

## Department of Planning and Budget 2008 Fiscal Impact Statement

**1. Bill Number:** HB1537

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

**2. Patron:** Gear

**3. Committee:** General Laws

**4. Title:** Horse racing; definitions; percentage retained.

**5. Summary:** Horse racing; definitions; percentage retained. Redefines simulcast horse racing to include live or pre-recorded horse races. The bill also provides that notwithstanding current allocations of proceeds from pari-mutuel pools, on pari-mutuel pools generated by wagering on pre-recorded simulcast horse racing at each Virginia satellite facility and the racetrack, after payment of all prizes to winning wagers, the Commonwealth Transportation Trust Fund shall receive 51 percent of the pool to be used for highway maintenance and any other purposes determined by law; the licensee shall receive 45 percent of the pool; and the horsemen's purse account shall receive four percent of the pool. Proceeds of pari-mutuel tickets unredeemed 180 days from the date on which the wager was made and the legitimate breakage from this form of simulcast horse racing shall be retained by the licensee.

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

**7. Budget amendment necessary:** Yes, see item 8, below. Item 129.

**8. Fiscal implications:** Pre-recorded horse races involve races replayed from 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 or pre-recorded horse races would be distributed differently. The bill provides for payment for all prizes to winning wagers first; the balance would be distributed as follows: 51 percent to the Commonwealth Transportation Fund for highway

maintenance and other transportation related purposes; 45 percent to the licensee; and four percent to the horsemen's purse accounts. 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 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.

Based on the above analysis (assuming 10,000 machines among the existing 10 locations at full implementation), approximately \$336.6 million would be available for distribution to the TTF, \$297 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. This assumes 15 additional positions will audit and oversee the system. VRC also estimates that it will require four to six months once the legislation is enacted to develop regulations governing instant racing and up to five years for the program to be fully implemented in the Commonwealth. 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.

- 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:** None.

**Date:** 2/4/2007 dpb

**Document:** G:\2008 Session\Fiscal Impact Statements\Hb1537.Doc

cc: Secretary of Commerce and Trade