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HORSE RACING: INCREASE COMMISSION TO TRACKS

House Bill 4116 (Substitute H-3)
First Analysis (9-17-96)

Sponsor: Rep. Tom Alley
Committee: Regulatory Affairs

THE APPARENT PROBLEM:

With the enactment of the recodification of the Horse Racing Law, which took effect on January 1, 1996, Michigan joined the ranks of other states that offer full-card simulcasting. (For more information, see the House Legislative Analysis Section's analysis on House Bill 4526, Public Act 279 of 1995, dated 4-10-96.) Simulcasting allows a track to transmit live signals, both audio and visual, of the races held at the track to other tracks, both in-state and out-of-state, and to receive signals from other tracks. Patrons can place pari-mutuel wagers on the live races and on simulcast races shown on monitors at the track. Many states allow wagers placed on simulcast races to go into a common pool, thereby creating larger "pots" similar to multi-state lottery games.

"Pari-mutuel wagering" is a system of betting in which the total amount of money wagered on a race is divided, after deducting the track's commission, among winning bettors in proportion to the sums individually wagered. In pari-mutuel wagering, approximately 80 cents out of each dollar is divided among the winning tickets. The remaining 20 cents would be the track's commission, or "take-out". Under Michigan law, after taxes and permit fees are deducted, the take-out is divided between the track and the horsemen's purse pool, which is used to set prizes for the winning horses, according to percentages specified in the act.

Currently, the Horse Racing Law sets the commission, or take-out, at 17 percent for straight wagers (win, place, and show) and 20.5 percent for all multiple wagers (such as doubles or triples which involve more than one horse in a race or more than one horse in more than one race). In addition, a track gets paid a fee by any in-state or out-of-state tracks wishing to buy the simulcast signal of a live race. Since the take-out percentage varies state by state, and since many tracks receiving a signal do participate in common pools at the sending track, the take-out on inter-state simulcasts is usually based on the percentage allowed by law in the sending track's jurisdiction. Therefore, if Belmont in New York were to buy a signal from a Michigan track, Belmont would be able to take a commission, or take-out, of 17 percent for straight wagers or 20.5 percent on multiple wagers on all wagers placed at its track on the race from Michigan. However, if a Michigan track bought a simulcast signal from Belmont, which allows a take-out of 15 percent on straight wagers, 20 percent on doubles, and 25 percent on triples, the Michigan track could take a commission of 15, 20, and 25 percent on straight wagers, doubles, and triples, respectively, on all wagers placed on the Belmont races. So, a Michigan track would make a higher commission on bets placed on triples from a simulcast race held at Belmont than from the same kind of bets placed in Michigan on Michigan races. Likewise, Belmont would have to take a significantly lower commission on wagers placed on triples on Michigan-run races than ones held elsewhere. In fact, most states allow a commission of 25 percent on wagers placed on triples. Some in the horse race industry feel that Michigan's lower commission rate disadvantages the tracks from selling the simulcast signals for Michigan-run races to states accustomed to higher commissions. Therefore, legislation has been proposed to increase a track's commission on multiple wagers.

THE CONTENT OF THE BILL:

The bill would amend the Horse Racing Law of 1995 to increase a race meeting licensee's commission (take-out) from 20.5 percent to 25 percent of all money wagered on any form of multiple wagers on both live and simulcast horse races conducted at the licensee's race meeting. (Note: The act defines multiple wagering as "a wager made on the finishing positions of more than 1 horse in a specified race or the finishing positions of 1 or more horses in more than 1 specified race.")

MCL 431.317

FISCAL IMPLICATIONS:

According to the House Fiscal Agency, there would be a potential for an indeterminate decrease in revenue for the state if the take-out for the tracks was increased. (9-13-96)

ARGUMENTS:

For:

Michigan's horse racing industry is at a competitive disadvantage. Years of declining attendance and lower "handle" (the total amount wagered) took a toll on the quality of horses entered into Michigan races. Changes brought about by the recent recodification of the Horse Racing Law, with the elimination of taxes on live racing and the added ability to offer full-card simulcasting, are breathing new life into the industry. Michigan now has the opportunity to bring races at Ladbroke DRC in Livonia and harness races at Hazel Park to horse race enthusiasts across the country via simulcast signals.

Unfortunately, most out-of-state tracks are used to taking a commission of 25 percent on three-horse exoticas (triples, trifectas), and 20 to 28 percent on two-horse exoticas (doubles, quinellas, perfectas). A race track receiving a signal from an out-of-state track must take the commission allowed in the jurisdiction of the sending track. Therefore, most out-of-state tracks would have to take a cut in commission to carry Michigan signals. If an out-of-state track has a choice between carrying a signal from a Pennsylvania track or a Michigan track, it would probably take the Pennsylvania signal with its more attractive commission rate.

Raising the allowable take-out on multiple wagers on Michigan races would therefore make Michigan simulcast signals more attractive to out-of-state race tracks. The increased revenue from the increased sales of the signals would be shared between the tracks and the horsemen's purse pools. Larger purses attract a better quality of horse, which in turn produces a better racing program. Better racing programs are more likely to attract a larger clientele, thus increasing attendance, and ultimately increasing overall handle, as well as the patron's enjoyment of the sport. Therefore, increasing the take-out on multiple wagering, which constitutes the majority of wagers placed, would be a win-win situation for all aspects of the industry.

Against:

Far from being the "win-win" situation proponents of the bill espouse, raising the take-out on multiple wagers has a potential to cut the legs off an industry that has just begun to stand again. Multiple wagers represented 67 percent of all bets placed in Michigan in 1989, and continue to represent the majority of wagers. Unlike most casino and lottery games, pari-mutuel wagering on horse racing is one of the only gambling venues where a person can definitely tip the scales in his or her favor through skill. The doubles and triples are popular because a person can make a larger wager without stacking the odds against himself or herself. The betting pools are bigger, and so can accommodate a larger wager. Plus, the payoffs are bigger. Therefore, raising the take-out decreases the pool to be divided by the winners, thus giving them less money back for every dollar wagered.

According to a study done by Christiansen/Cummings Associates, Inc. for the Ohio State Racing Commission, take-out is the "price of betting," and so raising the takeout makes wagering less attractive and reduces attendance and handle. Other studies have shown consistently that the handle goes down more than proportionally to the raise in the take-out. This is referred to as the "elasticity of demand." For example, an increase of just 5 percent in the take-out can decrease the handle by as much as 40 percent or more. This is in part due to the "churn factor". Churn refers to the practice whereby people bet, win, and then bet their winnings. A higher take-out results in a lower churn. If people have a lower return on their winnings, then they will have less to bet with. The cumulative effect can be staggering.

Further, simulcasting can be a mixed blessing. Loyal racing enthusiasts are also smart consumers, and can use simulcasting as a means of shopping for the best bargain. Most other states have a commission rate for doubles in the low 20 percent range. A Michigan bettor can therefore bet on a double on a simulcast race from an out-of-state track and profit two ways - first, the pool may be larger than betting on a live double at the Michigan track, and second, he or she may get a better payoff rate than the 25 percent take-out proposed by the bill would afford. The Michigan track may pick up a little more money by selling its signal to out-of-state tracks, but could lose money if Michigan bettors place the majority of their bets on out-of-state doubles with better payoffs. This is because the new Horse Racing Law eliminated the tax on live racing. So, for every dollar bet on a live Michigan race, the tracks pay no tax. But, tracks must pay a tax of 2.5 percent on each dollar wagered on a simulcast race. This tax will increase to 3.5 percent in January, 1997. Therefore, tracks make more money on wagers on live racing than on wagers on simulcast races. Any increase in revenue from the higher take-out could be offset by a decrease in overall handle, or even a decrease in live wagering. Plus, only the largest of the Michigan tracks can compete nationally in the simulcast market. The effect on the smaller tracks, which do not sell signals out-of-state, could be disastrous.

According to an industry economist, if the betting pattern in Michigan stays the same, the increase in take-out could result in increased revenues, which indeed would help the industry. However, statistically and historically, a raise in take-out results in a decrease in total handle and attendance. So, the industry may get new money from new simulcast markets, but would most likely get less money from existing markets because of a drop in betting. Therefore, raising the take-out on all multiple wagering, which constitutes the majority of wagers, may be a gamble that a struggling, vulnerable industry might want to take a second look at.

Therefore, some within the industry have suggested that a better approach might be to structure the take-out on multiple wagering in a similar fashion to other states. Most states do have the take-out on triples set at 25 percent, but the take-out on doubles is closer to 20 percent. A few states have a range of 20 to 25 percent, whereby certain special races may be offered at a lower take-out rate, thus attracting bettors by increasing the payoff. Some industry members would like to see a similar approach taken in Michigan, whereby for multiple wagers, subject to the commissioner's approval, a track could set a commission rate within a designated range. This would make Michigan races more attractive to out-of-state tracks buying Michigan signals, and would put the take-out more in line with tracks across the nation. Also, by giving the commissioner discretion to set the take-out within a range, the industry could respond more quickly to changing economic needs and factors than the legislative process affords. By maximizing options, a "win-win" situation may be attainable after all.

POSITIONS:

The Michigan Racing Association (MRA) supports the bill. (9-16-96)

Ladbroke DRC supports the bill. (9-16-96)

The Office of the Racing Commissioner is concerned that due to the elasticity of demand reported by race-track economists, raising the take-out would decrease overall wagering. The office would suggest that a range be established subject to the commissioner to better respond to market changes. (9-12-96)

The Michigan Harness Horsemen Association would like to have a range for take-outs so that there could be leeway on the doubles. (9-16-96)

The Michigan Horsemen's Benevolent Protection Association (MHBPA) is opposed to the committee version of the bill, but would be in favor of a range for the commissions. (9-17-96)

Analyst: S. Stutzky

■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.