

HORSE RACING TAXES

House Bill 5400 as enrolled
Public Act 408 of 1998
Second Analysis (1-14-99)

Sponsor: Rep. Michael J. Griffin
House Committee: Tax Policy
Senate Committee: Transportation and
Tourism (Discharged)

THE APPARENT PROBLEM:

Michigan's \$1.2 billion horse racing industry is in trouble. In fact, representatives of the smaller outstate horse racing tracks, such as those in Jackson, Saginaw, and Mount Pleasant, are fearful that they cannot survive. (The harness racing track in Muskegon closed in 1997.) They say the tracks are losing money each year. And one of the state's largest tracks, Ladbroke DRC in Livonia, ceased operations in 1998. Experts say that the industry is responsible for producing 42,000 jobs, \$233 million in personal income, \$439 million yearly in economic output, and \$31 million in state tax revenues. But competition from other forms of entertainment and gambling, including the introduction of casinos into the state, threaten its existence. Although legislation enacted in 1995 has helped the industry by authorizing full-card simulcasting, among other things, more needs to be done. Legislation has been proposed aimed at improving the economic position of the smaller tracks and that of the Michigan horse racing industry generally.

THE CONTENT OF THE BILL:

The bill would amend the Horse Racing Law to:

-- Increase the amount a licensee could retain as a commission on all forms of multiple wagering to a maximum of 28 percent without the permission of the racing commissioner and up to 35 percent with the commissioner's permission. Currently, a licensee can retain 20.5 percent. (The commission on straight wagering -- win, place, and show -- remains at 17 percent.)

-- Permit an application for 1999 racing dates to be filed at any time. The current filing date is July 1 and would be changed to September 1 for years other than 1999.

-- Eliminate the time-of-day restrictions on the simulcasting of a horse race.

-- Allow a licensee to conduct live horse racing programs after 6:45 p.m. if the licensee is not in a city area and is 75 miles or more from the nearest race meeting licensee authorized to conduct live horse racing. (With some exceptions, thoroughbred racing is not permitted after 6:45 p.m. and harness racing is not permitted before 6:45 p.m.) The term "city area" is used in the act to refer to a city with a population of 750,000, including counties that lie within 30 miles of the city limits; this applies only to the Detroit metropolitan area.

-- Delete provisions that allow a city area race meeting licensee to charge another race meeting licensee in the state a fee for permission to simulcast races from out of state of a breed different from the breed raced at the track seeking the simulcasting but the same as a breed that is raced at the track from whom permission is being sought. Written permission would still be required. (A city area track has been able to charge a fee to a track receiving a simulcast it is sending if the simulcast is of races featuring horses of different breeds from those the receiving track is licensed to race. The maximum fee was 1.5 percent of the total amount wagered at city area race meetings and 0.5 percent of the total amount wagered at tracks outside a city area.)

-- Remove provisions under which the commissioner may approve and regulate a special sweepstakes pari-mutual pool that is not connected with any other form of multiple wagering or related to any other win, place, or show pool.

-- Provide that if a thoroughbred track license is surrendered, revoked, or escrowed, or, after January 1, 1998, a licensed thoroughbred track is closed, the racing commissioner would have to order the deposit

of horsemen's purse pool money to a depository designated by a race meeting licensee upon written direction of the affected certified horsemen's organization regardless of whether there was racing at the licensee's location during the previous year.

MCL 431.310 et al.

BACKGROUND INFORMATION:

The Horse Racing Law of 1995 (House Bill 4526) eliminated the wagering tax on live races and established a wagering tax on interstate and intertrack simulcast races. The act also eased restrictions on simulcasting, permitting full-card simulcasting. Simulcasting is the live transmission of horse races from one track, either outside or inside the state, to another track. An "intertrack simulcast" is a simulcast from one racetrack to another within the state and an "interstate simulcast" is a simulcast from a track outside the state to one inside the state. For calendar year 1996 each holder of a race meeting license was required to pay a 2.5 percent tax on all money wagered on simulcast races conducted at the licensee's race meetings. For 1997 and thereafter, the tax rate increased to 3.5 percent. The revenue from the tax goes to the Equine Industry Development Fund, which supports horse-industry related programs. (The analysis of House Bill 4526 of 1995-96 dated 4-10-96 contains a thorough discussion of horse racing issues. The Senate Fiscal Agency analysis of Senate Bills 1307 and 1314 dated 11-12-98 also discusses this issue.)

FISCAL IMPLICATIONS:

The Senate Fiscal Agency reports that the bill could generate an indeterminate increase in revenue to the Agriculture Equine Development Fund due to easing restrictions on standardbred and thoroughbred racing and simulcasting times. The SFA cites information from the Office of the Racing Commissioner that increases in the amount retained by tracks (or simulcasting parlors in other states) can result in a greater decrease in the amount of wagering. If that occurred in Michigan, it would reduce the amount of horse racing revenue deposited in the fund. (SFA floor analysis 12-3-98)

ARGUMENTS:

For:

The legislation is aimed at helping the state's horse racing industry survive. It would increase the "takeout" (or commission) from wagering that goes to the racetracks; eliminate the permit fee tracks must pay for certain kinds of simulcasting; eliminate restrictions on when certain kinds of races (harness or thoroughbred racing) can be simulcast at tracks; and permit thoroughbred racing after 6:45 p.m. in certain circumstances (which might permit the Muskegon track to reopen as a thoroughbred track). There is related legislation -- Senate Bill 1314 (Public Act 505 of 1998) -- which directs revenues from unclaimed tickets to the tracks rather than to the state. Together, these provisions should improve the economic position of horse racing in the state. The industry is struggling and faces in the near future the threat of ever more competition for the gambling and entertainment dollar from expanded casino gambling (in Detroit and elsewhere).

Response:

Some people believe that if Michigan's horse racing industry is to survive in competition with other gambling and entertainment industry and with its Canadian counterparts, more changes in the Horse Racing Law are needed. Among other things, they advocate allowing slot machines and other devices at race tracks, as well as telephone account wagering.

Analyst: C. Couch

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.