

Bill/Sponsor **HOUSE BILL 4609 As Introduced**, Rep. Larry Julian
HOUSE BILL 4610 As Introduced, Rep. Jack Minore
HOUSE BILL 4612 As Introduced, Rep. Rich Brown

House Committee Agriculture and Resource Management

Analysis **SUMMARY**

HB 4609

Off Track Betting (OTB) and Account Wagering

The Horse Racing Law amendments would allow up to 15 off-track racing theaters and telephone/Internet account wagering. Racing theaters are defined as enclosed facilities where patrons may view off-track telecasting and engage in off-track wagering on the results of the telecast horse races. The racing theaters cannot be located less than 10 miles from a licensed racetrack or another racing theater unless all racetracks and racing theaters waive this restriction. Before participating in account wagering, multi jurisdictional wagering hubs need to be issued a license to operate by the Lottery Bureau. The two types of account wagering would be permitted under the proposal -- wagering on races via telephone or the Internet.

HB 4610

Video Lottery Terminals (VLTs) at Racetracks

House Bill 4610 amends the State Lottery act to regulate video lottery games and keno at licensed racetracks. The Lottery Bureau would approve video lottery terminals (VLT's), but each licensee would be expected to purchase or lease installed VLT's. Each facility could have 500 terminals, but this could be increased if allowed by the Bureau. In addition, the racetrack licensee shall negotiate a hosting agreement with the local unit of government. If no hosting agreement is agreed to, then the Lottery may determine the terms of the hosting agreement or decide not to permit VLTs at the racetrack.

Gross terminal income, which is the total amount wagered less total prizes, would be remitted to the Lottery Bureau. Lottery is allowed to deduct its administrative expenses from gross terminal income (net terminal income is gross terminal income less administrative costs) before allocating VLT revenue. The first \$150.0 million of net terminal income would be credited to the State School Aid Fund (SAF). The remaining net terminal income would be divided between the Horse Racing Commissioner and the State General Fund/General Purpose (GF/GP) at 65% and 35%, respectively. Racing Commissioner revenue would be further distributed to licensees (54%), regular purses (23%), breeders (3%), and Department of Agriculture (20% - State Equine Development Fund).

HB 4612

OTB at Detroit Casinos

The Michigan Gaming Control and Revenue Act would be amended to allow televised horse races at licensed casinos. Licensed casinos could operate racing theaters. After deducting a licensee commission, wager revenue would be

distributed by the Horse Racing Commissioner in the same manner as other wager revenue. Licensed casinos would be treated in the same manner as racing theaters licensed under House Bill 4609.

FISCAL IMPACT

Methodology of Revenue Estimates

The fiscal impact is the change in revenue from current law, which does not include the executive recommendation proposals for two new lottery games. These two new games, which include club or quick-draw keno and break-open lottery tickets, would be offered in up to 3,000 bars and restaurants. In addition, these estimates assume that no other racetracks will open and no other Native American casinos will open.

Data from other states was used to estimate the potential fiscal impact of the new games. The VLT gross gaming revenue or gross terminal income (total wagered less prizes) generated in Iowa, Louisiana, Montana, New Mexico, Oregon, Rhode Island, South Dakota, and West Virginia were used as a basis to determine the estimate for VLT gross terminal income in Michigan. Illinois’ experience with OTBs was used as a proxy for the total handle or total wagered and the gross gaming revenue in Michigan.

Key to determining the fiscal impact of the racetrack proposal is the total size of the gaming market in the state. Additional gaming revenue, such as proposed in this package, would expand total gaming consumption, but would also reduce to some degree existing gaming consumption. It is important to note that the determination of the saturation point and the level of cannibalization (decline in existing games due to racetrack proposals) is difficult to identify. However, it is reasonable to state that the increased competition would reduce gaming revenue generated from the Detroit casinos, Native American casinos, the currently offered games at the racetracks, and the Lottery.

**Table 1
Earmark of Racetrack Proposals**

<u>GAMING PROPOSAL</u>	<u>ALLOCATION</u>
Video Lottery Terminals	\$150.0 million School Aid Fund 65% Horse Racing Commissioner 35% General Fund
Off Track Racing Theaters and Account Wagering	54% Licensees 23% Purses 3% Breeders 20% Equine Development Fund

Tables 2 and 3 (on the following pages) depict the potential fiscal impact for each of the proposals. Table 2 shows the preliminary fiscal year (FY) 2004-05 estimated fiscal impact for various numbers of VLTs permitted at each racetrack. It is assumed that FY 2004-05 would be a full year at full potential, while FY 2003-04 would be a full year of operation, but would also be a start-up year in which the full potential would not be reached. In other words, FY 2003-04 would generate a percent of the FY 2004-05 revenue, depending on the time required to reach full potential.

Table 3 shows the preliminary estimated gross revenue/win from OTBs. Gross revenue/win is defined as the total amount wagered or played less prizes and winnings. As additional data is reviewed, estimates for account wagering and the decline to the existing gaming outlets will be included.

Table 2
Preliminary FY 2004-05 Estimated Fiscal Impact of VLTs at Racetracks
Millions of dollars

VLTs	Gross Terminal Income		Regulatory Costs	Net Terminal Income		School Aid Fund (SAF) VLT Revenue		SAF Reduction		Net New SAF Revenue		Net Terminal Income Less SAF Earmark		GF/GP = 35% after SAF GF/GP VLT Revenue		Office of Racing Commissioner (ORC) = 65% after SAF ORC VLT Revenue			
	low	high		low	high	low	high	low	high	low	high	low	high	low	high	low	high	low	high
500/track	95.8	159.7	22.8	73.0	136.9	73.0	136.9	4.5	13.6	68.5	123.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1,000/track	162.9	303.4	28.0	134.9	275.4	134.9	150.0	9.1	27.2	125.8	122.8	0.0	125.4	0.0	43.9	0.0	0.0	0.0	81.5
1,500/track	207.7	386.8	33.3	174.4	353.5	150.0	150.0	13.6	40.7	136.4	109.3	24.4	203.5	8.5	71.2	15.9	15.9	132.3	132.3
2,000/track	235.4	438.4	38.5	196.9	399.9	150.0	150.0	18.1	54.3	131.9	95.7	46.9	249.9	16.4	87.5	30.5	30.5	162.4	162.4

Definitions:

Gross terminal income is total wagered less total prizes

Net terminal income is gross terminal income less regulatory costs

Notes:

The School Aid Fund Reduction is the estimated decline in Lottery sales and Detroit Casino revenue earmarked to the SAF.

Under the VLT proposal, the Racing Commission revenue shall be distributed as follows: 54% to race meeting licensees, 23% to breeders awards, 23% to purses, 3% to breeders awards, 23% to Department of Agriculture, to be expended as appropriated by the Legislature.

TABLE 3
Preliminary FY 2004-05 Estimated Gross Revenue
Impact of Racetrack Proposals
Millions of dollars

	GROSS WIN	
	<u>Low</u>	<u>High</u>
Off Track Betting	20.0	26.0
Betting Parlors	15.0	19.5
3 Detroit Casinos	5.0	6.5

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