

Department of Legislative Services  
Maryland General Assembly  
2018 Session

FISCAL AND POLICY NOTE  
First Reader

House Bill 317  
Ways and Means

(Delegate Clark, *et al.*)

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State Lottery – Instant Ticket Lottery Machines – Fraternal Organizations  
("Slots" for Homeless Veterans Act)

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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. From the instant ticket lottery proceeds of a fraternal organization, the Comptroller must distribute 45% to the fraternal organization and 45% to the State Lottery Fund to be divided by SLGCA and the instant ticket lottery machine vendor. The remaining 10% is to be distributed 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 the first \$100,000 is distributed to the outreach and advocacy program in the Department of Veterans Affairs. **The bill takes effect July 1, 2018.**

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Fiscal Summary

**State Effect:** General and special fund revenues increase beginning in FY 2019. 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 2019. 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, local impact grants decrease.

**Small Business Effect:** Minimal.

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## 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. A licensed fraternal organization must remit receipts from instant ticket lottery sales to the Comptroller.

**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 general fund (via 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 general fund to purchase or lease the machines.

**Background:** There were 77 veterans' organizations that were licensed for pull tab machines in fiscal 2017. SLGCA reports that net after payout sales for pull tab machines was \$8.4 million in fiscal 2017 and, after agent commissions and expenses, general fund revenues increased by \$631,552 and MVTF funds increased by \$70,173 in fiscal 2017.

**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 the Department of Veterans Affairs, offset by minimal decreases in MVTF special fund revenues and special fund revenues from casinos. SLGCA advises that if at least 100 fraternal organizations operate pull tab machines, additional staff may be needed to manage the machines.

Based on U.S. Census data, 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 \$10.9 million, but after commissions paid to fraternal organizations, proceeds total approximately \$5.5 million beginning in fiscal 2019, assuming the pull tab machines generate similar revenues and commissions as existing pull tab machines. Of this amount, special fund revenues at the Department of Veterans Affairs increase by \$100,000 for developing and maintaining a website and social media pages to publicize veterans' programs, and special funds to the Division of Neighborhood Revitalization increase by \$445,000 to assist veterans and their families beginning in fiscal 2019. Additionally, general fund revenues increase by \$2.5 million, of which a portion must go to the instant ticket lottery machine vendor; however, fraternal organizations are required to purchase or lease pull tab machines. SLGCA notes that the lease for pull tab machines operated by veterans' organizations is 41.7% of net sales, so if a similar contract was established for fraternal organizations, the lease would total \$4.5 million. These amounts do not take into account any substitution effects.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 260 (Senator Young, *et al.*) - Budget and Taxation.

**Information Source(s):** Comptroller's Office; Maryland State Lottery and Gaming Control Agency; Department of Housing and Community Development; Department of Veterans Affairs; U.S. Census Bureau; Department of Legislative Services

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