

Department of Legislative Services  
Maryland General Assembly  
2006 Session

FISCAL AND POLICY NOTE

House Bill 1672  
Ways and Means

(Delegate Goodwin, *et al.*)

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Horse Racing - Purse and Bred Fund Supplements

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This bill requires the one-time distribution of \$10 million of net fiscal 2006 lottery revenues in excess of \$471,300,000 (that would otherwise be paid to the general fund) to a special fund to increase purses at race tracks and to supplement existing bred funds. If lottery revenues do not provide the \$10 million, the Governor may request a deficiency appropriation during the 2007 session to make up the difference.

The bill takes effect June 1, 2006 and expires June 30, 2007.

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Fiscal Summary

**State Effect:** The \$10 million distribution to the special fund could either reduce general fund revenues in FY 2006 or increase general fund expenditures in FY 2007.

**Local Effect:** None.

**Small Business Effect:** Minimal.

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Analysis

**Bill Summary:** The bill provides that for each racetrack licensee, funds provided for purses and bred funds may not be allocated until representatives of racetrack licensees, owners, breeders, trainers, and horsemen in both the thoroughbred and harness industries collectively submit to the Legislative Policy Committee, on or before June 15, 2006, a detailed revenue sharing agreement to be in effect for at least 10 years and the Legislative

Policy Committee has had up to 90 days to review and comment on the revenue sharing agreement.

All funds provided for purses and bred funds at harness racing tracks, mile thoroughbred racing tracks, and Timonium Race Course must be in addition to and may not supplant amounts allocated for purses and bred funds under current agreements between the harness racing tracks and the organization that represents a majority of owners and trainers of standardbred horses in the State and amounts otherwise provided in statute for purses and bred funds at mile thoroughbred racing tracks and Timonium Race Course.

The purses must be distributed at mile thoroughbred racetracks and Timonium Race Course according to a formula determined by the State Racing Commission in consultation with the racetrack licensees and the organization that represents a majority of owners and trainers of thoroughbred horses in the State.

**Current Law:** State lottery revenues are distributed to the general fund, except for the proceeds from sports lotteries which are conducted for the benefit of the Maryland Stadium Authority and distributed to the Stadium Authority. General fund revenues from the State lottery are estimated to be \$471.3 million in fiscal 2006 per the Board of Revenue Estimates, and the Maryland Stadium Authority is estimated to receive \$20.5 million in lottery revenues in fiscal 2006.

**Background:** The Governor's proposed fiscal 2007 budget includes \$10 million in general funds for purse enhancements.

In an effort to help the horse racing industry compete with increasing race purses in Delaware and West Virginia, the General Assembly provided \$5 million in purse supplements for the industry in 1997 which came from overattainment of lottery revenues that would have otherwise gone to the general fund. About 70% of the money went to thoroughbred purses and bred funds and 30% to standardbred purses and bred funds.

Annual purse supplements of approximately \$10 million were also provided in each of the next three years, bringing the total to about \$35 million from 1997-2000.

During the 2000 session, in addition to the purse supplements, the General Assembly established a Maryland Racing Facility Redevelopment Program to assist horse racing facilities with capital improvements. To carry out the bond program, the State Racing Commission and the Stadium Authority would have reviewed racing facility master plans submitted by racetracks and provided approval to use proceeds from bonds issued by the Maryland Economic Development Corporation (MEDCO) for capital improvements or related expenditures.

To finance the debt service on the bonds issued by MEDCO, the legislation increased or reallocated the “takeout” (the commission that is deducted from betting pools) on thoroughbred and standardbred races and required additional takeout allocations from mile thoroughbred licensees to be paid into a new special fund, the Racing Facility Redevelopment Bond Fund. In addition, the legislation provided for the allocation of uncashed pari-mutuel tickets from the existing horse racing special fund to the bond fund, under certain circumstances.

In 2001, the Senate passed a \$10 million purse supplement bill for the industry, but that bill failed in the House Ways and Means Committee. Continued infighting amongst stakeholders of the racing industry led to the bill’s failure. In 2002, a provision of the Budget Reconciliation and Financing Act (BRFA) took up to \$3.5 million from the Racing Facility Redevelopment Bond Fund and provided that money to purse and bred fund supplements.

No purse supplements were provided in 2003 or 2004. In addition, despite the legislative efforts to create the Maryland Racing Facility Redevelopment Program, the racetracks never developed capital improvement plans and thus never took advantage of the bond fund; it was subsequently repealed during the 2004 legislative session.

Legislation passed in 2005 (Chapter 410) provided for the distribution of the cumulative receipts of at least \$1.04 million in the former Racing Facility Redevelopment Bond Fund to a special fund to be used for purses for the running of the Pimlico Special and for purses at Rosecroft Raceway.

**State Fiscal Effect:** If fiscal 2006 net lottery revenues exceed \$471.3 million, general fund revenues in fiscal 2006 could decrease by up to \$10 million and would be distributed to the special fund. To the extent lottery revenues do not exceed \$471.3 million by \$10 million, general fund expenditures could increase by up to \$10 million in fiscal 2007 for a deficiency appropriation to make up the difference. Special fund revenues would increase by a corresponding amount in fiscal 2006 or 2007 and would be distributed as follows:

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**Distribution of \$10 Million to Purses and the Bred Funds**

Purses (89%)  
\$8,900,000

Bred Funds (11%)  
\$1,100,000

<u>Thoroughbred</u>	<u>Standardbred</u>	<u>Maryland-Bred Race Fund</u>	<u>Maryland Standardbred Race Fund</u>
80%	20%	80%	20%
\$7,120,000	\$1,780,000	\$880,000	\$220,000

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**Additional Information**

**Prior Introductions:** Similar bills were introduced as SB 814/HB 1055 in the 2000 session. SB 814 received an unfavorable report from the Senate Finance Committee and HB 1055 received an unfavorable report from the House Ways and Means Committee. A similar bill was introduced as HB 642 in the 2001 session. The House Ways and Means Committee took no action on the bill.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 15, 2006  
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