

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 498

(Chair, Budget and Taxation Committee)(By Request -
Departmental - Commerce)

Budget and Taxation

Ways and Means

Video Lottery Terminals - Small, Minority, and Women-Owned Businesses
Account - Transfer of Authority

This departmental bill transfers the authority for administering the Small, Minority, and Women-Owned Businesses Account (SMWOBA) from the Board of Public Works (BPW) to the Department of Commerce (Commerce).

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: None. The change is procedural in nature and does not directly affect governmental finances, although it creates administrative efficiencies for Commerce as discussed below.

Local Effect: None.

Small Business Effect: Commerce has determined that this bill has a meaningful impact on small business (attached). The Department of Legislative Services disagrees with this assessment as discussed below.

Analysis

Current Law: Generally, 1.5% of video lottery terminal proceeds at each video lottery facility must be distributed to SMWOBA. Expenditures from SMWOBA must only be made on a properly approved transmittal prepared by BPW. BPW must make grants to eligible fund managers to provide investment capital and loans to small, minority, and

women-owned businesses in the State. BPW must ensure that fund managers allocate at least 50% of available funds to eligible businesses in the jurisdictions and communities surrounding the State's video lottery facilities. BPW was required to develop criteria to define eligible fund managers (entities with significant financial or investment experience) to whom BPW would make grants, and who in turn would use those grant funds to provide investment capital and loans to businesses. BPW must set the maximum amount of grant money that fund managers may use to pay for administrative, actuarial, legal, and technical services.

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

In 2012, to assist it in its required duties, BPW entered into a memorandum of understanding (MOU) with Commerce whereby the department serves as BPW's agent for administering the program. Although BPW retains overall authority for the account and the program, the MOU delegated certain administrative and operational responsibilities to Commerce. Since 2014, with approval from BPW, Commerce has entered into contracts with eight fund managers who carry out the intent of the program to deploy the SMWOBA proceeds by lending and investing in small, minority, and women-owned businesses throughout the State. The fiscal 2018 budget for the account is \$16.9 million.

State Fiscal Effect: Currently, any changes or recommendations that Commerce has regarding SMWOBA, including changes in policies and procedures, must be reviewed and approved by BPW. The bill would significantly ease the administrative burden for Commerce by eliminating the need to go through BPW to implement any changes or recommendations regarding the program. The bill does not have a fiscal impact because Commerce currently receives \$100,000 of SMWOBA revenues to administer the program, and this would not change under the bill. SMWOBA revenues and expenditures are currently appropriated to Commerce, so the bill does not impact the Governor's proposed fiscal 2018 budget.

Small Business Effect: Commerce states that the bill will have a meaningful economic impact on small businesses. However, while the bill makes administrative changes to SMWOBA, it does not affect the funds within SMWOBA. Small businesses may benefit minimally to the extent that the SMWOBA program becomes more efficient and less administratively burdensome for fund managers that deploy funds to small businesses.

Additional Information

Prior Introductions: None.

Cross File: HB 92 (Chair, Ways and Means Committee)(By Request - Departmental - Commerce) - Ways and Means.

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

Fiscal Note History: First Reader - February 3, 2017
md/jrb Third Reader - March 17, 2017

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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. The opening date and the number of VLTs and table games for each facility as of January 2017 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	20
Ocean Downs	Worcester	January 2011	800	-
Maryland Live!	Anne Arundel	June 2012	3,906	209
Rocky Gap Casino	Allegany	May 2013	662	17
Horseshoe Casino	Baltimore City	August 2014	2,202	179
MGM National Harbor	Prince George's	December 2016	3,237	165

VLT: video lottery terminal

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

VLT and Table Game Revenues

The estimated revenues from VLTs and table games in fiscal 2018 through 2022 are shown in **Exhibit 2**. A total of \$1.79 billion in gross gaming revenues is projected in fiscal 2018, including \$546.7 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 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
VLTs Distribution					
Education Trust Fund	\$447.9	\$454.1	\$460.9	\$467.8	\$474.8
Lottery Operations	11.8	11.9	12.1	12.3	12.5
Purse Dedication Account	66.4	67.3	68.3	69.3	70.3
Racetrack Renewal Account	10.9	11.0	11.2	11.3	11.5
Local Impact Grants	61.0	61.9	62.8	63.7	64.7
Business Investment	16.6	16.9	17.1	17.4	17.6
Licenses	517.8	524.8	532.6	540.6	548.7
Total VLTs	\$1,132.4	\$1,147.8	\$1,165.0	\$1,182.5	\$1,200.3
Table Games Distribution					
Education Trust Fund	\$98.8	\$100.0	\$101.5	\$103.0	\$104.6
Local Impact Grants	32.9	33.3	33.8	34.3	34.9
Licenses	526.8	533.4	541.4	549.5	557.7
Total Table Games	\$658.5	\$666.7	\$676.7	\$686.9	\$697.2
Total VLTs and Table Games	\$1,790.9	\$1,814.5	\$1,841.8	\$1,869.4	\$1,897.4
Total Education Trust Fund	\$546.7	\$554.1	\$562.4	\$570.9	\$579.4

VLT: video lottery terminal

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

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES (SFY 2015)

TITLE OF BILL: Small, Minority, and Women-Owned Businesses Account-Video Lottery Terminal Fund (the Account or the Program) TITLE 9, SUBTITLE 1A-35

BILL NUMBER: SB 498 and HB 92

PREPARED BY: Mikra Krasniqi (Department of Commerce)

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESS

OR

X WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The Small, Minority, and Women-Owned Business Account- Video Lottery Terminal Fund (VLT) provides investment capital and loans to small, minority, and women-owned businesses in the State. The 2007 legislation establishing VLTs in Maryland created the Small, Minority, and Women-Owned Businesses Account. State Law generally requires that 1.5 percent of VLT proceeds be paid into the Account to be used by the Board of Public Works (BPW) to make grants to eligible fund managers to provide investment capital and loans to small, minority, and women-owned businesses in the State, of which at least 50 percent must be allocated to such businesses in the jurisdictions and communities surrounding a video lottery facility. The Department is the designated administrator of the funds. Eligible Fund Managers oversee the distribution of video lottery terminal funds. In FY2016 there were seven designated fund managers that received funds for the purpose of making loans to small, minority, and women-owned businesses in the State.

The businesses supported by the VLT funds have an average of fewer than ten employees. The largest industry sectors supported are professional services, accommodation and food services, other services, construction and manufacturing. The funds has grown since inception, and the number of small businesses assisted is significant.

FY	Recipients	Loan Amount	Jobs supported
FY 13	27	\$2,554,800	214
FY14	74	\$7,952,321	688
FY15	66	\$9,281,399	1,329
FY16*	109	\$11,508,968	1,161

*preliminary

This proposal to transfer ownership of the “Account or the Program” from Board of Public Works (BPW) to Commerce is an administrative change that will not affect the impact of the program on small business.