

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE

House Bill 1342
 Ways and Means

(Delegate N. King, *et al.*)

Horse Racing Heritage Act

This bill establishes a special fund for the distribution of specified State lottery proceeds for purse and bred fund supplements. The bill requires the State Lottery Agency to distribute up to \$2.0 million monthly from the proceeds of the Racetrax game to the special fund, after specified distributions. The bill also requires the one-time distribution of \$6.0 million of net fiscal 2007 lottery revenues in excess of \$453,400,000 (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 \$6.0 million, the Governor may request a deficiency appropriation during the 2008 session to make up the difference.

The bill takes effect June 1, 2007.

Fiscal Summary

State Effect: Special fund revenue and expenditure increase of up to \$24 million annually beginning in FY 2008 with a corresponding decrease in general fund revenues. An additional \$2 million would be diverted from the general fund to the special fund in FY 2007. To the extent that lottery revenues exceed \$453.4 million in FY 2007, the \$6.0 million distribution to the special fund could either reduce general fund revenues in FY 2007, or increase general fund expenditures in FY 2008 if a deficiency is requested and approved.

(\$ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	(\$2.0)	(\$24.0)	(\$24.0)	(\$24.0)	(\$24.0)
SF Revenue	2.0	24.0	24.0	24.0	24.0
GF Expenditure	0	6.0	0	0	0
SF Expenditure	2.0	24.0	24.0	24.0	24.0
Net Effect	(\$2.0)	(\$30.0)	(\$24.0)	(\$24.0)	(\$24.0)

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

Local Effect: None.

Small Business Effect: Potential meaningful. Trainers, breeders, and other small businesses that support the racing industry could benefit from increasing funds to purses and bred funds.

Analysis

Bill Summary: Funds may only be allocated to a race track if the Maryland Racing Commission has awarded at least the same number of live racing days for each race track for calendar 2007 as were run in calendar 2006.

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 race tracks and Timonium Race Course according to a formula determined by the State Racing Commission in consultation with the race track 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 \$477.4 million in fiscal 2007 per the Board of Revenue Estimates, and the Maryland Stadium Authority is estimated to receive \$21.0 million in lottery revenues in fiscal 2007.

Background: 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.

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 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 race tracks 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: The Racetrax game is a virtual reality horse racing game that was introduced by the lottery in July 2006. The game is offered at about 1,000 locations across the State. As of March 1, 2007, the Racetrax game has generated \$24.4 million in sales and \$6.6 million in revenues. It is estimated that the monitor games – Keno and Racetrax – will generate approximately \$471.9 million in sales and \$137.8 million in general fund revenues in fiscal 2007 and \$492.6 in sales and \$146.2 million in revenues for the general fund in fiscal 2008.

However, if \$2 million in revenue is dedicated, on a monthly basis, to a special fund for distribution for purse and bred fund supplements it would have the effect of diverting \$24 million revenues from the general fund annually.

Exhibit 1 shows estimated lottery revenues for fiscal 2008 through 2012 and the resulting revenues after \$24 million is diverted to the special fund for purse and bred fund supplements. An additional \$2 million would be diverted to the special fund in fiscal 2007, accounting for the bill's June 1, 2007 effective date.

Exhibit 1
Effect of Directing \$2.0 Million Monthly from the Racetrax Game on Special Fund
and
General Fund Revenues
(\$ in Thousands)

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Estimated Lottery Revenues	\$499,219	\$519,513	\$538,989	\$559,194	\$577,361
Special Fund Revenues	24,000	24,000	24,000	24,000	24,000
Net Lottery Revenues	\$475,219	\$495,513	\$514,989	\$535,194	\$553,361

Source: Report of the Board of Revenue Estimates, December 2006; Department of Legislative Services

If fiscal 2007 net lottery revenues exceed \$453.4 million, general fund revenues in fiscal 2007 could decrease by up to \$6.0 million and would be distributed to the special fund. To the extent lottery revenues do not exceed \$453.4 million by \$6.0 million, general fund expenditures could increase by up to \$6.0 million in fiscal 2008 for a deficiency appropriation to make up the difference. Special fund revenues could increase by a corresponding amount in fiscal 2007 or 2008 and could be distributed as follows:

Distribution of \$6 Million to Purses and the Bred Funds

Purses (89%)
\$5,340,000

Bred Funds (11%)
\$660,000

<u>Thoroughbred</u>	<u>Standardbred</u>	<u>Maryland-Bred Race Fund</u>	<u>Maryland Standardbred Race Fund</u>
80%	20%	80%	20%
\$4,272,000	\$1,068,000	\$528,000	\$132,000

Additional Information

Prior Introductions: None.

Cross File: None.

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

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