: None listed, but HB 867 is very similar.

Information Source(s): Allegany County, Cecil County, Montgomery County, Prince George's County, Washington County, Wicomico County, Worcester County, Comptroller's Office, Department of State Police, Department of Legislative Services

Fiscal Note History: First Reader - March 1, 2007
ncs/rhh

Analysis by: Nicholas M. Goedert

Direct Inquiries to:
(410) 946-5510
(301) 970-5510