

Department of Legislative Services
 Maryland General Assembly
 2015 Session

FISCAL AND POLICY NOTE
 Revised

House Bill 1176
 Ways and Means

(Delegates Knotts and Luedtke)

Budget and Taxation

Video Lottery Terminal Revenues - Standardbred Owners and Trainers - Benefit Programs

This bill authorizes the organization that represents a majority of the standardbred owners and trainers in the State to apply to the Secretary of Labor, Licensing, and Regulation for reimbursement for certain eligible expenditures. The reimbursement amount, in addition to any amount agreed on under a contractual arrangement with track licensees, is limited to no more than 2% of “open purses.” An “open purse” is any standardbred purse, except for one offered in a race funded by the Maryland Standardbred Race fund. Eligible expenditures include the ordinary and reasonable costs of establishing and maintaining specified programs for standardbred owners and trainers. Eligible expenditures do not include extraordinary income and expense-related items, lobbying fees, capital investments, or prior-year adjustments and claims. The organization must provide an annual itemized statement of receipts and disbursements and a certified audit of financial records to the Secretary with an application and request for reimbursement.

The bill takes effect June 1, 2015.

Fiscal Summary

State Effect: The Department of Labor, Licensing, and Regulation (DLLR) can issue reimbursements with existing resources. While the bill does not affect overall revenue for the Purse Dedication Account (PDA), the reimbursement to the organization that represents a majority of the standardbred owners and trainers in the State reduces standardbred purses by a commensurate amount of the reimbursement beginning in FY 2016, which assumes no impact in FY 2015.

Local Effect: None.

Small Business Effect: Minimal. Small businesses that receive standardbred purses receive less in purses as a result of a portion of open purses within PDA being redirected to a specified organization.

Analysis

Current Law/Background: The organization that represents a majority of the thoroughbred owners and trainers in the State must set an amount between 1% and 2% of all thoroughbred purses, not including ones funded by the Maryland-Bred Race Fund, to be deducted and paid to the organization. Thus, the Maryland Thoroughbred Horsemen's Association uses 2% of open purses at thoroughbred races for the operating expenses of the organization and, therefore, does not charge membership fees.

Standardbred Horsemen's Association

Cloverleaf Standardbred Owners' Association, Inc. (CSOA) is a nonprofit organization formed in 1960 for owners, trainers, drivers, grooms, and other interested parties involved in the standardbred racing industry in Maryland. It is funded through membership dues and contributions. The State recognizes it as the official organization representing standardbred owners, trainers, drivers, and grooms in matters dealing with the State Racing Commission.

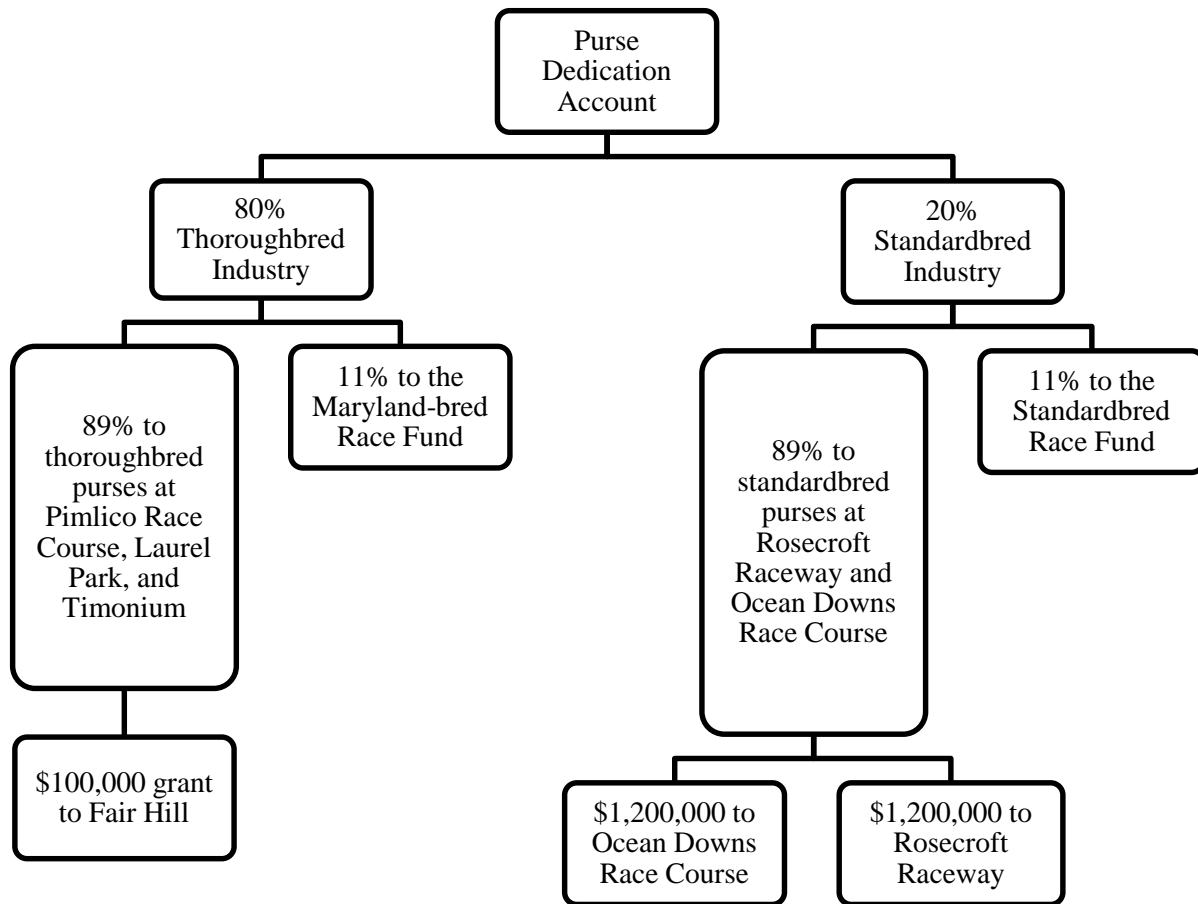
Purse Dedication Account

Generally, 7% of video lottery terminal (VLT) proceeds, not to exceed \$100 million, is distributed to PDA, which is under the authority of the State Racing Commission. Once the casino in Prince George's County opens in fiscal 2017, the percentage of VLT proceeds allocated to PDA is reduced to 6%.

Exhibit 1 shows how funds in PDA are distributed. The State Racing Commission must allocate 80% of the funds in PDA to the thoroughbred industry and 20% to the standardbred industry. Of those amounts, 89% goes directly to purses and 11% to the respective bred race funds.

Of the amount that goes to standardbred purses, up to \$1.2 million may be used for Ocean Downs Race Course to provide operating assistance to support a minimum of 40 annual live racing days for calendar years 2012 through 2015, unless the racing licensee is prevented from doing so by weather, acts of God, or other circumstances beyond the racing licensee's control. An additional \$1.2 million from standardbred purses may be provided to Rosecroft Raceway to provide operating assistance to support a minimum of 40 annual live racing days for calendar years 2012 through 2015, unless the racing licensee is prevented from doing so by weather, acts of God, or other circumstances beyond the racing licensee's control. Ocean Downs Race Course and Rosecroft Raceway may not use these funds to contribute to a specified campaign finance entity or make a specified election-related independent expenditure.

Exhibit 1
Distribution of Funds within the Purse Dedication Account



Source: Department of Legislative Services

Maryland Standardbred Race Fund

The Standardbred Race Fund, created in 1971, serves as an incentive program to promote the breeding and racing of standardbred horses in Maryland.

The Standardbred Race Fund receives a percentage of the daily handle collected at harness racetracks (the gross amount of money bet, less any refunds); a percentage of the breakage (in pari-mutuel betting, the odd cents left over after paying the successful bettors to the nearest \$0.10); and revenues received from various fees paid by horse owners.

In addition, the fund receives an annual distribution of 30% of \$300,000 from the Horse Racing Special Fund if the Horse Racing Special Fund has sufficient funds. Any revenues remaining in the Horse Racing Special Fund, after all required deductions and allocations are made, must be divided in a specified manner among the Maryland-Bred Race Fund, the Standardbred Race Fund, and the Maryland Agricultural Education and Rural Development Assistance Fund. The Standardbred Race Fund also receives a portion of PDA funds, as shown in Exhibit 1.

Revenues from the fund are distributed as purse money and as awards to owners and breeders of Maryland standardbred horses. In 2013, distributions from the Maryland Standardbred Race Fund totaled \$1.4 million.

State Fiscal Effect: The bill does not alter overall revenues for PDA but instead authorizes DLLR to reimburse CSOA for qualified expenditures of up to 2% of open purses within PDA (including any amount agreed on under a contractual arrangement with track licensees). As a result, less money is available for standardbred purses beginning in fiscal 2016.

Exhibit 2 shows the estimated distribution of PDA revenues for fiscal 2015 through 2020.

If CSOA receives reimbursements of 2% of open purses, the bill results in approximately \$174,700 for the organization in fiscal 2016 and \$248,100 in fiscal 2020. As a result of this reallocation of purse money to CSOA, standardbred purses decrease by a commensurate amount beginning in fiscal 2016. The bill does not affect purse distributions from the Standardbred Race Fund.

Exhibit 2
Estimated Distribution of Funds within PDA
Fiscal 2015-2020
(\$ in Millions)

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Maryland-bred Race Fund	\$4.1	\$4.3	\$5.7	\$6.0	\$6.0	\$6.1
Thoroughbred Purses	33.1	34.9	45.8	48.2	48.9	49.6
Standardbred Race Fund	1.0	1.1	1.4	1.5	1.5	1.5
Standardbred Purses	8.3	8.7	11.4	12.1	12.2	12.4
Total PDA Funds	\$46.5	\$49.1	\$64.3	\$67.8	\$68.7	\$69.7

Source: Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: None designated; however, SB 929 (Senators King and Miller – Budget and Taxation) is identical.

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

Fiscal Note History: First Reader - March 13, 2015
mar/jrb Revised - House Third Reader - March 27, 2015
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