

Horse Racing in Michigan – A Primer

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INTRODUCTION

Gambling in many forms has become commonplace in Michigan. Legal forms of gambling include state lottery games, slot machines and table games at Las Vegas style casinos, charitable bingo and millionaire parties, and horse racing. Approximately \$4.0 billion is spent each year on all forms of legal gambling in Michigan.

Gambling had been prohibited in Michigan law from the early days of statehood through 1933 when Michigan legalized pari-mutuel wagering on the results of horse races. From 1933 through 1972, horse racing was the only form of legal gambling in Michigan.

By several measures interest in horse racing increased steadily from 1933 through the late 1980s. However, starting in the 1990s and through 2016, horse racing in Michigan has been in general decline. In 1989, there were 8 licensed race tracks in Michigan; in 2016 there were only two licensed race tracks in the state offering live horse racing. In 2016, the amount wagered at Michigan race tracks – one measure of interest in horse racing – was roughly the same as the wagering handle of the early 1950s.

The State of Michigan provides support for horse racing in two primary ways: through the regulatory activities of the Office of Racing Commissioner, and through state appropriations for awards, purses, and purse supplements available to horse owners and breeders.

The publication offers a brief history of horse racing and legal gambling in Michigan; describes the statutory framework for horse racing in Michigan under the Horse Racing Act of 1995, including a description of how the act directs the distribution of money wagered on horse racing among horse racing participants; and describes state funding used in support of horse racing programs, including current wagering tax revenue and state appropriations.

BACKGROUND INFORMATION – GAMBLING AND HORSE RACING¹

Because of its negative social impacts, gambling was prohibited by Michigan law from the early days of statehood through 1933. Statutory prohibitions against various forms of gambling are found in the Revised Statutes of 1846, a revision and consolidation of Michigan law published less than ten years after statehood. In addition, Article XII, Section 6 of the 1835 Constitution, Michigan's first constitution, prohibited lotteries, stating: "No lottery shall be authorized by this State nor shall the sale of lottery tickets be allowed." This prohibition was retained in the 1850 Constitution, the 1908 Constitution, and in the 1963 Constitution as originally enacted.²

While some forms of gambling have been legalized – generally under close state regulatory oversight – the state continues to prohibit certain forms of gambling in Chapter XLIV of the Michigan Penal Code (Public Act 328 of 1931).

The first form of legal gambling in Michigan was pari-mutuel wagering on horse racing, authorized under Public Act 199 of 1933. The first licensed pari-mutuel race meet in Michigan was held on September 2, 1933 at the State Fairgrounds in Detroit.

Michigan was one of several states to legalize wagering on horse races during the 1930s. The Great Depression had increased unemployment and reduced state tax revenue; horse racing promised jobs and a source of additional state revenue from taxes imposed on wagering.

For a number of years, horse racing did provide employment, economic activity, and state tax revenue. From 1933 through the late 1980s, the popularity of live horse racing at licensed Michigan tracks generally increased as reflected in the number of licensed tracks, attendance, and wagering – as well as state wagering tax revenue. The popularity of horse racing in Michigan mirrored national trends.

Pari-Mutuel Wagering

Public Act 199 of 1933, and subsequent recodifications of the state horse racing laws, authorized wagering at licensed race tracks using the *pari-mutuel* system of wagering. Until 2016, none of Michigan's horse racing laws defined the term "pari-mutuel." However, as commonly understood, *pari-mutuel* refers to a system where persons wager against each other to win a common pool composed of those wagers, as opposed to wagering games where persons compete against a "house" or game operator. Pari-mutuel wagering is the wagering system most commonly used in horse racing.

A 2016 amendment of the Horse Racing Law of 1995 (Public Act 271 of 2016) defined "pari-mutuel" and "pari-mutuel wagering" to mean "the form or system of gambling in which the winner or winners divide the total amount of money bet, after discounting net commission."

Types of Horse Racing

Note that there are two primary types of horse racing: Thoroughbred racing (Thoroughbred horses ridden by jockeys in saddle, sometimes referred to as "flat racing") and Standardbred harness racing (Standardbred horses pulling a *sulky* – a lightweight two-wheel cart with a seat for a driver).

¹ Although some county fairs offer Standardbred harness horse racing that does not involve wagering, for purposes of this publication, unless otherwise stated, the term "horse racing" will refer to horse racing at licensed pari-mutuel racetracks in Michigan.

² In a 1946 Michigan Supreme Court opinion, *Rohan v Detroit Racing Association*, the Court, upholding statutory restrictions on pari-mutuel gambling at race tracks, cited "the well-known evils of such wagering."

Horse racing was the only legal form of gambling in Michigan for nearly forty years – until 1972 when the state lottery was established. The establishment of "Las Vegas" style casinos on Indian reservations beginning in the 1980s, and passage of Ballot Proposal E in the November 1996 General Election, which authorized up to three casinos in the city of Detroit, reflected and encouraged increased public acceptance of gambling.³

As other forms of gambling became legal and accessible, horse racing began a period of decline, reflected in fewer licensed racetracks, fewer days of live horse racing, smaller attendance, and decreased wagering. Again, Michigan's experience reflected national trends.

The introduction of simulcast wagering in the late 1980s helped offset the decline in live horse racing. Simulcast racing or *Simulcasting* is the simultaneous broadcast of a live horserace for pari-mutuel wagering purposes from a "host" track to a receiving track. Simulcasting was facilitated by improved broadcast and pari-mutuel wagering technology, and by the federal Interstate Horseracing Act of 1978 which regulated interstate off-track wagering on horse races.⁴

While simulcast wagering did provide new revenue for horse racing, it also separated the activity of live horse racing from the wagering that provided support for horse racing. Racetracks could offer simulcasting on days when no live horse racing was offered – in the same manner as off-track-betting parlors. Simulcast wagering now accounts for over 95% of wagering at Michigan racetracks. During 2016, Michigan's two licensed race tracks were open for simulcast wagering a total of 724 days; the two tracks offered live horse racing on only 97 of those days.

In 1995, the Michigan Legislature repealed the horse racing statute in effect at that time, Public Act 327 of 1980, and enacted the Horse Racing Law of 1995 (Public Act 279 of 1995). Among other things, the 1995 act authorized "full card" simulcast racing. "Full card simulcast" refers to the broadcast of an entire racing program of one or more race meeting licensees located in Michigan, or one or more races from racetracks located outside of the state.⁵

The Horse Racing Law of 1995 also eliminated the previous tax on live horse wagering and established a 3.5% tax on simulcast wagering. The Horse Racing Law of 1995 earmarked the revenue from the 3.5% simulcast wagering tax to the Agriculture Equine Industry Development Fund.

³ In addition to new gaming venues in Michigan, the establishment of casino gaming in Windsor, Ontario, first at a temporary facility in 1994, and then at a permanent casino in 1998, provided easy access to legal gambling for Michigan citizens living in metropolitan Detroit.

⁴ Simulcast wagering in Michigan was first authorized and regulated in Public Act 108 of 1986, a 1986 amendment to the Horse Racing Law of 1980. Public Act 108 authorized wagering on only one simulcast race per racing day.

⁵ As an example, on a Saturday in December 2016 one of Michigan's racetracks advertised 26 simulcast races, starting at noon and concluding at 8:00 PM. None of the races originated in Michigan.

HORSE RACING IN MICHIGAN – 1989 TO 2017

By some measures, live horse racing in Michigan peaked in 1989. In that year there were 8 licensed tracks in Michigan. Those tracks offered 918 days of live horse racing generating a total pari-mutuel wagering handle of \$443.1 million. From 1989 through 2016, horse racing in Michigan experienced significant declines in licensed tracks, live horse racing days, and wagering handle.

Attendance at Michigan race tracks peaked in 1975 at 3.8 million. Attendance fell to 1.1 million in 2007, the last year attendance figures were reported.

During 2016, there were only two licensed tracks and race meeting licensees operating in Michigan: Hazel Park Raceway, which offered Thoroughbred and mixed breed races, and Northville Downs, which offered Standardbred harness racing. The two tracks accounted for only 97 days of live horse racing. Of the \$103.3 million total wagered at the two licensed race tracks in 2016, only \$4.3 million was wagered on live horse racing.

On October 27, 2016, the Michigan Gaming Control Board granted race meeting licenses and simulcast permits to both Hazel Park Raceway and Northville Downs. These were the only two entities granted race meeting licenses for 2017. The two licensees were authorized to offer a total of 90 days of live horse racing in 2017.

Hazel Park Raceway was granted a license for 36 days of live Thoroughbred racing from May 5, 2017 to September 2, 2017. Northville Downs was granted 54 days of live Standardbred racing from March 3, 2017 through June 10, 2017 and resuming September 8, 2017 through November 25, 2017.⁶ In accordance with the Horse Racing Law, both tracks were required to offer live horse racing two days per week during the authorized racing period with no fewer than 8 live horse races programmed on each race date. In granting the race meeting licenses, the Michigan Gaming Control Board indicated that appropriations for Michigan Gaming Control Board regulatory functions might not be sufficient to supply regulatory staff at all authorized race days. The License Order indicated that race days could be reduced if the Michigan Gaming Control Board did not have sufficient resources to staff all authorized race days.

In addition to receiving race meeting licenses and authority to conduct live horse racing, both Hazel Park Raceway and Northville Downs were granted permits to conduct simulcasting. Although the Hazel Park Raceway and Northville Downs race meeting licenses specified a limited time period for live horse racing, both licensees were permitted to offer simulcasting for the entire year – January 1 through December 31, 2017.

The required live horse racing days, and the minimum number of races per racing day, are effectively a precondition for the race meeting licensee to obtain a permit to offer simulcasting.

⁶ On June 7, 2017, the Michigan Gaming Control Board granted Northville Downs six additional days of live horse racing, extending the season to December 16, 2017.

HORSE RACING LAW OF 1995 (PUBLIC ACT 279 OF 1995)

Horse racing in Michigan is governed by the Horse Racing Law of 1995, Michigan's fourth public act dealing with pari-mutuel wagering and horse racing.⁷

As with Michigan's prior three horse racing statutes, the Horse Racing Law of 1995 authorizes and regulates pari-mutuel wagering on horse races in Michigan. In addition, as with previous statutes, the Horse Racing Law of 1995 establishes state wagering taxes and/or license fees, and provides for the disposition of those taxes and fees.

State regulatory functions, including statutory provisions regarding the distribution of horse race wagering handle, are described on pages **5-10** of this publication. State wagering taxes and the distribution of horse racing wagering tax revenue are described on pages **10-13**.

STATE REGULATORY FUNCTIONS – OFFICE OF RACING COMMISSIONER / MICHIGAN GAMING CONTROL BOARD

The Office of Racing Commissioner was established in Michigan's first horse racing law, Public Act 199 of 1933. The Office of Racing Commissioner was an autonomous state agency housed within the Michigan Department of Agriculture with responsibility for regulation and promotion of horse racing. Provisions regarding the Office of Racing Commissioner were carried forward, with modifications, in each subsequent recodification of the Horse Racing Law. In current law, those provisions are found in Sections 3 through 6 of the Horse Racing Law of 1995.

Executive Order 2009-45 abolished the Office of Racing Commissioner and the position of Racing Commissioner, and transferred the functions and powers of the Office of Racing Commissioner from the Michigan Department of Agriculture to the Michigan Gaming Control Board (MGCB). The transfer is referenced as Executive Reorganization Order 2009-31 in Michigan Compiled Laws (MCL 324.99919). The effective date of the transfer was January 17, 2010. The Executive Order also directed the Executive Director of the MGCB to perform all the functions and exercise the powers of the Racing Commissioner. In the balance of this publication, the abbreviation "MGCB" will refer to the horse racing regulatory functions and powers of the former Office of Racing Commissioner, as transferred to the MGCB through Executive Order 2009-45.

The regulatory requirements of Michigan's horse racing laws were intended to protect the health and safety of racing participants – both horses and jockeys – and to ensure the integrity of horse

⁷ The three prior public acts governing horse racing are Public Act 199 of 1933, Public Act 27 of 1959, and Public Act 327 of 1980. The current horse racing law is Public Act 279 of 1995. There is also separate act, "Racing Meets" (Public Act 90 of 1951) that appears to be an anachronism – it deals only with the disposition of unclaimed winning tickets or "outs." It's not clear why this public act was never incorporated into other public acts dealing with horse racing.

racing events.⁸ Michigan's horse racing laws have also regulated the disposition of money wagered on horse racing – the track "handle." Statutory provisions dealing with the distribution of the track handle are discussed further below.

STATE REGULATORY FUNCTIONS – DISPOSITION OF HORSE RACE WAGERING MONEY

There are two different activities that happen at licensed race tracks: live horse racing, and pari-mutuel wagering. The two activities are clearly related and intersect at the racetrack. But each activity could operate independently of the other. There can be horse racing without gambling; some county fairs in Michigan sponsor harness racing events that don't permit wagering. And there can be wagering on horse races without live horse racing; this happens at off-track-betting parlors that are legal in some states. Nonetheless, almost all of the money supporting Michigan horse racing is generated from wagering at Michigan's licensed race tracks.

Among other things, the Horse Racing Law of 1995 attempts to regulate the relationship between horse racing and wagering. The act requires, as a condition for granting a race meeting license and simulcast permit, that the race meeting licensee have a contract with a Certified Horsemen's Organization (CHO), and that a proposed race meeting include a minimum number of live racing days, a minimum number of races on each authorized racing day, and a minimum number of entries in each race. The act also earmarks a portion of the race meeting licensee's net commission from simulcast wagering to horsemen's purse pools – the source of the prize money that horse owners compete for. In effect, these provisions protect the interest of race horse owners and, indirectly, race horse breeders. Without these provisions, race meeting licensees could simply offer simulcast wagering without live horse racing; Michigan racetracks could become off-track-betting parlors with no relation to live horses.

To understand how the Horse Racing Law regulates the relationship between horse racing and wagering, it is helpful to understand who the participants in horse racing are.

PARTICIPANTS IN HORSE RACING

The Horse Racing Law of 1995 defines various participants in the business of horse racing. These participants receive money from horse race wagering in different ways.

Track owners provide the track and related facilities for live horse racing and simulcasting. Track owners must be licensed under Section 9 of the Horse Racing Law of 1995. While the Horse Racing Law prescribes the share of live and simulcast wagering revenue to be distributed to other horse

⁸ The FY 1978-79 appropriation act for the Michigan Department of Agriculture indicated that with respect to the Office of Racing Commissioner, "This program assures the public that authorized race meetings are conducted in an honest manner." (Public Act 398 of 1978).

racetrack participants – specifically to race meeting licensee commissions and the horsemen's purse pool – the act does not earmark any money for track licensees. A track licensee is like a landlord in relation to the race meeting licensee; a track licensee is paid for use of the track based on whatever contractual terms it has with the *race meeting licensee*.

A track license permits a licensee to operate a racetrack at which one or more race meeting licensees may conduct licensed race meetings. A track meeting licensee may or may not be the same entity as the race meeting licensee. In 2015, Jackson County was granted a track license although no entity was granted a race meeting license to operate at the track. At one time, two different race meeting licensees operated at the Northville Downs racetrack.

Section 22 of the Horse Racing Law provides for an annual track license fee of \$1,000.

Race meeting licensees are responsible for race meeting operations and must be licensed under provisions of the Horse Racing Law of 1995. They are effectively the promoters and organizers of live horse racing events as well as both live horse and simulcast wagering. Race meeting licensees receive commissions, i.e. a share of money wagered at the race track. The amount of commission is prescribed in Section 17 of the Horse Racing Law.

A race meeting license authorizes a licensee to conduct live horse racing as well pari-mutuel wagering. A race meeting license is also a precondition for simulcasting. There is not a separate license fee associated with a race meeting license or simulcast permit, however, a race meeting licensee is responsible for paying, from commissions, the 3.5% simulcast wagering tax imposed in Section 22 of the Horse Racing Law.

Certified Horsemen's Organizations (CHOs) represent owners of race horses. CHOs contract with race meeting licensees to provide the horses needed to fill out a live horse racing program over the course of a race meeting.⁹ CHOs negotiate with race meeting licensees to determine the number of race days and the prizes that the estimated horsemen's purse pool will support. The Horsemen's Benevolent and Protective Association (HBPA) is the CHO representing Thoroughbred owners. The Michigan Harness Horsemen's Association (MHHA) is the CHO representing Standardbred horse owners.

Although there is not a formal licensing requirement for CHOs under the Horse Racing Act, CHOs must be registered with and certified by the MGCB under provisions of Sections 2 and 13 of the Horse Racing Act. In addition, individual race horse owners must obtain an occupational license as described below.

Occupational Licensees – Race horse owners are required to obtain an occupational license under Section 16 the Horse Racing Law of 1995. In addition, a number of persons participate in the

⁹ Section 2 of the Horse Racing Law defines "Certified horsemen's organization" to mean "an organization registered with the Office of Racing Commissioner in a manner and form required by the Racing Commissioner, that can demonstrate all of the following: (i) The organization's capacity to supply horses; (ii) The organization's ability to assist a race meeting licensee in conducting the licensee's racing program; (iii) The organization's ability to monitor and improve physical conditions and controls for individuals and horses participating at licensed race meetings; (iv) The organization's ability to protect the financial interests of the individuals participating at licensed race meetings."

business of horse racing as employees or contractors. In many cases, these employees or contractors are also required to obtain an occupational license. Occupational licensees include jockeys, drivers, trainers, and various track employees. The MGCB indicates that 1,664 individuals were licensed in 2016, holding 2,148 licenses – some licensees hold more than one license.

Occupational licensing fees are established in Section 16 (9) of the Horse Racing Law at not less than \$10.00 nor more than \$100.00 as determined by the MGCB.

Horse Breeders breed and raise the horses that run at licensed tracks. Breeders do not receive a direct distribution from the horsemen's purse pool and are not recognized in the Horse Racing Law – other than in Section 20 which provides for certain horse racing program awards from the Agriculture Equine Industry Development Fund to qualifying Michigan breeders.

Horse breeders are not required to be licensed; they may be licensed if they participate in pari-mutuel horse racing or pari-mutuel wagering in some other capacity, as a race horse owner for example. Horse breeders may be, but are not necessarily, horse owners. Horse owners may be investors who simply contract with breeders for ownership rights in foals. Horse breeders are generally the only horse racing participants that have a direct agricultural connection – they breed and raise horses on farms.

DISTRIBUTION OF MONEY WAGERED AT RACE TRACKS

Sections 17 and 19 of the Horse Racing Law of 1995 govern the distribution of money wagered on horse racing. (Money wagered at race tracks is sometimes called the "handle.")

Section 17 of the act prescribes the amount that the race meeting licensee can retain as commission. The section authorizes a commission of 17% for straight wagering and not more than 28% for multiple wagering. The section authorizes a commission on multiple wagering of up to 35% if authorized by the Racing Commissioner.¹⁰ These commission percentages are the same for both live horse wagering and simulcasting.

Section 17 also provides for the distribution of commissions generated from live horse racing. The section directs that unless otherwise provided by contract, 50% of all commissions from wagering on the results of live horse racing be paid to the horsemen's purse pool at the racetrack where the live racing was conducted.

Section 19 of the act provides for the distribution of net commission from simulcast wagering. Specifically, the section directs the race meeting licensee to pay an amount equal to not less than 25% and not more than 40% of net commission generated at the licensee's race meeting to a site-

¹⁰ "Straight wagering" means a wager made on the finishing position of a single horse in a single race. "Multiple wagering" means a wager made on the finishing positions of more than one horse in a single race, or on the finishing positions of one or more horses in more than one race, e.g. the trifecta, the daily-double, the perfecta. All the same types of wagering are allowed for both live-horse racing and simulcast wagering.

specific horsemen's simulcast purse account. "Net commission" means the race meeting licensee's commission as authorized under Section 17, less the 3.5% wagering tax and fees paid to sending host tracks for the simulcast signal.

SUMMARY – PARTICIPANTS IN HORSE RACING AND THE DISTRIBUTION OF WAGERING MONEY

Unlike other sectors of the commercial sports or entertainment industry, horse racetracks seldom if ever charge patrons for admission. Almost all of the money generated from horse racing is generated from wagering, and in particular, simulcast wagering. Simulcast wagering represents over 95% of Michigan horse race wagering.

The Horse Racing Law of 1995 provides for the distribution of a portion of the race meeting licensee's net commission from simulcast wagering to the horsemen's purse pool, which in turn provides the prize money paid to the owners of qualifying race horses.

Horse owners enter horses in races to compete for advertised prize money. Owners have no share in the pool of money wagered on the specific race a horse is entered in. In other words, a horse winning a \$1,500 advertised prize would win \$1,500 for its owner whether the wagering handle on the specific race was \$20,000 or \$20 million. The size of the wagering handle at any particular race affects the amount payable to winning bettors and the race meeting licensee's commission – not the amount paid to owners of horses in the specific races generating the handle.

The horsemen's purse pool represents a share of both wagering during the race meeting, and in part, a balance carried over from prior years' race meetings. In establishing a race program to offer a race meeting licensee, the CHO has to estimate the amount of the purse pool available for prizes in the next racing season and the amount of prize money necessary to attract race horse owners to enter horses in races.

The failure to properly estimate the available purse pool was one reason that live horse racing at Hazel Park Raceway ended early in 2015. Although 40 days of live Thoroughbred racing had been authorized, only 30 days were offered due to an insufficient balance in the Thoroughbred simulcast purse pool. The purse pool was not large enough to support the prizes offered.

While Hazel Park Raceway's 2015 live horse program ended in August 2015, the track continued to offer simulcast wagering through December 31, 2015. This simulcast wagering activity, as well as simulcasting at Northville Downs, provided revenue for the horsemen's simulcast purse pool which was subsequently used to fund live horse race programs the following year.¹¹

¹¹ Prior to the enactment of Public Act 271 of 2016, which amended the Horse Racing Law effective July 1, 2016, the distribution of net commission from simulcast wagering was not site specific. The horsemen's simulcast purse pool was allocated between Thoroughbred and Standardbred purse pools based on a statutory formula.

Because the prizes provided to winning horse owners are funded, in part, from the prior year's simulcast purse pool, there is a significant barrier to the establishment of new licensed race tracks. An entity acquiring a new race meeting license would have to fund live horse racing prize money for the initial race meeting year from start-up capital without access to purse pool revenue. The race meeting licensee would not receive an allocation of purse pool revenue until the second year of operation.

SOURCES AND DISTRIBUTION OF STATE WAGERING TAX REVENUE

The discussion on previous pages dealt with the distribution of horse race wagering money among horse race participants – the race meeting licensee, race horse owners – not to mention winning gamblers. The discussion below describes the taxes assessed on horse race wagering and the distribution of wagering tax revenue.

State Wagering Tax Revenue – 1933 through 2016

In authorizing and regulating pari-mutuel gambling on horse racing, Public Act 199 of 1933 also established a license tax on race meeting licensees. The tax was assessed on each authorized racing day. The amount of the tax varied based on the type of race, the length of race, and whether the track was within or outside of the Detroit area. License tax revenue totaled \$123,783 in 1933. Tax collections averaged \$234,000 in the eleven years (1933-1943) following the legalization of horse racing in Michigan.

In 1944, Public Act 199 was amended to establish a wagering tax as a percentage of the wagering pool. This change significantly increased state horse racing tax revenue – to \$2.2 million in 1944. State wagering tax revenue generally increased over the next thirty-five years in step with increasing wagering handle. During the 25-year period 1969 through 1993 state wagering tax revenue ranged between \$28.9 million (1975) to \$19.9 million (1993), averaging \$23.9 million during that period.

During the years following the 1975 peak, state wagering tax revenue trended downward. The decline accelerated after the passage of the Horse Racing Law of 1995, effective January 9, 1996, which changed both the tax rate and tax base – from a tax on all horse race wagering to a tax on simulcast wagering only. In 1997, the tax generated \$14.7 million. Each year for the next 19 years, through 2016, wagering tax revenue declined. In 2016, the state wagering tax generated \$3.5 million, the smallest figure since 1949.

DISTRIBUTION OF STATE WAGERING TAX REVENUE – 1933 THROUGH 1995

As noted above, Public Act 199 of 1933 established a horse racing license tax. Public Act 199 also provided for the disposition of license tax revenue. The act directed license tax revenue for credit to a separate "state fair, county fair, 4-H clubs and agriculture fund" to be used for the benefit of

the fund designees. In addition, the act made a separate \$20,000 annual earmark to be used each year "to enhance the interests of agriculture at the Upper Peninsula state fair." The act also empowered the Racing Commissioner to retain up to \$10,000 to defray "necessary and legitimate expense."

A 1941 amendment to Public Act 199 (Public Act 360 of 1941) designated all revenue from the license tax to the state General Fund. However, subsequent amendments to Public Act 199 both designated wagering tax revenue for credit to the General Fund and at the same time earmarked revenue for specific purposes.

This pattern continued through a number of amendments and recodifications of Michigan's horse racing law. From 1933 through 1994 horse racing license or wagering tax revenue contributed in varying degrees to the state General Fund. However, revenue from these taxes was also substantially earmarked: for horse racing regulatory costs of the Office of Racing Commissioner, for cities and townships with racetracks, for horse racing purse supplements and breeders awards, for support of the Michigan Department of Agriculture, and for general agricultural programs, including premiums at county and state fairs.

A 1972 amendment (Public Act 5 of 1972) recognized the use of a portion of wagering tax revenue to reimburse a county or city for stadium bonds.¹² Another 1972 amendment, (Public Act 329 of 1972) earmarked a portion of wagering tax revenue for premiums paid by county, district, and state fairs and shows.¹³

It is beyond the scope of this analysis to track or break out all the uses of horse race wagering tax revenue over the years. We have not identified precisely how much horse race wagering taxes contributed to the state General Fund. It is clear that the wagering tax contribution to the state General Fund was largest in the 1970s, during the period wagering tax revenue was the highest.¹⁴

¹² Part of the financing for the construction of the Pontiac Silverdome, completed in 1975, involved the pledge of horse racing wagering tax revenue. During the 11 year period, FY 1980-81 to FY 1990-91, the Agriculture budget included an appropriation of horse racing revenue for a grant to the city of Pontiac for the support of the Pontiac Silverdome. It appears that a total of \$8.3 million was appropriated for this purpose during this period.

¹³ For a number of years, county and state fair premium programs were supported, in part, through state appropriations. Premiums represent cash prizes paid to persons winning or placing in certain designated competitions at qualified fairs and expositions. Contests included judged exhibitions of livestock, horses, companion animals, agricultural products, culinary arts, education projects, demonstrations of proficiency at agricultural skills, artwork, antiques, and tractor pulling.

The use of horse racing wagering tax revenue for the premium program was first specifically authorized through a 1972 amendment to the Horse Racing Law of 1959. The program was also one of the uses of AEIDF revenue authorized in Section 20 of the 1995 Horse Racing Law. The program was governed by state Administrative Rules (R285.811 et seq.) From FY 1995-96 through FY 2000-01, approximately \$1.6 million in AEIDF revenue was appropriated each year for the premium program. Starting in FY 2001-02 and through FY 2008-09, the premium program remained in the Agriculture budget, supported by revenue from the State Services Fee Fund. State appropriations for fair premiums were eliminated in the FY 2009-10 Agriculture budget.

¹⁴ Based on a review of state Certified Annual Financial Reports, it appears that state wagering tax contributed an average of \$19.1 million per year in unrestricted General Fund revenue during the 1970s. Executive budget presentations in the 1970s and 1980s discuss the uses of horse racing wagering tax revenue for both general and special purposes.

Beginning in the 1980s, as wagering tax revenue declined, the horse racing wagering tax's contribution to the state General Fund declined as well. Beginning in the 1980s most horse race wagering tax revenue was earmarked for specific purposes, including horse racing regulatory programs, horse racing promotional programs, grants to cities with race tracks, and general agricultural programs including for premiums for county and state fairs. After passage of the Horse Racing Law of 1995, state wagering tax contributions to the state General Fund were negligible.

DISTRIBUTION OF STATE WAGERING TAX REVENUE – 1995 THROUGH 2016

Distribution of State Wagering Tax Revenue – 1995 through 2016

The Horse Racing Law of 1995 eliminated taxes on live horse racing, provided for expanded simulcast racing, and created a 3.5% tax on simulcast race wagering. The Horse Racing Law of 1995 also dedicated revenue from the simulcast racing tax to a new state restricted fund, the Agriculture Equine Industry Development Fund (AEIDF), created and defined in Section 20 of the act to provide funding for agriculture and equine industry development programs.¹⁵

Section 20 describes the state's role in relation to the equine industry: "It is the policy of this state to encourage the breeding of horses of all breeds in this state and the ownership of such horses by residents of this state to provide for sufficient numbers of high quality race horses of all breeds to participate in licensed race meetings in this state; to promote the positive growth and development of high quality horse racing and other equine competitions in this state as a business and entertainment activity for residents of this state; and to establish and preserve the substantial agricultural and commercial benefits of the horse racing and breeding industry to the state of Michigan."

Section 20 of the Horse Racing Act of 1995 continued the practice of earmarking horse race wagering tax revenue. In fact, the section established fairly detailed provisions regarding AEIDF distributions. Fund revenue was earmarked for various programs in support of horse racing, including purse supplements and breeders awards. Although the establishment of the restricted AEIDF in the Horse Racing Act in 1995 was intended to provide dedicated support for state horse racing programs, the subsequent decline in AEIDF revenue resulted in the shrinking of state support for horse racing programs.

Current year (FY 2016-17) appropriations from the AEIDF total \$5.8 million, of which \$2.1 million is appropriated in the General Government budget for regulatory activities of the MGCB, with \$3.7 million in the Michigan Department of Agriculture and Rural Development (MDARD) budget for horse racing purse supplements and breeders awards. Note that the AEIDF is over-appropriated in the FY 2016-17 budget; that is, more revenue is appropriated than is supported by revenue estimates. In accordance with appropriations boilerplate, MDARD will administratively reduce horse racing purse supplements and breeders awards to balance to actual AEIDF revenue.

¹⁵ The AEIDF also receives revenue from fees and fines under the Horse Racing Law of 1995, as well as a portion of uncashed winning wagering tickets ("outs") under Public Act 90 of 1951 (an act dealing with racing meets). These additional revenue sources generate approximately \$400,000 in AEIDF revenue.

Horse Racing Wagering Tax Contribution to the State General Fund

The Horse Racing Act of 1995, as originally enacted, did not provide for the use of wagering tax revenue by the General Fund. However, as one of the fund shifts necessitated by shortfalls in General Fund revenue, between FY 2003-04 and FY 2005-06 a total of \$6.0 million was transferred from the AEIDF to the state General Fund. In addition, between FY 2004-05 and FY 2008-09 AEIDF revenue was appropriated in the Agriculture budget to fund certain line items that had formerly been funded with General Fund revenue. However, during this period AEIDF revenue was augmented with revenue from the Casino Wagering Tax and certain horse racing program appropriations were funded from the State Services Fee Fund. The use of AEIDF revenue is discussed in additional detail in HFA publication *Agriculture Equine Industry Development Fund - State Support for Horse Race Programs* published April 26, 2012.

[http://www.house.mi.gov/hfa/Archives/PDF/AEIDF2012HFAUpdate\(FINAL\).pdf](http://www.house.mi.gov/hfa/Archives/PDF/AEIDF2012HFAUpdate(FINAL).pdf)

CONCLUSION: BETTING ON THE FUTURE OF HORSE RACING

As described in the body of this publication, public interest in live horse racing in Michigan, as measured by wagering handle, increased steadily from the time of legalization in 1933 through the late 1980s. Wagering on live horse racing then declined steadily from early 1990s through 2016.

The decline in live horse racing wagering was partially offset by the legalization of "full card" simulcasting wagering in 1995. In 1996, the gross pari-mutuel wagering handle rebounded to \$467.8 million from \$310.5 million in 1995. In 1997, the gross pari-mutuel wagering handle peaked at \$474.6 million. However, the gross pari-mutuel wagering handle declined each year since 1997. The 2016 total wagering handle of \$103.3 million was the lowest since 1951.

The decline in wagering handle is both a cause and effect of the decline in public interest in horse racing. The decline in wagering handle reduced race meeting licensees' commissions and the amount credited to the horsemen's purse pools. As commissions shrank so did the number of race meeting licensees – from 9 in 1996 to 2 in 2016. The decline in the horsemen's purse pools reduced the amount available for the prizes horse owners compete for. This in turn reduced the number of live horse racing days and the quality of horses entered at Michigan racetracks.

The decline in wagering also reduced the wagering tax revenue credited to the AEIDF. This resulted in a reduction in the awards, purses, and purse supplements available to Michigan horse owners and breeders through state appropriations. This in turn reduced incentives for breeders to raise and train race horses in Michigan.

The decline in Michigan horse racing continued even after the enactment of the Horse Racing Law of 1995. To quote from a 1999 House Fiscal Agency publication:

"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. 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.

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."¹⁶

Since enactment of the Horse Racing Law of 1995, there have been a number of legislative efforts to provide additional revenue for horse racing. These efforts have involved proposals to expand types and venues of legal gaming in Michigan with some or all additional revenue from these gaming activities dedicated to horse racing. Bills have been introduced to authorize video gaming, electronic gaming, card rooms, keno games, and video lottery terminals at licensed race tracks. These proposed new forms of legal gambling were not directly related to the activity of horse racing.

While a number of bills have been introduced to amend Horse Racing Act of 1995 for the purpose of providing additional gambling revenue for horse racing, none were enacted into law. One bill did pass both chambers of the Michigan Legislature, House Bill 5546 of the 2011-2012 legislative session. House Bill 5546 included provisions which could have authorized new forms of gambling at race tracks. The bill was pocket vetoed by the Governor January 11, 2013 – at least in part because of concern that the bill represented an expansion of gaming.

During the 2015-2016 legislative session, the Legislature passed, and the Governor signed into law, Senate Bill 504. The bill, as enacted, is Public Act 271 of 2016. The bill made a number of changes to the Horse Racing Law of 1995. However, none of the changes made by the bill would directly increase revenue for horse racing. For a more detailed analysis of the bill, see Appendix C.

Note on Advance Deposit Wagering

Advance Deposit Wagering (ADW) is a method of pari-mutuel wagering in which a patron establishes and pre-funds an account with a wagering service. The patron can then place wagers on the results of horse races by telephone or through on-line connection to the wagering service. ADW, which is legal in a number of states, effectively makes any smart phone or computer connection a potential off-track betting parlor.

ADW is effectively prohibited in Michigan by the language of Section 17(8) of the Horse Racing Law of 1995 which requires that pari-mutuel wagering only occur at a licensed race meeting. The section also prohibits placing a wager outside of a race meeting ground and prohibits wagering messenger services.

In 2013, Senate Bill 634 was introduced to authorize ADW in Michigan. The bill was not enacted into law. Senate Bill 504, enacted as Public Act 271 of 2016, retained the current statutory language which prohibits pari-mutuel wagering outside the racing meeting ground.

¹⁶ Fiscal Focus, Challenges to Michigan's Horse Racing Industry, Craig Thiel, October 1999.

FIGURES / APPENDICES

Figure 1
Michigan Horse Racing – Race Days, Attendance, Wagering and Taxes
1933 Through 2016

Year	Days Raced		Attendance	Pari-mutuel Wagering	State Wagering Tax
	Total	Live Only			
1933	31		101,227	\$3,519,656	\$123,783
1934	123		376,123	12,621,224	423,428
1935	66		221,064	7,541,557	266,597
1936	68		370,784	10,793,497	265,617
1937	62		356,015	10,201,110	167,000
1938	62		321,211	8,470,931	156,418
1939	69		389,642	10,046,735	185,000
1940	65		410,542	9,940,148	178,450
1941	70		476,870	12,353,851	186,575
1942	97		849,505	23,020,369	253,900
1943	95		1,197,594	36,278,761	370,300
1944	140		1,008,678	51,012,962	2,235,627
1945	142		1,197,594	43,906,185	1,899,444
1946	143		1,383,045	49,654,271	2,010,326
1947	144		1,309,994	68,100,444	3,354,107
1948	144		1,232,485	63,544,845	3,271,911
1949	228		1,553,745	72,018,889	3,389,264
1950	223		1,486,145	68,374,637	3,652,051
1951	246		1,755,597	90,947,510	4,708,772
1952	245		1,920,329	108,334,542	5,272,375
1953	266		2,100,799	123,457,359	7,131,532
1954	261		2,094,627	113,063,730	6,890,294
1955	253		2,010,795	112,712,977	7,038,099
1956	271		2,222,256	124,349,974	7,534,306
1957	270		2,105,540	124,133,569	7,535,106
1958	269		2,180,516	121,250,928	7,285,377
1959	279		2,089,199	116,776,923	7,502,281
1960	291		2,149,416	125,028,322	8,084,554
1961	293		2,190,046	120,721,673	7,804,478
1962	320		2,331,166	135,815,283	8,791,784
1963	326		2,339,232	144,601,442	11,070,550
1964	338		2,712,769	173,696,547	13,330,165
1965	378		3,101,890	215,211,397	16,625,041
1966	346		2,818,805	209,218,403	16,411,328
1967	381		2,865,996	217,452,791	16,758,121
1968	388		2,909,311	231,472,394	17,794,513
1969	415		3,056,834	260,353,221	19,915,465
1970	425		3,456,422	285,056,702	21,171,098
1971	563		3,962,318	333,182,520	24,499,748
1972	599		3,680,632	317,330,030	24,518,898
1973	604		3,671,168	347,284,698	26,483,391
1974	602		3,606,982	363,840,498	27,647,189
1975	590		3,830,260	394,925,495	28,865,055
1976	645		3,571,312	395,703,781	27,472,556

Year	Days Raced		Attendance	Pari-mutuel Wagering	State Wagering Tax
	Total	Live Only			
1977	647		3,250,807	\$387,603,160	\$26,056,732
1978	650		3,024,127	398,674,678	27,089,834
1979	673		3,035,903	425,190,904	28,845,113
1980	703		3,030,257	396,396,317	27,828,645
1981	688		2,728,476	368,712,526	24,211,545
1982	688		2,728,476	347,489,410	22,523,956
1983	695		2,557,419	355,357,249	22,998,249
1984	672		2,402,562	347,600,808	22,412,751
1985	686		2,420,489	375,971,988	24,407,322
1986 (1)	743		2,547,474	408,118,864	22,015,578
1987	867		2,664,362	441,745,977	22,077,702
1988	891		2,506,849	424,145,150	21,221,394
1989	918		2,682,457	443,113,234	22,005,832
1990	906		2,660,443	440,889,684	21,988,385
1991	910		2,577,991	421,382,703	20,988,295
1992	918		2,563,334	428,344,299	21,330,433
1993	901		2,414,670	401,865,797	19,945,112
1994	865		2,065,089	356,694,463	17,834,339
1995	827		1,741,325	310,522,945	15,552,692
1996 (2)	2,225	761	2,136,766	467,785,576	9,855,173
1997	2,425	715	2,099,295	474,608,578	14,656,240
1998	2,262	703	1,956,378	463,843,615	12,810,859
1999	2,218	642	1,714,354	416,616,490	12,648,052
2000	2,308	596	1,549,408	399,315,679	12,436,870
2001	2,205	562	1,433,998	374,549,941	11,874,054
2002	2,247	562	1,367,704	365,242,287	11,657,549
2003	2,244	559	1,333,514	346,577,964	11,086,489
2004	2,255	553	1,328,829	337,473,462	10,978,970
2005	2,184	492	1,190,923	309,772,470	10,047,139
2006	1,909	472	1,169,772	281,192,788	9,067,731
2007	1,935	446	1,068,080	260,962,791	8,418,708
2008 (3)	1,737	376		231,226,290	7,451,713
2009	1,698	263		203,338,687	6,713,560
2010	1,632	203		169,603,689	5,651,872
2011	1,340	161		144,931,616	4,794,880
2012	1,343	167		138,181,284	4,593,300
2013	1,339	150		126,913,242	4,243,881
2014	1,107	69		116,783,803	3,925,627
2015	721	101		106,176,230	3,556,749
2016	724	97		103,265,520	3,464,651

Source: Office of Racing Commissioner Annual Reports

(1) From 1933 through 1985, horse racing was entirely live horse racing; 1986 was the first year to offer limited simulcast wagering.

(2) Full card simulcast wagering was first offered in 1996 as authorized in the Horse Racing Act of 1995.

(3) The industry stopped reporting attendance figures in 2008.

Figure 2
Michigan Horse Racing – Wagering Handle and Distribution
1995 Through 2016

<u>Calendar Year</u>	<u>Live Horse Wagering</u>	<u>Simulcast Wagering *</u>	<u>Total Wagered</u>	<u>Payout for Winning Tickets</u>	<u>Net</u>	<u>State Taxes</u>	<u>Net Track Commission</u>	<u>Local Government</u>	<u>Horsemen's Purse Pool</u>
1995			\$310,522,945	\$248,057,043	\$62,465,902	\$14,527,658	\$24,050,087	\$2,545,806	\$23,610,959
1996	\$159,006,340	\$308,779,236	467,785,576	368,455,021	99,330,555	7,719,519	72,595,957	2,503,515	33,317,364
1997	115,065,452	359,543,126	474,608,578	373,514,673	101,093,905	12,584,069	74,181,170	2,420,838	32,285,653
1998	97,820,950	366,022,665	463,843,615	364,957,830	98,885,785	12,810,859	72,385,106	2,249,714	31,567,527
1999	55,245,335	361,371,155	416,616,490	322,987,312	93,629,178	12,648,052	66,773,280	1,977,244	35,952,769
2000	43,924,594	355,391,085	399,315,679	310,523,397	88,792,282	12,436,870	62,210,487	1,815,901	26,043,296
2001	35,293,153	339,256,788	374,549,941	290,745,322	83,804,619	11,874,054	60,565,839	1,739,164	24,545,832
2002	32,171,461	333,070,826	365,242,287	281,930,600	83,311,687	11,657,549	55,902,400	1,675,765	23,350,200
2003	29,823,123	316,754,841	346,577,964	267,366,800	79,211,164	11,086,489	52,797,000	1,542,258	22,100,900
2004	23,934,235	313,539,227	337,473,462	260,526,900	76,946,562	10,978,970	51,081,000	1,453,643	21,164,900
2005	22,712,959	287,059,511	309,772,470	240,325,200	69,447,270	10,047,139	46,998,100	1,284,849	18,625,600
2006	22,116,171	259,076,617	281,192,788	218,243,100	62,949,688	9,067,731	42,502,500	1,183,485	17,730,300
2007	20,429,573	240,533,513	260,963,086	200,802,600	60,160,486	8,418,708	39,427,900	1,097,381	19,487,500
2008	18,321,140	212,905,150	231,226,290	177,348,200	53,878,090	7,451,713	34,654,700	1,008,649	11,532,071
2009	11,609,256	191,729,431	203,338,687	155,043,800	48,294,887	6,713,560	30,102,100	850,046	10,619,973
2010	9,848,178	159,755,511	169,603,689	129,800,700	39,802,989	5,651,872	24,954,800	718,954	8,794,226
2011	7,935,261	136,996,355	144,931,616	110,477,347	34,454,269	4,794,880	21,184,500	597,473	7,493,017
2012	6,944,308	131,236,976	138,181,284	105,319,180	32,862,104	4,593,300	19,803,560	582,916	7,056,082
2013	5,659,751	121,253,491	126,913,242	95,604,449	31,308,793	4,243,881	17,928,748	504,154	6,440,253
2014	4,623,279	112,160,524	116,783,803	87,470,996	29,312,807	3,925,627	16,115,948	489,075	5,819,995
2015	4,554,931	101,621,299	106,176,230	79,931,280	26,244,950	3,556,749	14,272,428	422,860	5,107,838
2016	4,275,609	98,989,911	103,265,520	77,560,871	25,704,649	3,464,651	13,661,123	280,665	4,429,790

Source: Office of Racing Commissioner Annual Reports.

* 1996 was the first year that "full card" simulcast wagering was authorized in the Horse Racing Act.

"Track Commission" represents the amounts retained by race meeting licensee as provided under the Horse Racing Law of 1995.

"Horsemen's Purse Pool" represents the amount distributed to Standardbred and Thoroughbred simulcast purse pools as provided under the Horse Racing Law of 1995.

Appendix A
Summary of Senate Bill 504 (Public Act 271 of 2016)
Amendments to the Horse Racing Law of 1995

During the 2015-2016 Legislative Session, the Legislature passed Senate Bill 504. The bill was signed by the Governor and enacted as Public Act 217 of 2016, effective July 1, 2016. The bill amended several sections of the Horse Racing Law of 1995. Major changes include the following:

"City Area" – The bill eliminated the term "city area" which had previously designated the city of Detroit and adjacent counties. Eliminating the term effectively eliminated separate licensing requirements for licensees located in a city area and established uniform licensing requirements for all areas of the state.

Horse Racing Advisory Commission – Senate Bill 504 added a new section, Section 6a which established a new seven-member Horse Racing Advisory Commission within MDARD.

Live Horse Racing Requirements – Senate Bill 504 reduced the number of live horse racing days, and the number of races each racing day, required in order to obtain a simulcast permit.

Site-Specific Simulcast Horsemen's Purse Account – Prior to enactment of Senate Bill 504, Section 18(4) of the Horse Racing Law had directed a share of the race meeting licensee's net commission from simulcast wagering to a common horsemen's purse pool established in Section 19. This common horsemen's purse pool was not site-specific; it was allocated between Standardbred and Thoroughbred tracks by formula. Senate Bill 504 struck the Section 18(4) distribution provisions and established *site-specific* horsemen's simulcast purse *accounts*.

Money in Escrow Prior to Effective Date of Act – As noted above, prior to the enactment of Senate Bill 504, the distribution to the horsemen's simulcast purse pool was not site specific. In 2015, these provisions caused the MGCB to hold a portion of simulcast purse pool money in escrow.

In accordance with Section 18 of the Horse Racing Law, the MGCB calculated the 2014 simulcast common purse pool (40% of 2014 simulcast wagering net commission) and then allocated the common purse pool between Thoroughbred and Standardbred purse pools. The next step in the purse pool allocation would have been to pro-rate the Standardbred purse pool between the two Standardbred tracks that had operated in 2014 based on each track's 2014 wagering handle. However, Hazel Park Raceway, which had been a Standardbred track in 2014, applied for and received a race meeting license for Thoroughbred racing in 2015. The MGCB was faced with the question of whether 100% of the Standardbred purse pool should be allocated to Northville Downs as the only licensed Standardbred track in 2015, or whether Hazel Park Raceway should share in the allocation of the Standardbred purse pool even though it was licensed as a Thoroughbred track in 2015. The MGCB did not believe it had statutory authority to allocate Hazel Park's pro-rated share of the 2014 Standardbred simulcast purse pool to another Standardbred track.

The amount held in escrow was approximately \$1.0 million. Senate Bill 504 provided for the distribution of this escrowed amount.

For a more detailed analysis of Senate Bill 504, see House Fiscal Agency Legislative analysis of the "as enacted" bill. <http://legislature.mi.gov/doc.aspx?2015-SB-0504>

Appendix B
State Appropriations from the AEIDF

The AEIDF supports appropriations for horse racing regulatory programs of MGCB within the Michigan Department of Treasury budget, and horse racing promotional programs within the MDARD budget. The table below shows FY 2016-17 AEIDF appropriations.

Michigan Department of Treasury Budget

Racing commission 10.0 FTE position	\$1,962,600	This line supports horse racing regulatory activities of the Office of Racing Commissioner within the MGCB, including costs of post-race testing of race horses.
Information technology	122,700	AEIDF contribution to MGCB information technology costs.
Subtotal Treasury	\$2,085,300	

Michigan Department of Agriculture and Rural Development Budget

Fairs and racing	\$256,600	This line item supports administration costs associated with distribution of purses, supplements, awards. Administrative costs include: payments to outside vendors to maintain horse breeder database and Jockey Club for official race results; collection of specimens from Standardbred horses at county fairs for drug testing; payment to track officials at the 10 county fairs that offer harness racing.
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Horse Racing Law of 1995, Section: 20

Purses and supplements – fairs/licensed tracks	708,300	This line item supplements purses for Michigan-bred Standardbred race horses at the 10 county fairs that offer Standardbred racing. By rule this line can provide up to 75% of the purse offered.
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Also provides special purses at fairs for races of 2- and 3-year old Standardbred harness horses, specifically: the Spartan Futurity (Midland County Fair), the Wolverine Futurity (Ottawa County Fair), and the Breeder's Futurity (Northville Downs).

The line also provides payments to county fairs and agricultural societies for the administration of harness racing, including payments to judges and clerks of the course; cost of photo-finish equipment.

*Horse Racing Law of 1995, Section: 20, Subsections 5a, 5c, 5g
Administrative Rule 812*

Licensed tracks – light horse racing	40,300	Supports purse supplements for races conducted exclusively for Michigan-bred Quarter, Appaloosa, Arabian, or American Paint horses.
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*Horse Racing Law of 1995, Section: 20, Subsections 7a, 8a, 9a, 10a
Administrative Rule 817, 819, 822, 823*

Light horse racing – breeders' awards	20,000	Supports breeders' awards for Michigan-bred Quarter, Appaloosa, Arabian, or American Paint horses winning races at county fairs or licensed racetracks.
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*Horse Racing Law of 1995, Section: 20, Subsections 7c, 8c, 9c, 10c
Administrative Rule 817, 819, 822, 823*

Appendix B
State Appropriations from the AEIDF

Michigan Department of Agriculture and Rural Development Budget cont.

Standardbred breeders' awards	\$345,900	Supports breeders' awards for Michigan-bred Standardbred horses winning races at county fairs or licensed racetracks.
		<i>Horse Racing Law of 1995, Section: 20, Subsections 5e Administrative Rule 808</i>
Standardbred purses and supplements – licensed tracks	671,800	Supports purse supplements for Standardbred horse races at county fairs and licensed racetracks and for special 4-year-old filly and colt Standardbred horse races at licensed racetracks.
		<i>Horse Racing Law of 1995, Section: 20, Subsections 5a, 5h Administrative Rule 820</i>
Standardbred sire stakes	275,000	Supports purses for races conducted exclusively for 2- and 3-year-old Michigan-sired Standardbred horses at licensed racetracks. (The 2016 Standardbred Sire Stakes was run at Northville Downs on September 30, 2016.)
		<i>Horse Racing Law of 1995, Section: 20, Subsections 5i Administrative Rule 814</i>
Thoroughbred supplements – licensed tracks	601,900	Supports purse supplements for races conducted exclusively for Michigan-bred Thoroughbred horses and for 4-year-old and older filly and colt Thoroughbred horse races at licensed racetracks.
		<i>Horse Racing Law of 1995, Section: 20, Subsections 6a, 6d Administrative Rule 810</i>
Thoroughbred breeders' awards	368,600	Supports breeders' awards for Michigan-bred Thoroughbred horses winning races at licensed race tracks.
		<i>Horse Racing Law of 1995, Section: 20, Subsections 6a, 6d Administrative Rule 810</i>
Thoroughbred sire stakes	378,800	Supports purses for races conducted exclusively for 2- and 3-year-old Michigan-sired Thoroughbred horses at licensed race tracks and awards for owners of Michigan-sired horses or stallions. (The 2016 Thoroughbred Sire Stakes was run at Hazel Park Raceway on September 3, 2016.)
		<i>Horse Racing Law of 1995, Section: 20, Subsections 6e Administrative Rule 821</i>
Subtotal MDARD	\$3,667,200	
Total AEIDF	\$5,752,500	Note that the total FY 2016-17 appropriation from the AEIDF of \$5.8 million exceeds anticipated revenue of \$3.5 million. It is anticipated that MDARD will prorate horse racing purse supplements and breeders awards to balance to available revenue.

Appendix C
Context for Legal Gambling in Michigan

Context for Legal Gambling in Michigan

There are four major forms of legal gambling in Michigan: gaming at three Detroit Casinos, gaming at Indian Tribal Casinos, the State Lottery, and Horse Racing. The net amount wagered on all four major types of legal gambling in Michigan totaled over \$4.1 billion in 2016. The \$4.1 billion figure represents a \$1.1 billion increase from 2004. A fifteen-year history of wagering in Michigan for these four forms of legal gambling is shown in the adjacent table.

The \$4.1 billion "net wagering" figure represents the total amount wagered on the four major forms of legal gambling, less the amount paid to successful wagerers. From the perspective of the gaming industry, including the State of Michigan with respect to the State Lottery, the net wagering amount represents what might be called "gross margin on sales" in a traditional business. It is the amount of gross revenue, less cost of sales (payments to winning wagerers) but before other business costs, including commissions and taxes, are deducted. From the consumer's (wagerer's) perspective, net wagering is the amount spent gambling after deducting winnings.

Appendix C

Context for Legal Gambling in Michigan cont.

Net Wagering in Michigan 2002 Through 2016

Year	Wagering on Horseracing			Net Wagering on Other Gaming			Total Net Wagering
	Wagering Total	Winning Tickets	Net ¹	Detroit Casinos ²	Indian Gaming ³	State Lottery ⁴	
2002	\$365,242,300	\$281,930,600	\$83,311,700	1,125,143,500	825,795,600	793,103,000	\$2,827,353,800
2003	346,578,000	267,366,800	\$79,211,200	1,130,201,900	853,007,600	781,894,000	\$2,844,314,700
2004	337,473,500	260,526,900	\$76,946,600	1,189,264,400	858,675,200	874,227,000	\$2,999,113,200
2005	309,772,500	240,325,200	\$69,447,300	1,228,543,900	877,020,200	907,485,000	\$3,082,496,400
2006	281,192,800	218,243,100	\$62,949,700	1,303,302,800	883,186,200	944,193,000	\$3,193,631,700
2007	260,963,100	200,802,600	\$60,160,500	1,335,015,900	871,403,800	1,013,516,000	\$3,280,096,200
2008	231,226,300	177,348,200	\$53,878,100	1,359,584,600	1,166,421,400	1,006,857,000	\$3,586,741,100
2009	203,338,700	155,043,800	\$48,294,900	1,339,479,300	1,203,663,400	969,794,000	\$3,561,231,600
2010	169,603,700	129,800,700	\$39,803,000	1,377,929,100	1,310,662,300	977,603,000	\$3,705,997,400
2011	144,931,600	110,477,300	\$34,454,300	1,424,445,500	1,421,850,450	995,628,600	\$3,876,378,850
2012	138,181,300	105,319,200	\$32,862,100	1,416,734,400	1,499,712,450	1,043,706,800	\$3,993,015,750
2013	126,913,200	95,604,400	\$31,308,800	1,349,503,700	1,507,467,100	1,014,855,000	\$3,903,134,600
2014	116,783,800	87,471,000	\$29,312,800	1,332,782,600	1,456,061,400	1,036,547,600	\$3,854,704,400
2015	106,176,200	79,931,300	\$26,244,900	1,376,408,400	1,430,199,500	1,106,477,600	\$3,939,330,400
2016	103,265,500	77,560,900	\$25,704,600	1,385,601,800	1,460,830,300	1,233,130,900	\$4,105,267,600

- ¹ Net Wagering on horse racing represents total wagering on horse racing less total paid to winning tickets. The net wagering amount is divided between the horse race meeting licensee commission, horsemen's purse pools, and state taxes.
- ² The amounts shown for Detroit Casinos represents adjusted gross receipts; i.e. gross receipts less winnings paid to wagerers. "Adjusted gross receipts" is the base on which the 19% Casino Wagering Tax is assessed.
- ³ The amounts shown for Indian Gaming were computed based on the 2% payments to local units of government established by terms of compacts between Native American tribes and the state of Michigan. The 2% is calculated on net win from electronic games and does not include table games.
- ⁴ The amounts shown for State Lottery represent total State Lottery sales less amounts paid in prizes.

Sources: Annual Reports, Office of Racing Commissioner; Annual Reports, Michigan Gaming Control Board; Michigan Department of Treasury reports on 2% Payments to Local Units of Government; Annual Reports, Bureau of State Lottery. With the exception of the Lottery figures, which are based on state fiscal year data, years represent calendar years.

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NOTE: This report was written by William E. Hamilton, Senior Fiscal Analyst. Kathryn Bateson, Administrative Assistant, prepared the report for publication.



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