

**Bill/Sponsor**                    **HOUSE BILL 4609 Substitute H-2**, Rep. Larry Julian  
**HOUSE BILL 4610 Substitute H-2**, Rep. Jack Minore  
**HOUSE BILL 4611 Substitute H-1**, Rep. Joe Hune  
**HOUSE BILL 4612 Substitute H-1**, Rep. Rich Brown

**House Committee**            Agriculture and Resource Management

**Analysis**                        **SUMMARY**

**HB 4609 (H-2)**

***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. Individuals that engage in account wagering would have to establish a wagering account with an authorized race meeting licensee or with a multi jurisdictional wagering hub, which is a business conducted in this state and at least one other state that conducts account wagering. Two types of account wagering would be permitted under the proposal - - wagering on races via telephone or the Internet. Earmarked amounts and percentages are included in Table 1 on the next page.

An Agricultural Enhancement Purse Pool would be created. Revenue realized through off-track betting and account wagering earmarks would be provided to thoroughbred, standardbred, and mixed breed purse pools. Breeders' awards are provided as well, to be distributed by the Thoroughbred Certified Breeders Association. A grants program would be supported by the Equine Industry Research, Planning, and Development Grant Fund.

**HB 4610 (H-2)**

***Video Lottery Terminals (VLTs) at Racetracks***

House Bill 4610 (H-2) amends the State Lottery act to regulate video lottery games at licensed racetracks. The Lottery Bureau would approve video lottery terminals (VLTs), but each licensee would be expected to purchase or lease installed VLTs. Each facility could have 500 terminals, but this could be increased if allowed by the Bureau.

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, not paid for with license fees, from gross terminal income (net terminal income is gross terminal income less administrative costs) before allocating VLT revenue. Earmarked amounts and percentages are included in Table 1 on the next page.

A new Agricultural Enhancement Fund would be established. The Department of Agriculture would spend appropriated funds in support of Michigan agriculture. Activities would include market development, plant and animal research,

environmental protection, rehabilitation of race horses, farmland preservation, educational programs, and food security.

### **HB 4611 (H-1)**

#### ***Criminal Code Amendments***

The bill would add three new felonies to the Criminal Code:

- Manipulating outcome or payoff of a video lottery game
- Manipulating outcome or payoff of keno game
- Improper distribution of uncashed tickets

The maximum punishment for manipulation of the results of video lottery and keno games would be ten years. A person who improperly distributes money from uncashed tickets could be sentenced to up to two years.

### **HB 4612 (H-1)**

#### ***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 (H-2).

## **FISCAL IMPACT**

### ***Methodology of Revenue Estimates***

The fiscal impact is the change in revenue from current law, which does not include the executive recommendation 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. The account wagering estimate for Michigan was derived from the experiences of New York, Connecticut, Maryland, Pennsylvania, Kentucky, Ohio, Nevada, and Oregon.

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, and the Lottery. Currently, the total consumer expenditure for wagering, less prizes, in Michigan from Detroit casinos, Native American casinos, pari-mutuel horse racing, and the lottery is an estimated \$2.9 billion.

**Table 1  
Earmark of Racetrack Proposals**

<u><b>GAMING PROPOSAL</b></u>		<u><b>ALLOCATION</b></u>
<b>VIDEO LOTTERY TERMINALS</b>		
<b>State Treasurer</b>		<b>40.0%</b>
School Aid Fund	50% of 1 <sup>st</sup> \$60 million	
Agricultural Enhancement Fund Balance of 40%	50% of 1 <sup>st</sup> \$60 million	
Agricultural Enhancement Fund	15%	
School Aid Fund	15%	
GF/GP	70%	
<b>Commissions to Race Licensees</b>		<b>42.5%</b>
Local Unit of Government	0.5%, but <=\$1,000,000	
<b>Agricultural Enhancement Purse Pool</b>		<b>15.0%</b>
<b>Breeders' Awards</b>		<b>2.5%</b>

**ACCOUNT WAGERING COMMISSION DISTRIBUTION**

<b>Live Race Wager Commission</b>	(17.0 - 28.0%)
Account Wager Licensee Commission	50.0%
Agricultural Enhancement Purse Pool	43.1%
Breeders' Awards	6.9%
 <b>Simulcast Wager Commission</b>	
Fee to Host track	3.0%
State Wagering Tax	3.5%
Licensee Commission	53.5%
Agricultural Enhancement Purse Pool	34.5%
Breeders' Awards	5.5%

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 and account wagering. Gross revenue/win is defined as the total amount wagered or played less prizes and winnings.

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

**Net Terminal Income**

	<b>Gross Terminal Income</b>		<b>Regulatory Costs</b>	<b>Net Terminal Income</b>	
	<b>low</b>	<b>high</b>		<b>low</b>	<b>High</b>
VLTs					
500/track	95.8	159.7	22.8	73.0	136.9
1,000/track	162.9	303.4	28.0	134.9	275.4
1,500/track	207.7	386.8	33.3	174.4	353.5
2,000/track	235.4	438.4	38.5	196.9	399.9

**Earmark of VLT Net Terminal Income**

	<b>State Treasurer - 40%</b>		<b>Commissions to Race Licensees - 42.5%</b>		<b>Agricultural Enhancement Purse Pool - 15%</b>		<b>Breeders' Awards - 2.5%</b>	
	<b>low</b>	<b>high</b>	<b>low</b>	<b>high</b>	<b>low</b>	<b>high</b>	<b>low</b>	<b>high</b>
VLTs								
500/track	29.2	54.8	31.0	58.2	11.0	20.5	1.8	3.4
1,000/track	54.0	110.2	57.3	117.0	20.2	41.3	3.4	6.9
1,500/track	69.8	141.4	74.1	150.2	26.2	53.0	4.4	8.8
2,000/track	78.8	160.0	83.7	170.0	29.5	60.0	4.9	10.0

**Earmark of State Treasurer VLT Net Terminal Income**

	<b>SAF = 50% of 1<sup>st</sup> \$60.0 million + 15% of balance</b>		<b>Agricultural Enhancement Fund = 50% of 1<sup>st</sup> \$60.0 million + 15% of balance</b>		<b>GF/GP = 70% of balance</b>	
	<b>low</b>	<b>high</b>	<b>low</b>	<b>high</b>	<b>low</b>	<b>High</b>
VLTs						
500/track	14.6	27.4	14.6	27.4	0.0	0.0
1,000/track	27.0	37.5	27.0	37.5	0.0	35.1
1,500/track	31.5	42.2	31.5	42.2	6.8	57.0
2,000/track	32.8	45.0	32.8	45.0	13.1	70.0

**Fiscal Impact – School Aid Fund**

	<b>SAF VLT Revenue</b>		<b>SAF Reduction</b>		<b>Net New SAF Revenue</b>	
	<b>low</b>	<b>high</b>	<b>low</b>	<b>high</b>	<b>low</b>	<b>High</b>
VLTs						
500/track	14.6	27.4	4.5	13.6	10.1	13.8
1,000/track	27.0	37.5	9.1	27.2	17.9	10.3
1,500/track	31.5	42.2	13.6	40.7	17.9	1.5
2,000/track	32.8	45.0	18.1	54.3	14.7	-9.3

**Definitions:**

SAF = School Aid Fund

Gross Terminal Income is Total Wagered less Total Prizes

Net Terminal Income is Gross Terminal Income less Regulatory Costs

**Notes:**

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

The local unit of government would receive 0.5%, but not more than \$1,000,000 from the Commissions to Race Licensees.

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

	<b>GROSS WIN*</b>	
	<b><u>Low</u></b>	<b><u>High</u></b>
Off Track Betting	20.0	26.0
Betting Parlors	15.0	19.5
3 Detroit Casinos	5.0	6.5
Account Wagering	14.0	22.0

\*Definition: Gross Win is gross play less prizes paid

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**REVISED COMMITTEE ANALYSIS - 5/20/03**

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