

MICHIGAN AGRICULTURE EQUINE INDUSTRY DEVELOPMENT FUND ALLOCATIONS AND OUTSTANDING WINNING TICKETS

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House Bill 4599 as reported from committee
Sponsor: Rep. Julie Alexander

House Bill 4600 as reported from committee
Sponsor: Rep. John D. Cherry

Committee: Agriculture
Complete to 5-11-21

BRIEF SUMMARY: House Bill 4599 would amend the Horse Racing Law to change the distribution of Agriculture Equine Industry Development Fund revenue. House Bill 4600 would amend 1951 PA 90 to reflect the changes proposed by HB 4599 and eliminate certain requirements for money held by a licensee for the payment of outstanding winning tickets.

FISCAL IMPACT: The bills would not have an impact on state or local units of government. (See **Fiscal Information**, below, for a more detailed discussion of the bills' fiscal impact.)

THE APPARENT PROBLEM:

The Agriculture Equine Industry Development Fund (AEIDF) is directly linked to Michigan horse racing purse structures and breeding numbers. According to committee testimony, as the purse structures from the fund fell, so did the number of registered horses. Breeding for horse racing contributes to the collection of tax revenue from the industry, so less breeding in Michigan has resulted in fewer tax revenues being collected. Legislation has been proposed to increase breeder's awards through the redistribution of AEIDF revenue.

THE CONTENT OF THE BILLS:

House Bill 4599

Currently under the Horse Racing Law, the racing commissioner can issue several general classes of licenses, but cannot issue a race meeting license to a person that is licensed to conduct a licensed race meeting at another licensed racetrack in Michigan that the person co-owns or has a controlling interest in. The bill would eliminate this prohibition.

The act requires certain amounts to be paid from the AEIDF to standardbred and fair programs. The bill would amend these amounts as follows:

- Increase, from 75% to 90%, the cap on the percentage to be paid of the purses for standardbred harness horse races offered by fairs and races at license pari-mutuel racetracks. The bill would remove provisions regarding minimum purse supplements

- paid under this provision for overnight races at fairs for which Michigan sired, Michigan bred, or Michigan owned harness horses are eligible.
- Add a provision requiring the following allotment of the amount appropriated from the fund for purses and supplements – fairs/licenses tracks:
 - 30% for overnight races at fairs for which Michigan sired, Michigan bred, or Michigan owned harness horses are eligible.
 - 70% for paying special purses at fairs on two-year-old and three-year-old standardbred harness horses that meet certain conditions. (The law currently requires a sum to be allotted for this purpose.)
 - Increase, from 75% to 90%, the cap on the percentage to be paid of an eligible cash premium paid by a fair or exposition.
 - Increase, from 10% to 20%, the cap on the percentage of the gross purse to pay breeders' awards to breeders of Michigan bred standardbred harness horses for each time the horse wins a race at a licensed race meeting or fair in Michigan.
 - Increase, from \$4,000 to \$12,000, the cap on the amount allotted each year to fairs to provide training and stabling facilities for standardbred harness horses.
 - Increase, from 0.25% to 0.5%, the cap on the percentage of all money wagered on live and simulcast horse races in Michigan that must be placed in a special standardbred sire stakes fund each year, all of which must be used to provide purses for races run exclusively for two-year-old and three-year-old Michigan sired standardbred horses at licensed harness race meetings in Michigan.

Additionally, the act prescribes amounts that must be paid from the AEIDF to thoroughbred programs. The bill would amend these amounts as follows:

- Increase, from 10% to 20%, the cap on the percentage of the gross purse to pay breeders' awards to breeders of Michigan bred thoroughbred horses for each time the horse wins at a licensed race meeting in Michigan.
- Increase, from 0.25% to 0.5%, the cap on the percentage of all money wagered on live and simulcast horse races in Michigan that must be placed in a special thoroughbred sire stakes fund each year, all of which must be used to provide purses for races run exclusively for two-year-old and three-year-old and older Michigan sired thoroughbred horses at licensed thoroughbred race meetings in Michigan and awards for owners of Michigan sired horses or stallions.

The act also currently requires certain amounts to be paid from the AEIDF for quarter horse programs, Appaloosa programs, Arabian programs, and American paint horse programs. The bill would eliminate those requirements.

The bill would also increase the percentage of the AEIDF that must be deposited in the Compulsive Gaming Prevention Fund created under the Compulsive Gaming Prevention Act, from 1/15 of 1% of the gross wagers made each year in each of the racetracks licensed under the act, to 1/10 of 1% of those wagers.

Finally, the act currently mandates that, if the amount allocated to the AEIDF, either under the act or from any other source, exceeds \$8.0 million in a fiscal year, the amount in excess

of \$8.0 million must be allocated to the Pari-Mutuel Horse Racing Disbursement Account. The bill would eliminate this provision.

MCL 431.308 et seq.

House Bill 4600 would amend 1951 PA 90, which pertains to the possession, control, and disposition of funds held by certain race meeting licensees for outstanding winning tickets. Outstanding winning tickets, sometimes referred to as “outs,” are winning wagers that were not redeemed by the persons making the wager—in some cases because the winning amount was relatively small. Currently under the act, money held by a licensee for the payment of outstanding winning tickets for a race meeting conducted under the Horse Racing Law that has not been claimed by its owner within 60 days after the close of the race meeting must be retained by the licensee and distributed as provided under the act.

The bill would eliminate distribution requirements pertaining to light horse race meeting licensees. (It would retain those that apply to standardbred and thoroughbred race meeting licensees.) The bill would also remove provisions that applied only to calendar year 1998 and update citations to the Horse Racing Law to reflect the changes proposed by HB 4599.

Under the amendments proposed by House Bill 4600, money from outstanding winning tickets would be divided equally between the “licensee” (presumably the racing meeting licensee under the Horse Racing Law) and the AEIDF.

MCL 431.252

The bills are tie-barred to one another, which means that neither bill could take effect unless both bills were enacted.

BACKGROUND INFORMATION:

The Horse Racing Law of 1995 deals with the licensing and regulation of horse racing in Michigan, including pari-mutuel wagering on horse races. The Horse Racing Law governs the distribution of money wagered on horse racing at licensed race tracks and through third party facilitators.¹

The Horse Racing Law provides for the licensing of the entities that organize and conduct horse race meetings and simulcast wagering: race meeting licensees. Section 19 of the Horse Racing Law governs the distribution of net commission received by a racing meeting licensee from wagering on live horse races and simulcast races. Net commission represents the remainder after the payout for winning wagers and after the 3.5% simulcast wagering tax. Specifically, the Horse Racing Law directs the distribution of the net commission between the race meeting licensee and the certified horsemen’s organizations (CHOs). The distribution to CHOs is used for purses offered at races and for CHO general expenses.

¹ 2019 PA 153 amended the Horse Racing Law to authorize and regulate advance deposit wagering and third-part facilitators. See <http://legislature.mi.gov/doc.aspx?2019-HB-4310>

Section 19 also governs the distribution of net commission generated from live horse and simulcast wagering generated through third-party facilitators. Currently Section 19 requires that the net commission generated from third party facilitators be paid to the pari-mutuel horse racing disbursement account and then divided between CHOs and *track meeting licensees*. Track meeting licensees are horse track owners—separately licensed under the Horse Racing Law. House Bill 4599 would amend these provisions to make the required distribution between CHOs and *race meeting licensees*.

The State of Michigan does not tax live horse racing wagering. The state does impose a 3.5% wagering tax on simulcast racing wagers. That tax, established in section 22 of the Horse Racing Law, generates approximately \$2.3 million (FY 2018-19 figures) for credit to the state-restricted AEIDF. In addition, the Horse Racing Law imposes a 1% tax on wagers made through third-party facilitators. Money from this 1% tax is also earmarked for the AEIDF.

Section 20 of the Horse Racing Law establishes the AEIDF and governs the distribution of money from the AEIDF.

Currently, Northville Downs is the only entity in Michigan with a race meeting licensee and authority to conduct simulcast wagering in the state. Northville Downs hosts standardbred horse racing. There is currently no licensed race meeting hosting thoroughbred racing in Michigan.²

FISCAL INFORMATION:

The amendments proposed by House Bill 4599 to section 19 of the Horse Racing Law deal with the distribution of the net commission from pari-mutuel wagering on horse racing—at licensed tracks and through third-party facilitators. Section 19 directs the distribution of net commission between race meeting licensees and CHOs. These net commissions are private resources; they have no fiscal impact on the state or local units of government.

The bill's amendments to section 20 of the Horse Racing Law deal with the distribution of money from the state restricted AEIDF. The bill would not increase or decrease state revenue or expense; the bill would simply change the distribution of AEIDF monies.

The amendments proposed by House Bill 4600 to 1951 PA 90 are primarily technical and do not have a material fiscal impact. The total revenue credited to the AEIDF from outstanding winning tickets has been nominal for several years.

For additional information on horse racing, see the June 2017 House Fiscal Agency Fiscal Focus: Horse Racing in Michigan – A Primer.³

² https://www.michigan.gov/documents/mgcb/2021_NVD_Race_Meeting_License_10-26-20_706196_7.pdf

³ https://www.house.mi.gov/hfa/PDF/Agriculture/FiscalFocus_Horse_Racing_in_Michigan.pdf

ARGUMENTS:

For:

Supporters of the bills argue that a stronger purse structure in Michigan will help the horse racing industry to rebound in the state. Horse racing has a long and robust history in Michigan, helping to bring in tax revenue. However, over the years, the winnings distributed from the AEIDF have significantly decreased, which has had a direct negative impact on horse breeding in Michigan. Breeders are going to surrounding states, where they have the opportunity to win much larger purses from races. Supporters of the bills argue that redistributing the revenue in the AEIDF will help draw horse breeders back to Michigan.

Against:

No arguments against the bill were presented during committee testimony.

POSITIONS:

Representatives of the following entities testified in support of the bills (4-21-21):

- Michigan Harness Horseman's Association
- Michigan Association of Fairs and Expositions
- Michigan Thoroughbred Owners and Breeders Association

The following entities indicated support for the bills:

- Michigan Farm Bureau (4-21-21)
- AmWest (4-28-21)

The Michigan Department of Agriculture and Rural Development indicated a neutral position on the bills. (4-28-21)

Legislative Analyst: Emily S. Smith
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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.