

FISCAL NOTE
Requested by Legislative Council
04/03/2017

Amendment to: SB 2221

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2015-2017 Biennium		2017-2019 Biennium		2019-2021 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$1,127,250	\$2,373,675	\$2,125,000	\$4,237,500
Expenditures				\$285,000		\$595,500
Appropriations				\$285,000		\$595,500

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2015-2017 Biennium	2017-2019 Biennium	2019-2021 Biennium
Counties		\$563,625	\$1,062,500
Cities		\$563,625	\$1,062,500
School Districts			
Townships			

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

Authorizes pari-mutuel wagering on historic horse racing to be regulated by the Racing Commission and provides a tax on wagering remitted to the State, County, City, Commission administered continuing appropriation funds, and the Compulsive Gambling Prevention and Treatment Fund.

B. Fiscal impact sections: *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

NDCC 53-06.2-04, 53-06.2-05, 53-06.2-10.1, 53-06.2-10.2:

These sections of the measure provide for legal parameters under which pari-mutuel historic horse racing may be conducted and that the Racing Commission shall license and regulate entities conducting this wagering pursuant to the existing certificate system and charitable gaming requirements. Further, the Commission must insure conformance of the historic racing terminals with the specifications described therein. By engaging in these regulatory activities the Commission will incur the attendant expenditures of implementing industry best practices, oversight of daily operations, and enforcement. As the North Dakota Racing Commission has not conducted pari-mutuel historic horse racing previously, anticipated expenditures have been assessed by referring to the Wyoming Pari-Mutuel Commission budgets over the last three biennia as Wyoming approved pari-mutuel historic racing in 2013 and are the state conducting such wagering most roughly analogous to North Dakota in population, racing industry development and racing commission size. Further detail is provided in section three of this fiscal note.

Amendment provides for a \$25 maximum per wager.

NDCC 53-06.2-11:

This section of the measure provides for a tax on pari-mutuel historic horse racing to be remitted to the State, county and city of location as well as the three continuing appropriation funds administered by the Racing Commission (Promotion, Purse, and Breeders' Funds). For the same reasons stated previously, anticipated revenue was assessed by reference to published yearly total wagering on pari-mutuel historic racing reported by the Wyoming Pari-Mutuel Commission.

Amendment provides for an additional .25% tax on wagering remitted to the Compulsive Gambling Prevention and Treatment Fund.

Second Amendment provides for an increase in the tax rate remitted to the General Fund from .25% to .5%.

3. State fiscal effect detail: *For information shown under state fiscal effect in 1A, please:*

A. Revenues: *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

Utilizing yearly pari-mutuel historic racing wagering estimates slightly lower than those published by the Wyoming Pari-Mutuel Commission, total wagering for each calendar year was estimated as provided below. Anticipated tax dollars to the State, county, city, and Racing Commission continuing appropriation funds were estimated by applying the tax rates provided by the changes proposed to NDCC 53-06.2-11 to these estimated wagering amounts.

2017: \$450,000
2018: \$100,000,000
2019: \$250,000,000
2020: \$200,000,000
2021: \$200,000,000

After the third year which correlates to Wyoming's 2015 year, the last year for which we have Wyoming actuals, wagering was estimated approximately \$86 million below 2015 Wyoming actuals to insure more conservative forecasting.

Additional dollars are expected to be generated to the Racing Commission's Horse Racing Operating Fund (Fund 334) through a license fee imposed on the operators of the simulcast and historic racing sites. Wyoming currently imposes a daily fee on each site of \$400. Until such time as the Commission would pass administrative rules the license fee cannot be definitively identified nor can it be determined if a flat rate or a graduated rate will be used. However, for estimating purposes a rate of \$300 has been used for the first biennium and a rate of \$200 for the second. This rate should compensate for the possible application of a graduated rate and be sufficiently conservative so as not to overestimate revenues based on a flat rate.

Again using a conservative approach based on Wyoming actual days of operations, one site is anticipated to operate 26 days in 2017, four sites averaging 300 days of operation in 2018, seven sites averaging 300 days of operation in 2019, nine sites averaging 300 days of operation in 2020, and ten sites averaging 300 days of operation in 2021. Wyoming by comparison has 14 locations after four years of operation, some operating 365 days a year.

Anticipated revenue to the Horse Racing Operating Fund for the 2017-19 biennium is \$682,800 and \$1,050,000 in the 2019-21 biennium. As provided in 3B & C, this revenue is anticipated to be the primary source of funding for additional Commission regulatory operations.

The same method of calculation was used in revision of revenues based on the amendment to include an additional .25% tax on wagering remitted to the Compulsive Gambling Prevention and Treatment Fund. Results in additional revenue to Special Funds of \$563,625 in the 2017-19 biennium and \$1,062,500 in the 2019-21 biennium.

No substantive reduction in revenues is anticipated as a result of the amendment to cap any single wager at \$25 due to the already relatively small average single wager value.

Revenues to the General Fund have been doubled as a result of the Second Amendment providing for an increase in the tax rate remitted to the General Fund from .25% to .5%.

B. Expenditures: *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

The expenditures from "Other Funds" are based on estimates of cost to the Commission of regulating this new activity. It is anticipated that these expenditures will come from the Commission's Horse Racing Operating Fund (Fund 334) from which it currently derives a portion of its budget funding and will be supported by pari-mutuel historic horse racing licensing fees as provided previously.

Again, estimates were based on the Wyoming Pari-Mutuel Commission budget as the entity is a similar size and has somewhat similar live racing in the state. Therefore, an attempt was made to identify costs associated with regulation of pari-mutuel historic racing that are not otherwise provided for in the Commission's executive budget. Estimated costs for the 2017-19 biennium include approximately \$250,000 in contractual services for auditing, operational reviews, investigations, and inspections, \$20,000 in in-state travel for location inspections, and \$15,000 in other operation expenses. Estimated costs for the 2019-21 biennium also include approximately \$250,000 in contractual services, \$20,000 in in-state travel, and \$63,000 in other operation expenses. The 2019-21 estimated costs also contain an additional \$250,000 for the possible addition of two FTE positions with benefits based on Wyoming's addition of two employees in the second biennium. While the need for positions can be better identified after operations begin in the 2017-19 biennium, possible positions based on discussions with Wyoming include auditor, investigator, and administrative staff.

Please note that this line item does not account for any additional grants from the three continuing appropriation funds administered for the benefit of racing in the State by the Racing Commission (Promotion, Purse, and Breeders' Funds). With increased revenues to these funds the Commission would almost certainly make larger grants than currently available to support an increased quality and quantity of North Dakota racing. However, as no grant requests are pending and grants are assessed based on the merits of each and the funding available, additional contributions to the racing industry from these funds cannot be assessed at this time.

No additional expenditures are anticipated as a result of the amendment to include an additional .25% tax on wagering remitted to the Compulsive Gambling Prevention and Treatment Fund and impose a \$25 per wager limitation.

No additional expenditures are anticipated as a result of the Second Amendment providing for an increase in the tax rate remitted to the General Fund from .25% to .5%.

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

The appropriation amount from "Other Funds" represents the spending authority from the Horse Racing Operating Fund (Fund 334) that the Commission would request in order to offset the anticipated expenditures for regulation of this activity and identified in the "Other Funds" expenditures line. As discussed in previous sections, it is anticipated that the expenditures from this fund would be funded by daily site licensing fees paid by the operators of pari-mutuel historic horse racing.

No additional appropriations are anticipated as a result of the amendment to include an additional .25% tax on wagering remitted to the Compulsive Gambling Prevention and Treatment Fund and imposing a \$25 per wager

limitation.

No additional appropriations are anticipated as a result of the Second Amendment providing for an increase in the tax rate remitted to the General Fund from .25% to .5%.

Name: Gunner laCour

Agency: Racing Commission

Telephone: 701-328-4290

Date Prepared: 04/03/2017

FISCAL NOTE
Requested by Legislative Council
02/15/2017

Amendment to: SB 2221

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

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Name: Gunner laCour

Agency: Racing Commission

Telephone: 701-328-4290

Date Prepared: 02/15/2017

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01/13/2017

Bill/Resolution No.: SB 2221

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Name: Gunner laCour

Agency: Racing Commission

Telephone: 701-328-4290

Date Prepared: 01/18/2017

2017 SENATE JUDICIARY

SB 2221

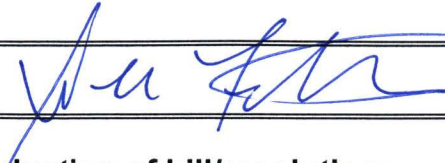
2017 SENATE STANDING COMMITTEE MINUTES

Judiciary Committee
Fort Lincoln Room, State Capitol

SB 2221
1/31/2017
27664

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

Relating to historic horse race wagering; relating to the regulation of historic horse racing.

Minutes: Testimony attached #

1,2,3,4

Chairman Larson called the committee to order on SB 2221. All committee members were present.

Chairman Armstrong is testifying so **Senator Larson** is acting chair.

Senator Armstrong, introduced and testified in support of the bill. (see attachment 1)

Kevin Hall, Lean Games Racing, testified in support of the bill. No written testimony. Kevin Hall discussed his background and how he began working with the horse track to help the facility operate more, as well as increase the happiness of families when they come to the race track.

“One way to try to expand that business was to expand the profit. We started looking at other jurisdictions that were increasing profit and how we could adapt to what they were doing. Historic horse racing allows handicapping; it allows the ability to handicap quicker. It really has expanded from before and now we can wager on live and future races, as well as historic races.”

Kevin Hall also went over the different types of betting and laws that happens with wagering on horse racings.

Patrick Neily, Exacta Systems, testified in support of the bill. (see attachment 2) He briefly described his background.

“Historic horse racing was born in Arkansas at Oakland Park. Oakland Park was experiencing a declining amount of patrons who were visiting. They were losing customers to out of state casinos. So they asked themselves how they can modernize a product that’s been around for the last 75 to 100 years? So they came up with the idea of historic horse racing. The idea is that you wager on a horse race that has already happened. The concept is the same as before. It’s pari-mutuel and it’s still the same as regular horse racing. It really helped expand the business. People like it and people came back to play.”

Senator Luick: "Can you go through the process of how you do this historic wagering?"

Patrick Neily: "We have a database of 90,000 real-life horse races that have already happened in the past. As a patron approaches one of our wagering terminals and puts their money in, they are presented with three races. The identifying information has been removed. So you don't know when the race happened. We give you a race number 1-10. If you look at the lower left hand portion of the handout you will see what your screen would look like. (see attachment 2) And you try to pick how the race will end up. The person betting uses the handicap information to best make his or her decision. After you bet, a digital representation of the races themselves are shown on the machine. It's just like live horse racing, but on a machine. What you win or lose is determined about how accurate you were on your bet. Who you picked for first, second, third, etc."

Senator Myrdal: "Is it clearer than we see on the picture and are the jockey's hidden?" (see attachment 2)

Patrick Neily: "Yes, and you don't see a picture of the horse's or jockeys until after you pick your bet. There is no way you can know ahead of time on who the racer is."

Senator Armstrong: "What's your average pay out and average bet?"

Patrick Neily: "Roughly 40 cents for bet. Average pay out is based on the pari-mutuel pool. It's hard to give an average."

Senator Luick: "The state of North Dakota gets taxed out of this, how does that work?"

Patrick Neily: "It's taxed on the handle which is every dollar that is wagered."

Chairman Larson: "How is the bet placed?"

Patrick Neily: "Only cash wagers."

Senator Luick: "You're hoping to have 10 sites, are they public? Or how does that work?"

Patrick Neily: "The legislation requires that it has to be at the same site as simulcast horse racing is."

Jim Ozban, Chair of North Dakota Racing Commission, testified in support of the bill. No written testimony.

"We support this bill. The commission spent two hours this morning discussing this bill and how it will impact North Dakota and the racing industry. After the discussion, the commission voted unanimously to support it."

Gunner LaCour, Director of North Dakota Racing Commission, testified in support of the bill. (see attachment 3,4) He went over the graphs on attachment 3, which he explained is how this bill will actually increase revenue to the state.

"The racing commission in 2016 provided 1.4 million dollars in direct economic-impact to the state of North Dakota as well as 2.8 million in secondary economic-impact for a total of

4.2 million dollars of impact to the state economy. They estimate, based on those numbers, that for every one dollar that the racing commission has appropriated, we return six to the state economy.”

Lay Backhaus, representing himself from New Salem, testified in support of the bill. No written testimony.

“I’m the largest breeder of horses in North Dakota and Minnesota. I love the sport of horse racing. The money is better in Minnesota so I have to go over there more, but with something like this, if we can pass this, then I wouldn’t have to do that.”

Law Backhaus described the difference of breeder funds in North Dakota compared to Minnesota and why he thinks North Dakota should adopt this bill.

Senator Osland: “How are the Canterbury tracks running in Minnesota?”

Lay Backhaus: “About \$10,000 dollar bottoms. The race industry across the nation is tough. They are competing with other things.”

Mike Schmidt, General Manager of North Dakota Horse Park, testified in support of the bill. No written testimony.

“I just want to say that we are for this bill. As a student of racing, you just can’t overlook the funds that will come from this. It’s a great thing and allows us to expand and provide jobs for others in the industry.”

Gunner LaCour came back to the podium to answer a question.

Senator Luick: “How do you help gambling addicts?”

Gunner LaCour: “Any type of gaming has the potential for that. We have it a priority to work with social services over the last few years to proactively go out and address gambling. We have provided literature at our race tracks, we provide locations on our website where you can access information about gambling and if you have a problem with it. We’re doing our best to address the issue and I think if we had any additional funding we would be able to be more proactive than we currently are.”

Chairman Larson closed the hearing on SB 2221.

No motions were made.

2017 SENATE STANDING COMMITTEE MINUTES

Judiciary Committee
Fort Lincoln Room, State Capitol

SB 2221 Committee Work
2/1/2017
27718

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

Relating to historic horse race wagering; relating to the regulation of historic horse racing.

Minutes: **No written testimony**

Chairman Armstrong began the discussion on SB 2221. All committee members were present.

Chairman Armstrong: "The reason I got behind this and support this is because if we are going to have horse racing in North Dakota and we are going to be doing these things, then keeping up with how the technology is moving forward is essential."

Senator Myrdal motioned Do Pass and rerefer to Appropriations. **Senator Osland** seconded.

Discussion followed:

Senator Larson: "I just want to say for the record that I will vote no for this. I always vote no for bills that add to the expansion of gambling in North Dakota."

Senator Luick: "I feel the same way. I have no qualm about the procedure here or anything else. It's just that there are too many things in the state right now that are diminishing character and morals and I guess I just wanted to say that I can't vote for this."

Senator Myrdal: "I respect what the two senators said. If there wasn't any gambling currently in North Dakota, I'd agree with the senators about voting no on this bill."

A Roll Call Vote was taken. Yea: 4 Nay: 2 Absent: 0.
The motion carried.

Senator Myrdal carried the bill.

Chairman Armstrong closed the discussion on SB 2221.

2017 SENATE STANDING COMMITTEE MINUTES

Judiciary Committee
Fort Lincoln Room, State Capitol

SB 2221 Re-referred
2/15/2017
28384

- Subcommittee
 Conference Committee

Committee Clerk Signature

Explanation or reason for introduction of bill/resolution:

Relating to historic horse race wagering; relating to the regulation of historic horse racing.

Minutes:

Attachments

1

Chairman Armstrong began the discussion on SB 2221. All committee members were present.

Chairman Armstrong explained why the bill was re-referred to Judiciary.

"The reason was because the Appropriations committee started getting a bunch of emails from charitable gaming facilities before they voted 8-6 Do Not Pass on the bill. It is interesting that they are turning down money, but that is the case and so it was referred back to us to clean it up. So I asked Levi Andrist from Lean Games to bring an Amendment for this bill."

Levi Andrist, Lobbyist for Lean Games LLC, explained the Amendment that was passed out. (see attachment 1)

Senator Myrdal: "Is this the same cliental that would do charity and wager on historic horse racing? That seems like different cliental to me."

Levi Andrist: "Yeah, kind of. Let me clarify that exactly. Under the bill to allow for historic horse racing, you already have to have a license to operate a Simulcast facility. The only way to operate a Simulcast facility, is if you are a licensed charity by the racing commission. Essentially, the people operating these facilities have to be charities to begin with."

Senator Larson: "Is 25 dollars the maximum wage even though you can bet on 3 different races at once?"

Levi Andrist: "Yes."

Senator Myrdal: "I just want to say I'm so sick of everything being called a disease. Gambling to me is a choice you make; you're not hooked on it chemically in your body, to me it's not a disease. I felt the concerns that came into Appropriations were not related to these

things. I thought it was more of the money part of other institutions and other non-profits that felt threatened about not getting their money. Is there something I'm missing?"

Levi Andrist: "The visible concern that committee members in Appropriations received were the emails from charitable gaming. However, after the advocates worked with individual members it was really more than that."

Senator Myrdal: "What's the max betting in North Dakota casino betting?"

Chairman Armstrong: "For table games, charitable gaming is 25 dollars."

Levi Andrist: "We think this makes the bill stronger and we think it will address the Appropriations concern as well."

Senator Luick: "Did Appropriations suggest something like this and how to fix it?"

Levi Andrist: "It wasn't that direct, they had a hearing where Gunner provided some background to this."

Senator Osland: "We made a big deal a couple weeks ago from changing compulsive gambling to gambling disorder, so how can we talk compulsive gambling?"

Chairman Armstrong: "It's the name of fund."

Senator Myrdal motioned to reconsider. **Senator Larson** seconded.

A Roll Call Vote was taken. Yea: 6 Nay: 0 Absent: 0.
The motion carried.

Senator Myrdal motioned to Adopt the Amendment. **Senator Larson** seconded.

A Roll Call Vote was taken. Yea: 6 Nay: 0 Absent: 0.
The motion carried.

Senator Myrdal motioned Do Pass as Amended and refer to Appropriations. **Senator Luick** seconded.

Discussion followed:

Senator Larson: "I think the Amendment makes it better but I'm still going to vote no. I always vote against gambling."

A Roll Call Vote was taken. Yea: 5 Nay: 1 Absent: 0.
The motion carried.

Senator Myrdal carried the bill.

Chairman Armstrong ended the discussion on SB 2221.

February 15, 2017

PROPOSED AMENDMENTS TO SENATE BILL NO. 2221

Page 1, line 2, after "sections" insert "50-06-22,"

Page 1, line 4, after "to" insert "the compulsive gambling prevention and treatment fund and"

Page 1, after line 6, insert:

"SECTION 1. AMENDMENT. Section 50-06-22 of the North Dakota Century Code is amended and reenacted as follows:

50-06-22. Compulsive gambling prevention and treatment fund - Continuing appropriation.

Funds deposited in the compulsive gambling prevention and treatment fund ~~under section 53-12.1-09~~ are appropriated to the department on a continuing basis for the purpose of providing the services under section 50-06-21."

Page 8, line 30, remove the second "and"

Page 8, line 31, after "wager" insert "; and

i. No single wager exceeds twenty-five dollars"

Page 11, after line 18, insert:

"(5) One-fourth of one percent to be deposited in the compulsive gambling prevention and treatment fund under 50-06-22."

Re-number accordingly

**2017 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2221**

Senate Judiciary _____ Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Senator Myrdal _____ Seconded By Senator Osland _____

Senators	Yes	No	Senators	Yes	No
Chairman Armstrong	X		Senator Osland	X	
Vice-Chair Larson		X			
Senator Luick		X			
Senator Myrdal	X				
Senator Nelson	X				

Total (Yes) 4 _____ No 2 _____

Absent 0 _____

Floor Assignment Senator Myrdal _____

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

**2017 SENATE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. SB 2221**

Senate Judiciary Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Senator Myrdal Seconded By Senator Larson

Senators	Yes	No	Senators	Yes	No
Chairman Armstrong	X		Senator Nelson	X	
Vice-Chair Larson	X				
Senator Luick	X				
Senator Myrdal	X				
Senator Osland	X				

Total (Yes) 6 No 0

Absent 0

Floor Assignment _____

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

**2017 SENATE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. SB 2221**

Senate Judiciary Committee

Subcommittee

Amendment LC# or Description: 17.0670.02001

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Senator Myrdal Seconded By Senator Larson

Senators	Yes	No	Senators	Yes	No
Chairman Armstrong	X		Senator Nelson	X	
Vice-Chair Larson	X				
Senator Luick	X				
Senator Myrdal	X				
Senator Osland	X				

Total (Yes) 6 No 0

Absent 0

Floor Assignment _____

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

**2017 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2221**

Senate Judiciary Committee

Subcommittee

Amendment LC# or Description: 17.0670.02001

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Senator Myrdal Seconded By Senator Luick

Senators	Yes	No	Senators	Yes	No
Chairman Armstrong	X		Senator Nelson	X	
Vice-Chair Larson		X			
Senator Luick	X				
Senator Myrdal	X				
Senator Osland	X				

Total (Yes) 5 No 1

Absent 0

Floor Assignment Senator Myrdal

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

REPORT OF STANDING COMMITTEE

SB 2221: Judiciary Committee (Sen. Armstrong, Chairman) recommends DO PASS and BE REREFERRED to the Appropriations Committee (4 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). SB 2221 was rereferred to the Appropriations Committee.

REPORT OF STANDING COMMITTEE

SB 2221: Judiciary Committee (Sen. Armstrong, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (5 YEAS, 1 NAYS, 0 ABSENT AND NOT VOTING). SB 2221 was placed on the Sixth order on the calendar.

Page 1, line 2, after "sections" insert "50-06-22,"

Page 1, line 4, after "to" insert "the compulsive gambling prevention and treatment fund and"

Page 1, after line 6, insert:

"SECTION 1. AMENDMENT. Section 50-06-22 of the North Dakota Century Code is amended and reenacted as follows:

50-06-22. Compulsive gambling prevention and treatment fund - Continuing appropriation.

Funds deposited in the compulsive gambling prevention and treatment fund ~~under section 53-12.1-09~~ are appropriated to the department on a continuing basis for the purpose of providing the services under section 50-06-21."

Page 8, line 30, remove the second "and"

Page 8, line 31, after "wager" insert "; and

i. No single wager exceeds twenty-five dollars"

Page 11, after line 18, insert:

"(5) One-fourth of one percent to be deposited in the compulsive gambling prevention and treatment fund under 50-06-22."

Renumber accordingly

2017 SENATE APPROPRIATIONS

SB 2221

2017 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

SB 2221
2/8/2017
JOB # 28034

- Subcommittee
 Conference Committee

Committee Clerk Signature

Eva Liebelt for Alesia Deizer

Explanation or reason for introduction of bill/resolution:

A BILL relating to historic horse race wagering; and relating to the regulation of historic horse racing.

Minutes:

1. Gunner laCour Testimony

Chairman Holmberg: Called the Committee to order on SB 2221 at 9:30 am. All committee members were present. Becky Deichert, OMB and Levi Kinnischtzke, Legislative Council were also present.

Kelly Armstrong, District 36, Dickinson: Introduced the bill. We already allow pari-mutuel horse racing this just allows for a bank of ninety thousand races that have been passed. The odds are the same but the tracks and all identifying information is taken out of it and it allows for a different kind of betting. It limits it to 10 sites in North Dakota currently there are only 5 sites that do pari-mutuel. It's simply an evolution on how we deal about with horse racing in North Dakota. If we are going to have a horse racing commission and horse racing, we should evolve and do the things they are doing across the country and we might as well make a little money at it. (:16-1:17)

Jim Osbun, Chairman of the ND Racing Commission: Testified in favor of SB 2221. We have reviewed 2221 and we believe it would be good for the horse industry and good for ND. We voted unanimously in favor of this bill.

Gunner laCour, Director ND Racing Commission: Testified in favor of SB 2221 and provided written Testimony attached # 1. What they came up with when they looked at the total, was that North Dakota could potentially benefit from 1.8 million dollars in taxes and licensing fees in the first biennium with 3.1 million in the following biennium. Again, based on Wyoming's growth year over year. It's not just the racing industry that benefits under this bill, the tax structure sets it up so that the state as well of the political subdivisions also benefit for the state and the political subdivisions each, we believe there is about a half a million in potential revenue generation in the first biennium and over a million in the following biennium. The real benefit here, based again at looking at Wyoming, that we can do this without cost to the general fund. Wyoming has established a reasonable licensing fee from each site they have in the site. When I did this fiscal note I did set it up to show revenue generated from

licensing fees essentially coming into our special fund that we already utilize for other licensing fees. We believe it will offset the costs. We think we have created a good foundation but with any industry diversity is necessary and we think this will give us another way to bolster what we have done in the state to further build live racing that historic horse racing complements our account deposit wagering activity that online gaming that cost the majority of our taxes. In addition, we talked about the economic impact, the preliminary report showed the racing commission would bring 4.2 million dollars of economic impact to the state in 2016 alone. We believe the revenues generated by this will create a proportionate increase in our economic activity in the state. We would continue to use those dollars to support live racing more. Overall the commission sees this as revenue generation for both the industry and the state. (2:47-9:05)

Senator Robinson: The racing agenda is somewhat special and yet it seems to me that there has to be a limited number of charitable gaming dollars in the state. Can we impact that fund one way or another? Probably. Are there any other concerns expressed from other charitable gaming operations in North Dakota about this particular venture?

Director laCour: We have spoken with Dan McDaniels briefly and I know others have spoken with the organization that oversees the charitable gaming organizations. Our rules require that the charity be involved with this activity as well. But we discussed this and we actually believe that some of the charities can continue to benefit from this activity, potentially having groups come into the locations where historic racing might be happening and having one charity that does the traditional charitable gaming side that is monitored by attorney general while the horse park operates the historic horse racing part. You wouldn't just be taking a terminal and putting it into a single bar or something like that. I don't think there would be this concern. I did hear expressed what we discussed about coming in and overriding someone who is already in an existing location. We are looking at this as a complement to anybody who wants to participate and work together with any charitable gaming that is already happening.

Senator Robinson: Some would argue, you are looking at increased revenue to some this would constitute, given the increased revenue from this package an expansion of gaming. How do you respond to that?

Director laCour: Pari-mutual wagering has been going on for years and is legal in North Dakota. Again these are just new methods of doing the same underlying concept which is pari-mutual on horse racing. We now have future wagers on horse racing that has been a development in the last 5-10 years. We see it as a just and development on the same essential product.

Senator Oehlke: So these races were already run in the past. You don't know what it is but you are betting on them. That was confirmed. How long ago were they run, last year, ten or twenty years ago?

Director laCour: I don't know the exact time frame. It would be within the last decade or so.

Senator Oehlke: If this is done in other states all over the place apparently, I don't know much about horse racing but if you win a race like this it would probably beat a dead horse.

Senator Erbele: These other states, do you see an increase in the gambling addictions and does any of the money go towards services like that?

Director laCour: I have not heard that there has been any kind of increase in gambling addiction. We contribute the amounts that we have to Lutheran Social Services Gamblers Choice Program. There was only one instance last year with an individual who came in with the racing issue. We want to be proactive in our approach, we know it is there. We have gamblers service addictions on our website, we have invited Lutheran services to come to our track to be onsite, they have used money that we have given to them to generate advertising throughout the state. We have done a good job of being proactive on that front.

Senator Wanzek: I am struggling with the historic race. How do you prevent someone from recollecting how the race turned out?

Director laCour: The race that you are shown is stripped of all identifying information on the race. So when you get data on the race, you will not be able to go back into what that race was. You get metrics on win percentage but never an identified horse, the jockey, the trainer, it would be practically impossible. They told me they have not had an instance and I have not heard an instance where somebody has been able to do this. Now after your finished, the races are run, you are privy to all that information. You can go back and check that you are not being cheated.

Chairman Holmberg: Anyone else testifying on 2221? We will close the hearing on 2221.

2017 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

SB 2221
2/13/2017
JOB # 28276

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A DO NOT PASS on Historic Horse racing and wagering.

Minutes:

No testimony.

Chairman Holmberg: called the Committee to order on SB 2221. All committee members were present. Sheila M. Sandness, Legislative Council and Becky Deichert, OMB were also present.

Senator Robinson: moved a Do Pass. 2nd by Senator Oehlke.

Senator Oehlke asked for someone to explain the slot machines and expresses concerns regarding local non-profits having to compete against this.

Chairman Holmberg: There were 5 sites. This authorizes 10 sites.

Don Larson To go to your question, there are currently 5 off-track betting sites. There is no limit on the number of off-track betting sites. This bill would limit that to 10 sites total and in the bill it says that machines can be put in places that are off-track betting facilities. With the limit on the number of locations and it only going to places where they are already doing off-track betting. This isn't something that we're asking to be put into facilities where they're already doing all sorts of charitable gaming at other bars throughout the state.

Senator Grabinger: If you go to a site where they allow wagering on horse races now in ND, they may have a race from Assiniboine Downs in Minnesota, or whatever, and you're allowed to bet on that race. All this does is essentially the same thing except you don't know where the race is happening and at what time.

Mr. Larson: That's not quite correct. These races that would be used in these machines are races that happened in the past so you do not have that identifying information on when and where it took place. You get some information, enough to give you some level of knowledge of the odds of the horses in the race and then you make your bets placed on that and then once the race is finished, once the machine has told you who the winners are, then it will tell you where the race took place and when. (0.05.20)

V. Chairman Krebsbach: Where are the five sites that are established? Can you give me an example of one, where they are and what town and what facility?

Mr. Larson: Lucky's in Bismarck has off-tract betting.

Chairman Holmberg: Call the roll on a motion to Do Pass on SB 2221.

A Roll Call vote was taken. Yea: 6; Nay: 8; Absent: 0.

Chairman Holmberg: That has failed. Can we have another motion?

Senator Dever: moved a do not pass. 2nd by Senator Robinson.

Chairman Holmberg: Call the roll on Do Not Pass on 2221.

A Roll Call vote was taken. Yea: 8; Nay: 6; Absent:0. Senator Dever will carry the bill.

The hearing was closed on SB 2221.

**2017 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2221**

Senate Appropriations Committee

Subcommittee

Amendment LC# or Description: _____

- Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Senator Robinson. Seconded By Senator Oehlke

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	X		Senator Mathern	X	
Vice Chair Krebsbach	X		Senator Grabinger	X	
Vice Chair Bowman		X	Senator Robinson		X
Senator Erbele		X			
Senator Wanzek	X				
Senator Kilzer	X				
Senator Lee		X			
Senator Dever		X			
Senator Sorvaag		X			
Senator Oehlke		X			
Senator Hogue		X			

Total (Yes) 6 No 8

Absent 0

Floor Assignment _____

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

Failed

**2017 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2221**

Senate Appropriations Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Senator Dever Seconded By Senator Robinson

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg		X	Senator Mathern		X
Vice Chair Krebsbach		X	Senator Grabinger		X
Vice Chair Bowman	X		Senator Robinson	X	
Senator Erbele	X				
Senator Wanzek		X			
Senator Kilzer		X			
Senator Lee	X				
Senator Dever	X				
Senator Sorvaag	X				
Senator Oehlke	X				
Senator Hogue	X				

Total (Yes) 8 No 6

Absent 0

Floor Assignment Senator Dever

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

2017 HOUSE JUDICIARY

SB 2221

2017 HOUSE STANDING COMMITTEE MINUTES

Judiciary Committee
Prairie Room, State Capitol

SB 2221
3/15/2017
29244

- Subcommittee
 Conference Committee

Committee Clerk Signature

Donna Whetham

Explanation or reason for introduction of bill/resolution:

Relating to historic horse race wagering; relating to the compulsive gambling prevention and treatment fund and the regulation of historic horse racing.

Minutes:

Attachments 1-8.

Chairman K. Koppelman: Opened the hearing on SB 2221.

Senator Armstrong, District 36: Introduced the bill SB 2221. Went over the gambling procedure. This would be just an electronic gambling on horse racing. This provides a new revenue stream. (See Attachment #1). (2:20-4:17).

Levi Andrist, Lobbyist for Lien Games Racing LLC: Introducing Kevin Hall of Lien Games Racing LLC.

Kevin Hall, President of Gaming: In support of SB 2221. Discussed Charitable gaming. We have always thought that charitable gaming is a unique partnership between the state, public, charitable interest and private enterprise. We entered into charitable pari-mutuel gaming in 2004 as a separate entity, Lien Games Racing, really at the behest of the charities that we were supplying games to. (See Attachment #2). (5:06-17:00)

Representative Klemin: Would you give us a description of how this works?

Kevin Hall: The next presenter will go specifically through that.

Representative Klemin: On these terminals that display these historical horse races; it is a sporting event?

Kevin Hall: I will have to defer on that particular question.

Representative Hanson: Why do you think it is necessary to limit this to only 10 locations?

Kevin Hall: It is the approach to try to do this responsibly. If you look at the current locations, we have 5. We had interest to expand without this product. We sat down with the bill sponsors and we decided to do this in a responsible way that allowed some room to have some additional sites and additional charities partake in it. So that is why we went to ten locations.

Representative Vetter: The \$500,000 bond to operate. That will cut out the small charities is that correct?

Kevin Hall: The bill for the \$500,000 bond is really a partnership between the state the charities and the private enterprise. That responsibility is of the simulcast operator, the private enterprise, they are the source that provides the equipment and is responsible for all the funding and taxes and therefore is bonded. There is no requirement for the charities that are the site operators so that would not preclude any charity.

Representative Vetter: Is there a licensing fee that would go along with these charities?

Kevin Hall: This license is already in place on an annual basis, the initial is \$1000 and the renewal is around \$150-\$200 a year.

Representative Klemin: What is the role of your company in this whole process?

Kevin Hall: We are considered a simulcast operator. We communicate with 350 tracks to pool all these wagered bets. If you compare it to charitable gaming much like a gaming distributor who provides the pull tabs and products.

Representative Klemin: Would those products include this terminal and whatever else is associated with operating a terminal?

Kevin Hall: Yes we would be providing that live and we would also be providing this product, all the bonding and all tools they need so the charities can do what they do extremely well. They hire and manage the personnel and manage the location. They are not in the capitol business of having all these funds for this equipment. That is our responsibility.

Representative Klemin: What are your fees are for doing this service?

Kevin Hall: We have two fee structures for charities. One is a split percentage of the wagering the net proceeds and the cover all the labor and video costs and we cover the administrative costs or we have a model the advanced deposit wagering where there is a large capital commitment to put up a web site a do all the marketing costs, in that case we bear all costs and we give a piece of every wager to the charity as if you will a profit. In this model we see pari-mutuel with historic racing following the model you see with the advanced deposit wagering where the simulcast operator would bear all the costs; like bonding and give a percentage to the charities.

Representative Klemin: What is the percentage and is that fixed?

Kevin Hall: We establish a rate across the board, it is negotiated. They are all the same. The rate is one quarter of 1 percent of the wager.

Representative Nelson: I see under Lien Games you have a lot of websites. It looks like I could just sign up and bet on horses right now. Is that correct?

Kevin Hall: What is currently legal under the law today is live simulcasting and in 2007 the legislature approved law for what is called advanced deposit wagering. It is an online wagering product. Due to the level of regulation it has what has provided the minimal level of support to keep the tracks running today.

Vice Chairman Karls: You are saying there will be ten locations; how many machines will each location be allowed?

Kevin Hall: That will be established administratively through the racing commission. It is more what the market is, is there enough people to use the machines or not. There is no perceived notion of how many we would have. We can look to other states to give us some guidance of how many machines. We will look at other states like Wyoming.

Vice Chairman Karls: Is this a free standing building or a gas station on the corner?

Kevin Hall: I envision it as a bingo hall. Not in gas stations. How large would be based on the market.

Representative Klemin: What other states currently handles these?

Kevin Hall: We operate only in the state of ND and we just got licensed in the Virgin Islands. Exacta who has the equipment I believe is operating in Kentucky, Wyoming and there is a competitive product that has been legalized in Arkansas and Oregon.

Representative Klemin: What is the name of that competitive product?

Kevin Hall: Parabet, they are also in Wyoming.

Representative Jones: On the bond, it says the service provider posting the bond, which one is the service provider?

Kevin Hall: It would be the simulcast operator which would be Lien Games or any of those licensed simulcast operators. There is currently 13 in the state. Each one today has \$100,000 bond to perform advanced deposit wagering this would be an incremental \$500,000 bond.

Representative Jones: So your company would have only one \$500,000 bond for all 10 facilities if you were the service provider for them all.

Kevin Hall: Yes, it is really modeled after other jurisdictions and is looked at by what the anticipated monthly taxes the state would be due.

Representative Jones: I may have to declare a conflict to this because my uncle trains horses at the Wyoming downs and I am involved in this. I would say it has been a good thing in Wyoming.

Representative Hanson: You mentioned Parabet is a competitive product would they be an eligible organization to participate in North Dakota under this bill?

Kevin Hall: Parabet is actually owned by Amtote and long as they would get approved, and get their product approved through the racing commission I don't see any reason why they wouldn't.

Representative Hanson: This would be regulated and licensed by the Horse Racing commission and other gaming is regulated by the gaming division of the Attorney General's office, why not have that same organization regulate this?

Kevin Hall: That was the case since 1989 to 2005 the race commission was a division of the gaming division and legislature took action to make it a separate agency and staff itself. It has a 5 member board that is appointed by the Governor and has a race commissioner and one other full time person. The primary reason for this Pari-mutuel and horse racing has some differences that are not the same as games of chance. They still work together, all the background testing goes through the Attorney General's office and they provide the legal services.

Lacee Anderson, Exacta Systems: Introduced Patrick Neely, Exacta Systems in support of 2221.

Patrick Neely, Exacta Systems: (See Attachment #3 and #4) In support of SB of 2221. Went through how the actual betting works. It is an industry driven product and a modernization of what we are all familiar with and it has saved the racing industry, it has been a massive success in Wyoming and Kentucky and we feel it would be a success in North Dakota as well. We ask for your support on SB 2221. (36:00-46:01)

Vice Chairman Karls: The use of these types of instant racing machines has been found illegal in some states because the mimic slot machines? Slot machines are illegal in our state.

Patrick Neely: What was found illegal specifically in Wyoming was our competitor. They were called Race Tech. It operated in a different manner than ours. The fundamental element of a slot machine is a random number generator, that determines whether you win or lose when you hit the spin button. Another element is that you are wagering against the house, not against your fellow players. Our competitor had a product that skirted the line on both of those issues. The Wyoming Attorney General looked at their system and ours and determined theirs was more akin to a slot machine because it had a random number generator that helped determine the outcome of the wager. We do not have a random number generator. If you pick the winners, you will win. Ours is not a slot machine. They had to remove the random number generator and get licensed. Paramax is the name of the other competitor.

Chairman K. Koppelman: Are your machines legal in Wyoming now?

Patrick Neely: Yes they are and always have been.

Vice Chairman Karls: What are the odds that the Fargo Horse Parks Races will be part of your machines? Won't these be races in big cities and other states?

Patrick Neely: We have a database of nearly 90,000 races. These are run all over the country and I don't know if the Fargo Horse Park is in our database or not. We have certain requirements to be in our database.

Representative Klemin: Is this considered a sporting event?

Patrick Neely: That is a tricky question. No these are not sporting events; they are horse races which are legal under most state and federal jurisdictions. (50:46)

Representative Klemin: What is the role of Exacta?

Patrick Neely: We make the software that operates the terminals and the tote system which is the hardware and software that pools all the wagers. We don't make the terminal's themselves.

Representative Klemin: Kevin said they enter into a contract with a charity and they get a .25% of the wager? What do you get? So you get a piece of the wager too?

Patrick Neely: It is all subject to negotiation. Typically, we get a percentage of the takeout. In a pari-mutuel environment the operator takes a commission, a percentage of everything that has been wagered and we get a much smaller percentage of whatever the operator takes out.

Representative Klemin: What percentage is it? Give us an example?

Patrick Neely: We are contracts and under a confidentiality clause from which we are prohibited from disclosing. I could talk to my general counsel and get an answer that doesn't violate our agreements with our customers.

Representative Hanson: If a person didn't feel like identifying which what the outcome is to place their bet could they do a random let the system decide?

Patrick Neely: No it is not random. You are presented with the horses and you have to decide. You can use the wagering public for that decision.

Representative Hanson: Do you get a payout or can you continue to reinvest your pay out?

Patrick Neely: You can do either one. It is up to the player.

Representative Nelson: How do they work with these machines?

Patrick Neely: It is called a carry over, it is a pool with a carryover, and it is sped up every few seconds as opposed to waiting until tomorrow like you would at a race track.

Representative Jones: On page 6 of the bill it talks about a licensee shall receive the bets and for each bet a certificate will be issued, and in the underlined language a certificate may not be issued for a wager on a historic horse race. What is that about?

Patrick Neely: Under your current law if you are placing a wager on a live or simulcast there is a requirement for the operator to give you a physical ticket. You are not given a ticket on a historic horse race, we don't print anything out and it is printed on the screen, so that was meant to address that requirement.

Representative Jones: But there is method for a person to keep track of the bets he has made.

Patrick Neely: There is. Every wager is on the screen and is logged on the tote; and easily verifiable if there is a dispute.

Representative Jones: On the breakage it says it will be calculated in accordance with the statutes and rules of the host state, which is North Dakota. Who governs that then because we are going interstate and international with this I understand?

Patrick Neely: There will not be wagering interstate or international. It will be only in North Dakota. Breakage for those of you who don't know, wagers when they pay off sometimes they are a fraction of a cent and they get rounded down typically and the remainder of the percentage goes to the state.

Chairman K. Koppelman: The problem is that when you look at what you folks do; it says it would be great for the industry? I am still struggling with when something is looking like a slot machine; and in a couple of minutes some horses cross the screen, how does that help the horse industry?

Patrick Neely: This was developed by racing industry people. The idea is we want to locate this at facilities in Kentucky or simulcast facilities. We want to provide horse players with the mechanism to wager on horse racing in a new way. We want to bring new customers into the horse racing scene. It has been incredible how it has worked in Wyoming and Kentucky. It has allowed us to expand our market. We want the horse racing industry to thrive and we think it would work here.

Chairman K. Koppelman: I can see it at the race track; you are there to see a live race and people are talking and doing other things but having a free standing machine at a facility and not at a track I am having trouble drawing this scenario.

Patrick Neely: In Wyoming these have to be located at a simulcast facility and there is always wagering on horse racing at the place they are. In Wyoming we have been very successful. These are horse players and we are providing them with a new way for them to do it.

Representative Maragos: When you scrub all the information; do you scrub the name of the horse too?

Patrick Neely: Yes, we take the name of the horse, the jockey and track and provide that information to you after you place your bet.

Gunner laCour, Director, North Dakota Racing Commission: In support of SB 2221. (See attachment #5) Went through the testimony. (1:07:20-1:17:50)

Representative Paur: On page 11 you have the wagering? It says the licensee may deduct no more than 25 percent of the amount wagered. Who is the licensee?

Gunner laCour: It is the Simulcast operator when they operate those games. The licensee is just the track and they deduct that 25% as a commission.

Representative Klemin: What happens to the other 75%?

Gunner laCour: It goes back to the better. It doesn't have to be 25%, nationally it is a debate of how much it should be.

Representative Paur: You only have one quarter of 1 % that goes to the state treasurer and ½ of a percent goes to etc. you only have about 2-3% that is determined? What happens to the other 22% of the takeout?

Gunner laCour: There are numerous fees to various horseman groups and other people or states who are providing the signal. Those all go to operating costs. Essentially it goes to operating costs. In the case of these games or tracks they don't actually operate at 22%. Many tracks don't operate at the highest level. They try to cut that down because their betters want to get more back. The gains as far as I have seen operate somewhere in the range of 10-6% because they want to give more to the betters.

Representative Roers Jones: In the case of the historical horse racing; who is the licensee who is collecting the 25% and how is that distributed again?

Gunner laCour: It would be the service provider like Lien Games and it depends on the contractual relationship too because you have to have both. Who is providing what services. If there was a charity providing a service and do that accounting type thing certainly they would be able to do that part of it. Whoever is doing the reporting would likely do that.

Vice Chairman Karls: Is there an age limit on horseracing in North Dakota?

Gunner laCour: Yes it is 18 years old and in some states it is 21.

Representative Klemin: This contract methodology with the charity is one of two ways. The charity provides the manpower to operate this site and then they split the profits or the charity just lends it name to the operation and they get a .25 % percentage. In this context; with the charity lending its name, sounds that is the most common; how is the charities going to be selected for this wind fall?

Gunner laCour: We are talking about two different types of wagering, and in this case we are talking about Lien Games, there are other service providers out there who may have an interest in becoming involved in that. It doesn't mean they will have the same contract. If you are looking at just the simulcast locations that arrangement where they have a little less involvement and receive a cut, is more associated with account deposit wagering because it is easier. There is less personnel activity required. How they get selected they would look at who they wanted to do it. Who they felt comfortable working with and who was capable of doing the work. (1:26:29)/

Representative Klemin: I understand this historic horse racing had to be conducted at a simulcast location?

Gunner laCour: Yes you are correct, however we now we only have five locations.

Representative Klemin: The bill currently provides for ten locations? Why ten?

Gunner laCour: It is in order that these groups can roll this out and the racing commission can roll this out. We need to make sure it is done in a responsible manner and do it right.

Representative Klemin: This bill provides you have to have at least two terminals; how many terminals are at these locations in Wyoming? Do they operate 24/7 365 days?

Gunner laCour: It is in the 25 range to 50-60 range and I know they operate 363 or 364 days? I do not know if it is 24 hours a day.

Chairman K. Koppelman: What is the term advanced deposit wagering?

Gunner laCour: It is referred to as account deposit wagering or ADW and it is the on line form of horse race wagering.

Chairman K. Koppelman: That is not a current practice for the pari-mutuel betting that is going on now?

Gunner laCour: No, that is the primary source of what we use now. Nationally simulcast has seen a major low. The simulcast part of our industry is really hurting. But the online part is much better and have been able to develop that quite a bit.

Chairman K. Koppelman: But it is new language in the bill so why is it part of this legislation? I see an example on page 5 advanced deposit wagering and historic horse race.

Gunner laCour: Page 5 is cleanup language. I think I may have asked for this change. I thought being more specific is better. I want to be clear.

Chairman K. Koppelman: There are five sites currently in North Dakota. What kind of sites are they?

Gunner laCour: Those are locations in like Fargo in Side Street Bar so they are currently co-located with other charitable gaming.

Chairman K. Koppelman: The limit is an interest to me. When we say five does that include the tracks?

Gunner laCour: No the tracks would be separate since they are only operational during the time they run. You can only wager on the races that are in right in front of you. We have 16 days of racing. So there is no simulcast in or out of our tracks.

Chairman K. Koppelman: But I am hearing there would be these devices? Is that the plan?

Gunner laCour: No they would remain at whatever locations were authorized as simulcast locations.

Chairman K. Koppelman: How is this helping the horse racing? That will not be the case in North Dakota then?

Gunner laCour: It would benefit horse racing by developing interest in horse racing. Co-locating with the simulcast facility where people can go and watch live horse racing or participate in historic horse racing builds general interest. When it comes around every year they might like it and go to the live track. The substantive support for the industry comes from these taxes. When I am talking \$1.8 million and \$3.1 million in taxes and licenses this is the life blood of what allows our tracks to run in this state. This money goes directly to support live racing, purses and various horsemen associations. The better the purses the more there is going to be.

Chairman K. Koppelman: I am seeing the fiscal note. You talked earlier about the gambling addiction issue. I assume that this type of gambling can be fairly addictive. Does the fiscal note anything with respect to what the cost could be to the state?

Gunner laCour: In the general sense, when we asked Lutheran Social Services that same question regarding how many people come in to your gamblers choice program and have problems on horse racing and they gave us 1%. There is a possibility that would increase since we don't have as much access to the simulcast locations and we run so few races. They have 3 full time individuals and they are getting around \$800,000 or \$900,000 from the lottery, which is the primary source of revenue right now. This would provide significant increase for that.

Representative Klemin: Have you actually observed them using the terminals in Wyoming?

Gunner laCour: Yes I have observed it, but not in Wyoming.

Representative Klemin: An actual bet can only take seconds because you don't see the whole race so an experienced player wouldn't be spending much time to figure out what horses to be on so would you bet every couple of minutes?

Gunner laCour: Yes, if an experienced person was doing this they could look at the odds.
(1:41:45)

Mike Schmitz, General Manager of the North Dakota Horse Park: In support of this bill. We are the operators of the Race track in Fargo. The horse breeders industry are here in support of the bill.

Representative Jones: What is going on in Wyoming and how it would affect North Dakota?

Mike Schmitz: It is exciting to see what they are doing and some of the horseman have turned to Wyoming. We see this as another opportunity to get involved with a new type of technology based on something that is already there and add that to our charitable gaming that we operate because we are a non-profit organization. This is another way to spread out our operation.

Representative Roers Jones: You would not have historic horse racing on your site currently you would just benefit indirectly from the money coming into the horse racing industry, correct?

Mike Schmitz: Yes, the plan right now is not to have it at our location. There is funds from the taxes that go to the breed, the promotion and the purse fund in our state. It doesn't just help the North Dakota Horse Park it helps all individual in the equine system in North Dakota. Our industry definitely benefits and so do charities, counties and cities.

Chairman K. Koppelman: Others please submit written testimony in support if you will.

Pat Simmers, Team Makers Club: In support of SB 2221 submitted written testimony. (See Attachment #6). 1:47:05

Chairman K. Koppelman: Any opposition to SB 2221?

Bill Kalanek, North Dakota Association for the Disabled: Introducing Don Santer.

Don Santer, CEO North Dakota Association for the Disabled of (See attachment #7)
Went over the testimony. And some needed amendments.
(1:48:00-1:51:50)

Representative Maragos: There are three large bingo halls?

Don Santer: That is because of the lack of interest in the game type, which is why we are here asking for new types of games to support our charities because the bingo hall model is slowly fading away.

Chairman K. Koppelman: Years ago charitable gambling started as a way to fund charities and the state allowed that. Then Native American casinos and the lottery came along. Through that process we have had a message from your arena saying the games used to be profitable aren't any more we need more games. So those of us who are reticent to support the expansion of gambling have struggled with that. The advent of the electronic age and

video games even though the wagering aspect may not be present, people can do things at home that are more exciting if the gambling isn't what you are really after. How do we address that problem effectively or balance this?

Don Santer: We are trying to appeal to the next generation of player. Everything that is out there is video and electronic. What we have been trying to do is create game types that are similar to the way they are done on paper but make them more efficient so it doesn't cost as much to operate them. My concern about this game type; if they are talking about generating just from horse racing \$1 million the first biennium and up to \$3 million the next bienium; where is that money coming from when \$8 million comes from charitable now going towards the state per biennium. Where is it coming from if not charitable gaming dollars that are out there?

Representative Vetter: On your amendments; if you remove the requirement for the pari-mutuel wagering, account deposit wagering, I thought we heard from earlier testimony that would make these machines into slot machines. In Wyoming they are illegal for that reason? Is that correct? Is there another way to fix that problem?

Don Santer: These machines operate based on a model that is similar to pari-mutuel racing. The reason that they wanted account deposit wagering and simulcast is so they could say that this is for horse racing and keep that relevant to horse racing. My argument is that all of those funds being raised for one charity would reduce the income of the 300 plus other charities in North Dakota that may not have the opportunity the way it is currently written to operate this game type.

Representative Vetter: You believe in order for other charities to operate this you would need all three of these things to happen?

Don Santer: I believe we needed to remove that to make sure that a small subsection of organizations from controlling the competition. For my organization to operate this new game type I would have to have account deposit wagering and simulcast. I would have to go through private vendor and get the contract signed before I can even go to the Race Commission and apply for the license.

Chairman K. Koppelman: I suppose we could have a provision that forces them to not discriminate among applicants would be another option. Further testimony in opposition to SB 2221? Any neutral testimony? None

Leigh Backhaus, New Salem: Neutral testimony for SB 2221.

Rae Ann Kelsch, lobbyist for Charitable Gaming Association of North Dakota: In opposition to SB 2221 as it stands. We would like the bill amended. If you would pass this piece of legislation instead of the Horse Racing Commission it should be under the Gaming Commission. I think it should be opened up for all the charities in this state. Suggested amendments. (See attachment #8) Written testimony. 2:00:10-2:03:00.

Chairman K. Koppelman: Any further opposition to SB 2221? Seeing none. Hearing closed.

2017 HOUSE STANDING COMMITTEE MINUTES

Judiciary Committee
Prairie Room, State Capitol

SB 2221
3/20/2017
29467 PM

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

Relating to historic horse race wagering; relating to the compulsive gambling prevention and treatment fund and the regulation of historic horse racing.

Minutes:

1

Chairman K. Koppelman: Opened the meeting on SB 2221.

Do Not Pass Motion Made by Representative Klemin: Seconded by Representative Hanson:

Discussion:

Representative Klemin: The reason I did that because I think this will be a major expansion in ND to have all of these machines at these 10 simulcast sites; there is no limit on the number of machines. It is going to be very detrimental to charitable gaming in ND who is oppose to this. This is going to cut into their profits significantly and they use their funds for charitable purposes that are well established. We are talking about millions of dollars here. There is also the issue of should it be regulated by the racing commission or Attorney General? This bill puts it all in the racing commission hands.

Representative Blum: Will we be able to hear some clarifying information from the charities?

Chairman K. Koppelman: We don't want to hold the bill; if you want to see further information we can do that?

Representative Maragos: I would like Representative Klemin to enlighten us on why the charities think it is going to cost them money?

Representative Paur: They should be under the AG's office gaming department? Maybe we should put it under the AG's office gaming department.

Representative Klemin: I am looking at the testimony submitted by ReAnn Kelsch and she said it would take a lot of money out of charitable gaming.

Rep. Maragos: I am going to resist this motion. Charitable gamers are not rushing to live simulcasting and I think this is a good bill for the horse racing and gaming business.

Representative Magrum: We did hear that this is going to improve the prices for people that raise the horses. That is what is happening in Wyoming. I would have to resist this motion as well.

Chairman K. Koppelman: We had a considerable amount of discussion on this at the hearing. We have had problems with the racing commission in the past, but I think they are doing good work. I cosponsored this bill because it had a limitation, but I do have concerns about no limit on the number of games per site. I am not sure this is historic racing on a screen or not.

Representative Klemin: I would point to the testimony of Don Santer. ND Association for the Disabled. He said SB 2221 as currently worded would have a negative impact on ND charitable gaming. The way it is worded could lead to a situation of exclusivity for a single charity.

Representative Maragos: I would challenge that assertion now. I believe they are just throwing up smoke here. The ND Association for Disabled is in bingo and the horse racing commission doesn't want to get involved in their bingo sites. There is a substantial amount of money that has to be invested to get one of these ten sites up and running. The charities probably don't have the ability to support just the investment.

Rep. Blum: I am going to resist this motion as well. It is really important to note there were CGAND charities that also spoke in support of historic racing.

Chairman K. Koppelman: Went over testimony for the bill.

Vice Chairman Karls: Fiscal note for estimated wagers of historic racing is projected at \$250 million by 2019. Currently ND charitable gaming wagers are approximately \$300 million per year by over 300 charities statewide. Where will the \$250 million come from if not from charitable gaming? There is just so much extra money to go around.

Representative Simons: I don't think this will affect charitable gambling.

Representative Maragos: A lot of those people on live racing betting is historic racing might take a big chunk of that. I stand by my opposition of the do not pass.

Representative Magrum: Couldn't we make an amendment for the charitable gaming get ¼ of 1% as well so they would get a share?

Representative Jones: (#1) Handed this out. I think this is an explanation of what the gambling is about.

Representative Hanson: I am concerned about the vision of having 100 to 150 of these machines in bars etc. I would not want this.

Roll Call Vote: 6 Yes 9 No 0 Absent Failed.

**Do Pass Motion Made by Rep. Maragos; Seconded by Rep. Johnston
To be rerefer to Appropriations**

Discussion:

Rep. Magrum: Is it too late to amend the bill to add charities?

Representative Maragos: I would prefer to send the bill the way it is.

Roll Call Vote: 8 Yes 7 No 0 Absent Carrier: Rep. Maragos

Closed.

**2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB2221**

House **Judiciary** Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Rep. Klemin Seconded By Rep. Hanson

Representatives	Yes	No	Representatives	Yes	No
Chairman K. Koppelman	X		Rep. Hanson	X	
Vice Chairman Karls	X		Rep. Nelson		X
Rep. Blum		X			
Rep. Johnston		X			
Rep. Jones		X			
Rep. Klemin	X				
Rep. Magrum		X			
Rep. Maragos		X			
Rep. Paur	X				
Rep. Roers-Jones		X			
Rep. Satrom	X				
Rep. Simons		X			
Rep. Vetter		X			

0
Total (Yes) 6 No 9

Absent _____

Floor Assignment Rep.

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

Date: 3/20
 Roll Call Vote 2

**2017 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. SB 2221**

House Judiciary Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Rep. Maragos Seconded By Rep. Johnston

Representatives	Yes	No	Representatives	Yes	No
Chairman K. Koppelman		✓	Rep. Hanson		✓
Vice Chairman Karls		✓	Rep. Nelson		✓
Rep. Blum	✓				
Rep. Johnston	✓				
Rep. Jones	✓				
Rep. Klemin		✓			
Rep. Magrum	✓				
Rep. Maragos	✓				
Rep. Paur	✓	✓			
Rep. Roers-Jones	✓				
Rep. Satrom		✓			
Rep. Simons	✓				
Rep. Vetter	✓				

0 Total (Yes) 8 No 7

Absent 0

Floor Assignment Rep. Maragos

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

REPORT OF STANDING COMMITTEE

SB 2221, as engrossed: Judiciary Committee (Rep. K. Koppelman, Chairman) recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (8 YEAS, 7 NAYS, 0 ABSENT AND NOT VOTING). Engrossed SB 2221 was rereferred to the **Appropriations Committee**.

2017 HOUSE APPROPRIATIONS

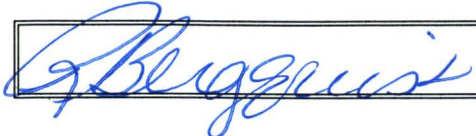
SB 2221

2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

SB 2221
3/23/2017
29653

- Subcommittee
 Conference Committee



Explanation or reason for introduction of bill/resolution:

Relating to the compulsive gambling prevention and treatment fund and the regulation of historic horse racing

Minutes:

Attachment 1

Representative Kim Koppelman, District 13 West Fargo: SB 2221 is known as the historic house racing bill. This is a gambling bill; it deals with an effort by the racing commission to increase interest in the horse racing industry. Some of the money would be dedicated to the breeders. The goal is that it'll help the industry, Wyoming is the example that is showing in the fiscal note although they haven't gone with this. They claim that the fiscal note isn't accurate because it doesn't anticipate what the local Charities will lose. We did give it an 8-7 Do Pass recommendation.

The intent is to limit it to 10 sites, and it would allow them to have these historically horse betting machines. It's based upon the historical races. They could do 300 machines around the state.

Chairman Delzer: Did you get into the taxing issue? Can you forward that to me

Representative K. Koppelman: We did not but I do encourage you to look at that, I can forward that to you. I asked the attorney general's office and the tax department to look at this.

4:50 Chairman Delzer: Did you talk about taxing issues about that little item that got us in position that we have seen in the past?

Representative K. Koppelman: We didn't talk about that at all and I don't know if that would have any paralleled to this other than it was betting on racing.

Chairman Delzer I see a lot of "mays" why this loose?

Representative Nathe: You stated that the charitable groups were against it? I got some charity groups that are in favor of it.

Representative K. Koppelman: We didn't hear from anyone in favor. I know there are some that get some of the proceeds but no one testified in favor of it.

Representative Nathe: I understand some are video and some are not.

Representative K. Koppelman: I didn't think there are any that would be an actual video, but it is based on historic races.

Representative Streyle: They are assuming everyone that plays cards will never play again because they will only bet on the horses.

Chairman Delzer: Did you ask how many sites they have right now?

Representative K. Koppelman: I did ask I don't recall; I believe it's 5.

Representative Streyle: The tax structure is significantly more than the charitable pay right now.

Representative K. Koppelman: Charitable are on a varying scale and this is on a fixed scale so we'd have to work on averages. The numbers that I've heard were about 1.25 and 1.5 that the charities pay.

Chairman Delzer: Does it say how much goes to the breeders and all that?

9:50 Representative K. Koppelman: 1/3 goes to the breeder's fund,

Chairman Delzer: Further questions?

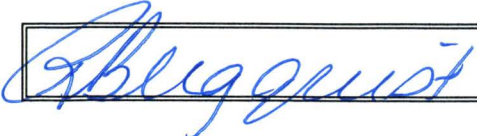
Attachment 1 was emailed after the hearing and added as testimony

2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

SB 2221
3/30/2017
29849

- Subcommittee
 Conference Committee



Explanation or reason for introduction of bill/resolution:

Relating to historic horse race wagering; relating to the compulsive gambling prevention and treatment fund and the regulation of historic horse racing

Minutes:



Chairman Delzer: SB 2221 deals with historical horse racing. One of the things that concerns me is the general fund status out of this. So on page 11 of the bill I would like the committee to consider changing the $\frac{1}{4}$ of 1 percent to the state treasurer to be deposited to the general fund, I want that changed to $\frac{1}{2}$ of 1 percent.

Representative Martinson: I so move the motion to amend $\frac{1}{4}$ to $\frac{1}{2}$ of 1 percent

Representative Streyle: Second

Representative Nathe: What would that increase to the general fund?

Chairman Delzer: Looking at the fiscal note it would increase 2017/19, if it's correct, 1.2 million and 2019/21 to 2 million.

Chairman Delzer: Further discussion?

Voice vote All in Favor, Motion Carries

Representative Streyle: Do Pass as Amended

Representative Martinson: second

Chairman Delzer: Discussion? Some will see it as expansion of game, some of us wont. I am sure it will do good things for the horse racing industry.

Representative Boehning: You are changing that from $\frac{1}{4}$ to $\frac{1}{2}$? Everything else stays the same.

House Appropriations Committee

SB 2221

March 30th 2017

Page 2

A Roll Call vote was taken. Yea: 10 Nay: 9 Absent: 2

Representative Streyle will carry the bill

3/31/17 DA

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2221

Page 11, line 22, replace "One-fourth" with "One-half"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

This amendment increases the percentage of the amount wagered for historic horse racing that is deposited in the general fund from one-fourth of one percent to one-half of one percent.

Date: 3/30/2017
Roll Call Vote #: 1

**2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2221**

House Appropriations Committee

Subcommittee

Amendment LC# or Description: 17. 0670. 0300.3

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
Other Actions: Reconsider _____

Motion Made By Representative Martinson Seconded By Representative Streyle

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer					
Representative Kempenich			Representative Streyle		
Representative: Boehning			Representative Vigesaa		
Representative: Brabandt					
Representative Brandenburg					
Representative Kading			Representative Boe		
Representative Kreidt			Representative Delmore		
Representative Martinson			Representative Holman		
Representative Meier					
Representative Monson					
Representative Nathe					
Representative J. Nelson					
Representative Pollert					
Representative Sanford					
Representative Schatz					
Representative Schmidt					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

Date: 3/30/2017
 Roll Call Vote #: 2

**2017 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. SB 2221**

House Appropriations Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Representative Streyle Seconded By Representative Martinson

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer		X			
Representative Kempenich	X		Representative Streyle	X	
Representative: Boehning	X		Representative Vigesaa		X
Representative: Brabandt	X				
Representative Brandenburg	X				
Representative Kading	A		Representative Boe		X
Representative Kreidt	X		Representative Delmore		X
Representative Martinson	X		Representative Holman		X
Representative Meier		X			
Representative Monson		X			
Representative Nathe	X				
Representative J. Nelson	X				
Representative Pollert		X			
Representative Sanford	X				
Representative Schatz		X			
Representative Schmidt	A				

Total (Yes) 10 No 9

Absent 2

Floor Assignment Representative Streyle

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

REPORT OF STANDING COMMITTEE

SB 2221, as engrossed: Appropriations Committee (Rep. Delzer, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (10 YEAS, 9 NAYS, 2 ABSENT AND NOT VOTING). Engrossed SB 2221 was placed on the Sixth order on the calendar.

Page 11, line 22, replace "One-fourth" with "One-half"

Re-number accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

This amendment increases the percentage of the amount wagered for historic horse racing that is deposited in the general fund from one-fourth of one percent to one-half of one percent.

2017 TESTIMONY

SB 2221

①

11/31/17

SB 2221

2017 NORTH DAKOTA HISTORIC HORSE RACING LEGISLATION

Kelly Armstrong Testimony

• This bill will authorize pari-mutuel wagering on Historic Horse Racing at simulcast wagering facilities in North Dakota.

- The experts present will get into more detail, but essentially:
 - Historic horse racing is a game of skill that utilizes an electronic machine to place bets on races that have occurred in the past.
 - This is done by wiping all identifying information except for statistics and wagers used the day of the race.
 - The individual places a pari-mutuel wager based on this information by personally selecting the horses or by auto betting.
 - A pari-mutuel wager means that the wagers are against all others wagering on that particular race or set of races and are not wagers against the house.
- North Dakota already allows for Off Track Betting of live races at simulcast facilities across the state and this electronic version of a wager is already approved by the Association of Racing Commissioners International.
- The number of simulcast facilities allowed will be limited to ten locations across the state, which is stricter than what is currently allowed for simulcast facilities.
- It also requires an additional \$500K bond to operate, which is in addition to any bond provided to the commission as security for other licensed activity pursuant to the century code.
- Regulation of pari-mutuel wagering on Historic Horse Racing will be conducted by the North Dakota Racing Commission

Perhaps most importantly, this legislation carves out new tax revenue for the state general fund, the county and city where simulcast facility is located, and equine/agriculture programs.

This bill also helps to define the elements of Historic Horse Racing to be wagers based solely on the results of horse races and requires an independent testing laboratory to verify and ensure the integrity and functionality of the wagers.

In sum, this bill allows for an electronic version of wagering that is already occurring in our state and provides new revenue streams while at the same time limiting the number of simulcast facilities available. I encourage you to consider supporting it.

1/31/17

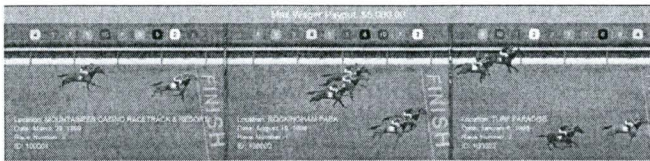
2

SB 2821



Pari-Mutuel Wagering on Horse Racing

The Exacta historic horse racing system operates just like live and simulcast pari-mutuel wagering on horse racing. Exacta Systems pools all wagers, calculates the commission for the racetrack operator, and distributes payouts to the winning patrons. The system is entirely pari-mutuel, as the racetrack operator does not have a stake in the outcome and the net pool is returned to the patrons.

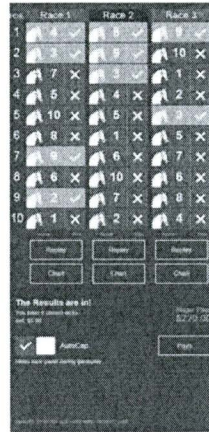


Same Type of Wager Already Approved by Regulators

The Exacta System is an electronic version of a wager already approved by the Association of Racing Commissioners International (ARCI) – the pick (n) position (x).

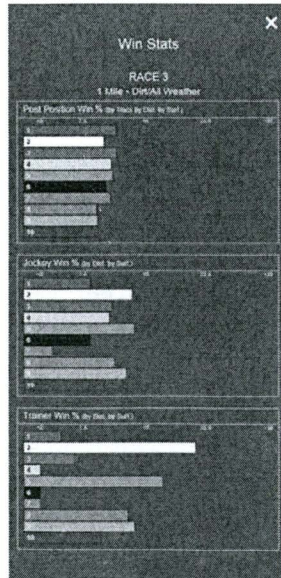
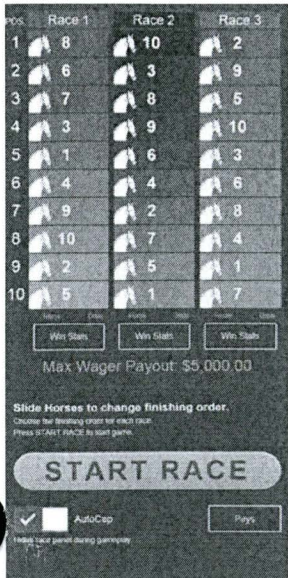
Will-Pay Screen

Just like in traditional wagering on horse racing, patrons can view the will-pay screen before placing a wager, so they know how much they will win for successfully picking the winning horses.



Handicapping and Race Information

The Exacta System allows patrons to evaluate handicapping information for as long as they choose, permitting patrons to dictate their own pace. The patron can evaluate various pieces of handicapping data, and then predict the finishing order in each of three races. Alternatively, the patron can allow the Exacta System to recommend a finishing order that is based on the collective knowledge of those who wagered on the race at the time that it was run.



Results Driven Solely By the Outcome of the Horse Race

The Exacta System does not use a random number generator to determine the outcome of a patron's wager. Patrons win or lose their pari-mutuel wagers based on the final running order of the horses in three races, and how many finishing positions the patrons accurately predict.

Recent Trends in Racing Commission Revenue Generation

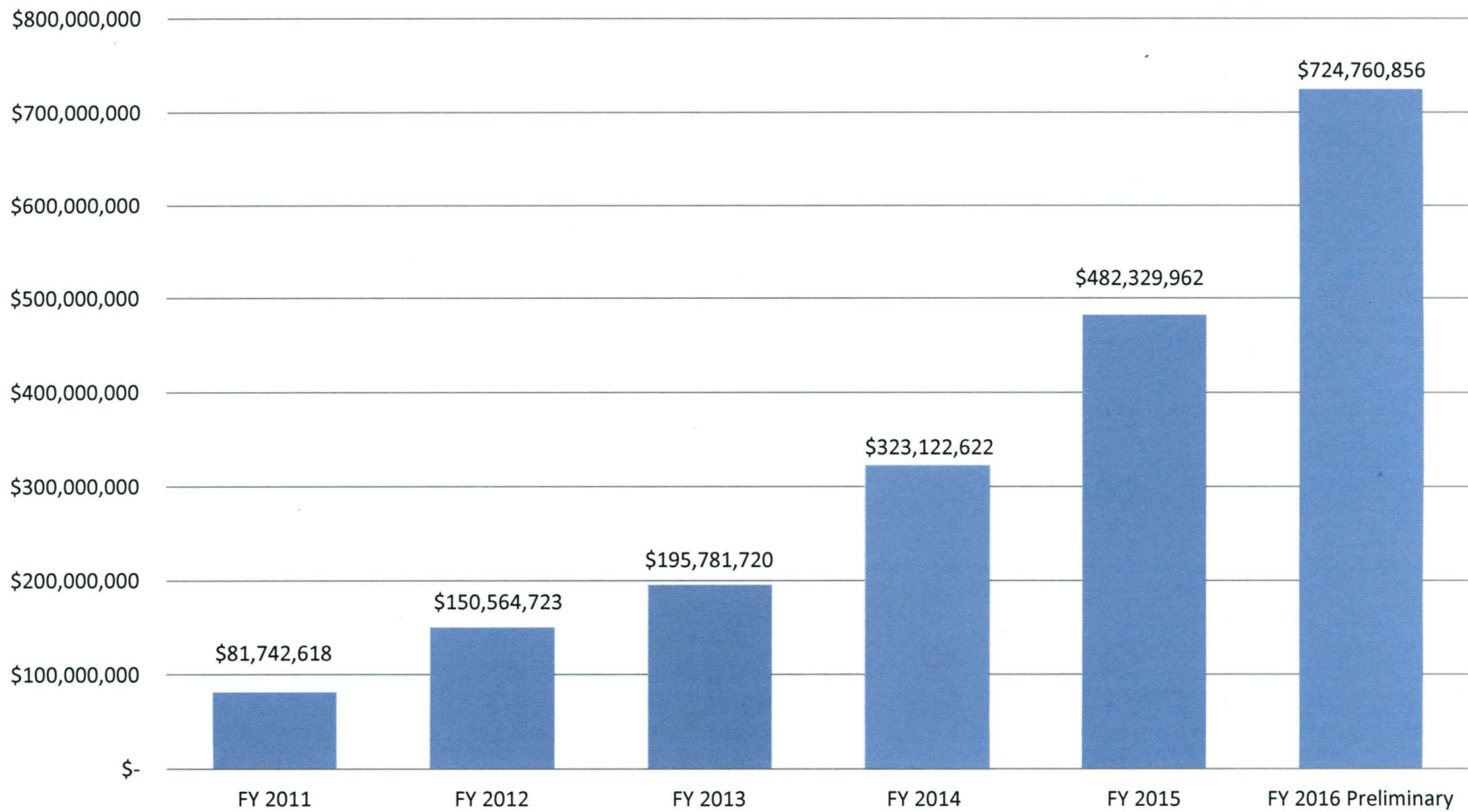
January 2016

3

SB 2221

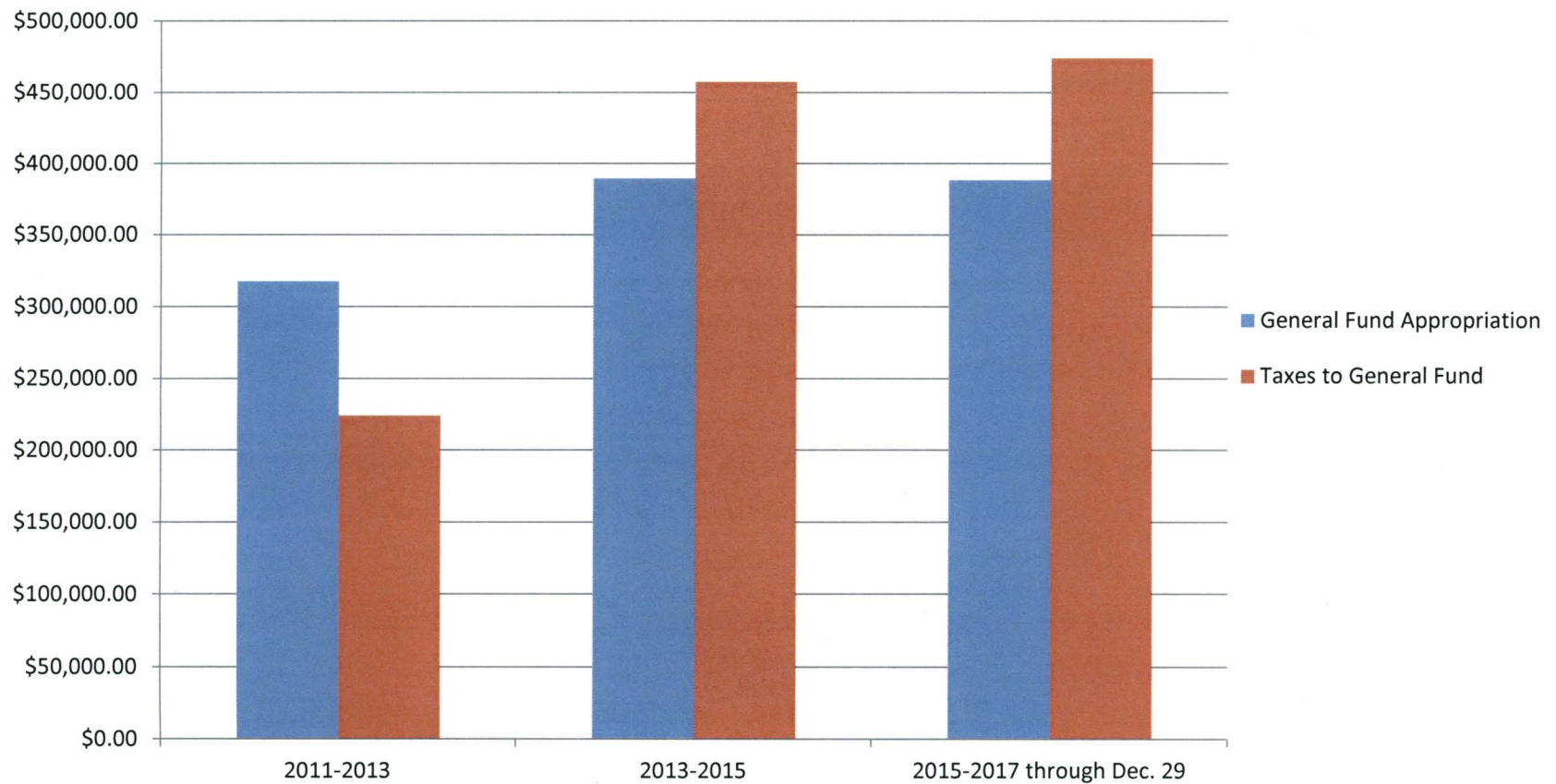
1/30/17

ADW Handle by Fiscal Year



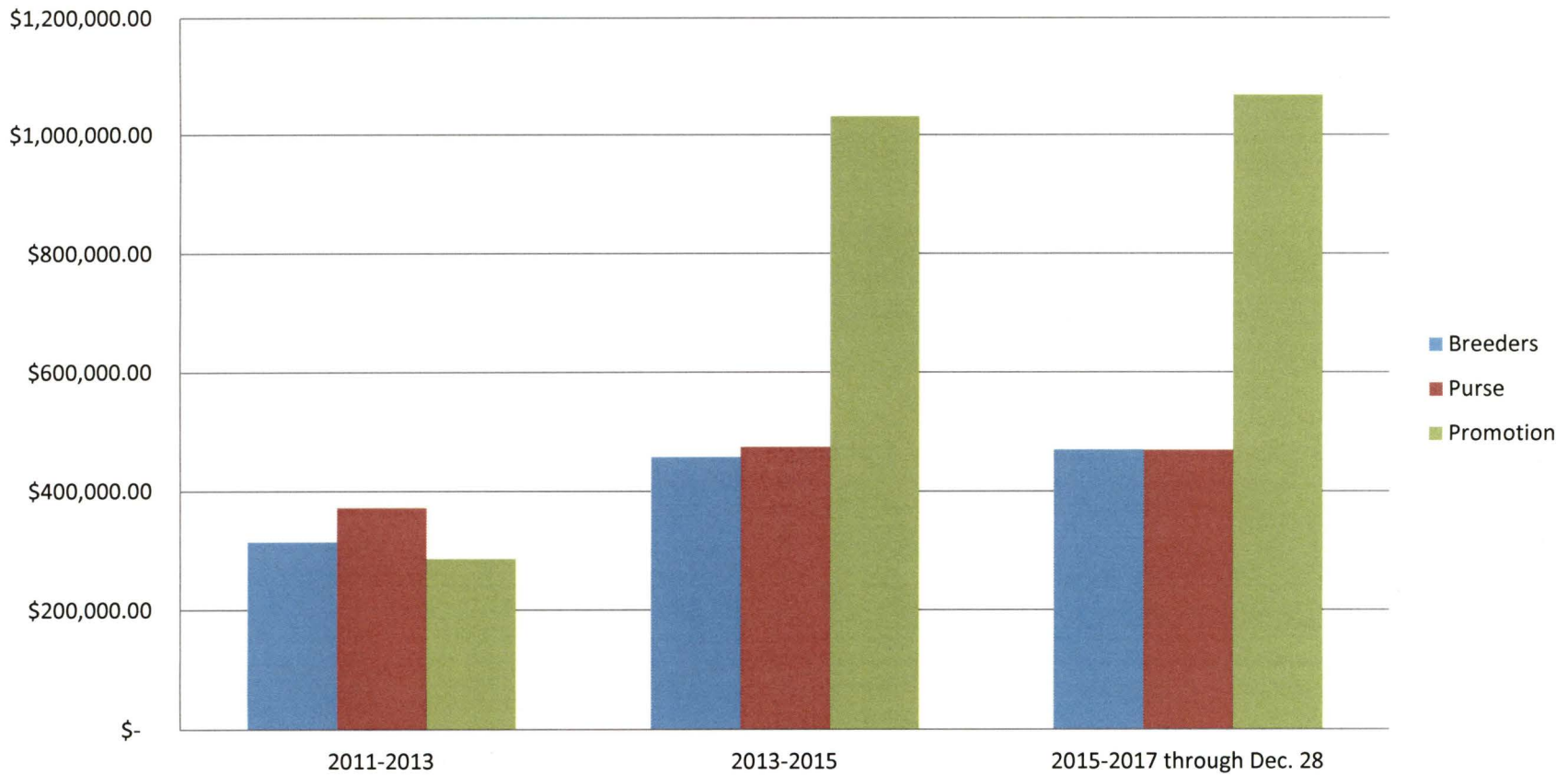
General Fund Appropriation and Revenue

General Fund Appropriation and Revenue



Revenue Generation to Horsemen's Funds

Revenue Generation to Horsemen's Funds



4

SB 2221

④

1/30/17

ECONOMIC CONTRIBUTION OF HORSE RACING TO NORTH DAKOTA IN 2016
(Preliminary)

January 2017

Elvis Ndembe
Nancy M. Hodur
Dean A. Bangsund
Randy Coon

Department of Agribusiness and Applied Economics
and
Center for Social Research
North Dakota State University
Fargo, ND 58108

NDSU NORTH DAKOTA
STATE UNIVERSITY

ECONOMIC CONTRIBUTION OF HORSE RACING TO NORTH DAKOTA IN 2016

(Preliminary)*

EXECUTIVE SUMMARY

In addition to providing entertainment, horse racing activities impact local communities not only through race track operations, but economic activity associated with breeding, training and raising horses, and through expenditures for other activities that support the industry. The horse racing industry in North Dakota consists of multiple entities, and was defined in this study to include the North Dakota Horse Park in Fargo, Chippewa Downs in Belcourt, North Dakota Quarter Horse Association, North Dakota Thoroughbred Association (Horsemen Groups), North Dakota Racing Commission, and owners, breeders, and trainers of race horses. This summary is preliminary, representing an economic contribution for expenditures and activities related only to the state's race tracks, Horsemen Associations, and the North Dakota Racing Commission. A complete assessment involving all components of the industry will be forthcoming. Data collection efforts related to the activities of owners, breeders, and trainers is ongoing and not available for inclusion in this preliminary executive summary.

Direct economic impacts or first-round effects represent in-state expenditures for operations and activities related to the horse racing industry. To estimate direct economic impacts, expenditure data were collected from the North Dakota Racing Commission, North Dakota Horse Park in Fargo, Chippewa Downs in Belcourt, the North Dakota Quarter Horse Association, and the North Dakota Thoroughbred Association. Because expenditures from one segment of the industry often flow to other entities for purses and other services and activities, expenditures were traced between segments of the industry to avoid double counting. For example, funds flow from the North Dakota Racing Commission to each of the horse parks for purses and promotion funds. Those expenditures were included in the direct impacts of the race tracks and not the North Dakota Racing Commission.

The North Dakota Input-Output Model (Coon et al. 2012) was used to estimate the secondary economic effects stemming from spending and re-spending of in-state expenditures associated with the industry. The ND I-O model estimates the additional dollar volume (i.e., indirect and induced effects) as initial direct expenditures flow through the state economy. The levels of business activity in different economic sectors (e.g., retail trade, services) are used to estimate secondary employment and tax revenues based on past relationships.

The study results are for Fiscal Year 2016 (FY2016). Only expenditures made to in-state entities were included in the analysis. Out-of-state expenditures were excluded from the analysis because out-of-state expenditures do not affect levels of business activity in North Dakota. All in-state expenditures were allocated to economic sectors of the North Dakota

* Preliminary estimates subject to revision. Current industry estimates represent an incomplete assessment as data for some components of the industry were not available prior to preparation of this summary. A full report, Agribusiness and Applied Economics Report No. 763, will be forthcoming.

Input-Output Model. Total in-state expenditures for all five entities in this preliminary assessment were approximately \$1,416,000 in FY2016. Expenditures were greatest in the 'households sector' which represents payment for wages and salaries and payouts for betting. Total direct expenditures for wages/salaries and payouts totaled \$789,000 or about 56 percent of all expenditures. The next largest expenditure category was 'business and personal services' with direct expenditures of \$204,000 followed by expenditures in the 'finance, real estate and insurance sector' with expenditures of \$161,000. Expenditures for 'business and personal services' and 'retail' were \$90,000 and \$92,000, respectively. The economic sector with the least amount of expenditures was 'communications', (e.g. printing, postage) and represented less than 1 percent of all direct expenditures.

Total statewide economic contribution was estimated using the North Dakota Input-Output Model. Direct, secondary, and total economic impacts for horse racing in North Dakota are summarized in the attached Table. Direct economic impacts were estimated to be \$1.4 million. Total economic impacts (sum of direct and secondary impact) of all five entities were estimated to be \$4.3 million.

The direct economic contribution of the two race tracks was similar, with \$509 thousand in direct effects associated with activities of the North Dakota Horse Park in Fargo and \$494 thousand from Chippewa Downs in Belcourt. However, only spectator spending that is captured by the race tracks was included in the preliminary figures. Spectator spending not captured by the race tracks (e.g., on-site vendors, off-site lodging and food) were not included but will be estimated in the final analysis. Direct effects related to the Racing Commission were \$413 thousand and \$30 thousand for the North Dakota Quarter Horse Association and the North Dakota Thoroughbred Association. Like direct effects, secondary effects for the two tracks were similar \$967,000 for the Fargo track and \$966,000 for Chippewa Downs. Secondary economic effects associated with the Racing Commission were estimated at \$847,000, and represented about 30% of all secondary effects.

The North Dakota Horse Park in Fargo had the largest overall contribution (summation of direct and secondary effects), but the contribution of Chippewa Downs was only slightly smaller (see attached table). The Fargo race track's total economic contribution was \$1.48 million and Chippewa Downs was \$1.47 million. The two race tracks combined for nearly 69 percent of the total economic contribution. The Racing Commission's total economic contribution was \$1.3 million (29 percent of total) while the economic contribution of both Horsemen Associations was \$83 thousand.

A substantial portion of the budgets of the North Dakota Racing Commission, the North Dakota Quarter Horse Association, and the North Dakota Thoroughbred Association are directed to the state's two tracks to support purse funds, promotional funds, and breed funds. To avoid double counting, those expenditures are captured in the impacts associated with the race tracks. While it may appear that much of the economic effects are as a result of track operations, it is important to recognize that the activities of the Racing Commission, the tracks, and the horsemen associations are interconnected. Further, the impacts from the North

Dakota Horse Racing Commission at this time do not include \$285,000 in payments to owners and breeders from the breed fund. Those expenditures will be captured in the final assessment when the activities of owners and breeders are included in the assessment.

As mentioned previously, results contained in this summary are preliminary and exclude the activities and expenditures of horse owners, breeders, and trainers (i.e., horsemen). The study is currently surveying the horsemen to obtain detailed expenditure data and will be included in the final report. Accordingly, the estimates in this summary are preliminary and conservative and will likely increase when the economic effects of horsemen are included.

Preliminary findings show that the Horse Racing Industry is able to leverage state funding to generate a sizeable economic contribution. State funding for the ND Horse Racing Commission has been roughly \$400,000 per biennium or \$200,000 annually. The preliminary estimates indicate that for every dollar of state funding, horse racing activities contribute another \$6 of direct spending in the state. A more thorough examination of dollar flows between state funding and general tax revenues from horse racing activities will be forthcoming in the final report.

Executive Summary Table: Horse Racing Industry Economic Contribution

Industry Components	Direct Effects	Secondary Effects	Gross Business Volume
	----- 000s \$ -----		
Racing Commission*	413	847	1,260
Race Tracks			
Fargo**	509	967	1,476
Chippewa	494	966	1,460
Horsemen Associations	30	53	83
Totals	1,446	2,833	4,279

*Does not include \$285,000 transfer to owners and breeders. Those expenditures will be captured in the final assessment when the activities of owners and breeders are included in the assessment.

**Does not include benefits to NDSU Equine Studies for use of horse park facilities.

Senate Bill 2221
ND Racing Commission – Budget No. 670
Gunner laCour, Director
February 6, 2017

SB 2221
2-8-17

#1
P1

65th Legislative Assembly
Senate Appropriations Committee
Senator Ray Holmberg, Chairman

The Racing Commission stands in support of SB 2221 and the introduction of pari-mutuel historic horse racing in the state. Historic racing has provided significant support to live horse racing in every jurisdiction in which it has been implemented. Additionally, historic racing has been proven to provide increased revenues to states, cities and counties where the activity is conducted. Based on research by the Racing Commission, it is anticipated this can be accomplished with no additional cost to the General Fund. Ultimately, historic racing presents a financial win-win for the racing industry, General Fund, and the greater North Dakota economy.

As discussed at the prior hearing on the Commission's budget, there has been great success in development of pari-mutuel wagering regulated by North

1
p 2

Dakota; however, these increases have come almost exclusively from account deposit wagering as opposed to other forms of pari-mutuel wagering. As with any other industry in this State, the more the racing industry can diversify its sources of revenues the more secure its long term position will be. North Dakota's racing industry's other principle source of revenue, "bricks and mortar" simulcast pari-mutuel wagering, has followed national trends in decreasing from its height in the early 2000s. Some states have been able to replace this lost revenue with the highly successful pari-mutuel historic racing. Where implemented, returns to the racing industry and state have been unprecedented with historically high purses for horsemen, increased funding for breeders awards, and other beneficial programs, and record tax revenues to political subdivisions.

In attempting to estimate the revenues and expenses to the state in its fiscal note, the Commission looked to what it believes is the most analogous example, the state of Wyoming. Their success with historic racing is self-evident, having gone from only four days of live racing prior to the inception of historic racing to 31 days by the end of 2015. Available purses and breeder's awards were up significantly during the meets. Returns to the Commission in support of the racing industry by the 2015 fiscal year were over ten times what

#1
P3

they had been previously. Additionally, this success created a direct benefit to the counties and cities in which these pari-mutuel locations are located with over \$2.8 million distributed to these political subdivisions in 2015 alone.

With regard to the specifics of SB 2221 and its application to North Dakota, the Commission believes that despite imposing a limitation of 10 physical pari-mutuel wagering locations in the State, the potential to generate revenue to the State, counties, cities, and racing industry is quite high. Creating conservative estimates based on Wyoming's numbers, it is anticipated that the State, counties, and cities could each see as much as half a million in revenue the first biennium and over a million the following biennium.

Further utilizing the example of Wyoming, the Commission believes that the additional costs of regulating this activity can be offset by using a daily license fee of these facilities as the funding mechanism. While the specifics would be worked out through the administrative rule process, a daily license fee on each location looks to be more than sufficient to fund the estimated cost while remaining financially feasible for the operators. Therefore, Commission's support for this bill is further bolstered by the fact that it can generate significant revenue for the state with no additional cost to the General Fund.

#1
P 4

Additionally, based on the rate of return the racing industry is generating to the North Dakota economy pursuant to the Preliminary Economic Impact Study by NDSU (provided with prior budget testimony and included here as Exhibit A), further revenue generated by pari-mutuel historic racing should create a proportionately greater return to the economy. The revenues generated to the Racing Commission's continuing appropriation funds would be utilized to continue to support the horsemen of the state through increased racing, awards, and other programs which represent the bulk of the return to the economy in the Study, injecting additional funding into the agriculture economy with multiple secondary impacts throughout the State. Such economic impact should also be bolstered by anticipated employment in the State necessary to staff these operations. Therefore, the potential impact of the bill to the economy is believed to be significantly higher than the revenues indicated in the fiscal note.

Before concluding, the Commission would like to note that much of the growing pains and heavy lifting in implementing new pari-mutuel historic racing regulatory processes and procedures has already been borne by states where historic racing is currently active. In developing information for the Commission on historic racing, our discussions with the Wyoming Pari-Mutuel

#1
P5

Commission have demonstrated that the North Dakota Racing Commission would be able rely on lessons learned and advice from these jurisdictions as well as a full set of newly revised regulations to use as an example going forward. While this may be a new method of pari-mutuel wagering for North Dakota, historic racing does have a track record from which best practices have been established and refined over the years allowing North Dakota to get a "head start" on regulating this activity without expected costs to the Commission.

While the Racing Commission's previous efforts have provided solid footing on which we have begun to rebuild our once extensive racing industry, the introduction of pari-mutuel historic horse racing would further bolster these efforts by way of diversification of revenues and increased funding. By providing substantial financial benefits to the State, counties, and cities, without additional cost to the General Fund the Racing Commission sees this bill as a net positive to all involved.

#1
p4

Exhibit A

#1
p7

ECONOMIC CONTRIBUTION OF HORSE RACING TO NORTH DAKOTA IN 2016
(Preliminary)

January 2017

Elvis Ndembe
Nancy M. Hodur
Dean A. Bangsund
Randy Coon

Department of Agribusiness and Applied Economics
and
Center for Social Research
North Dakota State University
Fargo, ND 58108

NDSU NORTH DAKOTA
STATE UNIVERSITY

ECONOMIC CONTRIBUTION OF HORSE RACING TO NORTH DAKOTA IN 2016

(Preliminary)*

#1
P8

EXECUTIVE SUMMARY

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#1
p9

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#1
P10

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**Does not include benefits to NDSU Equine Studies for use of horse park facilities.

①

2/15/17

PROPOSED AMENDMENT TO SB 2221

Page 11, after line 18, insert a new subsection (5):

- (5) One-fourth of one percent to be deposited in the compulsive gambling prevention and treatment fund under 53-12.1-09.

Page 8, after line 31, insert a new subdivision i.:

- i. No single wager exceeds twenty-five dollars.

Renumber accordingly

Sen. Armstrong.

#1
2221
3-15-17

2017 NORTH DAKOTA HISTORIC HORSE RACING LEGISLATION

- This bill will authorize charitable pari-mutuel wagering on Historic Horse Racing at simulcast wagering facilities in North Dakota.
 - The experts present will get into more detail, but essentially:
 - Historic horse racing is a game that utilizes an electronic machine to place bets on races that have occurred in the past.
 - This is done by wiping all identifying information except for statistics and wagers used the day of the race.
 - The individual places a pari-mutuel wager based on this information by personally selecting the horses or by auto betting.
 - A pari-mutuel wager means that the wagers are against all others wagering on that particular race or set of races and are not wagers against the house.
 - North Dakota already allows for charitable “off track betting” of live races at simulcast facilities across the state and this electronic version of a wager is already approved by the Association of Racing Commissioners International.
 - The number of simulcast facilities allowed will be limited to ten locations across the state, which is stricter than what is currently allowed for simulcast facilities.
 - It also requires an additional \$500K bond to operate, which is in addition to any bond provided to the commission as security for other licensed activity pursuant to the century code.
 - Regulation of pari-mutuel wagering on Historic Horse Racing will be conducted by the North Dakota Racing Commission

Perhaps most importantly, this legislation carves out new tax revenue for the state general fund, the county and city where simulcast facility is located, the equine industry and the compulsion gambling fund. It also limits bets to \$25.

In addition, this bill helps to define the elements of Historic Horse Racing to be wagers based solely on the results of horse races and requires an independent testing laboratory to verify and ensure the integrity and functionality of the wagers.

In sum, this bill allows for an electronic version of wagering that is already occurring in our state and provides new revenue streams while at the same time limiting the number of simulcast facilities available. I encourage you to consider supporting it.

#2
SB 2221
3-15-17

SB 2221 CHARITABLE PARI - MUTUEL GAMING

The bill allows charities to offer currently lawful charitable pari - mutuel gaming to its customers using the latest technology including historic horse races ("HHR"). The bill will provide significant funding for charitable purposes, new tax revenues to the state, counties and cities and necessary funding to the struggling North Dakota equine industry while placing limits on both the maximum wager amount and number of locations where HHR can be offered.

BENEFITS OF SB 2221

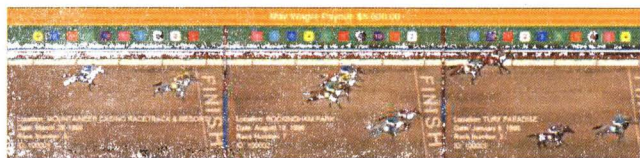
1. Whereas current law allows unlimited expansion of charitable pari – mutuel gaming, the bill limits charitable pari - mutuel gaming to 10 locations.
2. Due to the cost savings from use of new technologies, the bill provides for taxes and fees on HHR significantly greater than other forms of charitable gaming while increasing the payback to the customer to 92%. Whereas other forms of charitable gaming have experienced increasing costs resulting in reductions in the taxes paid to the state (approximately 6% of the net proceeds are used to pay taxes), HHR will pay approximately 30% of the net proceeds in the form of taxes and fees.
3. Provides significant resources for the local counties and cities where the sites are located.
4. Enhances the funds provided by the North Dakota state run lottery for the Compulsive Gambling Prevention and Treatment Fund.
5. Provides significant resources for charitable purposes.
6. Provides significant resources for self funding by the ND Racing Commission.
7. Provides significant resources for the equine industry allowing for more live racing with greater purses at North Dakota tracks and more breed funds so North Dakota breeders do not have to take their horses out of state.
7. Provides for employment advancement and new employment opportunities.
8. Provides Tourism growth opportunities.

#3
SB 2221
3-15-17



Pari-Mutuel Wagering on Horse Racing

The Exacta historic horse racing system operates just like live and simulcast pari-mutuel wagering on horse racing. Exacta Systems pools all wagers, calculates the commission for the racetrack operator, and distributes payouts to the winning patrons. The system is entirely pari-mutuel, as the racetrack operator does not have a stake in the outcome and the net pool is returned to the patrons.

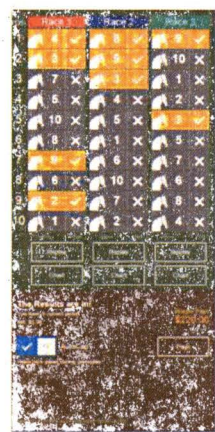


Same Type of Wager Already Approved by Regulators

The Exacta System is an electronic version of a wager already approved by the Association of Racing Commissioners International (ARCI) – the pick (n) position (x).

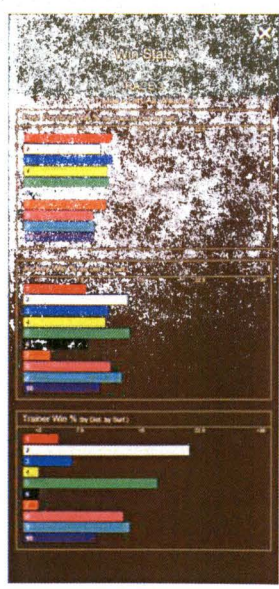
Will-Pay Screen

Just like in traditional wagering on horse racing, patrons can view the will-pay screen before placing a wager, so they know how much they will win for successfully picking the winning horses.



Handicapping and Race Information

The Exacta System allows patrons to evaluate handicapping information for as long as they choose, permitting patrons to dictate their own pace. The patron can evaluate various pieces of handicapping data, and then predict the finishing order in each of three races. Alternatively, the patron can allow the Exacta System to recommend a finishing order that is based on the collective knowledge of those who wagered on the race at the time the race was run.



Results Driven Solely By the Outcome of the Horse Race

The Exacta System does not use a random number generator to determine the outcome of a patron's wager. Patrons win or lose their pari-mutuel wagers based on the final running order of the horses in three races, and how many finishing positions the patrons accurately predict.

#4
SB 2221
3-15-17

2017 NORTH DAKOTA HISTORIC HORSE RACING LEGISLATION

- Legislation will authorize pari-mutuel wagering on Historic Horse Racing at simulcast wagering facilities in North Dakota
- Number of simulcast facilities will be limited to ten locations across the state
- Regulation of pari-mutuel wagering on Historic Horse Racing will be conducted by the North Dakota Racing Commission
- Legislation carves out new tax revenue for the State, County where simulcast facility is located, City where simulcast facility is located, as well as equine/agriculture programs
- Defines the elements of Historic Horse Racing to be wagers based solely on the results of horse races
- Requires an independent testing laboratory to verify and ensure the integrity and functionality of the wagers



5

SB 2221

3-15-17

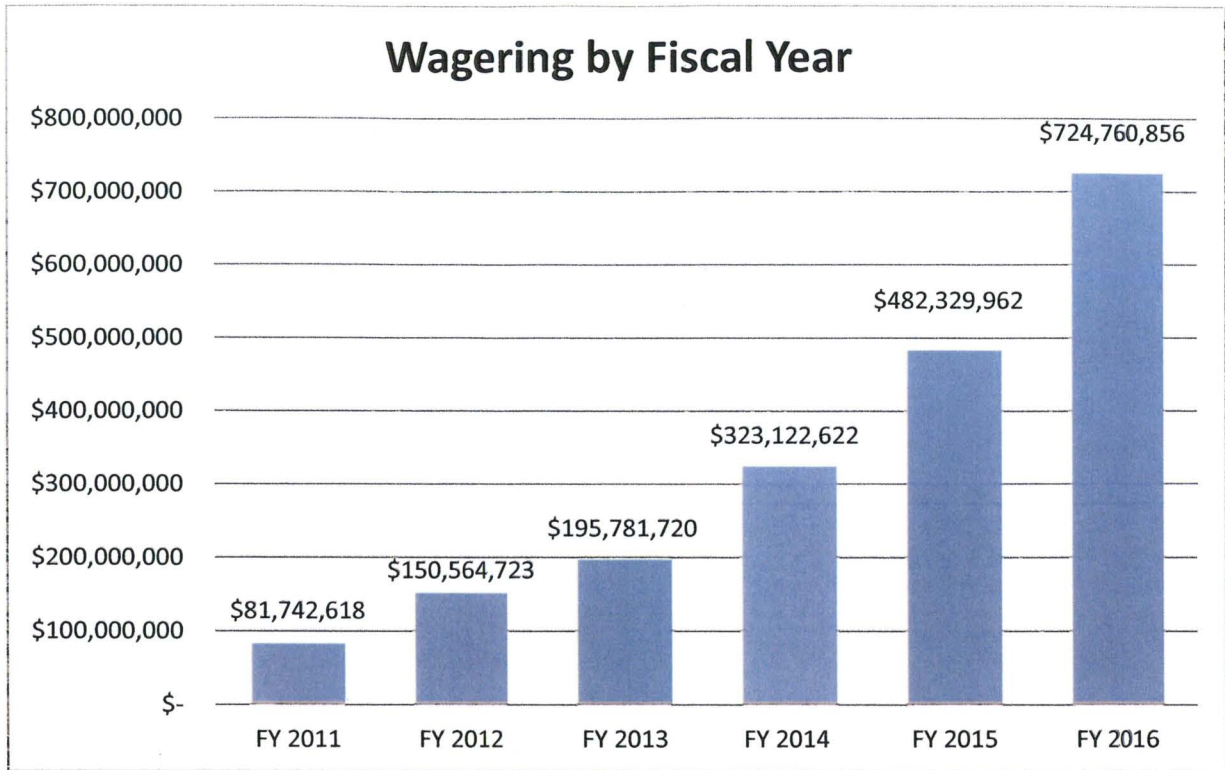
Senate Bill 2221
ND Racing Commission
Gunner laCour, Director
March 15, 2017

65th Legislative Assembly
House Judiciary Committee
Representative Kim Koppelman, Chairman

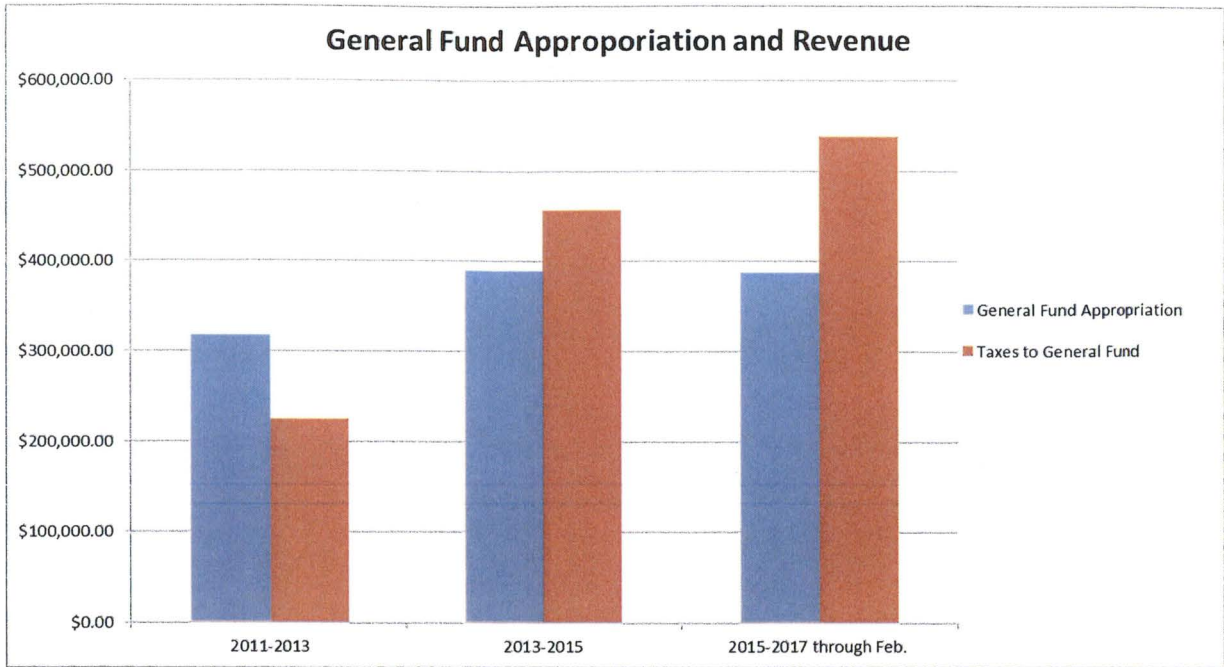
The Racing Commission stands in support of SB 2221 and the introduction of charitable pari-mutuel historic horse racing in the state. Historic racing has provided significant support to live horse racing in every jurisdiction in which it has been implemented. In North Dakota it could further build on the solid foundation the Commission has established through the many positive developments over the last two biennia. Ultimately, historic racing will provide much needed support, providing North Dakota horsemen with more opportunities while providing further positive contributions to the greater North Dakota economy.

Before beginning, it would be helpful to address a common misconception about the operations of the Commission. Throughout the process of this bill the Commission has received many inquiries regarding the participation of charities in its operations and the effects of this bill on charities in the state. As with all other forms of wagering in North Dakota, gaming regulated by the Racing Commission is charitable just like the more common gambling regulated by the Attorney General. Any charity is welcome to apply to the Commission to conduct pari-mutuel wagering without exception and will be considered for licensure under a clearly defined set of standards. Though the number of charities conducting pari-mutuel wagering has dwindled to a handful over the last few years, the Commission looks forward to working with all interested parties to provide support to worthy causes throughout the state beyond the confines of the racing industry.

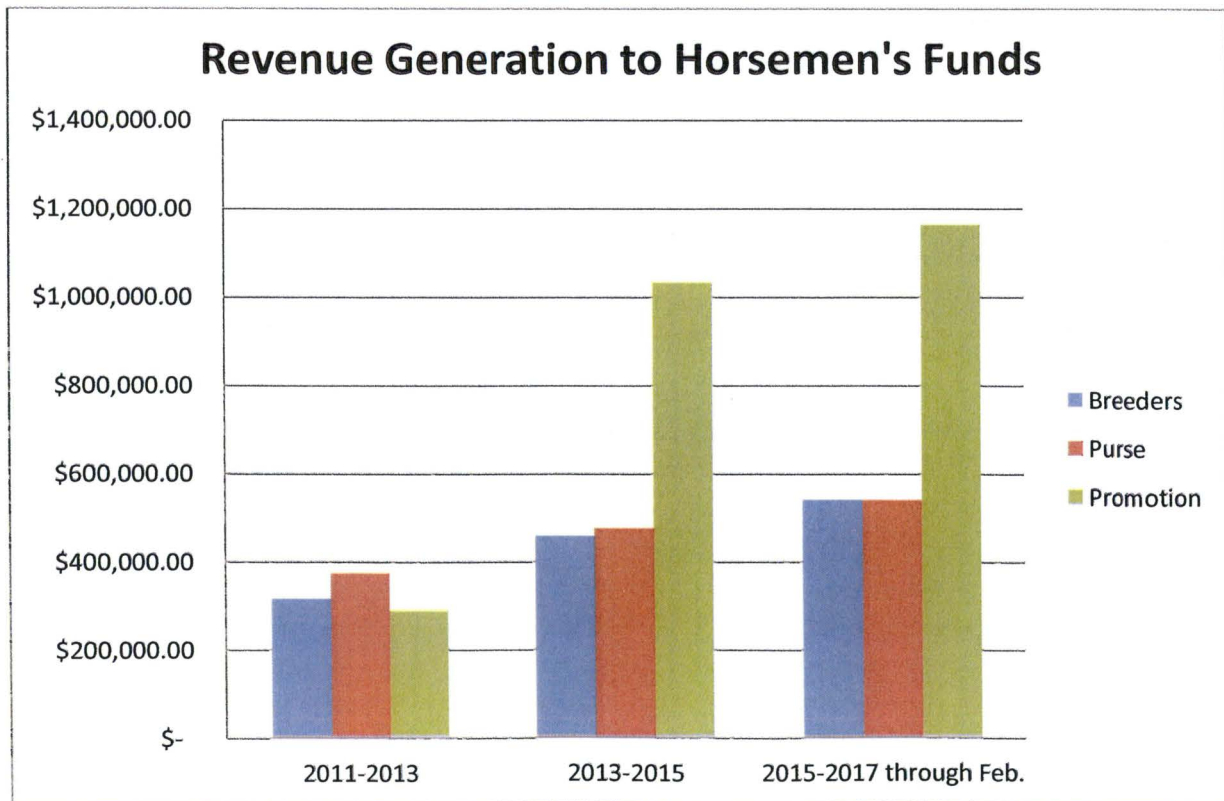
It is the Commission's belief that our success over the last several years has demonstrated our agency's capability to fully implement the processes and procedures necessary to support this legislation. By way of background, the Racing Commission's efforts have resulted in nearly six years of substantial and continuous revenue growth as demonstrated by the chart below:



This significant increase in activity is the direct result of Commission efforts to create a nationally and internationally recognized regulatory system, drawing new account deposit wagering companies to our state. This development has in turn allowed to the Commission to provide revenue to the General Fund in excess of its appropriation for the last two biennia:



Increased tax revenue has also provided proportionally increased revenue to the Commission administered continuing appropriation funds:



This funding has allowed the Commission to make further direct contributions to the state's equine industry over the last two years totaling \$1.8 million.

Additional funding has also allowed the Commission to increase its contributions to the broader State economy. The Commission has recently been working with NDSU Dept. of Agribusiness and Applied Economics to develop an Economic Impact Study of the Commission's activities over the 2016 calendar year. While we are still awaiting the return of some final survey data to complete the Study, NDSU has provided some preliminary results addressing the direct impacts of the racing industry on the economy, attached as **Exhibit A**. As you can see, the racing industry has a total impact to the State economy currently estimated at \$15.7 million. Based on these results, it is estimated that for every dollar of state funding received by the Racing Commission the racing industry creates \$6 of direct spending in the state. As these numbers are preliminary, NDSU anticipates the final numbers will be in excess of current estimates. Upon completion of the Study the Commission will forward a copy to each member of this Committee for their review.

While the Commission has seen great success in its development of charitable pari-mutuel wagering regulated by North Dakota, these increases have come almost exclusively from account deposit wagering as opposed to

other forms of pari-mutuel wagering. As with any other industry in this State, the more the racing industry can diversify its sources of revenues the more secure its long term position will be. North Dakota's racing industry's other principle source of revenue, "bricks and mortar" simulcast pari-mutuel wagering, has followed national trends in decreasing from its height in the early 2000s. Some states have been able to replace this lost revenue with the highly successful pari-mutuel historic racing. Where implemented, returns to the racing industry and state have been unprecedented with historically high purses for horsemen, increased funding for breeders awards and other beneficial programs, and record tax revenues to political subdivisions.

In attempting to estimate the revenues and expenses to the state in its fiscal note, the Commission looked to what it believes is the most analogous example, the state of Wyoming. Their success with historic racing is self-evident, having gone from only four days of live racing prior to the inception of historic racing to 31 days by the end of 2015. Available purses and breeder's awards were up significantly during the meets. Returns to the Commission in support of the racing industry by the 2015 fiscal year were over ten times what they had been previously. Additionally, this success created a direct benefit to

the counties and cities in which these pari-mutuel locations are located with over \$2.8 million distributed to these political subdivisions in 2015 alone.

With regard to the specifics of SB 2221 and its application to North Dakota, the Commission believes that despite imposing a limitation of 10 physical pari-mutuel wagering locations in the State, the potential to generate revenue to the State, counties, cities, and racing industry is quite high. Creating conservative estimates based on Wyoming's numbers, it is anticipated that the State, counties, and cities could each see as much as half a million in revenue the first biennium and over a million the following biennium.

The amendment to the original bill made by the Senate has also provided further support to Commission and State efforts to address problem gambling. By providing a .25% tax to the State's Compulsive Gambling Prevention and Treatment Fund, historic racing has the potential to provide support similar to that currently provided by Lottery proceeds. The Commission has always sought to support such problem gambling efforts and supports this as a win-win for the racing industry, state, and local communities where these services will be available.

It is also important to note that as all pari-mutuel wagering in the state is charitable, a charity will be the beneficiary of every dollar wagered on historic

horse racing. There has been a great deal of interest in this product from the charitable gaming community and I fully expect that historic horse racing locations will support a variety of different charities as we move forward. While we have had success with our current charity operators such as Development Homes, American Gold Gymnastics and Horse Race ND, the Commission looks forward to working with a variety of other charities who have already reached out to begin discussions.

Further utilizing the example of Wyoming, the Commission believes that the additional costs of regulating this activity can be offset by using a daily license fee for these facilities as the funding mechanism. While the specifics would be worked out through the administrative rule process, a daily license fee on each location looks to be more than sufficient to fund the estimated cost while remaining financially feasible for the operators. Therefore, Commission's support for this bill is further bolstered by the fact that it can generate significant revenue for the state with no additional cost to the General Fund.

Additionally, based on the rate of return the racing industry is generating to the North Dakota economy pursuant to the Economic Impact Study by NDSU, further revenue generated by pari-mutuel historic racing should create a

proportionately greater return to the economy. The revenues generated to the Racing Commission's continuing appropriation funds would be utilized to continue to support the horsemen of the state through increased racing, awards, and other programs which represent the bulk of the return to the economy in the Study, injecting additional funding into the agriculture economy with multiple secondary impacts throughout the State. Such economic impact should also be bolstered by anticipated employment in the State necessary to staff these operations. Therefore, the potential impact of bill to the economy is believed to be significantly higher than the revenues indicated in the fiscal note.

Before concluding, the Commission would like to note that much of the growing pains and heavy lifting in implementing new pari-mutuel historic racing regulatory processes and procedures has already been borne by states where historic racing is currently active. In developing information for the Commission on historic racing, our discussions with the Wyoming Pari-Mutuel Commission have demonstrated that the North Dakota Racing Commission would be able to rely on lessons learned and advice from these jurisdictions as well as a full set of newly revised regulations to use as an example going forward. While this may be a new method of pari-mutuel wagering for North

Dakota, historic racing does have a track record from which best practices have been established and refined over the years allowing North Dakota to get a “head start” on regulating this activity.

While the Racing Commission’s previous efforts have provided solid footing on which we have begun to rebuild our once extensive racing industry, the introduction of pari-mutuel historic horse racing would further bolster these efforts by way of diversification of revenues and increased funding. The Commission believes that the positive improvement at the agency and in the industry as a whole puts the Commission in a position to provide regulatory oversight in accordance with best practices. By providing substantial financial benefits to the State, counties, and cities, without additional cost the Racing Commission sees this bill as a net positive to all involved.

Exhibit A

ECONOMIC CONTRIBUTION OF HORSE RACING TO NORTH DAKOTA IN 2016
(Preliminary)

March 2017

Elvis Ndembe
Nancy M. Hodur
Dean A. Bangsund
Randy Coon

Department of Agribusiness and Applied Economics
and
Center for Social Research
North Dakota State University
Fargo, ND 58108

NDSU NORTH DAKOTA
STATE UNIVERSITY

ECONOMIC CONTRIBUTION OF HORSE RACING TO NORTH DAKOTA IN 2016

(Preliminary)*

EXECUTIVE SUMMARY

In addition to providing entertainment, horse racing activities impact local communities not only through race track operations, but economic activity associated with breeding, training and raising horses, and through expenditures for other activities that support the industry. The horse racing industry in North Dakota consists of multiple entities, and was defined in this study to include the North Dakota Horse Park in Fargo, Chippewa Downs in Belcourt, North Dakota Quarter Horse Association, North Dakota Thoroughbred Association (Horsemen Groups), North Dakota Racing Commission, owners, breeders, and trainers of race horses and a race horse rescue and adoption non-profit organization. While this executive summary is an update to the previous summary delivered in January 2017, findings are still preliminary. The previous assessment reported the economic contribution for expenditures and activities related only to the state's race tracks, Horsemen Associations, and the North Dakota Racing Commission and did not include impacts related to owners and breeders or the rescue and adoption non-profit organization. This assessment represents a more comprehensive assessment of the industry by including impacts related to owners, breeders and trainers and the race horse rescue and adoption non-profit organization. These findings are still preliminary. A final written report is forthcoming.

Direct economic impacts or first-round effects represent in-state expenditures for operations and activities related to the horse racing industry. To estimate direct economic impacts, expenditure data were collected from the North Dakota Racing Commission, North Dakota Horse Park in Fargo, Chippewa Downs in Belcourt, the North Dakota Quarter Horse Association, and the North Dakota Thoroughbred Association. Because expenditures from one segment of the industry often flow to other entities for purses and other services and activities, expenditures were traced between segments of the industry to avoid double counting. For example, funds flow from the North Dakota Racing Commission to each of the horse parks for purses and promotion funds were included in the direct impacts of the race tracks and not the North Dakota Racing Commission.

Expenditures made by horsemen were estimated using data collected from a survey of North Dakota horsemen. The population of horsemen surveyed were obtained from North Dakota Breeders fund maintained by the North Dakota Racing Commission. Survey respondents reported expenditures for both day to day operations (feed, veterinary services, training, equipment, etc.) and expenditures related to race season activities (travel, lodging, race related services and fees such as jockey fees, stall fees, and veterinary services). Average expenditures for activities were calculated for those operations that raced in 2016. The number of active

* Preliminary estimates subject to revision. Current industry estimates represent an incomplete assessment as data for some components of the industry were not available prior to preparation of this summary. A full report, Agribusiness and Applied Economics Report No. 763, will be forthcoming.

racing operations was estimated using data from the state's two race tracks and the state Breeders Fund maintained by the North Dakota Racing Commission. Fifty-three horse racing entities were identified to have raced at either Chippewa Downs or the North Dakota Horse Park and were registered with the North Dakota Breed Fund as well. Due to the limited number of observations and a wide range of expenditure values, a few large and a few small expenditure totals, the data from the survey of the North Dakota Horsemen Group was trimmed. The highest 10 percent and lowest 10 percent of the observations were deleted from the data set to control for the effect of outlying observations.

The study results are for Fiscal Year 2016 (FY2016). Only expenditures made to in-state entities were included in the analysis. Out-of-state expenditures were excluded from the analysis because out-of-state expenditures do not affect levels of business activity in North Dakota. All in-state expenditures were allocated to economic sectors of the North Dakota Input-Output Model.

The North Dakota Input-Output Model (Coon et al. 2012) was used to estimate the secondary economic effects stemming from spending and re-spending of in-state expenditures associated with the industry. The ND I-O model estimates the additional dollar volume (i.e., indirect and induced effects) as initial direct expenditures flow through the state economy. The levels of business activity in different economic sectors (e.g., retail trade, services) are used to estimate secondary employment and tax revenues based on past relationships.

Total in-state expenditures were approximately \$5.7 million in FY2016. Expenditures were greatest in the 'households sector' which represents payment for wages and salaries and payouts for betting. Total direct expenditures for wages/salaries and payouts totaled \$2.4 million. The next largest expenditure category was 'retail trade' with direct expenditures of \$1.4 million followed by 'business and personal services' with direct expenditures of \$1.2 million. The economic sector with the least amount of expenditures was 'communications', (e.g. printing, postage) and represented less than 1 percent of all direct expenditures.

The direct economic contribution of horse racing owners, breeders and trainers was estimated to be \$4.9 million. Average total expenditures per horsemen operation that raced during 2016 was estimated to be \$94,202. The direct economic contribution of the two race tracks was similar, with \$509 thousand in direct effects associated with activities of the North Dakota Horse Park in Fargo and \$494 thousand from Chippewa Downs in Belcourt. However, only spectator spending that is captured by the race tracks was included in the preliminary figures. Spectator spending not captured by the race tracks (e.g., on-site vendors, off-site lodging and food) were not included but will be estimated in the final analysis. Direct effects related to the Racing Commission were \$413 thousand and \$30 thousand for the North Dakota Quarter Horse Association and the North Dakota Thoroughbred Association.

A substantial portion of the budgets of the North Dakota Racing Commission, the North Dakota Quarter Horse Association, and the North Dakota Thoroughbred Association are directed to the state's two tracks to support purse funds, promotional funds, and breed funds.

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To avoid double counting, those expenditures are captured in the impacts associated with the race tracks. While it may appear that much of the economic effects are a result of track operations, it is important to recognize that the activities of the Racing Commission, the tracks, and the horsemen associations are interconnected. The \$285,000 in payments from the North Dakota Horse Racing Commission to owners and breeders from the breed fund are captured with expenditures by horsemen operations. Payments to owners are represented in the analysis as expenditures for various expense related to operations, such as feed, fees and services.

Secondary impacts from activities related to the North Dakota horse racing industry were estimated to be 15.7 million. Like direct effects, secondary impacts from owner and breeder operations were the greatest at 10.0 million. Like direct effects, secondary effects for the two tracks were similar \$967,000 for the Fargo track and \$966,000 for Chippewa Downs. The Fargo race track's total economic contribution was \$1.48 million and Chippewa Downs was \$1.47 million. The Racing Commission's total economic contribution was \$1.3 million (29 percent of total) while the economic contribution of both Horsemen Associations was \$83 thousand.

Total statewide economic contribution was estimated using the North Dakota Input-Output Model. Direct, secondary, and total economic impacts for horse racing in North Dakota are summarized in the attached Table. Direct economic impacts were estimated to be \$5.7 million. Total economic impacts (sum of direct and secondary impact) were estimated to be \$15.7 million.

Preliminary findings show that the Horse Racing Industry is able to leverage state funding to generate a sizeable economic contribution. State funding for the ND Horse Racing Commission has been roughly \$400,000 per biennium or \$200,000 annually. The preliminary estimates indicate that for every dollar of state funding, horse racing activities contribute another \$6 of direct spending in the state. A more thorough examination of dollar flows between state funding and general tax revenues from horse racing activities will be forthcoming in the final report.

Executive Summary Table: Horse Racing Industry Economic Contribution

Industry Components	Direct Effects	Secondary Effects	Gross Business Volume
	----- 000s \$ -----		
Racing Commission*	413	847	1,260
Race Tracks			
Fargo**	509	967	1,476
Chippewa	494	966	1,460
Horsemen Associations	30	53	83
Owners, Breeders and Trainers	4,263		
Race Horse Rescue Non-profit	60		
Totals	5,709	10,014	15,723

*The \$285,000 transfer to owners and breeders is captured in owners and breeders' expenditures.

**Does not include benefits to NDSU Equine Studies for use of horse park facilities.

6
SB 2221
3-15-17

Chairman Koppelman and Members of the Committee,

Team Makers Club, Inc. would like to voice our support of SB2221. We have been involved with simulcast/para-mutual wagering in the past and see this bill as an opportunity for charities to help bring something new to the public that could benefit organizations.

As a charitable gaming operator since 1993, we have seen a few proposed changes in Statute, some that ultimately benefitted our industry. They have not been drastic, but have most always involved some controversy. We imagine the discussion on this bill to be no different. The legislature has always given proposed changes proper consideration and a fair up or down vote.

We appreciate the opportunity to comment on this bill and ask for your favorable vote.

Pat Simmers
Executive Director
Team Makers Club, Inc.
3309 Fiechtner Drive, Suite G
Fargo, ND 58103
Office: 701-277-9271

#7
2221
3-15-17

SENATE BILL 2221
HOUSE JUDICIARY COMMITTEE
TESTIMONY SUBMITTED BY DON SANTER
MARCH 15, 2017

Testimony Opposing SB 2221

My name is Don Santer and I am the Chief Executive Officer for NDAD (North Dakota Association for the Disabled, Inc.). I am here today to speak in opposition to SB 2221 as it is currently worded.

NDAD is a non-profit, charitable organization that serves individuals with health concerns and disabilities across the state of North Dakota. We have offices in Grand Forks, Fargo, Minot and Williston. In 2016, NDAD assisted over 1,600 North Dakota residents. NDAD works diligently to not duplicate services provided by other state or local entities, so we truly are a last resort for many individuals.

- 321 prescription medications
- 2,609 out of town medical travel trips
- 240 pieces of durable medical equipment and supplies
- 2,618 accessible rides
- 8,000 hours of personal attendant care expenses
- 50 individuals were assisted with adaptive recreational activities
- Our **Healthcare Equipment Loan Program (HELP)** served 1,271 people with 2,309 pieces of equipment equating to a savings of more than \$450,000 for North Dakota residents

Additionally, NDAD provided information, referral and public awareness to numerous individuals. NDAD has served the people of North Dakota for the past 41 years. With your help, we believe we can continue to do so, ensuring services for those most needing them.

SB 2221 as currently worded will have a negative impact on North Dakota Charitable Gaming. The way it is worded could lead to a situation of exclusivity for a single charity. A second area of concern is the regulations set in the bill for this new game type will redirect a large portion of wagered dollars away from other games charities operate and toward the interest of the distributor and manufacturer. A few changes to the bill could solve these problems.

The current wording of the bill only allows for 10 sites statewide; it requires the regulation and licensing be handled through the horse racing commission; and requires an organization to conduct simulcast pari-mutuel wagering. To make it a fair playing field for all charities, there would need to be amendments to address the following concerns:

- Remove the 10 site limitation so all charities could potentially participate.
- Require the regulation and licensing be handled by the gaming division of the Attorney General's office as they are already equipped to handle this task. It does not make fiscal sense to require the horse racing commission to re-invent the wheel. This would also serve to keep gaming regulation consistent with other gaming types.
- Remove the requirement to operate simulcast pari-mutual wagering and Account Deposit Wagering (ADW). This would eliminate the possibility of a private entity licensing select charities.

NDAD is willing to support this bill if it is amended to allow all North Dakota Charities the same opportunities to utilize new game types to support their mission. This bill as currently written seems to benefit horse racing interests only.

Without amendments to address the stated concerns NDAD is asking you to consider a
DO NOT PASS on SB 2221

Respectfully,

NDAD
2660 South Columbia Road
Grand Forks, ND 58201

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SB 2221

3-15-17

SENATE BILL 2221
HOUSE JUDICIARY COMMITTEE
TESTIMONY SUBMITTED BY RAE ANN KELSCH
MARCH 15, 2017

Good morning Mr. Chairman, members of the House Judiciary committee. For the record, I am Rae Ann Kelsch, a registered lobbyist for CGAND, the Charitable Gaming Association of North Dakota. I stand before you this morning in support of SB 2221, with a couple of concerns and potential amendments.

Let me give you a little historical perspective on charitable gaming. Charitable gaming became legal in North Dakota in 1977 and can only be conducted by licensed nonprofit organizations. North Dakota permits bingo, raffles, pull-tabs, punchboards, sports pools, blackjack, poker, Calcutta pools and paddlewheels to be offered by charitable organizations.

The state's Gaming Division, which includes a five-member gaming commission, regulates charitable gaming. The Gaming Division is part of the office of the state's Attorney General. The state's gaming commission ensures that an organization's net proceeds are used for its primary purpose, such as educational, charitable, patriotic, fraternal or religious.

Only groups defined as a "veterans, charitable, educational, religious, fraternal, civic and service, public safety or public-spirited organization" may apply for a charitable gaming license. The group must be based in North Dakota, incorporated as a nonprofit, and actively operating in the state for at least two years prior to the application. An educational organization does not need to be incorporated or be in existence for two years. An organization's primary purpose may not involve the conduct of games. Licenses are issued by the Attorney General.

SB2221 would allow wagers to be placed on historic horse races, in which the devices essentially are horse racing themed slot machines. These are also known as instant races, in which wagers on made on replays of races.

The devices will be regulated by the Horse Racing Commission, rather than the Office of Attorney General.

Tax structure on wagering specifically broken down to State, County, City, and Commission administered appropriation funds (Promotion, Purse, and Breeders' Funds) and the Compulsive Gambling Prevention and Treatment Fund.

The bill limits Historic Horse Racing Wagering to 10 locations throughout the state With a \$25 maximum per wager

Issues to consider:

- Fiscal Note Estimated Wagers for Historic Race Wagering:

2017: \$450,000
2018: \$100,000,000
2019: \$250,000,000
2020: \$200,000,000
2021: \$200,000,000

- Currently ND charitable gaming wagers – approx. \$300 million/yr. by over 300 charities statewide. * By 2019 historic races will wager \$250 million compared to ND charities estimated wagers of \$300 million
- Historic race wagers on these devices will ultimately drastically reduce wagers placed at ND charitable gaming sites across the state.

- SB 2221 – Of wagered amount the licensee pays:

- .25% - ND General Fund
- .25% - ND compulsive gambling prevention and treatment fund
- .50% to be allocated 1/3 to each of the following funds – Breeder fund, purse fund, and racing promotion fund.
- .25% to the county of wagering
- .25% to the city of wagering
- Additional dollars are expected to be generated to the Racing Commission's Horse Racing Operating Fund (Fund334) through a license fee imposed on the operators of the simulcast and historic racing sites. Wyoming currently imposes a daily fee on each site of \$400. Until such time as the Commission would pass administrative rules the license fee cannot be definitively identified nor can it be determined if a flat rate or a graduated rate will be used. However, for estimating purposes a rate of \$300 has been used for the first biennium and a rate of \$200 for the second. This rate should compensate for the possible application of a graduated rate and be sufficiently conservative so as not to overestimate revenues based on a flat rate.

- The attached table shows the fiscal impact anticipated by the state:

	2017-2019 Biennium
	From Wagers
General Fund	\$ 563,625.00
Breeders, Purse and promotional fund	\$ 1,127,250.00
Compulsive Gambling Prevention and Treatment Fund	\$ 563,625.00
Counties	\$ 563,625.00
City	\$ 563,625.00
	From Licensee Fees
Horse Racing Operating Fund	\$ 682,800.00
Total Fiscal Note	\$ 4,064,550.00

- The fiscal note does not take into account the reduction of taxable charitable gaming dollars received by the state of ND. ND Charitable Gaming raises nearly \$8 million/biennium in tax revenue, with the majority deposited into the general fund.
- Gives horse-racing organizations an unfair advantage to secure charitable gaming sites across ND.
 - Unlimited rent to bar owners
 - Horse racing promotional fund allocations
- Gives horse-racing industry major financial and regulatory advantage over ND charities
 - Less-stringent regulations by the Racing Commission
 - Less-stringent reporting to the Racing Commission
 - Less-stringent oversight by the Racing Commission
 - Less-stringent tax burden

Amendments to consider

1. Page 2, line 5 Eligible organization, strike this definition and insert the definition from section 53-06.1-01 (Century Code for Games of Chance)
2. Page 4, section 53-06.2-05 Powers of commission. line 26, move the licensing from the racing commission and give it to the Gaming Division of the AG's office.
3. Page 6, line 24, take out the 10 site limit, open it up to all charities.
4. Allow charities without an Off-tack license to conduct these machines at their existing and new sites.

Remove all the sections concerning the regulation of these machines.

All regulations of these machines as well as the licensing should be with the Gaming Division of the AG's office.

Mr Chairman, I would ask you to support SB 2221 with the recommended amendments that will level the playing field for charitable gaming in North Dakota.

#1

2321
3-20-17

1

Information Provided By



GENERAL HISTORIC RACING INFORMATION

1. What defines a "historical race"?

A historical race is simply a horse race that was previously run at a licensed U.S. pari-mutuel facility, and that concluded with official results. Historic Racing uses only historic races that have 10 horses running, and that concluded without scratches, disqualifications, or dead-heat finishes. Furthermore, historical races are used for Historic Racing only if RaceTech is able to obtain a video of a race, as well as the Daily Racing Form handicapping information available for the race on the day it was run.

2. Once a race is selected, what happens to that race? Is it randomly reset in the mix of other races, or is it eliminated and replaced by another race?

When a race is selected for a player's wager, the race is not removed from the database. The race remains in the mix of races stored in the database. Thus, for every wager, the race database is the same. It is conceivable (but unlikely) that the same race could be selected for the next wager, either for the same player or for another player. However, because every race remains anonymous until after the player has placed his wager, the use of the same race will not affect the outcome of the wager. Rather, the outcome of the wager is determined by the player's skill in selecting the top three finishing horses based on the handicapping information presented.

3. How many races are stored in the device?

RaceTech presently has an offline video database containing more than 214,000 horse races conducted at licensed U.S. pari-mutuel facilities. Of these offline races, approximately 21,200 qualify under the present criteria for use in Historic Racing wagering. About one-half of the qualifying races are loaded on the video servers for use in Historic Racing wagering at any one time. The qualifying races can be rotated onto and off of the video servers so that the database of races is not static.

The video servers contain only video files, and may be located onsite for fast access. On the other hand, the handicapping information associated with each historical race and the official race finish data are stored in the totalizator system in a secure offsite location. No video files or data are stored in the individual Historic Racing terminals. Those terminals (just like self-service tote terminals in use at racetracks today) are simply communication devices which transmit the information regarding the player's wager to and from the totalizator system.

4. What is the "technical" name of the device or component that randomly selects the race?

All random race selections are driven by a software random number generator executed within the totalizator system. The random number generator was developed by AmTote using a "multiply with carry generator" algorithm suggested in papers published by George Marsaglia of Florida State

The vast majority of wagering through Historic Racing takes place when the seed pool has already been filled to its predetermined level. Each of the pools will continue to grow until someone wins the wager that corresponds to a particular pool. Upon winning the wager, the amount in the applicable pool will be paid to the winning player (less breakage). The pools that were not won will continue to grow, and the pool that was won will begin anew starting at the applicable minimum amount (which minimum amount is funded from the seed pool to ensure that a minus pool never occurs).

6. For purposes of this question please assume that there are 10 system terminals in use, with a different race selected by the server for each terminal.

A. RaceTech's "General Description of Historic Racing" suggests that players' bets are divided into separate standard, exotic and proposition pools for each wager made available by the betting terminals. If so, how (and by which component of the system) is the calculation made of each portion of the player's total bet for allocation among the pools?

Assuming that the ten players in this hypothetical example are each wagering on a \$1 terminal and each player wagers two units per race, the ten players will be playing against each other in eight different pari-mutuel pools.

Each dollar wagered by a player is divided among the track's commission and the eight pari-mutuel pools (and in certain instances the seed pool). The allocation does not take place within the player terminal because the player terminal is simply a communication device that transmits information about a wager to and from the totalizator system. The calculation of the allocation is done by the totalizator system. Furthermore, each time such an allocation is calculated, the totalizator system updates the total amount contained in each pool. This is the exact function the totalizator system already performs in "traditional" pari-mutuel wagering.

B. How (and by which system component) are the odds on the available wagers (standard, exotic, proposition) calculated for purposes of the payoff of the winning wagers?

Unlike slot machines or other forms of house-banked casino gaming, there are no true "odds" in Historic Racing. A slot machine might pay fixed 10 to 1 odds for a certain combination of symbols, and fixed 30 to 1 odds for a less frequent combination of symbols. In Historic Racing, on the other hand, each payout is entirely dependent upon the amount in the pari-mutuel pool. A Historic Racing player might win the "3 Exact Order" pool three times in the span of one hour, and each time the payout will be different.

Just as in "traditional" live horse racing, the totalizator system allocated all wagers into the appropriate pari-mutuel pools and keeps track of the total amount contained in each pool. Thus, at any point in time the totalizator system can inform the player of the amount the player will receive if the player wins the pool. Each individual Historic Racing terminal displays the pool amounts (i.e., probable pays), and these displays are updated approximately every 2-5 seconds (much more frequently than is customary in "traditional" live horse racing).

C. How (and by which system component) are the individual payoffs (displayed on the terminal for the various wagers to which the player's bet is allocated) calculated?

Individual payoffs for a winning wager and the probable-pays displayed on each Historic Racing terminal are calculated the same way. The totalizator system allocates all wagers into the appropriate pari-mutuel pools and keeps track of the total amount contained in each pool. The total amount in a pool is rounded down according to the breakage parameters, and paid in full to the first wager that wins it. When a wager qualifies for more than one way to win, the player receives the highest payout.

University. The AmTote software random number generator and its usage methods have been tested and passed by independent testing laboratories.

Once a player is presented with a particular race on which to wager, it is up to the player to pick three horses based on the handicapping information presented. The outcome of the player's wager is dependent upon the skill of the player in selecting the horses that finish first, second and third in the race.

5. What is the structure of the pool, identified in RaceTech's "General Description of Historic Racing", the balance of which (after deducting takeout) is "returned to patrons who place winning wagers"? I.e., what bets or other "payments in" constitute the makeup of the pool at the time the player initiates the game by pressing the start button on his/her terminal?

In order to fully understand the answer to this question, it is important to first have a complete understanding of "traditional" pari-mutuel wagering. At a racetrack today, when a player places a wager on a live horse race, the wager placed into the appropriate pool (or appropriate pools in the case of multi-payout wagers such as the twin trifecta or the Pick-6).

To use an example from "traditional" pari-mutuel wagering, suppose that 100 players each wager \$2 on a horse race, with 50 of the players picking a horse to win, 25 players picking a horse to place, and 25 players picking a horse to show. In this example, each different type of wager is collected in a different pool. Thus, the win pool will contain \$100 (50 times \$2) and the place and show pools will each contain \$50 (25 times \$2). If two of the win pool players pick the winning horse, the players will win approximately \$40 each. The win amount is calculated by subtracting the racetrack's commission (approximately \$20) from the total pool amount (\$100), and dividing the difference by the number of winning wagers (in this example, two).

Now suppose that 21 players wagering in the show pool wager correctly (i.e., their show wager is placed on any of the top three horses). Applying the strict pari-mutuel mathematical formula would result in the winning show pool players actually losing money. (The racetrack takes its commission (approximately \$10) out of the show pool and distributes the remainder (\$40) among the 21 winning players, for a per-player payout of approximately \$1.90). This type of pool, where the winning payout based on the pari-mutuel formula is less than the amount of the winning wager, is known in the industry as a "minus" pool.

Minus pools are governed by the particular state's racing law. As each wager is placed, the wager amount is split into several parts. These parts are (a) the racetrack's commission, (b) one pool for each specified way to win, and (c) a seed pool that ensures that minus pools do not occur.

In order to eliminate the occurrence of minus pools, which are standard occurrences in "traditional" pari-mutuel wagering, Historic Racing utilizes the concept of seed pool. The seed pool is essentially a pool of money held by the operator to make sure all winning wagers can be paid the amount required by applicable regulation. The seed pool in Historic Racing is made up of money wagered by players. On the other hand, the deficit in a traditional minus pool is paid by the racetrack. Thus, Historic Racing is actually a more pure form of pari-mutuel wagering than is "traditional" wagering on live horse races, because in "traditional" wagering there are circumstances under which the racetrack stands to lose money to the players.

My review of the tax for HHR shows 1%

- .25% – GF
- .25% – Cities
- .25 %– Counties
- .25% – Compulsive Gambling

Fees are separate from taxes.

Charitable Gaming Tax average of 1.2% of gross wagers.

- 1% for gross wagers under \$1.5M
- \$15,000 + 2.25% for gross wagers over \$1.5M

This does not include fees that are associated with Charitable Gaming; licensing, gaming stamps, etc.

I have been informed that the HHR taxes are on Adjusted Gross Proceeds (wagers less prizes). If this is so than charitable gaming would be at a higher tax rate of 5%. Charitable gaming is taxed on Gross Proceeds before prizes are paid. Charitable gaming average tax off Gross Proceeds is 1.2% and if compared to Adjusted Gross Proceeds the tax rate is 5%.

Deb McDaniel
Director of Gaming

NDCC § 53-06.1-12 (Gaming tax – Deposits and allocations) states:

The attorney general shall deposit seven percent of the total taxes, less refunds, collected under this section into a gaming tax allocation fund. Pursuant to legislative appropriation, moneys in the fund must be distributed quarterly to cities and counties in proportion to the taxes collected under this section from licensed organizations conducting games within each city, for sites within city limits, or within each county, for sites outside city limits. If a city or county allocation under this subsection is less than two hundred dollars, that city or county is not entitled to receive a payment for the quarter and the undistributed amount must be included in the total amount to be distributed to other cities and counties for the quarter.

The intent is that our office sometimes uses local law enforcement to help with regulation, fraud, investigation and complaints. This amount goes back to the cities and counties to help reimburse for any costs that may be used for this help.

Deb McDaniel
Director of Gaming

Chairman Delzer:

The Charitable Gaming Association of North Dakota (CGAND) urges you to vote Do Not Pass on SB 2221. SB 2221 will drastically reduce monies raised for charitable purposes in North Dakota. This bill will be a major blow to the wonderful charities across the state.

Charities raised over \$43 million for their charitable purposes and paid nearly \$7 million in gaming taxes on \$570 million in charitable gaming wagers last biennium.

SB 2221 fiscal note shows an estimated \$275 million to be wagered on these slot-type machines next biennium, with only \$563,625 in taxes to the state general fund and that same amount in taxes to the cities and counties.

SB 2221 fiscal note does not take into account the reduction of gaming taxes that will not be paid from charities as a result of the reduction of charitable gaming wagers if this bill is passed.

Thank you for considering a Do Not Pass vote on SB 2221.

Traci LaDouceur - CGAND Treasurer

Chairman Jeff Delzer and House Appropriations Committee members:

CGAND wants you to know:

For every \$100 million that is wagered on historical horse racing instead of charitable gaming the state general fund loses \$950,000.

\$7.5 million dollars will be the loss to charities for their charitable purpose on every \$100 million that is wagered on historical horse racing instead of charitable gaming.

Thank you for considering a Do Not Pass on SB 2221

Traci LaDouceur – CGAND Treasurer

	Wagered	General fund receives
Horse racing slot like machines	\$ 100,000,000	\$ 250,000
Charitable gaming	\$ 100,000,000	\$ 1,200,000
Loss to general fund		\$ (950,000)

	Wagered
Gross Charitable gaming wagers	\$ 100,000,000
Prizes - 80% average	\$ 80,000,000
Adjusted Gross Proceeds	\$ 20,000,000
Average gaming tax 1.2% of Gross	\$ 1,200,000
Proceeds after taxes	\$ 18,800,000
State law 40% requirement to charitable purposes	\$ 7,520,000

Traci LaDouceur

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Here is a more accurate comparison on what taxes are paid by charitable and historic horse racing. In reality, horse racing will be paying a higher percentage of taxes and fees based on the average wager. The below numbers are straight from AG's office. Whoever suggested historic horse racing would have them paying less did not understand how the racing fees and taxes/take out are structured. Please let me know if you have questions.

Lacee

As detailed below, the average rate of taxes paid under current law as reported by the AG website is 1.15% of the wager whereas the SB 2221 places an average rate of taxes and fees on HHR wagering at 1.55%

Per the current law for other forms of Charitable Gaming, the tax and fees paid on charitable gaming is based on the wagering volume of the organization as follows:

Wagering Volume	Tax as % of wager
0 -500,000	1.0%
500,001 – 1,000,000	1.5%
1,000,001 - 1,500,000	2.0%
Over 1,500,000	2.5%

Based on the Attorney General's web site, for the 2013- 2015 biennium, the taxes and fees paid of \$6.8M on wagering volume of \$591M represents an average tax rate of 1.15% of the wager.

Furthermore, charitable gaming is allowed to deduct 60% of the net proceeds from gaming for expenses. Therefore, the projected total net proceeds from the \$591M in charitable wagering would be as follows:

Total Wagering Volume	\$591M	
Net Proceeds from wagering	\$123.75M	
Expense allowance	\$74.25M	60% of net proceeds from wagering
Taxes	\$6.8M	5.5% of net proceeds from wagering
Purposes	\$43M	34.5% of net proceeds from wagering

In SB 2221, the taxes and fees paid on HHR are as follows:

General Fund	.25%
Cities	.25%
Counties	.25%
Compulsive Gambling Fund	.25%

In addition, there are daily fees estimated to be 1.1M per year or approximately .55% of estimated wagering handle.

Thus HHR will be required to pay taxes and fees of approximately 1.55% of wagering volume.

Furthermore, with the use of the latest technology including HHR to offer charitable pari – mutuel wagering, the expenses are reduced to approximately 52% of the wagering volume and the net takeout from the players is greatly reduced resulting in the following split of the net proceeds:

Estimated Annual net proceeds from HHR	\$13M	
Expense Allowance	\$6.8M	52% of net proceeds from wagering
Taxes and Fees	\$3.1M	24% of net proceeds from wagering
Purposes	\$3.1M	24% of net proceeds from wagering