

Department of Legislative Services
 Maryland General Assembly
 2010 Session

FISCAL AND POLICY NOTE

House Bill 1517
 Ways and Means

(Delegate Walker, *et al.*)

Standardbred Recovery Act of 2010

This bill abolishes the nine-member State Racing Commission and establishes a five-member Thoroughbred Racing Commission and a five-member Standardbred Racing Commission in its place. The bill also alters the distribution of funds from the Purse Dedication Account (PDA) and the Racetrack Renewal Fund to the thoroughbred and standardbred horse racing industry and racetracks.

Fiscal Summary

State Effect: General fund expenditures increase by approximately \$220,800 in FY 2011 for staff for the new commissions. Future year expenditures reflect annualization and inflation. Revenues are not affected. Special fund expenditures in total are not affected but the allocations are altered.

(in dollars)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	220,800	299,100	312,100	325,700	340,000
Net Effect	(\$220,800)	(\$299,100)	(\$312,100)	(\$325,700)	(\$340,000)

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

Local Effect: None.

Small Business Effect: Potential meaningful. Small businesses such as breeders and trainers may be affected by the revenue distribution shift from the PDA.

Analysis

Bill Summary: The bill provides for the qualifications of commission members, the term of commission memberships, the designation of respective commission chairmen, commission meetings, compensation of commission members, an executive director and staff for each commission, the specified powers of each commission, and the testing laboratory of the Thoroughbred Racing Commission and of the Standardbred Racing Commission.

In addition to establishing the two new commissions, the bill shifts the administration of the Purse Dedication Account from the Racing Commission to the Division of Racing within the Department of Labor, Licensing, and Regulation (DLLR). The bill also alters the distribution of funds, established under Chapter 4 of the 2007 special session, from the PDA and the Racetrack Renewal Fund. The bill specifies that 70% of PDA revenues are to be distributed to the thoroughbred industry and 30% are to be distributed to the standardbred industry. Under current law, the distribution is 80% and 20%, respectively. The bill requires Racetrack Renewal Funds to be distributed, after the \$1 million set aside for the track at Timonium in current law, equally to those horse racing tracks that do not receive video lottery operation licenses to operate video lottery terminals (VLTs). Under current law, 80% of the funds are distributed to Pimlico, Laurel, and Timonium (\$1 million) and 20% to Rosecroft and Ocean Downs.

Current Law:

Racing Commission

The State Racing Commission is comprised of nine members appointed by the Governor with the advice and consent of the Senate. Of the nine commission members, at least three members must have a background in thoroughbred racing and three members must have a background in harness racing. In addition, no more than four members may have a financial interest in Maryland horse racing and no more than six members may belong to the same political party. Commissioners serve four-year terms and receive compensation and reimbursement for travel expenses as provided in the annual State budget.

The State Racing Commission is housed within the Division of Racing in DLLR. The commission is one of two budgeted programs within the Division of Racing. The other budgeted program is Racetrack Operation Reimbursement.

Video Lottery Terminals (VLTs)

Two VLT gambling bills passed during the 2007 special session— House Bill 4 (Chapter 5) and Senate Bill 3 (Chapter 4). Chapter 5 is a constitutional amendment that was approved by Maryland voters at the November 2008 general election authorizing 15,000 VLTs at five locations in the State. The amendment also specifies that the General Assembly may only authorize expanded forms of gambling subject to certain restrictions. Chapter 4, which was contingent on ratification of Chapter 5, establishes the operational and regulatory framework for the authorized VLT program.

Under Chapter 4, VLT facility operation licenses are awarded by a Video Lottery Facility Location Commission (Location Commission). The State Lottery Commission will oversee VLT operations and will own/lease the VLTs and a central monitor and control system. Chapter 4 allows for a maximum of 15,000 machines, distributed as follows: 4,750 VLTs in Anne Arundel County; 3,750 VLTs in Baltimore City; 2,500 VLTs in Worcester County; 2,500 VLTs in Cecil County; and 1,500 VLTs in Allegany County. In addition, geographic parameters for each jurisdiction within which a VLT facility may be located are provided.

Background:

Racing

Prior to 1920, local jurisdictions regulated racetracks. In response to growing public concerns about the potential for wrong-doing within the horse racing industry, the General Assembly, in 1920, established the State Racing Commission to serve as a statewide regulatory and licensing body for the industry. The State Racing Commission regulates both harness and thoroughbred racing, as well as any steeplechase race at which pari-mutuel wagering is held. In this regulatory role, the commission is vested with the authority to prescribe the conditions under which all horse races are conducted within the State. The commission is authorized to:

- adopt regulations and conditions to govern racing and pari-mutuel betting in the State;
- approve specific types of betting and admission charges;
- operate a testing laboratory;
- assign racing dates;
- regulate satellite simulcast betting;
- license individuals employed at or connected with the racetracks;

- audit and supervise racetrack financial operations;
- administer and approve the activities of the Maryland-Bred Race Fund and the Standardbred Race Fund;
- administer the Maryland Jockey Injury Compensation Fund; and
- collect taxes and fees imposed under the Code of Maryland Regulations.

Most of the commission's activities are carried out by an executive director and staff operating in the Division of Racing. Staff employed by the State Racing Commission include stewards, judges, veterinarians, licensing officials, and laboratory employees.

The Executive Director of the Division of Racing serves at the pleasure of the Secretary of Labor, Licensing, and Regulation and is responsible for:

- keeping the records and papers of the commission;
- administering the licensing of individuals connected with racing;
- the daily operations of the commission; and
- preparing, issuing, and submitting commission reports.

In addition to its regulatory activities, the State Racing Commission administers the Maryland-Bred Race Fund and the Maryland Standardbred Race Fund. The Maryland-Bred Race Fund was created in 1962 as an incentive program to encourage the improvement of thoroughbred horse breeding and racing in Maryland. The Standardbred Race Fund, created in 1971, serves as an incentive program to promote the breeding and racing of standardbred horses in Maryland.

The State Racing Commission administers the two bred funds with the assistance and advice of separate advisory committees. Each advisory committee recommends to the State Racing Commission the number, date, distance, and purse amount of fund races and the amounts of breeders' awards.

The proposed fiscal 2011 budget includes \$1.2 million in operating expenses for the State Racing Commission.

Video Lottery Terminal Program

The Location Commission has awarded three video lottery operation licenses to date, to Penn Cecil (Cecil), PPE Casino Resort (Anne Arundel), and Ocean Enterprise 589 (Worcester), which will be at Ocean Downs Racetrack. Projected revenues from the VLT operations are shown in **Exhibit 1**. Gross VLT revenue is distributed as follows, pursuant to Chapter 4 of the 2007 special session:

- Business Investment – 1.5% to a small, minority, and woman-owned business investment account;
- Lottery (Administration) – 2% to the State lottery for administrative costs, with other costs provided for in the State budget;
- Local Government Impact Grants – 5.5% to local governments in which a video lottery facility is operating, 18% of which would go for 15 years (starting in fiscal 2012 and ending in fiscal 2027) to Baltimore City through the Pimlico Community Development Authority and to Prince George’s County for the community surrounding Rosecroft (\$1 million annually);
- Horse Racing Industry – 7% to a purse dedication account to enhance horse racing purses and funds for the horse breeding industry, not to exceed \$100 million annually;
- 2.5% for an eight-year period to a Racetrack Renewal Fund, not to exceed \$40 million annually;
- Licensee (Operator) – no more than 33% to video lottery operation licensees; and
- Education Trust Fund – remainder to Education Trust Fund (48.5%-51.0%).

Exhibit 1
Gross VLT Revenue Projections
(\$ in Millions)

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Education Trust Fund	\$60.0	\$144.9	\$372.4	\$479.1	\$523.2
Licensees	40.8	98.6	253.4	326.0	356.0
Local Government	6.8	16.4	42.2	54.3	59.3
Small, Minority, Woman-owned Businesses	1.9	4.5	11.5	14.8	16.2
Purse Dedication Account	8.7	20.9	53.7	69.1	75.5
Racetrack Renewal Account	3.1	7.5	19.2	24.7	27.0
Lottery Operations	<u>2.5</u>	<u>6.0</u>	<u>15.4</u>	<u>19.8</u>	<u>21.6</u>
Total Annual Gross	\$123.8	\$298.8	\$767.8	\$987.8	\$1,078.8

Source: Department of Legislative Services

State Fiscal Effect: The bill provides that current employees of the Racing Commission may be transferred to either of the new commissions established by the bill. The bill also permits both commissions to hire staff who will operate within DLLR. It is assumed that current staff of the Racing Commission would be transferred to the Thoroughbred Racing Commission established by the bill.

DLLR's general fund expenditures increase by an estimated \$220,800 in fiscal 2011, which accounts for the bill's October 1 effective date. This estimate reflects the cost of hiring one executive director, one fiscal account supervisor, and one fiscal clerk to carry out the administrative functions of the Standardbred Racing Commission. These functions would be similar to those currently being performed by the staff of the State Racing Commission. The estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	\$194,876
Operating Expenses	<u>25,973</u>
Total FY 2011 State Expenditures	\$220,849

Future year expenditures reflect full salaries with 4.4% annual increases and 3% employee turnover; and 1% annual increases in ongoing operating expenses.

The Division of Racing within DLLR pays the salaries and stipends of all racetrack employees who are appointed by the State Racing Commission. It is assumed that the overall number of these employees would not be affected by the bill. They would however, be governed by a new commission depending on the racetrack where they are employed. The number of total commission members increases by one under the bill, but reimbursement expenses are assumed to be absorbable within existing resources.

Additional Information

Prior Introductions: SB 498 of 2005 received a hearing in the Senate Finance Committee, but no further action was taken. SB 485 of 2003 and HB 1203 of 2002 were heard in the Senate Finance Committee and the Ways and Means Committee, respectively, but no further action was taken on either bill.

Cross File: SB 1051 (Senator Muse) - Finance.

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

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