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# **Overview of Video Lottery Terminal Legislation**

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**Presentation to the  
House Committee on Ways and Means**

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

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# Constitutional Amendment

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- The constitutional amendment includes:
  - a maximum of 15,000 video lottery terminals (VLTs);
  - the five geographic areas where facilities could be located;
  - education programs as the primary recipient of revenues;
  - that any facility must comply with local planning and zoning laws/regulations;
  - that no more than one facility license may be issued in any single county or Baltimore City; and
  - that any subsequent expansion of gambling would have to be enacted by the General Assembly and approved by voter referendum.

# Highlights of Senate Bill 3 – Implementing Bill

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- Includes the maximum number of machines and geographic areas where facilities may be located;
- provides revenue distributions;
- creates a Video Lottery Facility Location Commission to evaluate proposals for VLT facility licenses;
- requires facility license proposals to be submitted by February 1, 2009; and
- provides a regulatory framework for the implementation of VLTs through the State Lottery.

# Geographic Areas for Facilities

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- Anne Arundel - 4,750 VLTs at a location within two miles of Route 295;
- Baltimore City - 3,750 VLTs at a location in a non-residential 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;
- Cecil - 2,500 VLTs at a location within two miles of Interstate 95;
- Worcester - 2,500 VLTs at a location within one mile of the intersection of Route 50 and Route 589; and
- Allegany - 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.

# Video Lottery Facility Location Commission

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- Evaluate proposals for video lottery facility licenses, using statutory criteria;
- award the facility licenses, at which point the State Lottery takes over the subsequent regulatory process;
- can award no more than one license in a county or Baltimore City;
- may alter the allocation of VLTs if warranted by market conditions, but no more than 4,750 VLTs may be placed at a single location; and
- terminates on January 1, 2015.

# Criteria for Awarding Video Lottery Facility Licenses

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- Evaluation criteria:
  - *70 percent on business and market factors:*
    - the highest potential benefit and total revenues for the State, and potential revenues based on a market analysis;
    - the extent to which Maryland gaming participants would remain in the State and that a proposed facility would also become a regional/national tourist destination;
    - capital construction plans;
    - gross revenues to a facility operator;
    - the percentage of minority business enterprise ownership and proposed achievement of minority business participation goals; and
    - the preservation of existing Maryland jobs and the creation of new jobs.

# Criteria for Awarding Video Lottery Facility Licenses (cont.)

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- *15 percent on economic development factors:*
  - wages and benefits for newly created jobs; and
  - any additional economic development in the area of a proposed facility.
  
- *15 percent on location siting factors:*
  - existing transportation infrastructure surrounding a proposed facility;
  - any negative impacts on residential communities; and
  - the need for any public infrastructure expenditures.

# Criteria for Awarding Video Lottery Facility Licenses(cont.)

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- A license fee of \$3 million for every 500 VLTs proposed must be submitted – revenues will accrue to the Education Trust Fund.
- An entity may not own more than one VLT facility license.
- The license awarded is for 15 years – the licensee may apply for a 10-year renewal at the end of the original license period.
- A facility license applicant must invest \$25 million in construction and related costs for every 500 VLTs proposed.
- A facility 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 – this requirement sunsets on July 1, 2011.



# State Lottery Commission Responsibilities

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- conduct background and financial checks of potential facility licensees, in conjunction with the appropriate agencies, and advise the Location Commission as to its findings; and
- eventually regulate the VLT program, own/lease the VLTs and the central monitor and control system, and license VLT facility employees.

# Estimates of Anticipated Revenues at Each Facility Location

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## Fiscal 2011-2013 (\$ in Millions)

	<u>2011</u>	<u>2012</u>	<u>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>

Note: Up to \$90 million in video lottery terminal facility license fees are expected in fiscal 2010. The Department of Legislative Services anticipates that facilities will begin operating in calendar 2011.

Source: Department of Legislative Services

# Distribution of Anticipated Revenues

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## Fiscal 2011-2013 (\$ in Millions)

	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>Total Annual Gross</b>	<b>\$156.5</b>	<b>\$1,019.1</b>	<b>\$1,361.6</b>
Education Trust Fund (48.5%)	75.9	494.3	660.4
Facility Licensees (33.0%)	51.7	336.3	449.3
Racing Purses/Bred Funds (7.0%)	11.0	71.3	95.3
Local Impact Grants (5.5%)	8.6	56.0	74.9
Racetrack Renewal (2.5%)	3.9	25.5	34.0
State Lottery Operations (2.0%)	3.1	20.4	27.2
Small/Minority/Women-owned Business Investment (1.5%)	2.3	15.3	20.4

Source: Department of Legislative Services

# Education Trust Fund

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- The constitutional amendment requires education programs to be the primary recipient of VLT revenues.
- The Education Trust Fund is to be used for Bridge to Excellence in Public Schools funding (including the Geographic Cost of Education Index), public school construction, and public higher education construction, including for community colleges.

# Purse Dedication Account

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- 80 percent of the funds are to be allocated to the thoroughbred industry and 20 percent to the standardbred industry.
- From the proceeds allocated to the thoroughbred industry:
  - 85 percent to thoroughbred purses, including \$100,000 to Fair Hill; and
  - 15 percent to the Maryland-bred Race Fund.
- From the proceeds allocated to the standardbred industry:
  - 85 percent to standardbred purses; and
  - 15 percent to the Standardbred Race Fund.
- The Racing Commission must conduct a study of the account's impact on the racing industry, and make a recommendation regarding the account's continuation by 2014.

# Racetrack Renewal Account

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- Funds for racetrack capital construction and improvements would be available in matching grants as follows:
  - 80 percent to Pimlico, Laurel, and Timonium; and
  - 20 percent to Rosecroft and Ocean Downs.
- \$1 million per year for five years could be allocated to Timonium with no matching fund requirement.
- The account sunsets after eight years.

# Eligibility for Racetrack Subsidies

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- 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 live racing days to Pimlico.
- The VLT and/or 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.
- Racing licensees must develop a racing improvement plan to improve the quality and marketing of horse racing, including a minimum of \$1.5 million of annual capital maintenance and improvements at horse racing facilities to be eligible for purse subsidies/racetrack renewal funds.

# Local Impact Grants

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- Except under certain conditions, 82 percent of the grants would go to the five affected jurisdictions based on each facility's share of the gross VLT revenues, with the grants to be used in the immediate proximity of a facility.
- The remaining 18 percent would go for 15 years (beginning in fiscal 2012) to Baltimore City for the Pimlico/Park Heights area, with \$1 million annually to Prince George's County for the community surrounding Rosecroft.
- These grants are to be used for infrastructure, facilities, services, and other improvements.



# Distribution of Local Impact Grants

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## Fiscal 2013 (\$ in Millions)

Baltimore City	\$31.7
Anne Arundel County <sup>1</sup>	24.6
Cecil County	8.6
Worcester County <sup>1</sup>	6.2
Allegany County (Rocky Gap)	2.8
Prince George's County	1.0
<b>Total</b>	<b>\$74.9</b>

<sup>1</sup>Subject to specific allocations if licenses are awarded to Laurel Park and Ocean Downs

# Local Development Councils

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- A local development council is authorized for each jurisdiction where a VLT facility is located to advise, comment, and make recommendations on county plans regarding the use of local impact grants.
- The Pimlico Community Development Authority will serve as the local development council for the portion of the local impact grants provided for the Pimlico/Park Heights area of Baltimore City.

# Small, Minority, and Women-owned Business Account

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- This account will provide grants for investment capital and loans to small, minority, and women-owned businesses (at least 50 percent for businesses near a VLT facility).
- The Board of Public Works will develop grant evaluation criteria and approve grants from the account.

# Problem Gambling Fund and Prevalence Studies

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- A \$425 annual fee for each VLT will be paid by VLT licensees to a Problem Gambling Fund – the fund will be administered by the Department of Health and Mental Hygiene (DHMH).
- Assuming the maximum number of 15,000 VLTs, the fund would receive \$6.4 million annually. Revenues would be used to fund a network of services for problem gamblers throughout the State.
- DHMH is required to conduct periodic gambling prevalence studies to measure the rate of problem and pathological gambling in the State.

# Consumer Protections

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- Individuals under the age of 21, or intoxicated, are prohibited from playing VLTs.
- Free food and alcoholic beverages are generally prohibited.
- By regulation, the State Lottery shall provide for the establishment of a list of individuals to be excluded from VLT facilities. VLT facilities are required to develop procedures that permit self-exclusion from facilities for individuals with gambling problems.
- A VLT facility may offer any State Lottery games.
- Consumers are prohibited from cashing paychecks.

# Consumer Protections (cont.)

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- State Lottery to 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.