
Horse Racing in Maryland

A Background Report

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Horse Racing in Maryland

A Background Report

Horse racing in Maryland has undergone significant changes since its inception more than 250 years ago. Many of these changes occurred in the last two decades as competition for the legal gambling dollar increased and resulted in State financial relief. The industry in Maryland has generally mirrored national trends, with a decline in market share to other commercial gambling. Maryland's harness tracks have been more negatively affected than the thoroughbred tracks.

The Evolution of Racing in Maryland

Maryland's long history of horse racing began in 1743, with the creation of the Maryland Jockey Club formed to supervise a track located in Annapolis. In the early 1900s, horse racing was so fashionable that Alfred Vanderbilt was given Pimlico and Laurel for his 21st birthday. By 1950, horse racing had expanded to include four mile thoroughbred tracks, five half-mile thoroughbred tracks, and four harness tracks. Daily license fees were \$6,000, with tracks vying for the limited number of live racing days. The State wagering tax rate was as high as 7 percent. As the only outlet for legalized gambling, the horse racing industry was doing relatively well.

However, by the mid-1970s, competition for the legal gambling dollar was changing the face of horse racing in Maryland. Tracks were consolidated, as well as the ownership of those tracks. In order to help support live racing, Sunday racing, off-track betting, and intertrack wagering were introduced. Daily license fees dropped to \$25. A major decrease in the State wagering tax rate in 1985 was followed by another drop in 1997. Other types of relief were granted as well, and an executive/legislative commission was created to study ways to improve the financial viability of the racing industry. Important changes that have occurred since 1980 follow.

Regulation - Commission Consolidation and Alternatives to Live Racing

- The Thoroughbred Racing Board and the Harness Racing Board were combined into a seven-member Racing Commission, with the membership eventually increased to nine.

- Sunday racing was authorized for all the tracks in 1983, with the exception of Pimlico which did not receive authorization until 1987.
- The Maryland General Assembly authorized the Commission to establish a system of telephone betting at the tracks in 1984.
- The State was given the first right of refusal if the Preakness is offered for sale.
- Intertrack wagering and the receipt of out-of-state simulcasts was authorized in 1988. Full authorization to conduct "cross breed" simulcasting, whereby harness tracks could receive in-state thoroughbred signals and vice versa, was authorized in 1990, but did not begin until 1993.
- Satellite simulcasting was authorized in 1992, with the first of five facilities opening in 1993. A request to open a sixth facility is pending.

Track Ownerships - Changing Hands

- Laurel Raceway's name was changed to Freestate after it was sold to Frank De Francis and Martin Jacobs in 1980. The racing operation (not the land) was sold in 1987 to Mark Vogel, who had controlling interests in Rosecroft since 1984 and Ocean Downs since 1986. Racing ceased at Freestate in 1989 and the land was sold to a developer.
- Rosecroft and Ocean Downs were purchased out of foreclosure in the early 1990s by Colt Enterprises, Inc., then sold in 1995 to Cloverleaf Enterprises, Inc. Bally's provided financing and obtained an agreement that it could purchase a majority interest in the tracks if legalized gambling was expanded in Maryland.
- In May, Bally's purchased Ocean Downs from Cloverleaf.
- Bowie was sold by the Canadian company Gibraltar Parimutuel to the Cohens, owners of the Maryland Jockey Club and Pimlico, in 1983. The Cohens, in turn, sold a half interest to John Schapiro.
- Frank De Francis and Robert and John Manfuso purchased Laurel from John Schapiro in 1984 and the Maryland Jockey Club and Pimlico from the Cohens in 1986. The half interests in Bowie were part of both purchases, resulting in full ownership of Bowie by the partners. Joe De Francis purchased the ownership interests of the Manfuso brothers in 1994.

Financial Relief - Nearly \$20 Million Since 1985

- **The 1985 Package.** For the mile thoroughbred tracks (Pimlico and Laurel), the daily license fee was reduced from \$1,000 to \$25 and the State wagering tax was reduced from 4.09 percent to .5 percent. For the harness tracks (Freestate, Rosecroft, and Ocean Downs), the State wagering tax was reduced from .75 percent to .5 percent except for Ocean Downs, which would remain tax exempt until 1992 because of its low level of average daily wagering. The State also relinquished its 50 percent share of the breakage at the harness tracks to the tracks.

The package totaled \$11.7 million, split \$11 million to the thoroughbred industry (tracks: \$7 million; purses \$3.5 million; Bred Fund \$.5 million) and \$.7 million to the harness industry (tracks and purses: \$.2 million each; Bred Fund \$.3 million).

- **The 1997 Package.** For one year only, \$5 million is diverted from the State Lottery for purses, the state wagering tax is reduced from .5 percent to .32 percent with the \$1 million difference to be distributed to purses, and \$500,000 of uncashed parimutuel tickets from thoroughbred races is diverted from the State to the Maryland Million, Ltd. to support the Maryland Million races. Beginning with fiscal 1998, the State is assuming the responsibility for payment of the personnel costs of the Maryland Racing Commission's 48 "additional" employees from the tracks, with the exception of pension contributions, relieving the tracks of nearly \$2 million of annual expenses.

The package totaled about \$8.5 million, with an estimated one-year benefit to the thoroughbred industry of \$6.4 million (ongoing benefit of \$1.6 million) and for the harness industry, \$2.1 million (ongoing \$.4 million).

National Trends in Horse Racing Show a General Decline

Based on observations of Arthur T. Johnson and Scott Messersmith, authors of recent papers on this issue, horse racing in the United States is in general decline. Data from the 1996 *Fact Book* and the August 1997 publication of *International Gaming & Wagering Business* support their observations.

- For several decades, horse racing has lost market share to other forms of commercial gambling. Horse racing's market share was around 28 percent in the 1960s. By 1982, this share had fallen to 9 percent. In 1995 and 1996, horse racing's share had dropped to 2.7 percent and 2.6 percent, respectively.

- Although horse racing handle (the total wagered) has continued to increase, other competitors for the gambling dollar show far greater growth. From 1982 to 1996, the average annual growth in wagering on horses was 1.8 percent, compared to lotteries at 18.3 percent and casinos at 11 percent. From 1995 to 1996, horse racing handle increased by 1.5 percent, compared to 4 percent for casinos, 47 percent for video gaming devices, and 11 percent for state lotteries.
- Horse racing's total handle has increased only because of simulcasting. From 1982 to 1996, the average annual decline in live handle was 6 percent. During the same period, simulcasting showed an average annual increase of 8 percent. From 1995 to 1996, live handle decreased by 14 percent while simulcasting increased by 9 percent.
- The number of live thoroughbred races run has declined each year since 1990, with 20 percent fewer live races run in 1996 compared to 1990, and a 6 percent drop from 1995 to 1996.
- Purses have continued to increase because of the combination of fewer races and increased handle from simulcasting.

Maryland Horse Racing Trends Generally Mirror the National Trends

- As shown in **Exhibit 1**, the national trends of market share loss, fewer live racing days, growth in simulcast wagering at the expense of live race wagering, and purse growth also exist in Maryland, although the trends are less distinct. The exception is total wagering, which has shown inconsistent patterns.
- Of the \$2.3 billion spent in Maryland in 1996 on legalized gambling, 25 percent was spent on horse racing and 50 percent was spent on the lottery. From 1990 to 1994, lottery sales grew on average 4.3 percent per year while wagering on horse racing grew on average 1.1 percent per year.
- The number of live days dropped by 25 percent from 565 in 1994 to 422 in 1996, with simulcasting days increasing by a similar amount.
- Since its introduction, simulcast wagering has shown an increase every year at the expense of on-track wagering on live races. In 1996, about 40 percent of total wagering was by fans at the tracks on live race days, although nationally this figure is nearer 33 percent.
- Average daily purse distributions have generally increased.

Exhibit 1

Trends in Maryland's Horse Racing Industry
Thoroughbred and Harness Tracks

Data	1997 * (Jan. - June)	1996	1995	1994
Total Wagered in MD	\$293,001,203	\$547,533,743	\$580,213,601	\$587,882,753
On-Track	\$127,987,067	\$238,350,519	\$265,685,014	\$281,622,501
Off-Track (OTB's / Intertrack)	\$165,014,136	\$309,183,224	\$314,528,587	\$306,260,252
Out-of-State Wagering on Pimlico and Laurel Races	\$197,640,901	\$316,948,057	\$227,003,156	\$158,981,304
Total Number of Race Days	n/a	597	593	644
Live	212	422	485	565
Simulcast	n/a	175	108	79
Total Purse Distributions	\$22,205,742	\$45,042,263	\$46,927,489	\$46,114,939
Track Profit / Loss	n/a	\$685,336	\$3,029,904	(\$5,055,113)
* x % of live racing days run	39%	0	0	0

Note: No data were available on harness track simulcast dates in 1997. Live harness dates for Ocean Downs include the period from July 3 through August 15.

Source: Maryland Racing Commission, Maryland Jockey Club, Rosecroft Raceway, and Ocean Downs

Prepared by: Department of Legislative Services, September 2, 1997

- Total wagering peaked in 1994 at \$587 million, but decreased to \$547 million in 1996, due in large part to poor performances at the harness tracks.

Maryland's Thoroughbred Tracks Hold Their Own While the Harness Tracks Struggle

Compared to harness racing, Maryland thoroughbred racing attracts six times the number of fans, with four and one-half times the level of wagering. Although exporting races out-of-state is a growth business for all of Maryland's tracks, it is "big" business at the thoroughbred tracks. In 1996, the amount wagered out-of-state on live races at Pimlico and Laurel was slightly more than that wagered off-track in Maryland. At Rosecroft, the amount was slightly less.

Exhibits 2 through 4 show the last three and one-half years of wagering, attendance, purse statistics, and profitability for Maryland's thoroughbred and harness tracks. Some observations follow.

The Maryland Jockey Club (Pimlico and Laurel)

- The Maryland Jockey Club has been profitable each year shown, with 1995 a relatively good year as evidenced by the level of wagering, purse distributions, and profits.
- Pimlico and Laurel generally track the national trends, with the exception of a rise in attendance and a decrease in purses for the first six months of 1997.

Maryland's Harness Tracks - Rosecroft and Ocean Downs

- Both Rosecroft and Ocean Downs are struggling. Since the early 1980s, Rosecroft has changed ownership four times. During the same period, Ocean Downs has changed ownership five times.
- Combined losses have been incurred each year shown, although the level of loss has declined under the ownership of Cloverleaf.
- The trends at the harness tracks do not uniformly reflect the national trends.

Exhibit 2

Trends at Maryland Thoroughbred Tracks
Maryland Jockey Club - Pimlico and Laurel

Data	1997 * (Jan. - June)	1996	1995	1994
Total Wagered in MD	\$248,943,657	\$458,913,080	\$475,028,293	\$461,524,827
On-Track	\$103,554,553	\$194,073,382	\$209,519,785	\$214,082,485
Off-Track (OTB's / Intertrack)	\$145,389,104	\$264,839,698	\$265,508,508	\$247,442,342
Out-of-State Wagering on Pimlico and Laurel Races	\$186,899,922	\$284,610,460	\$198,961,216	\$129,680,746
Total Number of Race Days	155	248	311	297
Live	125	184	248	243
Simulcast	30	64	63	54
Avg. Daily Attendance (no OTB)	7,275	7,043	7,512	8,068
Avg. Daily Purse Distributions	\$151,930	\$160,246	\$154,893	\$145,465
Total Purse Distributions	\$18,991,248	\$37,337,220	\$38,258,515	\$35,202,540
Track Profit / Loss	n/a	\$1,720,074	\$4,156,039	\$1,167,662
* x % of live racing days run	58%			

Source: Maryland Racing Commission and Maryland Jockey Club

Prepared by: Department of Legislative Services, September 1, 1997

Exhibit 3

Trends at Maryland Harness Tracks
Rosecroft Raceway

Data	1997 * (Jan. - June)	1996	1995	1994
Total Wagered in MD	\$39,057,546	\$80,001,958	\$99,735,793	\$112,517,342
On-Track	\$20,532,514	\$40,865,123	\$53,553,981	\$62,109,573
Off-Track (OTB's / Intertrack)	\$18,525,032	\$39,136,835	\$46,181,812	\$50,407,769
Out-of-State Wagering on Rosecroft Races	\$9,390,979	\$32,337,597	\$28,041,940	\$29,300,558
Total Number of Race Days	63	286	249	248
Live	63	175	211	245
Simulcast	n/a	111	38	3
Avg. Daily Attendance (no OTB)	1,070	1,137	1,490	1,859
Avg. Daily Purse Distributions	\$39,289	\$37,986	\$37,638	\$38,485
Total Purse Distributions	\$2,514,494	\$6,647,624	\$7,941,523	\$9,351,920
Track Profit / Loss (includes Ocean Downs)	n/a	(\$1,034,738)	(\$1,126,135)	(\$6,222,775)
* x % of live racing days run	22%			

Colt Enterprises, Inc. owned Rosecroft and Ocean Downs. Colt sold both tracks to Cloverleaf in 1995. Cloverleaf sold Ocean Downs to Bally's in May 1997.

Sources: Maryland Racing Commission, Ocean Downs, and Rosecroft Raceway

Prepared by: Department of Legislative Services, September 1, 1997

Exhibit 4

Trends at Maryland Harness Tracks
Ocean Downs

Data	1997 * July 3 - August 15)	1996	1995	1994
Total Wagered in MD	\$5,000,000	\$8,618,705	\$5,449,515	\$13,840,584
On-Track	\$3,900,000	\$3,412,014	\$2,611,248	\$5,430,443
Off-Track (OTB's / Intertrack)	\$1,100,000	\$5,206,691	\$2,838,267	\$8,410,141
Out-of-State Wagering on Ocean Downs Races	\$1,350,000	\$0	\$0	\$0
Total Number of Race Days	24	63	33	99
Live	24	63	26	77
Simulcast	n/a	n/a	7	22
Avg. Daily Attendance (no OTB)	1,800	1,116	2,163	1,558
Avg. Daily Purse Distributions	\$17,500	\$10,504	\$11,596	\$16,001
Total Purse Distributions	\$700,000	\$1,057,419	\$727,451	\$1,560,479
Track Profit / Loss (includes Rosecroft)	n/a	(\$1,034,738)	(\$1,126,135)	(\$6,222,775)
* x % of live racing days run	60%			

First meet of 1997 July 3 thru September 7.

Colt Enterprises, Inc. owned Rosecroft and Ocean Downs. Colt sold both tracks to Cloverleaf in 1995. Cloverleaf sold Ocean Downs to Bally's in May 1997.

Sources: Maryland Racing Commission and Ocean Downs

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- Rosecroft has shown significant declines in every category since 1994 with the exception of races sold out-of-state and average daily purse distributions. Although unusual, on-track wagering at Rosecroft outpaces off-track wagering; however, this spread is closing.
- Ocean Downs shows no consistent patterns, reflecting a minimal but erratic number of race days and a clear struggle to stay open. Although the numbers shown for 1997 look promising, the track is having difficulty attracting a field of horses since the opening of Harrington (in Delaware) two weeks ago.

Summary

The horse racing industry in Maryland and around the country has been faced with many challenges since its virtual monopoly over the legal gambling market ended by the 1970s. Numerous strategies have been employed over the years to stem the tide. Despite all of the efforts, the challenge identified by Scott Messersmith as "dwindling consumer demand" still exists and must be addressed if horse racing is to remain a viable industry.