

# UPDATE OF THE LEGISLATORS' GUIDE TO VIDEO LOTTERY TERMINAL GAMBLING



DEPARTMENT OF LEGISLATIVE SERVICES 2008

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# **Update of the Legislators' Guide to Video Lottery Terminal Gambling**

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**Department of Legislative Services  
Office of Policy Analysis  
Annapolis, Maryland**

**December 2008**

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December 22, 2008

The Honorable Thomas V. Mike Miller, Jr., President of the Senate  
The Honorable Michael E. Busch, Speaker of the House of Delegates  
Members, Maryland General Assembly

Ladies and Gentlemen:

After many years of debate, the General Assembly enacted House Bill 4 and Senate Bill 3 during the 2007 special session relating to the proposed legalization of video lottery terminals (VLTs) in Maryland. House Bill 4 is a constitutional amendment that was approved by the voters in November 2008, which sets up broad parameters for VLTs and VLT facility locations in the State. Senate Bill 3 establishes the operational and regulatory framework for the proposed VLT program.

Back in 2004, the Department of Legislative Services published the Legislators' Guide to Video Lottery Terminals, in an attempt to combine into one document discussion of many of the aspects surrounding VLTs, including a review of the experience of other states and related issues such as the state of horse racing in Maryland. This is a streamlined and updated version of that original report, focused on the 2007 legislation and some of the significant VLT issues and questions that may still face policymakers in upcoming years. We trust this guide will be of assistance to the members of the General Assembly as implementation of the VLT program gets underway.

This report was coordinated by J. Ryan Bishop, based on analyses prepared by Michael Lee, Michael D. Sanelli, and Erica Schissler. Administrative support was provided by Cathy Kramer.

Sincerely,

Warren G. Deschenaux  
Director

WGD/JRB



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# Chapter 1. Overview of Gambling Activities in Maryland

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Under current law, the State sanctions specific gambling activities – these include wagering on horse racing (discussed in greater detail in Chapter 9) and the State Lottery. State law provides for a variety of limited gambling activities for certain organizations on a county-by-county basis.

Recent statutory changes to these laws include the enactment of video lottery terminal (VLT) legislation (discussed in greater detail in Chapter 2) that would allow VLTs at specified sites and legislation that altered the current prohibition on slot machines to prevent the proliferation of unauthorized slot machines in the State, which is discussed in this chapter.

## Slot Machines

Slot machines were authorized throughout the State from 1937 to 1939. This was designed to provide revenues for the needy near the end of the Great Depression. Even though the original legislation had a sunset date of April 30, 1939, there were several legislative attempts to continue the practice in certain counties. The General Assembly actually passed several bills to allow for the continuation of these machines in Anne Arundel, Charles, Montgomery, and Prince George's counties, but these bills were vetoed by Governor Herbert O'Connor on the grounds that using gaming devices to raise revenue was detrimental to the overall interests of the State.

In 1941, Governor O'Connor again vetoed legislation that would have provided for slot machines in Anne Arundel and Garrett counties but signed similar legislation for Anne Arundel County in 1943. Legislation was enacted for Calvert, Charles, and St. Mary's counties in the late 1940s.

By 1949, Southern Maryland was the only place in the continental United States outside of Nevada with slot machines. It is estimated that up to 6,000 slot machines were licensed in the four counties. Supporters argued that the slot machines generated needed revenues and thousands of jobs while opponents argued that the machines enriched few at the expense of many, encouraged political corruption, and created an unwholesome atmosphere.

By 1962, there was much debate about the abolition of slot machines in Southern Maryland. Governor J. Millard Tawes called for abolition that year, and this succeeded during the 1963 legislative session. The legislation called for a gradual reduction in the number of machines per establishment over a five-year period, with complete prohibition by July 1, 1968.

Despite the prohibition, many fraternal organizations continued to operate slot machines, using State laws permitting charitable activities as the legal rationale. In 1984, the Attorney General ruled that the operation of these slot machines was illegal.

In 1987 and again in 2007, legislation authorized slot machines in Eastern Shore counties under certain conditions. Under the statute, certain nonprofit and charitable organizations are

permitted to operate no more than five machines, and 50 percent of the proceeds must go to charity. Machines are licensed by the local sheriff's office, and annual reports outlining the disposition of the proceeds are required to be provided to the Comptroller. The Comptroller's Office, however, has no authority to audit these reports.

Over time it became clear that unauthorized slot machines were starting to proliferate in the State in the form of electronic bingo machines. Reports surfaced of thousands of machines in several counties located in commercial businesses such as bars, liquor stores, and bingo parlors, many resulting from a Maryland Court of Appeals decision in 2001.

The Court of Appeals case of *Chesapeake Amusements, Inc. v. Riddle* held that a ticket dispensing machine with a video screen that displays the contents of the dispensed tickets and emits a musical tone that signals a winning ticket was not a slot machine under Maryland law. The key factor in this decision was that the tickets were dispensed from a pre-printed roll of tickets that was inserted into the machines by the manufacturer. Thus, the element of chance was in the tickets and not in the machine. Over time, the design of machines changed rapidly as new technology was developed and the legality of each version of a machine was called into question. As a result, there was much confusion among State and local officials, owners, and distributors of machines as to whether certain machines were legal.

In 2008, legislation was enacted to alter the State's current prohibition on slot machines to clarify which machines are legal and which are illegal. Under that legislation, illegal machines are ones that read a game of chance and deliver a game of chance. The legislation specified certain exceptions that included, among others, machines that are arcade-type games, paper pull-tab machines that only deliver a ticket that must be opened manually by the player, and State Lottery games. One of the exceptions, of course, includes the authorization of VLTs at specified locations.

## **State Lottery**

The State Lottery was established in 1972 through legislative action and a constitutional amendment approved by voters. Revenues generated from the Lottery are deposited in the general fund, as they have been since the Lottery's inception. Revenues for the general fund were \$497 million for fiscal 2008 and estimated at \$456 million for fiscal 2009.

Special lottery games are held for the benefit of the Maryland Stadium Authority – the revenues generated are used for the authority's operating expenses and to finance the authority's capital program.

## **Tip Jars**

Legal in numerous counties, tip jars are popular in Western Maryland and typically benefit nonprofit organizations – these may also be found in businesses such as restaurants and bars. A tip jar refers to a game of chance that involves the selling of a packet of tickets to win a prize. Tip jars are closely regulated in several counties, including Allegany, Frederick, and Washington.

While manual tip jars remain legal, the 2008 legislation did prohibit tip jar ticket dispensing machines that also electronically read the ticket, alert the user to a winning or losing ticket, or tabulate a user's winnings and losses. Machines that simply dispense tip jar tickets remain legal.

## **Bingo and Other Gambling Activities**

Bingo may be conducted in all 24 local jurisdictions by various nonprofit entities – these include volunteer fire companies and fraternal organizations. Commercial bingo is authorized in several counties, including Anne Arundel, Calvert, and Washington. However, legislation enacted in 2008 placed a moratorium on new commercial bingo licenses by prohibiting the issuance of additional licenses to an entity that did not have a license by June 30, 2008. New commercial bingo licenses may now only be issued pursuant to authority granted by the General Assembly. This legislation also clarified that personal electronic bingo machines are legal as long as the number of cards played at one time does not exceed 54. Carnivals, bazaars, raffles, and casino-type games are allowed for nonprofit organizations on a county-by-county basis.

## **Oversight of Local Gambling Activities**

No general State oversight of local gambling activities is provided. Local gambling activities are generally regulated by county legislative bodies or sheriffs. Several counties have gaming boards that provide some level of regulatory oversight.

Past studies of gambling activities in the State, including the 1995 Joint Executive-Legislative Task Force to Study Commercial Gaming Activities in Maryland, have pointed out several deficiencies in the regulation of these local gambling activities. In a letter to that task force, the Attorney General expressed concerns about the lack of regulation of some of these activities, including a lack of oversight over slot machines on the Eastern Shore.

In an effort to address the oversight of local gambling, the slot machine legislation enacted in 2008 required the State Lottery Agency to provide a report that: (1) outlines the current statutory and regulatory provisions pertaining to local gambling; (2) provides information on the prevalence of local gambling; (3) analyzes the financial impact of local gambling; and (4) examines the impact of local gambling on other gambling activities regulated by the State. Additionally, the report will make recommendations as to how the State can improve oversight of gambling in Maryland.



## Chapter 2. Video Lottery Terminal Legislation Adopted by the Maryland General Assembly

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During the 2007 special session of the General Assembly, two pieces of legislation were adopted pertaining to video lottery terminal (VLT) gambling.

House Bill 4 (Chapter 5 of the 2007 special session) is a constitutional amendment approved by the voters at the November 2008 general election proposing that the General Assembly may authorize expanded forms of gambling subject to the following restrictions: (1) a maximum of 15,000 VLTs may be authorized; (2) a maximum of five VLT facility licenses may be issued at specified locations; (3) no more than one facility license may be awarded in any county or Baltimore City; and (4) VLT facilities shall comply with all applicable planning and zoning laws of the affected local jurisdictions. Under the amendment, additional forms or expansion of gaming may only be authorized by an act of the General Assembly through a referendum that is approved by the voters in a general election. The constitutional amendment does not apply to currently authorized forms of gambling.

Senate Bill 3 (Chapter 4 of the 2007 special session) establishes the operational and regulatory framework for the proposed VLT program, and was contingent on ratification of the constitutional amendment by the voters. VLT facility operation licenses will be awarded by a Video Lottery Facility Location Commission, the members of which are appointed by the Governor, President of the Senate, and Speaker of the House. VLT oversight will be provided by the State Lottery Commission, and the Lottery Commission will own/lease the VLTs and the central monitor and control system.

A summary of Senate Bill 3 is provided in **Exhibit 2.1** below.

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### Exhibit 2.1 Summary of Video Lottery Terminal Implementing Legislation

<b>Oversight</b>	<p>Nine-member State Lottery Commission:</p> <ul style="list-style-type: none"> <li>• no elected officials may be appointed to the commission;</li> <li>• addition of four members to existing five-member commission; and</li> <li>• member of Lottery Commission as liaison to Racing Commission and vice versa.</li> </ul> <p>State Lottery Commission owns/leases video lottery terminals (VLTs) and central monitor and control system.</p>
<b>Licenses</b>	<p>Up to five licenses to be awarded (eligible locations specified).</p> <p>No more than one in any county.</p>

<p><b>Locations and Number of VLTs</b></p>	<p><b>15,000 machines:</b></p> <ul style="list-style-type: none"> <li>● Anne Arundel County – 4,750 VLTs at a location within two miles of Route 295;</li> <li>● Baltimore City – 3,750 VLTs, in a nonresidential area within one-half mile of Interstate 95 and Route 295, and not adjacent to or within one-quarter mile of residential property and on city-owned land;</li> <li>● Worcester County – 2,500 VLTs at a location within one mile of the intersection of Route 50 and Route 589;</li> <li>● Cecil County – 2,500 VLTs at a location within two miles of Interstate 95; and</li> <li>● Allegany County – 1,500 VLTs on State property associated with the Rocky Gap State Park in a building physically separate from the Rocky Gap Lodge and Golf Resort.</li> </ul> <p>VLT Facility Location Commission may alter allocations if warranted by an evaluation of market and other factors; however, no more than 4,750 VLTs may be placed at any one location.</p>
<p><b>VLT Facility Location Commission</b></p>	<p><b>Seven members:</b></p> <ul style="list-style-type: none"> <li>● three appointed by the Governor, including the chair;</li> <li>● two appointed by the Senate President; and</li> <li>● two appointed by the House Speaker.</li> </ul>
<p><b>Limits on License Ownership</b></p>	<p>Prohibits ownership in more than one video lottery operation license.</p>
<p><b>Small, Minority, and Women-Owned Business Acct.</b></p> <p><b>Lottery (Administration)</b></p> <p><b>Local Government</b></p> <p><b>Horse Racing Industry</b></p> <p><b>Licensee (Operator)</b></p> <p><b>Education Trust Fund</b></p>	<p><b><u>Percentage of Gross VLT Revenue</u></b></p> <p>1.5% to a small, minority, and women-owned business investment account;</p> <p>2% to the State Lottery for administrative costs, with other costs provided for in the annual State budget;</p> <p>5.5% to local governments in which a video lottery facility is operating, 18% of which would go for 15 years (starting in fiscal 2012 and ending in fiscal 2027) to Baltimore City through the Pimlico Community Development Authority and to Prince George’s County for the community surrounding Rosecroft (\$1 million annually);</p> <p>7% to a purse dedication account to enhance horse racing purses and funds for the horse breeding industry, not to exceed \$100 million annually;</p> <p>2.5% for an eight-year period to a Racetrack Renewal Fund, not to exceed \$40 million annually;</p> <p>33% to video lottery operation licensees; and</p> <p>the remainder to Education Trust Fund (48.5%).</p>

<b>Exhibit 2.1 (continued)</b>	
<b>Education Trust Fund</b>	To be used for the Bridge to Excellence in Public Schools Act funding (including the Geographic Cost of Education Index), public school construction, and public higher education construction, including community colleges.
<b>Purse Dedication Account</b>	<p>Provides for the distribution to be allocated with 80% of the funds for the thoroughbred industry and 20% of the funds to the standardbred industry:</p> <ul style="list-style-type: none"> <li>• from the proceeds allocated to the thoroughbred industry: <ul style="list-style-type: none"> <li>• 85% to thoroughbred purses;</li> <li>• 15% to the Maryland-bred Race Fund; and</li> <li>• \$100,000 to Fair Hill.</li> </ul> </li> <li>• from the proceeds allocated to the standardbred industry: <ul style="list-style-type: none"> <li>• 85% to standardbred purses; and</li> <li>• 15% to the Standardbred Race Fund.</li> </ul> </li> </ul> <p>Requires the State Racing Commission to conduct a study on the account's impact on the racing industry, and make a recommendation regarding the account's continuation by 2014.</p>
<b>Racetrack Facility Renewal Account</b>	<p>Provides for distribution of the funds in matching grants:</p> <ul style="list-style-type: none"> <li>• 80% to Pimlico, Laurel, and Timonium; and</li> <li>• 20% to Rosecroft and Ocean Downs.</li> </ul> <p>\$1 million per year for five years could be allocated to Timonium with no matching fund requirement.</p>
<b>License Fees</b>	Initial license fee of at least \$3 million for every 500 VLTs (as a result, up to \$90 million to accrue to the Education Trust Fund) due with bid submission by February 1, 2009.
<b>License Duration</b>	15 years (must reapply at the end of license term).
<b>Construction and Procurement</b>	<p>License applicant must meet State Minority Business Enterprise (MBE) requirements for construction/procurement contracts, and, to the extent possible, meet county MBE requirements if they exceed the State requirement. Requirement sunsets on July 1, 2011.</p> <p>License applicant must invest \$25 million in construction and related costs for every 500 VLTs proposed in bid.</p>
<b>Small, Minority, and Women-owned Business Investment</b>	1.5% of gross VLT proceeds to support investment capital and loans to small, minority, and women-owned businesses (at least 50% to fund businesses near a VLT facility).
<b>License Award Factors</b>	<p>Video Lottery Facility Location Commission to evaluate competitive sealed bids based on:</p> <ul style="list-style-type: none"> <li>• 70% on business and market factors, including the highest potential benefit to the State and percentage of MBE equity ownership;</li> <li>• 15% on economic development factors; and</li> <li>• 15% on location siting factors.</li> </ul>



<b>Exhibit 2.1 (continued)</b>	
<p><b>Racing Days</b></p> <p><b>Preakness Stakes</b></p> <p><b>Racing Improvement Plans</b></p>	<p><b><u>Eligibility for a VLT License and Racetrack Renewal Funds</u></b></p> <p>Laurel/Pimlico must maintain a combined minimum of 220 live racing days to be eligible for racetrack renewal funds; Rosecroft must maintain at least 90 live racing days and Ocean Downs at least 40 live racing days to be eligible. The Racing Commission is required to award at least 40 racing days to Pimlico Race Course.</p> <p>The VLT and/or horse racing licensee conducting the Preakness must run the event at Pimlico – or conditionally, another location in Maryland – to maintain eligibility for a VLT license and/or racetrack renewal funds.</p> <p>Horse racing licensees must develop a racing improvement plan to improve the quality and marketing of horse racing – including \$1.5 million of annual capital maintenance and improvements at horse racing facilities to be eligible for purse subsidies/racetrack renewal funds.</p>
<p><b>Laurel Park</b></p>	<p>If a video lottery operation license is issued to Laurel Park:</p> <ul style="list-style-type: none"> <li>• the licensee must maintain Bowie Training Center operations or convey the training center property to the State under Program Open Space; and</li> <li>• local impact grants would be distributed:                             <ul style="list-style-type: none"> <li>• 70% to Anne Arundel County;</li> <li>• 13% to Howard County;</li> <li>• 5% to Prince George’s County; and</li> <li>• 12% to the City of Laurel.</li> </ul> </li> </ul>
<p><b>Baltimore City</b></p>	<p>95% of revenues received by Baltimore City through a partnership with a video lottery operation licensee shall be used to reduce real property taxes and for public school construction.</p>
<p><b>Worcester County</b></p>	<p>Maryland Department of Transportation may pay for and undertake road construction along Route 589 near the area where the facility is located.</p> <p>Within a 10-mile radius of the facilities, the video lottery operation licensee may not build public accommodations (e.g., a hotel), a conference/convention center, nor amusement rides. Moreover, dancing, live music, and live entertainment are not allowed.</p> <p>If a video lottery operation license is issued to Ocean Downs, local impact grants would be distributed: 70% to Worcester County, 20% to Ocean City, and 10% to the Town of Berlin.</p>
<p><b>Local Development Council</b></p>	<p>Creation of a Local Development Council in each area where a VLT facility is located to advise, comment, and make recommendations on county plans regarding local government revenue.</p>
<p><b>Problem Gambling Fund and Prevalence Study</b></p>	<p>\$425 annual fee per VLT terminal to be paid by VLT licensees for a Problem Gambling Fund administered by Department of Health and Mental Hygiene (DHMH) (15,000 VLTs = \$6.4 million annually).</p> <p>Requires DHMH to conduct a problem and pathological gambling prevalence study to measure the rate of problem and pathological gambling in the State.</p>

<b>Exhibit 2.1 (continued)</b>	
<b>Annual VLT Payout Percentage</b>	87% minimum.
<b>Age Restrictions</b>	Individuals under the age of 21 or intoxicated are prohibited from playing VLTs.
<b>Free Food and Beverage Restrictions</b>	Free food and alcoholic beverages are generally prohibited.
<b>Exclusion Policy</b>	By regulation, the commission shall provide for the establishment of a list of individuals to be excluded from VLT facilities.
<b>Voluntary Exclusion Policy</b>	VLT facilities required to develop procedures that permit self-exclusion from facilities for individuals with gambling problems.
<b>State Lottery Games</b>	VLT facility may offer any State Lottery games.
<b>Paycheck Cashing</b>	Prohibits consumers from cashing paychecks at a VLT facility.
<b>Additional Consumer Protections</b>	Commission to adopt regulations to reduce or mitigate the effects of problem gaming including: <ul style="list-style-type: none"> <li>● limits on dollar amount accepted by VLTs;</li> <li>● payout of winnings above a certain amount by check;</li> <li>● limits on ATM numbers, locations, and maximum withdrawals; conspicuous disclosures related to VLT payouts and odds; and</li> <li>● consumer records of spending levels to the extent that marketing measures track spending.</li> </ul>
<b>Campaign Finance</b>	Requires entities contributing more than \$10,000 to a campaign regarding the constitutional amendment to report four weeks before the November 2008 referendum.



## **Chapter 3. Estimating Video Lottery Terminal Revenues in Maryland**

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Over the past several legislative sessions, the Department of Legislative Services (DLS) has employed modeling techniques to assist the General Assembly in estimating the revenues potentially generated by authorizing video lottery terminal (VLT) facilities in the State. Along with demographic and market research, DLS maintains a database of information on gambling facilities compiled from various regions of the country.

This chapter presents a summary of how the potential win-per-day (WPD) and estimated VLT revenues in Maryland were developed by DLS for the 2007 VLT legislation, an overview of VLT gambling activities in surrounding states, and the WPD trends in relevant nearby facilities offering VLT gambling. Moreover, a comparison of the DLS estimate of the revenues potentially generated by establishing VLT facilities in Maryland are compared with current WPD data from the relevant states of Delaware, Pennsylvania, and West Virginia.

### **Approaches and Methodology**

Over the past several legislative sessions, DLS has employed modeling techniques to assist the General Assembly in estimating the revenues potentially generated by authorizing VLT facilities in the State. Along with demographic and market research, DLS maintains a database of information on gaming facilities (*e.g.*, casinos, riverboats, and/or pari-mutuel gaming device facilities) compiled from various regions of the country.

The modeling techniques assess potential VLT revenues based upon the distribution and characteristics of the adult population surrounding each facility. Distance, per-capita spending, out-of-state participation, and competition are key variables used to model gambling revenues. The models weight and aggregate these variables to make projections. To make projections, it is assumed that the population surrounding a new facility will behave in a fashion similar to that of most comparable existing facilities.

In general, the models consider (1) declining casino patronage as distances increase; (2) a consumer preference for larger facilities (*e.g.*, size in terms of the number of VLTs) to smaller facilities; and (3) the out-of-state gambling facilities that continue to operate will draw visitors, thus reducing in-state participation. The most significant variable, in terms of casino spending, is distance. As a result, potential patrons that live further away from any VLT facility will likely visit less frequently and spend less than those that live closer to these leisure/entertainment options. The models, therefore, weight the adults who live closest to a facility at higher values than those who live at greater distances.

The models also consider variations on the basis of income and number of potential patrons (individuals age 21 and over), on a county-by-county basis using U. S. Census data. The models consider travel from out-of-state customers to include Delaware, Pennsylvania, Virginia,

West Virginia, and the District of Columbia. An average urban/rural mix is maintained for all of these potential consumers.

Revenue forecasting is an evolving process. DLS periodically updates existing gaming facility revenues and market conditions, checks for model robustness and potential specification error, performs sensitivity analysis by employing an additional estimation technique, and tests the model's ability to forecast given existing facilities. DLS used fiscal 2006 data in its revenue forecasts.

Naturally, to the extent the assumptions are changed, WPD will vary in kind. DLS has advised that the gross VLT revenue estimates could be higher or lower than estimated depending on the actual locations awarded VLT licenses, the envisioned structure and amenities offered by industry participants submitting projects for construction, and the economic and market conditions that subsequently develop as the bill is implemented, including any expansion of gambling in the surrounding states.

## **VLT Revenue Estimates for Maryland**

Under the 2007 VLT legislation, up to five VLT facilities in the State may be licensed to operate a total of 15,000 VLTs. As a result, DLS estimates that total revenues generated – after payouts to winning players, but before any other distributions are made – could total approximately \$156.5 million in fiscal 2011, \$1.019 billion in fiscal 2012, and \$1.361 billion in fiscal 2013.

These estimates assume that (1) all five facility licenses will be awarded; (2) facilities will initially operate at 50 percent capacity and reach full capacity one year later; and (3) all 15,000 VLTs are awarded. It is assumed that the locations with pre-existing facility infrastructure are awarded licenses and begin operations in February 2011, two years after the bid submission deadline, and locations that are newly constructed begin operations six months later in August 2011. Revenues will be potentially higher or lower than estimated to the extent that facilities begin operations earlier or later than estimated, either in temporary or permanent facilities.

The WPD estimates for the VLT facilities are based on the potential locations and number of VLTs at each location specified in the bill, through an independent analysis by DLS of the market for VLTs in Maryland. The market analysis is based on the modeling techniques described above and includes the impact of recent VLT expansions in Delaware and West Virginia, the opening of VLT facilities in Pennsylvania since 2006, and the proximity of proposed Maryland locations to other VLT facilities and population centers. DLS advises that the gross VLT revenue estimates could be higher or lower than estimated depending on the actual locations awarded VLT licenses and the economic and market conditions in place as the bill is implemented, including any expansion of gaming in the surrounding states.

In addition, the legislation specifies the maximum number of VLTs at each location, which constrains the maximum revenue potential at certain locations. DLS advises that to the extent VLTs are re-allocated by the Video Lottery Facility Location Commission to locations based on an analysis of the expected or actual performance of VLTs (as authorized in the legislation), revenues could be significantly higher.

**Exhibit 3.1** details many of the important assumptions in these estimates. Overall, DLS estimates an average WPD of \$250 at the proposed Maryland locations, ranging from a low of \$115 at Rocky Gap in Western Maryland to a high of \$315 at the two locations closest to the major population centers of Baltimore City and Washington, DC.

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**Exhibit 3.1**  
**Maryland Video Lottery Terminal (VLT) Facility Locations**  
**Assumed Status of Operation and WPD**

<b>Location</b>	<b><u>VLTs</u></b>	<b><u>WPD</u></b>	<b><u>Begin Operations</u></b>	<b><u>Full Capacity</u></b>
Anne Arundel	4,750	\$315	February 2011	February 2012
Baltimore City	3,750	315	August 2011	August 2012
Cecil	2,500	210	August 2011	August 2012
Worcester	2,500	150	February 2011	February 2012
Allegany (Rocky Gap)	1,500	115	August 2011	August 2012

WPD: win-per-day

Source: Department of Legislative Services

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Other assumptions include:

- VLTs will operate 365 days a year, once operational.
  - Virginia and Washington, DC do not authorize VLT gambling.
  - West Virginia and Delaware do not expand VLT operations, either by adding additional VLT facilities or authorizing casino-style gambling.
  - Pennsylvania does not expand gambling beyond VLT facilities authorized in 2004.
-

**Exhibit 3.2** details the estimated revenues that would be generated at each facility for fiscal 2011 through 2013.

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**Exhibit 3.2**  
**Estimated VLT Revenues Generated by Location**  
**Fiscal 2011-2013**  
**(\$ in Millions)**

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Anne Arundel	\$125.2	\$477.9	\$546.1
Baltimore City	0.0	265.0	426.7
Cecil	0.0	117.8	189.6
Worcester	31.4	119.8	136.9
Allegany (Rocky Gap)	0.0	38.7	62.3
<b>Total</b>	<b>\$156.5</b>	<b>\$1,019.1</b>	<b>\$1,361.6</b>

Source: Department of Legislative Services

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### **WPD Comparisons: DLS and Industry Estimates**

As a point of reference, the Innovation Group, a research consulting firm specializing in gaming issues, was independently commissioned by VLT proponents to examine potential VLT facilities and revenues in Maryland. The Innovation Group issued a report in the fall of 2007 that estimated the potential gross revenues at five specific site locations that had been identified in past legislation, assuming a total of 12,500 VLTs in permanent operation. Assumptions regarding the specific locations and the number of VLTs were as follows: Laurel Park (5,000); Rocky Gap Resort (1,500); Ocean Downs (2,000); Pimlico (2,000); and Rosecroft Raceway (2,000). The Innovation Group report estimated that overall revenues at those locations could have totaled over \$1.53 billion in calendar 2011 with an overall average WPD of \$337, and \$1.65 billion in revenues in calendar 2012 with an average WPD of \$370; these estimates are well above DLS' \$250 average WPD estimate.

**Exhibit 3.3** presents the market segments that the Innovation Group projected would participate in the Maryland market. The research consulting group's analysis suggests that the installation of VLTs in Maryland by 2013 would result in a recapture of 61 percent (\$502 million) of revenues that would otherwise flow out of State. According to the Innovation Group, this recapture would comprise approximately 30 percent of the projected gross Maryland VLT revenues. A more extensive discussion of this issue may be found in Chapter 6 of this report.

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**Exhibit 3.3**  
**Estimated Market Sector Participation**  
**for Video Lottery Terminals in Maryland**

	<u>Amount (\$ in Millions)</u>	<u>Market Percentages</u>
Re-capture of Marylanders	\$502	30%
Out-of-State Participants	651	39%
New Participants	<u>537</u>	<u>32%</u>
<b>Total</b>	<b>\$1,690</b>	<b>100%</b>

Note: Numbers do not total due to rounding.

Source: The Innovation Group, September 2007

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### Status of VLTs in Surrounding States

The surrounding states competing with potential Maryland facilities are Delaware, Pennsylvania, and West Virginia. A brief description of the existing and proposed facilities that would compete with Maryland gambling facilities is discussed below. **Appendix 2** shows the proposed Maryland sites and the VLT facilities that would compete with them in the states surrounding Maryland. The map also includes additional facilities currently under construction in the southern portion of Pennsylvania. The proposed Maryland sites are circumscribed with a 50-mile radius – potential visitors frequenting the Maryland gaming venues are most likely to travel within 50 miles of a facility.

Marylanders who travel out-of-state to partake in gambling opportunities do so largely within the states of Delaware, New Jersey (Atlantic City), and West Virginia. To date, DLS has estimated limited participation by Marylanders in Pennsylvania, as Pennsylvania facilities have only begun operating in the last 18 months, and West Virginia and Delaware gambling facilities provide closer alternatives. In contrast to Atlantic City, the facilities in Delaware, Pennsylvania, and West Virginia generally focus more on individuals taking day trips.

DLS notes that the location of specific facilities, the market focus of each facility, customer state of origin, and the portfolio of gambling options (*e.g.*, horse racing, sports betting, and table games) all contribute to the level of activity experienced at existing facilities. Additional VLT facilities in Pennsylvania that are currently in the development/construction phases could also vie for customers in the future.



## **Delaware**

Since 1995, Delaware has offered VLTs at three racetracks: Delaware Park, Dover Downs, and Harrington Raceway. Reports indicate that the Delaware Department of Finance has determined that approximately 70 percent of the state's VLT revenue is derived from Maryland and Pennsylvania visitors. Before the opening of VLT facilities in Pennsylvania, Delaware Park (in Wilmington near the Pennsylvania border) reported 29 percent of its customer base coming from Pennsylvania; Dover Downs, some 55 miles from the Pennsylvania border, 6 to 7 percent; and Harrington Raceway in the southern half of Delaware drew 3 percent of its business from Pennsylvania. Delaware estimates that Marylanders provide 40 percent or more of the Delaware VLT facilities' customer base.

In Delaware, conditions of the VLT industry have changed with the introduction of facilities in the Philadelphia area, Philadelphia Park and Chester Downs. Delaware reports that gaming revenues have been impacted by these Pennsylvania sites, particularly at Delaware Park, which is the site closest to Philadelphia. As a result, Delaware is examining options and implementing measures to re-capture and expand revenues.

Delaware recently expanded its VLT facilities' hours of operation. As of July 2008, Delaware's facilities are now allowed to operate 24 hours a day, 7 days a week. Previously, Delaware's facilities were required to close between 6 a.m. and noon on Sundays. All three facilities have shifted to 24-hour VLT operations on Sunday.

In addition, Delaware is currently considering sports wagering at the state's three racetracks. Delaware, along with Montana, Nevada, and Oregon, is exempted from a 1992 federal prohibition on offering sports wagering, as each of these states had at some point previously allowed sports betting.

## **Pennsylvania**

In July 2004, Pennsylvania adopted legislation authorizing up to 61,000 VLTs at up to 14 locations, including seven racetracks. To date, DLS estimates limited participation by Marylanders in Pennsylvania, as West Virginia and Delaware gambling facilities provide closer alternatives. Facility applications and feasibility studies filed with the Pennsylvania Gaming Control Board by venues now operating in the Pittsburgh and Philadelphia regions – the closest facilities to the Maryland border – support this conclusion.

As of October 2008, seven facilities with approximately 16,800 VLTs are operating throughout the Commonwealth, and several additional facilities are under development. A majority of these facilities are in the eastern part of the Commonwealth, targeting the New York and New Jersey markets. Chester Downs, approximately six miles south of the Philadelphia International Airport, is the closest Pennsylvania VLT facility to Maryland's major population centers. The establishment's business focus is on patrons from the day trip excursion market; the specific market focus for the facility is individuals taking day trips of between 30 minutes and

one-hour drive time in distance, generally patrons from Delaware, New Jersey, and Pennsylvania. Chester Downs estimates little business from the south via I-95 due to a competing facility (Delaware Park).

The Meadows, south of Pittsburgh, offers a bus trip most weekdays to and from Cumberland, Maryland. Offering a bus to travel the two hours to the Pennsylvania facility indicates the population base in and around Cumberland (over 21,000 people) is a targeted market for that venue.

## **West Virginia**

West Virginia's Charles Town Races & Slots is approximately a one-hour drive from both Baltimore City and Washington, D C. Three other West Virginia facilities also offer large VLT gambling venues; however, these alternatives are a four-to-six hour drive from central Maryland. In 2007, West Virginia voters approved proposals to allow table games (blackjack, poker, and roulette) at three gambling facilities, while rejecting the measure for Charles Town.

Charles Town currently has approximately 5,000 VLTs, and has undertaken an expansion in order to operate up to 6,500 VLTs. Charles Town's management is reported to estimate that at least 35 percent of the Charles Town gamblers are from Maryland. Charles Town continues a robust television, radio, and print advertising program targeting the Baltimore City and Washington, DC markets.

A small number of Garrett County residents are within a two-hour drive of Wheeling Island Race Track and Gaming Center in Wheeling, West Virginia, resulting in limited potential gambling from Marylanders at that location.

## **Gambling Revenues in Surrounding States**

DLS monitors WPD and other data for VLT facilities currently operating in the states that surround Maryland. **Exhibit 3.4** shows the most recent available monthly WPD data, for October 2008, as well as the location of each facility, the population from which they primarily draw, terminal proceeds, and the number of VLTs in operation.

The Pennsylvania facilities, although serving a smaller number of Marylanders, are located in large metropolitan statistical areas comparable to the Baltimore City and Washington, DC (*i.e.*, Anne Arundel) markets. DLS notes that the data reflect actual WPD amounts during economic conditions in October 2008. WPDs in the \$275 to \$300 range were realized for the Pennsylvania facilities near Philadelphia and about \$365 for the Pittsburgh facility. Current WPDs at the Pennsylvania facilities in the Pittsburgh and Philadelphia areas are comparable to or higher than those estimated by DLS for the two potential Maryland facilities that are most comparable, which are the Anne Arundel and Baltimore City locations. The relatively high population density of central Maryland supports the likelihood of a WPD average that is comparable to that of the Pennsylvania locations.

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**Exhibit 3.4**  
**Competitive Video Lottery Terminal Facilities in Surrounding States**  
**October 2008**

<u>Facility</u>	<u>Location</u>	<u>Population (50-Mile Radius)</u>	<u>Terminal Proceeds</u>	<u>Current Terminals</u>	<u>WPD</u>
<b>Delaware</b>					
Delaware Park	Wilmington	6,635,689	\$18,351,500	3,191	\$206
Dover Downs	Dover	1,913,087	\$15,414,400	3,114	\$177
Harrington	Harrington	910,429	\$8,628,800	2,061	\$150
<b>Pennsylvania</b>					
Harrah's Chester Downs	Philadelphia	7,202,938	\$24,689,004	2,873	\$277
Philadelphia Park	Bensalem (Philadelphia)	9,446,582	\$27,166,546	2,912	\$301
The Meadows	Meadow Lands (Pittsburgh)	2,774,789	\$20,612,566	1,824	\$365
<b>West Virginia</b>					
Charles Town	Charles Town	3,143,218	\$31,691,159	5,029	\$226

Note: These numbers reflect variations in state-specific measurements of revenues (*e.g.*, one month, an aggregation of weekly data approximating one month). WPD are based on 28 days for Delaware, 31 days for Pennsylvania, and 28 days for Charles Town. Population estimate as of 2007.

Source: Delaware State Lottery; Pennsylvania Gaming Control Board; West Virginia Lottery; U.S. Census Bureau

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As discussed previously, Marylanders who travel out-of-state tend to visit Delaware and Charles Town locations to gamble. DLS estimates provided for the smaller Maryland VLT locations are comparable to or lower than the current WPDs in Delaware and Charles Town, and continue to be supported by WPD returns realized in those markets. The WPD averages at the Delaware facilities and at Charles Town in West Virginia are lower than in Pennsylvania, which is to be expected considering the number of machines, geographic locations, population densities, and new competition from Pennsylvania. In Delaware, likely in response to competition from Pennsylvania facilities and a decline in revenues in 2007, the number of VLTs has been increased significantly, by 30 percent at Harrington alone, which, coupled with the decline in percent gross revenues, has depressed the average WPD.

Naturally, to the extent that any of the assumptions are changed, WPD will vary in kind. DLS has advised that the gross VLT revenue estimates could be higher or lower than estimated depending on the actual locations awarded VLT licenses, the envisioned structure and amenities offered by industry participants submitting projects for construction, and the economic and market conditions that subsequently develop as the bill is implemented, including any expansion of gaming in the surrounding states.



## Chapter 4. Video Lottery Terminals: Selected State Comparisons

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Video lottery terminals (VLTs), including slot machines and video poker, are prevalent in more than half the states in the Union. They are found in a variety of forums: traditional casinos, riverboat casinos, Indian casinos, racetracks and other pari-mutuel facilities, bars, restaurants, grocery stores, convenience stores, hotels, airports, and nonprofit clubs. They come in a variety of forms, including spinning reels, video slots, video poker, video black jack, keno, and video bingo. They generate varying degrees of revenue depending on location, type of machine, frequency of use, payout percentages, frequency of machine turnover, and level of competition from other VLT establishments.

### Comparison of VLTs: Numbers and Performance

The operation of VLTs can be divided into three broad categories: states that allow VLTs at racetracks or other facilities but not full fledged casinos; states that allow casinos with both table games and VLTs; and states that have Indian casinos. Some states have a combination of these venues. **Exhibit 4.1** is a summary of selected states from around the country that permit VLTs primarily at racetracks and other non-casino establishments. State comparisons include location and number of machines, types of machines, ownership, annual revenues, and average win-per-day (WPD) per machine.

Most states that permit the operation of non-casino VLTs do so primarily at racetracks and other pari-mutuel facilities. Delaware, Iowa, New Mexico, Pennsylvania, and West Virginia all allow VLTs at some racetrack facilities. Additionally, New York currently has eight racetrack VLT facilities. The total number of machines tends to vary by a state's geographic size, population, and number of racetracks. For example, as of October 2008, Delaware had approximately 8,366 machines at three racetracks, West Virginia had 11,446 VLTs at four racetracks, and Pennsylvania had 16,814 VLTs operating at seven locations (mainly racetracks).

Annual revenues also vary due to the number of machines and frequency of use. In fiscal 2008, annual VLT gross revenues at racetrack locations were \$620 million in Delaware, \$463 million in Iowa, \$478 million in Rhode Island, and \$898 million in West Virginia. More detailed information for several of these states may be found in **Appendix 1** of this report.

States that permit casinos with VLTs include Nevada, New Jersey, Illinois, Colorado, Indiana, Michigan, Mississippi, Missouri, and South Dakota. VLTs traditionally generate between 80 to 85 percent of a casino's gross revenues. Most states restrict VLTs to casinos, but Nevada, for example, permits smaller establishments such as grocery stores, bars, and convenience stores to operate a limited number of machines (termed "convenience" gambling). West Virginia also has over 8,100 "limited video lottery" terminals operating at 1,650 retail establishments. The majority of these licensed retailers are limited to having five terminals on

the premises; however, fraternal societies and veterans' organizations may have up to 10 terminals. **Exhibit 4.2** is a summary of three states, Nevada, New Jersey, and Illinois, which have privately owned casinos, and Connecticut, which has two Indian casinos.

States with large scale casinos tend to generate considerably more revenue from slot machine operations than states that allow non-casino VLT facilities. Nevada, for example, has almost 195,000 slot machines that generated over \$8.0 billion in gross revenues in fiscal 2008. New Jersey has over 35,600 slot machines at 11 casinos, which generated about \$3.5 billion in gross revenues in fiscal 2007. Illinois had over 9,900 machines at 9 riverboat casinos, which generated over \$1.7 billion in VLT revenues in fiscal 2007, and Connecticut generated approximately the same amount of revenues at its 2 casinos with a total of 13,300 machines.

**Exhibit 4.1**  
**VLT/Slot Machine Statistics: Selected States**

<b>STATE</b>	<b>Location/ # Machines</b>	<b>Types of Machines</b>	<b>Ownership</b>	<b>Annual Revenues/ Avg. Win-per-day</b>	<b>Notes</b>
Delaware	<u>Racetracks (as of October 2008):</u> Delaware Park 3,191 Dover Downs 3,114 Harrington 2,061 Total 8,366	Spinning reel and video slots; money in, coin out	Private racetrack licensees	\$620.4 million/ \$227 avg. Win-per-day	Approved in 1994; Payout: 87 to 95%
Iowa	<u>Racetracks:</u> Bluffs Run 1,867 Dubuque Grey 1,000 Prairie Meadows 1,813 Total 4,680	Spinning reel and video slots; money in, coin or ticket out	Private racetrack licensees	\$463 million/ \$243 avg. WPD	Approved in 1994, subject to local referendum; Avg. Payout: 92%
New Mexico (fiscal 2007)	Total of 3,220 machines for five racetracks and nonprofit organizations	Spinning reel, video slots; coin or token in, coin or token out	Private racetrack licensees; nonprofits	\$256.4 million/ \$160 avg. WPD	Approved in 1997; Payout: 82 to 96%
Pennsylvania	Permits 61,000 machines at 14 racetrack and nontrack locations  Number operating as of October 2008: 16,814	Video slots: ticket in, ticket out; coins, or tokens	Private racetrack licensees and nontrack licensees	\$1.4 billion/ \$298 avg. WPD (last five months of fiscal 2008)	Approved in 2004; Payouts required to be over 85%, with payout avg. 91%
Rhode Island	<u>Parimutuel facilities:</u> Twin River (formerly Lincoln Park) 4,615 Newport Grand 1,080 Total 5,695	Video slots; bills in, ticket out	Parimutuel licensees	\$477.6 million/ \$228 avg. WPD	Approved in 1992; Payouts 92 to 99.1%
West Virginia	<u>Racetracks (as of October 2008):</u> 11,446 VLTs at 4 tracks  Restricted access facilities: 8,160 LVLs at 1,650 locations	VLTs and limited video lottery (LVLs); money in, coin and ticket out	Private racetrack licensees; private establishments	VLTs: \$897.9 million/ \$206 avg. WPD  LVLs: \$397 million/ \$135 avg. WPD	VLTs authorized at four racetracks in 1994; LVLs authorized in 2001; Payouts 85 to 92%

VLT: Video Lottery Terminals

Note: Information is for fiscal 2008, unless otherwise noted.

Source: Various state gaming regulatory agencies



**Exhibit 4.2**  
**VLT/Slot Machine Statistics: Selected States with Casinos**

State	Location/ # Machines	Types of Machines	Ownership	Annual Slot/VLT Revenues/ Average Win-per-day (WPD)	Notes
Nevada	Casinos, other sites such as grocery stores, bars, drugstores, liquor stores:  Casinos 172,856 Non-casinos <u>21,696</u> Total 194,552	VLTs, video poker	Private operators	\$8.3 billion/ \$131 average WPD in casinos	Regulated in mid-1950s; No limit on total number of machines in the state or number of machines in a casino; Payout average is 94%
New Jersey	11 casinos in Atlantic City operated 35,615 slot machines	VLTs	Private operators	\$3.5 billion/ \$266 average WPD	Legalized in 1976; Average of 3,237 machines per casino
Illinois	9 riverboat casinos along 5 Illinois rivers; 9,946 EGDs in operation	EGDs	Private operators	\$1.7 billion/ \$482 average WPD	Authorized in 1990; Payout average is 93%
Connecticut	2 Native American Casinos:  Foxwoods 7,200 Mohegan Sun <u>6,100</u> Total 13,300	VLTs	Mashantucket Pequots tribe, Mohegan tribe	<u>Foxwoods:</u> \$806 million/ \$306 average WPD  <u>Mohegan Sun:</u> \$916 million/ \$411 average WPD	Foxwoods began operations in 1993, Mohegan Sun in 1996; 80% of total casino revenues come from VLTs

VLT: video lottery terminal

WPD: win-per-day

EGDs: electronic gaming devices

Note: New Jersey, Illinois, and Connecticut data are for fiscal 2007 – Nevada data are for fiscal 2008.

Source: Various state gaming regulatory agencies

# Chapter 5. Distribution of Video Lottery Terminal Proceeds

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As there are many different models for how states authorize gambling operations, there are just as many ways in which the revenue generated is distributed. These differences are due in part to the different reasons for which states have authorized gambling and the different stakeholders involved. For example, Delaware, which authorized gambling in order to revive its horse racing industry, dedicates well over half of video lottery terminal (VLT) proceeds to the racetrack licensees, purses, and other associated businesses. On the other hand, New York also provides assistance to the horse racing industry, but may provide as little as 24 percent to VLT operators in some cases. The anticipated distribution of VLT revenues for Maryland may be found in Chapter 2 of this report.

## Distribution of Video Lottery Terminal Revenues – Other States

**Exhibit 5.1** compares the current distribution of VLT revenues among Maryland’s nearby states, plus Nevada. A more detailed description of each state’s revenue distribution follows the exhibit.

**Exhibit 5.1**  
**Approximate Distribution of Video Lottery Terminal Revenues**  
**Selected States**

	<u>CT</u>	<u>DE</u>	<u>NY</u>	<u>NV</u>	<u>PA</u>	<u>WV</u> <sup>4</sup>
State	25.0% <sup>1</sup>	36.0%	55.0%	6.75% <sup>3</sup>	39.0%	34.0/45.0%
Lottery/Administrative Expenses			10.0%			
Licensee/Operator	75.0%	47.0%	35.0% <sup>2</sup>	93.25%	45.0%	42.0/47.0%
		6.0%				
Local Governments					4.0%	2.0%
Horse Racing (purses, breeders, etc.)		11.0%			12.0%	11.0%/17.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

<sup>1</sup>Indian Casinos pay 25 percent of gross slot machine wins to the state on a monthly basis.

<sup>2</sup>For the fiscal year ending in March 2008 - amount includes revenues for racing purses and bred funds.

<sup>3</sup>Maximum tax rate from video lottery terminals only – table games excluded.

<sup>4</sup>Initially, 4% of gross terminal revenues is allocated for lottery administration costs. The distributions that apply depend on if certain revenue benchmarks are met.

Source: Various state gaming regulatory agencies

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## **Connecticut**

Casinos and VLTs are allowed on Indian lands. By negotiated agreement, casinos give 25 percent of gross VLT wins to the state on a monthly basis. (The state does not get any portion of the table game proceeds.)

## **Delaware**

VLT revenues in Delaware are generally distributed as indicated below. The current distribution of gross proceeds from VLTs after payouts to players is as follows:

- approximately 36 percent is distributed to the state;
- approximately 47 percent is distributed to the racetrack licensees;
- approximately 11 percent is distributed to purses and bred funds; and
- the remaining 6 percent covers administrative costs/vendor fees.

## **New York**

Three tribes currently operate four gaming establishments in New York, with a fifth establishment under construction. The Mohawk Akwesasne and Oneida Turning Stone casinos distribute no gambling revenue to the state. The Seneca Nation provides 18 to 25 percent of its revenue to the state.

New York also has eight racetrack VLT facilities overseen by the New York Lottery. For the fiscal year ending in March 2008, the revenue distributions were as follows:

- 55 percent to the state for education;
- 35 percent to the licensee/operator, including distributions for purses/bred funds; and
- 10 percent for administrative costs.

## **Nevada**

All revenues accrue to operators after payment of required fees and taxes as follows:

- slot machines operated under a nonrestricted gaming license pay:
  - an annual tax of \$250 per machine;
  - a quarterly license fee of \$20 per machine; and
  - a monthly percentage fee based on gross gaming revenue:
    - 3.0 percent of first \$50,000 during the month;
    - 4.0 percent of the next \$84,000; and
    - 6.75 percent of revenue exceeding \$134,000.
- slot machines operated under a restricted gaming license (15 or fewer machines) pay:
  - an annual tax of \$250 per machine; and
  - a quarterly license fee on a sliding scale based on number of machines (average = \$84 per machine).

## **Pennsylvania**

Gross VLT revenue in Pennsylvania is distributed in the following manner:

- 45 percent to the licensee;
- 34 percent to the state gaming fund;
- 12 percent to the horse racing industry;
- 5 percent to the state economic development and tourism fund; and
- 4 percent to local governments.

Pennsylvania facility operators also reimburse the state for the oversight costs of four state agencies: the Gaming Control Board, State Police, Department of Revenues, and the Attorney General.

## West Virginia

West Virginia's racetrack video lottery legislation has been amended since its inception to restate its revenue distributions through the use of three separate revenue benchmarks. Individually, each of West Virginia's racetracks utilizes the benchmarks. Before the benchmarks are applied, 4 percent of the gross terminal revenue is allocated by each racetrack for lottery administrative costs. Net terminal revenues are initially allocated in the following manner: racetrack licensees (47 percent), state (34 percent), private entities associated with the racing industry (17 percent), and the local counties in which the racetracks reside (2 percent).

Under current law, three specified benchmarks on administrative costs, the allocation of revenues to local counties and municipalities, and net terminal income act as thresholds for reapportioning racetrack revenues. With these benchmarks, a 10 percent surcharge is first applied to annual net terminal income to provide for racetrack capital reinvestment funds (42 percent) and to the state (58 percent) as specified by legislation or the state budget. After deduction of the surcharge, net terminal revenues from racetracks are allocated in the following manner:

- 45 percent – state;
- 42 percent – racetrack licensees;
- 11 percent – other racing industry private entities; and
- 2 percent – local county and municipal governments.

## Chapter 6. Cross-border Activity and Substitution Effect

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Many Marylanders currently travel to other states to play video lottery terminals (VLTs). Similarly, if VLTs eventually operate in Maryland, many non-Marylanders would come to Maryland to play them. Thus, one significant question in the evaluation of the overall impact of VLTs is the extent of this cross-border activity. A related question is the extent to which those Marylanders who previously did not play VLTs but who would do so if it becomes legal will spend discretionary income on VLTs rather than other taxable items, thus reducing other State tax revenues. This latter impact is termed “substitution” or “displacement.”

### Cross-border Effect

The group of potential VLT players at a Maryland facility can be divided into four cohorts: Marylanders who currently travel out-of-state to play VLTs, Marylanders who do not currently travel out of state to play VLTs but would play in Maryland, out of state residents who play VLTs in other states that come to Maryland to play VLTs, and out-of-state residents that do not play VLTs elsewhere that come to Maryland to play VLTs.

The theoretical impact of each of these cohorts on direct and indirect revenues to the State are illustrated in **Exhibit 6.1**.

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### Exhibit 6.1 Cross-border and Substitution Effect Impacts

<u>Cohort</u>	<u>Cross-border and/or Substitution Impact</u>
Marylanders who currently travel out of state to play (VLTs)	Additional direct and indirect revenue to the State
Marylanders who do not currently travel out of state to play VLTs but would play in Maryland	Additional direct revenue to the State, offset by any lost revenue from substitution effects
Out-of-state residents who currently play VLTs elsewhere but who would come to Maryland to play VLTs	Additional direct and indirect revenue to the State
Out-of-state residents who do not currently play VLTs elsewhere but who would come to Maryland to play VLTs	Additional direct revenue to the State. If VLT spending substitutes for other consumption in Maryland, then other tax revenues could decline

Source: Department of Legislative Services

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For all four cohorts, direct revenue to the State increases as a result of VLT gambling. Indirect State revenues increase as a result of (1) the recapture of Marylanders who play VLTs out-of-state; and (2) out-of-state residents who travel to Maryland explicitly to play VLTs and would not have otherwise visited Maryland in the absence of VLTs.

Indirect State revenues decrease as a result of out-of-state residents and Marylanders who substitute playing VLTs for other forms of taxable activities. For instance, out-of-town conventioners may opt to play VLTs instead of attending an Orioles game. In this case, the State gains VLT gaming revenue but would lose the admissions and amusement tax that would have been generated if the conventioner attended the Orioles game. Part of the substitution effect for Marylanders is captured by the estimated decline in lottery revenues resulting from individuals opting to play VLTs instead of purchasing lottery tickets. To the extent that Marylanders substitute playing VLTs for additional forms of taxable entertainment and consumption, indirect State revenues will decrease further. Examples of this include a Marylander opting to play VLTs instead of going to a bar or out to dinner, which could decrease alcoholic beverage and/or sales taxes.

Estimates vary as to the share of total VLT revenues that each cohort will contribute. Of particular interest has been the amount of VLT revenue that would be recaptured from Marylanders playing VLTs in neighboring states. The Department of Legislative Services (DLS) estimates that approximately \$400 million or approximately one-third of total revenue generated by West Virginia and Delaware VLT facilities comes from Marylanders. Further, it is estimated that these Marylanders contribute approximately \$150 million in revenue to West Virginia and Delaware local and state governments. Authorizing VLTs will not recapture all of this revenue; the number of players recaptured depends on multiple factors. In addition, Pennsylvania will continue to open VLT facilities, which could impact the annual revenue “recaptured” by Maryland VLT facilities.

## **Substitution Effect**

Offsetting the direct and indirect revenue effect of VLT activity is any taxable economic activity that is foregone by VLT players. As indicated above, those who currently go to Delaware or West Virginia to play VLTs, but who would play in Maryland if they could, would bring their economic activity to Maryland with them. But those who do not otherwise play – either Marylanders or out-of-state visitors – but who would play at Maryland VLT facilities may substitute other economic activities in Maryland for playing the VLTs. For instance, they may opt to play VLTs instead of attending an Orioles game. In that case, there would be foregone admissions and amusement taxes, as well as foregone sales tax on any concessions and food. Similarly, they may choose not to go to dinner or to a bar, thus foregoing additional tax revenues. The impact of such substitution cannot be reliably estimated at this time and even the method or methods of calculating the magnitude of the loss is subject to debate.

## **Substitution and the Lottery**

One source of State revenue that would likely decrease, at least theoretically, due to substitution is the State Lottery. Playing the lottery, after all, is a form of gambling, and it is reasonable to expect that Marylanders who currently play the lottery may opt to use those disposable dollars to play VLTs in Maryland. The relationship, however, between the two activities is not clear-cut.

DLS estimated in the fiscal note for the 2007 VLT legislation that VLTs, when fully implemented, will cause a permanent reduction in lottery revenues of 10 percent annually versus what is currently forecast. This estimate is based on the experience of other states that have authorized additional gambling and experienced substantial decreases in lottery sales. In addition, for those states where data are available, Maryland has substantially greater lottery operations, measured on both a volume and a per-capita basis. Therefore, it is possible that lottery sales might decrease more sharply than in these other states.





## Chapter 7. Social Costs and Economic Development Effects of Gambling

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### Introduction

Social costs are the negative impacts to society resulting from individuals who have difficulty controlling their gambling. These gamblers are commonly referred to as problem and pathological gamblers. Problem and pathological gamblers may experience excessive rates of adverse consequences that have tangible economic costs. These include adverse family and health impacts, crime, employer costs, and government expenditures. Adverse family impacts include increased rates of domestic violence, child neglect and abuse, and divorce. Adverse health impacts include decreased mental and physical health as well as increased rates of suicide. Employer costs include absenteeism, lost productivity, and increased unemployment-related costs. Government expenditures include direct gambling regulatory costs, social service costs, and gambling treatment costs. Other potential costs include increased rates of bankruptcy for gamblers and unpaid gambling debts.

On the other hand, gambling benefits include economic development and job creation, increased tax revenues, and enhanced recreational opportunities. Ideally, the costs and benefits of gambling would be measured against each other. The resulting balance would indicate whether gambling had a beneficial or harmful net effect on society. The contentious issue of social costs and benefits has attracted many academic and government research efforts toward this end. These research efforts, however, have failed to provide a clear picture as to the relationship between gambling and social outcomes. Due to strong disagreements in methodologies and conclusions as well as the complexities in gambling social costs and benefits estimation, any estimate of gambling's net impact should be treated with extreme caution.

### Definitions of Pathological and Problem Gambling

Research typically classifies individuals as non-gamblers, low-risk, at-risk, problem, or pathological gamblers. These classifications are typically derived from the diagnostic criteria for gambling disorders, as described in the Diagnostic and Statistical Manual for Mental Disorders, fourth version (DSM-IV) of the American Psychiatric Association. The diagnosis of pathological gambling was first included in the Diagnostic and Statistical Manual in 1980. Internationally, research and treatment professionals have adopted the DSM-IV as the diagnostic standard. As seen in **Exhibit 7.1**, an individual's diagnosis is based on how many criteria, out of 10, the respondent is reported as having.

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**Exhibit 7.1**  
**DSM-IV Criteria for Gambling Classification**

Preoccupation	Is preoccupied with gambling
Tolerance	Needs to gamble in increasing amounts to achieve satisfaction
Withdrawal	Is irritable or restless when attempting to cut down or stop gambling
Escape	Gambles to escape from problems
Chasing	Returns often to get even after losing money gambling
Lying	Lies to family members and others about extent of gambling
Loss of Control	Makes repeated unsuccessful attempts to control gambling
Illegal Acts	Commits illegal acts to finance gambling
Risked Relationships	Jeopardizes job, significant relationship, or educational or career opportunities as a result of gambling
Bailout	Relies on others to provide money as a result of gambling

Source: Diagnostic and Statistical Manual for Mental Disorders, fourth version (DSM-IV) of the American Psychiatric Association

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Low-risk gamblers report no criteria. At-risk gamblers have one or two criteria while problem gamblers have three or four criteria. The DSM-IV criteria characterize pathological gambling as a “persistent and recurrent maladaptive gambling behavior that disrupts personal, family, or vocational pursuits” as evidenced by reporting five or more criteria.

### **Prevalence of Problem and Pathological Gambling**

Pathological and problem gambling prevalence is frequently reported as either “past year” or “lifetime.” The distinction is based on when, either within the past year or at any time, the individual reported the DSM-IV symptoms. Researchers are usually referring to lifetime prevalence rates when discussing the number of problem and pathological gamblers.

The National Research Council (NRC) of the National Academy of Sciences has estimated national prevalence rates for different classifications of gamblers. **Exhibit 7.2** lists the estimated past year and lifetime problem and pathological prevalence rates.

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**Exhibit 7.2**  
**National Research Council Prevalence Estimates**  
**Percent of Adult Population**

	<u>Lifetime</u>	<u>Past Year</u>
Problem Gambling	3.9%	2.0%
Pathological Gambling	1.5%	0.9%
Drug Abuse/Dependence	6.2%	2.5%
Alcohol Abuse/Dependence	13.8%	6.3%

Source: National Research Council of the National Academy of Sciences

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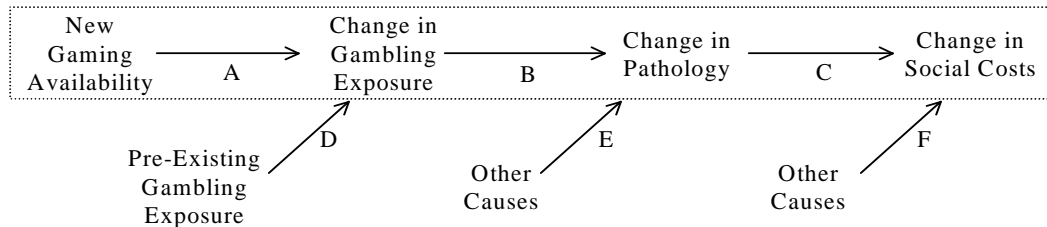
The National Gambling Impact Study Commission (NGISC) cited a Harvard study on alcohol and drug abuse in order to provide perspective on the scope of problem gambling. Exhibit 7.2 also lists the estimated prevalence for drug and alcohol abuse/dependency in 1997, for comparison purposes.

Additional research has been focused on examining if problem and pathological-gambling prevalence rates differ among age, gender, social, and ethnic classifications. While existing research is not in total agreement, some studies have concluded that (1) a familial history of and early exposure to gambling are likely to increase the chances of developing gambling problems; and (2) prevalence rates are higher for minority men, especially adolescents, with relatively low levels of income and education.

### **Estimating Social Costs**

In **Exhibit 7.3**, the region inside the dotted line represents the standard theory typically employed to estimate gambling social costs. The addition of new forms of gambling increases gambling exposure, causing an increase in pathological and problem gambling rates. Social costs increase as the number of pathological and problem gamblers increase. Most studies, including the NGISC study, employ this basic framework to estimate gambling social costs by (1) estimating the prevalence of pathological and problem gambling; (2) compiling a list of negative social outcomes caused by problem gamblers; (3) estimating the average social cost generated by each problem gambler; and (4) multiplying this average by the total number of gamblers to estimate the social cost of gambling.

### Exhibit 7.3 Standard Model of Gambling Costs



Source: Department of Legislative Services

This estimation technique has several problems. First, while it is plausible that increasing gambling availability increases pathological and problem gambling, the magnitude of the change is unclear. In addition, estimates may not consider pre-existing gambling exposure and patterns. In Maryland, pre-existing gambling exposure includes legal and illegal gambling within the State, as well as video lottery terminals (VLTs) accessible to Marylanders in nearby states. Given evidence of significant gambling in surrounding states by Marylanders, it is likely that Maryland already bears some burden of gambling social costs.

Another serious flaw is the problem of comorbidity amongst gamblers. Comorbidity refers to the problem that pathological gamblers often have co-occurring addictions or mental health problems. Referring to ill social effects, the U.S. General Accounting Office (GAO) in a report in 2000 stated that “because pathological gambling in many cases is accompanied by other disorders, it is difficult to determine whether gambling is the only or primary factor causing these problems” to the extent that “even when an individual acknowledges that gambling contributed to a particular family or social problem, it is extremely difficult to determine exactly what caused the problem.” Numerous studies have established that pathological gamblers often have other behavioral disorders including personality disorders, substance abuse, and mood disorders or have experienced trauma in their lives. One study estimates that 78.0 percent of pathological gamblers reported other addictive or psychiatric problems, and 38.5 percent stated that addictive and psychiatric problems had increased the severity of their gambling. Gamblers can have other problems irrespective of their gambling activities that make them more prone to generating social costs. NRC conducted a critical review of the existing literature on problem and pathological gambling in 1999. NRC stated that it is not clear whether or not some problems observed in pathological gamblers may not be caused by gambling but by (for example) alcohol abuse. NRC also stated that it is possible that pathological gambling is a symptom of other underlying disorders that would show up in other ways if gambling were not available. Many studies ignore comorbidity and, therefore, overestimate gambling social costs.

The third serious flaw is the difficulty in isolating gambling as the particular cause of social problems. Countless factors influence crime, for example. Typically, studies look at crime rates before and after gambling has been introduced in order to determine gambling's impact on crime. This analysis, however, can be misleading given that changes in other variables that influence crime rates such as drug use, education, and economic opportunities may also be responsible for the observed change in crime rates. Not accounting for changes in other variables that influence social ills will lead to an inaccurate estimate of gambling social costs.

In addition to these conceptual flaws, applying existing literature as a guide in determining whether VLT gambling in Maryland will cause social costs is problematic for the following reasons: (1) a paucity of reliable, unbiased studies; and (2) uncertainty if studies examining other non-VLT gambling activities are relevant and appropriate.

The difficulties in estimating gambling social costs are reflected in the conclusions of several important federal gambling studies. Neither of the GAO's studies in 2000 of Atlantic City and convenience gambling in several communities were able to conclude whether gambling causes social costs. GAO stated that it was not able to "clearly identify the social effects of gambling on Atlantic City" and that "we found no conclusive evidence showing whether or not convenience gambling caused increased social problems." Not surprisingly, the title of GAO's Atlantic City gambling study was "Economic Effects More Measurable than Social Effects." NRC identified serious flaws in many studies and stated that in most gambling studies "the methods used are so inadequate as to invalidate the conclusions."

This difficulty is also seen in an October 2008 report from the Maryland Institute for Policy Analysis and Research (MIPAR) of the University of Maryland, Baltimore County, which examined the overall impacts of introducing VLTs in Maryland. That report estimated total annual social costs related to VLTs in Maryland would range between \$228 million and \$628 million. However, the estimates provided by MIPAR were derived from essentially one work of research, and several questions have been raised about the soundness of the methodology and objectivity of this research. In addition, much of this research work relies on previous research, some of which is dated or has methodological problems. Some of the impacts identified as social costs within the MIPAR analysis also do not fit the criteria of social costs as defined within an economic analysis. Even as MIPAR provided its estimates of social costs, it noted that its numbers are "illustrative...and is not meant to be a full benefit-cost analysis" and that the "numbers should not be combined in a benefit-cost calculation."

## **Economic Benefits from Gambling**

As with social costs, a lack of consensus exists over the classification and magnitude of benefits. Economic benefits differ by type of gambling. Convenience gambling – gambling that is typically located in bars and restaurants catering to local populations – is generally thought to have less economic benefit than gambling destination resorts. The latter is more likely to attract non-residents who spend additional money at local, non-casino businesses.

Economic effects include job creation, investment stimulation, tourism development, and economic development and revitalization. Economic effects can be direct and indirect. A direct effect is the wages paid to casino employees. When a casino employee spends his or her wages in a local business, the owner of the business indirectly benefits from the casino. Another example of an indirect benefit is gasoline and other incidentals purchased from local businesses by tourists visiting casinos. These indirect effects comprise the “multiplier effect” of a gaming establishment. A gaming establishment’s direct investments are “multiplied” throughout the community so that the total economic impact is greater than the direct effect.

The federal Bureau of Economic Analysis has estimated multiplier effects for an extensive range of industries. A multiplier for gaming establishments, however, has not been estimated. An imperfect proxy employed in many gaming studies is the multiplier for amusement and recreation facilities. In addition, another potential source of error results from difficulties in accurately measuring the direct effects of a gaming establishment. Incorrect estimates of direct effects will lead to incorrect indirect estimates.

The last benefit from gambling is the enjoyment that the majority of gamblers receive from the overall experience. The gain in utility these individuals receive from gambling is a benefit. The resulting “consumer surplus” associated with this enjoyment, however, is difficult to quantify.

The MIPAR report mentioned earlier in this chapter briefly discusses some potential social benefits from the introduction of VLTs, which MIPAR estimates to be in the \$5 million to \$25 million range. As mentioned previously, these numbers should be evaluated with caution.

## **Netting Out Costs and Benefits**

Several states have conducted studies to estimate the net costs and benefits of state gambling operations. Most studies estimate the prevalence of pathological and problem gambling and employ some or all of the cost estimates estimated by NGISC. The State of Delaware’s Health and Human Services 2002 study and the Louisiana Gambling Control Board’s 1999 Cost-Benefit Analysis of Gambling are two studies of interest.

Despite the expansion of slot machine gambling in the mid-1990s, Delaware’s rate of pathological gamblers was found to be “slightly lower” than the national average. The past year estimated prevalence of pathological, problem, and at-risk gamblers was 0.3 percent, 0.4 percent, and 5.8 percent, respectively. Males were slightly more likely to be problem gamblers. Those aged 65 and over were less likely to be problem gamblers, and no statistically significant difference was identified for ethnicity. The number of at-risk gamblers, however, increased from 1988 to 2002 suggesting a potential future increase in the prevalence of pathological and problem gambling.

The study concluded that the “aggregate of the social costs of gambling appears to be relatively small compared with the economic benefits produced by the gambling industry.” The study offers several possible explanations as to why Delaware has a relatively low rate of pathological gamblers and therefore social costs. One of the explanations offered is that the study is not fully able to account for all of Delaware’s gambling patrons since many come from out of state. The report stated that “Delaware exports a substantial proportion of the costs and consequences of problem gambling to the surrounding states” and that “many out-of-state residents gamble in Delaware, but manifest the costs and consequences of gambling mainly in their home states.” According to this study, Maryland currently has more pathological gamblers and “substantial” social costs as a result of slot machine gambling, even though slot machine gambling has not been legal in Maryland.

Gambling is a major industry in Louisiana. Louisiana has more forms of legalized gambling than any other state except Nevada. The lifetime prevalence rates for problem and pathological gamblers were estimated to be 3.3 percent and 2.5 percent. The past-year prevalence rates were estimated at 2.3 percent for problem gamblers and 1.6 percent for pathological gamblers. Unlike the Delaware study, substantial differences in prevalence rates were found to exist among ethnic and age subgroups.

The Louisiana study found that total benefits in the form of new tax revenues and new earnings totaled \$1.1 billion. Costs included regulatory costs (\$50 million) and measurable social costs (\$482 million). Measurable social costs included employment costs, bad debts, and thefts as well as civil court, criminal justice, and treatment costs. The study concluded that the benefit-cost ratio of 2.08 justified continued legalization of gambling. A caveat to this conclusion was that the “lion’s share of new spending” came from Texas residents, and if Texas legalizes casino gambling, the benefit-cost ratio would reverse and gambling would become a net negative industry in the state. This conclusion, along with Delaware’s study, suggests that states maximize their gambling industry benefit-cost ratio by locating gaming venues in areas that maximize the number of out-of-state gaming patrons.

## **Maryland’s VLT Legislation and Problem Gambling**

Under Senate Bill 3, a \$425 annual fee per VLT terminal to be paid by VLT licensees will be deposited in a Problem Gambling Fund to be administered by the Department of Health and Mental Hygiene. The fund must be used to establish a 24-hour hotline, provide counseling for problem gamblers, and establish problem gambling prevention programs and other support services. Assuming the full number of 15,000 VLTs, approximately \$6.4 million annually would be provided to the fund. Senate Bill 3 would also require a study of the current prevalence of gambling in the State and periodic studies in subsequent years.



In addition, Senate Bill 3 requires that VLT facilities develop procedures that permit self-exclusion from facilities for individuals with gambling problems. The Lottery Commission must also adopt regulations to reduce or mitigate the effects of problem gambling, including:

- limits on dollar amount accepted by VLTs;
- payout of winnings above a certain amount by check;
- limits on ATM numbers, locations, and maximum withdrawals; conspicuous disclosures related to VLT payouts and odds; and
- consumer records of spending levels to the extent that marketing measures track spending.

## **Chapter 8. Local Approval and Taxation of Video Lottery Terminal Operations**

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### **Introduction**

The role of local governments in the approval and development of video lottery terminal (VLT) facilities in Maryland is clearly of great importance. This chapter reviews the practices of other states regarding the local role in initiating or expanding gambling. The chapter also briefly reviews current Maryland law that would be applicable to the initiation of VLTs in Maryland.

### **Local Approval: Experiences in Other States**

Many states require some type of local approval in order for VLT facilities or full-fledged casinos to operate in local jurisdictions. Additionally, voters have a say in any statewide approval that may be required for the establishment or expansion of gambling. Local consent, by an act of the voters, their local governing bodies, or both, can take various forms. A state constitution or statutory provision authorizing gambling can require approval by local referendum before a facility can be licensed to operate in a county, municipality, or other local jurisdiction. Instead of approval by the voters, a local governing board may be required to pass an ordinance approving gambling in the jurisdiction. In some cases, the local ordinance is then subject to a local referendum. In cases where gambling licenses are competitively awarded, it is important to have some form of support from the host jurisdiction if a bid is to be successful. Finally, in most states that allow VLT and casino gambling, facilities must receive local planning and zoning approval prior to construction of gambling operations.

One recurrent principle throughout the array of state gambling policies is the recognition that local communities should have some input into whether and where gambling is permitted in their jurisdictions. In some states, an affirmative act by the voters is required. In Rhode Island, VLTs are currently permitted at two pari-mutuel facilities. Under the state constitution, local voters must approve any expansion of VLTs or other forms of gambling into a new municipality. Additionally, a constitutional amendment must be ratified by the voters in order for casinos to be allowed. In Iowa, which has slot machines at racetracks, approval is subject to local referendum.

In other states, VLT or casino operations must be approved by the local governing board of a county or municipality. In Illinois, which has riverboat gambling, casino licenses are not subject to local referendum. However, prior to the issuance of a casino license, the governing body of the county or municipality must, by majority vote, approve the docking of the casino. Likewise, in Louisiana, racetracks can switch from video poker to slot machines only with local approval.

Most states, at a minimum, subject VLT facilities and casinos to local planning and zoning processes. Delaware, New York, Rhode Island, and Illinois, for example, all allow for

local planning and zoning approval. The one case in which no local approval or input is permitted is for Indian gaming. Indian casinos must be on lands of federally recognized Indian tribes and as “sovereign nations,” these Indian lands are governed by federal law and are not subject to local planning or zoning rules.

## **Maryland’s Experience**

VLTs have been authorized in Maryland through the constitutional amendment approved by the voters in November 2008. While not required to also be approved by local referendum, language included in the constitutional amendment requires any proposed VLT facility to meet all applicable local planning and zoning regulations. Under the constitutional amendment, any future expansion or additional forms of gambling must be approved by the General Assembly and be subject to voter referendum.

## **Local Taxation Issues**

Local governments generate revenues from VLT facilities and casinos operating in their jurisdictions in a variety of ways. As outlined in Chapter 5, local governments in some states receive a share of gambling proceeds. This distribution is in part to compensate localities for the increased costs in infrastructure, law enforcement, and other social costs resulting from gambling operations. In addition, some local jurisdictions receive revenues from an admissions tax applied to gambling establishments. Some localities may also impose their own license fees. In Nevada, counties impose a quarterly or annual license fee for each slot machine.

Under the VLT implementing legislation in Maryland, 5.5 percent of gross VLT proceeds will go to the local jurisdictions that have VLT facilities, based on the percentage of video lottery proceeds generated at each facility location. The distribution of local impact grants to counties in which VLT facilities are located is shown in **Exhibit 8.1**.

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**Exhibit 8.1**  
**Distribution of Local Impact Grants**  
**From Video Lottery Terminal (VLT) Revenues**  
**Fiscal 2011-2013**  
**(\$ in Millions)**

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Baltimore City <sup>1</sup>	\$0.0	\$21.1	\$31.7
Anne Arundel <sup>2</sup>	6.9	21.6	24.6
Cecil	0.0	5.3	8.6
Worcester <sup>2</sup>	1.7	5.4	6.2
Allegany (Rocky Gap)	0.0	1.7	2.8
Prince George's County <sup>3</sup>	0.0	1.0	1.0
<b>Total</b>	<b>\$8.6</b>	<b>\$56.0</b>	<b>\$74.9</b>

<sup>1</sup>These amounts include grants for the Pimlico/Park Heights area.

<sup>2</sup>These distributions are subject to specific allocations if VLT operation licenses are awarded to Laurel Park and Ocean Downs.

<sup>3</sup>Prince George's County will receive \$1 million annually for the community surrounding Rosecroft Raceway.

Source: Department of Legislative Services

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As with the development of any other business, the localities would receive real and personal property tax revenues from gambling facilities – for a facility at Rocky Gap in Allegany County, property taxes would be paid pursuant to a payment in lieu of taxes agreement. Local admissions and amusement taxes may also be applicable to entertainment and refreshments at gambling facilities.



## **Chapter 9. Overview of Horse Racing in Maryland**

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### **Horse Racing in Maryland**

The formation of the Maryland Jockey Club in 1743 to supervise races at an Annapolis track represents the first regulation of horse racing in Maryland. The Jockey Club began to award prizes and purses to the winners of the races that it supervised. Pari-mutuel betting was introduced in Maryland in 1912 as a system that allows the bettors themselves rather than an outside bookmaker to set the odds. Under the pari-mutuel system, all money wagered by unsuccessful bidders is returned to successful bidders after specified deductions including track operations, taxes, and purse money.

Prior to 1920, local jurisdictions regulated the five operating horse racing tracks in Maryland. Chapter 273 of 1920 repealed local laws controlling racing, established State control over racing, and created the Maryland Racing Commission to regulate racing. Authorized racing was limited to thoroughbred racing until 1937 when the General Assembly provided for the licensing of harness racing. Harness racetracks were subsequently granted the authority to operate pari-mutuel betting in 1951.

The six types of racing currently allowed in the State are mile thoroughbred racing, harness racing, special thoroughbred racing, steeplechase or hurdle racing, flat racing, and quarter horse racing. Mile thoroughbred racing – in which thoroughbred horses race at a track at least one mile long – is conducted at Laurel Park in Anne Arundel County and Pimlico Race Course in Baltimore City. Harness racing – in which standardbred horses trot or pace in a harness while pulling drivers – is conducted at Rosecroft Raceway in Prince George's County and Ocean Downs Raceway in Worcester County.

Special thoroughbred racing takes place at the Maryland State Fair in Timonium or as a part of other fairs or special events. Steeplechase racing (where horses jump over wooden barriers) and hurdle racing (where horses jump over hedges) may be held as one-day race meetings and are currently conducted at Fair Hill in Cecil County. Quarter horse racing is also authorized but not currently conducted at Fair Hill. The details of the major tracks are discussed below.

### **Thoroughbred Racetracks**

Owned by the Magna Entertainment Corporation, Laurel Park is located in Anne Arundel and Howard counties. Opened in 1911, the facility has a 1-mile turf course and a 1 1/8-mile track.

Pimlico Race Course, also owned by the Magna Entertainment Corporation, is located in Baltimore City. Pimlico opened in 1870 and has a 1-mile main track and a 7/8-mile turf course.

## Standardbred Racetracks

Owned and operated by Cloverleaf Enterprises, Inc., Rosecroft Raceway is located in Prince George's County, five miles from Washington, DC. Opened in 1949, Rosecroft has a 5/8-mile track.

Owned by the Allegany Racing Association, Ocean Downs is located in Worcester County, five miles from Ocean City. Opened in 1949, the facility has a 1/2-mile track.

## Racing Data

**Exhibit 9.1** shows the total attendance, live racing days, total betting, and purses for Laurel, Pimlico, and Timonium racetracks between 2003 and 2007. Similarly, **Exhibit 9.2** shows the total attendance, live racing days, total betting, and purses for Rosecroft and Ocean Downs for the same time period.

## Purses

Annual thoroughbred racing purses have fluctuated somewhat since 2003, ranging anywhere from \$33 million to \$40 million over the time period. In the same period, purses for standardbred racing have ranged between \$5 million and \$7 million.

Under Senate Bill 3, the VLT implementing legislation, 7 percent of VLT revenues will be provided to purses and bred funds, not to exceed \$100 million annually. Of the total amount, 80 percent will be provided to the thoroughbred industry and 20 percent to the standardbred industry. Of those revenues, 85 percent will go to purses and 15 percent to the bred funds.

**Exhibit 9.1**  
**Thoroughbred Horse Racing In Maryland**  
**Calendar 2003-2007**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Laurel</b>					
Attendance	825,530	651,644	769,814	798,795	688,623
Live Racing Days	138	62	134	153	148
Purses	\$23,811,771	\$9,286,091	\$23,392,376	\$30,306,075	\$28,973,185
Betting on Races at Laurel					
Live Racing @ Laurel	\$25,118,717	\$10,938,015	\$23,627,369	\$26,246,235	\$21,768,715
MD Races Simulcast	\$8,420,028	\$13,842,841	\$7,402,127	\$5,057,840	\$4,400,788
Out-of-state Simulcast	\$143,542,225	\$135,939,778	\$144,432,586	\$139,107,792	\$127,312,028
Total Betting @ Laurel	\$177,080,970	\$160,720,634	\$175,462,082	\$165,354,027	\$153,481,531
<b>Pimlico</b>					
Attendance	749,230	792,342	470,514	395,994	524,994
Live Racing Days	71	135	61	31	31
Purses	\$15,701,370	\$22,705,429	\$11,293,851	\$8,922,813	\$8,481,554
Betting on Races at Pimlico					
Live Racing @ Pimlico	\$16,878,035	\$25,838,130	\$15,686,999	\$13,288,969	\$12,343,805
MD Races Simulcast	\$9,565,405	\$4,557,944	\$8,234,603	\$9,171,465	\$7,387,080
Out-of-state Simulcast	\$102,250,300	\$99,701,935	\$96,488,167	\$98,770,104	\$84,131,719
Total Betting @ Pimlico	\$128,693,740	\$130,098,009	\$120,409,769	\$112,059,073	\$103,862,604
<b>Timonium</b>					
Attendance	n/a	n/a	27,548	27,548	26,107
Live Racing Days	8	8	8	8	7
Purses	\$906,820	\$955,675	\$935,975	\$929,235	\$739,170
Betting on Races at Timonium					
Live Racing @ Timonium	\$1,884,451	\$1,807,906	\$1,666,393	\$1,458,227	\$1,199,084
MD Races Simulcast	\$0	\$0	\$0	\$0	\$0
Out-of-state Simulcast	\$1,066,316	\$1,028,237	\$1,033,381	\$938,530	\$885,211
Total Betting @ Timonium	\$2,950,767	\$2,836,143	\$2,699,774	\$2,396,757	\$2,084,295
<b>Total Thoroughbred Purses</b>	<b>\$40,419,961</b>	<b>\$32,947,195</b>	<b>\$35,622,202</b>	<b>\$40,158,123</b>	<b>\$38,193,909</b>
<b>Total Betting at Thoroughbred Tracks</b>	<b>\$308,725,477</b>	<b>\$293,654,786</b>	<b>\$298,571,625</b>	<b>\$279,809,857</b>	<b>\$259,428,430</b>
<b>Percentage of Betting on Out-of-state Races</b>	<b>80%</b>	<b>81%</b>	<b>81%</b>	<b>85%</b>	<b>82%</b>

Source: Maryland Racing Commission



**Exhibit 9.2**  
**Standardbred Horse Racing In Maryland**  
**Calendar 2003-2007**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Rosecroft</b>					
Attendance	576,255	489,536	484,701	404,191	339,579
Live Racing Days	122	117	97	104	86
Purses	\$6,472,340	\$4,874,030	\$4,184,330	\$5,392,600	\$4,592,499
Betting on Races at Rosecroft					
Live Racing @ Rosecroft	\$8,222,275	\$6,266,855	\$4,767,933	\$4,498,952	\$3,504,514
MD Races Simulcast	8,908,287	6,192,856	7,479,401	663,941	5,293,719
Out-of-state Simulcast	104,727,836	97,078,458	107,588,715	105,795,175	88,680,723
Total Betting @ Rosecroft	121,858,398	109,538,169	119,836,049	110,294,127	97,478,956
<b>Ocean Downs</b>					
Attendance	142,830	141,229	140,264	212,969	132,912
Live Racing Days	40	39	40	40	40
Purses	\$663,630	\$923,680	\$974,810	\$820,265	\$902,500
Betting on Races at Ocean Downs					
Live Racing @ Ocean Downs	\$2,056,640	\$2,057,361	\$2,056,739	\$2,051,340	\$2,018,446
MD Races Simulcast	1,821,482	1,552,797	1,479,526	1,476,983	1,454,496
Out-of-state Simulcast	20,683,776	17,962,924	17,416,963	17,713,164	16,674,221
Total Betting @ Ocean Downs	24,561,898	21,573,082	20,953,228	19,764,504	20,147,163
<b>Total Standardbred Purses</b>	<b>\$7,135,970</b>	<b>\$5,797,710</b>	<b>\$5,159,140</b>	<b>\$6,212,865</b>	<b>\$5,494,999</b>
<b>Total Betting at Standardbred Tracks</b>	<b>\$146,420,296</b>	<b>\$131,111,251</b>	<b>\$140,789,277</b>	<b>\$130,058,631</b>	<b>\$117,626,119</b>
<b>Percentage of Betting on</b>					
<b>Out-of-state Races</b>	86%	88%	89%	95%	90%

Source: Maryland Racing Commission

# Appendix 1

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Much of the comparative information presented in this report is derived from in-depth examination of a selected group of states with gambling. These jurisdictions were selected because of the variety of approaches they have taken to gambling. This appendix provides more details about the structure and nature of gambling in the jurisdictions closest in proximity to Maryland. They are as follows:

- Delaware
- New York
- Pennsylvania
- West Virginia

# **Delaware Gambling Information**

## **Types of Gambling**

- Horse Racing (Simulcasting and Off-track Betting)
- Lottery
- Racetrack Video Lottery Terminal (VLT) Facilities
  - Delaware Park
  - Dover Downs
  - Harrington Raceway

## **Types/Numbers of Locations**

There are approximately 8,366 VLTs operating at three racetracks as of October 2008:

- Delaware Park – 3,191;
- Dover Downs – 3,114; and
- Harrington Raceway – 2,061.

## **Ownership/Regulation and State Oversight**

VLT facilities are regulated by the Lottery Commission. All VLTs and the central computer are owned/leased by the state and under the regulation of the Lottery Commission.

## **Licenses/Licensing Process**

License has no duration unless ownership is transferred. Minimal licensing fees.

## **Payout Percentage and Win-per-day**

Delaware's VLT prize payouts range from 87 to 95 percent, unless otherwise authorized by the state lottery director.

In 2008, average wins-per-day ranged from a low of approximately \$153 to \$212 at the Harrington facility to approximately \$215 to \$245 at the Delaware Park location.

## **Local Referendum/Regulation (Planning and Zoning, etc.)**

VLT facilities are subject to local planning and zoning laws and regulations.

## **Project Development/Financing**

Project financing is reviewed by the state lottery.

## **Revenue Distribution**

Gross proceeds after payouts to players were approximately \$621 million in fiscal 2008. Approximately \$220 million was distributed to the state, \$295 million was distributed to the racetracks, \$69 million was distributed to purses, and \$37 million to cover administrative costs and vendor fees.

## **Economic Impacts (Jobs, Tax Revenues, etc.)**

There are a total of approximately 1,200 jobs at the three VLT facilities.

## **Problem Gambling/Consumer Protection**

One percent of the state share of the net win is dedicated to programs for problem gamblers and is budgeted by the Department of Health and Social Services. Self-exclusion policies are authorized by regulation.

# New York Gambling Information

## Types of Gambling

- Horse Racing
- State Lottery
- Indian Casinos – operated through compacts with the state of New York
  - Turning Stone Resort and Casino;
  - Akwesasne Mohawk Casino;
  - Seneca Niagara Casino;
  - Seneca Allegany Casino; and
  - Seneca Buffalo Casino (under construction).
- Racetrack Video Lottery Terminal (VLT) Facilities
  - Batavia Downs Gaming;
  - Empire City at Yonkers Raceway ;
  - Fairgrounds Gaming and Raceway ;
  - Finger Lakes Gaming and Racetrack ;
  - Monticello Mighty M Gaming and Raceway ;
  - Saratoga Gaming and Raceway ;
  - Tioga Downs ; and
  - Vernon Downs.

## Types/Numbers of Locations

### Indian Casinos

**Turning Stone:** Table games, bingo, poker, Keno, and over 2,400 VLTs.

**Akwesasne Mohawk:** Table games and over 1,000 VLTs.

**Seneca Niagara:** Table games and poker, and over 4,200 VLTs.

**Seneca Allegany:** Table games, including blackjack, craps, minibac, and over 2,300 VLTs.

**Seneca Buffalo:** Table games and 2,000 VLTs (under construction).

## **Racetrack VLT Facilities**

See the table under the heading “Revenue Distribution.”

## **Ownership/Regulation and State Oversight**

### **Indian Casinos and Horse Racing**

New York’s Indian casinos are owned by the tribes and operated through compacts with the state. These casinos and horse racing are regulated by the New York State Racing and Wagering Board.

### **Racetrack VLT Facilities**

Legislation enacted in 2001 authorized VLTs to be operated at specified racetrack locations in the state and provided that these facilities are to be licensed and regulated by the New York State Lottery.

In February 2008, a deal was reached in the New York state legislature that extended the New York State Racing Association’s (NYRA) franchise to operate three of the state’s thoroughbred race tracks (Aqueduct, Belmont, and Saratoga) by 25 years. As part of the agreement, NYRA would receive \$105 million in state aid in order to move out of bankruptcy protection; the state would recoup the \$105 million in aid from proposed VLTs approved for Aqueduct (approximately 4,500 machines).

## **Licenses/Licensing Process**

### **Indian Casinos**

Employees are licensed by the New York Racing and Wagering Board.

### **Racetrack VLT Facilities**

Employees are licensed by the New York Racing and Wagering Board. Applicants for a video lottery vendor license must pay a nonrefundable \$10,000 licensing fee to cover the costs of conducting a background investigation.

## **Payout Percentage and Win per Day**

The payout percentage at each VLT facility is approximately 92 percent. The average win per day at each racetrack VLT facility is shown under “Revenue Distribution.”

## **Local Referendum/Regulation (Planning and Zoning, etc.)**

### **Indian Casinos**

None.

### **Racetrack VLT Facilities**

Construction of a VLT facility is subject to all required governmental and regulatory permits and approvals, including a review pursuant to the New York State Environmental Quality Act. However, no additional local zoning procedures have been required with pre-existing racetrack facilities.

## **Project Development/Financing**

All capital expenditures for gambling facilities in New York have been privately financed.

## **Revenue Distribution**

### **Indian Casinos**

**Turning Stone Casino:** None.

**Akwesasne Mohawk Casino:** None.

**Seneca Niagara and Allegany Casinos:** The Seneca Nation is required to provide the state the following percentage of the proceeds from each gaming device:

<u>Year</u>	<u>Percentage</u>
1-4	18%
5-7	22%
8-14	25%

### **Racetrack VLT Facilities**

The following table shows the average number of VLTs at each facility, average win per day, and the distribution of the “net win” for the period from April 2007 through March 2008. Net win is defined as the net remaining revenues after payout of prizes to players; it is commonly referred to as “net machine income.” The total revenue for the year was approximately \$875 million.



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<u>Facility</u>	<u>Average Daily VLTs</u>	<u>Average Win-per-day*</u>	<u>Education Contribution</u>	<u>Distribution of Net Win</u>		<u>Lottery Administration</u>
				<u>Racetrack Commission</u>	<u>Marketing Allowance</u>	
Batavia Downs	591-592	\$110-\$165	\$14,755,452	\$9,443,489	\$2,360,872	\$2,951,090
Empire City	5,298-5,478	\$188-\$262	\$253,026,478	\$118,244,807	\$17,268,432	\$43,171,080
Fairgrounds	959-965	\$114-\$149	\$23,050,979	\$14,752,626	\$3,688,157	\$4,610,196
Finger Lakes	1,199	\$185-\$239	\$49,453,984	\$29,380,482	\$7,691,167	\$9,613,959
Monticello	1,587	\$74-\$138	\$31,565,676	\$19,592,539	\$4,991,045	\$6,238,807
Saratoga	1,331-1,770	\$162-\$260	\$69,814,041	\$39,984,057	\$9,635,182	\$13,270,364
Tioga Downs	750	\$116-\$177	\$21,399,067	\$13,695,403	\$3,423,581	\$4,279,813
Vernon Downs	761-777	\$92-\$143	\$16,964,097	\$10,857,022	\$2,714,255	\$3,392,819
<b>Total</b>			<b>\$480,029,774</b>	<b>\$255,950,425</b>	<b>\$51,772,691</b>	<b>\$87,528,128</b>

\* The average daily win amount varies by month; the amount shown represents the high and low monthly averages during the year.

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Of the amount retained by the racetracks, each facility has negotiated an agreement with the horsemen and breeders as to the amount to be directed to purses and bred funds. This amount generally ranges from 7 to 9 percent.

### **Economic Impacts (Jobs, Tax Revenues, etc.)**

The following is a list of all licensed employees at the state's racetrack VLT facilities, as of June 2008:

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<u><b>VLT Facility</b></u>	<u><b>Number of Employees</b></u>
Batavia Downs	219
Empire City	1,292
Fairgrounds	235
Finger Lakes	373
Monticello	319
Saratoga	533
Tioga Downs	251
Vernon Downs	283
<b>Total</b>	<b>3,505</b>

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### **Problem Gambling/Consumer Protection**

#### **Indian Casinos**

Voluntary self-exclusion policy.

#### **Racetrack VLT Facilities**

Voluntary self-exclusion policy. Further assistance provided by the New York State Council on Problem Gambling.

# Pennsylvania Gambling Information

## Types of Gambling

- Horse Racing
- Video Lottery Terminals (VLTs)
- State Lottery

## Types/Numbers of Locations

Legislation enacted in 2004 authorized the Pennsylvania Gaming Control Board (Board) to issue a total of 14 licenses permitting up to a maximum of 61,000 VLTs in the Commonwealth. The 14 licenses for VLTs are allocated to specific locations as follows:

- Racetracks – 7 licenses;
- Stand alone facilities – 5 licenses; and
- Resort hotels – 2 licenses.

If not awarded by 2009, one racetrack license will convert to a stand alone facility license. Three of the five stand alone facility licenses are designated for specific areas (*i.e.*, two licenses allow construction in Philadelphia and one license in Pittsburgh). Any racetrack or stand alone facility is limited to a maximum of 5,000 VLTs. There is a limit of 500 VLTs for each of the two resort hotel facilities.

Seven of the 14 facilities have opened and now operate within the Commonwealth. In 2008, the Board is focused on determining the suitability of operating a VLT facility at a new racetrack, awarding the two resort location licenses, and moving closer to the opening of four stand alone facilities in Bethlehem, Pittsburgh, and Philadelphia.

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## VLT Facilities in Pennsylvania October 2008

<u>Facility</u>	<u>Number of VLTs</u>
Mohegan Sun	2,479
Philadelphia Park	2,911
Harrah's Chester Downs	2,873
Presque Isle	1,992
The Meadows	1,825
Mount Airy	2,523
Penn National	2,211
<b>Total</b>	<b>16,814</b>

VLT: Video Lottery Terminal

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### Ownership/Regulation and State Oversight

The Board has exclusive authority to issue, approve, condition, or deny VLT licenses. All operational VLTs are linked to a central control system to allow monitoring by the Pennsylvania Department of Revenue. The Department of Revenue accurately accounts for and collects all revenues.

### Licenses/Licensing Process

As part of the video lottery facility application process, the Board provides applicant materials to the public for review. The licensing investigation phase includes an evaluation of all eligibility criteria, character and financial suitability, and a review of the applicant's diversity and compulsive gambling plan. Fees for the investigations are collected from the applicants.

If, after consideration of all of the evidence, the Board is satisfied that the applicant is suitable for licensure, the Board can vote to approve the applicant. Conditional and permanent licenses are granted, with permanent licensees granted when all of the Board's conditions for approval are met. When reviewing applications, the Board can take into consideration factors such as the location and quality of the proposed facility, transportation issues, the market service area, and potential for new job creation.

Market participant license fees are presented below:

- Racetracks and stand alone facilities – \$50 million (one time fee);
- Resorts – \$5 million (one time fee);
- Supplier license fee – \$25,000 (Annual renewal fee of \$10,000); and
- Manufacturer license – \$50,000 (Annual renewal fee of \$25,000).

### **Payout Percentage and Wins-per-day**

While prize payouts cannot be less than 85 percent, the actual average prize payout is about 91 percent. For the 12-month period ending in July 2008, daily wins-per-day ranged from a low of \$189 at Mount Airy to a high of \$386 at Philadelphia Park.

### **Local Referendum/Regulation (Planning and Zoning, etc.)**

Not applicable.

### **Project Development/Financing**

Project financing is reviewed by the state lottery.

### **Revenue Distribution**

VLT revenues for Pennsylvania totaled \$1.4 billion in fiscal 2008 – below is the distribution of revenues from VLTs, after prize payouts:

- state gaming fund – 34 percent (\$477.6 million);
- local and county governments – 4 percent (\$56.2 million)
- state economic development and tourism fund – 5 percent (\$70.3 million);
- horse racing industry – 12 percent (\$168.6 million); and
- licensee earnings – 45 percent (\$631.3 million).

## **Economic Impacts (Jobs, Tax Revenues, etc.)**

Approximately 4,700 licensed, permitted, and registered employees work at gaming facilities around the state. Additional employment of thousands of individuals is provided through the construction of new facilities and with contractors providing goods and services to the industry.

## **Problem Gambling/Consumer Protection**

The Compulsive Problem Gambling Treatment Fund is supported with a minimum of \$1.5 million annually. Funds are used by the Pennsylvania Department of Health to develop program guidelines for public education, awareness, treatment, and prevention of compulsive and problem gambling. A toll-free telephone number to provide crisis counseling and referral services are required on VLTs and in certain locations throughout gaming premises. Self-exclusion policies are authorized by regulation.

# West Virginia Gambling Information

## Types of Gambling

In addition to a traditional state lottery, West Virginia allows two different types of video lottery play. Video lottery terminal (VLT) gambling is available at the state's four racetracks and "limited video lottery" gambling is available in certain retail locations with specific types of alcoholic beverage licenses. In 2007, the West Virginia legislature authorized regulated table gaming at the four licensed racetracks, contingent upon approval by local referendum. Voters in three counties approved their respective racetracks to operate table games. A proposal to allow table games at [Charles Town Races & Slots](#), the VLT facility closest to Maryland, was defeated. In November 2008, a local referendum was approved in Greenbrier County to allow for VLTs and table games at the Greenbrier Resort.

## Types/Numbers of Locations

VLTs are located at the four licensed racetracks in the state. The number of VLTs at any one track is not limited by statute; however, any track requesting to add VLTs must seek approval from the West Virginia Lottery Commission (Commission). Approximately 11,446 terminals were operational and available for play as of October 2008:

- Charles Town – 5,012;
- Mountaineer Park – 3,170;
- Wheeling Island – 2,017; and
- Tri-State – 1,247.

Additionally, West Virginia authorizes up to 9,000 VLTs to operate in licensed bars, clubs, and fraternal organizations. The retail premises for which these limited video lottery licenses are issued can have up to 5 VLTs, except that eligible fraternal societies and veterans' organizations may have up to 10 VLTs. As of August 2008, 1,650 retailers possess valid limited video retailer's licenses, and 8,160 "limited video lottery" terminals operate in the state.

## **Ownership/Regulation and State Oversight**

The Commission is responsible for regulating racetrack and limited video lottery operations. Racetrack VLTs and limited VLTs are connected to a shared central computer system controlled by the Commission.

## **Licenses/Licensing Process**

Racetrack video lottery licenses are granted by the Commission. In part, applicants must hold a valid racing license; pass background checks; submit disclosure forms; and secure and verify adequate and qualified financing. Regarding the distribution of proceeds, racetracks must present evidence of agreements with horse owners and trainers, pari-mutuel clerks, and breeders. Agreements between the applicant and the manufacturer of VLTs must also be filed with the Commission. The Commission renews video lottery licenses and permits on an annual basis.

West Virginia also allows VLTs to operate on the premises of certain retail establishments with liquor licenses. An operator's license is required of all businesses that place and operate video gaming machines on the premises of a retailer.

## **Payout Percentage and Wins-per-day**

VLTs in West Virginia must pay out no less than 80 percent and no more than 95 percent. The current payout rate for both video lottery games and limited video lottery games is 91 percent.

Racetrack VLT facility wins-per-day range from \$95 to \$250 per terminal for fiscal 2008, with a statewide average of \$188 per terminal. Limited video lottery wins per day average \$155.

## **Local Referendum/Regulation (Planning and Zoning, etc.)**

Each racetrack's ability to install and operate VLTs depends upon the passage of a local referendum during a regular election or special election. Local planning and zoning regulations apply.

## **Project Development/Financing**

Project financing is reviewed by the Commission.



## Revenue Distribution

West Virginia has incorporated two distinct revenue distribution methods for its video lottery programs. In fiscal 2008, racetrack video lottery revenues totaled approximately \$898 million, with limited video lottery revenues totaling approximately \$397 million.

### State Racetrack VLT Revenues

After an allocation of 4 percent of the gross terminal revenues (*i.e.*, the amount remaining after player payouts) for administrative costs, racetrack revenues are initially distributed in the following manner:

Racetracks	47 %
Other racing industry private entities	17 %
Local county and municipal governments	2 %
State	34 %
<b>Total</b>	<b>100%</b>

With amending legislation, three specified benchmarks on administrative costs, the allocation of revenues to local counties and municipalities, and net terminal income act as thresholds for reapportioning racetrack revenues. With these benchmarks, a 10 percent surcharge is first applied to annual net terminal income to provide for racetrack capital reinvestment funds (42 percent) and to the state (58 percent) as specified by legislation or the state budget. After deduction of the surcharge, net terminal revenues from racetracks are allocated in the following manner:

Racetracks	42 %
Other racing industry private entities	11 %
Local county and municipal governments	2 %
State	45 %
<b>Total</b>	<b>100%</b>

### State Limited Video Lottery Terminal Revenues

In addition to racetrack revenues, the state collects revenues from the limited VLTs located in certain retail establishments licensed to serve alcohol. The state's share of the limited video lottery revenues is progressive. On a quarterly basis, the state determines the percentage share of limited video lottery revenues based upon the performance of statewide terminals during the previous quarter. Based upon the quarterly daily averages, the state share of gross terminal income varies from 30 to 50 percent.

<b><u>Aggregate Average Daily Gross Terminal Income</u></b>	<b><u>State Share</u></b>
\$0 to \$60.00	30%
\$60.01 to \$80.00	34%
\$80.01 to \$100.00	38%
\$100.01 to \$120.00	42%
\$120.01 to \$140.00	46%
\$140.01 or more	50%

Funding for administrative costs of 2 percent to cover the limited video lottery is provided, and the state's share of gross profits is transferred to a designated fund through which debt service payments are given a priority over all other transfers. Transfers are also provided to over a dozen beneficiary programs, primarily serving senior citizens, education, and tourism.

### **Economic Impacts (Jobs, Tax Revenues, etc.)**

The total number of employees at each VLT facility is listed below:

Mountaineer Racetrack & Gaming Resort	1,460
Wheeling Island Gaming	1,000
Tri-State Racetrack & Gaming	600
Charles Town Gaming	1,265
<b>Total Employees</b>	<b>4,325</b>

### **Problem Gambling/Consumer Protection**

By statute, the West Virginia Lottery may provide a maximum of \$1.5 million annually from available administrative expenses to the Compulsive Gambling Treatment Fund. The Problem Gamblers Help Network of West Virginia, a program administered by the West Virginia Department of Health and Human Resources, is solely funded through the fund.

# Maryland VLT Locations

