

Department of Legislative Services
2022 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 733
Ways and Means

(Delegates Metzgar and Krebs)

Gaming – Video Lottery Operation License – Baltimore–Washington
International Thurgood Marshall Airport

This bill, which is subject to voter referendum, authorizes a video lottery operation license to be awarded for a maximum of 3,000 video lottery terminals (VLTs) at the terminal building and surrounding area within the security perimeter of Baltimore-Washington International Thurgood Marshall Airport (BWI Marshall Airport). **The bill takes effect July 1, 2022, contingent on passage of a referendum by voters in November 2022.**

Fiscal Summary

State Effect: Education Trust Fund (ETF) revenues and expenditures increase by \$6.0 million in FY 2024, \$5.6 million in FY 2026, and \$11.8 million in FY 2027, and other special fund revenues and expenditures also increase beginning in FY 2026 due to VLTs at BWI Marshall Airport.

(\$ in millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
SF Revenue	\$0	\$6.0	\$0	\$8.4	\$17.1
GF Expenditure	\$0	\$0	\$0	\$2.5	\$0
SF Expenditure	\$0	\$6.0	\$0	\$8.4	\$17.1
Net Effect	\$0.0	\$0.0	\$0.0	(\$2.5)	\$0.0

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

Local Effect: Anne Arundel County revenues increase by \$855,300 in FY 2026 and \$1.8 million in FY 2027 due to local impact grants.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The bill authorizes a video lottery operation license to be awarded for a video lottery facility at the terminal building and surrounding area within the security perimeter of BWI Marshall Airport. The bill excludes such a license from the prohibition against awarding more than one video lottery operation license in a single county or Baltimore City. The bill increases the limit on the number of VLTs in the State from 16,500 to 19,500, limits the number of VLTs that may be awarded for operation at BWI Marshall Airport to 3,000, and increases the statewide limit on the number of VLT facilities from six to seven. The bill requires that a bid for a video lottery operation license at BWI Marshall Airport be submitted by April 15, 2024, and include the required initial license fee (\$3 million) and capital investment (\$25 million) for every 500 VLTs proposed in an application. The Governor may reconstitute the Video Lottery Facility Location Commission, which must include the appointment of new members based on specified criteria, following the authorization of an additional video lottery operation license at BWI Marshall Airport.

Current Law:

Video Lottery Operation Licenses

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).

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% to the licensee (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 facility licensees in Allegany and Worcester counties currently have a 50% and 43% distribution, respectively. Beginning in fiscal 2024, the Baltimore City licensee has a 34% distribution, and the Cecil County licensee has a 36% distribution. The Prince George's County licensee has a 38% distribution. A video lottery operation licensee receives 6% of its VLT revenues if it owns or leases its VLTs 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.

Appendix – Maryland Gaming provides more information on gaming in Maryland.

State Revenues: The Maryland Aviation Administration (MAA) advises that it currently does not have sufficient space to accommodate 3,000 VLTs at BWI Marshall Airport along with existing traveler services, amenities, and egress requirements. Since MAA advises that it is not feasible to place 3,000 VLTs within the terminal facilities without significantly expanding the terminal and concourse facilities, the Department of Legislative Services (DLS) assumes fewer than 3,000 VLTs are placed at BWI Marshall Airport within the security perimeter. DLS assumes the security perimeter of BWI Marshall Airport is the post-security screening area of the terminal that includes the concourses and gates.

MAA has concerns that VLTs may detract from environmental factors of the airport in terms of ambiance, open space, and noise levels. MAA also advises that the bill conflicts with federal revenue diversion laws and airport grant assurances. The Federal Aviation Administration dictates that airport-generated revenue must be used for capital and operating costs of that airport, so the bill conflicts with these policies by diverting VLT revenue generated at BWI Marshall Airport to ETF and other recipients. DLS notes that the bill may limit the travel options of individuals on either the voluntary or mandatory problem gambling exclusion list, and may somewhat diminish the incentive for individuals to join the voluntary exclusion list. These factors would be considered by the Video Lottery Facility Location Commission in determining whether the award of a VLT license at BWI Marshall Airport is in the public interest.

Assuming the referendum passes, and an applicant applies for and the Video Lottery Facility Location Commission awards a VLT license at BWI Marshall Airport, ETF revenues increase by \$6 million in fiscal 2024 for the license fee for 1,000 VLTs. DLS assumes a VLT facility at BWI Marshall Airport will not have a significant negative effect

upon VLT revenues at other Maryland VLT facilities due to the location inside the security perimeter and the proportion of out-of-state residents who travel through the airport.

Current law requires a VLT licensee to begin operating VLTs within 18 months after the license is awarded (unless an extension is granted), so DLS assumes the licensee at BWI Marshall Airport begins operating VLTs in fiscal 2026. It is also assumed that it takes two years to achieve full implementation, so revenues in fiscal 2026 are 50% of the revenues expected at full implementation.

Assuming gaming revenues of \$1.30 per passenger, DLS estimates that VLTs at BWI Marshall Airport generate \$32.7 million of revenue annually when fully implemented, after payouts to winning players. The projected VLT revenue from a facility at BWI Marshall Airport is lower than VLT revenues at other VLT facilities in the State because only ticketed passengers and employees can be within the security perimeter of the airport, thus significantly limiting the number of people who can gamble at the facility.

Of the estimated \$32.7 million of gaming revenue at full implementation, the VLT licensee would receive the percentage stated in its accepted application, plus an additional 8% if it owns or leases the VLTs for a VLT facility in Anne Arundel County and 8% for a licensee in Anne Arundel County for marketing, advertising, promotional costs, and capital improvements. Assuming the VLT licensee’s percentage is 49%, VLT revenues to the licensee are \$16.0 million, and State and local revenues increase by approximately \$16.7 million annually once fully implemented, as shown in **Exhibit 1**.

Exhibit 1
VLT Revenues under the Bill
Fiscal 2024-2027
(\$ in Millions)

	2024	2025	2026	2027
Education Trust Fund	\$6.0	\$0	\$5.6	\$11.8
SLGCA			0.2	0.3
Local Impact Grants			0.9	1.8
Purse Dedication Account			0.9	2.0
Racetrack Facility Renewal Account			0.2	0.3
SMWOBA			0.2	0.5
Licensee			7.6	16.0
Total	\$6.0	\$0	\$15.6	\$32.7

SLGCA: State Lottery and Gaming Control Agency
SMWOBA: Small, Minority, and Women-Owned Businesses Account
VLT: video lottery terminal

Source: Department of Legislative Services

This analysis does not include any ramifications of the bill conflicting with federal revenue diversion laws and airport grant assurances. MAA advises that any diminution of airport revenues has a detrimental impact on MAA's ability to support airport revenue bonds.

Problem Gambling Fund

Problem gambling funds increase by approximately \$425,000 annually beginning in fiscal 2026, based on 1,000 VLTs at \$425 per machine. This revenue is credited to the Problem Gambling Fund administered by the Maryland Department of Health to provide funding for problem gambling treatment and prevention programs.

State Expenditures: DLS assumes VLT revenues from the BWI Marshall Airport facility are generally sufficient to cover the increased SLGCA expenditures, including personnel, for overseeing and monitoring the facility. However, SLGCA incurs a \$2.5 million expenditure in fiscal 2026 to modify its contract for its video lottery central system.

ETF expenditures increase correspondingly with ETF revenues. Beginning in fiscal 2026, special fund expenditures also increase as a result of VLT revenue distributions to local impact grants, PDA, RFRA, and SMWOBA. Special fund expenditures from the problem gambling fund increase by \$425,000 annually beginning in fiscal 2026.

Small Business Effect: Small businesses may benefit to the extent that they receive SMWOBA funds. However, other small businesses, especially those located in the BWI Marshall Airport terminal building, may be negatively impacted by the substantial substitution of consumer spending away from other consumption to gambling.

Additional Information

Prior Introductions: Similar bills, HB 187 of 2016 and HB 371 of 2015, each received an unfavorable report from the House Ways and Means Committee. Similar bills were also introduced in the 2009 through 2014 sessions.

Designated Cross File: None.

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

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fnu2/jrb

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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 (VLT) allotted in the State. The opening date and the number of VLTs and table games in operation for each facility as of December 2021 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	733	18
Ocean Downs	Worcester	January 2011	810	18
Maryland Live!	Anne Arundel	June 2012	3,786	187
Rocky Gap Casino	Allegany	May 2013	630	16
Horseshoe Casino	Baltimore City	August 2014	1,451	145
MGM National Harbor	Prince George’s	December 2016	2,128	204

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 2023 through 2027 are shown in **Exhibit 2**. A total of \$1.9 billion in gross gaming revenues is projected in fiscal 2023, including \$598.2 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 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
VLTs Distribution					
Education Trust Fund	\$504.1	\$503.8	\$510.2	\$516.8	\$523.5
Lottery Operations	13.2	13.3	13.5	13.7	13.9
Purse Dedication Account	77.1	80.1	81.1	82.2	83.2
Racetrack Renewal Account	12.6	13.3	13.5	13.7	13.9
Local Impact Grants	71.5	73.4	74.4	75.3	76.3
Business Investment	19.3	20.0	20.3	20.5	20.8
Licensees	620.3	630.9	639.0	647.2	655.6
Total VLTs	\$1,318.1	\$1,335.0	\$1,352.1	\$1,369.5	\$1,387.1
Table Games Distribution					
Education Trust Fund	\$94.1	\$95.3	\$96.6	\$97.9	\$99.2
Local Impact Grants	31.4	31.8	32.2	32.6	33.1
Licensees	501.7	508.3	515.1	521.9	528.9
Total Table Games	\$627.1	\$635.4	\$643.9	\$652.4	\$661.1
Total VLTs and Table Games	\$1,945.2	\$1,970.4	\$1,995.9	\$2,021.9	\$2,048.2
Total Education Trust Fund	\$598.2	\$599.1	\$606.8	\$614.7	\$622.6

VLT: video lottery terminal

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