

**Department of Planning and Budget
2012 Fiscal Impact Statement**

1. Bill Number: SB268

House of Origin Introduced Substitute Engrossed
Second House In Committee Substitute Enrolled

2. Patron: Norment

3. Committee: General Laws and Technology

4. Title: Virginia Racing Commission; simulcast horse racing; allocations.

5. Summary: This bill adds 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 (off-track betting) licensed in Virginia as of January 1, 2012. Proceeds from the wagering, after the payment of prizes, would be split between the Commonwealth (the Virginia Tourism Corporation and the Transportation Trust Fund), the locality in which the racetrack or satellite wagering facility is located, the licensee, and the horsemen's purse account. 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. The bill also contains enactment clauses that: (i) direct 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, which must be approved by VRC, and (ii) require VRC to promulgate emergency regulations within 280 days of the enactment of the bill. Finally, the bill makes several technical changes to the Code language in this section.

6. Budget Amendment Necessary: Yes, see item 8, below. Changes necessary to the front page and Items 127, 128, 129 and 446 of HB30/SB30. Any additional funding for VRC's regulatory functions will need to be appropriated to Item 128; additional funding for the Breeders' Fund under the provisions of this bill will need to be appropriated to Item 127.

7. Fiscal Impact Estimates: Indeterminate. See item 8, below.

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 this bill, these terminals could be installed at any of the state's allotted ten satellite wagering facilities and one currently operating racetrack. The races are anonymous; the real names of the horses, the date, and place of the race they are betting on, are all 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, meaning that the 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 (live racing and simulcast racing), 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, the Virginia Horse Industry Board and the Virginia Thoroughbred Association.

According to this bill, 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 Corporation (VTC) for the marketing of tourism in Virginia;
- 43 percent to the licensee; and
- 4 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 winning tickets and breakage (the rounding of payout prices).

The amount of revenue instant racing might generate for the Commonwealth is indeterminate. It would depend on the number of instant racing machines the market can support, and on the allocation of those machines around the state. A study done in October 2009 of a similar instant racing program in Arkansas showed a win per terminal at \$143 per day. The Virginia Racing Commission (VRC) estimates that the market and satellite wagering facilities in Virginia may be able to absorb a total of 1,500 machines. These machines would be spread among the current ten satellite wagering facilities in Virginia, and the racetrack in New Kent, Virginia. At a return of \$143 per machine for 1,500 machines over 365 days, the estimated revenue available for distribution from this bill may be approximately **\$78,292,500**.

The uncertainty of this figure is impacted by a significant drop in wagers in fiscal years 2009, 2010, 2011, and 2012 for live races; this decrease in live-horse wagering may translate to a lessened interest in instant racing. Secondly, within the last several years, surrounding states have increased their options of available alternative gaming. Maryland legalized slot machines and now has several locations in operation, West Virginia and Pennsylvania allow slots and casino table games, and Delaware allows slots and legalized sports wagering; all of which VRC anticipates may impact the number of both in- and out-of-state citizens that would participate in instant horse racing in Virginia.

Using the projected total revenue assumption of \$78,292,500 (based on 1,500 machines among the ten locations, open 365 days a year), the approximate distribution of net revenue would be as follows:

- \$39.1 million to the Transportation Trust Fund;

- \$1.2 million to the localities and the VTC;
- \$33.7 million to the licensee; and
- \$3.1 million to the horsemen's purse account and the Virginia Breeders' Fund.

VRC estimates that the bill will increase costs to the agency by approximately \$240,000 annually for three new positions to audit and oversee the systems (1,500 machines located at the racetrack and throughout the Commonwealth's satellite facilities). In addition, the bill requires that VRC promulgate regulations within 280 days of enactment. VRC will need to develop these regulations to govern instant racing. As such, VRC estimates that time will be needed for the program to be fully implemented in the Commonwealth. No machines could be installed until the regulations are promulgated, which would delay any potential revenue to the state. The bill is silent regarding any additional funding source for VRC's additional regulatory and administrative expenses. Currently, VRC gets 1.5 percent of all wagering done at the racetrack and satellite wagering facilities, and 0.5 percent of advanced-deposit wagering.

9. Specific Agency or Political Subdivisions Affected: Affected localities in the Commonwealth, the Virginia Racing Commission, and the Transportation Trust Fund.

10. Technical Amendment Necessary: No.

11. Other Comments: None.

Date: January 24, 2012

cc: Secretary of Commerce and Trade
Secretary of Transportation