

Legislative Analysis



ALLOW SPORTS GAMBLING & SIMULCASTING AT CASINOS WITH VOTER APPROVAL

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House Bill 4669 and 4670, as introduced
Sponsor: Rep. Robert L. Kosowski
Committee: Regulatory Reform
Updated on 10-21-15

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

House Bill 4669 would amend the Michigan Gaming Control and Revenue Act (Initiated Law 1 of 1996) by adding a new Section 9e to allow the holder of a casino license to accept wagers on sporting events.

House Bill 4670 would amend Section 9b of the same act by removing a current prohibition on televising simulcast horse races on the premises of a casino, and instead allow the holder of a casino license to accept wagers on simulcast horse races. Both the televising of the races and accepting of wagers must comply with the federal Interstate Horseracing Act of 1978 (15 USC 3001 to 3007).

Both bills would require the approval of voters at the next general election in order to take effect. Majority approval would be required both statewide and in the township or city where the authorized gambling was to take place. (A general election is an election in November of an even-numbered year.) Each form of betting would be submitted as a separate question, and approval of one would not be dependent on approval of the other. If approved, the amendatory act(s) would go into effect 10 days after the date of the official declaration of the vote.

[Note: It is understood that because the land on which Indian Tribal Casinos are built belongs to that Indian nation and is not subject to Michigan law, only the city of Detroit would need to approve either or both form of gambling in addition to a majority of voting residents statewide. Additionally, because sports gambling is prohibited by federal law in all states except Nevada, Oregon, Montana, and Delaware. if sports betting were approved under HB 4669, it would be contingent on the appropriate change in federal law.]

Both bills also would require the Michigan Gaming Control Board to promulgate rules to regulate the conduct of sporting betting and wagers placed on horse races.

BACKGROUND INFORMATION:

Article 2, Section 9, of the Michigan Constitution of 1963 states, in part, that "...no law adopted by the people at the polls under the initiative provisions of this section shall be amended or repealed, except by a vote of the electors unless otherwise provided in the initiative measure or by three-fourths of the members elected to and serving in each house of the legislature." Because Initiated Law 1 of 1996 was approved as Proposal E by

Michigan voters, three-fourths of those elected and serving in the House and Senate must approve the changes made by the bills.

Simulcast wagering refers to the betting on the results of horse races that are taking place at host race tracks across the country and being broadcast to receiving tracks in real time. Section 18 of the Horse Racing Law of 1995 authorizes the board to issue permits to horse race meeting licensees who meet certain requirements to televise simulcasts of horse races to viewers within an enclosure of a licensed racetrack. Section 18 authorizes for simulcasting all the same forms of wagering using the pari-mutuel wagering system as are allowed for live-horse racing.

Section 17 of the Horse Racing Act of 1995 provides for the distribution of wagering revenue by setting the authorized percentages the race meeting licensee can take as commission. Section 18(3) of act defines the distribution of net commission from simulcast wagering – after deduction for host fees and the state 3.5% tax on simulcast wagering established in Section 22 of the act. Specifically, Section 18(3) directs that 40% of the race meeting licensee's net commission from simulcast wagering be paid to the horsemen's simulcast purse pool. It is the horsemen's simulcast purse pool that provides the money for the prizes paid to owners of qualifying race horses – the horses that run in and win prizes at race tracks.

Almost all of the revenue distributed to the direct participants in horse racing, i.e. race meeting licensee net commission (after payment of winning wagers, state taxes, simulcast host fees, and "breakage" to local units of government), and the share of net commission allocated to the horsemen's purse pool, is generated from simulcast wagering. In calendar year 2014, of the \$116.7 million in gross wagering on Michigan horse races (handle), 96% was generated from simulcast wagers. Only \$4.6 million was bet on live horse racing.

In addition, the only tax on horse race wagering is a 3.5% tax on simulcast wagering established in Section 22 of the Horse Racing Act of 1995; there is no tax on live horse racing. Revenue from this tax is credited to the Agriculture Equine Industry Development Fund (AEIDF), a state-restricted fund established in Section 20 of the Horse Racing Act of 1995. The simulcast wagering tax currently generates approximately \$4.0 million.

The AEIDF is appropriated in the General Government/Treasury budget to support the horse racing/pari-mutuel regulatory costs of the gaming control board, and in the Michigan Department of Agriculture and Rural Development budget to provide awards and purse supplements for qualifying race horse owners and breeders.

FISCAL IMPACT:

House Bill 4669

Presumably, the acceptance of wagers on sporting events under House Bill 4669 would have a positive fiscal impact on state and local wagering tax revenues due to the increase in adjusted casino gross receipts at the three Detroit casinos. Increased adjusted gross receipts would result in increased state and local casino wagering tax revenues. The state

casino wagering tax is deposited in the State's School Aid Fund. The city wagering tax supports general operations for the City of Detroit.

While the extent of the impact in Michigan is unknown, data from the state of Nevada show that adjusted gross receipts for the 192 sports pools totaled \$207.6 million in FY 2014. This constituted approximately 2.0% of the \$10.64 billion in total casino adjusted gross receipts in the state of Nevada. Michigan's three Detroit casinos generated \$1.33 billion in adjusted gross receipts in FY 2014. If we assume a similar proportion from legalized sports pools as that in Nevada, the three Detroit Casinos could generate \$25.0-30.0 million in adjusted gross receipts annually. Taxed at state's 8.1% casino wagering tax rate, this would generate approximately \$2.0-2.4 million annually to the State School Aid Fund. From the 10.9% casino wagering tax dedicated to the City of Detroit, the city would realize \$2.7-\$3.3 million in annual revenues. Since we only have one state to offer a similar comparison, differences in the customer base in Michigan could alter the overall proportion of gaming revenues that come from sports wagering. However, sports wagering does not appear to be a major adjusted gross receipts generator in any of the Nevada individual regional gaming markets.

If determined to be an expansion of gaming, the state would lose the annual tribal gaming payments made to the Michigan Economic Development Corporation (MEDC) and Michigan Strategic Fund (MSF) for economic development purposes. According to MEDC and MSF documents, FY 2016 revenues from tribal gaming are estimated to be \$31.4 million.

Lastly, the bills would likely increase administrative and regulatory costs for the Michigan Gaming Control Board (MGCB). Administrative and regulatory costs are covered by the State Services Fee Fund. Therefore, increased administrative and regulatory costs would increase expenditures from the State Services Fee Fund.

House Bill 4670

The fiscal impact of House Bill 4670 would depend on whether allowing simulcasting at casinos would result in additional wagering on simulcast horse races or would displace simulcast wagering currently offered at the two licensed horse race tracks hosting licensed race meetings.

If the bill resulted in a shift in simulcast wagering from licensed race tracks to casinos, there would be a shift in state tax revenue and distribution. Instead of being taxed under Section 22 of the Horse Racing Act at 3.5% for distribution to the AEIDF, simulcast wagers would be taxed and revenue distributed under Section 12 of the Michigan Gaming Control and Revenue Act.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.