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Impact of Full Card Simulcasting and Reduction in the Parimutuel Tax on the Horse Racing Industry

Report 99-12

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**Facts About
The Joint Legislative Audit and Review Committee**

Established by Chapter 44.28 RCW, the Joint Legislative Audit and Review Committee (formerly the Legislative Budget Committee) provides oversight of state funded programs and activities. As a joint, bipartisan legislative committee, membership consists of eight senators and eight representatives equally divided between the two major political parties.

Under the direction of the Legislative Auditor, committee staff conduct performance audits, program evaluations, sunset reviews, and other types of policy and fiscal studies. Study reports typically focus on the efficiency and effectiveness of agency operations, impact of state programs, and compliance with legislative intent. As appropriate, recommendations to correct identified problem areas are included. The Legislative Auditor also has responsibility for facilitating implementation of effective performance measurement throughout state government.

The JLARC generally meets on a monthly basis during the interim between legislative sessions. It adopts study reports, recommends action to the legislature and the executive branch, sponsors legislation, and reviews the status of implementing recommendations.

Table of Contents

Chapter		Page
	Summary	i
	Summary of Recommendations	ix
1	Legislative History and Study Approach	1
	Summary	1
	Study Mandates	2
	Study Approach and Methodology	8
2	Impact of 1997 and 1998 State Policy Changes	13
	Summary	13
	Introduction	14
	Findings	15
	Conclusions	19
3	Efforts In Other States To Assist Horse Racing Industry	21
	Summary	21
	Introduction	21
	Findings	22
	Conclusions	24
4	Washington's Horse Racing Industry: Economic Viability Analysis	25
	Summary	25
	Introduction	25
	Findings	26
	Conclusions	28

Chapter		Page
5	Parimutuel Taxes—Sunset Review Analysis	29
	Summary	29
	Introduction	29
	Findings	30
	Conclusions	33
	Sunset Recommendations	34
Appendices		
1	Scope and Objectives	35
2	Agency Responses	37
3	History And Distributions Of Parimutuel Tax Prior To Enactment Of E2SSB 6562 In 1998	47

Impact of Full Card Simulcasting and Reduction in the Parimutuel Tax on the Horse Racing Industry

Summary

LEGISLATIVE HISTORY AND STUDY APPROACH

Study Mandates

The Joint Legislative Audit and Review Committee (JLARC) was mandated to conduct evaluations of the impact of legislation enacted in 1997 and 1998 to assist the horse racing industry in Washington State remain economically viable.

ESSB 5762, enacted in 1997, expanded the simulcasting of horse racing at the racetracks, and specified the outcome measures to be used by JLARC in assessing the impact of the act on the economic health of the horse racing industry.¹ E2SSB 6562, enacted in 1998, amended Parimutuel Tax provisions and temporarily reduced this tax by approximately 50 percent. It also terminated any tax distributions to the Fair Fund and State Trade Fair Fund and included a 2001 sunset termination of this tax change.

Two efforts
to assist
industry

Criteria/Outcome Measures Set Out in ESSB 5762

When the legislature enacted ESSB 5762 in 1997, it specified six outcome criteria to be used in assessing the success of that legislation such as actual increases in purses, race attendance, number of horses racing and horse breeding. Additionally, the legislature asked us to assess the degree that nonprofit

¹“Simulcasting” is the importation and exportation of simultaneous telecasts of live horse races from other racetracks for purposes of participation in the parimutuel wagering on those races.

racetracks have benefited from the act. Finally, ESSB 5762 directed JLARC to assess the extent that the major racetracks were capable of remaining “economically viable,” given the provisions of “this act and the increase in competition for gambling or entertainment dollars.”

Financial Performance Data Collection

We used financial performance data from the only major racetrack still operating, Emerald Downs, as the primary measure to assess the economic impacts of both legislative actions to assist Washington’s horse racing industry, particularly the effect of the 1998 change in the Parimutuel Tax rate.

IMPACT OF LEGISLATIVE POLICY CHANGES TO ASSIST HORSE RACING INDUSTRY

The legislature’s actions to assist Washington’s horse racing industry has produced mixed results and appears to have had the following impacts on the industry:

Emerald Downs’ Financial Performance Improves

As noted above, we used the financial performance of Emerald Downs as a major measure to assess the economic impact of these statutory changes on the horse racing industry in this state. Emerald Downs, as the primary thoroughbred racetrack in this state, is reporting an estimated financial loss for calendar year 1999. This latest financial performance data also indicates that Emerald Downs significantly improved its financial condition over calendar years 1997 and 1998 by reducing the magnitude of its losses from \$ 4.6 million in 1997 to an estimated \$800 thousand in 1999, due in part to a reduction in the Parimutuel Tax.

Closure of Yakima Meadows and Playfair Racetracks

There are two other major racetracks in the state. Yakima Meadows ceased operations on November 8, 1998, due to financial losses. Playfair Race Course did not have a live racing season in

Losses at
Emerald
Downs
continue

1998 due to economic difficulties and ceased all thoroughbred horse racing operations in August of that year. Subsequently, the track's owners have been unable to find an operator whose application and business plan are acceptable to the Washington Horse Racing Commission (WHRC).

**Two tracks
closed**

Other Measures of Statewide Horse Racing Industry Health

On a statewide level, parimutuel wagering increased from 1997 to 1998, but declined in 1999. Overall statewide attendance at the major racetracks was also down. Both of these negative trends were apparently due to the lack of live racing at the racetracks in Spokane and Yakima. Additionally, other statewide measures of the health of the horse racing industry, as set out in ESSB 5762, such as the level of horse breeding and the number of horses currently racing, were still on a downward trend, though the "foal crop" is estimated to increase slightly in 1999.

EFFORTS IN OTHER STATES TO ASSIST INDUSTRY

To assist in this study, the WHRC surveyed other states' efforts to assist their horse racing industries, with the intent of identifying those practices which have been proven to improve the economic viability of the horse racing industry.

The survey identified various state policies, some of which have also been adopted in Washington State. Several states have authorized their horse racing industries, particularly the racetracks, to introduce or expand their simulcasting of races, as was implemented in Washington State. Others have reduced their Parimutuel Tax, as was also done in this state.

These states reported increases in revenue to the tracks and some improvement in the tracks economic health. However, it is too soon to assess how these changes have contributed to the long-term economic viability of the industry in these states. The states of Indiana and Maryland, which provided direct financial subsidies to their horse racing industries, reported the most substantive economic (but unquantified) results.

ECONOMIC VIABILITY OF INDUSTRY WITHIN GAMBLING ENVIRONMENT

We were directed in ESSB 5762, the Full Card Simulcasting bill, to assess the extent that the major racetracks are “capable of remaining economically viable given the provisions of this act and the increase in competition for gambling or entertainment dollars.”

Impact of Expansion of Gambling in Washington

The horse racing industry’s share of Washington’s gambling dollar decreased from 63 percent in 1974 to 8 percent in 1996, (prior to the implementation of Full Card Simulcasting at the racetracks in 1997), as shown in Exhibit 1 on the next page.

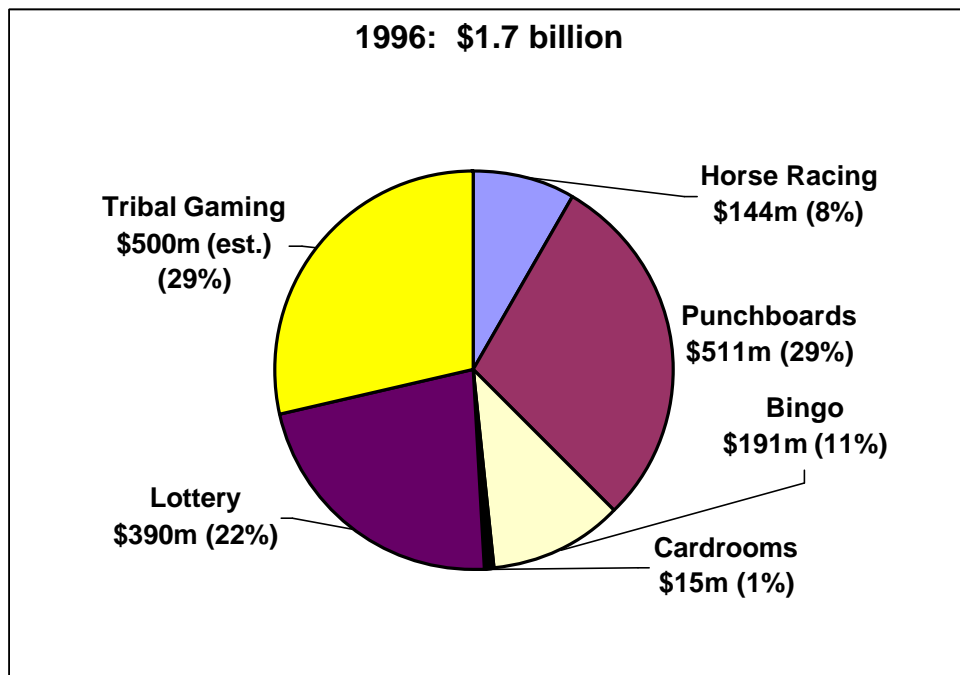
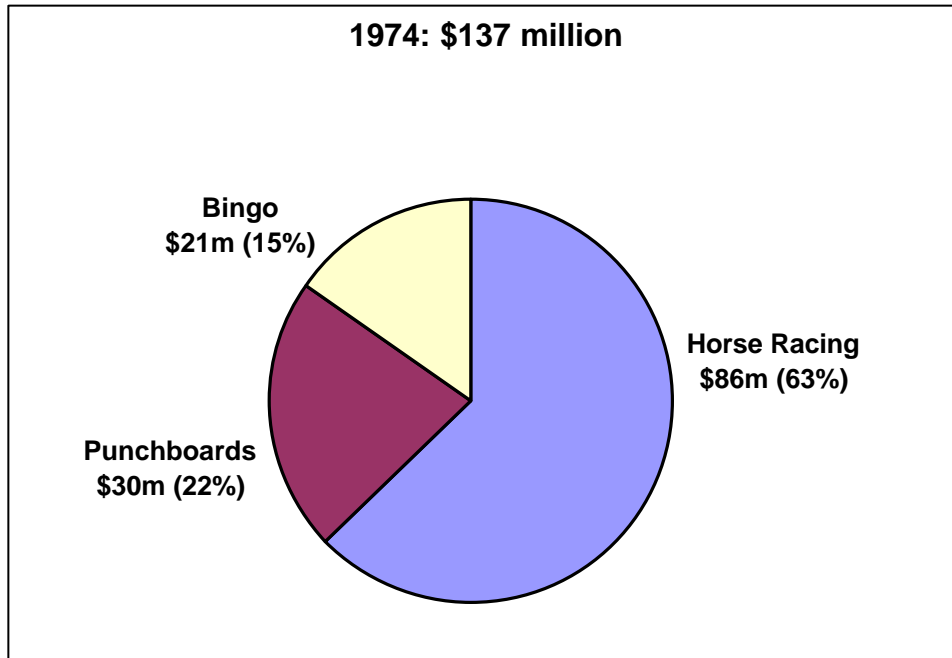
The enactment of a State Lottery, the introduction of tribal casinos, and the growth of “enhanced card rooms” has increased the competition for the gambling dollar within Washington. Moreover, the introduction of “Tribal Lottery Systems,” which are similar to slot machines in appearance, at the tribal casinos in July 1999, and the potential expansion of the number of “enhanced card rooms” could again change the gambling marketplace in this state.

Goal of Healthy Horse Racing Industry Not Achieved in Washington

This report concludes that the legislative expectation of a healthy horse racing industry, by historical standards, has not been achieved. Emerald Downs has shown a smaller financial loss for 1999, but two major tracks remain closed. Although some progress has been made over previous years, the financial future of the industry is still in doubt.

**Legislative
efforts had
mixed
results**

Exhibit 1
Distribution of Dollars Wagered in Washington
1974 & 1996 (nominal, unadjusted dollars)



Source: Senate Committee on Commerce, Trade, Housing and Financial Institutions.

PARIMUTUEL TAX SUNSET REVIEW

The primary impacts of the 1998 Parimutuel Tax change has been to enhance the financial situation of this state’s primary racetrack, Emerald Downs, and to create uncertainty about funding for agricultural fairs.

However, in the current context of the financial realities faced by the Emerald Downs Racetrack, we recommend that the 1998 legislative reduction in the Parimutuel Tax be continued in statute. If Emerald Downs does not become “economically viable,” there will be no source of Parimutuel Tax revenue.

Because not enough is known about the economics of this industry, this report makes no additional recommendations for state policy changes to assist the horse racing industry.

Continue tax reduction and identify funding source for agricultural fairs

Also in keeping with the sunset process, as part of their deliberations on the future of the Parimutuel Tax, we are recommending that the legislature should also consider identifying a funding source for agricultural fairs, which once received a portion of the revenue from the Parimutuel Tax.

AGENCY RESPONSE

We have shared the report with the Washington Horse Racing Commission (WHRC), the Department of Community, Trade and Economic Development (CTED), the Washington State Department of Agriculture (WSDA), and the Office of Financial Management (OFM), and provided them an opportunity to submit written comments. We have received comments from WHRC and CTED, who concur with the report’s two recommendations. WSDA does not concur with Recommendation 1. OFM does not concur with the report’s two recommendations. Written responses from these agencies are attached as Appendix 2.

ACKNOWLEDGEMENTS

Staff of the Washington State Horse Racing Commission gave extensive assistance on this project and were especially helpful in assisting us to obtain information on horse racing regulatory and

business practices in other states. Staff of the legislative standing committees and the Office of Financial Management also made suggestions during the development of this report. Finally, we wish to thank representatives of the horse racing industry for their efforts to ensure that we obtained the information necessary for a review of the relevant issues.

The statutory completion date for both of these studies is by June 30, 2000. Both studies are being completed this year, within a single report. If the preliminary report were delayed until June 2000 (when the racing season would have just begun), there would be no additional data in our analyses.

Gerry McLaughlin of the JLARC staff conducted this review. Ron Perry was the project supervisor.

Thomas M. Sykes
Legislative Auditor

On December 1, 1999, this report was approved for distribution by the Joint Legislative Audit and Review Committee.

Senator Georgia Gardner
Chair

RECOMMENDATIONS

Summary

Recommendation 1

We recommend that the Parimutuel Tax changes, enacted in 1998, not be allowed to terminate pursuant to Chapter 43.131 RCW.

Legislation Required:	Yes-Repeal sunset termination.
Fiscal Impact:	None, continues present policy.
Completion Date:	June 2001

Recommendation 2

We recommend that the legislature identify a source of revenue different than the Parimutuel Tax to fund agricultural fairs.

Legislation Required:	Yes-Include in policy bill and/or appropriations act.
Fiscal Impact:	Could shift current source of funding from General Fund to other non-general fund source.
Completion:	June 2001

LEGISLATIVE HISTORY AND STUDY APPROACH

Chapter One

SUMMARY

The Washington Legislature mandated the Joint Legislative Audit and Review Committee (JLARC) to conduct an evaluation of the impact of two recent legislative enactments intended to benefit the horse racing industry in this state. Both studies are due by June 30, 2000. Legislation enacted in 1997, ESSB 5762, revised state law pertaining to simulcasting of horse racing at the racetracks and other sites, and specified six outcome measures to be used by JLARC in assessing the impact of that bill on the horse racing industry. Legislation enacted in 1998, E2SSB 6562, lowered and redistributed the Parimutuel Tax and included a 2001 sunset termination provision for the tax reduction.

To conduct this study:

- We obtained impact data from the Washington Horse Racing Commission (WHRC) and from other sources to evaluate the results of the implementation of these legislative enactments.
- We assessed whether the legislative expectations have been achieved, based on the measures set out in ESSB 5762 and the financial health of the racetracks based on historical standards.
- We also looked to the status of the horse racing industry in other states and identified those policies and practices which have been implemented elsewhere to assist the economic performance of the industry.

- We conducted a sunset review of the 1998 change in the Parimutuel Tax rate as mandated by law.

The statutory completion date for both of these studies is by June 30, 2000. Both studies are being completed this year, within a single report because there would be no additional data in our analyses if the preliminary report were delayed until June 2000.

STUDY MANDATES

JLARC was mandated to conduct an evaluation of the impact to date of the enactment of 1997 legislation, ESSB 5762—Parimutuel Satellite and Simulcast Wagering. This act authorized “Full Card Simulcasting” (importing and exporting simulcasts of horse race cards with common pool wagering/parimutuel wagering).² The passage of this legislation brought practices in Washington State into line with parimutuel wagering practices in the majority of states with thoroughbred horse racing.

The second mandate was a sunset review of a tax policy change in the 1998 legislation, E2SSB 6562, amending Parimutuel Tax provisions. This law temporarily reduced the Parimutuel Tax by approximately 50 percent and terminated any tax distributions to the Fair Fund and State Trade Fair Fund. The fiscal note on this legislation estimated that enactment of the bill would enhance the overall major racetrack operators' revenues by approximately \$2 million each year and reduce distributions to the Fair Fund and State Trade Fair Fund by an equal amount.

Legislative Intent

The purpose of the enactment of ESSB 5762 was to enhance track revenues, especially during periods when there is not live racing.

²ESSB 5762 allowed racetracks to market "full card simulcasting" racing from other tracks with "common pool" or parimutuel betting on those races. When the track is conducting its own live race meet, it can only "simulcast" one other race card per live day and two race cards on non-live days. During the off season when the racetrack is not conducting a live race meet, it can import an unlimited number of full race cards each day (up to five days a week but not for more than 12 hours each 24-hour period). The level of parimutuel wagering is often referred to in racetrack parlance as the "handle."

The additional revenue generated through the parimutuel wagering on the simulcasted races was supposed to enhance purses for live races. In turn, the higher purses were expected to increase participation by and revenue to the horse owners in this state and the industry as a whole.

The legislative intent of the enactment of E2SSB 6562, which reduced the Parimutuel Tax rate by 50 percent, was to reduce the tax burden on horse racing tracks and therefore enhance their financial performance. This legislation responded to a perceived "crisis situation" in the industry in the fall of 1997 when the changes to simulcasting statutes, according to the owner of Emerald Downs, had not yielded sufficient revenue to raise the track's finances to a profitable level. Unless the legislature takes action, the Parimutuel Tax rate will return to its previous status on July 1, 2001.

Background on Horse Racing Issues in Washington State

Closure of Longacres and Opening of Emerald Downs

After the Longacres Race Course in Renton closed in 1992, public and private interests spent considerable effort and resources to bring back live racing to Western Washington. The legislature had previously established a Thoroughbred Fund in 1991 to assist the "industry in the construction of a new Western Washington racetrack."³ The fund totaled \$8.3 million at the end of 1993, and the legislature appropriated most of this balance to the Horse Racing Commission in the 1993-95 Capitol Budget for the purpose of the establishment of the track.⁴

³ Enacted in SHB 1120. Revenues to the fund were proceeds from the Parimutuel Tax.

⁴ In Washington State, there are three commissions which regulate gambling activities: The Washington Horse Racing Commission (WHRC), The Gambling Commission, and The Lottery Commission. WHRC approves the racing meets, number of days of racing, number of races, and purse structure, and oversees the conduct of the parimutuel wagering. WHRC also licenses track operators, horse owners, trainers, jockeys, and any other track employees, and requires financial statements to be filed by the racetracks when filing for a live racing meet. It has an 1999-2001 Biennial Budget of \$4.6 million and 30 FTE staff plus some contract services.

After three different applicants subsequently competed for a license to conduct live racing in Western Washington, the Commission, in May 1995, issued a license to Northwest Racing Associates to conduct racing and wagering at its proposed facility in Auburn—Emerald Downs.

Changes in Gambling Environment

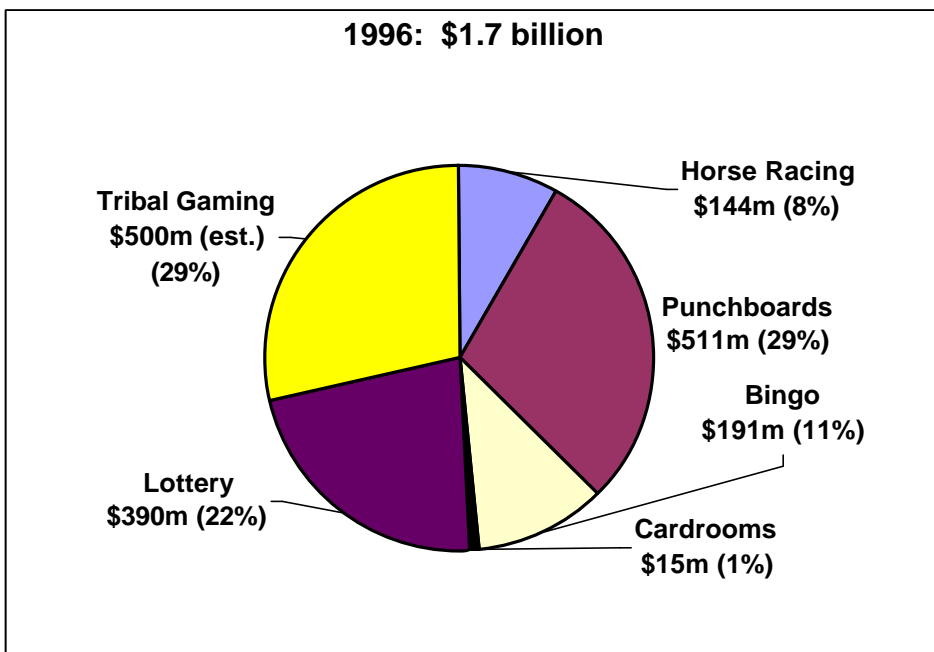
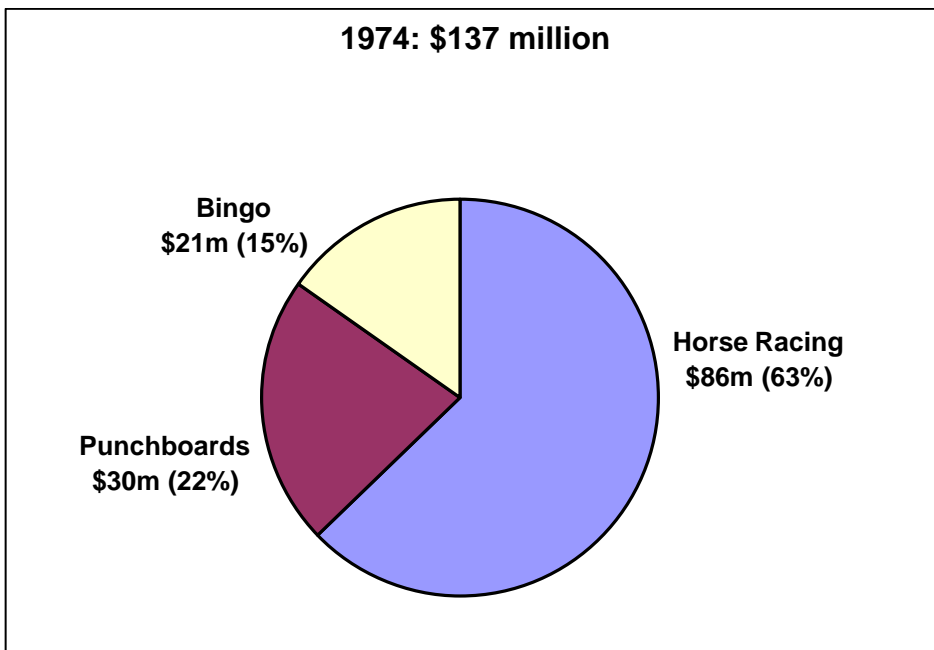
Horse Racing Share of Market Declining

As shown in Exhibit 2, the horse racing industry's share of the gambling dollar has decreased from 63 percent in 1974 to 8 percent in 1996 (prior to the implementation of Full Card Simulcasting at the racetracks in 1997).

The previous enactment of a State Lottery and the recent introduction of tribal casinos and growth of "enhanced card rooms" has increased the competition for the gambling dollar within Washington. Moreover, the introduction of "Tribal Lottery Systems," which are similar to slot machines in appearance, at the tribal casinos in July 1999 and the potential expansion in year 2000 of the number of "enhanced card rooms" will probably again change the gambling marketplace in this state.

As also can be seen in Exhibit 2, the horse racing industry's loss of market share has occurred while the gambling industry as a whole has grown. This change is not an isolated event, but follows national trends in the industry.

Exhibit 2
Distribution of the Dollars Wagered in Washington:
1974 & 1996 (nominal, unadjusted dollars)



Source: Senate Committee on Commerce, Trade, Housing and
Financial Institutions.

Legislative Policy to Assist Horse Racing Industry

In recent years, the legislature has been asked to provide various forms of relief for the industry. In addition to the \$8.3 million initially appropriated in 1993 by the legislature for racetrack construction, three major pieces of legislation have been enacted starting in 1995 with a deferral on taxes due on “new tracks.” These enactments are displayed below showing the year, bill number, and approximate fiscal impact of each legislative action.

**Exhibit 3
Table of Legislative Actions to Assist
Horse Racing Industry**

Year	1991	1995/98	1997	1998
Bill Number	SHB 1120	SHB1248/ SB6668	ESSB 5762	E2SSB 6562
Purpose	Set Aside Funds for Racetrack Construction	Deferral of Sales Tax/Extended in 1998	Authorized Full Card Simulcasting	Reduction in Parimutuel Tax
Dollar Impact	\$8.3 Million*	Current Balance \$4.3 Million	Not Readily Quantifiable	\$2.0 Million a Year

Source: Washington Horse Racing Commission.

*Funds were appropriated for construction of Emerald Downs in the 1993-95 Capital Appropriations Act.

As shown above, during the 1997 Legislative Session, the horse racing industry was successful in gaining legislative authorization to bring Full Card Simulcasting to the state with the enactment of ESSB 5762. Additionally, the industry was also successful in 1998 in obtaining legislative changes in the rate and distribution of the Parimutuel Tax to provide more direct income to the industry with an estimated \$2 million-a-year fiscal stimulus to the industry.

Both of these acts were intended to “preserve, restore, and revitalize the equine breeding and racing industries.” (ESSB 5762)

Action In The 1999 Legislative Session

The 1999 Legislature made a special appropriation to the Fair Fund to replace "temporary elimination" of the Parimutuel Tax as a source of revenue." The legislature appropriated funds to cover the period through fiscal year 2001.

National Economic Trends in the Horse Racing Industry

Economic Difficulties and Creation of NTRA

National media accounts have indicated that the horse racing industry has been in a business downturn since the early 1990s.⁵ In response to these economic difficulties at the national level, the horse racing industry created the National Thoroughbred Racing Association (NTRA) in 1997 to promote the sport across the country.

Marketing efforts by the National Thoroughbred Racing Association increased from \$20 million in 1998 (their first full year of existence), to \$30 million during the 1999 season. In their most recent announcement (September 1999), the Association announced that it was scaling back somewhat on this ambitious program.⁶

Actions Taken by Other States

The National Gambling Impact Study Commission staff provided us with an overview of actions taken in other states to improve the economic situation of the horse racing industry.⁷ Actions taken, particularly to introduce "slot machines" or other gambling devices, have assisted tracks. As to the reasons for this shift in fortunes of racetracks, "increased competition from other forms of gambling is generally pointed to as the culprit, but other likely

⁵Business Week, June 22, 1998.

⁶National Thoroughbred Racing Association (NTRA) announcement, September 1999.

⁷ *Final Report; The National Gambling Impact Study Commission*. June 1999.

factors include such imponderables as changes over time in consumer preferences and cultural standards."⁸

STUDY APPROACH AND METHODOLOGY

Study Evaluation Criteria and Research Questions

We evaluated the success of these 1997 and 1998 legislative enactments in Washington State using the following criteria: legislative expectations, racetrack financial plans and performance in other states of the horse racing industry. We also attempted to answer the following research questions:

- What are the primary regulatory and economic variables that influence the viability of the horse racing industry in this state?
- What can we learn from other states' or geographic regions' experiences in promoting the economic viability of the horse racing industry?
- What are the policy options (and projected outcomes) available for the legislature to assist the horse racing industry to be economically viable?

Criteria/Measures Set Out in ESSB 5762

When the legislature enacted ESSB 5762 in 1997, it specified six outcome criteria to be used in assessing the success of that legislation such as actual increases in:

- Purses,
- Race attendance,
- Number of horses racing, and
- Horse breeding.

⁸*Parimutuel Gambling: An Overview*. White Paper prepared by Douglas Seay, staff to National Gambling Impact Study Commission.

Additionally, the legislature asked us to assess the degree that nonprofit racetracks have benefited from the act. Finally, ESSB 5762 directed JLARC to assess the extent that the major racetracks were capable of remaining “economically viable” given the provisions of “this act and the increase in competition for gambling or entertainment dollars.” It should be kept in mind that gross changes in purses, attendance, horse racing, and breeding statistics may only show relative changes in those indicators, which may not be adequate indicators of a healthy horse racing industry.

Methodology

Financial Performance Data Collection

We attempted to use financial performance data from the three major racetracks as the primary measure to assess economic impacts of legislative actions. We used the format for revenue and expense elements for racetrack applications identified in the WHRC promulgated rule: *WAC 260-13-080-Disclosure of Financial Plan*. However, financial tracking data for Yakima Meadows and Playfair was of a fragmented nature because of the current lack of horse racing activity at those two racetracks. Therefore, we did not include it in this report.

As a result, the only consistent financial performance data available was from Emerald Downs Racetrack in Auburn.

Efforts by Other States to Assist Their Horse Racing Industries

We also asked the WHRC to survey other states' regulatory and tax policies pertaining to horse racing and the resulting health of those states' industry. We looked at Parimutuel Tax rates, degree of Full Card Simulcasting, magnitude of any direct subsidies, and other pertinent actions. This information could provide insight into potential changes to the horse racing policies, regulations and taxing practices in this state.

Economic Viability Analysis

Economic viability of the horse racing industry was the goal of both the 1997 and 1998 legislation. We contacted economists at research universities in this state and other states, particularly Nevada and Kentucky, regarding any information on the economic variables involved in the gambling industry. We were primarily interested in any relational analysis which demonstrated the nexus between the diminished fortunes of the horse racing industry and any increase of other forms of gambling, especially casino-type establishments. We also contacted the National Thoroughbred Racing Association. None of these inquiries produced research useful to our study.

We reviewed two consultant studies done on the horse racing industry in Kentucky and Maryland. However, these studies did not provide us any policy and/or economic model which, if implemented, would help to evaluate the economic viability of the horse racing industry in this state.

Parimutuel Tax Reduction/Sunset Analysis

Because the sunset process has never been used to assess the utility of a tax change, we attempted to at least document the impact of the change on state funds and the programs and activities that they fund. In doing so, we reviewed the changes in the economic situation of the racetracks and the industry as a whole. Using racetrack financial performance data, we assessed the impact of the 1998 reduction in Parimutuel Taxes on the racetracks' financial performance.

We also tracked the impact of the enactment of E2SSB 6562 on those entities funded from the Fair Fund and the State Trade Fair Fund. As part of the analysis, we asked representatives of the fair industry to explain the need for and the use of the funds. We also attempted to assess other states practices in funding agricultural and trade fairs.

The statutory completion date for both of these studies is by June 30, 2000. Both studies are being completed this year, within a single report. If the preliminary report were delayed until June

2000 (when the racing season would have just begun), there would be no additional data in our analyses.

Study Limitations

As noted above, our analysis was limited by the lack of racing activity at both Yakima Meadows and Playfair during 1998. Additionally, the life cycle of the breeding and raising of horses is such that it takes years to see the results of a economic decision in that segment of the industry. The degree to which increased revenues to the industry from Full Card Simulcasting and the reduction in the Parimutuel Tax resulted in larger purses is documentable. However, the degree to which these larger purses led to increased participation by horse owners and increased handle is far less quantifiable.

IMPACT OF 1997 AND 1998 STATE POLICY CHANGES

Chapter Two

SUMMARY

Legislative action in 1997 and 1998 to assist the horse racing industry in this state has produced mixed results and appears to have had a limited impact on the industry. Using the criteria as set out in ESSB 5762, the 1997 Full Card Simulcasting legislation, the horse racing industry has mixed results and appears to have had a limited impact on the industry.

As the only racetrack currently operating in this state, Emerald Downs is projecting a financial loss for calendar year 1999 of \$.8 million. The magnitude of the loss, however, is significantly less than in calendar years 1997 and 1998. It did show a slight increase in its overall "handle" for this year over 1998. Additionally, attendance is estimated to increase by 3 percent over last year.

Other statewide measures of horse racing industry health, as set out in ESSB 5762, such as changes in horse breeding and number of horses currently racing, are still on a downward trend or relatively flat over previous years.

The statewide level of parimutuel wagering was up in 1998 over 1997, but showed a significant decline for 1999. This would be expected in this industry's environment, with the inactivity at Yakima Meadows and Playfair Racetracks overall attendance is down. Other measures of horse racing industry health, as set out in ESSB 5762, such as changes in the level of horse breeding and number of horses currently racing, are still on a downward trend. However, there is an estimated small increase projected in the

foal crop once the reporting of 1999 thoroughbred registrations is completed.

INTRODUCTION

In this chapter, we attempt to assess and quantify the impact of both the 1997 and 1998 legislative enactments related to simulcasting of races and the reduction in the Parimutuel Tax rate on the operations of the individual racetracks and the industry. When the legislature enacted ESSB 5762, it listed six criteria to be used in assessing the success of that legislation. The specified criteria are:

- Increases in purses,
- Increases in attendance,
- Increases in horse breeding,
- Increases in number of horses running,
- Benefits to nonprofit racetracks, and
- Extent that the major racetracks are capable of remaining economically viable.

However, gross changes in attendance, purses, horse breeding statistics, and parimutuel receipts may only show relative changes in those indicators. Actual economic viability would be primarily driven by the cost/expense structure of the various racetracks, including debt service. Other factors such as the marketing and business acumen of the operator and changes in the gambling industry in this state, (such as the proliferation of tribal and non-tribal casinos) might also affect the success of the industry. This issue is discussed more fully in Chapter 5.

Racetrack financial performance data from the WHRC is the primary measure to assess the effectiveness of the enactment of Full Card Simulcasting and the reduction in the Parimutuel Tax in improving the financial performance of the racetracks themselves. In this regard, we used the revenue and expense elements for racetrack applications identified in the WHRC promulgated rule, WAC 260-13-080-Disclosure of Financial Plan, as the most suitable format to use for the data. However, since Yakima Meadows Racetrack ceased operations on November 8, 1998, and Playfair in Spokane has not conducted a live race meet

for two years, there is no current data on the financial performance of those two tracks.

FINDINGS

Financial Performance of Emerald Downs

Introduction

Emerald Downs is currently the only major racetrack operating within Washington State. The track, located near Auburn, has been in operation since 1996 and is operated by Northwest Racing Associates. The racetrack conducts live thoroughbred racing from late April through September on a Thursday to Sunday schedule.

Emerald Downs Financial Performance

Emerald Downs is currently estimating a financial loss for calendar year 1999 as shown in Exhibit 4. However, it has apparently been able to show a modest increase in its overall handle in calendar 1999 over 1998. Attendance has also rebounded in 1999 from a large decrease in the previous year.

Exhibit 4
**Comparison of Performance of Emerald Downs in Selected
Calendar Years to 1992 Performance of Longacres**

	1992 (Longacres)	1996	1997	1998	1999
Total Parimutuel Wagering (in millions)	\$165.8	\$89.8	\$143.5	\$155.9	\$156.5*
Full Card Simulcasting –Imported Signal-Wagering (in millions)	NA	NA	\$59.5	\$95.5	\$98.3*
Purses Paid (in millions).	\$9.9	\$6.8	\$7.2	\$8.3	\$9.1
Attendance (in thousands)	1,129	614	720	668	685*
Number of Horses Running	2,361	1,935	1,787	1,781	1,685
Profit (Loss, in millions)	\$3.7	\$.1	(\$4.6)	(\$1.4)	(\$.8) *

Source: Washington Horse Racing Commission.

* Estimates.

As can be seen in Exhibit 4, the track's financial performance, though improved, still is estimated to show a loss for the track when the accounting is completed at the end of this year.⁹ In Chapter 5, we will show the projected loss for Emerald Downs for calendar years 1998 and 1999 had the reduction in the Parimutuel Tax not been enacted. The total parimutuel handle increased (including simulcasting revenues) by 9 percent from 1997 to 1998 at the track and is estimated to show a slight increase in 1999. Overall attendance was down 11 percent from 1997 to 1998, but current estimates show a 3 percent increase in 1999 over the previous year.

Playfair Race Course in Spokane

Playfair Race Course did not have a live racing season in 1998 due to economic difficulties and ceased all thoroughbred horse racing operations in August 1998, although the Muckleshoot Tribe subsequently applied to the WHRC to operate the track and to conduct live race meets.¹⁰ The Commission denied the tribe's application. The current application from Lilac Racing is pending WHRC approval. However, it is clear that there will not be a live race meet in 1999 at the Playfair Race Course because the track's live season normally begins in the fall.

Yakima Meadows

Yakima Meadows, operated by the Central Washington Fair Association, closed after the last race at the track on November 8, 1998, due to the "inability to generate sufficient attendance and handle to break even."¹¹ Track officials stated that the track needed an average handle of \$250,000 a day to break even. The track averaged about \$170,000 a day before it closed.

⁹Emerald Downs/Northwest Racing Associates Limited Partnership is subject to an annual independent financial audit by the CPA Firm of Brantley, Janson Yost & Ellison of Federal Way, Washington. Financial statements are filed annually with WHRC.

¹⁰Full Card Simulcasting of imported races and parimutuel wagering was conducted at the track through August 7, 1998.

¹¹ Yakima Herald, October 30, 1998.

Current Data for Other Statewide Outcome Measures Identified in ESSB 5762

Keeping in mind the data limitations because of the closure of Yakima Meadows and Playfair, we provide, in Exhibit 5, a status report on current statewide data for the specific outcome measures contained in ESSB 5762.

Exhibit 5 Comparison Outcome Measure Statewide Data Specified in ESSB 5762 for Selected Calendar Years

	1992 ¹²	1996	1997	1998	1999
Purses (in millions)	\$14.7	\$10.7	\$8.7	\$9.1	\$9.5
Attendance (in thousands)	1,573	865	893	749	711*
Number of Horses Running	4,013	2,747	2,783	2,280	2,054
Breeding/Foal Crop	1,461	1,202	1,168	1,104	1,200*
Revenue to Nonprofit Racetracks (in thousands)	\$150	\$134	\$144	\$172	\$300

Source: Washington Horse Racing Commission.

*Estimated figures. Financial data for 1999 is unaudited.

The exhibit also shows that overall statewide attendance at racetracks and the number of horses running in this state is on a downward trend. Purses increased slightly from 1997 to 1998 and estimates for 1999 indicate a similar increase.¹³ Revenue to the nonprofit racetracks is relatively small, but is up significantly in 1999. This is due to a change in the statutory distribution formula, not necessarily to favorable trends in the horse racing industry.¹⁴

¹²1992 is set out in the first column of the exhibit as the "benchmark year" since this was the last year of operations of Longacres and the historical data indicate that this was the "high water mark" of industry prosperity. We used 1996 as the current baseline since that was the last full year of track operations prior to enactment of ESSB 5762 in 1997 and E2SSB 6562 in 1998.

¹³The 1999 estimates are based on the fact that Yakima Meadows and Playfair are closed and will not have racing meets nor operate parimutuel simulcasting sites during calendar year 1999. These data include figures for nonprofit tracks.

¹⁴These "nonprofit" tracks are currently operated at four sites across the state at local fairgrounds in Walla Walla, Waitsburg, Dayton, and Kennewick. Horse racing operations at the Elma fairgrounds were terminated in 1997 after the last race meet at the track.

Total Statewide Parimutuel Handle Including Simulcasting

The parimutuel "handle" or amount of wagering in the industry was not one of the outcome criteria included in ESSB 5762. However, since it is the primary source of revenue to the horse racing industry, we include it here as Exhibit 6.

**Exhibit 6
Statewide In-state Parimutuel Wagering Comparisons for Selected Calendar Years (dollars in millions)**

	1992	1996	1997	1998	1999 Est.
Instate Handle	\$238.6	\$144.6	\$172.3	\$175.4	\$157.6

Source: Washington Horse Racing Commission.

The statewide parimutuel handle increased by 2 percent from 1997 to 1998. However, the WHRC estimates an 11 percent decrease in 1999 based on the fact that both Yakima Meadows and Playfair will conduct neither live race meets nor parimutuel wagering through Full Card Simulcasting.

Exhibit 7 includes parimutuel wagering totals for in-state race card races exported via simulcasts to out-of-state locations, as specifically authorized in 1997 with the enactment of ESSB 5762-Full Card Simulcasting.

**Exhibit 7
Parimutuel Wagering on Exported Simulcasts of Washington State Races (dollars in millions)**

	1997	1998	1999 Est.
Exported Handle	\$12.5	\$25.0	\$39.8

Source: Washington Horse Racing Commission.

As shown in Exhibit 7, there has been substantial growth in this aspect of the racing industry with a 60 percent increase in “handle” from 1998 to 1999.

Impact on Various Other Segments of Agricultural Industry

One focus of legislative discussions has been the downstream impact on the horse racing industry due to financial problems facing the tracks. The change to the simulcasting law was designed to generate more revenues so that purses could be enhanced. That action was expected to promote more horse breeding and to assist all of the other businesses that benefit economically from a healthy industry.

Other measures of horse racing industry health, as set out in ESSB 5762, such as changes in the level of horse breeding and number of horses currently racing are still on a downward trend. However, there is a small increase projected in the foal crop once the reporting of 1999 thoroughbred registrations are completed.

There does not appear to be good data on the impact of these policy changes on the other agricultural aspects of the industry such as feed, fertilizer, and transportation since this type of impact data is not tracked by this state’s Department of Agriculture.¹⁵

CONCLUSIONS

Legislative changes in 1997 and 1998 intended to assist Washington’s horse racing industry has produced mixed results and appears to have had a limited positive impact on the industry. As the only racetrack currently operating in this state, Emerald Downs is still projecting a financial loss for calendar

¹⁵*The Economic Contribution of the Thoroughbred Horseracing and Breeding Industry to the State of Washington*, Killingsworth Associates, Inc., 1990, reported that the Washington Thoroughbred Horse Industry provided a direct cash flow of almost \$114 million to the Washington economy in 1988. It further stated that by “incorporating the multiplier,” the total annual economic impact was almost \$400 million in 1988 dollars. We have not independently validated any of the data or the economic assumptions used in this report.

year 1999. The magnitude of the loss is less than in calendar years 1997 and 1998. It did show a slight increase in its overall "handle" for this year over 1998. Additionally, attendance is estimated to increase by 3 percent over last year.

Other statewide measures of horse racing industry health, as set out in ESSB 5762, such as changes in horse breeding and number of horses currently racing, are still on a downward trend or relatively flat over previous years.

EFFORTS IN OTHER STATES TO ASSIST HORSE RACING INDUSTRY

Chapter Three

SUMMARY

Nationally, the thoroughbred horse racing industry experienced a decline downturn in attendance and parimutuel wagering before beginning an upward trend in 1994. This upward trend has continued over the last five years. Several other states introduced measures to benefit the industry, similar to those enacted in Washington, i.e., Full Card Simulcasting and reductions in Parimutuel Tax rates.

A few states, such as Iowa and Florida, broadened their own gambling activities including authorizing card rooms and slot machines with the goal of enhancing the "economic viability" of the horse racing industry in those states or regions. Additionally, Maryland and Indiana provide direct subsidies to their horse racing industry. These actions are rather recent, however, and the long-term effect of some of these "innovations" has yet to be determined.

INTRODUCTION

As part of this study we asked the WHRC to conduct a survey of other states' regulatory and tax policies pertaining to horse racing. Using the membership of the Association of Racing Commissioners International Inc. and North American Parimutuel Regulators Association, as a survey base, WHRC contacted 36 state horse racing commissions and five Canadian provinces. With this survey, we hoped to identify those policies and practices that have proven to maintain and improve the

economic viability of the horse racing industry in other states or regions.

FINDINGS

Results of Survey

The horse racing regulatory bodies in other states report that they have taken a variety of steps to assist the industry in their states. These efforts are highlighted below and generally cover reductions in Parimutuel Taxes, implementation of Full Card Simulcasting, direct financial subsidies, and introduction of other forms of gambling at the tracks.

Highlights of Efforts in Other States to Assist Horse Racing Industry

California

Effective January 1, 1999, through legislative action, the Parimutuel Tax was reduced by 40 percent. As a result, commissions to tracks and purses to horse owners were increased accordingly.

Florida

Parimutuel Tax rates were reduced from 3.3 percent to as low as .2 percent (depending on the type of race) over the last three years. The legislature authorized "card rooms" at the thoroughbred racetracks. No racetrack has taken advantage of this provision as of yet. Full Card Simulcasting was authorized in 1996.

Illinois

The 1999 Legislature reduced the Parimutuel Tax from 3 percent to 1.5 percent. One of the riverboat licensees was required to allocate 15 percent of adjusted gross revenues to the horse racing industry (split evenly between horseman and racetracks).

Indiana

Fifty-five percent of horseracing purse money is derived from riverboat gambling revenue.

Iowa

The legislature authorized slot machines at racetracks.

Maryland

The legislature provided direct general fund financial subsidy from the state, i.e., \$6 million for purses in 1998 and \$8 million in 1999 (of which \$1.5 was for marketing). This amount was increased to \$10 million for fiscal year 2000.

New York

In 1999, the state legislature reduced Parimutuel Tax by approximately 50 percent.

Improvements in Fortunes of Horse Racing Industry at the National Level

Data published by the Jockey Club, a national horse racing association, shows that, after declining in 1993, the gross parimutuel handle at the national level has increased in each of the last five years.¹⁶ These increases appear to be directly attributable to the growing number of racetracks involved in Full Card Simulcasting of horse races. On the other hand, the number of races has decreased each year as has the number of thoroughbred horses racing. In contrast, the average purse size has increased per horse starting and the average price per yearling has also increased each year since 1992.

¹⁶*The 1999 Jockey Club Fact Book*. The club is the national organization responsible for registration of thoroughbred race horses. It is also the official source for horse racing industry statistics.

CONCLUSIONS

Our survey identified various state policies which were intended to enhance the "economic viability" of the horse racing industry in those states or regions. While other states have taken many of the same steps as Washington to help their horse racing industries, the long-term effect of these efforts is unclear or mixed. Several states have authorized their horse racing industries, particularly the racetracks, to introduce or expand their simulcasting of races, as was implemented in Washington State. Others have reduced their Parimutuel Tax, as was also done in this state.

These states reported increases in revenue to the tracks and some improvement in the tracks economic health. However, it is too soon to assess how these changes have contributed to the long-term economic viability of the industry in these states. The states of Indiana and Maryland, which provided direct financial subsidies to their horse racing industries, reported the most substantive economic (but unquantified) results.

On a national scale, the data from the Jockey Club does reflect some favorable business trends, but does not show the impact on the balance sheets of individual racetracks.

WASHINGTON'S HORSE RACING INDUSTRY: ECONOMIC VIABILITY ANALYSIS

Chapter Four

SUMMARY

This report concludes that the legislative expectation of a healthy horse racing industry, by historical standards, has not been achieved.¹⁷ The primary racetrack of the horse racing industry in this state, Emerald Downs, is still reporting financial losses, although the estimated loss for 1999 is lower than in previous years. However, with the other two major racetracks not operating, the future of the industry is still in doubt.

This report makes no recommendations for additional policy changes to assist the industry. Not enough is known about the economics of this industry to suggest changes with any confidence in the outcomes of their implementation. However, as discussed in the next chapter of this report, we recommend that the 1998 reduction in the Parimutuel Tax rate be continued indefinitely.

INTRODUCTION

Representatives of the horse racing industry in Washington State have indicated to the legislature that the industry has severe problems remaining economically viable in the current economic environment, particularly due to the recent expansion of other gambling related activities. As discussed in the earlier chapters of this report, the legislature previously enacted racetrack

¹⁷We have used the last full year of Longacres Racetrack as the benchmark for a healthy horse racing industry in this state.

construction grants and tax deferrals and reductions to assist the industry with apparently mixed results.

Over time, however, other gambling enterprises in this state, such as casino type gambling establishments have gained a large share of the gambling market. The legislature clearly recognized the potential effect of other gambling activities on the business operations of the racetracks when, with the enactment of ESSB 5762, it specifically included it as one of the JLARC study criteria. Therefore, we have made that issue a major focus of this chapter.¹⁸

FINDINGS

Economic Viability Analysis

This report finds that the enactment of ESSB 5762 in 1997 and E2SSB 6562 in 1998, to assist the horse racing industry in this state, has benefited the financial performance of at least Emerald Downs, this state's only remaining major racing facility. The final chapter of this report specifically shows the beneficial impact of the 1998 reduction in the Parimutuel Tax on Emerald Downs' business results.

Yakima Meadows and Playfair Race Course closed in 1998. Yakima Meadows stated that it could not continue to operate due to financial realities. Playfair's difficulties in finding an operator acceptable to the WHRC appeared to have been related to many factors, some of which are alluded to in the WHRC statement of denial.

Based on our survey of other states, the most popular legislative policy changes for their ailing horse racing industries have already been implemented in this state, i.e., Full Card Simulcasting and reduction in Parimutuel Tax. Some steps that other states have taken to assist their racetracks, such as

¹⁸ We contacted economists from various institutions of higher education, including the University of Washington, about any analysis which had demonstrated the relationship between the economic fortunes of the horse racing industry in this state and the expansion of other gambling related businesses. We were unable to find any existing research on this subject.

authorizing slot machines at the tracks or providing direct financial subsidies, have not been considered for implementation in this state as of yet.

Gambling in Washington- Economic Trends/ Possible Impact on Horse Racing Industry

A significant event, often cited by horse racing industry advocates, is the legislative enactment of bills in 1996 and 1997 which authorized "enhanced card rooms" with more than five tables and house-banked games. These enhanced card rooms, commonly called "mini-casinos," are different in appearance and operation from the traditional card rooms.

The growth of these "enhanced card rooms" and of tribal casinos has increased the competition in consumer spending on gambling. As noted in Chapter 1, the horse racing industry's share of the spending on gambling has decreased from 63 percent in 1974 to 8 percent in 1996. This change reflects both a long-term decrease in the horse racing "handle" and an increase in the gambling industry itself. Additionally, the potential expansion of the number of "enhanced card rooms" could also impact the long-term economic viability of the horse racing industry.

Correlation Between Growth in Gambling Industry and Decrease in Racetrack Fortunes?

The horse racing industry economic consultants we contacted had not conducted a relational analysis that could demonstrate how changes in the gambling environment in this state has or has not impacted the fortunes of the horse racing industry. Additionally, no information from other states provides quantitative insight into the economic relationship between the horse racing industry in those states and overall changes in the level of other gambling activities. Although one might allege that the growth in tribal casinos and mini-casinos had a detrimental effect on the horse racing industry, we have no empirical evidence that this is the case.

CONCLUSIONS

The legislative goal of “economic viability” for the horse racing industry and for Emerald Downs, Playfair, and Yakima Meadows has not been achieved. Emerald Downs is still reporting a financial loss, though smaller than in past years. Yakima Meadows closed because of financial difficulties, and Playfair has not found a licensee with a business plan acceptable to the WHRC.

The last three racing seasons have been of a mixed nature for the horse racing industry. Overall, the legislative policy changes in 1997 and 1998 (Full Card Simulcasting—ESSB 5762 and Parimutuel Tax changes—E2SSB 6562) may have served to increase the level of parimutuel wagering at Emerald Downs and reduce its financial losses. However, the overall “betting handle” for the state as a whole is down significantly.

There is no current “state policy model” which stipulates a formula to guarantee economic viability for the horse racing industry. Therefore, we make no recommendations for additional policy changes to assist the industry. However, as discussed in the next chapter in the sunset review portion of this report, we recommend that the 1998 reduction in the Parimutuel Tax rate be continued.

PARIMUTUEL TAXES- SUNSET REVIEW ANALYSIS

Chapter Five

SUMMARY

The primary impacts of the 1998 Parimutuel Tax change has been to enhance the financial situation of this state's primary racetrack, Emerald Downs, and to create some uncertainty about funding for agricultural fairs.

The financial performance data provided to us shows that Emerald Downs is currently reporting a financial loss for calendar year 1999, although the magnitude of the loss was less than in previous years. Returning to the previous higher Parimutuel Tax rate would not likely enhance this situation and could have the opposite effect.

In the current financial context of horse racing in Washington, we recommend that the 1998 legislative reduction in the Parimutuel Tax be continued. Also in keeping with the sunset process, as part of its deliberations on the Parimutuel Tax, we recommend that the legislature consider identifying a revenue source to fund agricultural fairs.

INTRODUCTION

In 1998, the legislature reduced the Parimutuel Tax by approximately 50 percent in order to increase revenue to this state's racetracks. However, as a result of this action, revenue ceased to flow to the Fair Fund and State Trade Fair Fund. This legislation, E2SSB 6562, also contained a sunset provision which

terminates the reduction in the tax on June 30, 2001 (and in effect returns the law to the previous tax rate).

The fiscal note on this legislation estimated that enactment of the bill would enhance the overall major track operators' revenues by approximately \$2 million each year and reduce distributions to the Fair Fund and State Trade Fair Fund by an equal amount. This chapter contains the sunset review portion of this report conducted under the provisions of Chapter 43.131. RCW, the Washington Sunset Act.¹⁹

FINDINGS

Legislative Intent

The legislative intent of the enactment of E2SSB 6562 was to reduce the tax burden on horse racing tracks and therefore enhance their financial status. This legislation responded to a "perceived crisis situation" in the industry in the fall of 1997, when the changes to simulcasting statutes that year, according to the owner of Emerald Downs, had not yielded sufficient revenue to bring the track to a financially profitable level.

Action in the 1999 Legislative Session

The 1999 Legislature made a special appropriation of \$6 million to the Fair Fund to replace the Parimutuel Tax revenue and to cover its cash needs through June 30, 2001.²⁰ The Governor also provided dollars from his Emergency Fund to support one fair in early 1999. The legislature did not appropriate any funds to the State Trade Fair Fund.

¹⁹ In concert with the enactment of E2SSB 6562 in 1998, the legislature directed the Lottery Commission, in ESSB 6108—the supplemental budget—to "conduct at least two, but not more than four, scratch games with agricultural fair themes per year." The purpose of these games was to generate enough money to cover Parimutuel Tax distributions to the Fair Fund. The Governor vetoed these provisions.

²⁰ESSB 5180, 1999-2001 Operating Budget (Sec 1706).

Parimutuel Tax Rates in Washington Compared to Other States

The current Parimutuel Tax rate in Washington is in the lower range of this type of tax than in other states. As can be seen in Exhibit 8, nationally, Washington's Parimutuel Tax rate is in the bottom half of the rates, after the 1998 legislative change. However, one should be careful when using this data because the Parimutuel Tax is a relatively small component "take out" portion of the parimutuel handle from state to state. Some states also collect other types of tax revenue in addition to the Parimutuel Tax.

Exhibit 8 Comparison of Parimutuel Tax Rates in Thoroughbred Horse Racing States

New Jersey	0.00%	Oregon	1.00%	Idaho	1.70%	North Dakota	2.50%
Maryland	0.50%	West Virginia	1.10%	Arizona	2.00%	New York	2.60%
Pennsylvania	0.50%	Florida	1.25%	Indiana	2.00%	Alabama	3.00%
Colorado	0.75%	California	1.30%	Nevada	2.00%	Louisiana	3.00%
Delaware	0.75%	South Dakota	1.30%	Oklahoma	2.00%	Ohio	3.00%
Massachusetts	0.75%	Washington	1.30%	Virginia	2.40%	Kansas	3.50%
Montana	1.00%	Illinois	1.50%	Kentucky	2.45%	Iowa	5.00%
New Hampshire	1.00%	Texas	1.50%	Arkansas	2.50%	Minnesota	6.00%

Source: Washington Horse Racing Commission.

Impact of Reduction of Parimutuel Tax on the Financial Status of Racetracks

The primary impact of the Parimutuel Tax reduction has been to enhance the financial condition of the one racetrack still in operation. As shown in Exhibit 9, the 1998 reduction in the Parimutuel Tax has decreased the financial losses of Emerald Downs by more than \$1.5 million in calendar year 1998, and almost \$2 million in calendar year 1999.

Exhibit 9
Projected Financial Performance of Emerald Downs
without 1998 Parimutuel Tax Change (\$ in millions)

	1992	1996	1997	1998	1999
Profit (Loss)	\$3.7	.1	(\$4.6)	(\$1.4)	(\$.8)*
Projected Profit (Loss) with Parimutuel Tax at Previous Rate	\$3.7	.1	(\$4.6)	(\$2.9)	(\$2.7)*

Source: Washington Horse Racing Commission.

*Estimates.

While not bringing that track to financial profitability, the reduction in the Parimutuel Tax rate has reduced the magnitude of the financial loss experienced over the last two calendar years.

Impact of Elimination of Revenue to Fair Fund and State Trade Fair Fund

The Parimutuel Tax has long been a source of revenue for the Fair Fund and the State Trade Fair Fund. Prior to the 1998 reduction in the rate of the Parimutuel Tax, those funds received approximately half of Parimutuel Tax revenues.

For the history and distributions of the Parimutuel Tax prior to enactment of E2SSB 6562 in 1998, see Appendix 3. This appendix also contains information on how other states fund agricultural fairs.

According to the Washington State Fairs Association, in written representations submitted to JLARC, the 1998 legislative actions that resulted in no source of revenue for the Fair Fund created an “extremely difficult situation due to the uncertainty about funding.” The Association particularly pointed out that the uncertainty of funding may have resulted in lower numbers of exhibitors. In 1999, for example, they were told that at least at one fair site “parents stated that they could not afford to have their children participate if no premium check would be coming to help defray costs.” Since the Fair Fund ultimately received funding in the 1999 supplemental budget, actual impacts were probably limited.

The Department of Agriculture states they may have more definitive information on any impacts in early 2000 once the FY 2001 Fair Fund allocation applications are received. These applications will show the number of exhibitors, by type and other possible indicators of the temporary loss of funding.

The Department of Community, Trade and Economic Development indicated to us that they absorbed the elimination of the Parimutuel Tax revenue to the State Trade Fair Fund for the 1999-2001 Biennium. This was confirmed through discussions with budget staff from the Office of Financial Management (OFM).

CONCLUSIONS

Legislative consideration of the continuation, modification, or termination of the 1998 changes to the Parimutuel Tax should be viewed in the context of other efforts to assist the horse racing industry in becoming economically viable. If the racetracks, specifically Emerald Downs, are not viable from a business standpoint, there will not be any revenue in the form of a Parimutuel Tax. The financial performance data filed with the WHRC shows that Emerald Downs is operating at a loss for 1999. Returning to the previous Parimutuel Tax rate would most likely worsen the tracks' financial situation.

In the current context of the financial realities faced by Washington's horse racing industry, we recommend that the 1998 legislative reduction in the Parimutuel Tax be continued in statute. We are also assuming that the WHRC will continue to keep the appropriate legislative committees aware of any changes in the "economic viability" of Washington's horse racing industry.

Also in keeping with the sunset process, as part of their deliberations on the Parimutuel Tax, we recommend that the legislature should consider the long-term financial needs of agricultural fairs in the State of Washington. In this review, we did not assess the ability or willingness of the counties of this state or fair sponsors to assume the financial burden for fair activities previously paid from Parimutuel Tax revenue.

SUNSET RECOMMENDATIONS:

Recommendation 1

We recommend that the Parimutuel Tax changes, enacted in 1998, not be allowed to terminate pursuant to Chapter 43.131 RCW.

Recommendation 2

We recommend that the legislature identify a source of revenue different than the Parimutuel Tax to fund agricultural fairs.

SCOPE AND OBJECTIVES

Appendix 1

SCOPE

This study will review the impact of 1997 legislation, ESSB 5762–Full Card Simulcasting, and 1998 legislation, E2SSB 6562–Parimutuel Tax Reduction, on the horse racing industry in the state of Washington.

OBJECTIVES

1. To evaluate the overall economic impact of these 1997 and 1998 changes in laws pertaining to Full Card Simulcasting of horse races and the reduction in the Parimutuel Tax on:
 - The horse racing industry, including the degree that Emerald Downs, Playfair, and Yakima Meadows are capable of remaining economically viable given the increase in competition for gambling or entertainment dollars.
 - Entities and activities funded from the State Trade Fair Fund and the Fair Fund.
2. To evaluate the extent that Full Card Simulcasting has achieved the following specific outcomes:
 - Increased the purses, attendance and number of horses running at Emerald Downs, Playfair, and Yakima Meadows racetracks.
 - Benefited small, nonprofit racetracks.
 - Increased the breeding of race horses in Washington State.
3. To estimate the potential impact of a repeal of the 1998 Parimutuel Tax changes on the horse racing industry and on the public.

4. To identify state policies and regulatory practices from other jurisdictions which have been shown to improve the economic viability of the horse racing industry in those venues.

AGENCY RESPONSES

Appendix 2

- Washington Horse Racing Commission
- Department of Community, Trade and Economic Development
- Washington State Department of Agriculture
- Office of Financial Management



STATE OF WASHINGTON
 WASHINGTON HORSE RACING COMMISSION

November 18, 1999

Tom Sykes, Legislative Auditor
 Joint Legislative Audit and Review Committee
 P.O. Box 40910
 Olympia, WA 98504-0910

Dear Mr. Sykes:

I am writing in response to your November 2, 1999 letter requesting a formal Washington Horse Racing Commission (WHRC) response to JLARC's November 10, 1999 Preliminary Report on the Impact of Full Card Simulcasting and Reduction in the Parimutuel Tax on the Horse Racing Industry. This response also addresses the proposed second recommendation concerning funding of agricultural fairs not included in the preliminary report, but discussed at the JLARC meeting on November 10, 1999, and as now related to the WHRC by Gerry McLaughlin of your staff.

In summary, the WHRC believes the report and resultant recommendations accurately reflect the current state of the Washington horse racing industry. A reinstatement of parimutuel funding of agricultural fairs will jeopardize the financial viability of Washington's remaining major racing associations, Emerald Downs in Auburn and Playfair Race Course in Spokane, and consequently the extensive supporting infrastructure of the industry. Non-profit associations conducting race meets at fair grounds in Walla Walla, Waitsburg, Dayton and Kennewick would also be adversely effected.

Consistent with your request for the WHRC's position and comments, I have summarized these in the table below.

RECOMMENDATION	AGENCY POSITION	COMMENT
<p>Recommendation 1</p> <p><i>We recommend that the Parimutuel Tax change enacted in 1998 not be allowed to terminate pursuant to Chapter 43.131 RCW.</i></p>	<p>Concur</p>	<p>The WHRC believes implementation of this recommendation is essential to the health of the horse racing industry.</p>
<p>Recommendation 2</p> <p><i>The Legislature should consider identifying a source of revenue different from the parimutuel tax to fund agricultural fairs.</i></p>	<p>Concur</p>	<p>This recommendation is consistent with the WHRC's opinion that both agricultural fairs and the horse racing industry will be negatively impacted by a reestablishment of parimutuel funding for agricultural fairs.</p>



Mr. Tom Sykes
November 18, 1999
Page 2

Please allow me to take this opportunity to thank you and your staff for the extensive research that went into your review.

Sincerely,

A handwritten signature in cursive script that reads "Bruce Batson". The signature is written in dark ink and is positioned above the typed name and title.

BRUCE BATSON
Executive Secretary

cc: Senator James West, ex-officio commissioner
Senator Michael Heavey, ex-officio commissioner
Representative Eileen Cody, ex-officio commissioner
Representative Jack Cairnes, ex-officio commissioner
Barbara Shinpoch, chairperson
Hartly Kruger, commissioner
Patrick LePley, commissioner
Guy Roberts, commissioner
Dolores Sibonga, commissioner



STATE OF WASHINGTON
DEPARTMENT OF COMMUNITY, TRADE AND ECONOMIC DEVELOPMENT
906 Columbia St. SW • PO Box 40300 • Olympia, Washington 98504-8300 • (360) 753-2200

November 17, 1999

Thomas M. Sykes
Joint Legislative Audit and Review Committee
506 16th Avenue SE
Olympia, Washington 98501-2323

Dear Mr. Sykes:

Thanks you for giving CTED the opportunity to respond to the JLARC audit on the *Impact of Full Card Simulcasting and the Reduction in the Parimutuel Tax on the Horse Racing Industry*.

CTED concurs with Recommendation 1. We recognize that although the Parimutuel Tax supported both agricultural fairs and the state trade fair and that the reduction in funding was originally thought to be temporary -- ending when the parimutuel tax was reimposed -- the Washington State International Trade Fair Committee has set a direction away from the organization's heavy reliance on state funding toward revenue stream diversification and private sector membership financial support.

It is my understanding that a 2nd recommendation has been added since the November 10 Preliminary Report was issued. CTED also concurs with this recommendation, that the legislature should seek a permanent source of funding for agricultural fairs.

Sincerely,

Martha Choe, Director

Cc: Gerry McLaughlin, Performance Auditor
John Anderson, CTED Assistant Director,
International Trade Division



STATE OF WASHINGTON

DEPARTMENT OF AGRICULTURE

P.O. Box 42560 • Olympia, Washington 98504-2560 • (360) 902-1800

November 19, 1999

Thomas M. Sykes, Legislative Auditor
Joint Legislative Audit and Review Committee
P.O. Box 40910
Olympia, WA 98504-0910

RECEIVED

NOV 19 1999

JLARC

Dear Mr. Sykes:

Thank you for your letter of November 2, 1999 requesting our agency's formal response to the Joint Legislative Audit and Review Committee's preliminary report on the Impact of Full Card Simulcasting and the Reduction in the Parimutuel Tax on the Horse Racing Industry. The report enclosed with your letter included one recommendation, however, Gerry McLaughlin of your staff called on November 14 with a second proposed recommendation for our agency to respond to. Our position and comments on both recommendations are listed below. I have also enclosed some additional comments about the potential impact of a loss of funding would have on agricultural fairs as I feel this is a matter that was not adequately addressed in the preliminary report. I would ask that you include this information in your final report.

Recommendation	Agency Position	Comments
1. That the Parimutuel Tax changes enacted in 1998 not be allowed to terminate.	Do not concur	We cannot concur with a permanent elimination of the parimutuel tax as a dedicated source of revenue for the Fair Fund without a decision on a replacement dedicated source of revenue. With only one year of data to consider and 18 months before the sunset date, it is premature to make such a recommendation.
2. That the legislature should consider identifying a source of revenue different from the parimutuel tax to fund agricultural fairs.	Partially Concur	If Recommendation 1 is adopted, it is imperative that the legislature not merely consider identifying a different revenue source but actually identify a source.

If you have any questions on this response, please contact Mary Beth Lang at 902-1812.

Sincerely,

Jim Jesernig
Director

Enclosure



Potential Impact of a Loss of Funding on Agricultural Fairs

Additional comments submitted to JLARC, Nov. 19, 1999

While Recommendation 2 of the JLARC preliminary report does recommend the legislature consider identifying a source different from the parimutuel tax to fund agricultural fairs, it does so without providing a context for that recommendation. I believe it is important for the report to more clearly describe how the Fair Fund is currently allocated and the significance of the state assistance relative to overall operating budgets for the fairs.

The potential impact of a loss of state assistance varies by class and size of fair. As a class, Youth Shows have the greatest dependence on allocations from the Fair Fund. Of Community Fairs and County and Area Fairs, those that rely most on the Fair Fund are in small communities and/or rural areas. It is worth noting that, generally, more than 75% of the allocations from the Fair Fund are made to county and area fairs, with allocations to individual fairs ranging from \$24,158 to \$69,480 in 1999. Here is more detailed information broken out by class of fair.

Class of Fair	Number	Allocations made in 1999*	% of total allocation to fairs	Average % of total receipts from Fair Fund	% of total receipts from Fair Fund (low-high)
Community Fairs	21	\$ 85,784	5.3%	14%	4% - 44%
Youth Shows	12	\$ 293,097	17.2%	54%	31% - 84%
County and Area Fairs	38	\$1,321,119	77.5%	25%	3% - 72%
Total	71	\$1,703,997	100.0%		

*based on evaluation and statistical data from 1998 fair

Community Fairs:

Allocations to Community Fairs in 1999 provided an average of 14% of a fair's total receipts, with a range of 4% to 44% for individual fairs. Allocations made up more than 30% of total receipts for four fairs (Colton Community Fair, St. John Community Fair, Lewis County Spring Youth Fair, Kittitas Junior Livestock Show).

Youth shows:

On average, Fair Fund allocations to Youth Shows in 1999 provided 54% of the total revenues those shows received in 1998. The percent of revenues derived from the Fair Fund ranged from 31% for Washington State Junior Poultry Show to 84% for the Enumclaw Junior Dairy Show.

County and Area Fairs:

Allocations to county and area fairs in 1999 provided an average of 25% of a fair's total receipts, with a range of 3% to 72% for individual fairs. Allocations made up more than 50% of total receipts for the fairs in five counties (Garfield-72%, Wahkiakum-62%, Columbia-54%, Skamania-52% and Lincoln-52%). Allocations made up 25% to 50% of total receipts for another 13 fairs.



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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November 30, 1999

Mr. Thomas M. Sykes, Legislative Auditor
Joint Legislative Audit and Review Committee
Post Office Box 40910
Olympia, Washington 98501-2323

Dear Mr. Sykes:

The attached comments are offered to assist the Joint Legislative Audit and Review Committee (JLARC) in its assessment of the impact of full-card simulcasting and the reduction in the pari-mutuel tax on the horse racing industry. Hopefully, this information will be of use as you prepare your final report. If you need additional information or clarification, please contact Jeff Cherry at (360) 902-0614.

Sincerely,


Marty Brown
Director

MB:JC:lh

cc: Candace Espeseth, OFM
Peter Antolin, OFM
Jeff Cherry, OFM



RECOMMENDATION	AGENCY POSITION	COMMENTS
<p>Recommendation One We recommend that the Parimutuel Tax changes, enacted in 1998, not be allowed to terminate pursuant to Chapter 43.131 RCW.</p>	<p>Do Not Concur</p>	<p>The Office of Financial Management opposes this recommendation. The changes to the parimutuel tax contained in Chapter 43.131RCW were intended to provide a <i>temporary</i> solution to the economic challenges facing the horse racing industry. This action placed state, county and trade fairs at risk of losing state funding and eventually required that six million dollars from the state general fund be made available to support those fairs for fiscal years 1999, 2000 and 2001. The recommendation of this report would have the reduction of the tax and redistribution of funds be made permanent, thus providing an on-going subsidy for the horse-racing industry and, once again, placing the state, county and trade fairs at risk for a stable funding source. Neither result seems desirable.</p>
<p>Recommendation Two The legislature should consider identifying a source or revenue different from the Parimutuel Tax to fund Agricultural Fairs.</p>	<p>Do Not Concur</p>	<p>The Office of Financial Management opposes the recommendation regarding identifying a revenue source different from the pari-mutuel tax. The 1999-01 biennial budget provided an appropriation of \$6 million to maintain the State Fair Fund for three years. This appropriation was contingent upon the Fair Fund receiving its pari-mutuel tax distribution when it is reinstated in 2001. Other revenue sources have been examined and determined non-sufficient to sustain the fair fund at current level. Instituting any new state tax is not consistent with Governor Locke's budget principles and may be subject to a vote of the people pursuant to I-695.</p>

HISTORY AND DISTRIBUTIONS OF PARIMUTUEL TAX PRIOR TO ENACTMENT OF E2SSB 6562 IN 1998

Appendix 3

History and Purpose of Fair Fund and State Trade Fair Fund

The Parimutuel Tax has been the revenue source for these funds since 1941. Prior to that time, fairs were funded by direct appropriation. Before the enactment of E2SSB 6562 in 1998, approximately 50 percent of Parimutuel Tax revenues were statutorily allocated to the funds.²¹

Fair Fund

Money in the Fair Fund, administered by the Department of Agriculture, is dedicated to agricultural fairs, youth shows, and other exhibitions pursuant to Chapter 15.76 RCW. According to the Washington State Fairs Association, funds are primarily used for premiums, prizes, ribbons, trophies, and hiring judges. Of the 71 participating fairs, 38 are county fairs, 21 are community fairs, and 12 are youth shows. The funds are actually allocated to fairs by the Director of the Department of Agriculture, with the advice of the Washington State Fairs Commission, according to an evaluation system adopted in Chapter 16-700 WAC – State Fair Fund-Proration. According to the department, these allocations from the Fair Fund can amount to anywhere from 3 to 73 percent of a fair's total receipts, depending on fair type and location.

²¹ The Fair Fund previously received 46 percent of the proceeds from the Parimutuel Tax and the State Trade Fair Fund 3 percent.

Youth fairs, on average, receive 75 percent of their budget from the Fair Fund.

State Trade Fair Fund

The State Trade Fair Fund, administered by the Department of Community, Trade and Economic Development (CTED), assists state trade fairs including international fairs under the provisions of RCWs 43.131.800 through 850. Previously, these moneys were part of the funding for activities of the Washington State International Trade Fair, a nonprofit organization which coordinates trade fair activities on behalf of the state and its agencies, particularly CTED and the Department of Agriculture.

Historical Distribution of Revenues from Parimutuel Tax and License Fees

Annual revenue to and expenditures from both of these funds are shown in Exhibit 10. As can be seen, the Parimutuel Tax generated sizable revenues to the General Fund prior to 1991 legislation (ESHB 1120), which reduced the General Fund share of the Parimutuel Tax and horse racing license fee proceeds from 40 percent to 1 percent.

Exhibit 10
Distribution of Parimutuel Tax
And License Fee Revenues, 1988-1999

Calendar Year	Horse Racing Commission	Distributions to Fair Fund	Distributions to State Trade Fair Fund	Distributions to General Fund	Total Distributions
1989	\$ 2,355,515	\$ 2,645,160	\$ 226,728	\$ 4,542,324	\$ 9,769,727
1990	\$ 2,550,880	\$ 2,767,310	\$ 237,198	\$ 4,945,303	\$10,500,691
1991	\$ 2,894,667	\$ 2,835,469	\$ 206,005	\$ 1,824,557	\$ 7,760,698
1992	\$ 3,007,744	\$ 2,805,224	\$ 182,949	\$ 68,443	\$ 6,064,360
1993	\$ 1,983,281	\$ 1,883,987	\$ 122,869	\$ 130,954	\$ 4,121,091
1994	\$ 1,926,156	\$ 1,715,082	\$ 111,853	\$ 47,929	\$ 3,701,020
1995	\$ 1,747,141	\$ 1,596,002	\$ 104,087	\$ 34,696	\$ 3,481,926
1996	\$ 1,961,900	\$ 1,795,720	\$ 117,112	\$ 39,037	\$ 3,913,769
1997	\$ 2,021,827	\$ 1,851,840	\$ 120,772	\$ 40,258	\$ 4,034,697
1998	\$ 2,230,667	\$ 408,390	\$ 26,634	\$ 8,878	\$ 2,674,569
1999	\$ 2,234,500				\$ 2,234,500

Source: Washington Horse Racing Commission.

As shown in Exhibit 9, distributions to the Fair Fund have been in the range of \$1.6 million to \$1.8 million from 1993 through 1997 prior to the 1998 change in the distribution of Parimutuel Tax. Distribution to the State Trade Fair Fund has ranged from \$104,000 to \$ 122,000 during the same period of time.

Funding of Agricultural Fairs in Other States

Information provided to us by the Washington State Department of Agriculture (WSDA) indicates that agricultural fairs in thirty-seven states receive some form of direct state financial and/or staff support.²² In thirty-one of these states, the source of funding was that state's general fund, and the most recent annual level of funding ranges from \$20,000 in Mississippi to \$37 million in California. The WSDA data also shows that in nine of the states, one of the funding sources was related to horse racing activities. The use of these funds by other states to support agricultural fairs is consistent with practices in the state of Washington, i.e., premiums and prizes, salaries for judges and capital improvements.

²² We did not verify the results of this survey.