

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

House Bill 557
 Ways and Means

(The Minority Leader, *et al.*)

Video Slot Machines Revenues and Operations

This bill authorizes up to 15,000 video lottery terminals (VLTs) at six locations; provides for one-time and ongoing license fees; provides for the distribution of VLT proceeds; creates the Education Trust Fund (ETF) and other special funds; and continues the current prohibition on additional forms of commercial gaming.

The bill takes effect June 1, 2008.

Fiscal Summary

State Effect: General fund revenues increase in FY 2009 due to one-time license fees and decrease beginning in FY 2011 due to decreased lottery sales; future year losses increase with VLT implementation, totaling \$56.8 million in FY 2013. Special fund revenues increase in FY 2011 and beyond due to VLT revenues. General fund expenditures increase in FY 2009 due to lottery start-up costs and in FY 2010 and beyond due to other State agency expenditures, offset by a decrease in general fund expenditures beginning in FY 2011 due to the availability of ETF revenues. Special fund expenditures increase for the purposes specified in the bill beginning in FY 2011. **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	\$849,900,000	\$0	(\$7,561,400)	(\$44,035,300)	(\$54,214,300)
SF Revenue	0	0	110,980,500	628,889,700	786,569,200
GF Expenditure	7,289,300	579,500	(83,167,400)	(473,703,300)	(594,523,200)
SF Expenditure	0	0	110,980,500	628,889,700	786,569,200
Net Effect	\$842,610,700	(\$579,500)	\$75,606,000	\$429,668,000	\$540,308,900

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 \$8.2 million in FY 2011, increasing to \$58.2 million in FY 2013. Local expenditures increase significantly for local governments with VLT facilities.

Small Business Effect: Additional benefits to small businesses from the construction and operation of VLT facilities would be partially offset by the substitution of VLT wagering for other expenditures.

Analysis

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

	2008 Minority Leader Bill
Oversight	<p>Nine-member State Gaming Commission created by adding four members to existing five-member State Lottery Commission and changing the name.</p> <p>Commission owns or leases the central computer to which all VLTs in operation must be connected and issues licenses.</p> <p>Operators own or lease VLT machines.</p>
Award of Operation Licenses	<p>Six separate, simultaneous auctions with license awarded to the bidder that retains the lowest percentage of gross revenues. The percentage of gross revenues retained by the licensee may not exceed 39%.</p> <p>Commission must award licenses by March 31, 2009.</p>
Number of Operation Licenses	<p>Maximum of 15,000 VLTs.</p> <p>Maximum of six operation licenses, valid only at the location specified by the license.</p> <p>Provides for three facilities of 3,500 machines and three facilities of 1,500 machines.</p>

	2008 Minority Leader Bill
Additional Limitations on License Ownership	<p>At least two of the six operation licenses must be awarded to persons licensed to conduct horse races in the State.</p> <p>No more than two operation licenses may be awarded to the same person.</p> <p>No more than one operation license may be issued in a single county.</p> <p>Permanent facility must be operational within two years of issuance of operation license.</p>
Licensee Compulsive Gambling Fund Administration Local Government Horse Racing Industry Education Trust Fund Remainder	<p>Percentage of gross proceeds determined through bid process (up to 39%).</p> <p>0.5% for programs offered by the Department of Health and Mental Hygiene for individuals with compulsive or problem gambling.</p> <p>4% to a special fund for commission costs related to lease or purchase of the central computer and its maintenance, testing of video slot machines, and background investigations.</p> <p>4.5% in local development grants to counties in which gaming facilities are located.</p> <p>6% to the Purse Dedication Account, limited to \$75 million per year.</p> <p>46% to a special fund for public school education of students in prekindergarten through grade 12.</p> <p>Undistributed proceeds revert to the general fund.</p>
Purse Dedication Account	Provides for distribution of 75% of funds to the thoroughbred industry and 25% of funds to the standardbred industry.
License Fees	<p>\$200 million for licensed facilities of 3,500 machines.</p> <p>\$83.3 million for licensed facilities of 1,500 machines.</p>

	2008 Minority Leader Bill
License Duration	20 years, with new bidding process when license expires.
Local Development Grants	<p>Provided to communities in proximity to gaming facilities:</p> <p>23.33% to each of three counties with facilities of 3,500 machines.</p> <p>10% to each of three counties with facilities of 1,500 machines.</p>
Annual VLT Payout Percentage Admission Restrictions Mandatory Exclusion Policy	<p>90% minimum, may be increased up to 95% by the commission through regulation.</p> <p>Commission must adopt policies regarding admission of intoxicated individuals and those under the age of 21.</p> <p>Mandatory exclusion of career offenders and those convicted of a criminal offense involving moral turpitude or a gambling offense.</p>

Current Law: Two pieces of legislation were enacted at the 2007 special session pertaining to VLT gambling.

Chapter 5 is a constitutional amendment that will be submitted to the voters at the November 2008 general election proposing that the General Assembly may only authorize expanded forms of gambling subject to the following restrictions: • a maximum of 15,000 VLTs may be authorized; • a maximum of five VLT facility licenses may be issued at locations specified in the bill; and • VLT facilities shall comply with all applicable planning and zoning laws of the local jurisdictions. Under the amendment, the General Assembly may not authorize any additional forms or expansion of commercial gambling except through enactment of legislation passed by a majority of each house of the General Assembly, which would then be subject to voter approval via referendum. The constitutional amendment does not apply to currently authorized forms of gambling.

Chapter 4 establishes the operational and regulatory framework for the proposed VLT program. Enactment is contingent on ratification of Chapter 5 at the 2008 general election. VLT oversight will be provided by a nine-member State Lottery Commission, and the commission will own/lease the VLTs and the central monitor and control system. Allocation of the gross VLT revenues, after payouts to bettors, is as follows:

- **Business Investment:** 1.5% to a small-, minority-, and women-owned business investment account;
- **State Lottery:** 2% to the Lottery for administrative costs, with other costs provided for in the annual State budget;
- **Local Government:** 5.5% to local governments where a video lottery facility is operating, 18% of which would go for 15 years (starting in fiscal 2012) to Baltimore City through the Pimlico Community Development Authority and to Prince George’s County for the community surrounding Rosecroft (\$1 million annually);
- **Horse Racing Industry:** 7% to a purse dedication account to enhance horse racing purses and funds for the horse breeding industry, not to exceed \$100 million annually; and 2.5% for an eight-year period to a Racetrack Renewal Account, not to exceed \$40 million annually;
- **Licensee (Operator):** 33% to video lottery operation licensees; and
- **Education Trust Fund:** the remainder to the Education Trust Fund (48.5-51.0%).

Revenues accruing to the Education Trust Fund are to be used for the Bridge to Excellence in Public Schools Act funding (including the Geographic Cost of Education Index), public school construction, and public higher education construction, including community colleges. Legislative Services estimates of the net effect on State revenues, if the referendum submitted to the voters at the November 2008 general election passes, are presented in below.

Fiscal Summary
Net State Effect if Video Lottery Terminals are Operational

<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
(\$2,362,400)	\$86,557,600	\$61,071,800	\$422,747,000	\$564,665,200

Background:

Regional VLT Markets

The Department of Legislative Services (DLS) advises that Marylanders who travel out of state to partake in gambling opportunities do so largely within the states of Delaware, New Jersey (Atlantic City), and West Virginia. To date, DLS estimates limited participation by Marylanders in Pennsylvania, as Pennsylvania facilities have only begun

operating in the last year, and West Virginia and Delaware gambling facilities provide closer alternatives. In contrast to Atlantic City, the facilities in Delaware, Pennsylvania, and West Virginia can be thought of as focusing more on individuals taking day trips. The out-of-state gambling facilities closest to Maryland are Charles Town Races & Slots in West Virginia and the three Delaware facilities: Dover Downs, Harrington, and Delaware Park. **Exhibit 1** provides VLT statistics for Delaware, Pennsylvania, and West Virginia.

Exhibit 1
VLT Facilities in Surrounding States

	Delaware	Pennsylvania	West Virginia
Location/ Number of Machines	<u>Racetracks:</u> 7,300 VLTs at 3 tracks	<u>Racetracks</u> 10,100 VLTs at 5 tracks 2,500 VLTs at 1 nontrack location 61,000 machines authorized at 14 locations; expect 31,400 machines in 2008	<u>Racetracks:</u> 12,400 VLTs at 4 tracks Restricted access facilities: 8,100 limited video lottery (LVL) terminals at 1,650 locations
Ownership	Racetrack licensees	Racetrack licensees; private establishments	Racetrack licensees; private establishments
Annual Gross VLT Revenues/ Average Win-per-day (WPD)	\$652 million \$255 average WPD	\$746 million \$250 average WPD (partial year)	\$971 million \$235 average WPD LVLs: \$362 million \$123 average WPD
Marylanders Participation	Approx. \$230 million spent per year; 175,000 – 225,000 gamblers	TBD	Approx. \$170 million spent per year; 150,000 – 200,000 gamblers
Notes	VLTs approved in 1994; bets range from 5 cents to \$100; payout: 87% to 95%	VLTs approved in 2004; first facilities opened in late 2006; payouts required to be > 85%; Payout average 91%	VLTs authorized at 4 horse tracks (subject to local referendums) in 1994; a total of 9,000 LVLs authorized in 2001; 3 of 4 tracks also have table games (not Charles Town); bets range from 5 cents to \$5, no maximum prize; payouts 85% to 92%

Source: West Virginia Lottery; Delaware Lottery; Pennsylvania Gaming Control Board; Department of Legislative Services

Note: All data from 2006.

For more historical and background information, consult the *Legislators' Guide to Video Lottery Terminal Gaming*.

Education Funding

The Bridge to Excellence in Public Schools Act of 2002 (Chapter 288) altered the State's school finance structure to align with a concept of "adequate funding" and phased in the enhanced State funding for public education over a six-year period. The legislation included a new program to adjust State aid to reflect regional cost differences. The Maryland State Department of Education oversaw the development of an acceptable Geographic Cost of Education Index (GCEI) to adjust State aid beginning in fiscal 2005. However, the Attorney General's Office determined that funding for the GCEI was not mandated in the Thornton bill. A GCEI was subsequently codified in the Budget Reconciliation and Financing Act (BRFA) of 2004 (Chapter 440); however, the 2004 BRFA did not mandate funding for the index.

The Governor's proposed fiscal 2009 budget includes \$75.7 million for the GCEI.

The Education Trust Fund established in this bill provides funding for continuation of the Bridge to Excellence Act formulas and programs.

State Revenues: License fees of \$200 million for facilities with 3,500 VLTs and \$83.3 million for facilities with 1,500 VLTs must be paid for each license awarded. The bill requires the commission to make award decisions by March 31, 2009. The bill is silent on the distribution of license fees; it is assumed they are credited to the general fund. The commission must reject any bids in which the operator retains more than 39% of VLT proceeds. Assuming six acceptable bids (including two tracks) are submitted to the commission, \$849.9 million in revenues could be credited to the general fund in fiscal 2009.

VLT Revenues

Six locations in the State may be licensed to operate a total of 15,000 VLTs. As a result, total revenues generated – after payouts to winning players, but **before** any other distributions are made – could total approximately \$181.9 million in fiscal 2011, \$1.031 billion in fiscal 2012, and \$1.294 billion in fiscal 2013.

These estimates assume that (1) six licenses will be awarded; (2) facilities will initially operate at 50% capacity and reach full capacity one year later; and (3) all 15,000 VLTs are awarded. It is assumed that two locations with existing horse racing facilities begin operations in January 2011, two years after bid submission, and locations without

facilities begin operations six months later in July 2011. Revenues will be potentially higher (lower) than estimated to the extent that facilities begin operations earlier (later) than estimated in temporary or permanent facilities.

Since the bill does not specify locations for VLT facilities, the WPD estimate is based on a statewide average WPD developed from 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. Legislative Services advises that gross VLT revenue estimates could be higher or lower than estimated depending on the actual locations awarded VLT licenses and the economic and market conditions that develop as the bill is implemented, including expansion of gaming in the surrounding states.

In addition, the bill specifies the maximum number of VLTs at each location, which could constrain 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), for example by the Gaming Commission as it analyzes bids based on, among other factors, the highest potential benefit to the State, revenues could be significantly higher.

Exhibit 2 details many of the important assumptions in these estimates.

Exhibit 2
Assumed Status of Operation
and Win-per-day (WPD)

<u>Locations</u>	<u>VLTs</u>	<u>Begin Operations</u>	<u>Full Capacity</u>
Two Horse Tracks	7,000	January 2011	January 2012
Four Other Locations	<u>8,000</u>	July 2011	July 2012
	15,000		
Average WPD			\$236

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 3 details the revenue distribution resulting from VLTs for fiscal 2010 through 2013. It is assumed that operators receive the maximum share of gross VLT revenues permitted in the bill. DLS advises that higher upfront license fees and the requirement that operators, instead of the Lottery Agency, own the VLTs could reduce the operators' willingness to bid below 39%.

Exhibit 3
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	\$181.9	\$1,031.0	\$1,293.8
ETF (46%)	0	83.7	474.2	595.1
Licensees (no more than 39%)	0	71.0	402.1	504.6
Local (4.5%)	0	8.2	46.4	58.2
Compulsive Gambling (0.5%)	0	0.9	5.2	6.5
PDA (6%)	0	10.9	61.9	77.6
Lottery Operations (4%)	0	7.3	41.2	51.8

Exhibit 4 details the estimated revenue that will be generated at each facility for fiscal 2010 through 2013.

Exhibit 4
Estimated Revenues Generated by Facility
(\$ in Millions)

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Two Horse Tracks	\$0	\$181.9	\$586.2	\$646.9
Four Other Locations	0	0.0	444.7	646.9
Total	-	\$181.9	\$1,031.0	\$1,293.8

Effect on Lottery Sales

DLS estimates that VLTs, when fully implemented, will cause a permanent reduction in lottery revenues of 10% 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 5** 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 5
Estimated Loss in General Fund Revenue
Due to Decreased State Lottery Sales
(\$ in Millions)

<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
--	\$7.6	\$44.0	\$56.8

The Lottery Agency estimates that lottery revenues would decline by 1% in fiscal 2009, 5% in fiscal 2010, 3% in fiscal 2011, and 1% in fiscal 2012 before rebounding in fiscal 2013 and beyond.

Compulsive Gambling Fund

The bill allocates 0.5% of the VLT proceeds to the Compulsive Gambling Fund administered by the Department of Health and Mental Hygiene (DHMH).

DHMH has advised appropriate programs and services for individuals with compulsive or problem gambling would be developed. Based on 2007 DHMH allocation rates of monies potentially allocated from the fund, DLS advises that beginning in the year when all VLTs are awarded, the money credited to the Compulsive Gambling Fund would be distributed as follows:

	(\$ in Thousands)
Statewide Hotlines	\$214
Gambling Prevention Effort	536
Outpatient Treatment Services	4,004
Residential Treatment Services	<u>1,715</u>
Total	\$6,469

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 VLT facilities and track improvements could bring dollars into the areas surrounding the locations, providing an economic boost to the local economy. To the extent that the annual capital improvements are not being currently done, the local economy will receive a boost from annual capital improvements. New jobs would generate new incomes which would be subject to the income tax – revenues that are not currently generated. If substitute jobs are higher (lower) paying than the 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 6**.

Exhibit 6
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 out to dinner which generate alcohol and sales 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 \$400 million or approximately one-third of total revenue generated by West Virginia and Delaware VLT facilities comes from Marylanders. Further, it is

estimated that these Marylanders contribute approximately \$150 million in revenue to West Virginia and Delaware local and state governments. Authorizing VLTs will not recapture all of this revenue; the number of players recaptured depends on multiple factors. In addition, Pennsylvania continues to open VLT facilities increasing from 4 in late 2006 to a total of 14 with final opening dates in late 2008/early 2009, which could impact the annual revenue “recaptured” by Maryland VLT facilities.

State Expenditures:

Lottery Agency

The Lottery Agency would receive 4% of gross proceeds for administrative costs. Unlike other similar bills, the Lottery would not be responsible for owning or leasing the VLTs. To the extent all of the proceeds are not needed to cover costs, it is assumed the funds would revert to the general fund.

Office of the Attorney General

The Office of the Attorney General advises an increase in general fund expenditures of approximately \$289,300 in fiscal 2009 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

Based on previous expenditure estimates provided by the Department of State Police, general fund expenditures would increase by approximately \$280,000 in fiscal 2009 as a result of equipment costs and hiring two full-time troopers and one office secretary to handle the anticipated volume of background checks.

Education Expenditures

The Education Trust Fund is a nonlapsing, special fund to be used only to offset total funding required to provide an adequate education in public prekindergarten through grade 12 schools.

Purse Dedication Account

Six percent of VLT revenues are to be distributed to a purse dedication account to enhance horse racing purses and funds for the horse breeding industry. **Exhibit 7** lists the breakdown of PDA revenues by fiscal year. Annual revenues are not to exceed \$75 million annually.

Exhibit 7
Purse Dedication Account
(\$ in Millions)

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
<i>Thoroughbred (75%)</i>	\$0	\$8.2	\$46.4	\$58.2
<i>Standardbred (25%)</i>	0	2.7	15.5	19.4
Total Expenditures	\$0	\$10.9	\$61.9	\$75.0
Revert to General Fund				\$2.6

Infrastructure Costs

The State and local governments could also incur significant costs associated with infrastructure and transportation upgrades at each of the VLT locations. The actual costs are site specific and could range from extending water and sewer lines and increasing police personnel to significantly altering existing traffic routes and adding access from other major thoroughfares. The Maryland Department of Transportation 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 within the communities in immediate proximity to VLT facilities.

The location of VLT facilities is not specified in the bill. Distribution of local aid based on the size of VLT facilities is shown in **Exhibit 8**.

Exhibit 8
Local Development Grants
(\$ in Millions)

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
3,500 VLT Facilities (23.3% each)	\$0	\$5.7	\$32.4	\$40.7
1,500 VLT Facilities (10% each)	0	2.5	14.0	17.5
Total	\$0	\$8.2	\$46.4	\$58.2

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. The bill does not specify locations. The following information is provided as examples of necessary local expenditures.

In previous bills, Baltimore City has estimated that annual operating costs for public safety, sanitation, and transportation associated with site development would total approximately \$9.3 million. In addition to these recurring costs, the city estimates approximately \$1.8 million in one-time operating start-up costs to acquire equipment. It is also estimated that approximately \$15.0 million in transportation-related capital improvements would be necessary to accommodate the expected influx of activity in and around a site proposal. These improvements include intersection improvements, signal system installations, and street widening and rehabilitation.

Using previously supplied Prince George's County information, DLS advises that if Laurel is awarded a license it would incur expenditures of up to \$10.0 million in one-time

costs and \$2.1 million annually as a result of infrastructure improvements and expanded public services.

Based on previous expenditure estimates provided by the City of Laurel, DLS estimates that expenditures would increase by approximately \$1.4 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.

Based on previous expenditure estimates provided by Anne Arundel County, DLS 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 other VLT facilities will likely increase local expenditures in the county(s) in which they are located.

Small Business Effect: 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.

Additional Information

Prior Introductions: An identical bill, HB 25, was introduced in the 2007 special session and had a hearing before the House Ways and Means Committee.

Cross File: None.

Information Source(s): City of Laurel, Somerset County, Allegany County, Montgomery County, Prince George's County, Charles County, Maryland State Lottery Agency, Board of Public Works, Comptroller's Office, Department of State Police, Baltimore County, Anne Arundel County, Department of Health and Mental Hygiene,

Frederick County, Baltimore City, Office of the Attorney General, Department of
Legislative Services

Fiscal Note History: First Reader - March 13, 2008
ncs/rhh

Analysis by: Michael P. Lee

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

Appendix 1

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Gross VLT Revenues	\$0	\$0	\$181,935,309	\$1,030,966,749	\$1,293,762,195
Licenseses (39.0%)	\$0	\$0	\$70,954,770	\$402,077,032	\$504,567,256
Special Fund Revenues					
Compulsive Gambling (0.5%)		-	\$909,677	\$5,154,834	\$6,468,811
Lottery VLT Administrative (4.0%)	0	-	7,277,412	41,238,670	51,750,488
Local Development Grants (4.5%)	0	-	8,187,089	46,393,504	58,219,299
PDA (6.0%)	0	-	10,916,119	61,858,005	75,000,000
ETF (46.0%)			83,690,242	474,244,705	595,130,610
Total SF Revenues	-	-	\$110,980,538	\$628,889,717	\$786,569,207
GF Revenues					
License Fees	\$849,900,000				
Lost Lottery Revenue		0	(\$7,561,406)	(\$44,035,313)	(\$56,840,000)
Reversions					2,625,732
Total GF Revenues	\$849,900,000	-	(\$7,561,406)	(\$44,035,313)	(\$54,214,268)
Special Fund Expenditures					
Compulsive Gambling	\$0	-	\$909,677	\$5,154,834	\$6,468,811
Lottery VLT Administrative		-	7,277,412	41,238,670	51,750,488
Local Development Grants	0	-	8,187,089	46,393,504	58,219,299
PDA	0	-	10,916,119	61,858,005	77,625,732
ETF		-	83,690,242	474,244,705	595,130,610
Transportation – Studies	0	-	-	-	-
Total SF Expenditure	\$0	-	\$110,980,538	\$628,889,717	\$786,569,207
GF Expenditures					
Attorney General	\$289,282	\$302,300	\$315,903	\$330,119	\$344,974
State Police	0	277,239	206,890	211,247	262,484
DHMH – Prevalence Study	500,000				
Lottery VLT Admin & Studies	7,000,000		0		0
Education ETF			(83,690,242)	(474,244,705)	(595,130,610)
Total GF Expenditures	\$7,289,282	\$579,539	(\$83,167,449)	(\$473,703,339)	(\$594,523,152)
Net Effect	\$843,189,282	(\$579,539)	\$75,606,043	\$429,668,026	\$540,308,884

