

Department of Legislative Services
Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 340 (Delegates McKay and Wilson)
Ways and Means

State Lottery - Instant Ticket Lottery Machines - Fraternal Organizations
("Slots" for Homeless Veterans Act)

This bill adds fraternal organizations to the organizations that the State Lottery and Gaming Control Agency (SLGCA) may issue a license to for up to five instant ticket lottery (pull tab) machines. After deducting prizes paid out, a fraternal organization must remit the receipts from the sale of pull tab tickets to the Comptroller, who must distribute 10% to a special fund to be used by the Division of Neighborhood Revitalization in the Department of Housing and Community Development (DHCD) to assist veterans and their families, provided that the first \$100,000 is distributed to the outreach and advocacy program in the Department of Veterans Affairs. Half of the remaining proceeds must be distributed to the fraternal organization. The other half must be used to pay for the purchase or lease of the pull tab machines, then to the State Lottery Fund in the amount necessary for overseeing and managing the pull tabs at the fraternal organizations, and any remaining amount is to be distributed to the general fund. **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: General and special fund revenues increase beginning in FY 2020. Special fund revenues and expenditures from table games and the video lottery terminal (VLT) program may decrease and Maryland Veterans Trust Fund (MVTF) special fund revenues may decrease due to substitution effects of gaming revenues beginning in FY 2020. General fund expenditures for SLGCA may increase to implement and enforce the bill.

Local Effect: Minimal. To the extent that VLT and table game revenues decrease as a result of fraternal organizations operating pull tab machines, local impact grants decrease.

Small Business Effect: Minimal.

Analysis

Bill Summary: A fraternal organization, which includes a sororal organization, is any nonprofit organization that is a bona fide fraternal organization operated on a lodge system, conducted solely for the benefit of its members and its beneficiaries, and has been located in an applicable county for at least five years before the organization applies for a license. It does not include fraternal or sororal organizations related to an educational institution or a professional school. A licensed fraternal organization must remit receipts from instant ticket lottery sales to the Comptroller.

A fraternal organization may purchase or lease its instant ticket lottery machines from any vendor approved by SLGCA.

Current Law: SLGCA may issue specified veterans' organizations a license for up to five pull tab machines. Veterans' organizations in counties on the Eastern Shore are not eligible.

A licensed veterans' organization must locate and operate its pull tab machines at its principal meeting hall in the county. After deductions for commissions and prize payouts, 10% of the proceeds are distributed to MVTF and the remainder goes to the general fund (via the State Lottery Fund). A licensed veterans' organization must purchase or lease the pull tab machines from SLGCA but may not use receipts from the sale of pull tabs that would otherwise go to the general fund to purchase or lease the machines.

Background: There were 84 veterans' organizations that were licensed for pull tab machines in fiscal 2018. SLGCA reports that net after payout sales for pull tab machines was \$9.1 million in fiscal 2018. After agent commissions and expenses, general fund revenues increased by \$689,152 and MVTF funds increased by \$76,572 in fiscal 2018.

State Fiscal Effect: The impact on general fund and special fund revenues and expenditures will depend on the number of fraternal organizations that operate authorized pull tab machines, their location with respect to casinos and to veterans' organizations with pull tab machines, the actual payout rates on pull tabs that are offered, and the degree to which pull tab machines authorized by the bill constitute a substitute for casino gambling in the State. MVTF receives 10% of instant ticket proceeds only from veterans' organizations, so to the extent that revenues from pull tab machines at veterans' organizations decrease, special fund revenues to MVTF decrease. Although these impacts cannot be determined at this time, the additional machines are likely to generate increased revenues for the general fund, the special fund in DHCD's Division of Neighborhood Revitalization, and \$100,000 to the outreach and advocacy program in the Department of Veterans Affairs, offset by minimal decreases in MVTF special fund revenues and special fund revenues from casinos. SLGCA advises that if a significant number of fraternal

organizations operate pull tab machines, additional staff will be needed to manage the machines.

On average, it costs DHCD \$18,540 annually to house the chronically homeless in permanent supportive housing while a non-chronic homeless household can be housed through rapid re-housing at an average annual cost of \$6,000. The number of homeless veterans served would be commensurate with the increased revenue to DHCD. DHCD advises that it can likely implement the bill with existing resources.

Based on U.S. Census data, the Department of Legislative Services estimates that there are approximately 250 fraternal organizations in the State that may be eligible to operate pull tab machines, but it is unknown how many will actually do so. *For illustrative purposes only*, if 100 fraternal organizations operate pull tab machines, net sales from pull tab machines operated by fraternal organizations are \$10.9 million. Of this amount, special fund revenues at the Department of Veterans Affairs increase by \$100,000 for developing and maintaining a website and social media pages to publicize veterans' programs, and special funds to the Division of Neighborhood Revitalization increase by \$986,000 to assist veterans and their families beginning in fiscal 2020. After commissions paid to fraternal organizations of approximately \$4.9 million, approximately \$4.9 million is to be distributed to pay for the lease or purchase of pull tab machines, to pay for the oversight and management of the machines by SLGCA, and the remainder to the general fund in fiscal 2020. These amounts do not take into account any substitution effects.

Additional Information

Prior Introductions: A similar bill, HB 317 of 2018, received a hearing in the House Ways and Means Committee, but no further action was taken. Its cross file, SB 260, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

Cross File: None.

Information Source(s): Comptroller's Office; Department of Veterans Affairs; Maryland State Lottery and Gaming Control Agency; Department of Housing and Community Development; U.S. Census Bureau; Department of Legislative Services

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