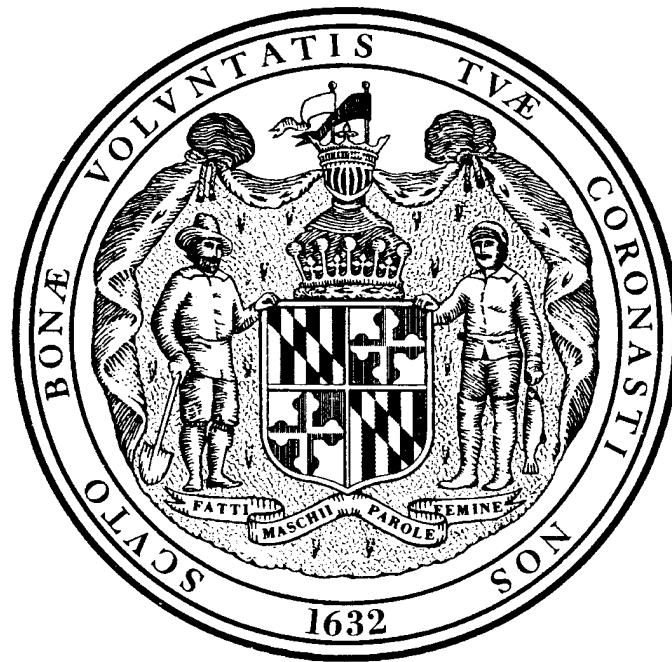


STUDY OF VIDEO LOTTERY TERMINALS

BY THE
HOUSE COMMITTEE ON WAYS AND MEANS

Final Report



ANNAPOLIS, MARYLAND
JANUARY 2004

For further information concerning this document contact:

Library and Information Services
Office of Policy Analysis
Department of Legislative Services
90 State Circle
Annapolis, Maryland 21401

Baltimore Area: 410-946-5400/5410 • Washington Area: 301-970-5400/5410

Other Areas: 1-800-492-7122, Extension 5400/5410

TTY: 410-946-5401 • 301-970-5401

TTY users may also use the Maryland Relay Service to contact the General Assembly

E-mail: libr@mlis.state.md.us

Home Page: <http://mlis.state.md.us>

The Department of Legislative Services does not discriminate on the basis of race, color, national origin, sex, religion, or disability in the admission or access to its programs or activities. The department's Information Officer has been designated to coordinate compliance with the nondiscrimination requirements contained in Section 35.107 of the Department of Justice regulations. Requests for assistance should be directed to the Information Officer at the telephone numbers shown above.

SHEILA ELLIS HIXSON
20th Legislative District
Montgomery County

Chairman

Ways and Means Committee
410-841-3469 · 301-858-3469



Annapolis Office
100 Lowe House Office Building
410-841-3027 · 301-858-3027

Home Address
1008 Broadmore Circle
Silver Spring, Maryland 20904
301-384-4739

The Maryland House of Delegates
ANNAPOLIS, MARYLAND 21401-1991

January 30, 2004

The Honorable Michael E. Busch, Speaker of the House of Delegates
The Honorable Members of the House of Delegates
Maryland General Assembly
Annapolis, MD 21401

Ladies and Gentlemen:

To further study issues related to the legalization of video lottery terminals (VLTs) in Maryland, the House of Delegates passed House Bill 800 of 2003, which would have established a 16-member Commission to Study Video Lottery Terminals in Maryland. While this bill did not pass the Senate, the House Ways and Means Committee conducted its own study of these issues during the 2003 interim.

Attached for your information is a copy of the Committee's final study report on VLT issues. The Department of Legislative Services has also issued a guide to VLT gaming that will be provided to you - these two reports may be viewed as companion pieces and will help guide us in our session deliberations on gaming issues.

I would like to thank the members of the Committee for all of their hard work during the 2003 interim, and would also like to thank the other public officials and private citizens who provided their assistance and input into our deliberations.

Sincerely,

A handwritten signature in black ink that reads "Sheila E. Hixson".

Sheila E. Hixson
Chairman

SEH/JRB
Attachment

House Committee on Ways and Means

2003 Interim/2004 Session Roster

Delegate Sheila E. Hixson, Chairman
Delegate Anne Healey, Vice Chairman

Delegate Joseph R. Bartlett
Delegate David G. Boschert
Delegate K. Bennett Bozman
Delegate Jon Cardin
Delegate Jean B. Cryor
Delegate Clarence M. Davis
Delegate D. Page Elmore
Delegate Terry R. Gilleland, Jr.
Delegate Marshall T. Goodwin
Delegate Michael R. Gordon
Delegate Henry B. Heller
Delegate Carolyn J.B. Howard
Delegate Adrienne Jones
Delegate Anne Kaiser
Delegate Nancy J. King
Delegate Salima Siler Marriott
Delegate Robert A. McKee
Delegate LeRoy E. Meyers, Jr.
Delegate Obie Patterson
Delegate Victor R. Ramirez
Delegate Justin D. Ross

Committee Staff

J. Ryan Bishop
Theodore E. King, Jr.
Daneen Banks
Kevin Hughes

Contents

| | |
|---|-----|
| Transmittal Letter..... | iii |
| Committee Roster | v |
| Overview of Interim Activities | 1 |
| July 17..... | 1 |
| August 19..... | 2 |
| September 9 | 6 |
| October 7..... | 7 |
| October 21..... | 8 |
| October 30..... | 9 |
| November 5..... | 9 |
| November 13..... | 10 |
| November 25..... | 11 |
| Current Gaming Activities..... | 12 |
| Senate Bill 322 of 2003 – Summary of Original and Amended Versions..... | 14 |
| Types of Facilities..... | 16 |
| Options for Evaluating Expanded Gaming Legislation | 18 |
| Ensure Sufficient and Efficient State Regulation and Control | 18 |
| Maximize Gaming Revenues for the State in the Most Responsible Manner | 20 |
| Mitigate the Negative Social and Economic Impacts of Expanded Gaming Through Strong Consumer Protections | 25 |
| Limit Negative Community Impacts and Provide for Public Input..... | 26 |
| Options Related to Horse Racing Reform | 28 |
| History of Horse Racing in Maryland..... | 28 |
| Economic Impact of the Horse Racing Industry in Maryland | 28 |
| The Current State of the Horse Racing Industry and the Need for Reform..... | 28 |
| Simulcasting Transforms the Industry | 29 |
| Maryland’s Decline Despite the Benefits of Simulcasting | 29 |
| Video Lottery Terminals as a Short Term Fix in Neighboring States..... | 29 |
| Horse Racing Facilities Need to be Upgraded..... | 30 |
| Additional Funding for Purses and Bred Funds Should Be Strongly Considered..... | 31 |
| Strong Consideration Should Be Given to Authorizing Thoroughbreds to Conduct Night Racing..... | 35 |
| An Industry Developed Marketing Plan Should Be Considered | 35 |

| | |
|--|----|
| State Regulation of Racing Through an Agency Dedicated Exclusively to the Regulation of Horse Racing Should Be Strongly Considered..... | 36 |
| Additional Protection of the Preakness Stakes Should Be Considered | 37 |
| An Upgraded Off-Track Betting Network Should Be Considered..... | 37 |
| Reduction of the “Take-out” to Pre-Bond Fund Levels Should Be Strongly Considered..... | 38 |

House Committee on Ways and Means Study of Video Lottery Terminals

Overview of Interim Activities

To further study issues related to the legalization of video lottery terminals in Maryland, the House of Delegates passed House Bill 800, which would have established a 16-member Commission to Study Video Lottery Terminals in Maryland. That commission would have been required to review and evaluate the effects of authorizing the operation of VLTs for gaming purposes in the State. While this bill did not pass the Senate, the Ways and Means Committee decided to study VLT issues during the 2003 interim.

July 17

At the July 17 meeting, the first of the interim on VLTs, the committee heard from the Department of Legislative Services (DLS) regarding the State's fiscal outlook, an overview of Maryland's tax structure, an overview of VLT legislation as passed by the Senate during the 2003 legislative session and other VLT bills that were introduced, and an overview of current gaming activities in Maryland.

Fiscal Outlook

DLS reported that general fund revenues through June were approximately \$75 million under projected revenue estimates, mainly due to lower than anticipated sales and business tax revenues. While the fiscal 2004 budget was balanced, substantial shortfalls are anticipated in future years, primarily due to increased Medicaid costs and funding increases associated with the Bridge to Excellence in Public Schools Act passed in 2002. Even with approximately \$210 million in budget cuts approved by the Board of Public Works, future budget shortfalls remain significant. One positive note is that approximately \$500 million still remains in the State's Rainy Day Fund.

State spending has been fairly constrained in recent years, as spending for fiscal 2004 will be about \$675 million under projections made before the 2001 session.

Senate Bill 322 of 2003 and Other VLT Legislative Initiatives

DLS provided a summary of Senate Bill 322 as originally introduced and under proposed amendments offered by the Administration, and as eventually passed by the Senate. A summary of House Bill 78, as sponsored by Delegates Howard Rawlings and Clarence Davis, was also provided.

As introduced, SB 322 (crossfiled with House Bill 359) would have authorized up to 11,500 VLTs at up to four horse racing tracks in the State, provided for one-time license fees, abolished the State Lottery Agency and State Racing Commission and established the State Lottery and Horse Racing Agency and Commission, created an Education Trust Fund and other special funds, and continued the current prohibition on additional forms of commercial gaming.

As amended and passed by the Senate, SB 322 would have authorized 3,500 VLTs each at Pimlico Race Course in Baltimore City, Laurel Park in Anne Arundel County, and Rosecroft Raceway in Prince George's County. The bill would have authorized an additional 1,000 VLTs at a proposed track in Allegany County.

Overview of Gaming in Maryland

DLS provided an overview of current gaming activities in the State. The State currently sanctions several types of gaming, including the State lottery and wagering on horse racing.

The State also allows for a variety of gaming activities for non-profit and charitable organizations at the county level. These activities include tip jars (mainly in Western Maryland), bingo in all counties (including commercial bingo in several counties), slot machines on the Eastern Shore (except in Worcester County), and a variety of other gaming activities that are authorized throughout the State.

The State has little oversight over local gaming activities, with activities generally overseen by local sheriffs or legislative bodies. Several counties have gaming regulatory boards or committees.

Comments by the Governor's Office

Mr. Chip DiPaula, Secretary of the Department of Budget and Management, and Mr. Kenneth Masters, the Governor's Chief Legislative Officer, spoke briefly to the committee, stressing Governor Ehrlich's desire to work with the committee and the Speaker of the House to craft acceptable VLT legislation for the 2004 legislative session.

August 19

American Gaming Association

Mr. Frank Fahrenkopf, the president and CEO of the American Gaming Association (AGA), the national trade organization representing the commercial casino segment of the gaming industry, spoke to the committee regarding the economic impacts of the commercial gaming industry.

According to Mr. Fahrenkopf, the gaming industry has grown dramatically during the past few decades. There are now state-run lotteries in 38 states and the District of Columbia,

some form of pari-mutuel betting in 40 states, commercial casinos in 11 states, Native American casinos in 23 states, racinos in six states, and charitable gaming in 46 states and the District of Columbia. The commercial casino industry directly employs approximately 350,000 people, earning nearly \$11 billion in 2002, including benefits. Those figures do not include the more than 450,000 construction-related and indirect jobs generated by casinos from local purchases of goods and services.

Mr. Fahrenkopf stated that commercial casinos generated \$26.5 billion in total revenues in 2002, and racinos generated an additional \$2 billion. In Atlantic City, casino gaming has generated investment of more than \$6 billion since its inception in 1978. In Mississippi, more than \$7 billion has been invested in the construction of casinos, hotels, restaurants, showrooms, retail outlets, golf courses and other amenities.

Last year, commercial casino companies paid more than \$4 billion in direct gaming taxes to federal, state, and local tax governments. From 1998 through 2002, the commercial casino industry paid \$16.6 billion in direct gaming taxes to state and local governments.

Mr. Fahrenkopf stated that independent research conducted for the National Gaming Impact Study Commission (NGISC), a federal commission mandated by Congress to study the impacts of gaming, also documented the economic benefits of casino gaming and that claims of high social costs are exaggerated. A report by the National Research Council of the National Academy of Sciences commissioned by that commission concluded that, "Gaming appears to have net economic benefits for economically depressed communities."

While he was not directly advocating any type of commercial gaming expansion, Mr. Fahrenkopf told the committee that destination type resorts (casinos with hotels, restaurants, and entertainment venues) are preferable to other types of gaming (VLTs at racetracks, convenience gaming). He advised that any gaming tax rates should be low, and governmental ownership and/or management of gaming facilities would be ill-advised.

NOCasiNO Maryland and StopSlots Maryland

Ms. Kim Roman, Ms. Barbara Knicklebein, Mr. Minor Carter, and Mr. Aaron Meisner spoke in opposition to expanded gaming. Ms. Roman commented that Mr. Fahrenkopf provided some inaccurate and/or misleading information to the committee, particularly about the NGISC's 1999 report. Ms. Roman objected to the characterization that the NGISC's study was "independent" and "government-funded." According to Ms. Roman, the NGISC gathered testimonies, studies and research papers from both proponents and opponents and that what Mr. Fahrenkopf quoted may have come from studies that proponents presented to that commission.

Ms. Roman stated that knowing who funded and commissioned various studies is always critical. In addition, methodology should be reviewed as well as supporting documentation. When reviewing crime or addiction figures, the radius around the facility should be determined as well as how long after the facility opened were the figures obtained. Ms. Roman pointed out that looking at terminology is also important. When reading about addiction rates, figures for "past year pathological gamblers" or "lifetime probable pathological and problem gamblers"

should both be examined. If the study contains only the former, one cannot draw accurate conclusions as to the social costs.

Ms. Roman referenced a study titled “The Costs and Consequences of Gaming in the State of Delaware” from the State of Delaware, Health and Social Services, Division of Substance Abuse and Mental Health. Regarding Delaware, they set aside \$1.6 million for treatment of gaming problems and education, but she indicated that they need more funding to adequately complete the division’s mission. Ms. Roman said that since the bulk of Delaware gamblers supposedly come from Maryland and Pennsylvania, the cost of gaming problems for Delaware should be very low, but that is not the case. If \$1.6 million is insufficient to treat their population of just over 800,000 people, you can see that the \$4 million previously proposed for Maryland gaming problems is low for the State’s population of nearly 5.5 million.

Ms. Roman referenced a study from the University of Nevada Las Vegas published earlier this year that said the social costs of casino gaming to Southern Nevada are between \$273 and \$413 per adult per year. That study said that the costs presented were conservative and many valid costs were left out solely because these would be too difficult to estimate. Another study by three business professors from the Universities of Illinois and Georgia noted that “the costs of casinos are at least 1.9 times greater than the benefits.” In other words, a dollar generated from gaming profits and other social benefits costs taxpayers at least \$1.90 in “cost-creating activities such as crime, suicide and bankruptcy.”

Ms. Roman noted that 75 percent of problem gamblers were VLT players and that this indicates a difference between electronic gaming devices and the lottery for these gamblers.

Ms. Knicklebein, Mr. Meisner, and Mr. Carter mentioned a variety of studies that would assist the committee in a complete study of the pros and cons of expanding casino-style gaming – Ms. Knicklebein mentioned that NOCasiNO Maryland has compiled a gaming impact resource guide which includes many different studies and reports. Mr. Meisner and Mr. Carter told the committee that gaming revenues are a false cure for the State’s budget deficit, that social costs should be closely examined, and that the long-term effects of gaming are all negative.

University of Maryland Baltimore County – Maryland Institute for Policy Analysis and Research

Dr. Donald Norris and Dr. Robert Carpenter provided an economic analysis of VLTs in Maryland - the professors stressed that the work they have done is not in any way related to or supported by any group or organization that favors or opposes VLTs.

The professors made four overall points:

(1) VLTs will impose certain nearly unavoidable costs on the State, local jurisdictions, and its citizens. These costs are not well understood and there can be disagreement even among reasonable persons about them. At the very least there will be costs associated with: a) providing additional levels of traffic control, policing, and security around locations where VLT gaming is permitted; b) crime caused by persons who need money to gamble; c) the behaviors (in addition

to crime) of problem gamblers; d) what is known as the substitution effect - spending on VLTs what one might otherwise spend on the lottery, meals, clothing, etc.

(2) If VLTs are approved, potentially large amounts of money are likely to be involved each year. An important question to address is whether it is good public policy and in the State's best interests to retain as much of the proceeds from slot machine gaming as possible or to transfer some portion of it to private interests to subsidize those interests.

(3) To what extent should VLTs capture "new" versus "reallocated" spending? This is, in part, similar to the issue of substitution effect spending. It is also, however, an issue of the location of VLTs. If, for example, the State wants to capture as much "new" spending as possible, it may be best to find locations for VLT venues that would attract as many out-of-state gamblers as possible. In addition, revenues generated from VLTs may be less than that generated on spending currently subject to the sales tax or from the State lottery.

(4) Nearly all of the 50 states are in some degree of fiscal trouble owing mainly to the current nationwide recession - this is true even among states that permit gaming, including Nevada. To think that VLT gaming will be a long term solution to Maryland's fiscal woes is problematic. If approved, VLTs will certainly provide another source of revenue for the Maryland state budget, and this source may or may not be sizable and/or relatively stable. It is unlikely, however, that VLTs will substitute for other measures that address the more basic problems of actual revenues not matching planned or desired expenditures in the state budget. Thus, regardless of what the General Assembly decides regarding VLTs in the 2004 legislative session, it must still address the long term fiscal stability of State government.

Racetrack Licensees

Representatives of Magna Entertainment Corp./Maryland Jockey Club, Rosecroft Raceway, and Ocean Downs Raceway told the committee that allowing VLTs at racetracks is vital to aiding the horse racing industry, and that it would help tremendously in making Maryland racing competitive with Delaware and West Virginia (both of which have VLTs at their racetracks).

Magna said that the racing industry's impact in Maryland is approximately \$1 billion annually, but that it is a myth that horse racing and racetracks are highly profitable ventures. All of the racetrack representatives are concerned that the committee might consider gaming venues at sites other than racetracks. They stated that this would be detrimental to the overall financial health of the racing industry, and that it would be necessary to provide substantial purse and bred fund monies to the industry under this scenario.

Horsemen, Owners, and Breeders Associations

Representatives of these organizations also told the committee that placing VLTs at the racetracks are necessary to aiding the horse racing industry, and that increased purses and bred fund monies are key to making the horse racing industry compete, grow, and thrive in the State.

Jockey's Guild

Representatives of the Jockey's Guild discussed their desire to have the State provide some percentage or amount of VLT revenues to provide health insurance benefits for thoroughbred jockeys that do a majority of riding in the State.

Maryland State Fairgrounds

Representatives of the Maryland State Fair discussed the Fair's Board of Directors' vote to support VLTs at the Fairgrounds. They indicated that VLT revenues could enhance the Fair's activities and related events through new and/or additional construction of fairground facilities, similar to what has happened with the Delaware State Fair at Harrington Raceway.

Maryland Racing Commission

Mr. Tom McDonough, the new chairman of the Racing Commission, spoke to the committee about his desire to make the racing industry financially stronger and his hope that the various segments of the industry may be able to resolve some of their longtime differences. Mr. McDonough said that VLTs at the racetracks could certainly aid the industry in addressing its financial difficulties.

September 9

Site Visit and Public Hearing - Prince George's County

The committee visited Rosecroft Raceway and held a public hearing at Prince George's Community College to hear public perspectives on VLT issues.

Representatives of Rosecroft Raceway reiterated their view that VLTs at the racetrack would help to make the racing industry in Maryland again competitive with other states. Rosecroft feels the track is an ideal location for VLTs because it already conducts gaming activities, is equipped to handle large crowds, and could attract more participants for racing activities. They told the committee that it would take 12-18 months to complete traffic improvements, after design requirements were complete.

At the public hearing, Congressman Albert Wynn told the committee that it should consider tourist destination resort casinos instead of VLTs at racetracks. Congressman Wynn stated that these types of facilities would provide more and higher paying jobs as well as

bringing in more out-of-state tourists to gamble. He also stressed the need for minority business and union labor participation.

Prince George's County Executive Jack Johnson discussed his desire to have quality education for children in the county, as well as other services integral to a good quality of life. He told the committee that he has yet to take a position on VLTs, casinos, or expanded gaming in general, but that he is seriously contemplating the issue.

Representatives of the National Harbor development project in Prince George's County discussed their plans to build a large tourist destination resort on the banks of the Potomac River. While some discussion has centered on National Harbor as a potential gaming location, the representatives of the project have currently taken no position on that issue.

Prince George's County Councilman Thomas Hendershot spoke of his general opposition to the expansion of gaming activities in the State. He did indicate, however, that K-12 education is vitally important and that revenues generated from any expanded gaming initiatives should be used for K-12 education purposes.

Delegate Barbara Frush from District 21 told the committee that any potential gaming facilities should not allow smoking on the premises.

Members of the public speaking in favor of VLTs or expanded gaming spoke of the economic development benefits, including new jobs and increased tax revenues. Opponents spoke of several problems with expanded gaming, including infrastructure needs and increased levels of crime, bankruptcy, and addiction. Several residents near the National Harbor development project stated their objections to the overall scope of that project and the prospect of gaming at that location.

Twenty-five individuals signed up to testify – 15 proponents and 10 opponents.

October 7

Site Visit and Public Hearing – Anne Arundel County/Baltimore City

On October 7, the committee traveled to Laurel Park and Pimlico Race Course, and held a public hearing at Morgan State University.

At Laurel Park, the committee heard from representatives of Magna Entertainment Corp. and the Maryland Jockey Club regarding plans for renovating racetrack facilities if VLTs are legalized at the track. The same presentation for the Pimlico Race Course was made at that location later in the day.

At the public hearing, Senator James Brochin and Delegates Susan Aumann, William Frank, and John Trueschler from District 42 spoke in opposition to any plan to legalize VLTs at the State Fairgrounds in Timonium. They feel that VLTs at the Fairgrounds would be

detrimental to the immediate area in a variety of ways and that the citizens of the area are opposed to expanded gaming at that location.

Delegates Sandy Rosenberg and Jill Carter from District 41 spoke about opposition to video lottery terminals at the Pimlico track location and the need for economic opportunities for small businesses.

Former Mississippi Representative Charlie Williams, a former chairman of the Southern Legislative Conference, spoke of the economic benefits of riverboat casinos in Tunica, Mississippi, just outside of Memphis.

Generally speaking, members of the public speaking in favor of VLTs or expanded gaming spoke of the economic development benefits, including new jobs and increased tax revenues. Opponents spoke of several problems with expanded gaming, including increased levels of crime, bankruptcy, and addiction. Numerous residents of the Timonium and Pimlico areas spoke of potential increased problems with traffic, noise, and other neighborhood and infrastructure concerns.

Sixty-five individuals signed up to testify – 28 proponents and 37 opponents.

October 21

Site Visit and Public Hearing – Eastern Shore

The committee visited the Easton Elks lodge to view the slot machines that the lodge has for charitable gaming purposes. Several members of the lodge discussed the operation of the machines, and Talbot County Sheriff Dallas Pope discussed his office's enforcement and compliance activities related to the machines.

The committee next visited the Ocean Downs racetrack in Berlin, where members heard from track owner William Rickman Jr. about the racetrack and improvements that have been made in recent years. Mr. Rickman also discussed the potential of VLTs at the track, providing the perspective that if Ocean Downs is prohibited from having VLTs, then he would ask for the opportunity to have a VLT location at a non-racetrack location. The committee also visited Mr. Rickman's off track betting facility in Cambridge.

At the afternoon public hearing at Wor-Wic Community College in Salisbury, supporters of VLTs generally spoke of the economic development benefits, including new jobs and increased tax revenues, as well as saving and promoting the horse racing industry. Opponents spoke of several problems with expanded gaming, including increased infrastructure costs and higher levels of crime, bankruptcy, and addiction. Ocean City Mayor James Mathias reiterated his longtime opposition to expanded gaming, but said that legislators should keep the needs of the entire State in mind if an expansion of gaming is provided.

Forty-two individuals signed up to testify – 26 proponents and 16 opponents.

October 30

Site Visit – Baltimore City/Baltimore County/Cecil County

On October 30, the committee visited several locations in Baltimore City, Baltimore County, and Cecil County. The committee first visited the Compulsive Gaming Center in Baltimore, a treatment facility for individuals with gaming addiction problems. The committee was briefed by the center's executive director as to the center's work and also toured the facility.

The committee visited the Maryland State Fairgrounds site in Timonium, and was briefed by State Fair officials as to their desire to have the fairgrounds site be considered as a location for VLTs. Baltimore County Executive James Smith provided a letter to the committee stating his opposition to expanded gaming at the State Fairgrounds site.

The committee ended the day in Cecil County with a tour of Winbak Farm, a standardbred horse farm, and Northview Stallion Station, a thoroughbred horse farm. Representatives of each farm spoke to committee members about how the various facets of the horse industry are interconnected and the need for increased financial aid to the industry.

November 5

Site Visit and Public Hearing – Allegany County

The committee held the last of its four public hearings in Cumberland at Allegany College. Before the public hearing, members visited the proposed Allegany County racetrack site in Little Orleans. Mr. William Rickman Jr., the owner of the track site, discussed what the track would look like and the type of off-track betting and VLT facility that could potentially be in place. The track would have both thoroughbred and standardbred racing for a total of 20 days per year.

Fifty-six individuals signed up to testify at the public hearing – 28 proponents and 28 opponents. Most of the sentiments expressed at the previous public hearings were again brought to the committee. Senator John Hafer, Delegate George Edwards, and Delegate Kevin Kelly spoke of their support of VLTs at the tracks, including the proposed Allegany County track, but not at other locations such as the Rocky Gap resort.

Representatives of Magna Entertainment Corp. commented on previous studies that have been conducted by the Maryland Tax Education Foundation and UMBC (as presented to the committee earlier in the interim). They raised objections to certain assumptions in each study about the daily win per machine, the number of players for each gaming position, and the cost of financing gaming facilities – in each case, the representatives of Magna indicated that the previous study assumptions were not realistic and should not be considered as accurate.

November 13

Attorney General Joseph Curran and Dr. Earl Grinols

The committee heard from Attorney General Joseph Curran and Dr. Earl Grinols, a researcher at the University of Illinois, Urbana-Champaign who has focused his work on the economics of gaming.

Attorney General Curran discussed the 1995 gaming study that his office conducted for the Joint Executive-Legislative Task Force to Study Commercial Gaming Activities in Maryland - that study looked at the social costs of gaming for Marylanders and determined that the costs outweighed the benefits. From his perspective and research, racinos create similar social problems to casinos, expanded gaming will only lead to more pathological gamblers, and that pressure to further expand gaming will certainly always be present. Attorney General Curran's summary message to the committee was that while expanded gaming provides certain economic benefits, the negative aspects should be closely examined.

Dr. Grinols has been looking at the costs and benefits of gaming since 1990 – his research shows that gaming attracts certain groups disproportionately and that gaming fails the cost-benefit analysis test. He indicated that about 30 percent of the population does not gamble at all, even in locations such as Las Vegas, and that 10 percent of gamblers account for 60 to 80 percent of all gaming. Some studies show that 30 to 50 percent of slot machine and/or casino gamblers are problem or pathological gamblers, and that the percentage for the lottery is no more than 25 percent. He cited a 1995 study in Illinois that concluded that 75 percent of gamblers come from within 35 miles of a gaming facility.

Dr. Grinols' research has shown that the mid range per capita economic cost is \$219 per adult, mainly from increased crime and employment costs, while the social benefits are less than \$46 per adult. Dr. Grinols indicated that introducing casinos would create additional annual social costs of \$12.7 million and annual benefits of \$4.2 million for a county of 100,000 people. The cost of gaming per tax dollar is \$2.53, compared to \$1.17-1.59 for the "ordinary" tax dollar. Dr. Grinols explained that gaming merely transfers dollars from one pocket to another without creating a tangible product.

Local Planning and Zoning Issues

Representatives of several county planning agencies briefed the committee on planning and zoning issues related to the construction of VLT facilities. The officials stressed that they would ask the committee to respect local autonomy on planning and zoning issues. In each of the counties present (Anne Arundel, Baltimore City, Baltimore County, and Prince George's), any VLT facility location would require a change to local zoning codes and would require local legislation to make the necessary changes. These processes and land use patterns are unique in every county, and any new facilities would also have to fit into local master plans.

In Baltimore City, any VLT zoning proposal would have to be introduced as an amendment to the zoning code, and a series of public hearings would be held. The legislation would be referred to several city agencies, most notably the Department of Planning. A recommendation on a decision would then be made to the City Council. The overall decision making process can take anywhere from two or three months to never getting out of committee.

November 25

Dr. Charles Wellford

Dr. Charles Wellford, from the University of Maryland College Park and the Chair of the Committee on the Social and Economic Impact of Pathological Gaming for the National Academy of Sciences, made several points about both general gaming research and his committee's research work on gaming patterns.

Dr. Wellford said that gaming is pervasive in the United States and that the only questions still facing states are how much gaming, what types of gaming, and who gets the revenues. Performing cost benefit analyses of gaming are difficult, with very little still known about compulsive gaming, and most analyses are weak scientifically and should not be given much weight. He indicated that the scientifically acceptable studies all find a net financial benefit from gaming. There will be pathological gaming wherever there is gaming – 1 to 2 percent of the population will be pathological gamblers, with higher rates for younger populations. The current but limited research shows that problem gamblers generally improve if they receive treatment, and that individuals have generally been gaming for 12 to 15 years before they seek treatment.

If expanded gaming is enacted, Dr. Wellford indicated that the State should provide, at a minimum, the following: the expanded use and knowledge of 800 number helplines, credit restrictions, employee prevention and treatment programs, employee insurance coverage for treatment programs, effective self-exclusion policies, loss limits, and public awareness programs.

Maryland Stadium Authority

Representatives of the Maryland Stadium Authority discussed the issues that would need to be addressed if the Authority was asked to construct gaming facilities.

Executive Director Rick Slosson and General Counsel Alison Asti addressed three topics – a historical review of the Authority, projects completed and currently underway, and any necessary legislation and/or statutory changes that would need to be enacted if the Authority was involved in building gaming facilities.

Formed in 1986, the Authority has been involved in over \$1 billion worth of projects throughout the State since the late 1980s. Their powers include the acquisition of real property, the issuance of State lease backed bonds, borrowing money, imposition of the admissions and amusement tax, charging and collecting rents, and development and construction of facilities.

They are bound by the State's minority business enterprise law, but are exempt from other procurement statutes, taxes, and personnel management requirements. They could also be exempt from State and local planning, zoning, and development regulations with the consent of the General Assembly and the affected local jurisdiction(s).

The Authority feels uniquely qualified to plan and construct gaming facilities, for a variety of reasons. These include expertise with fast track construction of facilities, building permit exemptions, condemnation powers, and site selection/evaluation. The Authority can also get a low cost of borrowing funds - most of their bonds are rated AA or AA+.

The following legislative changes would be necessary:

- (1) authorization for design and construction;
- (2) a mechanism for site selection;
- (3) property acquisition/condemnation;
- (4) authorization of a bond issue and determination of financing; and
- (5) authorization of management arrangements.

Mr. Carl Wright, the chairman of the Stadium Authority, discussed his idea of a "world class" horse racing/gaming facility that could be built in downtown Baltimore City, near Camden Yards. He indicated that the entire infrastructure is already in place and that makes it an attractive location. He conceded that there is currently not enough State-owned land to implement the concept at this time. He said he did not have a specific plan in writing at this point, but wanted to put it on the table for committee members to discuss.

VLT Issues For Consideration – Legislative Services

Legislative Services presented a document listing issues that must be considered by the committee if it pursues an expansion of gaming.

Current Gaming Activities

While much attention has been paid in recent months to VLTs and other forms of new gaming in the State, it is important to note that the State sanctions specific gaming activities under current law. These include wagering on horse racing and the State Lottery. In addition, State law provides for a variety of limited gaming activities for certain organizations on a county-by-county basis.

Horse Racing

While horse racing was first regulated by Maryland in 1743 with the formation of the Maryland Jockey Club, pari-mutual wagering on horse races was first introduced in 1912. The State Racing Commission was created in 1920. Racing is regulated by the Maryland Racing Commission within the Department of Labor, Licensing, and Regulation - the commission regulates all racing and wagering issues in the State.

Modern horse racing in Maryland has been most affected by legislative changes made in the late 1980s and early 1990s. Beginning in 1988, Maryland racetracks were allowed to begin simulcasting signals of live races throughout the State for purposes of betting. For example, a race at Laurel Park could be simulcast to bettors at Rosecroft Raceway, thus allowing those bettors to bet on the Laurel race.

The simulcasting of race signals was expanded in 1992/93, as tracks were permitted to import race signals from other states, thus greatly expanding betting opportunities at the track. At the same time, five off-track betting facilities were established around the State - these facilities also simulcast race signals from tracks in Maryland and around the country for betting purposes. Simulcasting has become a major component for the racing industry's financial standing - more money is wagered on simulcast races than on live races in the State. The allocation of revenues from simulcast races is negotiated amongst the parties involved and not set by statute.

State Lottery

The State Lottery was established in 1972 through legislative action and a constitutional amendment approved by voters. Revenues generated from the lottery are deposited in the General Fund, as they have been since the Lottery's inception. Revenues for the General Fund are estimated at \$451 million for fiscal 2004. Special lotteries are held for the benefit of the Maryland Stadium Authority - the revenues generated are used for the Authority's operating expenses and to finance the Authority's capital program.

Slot Machines

Slot machines were authorized throughout the State from 1937-1939. This was designed to provide revenues for the needy near the end of the Great Depression. The General Assembly passed several bills to allow for the continuation of these machines in Anne Arundel, Charles, Montgomery, and Prince George's Counties, but these bills were vetoed by Governor Herbert O'Connor on the grounds that using gaming devices to raise revenue was detrimental to the overall interests of the State. In 1941, Governor O'Connor again vetoed legislation that would have provided for slot machines in Anne Arundel and Garrett Counties, but signed similar legislation for Anne Arundel County in 1943. Legislation was enacted for Calvert, Charles, and St. Mary's Counties in the late 1940s. These machines were ultimately phased out over a five-year period, and were completely prohibited by July 1, 1968.

Despite the prohibition, many fraternal organizations continued to operate slot machines, using State laws permitting charitable activities as the legal rationale. In 1984, the Attorney General ruled that the operation of these slot machines was illegal. In 1987, legislation was enacted to allow slot machines were authorized in Eastern Shore counties (except Worcester County). Under this law, certain non-profit and charitable organizations are permitted to operate no more than five machines and 50 percent of the proceeds must go to charity. Machines are licensed by the local Sheriff's office and annual reports outlining the disposition of the proceeds are provided to the Comptroller.

Tip Jars

While legal in numerous counties, tip jars are popular in Western Maryland and typically benefit non-profit organizations – these may also be found in businesses such as restaurants and bars. A tip jar refers to a game of chance that involves the selling of a packet of tickets to win a prize. Tip jars are closely regulated in several counties, including Allegany, Frederick, and Washington.

Bingo and Other Gaming Activities

Bingo may be conducted in all 24 local jurisdictions by various non-profit entities - these include volunteer fire companies, fraternal organizations, etc. Commercial bingo is provided in several counties, including Anne Arundel, Calvert, and Washington. Carnivals, bazaars, raffles, and casino-type games are allowed for non-profit organizations on a county-by-county basis.

Oversight of Local Gaming Activities

No general State oversight of local gaming activities is provided. Local gaming activities are generally regulated by county legislative bodies or sheriffs. Several counties have gaming boards that provide some level of regulatory oversight.

Past studies of gaming activities in the State, including the 1995 Joint Executive-Legislative Task Force to Study Commercial Gaming Activities in Maryland, have pointed out several deficiencies in the regulation of these local gaming activities. In a letter to that task force, the Attorney General expressed concerns about the lack of regulation of some of these activities, including a lack of oversight over slot machines on the Eastern Shore.

Senate Bill 322 of 2003 – Summary of Original and Amended Versions

SB 322 As Introduced

Senate Bill 322 (SB 322) as introduced by the Administration would have authorized up to 10,500 VLTs at four designated horse racing tracks in the State. The bill provided for 3,000 VLTs each at Laurel Park in Anne Arundel County, Pimlico Race Course in Baltimore City, and Rosecroft Raceway in Prince George's County. Additionally, 1,500 VLTs were authorized for operation at a horse racing track to be built in Allegany County. Significant one-time license fees of \$100 million were required for Laurel, Pimlico, and Rosecroft, and a one-time license fee of \$50 million was required for the track to be built in Allegany County.

SB 322 - Proposed Administration Amendments

Amendments to SB 322 subsequently proposed by the Administration would have created a State Lottery and Horse Racing Agency but the Lottery Commission and the Horse Racing Commission would both continue to exist under the agency. The amendments also

provided that all new members would be appointed to each Commission. Administration and regulation of VLTs would have been the responsibility of the State Lottery Commission.

Another major provision of the Administration amendments would have exempted VLT construction from local planning and zoning requirements. The amendments further required VLT operator licensees to meet certain horse racing requirements including maintaining the same number of racing days as conducted in 2002 and for the Pimlico licensee only, if the licensee failed to operate the Preakness in Maryland, the commission was authorized to revoke the VLT license.

One-time license fees were reduced for VLT operators to \$40 million for each track except for a \$12 million license fee for the track to be built in Allegany County. The VLT operator licensees were additionally required to spend \$100 million in initial construction and related costs for the VLT facilities and other facilities within the first two years of operation.

The amendments would have further prohibited minors from playing VLTs and prohibited VLT operators from providing free alcohol. The amendments also included an “anti-referendum” provision that stated that the bill and all of its parts were essential elements of an integrated enactment that generates State revenues and other funds. Finally, the amendments altered the proposed distribution of the VLT proceeds.

SB 322 - As Passed by the Senate

As amended and passed by the Senate, SB 322 would have authorized up to 11,500 VLTs in the State, with 3,500 VLTs each at the Pimlico Racecourse, Laurel Park,, and the Rosecroft Raceway. There were 1,000 VLTs authorized for the proposed track in Allegany County. The significant one-time license fees were reduced to \$5 million for Pimlico, Laurel, and Rosecroft and were reduced to \$1.5 million for the proposed track in Allegany County.

The proposed distribution of gross VLT proceeds under SB 322 in its various versions is shown in **Exhibit 1**.

Exhibit 1
Various Versions of SB 322 - Distribution of Gross Proceeds

| | SB 322 as Introduced | SB 322 with Proposed Administration Amendments | SB 322 as Passed by the Senate |
|--|----------------------|--|------------------------------------|
| Education Trust Fund | 58.2% | 42% | 46% |
| VLT Operator Licensees | 24.8% | 43.6% | 39% |
| Horse Racing Purses and Bred Funds | 7.2% | 5% | 5.25% (5.95% in Year 2 and beyond) |
| State Lottery Commission/State Lottery and Horse Racing Commission | 5.65% | 5% | 5% (4.3% in Year 2 and beyond) |
| Local Governments | 3% | 3.6% | 4.75% |
| Other | 1.15% | 0.8% | --- |

Source: Department of Legislative Services

Types of Facilities

Racinos (VLTs at Racetracks)

An often discussed option in Maryland has been to place VLTs at some or all of the State's horse racing tracks. Several states have implemented this model, including Delaware, West Virginia, and Rhode Island. The states that implemented this type of gaming did so to generate revenues for their horse racing industries and for State government operations. For illustrative purposes, Delaware brought in gross revenues of \$565 million in fiscal 2002, with about \$200 million going to the State (35% of revenues).

Supporters of VLTs at racetracks argue that this will provide new jobs, help the racing industry in its efforts to become more competitive with Delaware and West Virginia, especially in the granting of racing purses and horse bred funds. In addition, supporters say that the general public is more comfortable with having VLTs at racetracks (as opposed to other venues) considering that gaming already exists at those locations. As with casino-type facilities, opponents argue that the potential economic development aspects of these facilities and aid to the racing industry are outweighed by the social and economic costs related to problem and pathological gaming activities.

Casinos/Tourist Destination Locations

Nevada, New Jersey, and several other states have full fledged casinos (with both VLTs and table games such as blackjack) that are co-located with hotels and various entertainment venues. These types of facilities are advertised and operated as tourist destination facilities, and may be land-based or riverboat casinos. Almost half of the states now have Native American casinos, regulated by federal statutes and State agreements, and these are also generally operated and marketed as tourist destination locations.

Supporters of these types of facilities argue that additional types of gaming activities and the associated hotel, restaurant, and entertainment facilities provide more economic development possibilities, including increased and higher paying jobs than at VLT facilities. These types of tourist destination locations often have various types of promotions/events to encourage individuals to visit and/or gamble – these can include concerts, sporting events, and other types of entertainment.

As with VLTs at the racetracks, opponents argue that the economic development aspects of these facilities are outweighed by the social and economic costs related to problem gaming activities. In addition, many individuals working in and with the horse racing industry feel that these types of tourist destination facilities would be detrimental to the health of the racing industry by taking bettors away from the tracks.

Stand-Alone Facilities

Another option is to have a free-standing VLT facility that is not at a racetrack, nor built as a casino-type tourist destination facility. This type of facility could be placed near an interstate highway or in an urban area that is accessible to large numbers of individuals from both in-state and out-of-state. These could also be coupled with other entertainment venues.

Convenience Gaming

Some states, such as West Virginia and Louisiana, have what may be termed convenience gaming – in these states, limited numbers of video lottery terminals and/or video poker terminals are located in restaurants, bars, and similar type establishments.

Options for Evaluating Expanded Gaming Legislation

These guidelines should not to be construed as an endorsement or statement of the Ways and Means Committee's intent to initiate a gaming proposal, but rather a summary of the findings and observations made as a result of its interim study.

During the course of its study, the committee has determined that the relationship between video lottery gaming and horse racing is tenuous at best. Therefore, the questions of whether and how to expand video lottery gaming and revive the horse racing industry are each given serious attention and considered separately in this report.

On the issue of expanded gaming, the committee has identified four broad issues that are essential components of any expanded gaming proposal - ensuring effective State regulation and control of expanded gaming; maximizing the return to the State in a responsible manner; mitigating expanded gaming's negative social and economic impacts; and limiting negative impacts on communities where gaming facilities might be located.

- **Ensure Sufficient and Efficient State Regulation and Control**

Ensuring efficient and effective State regulation and control is the most critical element of any expanded gaming initiative. Other states with significant gaming experience such as Nevada and New Jersey have strong statutory and regulatory oversight to ensure the integrity of gaming operations and to maintain public confidence. If Maryland decides to enter the gaming market, a similar strict and comprehensive statute should be enacted. In addition, several specific elements should be considered to enhance the State's ability to effectively regulate any new gaming.

State Construction and Ownership of Gaming Facilities Should Be Strongly Considered

The most critical element of effective state regulation and control of expanded gaming is State ownership and construction of any video lottery gaming facility that operates in Maryland. While no state has implemented this type of model to date, it has been achieved successfully in the province of Ontario. The benefits of this approach include significant cost savings in the construction and financing of gaming facilities, the ability to hold gaming facility operators accountable to the State, greater ease in planning and zoning procedures, removing "personality" and entitlement from the award of gaming licenses through the utilization of a competitive bid process, and the retention of control over any future expansion of gaming. It may also be advisable to consider consolidating the regulation of all gaming activities under one State entity, such as a Maryland Gaming Agency or the State Comptroller's Office.

A Competitive Bid Process Should Be Considered for Awarding Gaming Licenses

Since the State lacks the experience necessary to manage a video lottery gaming facility, the operation of a State owned facility could be contracted out to an established gaming firm for a fixed term through a competitive bid or similar auction-type process. The subcontractor would then employ the workers for the gaming facility. This arrangement provides several benefits to the State.

First, gaming industry experts, consultants, academics, and State analysts have provided varying estimates of the value of a gaming license, the cost to operate a gaming facility, and facility construction costs. Because these values and costs are difficult to ascertain, **a competitive bid process would be the best method for determining the actual market value of a license to operate a gaming facility.**

Second, **this arrangement provides the State the flexibility to remove an operator and contract with another entity if the State finds the operator's performance unsatisfactory.** Under Senate Bill 322 as passed by the Senate, licenses were awarded exclusively to racetrack entities to be operated in privately owned and constructed facilities, financed primarily through video lottery revenues. Although the Senate bill provided for a mechanism to revoke a video lottery license, this process would be complicated to initiate and complete. Under a private ownership model, if the State were to revoke the license, the facility would have been left in the hands of the delicensed entity, even though the facility had been financed primarily with gaming revenues the State could have used to finance and build its own facility.

Third, awarding a license to operate a gaming facility through **a competitive bid removes "personality" and any possible taint of bias for or against any specific entity or individual.** A competitive bid process would put the focus of awarding a gaming license where it belongs - on the quality of the bid itself, not the individual or entity making the bid. Certain requirements could be placed on prospective bidders to ensure that whatever guarantees the State determines to be important are included, such as minority business participation. The State could contract with an independent consulting firm with gaming industry expertise to assist the State in developing bid criteria and conducting the bid process.

Other Regulatory Tools Should Be Considered for Effective Regulation

An efficient and accurate regulation of expanded gaming can best be accomplished by establishing a central computer system under which all video lottery terminals would be connected to provide the maximum capability of auditing, reporting, and regulation by the State. A central system would ensure that State regulators will receive the "first count" of revenues generated in each video lottery terminal and provide assurance of the accuracy and integrity of the machines.

The State of Maryland should purchase or lease video lottery terminals and all video lottery terminals should be connected to a single Statewide computer system. In addition, other regulatory protections, such as strict character and financial background checks, should be included.

Restricting the Operation of Multiple Facilities by One Entity Should Be Considered

Strong consideration should be given to prohibiting a single entity from operating more than one gaming facility. Under Senate Bill 322, one entity would have had control over 7,000 video lottery terminals, more than half of the number authorized under the proposal. That entity would have had tremendous control over any future expansion of gaming. Even under a State ownership model, facility management and operation could be similarly limited.

State Regulation of Other Local Gaming Activities Should Be Considered

As a part of any expanded gaming initiative, consideration should be given to State regulation of other forms of legalized gaming, particularly tip jars popular in Western Maryland and charitable slot machine gaming on the Eastern Shore. Currently, charitable slot machines are licensed by local sheriffs, and annual reports outlining the disposition of the proceeds are required to be provided to the Comptroller. The Comptroller's office, however, has no authority to audit these reports. Additionally, no annual reports from any jurisdiction where tip jars are legal are required to be provided to the State.

- **Maximize Gaming Revenues for the State in the Most Responsible Manner**

Gaming revenue is the "State's money"

A key element that was sometimes lost in the gaming debate this past year is recognition that if the State decides to legalize an activity currently prohibited, the revenues from this activity belong to the State. It is then the decision of the State as to how to appropriately allocate the revenues. Any expanded gaming proposal should be responsibly tailored and maximize revenue to the State.

The Ways and Means Committee may consider dedicating any revenues from expanded gaming to public education purposes. However, it is unclear as to whether revenues from expanded gaming would result in full funding of future public education needs. Those and other vital program needs will still be present and additional revenue sources may be needed.

State Construction of Gaming Facilities Could Guarantee Maximum Value to the State

Senate Bill 322 awarded four of the State's racetrack licensees the exclusive right to operate video lottery terminals at their racing facilities. The owners of the Pimlico Race Course and Laurel Park, as well as the owners of Rosecroft Raceway, indicated that their racing facilities would be completely rebuilt and transformed into multi-entertainment facilities featuring video

lottery gaming, horse racing, dining, and other entertainment options. Estimates from the racetrack owners for the reconstruction of Pimlico and Laurel totaled approximately \$337 million and \$254 million, respectively, including rebuilt racing surfaces and backstretch areas in addition to gaming areas to accommodate over 3,500 video lottery terminals.

Although the legislation included a significant minimum expenditure level for capital improvements as a condition of licensure, State oversight as to how the money would actually be spent was limited. Because the capital improvements would have been financed largely through video lottery revenues generated from a license granted exclusively by the State to racetracks, the State's oversight role in the construction of gaming facilities should have been greater.

The type of necessary oversight could be provided through an experienced agency like the Maryland Stadium Authority (MSA), which would provide the State the greatest amount of control over the expense and timing of the construction process. The MSA has a proven track record of completing high-profile sports and entertainment projects on time and under budget. The baseball and football stadiums at the Camden Yards complex in Baltimore, the Comcast Center at the University of Maryland, College Park, and the Hippodrome Performing Arts Center are just a few of the MSA's nationally recognized projects.

To a certain extent, the type of multifaceted entertainment facilities visualized under Senate Bill 322 will be necessary to allow Maryland to successfully compete against its surrounding states by attracting in-State residents who now travel out-of-State to gamble, and to attract out-of-State customers as well. However, given that no Maryland public official has suggested an attempt to emulate the scale of gaming establishments in Las Vegas or Atlantic City, the racetrack owners' estimates appear higher than what is necessary to have a competitive, attractive facility in this gaming market. Whatever facilities may be constructed would certainly be expensive, but MSA's outstanding project management record makes it well-suited to maximize the value to the State by minimizing project costs while still ensuring high-quality, appropriately scaled facilities.

Public Financing Will Result in Significant Debt Service Savings

In addition to the benefits provided by the Maryland Stadium Authority as project manager for the construction of any gaming facilities, MSA financing would result in considerable savings as well. According to the KPMG report prepared for the Administration during the 2003 Session, interest rates for capital debt for privately financed facilities could range between 12%-14%. Testimony before the Ways and Means Committee by the Maryland Stadium Authority indicated that the authority could obtain financing at approximately 6%. Furthermore, based on cost models for Senate Bill 322 as introduced, the MSA estimated annual debt service savings in the range of \$45 million per year over the 20 year life of the debt if construction of the proposed facilities were financed through the MSA. Clearly, public financing and construction of gaming facilities would result in substantial cost savings.

Because of the significant capital construction and financing cost savings, strong consideration should be given to public construction and financing of gaming facilities by the Maryland Stadium Authority. Even if not utilized as the financing vehicle, the MSA

could serve as project manager on any gaming project to ensure a quality, on-time project at minimal cost.

Allocation of Gaming Proceeds Should Be Maximized To Benefit the State's Public Policy Priorities

Major points of contention in last year's video lottery gaming proposals were how much would be bet, the revenues that would be generated, and the establishment of the appropriate percentage of revenue to be returned to racetracks (who would own and operate the video gaming facilities). While revenue estimates and the overall amounts that would be bet are difficult to determine, annual gross revenues of \$1.5 billion at a 90% payout percentage to bettors would result in \$15 billion being bet at gaming facilities annually.

The Governor's initial proposal limited racetracks to just 24.8% of the gross gaming revenue. The Administration's revised proposal significantly increased the track's take to 43.6%, while the Senate bill settled on 39%. Because of the lack of information available at that time, it was impossible to ascertain whether the final percentage decided on represented the best deal for the State. As stated previously, **the surest method for determining the percentage of revenue necessary to operate a gaming facility and retain a reasonable profit is for the State to award the management or operating license through a competitive bid process.**

In New York, operators receive approximately 20 percent of gross video lottery terminal revenue. The state receives approximately 60 percent. Assuming State construction and financing of a gaming facility, it is not unrealistic that similar percentages could be appropriate here in Maryland, particularly in certain high grossing markets. In markets where less revenue would be generated, an operator may require a slightly larger percentage of the gross revenue to cover expenses and still retain a reasonable profit. A competitive bid process would help determine with greater certainty what the appropriate operator's share is in each market. Under any scenario, there is no reason why the State could not retain a significantly larger share of gaming revenue than provided under Senate Bill 322, even after allowing for regulatory expenses, facility construction costs, facility operator fees, horse racing subsidies, problem gaming assistance, and funding for community impact and development costs.

Gaming Facilities Should be Located in Areas that Minimize Negative Community Impacts and Responsibly Maximize Positive Economic Impacts for the State

Under Senate Bill 322, the location of video lottery gaming facilities was limited to three of the five existing race tracks. A fourth license was awarded to the licensee of a race track to be built in Allegany County. However, focusing on racetrack locations may not be the best option for expanding gaming in Maryland, whether in terms of revenues to the State or in terms of impacts on residential population centers.

First, there is little evidence of crossover betting among individuals who gamble on horse racing and those who play video lottery terminals. Outside Maryland, at racetracks where slot machines have been installed, attempts to cross-market horse racing to video lottery terminals customers appear to have been unsuccessful. This is clearly shown by the fact that despite large

crowds at racetrack video lottery terminals facilities, on-track wagering at tracks with video lottery terminals remains largely flat.

As an example, at Woodbine, the best known race track in Canada, 1,700 video lottery terminals were installed in March 2000. Video lottery terminals subsidized racing purses at the track have skyrocketed to among the highest in North America, vastly improving the racing product. However, track officials report that video lottery terminal players at Woodbine remain largely uninterested in horse racing despite a racing themed video lottery terminal gaming room in the grandstand overlooking the race track, betting vouchers to encourage video lottery terminal players to bet on horse racing, and electronic racing games to educate new fans.

Other tracks with video lottery terminals have made little effort to market racing to video lottery terminal customers. So while purse subsidies provided by video lottery terminal revenues have given the racing industry an immediate short-term revenue boost, the introduction of video lottery terminals at racetracks has done little to create a new generation of racing fans. Therefore, installing video lottery terminals at locations other than racetracks will not eliminate some prospective benefit to the racing industry since the positive benefits achieved in other states has been largely limited to growth in out-of-State wagering handle.

If the General Assembly believes that assisting the racing industry through purse and bred fund subsidies is critical to preserving the racing industry in Maryland, those subsidies can be provided to the industry whether or not video lottery terminals are located at racetracks. **Since limiting video lottery terminals only to racetracks is not essential to the future success of the horse racing industry, video lottery gaming locations beyond racetracks should be strongly considered.**

Second, the locations of some of the State's current racetracks are not sites that would be selected based on the principle of maximizing revenue in a responsible manner. In addition, unlike Delaware and West Virginia's horse racing tracks, some of Maryland's tracks are located in established, densely populated residential areas, while others are located in highly congested commercial areas. This would lead to tremendous stress in these communities related to increased traffic, public safety, and sanitation concerns. In addition, according to some studies, these locations would likely cause a greater percentage of gaming revenue to be the "reallocated" spending of Marylanders, which is money that would otherwise be spent on other goods and services.

Third, many proponents of video lottery gaming in Maryland point to the large number of Marylanders who travel to Charles Town, West Virginia, and to Delaware to play slot machines. To eliminate this problem and keep that money in the State, if Maryland is going to authorize video lottery gaming, locations should be chosen that intercept those Marylanders to gamble at in-State facilities more conveniently located than the most commonly frequented out-of-State gaming locations.

Finally, some states, including West Virginia, have what has been commonly termed "convenience gaming", where limited numbers of video lottery terminals and/or video poker terminals are located in restaurants, bars, and similar type establishments. This type of expanded

gaming also results in significant reallocated spending by residents, and may not aid in creating net economic benefits for the State.

It should be noted, however, that expanded gaming can provide positive economic impacts for the State and local jurisdictions, including increased numbers of and higher paying jobs, increased tax revenues, and increased local impact aid.

During the course of the committee’s study, several committee members and individuals from the public discussed the merits of casino/tourist destination type gaming facilities. The National Gambling Impact Study Commission found in its 1999 report that casino gaming appears to have net economic benefits, creating jobs and reducing unemployment and government assistance levels in jurisdictions that have legalized it. According to research provided to the Commission, jurisdictions closest to destination type gaming facilities experienced a 12-17% reduction in welfare payments, unemployment rates, and unemployment insurance claims. **Exhibit 2** provides some casino statistics for 2002.

Exhibit 2
General Casino Industry Information for Various States – 2002 Statistics

| State | # of Operating Casinos | Gross Gaming Revenue (in millions) | Gaming Tax Revenue (in millions) | Casino Employees | Casino Employee Wages (in millions) |
|--------------|-------------------------------|---|---|-------------------------|--|
| Colorado | 42 | \$720 | \$98 | 7,675 | \$195 |
| Illinois | 9 | \$1,800 | \$666 | 10,923 | \$420 |
| Indiana | 10 | \$2,100 | \$545 | 16,555 | \$515 |
| Iowa | 13 | \$972 | \$249 | 8,799 | \$275 |
| Louisiana | 16 | \$2,000 | \$414 | 18,329 | \$497 |
| Michigan | 3 | \$1,100 | \$249 | 8,286 | \$334 |
| Mississippi | 29 | \$2,700 | \$332 | 31,343 | \$990 |
| Missouri | 11 | \$1,300 | \$358 | 11,500 | \$300 |
| Nevada | 249 | \$9,400 | \$719 | 191,759 | \$6,200 |
| New Jersey | 12 | \$4,400 | \$404 | 44,820 | \$1,200 |
| South Dakota | 38 | \$66 | \$5 | 1,511 ('01) | \$23 ('01) |
| TOTAL | 432 | \$26,500 | \$4,039 | 351,500 | \$10,950 |

Source: Various state gaming regulatory agencies and casino companies

Locations should be considered that maximize new spending and not simply shift the spending of Marylanders away from other goods and services. For this reason, consideration should be given to locations that will limit the impact of “reallocated” spending and the potential negative impacts on small businesses. **Strong consideration should be given to limiting expanded gaming to approximately 5 to 6 destination-style gaming locations dispersed regionally throughout the State.** These facilities should be located to be attractive and convenient to out-of-State gamblers as well as Marylanders who currently travel out-of-State to gamble.

To the extent possible, gaming facilities should be located outside of residential areas to avoid dramatically changing the character of those neighborhoods. In addition, consideration should be given to locating gaming facilities adjacent to major highways or thoroughfares to lessen traffic congestion and other potential negative impacts on communities, keep Maryland money in the State, attract out-of-State customers, and maximize the return to the State.

Based on the above concerns, if Maryland is to authorize video lottery gaming, strong consideration should be given to locating gaming facilities between Maryland's major population centers and the competing gaming facilities in nearby states in areas such as: the Interstate 95 corridor between Baltimore and the Delaware line, the Frederick region between West Virginia and Maryland's metropolitan areas, and on the Eastern Shore. In addition, to responsibly maximize State revenues, locations that impinge minimally on residential neighborhoods that could be located in the Washington, D.C. suburbs, central Maryland between Washington D.C. and Baltimore, or in the Baltimore metropolitan area could be considered.

To minimize construction costs, State owned properties should be identified that meet the criteria discussed above. This would further reduce capital construction expenses already lessened by the utilization of the Maryland Stadium Authority as a construction and financing tool.

- **Mitigate the Negative Social and Economic Impacts of Expanded Gaming Through Strong Consumer Protections**

The net economic impact of expanded gaming is complex because of the social costs that are unique to gaming. Testimony before the committee revealed that problem gaming already exists in Maryland and would likely increase with the introduction of video lottery terminal gaming, as several research studies have shown that slot machine gaming is more addictive than other types of gaming.

Problem and pathological gamblers may experience excessive rates of adverse consequences, which include family and personal health impacts, increased crime, employer losses, and increased government expenditures. Family impacts include increased rates of domestic violence, child neglect and abuse, and divorce. Health impacts include decreased mental and physical health as well as increased rates of suicide. Employer costs include lost productivity and work-time and increased unemployment-related costs. Government expenditures include direct gaming regulatory costs, social service costs, and gaming treatment costs. Other potential costs include increased rates of bankruptcy for gamblers and unpaid gaming debts.

If the General Assembly decides to move forward on expanded gaming legislation, it should recognize that the State has a duty to protect its citizens from the negative effects of the activities from which the State derives financial benefits. **Therefore, it is imperative that any expanded gaming legislation include funding for problem gaming treatment, research, and**

education initiatives, including funding for pre-incidence and post-incidence studies on the impacts of expanded gaming.

In addition, the committee was presented with several suggested operating restrictions that gaming facilities can utilize to mitigate the social costs of expanded gaming. These restrictions include limiting the availability of credit within the facility, limited operating hours, establishing loss limits and self-exclusion policies, free food and beverage restrictions, conspicuous posting of betting odds, the installation of responsible gaming software on the video lottery terminals, and employee counseling and treatment programs. **These concepts should be seriously considered in any proposed expanded gaming legislation.**

- **Limit Negative Community Impacts and Provide for Public Input**

Throughout the extensive public hearings conducted during the interim, the committee received testimony from local government officials and residents who were concerned with the potential impact of expanded gaming facilities in their neighborhoods. Several of the proposed locations in Senate Bill 322 were in established residential neighborhoods, such as those areas adjacent to Pimlico Race Course and Rosecroft Raceway.

Although these neighborhoods have become accustomed to having a race track facility as a neighbor, with the exception of Preakness day, none of the current racing facilities attract the number of visitors that a video lottery gaming facility would attract on a daily basis. A video lottery gaming facility with 3,500 terminals would be a dramatic change from the current level of gaming activity at racetracks. Because of the potential negative impacts such as increased traffic, noise, trash, and crime, the infrastructure needs related to equipping a residential area to handle a video lottery gaming facility are significant. It should be noted, however, that residents around the Pimlico racetrack area have differing views about the area itself and the racetrack's operations, but many of these individuals support video lottery gaming or some type of expanded gaming at the Pimlico location. Similar sentiments were expressed in other areas surrounding racetracks.

Because of the potential negative impact of locating large-scale video gaming facilities in residential communities, the facilities should be located, to the extent possible, in non-residential areas adjacent to major thoroughfares. This would confine the potential negative impacts of a large gaming facility, as well as allow for easier access than several of the locations identified for expanded gaming under Senate Bill 322.

In addition, the **jurisdictions in which video lottery gaming facilities are located should be compensated for any necessary infrastructure and facility improvements and negative environmental impacts as a result of the facilities.** Furthermore, some of the funds from gaming revenues should be targeted for economic and community development purposes in areas adjacent to gaming facilities. It remains unclear as to the levels of compensation that would be needed by affected jurisdictions and how infrastructure costs should be shared between the State and those jurisdictions.

Lastly, because of concerns raised by the State's citizens during the committee's public hearings, **some form of voter approval should be considered to ensure public input regarding the location of facilities.** This could include a constitutional amendment, or a provision in any gaming legislation that would require passage of a local ordinance in an affected jurisdiction. This ordinance could then be petitioned to local referendum.

Several other states have required some type of local approval before gaming facilities are authorized to operate in a particular jurisdiction. Additionally, local voters generally have had a say in any statewide approval that may be required for the establishment or expansion of gaming. For example, in Rhode Island, video lottery terminals are currently permitted at two pari-mutuel facilities in Newport and Lincoln Park. Under the state constitution, local voters must approve any expansion of video lottery terminals or other forms of gaming into a new municipality. Additionally, a constitutional amendment must be ratified by the voters in order for a casino to be allowed in that state.

In Iowa, which has slot machines at racetracks, approval is subject to local referendum. A constitutional amendment in Maryland could provide the public the additional guarantee of certainty as to the location of gaming facilities, the number of slot machines involved, and the assurance that expansion will not take place without additional public input. The last significant expansion of legalized gaming in Maryland, the State Lottery, was accomplished through a constitutional amendment approved by voters at referendum in 1972.

Options Related to Horse Racing Reform

History of Horse Racing in Maryland

Maryland has a long and storied horse racing tradition, dating back to colonial times. As early as 1721, there was organized racing around Annapolis, and in 1743 the Maryland Jockey Club became the first legally chartered sporting organization in America. Pimlico Race Course, the second-oldest track in the country, opened in 1870, and is the host of the Preakness Stakes, one of the races comprising racing's "Triple Crown." In 1911, Laurel Park opened, and by 1950, thirteen racetracks (including four standardbred tracks) were operating in Maryland. In 1962, Maryland established the first state bred fund program in the nation. In 1985, the first Maryland Million was run, establishing the first state stallion stakes day. Today, Maryland is home to two mile thoroughbred tracks, a 5/8 mile thoroughbred track at the State Fair, two standardbred tracks, and one steeplechase course. The former thoroughbred track in Bowie now operates exclusively as a training facility.

Economic Impact of the Horse Racing Industry in Maryland

In addition to racing's rich tradition, horse racing does play a significant role in the State's economy. According to the 2002 Maryland Equine Census, there are approximately 34,000 thoroughbred and standardbred racehorses in Maryland, and over 200,000 acres of land is used for equine purposes. A 1999 study completed by the University of Maryland estimated that the total economic impact for Maryland residents in the race horse industry and race tracks in the State was approximately \$600 million with the industry responsible for the creation of nearly 9,000 jobs. Other studies analyzing the economic impact of Maryland racing have reached varying conclusions because of differing methodologies, but it is generally agreed that the racing industry, including its breeding and training components, contributes an estimated \$600 million to \$1 billion to the State's economy.

The Current State of the Horse Racing Industry and the Need for Reform

Despite its rich history and economic impact, the horse racing industry in Maryland is in decline. The signs of the decline are readily apparent, from deteriorating racing facilities that lack customer-friendly amenities, to an aging fan base that is not being replaced, to long-standing industry disputes among owners, trainers, breeders, and track owners. The decline has been gradual, dating to the 1960s when racing nationally failed to take advantage of the tremendous surge of televised sports, as well as the expansion of legalized casino and lottery gaming in the 1970s. The continued growth of "instant gratification" gaming like slot machines has slowly diminished the percentage of the gaming dollar wagered on a sport as complex and time-consuming as horse racing.

Simulcasting Transforms the Industry

One change that has benefited the industry is the growth in the past fifteen years of full-card simulcasting. This has transformed the racing business, allowing fans to bet on races at virtually any track in the country. The simulcasting boom has been followed by other technological advances such as account wagering by telephone and the Internet that have made it convenient for racing fans to place bets from their own homes. Although this transformation has not necessarily brought new fans to the sport, it has allowed established fans to wager significantly more money in a shorter amount of time. Instead of waiting twenty minutes between races and being able to bet on only nine or ten races a day, simulcasting presents bettors the ability to place wagers on several races simultaneously throughout the day and night. So while this has led to consistent growth in the overall pari-mutuel handle nationally, it has also resulted in the decline of on-track attendance at virtually every racetrack in the country, including in Maryland.

Maryland's Decline Despite the Benefits of Simulcasting

The changes in the industry since the advent of simulcasting have produced startling results at Maryland's tracks. On most days, Maryland tracks function little differently than large off-track betting parlors, with empty grandstands and customers focused on races from across the country on television screens. For example, at Laurel and Pimlico, the percentage of total wagers placed at the tracks on live racing has declined from 49% in 1993 to just 15% in 2002. At Rosecroft, the results are even more dramatic, with live racing accounting for just 7% of bets placed at the track.

Despite the promise of growth simulcasting brought to the industry, Maryland's total wagering handle has dropped significantly since peaking in 1990. On-track attendance and the amount bet on live racing in Maryland continues to decline, and purses and bred funds have remained largely flat over the past decade. The facilities, particularly the State's mile thoroughbred tracks, are in abysmal condition, attracting fewer and fewer fans. Although the issues facing the industry are often discussed, no coordinated, comprehensive solution has been offered by the racing industry.

Video Lottery Terminals as a Short Term Fix in Neighboring States

In addition to simulcasting, the other major industry development in the past decade has been the growth of racetracks installing slot machines and utilizing a portion of the revenues to supplement racing purses. The higher purses attract larger, higher quality fields of horses, which has resulted in significantly increasing the total wagering handle, particularly in West Virginia and Delaware, whose racing industries were previously on the verge of bankruptcy. Despite a vastly improved racing product, however, attempts to cross-market horse racing to slot machine customers thus far have been unsuccessful and on-track wagering on live racing remains largely flat. So while the immediate short-term revenue shortage in some racing states has been solved with video lottery terminal backed purse subsidies, it has done little to solve the bigger problem of the dwindling base of customers that are interested in horse racing.

Racing's decline in Maryland has certainly been accelerated in the past 10 years by the dedication of video lottery terminal revenue to purses in neighboring states historically dwarfed by Maryland racing in terms of quality and prestige. But the problems plaguing Maryland's racing industry are complex and can't be resolved simply by inflating purses with slot machine revenue. Over the past 15 years, the General Assembly has provided significant financial and other benefits to the industry to assist it in remaining competitive, including the authorization of intertrack wagering, off-track betting, full-card out-of-State simulcasting, almost \$40 million in purse subsidies since 1997, authority to operate telephone account wagering, and a racing facility redevelopment program to provide funding for the renovation of the State's tracks.

Despite this past support, the industry has failed to cooperatively work together to grow its product, attract new fans, or utilize the tools provided by the General Assembly to renovate its deteriorating facilities. **Therefore, before any additional State assistance is provided to the horse racing industry, the issues currently affecting the industry should be addressed.**

- **Horse Racing Facilities Need to be Upgraded**

New Facilities Should Appropriately Reflect Today's Racing Environment

The State's current mile thoroughbred tracks, Pimlico and Laurel, are in poor physical condition, have substandard facilities to view and wager on races simulcast from out-of-State, and lack the necessary amenities to attract new fans or encourage established fans to return. The modernization of Maryland's current racing facilities is critical to the long-term ability of the sport to remain viable. Simply put, new racing fans will never be created in Maryland without modernized facilities.

Although the construction of first-class racing facilities is critical for the long-term survival of the industry, technological advances that make it easier for customers to wager on races from remote locations will prevent on-track attendance for live racing from reaching the levels achieved in decades past.

For these reasons, if racing facilities in Maryland are renovated or rebuilt, the facilities should reflect the current trends of the sport. For example, facilities as large as Pimlico, with its enormous grandstand and clubhouse, are no longer necessary in today's racing environment. Only a handful of elite tracks featuring premier racing during limited meets (such as Saratoga Race Course in New York and Keeneland Race Course in Kentucky) attract the number of fans on a daily basis to justify such large facilities. **Therefore, the grandstands of renovated or rebuilt facilities should be significantly smaller than at existing tracks, include substantial, comfortable areas for simulcast wagering, and provide for luxury box type amenities comparable to the facilities of other professional sports.**

At Least One State-of-the-Art Thoroughbred Racing Facility Should be Built

Representatives of Magna Entertainment Corporation indicated during the 2003 Session that transforming both Pimlico and Laurel into state-of-the-art racing and video lottery gaming facilities would cost approximately \$600 million.

As has been done with past State assistance provided to racetracks, any plan to provide assistance to redevelop racetrack facilities in Maryland through video lottery terminal revenue or other State funds should ensure that the Preakness Stakes remains at Pimlico Race Course, whether or not video lottery terminals are located at the property. Investments should be made to preserve and upgrade this historic facility so that it remains home to at least a limited race meet in the spring that features the Preakness Stakes.

In this era of simulcasting that the industry has entered, multiple state-of-the-art tracks located within 25 miles of each other are probably not necessary. A single “super-track” facility would satisfy the demands of the current market. Of the two existing mile thoroughbred tracks, Laurel Park would be the best location for constructing a state-of-the-art, modern “super-track” facility based on acreage, current business levels, and geographic location. In addition, should a “super-track” facility be constructed, the feasibility of featuring both thoroughbred and standardbred racing at the facility should be examined, similar to tracks in New Jersey and Ontario.

Furthermore, if the General Assembly determines that the State should assist the racetracks in the redevelopment of their racing facilities, strong consideration should be given to accountability and long-term maintenance measures as a part of any assistance program. Therefore, to the extent that the State subsidizes the construction or renovation of any racing facilities through video lottery revenues or other revenues, strong consideration should be given to having all racing facility upgrades managed by the Maryland Stadium Authority as a condition of any subsidy.

Another alternative to a costly rebuild of the two mile thoroughbred tracks would be a long discussed state-of-the-art track at a new location in the Baltimore metropolitan area. The idea of constructing a new racetrack in downtown Baltimore was raised at one of the Ways and Means interim hearings. For such a plan to be feasible, a number of significant issues would first need to be addressed. A partnership among the State, the City of Baltimore, the current owners of Pimlico Race Course, and the neighborhoods surrounding the Pimlico property would need to be developed to ensure the successful redevelopment of the property.

- **Additional Funding for Purses and Bred Funds Should Be Strongly Considered**

Significance of Purses and Bred Funds and the Impact of Video Lottery Terminals in Surrounding States

Purses, and to a lesser extent, bred funds, are the economic engines of the horse racing industry. Race quality depends on the purse money offered. Higher purses attract larger, better quality fields of race horses, which attracts more betting activity on the races. Increases in the

amount of money wagered means greater profits for the industry, and more money will be reinvested in purses, ultimately increasing the value of horses racing in Maryland. More valuable horses will lead to greater economic activity at the breeding level. Bred funds provide additional incentives to encourage people to breed and raise horses in Maryland, creating substantial economic activity for local businesses such as feed suppliers, veterinarians, blacksmiths, and equipment suppliers.

In recent years, Maryland’s thoroughbred racing industry has faced dramatically increased competition from neighboring states. Video lottery terminal revenues from Delaware and West Virginia race tracks have financed significant purse increases in those states, resulting in a higher-quality racing product and increased overall wagering handle. Five years ago, a Maryland commission that studied ways to improve the financial viability of the horse racing in the State described thoroughbred racing as having a three tier structure. “ Tier one” was described as New York, Kentucky, California, and Florida (Gulfstream Park). Historically, Maryland racing has been considered at the top of the “Tier two” racing states, but has fallen in recent years. Purse subsidies similar in amount to those provided under Senate Bill 322 would immediately return Maryland to the top of “Tier two”, and possibly challenge some of the “Tier one” states. **Exhibits 3 and 4** provide thoroughbred purse comparisons for racetracks in the Mid-Atlantic states and “Tier One” states.

Exhibit 3
2002 Thoroughbred Purse Comparisons - Mid-Atlantic Racetracks

| Mid-Atlantic Racetracks | Live Racing Days | Average Daily Purse Distribution |
|--------------------------------|-------------------------|---|
| Delaware Park, DE | 141 | \$291,204 |
| Pimlico, MD | 74 | \$232,033 |
| Colonial Downs, VA | 27 | \$197,331 |
| Laurel Park, MD | 144 | \$178,035 |
| Mountaineer Park, WV | 230 | \$166,383 |
| Philadelphia Park, PA | 216 | \$144,153 |
| Charles Town, WV | 254 | \$131,273 |
| Timonium, MD | 8 | \$124,271 |

Source: 2004 Thoroughbred Times Racing Almanac

Exhibit 4
2002 Thoroughbred Purse Comparisons – “Tier One” Racetracks

| “Tier One” Racetracks | Live Racing Days | Average Daily Purse Distribution |
|----------------------------------|-------------------------|---|
| Keeneland, KY | 33 | \$608,385 |
| Saratoga Race Course, NY | 37 | \$600,386 |
| Woodbine, Ont. | 166 | \$558,598 |
| Belmont Park, NY | 88 | \$546,520 |
| Del Mar, CA | 43 | \$470,444 |
| Santa Anita Park, CA | 111 | \$438,928 |
| Churchill Downs, KY | 82 | \$428,248 |
| Hollywood Park, FL | 100 | \$402,511 |
| Aqueduct, NY | 134 | \$367,404 |
| Gulfstream Park, FL | 90 | \$314,291 |

Source: 2004 Thoroughbred Times Racing Almanac

The changes have been significant on the standardbred side as well. Purses at Rosecroft were equivalent to 38% of the purses at Dover Downs in 1996. By 2002 the ratio had dropped to 27%. For Ocean Downs the purses were equivalent to 49% of the purses at Harrington Raceway. By 2002 the ratio had dropped to 13.5%. **Exhibit 5** provides standardbred purse comparisons for racetracks in Maryland and Delaware.

Exhibit 5
2002 Standardbred Purse Comparisons - Maryland and Delaware Racetracks

| Racetrack | Live Racing Days | Average Daily Purse Distribution |
|----------------------------------|-------------------------|---|
| Dover Downs, DE | 140 | \$163,710 |
| Harrington Raceway, DE | 90 | \$155,472 |
| Rosecroft Raceway, MD | 137 | \$44,255 |
| Ocean Downs, MD | 40 | \$20,989 |

Source: Various Industry Publications

The breeding industry in Maryland has also felt the effects of the decline of live racing in the State. Over the past 10 years, the number of stallions standing in Maryland has been cut in half, falling to 92 in 2002. The number of mares bred to Maryland stallions has fallen by approximately one-third over the same period of time. In addition, the numbers of foals by Maryland stallions, foals born in Maryland, and foals registered as Maryland-breds have fallen by a similar percentage. Although this decline began before neighboring states began to subsidize their racing industries with slot machine revenue, the problem has been exacerbated in recent years.

If expanded video lottery gaming is enacted, strong consideration should be given to dedicating revenues to assist the racing industry. In order for Maryland racing to regain its competitive edge in the region and retain its current number of live racing dates, the purse structure for thoroughbred and standardbred racing could be enhanced by approximately \$70 million. The bred funds of the thoroughbred and standardbred breeding industries could be subsidized by approximately \$10 million. The administrators of the bred funds should continue to examine innovative programs to benefit smaller owners and breeders such as the current thoroughbred program that provides bonuses to owners of Maryland breds that win their first race at a Maryland track. **Consideration should also be given to sharing the subsidies between the thoroughbred and standardbred industries according to the amount of live wagering handle generated by the respective industries during the previous calendar year.** If the General Assembly determines that an increase of this magnitude is appropriate, several corresponding changes should be made.

Strong Consideration Should Be Given to Reducing the Percentage of Purses Dedicated to Stakes Races

First, **strong consideration should be given to reducing the percentage of purses dedicated to thoroughbred stakes races.** Under current law, the amount of open purse money dedicated to stakes races is required to fall between 15% and 17%. **This percentage could be reduced to a range of 10%-12%.** This would allow the track to enhance its stakes race program to attract out-of-State talent for “event” type races, while significantly increasing the purses of the claiming and allowance races which comprise the majority of races contested and populated by Maryland-based horses, owners and trainers. The goal of any purse subsidy should be to create more “event” type days at the track in addition to the Preakness, while at the same time promoting live racing that benefits Maryland horsemen.

Strong Consideration Should Be Given to Establishing Accountability Measures

Second, **strong consideration should be given to including accountability measures as part of any increased purse subsidy to ensure that the enhancements result in the growth of the horse racing product.** Purse and bred fund subsidies should be reviewed regularly by the Maryland Racing Commission to evaluate the impact of additional State aid to the racing industry. The commission’s review should include: (1) performance measures such as increased wagering handle to determine whether the horse racing business in Maryland is growing; and (2) an evaluation of purse structures in Delaware, New Jersey, Pennsylvania,

Virginia, and West Virginia to ensure that Maryland retains a competitive balance with neighboring states in the Mid-Atlantic region.

If Maryland enacts video lottery gaming legislation, the Delaware and West Virginia markets for video lottery will be negatively impacted. The commitment of those states to its racing industry will likely lessen as a result in the form of either reduced purses, reduced racing days, or both. In addition, video lottery terminal revenues in Maryland could exceed the projections in which the percentage set aside for purses is initially based. **Therefore, if purse subsidies are provided as a percentage of video lottery revenues, consideration should be given to including protections (such as a dollar amount cap) to ensure that purses are not disproportionately higher than its competitors.**

In the event video lottery terminal proposals fail to pass in the legislature, other creative funding sources for purse and bred fund supplements should be considered. For example, revenue from a “horse racing” instant lottery game or keno revenue generated at racetracks could be dedicated to purse supplements.

- **Strong Consideration Should Be Given to Authorizing Thoroughbreds to Conduct Night Racing**

Historically, thoroughbred racing was conducted during the day and standardbred racing in the evening. This tradition was recognized in law by a statute passed in 1984 which provided that thoroughbred racing could not be conducted after 6:15 p.m., with limited exceptions. Two notable exceptions to this custom exist in the Mid-Atlantic region, Charles Town Races and Mountaineer Race Track in West Virginia.

Authorizing thoroughbreds to race at night would allow the industry to showcase its product at a time more convenient to the general public. Horse racing remains the only major sport in the United States that continues to be conducted on a regular basis on weekdays during the day. This is a major obstacle to attracting new fans to the sport’s declining fan base. Removing the restriction on nighttime thoroughbred racing would provide the thoroughbred industry the option of identifying certain seasons or certain nights of week when night racing could fuel a sizable boost in on-track attendance. **Therefore, strong consideration should be given to repealing the “6:15 rule” prohibiting night thoroughbred racing in Maryland. As part of any decision to repeal the “6:15 rule”, any changes made should be consistent with the federal Interstate Horse Racing Act.**

- **An Industry Developed Marketing Plan Should Be Considered**

The horse racing industry in Maryland is comprised of several segments, including track owners, as well as breeders, owners, and trainers from both the thoroughbred and standardbred industries. Although the interests of these groups sometimes conflict, everyone in the racing industry presumably shares the goal of improving horse racing in Maryland. The problems facing the industry have been well documented - sparse on-track attendance, deteriorating facilities, and an aging fan base.

On the national level, the National Thoroughbred Racing Association (NTRA) was created in 1998 to improve economic conditions for the industry by focusing on marketing and communications of a national racing “brand.” Although the NTRA has had mixed success on the national level, no coordinated marketing plans have been initiated at the State level to increase the visibility of the sport and attract new racing fans. Racetrack officials have discussed the need to create more “event” type days at the racetrack by broadening entertainment options to appeal to a younger demographic and making the complicated sport of horse racing and pari-mutuel wagering more accessible to new customers. Breeders and horsemen have discussed the need for increased student internship opportunities at breeding farms and the race track, as well as opening breeding and training farms for public tours. Other groups have urged the creation of a horse racing museum and park modeled after the highly successful Kentucky Horse Park in Lexington, Kentucky. However, these and other innovative marketing proposals should be discussed and vetted by all interested parties in a coordinated manner. The debate over video lottery gaming has overshadowed the need to successfully market horse racing as a sport that combines beauty, excitement, athleticism, and tradition.

Therefore, strong consideration should be given to requiring a marketing partnership among the various segments of the industry to be developed with the goal of producing a unified plan to revitalize the horse racing industry in Maryland. In addition, a governmental unit independent of the regulatory function performed by the Maryland Racing Commission could be involved in coordinating this plan and promoting the economic welfare of the racing industry in Maryland. Any purse, bred fund, capital construction, or other subsidy provided to any segment of the industry could be made contingent on the successful completion of such a plan.

- **State Regulation of Racing Through an Agency Dedicated Exclusively to the Regulation of Horse Racing Should Be Strongly Considered**

Currently, the Maryland Racing Commission within the Department of Labor, Licensing, and Regulation regulates racing and pari-mutuel betting in the State. State regulatory activity is aimed at protecting the health, safety, and welfare of those participating in and affected by the regulated industry. Regulation also protects the integrity of the sport and its participants. The commission helps ensure the sport’s integrity through the licensure of its participants and the disciplinary mechanisms in place to help ensure fairness and trust. As the racing industry is financed by the receipts from controlled legalized gaming, continued strong regulation is appropriate.

In addition, full-card simulcast wagering has created new regulatory procedures, increased complexity of the takeout structure, forced the industry to acquire new technologies, and heightened existing tensions between the State’s thoroughbred and standardbred industries.

The sport of horse racing is a complex enterprise and the commission’s regulatory functions are highly specialized. **Regardless of the outcome of the video lottery gaming debate in Maryland, strong consideration should be given to allowing the commission and its staff to remain dedicated exclusively to the regulation of horse racing.**

- **Additional Protection of the Preakness Stakes Should Be Considered**

The Preakness Stakes, run since 1870 at Pimlico Race Course in Baltimore City, is the centerpiece of Maryland racing, and is one of the premier racing events in the world. It attracts over 100,000 fans each year, generates millions of dollars of economic activity, and spotlights Maryland as one of the leading thoroughbred racing states in the country. The importance of the Preakness to Maryland racing cannot be overstated. For that reason, significant legislative attention has been given to ensuring, to the extent possible, that the Preakness remain in Maryland. Under current law, if the Preakness is transferred out of the State, the Maryland Racing is authorized to revoke the racing days awarded to the Maryland Jockey Club and award these racing days to another licensee. If the Preakness is offered for sale, current law provides that the State has the option to buy the Preakness for the amount of any offer that the licensee wishes to accept. The takeout of the mutual pools would be altered if the Preakness is transferred or sold and, most significantly, the State tax on betting would increase from 0.32% to 4.09%.

Because of the expanded gaming debate and the fact the new majority owner of the Preakness, Magna Entertainment Corporation, owns several other tracks across the country with facilities capable of hosting the Preakness, additional proposals were introduced during the 2003 Session to provide further assurance that the Preakness would not leave the State. As an alternative to further statutory protections, a guarantee that the Preakness remain in Baltimore could be tied contractually to any capital construction or purse subsidy provided to the owners of the Preakness.

Although obstacles to transferring or selling the Preakness do exist under current law, this issue should be revisited if the General Assembly decides to provide additional assistance to the racing industry.

- **An Upgraded Off-Track Betting Network Should Be Considered**

With the significant growth of simulcast betting, a successful off-track betting (OTB) network is one of the keys to the growth of the horse racing industry. OTBs provide opportunities for racing and betting to individuals who may never have been to a track for live racing. OTBs also provide additional revenues for the industry. In 2002, approximately \$65 million was bet at OTBs, a slight increase over 2001, with about \$200,000 in State tax revenues generated. There are currently four off-track betting (OTB) facilities operating in the State, including the Cracked Claw in Frederick County, the Northeast Racing Sports Club in Cecil County, the Cambridge Turf Club in Dorchester County. The fourth facility, located on the Potomac River in Colonial Beach, Virginia, closed due to damage resulting from Hurricane Isabel and has not yet reopened.

As the industry shift to simulcasting as the major source of revenue continues, the expansion and upgrade of Maryland's wagering network is an essential component of growing the horse racing industry in Maryland. Historically, Maryland's OTB facilities have been in poor condition and lacked the customer amenities required by statute. The Cambridge Turf Club, which opened in April 2003, and the Northeast Racing Sports Club each include

comfortable betting areas, large screen televisions, and other “sports palace” type amenities anticipated by the General Assembly when the OTB authorizing legislation was initially passed. **These facilities should serve as a model for the renovation and expansion of the State’s OTB network.**

- **Reduction of the “Take-out” to Pre-Bond Fund Levels Should Be Strongly Considered**

In 2000, the General Assembly established the Racing Facility Redevelopment Program to assist horse racing facilities with capital improvements. The assistance was to be provided through a revenue bond fund, funded mostly through increased take-outs from bettors and uncashed winning tickets. In 2002, a portion of the money accumulated in the fund was dispersed for purses, and last year further revenues were removed and deposited in the General Fund as part of the Budget Reconciliation and Financing Act of 2003. **Since no bonds have been issued to finance capital improvements, strong consideration should be given to reducing the take-out percentage to the level prior to enactment of the redevelopment program.** This change will return additional money to bettors and hopefully stimulate wagering among established racing fans.