

Department of Legislative Services
 Maryland General Assembly
 2019 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 277 (Senator Edwards)
 Budget and Taxation

Small, Minority, and Women-Owned Businesses Account - Funding

This bill repeals the requirement that for fiscal 2020 certain proceeds from video lottery terminals (VLTs) be distributed to the Education Trust Fund (ETF) instead of the Small, Minority, and Women-Owned Businesses Account (SMWOBA). The bill also repeals the requirement that up to 5%, not to exceed \$1.0 million, of the amount to be distributed to SMWOBA beginning in fiscal 2021 be instead distributed to the Nonprofit, Interest-Free, Micro Bridge Loan (NIMBL) account. **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: Special fund revenues and expenditures of SMWOBA increase by \$16.4 million in FY 2020. Special fund revenues and expenditures for ETF decrease by \$16.4 million in FY 2020. General fund expenditures increase by \$16.4 million in FY 2020. Special fund revenues and expenditures of the NIMBL account decrease by \$834,300 in FY 2021 and by \$881,300 in 2024, and special fund revenues and expenditures of SMWOBA increase by a corresponding amount.

(\$ in millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
SF Revenue	\$0	\$0	\$0	\$0	\$0
GF Expenditure	\$16.4	\$0	\$0	\$0	\$0
SF Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$16.4)	\$0.0	\$0.0	\$0.0	\$0.0

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

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Current Law:

Video Lottery Terminal Proceeds

Generally, 1.5% of VLT proceeds at each video lottery facility must be distributed to SMWOBA. The Department of Commerce (Commerce) must make grants from the account to eligible fund managers to provide investment capital and loans to small, minority, and women-owned businesses in the State. Commerce must ensure that fund managers allocate at least 50% of available funds to eligible businesses in the jurisdictions and communities surrounding the State's video lottery facilities.

The Budget Reconciliation and Financing Act of 2017 requires that the VLT revenues that would otherwise go to SMWOBA in fiscal 2018 instead be dedicated to the general fund to pay a portion of the costs of certain education grants and that the VLT revenues that would otherwise go to SMWOBA in fiscal 2019 and 2020 instead be dedicated to ETF.

Education Trust Fund

ETF is a nonlapsing, special fund to be used for continued funding of the Bridge to Excellence formulas and programs, including the Geographic Cost of Education Index. The fund may also be used to support capital projects for public schools, community colleges, and public four-year institutions as well as to expand public early childhood education programs in the State. A portion of the proceeds from VLTs and table games is dedicated to ETF.

Nonprofit, Interest-Free, Micro Bridge Loan Account

Beginning in fiscal 2021, Chapter 629 of 2017 requires up to 5% of VLT proceeds from SMWOBA, not to exceed \$1.0 million annually, to be distributed to the NIMBL account within the Maryland Nonprofit Development Center Program Fund. Money in the NIMBL account is to be used for bridge loans to nonprofit entities that have received written confirmation of funding from government grants or contracts but have not yet received the funding. Commerce may provide a no-interest bridge loan for operating expenses of up to \$25,000 to a nonprofit entity.

Background: Appendix – Maryland Gaming provides detailed background on gaming in Maryland.

State Fiscal Effect: Special fund revenues and expenditures of SMWOBA increase by \$16.4 million in fiscal 2020 while ETF revenues and expenditures decrease correspondingly. ETF revenues are currently budgeted for the State Foundation program, the State’s largest education aid formula. Thus, any decrease in ETF revenues increases general fund appropriations for the State Foundation program by an equal amount, so general fund expenditures increase by \$16.4 million in fiscal 2020.

Since the bill repeals the requirement that up to 5% of VLT proceeds from SMWOBA, up to \$1.0 million, be distributed to the NIMBL account beginning in fiscal 2021, special fund revenues and expenditures of the NIMBL account decrease by \$834,253 in fiscal 2021 and by \$881,312 in 2024. Special fund revenues and expenditures of SMWOBA increase correspondingly. **Exhibit 1** shows the fiscal effects of the bill.

**Exhibit 1
Fiscal Effects of the Bill
Fiscal 2020-2024**

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
Revenues					
SMWOBA Revenues	\$16,448,470	\$834,253	\$846,258	\$853,874	\$881,312
ETF Special Fund Revenues	(16,448,470)	-	-	-	-
NIMBL Revenues	-	(834,253)	(846,258)	(853,874)	(881,312)
Total Revenues	-	-	-	-	-
Expenditures					
SMWOBA Expenditures	\$16,448,470	\$ 834,253	\$ 846,258	\$853,874	\$881,312
ETF Special Fund Expenditures	(16,448,470)	-	-	-	-
Education General Fund Expenditures	16,448,470	-	-	-	-
NIMBL Expenditures	-	(834,253)	(846,258)	(853,874)	(881,312)
Total Expenditures	\$16,448,470	\$0	\$0	\$0	\$0
Net Effect	(\$16,448,470)	\$0	\$0	\$0	\$0

ETF: Education Trust Fund

NIMBL: Nonprofit, Interest-Free, Micro Bridge Loan

SMWOBA: Small, Minority, and Women-Owned Businesses Account

Source: Comptroller’s Office; Department of Legislative Services

Small Business Effect: Small businesses benefit by having the SMWOBA funds restored. Eligible fund managers provide investment capital and loans to small, minority, and women-owned businesses in the State with funds from SMWOBA. Thus, small businesses

receive \$16.4 million in additional investment capital and loans in fiscal 2020 and approximately \$881,300 more in 2024.

Additional Information

Prior Introductions: SB 1248 of 2018 received a hearing in the Senate Budget and Taxation Committee but no further action was taken. Its cross file, HB 1233, received a hearing in the House Ways and Means Committee but no further action was taken.

Cross File: HB 688 (Delegate Buckel, *et al.*) - Ways and Means.

Information Source(s): Department of Commerce; Comptroller's Office; Department of Budget and Management; Maryland State Lottery and Gaming Control Agency; Department of Legislative Services

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Appendix – Maryland Gaming

The State of Maryland has authorized and awarded six video lottery operation licenses in Baltimore City and Allegany, Anne Arundel, Cecil, Prince George’s, and Worcester counties with a maximum number of 16,500 video lottery terminals (VLTs) allotted in the State. The opening date and the number of VLTs and table games for each facility as of January 2019 are shown in **Exhibit 1**.

Exhibit 1 Number of VLTs and Table Games in Maryland

<u>Casino</u>	<u>County</u>	<u>Opening Date</u>	<u>VLTs</u>	<u>Table Games</u>
Hollywood Casino	Cecil	September 2010	822	19
Ocean Downs	Worcester	January 2011	892	18
Maryland Live!	Anne Arundel	June 2012	3,825	198
Rocky Gap Casino	Allegany	May 2013	665	17
Horseshoe Casino	Baltimore City	August 2014	2,194	158
MGM National Harbor	Prince George’s	December 2016	3,137	198

VLT: video lottery terminal

Source: State Lottery and Gaming Control Agency; Department of Legislative Services

VLT and Table Game Revenues

The estimated revenues from VLTs and table games in fiscal 2020 through 2024 are shown in **Exhibit 2**. A total of \$1.78 billion in gross gaming revenues is projected in fiscal 2020, including \$528.8 million to be distributed to the Education Trust Fund.

Exhibit 2
Distribution of Estimated VLT and Table Game Revenues in Maryland
Current Law
(\$ in Millions)

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
VLTs Distribution					
Education Trust Fund	\$430.1	\$419.6	\$425.7	\$429.5	\$433.8
Lottery Operations	11.2	11.4	11.5	11.6	11.8
Purse Dedication Account	65.6	66.5	67.5	68.1	70.5
Racetrack Renewal Account	10.7	10.9	11.0	11.1	11.8
Local Impact Grants	60.8	61.7	62.6	63.1	64.6
Business Investment	0.0	16.7	16.9	17.1	17.6
Licenses	542.2	550.0	557.9	562.9	565.0
Total VLTs	\$1,120.6	\$1,136.7	\$1,153.1	\$1,163.4	\$1,175.1
Table Games Distribution					
Education Trust Fund	\$98.7	\$100.2	\$101.7	\$102.6	\$103.6
Local Impact Grants	32.9	33.4	33.9	34.2	34.5
Licenses	526.4	534.3	542.4	547.2	552.7
Total Table Games	\$658.0	\$667.9	\$677.9	\$684.0	\$690.9
Total VLTs and Table Games	\$1,778.5	\$1,804.6	\$1,831.0	\$1,847.5	\$1,866.0
Total Education Trust Fund	\$528.8	\$519.8	\$527.4	\$532.1	\$537.4

VLT: video lottery terminal

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