

Department of Planning and Budget 2015 Fiscal Impact Statement

1. Bill Number: SB 1097

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

2. Patron: Vogel

3. Committee: General Laws

4. Title: Virginia Racing Commission (VRC); powers.

5. Summary: Revises the Virginia horse racing statute in light of Colonial Downs' surrender of its unlimited license to own and operate the racetrack in New Kent County and the nine satellite facilities (OTBs) in Virginia. Specifically, the bill (i) revises the definition of licensee to permit any licensee to own or operate race track; (ii) adds a definition of (a) recognized majority horsemen's group to clarify that the Virginia Racing Commission (VRC) determines which organizations represent horse owners and trainers at race meets and a definition of a (b) significant infrastructure limited licensee (Colonial Downs); (iii) reallocates the source market fee paid by online wagering companies (account wagering) licensed by VRC for specified and VRC-approved purposes; and (iv) establishes a simulcast escrow fund to allow OTB wagering to continue in absence of a contract between a licensee and a recognized majority horsemen's group. The bill contains technical amendments.

6. Budget Amendment Necessary: No.

7. Fiscal Impact Estimates: Preliminary. See Item 8, below.

7a. Expenditure Impact: None.

7b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2015	\$0	State Racing Operations Fund (0228)
2016	\$940,000	State Racing Operations Fund (0228)
2017	\$940,000	State Racing Operations Fund (0228)
2018	\$940,000	State Racing Operations Fund (0228)
2019	\$940,000	State Racing Operations Fund (0228)
2020	\$940,000	State Racing Operations Fund (0228)
2021	\$940,000	State Racing Operations Fund (0228)

8. Fiscal Implications: This bill would modify the allocation of revenue generated from advance deposit account wagering. Currently, the allocation of such revenue is as follows: (1) a license fee paid to the Commission; (2) an additional fee equal to 10 percent of all wagers made within the Commonwealth placed through an advance deposit account wagering licensee, out of which one-half is paid to all unlimited licensees, and one-half to representatives of the recognized majority horsemen groups; and (3) an additional fee equal

to one percent of all wagers made in the Commonwealth placed through an advance deposit account wagering licensee is paid to the Virginia Breeders Fund.

Under the provisions of the bill, the allocation of revenue would be as follows: (1) a license fee equal to 1.5 percent of all wagers made within the Commonwealth paid to the Commission; (2) an additional fee equal to one percent of all wagers made within the Commonwealth placed through an advance deposit account wagering licensee paid to the Virginia Breeders Fund; and (3) an additional fee equal to nine percent of all wagers made within the Commonwealth placed through an advance deposit account wagering licensee, out of which four percent would be paid to a nonprofit industry stakeholder organization recognized by, and with oversight from, the Commission to include the recognized majority horsemen's group, a breeder's organization, and a licensed track operator for the purpose of promoting, sustaining, and advancing horse racing within the Commonwealth, and five percent to representatives of the recognized majority horsemen's group by breed to be used for purse funds at races conducted in the Commonwealth, unless otherwise authorized by the Commission. However, if the advance deposit account wagering licensee is a significant infrastructure limited licensee, the additional fee equal to nine percent of all wagers placed through the significant infrastructure limited licensee would instead be retained by the licensee for operational expenses, including defraying the costs of live racing.

The nonprofit industry stakeholder organization would make distributions from fees received from advance deposit wagering to organizations that provide care for retired race horses, and to the Virginia-Maryland Regional College of Veterinary Medicine, the Virginia Horse Center Foundation, the Virginia Horse Industry Board, and the Virginia Thoroughbred Association based on prescribed percentages. The organization would also disburse thirty-five one-hundredths of one percent of all wagers made within the Commonwealth placed through such advance deposit account wagering licensee to the locality where live racing licensed prior to January 1, 2012, and beginning January 1, 2020, to the locality or localities where such live racing occurs to be shared in a ratio of the number of such annual live races in a locality to the total number of annual live races in the Commonwealth. The amount the locality or localities would receive would be capped at \$400,000.

According to estimates provided by the Virginia Racing Commission, advance deposit account wagering will generate \$94 million of handle in FY 2015. It is anticipated that such wagering will continue to generate \$94 million in handle per fiscal year. The Commission estimates that under the provisions of the bill, the state fiscal impact would result in a net increase in revenue and deposits to the Virginia Racing Commission's Operations Fund of \$940,000 per fiscal year, or a total of \$1.41 million. Thirty-five one-hundredths of one percent of all wagers made within the Commonwealth would be paid annually to the locality where live racing has occurred prior to January 1, 2012. It is anticipated this provision will generate \$329,000 in annual local revenue. If the advance deposit account wagering licensee is a significant infrastructure limited licensee, it is anticipated that this provision will generate \$206,500 in annual local revenue.

It is anticipated that the bill will not have an expenditure impact to VRC.

The Racing Commission's operating revenue consists of revenue generated from pari-mutuel taxes on wagering at the racetrack and satellite facilities on live or simulcast horse racing revenue, and advance deposit account wagering. VRC estimates that its operating revenue in FY 2015 will total approximately \$630,000, and expenditures are projected to total approximately \$815,000. At the end of FY 2014, VRC had a cash balance of approximately \$286,000, which is available for expenditure in FY 2015.

In FY 2014, the total amount wagered on horse racing in the Commonwealth decreased from the prior year, as a result of an impasse in the completion of a new contract between the Virginia Horsemen's Benevolent and Protective Association and Colonial Downs. This continued into FY 2015. However, receipts from advance deposit wagering increased in FY 2014 and FY 2015, as more wagering is now occurring online. But the increases in revenue from advance deposit wagering are not enough to mitigate the decrease in revenue from pari-mutuel wagering at the racetrack and satellite facilities.

The general fund revenue in Chapter 3, 2014 Acts of Assembly Special Session I (the 2014 Appropriation Act), assumes a transfer of revenue collected by VRC to the general fund in the amount of \$100,000 in FY 2015 and \$50,000 in FY 2016. Due to the decrease in revenue and deposit to the Commission's operating fund, the transfers are eliminated in SB800/HB1400 as introduced.

- 9. Specific Agency or Political Subdivisions Affected:** Virginia Racing Commission.
- 10. Technical Amendment Necessary:** Yes. Line 455, replace "(iii)" with "(ii)".
- 11. Other Comments:** This bill is the companion to HB1826. HB2224 and SB1313, HB1934, HB2313, and HB2335 also pertain to the Virginia Racing Commission.