

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

House Bill 1227
 Ways and Means

(Delegate F. Turner, *et al.*)

Horse Racing Heritage Act

This bill requires the State Lottery Agency to distribute up to \$2.0 million monthly from the proceeds of the Racetrax game to the special fund, after specified distributions. The bill establishes a special fund for the distribution of specified State lottery proceeds for purse and bred fund supplements. The bill also requires the one-time distribution of \$6.0 million of net fiscal 2008 lottery revenues in excess of \$473,100,000 (that would otherwise be paid to the general fund) to a special fund to increase purses at race tracks and to supplement existing bred funds. If lottery revenues do not provide the \$6.0 million, the Governor may request a deficiency appropriation during the 2009 session to make up the difference.

The bill takes effect June 1, 2008.

Fiscal Summary

State Effect: Special fund revenue and expenditure increase of up to \$24.0 million annually beginning in FY 2009 with a corresponding decrease in general fund revenues. An additional \$2.0 million would be diverted from the general fund to the special fund in FY 2008. To the extent that lottery revenues exceed \$473.1 million in FY 2008, the \$6.0 million distribution to the special fund could either reduce general fund revenues in FY 2008, or increase general fund expenditures in FY 2009 if a deficiency is requested and approved (not shown below).

(\$ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	(\$2.0)	(\$24.0)	(\$24.0)	(\$24.0)	(\$24.0)
SF Revenue	2.0	24.0	24.0	24.0	24.0
SF Expenditure	2.0	24.0	24.0	24.0	24.0
Net Effect	(\$2.0)	(\$24.0)	(\$24.0)	(\$24.0)	(\$24.0)

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

Local Effect: None.

Small Business Effect: Potential meaningful. Trainers, breeders, and other small businesses that support the racing industry could benefit from increasing funds to purses and bred funds.

Analysis

Bill Summary: Funds may only be allocated to a race track if the Maryland Racing Commission has awarded at least the same number of live racing days for each race track for calendar 2008 as were run in calendar 2007.

All funds provided for purses and bred funds at harness racing tracks, mile thoroughbred racing tracks, and Timonium Race Course must be in addition to and may not supplant amounts allocated for purses and bred funds under current agreements between the harness racing tracks and the organization that represents a majority of owners and trainers of standardbred horses in the State and amounts otherwise provided in statute for purses and bred funds at mile thoroughbred racing tracks and Timonium Race Course.

The purses must be distributed at mile thoroughbred race tracks and Timonium Race Course according to a formula determined by the State Racing Commission in consultation with the race track licensees and the organization that represents a majority of owners and trainers of thoroughbred horses in the State.

Current Law: State lottery revenues are distributed to the general fund, except for the proceeds from sports lotteries which are conducted for the benefit of the Maryland Stadium Authority and distributed to the Stadium Authority. General fund revenues from the State lottery are estimated to be \$497.1 million in fiscal 2008 per the Board of Revenue Estimates, and the Maryland Stadium Authority is estimated to receive \$21.5 million in lottery revenues in fiscal 2008.

Background:

Recent State Aid to the Racing Industry

In an effort to help the horse racing industry compete with increasing race purses in Delaware and West Virginia, the General Assembly provided \$5 million in purse supplements for the industry in 1997 which came from overattainment of lottery revenues that would have otherwise gone to the general fund. About 70% of the money went to thoroughbred purses and bred funds and 30% to standardbred purses and bred funds.

Annual purse supplements of approximately \$10.0 million were also provided in each of the next three years, bringing the total to about \$35.0 million from 1997-2000.

During the 2000 session, in addition to the purse supplements, the General Assembly established a Maryland Racing Facility Redevelopment Program to assist horse racing facilities with capital improvements.

In 2001, the Senate passed a \$10.0 million purse supplement bill for the industry, but that bill failed in the House Ways and Means Committee. Continued infighting amongst stakeholders of the racing industry led to the bill's failure. In 2002, a provision of the Budget Reconciliation and Financing Act took up to \$3.5 million from the Racing Facility Redevelopment Bond Fund and provided that money to purse and bred fund supplements.

No purse supplements were provided in 2003 or 2004. In addition, despite the legislative efforts to create the Maryland Racing Facility Redevelopment Program, the race tracks never developed capital improvement plans and thus never took advantage of the bond fund; it was subsequently repealed during the 2004 legislative session.

Legislation passed in 2005 (Chapter 410) provided for the distribution of the cumulative receipts of at least \$1.04 million in the former Racing Facility Redevelopment Bond Fund to a special fund to be used for purses for the running of the Pimlico Special and for purses at Rosecroft Raceway.

2007 Special Session

During the 2007 special session, the General Assembly passed a constitutional amendment authorizing up to 15,000 video lottery terminals (VLTs) at five locations and a bill that establishes the operational and regulatory framework for VLTs, which is contingent on voter approval of the constitutional amendment at the 2008 general election. If approved, 7% of VLT revenues, but not exceeding \$100.0 million, will be dedicated to racing purses and 2.5% annually over an eight-year period, not to exceed \$40.0 million will be dedicated to race track capital improvements. Eighty percent of the purse funds will go to the thoroughbred industry and 20% to the standardbred industry; out of the funds dedicated to each industry, 85% will go to purses while 15% will go to the respective bred funds. Specifically, the following provisions will affect Maryland thoroughbred racing, as a condition of receiving racetrack renewal funds:

- State licensed tracks must maintain a specified minimum number of racing days; Laurel and Pimlico must maintain a combined minimum of 220 live racing days and Pimlico must be awarded at least 40 days;

- if a VLT licensee also holds a racing license and the licensee owns the Preakness, the Preakness must remain in Maryland and, with certain exceptions, must run the Preakness at Pimlico Race Course;
- if a VLT machine license is awarded to the owners of Laurel Park, that license will be revoked if the Preakness is moved outside of the State;
- the license holder for Laurel Park must continue to permit the Maryland Million to run at Laurel Park; and
- racing licensees must submit quality improvement and marketing plans to the Racing Commission and provide at least \$1.5 million of annual maintenance and improvements.

State Fiscal Effect: The Racetrax game is a virtual reality horse racing game that was introduced by the Lottery in July 2006. The game is offered at about 1,000 locations across the State. It is estimated that the monitor games – Keno and Racetrax – will generate approximately \$497.2 million in sales and \$138.3 million in general fund revenues in fiscal 2008 and \$522.1 million in sales and \$149.9 million in revenues for the general fund in fiscal 2009. The Lottery reports that through February 2008, Racetrax has generated approximately \$9.4 million in revenues in fiscal 2008. Based on this data, the maximum monthly diversion of \$2.0 million to the special fund may not be realized.

However, if \$2.0 million in revenues are available and dedicated, on a monthly basis, to a special fund for distribution for purse and bred fund supplements it would have the effect of diverting \$24.0 million from the general fund annually.

Exhibit 1 shows estimated lottery revenues for fiscal 2009 through 2013 and the resulting revenues after \$24.0 million is diverted to the special fund for purse and bred fund supplements. An additional \$2.0 million would be diverted to the special fund in fiscal 2008, accounting for the bill's June 1, 2008 effective date. **Exhibit 2** shows the distribution of special fund revenues under the bill.

Exhibit 1
Effect of Directing \$2.0 Million Monthly from the Racetrax Game
on Special Fund and General Fund Revenues
(\$ in Thousands)

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Estimated Lottery Revenues	\$507,269	\$519,951	\$532,949	\$546,273	\$559,930
Divert to Special Fund	(24,000)	(24,000)	(24,000)	(24,000)	(24,000)
Net Lottery Revenues	\$483,269	\$495,951	\$508,949	\$522,273	\$535,930

Source: Report of the Board of Revenue Estimates, December 2007; Department of Legislative Services

If fiscal 2008 net lottery revenues exceed \$473.1 million, general fund revenues in fiscal 2008 could decrease by up to \$6.0 million and would be distributed to the special fund. To date, lottery revenues generated for the general fund total \$321.6 million in fiscal 2008. To the extent lottery revenues do not exceed \$473.1 million by \$6.0 million, general fund expenditures could increase by up to \$6.0 million in fiscal 2009 for a deficiency appropriation to make up the difference.

Exhibit 2
Distribution of \$24 Million to Purses and the Bred Funds

Purses (89%)
\$21,360,000

Bred Funds (11%)
\$2,640,000

<u>Thoroughbred</u>	<u>Standardbred</u>	<u>Maryland-Bred Race Fund</u>	<u>Maryland Standardbred Race Fund</u>
80%	20%	80%	20%
\$17,088,000	\$4,272,000	\$2,112,000	\$528,000

Exhibit 3 shows the actual live racing days at each track for calendar 2007 and the estimated days for 2008. The Racing Commission advises that the actual number of racing days in 2008 is subject to change throughout the year. Based on these estimated data, Pimlico and Rosecroft would not qualify to receive special fund under the bill's provisions.

**Exhibit 3
Live Racing Days
2007-2008**

	<u>2007</u>	<u>2008</u>
Laurel	148	170
Pimlico	31	27
Timonium	7	7
Rosecroft	86	58
Ocean Downs	40	40
Fair Hill	1	1

Source: Maryland Racing Commission

Additional Information

Prior Introductions: This bill was introduced as HB 1342 in the 2007 session. The House Ways and Means Committee took no action on the bill.

Cross File: None.

Information Source(s): Maryland State Lottery Agency; Department of Labor, Licensing, and Regulation; Department of Legislative Services

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