

Department of Legislative Services
 Maryland General Assembly
 2015 Session

FISCAL AND POLICY NOTE

Senate Bill 825 (Senator Edwards)
 Budget and Taxation

Allegany County - Video Lottery Facilities - Distribution of Proceeds

This bill requires \$700,000 of video lottery terminal (VLT) proceeds at a video lottery facility in Allegany County to be distributed in fiscal 2016 to the video lottery operation licensee.

The bill takes effect July 1, 2015.

Fiscal Summary

State Effect: General fund expenditures increase by \$700,000 in FY 2016 as a result of distributing \$700,000 to the video lottery operation licensee in Allegany County. Special fund revenues and expenditures of the Education Trust Fund (ETF) decrease by \$700,000 in FY 2016.

(in dollars)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
SF Revenue	(\$700,000)	\$0	\$0	\$0	\$0
GF Expenditure	\$700,000	\$0	\$0	\$0	\$0
SF Expenditure	(\$700,000)	\$0	\$0	\$0	\$0
Net Effect	(\$700,000)	\$0	\$0	\$0	\$0

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: For the first 10 years of operations at a video lottery facility in Allegany County, gross VLT proceeds are distributed as follows from the proceeds of VLTs at the facility in Allegany County:

- 0.75% to a small, minority, and woman-owned business investment account;
- 2% to the State Lottery and Gaming Control Agency (SLGCA) for administrative costs;
- 2.75% to local governments in which a video lottery facility is operating;
- 2.5% to the Purse Dedication Account (PDA) to enhance horse racing purses and funds for the horse breeding industry;
- 50% to the licensee (operator); and
- the remainder to the ETF (42%).

After 10 years of operations, the distribution of VLT proceeds at the facility in Allegany County is generally similar to the distribution at other video lottery facilities, except the licensee share will be 43% if a 2.5% capital investment requirement is met and the distribution to SLGCA continues to be 2%.

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

ETF is a nonlapsing, special fund to be used for continued funding of the Bridge to Excellence formulas and programs, including GCEI. The fund may also be used to support capital projects for public schools, community colleges, and public four-year institutions; and to expand public early childhood education programs in the State.

Exhibit 1 shows the distribution of VLT proceeds from a video lottery facility in Allegany County.

Exhibit 1 Distribution of VLT Proceeds in Allegany County Fiscal 2016-2020

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
ETF	\$16.4	\$16.7	\$16.8	\$16.8	\$17.0
Lottery Operations	0.8	0.8	0.8	0.8	0.8
Purse Dedication Account	1.0	1.0	1.0	1.0	1.0
Local Impact Grants	1.1	1.1	1.1	1.1	1.1
Business Investment	0.3	0.3	0.3	0.3	0.3
Licensee	19.5	19.9	20.0	20.1	20.2
Total	\$39.1	\$39.8	\$40.0	\$40.1	\$40.4

Source: Department of Legislative Services; Board of Revenue Estimates

State Fiscal Effect: To reduce ETF revenues by \$700,000 will require general fund expenditures to increase by an equal amount. Currently all proceeds credited to ETF are budgeted for the Bridge to Excellence foundation formula and programs, including GCEI. The proposed fiscal 2016 State budget includes \$394.0 million in ETF revenues, all of which are directed toward the \$3.0 billion in Bridge to Excellence foundation formulas, including GCEI. The remaining \$2.4 billion in Bridge to Excellence formula funding is general funds (excluding retirement). Thus, reducing any gaming proceeds credited to ETF will necessitate an equal increase in general fund expenditures.

Special fund revenues and expenditures of ETF decrease by \$700,000 in fiscal 2016, while the Allegany County licensee receives an additional \$700,000.

Additional Information

Prior Introductions: None.

Cross File: HB 1150 (Allegany County Delegation) - Rules and Executive Nominations.

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

Fiscal Note History: First Reader - March 17, 2015
min/rhh

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Appendix – Maryland Gaming

The State of Maryland has authorized and awarded 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. To date, all facilities are operational except in Prince George's County, which is expected to open in July 2016.

VLT Law

VLT gambling in Maryland was authorized by Chapter 4 and Chapter 5 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. The Location Commission terminated January 1, 2015, under the law, although the Governor may reconstitute it if an operation license is expiring or is revoked or surrendered.

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 passed Chapter 1, which was approved by voter referendum at the November 2012 general election. Among its provisions, Chapter 1 authorized 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 (SLGCC) (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

Five casinos are currently operating in Maryland, with the sixth casino, MGM National Harbor, LLC, expected to open in fiscal 2017. The opening date and the number of VLTs and table games for each facility are shown in **Exhibit 1**. The number of VLTs and table games reflects January 2015 SLGCC approval of reductions in VLTs and additions of table games at Hollywood Casino Perryville, Maryland Live!, and Horseshoe Casino.

Exhibit 1
Number of VLTs and Table Games in Maryland

<u>Casino</u>	<u>County</u>	<u>Opening Date</u>	<u>VLTs</u>	<u>Table Games</u>
Hollywood Casino	Cecil	September 2010	850	22
Ocean Downs	Worcester	January 2011	800	-
Maryland Live!	Anne Arundel	June 2012	3,922	202
Rocky Gap Casino	Allegany	May 2013	577	17
Horseshoe Casino	Baltimore City	August 2014	2,200	177
MGM National Harbor	Prince George's	July 2016*	3,600*	140*

*Projected

Source: Department of Legislative Services; State Lottery and Gaming Control Agency

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, with some exceptions as discussed below:

- Business Investment – 1.5% to a small, minority-, and woman-owned business investment account;
- Lottery (Administration) – 2% to the State lottery for administrative costs (decreases to 1% after March 31, 2015), 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 goes for 20 years (starting in fiscal 2012 and ending in fiscal 2032) to Baltimore City through the Pimlico Community Development Authority, to Prince George’s County for the community surrounding Rosecroft (\$1 million annually), and to communities within three miles of the Laurel Race Course (\$500,000 annually for fiscal 2015 through 2019). However, the 18% dedication does not apply to Allegany, Cecil, and Worcester county facilities since the Baltimore City license has been issued (described further below);
- Purse Dedication Account (PDA) – 7% to PDA to enhance horse racing purses and funds for the horse breeding industry, not to exceed \$100 million annually;
- Racetrack Facility Renewal Account (RFRA) – 1.0% except for the Allegany County facility (the percentage decreased from 1.75% to 1.0% with the issuance of the Baltimore City license), for a 16-year period beginning October 1, 2012, to the RFRA, not to exceed \$20 million annually;
- Licensee (Operator) – no more than 33% to video lottery operation licensees, except the Allegany County (50% for the first 10 years) and Worcester County (43%, effective July 1, 2013) licensees and as described below; and
- Education Trust Fund (ETF) – remainder to the ETF (41%-45%).

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 and (2) capital improvements at the VLT facility. 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 also specified 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 specified 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. 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 specified 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 for administrative costs associated with the VLT program (except for Allegany County).

Table Games

Chapter 1 of the 2012 second special session required SLGCC to allow the holder of a video lottery operation license to offer specified table games and required 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.

VLT and Table Game Revenues

The estimated revenues from VLTs and table games in fiscal 2016 through 2020 are shown in **Exhibit 2**. In total, \$1.12 billion in gross gaming revenues is projected in fiscal 2016, including \$394 million to be distributed to ETF.

Exhibit 2
Distribution of Estimated VLT and Table Game Revenues in Maryland
Current Law
(\$ in Millions)

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
VLTs					
Education Trust Fund	\$315.9	\$432.8	\$456.7	\$462.9	\$469.8
Lottery Operations	7.7	11.3	11.9	12.1	12.3
Purse Dedication Account	49.1	64.3	67.8	68.7	69.7
Racetrack Renewal Account	6.9	10.5	11.1	11.3	11.4
Local Impact Grants	38.9	59.1	62.3	63.1	64.1
Business Investment	10.6	16.1	17.0	17.2	17.5
Licenses	297.8	500.7	525.8	532.8	540.8
Total VLTs	\$726.8	\$1,095.0	\$1,152.6	\$1,168.0	\$1,185.5
Table Games					
Anne Arundel	\$239.6	\$199.4	\$195.4	\$196.7	\$199.6
Baltimore City	132.1	121.5	120.8	121.9	123.7
Cecil	12.1	11.3	11.2	11.4	11.5
Worcester	-	-	-	-	-
Allegany	6.7	6.6	6.6	6.6	6.7
Prince George's	-	183.1	209.7	213.9	217.1
Total Table Games	\$390.4	\$521.9	\$543.7	\$550.5	\$558.8
Table Games					
Education Trust Fund	\$78.1	\$78.3	\$81.6	\$82.6	\$83.8
Local Impact Grants	-	26.1	27.2	27.5	27.9
Licensee	312.3	417.5	435.0	440.4	447.0
Total Table Games	\$390.4	\$521.9	\$543.7	\$550.5	\$558.8
Total VLT and Table Games	\$1,117.2	\$1,616.9	\$1,696.3	\$1,718.5	\$1,744.3
Total Education Trust Fund	\$394.0	\$511.1	\$538.2	\$545.5	\$553.6

Note: State general fund savings from the transfer of ownership of the majority of VLTs after March 31, 2015, is estimated at \$42.9 million in fiscal 2015.

Source: Department of Legislative Services; Board of Revenue Estimates; Department of Budget and Management