

Department of Legislative Services  
 Maryland General Assembly  
 2020 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 344 (Charles County Delegation)  
 Ways and Means

Video Lottery Operation License - Expansion and Alterations

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. 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 licensee’s application (generally not exceeding 33%). The bill also removes certain restrictions on video lottery operation licensees, including the prohibition on multiple license ownership. **The bill takes effect July 1, 2020, contingent on passage of a referendum by voters in the next general election.**

Fiscal Summary

**State Effect:** Education Trust Fund (ETF) revenues and expenditures decrease by \$44.7 million in FY 2021 and by \$18.9 million in FY 2025 as a result of increasing the VLT revenue distribution to specified video lottery operation licensees, offset partially with revenues from the video lottery facility in Charles County beginning in FY 2024. General fund expenditures increase by \$44.7 million in FY 2021 and by \$51.2 million in FY 2022. Special fund revenues and expenditures increase beginning in FY 2024 due to the opening of the Charles County facility.

(\$ in millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
SF Revenue	(\$44.7)	(\$51.2)	(\$51.8)	(\$10.5)	(\$6.7)
GF Expenditure	\$44.7	\$51.2	\$0	\$0	\$0
SF Expenditure	(\$44.7)	(\$51.2)	(\$51.8)	(\$10.5)	(\$6.7)
Net Effect	(\$44.7)	(\$51.2)	\$0.0	\$0.0	\$0.0

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

**Local Effect:** Charles County revenues increase by approximately \$4.3 million in FY 2024 and by approximately \$4.8 million in FY 2025 due to local impact grants.

**Small Business Effect:** Minimal.

## 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.

After the first 10 years of operations at a video lottery facility in Allegany County, 1% (instead of 2%) of its VLT proceeds is distributed to the State Lottery and Gaming Control Agency (SLGCA).

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 Governor may reconstitute the Video Lottery Facility Location Commission for the purpose of awarding a video lottery facility operation license in Charles County.

The bill eliminates the provision in current law that generally prohibits a video lottery facility operator from offering free food and alcoholic beverages. The bill also eliminates the provision in current law that prohibits the Ocean Downs video lottery operation licensee from building or operating a conference center or convention center, amusement park, amusement rides, arcade, or miniature golf course on or within 10 miles of the facility.

**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 authorized 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 SLGCA;
- 5.5% to local impact grants;
- 6% to the Purse Dedication Account (PDA);
- 1% to the Racetrack Facility Renewal Account;
- 1.5% to the Small, Minority, and Women-Owned Businesses Account (SMWOBA);
- 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. A video lottery operation licensee receives 6% of its VLT revenues if it owns or leases its VLT devices and associated equipment, although facilities in Anne Arundel, Allegany, and Worcester counties receive 8% to 10% for doing so. Additionally, the licensees in Anne Arundel County and Baltimore City receive 8% and 7%, respectively, for marketing, advertising, promotional costs, and capital improvements.

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

**State Revenues:** Assuming the referendum passes and the facility will begin operations in July 2023 with 1,000 VLTs and 20 table games, total VLT revenues increase by approximately \$70.6 million and table game revenues increase by approximately \$8.5 million in fiscal 2024 (after payouts to winning players, but *before* any other distributions are made). This estimate assumes that a video lottery operation license is awarded for the Charles County facility by January 2022 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 \$215 and an average table game win per day of \$1,300, 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 number of table games at existing video lottery facilities in the State. It is assumed that it takes two years to achieve full implementation, so revenues in fiscal 2024 are 90% of the revenues expected at full implementation.

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.

The bill increases revenue distributions to all video lottery licensees, except VLT facilities in Allegany and Worcester counties, with a corresponding reduction in revenues to ETF. Therefore, ETF revenues decrease by \$50.7 million in fiscal 2021, 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 1, 2021, so ETF revenues increase by \$6.0 million in fiscal 2021. The net effect is ETF revenues decrease by \$44.7 million in fiscal 2021 and by \$18.9 million in fiscal 2025, as shown in **Exhibit 1**. 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 through fiscal 2022. However, pursuant to Chapter 357 of 2018, 100% of ETF revenues must be used for supplemental education funding beginning in fiscal 2023. Thus, general fund expenditures increase by \$44.7 million in fiscal 2021 and by \$51.2 million in fiscal 2022.

Problem gambling funds increase by approximately \$435,000 annually beginning in fiscal 2024, based on 1,000 VLTs at \$425 per VLT and 20 table games at \$500 per game. This revenue is credited to the Problem Gambling Fund administered by the Maryland Department of Health.

**State Expenditures:** Authorizing a VLT 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. It is assumed that the funds SLGCA will receive beginning in fiscal 2024 from the Charles County VLT facility could cover the agency's personnel costs. General fund expenditures likely increase in fiscal 2024 to add the facility to the SLGCA central computer system.

Given the 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 2024, special fund expenditures increase as a result of Charles County VLT revenue distributions to local impact grants, the PDA, the racetrack facility renewal account, and SMWOBA.

**Exhibit 1**  
**Video Lottery Terminal Facility Revenues**  
**Fiscal 2021-2025**  
**(\$ in Millions)**

	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
<b>VLT Revenues</b>					
ETF	(\$50.7)	(\$51.2)	(\$51.8)	(\$22.8)	(\$20.3)
SLGCA	-	-	-	0.2	0.3
PDA	-	-	-	4.2	4.7
RFRA	-	-	-	0.7	0.8
Local Impact Grants	-	-	-	3.9	4.3
SMWOBA	-	-	-	1.1	1.2
Licensee	50.7	51.2	51.8	83.3	87.5
<b>Total Gross VLT Revenues</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$70.6</b>	<b>\$78.5</b>
<b>Table Game Revenues</b>					
ETF	-	-	-	1.3	1.4
Local Impact Grants	-	-	-	0.4	0.5
Licensee	-	-	-	6.8	7.6
<b>Total Gross Table Games</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$8.5</b>	<b>\$9.5</b>
Problem Gambling Revenues	-	-	-	0.4	0.4
License Fee to ETF	6.0	-	-	-	-
<b>Total ETF</b>	<b>(\$44.7)</b>	<b>(\$51.2)</b>	<b>(\$51.8)</b>	<b>(\$21.5)</b>	<b>(\$18.9)</b>

ETF: Education Trust Fund

PDA: Purse Dedication Account

RFRA: Racetrack Facility Renewal Act

SLGCA: State Lottery and Gaming Control Agency

SMWOBA: Small, Minority, and Women-Owned Businesses Account

Source: Department of Legislative Services

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## **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.

**Information Source(s):** Baltimore City; Anne Arundel and Prince George's counties; Maryland Department of Labor; Maryland State Lottery and Gaming Control Agency; Department of Legislative Services

**Fiscal Note History:** First Reader - February 16, 2020  
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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 (VLTs) allotted in the State. The opening date and the number of VLTs and table games for each facility as of November 2019 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	821	21
Ocean Downs	Worcester	January 2011	892	18
Maryland Live!	Anne Arundel	June 2012	3,737	195
Rocky Gap Casino	Allegany	May 2013	665	18
Horseshoe Casino	Baltimore City	August 2014	2,174	158
MGM National Harbor	Prince George’s	December 2016	3,102	207

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 2021 through 2025 are shown in **Exhibit 2**. A total of \$1.8 billion in gross gaming revenues is projected in fiscal 2021, including \$541.9 million to be distributed to the Education Trust Fund.

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**Exhibit 2**  
**Distribution of Estimated VLT and Table Game Revenues in Maryland**  
**Current Law**  
**(\$ in Millions)**

	<u><b>FY 2021</b></u>	<u><b>FY 2022</b></u>	<u><b>FY 2023</b></u>	<u><b>FY 2024</b></u>	<u><b>FY 2025</b></u>
<b>VLTs Distribution</b>					
Education Trust Fund	\$447.3	\$452.4	\$458.2	\$464.0	\$469.9
Lottery Operations	11.7	11.8	12.0	12.1	12.3
Purse Dedication Account	68.4	69.2	70.1	72.9	73.8
Racetrack Renewal Account	11.2	11.3	11.5	12.1	12.3
Local Impact Grants	63.5	64.2	65.0	66.8	67.6
Business Investment	17.2	17.4	17.6	18.2	18.4
Licenses	550.9	557.3	564.5	568.0	575.3
<b>Total VLTs</b>	<b>\$1,170.1</b>	<b>\$1,183.7</b>	<b>\$1,198.8</b>	<b>\$1,214.2</b>	<b>\$1,229.7</b>
<b>Table Games Distribution</b>					
Education Trust Fund	\$94.6	\$95.8	\$97.0	\$98.3	\$99.5
Local Impact Grants	31.5	31.9	32.3	32.8	33.2
Licenses	504.7	511.1	517.6	524.1	530.8
<b>Total Table Games</b>	<b>\$630.9</b>	<b>\$638.9</b>	<b>\$646.9</b>	<b>\$655.2</b>	<b>\$663.5</b>
<b>Total VLTs and Table Games</b>	<b>\$1,801.0</b>	<b>\$1,822.6</b>	<b>\$1,845.8</b>	<b>\$1,869.3</b>	<b>\$1,893.2</b>
<b>Total Education Trust Fund</b>	<b>\$541.9</b>	<b>\$548.3</b>	<b>\$555.2</b>	<b>\$562.3</b>	<b>\$569.5</b>

VLT: video lottery terminal

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

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