

Department of Legislative Services  
Maryland General Assembly  
2019 Session

FISCAL AND POLICY NOTE  
First Reader

House Bill 987 (Delegates Kaiser and Ebersole)  
Ways and Means

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Gaming - Video Lottery Operator Compliance - Disclosure of Winning Odds on  
Video Lottery Terminals

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This bill requires the State Lottery and Gaming Control Commission (SLGCC) to adopt regulations that require the video display of each video lottery terminal (VLT) that a player must scroll through before beginning play to disclose the odds of each winning combination and jackpot that the VLT offers. The disclosure must be in terms that are generally understood by the average adult. SLGCC must ensure that a video lottery operation licensee complies with this requirement as a condition of holding a license. **The bill takes effect January 1, 2020.**

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Fiscal Summary

**State Effect:** Special fund revenues and expenditures from VLTs may decrease annually beginning in FY 2020. General fund expenditures increase in FY 2020 for the State Lottery and Gaming Control Agency (SLGCA) and could further increase for education for FY 2020 through 2022.

**Local Effect:** To the extent that VLT revenues decrease as a result of the disclosure requirement on VLTs, local impact grants decrease annually beginning in FY 2020.

**Small Business Effect:** Minimal.

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Analysis

**Current Law:** SLGCC must adopt regulations that require conspicuous disclosures related to the payout of VLTs. SLGCC must ensure that a video lottery operation licensee complies with this requirement as a condition of holding a license.

A VLT must have an average payout percentage of at least 87%. A facility's gaming floor must be configured to collectively achieve, at all times, an average payout percentage of between 90% and 95%. A facility may not make available for play a VLT with an average payout percentage that exceeds 95% without the written approval of SLGCC. SLGCC must conduct periodic reviews to ensure that average payout percentages comply with regulations. A VLT may not offer a winning combination where the odds exceed 50 million to 1.

A VLT must be equipped to display to a player while idle the schedule of credits awarded with each winning combination, applicable rules of play, and any imposed maximum bet limit.

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

SLGCA advises that developing new software for VLTs could take a manufacturer several years to complete since manufacturers must develop software specifically for use in Maryland and could not use software compatible with any other jurisdictions, as is the current practice. Currently, new software costs casinos approximately \$3,000 for each VLT. SLGCA expects new software that is tailored to this bill to be more than \$3,000 for each VLT; thus, providing new software for approximately 11,750 VLTs could cost casinos more than \$35 million.

SLGCA advises that game math is a closely guarded secret in the gaming industry. The different odds and payouts of each combination within a game is considered confidential and proprietary information by manufacturers. If a competitor sees the odds of another manufacturer's game, the competitor could replicate that same math model and develop a game of their own based on that successful model. SLGCA advises that this could put manufacturers in the Maryland market at a competitive disadvantage.

**State Fiscal Effect:** Special fund revenues and expenditures from VLTs may decrease beginning in fiscal 2020 to the extent that disclosures on VLTs dissuade gamblers from playing VLTs. The financial costs of providing new software on VLTs may dissuade casinos from having as many VLTs on the gaming floor. Thus, to the extent that casinos reduce the number of VLTs, special fund revenues and expenditures may further decrease.

A portion of VLT revenues is distributed to the Education Trust Fund (ETF). ETF revenues are currently budgeted for the State foundation program, the State's largest education aid formula. Thus, any decrease in ETF revenues increases general fund appropriations for the State foundation program by an equal amount through fiscal 2022. Beginning in

fiscal 2023, as required by Chapter 357 of 2018, 100% of ETF revenues must be used for supplemental education funding.

General fund expenditures for SLGCA increase in fiscal 2020. New software must be installed on VLTs, thus SLGCA will have to electronically verify the software and test all machines before they are played by patrons. While this can likely be done with existing personnel, SLGCA advises it will take months to complete and SLGCA will have to pay overtime to those employees who are testing the machines. Alternatively, SLGCA could contract with a third-party vendor to assist in verifying and testing VLTs.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - February 26, 2019  
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## Appendix – Maryland Gaming

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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. The opening date and the number of VLTs and table games for each facility as of January 2019 are shown in **Exhibit 1**.

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### 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	822	19
Ocean Downs	Worcester	January 2011	892	18
Maryland Live!	Anne Arundel	June 2012	3,825	198
Rocky Gap Casino	Allegany	May 2013	665	17
Horseshoe Casino	Baltimore City	August 2014	2,194	158
MGM National Harbor	Prince George’s	December 2016	3,137	198

VLT: video lottery terminal

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

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### *VLT and Table Game Revenues*

The estimated revenues from VLTs and table games in fiscal 2020 through 2024 are shown in **Exhibit 2**. A total of \$1.78 billion in gross gaming revenues is projected in fiscal 2020, including \$528.8 million to be distributed to the Education Trust Fund.

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

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
<b>VLTs Distribution</b>					
Education Trust Fund	\$430.1	\$419.6	\$425.7	\$429.5	\$433.8
Lottery Operations	11.2	11.4	11.5	11.6	11.8
Purse Dedication Account	65.6	66.5	67.5	68.1	70.5
Racetrack Renewal Account	10.7	10.9	11.0	11.1	11.8
Local Impact Grants	60.8	61.7	62.6	63.1	64.6
Business Investment	0.0	16.7	16.9	17.1	17.6
Licenses	542.2	550.0	557.9	562.9	565.0
<b>Total VLTs</b>	<b>\$1,120.6</b>	<b>\$1,136.7</b>	<b>\$1,153.1</b>	<b>\$1,163.4</b>	<b>\$1,175.1</b>
<b>Table Games Distribution</b>					
Education Trust Fund	\$98.7	\$100.2	\$101.7	\$102.6	\$103.6
Local Impact Grants	32.9	33.4	33.9	34.2	34.5
Licenses	526.4	534.3	542.4	547.2	552.7
<b>Total Table Games</b>	<b>\$658.0</b>	<b>\$667.9</b>	<b>\$677.9</b>	<b>\$684.0</b>	<b>\$690.9</b>
<b>Total VLTs and Table Games</b>	<b>\$1,778.5</b>	<b>\$1,804.6</b>	<b>\$1,831.0</b>	<b>\$1,847.5</b>	<b>\$1,866.0</b>
<b>Total Education Trust Fund</b>	<b>\$528.8</b>	<b>\$519.8</b>	<b>\$527.4</b>	<b>\$532.1</b>	<b>\$537.4</b>

VLT: video lottery terminal

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