

Laurel Park Feasibility Report

As required by House Bill 897



Submitted to:

Senate Budget and Taxation Committee
Sen. Guy Guzzone, Chair

House Appropriations Committee
Del. Benjamin S. Barnes, Chair

House Ways and Means Committee
Del. Vanessa E. Atterbeary, Chair

J. Thomas Sadowski, Executive Director
Maryland Economic Development Corporation

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Introduction and Purpose of Report

The Maryland General Assembly has consistently recognized the history and impact of horse racing in Maryland, including the sizable benefits of breeding, training, land preservation and other equine activities throughout the state.

A review of the horse industry in Maryland shows significant economic impact and provides arguments for a level of public participation in supporting racing facilities at Pimlico, Laurel Park and elsewhere. Research shows that the overall economic impact of the horse industry in Maryland is \$2.06 billion, and that 25% percent of Maryland's agricultural land (705,000 acres) is devoted to horses. The number of direct and indirect jobs associated with the industry is 28,000, and industry participants spend \$1 billion annually. The racing sector has the largest economic impact within the equine industry, estimated at \$572 million. These statistics and others show Maryland to be one of the top horse states in the nation, with potential to grow and prosper.

In recent years, the Assembly has continued to facilitate the best solutions to support the industry and assist the Pimlico race facility in north Baltimore and the Laurel Park track in Anne Arundel County reach full potential. Notably, in 2020, the General Assembly adopted SB 987, which authorizes \$375.0 million in 30-year bonds for financing, planning, design, construction, and related expenses for racing facilities at Pimlico and Laurel Park. These bonds are intended to support improvements to clubhouses, racetracks, stables, barns, and more.

Implementation of SB 987 remains incomplete, however, and the timing of improvements at each facility to ensure a continuation of Thoroughbred racing operations is complex and has implications for the long-awaited commercial redevelopment at Pimlico.

In 2022, the Assembly took steps to untangle these challenges with language in HB 897 (*Economic Development - Sports Entertainment Facilities and Events, Prince George's County Blue Line Corridor Facilities, and Racing Facilities*) adopted during the 2022 legislative session. Contained in the bill is a requirement that the Maryland Economic Development Corporation (MEDCO) conduct a preliminary evaluation of the feasibility of potential acquisition of the Laurel Park racing facility site by a government or nonprofit entity.

Specifically, the General Assembly established that MEDCO shall:

“undertake all efforts necessary to evaluate the feasibility, limitations, costs, and potential benefits related to a government or nonprofit entity acquiring, redeveloping, and constructing facilities at Laurel Park.” (HB 897 2022, 3(e))

Per legislative instructions, MEDCO has initiated consultations and coordination with all parties necessary for its evaluation, including the Maryland Thoroughbred Horsemen's Association, Maryland Horse Breeders Association, Maryland Racing Commission, and the Maryland Stadium Authority (MSA).

Additionally, MEDCO was instructed to enter discussions with Laurel Park's current owner, the Stronach Group, to determine the terms and conditions of the potential purchase or transfer of all

or a portion of Laurel Park to a government or nonprofit entity. The General Assembly has authorized MEDCO to contract for one or more appraisals.

The General Assembly required that MEDCO's efforts be reported to the Senate Budget and Taxation Committee, the House Appropriations Committee, and the House Ways and Means Committee, on or before September 1, 2022. Accordingly, this report is respectfully submitted to General Assembly leaders to reflect the status of discussions and planning.

Executive summary

The following summary reflects the consensus and conclusions of stakeholders, consultants and MEDCO leadership:

Maryland Thoroughbred operations at Laurel Park:

- Barring the State of Maryland finding a location to build a new facility, Laurel Park can serve as the primary year-round Thoroughbred horse racing operating in Maryland. After the Maryland Jockey Club sold off portions of the Pimlico property to Lifebridge Health nearly a decade ago, Laurel Park is a location where all significant Maryland racing operations can be consolidated.
- Despite some site shortcomings, Laurel Park is situated in a generally attractive location, given its situation between the large, urbanized centers of Baltimore and Washington D.C., and its history in the racing industry.
- While the footprint of the main Laurel Park parcel is significant (229 acres), much is wetlands and undevelopable. The adjacent 58-acre Brock Bridge Road property should be considered key to the overall horse-centered development and can be used to accommodate upgraded backstretch facilities.

Current conditions at Laurel Park:

- The main portions of the Laurel Park clubhouse and grandstand date to 1911 and 1951 and are too large for current needs and beyond their usable life. Demolition or significant and costly renovations would be required for the customer facing structures.
- Backstretch stalls, barns and staff housing are in generally poor condition, with significant code and life safety violations.
- Laurel Park operates with approximately 140 racing days per year, with an average attendance in the range of several hundred customers per day, occasionally exceeding 1,000. There are significant simulcast wagering facilities and operations.

The future state of Laurel Park:

- The Maryland Stadium Authority (MSA), in direct and frequent consultation with the Maryland Thoroughbred Horsemen's Association, the Maryland Horse Breeders Association, the

Stronach Group and others, has developed feasible plans that include upgraded backstretch operations and an appropriately sized grandstand clubhouse area that can fulfill the mission of Laurel Park serving as a world-class year-round thoroughbred center.

- To fulfill that function, barns, stables, tracks and staff housing in particular must be of a high-quality. There is a projected need for approximately 1,100 horse stalls immediately and up to 1,600 stalls at full build-out to accommodate the expected peak Maryland thoroughbred racing population. The Brock Bridge property is the most feasible option for rebuilt backstretch operations.
- A newly constructed Laurel Park should include quality housing for staff that care for horses, to replace units in poor condition. The Maryland Department of Housing and Community Development has been involved in discussions to participate in this effort.
- Backstretch operations should be constructed first, and immediately, but must be closely coordinated with the work at Pimlico to ensure that there is always a facility available for training and racing during construction. It may be possible to proceed and complete the new racing ovals at Pimlico while design work continues at Laurel Park.
- Permanent facilities do not need to be as large as existing structures. Temporary overlay can be used for special events to reduce the operations and maintenance of fixed facilities.
- Current revenues for racing purses – approximately \$70 million – are a solid foundation for racing operations. There is a significant potential for a right-sized and horse-centered Laurel Park to be at a minimum a break-even proposition, anticipated sometime over the next five (5) years.
- A redevelopment of a Thoroughbred center will complement surrounding economic development activity in the Laurel Park area, making MEDCO involvement logical and appropriate.

Resources available and alternative structure for ownership of property and operations of racing:

- While the General Assembly authorized at least \$155 million in Maryland Stadium Authority bonds for Laurel Park renovations in 2020, the cost of the proposed program has grown significantly and is currently estimated at far more than current legislation authorizes.
- Additionally, IRS regulations in place since the Tax Cuts and Jobs Act of 2017 impose a requirement that the MSA renovation be treated as taxable income to the corporate ownership of Laurel Park.
- There is broad consensus that a new legal structure is necessary for both the ownership and operations of Laurel Park, in part to address the tax liability issue and also to ensure focus is on a successful racing operation. Ownership transfer has always been envisioned as part of the renovation and rebuild process.
- Detailed and ongoing discussions are underway about the creation of a state-authority model that would serve as the structure for Thoroughbred racing operations at Laurel Park. Consultants are examining similar structures at the Del Mar Race Track in California; at the Lone Star Park at Grand Prairie in Texas; and elsewhere.

Next steps and timeline

- Property acquisition negotiations should continue but conclude rapidly, with a target date of Dec. 15, 2022.
- It is feasible for MEDCO to serve as a vehicle for completion of the transaction, utilizing multiple potential funding sources.
- Research and refinement of non-profit/state-authority model should continue.

Background of Laurel Park – property, facility, operations

Laurel Park is the largest horseracing facility in Maryland. The facility opened to the public in 1911, and original structures remain as part of the clubhouse and grandstand complex.

Laurel Park is owned and operated by the Maryland Jockey Club, which is a subsidiary of The Stronach Group and its racing operating 1/ST Racing. The Maryland Jockey Club was founded in Annapolis in 1743, 30 years before the Revolutionary War, and is chartered as the oldest sporting organization in North America. After 267 years, it remains the corporate name of the company that operates Pimlico Race Course in Baltimore, which opened in 1870, as well as Laurel Park Racecourse in Laurel, Maryland which opened in 1911.

The size of the main property is 229 acres and sits entirely in Anne Arundel County. An adjacent 58-acre parcel, the Brock Bridge Road property, is owned by the Jockey Club corporate parents and is available for racing operations.

The 1911 grandstand structure is connected to a clubhouse built in 1959, and the combined facility is enclosed in a glass curtain wall erected in the 1960s.’

Backstretch operations consist of 45 structures, some dating to 1938, including barns, dormitories, a kitchen and other support structures.

Laurel Park’s location - roughly halfway between Washington, D.C. and Baltimore City - makes the area appealing to commuters. The area north and east of the racecourse is suburban in character, consisting of medium density single-family housing development with commercial businesses along arterial roadways such as MD-198 and Washington Boulevard

The Maryland Jockey Club receives significant operating assistance from the Maryland Thoroughbred Horsemen’s Association and the Maryland Horse Breeders association under a formally agreed to “10-year Agreement” adopted in 2012. The two associations agreed to provide the Maryland Jockey Club with a portion of its parimutuel wagering revenues, an operating subsidy of approximately \$8 million per year. The agreement spells out a minimum of 142 racing days yearly at Laurel and Pimlico combined.

That agreement expires in December 2022.

Current Ownership History

The Stronach Group, based in Aurora, Ontario, Canada, first purchased a majority interest in the Maryland Jockey Club in 2002, and expanded its interests in 2007. In addition to Laurel and Pimlico, the group owns several Thoroughbred racetracks, including Santa Anita (CA), Golden Gate Fields (CA) and Gulfstream Park (FL). The Stronach Group also operates the simulcasting venues at these tracks, as well as OTB (Off-track betting) facilities. Other ventures include Xpressbet, an advance deposit wagering business that allows customers to bet on over 100 horse racing tracks via internet or telephone.

The group rebranded its racing facilities as an entity known as 1/ST Racing, in 2020. The CEO of 1/ST Racing is Craig Fravel, who is formerly President and CEO of Breeders' Cup Limited, and was President and General Manager of Del Mar.

Under the corporate structure currently in place, Laurel Racing Association Limited Partnership owns the real property and other assets comprising Laurel Park. The Association consists of the general partner, Laurel Racing Association, Inc., and the limited partner, Maryland Racing, Inc. (MRI). MRI, through its wholly owned subsidiary MJC Racing (2007) LLC, owns a 100% voting and equity interest in the Association and Pimlico Racing Association, Inc. ("Pimlico"). The Stronach Group through its subsidiary TSG Developments Investments, Inc. (the Parent), ultimately owns a 100% equity interest in MRI. The Association and Pimlico are collectively referred to as The Maryland Jockey Club.

Stronach Group has been an active participant in redevelopment efforts adopted by the General Assembly in 2020 as SB 987.

Property Condition

The Maryland Stadium Authority, under SB 987, initiated efforts to create a feasible horse-racing centered re-development plan for Laurel Park and commissioned consultants to evaluate all physical aspects of the Laurel Park site and structure. A detailed report, including a 135-page facilities assessment prepared by ASG (Ayers Saint Gross) and Populous, has been reviewed by MEDCO staff.

The report evaluates the overall site, as well as the following components: structural frame, exterior envelope, roof, HVAC, plumbing, fire protection, electrical power, lighting, fire alarm, interior finishes, vertical transportation, life safety and accessibility and food service.

Structures and systems have been evaluated in the 1953 clubhouse, the 1911 grandstand, the 1966 curtain wall, as well as the backstretch barns and kitchen and paddock. Notable areas of concern have been found in all portions of the property.

In the basement area below the 1911 grandstand structure, there are excavated areas with shoring posts, but several shoring posts appeared to have fallen loose and not engaged with the slab above. Significant concrete distress is visible at the underside of the concrete slab, with corrosion of steel reinforcement.

Additions or renovations to the structures would pose a challenge. A 2017 study by the firm ECS on five concrete columns in the 1911 grandstand found that the reinforcement does not meet the minimum required by the current building codes, and thus the columns would need to be replaced if affected by added gravity or lateral loading from an alteration or addition.

The curtain wall shows evidence of leakage, missing and misplaced shims, and is in overall poor condition with several major repair needs and deficiencies identified. Significant signs of water management issues were identified requiring likely major repairs or replacement.

The report provides an overall rating index for each element of the facility and components systems, ranging from 1 to 5, corresponding to a description of excellent, good, fair, poor or bad. All component systems were found to have major deficiencies which place them beyond repair. Of note:

- Roof: the roof of the grandstand, clubhouse and curtain wall received a rating of 5, or “bad,” meaning replacement is required to restore functionality. The report recommended a complete replacement of the roof membrane, and also noted significant corrosion of original roof trusses, as well as evidence of significant moisture infiltration.
- HVAC: the HVAC system of the grandstand and clubhouse received a rating of 5, or “bad,” meaning replacement is required to restore functionality.
- Plumbing: the plumbing system of the grandstand and clubhouse received a rating of 4, or “poor” meaning that significant repairs are required, does not meet all codes and is obsolete.
- Electrical system: “bad” or 5 in Grandstand; “poor” or 4 in clubhouse.

Equipment in the Grandstand (1911) Building is failing and generally not suitable for re-use.

Plumbing systems are deteriorating and the fire protection systems at the Grandstand (1911) Building and the Clubhouse (1953) Addition do not provide full coverage.

The backstretch buildings can be grouped into four categories: horse barns, wash barns, dorms, and common facilities buildings. Backstretch buildings contain minimal to no fire protection systems and minimal HVAC. Consultants have recommended demolishing all.

Housing facilities for workers that care for horses are in generally poor condition, and beyond their usable life. For health and safety reasons, these housing units should be demolished and replaced with high-quality structures that meet current codes and all applicable standards.

Several backstretch buildings were constructed without building permits, and have drawn the attention of the State Fire Marshal and Anne Arundel county officials.

Notices were issued related to “dummy” hydrants in barn areas that are either not connected to water or do not contain adequate water flow for suppression. Violation notices state that barns did not undergo proper site development review, which would be necessary for violations to be resolved.

Of note, interior finishes in public facing areas are in excellent to good condition given recent renovations, including restaurants on clubhouse level and related lounges and common spaces.

There are portions of the property where preservation is recommended. An Historic Saddling Paddock structure is considered in good condition. Constructed in the 1920s or early 1930s, it is eligible for listing on the National Register of Historic Places for its representation of a distinctive architectural typology, and the building therefore contains many original and distinctive features.

Overall, however, it is the assessment of MEDCO real estate/development staff that the structures at Laurel do not warrant additional investment, and demolition is the logical next step.

The structures as currently configured would most likely not be used as part of an updated racing operation.

Valuation

A reasonable determination of the value of Laurel Park property is a critical component of next steps toward developing a feasible racing model. MEDCO is undertaking a comprehensive effort to establish the value of the real estate that comprises the Laurel Park property.

As authorized by the General Assembly, MEDCO has retained four (4) appraisal firms to evaluate the 229-acre Laurel Park site and the 58-acre Brock Bridge Road site, considering the conditions of grandstand, clubhouse and backstretch facilities as described above.

Those appraisals are in the process of being finalized, and updates may be provided as appropriate considering the status of any acquisition discussions or negotiations.

Summary of Consultations

As directed by the General Assembly, MEDCO representatives have engaged in discussions, which are ongoing, with key stakeholders since the adoption of HB 897, and have been encouraged by a willingness to cooperate and explore alternative management and operations structures for Laurel Park.

The Maryland Thoroughbred Horsemen's Association

- Leadership of the Maryland Thoroughbred Horsemen's Association indicate the organization would welcome an ownership change at Laurel Park.
- The Association is supportive of a new structure, e.g., a non-profit organization, possibly created by the State of Maryland, to operate horseracing activities.
- The Association is particularly interested in investments to the backstretch of Laurel, noting a need for up to 1,600 stalls to accommodate the consolidation of horse training activities from Pimlico and Bowie to Laurel.
- The Association supports and advocates for the installation of a new synthetic track surface for training and holds that this surface is necessary for a full training program.
- There is acknowledgement that sequencing with Pimlico is critical.

The Maryland Horse Breeders Association

- The breeders maintain that good conditions for facilities and racetracks are critical to industry success. Tracks must be high quality and safe for horses and jockeys.
- Breeders' view on Laurel is that backstretch barns need to be of high quality and meet full current standards for horses and those who care for them. HVAC systems must be current for staff health, and horses must also be kept in an environment that is healthy for them; additionally, good quality facilities are necessary for staff that care for horses and live close by.
- Breeders agree that the current front-side facilities (clubhouse and grandstand) are much larger than need be, and also agree that while some large-event racing days can attract 15,000 fans or more (e.g. Maryland Million Day) those crowds could be accommodated in quality, temporary structures for events. Sufficient customer parking must be available at the site for larger events, estimated at approximately 4,000 spots.
- Breeders note that nationally, the horse population is dwindling, mostly due to the cost of raising the animals. The national thoroughbred foal crop has dropped by about half in the last two decades.
- Horse breeding continues to be fairly strong in Maryland and is on the upswing. The state's 2021 foal crop was 613, up from 393 in 2011, a 64% increase. With the overall North American foal crop in decline, Maryland is the only major breeding state that has shown an increase over the last 10 years. The Maryland foal crop is now ranked seventh among states, up from 13th in 2011. Maryland bred horses now account for 46 percent of top finishers in state races.

- To maintain this position, racing needs to continue to be incentivized through dedicated revenues, as currently occurs.
- Breeders agree that a non-profit ownership model is needed and would be beneficial and would help ensure that money from Maryland racing stays in Maryland.

The Maryland Racing Commission

- The Commission agrees that renovations are desperately needed at Laurel, and further agrees that the Laurel grandstand facility is too large for current needs.
- The Commission sees value in sizing facilities to meet industry needs, citing Colonial Downs in Virginia as a template.
- The Commission acknowledges that nationwide, the number of Thoroughbred foals has been on the decline, ultimately affecting the number of racehorses.
- Under a new non-profit ownership and operating model, a break-even or profitable thoroughbred racing operation would be possible and sustainable.

The Maryland Stadium Authority

- The MSA has worked diligently since the adoption of SB987 in 2020 to plan and program for full operational improvements to Laurel Park, as well as to Pimlico.
- MSA has retained known and respected planning and design consultants – Ayers Saint Gross (ASG) and Populous (which has a racing and athletics specialty) – to evaluate and design facilities.
- MSA has worked collaboratively with the Maryland Thoroughbred Horseman’s Association, the breeders, and the Stronach Group/1/ST to take all needs into account to develop a facility plan and program.
- The estimated cost of construction work has grown significantly since 2020, due to the changing needs and desires of the ownership group and the horse industry, as well as an overall inflation in trades and building related costs. While SB987/Chapter 590 provided an anticipated \$155 million in bonding authority for Laurel Park (as part of the overall \$375 million in bonding authority for the combined Pimlico and Laurel Park projects) the current cost estimate of all programmatic needs greatly exceeds that amount.
- As it has undertaken its evaluation, MSA has documented a variety of life-safety violations in the backstretch area of Laurel Park, as well as environmental violations related to wetlands areas that are part of the property. Wetlands and sensitive areas, including water retention areas in the track infield, pose significant constraints on development of the property.

- The MSA is prepared to complete its construction responsibilities regardless of the ownership structure and management of Laurel Park and stands ready to work with all entities to accomplish the desired result.

These discussions have yielded the following conclusions:

1. The horse racing industry faces many challenges nationally and locally, but Maryland has the history, foundation and ability to be a national leader with a competitive and attractive product.
2. Laurel has potential to be premier facility because of its location and the with some redevelopment resources already available.
3. There is broad agreement that existing Laurel consumer-facing facilities are larger than the current market calls for and are generally in poor condition.
4. There is broad agreement that the backstretch operations – barns, stalls, staff housing, laundry and other functions – can and should be redeveloped to high quality to support the industry.
5. A strong foundation of resources is available to accomplish a successful racing program.
6. A revised ownership and management structure could provide significant benefit, aiding in the efficient management of racing operations and concentrating attention and resources on racing activities, while maximizing the retention of operating profits in the state of Maryland, for the benefit of racing.

Summary of discussions with and requests by The Stronach Group

The Stronach Group and 1/ST Racing have been engaged participants in the development of a renovated facility plan at Laurel Park, and their desires have been included in the programmatic planning process.

State law (via Chapter 590/SB987) has envisioned that Laurel Park property would be conveyed to a new operating entity at some point. Specifically, SB987 contains language stating “an interest in the site, in whole or in part, will be granted to Anne Arundel County or an entity or entities designated by the county at a time and on conditions established in the agreement.”

Chapter 590 also contains “requirements for and the contents of long-term agreements for management and operations at the Pimlico and Laurel Park racing facility sites.”

The Stronach Group has expressed interest in maintaining certain parcels within the Laurel Park plan for its own purposes. Under one version of a Stronach plan, all racing operations would be concentrated on the current 229-acre footprint of the Laurel Park site, and the 58- acre Brock Bridge Road property would remain outside of racing operations, and available to the Stronach Group for other “mixed-use” commercial/residential development purposes.

Additionally, the Stronach Group has sought to maintain portions of land within the Maryland Stadium Authority redevelopment footprint, including a 15.4 acre existing “clubhouse site” [made available by relocating the clubhouse from the west side of the track to the east side] and a 16.2 acre “Route 198 site.”

It is now widely understood that the Tax Cuts and Jobs Act of 2017 changed the IRS code to make grant proceeds from governmental entities to corporations taxable as gross income. IRS Section 118 would treat the MSA bond investments to redevelop Laurel Park as such a proceed, with a significant tax liability that the Stronach Group has indicated it desires to avoid.

In August, MEDCO asked Stronach Group/1/St for information on economic terms for the transfer of Laurel Park property. The company said that it would wait for information from MEDCO appraisals to drive that process.

Craig Fravel, CEO of 1/ST Racing, responded that “we have been engaged in a due diligence process with the Maryland Thoroughbred Horsemen's Association (“MTHA”) and the Maryland Horse Breeders’ Association (“MHBA”) directed at the development of a long-term operating model for Laurel and the feasibility of various revenue sources to sustain that model.”

Fravel wrote that the company is “willing to consider the sale of both [Laurel] parcels or just the current racing parcel and expect the appraisal process you are currently conducting to be a key element of that determination.”

Proposed Going-Forward Operations and Structure

Based on preliminary analysis to date and the economic significance of racing, MEDCO sees no immediate obstacles to its serving as the entity that could take control of Laurel Park property in an acquisition and facilitate the transition to a non-profit or agency type structure that would be committed to a racing operation and would maximize racing revenues and work to keep those revenues in the state of Maryland for the benefit of the industry.

Ultimately, as envisioned in SB987 and as being discussed by many stakeholders, a separate entity is required to ultimately control the property and operate racing in Maryland.

Discussions continue surrounding various options for a racing ownership and operational structure. They include:

- A state-owned or controlled authority: a Thoroughbred Racetrack Operating Authority could be created under the state Commerce article, with members appointed by the governor and approved by the state Senate, to own and manage the primary asset of Laurel Park Thoroughbred Racing operations. Such a structure is in place in various racing facilities throughout the country and is commonly referred to as the Del Mar Model, in place at the Del Mar Racetrack in California. (Similar models in Texas and elsewhere are also under review.) These models, which are complex, involve the creation of and ownership by a governmental entity, the subsequent lease to a separate group for racing and wagering.
- A non-profit organization: A non-profit entity could be formed or expanded to undertake the responsibility of managing Thoroughbred horse racing operations in Maryland.

- Maryland Thoroughbred Horsemen’s Association: Some consideration has been given to the horsemen’s association becoming the operating entity for Laurel Park.

Negotiated acquisition

MEDCO can serve as a vehicle for completion of the transaction, utilizing multiple potential funding sources currently being explored. MEDCO further may play a role in financing acquisition, acquiring, owning and transitioning of the project, provided an adequate revenue source is identified to address repayment of the debt obligations utilized, such as the repayment of revenue bonds.

Any negotiated purchase would take into account deferred maintenance and condition of the existing facilities.

The acquisition should include the Brock Bridge Site to execute the fully envisioned backstretch needs.

Contemplated utilization

MEDCO has approached its analysis approaching this effort with a goal of realizing the Laurel Park property as a vibrant and sustainable year-round racing operation, with full training and backstretch facilities.

MEDCO agrees with the scope and program of the facility as generally designed by the Maryland Stadium Authority, to include:

- Construction of modern, habitable barns and dormitories on the backstretch.
- Demolition of the current clubhouse and grandstand, preparing land for a right-sized facility.
- Sufficient back-of-house operations for production for televised parimutuel wagering, food service and other need.

Preliminary operational and financial analysis

When Laurel Park is reconstructed as the center of racing operations, priority must be placed on the provision of a quality product: the most talented horses, primarily Maryland-bred horses, competing in races with top purses, and a customer base that is drawn to those races, with income streams supplemented by simulcasting, food and beverage and legalized sports wagering.

A review of financial information shows that Laurel Park operated with a loss from operations of \$5.78 million in 2016 and \$10.1 million in 2019, prior to the onset of coronavirus pandemic, which created more economic uncertainty.

Currently, approximately \$70 million per year is generated for purses in Maryland, or more than \$350,000 per race day.

Pursuant to the 10-year agreement with the Stronach Group, \$8 million annually is diverted from parimutuel purse fund revenues to cover operational shortfalls. The agreement expires Dec. 31, 2022. According to preliminary analysis, there is reason to believe that the \$70 million annual overall purse structure has room for growth, and the basic purse structure is adequate to support a strong racing and breeding industry.

Operating advantages already in place (parimutuel gaming and revenue from the Preakness Stakes and other large-scale racing events) could lead to at least a breakeven situation, not an annual loss of tens of millions of dollars.

The Maryland Thoroughbred Horsemen's Association assistance helps offset operational losses to underwrite the expense of more live race dates. Accounting for the horsemen's contribution, OTB income and other income, the net loss from 2016 to 2019 averaged roughly \$1.5 million per year. These auxiliary income streams must be considered when assessing full financial viability of a Thoroughbred site.

Implementation timeline

Discussions with Stronach should continue with a clear deadline, including a target date for a best and final offer of December 15, 2022.

MEDCO could acquire property subsequently, and construction would commence following final design and bidding process overseen by the Maryland Stadium Authority.

Items for future exploration

The prime location of Laurel Park means that as a horse facility gains attention and customers, ancillary real estate will become more attractive, and opportunities exist for residential and commercial growth on adjacent parcels.

The Stronach Group is currently involved in a major residential development project known as Paddock Pointe to the east of Laurel Park, in close proximity to the Laurel MARC station. In coordination with local government officials, consideration should be given to the creation of a Tax Increment Financing district in the Laurel Park area to facilitate improvements to the Laurel MARC station. This would attract additional private sector investment in new "mixed-use" commercial/residential development around Laurel Park, that supports the surrounding community, the racing industry and its patrons.

Resources used in analysis

Due to the responsibilities required under this bill and timeline given, MEDCO retained consultants to contribute their expertise and help manage the project. MEDCO explained to the General Assembly in April 2022, through its Agency Explanation of Impact Response for HB

897, that due to MEDCO's operating capacity and current commitments to other projects, such consulting services would be required.

Consultants assisted in solicitation of appraisal firms and oversee of the process; and preparing feasibility analyses of racing operations. Consultants interfaced with the mile thoroughbred racing licensees, the Maryland Thoroughbred Horsemen's Association, the Maryland Horse Breeders Association, the Maryland Racing Commission, the Maryland Stadium Authority, and any additional parties, as necessary.

In addition to the consultant MEDCO brought on to perform the work above, MEDCO also engaged counsel to help guide discussions with the Stronach Group, Laurel Park's current owner, to determine the terms and conditions of a potential purchase of all or a portion of the site to a government entity or a nonprofit entity.

Racing industry consultant: Corey Johnsen: Mr. Johnsen has more than four decades of experience in the horse industry, as owner, trainer, track owner and manager. He is a member of Texas Horse Racing Hall of Fame and is former president and part-owner of Kentucky Downs. He oversaw the construction and launching of Lone Star Park in Texas, leading the track into the national limelight with not only the Breeders' Cup but with the high-profile All-Star Jockey competition that received national publicity and acclaim.

Legal counsel: Gregory Cross III: Greg Cross is a senior partner at Venable, where he serves on the firm's management board and is the firm's lead director. He is recognized as one of the country's leading commercial real estate and structured finance litigators. Greg has served as lead counsel for the largest real estate workouts in U.S. history. He also has tried numerous cases involving issues of first impression in courts throughout the country, including the United States Supreme Court. Greg represented the State of Maryland during the 2009-10 Magna Entertainment bankruptcy that entangled the Preakness Stakes.

Conclusion and Recommendations

Location: Laurel Park possesses potential to serve as a best-in-class Thoroughbred racing destination due to its convenient location at the center of a major metropolitan area and the size of the site.

Resources: With available land, industry interest and cooperation, and resources provided by the General Assembly and the Maryland Stadium Authority, it is feasible to construct a high-performing horse-oriented facility that would be the consolidated hub of year-round Thoroughbred racing in Maryland.

Timing: A new facility must be constructed relatively quickly because it is an integral component of redevelopment of the Pimlico site in Baltimore.

Sizing and operations: Such a facility, as being designed and programmed by the Maryland Stadium Authority, must include much-improved backstretch operations, a right-sized clubhouse and customer structure, and a focus on Maryland racing.

Deficiencies of current ownership and operating structure: The current ownership and operating structure is an impediment to this plan, because of its unwillingness to make investments necessary to improve Laurel Park and allow government investment under the current ownership structure due to federal taxation concerns. Industry participants further believe current ownership has shifted its general focus away from horse racing, training and breeding. It is important, therefore, that the existing Laurel Park footprint and the Brock Bridge Road property be dedicated to serving the broad racing, training and breeding needs of Maryland's horse industry.

MEDCO role: MEDCO can serve in a needed capacity to acquire property, provide advisory services, guidance and management as a new authority or non-profit model is created.

Financial viability: Preliminary evaluation of business models indicate that a right-sized, horse-focused, Maryland-focused facility could provide a sufficient return on investment to make the project feasible.

Next steps: Efforts should continue regarding property acquisition and development of an operating authority.