

**Department of Legislative Services**  
Maryland General Assembly  
2012 Session

**FISCAL AND POLICY NOTE**

Senate Bill 31

(Senator Klausmeier, *et al.*)

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. This includes the requirement that the nonprofit organization must be located in the State for at least 5 years prior to the application for a license and must be a fraternal, religious, or war veterans' organization, or be an organization that has been affiliated with a national fraternal organization for less than 5 years but has been located in the State for at least 50 years before applying for a license.

---

**Fiscal Summary**

**State Effect:** Potential decrease in special fund revenues and expenditures from the Video Lottery Terminal (VLT) Program beginning in FY 2013. Under one set of assumptions, State VLT revenues may decrease by \$2.1 million annually, with approximately half of the revenue loss needing to be replaced with general funds to support mandated expenses. General fund revenues from lottery sales may decrease in the counties that license new slot machines under the bill beginning in FY 2013. Under one set of assumptions, general fund revenue may decrease by approximately \$750,000 annually. Comptroller's Office special fund revenues and expenditures each increase by approximately \$56,250 annually beginning in FY 2013 due to regulation of slot machines based on an existing \$50 license fee, which the Comptroller may increase to cover the costs of regulating slot machines.

**Local Effect:** Potential decrease in local impact grants distributed to certain counties from the VLT program beginning in FY 2013. 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 negative impact on Lottery sales agents.

---

## Analysis

**Current Law:** Generally, it is a misdemeanor crime to possess or operate a slot machine in Maryland. However, 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. The 1987 legislation required a nonprofit organization to be located in the county for at least five years prior to the application for a license and to be a fraternal, religious, or war veterans' organization. Chapter 645 of 2007 expanded the list of eligible organizations that may be licensed to operate slot machines to include those that have been affiliated with a national fraternal organization for less than 5 years but have been located within an eligible county for at least 50 years before applying for a license.

Chapter 315 of 2011 added Worcester County (except a specified area within Ocean City) 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. Pursuant to Chapter 315, the Comptroller's Office must regulate the specified slot machines and must charge a license fee to cover the administrative costs of regulating the machines.

A qualified 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. At least 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 on the income of each machine and the disposition of these proceeds.

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 SB 31/ Page 2

ratification of Chapter 5, established the operational and regulatory framework for the VLT program. Chapter 624 of 2010 and Chapter 240 of 2011 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. 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). Chapter 240 of 2011 reduced the maximum number of VLTs that may be awarded to Allegany County to 1,000 while changing other provisions of the law regarding a VLT site in Allegany County.

**Background:** 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 (1 of which did not submit a complete set of data). The Comptroller’s Office assesses a \$50 license fee per slot machine to cover costs for regulating their operation.

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.

### *Paper Gaming*

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, instant bingo, 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-off 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. The State Lottery Agency advises that paper gaming occurs in at least 15 Maryland counties, and is most prevalent in Allegany, Frederick, Garrett, and Washington counties.

---

**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
<b>Total</b>	<b>280</b>	<b>\$43.8</b>

Source: Department of Legislative Services

---

In fiscal 2011, the State Lottery generated \$1.7 billion from ticket sales. Payments to lottery winners were \$1.0 billion, while operating costs and payments to agents totaled \$166.0 million. Approximately \$499.4 million was deposited in the general fund after payments were made to the Maryland Stadium Facilities Fund (\$20.0 million). **Exhibit 2** shows lottery sales by jurisdiction in fiscal 2011.

*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. The Cecil County VLT facility opened on September 27, 2010, with 1,500 VLTs and the Worcester County VLT facility opened on January 4, 2011, with 750 VLTs and currently operates 800 VLTs. Power Plant Entertainment Casino Resorts, LLC plans to open its VLT facility adjacent to Arundel Mills Mall in Anne Arundel County in June of 2012. The licenses for Baltimore City and Allegany County have yet to be awarded.

**Exhibit 2**  
**State Lottery Sales by County**  
**Fiscal 2011**

<b>County</b>	<b>Total Sales</b>	<b>Percent of Sales</b>
Allegany	\$11,240,905	0.66%
Anne Arundel	176,010,692	10.27%
Baltimore City	292,271,222	17.05%
Baltimore	278,196,840	16.23%
Calvert	24,328,024	1.42%
Caroline	6,761,520	0.39%
Carroll	34,465,435	2.01%
Cecil	19,786,084	1.15%
Charles	57,571,067	3.36%
Dorchester	8,649,659	0.50%
Frederick	36,423,372	2.12%
Garrett	3,426,916	0.20%
Harford	58,365,876	3.40%
Howard	47,761,493	2.79%
Kent	4,245,306	0.25%
Montgomery	169,445,933	9.88%
Prince George's	352,964,544	20.59%
Queen Anne's	11,636,346	0.68%
St. Mary's	35,318,712	2.06%
Somerset	5,906,556	0.34%
Talbot	8,269,194	0.48%
Washington	25,900,199	1.51%
Wicomico	21,971,165	1.28%
Worcester	23,485,566	1.37%
<b>Total</b>	<b>\$1,714,402,620</b>	<b>100.00%</b>

Note: Numbers do not sum to the total due to rounding.

Source: Maryland State Lottery Agency

**State Fiscal Effect:** State special fund revenues and expenditures may be reduced, depending on the degree to which eligible organizations are licensed to operate slot machines. These machines may serve as a substitute for gambling at VLT facilities in the State, particularly in counties where VLT facilities will be located.

Gambling at the newly eligible nonprofit organizations will represent a shift of spending from other activities, a portion of which are taxable by the State. Numerous studies have examined the relationship between expanded VLT gambling and the substitution effect this expansion has on existing VLT revenues or other State revenues such as the lottery and sales tax. Most of these studies conclude that although total revenues might increase from expanded gambling there is a negative impact on existing revenue streams that partially offsets the revenue from expanded gambling. For example, DLS estimates that VLTs, when fully implemented, will cause a permanent 10% reduction in annual revenues from lottery sales.

The average annual revenue generated from existing gambling at eligible nonprofits is approximately \$94,700 (*i.e.*, total handle minus total amount returned to players) per organization. The bill will add an estimated 225 organizations (an average of 15 per newly authorized county) offering slots play; assuming 5 machines at each results in 1,125 slot machines generating approximately \$21 million in revenue annually. A small portion of this would likely have otherwise been spent at State VLT facilities. If that portion is 10%, the result is an annual loss of \$2.1 million in special fund revenues. The impact to the State includes a \$1.0 million reduction in Education Trust Fund revenues and a \$42,000 loss in revenues for State lottery administration of the VLT program. These lost revenues will likely need to be replaced with general funds to cover mandated K-12 education aid and VLT lease costs. **Exhibit 3** shows the reduction in special fund distributions from the total reduction of \$2.1 million illustrated above and based on the distribution of VLT revenues from facilities other than Rocky Gap.

---

**Exhibit 3**  
**Illustration of Reduced VLT Program Distribution**

Education Trust Fund (48.5%)	\$1,018,500
Licensees (33%)	693,000
Purse Dedication Account (7%)	147,000
Local Impact Grants (5.5%)	115,500
Racetrack Renewal (2.5%)	52,500
Lottery Operations (2%)	42,000
Minority Business Investment (1.5%)	31,500
<b>Total Reduction</b>	<b>\$2,100,000</b>

---

The impact of new slot machines on lottery sales and revenue is difficult to quantify. The magnitude of the impact will depend on the number of counties that choose to license slot machines and the location of the machines, as well as the substitution of slot machine for lottery spending. As noted, Legislative Services has estimated a permanent 10% reduction in lottery sales with full VLT program implementation (approximately \$1.4 billion in total VLT revenues). Applying this assumption to the scenario described above (\$21 million in revenue from 1,125 slot machines), lottery sales will decrease by 0.15%, which equates to a general fund revenue reduction of approximately \$750,000 annually.

*Comptroller's Office*

Given the addition of approximately 1,125 slot machines and a license fee of \$50 per machine, special fund revenues increase by approximately \$56,250 annually beginning in fiscal 2013. Special fund expenditures increase by an equivalent amount at the Comptroller's Office beginning in fiscal 2013 due to increased administrative costs for regulating slot machines operated by eligible organizations. If the regulatory costs per machine increases, it is assumed the Comptroller will raise the license fee accordingly.

---

### **Additional Information**

**Prior Introductions:** SB 49 of 2009 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. SB 29 of 2008 received an unfavorable report from the Senate Budget and Taxation Committee. SB 98 of 2007 had a hearing in the Senate Budget and Taxation Committee, but no further action was taken. SB 132 of 2006 was scheduled for hearing by Budget and Taxation, but the hearing was cancelled. SB 897 of 2005 was heard by Budget and Taxation, but no further action was taken.

**Cross File:** None.

**Information Source(s):** Charles, Frederick, Howard, and Montgomery counties, Comptroller's Office, Maryland State Lottery Agency, Department of Legislative Services

**Fiscal Note History:** First Reader - February 7, 2012  
mc/rhh

---

Analysis by: Scott P. Gates

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