

Department of Legislative Services
 Maryland General Assembly
 2012 Session

FISCAL AND POLICY NOTE

House Bill 1464 (Delegate Conway)
 Ways and Means

Video Lottery Terminals - Licensees - Operations

This bill alters the distribution of video lottery terminal (VLT) proceeds from a video lottery facility in Worcester County. Specifically, the bill increases the video lottery operation licensee’s maximum share to 43% and reduces the minimum percentage of VLT revenues to the Education Trust Fund (ETF) from 48.5% to 38.5%. The bill also repeals the prohibition against building or operating specified facilities within 10 miles of the property where the Worcester County VLT facility is located and repeals the prohibition against specified live entertainment in or near the VLT facility in Worcester County.

Fiscal Summary

State Effect: General fund expenditures for education-related programs increase by \$3.5 million in FY 2013 and by \$5.1 million in FY 2017 to offset decreases in ETF revenue from the VLT facility in Worcester County.

(in dollars)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	3,520,700	4,788,100	4,883,900	4,981,600	5,081,200
SF Expenditure	(3,520,700)	(4,788,100)	(4,883,900)	(4,981,600)	(5,081,200)
Net Effect	\$0	\$0	\$0	\$0	\$0

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

Local Effect: VLT local impact grants are not affected by the bill. Repeal of specified restrictions at and near the Ocean Downs VLT facility has no direct effect on Worcester County finances.

Small Business Effect: None.

Analysis

Bill Summary/Current Law: Two VLT gambling bills passed during the 2007 special session – House Bill 4 (Chapter 5) and Senate Bill 3 (Chapter 4). Chapter 5 was a constitutional amendment approved by Maryland voters at the November 2008 general election authorizing 15,000 VLTs at five locations in the State. Chapter 4, which was contingent on ratification of Chapter 5, established the operational and regulatory framework for the authorized VLT program.

Under Chapter 4, VLT facility operation licenses are awarded by the Video Lottery Facility Location Commission (Location Commission). The State Lottery Commission oversees VLT operations and owns/leases VLTs and the central monitor and control system. A maximum of 15,000 VLTs are allowed, 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 1,000 VLTs in Allegany County. In addition, geographic parameters for each jurisdiction within which a VLT facility may be located are provided.

Under current law, except for the Allegany County location, gross VLT proceeds are distributed as follows:

- Business Investment – 1.5% to a small, minority, and woman-owned business investment account;
- Lottery Operations – 2% to the State lottery for administrative costs, with other costs provided for in the State budget;
- Local Impact Grants – 5.5% to local governments in which a video lottery facility is operating, 18% of which would go for 15 years (starting in fiscal 2012 and ending in fiscal 2027) to Baltimore City through the Pimlico Community Development Authority and \$1 million annually to Prince George’s County for the community surrounding Rosecroft;
- Purse Dedication Account – 7% to enhance horse racing purses and funds for the horse breeding industry, not to exceed \$100 million annually;
- Racetrack Facility Renewal Account – 2.5% for an eight-year period to RFRA, not to exceed \$40 million annually;
- Licensee (Operator) – no more than 33% to video lottery operation licensees; and
- Education Trust Fund (ETF) – remainder to ETF (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 funding, and public higher education construction, including community colleges.

Under current law, the holder of the video lottery operation license or any other person with an interest in the Ocean Downs Racetrack is prohibited from (1) within 10 miles of the facility, building or converting an existing property into any type of hotel or other public lodging accommodation; (2) within 10 miles of the facility, building or operating a conference center, convention center, amusement park, or other specified entertainment facilities; or (3) offering video lottery patrons live music or any other form of entertainment except for live fireworks displays and piano music played by an individual. The bill eliminates the last two restrictions on the Ocean Downs operator/licensee.

VLT Program Implementation

The 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 and currently is operating 800 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. Phase one of that facility is currently scheduled to open with approximately 3,000 VLTs in June 2012, with the full complement of 4,750 VLTs in operation by October 2012.

After licenses for the proposed VLT facilities in Allegany County and Baltimore City were not awarded in previous rounds of bidding, the Location Commission issued new Requests for Proposals (RFP) for those licenses in 2011. On September 23, 2011, the Location Commission received three proposals for Allegany County and two proposals for Baltimore City. However, one proposal for Baltimore City and two proposals for Allegany County were subsequently rejected by the Location Commission for failing to meet requirements contained in RFPs. The Location Commission plans to make final decisions on the remaining proposals sometime in early 2012.

Through January 2012, Maryland VLT facilities have generated a total of \$196.2 million in revenues. Of this amount, \$95.1 million has been distributed to the Education Trust Fund. **Exhibit 1** shows the estimated distribution of VLT revenues through fiscal 2017. These estimates assume the Baltimore City and Allegany County facilities open in fiscal 2014.

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

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Education Trust Fund (48.5%)	\$78.1	\$254.4	\$386.2	\$483.4	\$513.3	\$523.6
Licenseses (33%)	53.1	173.1	265.0	333.5	353.9	361.0
Local Impact Grants (5.5%)	8.9	28.9	43.6	54.4	57.8	58.9
Business Investment (1.5%)	2.4	7.9	11.9	14.8	15.8	16.1
Purse Dedication Account (7%) ¹	11.3	36.7	55.4	69.0	73.3	74.8
Racetrack Renewal (2.5%) ²	4.0	13.1	19.7	24.5	26.0	26.5
Lottery Operations (2%)	3.2	10.5	16.0	20.0	21.2	21.7
Total (100%)	\$161.0	\$524.6	\$797.8	\$999.6	\$1,061.3	\$1,082.6

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 and Chapter 240 of 2011 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 operator will receive for the first 10 years of operations 50% of proceeds, distributions to other funds are decreased correspondingly. For more detail please see the fiscal and policy note for SB 512 of 2011.

Source: Department of Legislative Services

State Fiscal Effect: Special funds distributed to the Ocean Downs VLT licensee increase by \$3.5 million in fiscal 2013, reflecting the bill's October 1 effective date, and by \$5.1 million in fiscal 2017 due to the increase in the share of gross VLT proceeds going to the VLT licensee in Worcester County. ETF funds are consequently reduced in equal amounts over this time period; general fund expenditures for education-related programs increase to offset the decrease in ETF funds. **Exhibit 2** shows the change in the distribution of VLT proceeds from the Ocean Downs VLT facility for fiscal 2013 to 2017.

Exhibit 2
Change in Distribution of Ocean Downs VLT Proceeds
(\$ in Millions)

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Education Trust Fund	(\$3.5)	(\$4.8)	(\$4.9)	(\$5.0)	(\$5.1)
Operation Licensee	3.5	4.8	4.9	5.0	5.1
Net Change	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Worcester County, Comptroller's Office, Maryland State Lottery Agency, Department of Legislative Services

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ncs/rhh

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