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# FISCAL FOCUS

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## CHALLENGES TO MICHIGAN'S HORSE RACING INDUSTRY

Prepared by:  
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October 1999



Mitchell E. Bean, Interim Director



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October 1999

TO: Members of the House of Representatives

The horse racing industry in Michigan contributes substantially to the state economy through its creation of jobs, income, and state revenue. However, due primarily to increases in other gambling outlets in the state (mostly Native American casinos and Detroit casinos), horse racing in Michigan is currently facing serious survival challenges. Although the Horse Racing Law of 1995 provided temporary assistance to the ailing industry, industry observers believe that major changes to the horse racing industry will be necessary to ensure its viability in the intensely competitive gambling/entertainment market.

This **Fiscal Focus** looks at the status of the horse racing industry in Michigan since enactment of the Horse Racing Law of 1995 and reviews major changes that have been made to the law since its enactment. It also notes challenges facing Michigan's horse racing industry and describes some of the options available to confront these challenges.

We appreciate the assistance of James J. Bowes, Deputy Racing Commissioner, who reviewed the draft report. Craig Thiel, Fiscal Analyst, authored this report; Jeanne Dee, Administrative Assistant, prepared the report for publication.

Please call if you have questions regarding this **Fiscal Focus**.

Mitchell E. Bean  
Interim Director



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# INTRODUCTION

Horse racing in the State of Michigan, prior to enactment of 1995 PA 279 (the Horse Racing Law of 1995), was seen by many industry observers to be on the verge of collapse and in need of a long-term plan to assure its viability. The Horse Racing Law of 1995, viewed as a blueprint for survival of the horse racing industry, represented a revolutionary restructuring of the statutory framework surrounding horse racing in the state and provided the necessary tools for the industry to compete in the expanding gambling/entertainment market. It also:

- ' Authorized full-card simulcasting;<sup>1</sup>
- ' Transformed Michigan's licensed tracks from part-time to year-round operations offering live and/or full-card simulcast racing programs;
- ' Eliminated the tax on wagering on live racing; and
- ' Provided funding for agriculture, county fair, and racing programs through a tax on simulcast wagering.

The horse racing industry in Michigan continues to struggle, despite the law's changes, and is again at a crossroads. Indications that the industry has fallen upon hard times include the following:

- ' Total attendance at Michigan tracks has declined each year since 1996.
- ' Live racing wagering levels continue their precipitous decline.
- ' Muskegon Race Course closed operations in May 1997, after nine years of harness racing, due to ongoing revenue losses.

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<sup>1</sup> "Full-card simulcasting" is the simultaneous broadcast of the entire live racing program (as it is contested) to patrons wagering at sites other than the racetrack where the races are conducted. The host track may or may not be located in the same state as the receiving track.

- ' Ladbroke-Detroit Race Course (DRC) ran its last day of live thoroughbred racing in November 1998, due primarily to continued operating losses. The track opened in 1985.
- ' A number of the surviving tracks continue to experience annual revenue losses, contributing further to their growing financial instability.

The current status of the horse racing industry in Michigan is the result of events both within the industry and outside the industry following enactment of the Horse Racing Law of 1995 on January 1, 1996. Developments in the gambling/entertainment market both inside and outside the state have had a direct impact on horse racing in Michigan. These developments include:

### ***The Big Game***

In September 1996, the Bureau of State Lottery joined the multistate lottery, *The Big Game*, which offers mega-jackpots. The Bureau continues to introduce up to 50 new instant games each year to maintain player interest and sales levels.

### ***Proposal E***

In November 1996, state voters approved Proposal E, authorizing up to three non-Indian casinos in the City of Detroit. One temporary casino opened in July 1999; two other temporary casinos are scheduled to open by the end of 1999 or early in 2000.

### ***New Tribal-State Gaming Compacts***

During 1998, there were seven federally-recognized tribes with tribal-gaming compacts operating 16 gaming facilities in the state. In December 1998, the state approved new tribal-state gaming compacts with four federally-recognized Native American tribes. This brought the total number of approved compacts to 11.

Because these four new compacts authorize four new gaming facilities, the total number of potential Native American gaming facilities in the state now stands at 20. Since two of the tribes with new compacts opened gaming facilities in July 1999, there are currently 18 Native American gaming facilities in operation in the state.

### ***Windsor Raceway "Racino"***

In December 1998, Windsor Raceway in Ontario, Canada opened its "Racino" by beginning operation of 712 slot machines 24 hours a day, 365 days a year. The slot operation contributes 20 percent of its net win to Canada's horse racing industry — divided equally between the track and the horsemen.

The Horse Racing Law of 1995 was enacted with the intent to provide self-supporting financial assistance to the ailing horse racing industry in Michigan — primarily through elimination of the wager tax on live racing and authorization of full-card simulcasting.<sup>2</sup> Many key economic and fiscal variables were positively impacted immediately after passage of the law in 1995. Some of these impacts were short-lived, however, as a number of the key variables, after an initial increase, continued to decline.

It is difficult to pinpoint exactly why the Horse Racing Law of 1995 has not provided more long-term assistance for the industry in Michigan. While it might be too early for a full assessment of the long-term impact of the law, it can be noted that part of the law's inability to provide sufficient stability to the industry is related to gambling/entertainment developments which have occurred outside the industry. Since enactment of the law, the industry has faced serious challenges from the broader gambling/entertainment market, prompting many within the industry to advocate for new revenue-generating options that will allow Michigan's horse racing industry to remain competitive with other gambling/entertainment outlets.

This publication:

- ' Focuses on the status of the horse racing industry in Michigan since enactment of the Horse Racing Law of 1995.
- ' Describes what the industry means to the state's economy, and then examines the impact of the law on key fiscal and economic variables affecting the state and the industry (e.g., attendance, total wagering levels, purse distributions, state revenues and appropriations, and track operations).
- ' Notes some of the challenges facing the industry.
- ' Examines some of the options implemented in other states to assist the industry in confronting similar challenges. Some of the identified options have been proposed for Michigan in the past (e.g., video lottery and slot machines at the tracks), but did not gain legislative approval.
- ' Concludes with a discussion of major changes that have been made to the law since its enactment.

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<sup>2</sup> See 1995 PA 279, Section 20 (MCL 431.320).





# IMPACTS OF HORSE RACING IN MICHIGAN

There were seven pari-mutuel horse racetracks in Michigan as of January 1, 1999. Five of these tracks (Hazel Park Harness Raceway, Jackson Harness Raceway, Northville Downs, Saginaw Harness Raceway, and Sports Creek Raceway) race standardbred horses. Great Lakes Downs in Muskegon is the only all-thoroughbred track in the state, following the closing of Ladbroke DRC on December 31, 1998. Mount Pleasant Meadows hosts mixed racing (including thoroughbreds, quarter horses, Arabians, and Appaloosas). These seven tracks, along with the race farm operations that supply horses for racing, represent the backbone of the horse racing industry in Michigan.

A 1995 report by Public Sector Consultants, Inc. concluded that the horse racing industry in Michigan contributes substantially to the state's employment, income, and economic well-being.<sup>3</sup> Taking into account both direct and indirect economic impacts, it is estimated that horse racing in Michigan is a \$1.2 billion industry responsible for more than 42,000 jobs, \$233 million in personal income, and total economic output of \$439 million each year.<sup>4</sup> Additionally, race tracks and race farm operations support capital facilities with an estimated value of \$700 million.

## ***Employment Impacts***

- z 3,200 jobs directly related to racetrack operations.
  
- z 2,059 indirect jobs supported by the spending and wages generated at race tracks.

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<sup>3</sup> *The Economic Impact of Horse Racing in Michigan*, Public Sector Consultants, Inc., February 1995.

<sup>4</sup> Direct employment, income, and output figures were derived from an analysis of racetrack financial statements, a 1994 survey of track operations, and a 1994 race farm survey conducted by the Michigan Harness Horsemen's Association. Indirect employment, income, and output figures were derived from a proprietary economic impact model used for the report.

- z 28,370 jobs directly related to race farm operations (more than one-half are family members or owners of these operations).
- z 8,677 indirect jobs supported by spending by race farm operations.

### ***Income Impacts***

- z \$51.7 million in personal income generated directly and indirectly from race track operations.
- z \$181.5 million in personal income generated directly and indirectly from race farm operations.

### ***Output Impacts***

- z \$65.7 million in direct and indirect output generated by race track operations.
- z \$373.0 million in direct and indirect output generated by race farm operations.

Full-card simulcasting, authorized under the Horse Racing Law of 1995, is directly responsible for turning Michigan tracks into year-round operations and transforming previously part-time employment opportunities to full-time jobs for track employees.

Impacts of horse racing extend beyond the entrance gates of Michigan's pari-mutuel tracks. The industry plays a role in state and local finances, contributing more than \$31 million annually to state and local coffers primarily through taxes, uncashed tickets, and "breakage."<sup>5</sup> The largest source of state revenue from horse racing is generated by the simulcast wagering tax. In Fiscal Year 1998-99, nearly two-thirds of the simulcast wagering tax revenue was returned to the industry to support purses and awards at pari-mutuel tracks and state regulation of the industry; the remainder went to fund non-pari-mutuel horse racing purses, exhibitor premiums, and capital improvements at county fairs throughout the state.

Pursuant to state statute, all breakage is distributed directly to cities/townships where a racetrack is located. According to the 1998 Annual Report of the Office of Racing Commissioner, more than \$2.2 million in breakage was provided to local coffers to cover just under \$1.0 million in actual costs for local police, fire, and

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<sup>5</sup> "Breakage" is cents over any multiple of 10 payable to a bettor on a wager of \$1.00. For example, if a winning bet is computed to pay \$2.54, the bettor receives \$2.50 and the \$.04 in breakage is distributed to cities/townships in which the track is located.

traffic protection services associated with hosting the racetracks. The remaining \$1.2 million in breakage was used by local municipalities for other priorities.

A number of sectors of Michigan agriculture are also affected by the horse racing industry. The most visible sector probably is the equine industry. According to the 1996 Michigan Equine Survey, there were an estimated 19,600 standardbred and thoroughbred equine in the state.<sup>6</sup> The total inventory of equine in Michigan as of June 1, 1996, was 130,000 head — unchanged from 1991. However, the number of standardbreds and thoroughbreds fell by 30 and 20 percent, respectively, between 1991 and 1996. This decline is problematic for the industry as nearly all of the horses racing in the state, either at pari-mutual tracks or county fairs, are one of these breeds.

The equine industry employs a sizeable labor force. According to the 1996 Michigan Equine Survey, 6,500 people worked full time on equine operations — principally the family members and owners of those operations. In 1996, those equine facility operators had 1,100 full-time paid employees and hired 4,400 part-time and seasonal workers. Other sectors of Michigan agriculture grow, store, and transport many of the agricultural products required by the equine industry.<sup>7</sup>

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<sup>6</sup> *Michigan Equine Survey - 1996*, Michigan Agricultural Statistics Service.

<sup>7</sup> *Ibid.*



# PARI-MUTUEL WAGERING

Total pari-mutuel wagering in the state declined from 1990 until enactment of the Horse Racing Law of 1995 (see **Figure 1**). Introduction of full-card simulcasting in 1996 changed this trend and resulted in a substantial increase (50.6 percent) in total pari-mutuel wagering from 1995 to 1996. This increase, however, was driven entirely by simulcast wagering; live wagering continued to decline. Total pari-mutuel wagering at Michigan tracks peaked in 1997 at \$474.6 million. Overall, total pari-mutuel wagering has remained relatively stable since the passage of the law.

Despite the increase in total wagering, a significant decline in live wagering (48.9 percent) from 1995 to 1996 suggests a major migration away from live wagering to simulcast wagering. Since enactment of the law, simulcast wagering has increased each year while live wagering has continued to decline. In general, the continued increase in simulcast wagering has been good for the tracks, but the decline in live wagering hurts live racing. Furthermore, there is evidence that simulcasting has usurped a portion of the live racing "handle" at the tracks, resulting in additional economic pressures on live racing in Michigan.<sup>8</sup>

The decline in live wagering may also be a result of fewer live racing dates at Michigan tracks. Between 1993 and 1998, the number of live racing dates at Michigan tracks decreased from 901 to 705, or 21.7 percent (see **Figure 2**). This decline may be partially explained by a decline in the supply of race horses in Michigan. The 1996 Michigan Equine Survey reports 12,000 standardbred horses and 7,600 thoroughbred horses (down from 17,000 and 9,500, respectively, in 1991).

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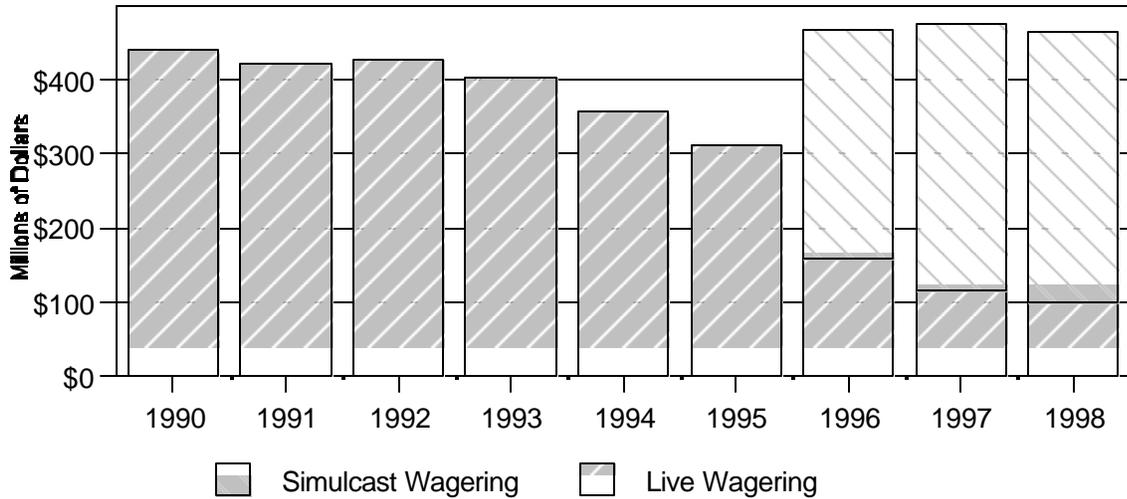
<sup>8</sup> "Handle" is the total amount wagered on a race.



Figure 1

### PARI-MUTUEL WAGERING AT MICHIGAN TRACKS

1990 through 1998

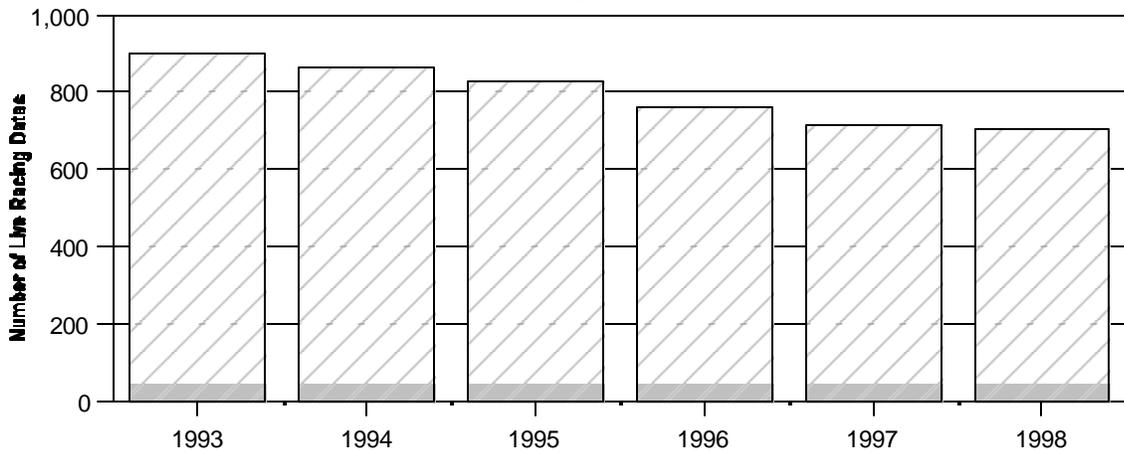


SOURCE: Office of Racing Commissioner, Annual Reports

Figure 2

### LIVE RACING DATES AT MICHIGAN TRACKS

1993 through 1998



SOURCE: Office of Racing Commissioner, Annual Reports

# PARI-MUTUEL TRACK ATTENDANCE

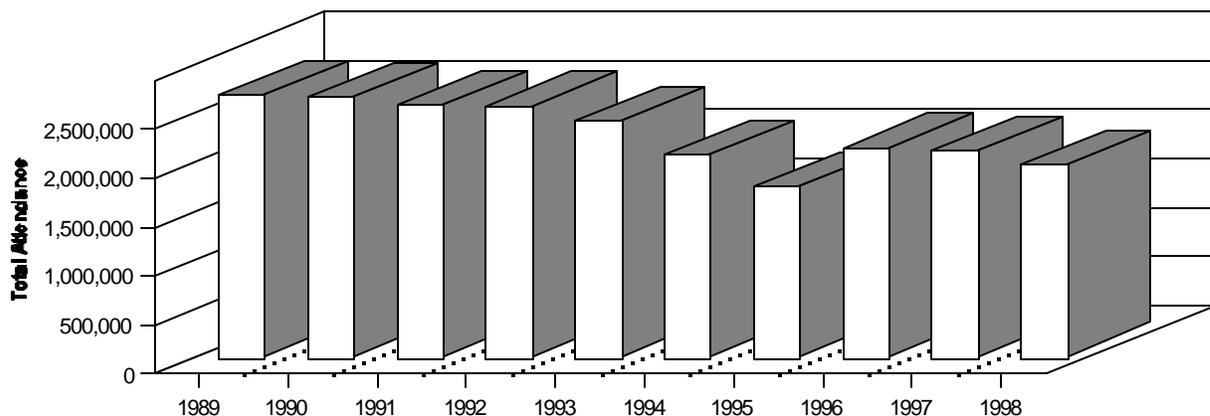
Prior to enactment of the Horse Racing Law of 1995, total attendance at Michigan's licensed pari-mutuel tracks was experiencing a seven-year decline (see **Figure 3**). With the addition of full-card simulcasting in 1996, Michigan's tracks were transformed into year-round entertainment opportunities for racing fans. Live racing continued to be conducted at tracks during part of the year, but simulcast programs operated during the entire year.

As a direct result of full-card simulcasting, track attendance increased substantially (22.7 percent) from 1995 to 1996, marking the end of the decline in total track attendance. However, after this initial upswing, attendance figures have slipped each year since 1996. It appears that the addition of full-card simulcasting at the tracks increased attendance only for the short term.

**Figure 3**

## TOTAL ATTENDANCE AT MICHIGAN TRACKS

1989 through 1998



**SOURCE:** Office of Racing Commissioners, Annual Reports



# PURSE DISTRIBUTION

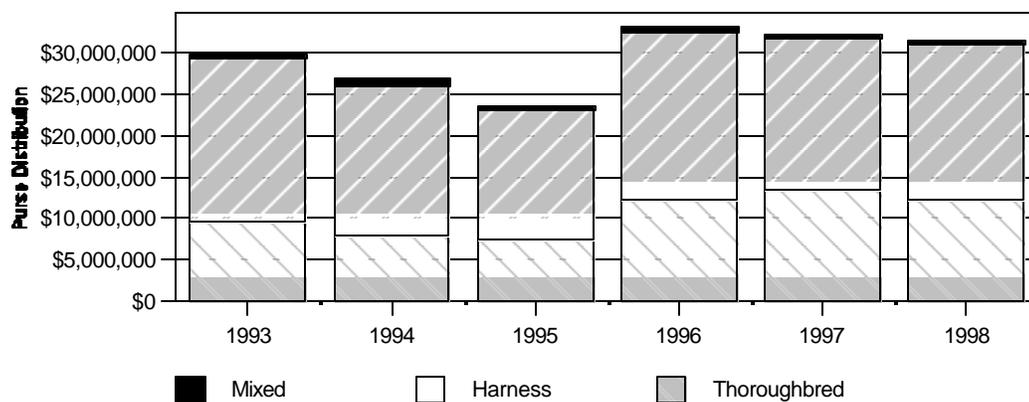
Purses are a major factor in determining the quality of racing at Michigan's pari-mutuel tracks. Higher purses draw a larger supply and better quality of horses to the tracks to race, and provide incentives for Michigan horse owners, trainers, and breeders to improve the quality and increase the number of Michigan-bred horses. This stimulates investment in the equine breeding industry.

Prior to enactment of the Horse Racing Law of 1995, purses at Michigan's tracks were steadily declining (see **Figure 4**). The law endeavored to increase purses through elimination of the state tax on live racing. Tax reduction, combined with the addition of full-card simulcasting in 1996, resulted in an increase of 41.1 percent in purse monies from 1995 to 1996.

Despite this initial increase, purses have declined slightly each year since 1996. Because purse levels move in concert with wagering levels, as wagering slowly declined during this period, so did purses. It appears, therefore, that the law successfully increased purses only in the short term.

Declining purses continue to be a major concern of the industry. Horsemen continue to look for additional resources to augment purse levels.

**Figure 4**  
**PURSE DISTRIBUTION BY TYPE OF RACING**  
1993 through 1998



SOURCE: Office of Racing Commissioner, Annual Reports



# STATE REVENUE AND APPROPRIATIONS

The state generates revenue directly from a number of activities associated with pari-mutuel horse racing. Currently, the primary source of direct revenue is the simulcast pari-mutuel wagering tax, which totaled more than \$12.8 million in 1998. The state also collects revenue from licensing activities, fines, uncashed winning pari-mutuel tickets, and other miscellaneous sources.

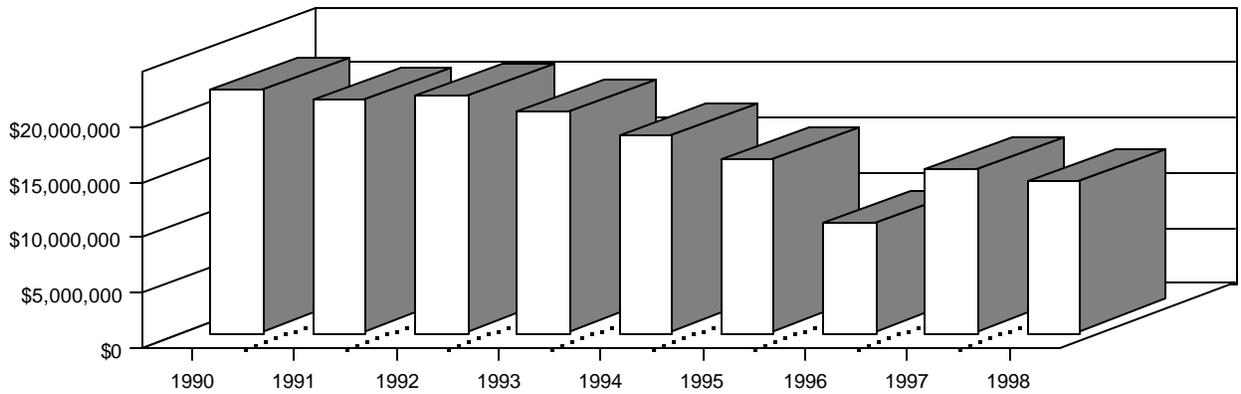
Prior to enactment of the Horse Racing Law of 1995, the state taxed pari-mutuel wagering on live racing. The law eliminated the tax on live wagering and replaced it with a tax on simulcast wagering. The simulcast wagering tax constituted a new revenue source to the state, while elimination of the live wagering tax provided what the horse racing industry perceived as a much-needed tax reduction.

State revenue from pari-mutuel racing activities declined steadily from 1992 until 1997, primarily due to a decline in live pari-mutuel wagering (**Figure 5**).

**Figure 5**

### STATE REVENUE FROM PARI-MUTUEL HORSE RACING

1990 through 1998



SOURCE: Office of Racing Commissioner, Annual Reports

Elimination of the wagering tax on live pari-mutuel racing was not intended to diminish the available revenue for the various programs funded with horse racing revenue.<sup>9</sup> Rather, the tax reduction was intended to improve the pari-mutuel horse racing and breeding industry by increasing purses and making additional resources available for capital improvements at licensed tracks.

Following enactment of the law authorizing full-card simulcasting and introduction of a tax on simulcasting, state revenue plummeted from \$15.6 million in 1995 to \$9.9 million in 1996. After this initial decline, state revenue rose to \$14.7 million in 1997 — primarily as a result of the increase in the tax on simulcast wagering authorized under the law.<sup>10</sup> State revenue from pari-mutuel horse racing then experienced a moderate decrease (7.5 percent) from 1997 to 1998.

While it is difficult to predict how state revenue would have been affected if the state had not passed the Horse Racing Law of 1995, state revenue may have continued its precipitous decline due to the falling levels of live wagering. Although current revenue levels are below those of 1995, it appears that the switch from a tax on live racing to simulcasting slowed the rate of decrease, and that replacement of the live wagering tax with the simulcast wagering tax was revenue-neutral to the state — as envisioned in the Horse Racing Law of 1995.

**Figure 6** highlights state simulcast wagering tax revenue generated by each track for 1998. Two tracks, Hazel Park and Ladbroke DRC, accounted for two-thirds of the total tax revenue received in 1998 (\$12.8 million). Together, the three metro-Detroit tracks (Hazel Park, Ladbroke DRC, and Northville Downs) were responsible for 82.6 percent of the total simulcast wagering tax revenue in 1998.

Figures for the first half of 1999 indicate substantial increases in both simulcast wagering and tax revenue generated at Northville Downs (113 percent) and Hazel Park (18 percent) as a result of the closing of Ladbroke DRC. However, it is unknown at this time exactly what portion of Ladbroke's total simulcast handle will transfer to these locations. It is also unknown what impact the Detroit casinos will have on wagering at the two remaining metro-Detroit tracks when they open for operation in 1999 or early 2000.

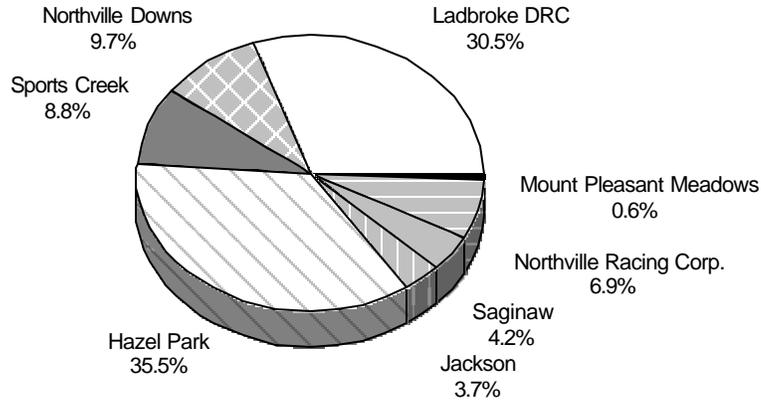
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<sup>9</sup> See 1995 PA 279, Section 20 (MCL 431.320).

<sup>10</sup> The marked increase in State revenue from 1996 to 1997 results primarily from an increase in the simulcast wagering tax rate from 2.5 percent in 1996 to 3.5 percent in 1997, pursuant to the Horse Racing Law of 1995 (1995 PA 279).

Figure 6

**1998 SIMULCAST WAGERING TAX BY TRACK**



Total: \$12,810,860

SOURCE: Office of Racing Commissioner, Annual Report

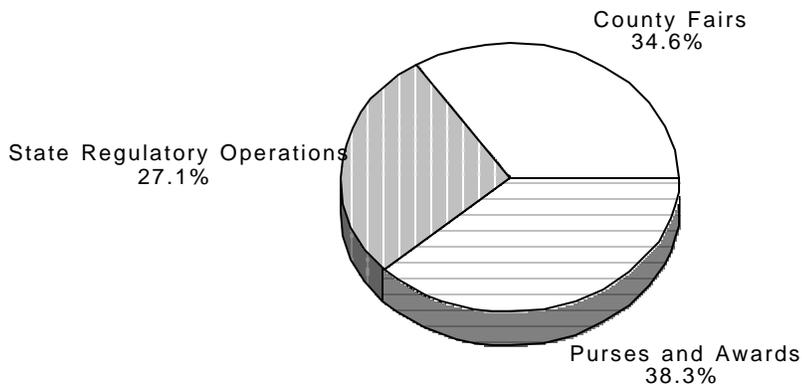
All state revenue from pari-mutuel racing is deposited in the Michigan Agriculture Equine Industry Development Fund. The fund is administered by the Director of the Michigan Department of Agriculture with the assistance of the Racing Commissioner. Money in the fund is appropriated by the Legislature to support pari-mutuel racing purses and awards, state racing regulatory operations, and horse racing purses, exhibitor premiums, and capital improvements at county fairs across the state. For Fiscal Year (FY) 1998-99, more than \$14.3 million from the fund is appropriated for these purposes. Nearly \$5.0 million is appropriated for county fairs, nearly \$3.9 million for regulatory operations, and almost \$5.5 million for purses and awards at Michigan pari-mutuel tracks (see **Figure 7**).

The FY 1999-2000 appropriations from the Agriculture Equine Industry Development Fund mark a major policy change. Beginning in FY 1999-2000, appropriations for exhibitor premiums and capital improvements at county fairs are no longer funded by the Agriculture Equine Industry Development Fund, but instead are funded (more than \$2.4 million) from General Fund/General Purpose revenue. The Agriculture Equine Industry Development Fund revenue which previously supported these county fair appropriations is redirected to support the various horse racing grants/programs in the budget. As a result of this funding

shift, only horse racing programs and state regulatory functions are funded with Agriculture Equine Industry Development Fund revenue.

Appropriations from the fund total \$11.5 million in FY 1999-2000, with more than \$2.3 million for horse racing purses at county fairs, nearly \$3.6 million for state regulatory operations, and \$5.6 million for purses and awards at Michigan pari-mutuel tracks (see **Figure 8**). Comparing Figures 7 and 8 shows that the portion of total funds appropriated from the Agriculture Equine Industry Development Fund for purses and awards at the pari-mutuel tracks increased from FY 1998-99 to FY 1999-2000, while the percentage of the fund appropriated for county fairs decreased. This is a direct result of the funding shift in the FY 1999-2000 budget.

**FY 1998-99 APPROPRIATIONS  
AGRICULTURE EQUINE INDUSTRY DEVELOPMENT FUND**

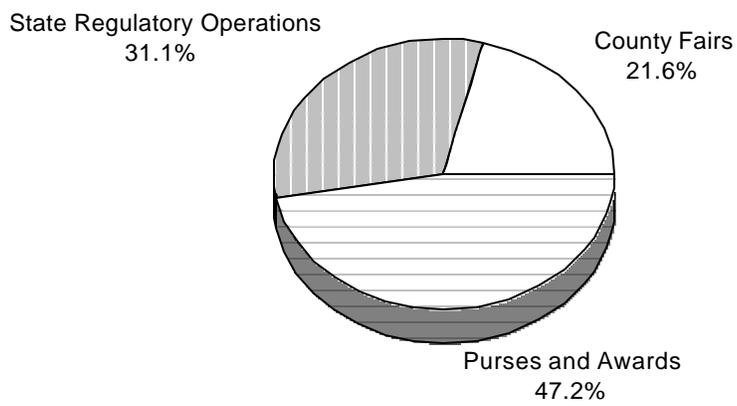


**Figure 7**

Total: \$14,303,900

Figure 8

**FY 1999-2000 APPROPRIATIONS  
AGRICULTURE EQUINE INDUSTRY DEVELOPMENT FUND**



Total: \$11,500,000



# TRACK OPERATIONS

When the Horse Racing Law of 1995 was enacted, there were eight pari-mutuel tracks in the state (six harness, one thoroughbred [Ladbrooke DRC], and one mixed-breed [Mount Pleasant Meadows]). Muskegon Race Course closed in May 1997 due to ongoing revenue losses. On December 31, 1998, Ladbrooke DRC closed its racing operations, also citing continued losses and competitive pressures from other gambling/entertainment outlets.

In April 1999, Great Lakes Downs opened at the former Muskegon Race Course as Michigan's only all-thoroughbred track. The opening of Great Lakes Downs provided the horsemen from Ladbrooke DRC with a place to race in 1999. Currently, there are seven pari-mutuel tracks in the state operating live racing for part of the year and full-card simulcasting for the entire year. **Figure 9** (on page 25) shows the location of the existing pari-mutuel tracks.

**Table 1** (following page) highlights the net profit/loss of each track since enactment of the law, as reported from the annual audit reports. Overall, it appears that the tracks' financial condition has been improving.

Table 1

**OPERATING PROFIT/(LOSS) FROM RACETRACK OPERATIONS  
1996 through 1998**

	<u>1996</u>	<u>1997</u>	<u>1998</u>
Hazel Park Harness Raceway	(\$332,927)	(\$759,849)	(\$361,892)
Jackson Harness Raceway	(\$125,718)	(\$9,240)	\$26,339
Ladbroke DRC	(\$1,215,966)	(\$362,588)	(\$78,396)
Mount Pleasant Meadows	(\$95,170)	(\$163,629)	(\$120,111)
Muskegon Race Course	(\$272,038)	<i>closed 5/97</i>	
Northville Downs <sup>1</sup>	\$498,682	\$251,287	\$903,347
Northville Racing Corporation <sup>2</sup>			\$211,986
Saginaw Harness Raceway	(\$14,856)	(\$61,120)	(\$6,172)
Sports Creek Raceway	(\$153,668)	(\$268,550)	\$197,098
<b>Total</b>	<b>(\$1,711,661)</b>	<b>(\$1,373,684)</b>	<b>\$772,199</b>

<sup>1</sup> Runs live/simulcast operations at Northville Downs, January through July; net income does not reflect a provision for federal income taxes which are paid by the individual partners

<sup>2</sup> 1996 and 1997 included in Jackson Harness Raceway figures; 1998 runs live/simulcast operations at Northville Downs, August through December

*SOURCE: Annual Racetrack Audit Reports*

# INDUSTRY CHALLENGES

The horse racing industry in Michigan is currently facing serious long-term survival challenges. By far, the biggest challenge facing the industry since enactment of the Horse Racing Law of 1995 has been from other gambling outlets. Other challenges include reinventing the image of horse racing to provide a greater appeal to the public, improving deteriorating capital facilities at the tracks, and competing with other venues for the public's limited entertainment dollars. The impact of these various challenges has been felt throughout the industry — most visibly in terms of attendance, purses, and wagering at the tracks over the past three years.

The overall gambling landscape in Michigan has changed quite significantly since enactment of the law. A number of developments in the gambling/entertainment market over the past three years have placed increasing competitive pressures on horse racing. Examples of recent developments include the opening of temporary casinos in Detroit, the approval of four new tribal-state gaming compacts authorizing four new Native American casinos, the introduction of slot machines at the Windsor Harness Raceway, the state's participation in the multistate lottery *The Big Game*, and the introduction of nearly 50 new instant lottery games each year. Combined, these developments have cut into the horse racing market and placed the industry at a competitive disadvantage.

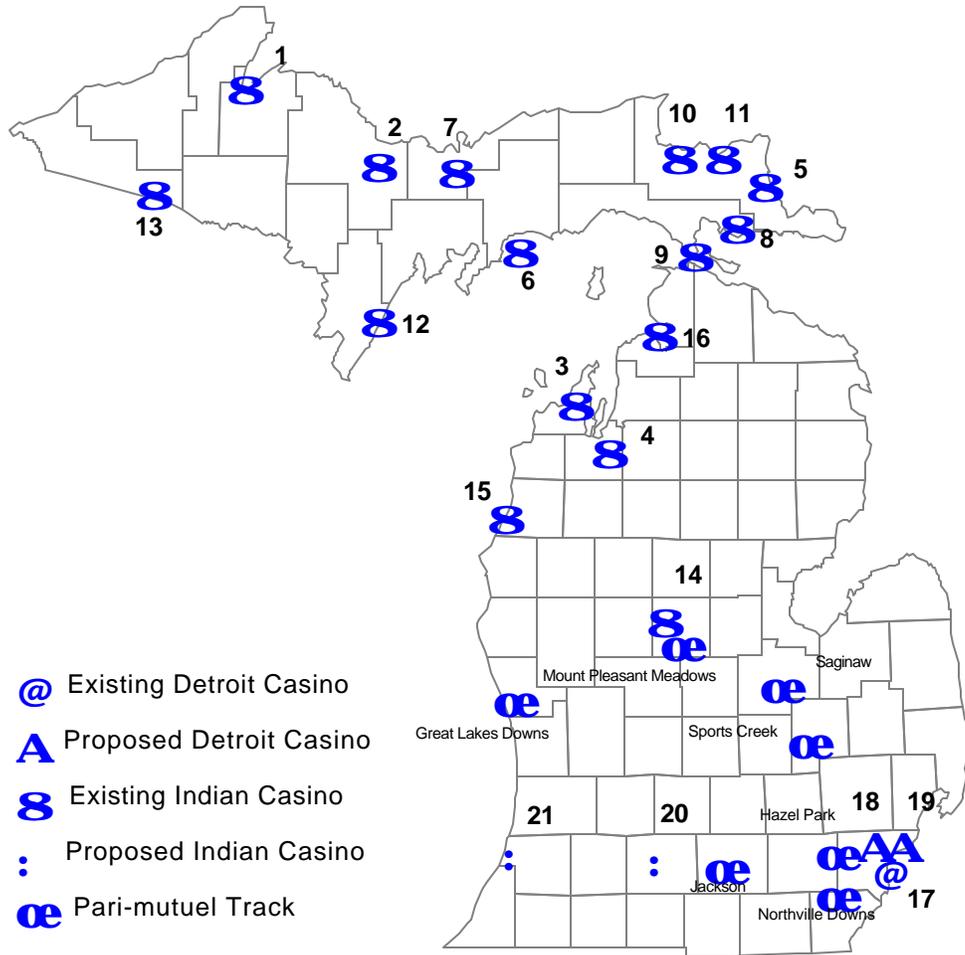
Some industry observers believe that a limited number of gambling dollars exist in the state, and, therefore, they view these developments as "cannibalization" of horse racing. **Table 2**, on page 24, lists existing and proposed casinos in Michigan and the number of slot machines and table games at each. **Figure 9**, on page 25 (casino numbers correspond with Table 2), shows the location of existing and proposed casinos and pari-mutuel tracks around the state. To complete the picture of the current gambling landscape in Michigan, add the presence of more than 9,300 licensed lottery retailers statewide.

**Table 2**  
**Existing and Proposed Michigan Casinos**

	Casino	Tribe/Owner	Location	Slots	Tables	Open
<i>Existing Casinos</i>						
1	Ojibwa Casino	Keweenaw Bay Indian Community	Baraga	340	16	1985
2	Ojibwa Casino II		Marquette	298	14	1996
3	Leelanau Sands Casino/ Eagle's View Slot Room Casino (2 sites)	Grand Traverse Band of Ottawa/Chippewa	Suttons Bay	945	28	1984
4	Turtle Creek Casino		Williamsburg	611	18	1997
5	Kewadin Vegas Casino	Sault Ste. Marie Chippewa	Sault Ste. Marie	1,076	33	1984
6	Kewadin Slots		Manistique	248	10	1994
7	Kewadin Slots		Christmas	135	3	1994
8	Kewadin Slots		Hessel	110	2	1994
9	Kewadin Shores Casino		St. Ignace	1,139	35	1989
10	Bay Mills Resort & Casino	Bay Mills Indian Community	Brimley	516	13	1994
11	Kings Club Casino & Lounge		Brimley	250	0	1984
12	Chip-In Island Resort & Casino	Hannahville Tribe of Potawatomi	Harris	900	32	1991
13	Lac Vieux Desert Casino & Resort	Lax Vieux Desert	Watersmeet	600	21	1988
14	Soaring Eagle Casino & Resort (2 sites)	Saginaw Chippewa	Mt. Pleasant	4,200	84	1987
15	Little River Casino	Little River Band of Ottawa Indians	Manistee	500	12	1999
16	Victories Casino Entertainment Center	Little Traverse Bay Band of Odawa	Petoskey	550	0	1999
17	MGM Grand Detroit Casino	MGM Grand Detroit, LLC	Detroit	2,300	80	1999
<i>Proposed Casinos</i>						
18	Greektown Casino	Greektown Casino, LLC	Detroit	2,300	90	1999- 2000
19	MotorCity Casino	Detroit Entertainment, LLC	Detroit	2,300- 2,600	135	1999- 2000
20	Unknown	Nottawaseppi Huron Band of Potawatomi	Calhoun County		Unknown	
21	Unknown	Pokagon Band of Potawatomi	Allegan, Berrien, Cass, or Van Buren County		Unknown	

Figure 9

Existing / Proposed Casinos  
& Pari-Mutuel Tracks



House Fiscal Agency, October 1999



Arguments have been made by industry observers that in order for the horse racing industry to compete in the Michigan gambling/entertainment market, the playing field must be leveled by providing the tracks with some of the same revenue-generating options available to other gambling outlets in the state. These options could include slot machines and/or video lottery terminals (VLTs) at the tracks as a means to compete with other gambling outlets.

While slots and/or VLTs could provide the tracks with tools to compete directly with other gambling outlets in the state, other options (discussed in the next section of this publication) exist to generate the revenue necessary for the industry to tackle the challenges it currently faces.

# OPTIONS TO AID HORSE RACING

Challenges facing the horse racing industry are not unique to Michigan, but rather are indicative of a national trend. While these challenges may be common to the industry across the country, the options the industry has available to generate revenue and survive differ from state to state. Because these options can be a function of the overall gambling/entertainment environment, gambling's social acceptance, the political landscape, and/or laws in a given state, it is impractical to assume that another state's response to the challenges can be used in Michigan to assist the horse racing industry.

The following reviews some of the options currently in place in other states to help the horse racing industry's chances of long-term survival. All of these options seek to generate additional revenue for the industry — revenue which could be used to augment purses, enhance breed development, fund track improvements, or promote horse racing in Michigan. In all cases, implementing these options in Michigan would require changes to state law.

### ***Slots, Card Rooms, and Video Lottery Terminals (VLTs)***

Some states permit other forms of gambling, in addition to pari-mutuel wagering, at horse racing tracks. Three states allow slots (Delaware, Iowa, and New Mexico), two allow card rooms (Florida and Minnesota), and three allow VLTs (Oregon, Rhode Island, and West Virginia). One state (Louisiana) permits both slot machines and VLTs at its pari-mutuel tracks.

Slot operations opened at Windsor Raceway in Ontario, Canada in December 1998. Under the arrangement brokered between the industry and the Province of Ontario, 20 percent of the net win is split equally between the track and horsemen purse pools. Industry sources report that the addition of slots has had a positive affect on attendance, wagering, purses, and the number of live racing dates at the track.

Slot machines, card rooms, and VLTs could allow the tracks in Michigan to compete directly with Native American and Detroit casinos for the gambling

dollars available in the state. Introducing these new forms of gambling at the tracks could attract new customers, which might increase total pari-mutuel wagering — both live and simulcast. While the increased wagering level would aid the industry, a portion of the revenue from slots, card rooms, and/or VLTs could be earmarked for breeders' awards, purses, track improvements, and/or promotions — similar to the Windsor, Ontario model.

Expansion of gambling at pari-mutuel tracks in Michigan would require changes to state law, as non-Indian casino gaming operations are currently limited to the three Detroit casinos. Amendments to the initiated law regulating Detroit casinos, the Michigan Gaming Control and Revenue Act as amended, would require approval by three-fourths of the members serving in each house of the Legislature.

### ***Off-Track Betting***

By far the most popular option in other states, off-track betting (OTB) provides people with access to live racing and pari-mutuel wagering taking place in other parts of the state without having to attend a race track. For example, the surrounding states of Illinois, Indiana, and Ohio, and the province of Ontario, Canada, all permit off-track betting.

In Michigan, there are no pari-mutuel tracks in the upper half of the Lower Peninsula or in the Upper Peninsula. Mount Pleasant Meadows, a small, mixed-breed track, is the northernmost track in the state, but it is not readily accessible to people from the northern portion of the state. Off-track betting outlets strategically placed in the northern Lower Peninsula and the Upper Peninsula would provide an outlet for people in these parts of the state to wager on live horse racing in Michigan. Similarly, the state's only all-thoroughbred race track is located in Muskegon, a significant distance from the population that was accustomed to wagering on live thoroughbred racing at Ladbrooke DRC in Livonia.

Off-track betting may increase live wagering levels and, therefore, help both the tracks and horsemen. Unlike simulcast wagering, live race wagering is not taxed by the state, thus it provides additional revenue for improvements at the tracks and for purses.

### ***Account Wagering***

A recent newcomer in the United States, account wagering provides people with access to pari-mutuel wagering over the telephone or the Internet. Eight states currently offer some type of account wagering, with additional states

contemplating its introduction.<sup>11</sup> The technology behind this form of wagering is fairly straightforward. People establish a pre-funded account and then access it via the phone or home computer by way of a personal identification number. Similar to OTB, account wagering allows people to wager on live races in the state from remote locations. This technology also provides access to wagering at all times of the day and does not require people to attend a track. Account wagering benefits include increased wagering, improved access to wagering, and the opening of new markets.

### ***Revenue Sharing***

Another option would be to share a portion of casino revenue with the tracks and the horsemen — similar to a revenue-sharing arrangement that exists between the riverboat casino industry and the horse racing industry in Indiana. The statute permitting riverboat gaming in Indiana earmarks 65 cents of the \$3.00 riverboat admission tax to the pari-mutuel horse racing industry. These funds are distributed to various segments of the racing industry. Of the total distributed, 40 percent is earmarked for purses (divided equally between thoroughbred and standardbred), 30 percent is earmarked to Indiana's only race track (Hoosier Park), 20 percent is earmarked for breed development (divided equally between thoroughbred and standardbred), and 10 percent is earmarked for promotion. In 1998, more than \$22.2 million in riverboat admissions tax revenue was transferred to the horse racing industry in Indiana. Daily average purses for the 1999 racing meet will surpass \$200,000.

The Indiana arrangement was recently used as the model for a similar revenue sharing agreement in Illinois. Under a new Illinois law permitting a riverboat to operate in Cook County, 15 percent of the adjusted gross revenues from the boat will be directed to the horse racing industry (divided equally between purses and the tracks). This agreement is designed to help the industry reopen Arlington International Racecourse outside of Chicago, which closed in 1997 partially in response to competition from riverboats in Illinois and Indiana. Arlington will reopen in 2000, due in large part to the new revenue sharing agreement.

Another example of revenue-sharing exists in New Jersey where simulcast wagering is authorized in Atlantic City casinos. A portion of the revenue from casino simulcasting is distributed to assist racetracks and horsemen organizations which demonstrate that casino simulcasting has negatively affected their financial well-being. In 1998, nearly \$2.1 million was

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<sup>11</sup> States offering some type of account wagering: Connecticut, Kentucky, Maryland, Nevada, New York, Ohio, Oregon, and Pennsylvania.

distributed directly to New Jersey tracks and to horsemen from casino simulcasting revenues. In Michigan, current law prohibits simulcast wagering in Detroit casinos.

The casino industry in Michigan does not currently share revenue with the horse racing industry. Current statutory provisions earmark state taxes and fees from Detroit casinos for K-12 education, state regulatory/oversight activities, and compulsive gambling prevention programs. Under the four recently-approved tribal-state compacts, 8 percent of the net win from slot machines at the four proposed new Native American casinos is earmarked for the Michigan Strategic Fund, administered by the Michigan Economic Development Corporation.

### ***Tax Reduction***

Currently, the state imposes a tax of 3.5 percent on the gross simulcast wagering handle of each track; the revenue is dedicated to the Agriculture Equine Industry Development Fund. A reduction in this tax would allow tracks to retain more of the simulcast handle and direct these resources to other track priorities, such as maintenance, capital improvements, and/or promotions. Assuming a constant level of simulcast wagering, a reduction of the tax rate to 2.5 percent would permit tracks to retain more than \$3.6 million in the simulcast handle. A reduction in the tax, however, would decrease the amount of revenue available in the Agriculture Equine Industry Development Fund to appropriate for purses, awards, and state regulatory functions.

# CHANGES TO 1995 PA 279

The Michigan Legislature has initiated three major statutory changes to the Horse Racing Law of 1995 (1995 PA 279) since its enactment. Some of the changes were made in response to the challenges facing the horse racing industry. These changes have dealt with the disposition of state pari-mutuel horse racing revenue, the disposition of revenue from outstanding, unclaimed winning pari-mutuel tickets, and an attempt to improve the overall economic position of the horse racing industry in Michigan. These major statutory changes and their intended impact on the industry are described below:

## ***1997 PA 73***

This act amends the Horse Racing Law of 1995 regarding the disposition of horse racing revenue. The law was part of a package of legislation intended to comprehensively amend the Michigan Gaming Control and Revenue Act — the initiated law authorizing Detroit casinos. Specifically, 1997 PA 73 requires a percentage of the Agriculture Equine Industry Development Fund, equal to 0.1 percent of the gross wagers made annually at each licensed track, be deposited in the Compulsive Gaming Prevention Fund. Based on a total wagering figure of \$463.8 million for 1998, this diversion amounts to \$463,800. The horse racing industry opposed this statutory change as the annual diversion effectively reduces the amount of revenue available for the Legislature to appropriate from the Agriculture Equine Industry Development Fund for various agriculture, fair, and horse racing programs. Elimination or reduction of this diversion would result in more of the state simulcast wagering tax revenue being returned to the industry to support purses, awards, and breed development.

## ***1998 PA 408***

This act amends the Horse Racing Law of 1995 to address some economic concerns of the horse racing industry in light of growing competition from other gambling and entertainment outlets. The act increases the commission from wagering that goes to tracks (the “takeout”), eliminates the permit fee certain tracks must pay for simulcasting, eliminates restrictions on when certain races can be simulcast, and permits thoroughbred racing after 6:45 p.m. Industry observers view these changes as critical for improving the

viability of the smaller tracks (Jackson, Saginaw, and Mount Pleasant), and the overall economic position of the horse racing industry. In light of the increasing gambling competition in the state, these changes (although supported by the industry) are viewed by many as only a short-term fix to some of the industry's economic concerns.

### **1998 PA 505**

This act amends state law governing the disposition of outstanding, unclaimed winning pari-mutuel tickets (1951 PA 90). Specifically, 1998 PA 505 authorizes all licensees under the Horse Racing Law of 1995 (standardbred, thoroughbred, or light horse) to retain 50 percent of the outstanding, unclaimed winnings held 60 days after the close of their respective race meetings. The remaining 50 percent is to be deposited in the Agriculture Equine Industry Development Fund and designated for the standardbred, thoroughbred, or light horse programs, as described in the law. In 1998 only, 100 percent of the outstanding, unclaimed winning pari-mutuel tickets from a thoroughbred track must be earmarked for development and capital improvements at a thoroughbred racing facility. The industry supported this change. Under previous statutory provisions, all monies from unclaimed winning tickets at the end of the race meeting were transferred to the Department of Treasury to pay claims. Any unclaimed winnings were eventually deposited in the state's General Fund.

In 1998, almost \$1.1 million in unclaimed winning tickets from standardbred licensees was divided equally between the tracks and standardbred programs. These funds were available for track expenditures, purse monies, and the various standardbred programs funded from the Agriculture Equine Industry Development Fund. Unclaimed winning tickets from the thoroughbred licensee (Ladbroke DRC) in 1998 totaled more than \$537,000. Pursuant to statute, these funds were made available for track development and capital improvements at the new thoroughbred track in Muskegon (Great Lakes Downs), which opened for live racing in April 1999.

Both 1998 PA 408 and 1998 PA 505 attempt to assist the industry by making additional revenue available to the tracks and the horsemen. While it is too early to assess the long-term effects of these statutory changes, the short-term impacts are already evident. For example, as a direct result of 1998 PA 505, more than \$1.6 million in 1998 uncashed winning tickets was retained by the industry, the majority of which previously went to state coffers. In addition, the FY 1999-2000 budget contains more than \$500,000 in estimated unclaimed winning ticket revenue for purses and awards.

# CONCLUSION

The economic impact of horse racing extends beyond the gates of Michigan's pari-mutuel racetracks. The industry contributes substantially to the Michigan economy through its creation of jobs, income, and state revenue. The Horse Racing Law of 1995 provided temporary assistance to the ailing industry; however, the horse racing industry is again in a precarious situation, primarily due to increases in other gambling outlets in the state (Native American casinos and Detroit casinos). Industry observers believe that major changes to the horse racing industry are necessary for it to survive in the intensely competitive gambling/entertainment market that has developed since enactment of the law in 1996.

In an effort to promote the cooperation of all factions of the horse racing industry, the FY 1999-2000 Department of Agriculture budget requires that the Office of Racing Commissioner, in collaboration with the horse racing industry, develop a long-range plan for assuring the viability of the horse racing industry in Michigan. This plan is to include requisite statutory changes and potential revenue diversification options necessary to assure the survival of the horse racing industry in Michigan.

A forward-thinking business plan, with input from all factions of the horse racing industry, could identify the tools needed to address the challenges currently facing the industry. Crafting the Horse Racing Law of 1995 required the unprecedented cooperation of all involved with the horse racing industry. A similar level of cooperation will be needed to effectively address the challenges facing the industry today.



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