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BY CAROL PARK

ON MAY 7TH, 2020, MARYLAND'S HORSE RACING ADVOCATES ACHIEVED A MAJOR VICTORY. Gov. Larry Hogan allowed the controversial Racing and Community Development Act of 2020[1] (RCDA) to become law without his signature,[2] thereby authorizing the Maryland Stadium Authority to issue $375 million in bonds to replace the state's two main horse racetracks with gold-plated facilities. If everything works out as planned, Laurel Park in Anne Arundel County will be renovated first in 2021, then Pimlico Race Course in Baltimore will be renovated next, into a multi-use facility for racing and other events. While much uncertainties lie ahead due to the ongoing global COVID-19 pandemic, the state hopes to issue bonds in 2021. The Maryland Stadium Authority also recently issued a request for proposal for architects who would like to redesign the tracks.[3]

In short, the RCDA epitomizes Maryland's recent history of fiscal imprudence. Assuming no cost overruns, overhauling the two racetracks will cost $389 million. To finance the project, the state will jeopardize its AAA bond rating by borrowing $348 million in a form of 30-year bonds. The cost of repaying the bonds will be $17 million a year over 30 years — a total of $510 million. As shown in Table 1, $17 million annual debt service will be funded from revenue that the horse racing industry currently receives from Maryland casinos.[4] Some of those subsidies were set to expire in 2032, with the revenue redirected to education, but the RCDA will extend the life of those horse racing subsidies to cover the 30-year repayment period.

After issuing bonds, the remaining cost of the racetrack project is $41 million. This portion will be paid for using $24 million that will be in the Racetrack Facility Renewal Account (RFRA, a slot gaming-funded account set aside for racetrack capital improvements) by March 2021 and a one-time $17 million payout from the Maryland Lottery.[5] As shown in Table 2, the total taxpayer burden of the project adds up to hefty $551 million.

The state of Maryland and its taxpayers will assume all financial risks of the project. Until this year, Pimlico and Laurel were both owned by The Stronach Group (TSG), an Ontario-based company

TABLE 1: SUMMARY OF ANNUAL DEBT SERVICE FOR THE REPAYMENT OF 30-YEAR BONDS

SOURCE	DESCRIPTION	AMOUNT
RACETRACK FACILITY RENEWAL ACCOUNT (RFRA)	SLOT FUNDED ACCOUNT SET ASIDE FOR RACETRACK FACILITIES AND CAPITAL IMPROVEMENTS.	$8.5M
PURSE DEDICATION ACCOUNT (PDA)	SLOT FUNDED ACCOUNT DEDICATED TO PURSES FOR WINNING RACES. ("HORSEMEN'S CONTRIBUTION.")	$5M
LOCAL IMPACT GRANT	SLOT MONEY SET ASIDE FOR COMMUNITY AIDS TO LOCALITIES AFFECTED BY GAMBLING.	$3.5M
ANNUAL DEBT SERVICE	PRINCIPAL + 2.7% INTEREST.	$17M
TOTAL COST OF REPAYMENT OVER 30 YEARS	$17 MILLION X 30 YEARS.	$510M

TABLE 2: SUMMARY OF THE PROJECT COSTS

FINANCING METHODS	AMOUNT
A. BOND	$348M
ANNUAL DEBT SERVICE ON BONDS	$17M
MATURATION PERIOD	30 YEARS
TOTAL FINANCIAL BURDEN FOR THE STATE TAXPAYERS (BOND-ONLY)	$510M
B. RACETRACK FACILITY RENEWAL ACCOUNT	$24M
C. ONE-TIME PAYOUT FROM THE MARYLAND LOTTERY	$17M
TOTAL FINANCIAL BURDEN FOR THE STATE TAXPAYERS (THE PROJECT)	$551M

headed by billionaire Frank Stronach. But under the RCDA, Pimlico and Laurel ownerships will be transferred to Baltimore City and Anne Arundel County, respectively (or both to the Maryland Stadium Authority). Meanwhile, TSG will become tenant of the newly constructed facilities and run the Preakness Stakes, the second jewel of the Triple Crown thoroughbred racing series. In addition, a horse training facility in Bowie, also owned by TSG, will be transferred to the state and made available for other uses.

RACING AWAY WITH SUBSIDIES: MYTHS VS. FACTS

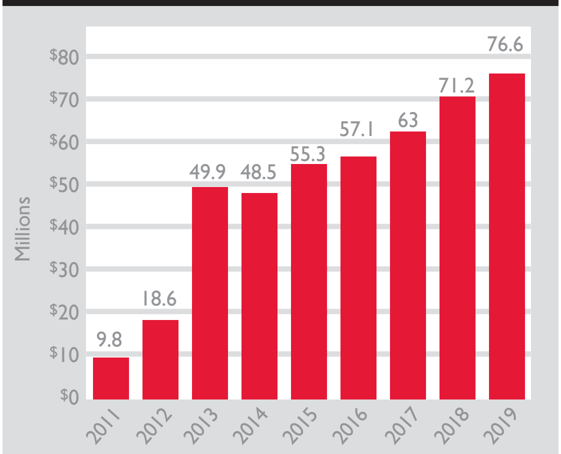
In an attempt to correct misunderstandings and half-truths that ultimately led to the RCDA, the Maryland Public Policy Institute examined nine myths surrounding Maryland's horse racing industry and the subsidies they receive. This section seeks to explain why the project should be halted immediately and why handing out taxpayer-funded subsidies to the horse racing industry is a misguided policy.

MYTH #1: ***Maryland's horse racing industry does not receive enough government subsidy.***
FACT: ***From 2011-2019, Maryland handed out over $450 million to the horse racing industry.***

In 2011, Maryland legislature established the RFRA and the Purse Dedication Account, thereby authorizing 1 percent of state casino slot proceeds to annually go toward improving the racetracks and 5 percent to go toward fattening the horse racing prizes.[6] As a result, Maryland's horse racing industry received over $450 million in casino subsidies between 2011 and 2019 — more money than Maryland's football and baseball stadiums.[7] (See Figure 1.)

As Maryland lawmakers debate how to fill COVID-19 induced budget holes, lawmakers should

FIGURE 1: HISTORY OF MARYLAND'S HORSE RACING SUBSIDY (2011-2019)



Source: Maryland Lottery and Gaming Control Agency Financial Reports (2011-2019)

look to eliminate questionable subsidies and other spending. Horse racing subsidies are taxpayer-funded handouts to wealthy horse owners (many of whom are out-of-state) and wealthy track owners. Due to lack of oversight and transparency, it is unknown to the public how the state's horse racing subsidies are being spent. For instance, in 2016, the state gave $1.7 million to TSG to build new dormitories for Laurel Park track workers — a project that was to be finished by 2017. As of 2019, the facilities were unfinished, and there is controversy over where the public money went.[8]

MYTH #2: ***The project will be paid entirely by existing horse racing subsidies.***
FACT: ***Many of the subsidies were set to expire in the coming years, but now they will be extended to cover the 30-year bond repayment period.***

The key debate surrounding the RCDA was over extending the subsidies. Under previous law, slot subsidies for the RFRA and another horse racing account, the Park Heights Grant, were only guaranteed through 2032, the 16th anniversary of Maryland casinos.[9] Under the new law, the subsidies will be extended at least through 2051. Since the RFRA receives between $10 to $20 million[10] a year and the Park Heights Grant receives about $9 million[11] a year, this adds up to at least $361 million in additional horse racing subsidy.

Alternately, what happens when casino revenues decrease in some years, as it did in 2020 due to COVID-19 related casino shutdowns?[12] The Racetrack Facility Renewal Account receives 1 percent of slot revenue, the Purse Dedication Account receives 5 percent, and the Local Impact Grant receives 5.5 percent (of which 18 percent goes to the Park Heights).[13] But if slot revenues plummet in the future, there may not be enough revenue flowing into those accounts to fulfill the $17 million annual debt service. If that happens, the state would inevitably make up the $17 million repayment obligation by dipping into other funds.

MYTH #3: ***The project does not take revenue from other funding priorities.***
FACT: ***The project will take revenue from education.***

Under previous law, the slot funds dedicated to the RFRA was supposed to start flowing into the state's Education Trust Fund after the 16-year anniversary of Maryland's casino openings.[14] Under the new law, the slot funds would instead continue flowing into the RFRA for another 19 years. According to Joseph Bryce, a lobbyist representing the Maryland Jockey Club, about 30 percent of the racetrack project's price tag, or $112.5 million, will be diverted from the Education Trust Fund.[15] Potentially, the amount diverted could be a lot more than $112.5 million, when taking into account possible cost overruns and revenue shortfalls.

As Maryland lawmakers debate how to fill COVID-19 induced budget holes, lawmakers should look to eliminate questionable subsidies and other spending.

This year, the state General Assembly also passed a bill that authorizes a $32 billion overhaul of the state's education system.[16] Although Governor Hogan vetoed the bill, the veto can be overridden in the next legislative session. As the state debates that spending, one should question whether diverting resources away from schools to rebuild horse racetracks is a sound policy decision. Although criticisms can be made of Maryland's education spending, few people would argue that public education funding should be a lower priority than refurbishing two horse racetracks.

MYTH #4: ***The project will incur no other hidden costs.***
FACT: ***Various tax exemptions under the RCDA are additional costs for the state.***

The RCDA authorizes various tax exemptions.[17] They include:

1. Sales and use tax exemptions for purchase of construction materials and other equipment by January 2026.
2. Property tax exemption for improvements at Pimlico and Laurel.
3. Recordation and transfer tax exemptions for the transfers of Pimlico and Laurel.

Maryland is providing these tax exemptions to reduce the stated cost of the project, as the state is financing the project through borrowing. But these exemptions are revenue that the state will give up, as compared to if a private developer were to redevelop the tracks. That said, Maryland also often rewards tax exemptions to private companies in attempts to make up for the state's subpar business and tax climate. Generally, such targeted tax breaks for special interest groups are ineffective, wasteful, and unfair for the state's lower-income taxpayers.[18]

MYTH #5: ***Keeping Pimlico around will drive Park Heights's economic development.***
FACT: ***Having a racetrack is not a solution to Park Height's deep rooted problems.***

As Maryland Public Policy Institute Chief Economist Stephen J.K. Walters pointed out in a 2018 op-ed, "The neighborhood surrounding Pimlico is not decaying and poor *in spite* of the track, but at least partly *because* of it." Walters argues that a project with a footprint of Pimlico's size is incompatible with a prosperous neighborhood. [19] Local perspectives echo this view. Willard Dixon, the president of the Park Heights Community Council, is very skeptical whether keeping Pimlico around will benefit the residents. "There's not a lot of economic activity that's generated that benefits the immediate area around the racetrack," he said last year. "I don't know how additional festivals or carnivals or other types of events are going to serve this community."[20]

According to Stacey Patton, research professor at Morgan State University in Baltimore, residents of Park Heights are more concerned about the immediate problems of drug, crime, poverty, unemployment, and abandoned homes, than about losing a horse racetrack. In a 2019 essay, she quotes Melvin Ward, a local restaurant owner in the Park Heights: "I don't think the neighborhood will get worse if they move the Preakness to Laurel. Pimlico is not a sign of life for this neighborhood… Horse racing is dead. The Preakness does nothing for the community. If it leaves, things will be the same as they always are here."[21]

MYTH #6: ***The Project will preserve many good jobs in Maryland.***
FACT: ***Most horse racetrack workers work in horrible conditions and are poorly compensated.***

Supporters of the project argue that the industry accounts for tens of thousands of jobs in Maryland — a dubious claim considering the rapidly declining number of races and racing horses bred in Maryland. (See Myth #7.) Sure, the project will create some jobs to rebuild and maintain the racetracks. These are, however, not the type of jobs that Maryland should be subsidizing to keep nor create in the state. Labor conditions at horse racetracks are typically very poor — minimum wage workers working seven days a week without additional compensation.

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TABLE 3: AMOUNT WAGERED, PIMLICO AND LAUREL (2014-2018)

YEAR	PIMLICO	LAUREL	TOTAL WAGERED
2014	49.3M	71.8M	121.1M
2015	42.9M	74.8M	117.7M
2016	28.4M	72.5M	100.9M
2017	22.2M	70.4M	92.6M
2018	19.5M	68.1M	87.6M

Source: Maryland Racing Commission 2018 Annual Report

Despite $450 million in subsidies, working conditions at Maryland racetracks have not improved over the years. This suggests that the public money reduces racetrack labor costs rather than boosts workers wages, and the money goes straight into the pockets of the wealthy horse racers and track owners and do not trickle down to the industry's workers. In 2003, the *Baltimore Sun* characterized the housing for Maryland racetrack workers as "slum-like living quarters."[22] In 2019, the *Sun* wrote of conditions at Laurel Park: "animal troughs used as sinks, widespread mold, no food preparation or refrigeration facilities, and 32 employees using one shower…" According to Mike Gimbel, a drug addiction expert who works with track workers, "Their living conditions are like a third world country."[23]

MYTH #7: ***Horse racing is America's beloved sport; therefore, Maryland should invest in it.***
FACT: ***Horse racing has been rapidly losing popularity in Maryland and the rest of the country.***

Horse racing in America is on marked decline. The industry has been declining in terms of the number of tracks, the total attendance, and the amount of wagers placed by bettors.[24] Between 2002 and 2018, horse racing handles in the U.S. fell from $15 billion to $11 billion.[25] A 2016 Harris poll found that just 1 percent of Americans list horse racing as their favorite sport, a decline from 4 percent back in 1985.[26] As a result, some 36 horse race tracks across the country have closed since 2000.[27]

The amount wagered at Pimlico and Laurel also declined sharply over the years, from a total of $121.1 million in 2014 to just $87.6 million in 2018. [28] See Table 3. (Note: one-day Preakness handles are not included in the reported Pimlico figures.)

Horse racing's rapid decline can be partly explained by legalization of betting on other sports in many states. According to an *SB Nation* article, legal betting on other sports has clear advantages over horse racing: "Sport betting will engage users with a product that will be designed for mobile from the start, and will cost gamblers less than the average racing bet… Racing wagers, depending on track and type, can cost from 15 to 26 percent. A standard sports bet, meanwhile, costs the bettor about 5 percent of the wager."[29]

MYTH #8: ***Horse racing is an honorable tradition — Maryland should fight to keep it.***
FACT: ***Horse deaths and doping scandals have undermined the image of the "sport of the kings."***

During the racing season of 2019, horror stories of horse deaths at Santa Anita Park in California triggered widespread animal cruelty accusations by the media. Some 37 horses died at Santa Anita that season.[30] Pimlico faced similar media attention in 2016 when two horses died on the same Preakness day.[31] According to the Jockey Club, at least 225 horses died of injury at Pimlico[32] and Laurel[33] between 2009 and 2019.

Horse racing's rapid decline can be partly explained by legalization of betting on other sports in many states.

One of the biggest image problem in horse racing relates to "doping" — administering illegal or tightly restricted medications to horses to enhance their performance. Doping often involves anabolic steroids, snake venom, and water and sugar that are forcefully fed into a horse's stomach through its nose.[34] Shockingly enough, some 90 percent of U.S. thoroughbred trainers admits to illegal doping.[35] These image problems would naturally discourage private investment in the industry, further threatening the industry's already gloomy future. Yet, the Maryland legislature continues to invest in this inhumane industry.

MYTH #9: ***Subsidy can reverse horse racing's decline in Maryland.***

FACT: ***Despite subsidies, the horse racing industry continues to lose money in Maryland historically.***

Perhaps the biggest myths of all is the notion that public subsidy can reverse horse racing's decline in Maryland. Horse racing has been a money losing industry in Maryland for decades, with or without subsidies. In 2008, which was before a portion of the state's slot funds was earmarked for horse racing, combined operating losses at Pimlico and Laurel totaled $12 million.[36] In 2018, exactly a decade later, combined operating losses for the two racetracks was $14.5 million.[37] (See Table 4.) In other words, state subsidies have been mostly offsetting the two racetracks' losses, which would have been steeper without the subsidies.

To make matters worse, what will happen if TSG, despite signing a long-term contract to operate the racetracks, decides to back out because of continuing financial losses? After all, the upgraded racetracks will require considerable expenditure for upkeep, but there is no promise that the new tracks will attract more revenue-generating audiences or wagering. Continued operating losses, or even steeper losses, are possible in the future, and no one can guarantee that TSG will not simply default, leaving the state with a white elephant.

POLICY RECOMMENDATIONS: HALT THE PROJECT NOW AND MOVE THE PREAKNESS TO LAUREL

In light of the myths discussed in this report, Maryland should halt the track renovation project immediately to limit sunk costs and avoid more debts. Terminating the project now, before renovations have begun, will save state taxpayers more than half a billion dollars and protect Maryland's credit rating. As Maryland's experience with the Purple Line Metrorail project demonstrates, the state cannot continue to issue bonds to fund boondoggle projects and expect to maintain good bond ratings. In May, Fitch Ratings downgraded the $313 million Maryland Economic Corporation senior private activity bonds from BBB- to BB.[38]

Upon halting the project, the state should seriously reconsider the option that TSG had strongly recommended in 2019: close Pimlico, move the Preakness Stakes to Laurel, and focus on upgrading Laurel Park. After all, TSG had already invested about 87 percent of the RFRA funds in Laurel between 2011 to 2018, which was a wise business move: Pimlico is only used 12 times a year while Laurel hosts about 160 racing days a year.[39] As Tim Ritvo, a former chief operating officer of TSG, often argued, Maryland is too small to maintain two racetracks, especially when one is used only 12 times a year.[40]

TABLE 4: PIMLICO AND LAUREL COMBINED OPERATING LOSS (2018)

TRACK	REVENUE	EXPENSES	TOTAL
PIMLICO	$26.5M	$33.5M	-$7.M
LAUREL	$39.5M	$47.M	-$7.5M
TOTAL	$66.M	$80.5M	-$14.5M

Source: The Baltimore Sun

It would be heartbreaking to see the Preakness Stakes move out of Baltimore, but there is something many people don't realize: Baltimore lost the Preakness once before and it was not the end of the world. The Preakness moved out of Baltimore in 1889 and did not return until two decades later. During most of those years, the Preakness was hosted at the Gravesend Race Track on Coney Island.[41]

Perhaps the biggest myths of all is the notion that public subsidy can reverse horse racing's decline in Maryland.

If the Preakness does decamp to Laurel, it will still be held in Maryland — just 20 minutes away from Baltimore. Baltimore hotels and restaurants would still attract Preakness tourists. Meanwhile, all the proposed economic benefits of the Preakness would stay in Maryland, and more of the slot subsidies would flow into the Education Trust Fund.

The existing Pimlico site should be repurposed into a year-round multi-use facility for retail, events, and other sports — a fully private enterprise that would benefit Park Heights residents. Instead of forcing state taxpayers to take on a risky investment in horse racing, Maryland should let experienced private developers jump in. The biggest advantage of a year-round multi-use facility would be diversified job creation: more than 40 percent of working age residents in Park Heights currently are not working.[42] In terms of potential for economic development, pouring tens of millions of dollars into a rarely used horse racetrack does not come close to a year-round facility that would create hundreds of new full-time retail and service jobs.

Ultimately, having a fancy horse racetrack is not going to convince people to live in Baltimore. Last year, Baltimore City's population dropped to below 600,000 — the lowest in a century.[43] The only solution to this would be to make Baltimore a more attractive place to live. Just as addressing crime and schools without heat are crucial to attracting new residents, so is reducing the city's property tax rate, which is currently more than double the rate of all other counties. Also important is public leadership that does not throw taxpayers' money at pig-in-a-poke schemes that ultimately only benefit well-connected corporations.

In the end, it is up to sage leaders to accurately identify which policies can truly transform Baltimore in the long run. While there are many policies that can make a difference, rebuilding a horse racetrack for once-a-year party is not one that will change Baltimore's future.

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