

Andrew Kleine

FROM	NAME & TITLE	Andrew Kleine, Budget Director
	AGENCY NAME & ADDRESS	Department of Finance Room 469, City Hall (396-4941)
	SUBJECT	City Council Bill No. 09-0290: Simulated Slot Machines

CITY of
BALTIMORE
MEMO



TO
The Honorable President & Members
of the City Council
Room 400, City Hall

DATE:
June 16, 2009

Attn: Ms. Karen Randle

City Council Bill 09-0290 modifies limitations on amusement devices permitted in certain zoning districts and the number of machines permitted. The bill adds a provision for a bounty on the reporting of unlicensed machines. Finally the bill exempts simulated slot machines from the Admissions and Amusement Tax and increases the licensing fee from \$180. Based on a recommendation from the Baltimore City Planning Commission, the new fee would be based on a graduated schedule depending on the number of simulated slot machines owned. The first five machines would be assessed a rate of \$2,000 per machine, the next ten machines at \$1,500 per machine, and each additional machine at \$1,000 per machine.

The licensing fee increase is problematic in that, to be legally defensible, license fees must be reasonably related to the cost of the services provided and should not be designed to generate net revenue for the City.

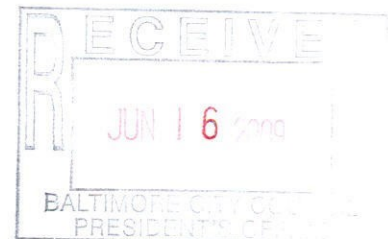
The Bureau of Revenue Collections is charged with issuing City licenses for business activities such as the simulated slot machines and enforcing compliance with licensing requirements. The current full cost estimate for these functions is \$421,652. Because the revenue from the new fee structure is estimated at nearly six times this amount, the proposed fee increase fails to meet the reasonableness criteria.

Fiscal Impact

The Department of Finance has analyzed the impact of changing simulated slot machine license from a \$180 license fee and payment of the A&A Tax to paying a graduated amount averaging \$1,509 per machine. Table 1 details the annual impact of CCB09-0290 on revenue.

By exempting simulated slots from the A&A Tax, it is anticipated that coin-operated amusement device revenue would fall by \$861,310, from \$1,171,000 to \$309,690.

The increase in the fee for simulated slot machines, from \$180 to a graduated amount based on the number of machines owned, would increase amusement machines license fee revenue by \$2,162,640, from \$ 478,080 to \$2,640,720.



Total combined license fee and A&A Tax on coin-operated amusement device revenue will increase from \$1,649,080 to \$2,908,777. To support the bounty provision in the bill, additional enforcement and administrative costs are estimated to be \$41,633.

The net effect of this bill is an estimated increase of \$1,259,697 in revenue for the City. These estimates assume that the bill is effective during the December renewal period. If the effective date is later, revenue from the new fee would be delayed until Fiscal 2011, with the exception of new machines licensed.

By eliminating the A&A Tax based on gross receipts of simulated slot machines and replacing it with a graduated per unit fee, the City eliminates any vendor tax liability in excess of the fee, which would average \$1,509 per machine based on currently licensed machines.

A 2006 Abell Foundation Study estimated that each simulated slot machine generates between \$26,000 and \$52,000 in annual revenue, with an associated A&A Tax liability of between \$2,600 and \$5,200, much of it unreported and unpaid.¹ The bill would effectively reduce the A&A Tax liability owed the city by between \$1,091 and \$3,691 per licensed machine, or \$1,775,057 to \$6,005,257 in total potential revenue. Because this tax is currently collected by the state of Maryland, the City is not able to recover underreported A&A Taxes funds through more extensive audit and collection practices.

With any tax or fee change, one can expect taxpayer behavioral changes. Given an average tax/fee increase of \$1,329 per machine, one would generally expect a significant portion of the machines not to be re-licensed. However, based on the Abell Foundation report estimating each simulated slot machine's gross revenues at between \$26,000 and \$52,000, it is our opinion that few machine licenses will not be renewed due to the fee increase.

Any loss of machines would likely be offset by three factors. First, some vendors who have failed to register their machines in the past to avoid tax liability may now do so, given the lower rate. Second, the bill's bounty provision may motivate vendors to register machines to avoid being reported. Third, the bill authorizes additional machines and expands the types of establishments that can have them.

C: Henry Raymond
Angela Gibson

¹ Jacobson, Joan, Underground Video Gambling Industry Costing Maryland More than \$15 million Annually in Uncollected Taxes, The Abell Foundation, 2006 and Electronic Video Gaming Device Enforcement Fact Sheet, Baltimore County Police, 1993.

Table 1: Fiscal Impact of Graduated Fee Schedule

Impact on Admission and Amusement Tax	
Estimated FY 2010 A & A Tax Revenue Before CCB 09-0290	\$1,171,000
Estimated A & A Tax Revenue Loss	(861,310)
Estimated A & A Tax Receipts After CCB 09-290	\$309,690
Impact on Amusement Device License	
Total Licensed Devices	2,656
Current Fee	\$180
Total Revenue from Licensed Devices	\$478,080
Total Devices Subject to New Fee Schedule	1,627
Revenue Increase from New Fee Schedule	\$2,455,500
Less Current Fee of \$180	(292,860)
Net Revenue Increase	\$2,162,640
Total Revenue from Licensed Devices After CCB 09-0290	\$2,640,720
Fiscal Impact of CC Bill 09-0290	
Before CCB 09-0290	
Total Est'd FY 2010 A & A Tax Revenue	\$1,171,000
Total Estimated License Fees	\$ 478,080
Total Revenue	\$1,649,080
After CCB 09-0290	
Total Est'd FY 2010 A & A Tax Revenue	\$309,690
Total Estimated License Fees	\$2,640,720
Bounty Provision Enforcement & Administrative Costs	\$(41,633)
Total Revenue	\$2,908,777
Net Change in Revenue	\$1,259,697