

Department of Legislative Services  
Maryland General Assembly  
2023 Session

FISCAL AND POLICY NOTE  
First Reader

Senate Bill 267

(Senators Watson and King)

Budget and Taxation

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Internet Gaming - Authorization and Implementation

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This bill, which is subject to voter referendum, authorizes the State Lottery and Gaming Control Commission (SLGCC) to license video lottery operators to conduct and operate Internet gaming in the State. A licensee retains 85% of the proceeds from Internet gaming. The remaining 15% of proceeds is first transferred to the State Lottery Fund, then deposited in the Education Trust Fund (ETF). **The bill takes effect July 1, 2023, contingent on passage of a referendum by voters in November 2024.**

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Fiscal Summary

**State Effect:** If Internet gaming is approved by voters, and SLGCC issues licenses, special fund revenues from licensee fees increase as early as FY 2025, and ETF special fund revenues increase significantly beginning in FY 2026, resulting in a commensurate increase for the Blueprint for Maryland's Future Fund (BMFF). General fund revenues decrease beginning in FY 2026 to the extent that substitution effects diminish State lottery ticket sales. General fund expenditures decrease beginning in FY 2027, when increased BMFF funds help to fill estimated BMFF shortfalls. SLGCA staffing expenditures increase beginning in FY 2025 but are more than covered by license fees collected under the bill.

**Local Effect:** To the extent that the availability of Internet gaming reduces gaming activity at video lottery facilities, local impact grants derived from those revenues will be reduced. Local expenditures decrease accordingly.

**Small Business Effect:** To the extent that the availability of Internet gaming reduces lottery ticket sales, local businesses that sell lottery tickets are adversely affected.

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## Analysis

**Bill Summary:** SLGCC may issue an Internet gaming license to a video lottery operator in the State. The initial license fee for an Internet gaming license is \$500,000. The term of an Internet gaming license is five years. If an Internet gaming licensee applies for a renewal and pays the renewal fee, and complies with all statutory and regulatory requirements, SLGCC must renew the license for five years. The license renewal fee is equal to 1% of the Internet gaming licensee's average annual proceeds retained by the licensee for the preceding three-year period. Specified persons must be licensed to conduct or participate in Internet gaming operations in the State. The initial and renewal license fee for a person who operates Internet gaming on behalf of the Internet gaming licensee may not be less than \$5,000. From the fees collected by SLGCC, the Comptroller must pay (1) an amount to SLGCA to reimburse related expenses and (2) the remainder to ETF.

On recommendation of SLGCC, the Governor is authorized to enter into agreements with specified other governments allowing participation in multijurisdictional Internet gaming. SLGCC may adopt regulations regarding the nature of such agreements.

Internet gaming licensees must provide certain safeguards, controls, and mechanisms to assist individuals who may have a gambling problem. SLGCC may impose a penalty not exceeding \$5,000 against any person who knowingly:

- offers Internet gaming in the State without a license;
- tampers with equipment used to conduct Internet gaming, to alter the odds, payout, or operation of a game or disable a game; or
- offers or allows to be offered an Internet game that has been tampered with in the manner described above.

SLGCC may also revoke, for not less than 30 days, the license of an Internet gaming licensee or other licensed person who engages in the above-listed activities.

SLGCC must report annually to the Governor and the General Assembly on (1) the impact of Internet gaming on problem gamblers and gambling addiction in the State and (2) the effectiveness of the statutory and regulatory controls in place to ensure the integrity of Internet gaming operations. SLGCC must adopt regulations necessary to carry out the provisions of the bill and must regulate Internet gaming to the same extent as with video lottery terminals (VLTs), table games, and mobile sports wagering.

## **Current Law:**

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

Gross VLT proceeds are generally distributed from the proceeds of VLTs at each facility to a small, minority, and woman-owned business investment account; the State lottery for administrative costs; local impact grants; horse racing purses, bred funds, and track renewal; licensees; and ETF.

Licensees receive 80% of table game revenues of the balance, 15% is distributed to ETF, and 5% is distributed to local jurisdictions where a video lottery terminal facility is located.

Chapter 492 of 2020 authorized sports and event wagering generally, subject to voter referendum, which was approved by Maryland voters in November 2020. The Act also provided that revenues from sports and event wagering must primarily be used for public education. Chapter 356 of 2021 implemented sports and event wagering in the State and provided for regulation of sports wagering by SLGCC. The Act also established the Sports Wagering Application Review Commission to review and award applications for sports wagering facility and mobile sports wagering licensure. Certain revenues under Chapter 356 are distributed to BMFF, the Problem Gambling Fund, and a new Small, Minority-Owned, and Women-Owned Business Sports Wagering Assistance Fund.

ETF provides funding for education and public schools. After specified allocations for school construction financing under the Built to Learn Act (Chapter 20 of 2020), ETF funds are directed to BMFF, which serves as the primary funding source for Blueprint for Maryland's Future (the Blueprint) education programs.

**Appendix – Maryland Gaming** provides the status of casino gaming in Maryland as of December 2022.

In exchange for selling State lottery products, licensed agents earn a 6.0% commission of gross lottery sales. A licensed agent may receive a cashing fee of up to 3% of valid prizes paid for services rendered in cashing winning tickets. Additionally, SLGCA may authorize bonuses of up to 0.5% of the gross sales to licensed agents.

**State Fiscal Effect:** Assuming that (1) voters approve the referendum in November 2024 and (2) SLGCC issues an Internet gaming license to each of the six video lottery operators

in the State in calendar 2025, Internet gaming license fees assessed to video lottery operators increase by \$3.0 million as early as fiscal 2025. Assuming \$25,000 per facility in fees assessed for persons who operate Internet gaming on behalf of the Internet gaming licensee, another \$150,000 is realized as early as fiscal 2025.

Connecticut, Delaware, Michigan, New Jersey, Pennsylvania, and West Virginia have all legalized Internet gaming (or interactive gaming). Nevada has legalized online poker. Experiences in these states can provide some context for projecting revenues to be gained from Internet gaming.

Given that the State retains 15% of Internet gaming proceeds under the bill and based on per capita revenues from Internet gaming in Connecticut, Delaware, and Pennsylvania, SLGCA estimates that Internet gaming could generate as much as \$72.0 million annually in ETF revenues. However, per data supplied by SLGCA, per capita revenue from Internet gaming ranges considerably, from \$1.28 in Delaware to \$16.93 in New Jersey. SLGCA also anticipates potential adverse impacts of Internet gaming on revenues from in-person gaming and lottery sales but is unable to estimate the extent of such substitution effects.

The Comptroller's Office reviewed the gaming structures in New Jersey and Pennsylvania as compared to Maryland. After adjusting for known differences among the states, the Comptroller's Office estimated that annual ETF revenues of as much as \$97 million could be generated by fiscal 2028.

Due to the numerous uncertainties and differences in gaming structures among various states, the Department of Legislative Services (DLS) is unable to offer a precise estimate of Internet gaming revenues and expenditures, and related substitution effects, at this time. However, DLS assumes that ETF revenues would increase significantly, likely in the tens of millions of dollars annually, beginning in fiscal 2026. It is also likely that Internet gaming will take multiple years to reach its full annual revenue maturity.

Though Internet gaming could potentially commence in fiscal 2025, this analysis assumes that Internet gaming begins in fiscal 2026. It is further assumed that Internet gaming participation will to some extent substitute for other gaming options in the State, such that revenue gains under the bill are partially offset.

Beginning in fiscal 2026, ETF realizes a net gain in revenues. ETF will gain from the retention of 15% of Internet gaming proceeds, partially offset by reduced VLT and table game revenues that would otherwise accrue to ETF. Because ETF funds, after distributions for school construction, are directed to BMFF, the BMFF benefits from the overall net gain in ETF revenues under the bill. However, these gains are likely to be partially offset by reduced revenues to BMFF from sports wagering and fantasy gaming, which are assumed to be somewhat suppressed by the availability of Internet gaming.

To the degree that Internet gaming substitutes for lottery ticket sales, general fund revenues decrease beginning in fiscal 2026. However, under the bill, general fund expenditures are relieved beginning in fiscal 2027 for the following reasons. BMFF revenues are projected to be sufficient to cover mandated annual increases in expenditures for the Blueprint through fiscal 2026. However, current projections indicate that revenues in BMFF, including prior-year fund balances, will be less than the required increases to annual expenditures under the Blueprint beginning in fiscal 2027. Thus, increases to ETF in fiscal 2026 and 2027 under the bill are assumed to translate into increased BMFF special fund expenditures in fiscal 2027, and beginning in fiscal 2028, annual increases in ETF revenues translate into increased BMFF special fund expenditures in those same years. General fund expenditures for education therefore decrease to the same extent that BMFF expenditures increase under the bill.

SLGCA advises that it will require an additional three positions in order to oversee Internet gaming at an annual cost of approximately \$350,000. Associated costs may be incurred as soon as fiscal 2025. License fee revenues realized during certain years under the bill are assumed to be more than sufficient to cover this level of staffing costs on an annual basis.

It is assumed that State elections costs are not substantially affected. The Comptroller's Office can carry out its responsibilities using existing resources.

**Local Fiscal Effect:** To the extent that the availability of Internet gaming reduces gaming at video lottery facilities, local impact grants derived from those revenues are reduced. Local expenditures would decrease accordingly. It is assumed that local elections costs are not substantially affected.

**Small Business Effect:** To the extent that the availability of Internet gaming reduces lottery ticket sales, local businesses that sell lottery tickets, as licensed agents, are adversely affected.

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### **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.

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

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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 (VLT) allotted in the State. The opening date and the number of VLTs and table games in operation for each facility as of December 2022 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	699	19
Ocean Downs	Worcester	January 2011	842	19
Maryland Live!	Anne Arundel	June 2012	3,855	179
Rocky Gap Casino	Allegany	May 2013	614	16
Horseshoe Casino	Baltimore City	August 2014	1,466	130
MGM National Harbor	Prince George’s	December 2016	2,130	209

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 2024 through 2028 are shown in **Exhibit 2**. A total of \$2.1 billion in gross gaming revenues is projected in fiscal 2024, including \$616.4 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 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
<b>VLTs Distribution</b>					
Education Trust Fund	\$509.8	\$516.4	\$523.2	\$531.7	\$538.6
Lottery Operations	13.5	13.7	13.9	14.0	14.2
Purse Dedication Account	81.0	82.0	83.1	84.2	85.3
Racetrack Renewal Account	13.5	13.7	13.9	12.3	12.5
Local Impact Grants	74.2	75.2	76.2	77.2	78.2
Business Investment	20.2	20.5	20.8	21.0	21.3
Licensees	637.4	645.7	654.1	662.6	671.2
<b>Total VLTs</b>	<b>\$1,349.7</b>	<b>\$1,367.2</b>	<b>\$1,385.0</b>	<b>\$1,403.0</b>	<b>\$1,421.4</b>
<b>Table Games Distribution</b>					
Education Trust Fund	\$106.6	\$108.1	\$109.5	\$111.0	\$112.4
Local Impact Grants	35.5	36.0	36.5	37.0	37.5
Licensees	568.7	576.3	584.0	591.8	599.7
<b>Total Table Games</b>	<b>\$710.9</b>	<b>\$720.4</b>	<b>\$730.0</b>	<b>\$739.7</b>	<b>\$749.6</b>
<b>Total VLTs and Table Games</b>	<b>\$2,060.6</b>	<b>\$2,087.6</b>	<b>\$2,115.0</b>	<b>\$2,142.7</b>	<b>\$2,170.9</b>
<b>Total Education Trust Fund</b>	<b>\$616.4</b>	<b>\$624.5</b>	<b>\$632.7</b>	<b>\$642.6</b>	<b>\$651.1</b>

VLT: video lottery terminal

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

Chapter 492, a constitutional amendment approved by the voters at the November 2020 general election, authorized sports and event wagering, contingent upon implementation legislation passed by the General Assembly. Chapter 356 implemented sports wagering in the State and provides for regulation of sports wagering and fantasy gaming competitions. Licensees receive 85% of proceeds from sports wagering and fantasy gaming and the State receives 15%, as well as license fee revenues. State revenues from sports wagering and fantasy gaming and their distributions are shown in **Exhibit 3**.

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**Exhibit 3**  
**Distribution of Estimated State Sports Wagering and**  
**Fantasy Competition Revenues**  
**Current Law**  
**(\$ in Millions)**

	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
<b>State Revenues</b>					
Sports Wagering – Retail	\$7.8	\$8.0	\$8.1	\$8.2	\$8.3
Sports Wagering – Mobile	40.1	42.1	44.2	46.4	48.7
Sports Wagering License Fees	0.0	0.0	0.0	4.5	27.7
Fantasy Competition	1.0	1.0	1.0	1.1	1.1
<b>Total</b>	<b>\$48.9</b>	<b>\$51.0</b>	<b>\$53.3</b>	<b>\$60.1</b>	<b>\$85.8</b>
<b>Distribution</b>					
Blueprint for Maryland’s Future Fund <sup>1</sup>	\$48.9	\$51.0	\$53.3	\$60.0	\$84.5
SMWOBSWA Fund <sup>2</sup>	0.0	0.0	0.0	0.1	1.3
Problem Gambling Fund <sup>3</sup>	5.8	5.9	6.0	6.1	6.2

SMWOBSWA: Small, Minority-Owned, and Women-Owned Business Sports Wagering Assistance

<sup>1</sup> The Blueprint for Maryland’s Future Fund is intended to assist in providing adequate funding for early childhood education and primary and secondary education to provide a world-class education to students in Maryland.

<sup>2</sup> Five percent of the class A-1 license fees (\$2.0 million each) and of the class A-2 license fees (\$1.0 million each) are paid into the SMWOBSWA Fund. Five percent of renewal fees are transferred to the SMWOBSWA Fund.

<sup>3</sup> Player winnings not claimed within 182 days are distributed to the Problem Gambling Fund.

Source: Board of Revenue Estimates; Department of Legislative Services

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