

2011 HOUSE APPROPRIATIONS

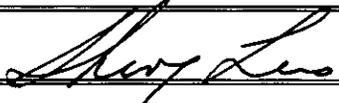
HB 1024

2011 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Government Operations Division
Medora Room, State Capitol

HB1024
January 10, 2011
Recorder Job# 12719

Conference Committee

Committee Clerk Signature 

Explanation or reason for introduction of bill/resolution:

A bill for an Act to provide an appropriation for defraying the expenses of the North Dakota racing commission.

Minutes:

Chairman Thoreson: We will open the hearing on HB1024.

Winston Satran, Director North Dakota Racing Commission: See testimony 1024.1.10.11A, 1024.1.10.11B

Representative Klein: Sir, I'm just looking at that number and you'll need to do some explaining; going from \$30,000.00 to \$130,000.00. What's the rationale?

Winston Satran: Back in my testimony, I explained that we went to the emergency commission office this year. We were basically, running out of money to run the office and the emergency commission raised the level of administrative funds; they're funds that come from licensing to fund the operation of the racing commission. The work load has gone up since we've added these additional account wagering companies.

Representative Klein: So you're basically saying that the \$30,000.00 you had you added \$75,000.00 to it in the past; and now you're not that far off from the \$130,000.00?

Winston Satran: That's correct.

Representative Dahl: Mr. Satran on page 2 and 3 of your testimony towards the bottom of page 2, you said an existing agreement and you're considered a full-time temporary employee. You go on to say that the racing commission has to have the ability to employ a full-time director when it's necessary. Can you explain that a little further?

Winston Satran Yes, I can. I was on the commission and the former director left abruptly. We had a commission meeting, the former director left; so, I thought I would just go down and help the administrative staff officer with the paperwork after the commission meeting. She had had a hip replacement and, unfortunately, the prosthesis broke; and she went into the hospital and she was out for six weeks. I live here in Bismarck, so I just started going to the commission office each day; answering the phone and checking the mail. About the

same time, the race meet was starting in Fargo; so, we had to have a representative there. I started going down, the commission then proposed that I be hired as a temporary director till we found a full-time director. We went through two phases of advertising, and when we were going through the advertising, 99% of the applications were from out of state; and didn't look like what we needed. One of the commissioner's said to me late in the fall if I would consider taking the job on a temporary basis; I said yes I would. So then I signed a letter of employment and went from December a year ago to December this year. I submitted another letter of employment to the commission at their December meeting; they approved it for another year. Mr. Satran continued his testimony.

Representative Klein: That \$6,000 in general funds. What is that comprised of?

Winston Satran: If you take a look at the sheet that I have attached, it's our budget summary request report. It probably is included in the salary request area. If you look under the 2009-2011 budget, that salary was about \$207,000.00. A combination of that now; the temporary salaries and the full time salaries is \$238,000.00; so, the offset of the administrative funds is being made up by \$6,000.00 general fund request.

Representative Kempenich: Do you have a break down? Is that the balances that are in those funds right now?

Winston Satran: I can get that. I can give you some general figures off the top of my head, the purse fund, approximately right now, is about \$150,000.00. I think the promotioned about \$120,000.00 and the breed fund is around \$860,000.00. See testimony 1024.1.10.11B.

Representative Glassheim: There's a small discrepancy between your numbers here and the green sheet numbers. You say there's \$6,000.00 additional general fund; this says \$22,000.00 additional general funds. This has a total of \$431,000.00 total expenditures; the green sheets have \$447,000.00. At some point you need to reconcile them.

Tad Torgerson, OMB: Mr. Chairman, I believe I can answer that question. The numbers that Winston references in his testimony was the agency request; which does not include the compensation package that included in the executive recommendation. So those are the differences.

Representative Glassheim: I don't really understand how this racing and betting works; but, you're dealing with \$130 million dollars. There's only two employees handling \$130 million? How do you do it?

Winston Satran: If I could take you through the process. North Dakota state law allows account deposit wagering companies to come and make application in North Dakota. We then go through an application process where they have to have a background investigation. They have to meet all the requirements of the application; and after the commission reviews this material, they vote to give them a license. Then, it goes to the Attorney General's office for approval. Once their approved and they set up business; then, and most of it's done through the internet, people can wager through the internet. As that information comes in to the account wagering company, it is fed into computers and they

send that information into what are totalizater companies. They take wagers from all over the United States. They're coming into these computer companies; then, they screen that information to the race track before the race takes place. So that's the betting process. These companies have to be licensed before they can get contracts with the race tracks. They just can't wager on any race track. We get a copy of every contract that they have with the race tracks in the United States; and we review those contracts to make sure that everything is proper. Once they have a contract with the race track; then, their company is allowed to place wagers. Which is good for the race track; because, they then have a portion of the income from that wager.

Representative Glassheim: So you don't actually have the money in your control?

Winston Satran: No we don't. We have an auditor that reviews all of the transactions weekly to make sure that North Dakota is getting paid it's tax amount and the racing commission is getting it's taxes.

Representative Glassheim: Then the race tracks settle up with winners and losers; I mean make payouts. You don't handle the money.

Winston Satran: No. The way that the individual gets better paid is the account wagering company gets notification from the race track. Then, a charity in North Dakota has to be involved to make sure that the better gets paid. There's a contract between the charity and the account wagering company. So, as it comes into North Dakota, the charity is involved to make sure that better gets paid.

Representative Klein: I'm looking at the numbers, at what you referred to as the total wagering handle which was \$70 some million; and you're projecting \$130 million. What is that based on? Is it growing that fast? Do you have any kind of rationale to base that on?

Winston Satran: Yes, we do. We stay in close contact with the account wagering companies. We ask them for projections on revenues; and then, we study what they've done this past year. We're bringing these new companies online; there are six new companies that waiting to com online. We're making projections on them. That's how we came up with the \$130 million figure.

Representative Kroeber: Is this all what we used to call the simulcast racing that was at a number of places throughout the state? Is that where most of the wagering goes on at this point; or is it just at home online?

Winston Satran: It's a combination of both; but, simulcast has really faded out of the picture. This has become done through computer based programs. One of the things that North Dakota state law permits is national wagering and international wagering. We have licensed a company that merged with a US company; their from England, so people will start internationally wagering through this company and England into the United States through the North Dakota license. The horse racing industry has lots of protective mechanisms built into it. There's an organization called Thoroughbred Racing Protective Bureau; that if these companies are going to get the larger tracks in the United States, they

have to go through background checks. The Protective Bureau does the background checks.

First of all, to get the background check, they have to pay a \$65,000.00 fee. They take them apart from A to Z; then, that approval is given. Then they can have the major tracks in the United States. We rely on lots of mechanisms outside of North Dakota to make sure that these companies are legitimate.

Representative Dahl: Mr. Satran, in your testimony you said the salaries and temporary salaries were based on a full-time director, an administrative assistant and a temporary employee. It looks like there's just funding for two FTE's and I just wanted to clarify.

Winston Satran: That's correct.

Representative Dahl: So three positions, but funding for FTE's?

Winston Satran: The funding is for two full-time employees; and we have one temporary employee.

Representative Klein: Going back to the racing commission, the number of members, who they are, and how their appointed?

Winston Satran: We have five members on our commission. Commission member recommendations come from different horse organizations to the Governor's office; and then the Governor's office makes the appointment. Mr. Ozbun is the chairman of our commission. Representative Maragos is on our commission. Tom Sefner, from Bismarck, is in the construction, is on our commission. Clarence Fredricks, who is from Belcourt, is on the commission; and, we have a new member, who lives North of Medora and works for an oil company, his name is Steve Herman.

Chairman Thoreson: Winston, the number of \$130 million is a big jump. Do you know what was the all time total high in North Dakota for collection and wagering? If you don't have it now, if there's any way of finding it out, I would be interested in seeing it.

Winston Satran: If I could give you a ball park figure, I think it was around \$170 million; at the all time high.

Chairman Thoreson: I recall that we had one or two big betters in the state at one time. I don't know if that affected that number or how that works.

Winston Satran: That's correct. Big betters are the people that make significant difference; and, of course, all of these companies are out there trying to attract big betters to use their companies.

Representative Thoreson: And do they do that still by rebating part of it back to them. Is that how it's handled?

Winston Satran: That's correct.

Chairman Thoreson: What about the six companies that are new. Those are new to North Dakota; not new to the industry altogether. Is that correct?

Winston Satran: Some of these companies, one is a new company called Source One; but it's made up of individuals who ran other companies in the past. CSC, a company that the commission just licensed, is from Calgary Canada. They were in a different portion of horse racing; they have a company that streams video from the tracks to the internet. Now they've branched out into account wagering. Megatote is company started by a civil engineer, he's originally from Casselton; he's in Chicago. That's a completely new start up company. Another company's name is Silks and they're from Toronto Canada; and they have been struggling for 18 months to get online. Watch And Wager is a realitively new company, and they're just going on line this week. They're the ones that merged with European Wagering Surfaces; and they are just starting business this week.

Chairman Thoreson: And most of these do their betting via the internet. Is that correct?

Winston Satran: That's correct.

Chairman Thoreson: A couple of other things, with other states struggling for revenue, have you heard of any other states looking to change their tax structure to be as competitive or more competitive than Oregon or North Dakota?

Winston Satran: I have not heard anything.

Chairman Thoreson: One last one, the track in Fargo it's been sitting silent for over a year now. What's the future for that? Are they looking at doing live racing in 2011 or is it going to be sitting still for another summer?

Winston Satran: We've been working very hard with Belcourt and Fargo. At the last commission meeting, dates were awarded to both Fargo and Belcourt for the coming season. Now we're trying to work through the financial situation to see if we can have racing. Right now it's questionable whether we'll have racing in Fargo.

Jim Ozbun: I chair the racing commission and I just want to say that the commission is very pleased with the leadership that Winston has been providing for the racing industry in North Dakota for the past year. We're optimistic and excited about the future; and we hope, indeed, that we can keep Winston from going back into retirement for another year or two. And if we are able to that, I think, that the racing industry in North Dakota will be very good hands.

Representative Glassheim: I didn't understand. So, there's no live racing in North Dakota. These are just people that are betting with us for national races at other tracks?

Jim Ozbun: That's essentially correct. But we do have live racing in North Dakota. We have live racing in Belcourt. Last year we were hoping to have live racing again in Fargo; but as of right now, were still hoping that we'll be able to do that.

Representative Glassheim: So all this purse money that's going out, are going to horses all around the country. Is that correct?

Jim Ozbun: That's correct.

Representative Glassheim: Then why do use us?

Winston Satran: That's why we want to have racing in North Dakota; and, we had racing in Belcourt. So the people that raced in Belcourt, this past season, did get awarded breed fund monies. That's the need to have live racing, and if we can have live racing in Belcourt and Fargo, the it makes breed fund monies available to more winners.

Representative Glassheim: The tax benefit is the reason to have it here.

Winston Satran: Yes.

Representative Kempenich: That kind of gets to the crux of things, we're spending general fund money on this. Does it look like at some point that the racing commission becomes self-sufficient again?

Winston Satran: That would be my goal to move us to the point that there is very little tax money. But on the side, if we're going to conduct an activity in North Dakota, then I ask myself what responsibility does the state have to govern that activity. So we actually have two things to about here.

Representative Kempenich: That's a balancing act.

Winston Satran: If I could make one more comment concerning that. If you looked at the general fund revenue, right now, it more than compensates what the racing commission costs. I would anticipate that there will be more money coming into the general fund that would take away any costs of operating the racing commission.

Representative Klein: Do you have any figure as to what the general fund is benefiting because of the racing per biennium?

Winston Satran: I couldn't give that to you right off the top of my head. No.

Representative Klein: Would you be able to put something together, at least an estimate, so we could look at it and provide it to the committee?

Winston Satran: I sure can.

Representative Kroeber: On page 2 of 3, you say that you're going to make some administrative rule changes that will be done in April. First of all, will we get to see those? My second question, it says that these will help as a reduction of risk for the state of North Dakota. What risk do we have now?

Winston Satran: To answer your first question. The administrative rules committee; it has to go through that process before they're approved. The assistant Attorney General, that is

assigned to the commission, is finalizing the language; and then it will be moved on to the Attorney General's office for approval. The second part of your question, embarrassment.

Representative Kroeber: Embarrassment?

Winston Satran: And I can speak frankly about that. Since I've taken on this job, because of the things that happened in Fargo 8 or 9 years ago, it has put North Dakota on the bottom of the racing commission totem pole. For the first time I went to the national racing commission meeting. Before I got there, I tried to meet with executives that make a difference; for example, Charlie Hayward who is the head of all the New York tracks. We talked about the North Dakota racing commission, our activities; and tried to elevate our esteem.

Chairman Thoreson: I'm assuming the 8 to 9 years ago is the continuing fallout from the RSI situation. Is that correct?

Winston Satran: That's correct.

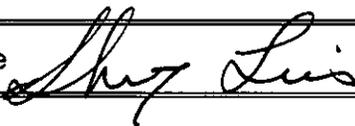
Chairman Thoreson closed the hearing.

2011 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Government Operations Division
Medora Room, State Capitol

HB1024
January 24, 2011
Recorder Job# 13301

Conference Committee

Committee Clerk Signature 

Explanation or reason for introduction of bill/resolution:

A Bill for an Act to provide an appropriation for defraying the expenses of the North Dakota racing Commission

Minutes:

Chairman Thoreson opened the hearing on HB1024.

Winston Satran, Director, North Dakota Racing Commission: See attached testimony 1024.1.24.11A.

Representative Klein: So basically for this year, you've added 2 more companies?

Winston Satran: We are up to 7 companies.

Representative Klein: In addition to what you show, there's some more?

Winston Satran: Yes, we've just licensed 2 more companies. One from Calgary, Alberta and Source One; we've just finalized their license.

Representative Kroeber: You said you had a renewal of 2 accounts and you added 6 new companies. You broke them down by Simulcast and Account Deposit Wagering.

Winston Satran: One company is going to focus on simulcast and the other is account deposit wagering companies. If I get on the internet, a whole list of companies will come up, I can deposit money with that company. There's a verification process; and after I transfer the money, I can begin to wager. If I win, then they will transfer money back into my account.

Representative Kroeber: So basically, when you talk about a deposit wagering license and new companies; is this a different make up between a deposit wagering license and a company? Do they eventually get a license too?

Winston Satran: Actually, the license is called a service provider's license. Both the simulcast and account deposit wagering company is under that service provider's license.

Testimony continued.

Chairman Thoreson: The computers are housed somewhere in North Dakota?

Winston Satran: Yes.

Representative Kroeber: If they are licensed in North Dakota, the computer for that has to be in North Dakota?

Winston Satran: It doesn't have to be here, we have to get the information. We have to see what has been wagered and we have to look at those accounts. If they're licensed here, that information has to go through us.

Testimony continued.

Chairman Thoreson: Even though these devices connected back into North Dakota, they could be anywhere on earth. Do we have to do anything to regulate them outside our physical boundaries in the state? Would we see a situation where a person would have to investigate these machines, inspect them to make sure their set properly so we're getting the correct revenue off the device?

Winston Satran: Our revenue would come through the reported handle and we audit that monthly. We see what's been wagered through each account deposit wagering company and there's a couple of ways to check that. When they stream this information to the computer companies that collect all this information, we have an agreement with those computer companies that they forward that information back to us. So, we're not just relying on the account deposit wagering company to report that information, we're also getting it through the computer companies; they're completely independent of the account deposit wagering companies.

Chairman Thoreson: So you do have an independent review of some type? Does anyone audit the machine themselves?

Winston Satran: From my discussions with them they have to meet all of the gaming regulations that regulate the Native American casinos.

Chairman Thoreson: These are only going to Native American casinos outside the state, is that correct?

Winston Satran: That's where their effort is right now.

Chairman Thoreson: Some states have video lottery, that sort of thing, would they ever look at adding this as a line; where we'd have to work with the state to regulate or license these machines.

Winston Satran: They've never brought that up.

Representative Kroeber: Is the \$11 million from Bam In A Box does that have to do with Indian casinos now in North Dakota?

Winston Satron: No, it does not.

Testimony continued.

Representative Kroeber: Before it was for every \$2.37 bid the breakage is \$.37 and we kept all \$.37 before. Now approximately what would be keeping?

Winston Satron: We would keep the \$.07 until \$20 million has been wagered. After that, we will let the company's keep their own breakage. That becomes important because all of these companies are competing to get people to come and play at their companies. They do that through rebates and try to make themselves attractive. If we keep the breakage above \$20 million, they can go some place else without that expense and attract more players to their company.

Testimony continued.

Chairman Thoreson: That number for Lien games, does that include the Bam In A Box or is that a separate that's not on that total.

Winston Satron: Yes, that includes Bam In a Box.

Chairman Thoreson: The first 3 are significantly lower than what they projected, they're just being optimistic in those cases?

Winston Satron: I don't think they're being optimistic; but, they're working different business strategies. We have kept the executive branch informed as we've gone through this. I appeared before the interim judiciary committee on 3 different occasions and I explained what we're trying to do here.

Chairman Thoreson: You said the executive branch was informed. But you did go to the judiciary interim committee to keep the legislature abreast of what's been happening?

Winston Satron: Yes, I did and I gave this same presentation to the interim judiciary committee.

Testimony continued.

Chairman Thoreson: What percentage would you give it the potential to be very big? Have we created a situation in North Dakota where we're stable enough to stay here for the long run?

Winston Satron: I think one of the things they have liked here are the meetings with the executive branch. That's given them a great deal of confidence. The individual that runs a banking organization that caters to race tracks all over the United States and helps different states manage their auditing, is a company called CHRIMS - California Horse Racing Information Management Systems. The president of that company came to North Dakota last summer and became so interested that he's looking establishing a national credit union

in the state of North Dakota for horse racing throughout the United States. You asked me for a percentage of all of this happening and I'd say 70 percent.

Chairman Thoreson: I asked about live racing in North Dakota and I'm still curious to see if we're going to be in a spot this year or next when there will be live racing going on in Fargo or Belcourt.

Winston Satron: This morning I testified before the house judiciary committee; and Representative Kingsbury asked me that same question.

Testimony continued.

Chairman Thoreson: When was that action taken do you know?

Winston Satron: 2004.

Testimony continued.

Chairman Thoreson: So the possibility exists that you could get the money; but, at some point they could come take that back from you.

Winston Satron: That's correct

Chairman Thoreson: The total dollar amount was again how much?

Winston Satron: The two letters of credit \$500,000.00 minus the general fund taxes that were due at that time.

Testimony continued.

Chairman Thoreson: And you've been getting advice from the Attorney General's office on this also?

Winston Satron: Yes.

Representative Kroeber: So the increase in the operating fund from \$30,000.00 to \$130,000.00 doesn't include any dollars for racing in North Dakota?

Winston Satron: No, that money comes out of the administrative fund; and that's the collection of fees from the licensing of the account wagering companies and the live racing.

Chairman Thoreson: When do you think you're going to have some determination on whether we race live this summer or not?

Winston Satron: My goal is by February 15; because we have to let Belcourt and Fargo know the amount of dollars available for each of the tracks.

Chairman Thoreson: Is there a person in Fargo running that facility now?

Winston Satron: Mike Sechy is the president of Horse Race North Dakota.

Representative Andy Maragos, District 3: I'm also a member of the racing commission. I think it's imperative that we have racing in Fargo in this upcoming season. There's always a lot of undercurrents and different agendas around there; but, I think we owe it to the people of North Dakota to preserve and enhance the investment they've already made in Fargo. If there's anything that this committee can do to help us insure that we have racing in Fargo, it would be greatly appreciated.

Representative Kroeber: The promotion fund dollars it's highly controlled what those funds can be used for?

Representative Maragos: That's correct. Each fund has a designated purpose. The breed fund by statute is locked up and that's the fund that has most of the revenues right now. I'd love to have some ability to figure how the other 2 funds could borrow against that fund; then replace the funds so the horsemen know that the breed fund will always be available. There are monies there but they are restricted by statute on the flexibility that we have; and I don't know if it's proper to start now and see if we can get some flexibility with regard to those funds with the appropriate promises to put it back and make sure it's always there.

Representative Kroeber: Right now without any horse racing in North Dakota, how does anyone get any money out of the breeders fund?

Representative Maragos: I believe that if they race anywhere around the country and win, that they can come back and put in a request for a breed fund compensation; because of that win, place or show.

Winston Satron: Representative Maragos is partly right. If we have races in North Dakota, then the horses have to run in North Dakota to get breed fund points. Harness racing, we didn't have the funds to conduct harness racing; so, then we set up regulations that they could run out of state or in Canada. If they did it within our time period, they could report those wins back to us and they'd earn breed fund points.

Chairman Thoreson: And that did occur?

Winston Satron: Yes, it did.

Representative Klein: HB1093 you heard that in judiciary?

Representative Maragos: Is that the bill to help the horse park foundation?

Representative Klein: It allows the racing commission to receive \$25,000.00 per year or 25% of the fund balance whichever is greater from the racing promotion fund.

Representative Maragos: I believe we passed that up through the house already.

Representative Maragos: I think it passed the floor.

Representative Klein: That also included some changes to the breakage amounts?

Representative Maragos: I believe that North Dakota is being looked at in such a positive vein; first and foremost because of the leadership of director Satron. People outside the state of North Dakota felt we were kind of a rogue state and they had to be careful about any association with horse racing in North Dakota. Now they view North Dakota as a superb environment with which to do business; we regulate properly. Director Satron has given them a great deal of confidence. I think the credibility of North Dakota is rising steadily. I think the comfort level seems to be very appropriate. I think it's evident by the 5 new account wagering firms that have come in and are going to provide resources for this state. I look forward to the future with a good measure of optimism.

Representative Brandenburg: Has this lawsuit that's kind of hanging over the head of this racing commission, wouldn't be in the best interest of everybody to get this resolved? Is that part of the problem?

Representative Maragos: Of course it would be nice to get it done. I don't know if Mr. Wagner is being very reasonable with his assertions about the money. As I see it, that money was a result of guarantees from a bank. We didn't get those monies from Susan Bala. The fact that she didn't pay the taxes; and he's saying that she paid taxes, which I'm not sure she did. That came out of his fund; those monies came out of a bank and are totally separate. I think that's why this suit has gone on so long. I don't know who can make a settlement offer to Mr. Wagner; but, I think they could make a very reasonable settlement offer and make it be a nonissue.

Representative Klein: I'm looking at the last page of your testimony. The budget request is an increase of \$31,000.00 over the 2009-2011 budget, general fund being \$6,000.00. The majority of that \$31,000.00 is for salary increase and expenses?

Winston Satron: I don't know whether I explained, I work under an employment letter and work as a temporary employee. When we put the budget together, we said the commission has to have funds in their to be able to hire a full time director. We wanted to put funds in their so they were able hire a capable director when that time comes.

Representative Klein: It's basically to pay the salary and expenses for the director.

Winston Satron: That's correct.

Chairman Thoreson closed the hearing

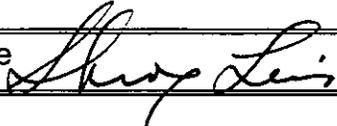
2011 General Discussion
(Check appropriate box)

- Committee on Committees
- Rules Committee
- Confirmation Hearings
- Delayed Bills Committee
- House Appropriations
- Senate Appropriations
- Other

Government Operations

Date of meeting/discussion: February 10, 2011

Recorder Job Number: 14307

Committee Clerk Signature 

Minutes:

Chairman Thoreson opened the general discussion on HB1024.

Representative Brandenburg: The budget request is \$130,000.00; the executive recommendation is \$130,000.00. Total funding sources are \$420,445.00 that doesn't match what we have; because the total we have from the bill is \$317,000.00.

Chairman Thoreson: Where are you looking at; are you looking at the recommendation?

Representative Brandenburg: I'm looking at the recommendation detail; and it's not matching up with what we have in our bill.

Tad Torgerson, Office of management and budget: What I'm looking at does.

Representative Brandenburg: I'm looking at the report form for the recommended detailed budget for the biennium for 2011-2013.

Tad Torgerson: The request recommendation comparison detail?

Representative Brandenburg: It has the racing breeders fund of \$82,966.00, racing purse fund of \$82,966.00, the horse racing operating fund. The requested budget is \$130,000.00, an increase of \$25,000.00 for a total of \$290,000.00.

Government Operations

February 10, 2011

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Representative Klein: I'm looking at adjustments and enhancements and I'm trying to compare with the previous. It can't be just the pay raises, they went from \$325,000.00 to \$447,000.00 in the total. What was the big increase?

Representative Brandenburg: The \$122,501.00.

Representative Klein: That was for what?

Becky Keller, North Dakota Legislative Council: The salaries and fringes increased by \$66,950.00; then there was an adjustment in the operating that put in \$100,000.00 from the racing commission operating fund, but, decreased the general fund by \$60,000.00. So you're looking at another \$40,000.00 there; so between those 2, the \$66,000.00 is the majority of the increase.

Representative Klein: HB1093 was passed in the House. That allowed them to receive an additional funding into various balances?

Representative Kroeber: That wouldn't be reflected in this.

Chairman Thoreson: I believe the bill did pass but it's not reflected in the budget.

Tad Torgerson, Office of Management and Budget: That's correct, that did pass. That referred to that breakage that Mr. Satron talked about.

Chairman Thoreson: That part that they keep when they take the bets.

Tad Torgerson: The dollar amount that refers to that in that bill is in the promotion fund which has a continuing appropriation.

Representative Brandenburg: In that breakage, what part of that stays here with the racing commission? Where does that reflect?

Representative Kroeber: The way he explained the breakage to us; there was .00406%, but, what it really amounted to he said was that for every \$2.37 that is bet; \$2.00 is paid off. North Dakota keeps \$.37 out of that \$2.37 that is bet; that's where we take and get the dollars and income for the racing commission. So, that's the breakage. That's income, correct. Tad, I guess that's one thing we should have and I'm sure it's here; but, what is our actual income that we get?

Representative Brandenburg: Where do we find the income?

Tad Torgerson: From the breakage.

Representative Kroeber: In the testimony it says report on racing commission general fund tax revenue; total handle for 2010 was \$70,673,886.00. The general fund revenue was \$52,462.00.

Government Operations

February 10, 2011

Page 3

Chairman Thoreson: This was in his original testimony?

Representative Kroeber: Correct.

Chairman Thoreson: What page is that on? Just this break down sheet?

Representative Kroeber: It says HB1024 North Dakota Racing Commission budget #670, it's January 10, 2011.

Representative Brandenburg: It also talks about projected revenue for 2011 is \$130,000.00; that's reflected with an increase and handle for 2012 projected general fund revenue is \$238,000.00 for the biennium. Are we spending \$447,000.00 for the biennium? So if we spend \$447,500.00 for the biennium and take in a projection of \$238,000.00 it's only costing us \$180,000.00 to allow horse racing in the state.

Tad Torgerson: That's correct.

Representative Glassheim: Other funds we have an addition of \$130,000.00. What are those and where does that come from?

Representative Brandenburg: If I'm understanding this right, they're projecting revenue for 2011 at \$130,000.00 and last year was \$52,000.00. So that's what they're saying that \$130,000.00 is projected revenue and projected general fund revenue for the biennium is \$238,000.00. They're saying it's going to be a little less than next year?

Tad Torgerson: That special fund is the administration fund. During the current biennium they went to the emergency commission and received approval for around \$75,000.00 to increase their appropriation out of that special fund. Those revenues come from licenses of the stewards and jockeys, etc.

Representative Brandenburg: I'm trying to figure out how much we're losing in this racing commission. We are losing money unless I'm reading something wrong.

Tad Torgerson: No, you're correct. The total general fund is \$317,501.00 the racing commission is projecting that they will generate \$238,675.00 for the upcoming biennium and non general fund taxes off the wagering taxes.

Chairman Thoreson: So there's a price to pay for having this in our state.

Representative Brandenburg: I do know there are some people who are very serious about horse racing.

Representative Glassheim: Do any of these special funds go to North Dakota people?

Chairman Thoreson: I believe that is the intent for those funds; to go for breeding within the state of North Dakota. It's to promote the industry within the state.

Government Operations

February 10, 2011

Page 4

Representative Glassheim: It's costing the general fund \$200,000.00 that we're subsidizing; but, then there looks to be almost \$1 million worth of purses that go back to North Dakota.

Representative Brandenburg: The promotion fund as you see it is \$148,000.00, the purse fund is \$170,000.00, the breeder's fund is \$716,000.00, and the horse racing operating fund is \$73,000.00. So there is activity happening within the state; it's just they need help to get this thing on it's feet.

Chairman Thoreson: We heard testimony by Mr. Satron about how North Dakota is perceived throughout the industry; mostly due to the RSI case in Fargo several years ago and I think we've come a long way from that.

Representative Klein: I think the bottom line that they're on the right track. I think they've made tremendous improvements.

Representative Klein made a motion for a "Do Pass" motion.

Representative Brandenburg seconded the motion.

Representative Kroeber: I think a lot of what we have to explain is on the last page of his testimony.

Tad Torgerson; That was brought up during the testimony also. His testimony didn't include the compensation package.

A roll call vote was taken for a "Do Pass" 7 Yea's 0 Nay's 0 Absent.

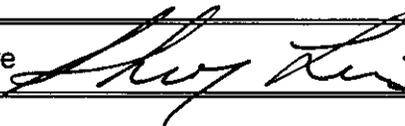
2011 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Committee
Roughrider Room, State Capitol

HB1024
February 18, 2011
Recorder Job# 14739

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Bill for an Act to provide an appropriation for defraying the expenses of the North Dakota racing commission.

Minutes:

Chairman Delzer: Opened the discussion on HB1024.

Representative Thoreson: I do have some information that came in after this bill. It's 2 e-mails for the committee dealing with the racing commission.

Representative Brandenburg: Introduced the bill. They're hanging on for dear life.

Chairman Delzer: We passed quite a few different bills dealing with horse racing this year. Was there any discussion in the committee about if there's a lot more income; does that make any difference on their estimated income line? In essence would that make it so we could free up any general fund money?

Representative Brandenburg: Mr. Satran was in and we asked questions of when this is going to get better. There are people working real hard to make this work. There's definitely people that feel that horse racing is very important. They're looking at maybe \$100,000.00 in the next couple of years; but, there's no promises.

Representative Thoreson: One thing that did come up in discussion is the fact that they're doing licensing of these tote companies that provide simulcast and betting over the internet. That could be a source of income. We're in competition with the state of Oregon they also have adopted similar rules and laws as we have. While these companies have come in here and are licensed and setting up shop, they could at any time pull their business and relicense in Oregon or other states. It's kind of a volatile situation. We saw this a few years also when we had several of the big betters betting through North Dakota and we were gaining quite a bit of revenue. These betters often times move their play around.

Representative Brandenburg: Made a "Do Pass" motion.

Representative Klein: Seconded the motion.

Representative Thoreson: I distributed to the committee 2 e-mails I received from Mr. Satran; just in the last couple of days. During our committee discussion, there was a lot of talk about live racing in Fargo this summer. They were optimistic that that could occur because of some funds they thought they might be able to draw on. However, they just found out in the couple days that there is some IRS obligations that will not allow them to do so. Because of that, there will not be live racing this summer in Fargo. They're now looking towards 2012. He did send this information to me and I thought I should share it with the committee.

A roll call vote was made for a "Do Pass". 13 Yea's 7 Nay's 1 Absent.

Chairman Delzer: Closed the discussion on HB1024.

Date: 2/18
 Roll Call Vote #: 1

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. 1024

House Appropriations Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Brandenburg Seconded By Klein

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer		X	Representative Nelson	X	
Vice Chairman Kempenich	X		Representative Wieland	X	
Representative Pollert	X				
Representative Skarphol	X				
Representative Thoreson	X		Representative Glasheim	X	
Representative Bellew		X	Representative Kaldor	X	
Representative Brandenburg	X		Representative Kroeber	X	
Representative Dahl		X	Representative Metcalf		X
Representative Dosch		X	Representative Williams		X
Representative Hawken					
Representative Klein	X				
Representative Kreidt		X			
Representative Martinson	X				
Representative Monson	X				

Total (Yes) 13 No 7

Absent 1

Floor Assignment Brandenburg

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1024: Appropriations Committee (Rep. Delzer, Chairman) recommends **DO PASS**
(13 YEAS, 7 NAYS, 1 ABSENT AND NOT VOTING). HB 1024 was placed on the
Eleventh order on the calendar.

2011 SENATE APPROPRIATIONS

HB 1024

2011 SENATE STANDING COMMITTEE MINUTES

Senate Appropriations Committee
Harvest Room, State Capitol

HB 1024
03-17-2011
Job # 15569

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A BILL for an ACT to provide an appropriation for defraying the expenses of the North Dakota Racing Commission.

Minutes:

See attached testimony.

Chairman Holmberg called the committee to order on Thursday, March 17, 2011 at 8:30 am. Roll call was taken. All committee members were present. Tad H. Torgerson, OMB and Brady Larson, Legislative Council were also present.

NOTE: Other bills discussed on this job are as follows and minutes have been prepared for each file: 1005, 1009, 1010, 1343 and 1003.

Winston E. Satran, Director of the ND Racing Commission testified in favor of HB 1024 and provided written testimony attached # 1. He introduced Dr. Jim Ozbun, Chairman of the Racing Commission. His testimony gives information regarding horse racing and production of horses within the State of ND and his budget requests. (Meter 8.24)

V. Chair Bowman: What was the amount of money that was generated for the state with this \$470,000 investment?

Winston Satran: The state is based on 1/4 of 1% taxes to the general fund and each of the funds gets 1/16 of 1% from that handle. Those figures I don't have with me, but that's the tax formula that it's based on. The state general fund tax is based on 1/4 of 1% and the three racing funds are each 1/16 of 1%.

Chairman Holmberg: We have HB1093, that's being heard next week. Is there a reason why we should hold onto this bill until after 1093 has been disposed of one way or another? Or is the connection not something that would impact the budget.

Winston Satran: 1093 would not affect this budget. 1093 actually does two things. In the wagering field there is a term called breakage, which is if you go to a race and you wager \$2.00 and you win \$2.60, the actual payout might be \$2.68. That 8 cents is called breakage. Right now ND gets that breakage. As we looked at the state of Oregon's charges to the companies, they allow the companies to keep all of the breakage, but their licensing fee is

\$75,000 a year. So we looked at the formula and the Bill 1093 will limit the breakage paid to \$20M for each company per year. What that does it makes our licensing fee competitive with Oregon. There is a second part of that bill and this is where the legislature comes, that racing commission can actually spend money out of the promotion fund for the operation of the office but we have to go the emergency commission to do that. And we changed that to say if the legislature approves up to 25% or a minimum of \$25,000 for the operation of the racing commission, we would just as soon not go back to emergency commission to get permission and have that approved by the legislature. There is a reason for that. As we accumulate these companies, the accounting and the auditing gets more complex, we want to be able to take that money out of the promotion fund and go out and hire a company, put it out on bids and there are a couple of national companies that do this because they're just in that expertise in ND, and when I talked about the administrative rules and these statutes we want to get more solid, more accountable so we don't have things run away on us.

Chairman Holmberg: Anyone else going to testify. If not, then we will close the hearing on this portion of the legislative session because now we don't have budgets anymore, we have a bunch of bills coming our way, mostly from GVA, I think. Is this a bill we want to put on our list for tomorrow. We will put it on. The hearing was closed on HB 1024 (Meter 13.20)

At the end of this hearing discussion was held on several bills.

2011 SENATE STANDING COMMITTEE MINUTES

Senate Appropriations Committee
Harvest Room, State Capitol

HB 1024
03-18-2011
Job # 15664

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A ROLL CALL VOTE FOR A DO PASS ON THE BUDGET FOR THE RACING COMMISSION

Minutes:

You may make reference to "attached testimony."

Chairman Holmberg called the committee to order on Friday, March 18, 2011 in reference to HB 1024. All committee members were present except Senator Warner. Sara Chamberlin, Legislative Council and Tammy R. Dolan OMB were also present.

Senator Robinson moved a DO PASS. Seconded by Senator Wardner.

Chairman Holmberg: There were no changes in the House. It's pretty flat lined.

Senator Christmann: Are we just watching some things fade away until there is nothing left and whatever money there once was, just let it dwindle away and that's the end of it? Is there any long range plan here?

Senator Fischer: We had a long range plan and we missed it by one vote.

Senator Wardner: I tend to agree with Senator Fischer on this and I do have some questions. The only reason that I think we should take a look at this is because of the new leadership. Dr. Ozburn is on the Racing Commission and chairs it. Winston Satran has a record of competency and I know they have some issues that they are trying to work out. They're actually working on them. Not big talk but actions, and so if after this biennium things haven't changed I'm with my friends, Senator Fischer and Senator Christmann.

Chairman Holmberg: You make a very good point. Both of you do. It has been kind of a hornet's nest in the past. We do have new leadership there and Winston Satran has been around a long time and knows how to work with people. Because you've been at the hearings when horse people are in and it's an interesting group.

V. Chair Bowman: I think I asked the question when we first heard the bill, but didn't get an answer, what about the betting, are they regulating that now? Are we bringing in more than \$400,000 a year because if that is all that is left it doesn't make much sense to have a commission to lose money on?

Chairman Holmberg: I think time will tell. Next time around, if they're still slugging away with new competent leadership then they

Senator Robinson: This is it, either/or.

Senator Wardner: Mr. Chairman, that was a good answer. Time will tell; two more years.

Chairman Holmberg: Would you call the roll please on a DO PASS ON 1024.

A ROLL CALL VOTE WAS TAKEN: YEA: 11; NAY: 1; ABSENT 1. Senator Wardner will carry the bill. The hearing was closed on HB 1024.

Date: 3-18-11
 Roll Call Vote # 1

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. 1024

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Robinson Seconded By Wardner

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	✓		Senator Warner	✓	
Senator Bowman	✓		Senator O'Connell	✓	✓
Senator Grindberg	✓		Senator Robinson	✓	
Senator Christmann	✓				
Senator Wardner	✓				
Senator Kilzer	✓				
Senator Fischer	✓				
Senator Krebsbach	✓				
Senator Erbele	✓				
Senator Wanzek	✓				

Total (Yes) 11 No 1

Absent 1

Floor Assignment Wardner

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1024: Appropriations Committee (Sen. Holmberg, Chairman) recommends **DO PASS** (11 YEAS, 1 NAYS, 1 ABSENT AND NOT VOTING). HB 1024 was placed on the Fourteenth order on the calendar.

2011 TESTIMONY

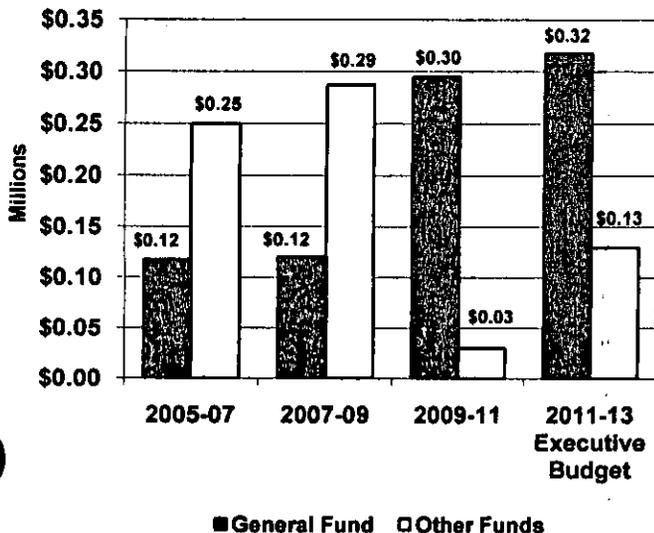
HB 1024

**Department 670 - Racing Commission
 use Bill No. 1024**

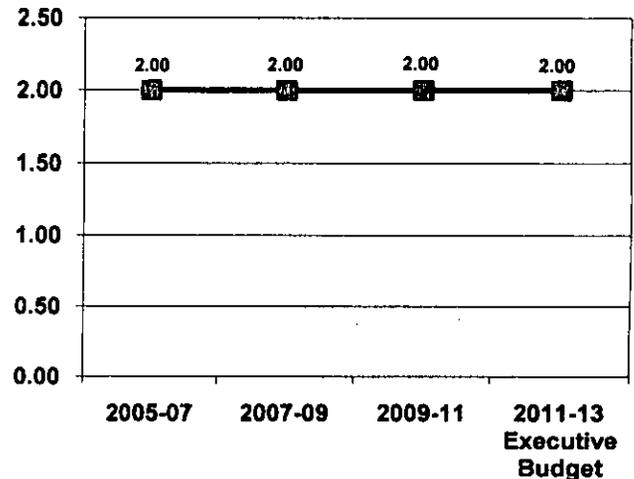
	FTE Positions	General Fund	Other Funds	Total
2011-13 Executive Budget	2.00	\$317,501	\$130,000	\$447,501
2009-11 Legislative Appropriations	2.00	295,000	30,000	325,000 ¹
Increase (Decrease)	0.00	\$22,501	\$100,000	\$122,501

¹The 2009-11 appropriation amounts do not include \$75,000 of additional special funds authority resulting from Emergency Commission action during the 2009-11 biennium.

Agency Funding



FTE Positions



Ongoing and One-Time General Fund Appropriations

	Ongoing General Fund Appropriation	One-Time General Fund Appropriation	Total General Fund Appropriation
2011-13 Executive Budget	\$317,501	\$0	\$317,501
2009-11 Legislative Appropriations	295,000	0	295,000
Increase (Decrease)	\$22,501	\$0	\$22,501

Executive Budget Highlights

	General Fund	Other Funds	Total
1. Adjusts funding for salaries and fringe benefits	\$66,950	\$0	\$66,950
2. Adjusts funding for operating expenses that includes an increase of \$100,000 from the Racing Commission operating fund	(\$60,909)	\$100,000	\$39,091

Continuing Appropriations

Breeders' fund - North Dakota Century Code Section 53-06.2-11 - To financially reward breeders or owners of North Dakota-bred horses.

Promotion fund - Section 53-06.2-11 - To promote horse racing in North Dakota.

Purse fund - Section 53-06.2-11 - To increase the amount of purses at North Dakota racetracks.

Significant Audit Findings

The operational audit for the Racing Commission conducted by the State Auditor's office during the 2009-10 interim included a significant audit finding regarding the declining fund balances of the breeders' fund, purse fund, and promotion fund.

Major Related Legislation

House Bill No. 1093 - This bill allows the Racing Commission to receive \$25,000 per year, or 25 percent of the fund balance, whichever is greater, from the racing promotion fund for the payment of Racing Commission operating expenses. Current statutory provisions allow the Racing Commission to receive up to 25 percent of the racing promotion fund balance subject to Emergency Commission approval for operating expenses. The bill also provides for changes to the payment of racing breakage.

House Bill 1024

ND Racing Commission – Budget No. 670
Winston E. Satran, Director
January 10, 2011

62nd Legislative Assembly
House Appropriations Committee Hearing
Government Operations Division
Medora Room, State Capitol
Representative Blair Thoreson, Chairman

The North Dakota Racing Commission during the 2009-2011 biennium experienced a number of challenges. The first major challenge was to create financial sustainability which would allow continued horse racing and production of horses within the State. This concern was raised in the 2010 State Auditor's Report. The passage of House Bill 1551, enacted on July 1, 2009, crafted an environment which stimulated growth in the account deposit wagering activity which generated additional revenue for the State General Fund, the Promotion, Purses, Breed and Horse Racing Operating Funds. This legislation reduced the taxes paid to North Dakota and to the Racing Commission, thus making it more attractive to conduct business through a North Dakota Racing Commission license. Since this legislation was enacted reducing taxes, it has stimulated the renewal of two account deposit wagering licenses and has added six new companies. The total wagering handle for 2010 was \$70,673,886. The projected handle for 2011 is \$130,000,000 based on the 2010 history and the addition of the newly licensed companies. The legislative action of lowering taxes allowed the ND Racing Commission license to be financially competitive with the State of Oregon. Oregon licenses the majority of account deposit wagering companies in the U.S. and has an attractive tax rate which creates extensive revenue to the state and horse racing.

Further adjustments are being made to attract account deposit wagering through the revision of the ND Racing Commission Administrative Rules. The administrative rule

changes are being processed at the present time with the expectation that they will be completed in April of 2011. These rule changes will provide more accountability, oversight, and a reduction of risk for the State of North Dakota, the charity, and the account deposit wagering companies.

Administratively, the Racing Commission has responded to accountability concerns. The 2010 State Auditor's Report indicated that a Fraud Risk Assessment policy had not been created since recommended in the 2008 State Auditor's Report. Responding to this recommendation, a Fraud Risk Assessment policy was prepared and submitted to the State Auditor's staff on September 7, 2010. The Racing Commission also responded to the recommendations concerning the accountability of funds received in the office. A new procedure was implemented that ensures that more than one person reviews and accounts for all cash receipts.

The Racing Commission appeared before the Emergency Commission on June 18, 2010, to request removal of the \$30,000 spending limit on Horse Racing Operating Funds. We also requested an additional \$75,000 from the Horse Racing Operating Funds to be used for the operation of the Racing Commission. An increase in work activity was a direct result of account deposit wagering companies responding to the new tax law, thus creating additional revenue for the State of North Dakota and the Racing commission.

The 2011-2013 budget is a program based budget which is a one item budget. I have included the anticipated expenditures which were presented to the Office of Management and Budget. The Salaries and Temporary Salaries expenditures are based on a full-time Director, an Administrative Staff Officer, and one temporary employee who was hired to assist the Racing Commission in meeting the demands of the additional work load. The current Director works under an agreement with the Racing Commission and is considered a full-time temporary employee. In the future, the Racing Commission has to

have the ability to employ a full-time Director when it is necessary. The Special Funds administered by the Commission under continuing authority are the Promotion, Purse, Breed, and Horse Racing Operating Funds. The Racing Commission is requesting the authority to increase the spending limit of the Horse Racing Operating Funds from \$30,000 to \$130,000. These funds are derived from the assessment of licensing fees for live racing and all aspects of licensing of simulcast and account deposit wagering. The funds are used to supplement the operation of the Racing Commission office.

With the increase in the Special Funds, the budget request is \$431,041 for the operating of the Racing Commission, an increase of \$31,041 over the 2009-2011 budget. The General Fund increase is \$6,031 over the 2009-2011 budget. It is anticipated that the Racing Commission will continue to experience growth in business through the licensing of account deposit wagering companies as they expand their revenue and with the addition of licensing new companies in the coming biennium. The Racing Commission will continue to work on enhancing its image both within the state and nationally to stimulate growth of horse racing and horse production within the State of North Dakota.

Agency: North Dakota Racing Commission
 Program: 100 Horse Racing Administration
 Reporting Level: 00-670-100-00-00-00-00000000

1 Object/Revenue		2 2007-09 Biennium Expenditures	3 2009-11 Biennium Appropriation	4 2011-13 Payroll from Subschedule	5 2011-13 Base Budget Changes	6 2011-13 Base Budget Request	7 2011-13 Optional Budget Changes
Description	Code						
EXPENDITURES							
Salaries - Permanent	511000	207,363	101,698	219,168	0	219,168	0
Temporary Salaries	513000	0	105,842	19,080	0	19,080	0
Overtime	514000	2,757	819	0	0	0	0
Fringe Benefits	516000	65,991	42,000	79,061	0	79,061	0
Travel	521000	29,170	22,900	0	2,553	25,453	0
Supply/Material-Professional	532000	70	52	0	(52)	0	0
Miscellaneous Supplies	535000	664	0	0	0	0	0
Office Supplies	536000	7,781	3,000	0	0	3,000	0
Postage	541000	691	500	0	0	500	0
Printing	542000	843	1,600	0	0	1,600	0
IT Equip Under \$5,000	551000	956	1,200	0	1,000	2,200	0
Office Equip & Furn Supplies	553000	3,904	8,645	0	(8,645)	0	0
Insurance	571000	547	700	0	0	700	0
Rentals/Leases - Bldg/Land	582000	16,860	17,911	0	(1,215)	16,696	0
Repairs	591000	387	1,718	0	(240)	1,478	0
IT - Data Processing	601000	6,273	7,000	0	0	7,000	0
IT - Communications	602000	4,149	4,800	0	0	4,800	0
Professional Development	611000	13,635	10,252	0	2,748	13,000	(9,031)
Operating Fees and Services	621000	19,656	18,000	0	0	18,000	0
Fees - Professional Services	623000	38,758	51,363	0	(32,058)	19,305	0
Racing Commission	70	420,455	400,000	317,309	(35,909)	431,041	(9,031)
EXPENDITURE TOTALS		420,455	400,000	317,309	(35,909)	431,041	(9,031)
MEANS OF FUNDING							
State General Fund	001	120,674	295,000	317,309	(60,909)	301,041	(9,031)
General Fund	GEN	120,674	295,000	317,309	(60,909)	301,041	(9,031)
Racing Breeders Fund 278	278	82,966	0	0	0	0	0
Racing Purse Fund 290	290	82,966	0	0	0	0	0
Horse Racing Operating Funds 334	334	37,180	105,000	0	25,000	130,000	0
Horse Promotion Fund 339	339	96,669	0	0	0	0	0
Special Funds	SPEC	299,781	105,000	0	25,000	130,000	0
TOTAL FUNDING		420,455	400,000	317,309	(35,909)	431,041	(9,031)
AUTHORIZED EMPLOYEES							
FTE		2.00	2.00	1.00	0.00	1.00	0.00
Vacant		0.00	0.00	1.00	0.00	1.00	0.00
TOTAL AUTHORIZED EMPLOYEES		2.00	2.00	2.00	0.00	2.00	0.00

House Bill 1024
ND Racing Commission – Budget No. 670
Winston E. Satran, Director
January 10, 2011

62nd Legislative Assembly
House Appropriations Committee
Government Operations Division
Representative Blair Thoreson, Chairman

Report on Racing Commission General Fund Tax Revenue

Total Handle for 2010 was \$70,673,886. General Fund revenue was \$52,462.

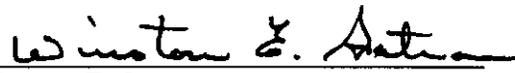
Projected revenue for 2011 is \$130,000,000 with an increase in handle for 2012.
Projected General Fund revenue is \$238,675 for the biennium.

Report on Current Special Fund Totals

Promotion Fund	\$148,251.37
Purse Fund	\$170,314.68
Breeders' Fund	\$716,498.85
Horse Racing Operating Fund	\$ 73,458.75

Maximum total handle was reached in 2002

January through December 2008: **\$214,149,128.00**


Winston E. Satran
Director ND Racing Commission

House Bill 1024

**House Appropriations Committee Hearing
Government Operations Division**

ND Racing Commission – Budget No. 670

Director Winston E. Satran's Testimony

Monday, January 24, 2011

4 Attachments: hard copies of information presented by Flip Charts.

2011 Estimated Revenue

Avatar Ventures	\$ 36 million
Lien Games Racing	\$ 30 million
Source One Technologies	\$ 30 million
European Wagering Services (formerly Watch & Wager)	\$ 30 million
BAM-in-a Box	\$ 11 million
Megatote	<u> ?</u>
Silks Corporation	<u> ?</u>
MTPBets Limited – New Licensee	<u> ?</u>
New Applicants Pending: RaceBook Inc.	<u> ?</u>
Global-Wagering Inc.	<u> ?</u>
Total	\$ 137 million

Revenue projections based on limited estimates:

General Fund	\$ 85,625
Purse Fund	\$ 85,625
Breeders' Fund	\$ 85,625
Promotion Fund	<u>\$ 85,625</u>
Total	\$ 342,500

Tax for General Fund & Racing Funds

Funds raised **per million dollars:**

1/16	General Fund	\$ 625.00
1/16	Purse Fund	\$ 625.00
1/16	Breeders Fund	\$ 625.00
1/16	Promotion Fund	<u>\$ 625.00</u>
	Total	\$ 2,500.00

Revenue Projections from Advance Deposit Wagering (ADW) Companies

	<u>Wagered per Year</u>	
	<u>ADWs' Projection</u>	<u>NDRC's Projection</u>
Avatar Ventures.....	\$60 to \$108 million	\$ 36 million
Lien Games Racing.....	\$52 million	\$ 41 million
European Wagering (Watch & Wager)	\$47 million	\$ 30 million
Source One Technologies	\$ 26.4 million	\$ 30 million
Megatote.....	?	?
Silks Corporation	?	?
MTPBets Limited	?	?
New applicant pending – RaceBook..	?	?
New applicant pending – Global-Wag .	?	?
Total	\$185.4 million or \$233.4 million	\$137 million

	<u>Revenue Projections</u>		
	<u>ADWs</u>	<u>NDRC</u>	
Avatar Ventures	\$ 60 million	\$ 112,500	Fund Taxes
	\$ 108 million	\$ 202,500	\$ 256,875
Lien Games Racing	\$ 52 million	\$ 97,500	Breakage
European Wagering	\$ 47 million	\$ 88,125	\$ 324,800
Source One Tech.	\$ 26 million	\$ 48,750	Total
			\$ 581,675

Total based on:
 Lower Avartar est. \$ 346,875
 Higher Avatar est. \$ 436,875

Taxes plus breakage:
 Lower Avatar est. \$ 671,675
 Higher Avatar est. \$ 761,675

HB 1024
Feb. 18, 2011
Attachment 1

Thoreson, Blair

From: Satran, Winston E.
Sent: Wednesday, February 16, 2011 5:03 PM
To: Thoreson, Blair
Subject: Horse Racing 2011

Dear Representative Thoreson,

The ND Racing Commission met on February 15 and reviewed the Purse and Promotion Fund requests from Horse Race North Dakota and Chippewa Downs in Belcourt. After significant discussion and analyzing the current financial resources, it was determined that the Commission did not have sufficient funds to conduct racing in Fargo during 2011.

The question came up after the 2010 race meet in Belcourt, "why Belcourt and why not Fargo?" There are several contributing factors that I would like to relate as to why the choice was again made to have racing in Belcourt in 2011 and not in Fargo.

1. Horse Race North Dakota has been paying off debt from the 2009 race season which has left them without any reserves to contribute to the success of a race meet. They are making payments on the loan that they secured to pay off the debt and are also paying the fixed costs of owning the property, insurance, taxes, and utilities.
2. The cost of racing per weekend in Fargo is \$95,000 which pays for the operations and purses. The Racing Commission presently has \$152,106 in the Promotion Fund and \$173,096 in the Purse Fund which will fund a portion of two weekends of racing.
3. Horse racing in Belcourt is less expensive due to the contribution of volunteers and Tribal Government support. The Racing Commission dollars allocated to Belcourt allow more weekends of racing. This allows North Dakota horsemen more of an opportunity to race their horses and earn breed fund points. This increases the potential to earn additional income from racing, breeding, and raising horses.

It is the goal of the Racing Commission to re-establish racing in Fargo and we are working diligently on licensing and establishing account deposit wagering companies so that additional dollars will be available for the support of racing. We appreciate your understanding while we work through this period of restructuring of the funding mechanism for support of horse racing in North Dakota. If you have questions I would gladly respond to your inquiries.

Winston E. Satran
Director of Racing
328-4290

HB 1024
Feb. 18, 2011
Attachment 2

Thoreson, Blair

From: Satran, Winston E.
Sent: Thursday, February 17, 2011 9:41 AM
To: Thoreson, Blair

Follow Up Flag: Follow up
Flag Status: Flagged

Dear Representative Thoreson:

As you have probably received my email concerning the decision not to have horse racing in Fargo this summer I would like to further follow-up with an explanation to you. In the appropriations hearing I told you that I was optimistic about racing in Fargo this summer. At that time we were in the process of recovering funds from two letters of credit from the Susan Bala era for non-payment of taxes. Those two letters of credit totaled \$500,000 and this money was deposited in the General Fund at the time they were recalled.

When I appeared before your committee we were in the process of working with the Attorney General's staff on the disposition of these funds and they had just concluded that the funds should have been transferred into the Racing Commission three funds. As we continued to research the taxation law that affected these funds we found that a significant portion was due to the General Fund. So \$320,000 remained in the General Fund and \$180,000 dollars will be transferred to the three racing funds some time in the near future. The amount for racing gets further diluted because one third of the funds is deposited into the Breed Fund and cannot be used for racing purposes.

My optimism when I appeared before your committee was soon deflated with the reality of the 2003 tax code. I wanted to give you this further explanation so that you did not think that I was not totally up front about my statement of being optimistic about racing in Fargo in 2011.

We will continue to work hard on the recruitment and licensing of Account Deposit Wagering companies so that we can secure a stable racing future through the taxation of their wagering activity. If you have any further questions I would be glad to speak with you. If you wish to contact me the Racing Commission office telephone number is 328-4633 or just email me.

Sincerely,

Winston E. Satran
Director

House Bill 1024
ND Racing Commission – Budget No. 670
Winston E. Satran, Director
March 17, 2011
8:30 a.m.

62nd Legislative Assembly
Senate Appropriations Committee Hearing
Harvest Room, State Capitol
Senator Ray Holmberg, Chairman

The North Dakota Racing Commission during the 2009-2011 biennium experienced a number of challenges. The first major challenge was to create financial sustainability which would allow continued horse racing and production of horses within the State. This concern was raised in the 2010 State Auditor's Report. The passage of House Bill 1551, enacted on July 1, 2009, crafted an environment which stimulated growth in the account deposit wagering activity which generated additional revenue for the State General Fund, the Promotion, Purse, Breed and Horse Racing Operating Funds. This legislation reduced the taxes paid to North Dakota and to the Racing Commission, thus making it more attractive to conduct business through a North Dakota Racing Commission license. Since this legislation was enacted reducing taxes, it has stimulated the renewal of two account deposit wagering licenses and has added seven new companies. The total wagering handle for 2010 was \$70,673,886. The projected handle for 2011 is \$130,000,000 based on the 2010 history and the addition of the newly licensed companies. The legislative action of lowering taxes allowed the ND Racing Commission license to be financially competitive with the State of Oregon. Oregon licenses account deposit wagering companies with the largest handle in the U.S. Oregon also has an attractive tax rate which creates extensive revenue for the state and horse racing.

Further adjustments have been made to attract account deposit wagering through the revision of the ND Racing Commission Administrative Rules. The administrative rule changes are being processed at the present time with the expectation that they will be completed in April of 2011. These rule changes will provide more accountability, oversight, and a reduction of risk for the State of North Dakota, the charities, and the account deposit wagering companies.

Administratively, the Racing Commission has responded to accountability concerns. The 2010 State Auditor's Report indicated that a Fraud Risk Assessment policy had not been created since recommended in the 2008 State Auditor's Report. Responding to this recommendation, a Fraud Risk Assessment policy was prepared and submitted to the State Auditor's staff on September 7, 2010. The Racing Commission also responded to the recommendations concerning the accountability of funds received in the office. A new procedure was implemented that ensures that more than one person reviews and accounts for all cash receipts.

The Racing Commission appeared before the Emergency Commission on June 18, 2010, to request removal of the \$30,000 spending limit on Horse Racing Operating Funds. We also requested an additional \$75,000 from the Horse Racing Operating Funds to be used for the operation of the Racing Commission. An increase in work activity was a direct result of account deposit wagering companies responding to the new tax law, thus creating additional revenue for the State of North Dakota and the Racing Commission.

The 2011-2013 budget is a program based budget which is a one line item budget. I have included the anticipated expenditures which were presented to the Office of Management and Budget. The Salaries and Temporary Salaries

based on a full-time Director, an Administrative Staff Officer, and one temporary employee who was hired to assist the Racing Commission in meeting the demands of the additional work load. The current Director works under an agreement with the Racing Commission and is considered a full-time temporary employee. In the future, the Racing Commission has to have the ability to employ a full-time Director when it is necessary. The Special Funds administered by the Commission under continuing authority are the Promotion, Purse, Breed, and Horse Racing Operating Funds. The Racing Commission is requesting the authority to increase the spending limit of the Horse Racing Operating Funds from \$30,000 to \$130,000. These funds are derived from the assessment of licensing fees for live racing and all aspects of licensing of simulcast and account deposit wagering. The funds are used to supplement the operation of the Racing Commission office.

With the increase in the Special Funds, the Racing Commission budget request was \$431,041 for the operating of the Racing Commission, an increase of \$31,041 over the 2009-2011 budget. The Executive Budget recommendation was greater than the Racing Commission request and an additional \$16,460 was added by the Governor's budget package for state employee compensation, which brings the total budget request to \$447,501. The House of Representatives approved this budget increase. It is anticipated that the Racing Commission will continue to experience growth in business through the licensing of account deposit wagering companies as they expand their revenue and with the addition of licensing new companies in the coming biennium. The Racing Commission will continue to work on enhancing its image both within the state and nationally to stimulate growth of horse racing and horse production within the State of North Dakota.

1 Object/Revenue		2 2007-09 Biennium Expenditures	3 2009-11 Biennium Appropriation	4 2011-13 Payroll from Subschedule	5 2011-13 Base Budget Changes	6 2011-13 Base Budget Request	7 2011-13 Optional Budget Changes
Description	Code						
EXPENDITURES							
Salaries - Permanent	511000	207,363	101,698	219,168	0	219,168	0
Temporary Salaries	513000	0	105,842	19,080	0	19,080	0
Overtime	514000	2,757	819	0	0	0	0
Fringe Benefits	516000	65,991	42,000	79,061	0	79,061	0
Travel	521000	29,170	22,900	0	2,553	25,453	0
Supply/Material-Professional	532000	70	52	0	(52)	0	0
Miscellaneous Supplies	535000	664	0	0	0	0	0
Office Supplies	536000	7,781	3,000	0	0	3,000	0
Postage	541000	691	500	0	0	500	0
Printing	542000	843	1,600	0	0	1,600	0
IT Equip Under \$5,000	551000	956	1,200	0	1,000	2,200	0
Office Equip & Furn Supplies	553000	3,904	8,645	0	(8,645)	0	0
Insurance	571000	547	700	0	0	700	0
Rentals/Leases - Bldg/Land	582000	16,860	17,911	0	(1,215)	16,696	0
Repairs	591000	387	1,718	0	(240)	1,478	0
IT - Data Processing	601000	6,273	7,000	0	0	7,000	0
IT - Communications	602000	4,149	4,800	0	0	4,800	0
Professional Development	611000	13,635	10,252	0	2,748	13,000	(9,031)
Operating Fees and Services	621000	19,656	18,000	0	0	18,000	0
Fees - Professional Services	623000	38,758	51,363	0	(32,058)	19,305	0
Racing Commission	70	420,455	400,000	317,309	(35,909)	431,041	(9,031)
EXPENDITURE TOTALS		420,455	400,000	317,309	(35,909)	431,041	(9,031)
MEANS OF FUNDING							
State General Fund	001	120,674	295,000	317,309	(60,909)	301,041	(9,031)
General Fund	GEN	120,674	295,000	317,309	(60,909)	301,041	(9,031)
Racing Breeders Fund 278	278	82,966	0	0	0	0	0
Racing Purse Fund 290	290	82,966	0	0	0	0	0
Horse Racing Operating Funds 334	334	37,180	105,000	0	25,000	130,000	0
Horse Promotion Fund 339	339	96,669	0	0	0	0	0
Special Funds	SPEC	299,781	105,000	0	25,000	130,000	0
TOTAL FUNDING		420,455	400,000	317,309	(35,909)	431,041	(9,031)
AUTHORIZED EMPLOYEES							
FTE		2.00	2.00	1.00	0.00	1.00	0.00
Vacant		0.00	0.00	1.00	0.00	1.00	0.00
TOTAL AUTHORIZED EMPLOYEES		2.00	2.00	2.00	0.00	2.00	0.00

House Bill 1024
ND Racing Commission – Budget No. 670
Winston E. Satran, Director
March 16, 2011

62nd Legislative Assembly
Senate Appropriations Committee
Senator Ray Holmberg, Chairman

Report on Racing Commission General Fund Tax Revenue

Total Handle for 2010 was \$70,673,886. General Fund revenue was \$52,462.

Projected revenue for 2011 is \$130,000,000 with an increase in handle for 2012.
Projected General Fund revenue is \$238,675 for the biennium.

Report on Current Special Fund Totals

Promotion Fund	\$159,467
Purse Fund	\$198,540
Breeders' Fund	\$650,563
Horse Racing Operating Fund	\$ 70,147

Maximum total handle was reached in 2002

January through December 2002: **\$214,149,128.00**

Winston E. Satran
Winston E. Satran
Director ND Racing Commission