

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 516
Ways and Means

(Delegate Hixson, *et al.*)

Horse Racing Reform Act of 2005

This bill makes several changes to laws governing horse racing in Maryland.

The bill takes effect June 1, 2005.

Fiscal Summary

State Effect: Potential minimal increase in general fund expenditures depending on whether or not the Racing Commission authorizes entities to conduct telephone wagering in the State. Potential minimal increase in State betting tax revenues and bred fund revenues to the extent that the bill results in more telephone wagering.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: Specifically, the bill repeals the restriction that thoroughbred racing cannot be held between 6:15 p.m. and 9:00 p.m. except under specified circumstances.

The bill alters the distribution of funds from open purse races so that the formula distributes 90% of the open purse money to overnight races of the current year and approximately 10%, but not more than 12%, to the stakes races of the current year.

The bill clarifies that a contract with an out-of-state track to conduct pari-mutuel betting is subject to the approval of the group that represents a majority of the applicable owners

and trainers who are licensed in Maryland, as well as the group that represents a majority of breeders in Maryland.

The bill provides that the State Racing Commission may authorize an entity, on application, to conduct telephone betting in the State, except for racing held by the Maryland-National Capital Park and Planning Commission. The bill provides that breakage and takeout on all telephone betting is required to be computed in the same way normally applicable to pari-mutuel betting on the breed of the horse on which the bet is made.

Finally, the bill requires the Racing Commission to report to the Senate Finance Committee and the House Ways and Means Committee by December 1 of each year as to the impact of any additional State funds provided to enhance racing purse or bred funds and other specified items.

Current Law: A thoroughbred licensee is prohibited from holding racing after 6:15 p.m., but before 9:00 p.m. unless: (1) circumstances beyond the control of the licensee cause a delay; or (2) the racing consists of betting on races held at an out-of-state track and the racing is authorized under the provision of current law governing betting on out-of-state races.

The formula for the distribution of funds from open purse races is as follows: 85% of the open purse money to overnight races of the current year and approximately 15%, but not more than 17%, to the stakes races of the current year.

A contract with an out-of-state track to conduct pari-mutuel betting is subject to the approval of the group that represents a majority of the owners and trainers who race horses at that track, as well as the group that represents a majority of breeders in Maryland.

The Racing Commission may authorize telephone betting at any track where racing is authorized, except for racing held by the Maryland-National Capital Park and Planning Commission. The breakage and takeout on all telephone betting is required to be computed in the same way normally applicable to pari-mutuel betting on racing the licensee holds.

Background: Currently most thoroughbred racing in Maryland occurs at Pimlico Race Course in Baltimore City and Laurel Race Track in Anne Arundel County, both run by the Maryland Jockey Club. All standardbred racing occurs at Rosecroft Raceway in Prince George's County and Ocean Downs in Worcester County, which are independently owned. The State Racing Commission licenses each facility, and State law limits the number of licensees. An additional track license was awarded to Allegany Racing in Allegany County, which is owned by the same persons that own Ocean Downs.

Allegany Racing has yet to begin construction and most likely will not begin construction until slot machines are approved with Allegany Racing as one of the designated sites. Ocean Downs has also recently opened an off-track betting establishment in Cambridge.

Issues that have surfaced during 2004 include the ending of the 80/20 revenue sharing agreement between the Maryland Jockey Club and Rosecroft. For the past several years and ending in June 2004, out of all revenues realized by both groups, the Jockey Club received 80% and Rosecroft received 20%. The agreement also allowed the Jockey Club's tracks to receive simulcast signals after 6:15 p.m. and allowed Rosecroft to receive simulcast signals during the day. Under a new agreement that expired on December 31, 2004, but is continuing on a day-to-day basis, Rosecroft simply pays the Maryland Jockey Club 12% of its revenue.

The bill addresses two recommendations of the House Committee on Ways and Means' Study of Video Lottery Terminals that was issued in January 2004. The committee made the following recommendations:

- strong consideration should be given to reducing the percentage of purses dedicated to stakes races; and
- strong consideration should be given to authorizing thoroughbreds to conduct night racing.

The committee's report noted that reducing the percentage of purses dedicated to stakes races would allow a track to enhance its stakes races program to attract out-of-state talent for "event" type races, while significantly increasing purses of claiming and allowance races which comprise the majority of races contested and populated by Maryland-based horses, owners, and trainers. The goal of any purse subsidy should be to create more "event" type days at the track in addition to the Preakness, while at the same time promoting live racing that benefits Maryland horsemen.

Historically, thoroughbred racing was conducted during the day and standardbred racing in the evening. This tradition was recognized in law by statute passed in 1984 which provided that thoroughbred racing could not be conducted after 6:15 p.m., with limited exceptions. Two notable exceptions to this custom exist in the Mid-Atlantic Region, Charles Town Races and Mountaineer Race Track in West Virginia.

The committee's report also noted that authorizing thoroughbreds to race at night would allow the industry to showcase its product at a time more convenient to the general public. Horse racing remains the only major sport in the United States that

continues to be conducted on a regular basis on weekdays during the day. This is a major obstacle to attracting new fans to the sport's declining base. Removing the restriction on nighttime thoroughbred racing would provide the thoroughbred industry the option of identifying certain seasons or certain nights when night racing would fuel a sizable boost in on-track attendance.

State Fiscal Effect: None of the bill's provisions directly affect State operations or finances, except for the provision authorizing the Racing Commission to authorize an entity to conduct telephone wagering.

Telephone wagering is currently authorized and can be accessed via the Maryland Jockey Club's web site. Under the bill, the Racing Commission could authorize, upon application, any person or entity to conduct telephone wagering in the State. This would add a layer of involvement in telephone wagering by the Racing Commission that is not currently required. To the extent that the Racing Commission authorizes new entities, the Racing Commission advises that it would need to contract with an accounting firm to audit compliance with the rules governing telephone wagering. As a result, general fund expenditures could increase by approximately \$10,000 per entity annually. However, at this time it is not known how many entities may apply and be authorized to conduct telephone wagering.

To the extent that the bill results in more telephone wagering taking place, in addition to the wagering that is already taking place, State betting tax revenues could increase which could increase distributions to State and local fairs, local governments, and the Maryland Bred Race fund and the Maryland Standardbred Race fund. However, the amount of any increase cannot be reliably estimated.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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