SB 813

Department of Legislative Services

Maryland General Assembly
2000 Session

FISCAL NOTE
Revised

Senate Bill 813 (Senator Bromwell)
Finance

Racing Act of 2000

This bill establishes a Maryland Racing Facility Redevelopment Program in the State Racing Commission to assist horse racing facilities with capital improvements. The bill: (1) provides for the financing of the program; (2) requires a one-time distribution of $10 million from excess lottery funds or general funds to support the industry; and (3) extends the State wagering tax of 0.32% and the distribution of funds to bred funds and purses. The bill also modifies authorized racing times, specifies how a track in Allegany County may send racing signals, and recodifies certain provisions of current law, including the Maryland Million Race and the Standardbred Sire Stakes program.

Section 3 of the bill takes effect July 1, 2001. The rest of the bill takes effect July 1, 2000. Sections 2 and 3 are effective until bonds issued pursuant to the bill expire. Section 6 sunsets June 30, 2001.

Fiscal Summary

State Effect: Funding for the redevelopment program could potentially affect general fund revenues beginning in FY 2001 or expenditures beginning in FY 2002 by up to an estimated $2 million annually to replenish the horse racing special fund. (The $2 million annually for the program will come from uncashed pari-mutuel tickets out of the horse racing special fund.) That amount, plus $4.2 million from bettors and licensees would be paid into a new special fund to pay the debt service on bonds issued to finance improvements to tracks (if not needed, funds from uncashed tickets would revert to the horse racing special fund). Special fund revenues could increase by an estimated $43 million in proceeds from the sale of bonds, although the timing of the issuance of bonds is unknown. The $10 million distribution to the special horse fund could affect either general fund revenues in FY 2000 or general fund expenditures in FY 2001. Based on the assumptions made in the FY 2001 budget, by extending the lower State wagering tax, general fund revenues will decline by an estimated $1,244,200 annually beginning in FY 2001 and wagering tax revenues will decline by approximately $1 million annually beginning in FY 2001.

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 must submit requests from those licensees to the Stadium Authority for approval to use proceeds from bonds issued by the Maryland Economic Development Corporation (MEDCO) for capital improvements or related expenditures. "Eligible racing licensees" are mile thoroughbred licensees or harness racing licensees that conduct live racing at the time bonds are issued and allocate "takeout" (the commission deducted from betting pools) to MEDCO pursuant to the bill. To receive assistance, an eligible racing licensee must provide evidence that it will spend specified amounts for improvements in accordance with the master plan. In order for the commission to approve a plan, an applicant must demonstrate that the improvements will be completed within five years from the time MEDCO issues bonds. Mile thoroughbred licensees must also demonstrate that they have spent or are contractually obligated to spend $9.5 million on improvements by the time bonds are issued. If a master plan is approved and proceeds from the sale of bonds sufficient to accomplish the plan are made available, the licensee must implement the plan and submit an audited report of expenditures to the commission, the Maryland Stadium Authority, and MEDCO.

The bill establishes the Racing Facility Redevelopment Bond Fund as a nonlapsing revolving fund to be used to: (1) pay the debt service on bonds issued by MEDCO; and (2) cover the reasonable charges and expenditures incurred by the authority and MEDCO pursuant to the bill. Revenues to the fund include: (1) increases in takeout from bets placed on thoroughbred races, as provided by the bill; (2) allocation of takeout from bets placed on thoroughbred and specified harness races, as provided by the bill; (3) funds from uncashed pari-mutuel tickets (which are currently paid into the horse racing special fund), beginning in fiscal 2002; (4) revenues from investment of the new fund; and (5) any other revenue, gift, or donation made.

If MEDCO does not issue revenue bonds by a specified date, a licensee must notify MEDCO of its intent to use its share of funds in the bond fund. To do so, a licensee must submit a multiyear racing facility improvement plan to the Governor for approval.

Beginning in fiscal 2002, the bill provides that excess lottery funds above specified amounts (that would otherwise be paid to the general fund) be distributed to the horse racing special fund in an amount equal to the payments made from the fund pursuant to the bill. If excess lottery funds are not sufficient to credit the horse racing special fund, the Governor may request a general fund deficiency appropriation during the next legislative session to make up the difference.

The bill also requires a one-time distribution of $10 million of net fiscal 2000 lottery revenues in excess of $366,813,000 (that would otherwise be paid to the general fund) to a special fund to increase purses at race tracks, supplement existing bred funds, and improve the health and education benefits for eligible persons licensed by the Racing Commission. If lottery revenues are not sufficient to provide the $10 million, the Governor may request a general fund deficiency appropriation during the 2001 session to make up the difference.

Finally, the bill requires the Racing Commission to report to specified committees of the General Assembly by August 15, 2000 on the status of regulations to administer telephone betting.

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 betters 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 the next 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 bill will affect State finances by: (1) potentially funding the redevelopment program; (2) providing a one-time distribution to enhance purses and bred funds; and (3) extending the current wagering tax and distribution of funds to purses and bred funds.

Funding the Redevelopment Program

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 capital improvements approved, the future revenue stream to MEDCO, interest rates, the terms of the bonds issued, and administrative expenditures. However, the bill establishes a revenue stream for the redevelopment program from takeout of thoroughbred and specified harness bets (from bettors and licensees) of an estimated $2.9 million annually beginning in fiscal 2001 and an additional $1.3 million annually once bonds are issued. The estimated revenue stream does not include any investment or other revenue. If needed, funds from uncashed pari-mutuel tickets (approximately $2 million annually, that would otherwise be paid into the horse racing special fund could) also be used. All funds for the redevelopment program would be paid into, and out of, the bond fund.

Potential State Funds: Uncashed Pari-mutuel Tickets (up to $2 million annually beginning in fiscal 2002).

According to the Racing Commission, receipts from uncashed pari-mutuel tickets are estimated at approximately $2 million annually ($1.65 million from thoroughbred bets and $350,000 from harness bets). Under current law, these revenues are paid into the horse racing special fund. Under this bill, beginning in fiscal 2002, funds from such tickets would instead be allocated to the bond fund for the redevelopment program. If needed, these funds would be used to pay the debt service on bonds. (Legislative Services notes that although the Racing Commission estimates uncashed thoroughbred tickets at $1.65 million, the fiscal 2001 budget assumes $1.2 million in receipts from those tickets.)

Because the horse racing special fund would still be required to make mandated payments to fairs, the Maryland Million, local impact aid, track operations, purses, and bred funds, the bill allows for the replenishment of the horse racing special fund through specified excess lottery revenues or general funds in the amount of the uncashed pari-mutuel tickets paid to the bond fund. If excess lottery revenues are distributed to the horse racing special fund, rather than the general fund, general fund revenues could decrease by up to an estimated $2 million annually beginning in fiscal 2001. If distributions to the horse racing special fund are made through a deficiency appropriation, general fund expenditures could increase by up to an estimated $2 million annually beginning in fiscal 2002. Assuming the special fund is credited to the full amount in each year, the bill will have no net effect on the horse racing special fund.

Beginning in fiscal 2003, if any amount of funds from the uncashed pari-mutuel tickets are not needed for the redevelopment program, the funds will revert to the horse racing special fund. If that occurs, the impact on general funds would decrease accordingly. Legislative Services advises that it is likely that funds from uncashed tickets will not be needed.

Funds from Bettors and Licensees ($2.9 million annually beginning in fiscal 2001 plus an additional $1.3 million annually once bonds are issued)

The bill increases the current takeout that a thoroughbred licensee must deduct from live handle by approximately 1.5%. According to the Maryland Breeder's Association, live handle totaled approximately $170 million in 1999. Based on current handle, takeout from thoroughbred bets will increase by an estimated $2.6 million annually. Under this bill, that amount would be distributed to the bond fund for the redevelopment program. Once MEDCO issues bonds pursuant to the bill, thoroughbred licensees would be required to allocate an additional 0.75% of handle (or approximately $1.3 million) to the bond fund. Accordingly, once bonds are issued, thoroughbred licensees would contribute approximately $3.9 million annually to the bond fund.

The bill also requires specified harness licensees to allocate 1.5% of the takeout from live handle to the bond fund. According to the Maryland Breeder's Association, only one harness track (Rosecroft) currently would be affected by this provision. Total live handle for that track during 1998 was approximately $20 million. Based on that data, an estimated $300,000 will be distributed from harness races to the bond fund annually.

Assuming that MEDCO would issue bonds to its fullest ability based on the revenue stream created by the bill (not including funds from uncashed pari-mutuel tickets), it is possible that MEDCO could issue approximately $43 million in bonds (resulting in total annual debt payments of approximately $4.1 million). This assumes MEDCO issues revenue bonds over 20 years at an interest rate of 7%. It also assumes that administrative expenditures of MEDCO and the Stadium Authority would total approximately $100,000 annually.

Legislative Services advises, however, that the bill also provides for bonds to be issued for redevelopment of a track in Allegany County. However, because the track has not yet been constructed, the revenue stream from that track cannot be reliably estimated at this time. Legislative Services also advises that the bill's estimated revenue stream is based on current handle. Should handle change in the future, the revenue stream, and therefore the amount of bonds that could be issued, would be affected accordingly. However, should additional funds be needed, revenues from uncashed tickets could be used.

One-Time Distribution of Funds

If net lottery revenues in excess of $366,813,000 are distributed to the special horse fund created by the bill, general fund revenues in fiscal 2000 could decrease by up to $10 million. If distributions to the special fund are made through a deficiency appropriation, general fund expenditures could increase by up to $10 million in fiscal 2001. Special fund revenues would increase by a corresponding amount in fiscal 2000 and would be distributed as follows:

Distribution of $10 million to Purses and to the Bred Funds			
Purses (89%)		Bred Funds (11%)	
Thoroughbred	Harness	Maryland-Bred Race Fund	Maryland Standardbred Race Fund
(70%)	(30%)	(70%)	(30%)
$6,230,000	$2,670,000	$770,000	$330,000

Extending Current Law Related to the State Wagering Tax and the Distribution of Funds to Purses and Bred Funds

The 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 would extend the current wagering tax rate of 0.32%. Assuming total handle remains the same, tax revenues would remain at the current level of approximately $1.8 million annually. Based on the fiscal 2001 budget, this represents a decrease in tax revenues of approximately $1 million (under the bill, these revenues would continue to be distributed to purses). The bill also provides for the continued distribution of remaining funds to the two bred funds rather than the general fund. Based on the lower tax rate, an estimated $244,400 will be in the special fund as of June 30, 2001.

Other Impacts

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 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 whom are presumed to be small businesses. The distribution of $10 million to purses and bred funds will benefit horse owners, breeders, and jockeys. Small businesses involved with the capital improvements made pursuant to the bill will benefit.

To the extent that the increase in takeout results in a decrease in handle, disbursements to these entities from the takout 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.

Additional Information

Prior Introductions: None.

Cross File: HB 1180 (Delegate Hixson, *et al.*- Ways and Means) 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 Stadium Authority; Maryland State Lottery Agency; Maryland Breeder's Association; Department of Legislative Services

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