

Department of Legislative Services
Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE
Revised

House Bill 331
Ways and Means

(Delegate F. Turner, *et al.*)

Video Lottery Gaming - Table Games

This proposed constitutional amendment authorizes the holder of a video lottery operation license to offer table games, including poker, blackjack, craps, and roulette, to the public.

Fiscal Summary

State Effect: The proposed constitutional amendment does not provide for limitations on, or regulation of, table games at video lottery terminal (VLT) facilities, or for the distribution of any proceeds. It is assumed that additional legislation would be required to implement operation of table games at VLT facilities.

Local Effect: If approved by the General Assembly, this constitutional amendment will be submitted to the voters at the 2012 general election. The amendment's requirements can be handled using existing resources within the local boards of elections.

Small Business Effect: None.

Analysis

Current Law: Except when specifically authorized, a gaming device is prohibited in the State if it is a gaming table, except a billiard table, at which a game of chance is played for money or any other thing or consideration of value; or a game or device at which money or any other thing or consideration of value is bet, wagered, or gambled. Gaming devices include a paddle wheel, wheel of fortune, chance book, and bingo.

A person may not bet, wager, or gamble; make or sell a book or pool on the results of a race, contest, or contingency; establish, keep, rent, use, or occupy, or knowingly allow to be established, kept, rented, used, or occupied, all or a part of a building, vessel, or place on land or water, within the State for the purpose of:

- betting, wagering, or gambling;
- making, selling, or buying books or pools; or
- receiving, becoming the depository of, or forwarding money or anything of consideration of value, to be bet, wagered, or gambled on the result of a race, contest, or contingency.

The State allows specified types of gambling, including the State lottery and wagering on horse racing. Bingo, bazaars, gaming nights, and raffles 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 (except Worcester) are allowed to operate up to five slot machines, provided that at least one-half of the proceeds are distributed to a charity.

VLT Program

During the 2007 special session, the General Assembly adopted two pieces of legislation pertaining to VLT gambling – Chapter 4 (Senate Bill 3) and Chapter 5 (House Bill 4). Chapter 5 was a constitutional amendment approved by the voters at the November 2008 general election that authorized the expansion of gambling subject to specified restrictions. The constitutional amendment provided that (1) a maximum of five VLT facility licenses may be awarded within specified areas of the State; (2) no more than one facility license may be awarded in any county or Baltimore City; (3) a maximum of 15,000 VLTs may be authorized; and (4) VLT facilities must comply with any applicable planning and zoning laws of a local jurisdiction. Chapter 4, which was contingent on ratification of Chapter 5, established the operational and regulatory framework for the VLT program. Chapter 624 of 2010 made several changes to the VLT program implemented by Chapter 4.

Under Chapter 4, VLT facility operation licenses are awarded by the Video Lottery Facility Location Commission. The State Lottery Commission oversees VLT operations, and owns/leases VLTs and a central monitor and control system. Except for provisions related to the offering of food and beverages at facilities, the commission is required to ensure VLT licensees comply with the regulatory framework of the VLT program.

Chapter 4 allows for a maximum of 15,000 VLTs, distributed as follows: 4,750 VLTs in Anne Arundel County; 3,750 VLTs in Baltimore City; 2,500 VLTs in Worcester County;

2,500 VLTs in Cecil County; and 1,500 VLTs in Allegany County (Rocky Gap State Park).

Background: Maryland's competition for gambling revenues is primarily from three surrounding states: Delaware, Pennsylvania, and West Virginia. As of December 2010, three racetrack facilities with slightly more than 7,000 VLTs are operating in Delaware, 10 facilities with approximately 26,800 VLTs are operating in Pennsylvania, and four racetrack facilities with slightly less than 10,000 VLTs are operating in West Virginia. In fiscal 2010, VLT revenues totaled \$2.16 billion in Pennsylvania and \$546.5 million in Delaware.

Limited numbers of VLTs (Limited Video Lottery, or LVL) are also available at licensed West Virginia bars, clubs, and fraternal organizations. As of June 30, 2009, 7,960 of the 9,000 maximum authorized were operating at over 1,600 licensed locations throughout the state. Table games have been offered at West Virginia's four VLT casinos and at the Greenbrier Resort in West Virginia. West Virginia table games generated gross income of \$31.7 million in fiscal 2010. According to casinocity.com, there are currently 379 table games at these facilities. By comparison, also in fiscal 2010, racetrack VLT gross income totaled \$746.2 million and LVL gross income totaled \$397.3 million.

Both Pennsylvania and Delaware recently enacted legislation authorizing table games at their VLT facilities. Pennsylvania's law authorizes up to 250 table games each at category 1 or 2 casinos and 50 games each at smaller resort casinos. As of January 2011, there were a total of 841 table games at 10 Pennsylvania facilities. Three Delaware facilities had a total of 196 table games as of February 2011.

The Department of Legislative Services (DLS) examined the characteristics of 61 casinos with table games located in six states (Delaware, Illinois, Indiana, Iowa, Missouri, and Pennsylvania). For the states with at least one full year of data, total table game revenue ranged from \$114.9 million generated from 238 table games in Illinois casinos to \$388.2 million generated from 752 table games in Indiana casinos. The typical casino in these states had a total of 42 table games that generated annual revenue of \$17.2 million, an average of \$371,100 per table game.

The typical Delaware and Pennsylvania facility has a larger number of table games (62), and has generated a higher average amount of revenue (\$493,000 per table game). This average revenue is for less than one year of operations; the actual annual revenue amount will likely be different.

VLT Program Implementation

The Video Lottery Facility Location Commission has awarded video lottery operation licenses for VLT facility locations in Anne Arundel, Cecil, and Worcester counties. Penn Cecil in Cecil County opened in late September 2010 with 1,500 VLTs and Ocean Downs in Worcester County opened in January 2011 with 750 (increasing to 800 in the near future) VLTs. Power Plant Entertainment (PPE) Casino Resorts, LLC was awarded a license in December 2009 to operate a 4,750 VLT facility adjacent to Arundel Mills Mall in Anne Arundel County, contingent upon local zoning approval. County officials subsequently approved zoning legislation, but the legislation was petitioned to a local voter referendum at the November 2010 election. Anne Arundel County voters approved the legislation, allowing the VLT facility to go forward. PPE plans to open a 2,000 VLT temporary facility by the end of 2011 with a permanent facility scheduled to open by the end of 2012. The licenses for Baltimore City and Allegany County are yet to be awarded.

Exhibit 1 shows the distribution of estimated VLT revenues through fiscal 2016, which assumes a Baltimore City facility begins operations in July 2013.

Exhibit 1 Distribution of Estimated VLT Revenues in Maryland (\$ in Millions)

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
Education Trust Fund (48.5%-51.0%)	\$64.1	\$192.3	\$286.6	\$471.3	\$512.3	\$549.4
Licensees (33%)	43.6	130.8	195.0	320.7	348.6	373.9
Local Impact Grants (5.5%)	7.3	21.8	32.5	53.4	58.1	62.3
Business Investment (1.5%)	2.0	5.9	8.9	14.6	15.8	17.0
Purse Dedication Account (7%) ¹	9.2	27.8	41.4	68.0	73.9	79.3
Racetrack Renewal (2.5%) ²	3.3	9.9	14.8	24.3	26.4	28.3
Lottery Operations (2%)	2.6	7.9	11.8	19.4	21.1	22.7
Total (100%)	132.1	396.5	590.9	971.8	1,056.4	1,132.9

¹Up to \$100 million annually.

²Up to \$40 million annually for eight years, after which the monies accrue to the Education Trust Fund. Chapter 624 of 2010 altered provisions regarding the authorized VLT facility in Allegany County. Contingent upon the purchase of the Rocky Gap Lodge and Golf Resort by the licensee, the 2.5% of VLT proceeds from the Allegany County facility for the first five years of operations that would otherwise be distributed to the Racetrack Facility Renewal Account would instead be distributed to the Allegany County facility licensee.

Source: Department of Legislative Services, December 2010 Revenue Estimate

State Fiscal Effect: The proposed constitutional amendment authorizes the holder of a video lottery operation license to offer table games. However, the proposed amendment does not specify the total number of table games that may be awarded, the maximum number per facility or distribution thereof, or the amount of State tax levied, if any.

Based on the casino data examined by DLS as described above and the current VLT forecast, and *for illustrative purposes only*, **Exhibit 2** shows the potential total revenue generated, before any distributions, based on various total numbers of table games awarded. The amount of revenue which might be allocated to State or local governments will need to be determined by implementing legislation.

Exhibit 2
Potential Table Game Revenues
(\$ in Millions)

Total Gross Revenues Before Distribution

<u>Total Table Games</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
200	0	\$9.3	\$107.2	\$115.2	\$121.3
300	0	13.1	151.8	163.1	172.1
400	0	16.5	192.0	206.8	218.7

It is assumed that there is a six-month implementation delay between the referendum and introduction of table games at VLT facilities. This estimate is also based on the current VLT forecast and estimated correlation between VLT revenues and table game revenues at existing casinos. DLS advises that the actual amount of revenue will depend on the number, distribution, and type of table games awarded.

Additional Information

Prior Introductions: HB 608 of 2010 received a hearing in the House Ways and Means Committee, but no further action was taken. Its cross file, SB 795, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

Cross File: None.

Information Source(s): Casinocity.com, Delaware Lottery, Illinois Gaming Board, Indiana Gaming Commission, Iowa Racing and Gaming Commission, Pennsylvania Gaming Control Board, West Virginia Lottery, Department of Legislative Services

Fiscal Note History: First Reader - March 14, 2011
ncs/rhh Revised - Clarification - March 15, 2011

Analysis by: Robert J. Rehrmann

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