

Department of Legislative Services
2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 187

(Delegate Bromwell)

Ways and Means

**Gaming - Video Lottery Operation License - Baltimore-Washington
International Thurgood Marshall Airport**

This bill, which is subject to voter referendum, authorizes a video lottery operation license to be awarded for a maximum of 2,500 video lottery terminals (VLTs) in enclosed areas at the terminal building within the security perimeter of Baltimore-Washington International Thurgood Marshall Airport (BWI). The bill provides that VLT proceeds from the BWI facility will be distributed to the Transportation Trust Fund (TTF) rather than to the Education Trust Fund (ETF) after other distributions are made.

The bill takes effect July 1, 2016, contingent on passage of a referendum by voters in November 2016.

Fiscal Summary

State Effect: None. BWI does not have space to accommodate VLTs within the security perimeter of the terminal within the next five years.

Local Effect: None. It is assumed that local boards of elections' budgets contain funding for notifying voters about referendums.

Small Business Effect: None.

Analysis

Bill Summary: The bill excludes a license at BWI from the prohibition against awarding more than one video lottery operation license in a single county or Baltimore City. The bill increases the limit on the total number of VLTs in the State from 16,500 to 19,000, limits the number of VLTs that may be awarded for operation at BWI to 2,500, and

increases the statewide limit on the number of VLT facilities from six to seven. The bill requires that applications for a video lottery operation license at BWI be submitted by April 15, 2018, and include the required initial license fee (\$3 million) and capital investment (\$25 million) for every 500 VLTs proposed in an application. The Governor may reconstitute the Video Lottery Facility Location Commission, which must include the appointment of new members based on specified criteria, following the authorization of an additional video lottery operation license at BWI.

Current Law:

Video Lottery Operation Licenses

An initial license fee of at least \$3 million for every 500 VLTs is required (except for the Allegany County facility), which accrues to ETF. The initial term of a video lottery operation license (of which up to six may be awarded through a competitive bidding process) is 15 years; a licensee may subsequently reapply for an additional 10-year term. License applicants must also invest \$25 million in construction and related costs for every 500 VLTs proposed in a bid. Licensees must begin operations in a permanent facility within 18 months after the license is awarded, which may be extended by up to 12 months by the State Lottery and Gaming Control Commission (SLGCC).

Chapter 1 of the 2012 second special session authorizes video lottery operation licensees to operate table games with SLGCC approval.

Background: Appendix – Maryland Gaming provides more information on gaming in Maryland.

Transportation Trust Fund and Highway User Revenues

TTF is a nonlapsing special fund that provides funding for transportation. It consists of tax and fee revenues, operating revenues, bond proceeds, and fund transfers. The Maryland Department of Transportation (MDOT) issues bonds backed by TTF revenues and invests the TTF fund balance to generate investment income. The Maryland Transit Administration, Motor Vehicle Administration, Maryland Port Administration, and Maryland Aviation Administration (MAA) generate operating revenues that cover a portion of their operating expenditures. The tax and fee revenues allocated to TTF include motor fuel taxes, titling taxes, vehicle registration fees, a portion of the rental car sales and corporate income taxes, and other miscellaneous motor vehicle fees.

A portion of TTF revenues is credited to the Gasoline and Motor Vehicle Revenue Account (commonly known as highway user revenue) and is distributed to local jurisdictions, the general fund, and MDOT. The funds retained by TTF support MDOT's capital program,

debt service, and operating costs. Local governments use highway user revenues to help develop and maintain local transportation projects.

Gaming Operations of Airports

Passenger traffic at BWI is estimated to total 23.1 million passengers in 2015, an increase of 3.4% from calendar 2014. Beginning in calendar 2013, a decline in passengers has been largely attributable to the impact of the federal budget shutdown and sequestration and the weak economy. The decline in passengers appears to have halted, with continued passenger growth expected in 2016 and 2017. MAA assumes that the space within the security perimeter is the area past screening in the terminal building, beyond which only ticketed passengers and employees are allowed access.

The Department of Legislative Services is aware of two airports in the United States with VLTs, both in Nevada. McCarran International Airport in Las Vegas contains about 1,330 slot machines that generated \$1.26 of revenues per passenger for a total of \$27.7 million of gaming revenues in fiscal 2015. McCarran International Airport had 21.9 million passengers in fiscal 2015, which is comparable to BWI. Reno-Tahoe International Airport has over 200 machines that generated \$0.67 of revenues per enplaned passenger for a total of \$1.3 million of gaming revenues in fiscal 2015. Reno-Tahoe International Airport expects gaming revenues to decrease to \$0.61 per enplaned passenger for fiscal 2016 as a result of passengers' continued reluctance to spend their disposable income on nonessential services.

State Fiscal Effect: Of the 21.8 million domestic passengers at BWI annually, 35% are traveling for business and thus have a lower propensity to gamble. Assuming gaming revenues of \$1.26 per passenger, the Department of Legislative Services estimates that VLTs at BWI *could* generate \$27.5 million of revenue annually when fully implemented. The projected VLT revenue from a facility at BWI is lower than VLT revenues at other VLT facilities in the State because only ticketed passengers and BWI employees can be within the security perimeter of BWI, thus significantly limiting the number of people who can gamble at the facility.

Of the estimated \$27.5 million of gaming revenue, the VLT licensee would receive the percentage stated in its accepted application, plus an additional 8% if it owns or leases the VLTs for a VLT facility in Anne Arundel County. Assuming the VLT licensee's percentage is 41%, VLT revenues to the licensee increase by \$11.3 million, and State and local revenues increase by approximately \$16.2 million annually once fully implemented.

However, it is *unlikely* that these revenue estimates will be obtained within the next five years, if at all, due to space and time constraints, as well as the requirement of a large initial investment by the licensee.

MAA advises that it currently has no space for VLTs within the security perimeter of the terminal building at BWI. MAA advises that BWI's terminal concourses presently operate with space constraints on passenger hold rooms, concessions, and ingress/egress corridor widths and that it is not feasible to place VLTs within the terminal facilities without significantly expanding the terminal and concourse facilities.

AirMall Maryland, Inc. entered into a retail management lease contract with MAA in 2004 to encompass 120,000 square feet of concessions space within BWI. The lease agreement, which terminates on March 31, 2022, authorizes AirMall to lease space in BWI from MAA and then sublease these spaces to food service, retail, and certain service concession operators. Once the lease ends, VLTs could potentially encompass a portion of that space after March 31, 2022, but MAA assumes a concession program would continue and there would be no increase in available space for VLTs.

An application for a VLT license at BWI must be submitted by April 15, 2018. Current law requires a VLT licensee to begin operating VLTs within 18 months after the license is awarded. Two extensions of 6 months each may be granted, so a VLT licensee must be operating within 30 months of being awarded a license or the license automatically reverts to the State. Assuming that VLTs would not be able to be operational until after March 31, 2022, a VLT licensee would not be able to make this time constraint of 30 months, so it is unlikely that any applicants would apply for a VLT license at BWI by the April 15, 2018 deadline.

Current law requires an application for a VLT license to provide at least \$25 million in direct investment by the applicant in construction and related costs for every 500 VLTs. Assuming an applicant plans to operate 1,000 VLTs at BWI, the applicant would have to make a \$50 million investment within BWI. Additionally, an applicant has to pay an application fee of \$3 million per 500 VLTs. The Department of Legislative Services projects a VLT licensee receives \$11.3 million in VLT revenues annually once fully implemented, so it would take over five years for a licensee to recoup its initial investment of \$56 million from gaming revenues. The Department of Legislative Services advises that this start-up investment would be a significant barrier to applicants considering a VLT license at BWI. However, if an applicant applies for and is granted a VLT license at BWI, general fund expenditures increase for the State Lottery and Gaming Control Agency (SLGCA) to oversee and monitor the BWI facility, since the VLT revenues from the BWI facility will be insufficient to pay for increased SLGCA expenditures.

Additional Information

Prior Introductions: HB 371 of 2015 and a similar bill, HB 817 of 2014, received an unfavorable report from the House Ways and Means Committee. Similar bills were introduced in the 2009 through 2013 sessions.

Cross File: None.

Information Source(s): Comptroller's Office, Maryland Department of Transportation, State Lottery and Gaming Control Agency, Clark County (Nevada) Department of Aviation, Reno-Tahoe Airport Authority, Department of Legislative Services

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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. 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 as of January 2016 are shown in **Exhibit 1**.

Exhibit 1 **Number of VLTs and Table Games in Maryland**

Casino	County	Opening Date	VLTs	Table Games
Hollywood Casino	Cecil	September 2010	850	22
Ocean Downs	Worcester	January 2011	800	-
Maryland Live!	Anne Arundel	June 2012	3,994	206
Rocky Gap Casino	Allegany	May 2013	631	18
Horseshoe Casino	Baltimore City	August 2014	2,202	178
MGM National Harbor	Prince George's	January 2017*	3,600*	140*

*Projected

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

VLT and Table Game Revenues

The estimated revenues from VLTs and table games in fiscal 2017 through 2021 are shown in **Exhibit 2**. In total, \$1.38 billion in gross gaming revenues is projected in fiscal 2017, including \$458.8 million to be distributed to the Education Trust Fund (ETF).

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

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
VLTs Distribution					
Education Trust Fund	\$382.8	\$453.9	\$460.1	\$467.0	\$474.0
Lottery Operations	9.7	11.9	12.0	12.2	12.4
Purse Dedication Account	58.0	67.4	68.3	69.3	70.4
Racetrack Renewal Account	8.9	11.1	11.2	11.4	11.6
Local Impact Grants	50.2	61.9	62.8	63.7	64.7
Business Investment	13.7	16.9	17.1	17.4	17.6
Licensees	408.4	523.1	530.0	537.9	546.0
Total VLTs	\$931.6	\$1,146.1	\$1,161.5	\$1,178.9	\$1,196.6
Table Games Distribution					
Education Trust Fund	\$76.0	\$79.7	\$80.7	\$81.9	\$83.1
Local Impact Grants	12.7	26.6	26.9	27.3	27.7
Licensee	355.0	424.9	430.3	436.8	443.3
Total Table Games	\$443.7	\$531.1	\$537.9	\$545.9	\$554.1
Total VLT and Table Games	\$1,375.4	\$1,677.3	\$1,699.4	\$1,724.9	\$1,750.7
Total Education Trust Fund	\$458.8	\$533.6	\$540.8	\$548.9	\$557.1

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