

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 1180 (Delegate Hixson. *et al.*)

Ways and Means

Maryland Racing Facility Redevelopment Act

This bill establishes a Maryland Racing Facility Redevelopment Program in the State Racing Commission to assist horse racing facilities with capital improvements.

The bill takes effect July 1, 2000. Section 2 sunsets when the bonds issued pursuant to the bill have been fully satisfied and are expired.

Fiscal Summary

State Effect: Increase in special fund expenditures of up to \$5.3 million annually in payments to the Maryland Economic Development Corporation (MEDCO). Special fund revenue increase of up to \$5.3 million annually. Of the increase in special fund revenues, up to \$2.8 million would be reimbursed to the special fund through excess lottery funds or general funds.

Local Effect: Potential meaningful.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: To carry out the program, the State Racing Commission must review racing facility master plans submitted by “eligible racing licensees” and may approve requests from the licensees to use proceeds from bonds issued by the MEDCO under its current authority for capital improvements or related expenditures. “Eligible racing licensees” means a mile thoroughbred licensee or a harness racing licensee that conducts live racing when bonds are issued and allocates “takeout” to MEDCO pursuant to the bill. MEDCO may only issue a

bond after the commission notifies it that a racing facility master plan has been approved.

The bill: (1) provides that an amount equal to the revenues from the State wagering tax must be paid from the horse racing special fund to MEDCO; (2) increases the “takeout” (the commission deducted from betting pools) from bets placed on thoroughbred races and distributes the increased percentages through the commission to MEDCO; and (3) for specified harness tracks, requires a portion of the takeout to be allocated through the commission to MEDCO. The bill also provides that excess lottery funds above specified amounts or general funds be distributed to the horse racing special fund in an amount equal to the payments from the wagering tax to MEDCO.

Current Law: The horse racing special fund consists of the State share of daily licensee fees, wagering taxes, impact aid, money from specified uncashed pari-mutuel tickets, and specified permit fees. Currently, any money that remains in the special fund is paid to the two bred funds. As of June 30, 2000, however, money that remains in the special fund must be paid into the general fund. The current State wagering tax is 0.32%; after June 30, 2000, it will revert to 0.5%.

Thoroughbred licensees must deduct from the “handle” (total money bet) specified portions from each wagering pool. Money that remains after those deductions are made must be returned as winnings to successful bettors. From the amount deducted by licensees, specified portions must be retained by the licensees and specified percentages must be allocated to the State, the Maryland Race Track Employees Pension Fund, the bred fund, and purses. Specified harness licensees must retain a portion of each pool and allocate a portion of each pool to the State, purses, and the Maryland Harness Track Employee Pension Fund.

Background: The horse industry in Maryland employs more than 15,000 people and generates approximately \$600 million annually in direct economic activity for the State. Like other states, Maryland’s horse racing industry has lost market share in recent years to other forms of commercial gambling. Some states, including two in this region, have sought to revive their industries by introducing slot machines at the tracks. Maryland has taken other approaches to restructuring its horse racing industry, including subsidizing purses, providing tax relief to the industry, and expanding marketing efforts. Maryland’s current payout to bettors is, on average, slightly higher than the national median. The State wagering tax is one of the lowest in the country.

Chapter 168 of 1999 mandated the one-time distribution of \$10 million of net fiscal 1999 lottery revenues in excess of \$352,175,000 to increase purses at race tracks and to supplement existing bred funds. This was the third year that the State provided purse support. The release of the funds was contingent upon the submission of plans to the

Governor and the General Assembly detailing substantial improvements in track facilities, management, and marketing. The plan created by the Maryland Jockey Club (owner of Laurel Park and Pimlico Race Course) called for \$60 million in improvements over five years. The plan identified \$42.5 million in capital improvements, of which \$27.5 million would be financed through revenue bond proceeds. The sources of funds identified to support the debt service on those bonds included: surplus revenues from the horse racing special fund and a 1.5% increase in the takeout. Rosecroft Raceway's financing plans were vague, but included \$10 million through a "State partnership." Ocean Downs' plan did not include any future year capital expenditures.

State Fiscal Effect: The Governor's proposed fiscal 2001 budget assumes a total of approximately \$5 million in revenues to the horse racing special fund. This assumption includes \$2.8 million in wagering taxes based on a tax rate of 0.5%. Of the total revenues collected, an estimated \$3.8 million will be disbursed to fairs, the Maryland Million, local impact aid, track operations, purses, and bred funds. The remainder (an estimated \$1.2 million) will be distributed to the general fund.

This bill requires the Comptroller to submit an amount equal to the wagering taxes collected (or a lesser amount if not all is needed) from the special fund to MEDCO. Accordingly, special fund expenditures will increase by up to an estimated \$2.8 million annually. The bill provides that the amount that is paid from the wagering taxes to MEDCO be reimbursed to the special fund through excess lottery funds or the general fund. Legislative Service advises that it cannot reliably predict any excess lottery funds at this time.

The bill also increases the current takeout that a thoroughbred licensee must deduct from live handle by approximately 1.3% as follows: (1) from 17% to 17.25% from each regular mutuel pool; (2) from 19% to 21.75% from each multiple mutuel pool on two horses; and (3) from 25% to 25.25% from each multiple mutuel pool on three or more horses. Licensees must distribute the increased allocations to the commission for payment to MEDCO. According to the Maryland Breeder's Association, live handle totaled approximately \$170 million last year; by increasing the takeout by approximately 1.3%, as the bill does, special fund revenues and expenditures will increase by approximately \$2.2 million annually.

The bill also mandates that harness tracks with average daily handle between \$200,000 and \$600,000 distribute a portion of the handle through the commission for payment to MEDCO. According to the Maryland Breeder's Association, only one harness track (Rosecroft) has an average daily handle between those amounts. Total live handle for that track during 1998 was approximately \$20 million. Based on that data, Legislative Services estimates that special fund revenues and expenditures will increase by an additional \$300,000 annually in payments through the commission to MEDCO. Legislative Services advises that if the daily

handle at any other harness tracks increases to between \$200,000 and \$600,000, special fund revenues and expenditures would increase accordingly.

The bill authorizes MEDCO to issue bonds to finance the assistance to tracks. The actual amount of bonds that will be issued in any given year cannot be reliably predicted at this time. It depends largely on the future revenue stream to MEDCO, interest rates, and the terms of the bonds issued. Assuming, however, that MEDCO would issue bonds to its fullest ability based on the revenue stream created by the bill, it is possible that MEDCO could issue over \$50 million in bonds (resulting in total annual debt payments of approximately \$5 million). This assumes MEDCO issues revenue bonds over 20 years at an interest rate of 7%.

Because the debt service would in part be paid by funds from the State wagering tax, Legislative Services advises that it is likely that the debt would be subject to the State capital debt affordability limit.

If the capital improvements made pursuant to the bill result in an increase in attendance and money wagered, revenues from the State wagering tax would increase. If, on the other hand, the increase in takeout results in a decrease in handle, wagering tax revenues would decrease.

Because capital improvements will presumably increase the value of the race tracks, revenue from the State real property tax will likely increase (resulting in an increase in Annuity Bond Fund revenues and a corresponding decrease in general fund expenditures). Any such impacts cannot be reliably estimated at this time.

Local Fiscal Effect: To the extent that the bill results in an increase in the value of the racetracks, local property tax revenues would increase. Legislative Services advises that any such increase cannot be reliably estimated at this time.

The Governor's proposed fiscal 2001 budget assumes disbursements of about \$1.3 million from the horse racing special fund to cover mandatory payments of local impact aid to Anne Arundel, Baltimore, Howard, and Prince George's counties, Baltimore City, and the cities of Bowie and Laurel. Assuming that mandated payments to local jurisdictions would continue, the bill's provision requiring payments to MEDCO from the special fund should have no direct effect on local jurisdictions.

Small Business Effect: There are over 3,000 horse owners and breeders in the State, all of which are presumed to be small businesses. The bill does not directly change the disbursement of funds to purses or the two bred funds. To the extent that the increase in takeout results in a decrease in handle, however, the disbursements to these entities would decrease. On the other hand, if the capital improvements at the tracks result in an increase in attendance and handle, distributions to small businesses would increase. Legislative Services advises, however, that any net effect on handle cannot be predicted at this time. Small businesses involved with the capital improvements made pursuant to the bill will benefit.

Additional Information

Prior Introductions: None.

Cross File: SB 813 (Senator Bromwell - Finance) is identified as a cross file although it is not identical.

Information Source(s): Department of Labor, Licensing, and Regulation (State Racing Commission); Department of Business and Economic Development; Maryland State Lottery Agency; Maryland Breeder's Association; Department of Legislative Services

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