STATE OF MARYLAND
DLLR
DEPARTMENT OF LABOR, LICENSING AND REGULATION

MARYLAND RACING COMMISSION
300 East Towsontown Blvd.
Towson, MD 21286

December 31, 2014

TO: Maryland General Assembly

FROM: Maryland Racing Commission

The legislation which implemented Video Lottery Terminal (VLT) support to the racing industry requires a report to the General Assembly by December 2014. The legislation states: "On or before December 1, 2014, the State Racing Commission shall: (1) Conduct a study to determine the impact of the Purse Dedication Account on the racing industry in the State and (2) make recommendations to the General Assembly regarding the continuation of the Purse Dedication Account and the amount of money distributed to the Purse Dedication Account.

This report is respectfully submitted as required by the legislation and will describe the current uses and successes of the VLT Program, will provide recommendations regarding its future and will relate the vital need for continuation of the program.

It will show that the funds received thus far have been utilized to revive an industry that was in decline and on the brink of disaster.

Furthermore, the report will demonstrate the vital role of the VLT Program, not only for the horse racing industry, but for the economic benefit of all Marylanders.

This report will show that the Investment in Racing is an Investment in Maryland.

There are 2 very basic facts:

1) The VLT Program has literally "saved" Maryland racing, and...

2) In turn, the Maryland horse industry provides extensive economic and environmental benefits to the State.

The Maryland Racing Commission unilaterally solicits your continued support of the program and discusses the actions that will optimize the VLT investment for the future of our great industry.

Bruce F. Quade
Chairman

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MARYLAND RACING COMMISSION

REPORT TO THE MARYLAND GENERAL ASSEMBLY

January 1, 2015

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Executive Summary

The horse racing industry throughout the United States has undergone a dramatic change since the proliferation of alternative gambling options. In Maryland, horseracing was the only form of legalized gambling until 1973 when the lottery was initiated. Since then, numerous other forms of legalized gambling have been introduced. There is widespread competition for the gambling dollar within the State. Because of the evolution, and proliferation of gambling opportunities both here and in our surrounding states and the fact that Maryland was a late entry into legalizing Video Lottery Terminals (VLTs), our State and the horse racing industry suffered greatly. Since there is virtually no end to competition for the gambling dollar, the horse industry has had to develop a new economic model in order to remain competitive. Video Lottery Terminal support is vital to this model.

In the decade prior to the initiation of the VLT Program, Maryland lost nearly 80 percent of its stallions, mares and foals. No industry can afford to lose that much of its inventory and remain viable. Maryland racing went from third or fourth behind Kentucky, Florida and California to fifteenth or sixteenth behind places like Idaho and Indiana. It looked like a sad ending to a rich story of Maryland racing history and heritage.

However, in 2010, Maryland racing began to receive VLT monies to supplement revenue generated within the industry and there was hope. The effect on the Maryland horse industry has been and is profoundly positive. In the short time VLT revenue has been invested in the industry, a remarkable revitalization has occurred. VLT revenue has allowed for increased purses for owners and trainers, provided the financial stability for the race tracks to refurbish and repair their aging facilities and established a firm base for the breeders to develop and expand their programs.

The industry is making huge strides on its road to recovery as will be demonstrated in the report.

The report will also show that the investment in horse racing has an enormous economic effect in Maryland, an effect that has been valued at $1.6 billion and accounts for over 28,000 jobs.

The combination of the benefits to so many people and so many industries directly involved with racing, coupled with the sound economic benefits that accrue to the State, illustrates the vital role that VLT revenues play in supporting horse racing. It is the strong opinion of the Maryland Racing Commission that the VLT support has already greatly enhanced and assisted horseracing and that its continued support benefits not only the horse industry but the entire State. The details of these turnarounds will be explained and illustrated in the report, but the crucial and compelling fact is VLT support to the horse industry must be maintained. The report will demonstrate how the VLT support to date has literally turned around the Maryland horse racing and breeding industries, and will illustrate the importance of continued support at the level provided for in the present law.

The Commissioners believe that after reviewing this Report, the General Assembly will concur with our view that the investment of VLT revenue in horse racing has been wise, and that to recognize its full benefits, funding must continue at the prescribed level. We respectfully solicit your support.

Background

The Maryland VLT statute, as amended, allows for six VLT facilities located in Alleghany, Anne Arundel, Cecil, Prince Georges and Worcester Counties along with Baltimore City. The racing industry began receiving 7.0 percent of the VLT commissions earned by the five operating facilities for purses and breeders and 2.5 percent for capital improvements and operations at race tracks.[1] Upon opening of the Baltimore City location the funds received for capital improvements was reduced from 2.5 percent to 1.0 percent.

The VLT Program benefits all aspect of horse racing. The Program is segregated into the following sub-programs:

- **Purse Dedication Account** – which provides funding to thoroughbred and standardbred purses and breeder funds
- **Race Track and Facility Renewal Account** – which provides funding for capital improvements at Laurel, Pimlico, Timonium, Ocean Downs and Rosecroft race tracks
- **Grants for the benefit of the following municipalities:**
    - Alleghany County
    - Anne Arundel County
    - Baltimore City
    - Cecil County
    - Worcester County
    - City of Berlin
    - Ocean City
    - Ocean Pines Community

In establishing the Video Lottery Terminal (VLT) program in Maryland, the General Assembly provided for 7% of proceeds from video lottery terminals at each video lottery facility to go to a Purse Dedication Account (PDA), under the authority of the State Racing Commission. The Commission was directed to allocate 80% of the funds in the PDA to the Thoroughbred industry and 20% to the Standardbred industry. Of those amounts, 89% goes directly to purses and 11% to the respective Bred Race Funds.[2] The horse racing industry was projected to receive a maximum of $100 million in annual assistance for purses and bred funds. However, currently the industry is only receiving $40 million.

[1] Upon the opening of the facility located in Prince Georges County the horse racing industry percentages will be reduced from 7.0 percent to 6.0 percent.

[2] The original 2007 legislation divided the PDA money into 85% and 15% shares to the purses and Funds; this was amended to the present level in 2009.

Role of VLT Programs in the Horse Racing Industry

Historically, the main source of revenue in horse racing is generated by the public wagering on racing. Approximately 80 percent of the amount wagered is returned to the public in the form of winnings. The remaining 20 percent is allocated among the race track for operating expenses, the horsemen for payment of purses, the breeders for breeder/owner/stallion awards along with an allocation to the State. Wagering on races and the purses paid on those races has long been the cornerstone of the economic model of horseracing. Increased purses attract more horses, which in turn increases wagering resulting in increased revenue earned to the racing industry. Because of the proliferation and effect of other types of gambling on its product, there has been a continued and detrimental effect to the horseracing industry.

Because of the changing landscape of wagering, VLT support to purses has become a nationwide solution to revitalizing horse racing across the United States. Legislators across the country have evaluated the positive attributes and implemented the appropriate legislation to ensure the continued support and growth of horse racing in their respective states. Simply put, VLT revenue is now a part of the fabric of the U.S. horse racing industry.

The new economic model for Maryland incorporates the best of the successful models of other jurisdictions — an economic approach that relies on three aspects; live wagering, sale of the Maryland signal (simulcasting) to jurisdictions across the U.S. and continued VLT support, versus the historic approach of live wagering only at tracks. The VLT Program is the catalyst and provides for higher purses; higher purses attract more and better quality horses to the races; more and better quality horses provide for more wagering opportunities both at the tracks in Maryland and a better product to export (sell) to other jurisdictions… all of which equates to more revenue generated to support the Maryland horse industry.

Although Maryland was late to the VLT game, the current benefit to the State has been profound. The VLT revenue has revitalized the breeding industry in the State, thereby securing and ensuring the supply of horses that is crucial to racing's success. Wagering is increasing (albeit incrementally), which benefits all members of the industry; the track, the horsemen and the breeders. The Race Track and Facility Renewal Account (RFRA) program has and will continue to provide for not only remedial improvements to the tracks, but also significant capital improvements to the facilities.

It is only through the continued support of Maryland's governor, leadership and members of the legislative houses that the Maryland horse industry will continue to grow and be able to provide the $1.6 billion economic engine and more than 28,000 jobs to Marylanders. The Maryland Racing Commission recognizes the significant benefits of the VLT Program and respectfully requests that the VLT Program continue under its current structure.

Analysis

In preparing this Report, the Commission has looked at the impact of the VLT revenue, including both the PDA and RFRA on horse racing itself, on the horse breeding operations in the State, and on the general economy of the State.

Impact on Horse Racing

1. Purses

The infusion of VLT revenue to the Purse Dedication Account has changed the entire landscape of Maryland Racing. As illustrated in the below table, the Purse Dedication Account has grown significantly since the first VLT facility became operational in 2010.

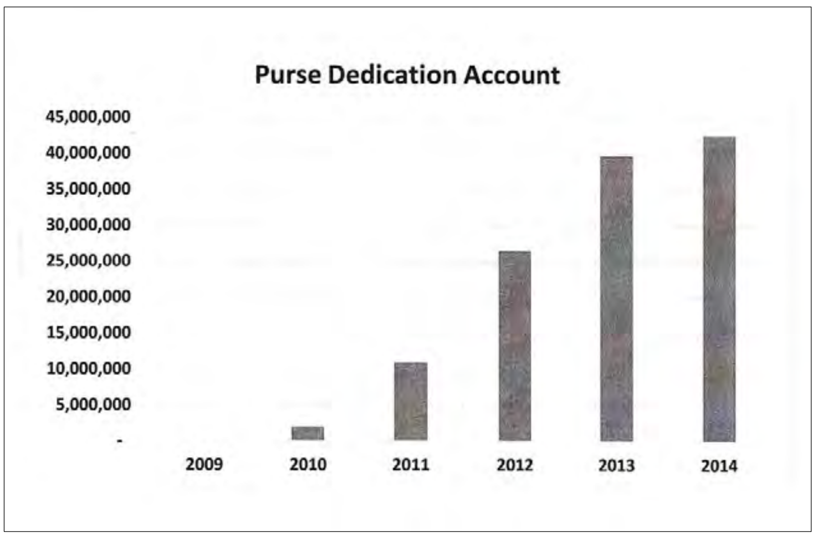

Figure 1 - Purse Dedication Account History

As a result of the VLT revenue, Thoroughbred Purses, which include monies from mutuel wagering in addition to PDA funds, have grown as well, which is illustrated by the below chart.[3]

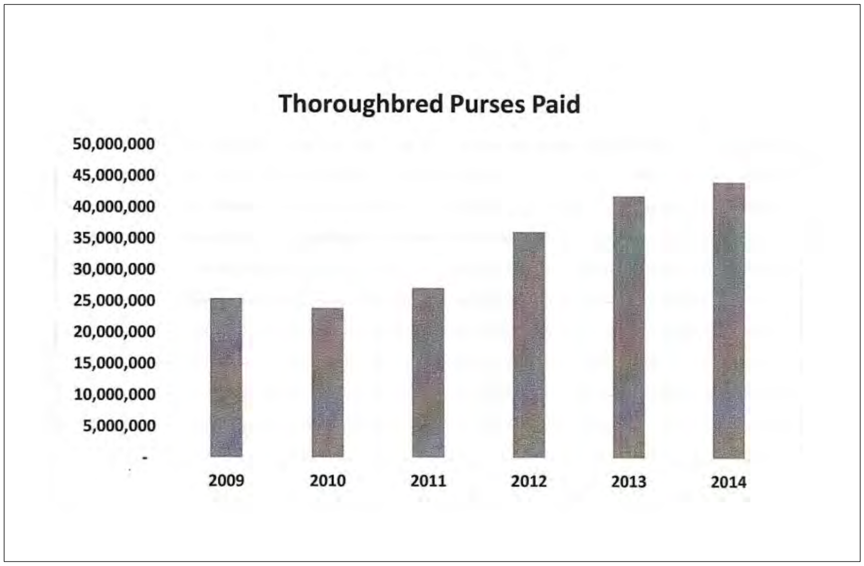

Figure 2 - History of Thoroughbred Purses Paid

Standardbred purses have seen the same significant rise, illustrated by the below chart.

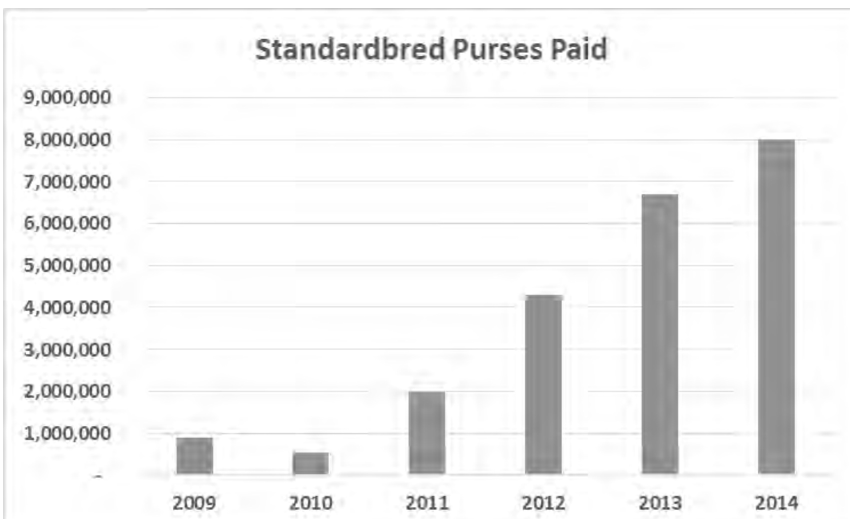

Figure 3 - History of Standardbred Purses Paid

[3] For Figures 2 and 3, purses consist of percentages from mutuel pools and PDA.

2. Horses

Larger purses attract more and better horses. According to the Sunset Review of the Maryland Racing Commission (December 2013), between the years 2011 and 2012, "larger purses in Maryland have caused the average field per race (the average number of horses that run in a race) to increase from 7.6 to 7.9, while the average field per race in Delaware and West Virginia decreased from 7.6 to 6.9 and 8.4 to 8.1, respectively." Pg. 19. During this same time period, "the average number of thoroughbred horses that race per day also increased from 69.9 in calendar 2011 to 73.7 in calendar 2012, a 5.4% increase. Similarly, the total number of thoroughbred races that were run in the State increased 3.7% during the same time period." *Id.* The below chart from the Sunset Review illustrates these trends.

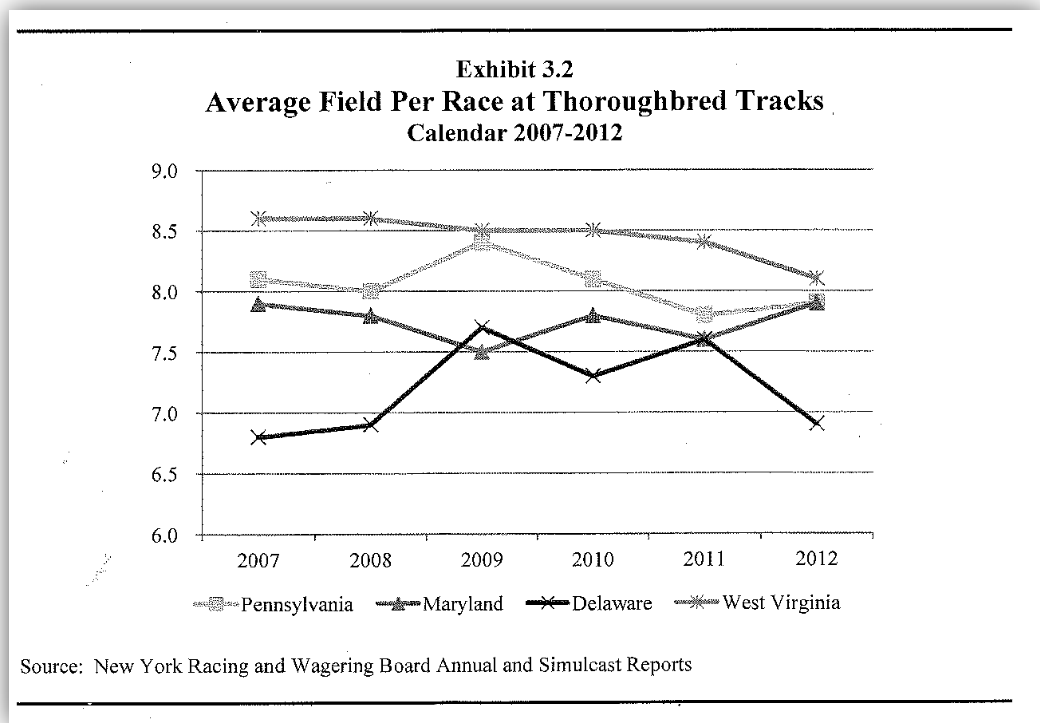

Figure 4 - Average Thoroughbred Field Sizes

3. Export Signal

The increased purses have garnered renewed interest in the Maryland racing product. Interest in the Maryland export (simulcast) signal has increased at every racetrack. Between 2009 and 2013, the export for Laurel has increased by 5.32 percent; Pimlico by 19.53 percent; Timonium by 27.81 percent; Ocean Downs by 12.96 percent and Rosecroft by 4 percent (the Rosecroft facility was closed in 2010 and 2011).[4] It is anticipated that this interest will only continue, as better horses vie for increased purses.

4. Preakness

In 2014, the Preakness Stakes, the second leg of the Triple Crown, was able to increase its purse from $1,000,000.00 to $1,500,000.00. The additional purse money helped to secure a record attendance day at Pimlico Race Course, where 123,469 patrons attended the event. At the time of the purse increase, the President of the Maryland Jockey stated that the purse increase "sends the message that [Maryland thoroughbred racing] is getting stronger and it sends the message to the industry that we're here, we're staying." He further noted that "over the last couple of years there have been things that have transpired that have helped improve the status of racing in Maryland."[5]

5. Ten-Year Agreement.

In late 2010, after a local referendum on the proposed Anne Arundel County VLT facility passed, allowing construction of Maryland Live to proceed, the Maryland Jockey Club submitted a 2011 racing schedule to the Commission that included only 77 live racing days, down from 146 in 2010. This almost 50% drop in live racing would have been devastating to the horsemen, who could not survive with that level of races. With the assistance of the Governor's Office, an agreement was reached to use funds from RFRA to cover the costs of running a 146-day schedule at Laurel Park and Pimlico in 2011. The General Assembly subsequently approved use of RFRA for operating expenses at the tracks in 2012 and 2013. However, in late 2012, the MJC, the horsemen, and the breeders announced that they had entered into a 10-year agreement that, among other matters, provided for a guaranteed minimum 100 days of live racing at the tracks for the term of the agreement, with the horsemen and breeders having the opportunity to underwrite an additional 46 days at their cost. This has occurred each year since, giving Maryland a healthy live thoroughbred racing calendar.

[4] Maryland Racing Commission, 2013 Annual Report, pp. 11-15 .
[5] Maryland Jockey Club Press Conference, December 12, 2013.

6. Conclusion

In four short years the PDA has made it possible for significant forward progress to occur. Still Maryland purses are not as high as they need to be to return the State to the top echelon in racing, nationally. The commitment to the VLT Program, as legislated, will ensure that this revitalization continues.

Racing Facility Renewal Account (RFRA)

In addition to the Purse Dedication Account, the 2007 legislation provided for funding of the Racing Facility Renewal Account (RFRA), which was to receive 2.5% of VLT proceeds for the first 8 years of the operation of each facility, not to exceed $40 million per year. The account funds are allocated with 80% to go to Pimlico, Laurel Park, and Timonium, and 20% to Rosecroft and Ocean Downs. The law requires each facility seeking RFRA funding to submit a capital construction plan, with a time line for implementation, to the Commission for its approval, before applying for grants, which must be matched by the licensee (with the exception of certain non-matching, capped funds designated for Timonium). The Commission, with the assistance of the Department of General Services, must monitor implementation of the approved plan, with the right to recapture grant monies if the project is not completed within the approved time frame. Legislation authorizing the Prince George's County VLT in 2012 reduced the maximum yearly amount dedicated to RFRA from $40 million to $20 million per year, reduced the distribution from 2.5% of VLT revenues to 1.75% (further reduced to 1% when Baltimore City is issued a license), and extended the time in which the Account would receive funds from 8 to 16 years after a facility began operations.

In 2011 the General Assembly directed that certain funds from the PDA and RFRA go to four tracks (excluding Timonium) for operating assistance for a two-year period. This temporary reallocation of funds was essential to the survival of the tracks during this time, but it meant that construction plans had to be delayed. The slower than anticipated timeline for all of the VLT facilities operations coming on line also delayed the accumulation of funds in RFRA.

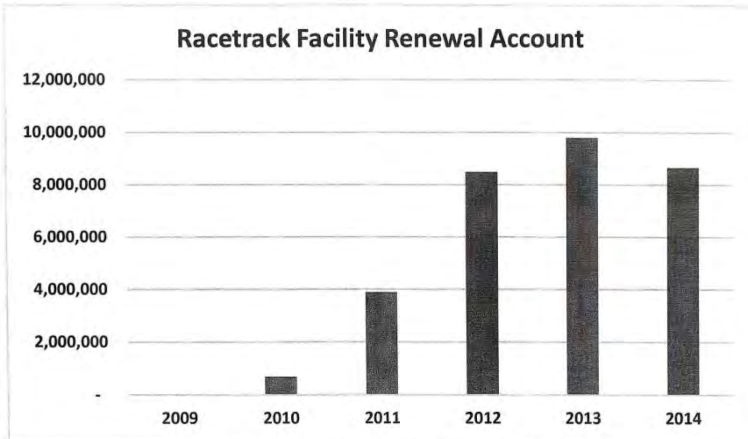

Figure 5 - RFRA Account History

Figure 5 is a chart of the funds in RFRA since the opening of the first VLT facility in 2010. Thus far, matching funds from the account have been used for upgrades at Ocean Downs, for major grandstand improvements and a new roof at Timonium (no match required), and for improvements at Pimlico and Laurel. The work at Ocean Downs included new barns, paddock improvements, track upgrades, a new tote board, additional parking facilities for horsemen, and improved handicap accessibility. The Pimlico improvements accomplished to-date include structural upgrades to the grandstand, improvements to the turf course, and elevator upgrades. At Laurel, matching funds have been used for improvements to the public areas, including a renovated restaurant and other technological improvements throughout the facility.

As this report is written the Maryland Jockey Club is commencing construction of new barns at Laurel Park. The new barn space will allow the relocation of horses and horsemen from the antiquated Bowie Racing Center to brand-new facilities at Laurel. Occupancy is anticipated by April 15, 2015.

Finally, the Maryland Jockey Club will soon announce a major capital program for Pimlico and Laurel Park, with a budget of $250 million. As a combination of new construction and revitalization, the project will be focused on substantially improving the Preakness experience in order to create a world class event, with the construction of state of the art suites, boxes, and premium dining areas. The program will also include other amenities to help revitalize Pimlico and the surrounding area. It is anticipated that the program will begin in the 4th quarter of 2015.

Impact on Breeding

The impact of the current VLT revenue on the Maryland breeding industry has already been profound.

The breeding process takes three to four years, from the time a mare is bred until her first foal is able to compete on the racetrack as a two-year-old. In fact, most young horses do not begin to compete until they are late two-year-olds or early in their three-year-old year. There are significant upfront expenditures, including the cost of the mare and stud fees, before the foal is even born. There are significant costs involving transportation, veterinarians, farriers, insurance, and registration fees. Additional major expenses are associated with schooling young horses as well as maintaining them in training at the track as they mature.

In 2013, the Maryland Racing Commission's Breeding Industry Task Force recommended incentives for Maryland sired, bred and owned horses, The Maryland Racing Commission amended COMAR 09.10.01.49, Reward to Breeders, by expanding the owner's, breeders and stallion awards to horses that finish first, second or third in a maiden, allowance and/or claiming (for which the claiming price is $10,000 or more) race. As a result, the Maryland breeding industry has been re-energized. Owner and breeder incentives are competitive or better than neighboring states. The effect of this change has already taken hold, as more horses are being bred in Maryland. The judicious use of the VLT revenues by the Commission and its stakeholders has and will continue to optimize the breeding industry, a vital part of Maryland's continued success.

Thoroughbred Breeding Program

The number of Thoroughbred horses bred in the State has steadily increased since the initiation of the VLT Program. The chart below illustrates that the percentage increase of mares bred in Maryland is the highest of any state in the United States:

State/Province	2013 Stallions	2014 Stallions	Pct. Change	2013 Mares Bred	2014 Mares Bred	Pct. Change
Kentucky	235	233	-0.9%	15,695	16,826	7.2%
Florida	126	122	-3.2%	2,853	2,910	2.0%
California	136	143	5.1%	2,332	2,472	6.0%
New York	62	51	-17.7%	1,560	1,614	3.5%
Louisiana	137	116	-15.3%	1,833	1,609	-12.2%
New Mexico	97	84	-13.4%	971	871	-10.3%
Oklahoma	89	67	-24.7%	928	813	-12.4%
Pennsylvania	53	55	3.8%	902	809	-10.3%
Maryland	30	33	10.0%	647	751	16.1%
Texas	105	88	-16.2%	865	735	-15.0%

Figure 6 - Stallions/Mares Comparison by State

Due to the VLT program, it has been possible to offer competitive incentive programs for owners to increase their investment in breeding in Maryland. It should be noted that the positive increases in breeding stock in Maryland have been paralleled by decreasing numbers in many other states. It can only be speculated that much of this change represents a positive flow back into Maryland of horses that had previously been moved to neighboring states to take advantage of enticing breeding programs elsewhere.

A reliable indicator of the effect of VLT program on Maryland Breeding is the positive changes that have occurred in the annual Thoroughbred Yearling Auction at the Maryland State Fairgrounds. This year, the sale featured 450 yearlings, a 14.5% increase over 2013, and Maryland bred horses (those born in Maryland) represented 28% of the total horses offered for sale. Maryland breds sold for a higher average price than those offered from other areas, and of the top ten horses sold seven were Maryland breds, showing that owners recognized the financial benefits of owning a Maryland horse. The VLT program has allowed for significant growth in the breeding industry. It is anticipated that this trend will continue as long as PDA funds are available to incentivize owners and breeders to locate and breed their horses in Maryland.

Another direct result of the positive atmosphere enveloping the breeding industry has been the renewed interest in standing stallions locally, as demonstrated by the positive growth in the number and quality of stallions entering Maryland in the past three years. In 2013, out of 30 total Maryland stallions, 19 are new to the State, with 15 of the new stallions commanding a stud fee of $2,500 or more dollars. In Pennsylvania, for example, there are only 12 new stallions out of 27 and only five have a fee of $2,500 or more dollars.[6]

There has been one new stallion farm that began operation in Chesapeake City. Other established farms in Cecil, Harford, and Carroll counties have significantly increased their stallion rosters. Increased breeding activity at these farms has led to increased boarding business

[6] *Mid Atlantic Thoroughbred*, December 2014

at smaller, often struggling, farms in the surrounding countryside. This has resulted in associated increases in employment and the subsequent maintenance of critical areas of agricultural space.

Standardbred Breeding

In 2010, with Ocean Downs closed for construction and Rosecroft in bankruptcy, the Maryland Standardbred breeding industry was almost extinct. Many Standardbred horsemen and breeders left Maryland. There were only a handful of farms left, with only 12 stallions registered, breeding only 20 mares that year.

The VLT money has been an incentive for Maryland horsemen and breeders that moved out of Maryland to return. Also, horsemen and breeders from other states have taken notice and are bringing their stallions and mares to Maryland. This has had a positive impact on Maryland farms and infused money into the Maryland economy. When local farms do well, the small communities around them profit too. On both the Standardbred and Thoroughbred side, this brings increased job opportunities, the need for quality feed and hay products, local maintenance work on machinery and vehicles and many more dependent services.

Year	*Number of Stallions*	*Mares Bred*	*Maryland Standardbred Racing Fund Total Purses*	*Income from VLT'S January 1 thru December 31*
2010	12	20	$ 552,975.00	$ 42,608.14
2011	12	68	$ 707,750.00	$ 239,862.60
2012	16	51	$ 970,850.00	$ 582,719.08
2013	21	120	$ 1,355,472.00	$ 874,309.58
2014	35	248	$ 1,813,515.00	$ 930,000.00 (est)
2015	38 (est)	275-300 (est)	$ 2,000,000.00 (est)	

Figure 7- History of Standardbred Resources[7]

The numbers that demonstrate the revitalization of the Standardbred Industry as a result of the VLT revenue is nothing short of remarkable. Figure 7 shows the pre-VLT horse population juxtaposed against the current numbers. The increases are huge. These Maryland horses are the lifeblood of the Standardbred Program and the tremendous turnaround is a **direct** result of the VLT Program.

[7] Maryland Standardbred Race Fund

Economic Benefit to the State

Thus far this report has chronicled the remarkable beneficial effect that funds derived from the VLT Program have provided for the horse industry. It is a story of rapid re-growth and revitalization. However, the positive impact of the program extends much further.

The worth of the economic impact on Maryland's economy is $1.6 billion, with $40,000,000 plus generated from the Preakness stakes alone. Over 65,000 Maryland citizens are involved within the horse industry and 28,000 jobs are directly dependent upon the horse industry.[8] Many of these jobs involve individuals with limited skill sets who might struggle to find jobs in another field of work. For comparison, there are only about 20,000 jobs in all of Cecil County.

Less apparent, but just as vital, to the State of Maryland is the role the horse industry plays in land use, land preservation and protection of the Chesapeake Bay. The economic impact of the agricultural component of the horse industry in Maryland ranks third highest of all agricultural components in the State behind the poultry and horticultural industries. It is the most significant of all livestock industries in the State. Because the horse industry is beginning to rebound, many farmers have been able to keep their farms in production by providing hay, straw and grain for horses. Presently about 600,000 acres of Maryland land is dependent upon the vitality of the horse industry.[9] Ten percent of land within the state is incorporated in some activity related to horses. It is important to understand that horse farms represent large tracts of land that are far less densely populated than for other types of animal production. There is less manure runoff, less fertilization, and more stabilization of soil due to the grass covered pastures. This is especially important in the protection of the Chesapeake Bay. If these farms ceased to exist, it is questionable if the State could afford to preserve this land. The role and economic significance that horse farms play in maintaining open space cannot be over emphasized.

Previously presented data demonstrate the steady increase in the horse population in Maryland. These figures are paralleled by a decrease in breeding and racing horses in our surrounding states. At present the VLT Program and its positive effect on the horse industry has caused a shift in population demographics in the mid-Atlantic region in favor of Maryland. A recent study indicated that each horse has a net economic impact upon the State of New York of $92,100.[10] It is reasonable to conclude that similar effects will be felt in Maryland. The "ripple effect" created by growth in the horse population extends far beyond just the owners and caretakers of the horses and land. More horses require more farmers, veterinarians, transportation, feed, tack, and so forth. Increased facilities require contractors, electricians, plumbers, roofers, new tractors, trucks, etc. Increased attendance at the tracks stimulates local

[8] *American House Council Economic Impact Study*, Deloitte, 2005
[9] *Maryland Equine Census*, USDA National Agricultural Statistics Service, 2010
[10] *New York State Equine Industry Economic Impact Study*, 2012

small businesses (fuel stops, restaurants, hotels, etc.)

Clearly, the investment the State of Maryland has made in the equine industry has been a wise one. The return on investment for the citizens of Maryland has been significant and should continue for the foreseeable future. At the end of the day the horse industry has an enormously positive effect upon the Maryland state economy.

An Investment in Horse Racing is an Investment in Maryland.

Future

All facets of the racing industry recognize the symbiotic relationship between the stakeholders. The metaphor of a three-legged stool has been used in previous presentations and testimony and while somewhat simplistic it clearly illustrates the dependency of the racing partners on each other. The first leg is the horsemen who operate, manage, own and train the horses; the second leg is the breeders whose program guarantees the future supply of horses; and the third leg is the racetracks which provide the venue to live, train and race. Each leg is codependent and needs to remain level and viable.

Through the forging of the ten-year agreement, the breeder award program, the close working relationship of the stakeholders, and with the oversight of an active, engaged Racing Commission, the future of horse racing success looks brighter than it has for decades. It is clear, though, that future success depends on the continuation of funding from the PDA and RFRA.

As the U.S. horse racing industry continues to make positive changes to deal with new and in some cases unforeseen circumstances, so must Maryland. The Maryland Racing Commission needs to continue to examine, review, adjust and change, decades-old cost models, statutes, and regulations. VLT revenues give the Commission the ability and the breathing room to do this with the assurance that a healthy racing industry will continue.

The Commission will continue to work in concert with all of the racing stakeholders to address the existing issues and new ones as they arise, as well as remaining careful stewards of the monies entrusted to the industry from VLT revenues. The authority and responsibilities to address specific issues and the flexibility to make changes varies from issue to issue. However, by working together and with the continued support of the General Assembly, the Maryland Racing Commission is committed to taking the necessary steps to ensure the long term success of horse racing in Maryland.

Recommendations

The Commission has and will continue to function as the effective overseer of Maryland horse racing through its leadership and dedication to helping all stakeholders work together in the most productive way.

The Commission will continue to use all of the State's resources at its disposal, including fiscal accounting, information technology, legal advice, and management expertise to ensure that VLT monies will be strategically planned for, expended and controlled at every level.

The Commission will emphasize its role of overseeing the accounting and auditing of VLT or VLT-blended revenue that flows to third parties.

The Commission strongly believes that, at the end of the day, the success of an industry that benefits so many and provides so much financial benefit to the State and its citizens must be preserved.

Very succinctly the MRC has one basic, but vitally important recommendation.

CONTINUE VLT SUPPORT TO RACING AT THE LEVELS CURRENTLY PROVIDED FOR IN THE LAW.

ADDENDUM

While the infusion of VLT funds into purses and capital improvements has moved the racing industry forward on the road to recovery, there are ancillary issues that will also require the attention of the Commission and, in some instances, the General Assembly over the next few years. Some of them were addressed in the 2013 Sunset Report, while others fall outside the scope of that Report.

Some of these issues reflect the fact that the current law is based on an economic model where the main source of revenue to support racing activities comes from the takeout on wagering, including intertrack wagering. That is no longer the case. Thus, while VLT funds have an immediate, positive effect on some aspects of the industry, there is a need to insure that other essential components to the success of racing, which may receive only incidental benefit from the VLT funds, are not left behind.

For example, payments to the purse fund for Maryland Million Races and contributions to the Race Track Employees Pension Fund under Section 11-515 come from the mutuel pool. The pool has decreased due to the competition for the betting dollar, and this poses a problem for the funds that by statute depend on it.

Maryland Million Day is now the second most popular day on the thoroughbred racing calendar, and reflects the success of that program. The thoroughbred breeders believe that the Maryland Million program is the most important tool for encouraging regional horse breeders to do business in Maryland. As part of the program, all of the progeny of nominated Maryland stallions are eligible for annual purses and awards in excess of $1 million, and mares from around the region are brought to Maryland to be bred so that their offspring are eligible to participate in the Maryland Million Day races. Surrounding states have similar programs, so it is very important that Maryland's remains active and adequately funded. Tying its funding to sources other than, or in addition to, the mutuel handle would insure its long-term success.

The Maryland Race Track Employees Pension Fund covers race track employees and is based on allocations from the mutuel handle. The Backstretch Employees Pension Fund provides a modest retirement income as a supplement to Social Security to individuals who have few other retirement alternatives. It covers anyone licensed by the Commission and employed in the care of horses on the backstretches of the tracks, including trainers, assistant trainers, grooms, exercise riders, pony riders, and hotwalkers. Neither of the funds is sustainable for the long term.

The operations of the Racing Commission are currently part of the General Fund budget. The position of assistant executive director was eliminated several years ago, leaving only the Executive Director to oversee an increasingly complex operation. The Sunset Report

recommended the hiring of an Equine Medical Director, a Deputy Director, and an additional backstretch investigator, and described alternatives for altering the funding source for the Division to a special fund basis so that these positions could be created and filled.
Attention to these areas: the well-being of backstretch employees, adequate funding for the Commission, and stable support for the Maryland Million program would support and enhance the effect of VLT funding of purses and capital improvements.