

Department of Legislative Services
Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 1524

(Chair, Ways and Means Committee)(By Request -
Maryland Thoroughbred Racetrack Operating Authority)

Ways and Means and Appropriations

Budget and Taxation

Horse Racing - Racing Facility Ownership and Construction - Racing Operations

This departmental bill provides for the transfer of ownership and operation of thoroughbred racing facilities in the State from the Maryland Jockey Club (MJC) to the Maryland Thoroughbred Racetrack Operating Authority (MTROA). The bill also alters provisions of the Racing and Community Development Act of 2020 (Chapter 590) as well as Chapter 111 of 2023, which established MTROA. **The bill takes effect June 1, 2024.**

Fiscal Summary

State Effect: As discussed below, bonds totaling \$400.0 million are issued by the Maryland Stadium Authority (MSA) in FY 2025. State Lottery Fund expenditures to the Racing and Community Development Financing Fund (Financing Fund) are maintained but may now *exceed* \$17.0 million annually beginning in FY 2025; State Lottery Fund revenues increase by *at least* a commensurate amount in FY 2025 through 2028 as a result of repayment from other sources. Debt service payments from the Financing Fund increase by approximately \$24.0 million annually, beginning in FY 2026 and extending through FY 2055. Racing and Community Development Facilities Fund (Facilities Fund) revenues increase by approximately \$4.8 million in FY 2024 (due to a required fund balance transfer that year), \$1.9 million in FY 2025, and \$1.2 million in FY 2030. General fund and special fund revenues decrease from income tax subtraction modifications, sales and use tax exemptions, and redistributions beginning in FY 2025. Special fund revenues decrease from property tax and transfer tax exemptions beginning in FY 2026.

Local Effect: Baltimore City property, recordation, and transfer tax revenues decrease beginning with the redevelopment of the Pimlico site. Baltimore City expenditures are not directly affected. Expenditures for the City of Bowie may be delayed by one year as noted below.

Small Business Effect: MTROA has determined that this bill has a meaningful impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary: The bill specifies the intent of the General Assembly that:

- MJC transfer, in accordance with the Pimlico Transfer Agreement, ownership of the Pimlico racing facility site to MTROA;
- by January 1, 2025, (1) MJC or an affiliate make Laurel Park available to MTROA for use as a transition facility while new racing facilities are constructed at the Pimlico racing facility site and a new training facility is constructed; (2) MJC or an affiliate and the Laurel Racing Association Limited Partnership transfer the right to conduct all thoroughbred horse racing in the State to MTROA or its designees, except that MJC or an affiliate may conduct the Preakness Stakes, the Black-Eyed Susan Stakes, and related undercard races in 2025 at the Pimlico racing facility site and at Laurel Park in 2026; (3) MJC or an affiliate and MTROA enter into a licensing agreement for the intellectual property related to the Preakness Stakes and the Black-Eyed Susan Stakes; and (4) MJC or an affiliate and the Laurel Racing Association Limited Partnership enter into a long-term loan agreement with MTROA granting the authority the right to display the Woodlawn Vase at any location of the authority's choosing;
- the ownership of the MJC and Pimlico names and trademarks be transferred to MTROA; and
- MJC and the Laurel Racing Association Limited Partnership transfer to MTROA (1) all personal property and equipment at the Pimlico racing facility site necessary to operate year-round racing and to use the personal property and equipment at Laurel Park during the period that the Pimlico racing facility site is under construction; (2) the Maryland Thoroughbred Purse Account; and (3) on the agreement of the parties, material contracts, permits, and licenses applicable to the Pimlico racetrack.

The bill also alters provisions of Chapter 590 that provided for the redevelopment of the Pimlico and Laurel Park racing facilities and for the conveyance of the Bowie Race Course Training Center. Chapter 590 also provided for bond issuances, funding mechanisms and fund transfers, the ownership and management of racing facilities, and tax incentives.

The bill makes the following changes and alterations to Chapter 590:

- authorizes the Maryland Racing Commission to issue a license to and award racing days to a nonprofit organization that leases or subleases a racing facility from MTROA;
- authorizes the transfer of the Preakness Stakes to another track in the State during the reconstruction of Pimlico Race Course, subject to the approval of MTROA;
- increases, from \$375.0 million to \$400.0 million, the amount of bonds that may be issued to finance planning, design, and construction, and related expenses for construction management, professional fees, and contingencies in connection with racing facilities, on behalf of MTROA;
- specifies that the financing plan or plans must provide for at least \$250.0 million in anticipated project costs at the Pimlico site and \$110.0 million in anticipated project costs at the training facility site; furthermore, the plan must also include a joint plan between MTROA and the Department of Housing and Community Development that includes specified investments in and around the Pimlico racing facility site;
- specifies that *at least* \$17.0 million must be transferred each year from the State Lottery Fund to the Financing Fund (current law requires a \$17.0 million annual transfer);
- alters the distribution of Racetrack Facility Renewal Account (RFRA) funds, beginning in fiscal 2025, so that 10% is deposited in the Facilities Fund and 10% is distributed to Ocean Downs Race Course;
- specifies that various existing tax incentives apply to the Pimlico site or training facility site and maintains specified tax incentives related to the transfer of the Bowie Race Course Training Center;
- requires sales and use taxes collected from the sale of specified claiming horses to be distributed to the Facilities Fund;
- delays the conveyance of the Bowie Race Course Training Center to the City of Bowie until December 31, 2025; and
- specifies that \$2.0 million of the funds transferred to the Facilities Fund may be used (1) before June 1, 2024, to reimburse the racing licensees' costs attributable to maintaining ongoing year-round racing operations, ensuring the continued running of the Preakness Stakes at the Pimlico racing facility site during construction, and expenses related to the Bowie Race Course Training Center before the conveyance of the property and (2) on or after June 1, 2024, by MTROA for transitional, operational, and capital costs at Laurel Park and other uses deemed necessary by the authority.

The bill extends provisions of Chapter 111 regarding MTROA and the Maryland Racing Operations Fund from June 30, 2027, to June 30, 2029.

The bill requires that, by June 30, 2024, the unencumbered fund balance, including accrued interest, that is allocated to Rosecroft Raceway under RFRA be transferred to the Facilities Fund. The transferred funds may be used by MTROA for transitional, operational, and capital costs at Laurel Park and other uses deemed necessary by the authority.

The bill authorizes the Governor to transfer by budget amendment for fiscal 2025 up to \$10.0 million from the Financing Fund to the Maryland Racing Operations Fund to be used by MTROA or a nonprofit organization designated by MTROA as working capital. The bill requires MTROA to transfer or assign specified obligations before the authority sunsets at the end of June 2029.

Current Law:

Racing and Community Redevelopment Act of 2020

Chapter 590 provided for the redevelopment of Pimlico Race Course in Baltimore City and Laurel Park in Anne Arundel County, as well as for the conveyance of the Bowie Race Course Training Center.

Chapter 590 authorized MSA, subject to the approval of the Board of Public Works, to issue up to \$375.0 million in bonds to finance planning, design, and construction and related expenses for construction management, professional fees, and contingencies in connection with racing facilities. The financing plan or plans must provide for at least \$180.0 million in anticipated project costs at the Pimlico site and \$155.0 million in anticipated project costs at the Laurel Park site. Debt issued for the redevelopment projects is a limited obligation of MSA and is not an obligation or debt of the State. Chapter 590 specified the requirements for and the contents of long-term agreements for management and operations at the Pimlico and Laurel Park racing facility sites.

Chapter 590 provided for the financing of the racing facility redevelopment projects and for the payment of debt service on bonds issued by MSA. The Act established the Financing Fund and the Facilities Fund. The Financing Fund is a revolving fund established for implementing racing and community development projects and for the payment of debt service expenses incurred by MSA, or otherwise approved by MSA, concerning those projects; the fund consists of proceeds from the sale of bonds and money paid to the fund from the State Lottery Fund. The Facilities Fund is a revolving fund established for implementing racing and community development projects and to pay specified expenses incurred by MSA; the fund consists of specified monies, fund transfers, and the unencumbered fund balances allocated to thoroughbred tracks and Rosecroft Raceway under RFRA as of June 30, 2020.

Chapter 590 also required that, by December 31, 2023, the owner of the Bowie Race Course Training Center must convey the training center property to the City of Bowie “as is,” with all defects that may exist, whether known or unknown, and without any express or implied warranty, guarantee by, or recourse against the conveyor of the property. Chapter 590 specifies permissible uses for certain portions of the transferred property.

Chapter 61 of 2022

Among various provisions, Chapter 61 of 2022 required MSA to provide two reports, by September 30, 2022, and January 1, 2023, to the Senate Budget and Taxation Committee, the House Appropriations Committee, and the House Ways and Means Committee on the progress of the Pimlico and Laurel Park racing facility redevelopment plans under Chapter 590. In addition, the Act required the Maryland Economic Development Corporation (MEDCO) to report, by September 1, 2022, to those committees on an evaluation of the feasibility, limitations, costs, and potential benefits related to the acquisition of the Laurel Park racing facility site by a government or nonprofit entity to ensure the redevelopment and construction of facilities at the Laurel Park site. Finally, the Act required the mile thoroughbred licensees, the Maryland Thoroughbred Horsemen’s Association, and the Maryland Horse Breeders Association to report by September 30, 2022, to the same committees on the status of the Maryland thoroughbred racing operations.

Maryland Thoroughbred Racetrack Operating Authority

Chapter 111 established MTROA as a body politic and corporate and an instrumentality of the State, with the stated purpose of maintaining the State as a best-in-class thoroughbred racing venue. To that end, the authority may:

- study and make any recommendations that the authority finds are in the best interests of thoroughbred racing in the State;
- in coordination with other State entities, develop new and existing horse racing and training facilities in the State;
- take specified actions (as discussed below), but only in accordance with an executive order or a determination of the Maryland Racing Commission, and subject to specified review and comment, that a thoroughbred racing licensee – for any reason other than weather, an act of God, or other circumstances beyond the control of the licensee – is unable to support the minimum number of live racing days;
- enter into any agreements, leases, partnerships, or contracts necessary to support and sustain Maryland thoroughbred racing and pari-mutuel wagering activity and ensure compliance with Maryland Racing Commission rules and regulations;

- authorize or create a separate body, entity, or holding company to carry out any provisions of the Act;
- adopt regulations to carry out the provisions of the Act; and
- make any other recommendations the authority deems necessary.

Chapter 111 allows for the authority, under such an order or determination, to manage and oversee day-to-day thoroughbred horse racing operations, live racing days, and assets in the State and, in coordination with MEDCO, acquire property or contractual interests, as specified. Under such circumstances, the Maryland Racing Commission may issue a license and live racing days to the authority.

Chapter 111 specifies the membership of the authority and authorizes the hiring of an executive director as well as the employment or retention of staff as deemed necessary or advisable.

The authority may use various powers to operate as necessary, including (1) accepting loans, grants, or assistance of any kind from the federal or State government, a local government, a college or university, or a private source; (2) entering into contracts and other legal instruments; (3) retaining, employing, or hiring an independent firm for the purpose of operating and managing live horse racing in the State; (4) creating, owning, controlling, or being a member of a corporation, limited liability company, partnership, or other entity, whether operated for profit or not for profit; and (5) assisting with the advertising and promotion of horse racing interests. The authority is exempt from State and local taxes.

Chapter 111 also establishes the Maryland Racing Operations Fund as a special, nonlapsing fund administered by the authority to assist in financing the acquisition, construction, rehabilitation, or other capital or operating expenses for thoroughbred racetracks in the State. The fund consists of (1) money distributed to the fund from the existing Financing Fund, as authorized by the Act; (2) money appropriated in the State budget to the fund; (3) interest earnings of the fund; and (4) any other money from any other source accepted for the benefit of the fund. Any interest earnings of the fund must be credited to the fund and expenditures from the fund may be made only in accordance with the State budget.

The owner of the Bowie Race Course Training Center was required to convey the training center property to the City of Bowie by December 31, 2023. Chapter 111 delayed that conveyance date to December 31, 2024.

The fiscal 2023 capital budget (Chapter 344 of 2022) directed \$5.0 million in funding to Pimlico Race Course demolition and \$10.0 million in funding to the acquisition, planning, design, construction, repair, renovation, reconstruction, site improvement, and capital equipping of backstretch housing facilities at Laurel Park. Chapter 111 redirected these

funds to the Maryland Racing Operations Fund for the acquisition, construction, rehabilitation, or other capital or operating expenditures for thoroughbred racetracks.

MTROA was required to report to the Senate Budget and Taxation Committee, the House Appropriations Committee, and the House Ways and Means Committee by December 1, 2023, on (1) the feasibility of establishing at least two alternative thoroughbred training facilities in the State; (2) thoroughbred racing industry models and recommendations regarding operating models in the State; and (3) the progress of the Pimlico and Laurel Park racing facility redevelopment plans under Chapter 590. A copy of the report can be found here: [Report of the Maryland Thoroughbred Racetrack Operating Authority](#).

Background: In its January 2024 report to the General Assembly, MTROA recommended that racing be consolidated at Pimlico in Baltimore City, referred to as the Pimlico Plus plan. This plan would also require the development of a training facility. MTROA's report also recommended a public ownership structure for the tracks and subsequent lease of them to a nonprofit entity led by Maryland industry professionals. This is similar to the model used in New York, which has three racetracks owned by the New York Racing Authority. In addition, Del Mar in California, which occasionally hosts the Breeders Cup, is owned by the State of California.

State Fiscal Effect: Chapter 590 provided for the redevelopment of the Laurel and Pimlico racing facility sites and for the financing of the redevelopment plans. Although the general financing and repayment mechanisms for the bond issuances are largely unchanged under the bill, absent the bill, it is unlikely that the current authorization for \$375.0 million would have been issued. Accordingly, this analysis reflects issuance of the entire \$400.0 million in bonds, as now authorized, by MSA for the redevelopment of the Pimlico and training facility sites – likely in fiscal 2025. MSA advises that if \$400.0 million in bonds are issued in the spring/summer of 2025, debt service payments would be between \$24.0 million and \$25.0 million annually beginning in fiscal 2026. Assuming that debt service payments will be over 30 years and annual debt service payments are approximately \$24.0 million, payments (principal and interest) total approximately \$720.0 million over the 30-year period.

Capitalization of Funds and Related Spending

Financing Fund: Under Chapter 590, when the bonds are issued, the monies are deposited in the Financing Fund and used to finance the racing facility projects. This is the same under the bill; however, beginning in fiscal 2025, the bill directs *at least* \$17.0 million, rather than \$17.0 million, from the State Lottery Fund to the Financing Fund for each fiscal year until the bonds issued to finance racing facilities are no longer outstanding and unpaid. Based on current MSA estimates, \$17.0 million annually would not be sufficient to cover

projected debt service costs under the bill. MSA advises that there is currently \$52.0 million in the Financing Fund.

Facilities Fund: Under Chapter 590, the Facilities Fund was primarily capitalized by a series of one-time transfers from RFRA and the Purse Dedication Account (PDA). MSA advises that there is currently \$33.0 million in the Facilities Fund.

The bill provides additional funding for the Facilities Fund. First, the bill requires that, by June 30, 2024, the unencumbered fund balance, including accrued interest, allocated to Rosecroft Raceway under RFRA be transferred to the Facilities Fund. The transferred funds may be used by MTROA for transitional, operational, and capital costs at Laurel Park and other uses deemed necessary by the authority. The Maryland Racing Commission estimates this amount is approximately \$4.8 million. Second, the bill alters the distribution of RFRA funds, beginning in fiscal 2025, so that 10% is deposited in the Facilities Fund and 10% is distributed to Ocean Downs Race Course. Based on the current RFRA forecast, this distribution to the Facilities Fund would equal approximately \$1.3 million in fiscal 2025 and approximately \$639,400 in fiscal 2030. Third, the bill requires sales and use taxes collected from the sale of specified claiming horses to be distributed to the Facilities Fund. These sales tax collections totaled \$537,000 in calendar 2022 and \$579,000 in calendar 2023.

In addition, \$2.0 million of the funds already transferred to the Facilities Fund under current law may be used (1) before June 1, 2024, as under current law, to reimburse the racing licensees' costs attributable to maintaining ongoing year-round racing operations, ensuring the continued running of the Preakness Stakes at the Pimlico site during construction, and expenses related to the Bowie Race Course Training Center before the conveyance of the property but (2) on or after June 1, 2024, under the bill, only by MTROA for transitional, operational, and capital costs at Laurel Park and other uses deemed necessary by the authority.

State Lottery Fund: Chapter 590 generally provided for the annual repayment of funds, beginning in fiscal 2022, to the State Lottery Fund as follows: (1) RFRA funds available to thoroughbred racing licensees; (2) \$5.0 million from PDA from thoroughbred purses; and (3) \$3.5 million from local impact grants provided to Baltimore City from video lottery terminal (VLT) proceeds. This repayment mechanism remains the same under the bill. The State Lottery and Gaming Control Agency advises that the agency received approximately \$18.9 million in fiscal 2022 and \$18.8 million in fiscal 2023 from the three sources. The agency reports that the funds received in excess of \$17.0 million (\$1.9 million in fiscal 2022 and \$1.8 million in fiscal 2023) were deposited in the general fund. Under the bill, funds in excess of \$17.0 million would be distributed to the Financing Fund.

However, 1% of VLT revenues is distributed to RFRA for the first 16 years after a video lottery facility begins operating, after which time the 1% distribution will go to the Education Trust Fund. Based on the opening dates of each facility, RFRA revenues will begin decreasing in 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 end in fiscal 2033. Based on current VLT revenue estimates, beginning in fiscal 2029, there will be insufficient funds directed to the State Lottery Fund to fully pay back the amount that is directed to the Financing Fund. Beginning in fiscal 2033, when RFRA funds are no longer available, the State Lottery Fund will only receive \$8.5 million in total annual funding from PDA and Baltimore City local impact grants to partially cover the amount directed to the Financing Fund. The bill does not alter this funding distribution.

Tax Revenue Changes

Chapter 590 provided for a variety of tax incentives for the redevelopment of the Laurel and Pimlico racing facility sites. These incentives are generally unchanged under the bill, but the bill eliminates references to the Laurel site. The bill also redirects sales and use tax revenues from the sale of specified claiming horses to the Facilities Fund. As a result, general fund and Blueprint for Maryland's Future Fund (BMFF) revenues decrease by an indeterminate amount annually beginning in fiscal 2025 (based on recent experience, however, the total could approach \$600,000 each year).

General fund revenues decrease as a result of the subtraction modification for gains recognized due to the transfer or conveyance of the Pimlico site, and the amount of income recognized as a result of any expenditure of specified governmental funds. The amount of the decrease cannot be reliably estimated.

General fund and BMFF revenues also decrease beginning in fiscal 2025, through fiscal 2029, as a result of the sales and use tax exemption for the purchase of specified construction materials for use in the construction, furnishing, equipping, or redevelopment of the Pimlico and training facility sites. MSA does not have an estimate for construction costs that would qualify for the sales and use tax exemption. Although this exemption was already in place until January 2026, this analysis assumes that, as for the bond issuance by MSA, the exemption could not have been taken absent this bill. Moreover, the bill extends it for three years.

Annuity Bond Fund revenues may decrease as a result of the property tax exemption for the interests of a person in an improvement made at the Pimlico and training facility sites for the duration of specified long-term agreements.

Local Fiscal Effect: Although certain tax benefits existed under current law, the bill likely effectuates them; thus, the bill affects property, recordation, and transfer taxes in Baltimore City and the jurisdiction where the training facility will be located.

Baltimore City property tax revenues may decrease as a result of the property tax exemption for the interests of a person in an improvement made at the Pimlico site for the duration of specified long-term agreements. The amount of the decrease cannot be reliably estimated and depends on the value of the improvements when the projects are completed.

Baltimore City transfer tax revenues may decrease resulting from the exemption for instruments of writing that transfer or grant a security interest in property that is within the Pimlico site if the transfer or grant is by any combination of project entities, MJC Entities, Baltimore City, or an entity designated by Baltimore City. The amount of the decrease cannot be reliably estimated and depends on the value of the consideration transferred.

Baltimore City recordation tax revenues may decrease resulting from the exemption for instruments of writing that transfer or grant a security interest in property that is within the Pimlico site if the transfer or grant is by any combination of project entities, MJC Entities, Baltimore City, or an entity designated by Baltimore City. The amount of the decrease cannot be reliably estimated and depends on the value of the consideration transferred.

These same exemptions and resulting revenue decreases will apply to the jurisdiction where the training facility site is ultimately located.

Further, the bill extends the deadline for the required conveyance of the Bowie Race Course Training Center to the City of Bowie by one year, which delays expenditures for the city.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Anne Arundel and Prince George's counties; Comptroller's Office; Department of Housing and Community Development; Maryland Department of Labor; Board of Public Works; Maryland State Lottery and Gaming Control Agency; Maryland Stadium Authority; Maryland Thoroughbred Racetrack Operating Authority; Department of Legislative Services

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Horse Racing – Racing Facility Ownership and Construction – Racing Operations

BILL NUMBER: HB1524

PREPARED BY: MTROA

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS