

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE
Revised

House Bill 759
Ways and Means

(Delegates Rudolph and Patterson)

State Lottery Proceeds - Maryland Standardbred Race Fund and Maryland-Bred Race Fund

This bill establishes a special fund for the distribution of specified State Lottery proceeds to the Maryland-Bred Race Fund and the Maryland Standardbred Race Fund. The bill requires the State Lottery Agency to conduct a number of special instant ticket games sufficient to generate at least \$5.0 million for the Maryland-Bred Race Fund and the Maryland Standardbred Race Fund. The bill also requires that \$10.0 million of net lottery revenues, for fiscal 2007 through 2011, that are in excess of the projected amount for the fiscal year, as estimated by the Board of Revenue Estimates, be distributed to the special fund for distribution the Maryland-Bred Race Fund and the Maryland Standardbred Race Fund. If lottery revenues do not provide the \$10.0 million, the Governor may request a deficiency appropriation during the upcoming session to make up the difference. The bill provides that revenues to the special fund may not exceed \$15.0 million in any year and that the distributions are not required in any fiscal year where \$15.0 million has been appropriated in the State budget.

The bill takes effect June 1, 2006.

Fiscal Summary

State Effect: Special fund revenue and expenditure increase of at least \$5.0 million in FY 2007 through 2011 with a corresponding decrease in general fund revenues. To the extent that lottery revenues exceed the amount estimated by the Board of Revenue Estimates in FY 2007 through 2011, special fund revenues and expenditures could increase by up to an additional \$10.0 million with a corresponding decrease in general fund revenues or an increase in general fund expenditures.

(\$ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	(\$5.0)	(\$5.0)	(\$5.0)	(\$5.0)	(\$5.0)
SF Revenue	5.0	5.0	5.0	5.0	5.0
SF Expenditure	5.0	5.0	5.0	5.0	5.0
Net Effect	(\$5.0)	(\$5.0)	(\$5.0)	(\$5.0)	(\$5.0)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The lottery revenue must be distributed proportionally to the Maryland Standardbred Race Fund and the Maryland-Bred Race Fund based on the three-year average of the number of: (1) standardbred foals born and registered in the State, as certified to the Maryland Racing Commission by the U.S. Trotting Association; and (2) thoroughbred foals born and registered in the State, as certified to the Maryland Racing Commission by the Maryland Jockey Club.

The Maryland Racing Commission must work with the Maryland Standardbred Breeder's Association and any other related entity considered appropriate by the commission to develop an annual marquee event for Maryland's standardbred horse racing industry comparable to the Preakness. The commission must report the results of this undertaking to the Legislative Policy Committee by December 1, 2007.

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 \$483.7 million in fiscal 2007 (Board of Revenue Estimates, December 2005), and the Maryland Stadium Authority is estimated to receive \$21 million in lottery revenues in fiscal 2007.

Background:

The Maryland-Bred Race Fund and the Maryland Standardbred Race Fund

The Maryland-Bred Race Fund was established in 1962. The fund consists primarily of revenue from the percentage of the takeout from all horse races held by thoroughbred tracks. The fund is then apportioned between purses for stakes races for Maryland-bred

horses and awards given to the owners and breeders. In order to be a registered Maryland-bred horse eligible for the awards, a horse must be foaled in Maryland. Additionally, the horse must meet one of the following requirements: the breeder of the horse must reside in Maryland for more than nine months before the registration; the horse must be conceived in Maryland in the previous season; or the horse's dam must have been sent to Maryland to foal and after foaling was covered by a Maryland stallion during the season of the horse's birth.

Owner awards are paid when Maryland-bred horses win races other than stakes races and certain other races. Breeder and stallion awards are paid when a Maryland-bred horse wins or places in any stakes race in the State. Finally, yearling show bonus awards are given to the four highest winning two-year-olds and three-year-olds shown at the annual Maryland Horse Breeders Association show.

The Maryland Standardbred Race Fund was established in 1971 to encourage the standardbred industry in the State. The fund consists primarily of revenue from the percentage of the takeout from harness tracks as well as fees paid by owners, breeders, and stallion owners. Funds are allocated to purses for two sets of races, the Maryland Standardbred Fund (or the Foaled Stakes Program) and the Maryland Sire Stakes Program. Only standardbred horses foaled in Maryland may start in races under the Foaled Stakes Program, and only standardbred horses that are sired by a Maryland stallion may start in races under the Maryland Sire Stakes Program. A small percentage of funds are also allocated to very limited breeder and stallion awards.

In order to be a registered Maryland-bred standardbred horse eligible for the races, the horse must meet the same requirements that apply to registered thoroughbred horses.

Recent Aid to the Horse Racing Industry

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 for 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: Instant lottery games generated approximately \$71.3 million in fiscal 2005 and are estimated to generate \$75.6 million and \$80.3 million in fiscal 2006 and 2007, respectively. The State Lottery Agency started 66 instant games in fiscal 2005. Significantly more games started in a year do not result in significantly more revenue. As a result, the agency indicates that it would have to designate 10 instant games out of the games that are started each year to generate \$5 million in revenue to meet the requirement of the bill. It is estimated that this task could be handled with the Lottery Agency’s existing budgeted resources.

However, if \$5 million in revenue is dedicated to a special fund for distribution to the Maryland-Bred Race Fund and the Maryland Standardbred Race Fund it would have the effect of diverting revenues from the general fund.

Exhibit 1 shows estimated lottery revenues for fiscal 2007 through 2011 and the resulting revenues after \$5 million is diverted to the special fund for two bred funds.

Exhibit 1
Effect of Dedicated Instant Ticket Game on Special Fund and
General Fund Revenues
(\$ in Thousands)

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Estimated Lottery Revenues	\$483,658	\$502,102	\$519,836	\$536,698	\$554,014
Special Fund Revenues	5,000	5,000	5,000	5,000	5,000
Net Lottery Revenues	\$478,658	\$497,102	\$514,836	\$531,698	\$549,014

Source: Report of the Board of Revenue Estimates, December 2005; Department of Legislative Services

The bill requires that the lottery revenues be distributed to the Maryland bred funds based proportionately to the number of births and registrations of foals in the State. **Exhibit 2** shows the number of thoroughbred and standardbred foals born and registered in 2002 through 2004.

Exhibit 2
Thoroughbred and Standardbred Foals Born and Registered
2002 - 2004

	<u>Thoroughbred</u>	<u>Standardbred</u>
2002	992	641
2003	1014	655
2004	876	687
Three-year Average	961	661
Percentage	59%	41%

Exhibit 3 shows how \$5.0 million in lottery revenues would be distributed to the Maryland bred funds.

**Exhibit 3
Distribution of Lottery Revenues**

	<u>Thoroughbred</u>	<u>Standardbred</u>
\$5.0 Million Distribution	\$2,961,973	\$2,038,027

In addition, to the extent that lottery revenues exceed the amount estimated for fiscal 2007 through 2011, up to \$10.0 million is required to be distributed to the Maryland bred funds. As a result, general fund revenues would decrease or general fund expenditures could increase by a corresponding amount. These funds would be distributed in the same manner as the revenue generated by the instant ticket games.

Small Business Effect: Small businesses involved in the horse racing industry could benefit from increased purses at Maryland race tracks.

Additional Information

Prior Introductions: A similar bill that would have directed lottery games to fund the Maryland bred fund was introduced as HB 632 in the 2005 session; no action was taken by the House Ways and Means Committee.

Cross File: None.

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

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