

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 543 (Senator Middleton)
 Budget and Taxation

Video Lottery Facilities - Charles County - Expansion and Use of Proceeds

This bill, which is subject to voter referendum, authorizes a video lottery operation license to be awarded for a maximum of 1,500 video lottery terminals (VLTs) on a vessel at a specified area within Charles County. VLT and table game proceeds from the Charles County facility are to be distributed to the Governor Harry W. Nice Memorial Bridge Fund (Nice Bridge Fund) rather than to the Education Trust Fund (ETF). The percentage of VLT revenues that is distributed to specified video lottery operation licensees increases to 40%, instead of remaining at the percentage stated in the operation licensee’s application (generally not exceeding 33%), once the Prince George’s County video lottery operation license is issued.

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

Fiscal Summary

State Effect: General fund expenditures increase by \$10.5 million in FY 2017, increasing to approximately \$40.0 million annually as a result of increasing the VLT revenue distribution to specified video lottery operation licensees, which reduces ETF revenues and expenditures (offset in the first year by up to \$9 million from the initial license fee for the video lottery facility in Charles County). Special fund revenues and expenditures increase beginning in FY 2020 due to the opening of the Charles County facility.

(\$ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
SF Revenue	(\$10.5)	(\$39.1)	(\$39.5)	\$12.6	\$17.8
GF Expenditure	\$10.5	\$39.1	\$39.5	\$41.2	\$40.7
SF Expenditure	(\$10.5)	(\$39.1)	(\$39.5)	(\$25.1)	(\$24.1)
Net Effect	(\$10.5)	(\$39.1)	(\$39.5)	(\$3.5)	\$1.2

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

Local Effect: Charles County revenues increase by approximately \$4.9 million in FY 2020 and by approximately \$5.4 million in FY 2021 due to local impact grants.

Small Business Effect: Minimal. Small businesses may benefit from receiving funds from the Purse Dedication Account (PDA) and the Small, Minority, and Women-Owned Businesses Account.

Analysis

Bill Summary: The bill increases the limit on the number of VLTs in the State from 16,500 to 18,000 and increases the statewide limit on the number of VLT facilities from six to seven.

The bill authorizes a VLT facility in Charles County on a vessel moored to a pier on the Potomac River, within one mile of Washington Avenue in Colonial Beach, Virginia, subject to specified State environmental law regarding construction of piers and bulkheads. The operator of a Charles County facility must adhere to the requirements for video lottery operation licenses specified in current law, including the requirement that the licensee submit an initial license fee equal to at least \$3.0 million for each 500 VLTs.

The bill eliminates the current law provision that generally prohibits a video lottery facility operator from offering free food and alcoholic beverages. Owners are no longer prohibited from holding an interest in more than one video lottery operation license. The bill also removes the restriction that the holder of the video lottery operation license in Worcester County or any other person with an interest in Ocean Downs Racetrack may not build or operate a conference center, convention center, amusement park, amusement rides, arcade, or miniature golf course on or within 10 miles of the facility.

The bill creates the Nice Bridge Fund, which is a special, nonlapsing fund that may only be used for defraying the costs of replacing the Governor Harry W. Nice Memorial Bridge. Any interest earnings from the fund must be credited to the general fund.

Current Law: 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.

Generally, the distribution of gross VLT proceeds from a video lottery facility is as follows:

- 1% to the State Lottery and Gaming Control Agency (SLGCA);
- 5.5% to local impact grants;
- 7% to the PDA, decreasing to 6% once a Prince George's County VLT facility is issued a license;
- 1% to the Racetrack Facility Renewal Account;
- 1.5% to the Small, Minority, and Women-Owned Businesses Account;
- 6% to the video lottery operation licensee if the video lottery operation licensee owns or leases each VLT device and the associated equipment and software;
- 33% (the amount stated in the accepted video lottery operation license application); and
- the remainder to ETF.

Instead of 33% being distributed to the licensee, video lottery facilities in Allegany and Worcester counties have a 43% distribution, and the Prince George's County facility has a 38% distribution.

If a video lottery operation license is awarded to a video lottery facility in Prince George's County, SLGCC may increase the distribution of VLT revenues to specified video lottery operation licenses by up to 2% to 5% of the VLT proceeds from the video lottery facility.

“Owner” includes any type of owner or beneficiary of a business entity, including an officer, director, principal employee, partner, investor, stockholder, or beneficial owner of the business entity and, notwithstanding any other provisions of Title 9, Subtitle 1A of the State Government Article, includes a person having any ownership interest regardless of the percentage of ownership interest.

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

The Maryland Transportation Authority reports that the Governor Harry W. Nice Memorial Bridge has narrow lanes, lacks shoulders, and has steep grades with a lack of truck climbing lanes. The existing bridge during peak periods is reaching capacity. Traffic is projected to increase by 45% on weekdays and 33% on weekends by 2025.

State Revenues: Assuming the referendum passes and the facility will begin operations in July 2019 with 1,500 VLTs and 45 table games, total VLT revenues increase by

approximately \$88.7 million beginning in fiscal 2020, and table game revenues increase by approximately \$20.7 million (after payouts to winning players, but *before* any other distributions are made). **Exhibit 1** details the revenue distribution resulting from authorizing a video lottery facility in Charles County in fiscal 2020 and 2021. This estimate assumes that a video lottery operation license is awarded for the Charles County facility by January 2018 and the facility opens 18 months later. To the extent the process takes more (or less) time, revenues are generated later (or sooner).

The revenue projection resulting from authorizing a video lottery facility in Charles County assumes an average VLT “win per day” of \$185 and an average table game “win per day” of \$1,400, which is based on an analysis by the Department of Legislative Services of the “win per day” of existing VLTs and table games at video lottery facilities in the State. The estimated number of table games at the Charles County facility is based on the ratio of table games to VLTs at existing video lottery facilities in the State. It is assumed that it takes two years to achieve full implementation, so revenues in fiscal 2020 are 90% of the revenues expected at full implementation.

Exhibit 1
Distribution of Charles County VLT Facility Revenues
(\$ in Millions)

	<u>FY 2020</u>	<u>FY 2021</u>
VLT Revenues		
Nice Bridge Fund (39%)	34.6	38.4
Lottery Operations (1%)	0.9	1.0
Purse Dedication Account (6%)	5.3	5.9
Racetrack Renewal (1%)	0.9	1.0
Local Impact Grants (5.5%)	4.9	5.4
Business Investment (1.5%)	1.3	1.5
Licensee (46%)	40.8	45.3
Total VLT Revenues	88.7	98.6
Table Game Revenues		
Nice Bridge Fund (15%)	3.1	3.4
Local Impact Grants (5%)	1.0	1.1
Licensee (80%)	16.6	18.4
Total Table Game Revenues	20.7	23.0

Due to its location, it is assumed that the Charles County VLT facility will not cause a significant reduction in revenues generated from other VLT facilities in the State.

Beginning in fiscal 2017, when the license is issued for the Prince George’s County VLT facility, the bill increases revenue distributions to all video lottery licensees, except VLT facilities in Allegany, Prince George’s, and Worcester counties, by seven percentage points with a corresponding reduction in revenues to ETF. The Prince George’s County VLT facility is anticipated to open in January 2017. Therefore, ETF revenues decrease by \$19.5 million in fiscal 2017, and licensee revenues increase by a corresponding amount. It is assumed that an application with an initial license fee for the Charles County VLT facility will be submitted by June 30, 2017, so ETF revenues increase by \$9.0 million in fiscal 2017. The net effect is ETF revenues decrease by \$10.5 million in fiscal 2017 and by \$40.7 million in fiscal 2021, as shown in **Exhibit 2**. 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.

Exhibit 2
Altering the Licensee Distribution
(\$ in Millions)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
ETF	(\$10.5)	(\$39.1)	(\$39.5)	(\$40.1)	(\$40.7)
Licensee	\$19.5	\$39.1	\$39.5	\$40.1	\$40.7

Problem gambling funds increase by approximately \$660,000 annually beginning in fiscal 2020, based on 1,500 VLTs at \$425 per machine and 45 table games at \$500 per machine. This revenue will be credited to the Problem Gambling Fund administered by the Department of Health and Mental Hygiene. The fund must be used to establish a 24-hour hotline, provide counseling for problem gamblers, and establish problem gambling prevention programs and other support services.

The Nice Bridge Fund receives 39% of VLT revenues and 15% of table game revenues from the Charles County VLT facility beginning in fiscal 2020. It is assumed that those revenues accrue in the fund until sufficient revenues are available to replace the bridge. Any interest earnings from the fund are credited to the general fund.

State Expenditures: Authorizing a facility in Charles County will increase administrative costs at SLGCA to install central computer system components at the facility and for additional personnel, including compliance officers to oversee the facility and accountants and auditors to certify revenue. Since SLGCA will receive approximately \$886,950 in fiscal 2020 from the Charles County VLT facility revenues for administrative expenses, it is assumed these funds could cover the personnel costs of SLGCA. General fund expenditures likely increase by at least \$1.1 million in fiscal 2020 to add the facility to the SLGCA central computer system.

Given the prescribed location of the proposed Charles County VLT facility, the State will likely not incur significant costs associated with infrastructure and transportation upgrades near the proposed facility (although the Commonwealth of Virginia may). The actual impact will depend upon the specific plans for any future video lottery facility.

Beginning in fiscal 2020, special fund expenditures increase as a result of Charles County VLT revenue distributions to local impact grants, the PDA, the racetrack renewal account, and small, minority, and woman-owned business accounts.

Additional Information

Prior Introductions: None.

Cross File: Although HB 647 (Delegate Jameson, *et al.* - Ways and Means) is designated as a cross file, it is not identical.

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

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mel/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. 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

<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	3,994	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
Licenses	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
