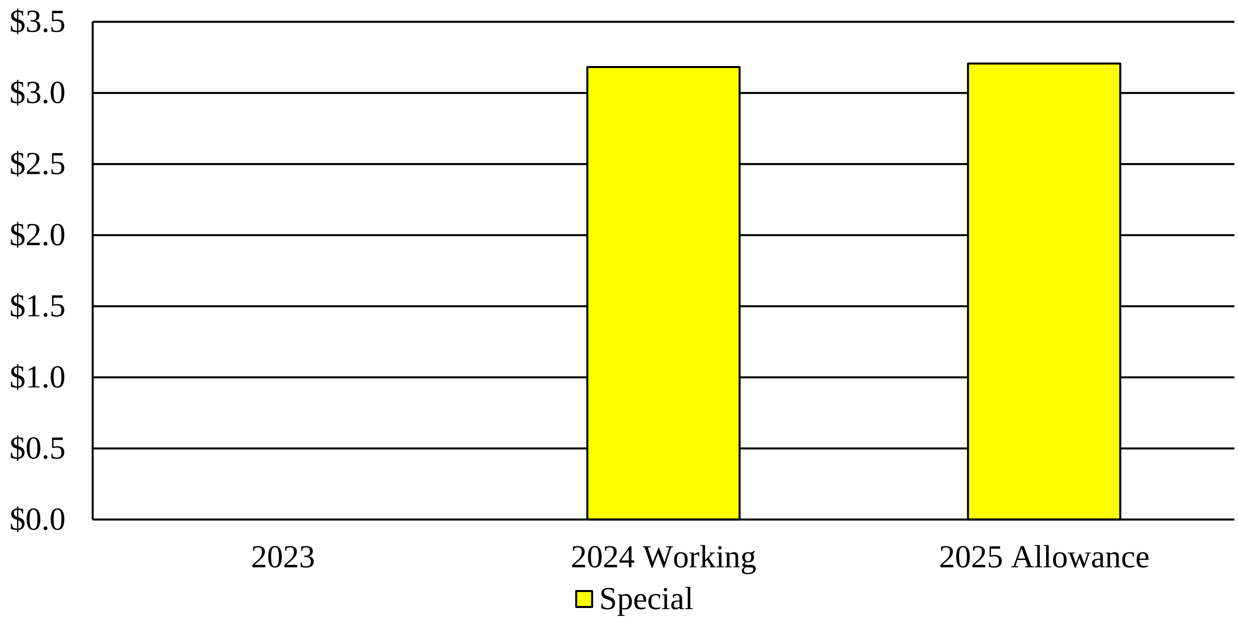
D29
Maryland Thoroughbred Racetrack Operating Authority

Program Description

Chapter 111 of 2023 created the Maryland Thoroughbred Racetrack Operating Authority (MTROA), which is composed of appointees of the Governor and legislative leaders and representatives of horse industry organizations; the Maryland Stadium Authority (MSA); the Maryland Economic Development Corporation; and areas surrounding Pimlico, Laurel Park, and the Bowie Race Course Training Center. MTROA is required to (1) report on the feasibility of establishing two alternative thoroughbred training facilities; (2) review best practices for thoroughbred racing industry operating models with recommendations for operating racing; and (3) report on the progress of Pimlico and Laurel Park racing facility redevelopment plans. The authority may employ an independent firm to operate and manage live horse racing in Maryland.

Operating Budget Summary

Fiscal 2025 Budget Increases by $25,000, or 0.8%, to $3.21 Million
($ in Millions)



Note: The fiscal 2024 impacts of statewide salary adjustments appear in the Statewide Account in the Department of Budget and Management (DBM), and adjustments are not reflected in this agency's budget. The fiscal 2025 impacts of the fiscal 2024 statewide salary adjustments appear in this agency's budget. The fiscal 2025 statewide salary adjustments are centrally budgeted in DBM and are not included in this agency's budget.

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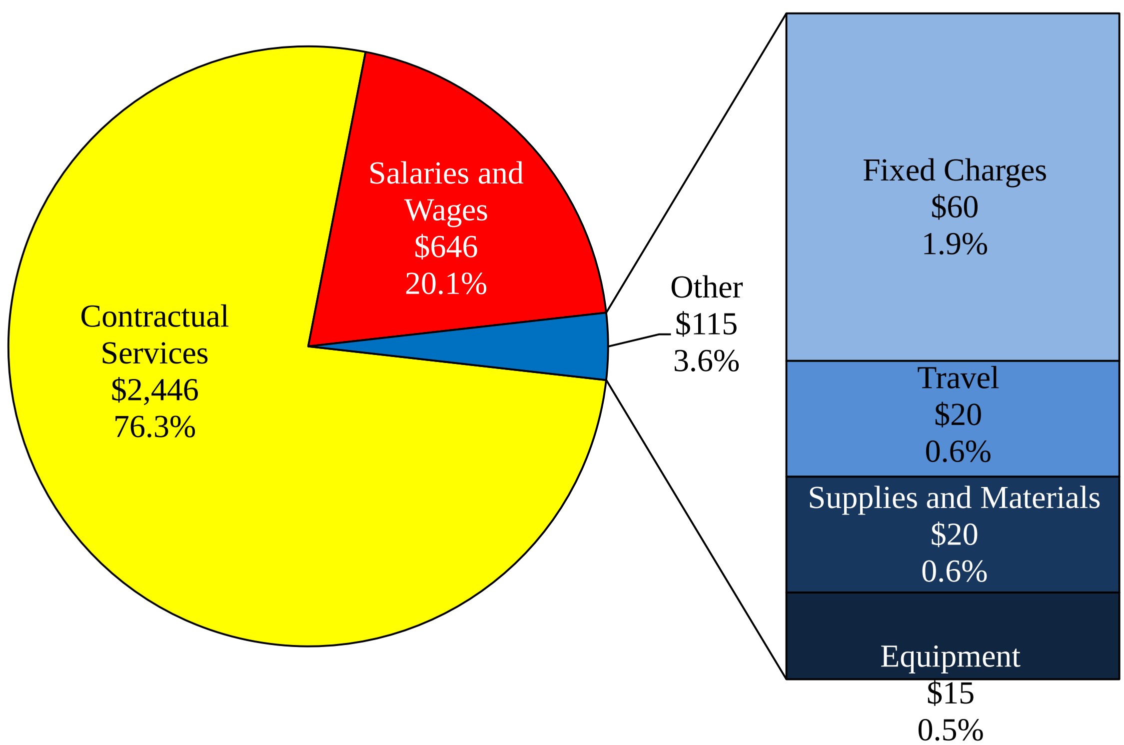
Fiscal 2025 Overview of Agency Spending

Exhibit 1 shows that 76% of MTROA's budget supports contracts and 20% supports positions. Large contracts in fiscal 2024 are with Populous for the *Maryland Thoroughbred Racetrack Operating Authority: Racing & Training Center Development Report* and Crossroads Consulting for its *Review and Analysis of Thoroughbred Racing Operating Models*. Much of the information provided by the authority in its January 2024 report to the Senate Budget and Taxation, House Appropriations, and House Ways and Means Committees was from these reports.

Exhibit 1
Overview of Agency Spending
Fiscal 2025 Allowance
($ in Thousands)



Source: Department of Budget and Management

Proposed Budget Change

The fiscal 2025 budget increases by approximately $25,000 (0.8%) over the fiscal 2024 working appropriation. Budget policy is to have a 25% turnover rate with new positions. Since all MTROA positions were new in fiscal 2024, the turnover rate was 25%. **Exhibit 2** shows that the largest increase, totaling approximately $60,000, is to reduce the turnover rate to 18.9%.

Exhibit 2
Proposed Budget
Maryland Thoroughbred Racetrack Operating Authority
($ in Thousands)

How Much It Grows:	Special Fund	Total
Fiscal 2023 Actual	$0	$0
Fiscal 2024 Working Appropriation	3,182	3,182
Fiscal 2025 Allowance	3,207	3,207
Fiscal 2024-2025 Amount Change	$25	$25
Fiscal 2024-2025 Percent Change	0.8%	0.8%

Where It Goes:	Change
Personnel Expenses	
Increments and other compensation	$9
Increased pension contribution rate	2
Turnover expectancy reduced from 25% to 18.9%	60
Other fringe benefit adjustments	0
Other Changes	
Budget system allocation	12
Information technology services allocation	2
Contracts	-60
Total	**$25**

Note: Numbers may not sum to total due to rounding. The fiscal 2024 impacts of statewide salary adjustments appear in the Statewide Account in the Department of Budget and Management (DBM), and adjustments are not reflected in this agency's budget. The fiscal 2025 impacts of the fiscal 2024 statewide salary adjustments appear in this agency's budget. The fiscal 2025 statewide salary adjustments are centrally budgeted in DBM and are not included in this agency's budget.

Personnel Data

	FY 23 Actual	FY 24 Working	FY 25 Allowance	FY 24-25 Change
Regular Positions	0.00	6.00	6.00	0.00
Contractual FTEs	0.00	0.00	0.00	0.00
Total Personnel	**0.00**	**6.00**	**6.00**	**0.00**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	1.13	18.91%
Positions and Percentage Vacant as of 12/31/23	5.00	83.33%
Vacancies Above Turnover	4.87	64.42%

- The executive director joined MTROA in fall 2023. The priority is to hire an executive associate in January 2024 and a fiscal administrator in late winter 2024.

- MTROA advises that there is not sufficient workload for a deputy director at this time but expects to hire a deputy director when the workload picks up.

- Due to the high vacancy rates, MTROA will not need the full salary appropriations.

Key Observations

1. Chapter 111 of 2023 Creates the Maryland Thoroughbred Racetrack Operating Authority

The Racing and Community Development Act (RCDA), Chapter 590 of 2020, authorizes MSA to issue up to $375 million in bonds for financing planning, design, construction, and related expenses for racing facilities at Pimlico and Laurel Park. The bonds support improvements to both facilities, including the clubhouse, racetracks, stables and barns, and associated roads and walkways. The Pimlico site will be conveyed to Baltimore City, the Baltimore Development Corporation, or a designated entity. Chapter 590 requires that a minimum of $180 million support Pimlico and $155 million support Laurel Park.

When Chapter 590 was enacted, the expectation was that Laurel Park construction would be done first, after which Pimlico would be renovated. The plan expected Laurel Park's construction to be completed so that racing at Laurel Park could begin in February 2022. As of April 2023, construction had not yet begun at Laurel Park, and it was unclear at that time when and if construction would begin. Since Chapter 590 was enacted, additional demands subsequently increased costs, and higher interest rates reduced the value of the State subsidy so that deficiencies as high as $350 million were projected.

MTROA was created to recommend a path forward for thoroughbred racing venues. Chapter 111 authorizes MTROA to:

- study and make any recommendations that the authority finds are in the best interests of thoroughbred racing in the State;
- develop new and existing horse racing and training facilities in the State, in coordination with other State entities;
- take specified actions, but only in accordance with an executive order or a determination of the Maryland Racing Commission, and subject to specified review and comment that a thoroughbred racing licensee – for any reason other than weather, an act of God, or other circumstances beyond the control of the licensee – is unable to support the minimum number of live racing days;
- enter into any agreements, leases, partnerships, or contracts necessary to support and sustain Maryland thoroughbred racing and pari-mutuel wagering activity and ensure compliance with Maryland Racing Commission rules and regulations;
- authorize or create a separate body, entity, or holding company to carry out any provisions of the statute;

- adopt regulations to carry out the provisions of the statute; and

- make any other recommendations the authority deems necessary.

MTROA's board consists of 11 members and was appointed in June 2023. The board has met regularly since August 2023. MTROA's funding is more complicated than most agencies. Chapter 111 created the Maryland Racing Operations Fund (MROF) to "assist the Authority in financing the acquisition, construction, rehabilitation, or other capital expenses or operating expenses for thoroughbred racetracks in the State." MROF receives funds from the Racing and Community Development Facilities Fund.

To fund fiscal 2024 MTROA operations, a budget amendment transferred $3.2 million from the Racing and Community Development Financing Fund. This fund has received $17 million annually since fiscal 2022 to support debt service costs. To date, no bonds have been issued, so there are funds available to support operations. The source of the financing fund's special fund appropriation is lottery revenues. Appropriations to the financing fund is one of multiple claims on lottery revenues. Lottery revenues that are not required to be appropriated for specific purposes are deposited into the General Fund.

2. Authority Recommends Pimlico Plus Racing Model

Chapter 111 required that MTROA report to the Senate Budget and Taxation, the House Appropriations, and the House Ways and Means Committees on its recommendations for the future of horse racing in Maryland. Its report was submitted in January 2024.

MTROA Advises That RCDA Plans Are Not Feasible

One key hurdle is the cost of renovating two facilities. MSA analyzed six scenarios, and each scenario substantially exceeded available project funding. There are also federal tax consequences associated with public investments made to privately owned facilities. This issue was discussed when Chapter 590 was being considered, but it appears that these consequences were not fully appreciated at the time.

MTROA Recommends the Pimlico Plus Plan

The authority recommends that racing be consolidated at Pimlico in Baltimore City, referred to as the Pimlico Plus plan, thus declaring that the two-track renovation is not feasible. This would also require the purchase of a training facility. Pimlico's proposed features include new 1-mile dirt and 7/8-mile turf tracks and synthetic-ready base and drainage infrastructure. Capacity for the Preakness Stakes is 70,000 visitors. MTROA proposes 140 to 160 racing days annually. Facilities should be sufficiently sized to support 650 horses. MTROA does not expect that expanding Pimlico will require any additional State or local infrastructure costs for roads.

Total construction costs for the proposed Pimlico Plus plan are between $388 million and $399 million. These costs do not include the cost of purchasing the sites. MTROA advises that the owners of Pimlico, 1/ST/The Stronach Group, would transfer Pimlico to a public entity at no cost. The report notes that 1/ST/The Stronach Group would charge a licensing fee for the Preakness and Black-Eyed Susan races but does not identify the amount of the expected fee. The authority notes that the earliest this fee would be paid is calendar 2027. With respect to the training facility, the State will need to purchase land, but the report does not provide cost estimates.

MTROA's Report Recommends Public Ownership of Tracks Leased to a Nonprofit Operator

The report notes that privately owned and operated horseracing facilities may not be economically viable in Maryland. Horsemen and breeders have raised "valid concerns about the sustainability of Maryland racing operations in a for-profit ownership model." Similarly, "1/ST/The Stronach Group indicated in a response to questions that it will not undertake private capital investments in its physical holdings without a corresponding return on investment." The lack of investment suggests that track owners do not estimate economically feasible returns.

MTROA's report concluded that, given the level of State investment required to rehabilitate and sustain the industry, a public ownership structure for the tracks and subsequent lease of them to a nonprofit entity led by Maryland industry professionals is the best path forward. This is similar to the model used in New York, which has three racetracks owned by the New York Racing Authority, Inc. (NYRA). The Belmont Stakes, the third Triple Crown race, is a NYRA facility. In addition, Del Mar in California, which occasionally hosts the Breeders Cup, is owned by the State of California.

The Department of Legislative Services (DLS) notes that $155 million in bond authorizations support the renovation of Laurel Park. These funds will not be needed under the Pimlico Plus proposal. Legislation will be needed to amend what facilities the funds can support. The Pimlico Plus proposal may also require amendments to other provisions of Chapter 590 as well.

MTROA should be prepared to discuss the proposed Pimlico Plus and the next steps, including the benefits of a model that has public ownership of tracks that are leased to a nonprofit operator.

Issues to Consider

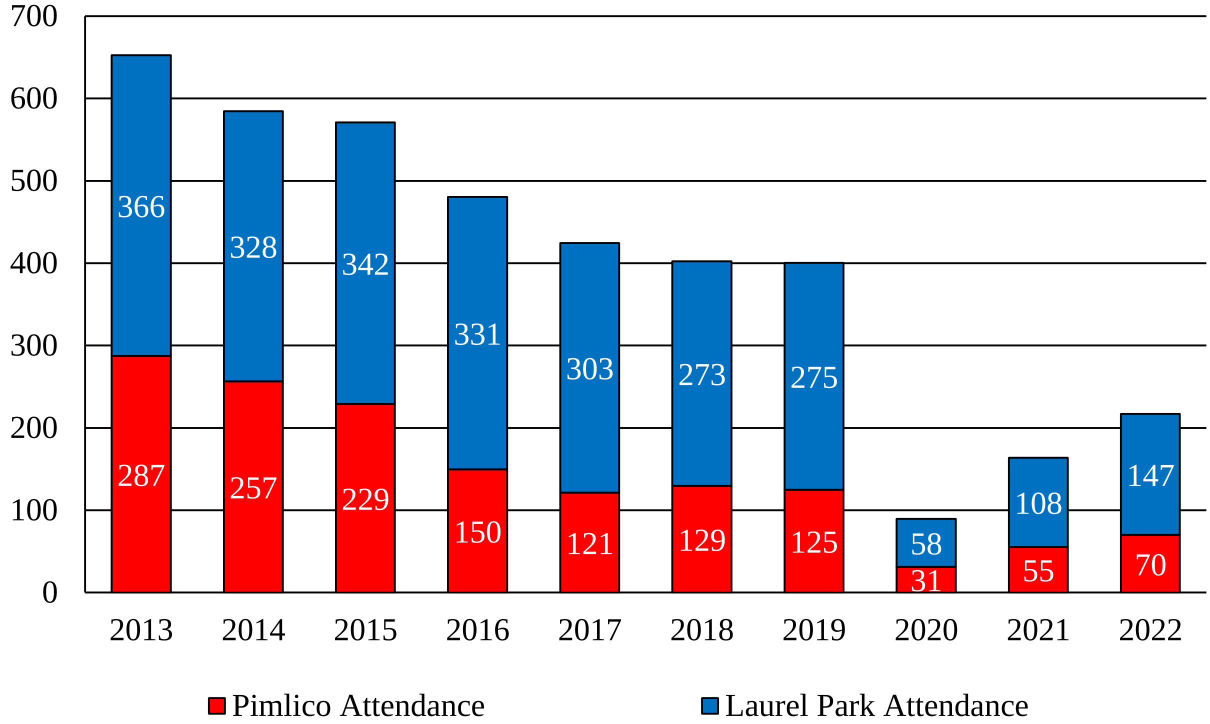
There are several issues to consider when contemplating the recommendations contained in MTROA's report, as follows:

- ***Estimating Capital Spending Is Difficult:*** The 2020 RCDA authorized up to $375 million to renovate both Pimlico and Laurel Park. By calendar 2022, revised estimates were $160 million to $350 million over budget, even though the project had approximately $50 million in additional debt service appropriations that could be repurposed as pay-as-you-go capital appropriations that were available because the bonds were not issued. Although higher interest rates contributed to the shortfall, additional demands and changes in scope contribute to the higher cost estimate. The Pimlico Plus plan cost estimates range from $388 million to $399 million. Until the scope of the overall plan is clearly defined and the design is substantially complete, cost estimates can still change.

- ***Getting Best Value for Purchasing a Training Facility and Housing:*** MTROA is exempt from State procurement laws, so it can adopt its own procurement policies. This gives the authority the ability to tailor its policies to fit its specific procurement needs. A key State procurement policy goal is to maximize value for the State. The authority's consultant, Populous, has already scored eight properties, and this data can be used to evaluate the bids. Housing is also a concern for the horse racing workforce. The extent of this problem under the current for-profit model is unclear. The General Assembly has recognized this and authorized funds for housing. All the proposed training site construction costs include dormitories with 150 rooms. Addressing concerns of low-wage workers under the Pimlico Plus model will likely add to State costs.

- ***Concerns About a Declining Customer Base:*** Attendance at racetracks is in long-term decline. **Exhibit 3** shows that attendance at Pimlico and Laurel Park declined from approximately 653,000 in calendar 2013 to 217,000 in calendar 2023, a 12% annual decrease. Declines were realized even before the COVID-19 pandemic, as attendance declined to 400,000 in calendar 2019, which is 39% less than in 2013. Attendance may be affected by the racetracks' conditions. The MTROA report addresses how attendance can improve. **The authority should be prepared to brief the committees on how facility and ownership structure can improve attendance.**

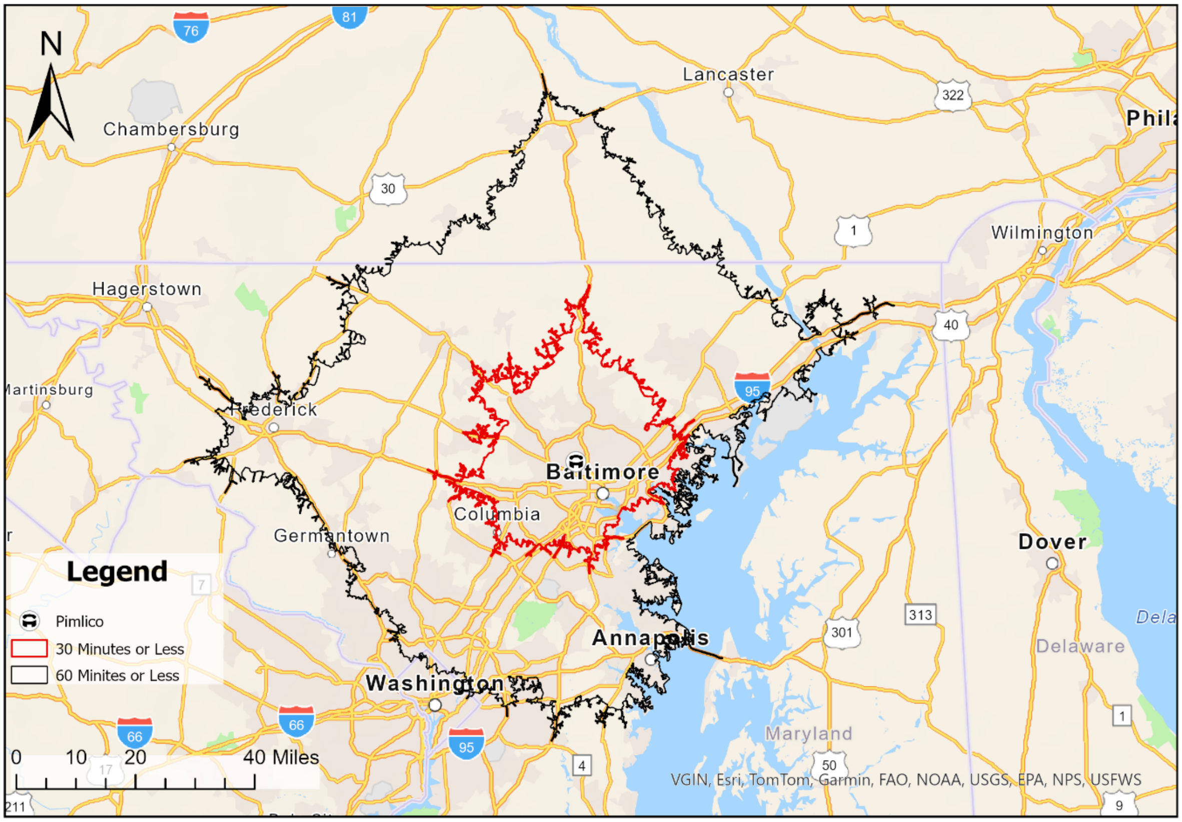
Exhibit 3
Pimlico and Laurel Park Attendance
Calendar 2013-2022
(in Thousands)



Source: Review and Analysis of Thoroughbred Racing Operating Models, Crossroads Consulting Services, LLC, January 2024

- ***Size of the Market for Expanded Horse Racing at Pimlico:*** Using 2020 U.S. Census Bureau data, DLS calculated how many people live within 30- and 60-minute drive times of Pimlico; approximately 1.4 million people live within 30 minutes and 4.4 million people live within 60 minutes of Pimlico. **Exhibit 4** shows the areas that are within 30 minutes and 60 minutes of Pimlico. If Pimlico increases the number of racing days to 160 days, the track will need to find ways to attract people to the track on a regular basis.

Exhibit 4
Average Drive Times to Pimlico Race Course



Source: Esri ArcGIS Online: Department of Legislative Services

- ***Effect of Expanding Gambling on Horseracing:*** Legalized gambling has expanded tremendously in recent years. Casinos and sports betting give individuals that want to gamble more legal opportunities to do so and may reduce wagering at racetracks.

- ***What Will Operations Look Like and to What Extent Will the State Need to Subsidize Operations:*** The proposed Pimlico Plus construction estimates are in the range of $400 million. Expectations with this proposal are that the Stronach Group is paid licensing fees for the Preakness and the Black-Eyed Susan, and a nonprofit entity will operate and maintain facilities whose goal is to be "best-in-class." In this proposed model, the State could be a spending backstop. **MTROA should be prepared to brief the committees on how Pimlico Plus will improve accountability and encourage stable operations.**

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Appendix 1
Object/Fund Difference Report
Maryland Thoroughbred Racetrack Operating Authority

Object/Fund	FY 23 Actual	FY 24 Working Appropriation	FY 25 Allowance	FY 24 - FY 25 Amount Change	Percent Change
Positions					
01 Regular	0.00	6.00	6.00	0.00	0%
Total Positions	**0.00**	**6.00**	**6.00**	**0.00**	**0%**
Objects					
01 Salaries and Wages	$ 0	$ 575,686	$ 646,101	$ 70,415	12.2%
04 Travel	0	20,000	20,000	0	0%
08 Contractual Services	0	2,491,729	2,446,342	-45,387	-1.8%
09 Supplies and Materials	0	20,000	20,000	0	0%
11 Equipment – Additional	0	15,000	15,000	0	0%
13 Fixed Charges	0	60,000	60,000	0	0%
Total Objects	**$ 0**	**$ 3,182,415**	**$ 3,207,443**	**$ 25,028**	**0.8%**
Funds					
03 Special Fund	$ 0	$ 3,182,415	$ 3,207,443	$ 25,028	0.8%
Total Funds	**$ 0**	**$ 3,182,415**	**$ 3,207,443**	**$ 25,028**	**0.8%**

Note: The fiscal 2024 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. The fiscal 2025 allowance does not include contingent reductions or cost-of-living adjustments.