Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

SFA BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 911 (as enrolled)
Sponsor: Senator George A. McManus, Jr.
Committee: Farming, Agribusiness and Food Systems

Date Completed: 9-11-00

RATIONALE

The Horse Racing Law provides for the Michigan Agriculture Equine Industry Development Fund (AEIDF), which primarily is used to promote and regulate the State's horse racing industry. The Law requires that a percentage of the Fund, "equal to 1/10 of 1% of the gross wagers made each year in each of the racetracks licensed under this act", be deposited in the Compulsive Gaming Prevention Fund (referred to below as the "Gaming Fund"). In 1999, it became apparent that revenue to the AEIDF would fall in fiscal year (FY) 1999-2000 below the level available and appropriated in FY 1998-99. Furthermore, all of the projected revenue in the AEIDF for FY 1999-2000 was committed for racing purposes. Although approximately $500,000 was supposed to be deposited in the Gaming Fund, the enacted budget did not reserve any money for this Fund. Since the deposit was mandated by statute, the situation was addressed by a supplemental appropriation act, Public Act 265 of 1999. This legislation appropriated to the AEIDF, for FY 1998-99 and 1999-2000, the unspent and unencumbered balance of the Gaming Fund that had been deposited in that Fund under the Horse Racing Law. In order to avoid the need for future solutions of this nature, it has been suggested that the amount of horse wagering revenue allocated to the Gaming Fund be reduced in the Horse Racing Law.

CONTENT

The bill would amend the Horse Racing Law to reduce the percentage of the Michigan Agriculture Equine Industry Development Fund that is required to be deposited in the Compulsive Gaming Prevention Fund. The percentage to be contributed would be equal to 1/100 of 1% (rather than 1/10 of 1%) of the gross wagers made each year in each of the racetracks licensed under the Law.

MCL 431.320

BACKGROUND

The Agriculture Equine Industry Development Fund is supported with revenue from a 3.5% tax on interstate and inter-track simulcast wagering at licensed horse racing tracks in Michigan, and from 50% of the unclaimed wagers at those tracks. In addition to the percentage allocated to the Compulsive Gaming Prevention Fund, money in the AEIDF must be distributed to standardbred and fair programs; thoroughbred programs; quarter horse programs; Appaloosa programs; Arabian programs; the equine industry research, planning, and development grant program; and the development, implementation, and administration of new programs that promote the growth and development of the horse racing and breeding industries and other valuable equine-related commercial and recreational activities in this State.

Under the Compulsive Gaming Prevention Act, the Compulsive Gaming Prevention Fund receives money from three sources: 1/10 of 1% of the gross wagers made at licensed racetracks; a percentage of the State Lottery Fund that equals at least 10% of each year's State Lottery advertising budget, but not more than $1 million; and $2 million from the licensed casinos' $25 million annual assessment. Money in the Gaming Fund must be distributed for the treatment, prevention, education, training, research, and evaluation of pathological gamblers and their families, as determined by the Director of the Department of Community Health, and to fund a toll-free compulsive gaming helpline number. Money remaining in the Gaming Fund at the close of each fiscal year remains in that Fund and does not lapse to the General Fund.

At the end of FY 1998-99, the Gaming Fund had a balance of approximately $2.3 million, with ongoing anticipated revenue of $2,950,000, for a total of almost $5.3 million. It has been estimated that the gaming prevention program, as a whole, will spend

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approximately $3.5 million in both FY 1999-2000 and FY 2000-01. Thus, at the end of FY 1999-2000, the Fund is expected to have a $1.9 million balance. Assuming another $3.5 million expenditure in FY 2000-01, the year-end balance is projected to be about $1.3 million.

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

It appears that the Compulsive Gaming Prevention Fund would be well financed without receiving 1/10 of 1% of gross wagers on horse racing. In fact, the Fund evidently has had adequate revenue without this money in recent fiscal years. Nevertheless, betting on horses can contribute to individuals' gambling addictions and financial problems, which are the focus of Gaming Fund distributions. Thus, it would make sense to continue requiring a portion of horse wagering revenue to be deposited in the Gaming Fund. The smaller percentage required under the bill would recognize the role of racetrack betting in gambling problems, while reflecting the spending priorities already enacted under budget legislation.

Supporting Argument

The amount of the AEIDF allocated to the Gaming Fund is disproportionate in two ways. First, the tax revenue that is placed in the AEIDF is based entirely on bets made on simulcast horse races. On the other hand, the percentage of the AEIDF that must be deposited in the Gaming Fund is based on all wagers made--on live as well as simulcast races. Second, in view of the amount of money generated by the State Lottery and casinos, compared with what is spent on horse racing, the amount that the Gaming Fund receives from the AEIDF is out of proportion to the amount that the Gaming Fund receives from the two other revenue sources. For these reasons, it would be appropriate to reduce the portion of the AEIDF that must be turned over to the Gaming Fund.

Legislative Analyst: S. Lowe

FISCAL IMPACT

Overall, the bill would have no net fiscal impact on State government. However, the bill would shift resources between State programs. In 1998, approximately $463,850 in revenue from the Agriculture Equine Industry Development Fund was deposited in the Compulsive Gaming Prevention Fund for State programs directed at mitigating compulsive gambling problems. Under the bill, this amount would have been $46,385. As a result of this redirection of State revenue, there would be additional revenue available for programs funded by the AEIDF.

In FY 1998-99, the unspent and unencumbered portion of the Agriculture Equine Industry Development Fund deposit in the Compulsive Gaming Prevention Fund was returned to the AEIDF, pursuant to Public Act 265 of 1999. A similar provision will apply to the FY 1999-2000 deposit under the authority of Public Act 265.

Fiscal Analyst: C. Thiel