

Department of Legislative Services
 Maryland General Assembly
 2020 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 569 (Delegate Walker)
 Ways and Means

Gaming - Distribution of Video Lottery Terminal Proceeds - Local Impact Grants

This bill requires any amount of local impact grants distributed to Anne Arundel County or Baltimore City as a result of a specified hold harmless provision to be paid by the Comptroller from video lottery terminal (VLT) proceeds. **The bill takes effect July 1, 2020.**

Fiscal Summary

State Effect: Education Trust Fund revenues and expenditures decrease by \$1.5 million in FY 2021 and by \$1.2 million in FY 2025. Special fund revenues and expenditures for local impact grants increase by \$3.7 million in FY 2021 and by \$2.9 million in FY 2025, and other special fund revenues and expenditures decrease by \$358,000 in FY 2021 and by \$294,100 in FY 2025. General fund expenditures increase by \$1.5 million in FY 2021 and by \$31,000 in FY 2025.

(\$ in millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
SF Revenue	\$1.8	\$1.7	\$1.6	\$1.4	\$1.4
GF Expenditure	\$1.5	\$1.4	\$0.0	\$0.0	\$0.0
SF Expenditure	\$1.8	\$1.7	\$1.6	\$1.4	\$1.4
Net Effect	(\$1.5)	(\$1.4)	\$0.0	\$0.0	\$0.0

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

Local Effect: Prince George’s County revenues and expenditures increase by \$3.9 million in FY 2021 and by \$3.1 million in FY 2025. Local impact grants to other jurisdictions decrease by \$209,500 in FY 2021 and by \$170,300 in FY 2025.

Small Business Effect: Minimal.

Analysis

Current Law/ Background: 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;
- 6% to the Purse Dedication Account (PDA);
- 1% to the Racetrack Facility Renewal Account (RFRA);
- 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 the Education Trust Fund (ETF).

The VLT local impact grants are distributed by the Division of Racing within the Maryland Department of Labor to local governments in which a video lottery facility is operating.

Generally, 82% of the local impact grants must go to the local jurisdictions with video lottery facilities to be used for infrastructure improvements; facilities; public safety; sanitation; economic and community development, including housing; and other public services and improvements primarily in the communities in immediate proximity to the video lottery facilities.

For Anne Arundel and Prince George's counties and Baltimore City, the local impact grants attributable to the 82% must be evenly split between the three jurisdictions. However, Anne Arundel County and Baltimore City may not receive less than the amount they received in the fiscal year before the video lottery operation license for Prince George's County was issued.

In fiscal 2016, the fiscal year before the video lottery operation license for Prince George's County was issued, Anne Arundel County received \$18.4 million and Baltimore City received \$7.6 million in local impact grants attributable to the 82% distribution. Thus, the hold harmless provision guarantees that Anne Arundel County and Baltimore City annually receive no less than those amounts. If the three-way split of local impact grants is less than the hold harmless amounts, the difference is made up from Prince George's County's share of local impact grants.

Under current law, in fiscal 2021, instead of the three jurisdictions receiving the same amount of \$14.6 million, Anne Arundel County receives \$18.4 million (the hold harmless

amount), and Prince George’s County receives \$10.7 million, which is \$3.9 million less than the amount it would have received if the money was evenly divided. Baltimore City receives \$14.6 million because that amount is greater than its hold harmless amount of \$7.6 million. **Exhibit 1** shows the actual and projected distribution of local impact grants attributable to the 82% distribution for Anne Arundel and Prince George’s counties and Baltimore City. Under the bill, Prince George’s County would receive the same amount of local impact grants as Baltimore City.

Exhibit 1
Distribution of VLT Revenues Subject to the Hold Harmless Provision
Current Law
Fiscal 2017-2025
(\$ in Millions)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Est.</u> <u>2021</u>	<u>Est.</u> <u>2022</u>	<u>Est.</u> <u>2023</u>	<u>Est.</u> <u>2024</u>	<u>Est.</u> <u>2025</u>
Anne Arundel County	\$18.4	\$18.4	\$18.4	\$18.4	\$18.4	\$18.4	\$18.4	\$18.4	\$18.4
Baltimore City	10.3	12.9	14.0	14.4	14.6	14.7	14.9	15.4	15.3
Prince George’s County	3.1	7.4	9.6	10.3	10.7	11.1	11.4	12.3	12.2
Total	\$31.9	\$38.8	\$42.0	\$43.1	\$43.7	\$44.2	\$44.8	\$46.2	\$46.0

VLT: video lottery terminal

Source: Department of Legislative Services

Each year, the effect of the hold harmless provision decreases as local impact grants grow. Once the local impact grants exceed \$55.3 million for this 82% distribution, which is currently estimated to be in fiscal 2039, the hold harmless provision no longer comes into play and the three jurisdictions would receive an equal split.

State Fiscal Effect: The bill requires local impact grants distributed to Anne Arundel County as a result of the hold harmless provision to be distributed from VLT proceeds before other required VLT revenue distributions are made instead of being allocated from Prince George’s County’s local impact grants. Thus, the bill alters the distribution of \$3.9 million of VLT revenues in fiscal 2021, as shown in **Exhibit 2**.

Exhibit 2
Revenue Effect of the Legislation
Fiscal 2021-2025

	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
ETF	(\$1,476,200)	(\$1,410,300)	(\$1,335,600)	(\$1,164,000)	(\$1,183,000)
Local Impact Grants	3,652,600	3,489,700	3,305,200	2,878,300	2,925,500
SMWOBA	(56,700)	(54,100)	(51,300)	(45,700)	(46,400)
PDA	(225,800)	(215,800)	(204,400)	(182,800)	(185,700)
RFRA	(36,900)	(35,300)	(33,400)	(30,500)	(31,000)
SLGCA	(38,600)	(36,900)	(34,900)	(30,500)	(31,000)
Licenses	(1,818,300)	(1,737,300)	(1,645,500)	(1,425,000)	(1,448,400)

ETF: Education Trust Fund

PDA: Purse Dedication Account

RFRA: Racetrack Facility Renewal Account

SLGCA: State Lottery and Gaming Control Agency

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

Source: Department of Legislative Services

ETF revenues decrease by \$1.5 million in fiscal 2021 and by \$1.2 million in fiscal 2025. 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 \$1.5 million in fiscal 2021 and by \$1.4 million in fiscal 2022.

Special fund revenues and expenditures for SLGCA decrease by \$38,600 in fiscal 2021, resulting in a corresponding increase in general fund expenditures. Special fund revenues and expenditures to PDA, RFRA, and SMWOBA decrease by \$225,800, \$36,900, and \$56,700, respectively, in fiscal 2021. The Department of Legislative Services assumes that to the extent less funds are available to PDA, RFRA, and SMWOBA, these programs would provide less funding to eligible businesses and individuals. The distribution of VLT

proceeds to video lottery operation licensees decreases by \$1.8 million in fiscal 2021 and by \$1.4 million in fiscal 2025.

Local Fiscal Effect: Local revenues for Prince George’s County increase by \$3.9 million in fiscal 2021 and by \$3.1 million in fiscal 2025. These revenues must be spent as local impact grants on infrastructure improvements; facilities; public safety; sanitation; economic and community development, including housing; and other public services and improvements in the communities in immediate proximity to the video lottery facility in Prince George’s County. Local impact grants to other jurisdictions decrease by approximately \$209,500 in fiscal 2021 and by \$170,300 in fiscal 2025.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Baltimore City; Anne Arundel County; Comptroller’s Office; Maryland State Lottery and Gaming Control Agency; Department of Legislative Services

Fiscal Note History: First Reader - February 19, 2020
rh/jrb

Analysis by: Heather N. MacDonagh

Direct Inquiries to:
(410) 946-5510
(301) 970-5510