

Department of Legislative Services
Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 371
Ways and Means

(Delegate P. Young)

State Lottery - Instant Ticket Lottery Machines - Fraternal Organizations
(ITLMs for Homeless Veterans Act)

This bill adds fraternal organizations to the organizations that the State Lottery and Gaming Control Agency (SLGCA) may issue a license to for up to five instant ticket lottery (pull tab) machines. After deducting prizes paid out, a fraternal organization must remit the receipts from the sale of pull tab tickets to SLGCA, which must distribute 10% to a special fund to be used by the Division of Neighborhood Revitalization in the Department of Housing and Community Development (DHCD) to assist veterans and their families, provided that, annually, the first \$100,000 is distributed to the outreach and advocacy program in the Maryland Department of Veterans Affairs (MDVA). Half of the remaining proceeds must be distributed to the fraternal organization. From the other half of remaining proceeds, an amount needed to pay for the purchase or lease of the machines is provided to SLGCA, and any remaining amount is paid to the general fund. **The bill takes effect July 1, 2021.**

Fiscal Summary

State Effect: General and special fund revenues increase beginning in FY 2022. Special fund revenues and expenditures from table games and the video lottery terminal (VLT) program may decrease and Maryland Veterans Trust Fund (MVTF) special fund revenues may decrease due to substitution effects of gaming revenues beginning in FY 2022. General fund expenditures for SLGCA may increase to implement and enforce the bill.

Local Effect: Minimal. To the extent that VLT and table game revenues decrease as a result of fraternal organizations operating pull tab machines, VLT local impact grants decrease.

Small Business Effect: Minimal.

Analysis

Bill Summary: A fraternal organization, which includes a sororal organization, is any nonprofit organization that is a *bona fide* fraternal organization operated on a lodge system, conducted solely for the benefit of its members and its beneficiaries, and has been located in an applicable county for at least five years before the organization applies for a license. It does not include fraternal or sororal organizations related to an educational institution or a professional school. Fraternal organizations in counties on the Eastern Shore are not eligible. A licensed fraternal organization must remit receipts from instant ticket lottery sales to SLGCA and must locate and operate its pull tab machines at its principal meeting hall in the county.

It is the intent of the General Assembly that SLGCA solicits proposals from multiple vendors for the lease or purchase of pull tab machines.

Current Law: SLGCA may issue specified veterans' organizations a license for up to five pull tab machines. Veterans' organizations in counties on the Eastern Shore are not eligible.

A licensed veterans' organization must locate and operate its pull tab machines at its principal meeting hall in the county. After deductions for commissions and prize payouts, 10% of the proceeds are distributed to MVTF and the remainder goes to the State Lottery Fund. A licensed veterans' organization must purchase or lease the pull tab machines from SLGCA but may not use receipts from the sale of pull tabs that would otherwise go to the State Lottery Fund to purchase or lease the machines.

State Fiscal Effect: The impact on general fund and special fund revenues and expenditures will depend on the number of fraternal organizations that operate authorized pull tab machines, their location with respect to casinos and to veterans' organizations with pull tab machines, the actual payout rates on pull tabs that are offered, and the degree to which pull tab machines authorized by the bill constitute a substitute for casino gambling in the State. MVTF receives 10% of instant ticket proceeds only from veterans' organizations, so to the extent that revenues from pull tab machines at veterans' organizations decrease, special fund revenues to MVTF decrease. Although these impacts cannot be determined at this time, the additional machines are likely to generate increased revenues for the general fund, the special fund in DHCD's Division of Neighborhood Revitalization, and \$100,000 to the outreach and advocacy program in MDVA, offset by minimal decreases in MVTF special fund revenues and special fund revenues from casinos. SLGCA advises that if a significant number of fraternal organizations operate pull tab machines, additional staff will be needed to manage the machines. Shifting to multiple vendors may also impact program costs. It is assumed that much, if not all, of these costs will be offset by increased revenues, as discussed below.

DHCD notes there are approximately 2,100 homeless veterans in Maryland, of which approximately 20% (or about 420) are considered chronically homeless. On average, it costs DHCD \$18,540 annually to house the chronically homeless in permanent supportive housing while a nonchronic homeless household can be housed through rapid re-housing at an average annual cost of \$6,000. The number of homeless veterans served by DHCD would be commensurate with the increased revenue. DHCD advises that it can likely implement the bill with existing resources.

Based on U.S. Census data, the Department of Legislative Services estimates that there are approximately 250 fraternal organizations in the State that may be eligible to operate pull tab machines, but it is unknown how many will actually do so. *For illustrative purposes only*, if 100 fraternal organizations operate pull tab machines, net sales from pull tab machines operated by fraternal organizations are \$8.9 million, based on net sales data from veterans' organizations in fiscal 2020. SLGCA must distribute 10% of this amount, or approximately \$894,000 in special funds as follows: \$100,000 to MDVA for developing and maintaining a website and social media pages to publicize veterans' programs and the remaining \$794,000 to the Division of Neighborhood Revitalization to assist veterans and their families beginning in fiscal 2022. After commissions paid to fraternal organizations of approximately \$4.0 million, approximately \$4.0 million is to be distributed to pay for the lease or purchase of pull tab machines, to pay for the oversight and management of the machines by SLGCA, and the remainder to the general fund in fiscal 2022. These amounts do not take into account any substitution effects.

Additional Information

Prior Introductions: HB 131 of 2020, a substantially similar bill, received a hearing in the House Ways and Means Committee, but was subsequently withdrawn. Its similar cross file, SB 59 of 2020, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. SB 326 of 2019, a substantially similar bill, received an unfavorable report by the Senate Budget and Taxation Committee. Its cross file, HB 1015, received a hearing in the House Ways and Means Committee, but no further action was taken. Another substantially similar bill, HB 340 of 2019, received a hearing in the House Ways and Means Committee, but was subsequently withdrawn.

Designated Cross File: None.

Information Source(s): Department of Housing and Community Development; Maryland State Lottery and Gaming Control Agency; Maryland Department of Veterans Affairs; Department of Legislative Services

Fiscal Note History: First Reader - January 12, 2021
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