

Department of Planning and Budget 2008 Fiscal Impact Statement

1. Bill Number SB 597

House of Origin	<u> </u>	Introduced	<u> </u>	Substitute	<u> X </u>	Engrossed
Second House	<u> X </u>	In Committee	<u> </u>	Substitute	<u> </u>	Enrolled

2. Patron Norment

3. Committee Finance

4. Title Historical, or instant, horse racing and resulting allocations

5. Summary/Purpose: The proposed legislation would add historical horse racing, or instant racing, to the types of horse racing on which pari-mutuel wagering is permitted in Virginia. Historical racing would be limited to a racetrack or satellite wagering facility licensed in Virginia as of January 1, 2008. Proceeds from the wagering, after the payment of prizes, would be split between the Commonwealth (the Virginia Tourism Commission and the Transportation Trust Fund), the locality in which the racetrack or satellite wagering facility is located, the licensee, and the horsemen. The bill also directs the entity licensed by the Virginia Racing Commission (VRC) that owns a horse racetrack in the Commonwealth to provide gambling addiction programs and to publicize the existence of such programs. These programs must be approved by VRC. In addition, the bill prohibits the operation of satellite facilities or unlimited licensed racetracks not under common majority ownership within 75 miles of one another and makes several technical changes to the Code.

6. Fiscal Impact Estimates are: indeterminate. See item 8, below.

7. Budget amendment necessary: Yes, see items 8 and 11, below. Front page. Items 128, 129, 130 and 455. It appears that proposed budget amendments for items 129 and 130 have been offered in the house of origin; in Item 129 language has been added regarding the promulgation of regulations by VRC and in Item 130 language has been added authorizing the expenditure of funds by Tourism. It remains unclear if other amendments have been proposed for other impacted budget items.

8. Fiscal implications: Instant horse racing consists of a database of previously run horse races that are sent electronically to terminals at which bets can be placed on the races. Under the bill, these terminals could be installed at the satellite wagering facilities and racetrack. The races are anonymous; the real names of the horses, the date, and place of the race they are betting on, are hidden and the races are replayed at individual terminals when players choose to rerun them. Players have the option of watching the entire race, or just the final few seconds. Like bets on live races, the wagers are pari-mutuel, or winnings that are paid out fluctuate according to the number of people participating in the pool and how much they bet.

Proceeds from existing racing programs in the Commonwealth, apart from payment of prizes to winning wagers, are distributed to the participants in the race meet, the locality in which the satellite facility or race track is located, the licensee, the Commonwealth, the Virginia

Breeders Fund, the Virginia-Maryland Regional College of Veterinary Medicine, the Virginia Equine Center Foundation, and the Virginia Horse Industry Board.

Proceeds from instant racing would be distributed differently. The bill provides for payment for all prizes to winning wagers first; the balance would be distributed as follows: 50 percent to the Commonwealth Transportation Fund for highway maintenance and other transportation related purposes; 1.5 percent to the Virginia localities where the racetrack or satellite facility is located; 1.5 percent to the Virginia Tourism Commission (VTC) for the marketing of tourism in Virginia; 43 percent to the licensee; and four percent (up to \$30 million in a calendar year) to the horsemen's purse accounts and the Virginia Breeders Fund. Any sum in excess of \$30 million would go to the Commonwealth Transportation Fund. In addition, the licensee would receive any proceeds from unredeemed tickets and breakage.

The amount of revenue instant racing might generate for the Commonwealth is indeterminate. It would depend on the number of machines the market can support, at the time the study was completed (September 2006), the licensee anticipated that the market would support 10,000 machines as well as the profit generated per machine. At the request of Colonial Downs, The Innovation Group prepared a study assessing the most advantageous distribution of 10,000 machines among eleven sites in Virginia (the track at Colonial Downs, the nine existing satellite wagering facilities, and a proposed facility in Westmoreland County).

According to this study, in this scenario, approximately \$660 million would be available for distribution between the localities where the racetrack or satellite facility is located, the VTC, and the Commonwealth Transportation Fund; the licensee; and the horsemen when fully implemented. This fiscal impact assumes that 10,000 instant racing terminals or machines are open 365 days a year and spread among 11 locations in Virginia, and the net win per terminal is \$181 each day. The legislation would limit historical racing to the existing 10 locations in Virginia. As of January 1, 2008, the licensee did not have a facility in Westmoreland County, therefore, it would be a business decision on the part of the licensee whether to reallocate the 450 machines contemplated for Westmoreland County among the existing 10 facilities.

Based on the above analysis (assuming 10,000 machines among the existing locations at full implementation), approximately \$330.0 million would be available for distribution to the TTF, \$9.9 million each to the localities and the VTC, \$283.8 million to the licensee, and \$26.4 million would be available for distribution to the horsemen. Again, these figures will differ depending on the exact number of machines placed in service as well as the actual profit generated per machine.

For purposes of comparison:

- If 10,000 machines are in operation 365 days per year with a net win per machine of \$181 the aggregate revenue would be \$660,000,000.
- If 5,000 machines are in operation 365 days per year with a net win per machine of \$181 the aggregate revenue would be \$330,000,000.
- If 5,000 machines are in operation 365 days per year with a net win per machine of \$150 the aggregate revenue would be \$274,000,000.
- If 2,500 machines are in operation 365 days per year with a net win per machine of \$150 the aggregate revenue would be \$137,000,000.

The Virginia Racing Commission (VRC) estimates that the bill will have an expenditure impact to the agency of approximately \$1.6 million annually at full implementation (10,000 machines throughout the licensed racetrack and satellite facilities as contemplated in the September 2006 study). This assumes 15 additional positions will audit and oversee the system. VRC also estimates that it would normally require four to six months once the legislation is enacted to develop regulations governing instant racing; the legislation requires the VRC to promulgate regulations within 280 days of enactment. VRC also estimates that it will take up to five years for the program to be fully implemented in the Commonwealth, with 10,000 machines throughout the licensed racetrack and satellite facilities as contemplated in the September 2006 study. No machines could be installed until the regulations are promulgated. The bill is silent regarding any additional funding source for VRC's additional regulatory expenses.

Additional funding for VRC's regulatory functions will need to be appropriated to Item 129; additional funding for the Breeders Fund under the provisions of this bill will need to be appropriated to Item 128.

9. Specific agency or political subdivisions affected: Localities in the Commonwealth, Virginia Racing Commission, Transportation Trust Fund.

10. Technical amendment necessary: No.

11. Other comments: The Senate Finance Committee's budget recommendations include language under the VRC directing the agency to develop regulations for instant racing within 180 days of enactment of the legislation; a language amendment is also under VTC authorizing the VTC to receive one-half of one percent of the proceeds from historical racing. Both of these amendments are contingent on final passage of this bill. The language in the amendments is not consistent with the language in the bill. The bill provides for the promulgation of regulations within 280 days of enactment and authorizes the VTC to receive 1.5 percent of the proceeds from historical racing.

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cc: Secretary of Commerce and Trade