Video Lottery Terminals and Structural Budget Issues in Maryland

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Maryland's Structural Budget Deficit – Scope of the Problem

- By fall 2007, Maryland's structural budget deficit was estimated at approximately \$1.5 billion annually beginning in fiscal 2009.
- Policymakers often cited two major contributing factors:
 - education legislation enacted in 2002 (known as Thornton) increased annual State spending for K-12 education programs by \$1.5 billion by fiscal 2008; and
 - a personal income tax reduction enacted in 1997, which reduced revenues by \$500 million to \$600 million annually.

Addressing the Structural Budget Deficit – 2007 Special Session

- In fall 2007, Governor Martin J. O'Malley called the General Assembly into special session to consider a package of Administration revenue and spending proposals designed to eliminate the structural deficit.
- The General Assembly ultimately addressed the structural deficit in three ways:
 - spending reductions (and new initiatives);
 - revenue enhancements, primarily related to the income tax and sales tax; and
 - video lottery terminals (VLTs).

Spending Changes and Revenue Enhancements – 2007 Special Session

- Spending Reductions and Initiatives:
 - over \$300 million in general fund reductions for fiscal 2009, rising to over \$400 million in future years – also required the Governor to make significant additional reductions for fiscal 2009; and
 - new initiatives for health care coverage and Chesapeake Bay restoration.
- Revenue Enhancements approximately \$1.3 billion annually:
 - increased the sales tax rate from 5 to 6 percent;
 - imposed the sales tax on computer services (later repealed);
 - increased the personal income tax for higher-earners; and
 - increased the corporate income tax rate from 7 to 8.25 percent.

VLTs – Legislative History

- While VLT legislation had been introduced in the General Assembly numerous times, the issue was never substantively debated until 2003.
- In 2003, then-Governor Robert L. Ehrlich, Jr. offered legislation to authorize VLTs at several racetrack locations, similar to VLT programs in Delaware and West Virginia. The VLT legislation was offered both as a short-term budget balancing measure and to raise significant long-term revenues.
- The VLT legislation proved divisive for members of both political parties, and after significant debate, the legislation ultimately failed during the 2003 session.
- The issue continued to be debated for the remainder of Governor Ehrlich's term that ended in 2007, with both the Senate and the House passing legislation at various points, but no resolution could ultimately be reached.

VLT Legislation – 2007 Special Session

- Governor O'Malley introduced VLT legislation in two parts – a constitutional amendment subject to voter approval and an implementing bill.
- The constitutional amendment included a maximum number of VLTs that could be approved and specific geographic areas for VLT facility locations. While it was not constitutionally or legally required to be approved by the voters, this proposal was offered as a way to move forward on the issue.

VLT Legislation – General Assembly Special Session Actions

- The General Assembly ultimately enacted modified versions of the two bills:
 - Constitutional amendment for the November 2008 ballot, which includes:
 - a statewide maximum of 15,000 VLTs;
 - the five geographic areas where facilities could be located;
 - education programs as the primary recipient of revenues; and
 - any expansion of gambling would have to be enacted by the General Assembly and approved by voter referendum.
 - Implementing bill:
 - includes the maximum number of VLTs and geographic areas for facilities;
 - provides revenue distributions to education, facility licensees, horse racing industry, etc.;
 - creates a commission to evaluate proposals for VLT facility licenses; and
 - creates the regulatory framework for the implementation of VLTs.

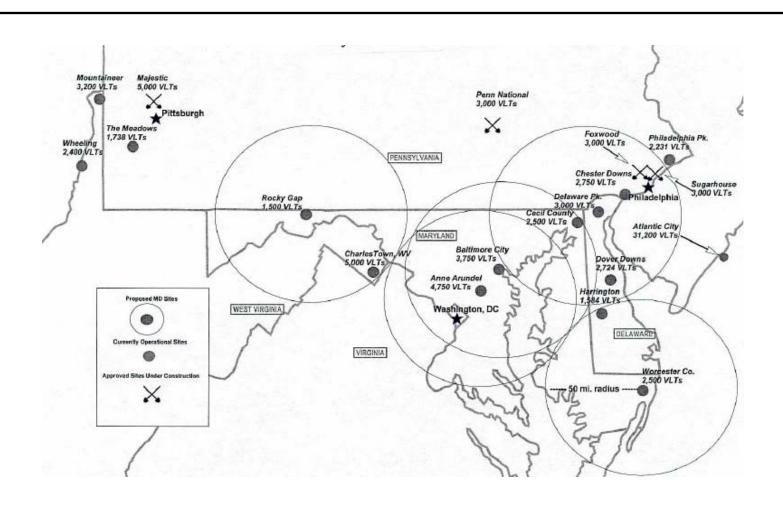
Developing VLT Revenue Estimates

- The Department of Legislative Services (DLS) has employed modeling techniques to assist the General Assembly in estimating the revenues potentially generated by authorizing VLT facilities.
- Along with demographic and market research, DLS maintains a database of information on gaming 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.
- Key variables include:
 - distance;
 - per capita spending;
 - out-of-state participation; and
 - competition.

VLT Revenue Estimates – Potential VLT Facility Locations

<u>Location</u>	<u>VLTs</u>	Win Per <u>Day (\$)</u>	Begin Operations	Full Capacity
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
Rocky Gap	1,500	115	August 2011	August 2012

Proposed Maryland VLT Locations



VLT Revenue Estimates – Assumptions

- The estimates assume that:
 - all five facility licenses will be awarded;
 - facilities will initially operate at 50 percent capacity and reach full capacity one year later;
 - all 15,000 VLTs are awarded;
 - locations with pre-existing facility infrastructure are awarded licenses and begin operations in February 2011, two years after the proposal submission deadline; and
 - locations that are newly constructed begin operations in August 2011.

Estimates of Anticipated VLT Revenues

Estimated VLT Revenues Generated by Location (\$ in Millions)

	FY 2010	FY 2011	FY 2012	FY 2013
Anne Arundel	\$0.0	\$125.2	\$477.9	\$546.1
Baltimore City	0.0	0.0	265.0	426.7
Cecil	0.0	0.0	117.8	189.6
Worcester	0.0	31.4	119.8	136.9
Rocky Gap	0.0	0.0	38.7	62.3
Total	\$0.0	\$156.5	\$1,019.1	\$1,361.6

Estimates of Anticipated VLT Revenues (cont.)

- The Anne Arundel County and Baltimore City locations are expected to generate significant revenues – the other locations will likely generate more modest revenues.
- Substantial revenues from any of the locations are not expected until fiscal 2012.

VLTs – Revenue Distributions

- Education Trust Fund 48.5 percent.
- Facility Licensees 33.0 percent.
- Horse Racing Purses/Bred Funds 7.0 percent.
- Local Impact Grants 5.5 percent.
- Racetrack Facility Renewal Account 2.5 percent.
- State Lottery 2.0 percent.
- Small, Minority, and Women-owned Businesses Account 1.5 percent.

Distribution of Anticipated VLT Revenues

(\$ in Millions)

	FY 2010	FY 2011	FY 2012	FY 2013
Total Annual Gross	\$0.0	\$156.5	\$1,019.1	\$1,361.6
Education Trust Fund	0.0	75.9	494.3	660.4
Facility Licensees	0.0	51.7	336.3	449.3
Racing Purses/Bred Funds	0.0	11.0	71.3	95.3
Local Impact Grants	0.0	8.6	56.0	74.9
Racetrack Renewal	0.0	3.9	25.5	34.0
State Lottery Operations	0.0	3.1	20.4	27.2
Small and Minority Business				
Investment	0.0	2.3	15.3	20.4

Anticipated VLT Expenditures

- In addition to the expenditures related to the VLT revenue distributions mentioned previously, additional general fund expenditures will be incurred.
- These expenditures will primarily be borne by the State Lottery and other State agencies for the implementation and regulation of VLTs, as well as to conduct various studies of the prevalence of gambling in the State.

Maryland's Budget and Economic Outlook

 Despite all of the actions taken during the 2007 special session, and subsequent actions taken in 2008, the national economic downturn has helped create another sizable annual structural deficit.

Maryland Economic Forecasts

Year-over-year Percent Change

Calendar	Employment			Personal Income		
<u>Year</u>	Mar. 2008	Sep. 2008	Oct. 2008	<u>Mar. 2008</u>	Sep. 2008	Oct. 2008
2005	1.5%	1.5%	1.5%	5.7%	5.5%	5.8%
2006	1.2%	1.3%	1.3%	5.7%	5.7%	5.8%
2007	0.8%	0.8%	0.7%	5.7% *	5.4%	6.3%
2008E	1.1%	0.6%	0.4%	4.7%	4.4%	4.3%
2009E	1.8%	0.3%	-0.4%	5.0%	3.4%	3.0%
2010E	1.9%	1.2%	1.0%	5.5%	4.9%	4.4%
2011E	1.8%	1.8%	1.8%	6.0%	5.5%	5.6%

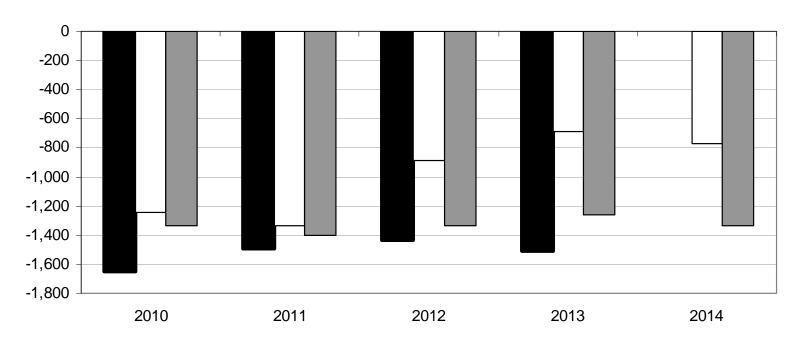
^{*} Estimate

Source: March and September from Board of Revenue Estimates; October from Department of Legislative Services

Calendar <u>Year</u>	Employment	Personal Income
1989	2.5%	8.0%
1990	0.8%	5.9%
1991	-3.3%	3.4%
1992	-0.9%	4.8%
1993	1.0%	3.4%
1994	2.1%	4.6%

Projected General Fund Structural Deficit With and Without VLTs

FY 2010-FY 2014



■ Structural Balance October 2007 □ Structural Balance Assuming VLTs ■ Structural Balance No VLTs