

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

Senate Bill 10
Budget and Taxation

(Senator Colburn, *et al.*)

Ways and Means

Slot Machines for Nonprofit Organizations on the Eastern Shore - Uses of Proceeds

This emergency bill requires that at least one-half of net after payout proceeds, instead of gross proceeds, from authorized slot machines operated by nonprofit organizations in Eastern Shore counties be used for the benefit of charity.

Fiscal Summary

State Effect: None. The bill clarifies current practice.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Legislation was enacted in 1987 and 2007 authorizing certain nonprofit organizations to operate slot machines in the following eight Eastern Shore counties: Caroline, Cecil, Dorchester, Kent, Queen Anne’s, Somerset, Talbot, and Wicomico. Chapter 315 (House Bill 39) of 2011 added Worcester County to the list of counties in which eligible nonprofit fraternal, religious, and war veterans’ organizations may own and operate up to five slot machines at its principal meeting hall.

Chapter 315 also altered the provision requiring at least one-half of proceeds to go to charity and the remainder to further the organizations’ purposes, such that at least half of “gross” proceeds must go to charity. Pursuant to Chapter 315, the Comptroller’s Office

must regulate the specified slot machines and charge a license fee to cover the costs of regulating the machines.

Background: An April 2011 bill review letter from the Attorney General to the Governor notes that House Bill 39 does not define “gross proceeds” and advises that the term “should be construed to mean the gross proceeds after payouts to gambling winners.”

In fiscal 2011, 60 nonprofit organizations on the Eastern Shore operated slot machines. Unaudited reports with complete data were available for 56 of the organizations. The total amount bet at these 56 organizations was approximately \$42.3 million, 88% of which was returned to gamblers. Of the approximately \$5.2 million in proceeds after payouts, \$2.6 million (50%) was disbursed to charity. The Department of Legislative Services (DLS) notes that in reviewing the fiscal 2011 data, it appeared that several organizations were not in compliance with the 50% charity requirement or misclassified some contributions as charitable. Several organizations submitted returns that were incomplete or mathematically incorrect. **Exhibit 1** shows the slot machine “handle” (or amount bet) by county for 57 organizations (one of which did not submit a complete set of data). Generally, the practice has been consistent with applying the 50% requirement to proceeds after payout.

Exhibit 1
Slot Machine Handle for Eastern Shore Counties
Fiscal 2011
(\$ in Millions)

<u>County</u>	<u>Slot Machines</u>	<u>Handle</u>
Caroline	20	\$1.8
Cecil	45	13.7
Dorchester	25	3.4
Kent	25	1.6
Queen Anne’s	35	7.2
Somerset	35	1.8
Talbot	25	2.7
Wicomico	60	11.4
Worcester	10	0.2
Total	280	\$43.8

Source: Department of Legislative Services

The Maryland State Lottery Agency conducted a study of local gaming in Maryland required by Chapter 474 of 2008. The report indicates (similar to DLS findings for fiscal 2008) that in fiscal 2008, 273 slot machines on the Eastern Shore generated \$54.8 million in total handle.

Additional Information

Prior Introductions: None.

Cross File: HB 325 (Delegates Conway and McDermott) – Ways and Means.

Information Source(s): Caroline, Cecil, Kent, Queen Anne's, and Worcester Counties; Maryland State Lottery Agency; Department of Legislative Services

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ncs/rhh

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