Department of Legislative Services

Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 990 (Delegate Chang, *et al.*)
Ways and Means

Video Lottery Terminal Proceeds - Racetrack Facility Renewal Account - Use of Funds

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This bill adds the Bowie Race Course Training Center to the list of thoroughbred racetrack facilities that are eligible to receive a distribution of revenues from the Racetrack Facility Renewal Account (RFRA). In addition, the bill alters the distribution of revenues from RFRA to allow the Maryland Economic Development Corporation (MEDCO) to receive up to 80% of RFRA funds that are otherwise available to thoroughbred racetracks so that MEDCO may issue bonds to pay for specified capital improvement projects at Laurel Park and the Bowie Race Course Training Center.

Fiscal Summary

State Effect: None, as the bill does not affect overall revenue for RFRA. Total special fund expenditures from RFRA do not change either. However, the bill alters the potential use of RFRA funds so that the Bowie Race Course Training Center is eligible for RFRA revenues and funds may be used for debt service on revenue bonds under specified circumstances. Under one set of assumptions, debt service payments may increase by approximately $8.0 million annually.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill authorizes a racing licensee and the owner of the Bowie Race Course Training Center, acting individually, jointly, or through a parent organization, to enter into necessary agreements with MEDCO to facilitate the issuance of bonds or other financing to construct improvements and capital facilities at Laurel Park and on the grounds of the Bowie Race Course Training Center. MEDCO must notify the Legislative Policy Committee (LPC) of its intent to enter into an agreement at least 15 days before entering the agreement. A "racing licensee" is defined as the holder of a license issued by the Maryland Racing Commission (MRC) to hold a race meeting at Laurel Park.

An agreement must require (1) the racing licensee, the owner of the Bowie Race Course Training Center, or the parent organization of both to pay for at least 50% of the total costs associated with the bonds or financing, including debt service and repayment of principal, interest, and fees; (2) prior approval by MRC of the plans for any racetrack improvements or capital projects at Laurel Park or the Bowie Race Course Training Center; and (3) MEDCO to monitor the implementation of the plans approved by MRC.

The Comptroller must pay to MEDCO, on a properly approved transmittal and in an amount determined by MEDCO according to the debt service schedule, up to 80% of the amount required to be distributed to RFRA. Debt service must continue for the duration and in the amounts required by MEDCO, in accordance with the terms of the bond or financing agreements.

Any payments by the Comptroller to MEDCO do not reduce the amount of RFRA funds available to Rosecroft Raceway and Ocean Downs Race Course.

Current Law/Background: Except for the video lottery facility in Allegany County, 1% of video lottery terminal proceeds from each video lottery facility is distributed to RFRA, which is under the authority of MRC, for the first 16 years of operations at each video lottery facility. Grants from RFRA are provided to racing licensees for racetrack facility capital construction and improvements. Revenues to RFRA may not exceed $20.0 million annually. MRC must allocate 80% of RFRA funds to the Pimlico Race Course, Laurel Park, and the race course in Timonium and 20% to Rosecroft Raceway and Ocean Downs Race Course.

Generally, in order to obtain a grant, a holder of a license (to hold a race meeting in the State) must submit a capital construction plan to MRC and provide matching funds. After a grant has been provided, MRC must, in consultation with the Department of General Services, monitor the implementation of the approved capital construction plan and make provisions for the recapture of funds under specified circumstances.

Exhibit 1 shows the distribution of RFRA funds to the racetracks. The racecourse at Timonium received funds from RFRA in fiscal 2012 through 2016, as specified in statute, including $1.0 million in each of fiscal 2015 and 2016. The racecourse at Timonium has not received any RFRA revenues since fiscal 2016.

Exhibit 1
Current Distribution of Racetrack Facility Renewal Account Funding
Fiscal 2020-2024
($ in Millions)

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Total in Racetrack Facility Renewal Account	$10.7	$10.9	$11.0	$11.1	$11.8
Thoroughbred Tracks	*8.6*	*8.7*	*8.8*	*8.9*	*9.4*
Standardbred Tracks	*2.1*	*2.2*	*2.2*	*2.2*	*2.4*

Source: Comptroller's Office; Department of Legislative Services

Maryland Economic Development Corporation

MEDCO is a nonbudgeted entity that allows the State to own or develop property for economic development purposes. MEDCO was created in 1984 with the mission to help expand, modernize, and retain existing Maryland businesses and to attract new businesses to the State. The stated legislative purpose of the corporation is to (1) relieve the conditions of unemployment; (2) encourage increased business activity and commerce and a balanced economy; (3) assist in the retention and attraction of new business activity; (4) promote economic development; and (5) generally promote the present and prospective health, happiness, safety, right of employment, and general welfare of State residents.

MEDCO purchases or develops property that is leased to others under favorable terms. MEDCO also makes direct loans to companies throughout the State to maintain or develop facilities, and it often serves as the conduit for loans administered by the Department of Commerce (Commerce). MEDCO issues bonds to raise funds for its loans. The bond debt consists primarily of revenue bonds and notes payable to government agencies, such as Commerce. The debt represents nonrecourse obligations because MEDCO is not liable to bondholders and lenders in the event of a project or borrower default. Each project must have self-supporting revenues, and no projects are cross-collateralized. As a result, MEDCO's debt is not debt of the State, and there is no implied State guaranty or State obligation to protect bondholders from losses.

MEDCO has been involved in 300 projects through fiscal 2018. Of these, MEDCO currently owns and operates 15 as operating facilities, meaning that the corporation is involved in management decisions and has a hand in ensuring successful daily operations. For most other projects, MEDCO generally serves as an arms-length financing entity.

State Fiscal Effect: The bill does not alter the total amount of revenue for RFRA, nor does the bill alter the amount of funds that may be expended. However, the Bowie Race Course Training Center will be eligible for RFRA funds for capital construction and improvements beginning in fiscal 2020 (to receive such funding, it must provide a match). Under the bill, RFRA funds may also be used for debt service on revenue bonds issued by MEDCO for capital improvements at Laurel Park and the Bowie Race Course Training Center.

The Stronach Group (TSG), which owns Laurel Park, Pimlico Race Course, and the Bowie Race Course Training Center (as well as Rosecroft Raceway) has been in discussions to undertake major renovations to Laurel Park and the Bowie Race Course Training Center in order to attract major horse racing events to the State. It is estimated the expenditures for these renovations could be $80 million at Laurel Park and $40 million at the Bowie Race Course Training Center.

Under current law, TSG can use RFRA funds, under specified circumstances, for capital construction at the other facilities that TSG owns. Available RFRA funds for thoroughbred tracks are estimated to be between $8.0 million and $10.0 million per year, as shown in Exhibit 1. The bill may allow TSG to accelerate planned capital improvements at Laurel Park and the Bowie Race Course Training Center to the extent that the organization enters into an agreement with MEDCO to issue revenue bonds for the purpose of funding these improvements. MEDCO must notify LPC of its intent to enter into an agreement with TSG and, before any bonds are issued, improvement plans must be approved by MRC. In addition, TSG must pay at least 50% of the total costs associated with the bonds or financing, including debt service and repayment of principal, interest, and fees. RFRA funds would be used by MEDCO to pay the State share of the total costs associated with the bonds or financing, including debt service and repayment of principal, interest, and fees.

As a point of reference, if MEDCO were to issue $120.0 million in revenue bonds under an approved agreement with TSG, debt service requirements would be approximately $8.0 million per year, assuming 20-year bonds and a 3.0% interest rate. The bill requires TSG to pay at least 50% of the total costs associated with the bonds or financing, including debt service and repayment of principal, interest, and fees.

Under current law, 1% of video lottery terminal (VLT) revenues is distributed to RFRA for the first 16 years after a VLT facility begins operating, after which time the 1% distribution will go to the Education Trust Fund. Based on the starting dates of each facility, RFRA revenues will begin decreasing in calendar 2026 (fiscal 2027) as the 16-year distribution requirement ends for the casino in Cecil County. Distributions to RFRA from the Prince George's County casino, the last of the six casinos to open, will stop at the end of calendar 2032. However, to the extent the bill requires these distributions to continue for the life of any bond financing plan issued by MEDCO, Education Trust Fund revenues could be impacted beginning in fiscal 2027.

The bill would also limit the amount of RFRA funds available to other TSG-owned facilities, such as Pimlico Race Course.

Additional Information

Prior Introductions: None.

Cross File: SB 883 (Senator Beidle, *et al.*) - Budget and Taxation.

Information Source(s): Maryland Economic Development Corporation; Baltimore City; Comptroller's Office; Department of Labor, Licensing, and Regulation; Department of Legislative Services

Fiscal Note History: First Reader - February 28, 2019
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