



**House
Legislative
Analysis
Section**

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HORSE RACING: TAKEOUT, TAXES

House Bill 5264 (Substitute H-1)
First Analysis (5-29-90)

Sponsor: Rep. Dominic J. Jacobetti
Committee: Appropriations

THE APPARENT PROBLEM:

Horse racing in Michigan benefits tourism and, through the taxation and distribution of wagering "handles" (a "handle" is the total amount of money bet at a track on a given day), it also benefits the Michigan horse industry, county fairs, municipalities containing racetracks, the Pontiac Silverdome, and the state's general fund. Wagers also supplement race purses; common wisdom has it that when tracks can attract more bettors, wagering will go up, purses will increase, bigger purses will attract better horses, better horses will mean better races, better races will attract more fans, more fans will bet more money, and revenues will increase for all, with corresponding growth in the racing industry and related fields. A stronger Michigan racing industry can mean more jobs not only in the labor-intensive industry itself, but also in supporting fields such as advertising and agricultural feeds, and in related enterprises such as nearby hotels and restaurants.

Under the Racing Law, a track (see Background Information) retains various percentages of the sums represented by various forms of wagering; these commissions constitute the track's "takeout." Remaining money is used to pay the winning bettors, except for the odd cents over a multiple of ten; this money, the "breakage," is split evenly with the state. For straight wagers (win, place, or show), the takeout is 17 percent; for multiple wagers (perfecta, trifecta, superfecta) where the bettor names the first finishers in a race, the takeout is 20.5 percent; and for multiple-race sweepstakes wagering, the takeout is 25 percent. From its takeout, a track pays its state tax of 4.5 percent. (However, a tax of 3.5 percent applies in counties having populations of less than 300,000.)

In 1979, state revenue was about \$28.8 million on a total handle of about \$425.2 million; attendance was a little over three million. By 1984, attendance had shrunk to 2.4 million, generating state revenue of about \$22.4 million on a total handle of about \$347.6 million. Concerns about the health of the racing industry led to a 1986 revision of the law that, among other things, instituted simulcasting and decreased the tax rates from their earlier levels of six percent in populous counties and five percent in smaller ones. Those changes helped to produce the track construction, improvements, and advertising of recent years. However, though beneficial to the industry, they have failed to counteract the general decline in attendance and wagering that began about a decade ago. In 1989, state revenue was about \$22 million on handles totaling about \$443.1 million; though handles were up, so were the number of days raced, from 673 in 1979 to 918 in 1989. At 2.7 million, attendance was up from its 1984 low but still down from 1979. To help the racing industry complete its recovery, say racing interests, further changes are needed to aid the financing of that recovery.

THE CONTENT OF THE BILL:

The bill would amend the Racing Law to reduce state taxes on handles and increase a track's takeout, among other things.

Taxes. The bill would reduce the state taxes that race meeting licensees pay based on the total amount of money wagered. For licensees in larger counties, the rate would be reduced from 4.5 to 4.0 percent. For licensees in counties with populations of less than 300,000, the rate would be reduced from 3.5 to 3.0 percent (this provision applies to racing at the tracks in Jackson, Isabella Township [Mt. Pleasant], Fruitport Township [Muskegon], and Saginaw). However, the first \$25,000 would be exempt from taxation in situations where less than 20 calendar weeks of racing was held, with a "week of racing" being any week in which at least one day of racing was conducted (based on 1989 data, this would apply to racing at the Jackson and Saginaw tracks).

Takeout. The bill would increase from 20.5 percent to 22 percent a track's takeout on multiple wagers.

Payments to municipalities The law allocates 27.5 percent, up to \$800,000, of state racing revenues to the cities and townships where racetracks are located. An additional payment of up to \$100,000 is available where winter racing is held. The bill would delete the special provision regarding winter racing, and increase the cap on municipal payments to \$900,000.

Thoroughbred, other programs. Revenue received by the state attributable to the racing of a particular breed of horse supports various programs for that breed. For thoroughbreds, up to 27.5 percent of the revenue received from thoroughbred racing is allotted to thoroughbred racing associations for purse supplements for races for Michigan-bred horses, for breeders' awards, and for other purposes. An additional one percent of the revenue may be allotted for training and stabling facilities for thoroughbred horses. The bill would increase the basic thoroughbred allotment from 27.5 to 30 percent.

In addition, the bill would provide that "all programs financially supported by horse race revenue generated under this act shall not be reduced because of a reduction in horse race revenue funds attributed to the decrease in the pari-mutuel racing tax."

Simulcasting. At present, simulcasts are limited to transmissions of horse races conducted at out-of-state tracks, with no more than one simulcast per day, up to an annual limit of 25, being allowed. The bill would allow more than one simulcast on the day of the Breeders Crown or Breeders Cup (both are multiple-race events, the first for standardbreds, the second for thoroughbreds), and exempt those simulcasts from inclusion in the annual limit.

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Commissioner authority. The racing commissioner is at present allowed to demand of a race meeting applicant information additional to that required by statute. The bill would limit the additional information to that required by promulgated rules.

Racing day. At present, a "racing day" means a period of 24 hours beginning at noon and ending at 11:59 a.m. the following day. Under the bill, the day would begin at 8:00 a.m. and end at 7:59 a.m. the following day.

MCL 431.69 et al.

BACKGROUND INFORMATION:

While for simplicity this analysis generally uses the term "tracks" to refer to those who conduct horse racing, the reader should be aware that several types of licenses are issued under the racing law. A track license is required for the racetrack itself, a race meeting license allows the holder to conduct a particular type of horse racing with pari-mutuel wagering on specified dates, and occupational licenses are required of various individuals involved in racing, such as horse owners, trainers, and jockeys.

FISCAL IMPLICATIONS:

The House Fiscal Agency (HFA) estimates that the bill would decrease revenues to the state by about \$2.2 million. The HFA estimate assumes that the increase in the takeout would not significantly affect the size of the handle. (5-23-90)

ARGUMENTS:

For:

The racing industry of Michigan is suffering, in part because of the heavy tax burden imposed on it; despite the tax reductions of four years ago, Michigan tracks are among the most heavily taxed in the nation. Michigan racing has improved under the statutory changes made in 1986 — new tracks have opened, attendance and handles are up — but further changes are necessary for the industry to complete its recovery. The bill, by reducing taxes and increasing the takeout on multiple wagers, would aid that recovery. House Fiscal Agency (HFA) figures suggest that the bill would generate about \$5.7 million for tracks, enabling them to further improve their facilities and step up promotional activities. The HFA puts the anticipated increase in takeout at \$3.5 million; because of contractual arrangements between tracks and horsemen's associations, about half of that figure would go to purses, thus helping to attract better horses to Michigan races. Improved quality of racing, in conjunction with better facilities and more promotion, would attract more fans, who would bet more money, which would increase revenues for tracks and the state, provide more money for purses, and further stimulate the industry. A rejuvenated racing industry would create jobs in related fields, and, through increased tax revenues, support county fairs programs and contribute to the general fund.

Against:

The bill is premature, at best. In the short term at least, the bill would deplete annual state revenues by over \$2 million in order to offer relief to racetracks at a time when the state is facing a budgetary crisis. Further, the bill may not provide the sort of relief anticipated. Studies in other states demonstrate that increases in a track's takeout tend to drive down the total handle; in response to what is

essentially an increase in the price of betting, reflected in reduced winnings, bettors bet less. An increase in the takeout has the potential to reduce both track income and state racing revenues. The danger of this supports the wisdom of postponing action until the situation in Michigan can be better assessed. A task force consisting of representatives of the racing commissioner's office and various racing interests has only recently been formed to examine and report on various racing issues, including issues of takeout and taxation. It would be prudent to postpone action until a better understanding of the ramifications of the bill is available. It may be that other measures, such as more effective promotion or breeders' awards, would do more to help Michigan racing. With time, it may become apparent that the industry's slump, which was at its worst in 1984, was largely attributable to the economic slump with which it coincided. With the 1986 changes to the law and various track initiatives that have been undertaken since, racing may be in the process of regaining economic health; changes in takeout and tax rate may be unnecessary.

Against:

Many are concerned that the bill will adversely affect the breed and county fair programs that depend on racing revenues. Even though the bill contains a provision that purportedly would hold such programs harmless, that provision offers little protection; one legislature cannot bind succeeding legislatures, and continued funding would be subject to annual legislative priorities.

For:

Simulcasting of major racing events such as the races in the Triple Crown have proven popular and hiked attendance. However, the Racing Law limits the number of simulcasts to one per day, an impediment to the simulcasting of major events such as the Breeders Cup and the Breeders Crown where a series of races are run in one day. The bill would lift the one-day limit for those events.

Against:

The bill would limit the racing commissioner's authority to demand pertinent information of race meeting applicants, and in doing so would hamper the commissioner's ability to evaluate those applicants and conduct the investigation required by law.

POSITIONS:

The Michigan Racing Association supports the bill. (5-23-90)

The Horsemen's Benevolent and Protective Association — Michigan Division supports the bill. (5-23-90)

The Michigan United Thoroughbred Breeders and Owners Association does not oppose the bill. (5-25-90)

The Department of Agriculture opposes the bill. (5-23-90)

The Department of Management and Budget opposes the bill. (5-25-90)

The Michigan Harness Horsemen's Association opposes the bill. (5-23-90)

The Office of Racing Commissioner has no position at this time. (5-23-90)