

**Department of Legislative Services**  
Maryland General Assembly  
2013 Session

**FISCAL AND POLICY NOTE**

House Bill 567  
Ways and Means

(Delegate Glenn)

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**Video Lottery Operation Licenses - Expansion to Alcoholic Beverages Licensed Establishments**

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This bill, which is subject to voter referendum, authorizes the Video Lottery Facility Location Commission to award video lottery operation licenses throughout the State to holders of Class B, Class C, or Class D alcoholic beverages licenses. The bill limits the number of newly authorized video lottery terminals (VLTs) to five per licensed location, but does not limit the total number of VLTs that can be awarded. The State Lottery and Gaming Control Agency (SLGCA) is required to administer and issue licenses for VLTs awarded to these licensees. VLT revenue generated from these new licensees must be distributed in the same manner as the proceeds from State lottery tickets.

The bill takes effect July 1, 2013, subject to voter referendum. If the referendum is approved by voters, the bill takes effect on the thirtieth day following the November 2014 general election.

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**Fiscal Summary**

**State Effect:** General fund revenues may increase beginning in FY 2015 and beyond due to VLT revenues being distributed in the same manner as proceeds from lottery tickets. Special fund revenues and expenditures from the existing VLT program may decrease by a significant amount beginning in FY 2015. General fund expenditures increase in FY 2015 and beyond due to education and SLGCA expenditures. While the total revenues generated by the bill cannot be reliably estimated, *for illustrative purposes only*, under one set of assumptions, net State revenues may increase by approximately \$34.2 million annually if 5,000 VLTs authorized by the bill are in operation.

**Local Effect:** Potential decrease in local impact grants distributed to certain counties from VLT revenues beginning in FY 2015. Local election board expenditures are not affected.

**Small Business Effect:** Potential meaningful.

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## Analysis

**Current Law:** The Video Lottery Facility Location Commission may not award more than six video lottery operation licenses and award more than 16,500 VLTs for operation at video lottery facilities in the State.

### *State Lottery*

An agent licensed by SLGCA receives a commission of 5.5% of gross receipts from the agent's lottery ticket sales, as enacted by Chapter 1 of the 2012 second special session (SB 1), increasing to 6% in July 2014. A licensed agent may also receive a cashing fee not to exceed 3% of valid prizes paid for services rendered in cashing winning tickets. The commission may also authorize the payment of special bonuses or incentives to licensed agents and their employees, not to exceed 0.5% of the gross receipts from ticket sales for the year for which the bonuses or incentives are awarded. Net proceeds after commissions are deposited into the State Lottery Fund. Except for specified revenue that is distributed to the Maryland Stadium Authority, net proceeds are deposited into the general fund.

**Background:** Appendix – Maryland Gaming and Appendix – Local Gaming provides detailed background on gaming in Maryland.

In fiscal 2012, there were 3,332 Class B alcoholic beverages licenses issued, 546 Class C alcoholic beverages licenses issued, and 978 Class D alcoholic beverages licenses issued in Maryland.

### *West Virginia*

Limited numbers of VLTs (Limited Video Lottery, or LVL) are available at licensed West Virginia bars, clubs, and fraternal organizations. Licensed retail premises may operate up to 5 VLTs whereas eligible fraternal societies and veteran's organizations may operate up to 10 VLTs. As of June 30, 2012, 7,531 of the 9,000 maximum VLTs authorized were operating at over 1,500 licensed locations throughout the state. In fiscal 2012, West Virginia's LVL gross income totaled \$406.1 million for an average win-per-day of \$148. South Dakota and Oregon also have state-run LVL programs.

**State Revenues:** While the bill limits newly authorized video lottery terminals to five per licensed location, it does not limit the total number of VLTs that can be awarded. In fiscal 2012, a total of 4,856 Class B, C, and D alcoholic beverages licenses were issued in Maryland. Assuming there are 5,000 Class B, C, and D alcoholic beverages licenses in fiscal 2015, a maximum of 25,000 VLTs could potentially be awarded licenses.

The actual revenue increase, which cannot be reliably estimated at this time, depends on the actual number of VLTs installed at eligible locations, the average revenue generated by each VLT, and the impact these VLTs would have on lottery sales and revenues generated by facilities currently authorized to operate VLTs.

However, *for illustrative purposes only*, based on a preliminary analysis of data on West Virginia LVL revenues, it is estimated that if 5,000 VLTs are awarded, after payouts to winning players, but before any other distributions are made, net VLT revenues generated may increase by \$129.6 million at full implementation. This amount reflects the net of increased revenues from VLTs authorized by the bill *minus* revenue losses resulting at the facilities currently authorized to operate VLTs as well as State lottery revenue losses. It is assumed that VLTs authorized by the bill will decrease lottery revenue and VLT revenue from the facilities currently authorized to operate VLTs by \$140.5 million. **Exhibit 2** shows the distribution of the increased net revenues resulting from the bill at full implementation.

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**Exhibit 2**  
**VLT Net Revenue Increase**  
**Full Implementation**  
**(\$ in Millions)**

<b>Total Annual Revenues</b>	<b>\$129.6</b>
Agent Commissions	95.4
<b>General Fund</b>	<b>34.2</b>

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This estimate assumes that licensees are paid a 6% commission of the gross play of VLTs, plus any applicable cashing fees, and that the VLTs have a payout percentage of 91.5%, the West Virginia LVL payout percentage. To the extent payouts are higher, general fund revenues will be significantly less.

### *Effect on Existing State Revenues*

The estimated revenue generated from VLTs authorized by the bill take into account a reduction in lottery sales and VLT gambling under the existing VLT program. However, the amount of this reduction cannot be reliably estimated.

### *Current VLT Revenue*

State special fund revenues will decrease under the existing VLT program, depending on the degree to which eligible locations are licensed to operate and implement VLTs. These machines will serve as a substitute for gambling at existing VLT facilities in the State. The amount of the decrease cannot be reliably estimated.

### *Problem Gambling Fund*

Under current law a person authorized to operate VLTs is required to pay a fee of \$425 per VLT, which is credited to the Problem Gambling Fund administered by the Department of Health and Mental Hygiene. The fund must be used to establish a 24-hour hotline, provide counseling for problem gamblers, and establish problem gambling prevention programs and other support services. If 5,000 additional VLTs are awarded under the bill, an additional \$2.1 million annually will be paid to the fund.

### **State Expenditures:**

#### *State Lottery*

If SLGCA is required to purchase or lease VLTs, this will entail significant annual SLGCA expenditures, to the extent that licensees do not directly cover these costs. Currently, some VLT facilities must receive permission from SLGCA to assume ownership or have rights to lease VLTs, while other facility operators must own or lease VLTs at their facilities no later than April 1, 2015.

#### *VLT Program*

State special fund expenditures will decrease under the existing VLT program, depending on the degree to which eligible locations are licensed to operate VLTs.

**Local Expenditures:** If approved by the General Assembly, this bill will be submitted to the voters at the 2014 general election. The Department of Legislative Services anticipates that the budgets of local boards of elections contain funding for notifying qualified voters about referendums for the 2014 general election in newspapers or on specimen ballots.

**Small Business Effect:** Small businesses that are awarded VLTs under the bill may benefit from a net increase in business revenues. Other small businesses may be harmed by the substitution of consumer spending away from other consumption to gambling.

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### **Additional Information**

**Prior Introductions:** A similar bill, HB 1010 of 2011, received an unfavorable report by the House Ways and Means Committee.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Maryland State Lottery and Gaming Control Agency, West Virginia Lottery, Department of Legislative Services

**Fiscal Note History:** First Reader - March 4, 2013  
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## Appendix – Maryland Gaming

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The State of Maryland has authorized six video lottery operation licenses in Baltimore City and Allegany, Anne Arundel, Cecil, Prince George's, and Worcester counties with a maximum number of 16,500 video lottery terminals (VLTs) allotted in the State. Licensees are also authorized to have table games with approval of the State Lottery and Gaming Control Commission.

### *VLT Law*

VLT gambling in Maryland was authorized by Chapter 4 (SB 3) and Chapter 5 (HB 4) of the 2007 special session. Chapter 5 was a constitutional amendment approved by the voters at the November 2008 general election that also authorized the expansion of gambling subject to specified restrictions. After November 15, 2008, the General Assembly may only authorize additional forms or expansion of gaming if approved through a referendum by a majority of voters in a general election. Chapter 4, which was contingent on ratification of Chapter 5, established the operational and regulatory framework for the VLT program. The Video Lottery Facility Location Commission (Location Commission) was established in the law to solicit and evaluate proposals for, and award, video lottery operation licenses.

Chapter 4 specified geographic locations and VLT allocations for five authorized video lottery facilities in Allegany (1,500 VLTs), Anne Arundel (4,750 VLTs), Cecil (2,500 VLTs), and Worcester (2,500 VLTs) counties and Baltimore City (3,750 VLTs).

During the 2012 second special session, the General Assembly adopted Chapter 1 (SB 1), which was approved by voter referendum at the November 2012 general election. Among its provisions, Chapter 1 authorizes a sixth video lottery operation license to be awarded for a video lottery facility to operate a maximum of 3,000 VLTs at a location in Prince George's County within a four-mile radius of the intersection of Bock Road and St. Barnabas Road. VLT operations may not begin at the Prince George's County facility until the earlier of July 1, 2016, or 30 months after the VLT facility in Baltimore City is open to the public.

Chapter 1 also authorized video lottery operation licensees to operate table games, with the approval of the State Lottery and Gaming Control Commission (previously the State Lottery Commission). VLT facilities were also authorized to remain open to the public 24 hours per day, seven days per week.

### *VLT Implementation*

The first video lottery operation licenses were awarded by the Location Commission in fall 2009. Penn Cecil, in Cecil County, opened in September 2010 with 1,500 VLTs, and Ocean Downs, in Worcester County, opened in January 2011 and is currently operating 800 VLTs. Power Plant Entertainment (PPE) Casino Resorts, LLC operates a 4,750 VLT facility adjacent to Arundel Mills Mall in Anne Arundel County that opened on June 6, 2012.

On April 26, 2012, Evitts Resort, LLC (Evitts) was awarded a video lottery operation license to own and operate a video lottery facility adjacent to the existing lodge at the Rocky Gap Lodge and Resort, contingent on a number of actions by Evitts and others. However, Evitts was subsequently granted approval from the Location Commission to instead design, build, and operate a facility with 500 VLTs in the existing lodge conference and meeting space, assuming certain contingencies are met. The facility is expected to open in mid-2013.

On July 31, 2012, the Location Commission awarded a video lottery operation license to CBAC Gaming, LLC for a facility with 3,750 VLTs in Baltimore City. The facility is expected to open in mid-2014.

On January 31, 2013, the Location Commission approved a Request for Proposals for the video lottery operation license in Prince George's County, with proposals due in May 2013.

### *Distribution of VLT Proceeds*

Under Chapter 4 of the 2007 special session and Chapter 1 of the 2012 second special session, gross VLT proceeds are distributed as follows from the proceeds of VLTs at each facility until a license is issued for the Prince George's County facility:

- Business Investment – 1.5% to a small, minority, and woman-owned business investment account;
- Lottery (Administration) – 2% to the State lottery for administrative costs, with other costs provided for in the State budget;
- Local Government Impact Grants – 5.5% to local governments in which a video lottery facility is operating, 18% of which would go for 20 years (starting in fiscal 2012 and ending in fiscal 2032) to Baltimore City through the Pimlico Community Development Authority and to Prince George's County for the community surrounding Rosecroft (\$1 million annually), except that the 18% dedication does not apply to Allegany, Cecil, and Worcester county facilities upon issuance of the Baltimore City license (described further below);

- Purse Dedication Account (PDA) – 7% to a PDA to enhance horse racing purses and funds for the horse breeding industry, not to exceed \$100 million annually;
- Racetrack Facility Renewal Account (RFRA) – 1.75% (except for the Allegany County facility) beginning October 1, 2012 (previously 2.5%), for a 16-year period to the RFRA, not to exceed \$20 million annually, until the VLT license for Baltimore City is issued, after which time the percentage is reduced to 1.0%;
- Licensee (Operator) – no more than 33% to video lottery operation licensees, except the Allegany (50% for the first 10 years) and Worcester (43%, effective July 1, 2013) licensees and as described below; and
- Education Trust Fund (ETF) – remainder to the ETF (49.25%-52.0%).

Beginning April 1, 2015, licensees are responsible for purchasing or leasing VLTs and the associated equipment and software instead of the State (except the Allegany and Worcester county facilities, which may request to purchase/lease machines), with compensation of 6% of VLT proceeds to the Baltimore City and Cecil County licensees and 8% to the Anne Arundel County licensee.

Upon the issuance of a Prince George’s County video lottery operation license, the licensee in Baltimore City will receive an additional 7% of VLT revenues and the Anne Arundel County licensee will receive an additional 8% of VLT revenues at the facility for (1) required marketing, advertising, and promotional costs or (2) capital improvements at the VLT facility. The State Lottery and Gaming Control Commission (SLGCC) may further increase this distribution to the Baltimore City and Anne Arundel County licensees by up to three and two percentage points, respectively; however if the Anne Arundel County licensee receives an additional adjustment, the Baltimore City licensee must receive at least the same additional percentage point increase. The commission may also provide an adjustment of up to 5% of VLT revenues to the Cecil County licensee from proceeds at that facility for marketing, advertising, and promotional costs or for capital improvements. Any adjustment(s) must be preceded by a specified report from SLGCC to the Governor and the General Assembly regarding the implications of the adjustment, must be determined by January 1, 2019, and may not take effect until the Prince George’s County video lottery operation license is issued and no earlier than July 1, 2019.

Also upon the issuance of the Prince George’s County license, the bill reduces from 7% to 6% of VLT revenues the distribution to PDA.

Chapter 1 specifies that, once a Baltimore City license is issued, of the revenues dedicated to local impact grants, 100% of the local impact grants from the proceeds of the video lottery facilities in Allegany, Cecil, and Worcester counties must be distributed to those jurisdictions. The bill also specifies that, once a Prince George’s County license is



issued, of the revenues dedicated to local impact grants, \$200,000 is distributed annually to Allegany and Worcester counties, \$130,000 is distributed to Cecil County, and \$70,000 is distributed to the Town of Perryville. The bill also extended the 18% distribution of local impact grants provided to Baltimore City and Prince George's County through fiscal 2032.

Beginning July 1, 2013, the licensee in Worcester County receives 43% of revenues generated at the facility, if the facility has less than 1,000 VLTs and the equivalent of 2.5% of the facility's proceeds are spent each year on capital improvements at the facility. Under previous law, the licensee share of 50% for the Allegany County VLT facility is reduced to 33% of proceeds after 10 years of operations. Chapter 1 specifies that the operator share for the Allegany County facility will be 50% after 1 year of operations and meeting a 0.5% annual capital investment requirement; after 10 years of operations, the operator share will be 43% if a 2.5% capital investment requirement is met.

#### *Ownership and Leasing of VLTs*

Under Chapter 1, the Baltimore City and Prince George's County facility operators will own or lease VLTs at their respective facilities and SLGCC retains responsibility for ownership or leasing of VLTs and associated equipment at the VLT facilities in Allegany and Worcester counties. However, the facilities in Allegany and Worcester counties may apply to SLGCC for permission to assume ownership or the right to lease each VLT used by the facility. For the existing facilities in Anne Arundel and Cecil counties, the licensees will own or lease the machines beginning April 1, 2015, after the State's master contract with VLT manufacturers expires on March 31, 2015. The savings to the State from requiring VLT facilities to own or lease VLTs must be appropriated to ETF.

Upon assuming ownership of VLTs, the Anne Arundel County licensee receives an additional 8% of VLT revenues at the facility and the licensees in Baltimore City, Cecil County, and Prince George's County receive an additional 6% of VLT revenues from their facilities. Beginning April 1, 2015, Chapter 1 also reduces from 2% to 1% of VLT revenues the distribution to the State Lottery and Gaming Control Agency (SLGCA) for administrative costs associated with the VLT program (except for Allegany County).

#### *Table Games*

Chapter 1 of the 2012 second special session requires SLGCC to allow the holder of a video lottery operation license to offer specified table games and requires SLGCC to regulate table game operations. Prior to the issuance of a Prince George's County video lottery operation license, 80% of table game revenues are distributed to licensees and 20% of table game revenues are distributed to ETF. Upon issuance of a Prince George's

County license, licensees continue to receive 80% of table game revenues, 15% is distributed to ETF, and 5% is distributed to local jurisdictions where a VLT facility is located. Proceeds distributed to Baltimore City must be used equally to fund school construction projects and for the maintenance, operation, and construction of recreational facilities.

The State is prohibited from charging a table game *license* fee. However, SLGCC *may* establish an annual fee for each table game, capped at \$500 per table, to benefit the Problem Gambling Fund. SLGCC has adopted regulations that set the fee at \$500.

Authorized table games are defined as:

- roulette, baccarat, blackjack, craps, big six wheel, minibaccarat, poker, pai gow poker, and sic bo – or any variation and composites of these games; and
- gaming tournaments in which players compete against one another in one or more of the games previously described.

SLGCC may determine the suitability of any composites or variations of authorized table games, as well as additional games, after an appropriate test or experimental period as determined by the commission. SLGCC may, through regulations, define and limit the method of operation, type, and number of table games. SLGCC regulations must also establish procedures for accounting for money exchanged at table games and for the removal of VLTs (including the number that may be removed) to accommodate table games. The bill also defines “table game equipment” and adjusts the definition of “manufacturer” to include manufacturers of table games and related equipment.

#### *VLT and Table Game Revenues*

The estimated revenues from VLTs and table games in fiscal 2014 through 2018 are shown in **Exhibit 1**. In total, \$743.5 million in gross gaming revenues is projected in fiscal 2014, including \$340.3 million to be distributed to ETF.

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**Exhibit 1**  
**Distribution of Estimated VLT and Table Game Revenues in Maryland –**  
**Current Law**  
**(\$ in Millions)**

	<u><b>FY 2014</b></u>	<u><b>FY 2015</b></u>	<u><b>FY 2016</b></u>	<u><b>FY 2017</b></u>	<u><b>FY 2018</b></u>
<b>VLTs</b>					
Education Trust Fund (ETF)	\$296.9	\$477.7	\$484.0	\$534.3	\$561.1
Lottery Operations	12.3	18.1	11.4	14.0	14.6
Purse Dedication Account	42.3	71.0	76.2	81.1	85.0
Racetrack Renewal Account	10.4	10.1	10.8	13.4	14.0
Local Impact Grants	33.4	56.0	60.1	74.4	78.0
Business Investment	9.1	15.3	16.4	20.3	21.3
Licensees	212.2	382.0	448.3	630.7	659.9
<b>Total VLTs</b>	<b>\$616.6</b>	<b>\$1,030.1</b>	<b>\$1,107.2</b>	<b>\$1,368.2</b>	<b>\$1,434.0</b>
<b>Table Games</b>					
Anne Arundel	\$108.4	\$123.0	\$127.4	\$107.1	\$107.7
Baltimore City	-	78.9	91.0	89.9	91.4
Cecil	11.5	11.5	11.5	11.5	11.5
Worcester	5.5	5.7	6.0	6.2	6.5
Allegany	1.5	1.9	2.2	2.3	2.4
Prince George's	-	-	-	102.7	115.6
<b>Total Table Games</b>	<b>\$126.9</b>	<b>\$221.1</b>	<b>\$238.1</b>	<b>\$319.8</b>	<b>\$335.1</b>
<b>Table Games</b>					
Education Trust Fund	\$25.4	\$44.2	\$47.6	\$48.0	\$50.3
Local Impact Grants	-	-	-	15.9	16.8
Licensee	101.5	176.8	190.5	255.9	268.1
<b>Total Table Games</b>	<b>\$126.9</b>	<b>\$221.1</b>	<b>\$238.1</b>	<b>\$319.8</b>	<b>\$335.1</b>
<b>Total VLT and Table Games</b>	<b>\$743.5</b>	<b>\$1,251.2</b>	<b>\$1,345.3</b>	<b>\$1,688.0</b>	<b>\$1,769.1</b>
<b>Total Education Trust Fund*</b>	<b>\$340.3</b>	<b>\$521.9</b>	<b>\$531.6</b>	<b>\$582.4</b>	<b>\$611.4</b>
<b>VLT Lease Savings to ETF</b>			<b>\$34.4</b>	<b>\$59.1</b>	<b>\$57.7</b>

\*Fiscal 2014 includes \$18 million in initial license fees for Prince George's license.

Source: Department of Legislative Services

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## Appendix – Local Gaming

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### *Eastern Shore Slot Machines*

Generally, it is a misdemeanor crime to possess or operate a slot machine in Maryland. However, legislation was enacted in 1987, 2007, and 2011 authorizing certain nonprofit organizations to operate slot machines in the nine Eastern Shore counties: Caroline, Cecil, Dorchester, Kent, Queen Anne’s, Somerset, Talbot, Wicomico, and Worcester (except a specified area within Ocean City).

Each county is responsible for regulating gaming activities conducted by civic and charitable organizations. 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. Pursuant to Chapter 315 of 2011, the Comptroller’s Office must regulate the specified slot machines and charge a license fee to cover the 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.

**Exhibit 1** shows the slot machine “handle” (or amount bet) by county for 65 organizations in fiscal 2012. The total amount bet was \$56.6 million, 89% of which was returned to gamblers. The Comptroller’s Office assesses a \$50 license fee per slot machine to cover costs for regulating their operation.

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**Exhibit 1**  
**Slot Machine Handle for Eastern Shore Counties**  
**Fiscal 2012**  
**(\$ in Millions)**

<u>County</u>	<u>Slot Machines</u>	<u>Handle</u>
Caroline	15	\$2.1
Cecil	45	12.5
Dorchester	35	5.3
Kent	25	2.0
Queen Anne's	33	10.6
Somerset	35	1.7
Talbot	25	3.3
Wicomico	58	14.0
Worcester	33	5.1
<b>Total</b>	<b>304</b>	<b>\$56.6</b>

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In reviewing past filings, the Department of Legislative Services (DLS) noted that several organizations were not in compliance with the 50% charity requirement or misclassified some contributions as charitable.

*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 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 and Gaming Control Agency advises that paper gaming occurs in at least 15 Maryland counties and is most prevalent in Allegany, Frederick, Garrett, and Washington counties.

### *Electronic Gaming*

An electronic bingo or electronic tip jar is a game played in an electronic or electro-mechanical device that contains predetermined winning and losing games and signals the issuance of a winning play. Examples include (but are not limited to):

- electronic devices utilizing paper bingo or tip jar tickets; and
- electronic devices utilizing computer chips that simulate paper bingo or tip jar tickets that, when played by a customer, determine the outcome of winning or losing that is not random or subject to change, but is based on a predetermined set of winning or losing numbers.

Facilities operating electronic bingo are located primarily in Anne Arundel and Calvert counties. An entity licensed to offer instant bingo under a commercial bingo license on July 1, 2007, or by a qualified nonprofit organization may continue to operate a game of instant bingo in the same manner using electronic machines, provided that:

- the machines were in operation for a one-year period ending December 31, 2007, or under a commercial bingo license on December 31, 2007;
- the entity does not operate more than the number of machines in operation on February 28, 2008; and
- the conduct of the gaming and operation of the machines are consistent with all other provisions of the Criminal Law Article.

Basic electronic pull tab dispensers are currently available at a cost ranging from about \$2,500 to \$5,000 each, and manual lock and key dispensers are available for as low as \$150. Price points on pull tab games typically range from 25 cents to \$2.00. Information from other states indicates a payout rate of approximately 66% on pull tabs, meaning that two-thirds of the amount bet is returned to gamblers (considerably lower than the average payout of about 88% for Eastern Shore slot machines).

### *Prohibited Gaming*

In *Chesapeake Amusements Inc. v. Riddle*, the Maryland Court of Appeals took up the issue of “whether a dispensing machine with a video screen that displays the contents of the tickets that it dispenses and emits a musical tone that signals when a winning ticket is being dispensed is a ‘slot machine,’” as defined by Maryland law. The Court of Appeals found that the machine in question was not a slot machine. In response to this decision, Chapter 474 of 2008 altered the definition of “slot machine” to include a machine that reads a game of chance and a machine that delivers a game of chance.

Chapter 474 of 2008 also prohibited certain gaming machines licensed by local jurisdictions, primarily electronic bingo and tip jar machines, from operating after July 1, 2009. Chapter 661 of 2009 extended this termination date to July 1, 2012, and Chapter 603 of 2012 made permanent the authority for certain existing qualified organizations and licensed commercial bingo licensees to operate electronic instant bingo machines that would otherwise be illegal under State law after July 1, 2012. Under Chapter 603, the State Lottery and Gaming Control Commission must regulate certain electronic gaming devices and determine if they are operating lawfully. A gaming device that is not compliant by January 1, 2013, is an illegal gaming device that may not legally operate in the State.

The law also provides for exceptions for certain machines that are not considered slot machines:

- machines that award the user additional free games;
- machines that are arcade-type games that provide noncash prizes of minimal value; and
- paper pull tab tip jars and paper pull tab instant bingo tickets that must be opened manually as long as the machine does not electronically read the ticket, does not alert the user to winnings, or does not tabulate the winnings.

Personal electronic bingo machines are also excluded as long as the machine does not allow a person to play more than 54 cards at one time. State lottery machines that dispense lottery tickets and video lottery terminals are also excluded.

### *Veterans' Organizations*

During the 2012 second special session, the General Assembly adopted Chapter 1 (Senate Bill 1), which was approved by voter referendum at the November 2012 general election. Chapter 1 authorizes the State Lottery and Gaming Control Agency to issue certain veterans' organizations a license for up to five instant ticket lottery (pull tab) machines. Veterans' organizations in counties on the Eastern Shore and in Montgomery County are not eligible. After deductions for commissions (to the veterans' organizations) and prize payouts, the proceeds go to the State general fund. Beginning July 1, 2014, 10% of the proceeds will be distributed to the Maryland Veterans Trust Fund.