

Department of Legislative Services
Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 1171
Ways and Means

(Delegates Kaiser and Walker)

Gaming - State Lottery and Gaming Control Commission - Regulation of
Reconciliation of Proceeds

This bill alters the definition of video lottery terminal (VLT) and table game “proceeds” so that, consistent with regulations adopted by the State Lottery and Gaming Control Commission (SLGCC), if a video lottery operation licensee returns to successful players more than the amount of money bet through VLTs or table games on a given day, the licensee may subtract that amount from the proceeds of up to seven following days. The bill repeals the requirement that SLGCC adopt regulations that establish the length of time for which a video lottery operation licensee may carry over these losses. **The bill takes effect July 1, 2018.**

Fiscal Summary

State Effect: General fund expenditures increase due to a decrease in special fund revenues to the Education Trust Fund (ETF) of approximately \$150,000 annually beginning in FY 2019 as a result of allowing video lottery operation licensees to carry over table game losses for up to seven consecutive gaming days.

Local Effect: Local revenues decrease by approximately \$50,000 annually beginning in FY 2019 due to local impact grants decreasing from video lottery operation licensees carrying over table game losses.

Small Business Effect: Minimal.

Analysis

Current Law: Chapter 445 of 2017 alters the definition of video lottery terminal and table game “proceeds” so that, consistent with regulations adopted by the SLGCC, if a video lottery operation licensee returns to successful players more than the amount of money bet through VLTs or table games on a given day, the licensee may subtract that amount from the proceeds of a following day. SLGCC must adopt regulations that (1) allow a video lottery operation licensee to reduce the amount of proceeds when a licensee returns to successful players more than the amount of money bet through VLTs or table games on a given day and (2) establish the length of time for such a reduction to continue.

Current regulations establish that a video lottery operation licensee may not subtract losses from more than two consecutive gaming days.

Background: Since the implementation of table games in 2013 through January 2017, there have been 159 instances of negative table game proceeds totaling \$11.4 million. Of the 159 instances of negative table game proceeds, in 87% of the instances, proceeds would have been recovered the next day had the existing regulations been in effect when the losses occurred. Losses would have been recovered within two consecutive gaming days in 98% of the instances. **Exhibit 1** shows the negative table game proceeds by facility from fiscal 2013 through 2016.

Exhibit 1 Negative Table Game Proceeds by Facility

<u>Table Games</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
Allegany County	-	(\$99,500)	(\$119,600)	(\$157,500)
Anne Arundel County	-	-	(119,200)	(1,775,400)
Baltimore City	-	-	(572,600)	(3,393,800)
Cecil County	(1,600)	(28,600)	(65,700)	(77,800)
Prince George’s County	-	-	-	-
Total	(\$1,600)	(\$128,100)	(\$877,100)	(\$5,404,500)

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

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

State Revenues: A licensee may carry over losses for up to seven consecutive days to recoup losses instead of two consecutive days, as currently allowed in regulations. SLGCC advises that, since the inception of VLTs in 2010 through January 2017, there have been two instances of negative VLT proceeds totaling \$52,818. Had the existing regulations been in effect when the losses occurred, the losses would have been recovered the next day. Thus, the Department of Legislative Services (DLS) assumes that allowing a video lottery operation licensee to carry over VLT losses for up to seven consecutive gaming days does not affect VLT revenues.

However, there have been three instances of negative table game proceeds in which had the existing regulations been in effect when the losses occurred, casinos still would not have been able to fully offset all of their losses since the losses extended past two days, though not beyond seven days. Based on historical data, DLS estimates approximately \$1.0 million of negative table game proceeds would not be able to be recouped after two consecutive gaming days.

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. ETF revenues decrease by approximately \$150,000 annually beginning in fiscal 2019. The distribution of table game proceeds to the video lottery operation licensees increases by approximately \$800,000 annually beginning in fiscal 2019. However, to the extent that allowing licensees to carry forward losses for up to seven consecutive days encourages larger bets and high-stakes gambling, the impact on table game revenues could be less.

Local Revenues: Local government revenues decrease by approximately \$50,000 annually beginning in fiscal 2019 due to local impact grants decreasing from video lottery operation licensees carrying over table game losses for a longer period.

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

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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 2018 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	822	21
Ocean Downs	Worcester	January 2011	853	10
Maryland Live!	Anne Arundel	June 2012	3,868	186
Rocky Gap Casino	Allegany	May 2013	665	17
Horseshoe Casino	Baltimore City	August 2014	2,202	177
MGM National Harbor	Prince George’s	December 2016	2,821	173

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 2019 through 2023 are shown in **Exhibit 2**. A total of \$1.66 billion in gross gaming revenues is projected in fiscal 2019, including \$502.9 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 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
VLTs Distribution					
Education Trust Fund	\$408.1	\$414.2	\$404.9	\$411.0	\$417.2
Lottery Operations	10.3	10.4	10.6	10.7	10.9
Purse Dedication Account	59.9	60.8	61.8	62.7	63.6
Racetrack Renewal Account	9.8	9.9	10.1	10.2	10.4
Local Impact Grants	55.6	56.5	57.3	58.2	59.0
Business Investment	0.0	0.0	15.5	15.7	16.0
Licenses	482.7	490.0	497.3	504.8	512.4
Total VLTs	\$1,026.4	\$1,041.8	\$1,057.5	\$1,073.3	\$1,089.4
Table Games Distribution					
Education Trust Fund	\$94.8	\$96.3	\$97.7	\$99.2	\$100.7
Local Impact Grants	31.6	32.1	32.6	33.1	33.6
Licenses	505.8	513.4	521.1	528.9	536.9
Total Table Games	\$632.2	\$641.8	\$651.4	\$661.2	\$671.1
Total VLTs and Table Games	\$1,658.6	\$1,683.6	\$1,708.9	\$1,734.5	\$1,760.5
Total Education Trust Fund	\$502.9	\$510.5	\$502.6	\$510.2	\$517.8

VLT: video lottery terminal

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