

Maryland might take tip from Del.

By Greg Garland and James Drew | sun reporters
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Gov. Martin O'Malley's announcement that he will push for legalized slot machine gambling to help solve Maryland's budget woes was short on specifics, but he gave clues to his thinking that suggest he is exploring a slots program that would be similar to Delaware's.

While O'Malley said he favors "state ownership" of slot machines, that doesn't mean the state would build facilities and hire contractors to run them.

Maryland could, like Delaware, lease slot machines from vendors, link them to a central computer through the state's lottery and place the devices in privately run racetracks or other facilities.

Delaware put its slot machines at three privately owned racetracks. The track owners get a share of the profits in exchange for building, maintaining, staffing and managing the casino-like facilities.

Rhode Island and New York have similar slots programs, in which those states lease machines; Pennsylvania, West Virginia and many other states have regulatory and licensing systems but do not lease machines.

Charles Brooke, senior vice president of governmental relations for International Game Technology, a slots manufacturer, said past Maryland slots bills envisioned the state leasing the machines.

"The program that they've talked about is very similar to Delaware's and Rhode Island's," Brooke said.

Delaware Lottery Director Wayne Lemons said representatives of O'Malley's administration and some Maryland legislators have visited Delaware's racetrack casinos in the past few weeks to view their operations.

"We lease machines from the manufacturers," Lemons said. "The lease includes maintenance. They're hooked up to the lottery's computer system."

Steven M. Rittvo, chairman of the Innovation Group, a financial and marketing consulting firm that does work for the gambling industry, said it makes little difference whether the state or a racetrack/facility operator leases slot machines. If a state provides

them, it just passes along the costs by taking a bigger share of the slots proceeds.

Lemons said that four vendors are licensed in Delaware to supply and maintain slot machines. Track owners decide how many of which brand they want, he said.

"Their revenue depends on how much gambling runs through their machines, so they have an incentive to keep the best machines on the floor," Lemons said.

In Delaware, track owners get a bigger share of what the gambling industry refers to as "net machine revenue" - the money left in the till after winning players are paid - than the state gets.

Under a formula set by the state legislature, the track owners received \$270.2 million in the fiscal year that ended June 30, just less than half of the \$585.2 million total take from slots after winners are paid, Lemons said.

The state's share was \$207.8 million, or 35.5 percent, he said. An additional \$64.6 million went to supplement purses paid on top-finishing horses in races, and \$34.4 million was used to pay for leases of machines, maintenance and the central computer monitoring system, he said.

O'Malley has given few details of what kind of slots program he envisions for Maryland, including where machines would go and how revenues would be divided.

"We're going to introduce something very close to what the House did," O'Malley said, referring to a slots bill that passed in the House of Delegates in 2005 but died in the Senate.

"In the House plan, the machines were going to be state-owned," he said. "We'll have something in bill form in the not-too-distant future."

Disagreements over particulars have doomed past slots bills. House Speaker Michael E. Busch, who has said that he personally opposes slots legalization, has frequently battled with Senate President Thomas V. Mike Miller over the issue.

Miller said O'Malley's slots proposal is likely to percolate for a while.

"His staff will be working to draft a bill. The speaker will find some way to send it into oblivion," Miller said. "We'll wait and see. It is the governor's problem. It's a critical part of the governor's package."

The House bill that O'Malley said he plans to model his proposal on would have allowed 9,500 machines at locations near major highways in Allegany, Anne Arundel, Frederick and Harford counties. The sites and slots operators were to be decided through competitive bidding by a commission controlled by the legislature.

Jeffrey Hooke, a financial consultant who has studied the gambling industry, said auctioning off slots licenses - if done properly - would be "somewhat novel" and produce significant revenue for the state.

Sun coverage: Slot machines in Md.

Other states have given away slots licenses or charged only nominal licensing fees, Hooke said, but their real value can be seen in what racetracks and other properties have sold for after the passage of slots legislation.

For example, he said, Magna Entertainment Corp., which bought a small harness track south of Pittsburgh for \$53 million in 2001, sold it four years later, after a slots bill passed in Pennsylvania, for \$220 million. The buyer also agreed to pay the \$50 million state fee for a slots license.

Magna Entertainment owns Pimlico Race Course in Baltimore and Laurel Park in Anne Arundel County.

One indication of the value of a slots license: Penn National Gaming Inc., a company that runs several casinos and racetracks with slots, struck a deal last month to acquire the financially struggling Rosecroft Raceway harness track in Prince George's County. The move positions the company to possibly get a slots license in Maryland.

The terms of the sale were not disclosed, but Rosecroft's chief executive officer has said the price is "considerably more" than the \$13 million paid for it 12 years ago. Penn National owns Charles Town Races and Slots in Charles Town, W. Va.

Hooke estimated that auctioning off five licenses could generate \$200 million to \$400 million apiece for the state, based on the value of gambling licenses in other states.

O'Malley hasn't specifically said he will auction licenses to the highest bidder. And he has given far lower estimates of the revenue that a slots program would generate in the early years.

He said this week that he would expect slots to generate \$27 million in the next fiscal year, with revenues gradually growing to \$250 million in 2010 and \$500 million in 2011.

Busch said the value of the license as an asset is an important issue, and that competition for the licenses should be allowed to determine it.

O'Malley has several minefields to traverse to get a slots bill passed. He said during his campaign last year that he wouldn't impose slots on a community that doesn't want them, and several jurisdictions are opposed.

Legislative delegations and local officials from Baltimore County, Baltimore City, Ocean City and the Eastern Shore, Prince George's County and Montgomery County all have

said previously that they do not want the slots in their communities.

Anne Arundel County Executive John R. Leopold also opposes the expansion of gambling in Maryland, including slots.

He said the forecast of how much slots would generate for Maryland is too high, because of increased competition from neighboring states, higher costs triggered by crime and gambling addiction, and damage to other industries that compete for entertainment dollars.

"There are winners and losers in the economic balance" said Leopold, a Republican and former legislator.

O'Malley will also have to deal with the issue of proliferation. West Virginia, for example, started out with slots at tracks and is now moving to full casinos with table games.

West Virginia also decided to allow video slots in bars. Businesses ranging from doughnut shops to beauty salons have applied for and received liquor licenses in order to get the machines.

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