

Department of Legislative Services
 Maryland General Assembly
 2007 Special Session

FISCAL AND POLICY NOTE

House Bill 45 (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 and other special funds; and continues the current prohibition on additional forms of commercial gambling.

The bill takes effect June 1, 2008.

Fiscal Summary

State Effect: General fund revenues decrease beginning in FY 2011 due to decreased lottery sales; future year losses increase with increased VLT implementation, totaling \$56.8 million in FY 2013. General fund expenditures increase in FY 2009 due to Lottery start-up costs and beginning in FY 2010 due to State agency expenditures. Special fund revenues and expenditures increase for Lottery Agency administrative expenses, local aid, fire and rescue funds, purse dedication, bred funds, and gambling addiction treatment expenditures, except for school construction which begins in FY 2009 due to one-time application fees. **Appendix 1** shows the revenues and expenditures by fund in greater detail.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	\$0	\$0	(\$24,194,374)	(\$52,459,089)	(\$56,840,000)
SF Revenue	16,500,000	1,500,000	401,140,861	842,637,951	887,491,571
GF Expenditure	19,000,000	586,850	480,862	550,529	568,103
SF Expenditure	16,500,000	1,550,000	401,190,861	842,637,951	887,491,571
Net Effect	(\$19,000,000)	(\$636,850)	(\$24,725,236)	(\$53,009,618)	(\$57,408,103)

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

Local Effect: Revenues for counties and municipalities would increase by approximately \$30.6 million in FY 2011, increasing to \$68.0 million at VLT full

implementation in FY 2013 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 detailed below:

<p>Oversight</p>	<p>Nine member State Lottery Commission:</p> <ul style="list-style-type: none"> • Addition of four members to existing five-member commission. • One member of Racing Commission appointed as liaison to State Lottery Commission and vice versa. <p>Commission provides and operates a single central computer and owns or leases the VLTs.</p>
<p>Number and Location of Terminals</p>	<p>Commission may issue up to five operation licenses for the following locations:</p> <ul style="list-style-type: none"> • 3,500 terminals at Laurel Park in Anne Arundel County; • 3,500 terminals at Pimlico Race Course in Baltimore City; • 3,500 terminals at Rosecroft Raceway in Prince George’s County; • 1,000 terminals at a horse racecourse in Allegany County; and • 1,000 terminals at Ocean Downs Racetrack in Worcester County.
<p>Term of License</p>	<p>15 year initial term, with a 10-year renewal period. Operations must begin within 18 months of issuance of a license, with extensions available.</p>
<p>Application Fees and Dates</p>	<ul style="list-style-type: none"> • \$5 million fee for 3,500 terminal facilities due October 2008. • \$1.5 million fee Worcester County facility due October 2008. • \$1.5 million fee for Allegany County facility due October 2009.

<p>Capital Investment and Workforce</p>	<p>Except in Allegany and Worcester counties, applicant must make \$150 million direct investment in construction and add 500 full-time living wage positions.</p> <p>In Allegany and Worcester counties, applicant must make \$43 million direct investment in construction and add 150 full-time living wage positions.</p> <p>These provisions terminate July 2011.</p>
<p>Racing Days</p>	<p>Licensees must maintain a minimum number of racing days:</p> <ul style="list-style-type: none"> • 220 days combined at Laurel Park and Pimlico Race Courses; • 180 days for Rosecroft Raceway; • 21 days for a race course in Allegany County; and • the same number of days as in 2006 at Ocean Downs Racetrack.
<p>Racing Events</p>	<p>Licenses issued for the Pimlico Race Course or Laurel Park will be revoked if the Preakness Stakes or Woodlawn Vase are transferred to a location outside the State.</p> <p>The licensee must allow the Maryland Million to be run annually at Laurel Park, barring unforeseen circumstances.</p>
<p>Investment</p>	<p>An applicant must offer at least 15% equity ownership to entities that hold the applicant's racing and video lottery operation licenses.</p> <p>An applicant that holds more than one racing license must offer at least 10% equity ownership to its license holders.</p>
<p>Contracting and Hiring</p>	<p>Construction must meet minority business enterprise requirements, with preferences in employee hiring offered to local residents.</p>
<p>Payout</p>	<p>Average annual payout of 90%, with authority to increase the percentage to 95% by regulation.</p>

<p>Distribution of Proceeds</p>	<p>35% to operation licensee.</p> <p>3% to counties for local development grants, with amount divided based on facility proceeds.</p> <p>2% to municipal corporations for local development grants, with amount divided based on facility proceeds.</p> <p>5% to the William H. Amoss Fire, Rescue, and Ambulance Fund.</p> <p>10% to the Purse Dedication Fund.</p> <p>40% to the School Construction Fund.</p> <p>Up to 5% to the State Lottery Agency for administration, with any excess funds divided between the School Construction and Purse Dedication funds.</p>
<p>Purse Dedication Fund</p>	<p>Amount available to thoroughbred and standardbred industries based on the total percentage of total wagering on that industry at State racetracks in the prior year.</p> <p>89% of the proceeds available to each industry will benefit purses, with the remainder available to the industry's race fund.</p>
<p>Terminal Fees</p>	<p>\$390 per terminal per year, payable to the Compulsive Gambling Fund in the Department of Health and Mental Hygiene.</p> <p>12,500 terminals would generate \$4.9 million per year.</p>
<p>State Lottery Games</p>	<p>May not be offered for sale at a video lottery facility.</p>
	<p><i>May also choose to include food and drink, restrictions to entry, exclusions, consumer protections</i></p>

State Revenues: Initial license fees must be submitted by October 1, 2008 for each location except Allegany, which is due October 1, 2009. Assuming that the commission awards all five of the VLT operator licenses and licensees opt to participate and pay their

license fee by the required deadline, School Construction Fund revenues would increase by \$16.5 million in fiscal 2009 and \$1.5 million in fiscal 2010.

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 \$611.3 million in fiscal 2011, \$1.290 billion in fiscal 2012, and \$1.358 billion in fiscal 2013.

These estimates assume that (1) five licenses will be awarded; (2) facilities will initially operate at 50% capacity and reach full capacity one year later; and (3) all 12,500 VLTs are awarded. It is assumed that the facilities begin operations two years after license application. Revenues will be potentially higher (lower) than estimated to the extent that facilities begin operations earlier (later) than estimated in temporary or permanent facilities.

WPD estimates for the VLT facilities are based on the locations and number of VLTs at each location specified in the bill and an independent analysis of the market for VLTs in Maryland by DLS. The market analysis includes the impact of recent VLT expansions in Delaware and West Virginia, the opening of VLT facilities in Pennsylvania, and the proximity of proposed Maryland locations to other VLT facilities and population centers. The WPD and gross VLT revenue estimates have a potential +/- 10% based on the analysis; that is, gross revenues could be 10% higher or lower than this estimate depending on economic and market conditions that develop as the bill is implemented.

In addition, the bill specifies the maximum number of VLTs at each location, which constrains the maximum revenue potential at certain locations. DLS advises that to the extent VLTs could be re-allocated to locations based on an analysis of the expected or actual performance of the VLTs (*i.e.*, higher WPD), the revenues could be significantly higher.

Exhibit 1 details many of the important assumptions in these estimates.

Exhibit 1
Assumed Status of Operation
and Win-per-day (WPD)

<u>Location</u>	<u>VLTs</u>	<u>WPD</u>	<u>Begin Operations</u>	<u>Full Capacity</u>
Laurel Park	3,500	\$314	October 2010	October 2011
Pimlico	3,500	304	October 2010	October 2011
Rosecroft	3,500	345	October 2010	October 2011
Allegany County	1,000	154	October 2011	October 2012
Ocean Downs	1,000	203	October 2010	October 2011

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.

Exhibit 2 details the revenue distribution resulting from VLTs for fiscal 2010 through 2013.

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

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Total Annual Gross	\$0	\$611.3	\$1,289.6	\$1,358.5
ETF	0	244.5	515.8	543.4
Licensees	0	213.9	451.4	475.5
Counties	0	18.3	38.7	40.8
Municipalities	0	12.2	25.8	27.2
Amoss	0	30.6	64.5	67.9
Purse Dedication Account	0	61.1	129.0	135.8
Lottery Operations	0	30.6	64.5	67.9

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: Similar bills were heard by the House Ways and Means Committee in 2007 (HB 17), 2006 (HB 575), and 2005 (HB 108), but no further action was taken.

Cross File: None.

Information Source(s): Allegany County; Prince George's County; Worcester County; Maryland State Lottery Agency; Comptroller's Office; Department of State Police; Anne Arundel County; Department of Health and Mental Hygiene; Maryland Department of Transportation; Department of Labor, Licensing, and Regulation; Baltimore City; Department of Public Safety and Correctional Services; State Department of Assessments and Taxation; Innovation Group; Department of Legislative Services

Fiscal Note History: First Reader - November 3, 2007
ncs/rhh

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Appendix 1

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Gross VLT Revenues	\$0	\$0	\$611,258,536	\$1,289,616,079	\$1,358,471,648
Licensees	\$0	\$0	\$213,940,488	\$451,365,628	\$475,465,077
Special Fund Revenues					
School Construction	16,500,000	1,500,000	244,503,414	515,846,432	543,388,659
Counties	0	-	18,337,756	38,688,482	40,754,149
Amoss Fire	0	-	30,562,927	64,480,804	67,923,582
Purse Dedication	0	-	61,125,854	128,961,608	135,847,165
Municipalities	0	-	12,225,171	25,792,322	27,169,433
Compulsive Gambling	0	-	3,822,813	4,387,500	4,485,000
Lottery VLT Administrative	0	-	30,562,927	64,480,804	67,923,582
Total SF Revenues	\$16,500,000	\$1,500,000	\$401,140,861	\$842,637,951	\$887,491,571
GF Revenues					
Lost Lottery Revenue		0	(24,194,374)	(52,459,089)	(56,840,000)
Total GF Revenues	\$0	\$0	(\$24,194,374)	(\$52,459,089)	(\$56,840,000)
Special Fund Expenditures					
School Construction	16,500,000	1,500,000	\$244,503,414	\$515,846,432	\$543,388,659
Counties	0	-	\$18,337,756	\$38,688,482	\$40,754,149
Amoss Fire	0	-	\$30,562,927	\$64,480,804	\$67,923,582
Purse Dedication	0	-	\$61,125,854	\$128,961,608	\$135,847,165
Compulsive Gambling	0	-	\$3,822,813	\$4,387,500	\$4,485,000
Municipalities	0	-	12,225,171	25,792,322	27,169,433
Lottery VLT Administrative	0	-	\$30,562,927	\$64,480,804	\$67,923,582
Transportation – Studies	0	50,000	50,000	0	0
Total SF Expenditure	\$16,500,000	\$1,550,000	\$401,190,861	\$842,637,951	\$887,491,571
GF Expenditures					
Attorney General	0	259,611	273,972	289,282	305,619
State Police	0	277,239	206,890	211,247	262,484
Lottery VLT Admin and Minority Business Enterprise Studies	19,000,000	50,000	0	50,000	0
Total GF Expenditures	19,000,000	586,850	480,862	550,529	568,103
Net Effect	(\$19,000,000)	(\$636,850)	(\$24,725,236)	(\$53,009,618)	(\$57,408,103)