State Notes

TOPICS OF LEGISLATIVE INTEREST

January/February 2005

Agriculture Equine Industry Development Fund
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Introduction

State support for the horse racing industry in Michigan generates considerable discussion during annual budget deliberations. For the most part, discussion has centered around appropriations from the Michigan Agriculture Equine Industry Development Fund (AEIDF). Funding from the AEIDF again will be an issue as the Legislature prepares the fiscal year (FY) 2005-06 budget. Appropriations from the Fund in the current FY 2004-05 budget total $17.3 million and support various horse racing-related programs, a General Fund reimbursement, and a portion of the bovine tuberculosis program. This article provides a summary of AEIDF revenue, appropriations, and expenditures from FY 1995-96 to the present.

Revenue

The Horse Racing Law of 1995 created the AEIDF to provide funding for agriculture and equine industry development programs as provided in the Act. The Fund receives revenue from four principal sources: simulcast wagering taxes, horse racing licensing fees and fines, uncashed winning tickets, and, as of September 2004, a portion of the tax levied on Detroit casinos. Revenue to the AEIDF peaked in FY 1999-2000 at $13.7 million. Since that time, the Fund experienced a 9.4% revenue reduction to $12.4 million in FY 2003-04. Table 1 lists the annual revenue deposited in the Fund by source through FY 2003-04.

Table 1
Agriculture Equine Industry Development Fund
Revenue by Source
(millions of dollars)

	FY 1995-96	FY 1996-97	FY 1997-98	FY 1998-99	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Simulcast Tax	$5.7	$11.6	$12.7	$12.7	$12.7	$11.8	$11.8	$11.1	$11.1
Fees/Fines	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Uncashed Tickets				0.6	0.8	0.7	0.7	0.7	0.7
Casino Tax									0.5
Total*	**$5.9**	**$11.9**	**$13.0**	**$13.5**	**$13.7**	**$12.7**	**$12.7**	**$12.0**	**$12.4**

* Totals may not add due to rounding.

The primary source of revenue to the AEIDF is the simulcast wagering tax paid by each race meeting licensee, i.e., racetrack[1]. The tax is levied at the rate of 3.5% on all money wagered on interstate and intrastate simulcast races[2]. The simulcast wagering tax represents the only State tax levied on horse racing in Michigan[3]. As shown in Table 1, the tax revenue declined from FY

[1] "Simulcasting" means televising a live horse race to other tracks or other outlets for the purpose of wagering on the race.
[2] The tax rate was 2.5%, until January 1997, when it was changed to 3.5%.
[3] Before the Horse Racing Law of 1995 was enacted, the State taxed live racing conducted at Michigan tracks. The simulcast wagering tax effectively replaced the live wagering tax as the State tax levied on wagering.

1999-2000 to FY 2000-01; the reduction is attributable to the increase in competition for wagering dollars associated with the opening of the three Detroit casinos between July 1999 and November 2000. The AEIDF experienced an initial reduction of 7.1% in tax revenue following the opening of the Detroit casinos and a subsequent 6.0% decline between FY 2001-02 and FY 2002-03 as a result of decreased simulcast wagering associated with the increased competition from other gaming outlets in Michigan and Canada.

Public Act (P.A.) 505 of 1998 provided a new revenue source for the AEIDF: a portion of the uncashed winning tickets at each racetrack. Under P.A. 505, half of the uncashed winning ticket revenue each year is retained by the track while the other half is deposited in the AEIDF and earmarked for horse breed-specific programs.[4] Before the passage of P.A. 505, all uncashed winning ticket revenue was treated as escheated property to the State and deposited in the General Fund. The amount of revenue from this source has remained fairly constant, about $700,000 annually.

Unlike the other revenue deposited in the AEIDF, revenue from uncashed winning tickets is earmarked for specific programs authorized in the Horse Racing Law of 1995. For example, the revenue received from a standardbred licensee (i.e., racetrack) is designated for standardbred programs while the revenue received from a thoroughbred racetrack is available only for thoroughbred programs. This earmarking provision effectively provides a funding floor for the various standardbred and thoroughbred horse racing programs. The other revenue in the AEIDF, regardless of its origin (e.g., standardbred or thoroughbred simulcast wagering), is designated for the broad purpose of agriculture and equine industry development pursuant to Section 20 of the Horse Racing Law.

In August 2004, P.A. 306 of 2004 made several changes to the tax levied on the three Detroit casinos, effective September 1, 2004. Public Act 306 imposed a new 6.0% gross wagering tax on the casinos, bringing the total tax to 24.0%. Of the new tax, 1/3 of the revenue is allocated to the City of Detroit, 7/12 to the State General Fund, and 1/12 to the AEIDF. Under P.A. 306, the three casinos will not be required to pay the new State tax once the permanent casinos are fully operational or if and when video lottery is operational at Michigan horse racetracks. The annual revenue to the AEIDF from this source is estimated at $6.1 million, which is expected to bring total Fund revenue up to $17.1 million in FY 2004-05, an increase from the previous year of 37.9%.

Appropriations/Expenditures

Section 20 of the Horse Racing Law lists the various uses of AEIDF revenue. Annually, an amount from the AEIDF equal to 0.01% of the gross wagers made at Michigan racetracks is deposited in the Compulsive Gaming Prevention Fund. This amounts to about $33,700. After this "off-the-top" allocation, funding is provided to a number of horse racing programs established in Section 20. In addition to the racing programs, the Horse Racing Law allows funds to be used for capital grants to fairs and for a portion of the premiums paid by county and

[4] Under P.A. 505, in 1998 all of the uncashed winning ticket revenue from a thoroughbred race track was retained by the race meeting licensee for development and capital improvements at the track. Beginning in 1999, the revenue was split evenly between the meeting licensee and the AEIDF.

State fairs. In all of these cases, there is a statutory cap on the amount of AEIDF funding for each program. In some cases, the amount is a specific dollar amount (e.g., capital grants are limited to $15,000 per fair per year), while in other programs the amount of AEIDF funding is limited to a percentage of the total (e.g., AEIDF revenue may comprise not more than 75.0% of purse supplements paid for certain horse races).

In addition to the horse racing and fair programs, revenue from the AEIDF has been used to support various State administrative functions in the Department of Agriculture, some related to the equine industry and others not. For example, funding has been used to support equine drug testing in the Department's laboratory program and regulatory functions in the Office of Racing Commissioner. In FY 1997-98, nearly $3.0 million was appropriated for Department of Agriculture programs not directly related to the equine industry. The FY 2004-05 budget contains $250,000 from the AEIDF for individual animal testing in northeastern Michigan associated with the bovine tuberculosis program.

The FY 2003-04 budget contained a new use of AEIDF revenue, specifically a transfer to the State General Fund. Faced with a significant General Fund shortfall, the Governor presented an FY 2003-04 budget that replaced General Fund appropriations in the Department of Agriculture with appropriations from the AEIDF, totaling $2.0 million. These funding shifts generated $2.0 million in General Fund savings. The Legislature reworked the Governor's proposal to maintain the General Fund support for ongoing Department programs; however, it provided a direct AEIDF appropriation to the General Fund. This produced the same result sought by the Governor, namely offsetting General Fund appropriations by $2.0 million in the Agriculture budget. This structure, however, did not make ongoing Department programs dependent on AEIDF appropriations for support. The FY 2004-05 budget again included a $2.0 million AEIDF appropriation to the General Fund to help with the estimated overall State budget shortfall.

Table 2 lists AEIDF revenue, appropriations, actual expenditures, and year-end balances through FY 2004-05. To a large extent, annual appropriations from the AEIDF have relied on prior-year carryfoward revenue to support current-year expenditures. With the exception of FY 1999-2000, annual appropriations exceeded revenue in every fiscal year. From FY 1996-97 through 1998-99, annual appropriations were supported, in part, by a portion of the carryforward balance of $5.7 million from FY 1995-96, when no appropriations from the Fund were authorized.

Table 2

Agriculture Equine Industry Development Fund
Revenue and Expenditures
(millions of dollars)

	FY 1995-96	FY 1996-97	FY 1997-98	FY 1998-99	FY 1999-2000	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Beginning Balance	$0	$5.7	$4.0	$1.4	$0.6	$1.7	$1.1	$0.7	$1.3	$1.2
Revenue	5.7	11.9	13.0	13.5	13.7	12.7	12.7	12.0	12.4	17.1*
Appropriations	0	13.6	18.5	14.3	12.8	13.3	13.5	12.4	12.7	17.3
Expenditures	0	13.6	15.6	14.3	12.6	13.3	13.1	11.5	12.6	17.3
Year-End Balance	$5.7	$4.0	$1.4	$0.6	$1.7	$1.1	$0.7	$1.3	$1.2	$1.0*

* Estimated as of January 2005.

In recent years, the Legislature has given priority to horse racing programs when appropriating AEIDF revenue. For example, the FY 1999-2000 budget included funding shifts for two fair-related programs, capital improvements, and premiums that previously were supported with AEIDF revenue. Similarly, the FY 2001-02 and FY 2004-05 budgets included funding shifts in the Office of Racing Commissioner appropriation, replacing AEIDF support with other restricted resources. The objective of these funding shifts was to redirect limited AEIDF revenue to horse racing programs and provide these programs with the maximum funding possible in light of decreasing annual revenue.

Appropriations from the AEIDF rise to $17.3 million in the FY 2004-05 budget. This increase is the result of the new casino tax revenue that the Fund began receiving in September 2004. The estimated annual amount of this revenue is $6.1 million. As a result of this new revenue, appropriations from the Fund were increased in FY 2004-05 to support a number of equine grants ($140,000), the bovine tuberculosis program ($250,000), capital improvements at race meeting licensees ($3.0 million), and various horse racing programs ($2.7 million). It is worth noting that this revenue is not treated any differently than other AIEDF revenue appropriated in the budget. The $3.0 million appropriation directly to the tracks, however, represents a significant shift in the use of AEIDF revenue.

Before the FY 2004-05 budget was enacted, AEIDF revenue had never been appropriated directly to racetracks. Although the tracks retain one-half of the uncashed winning ticket revenue annually, the remaining half is deposited in the AEIDF for subsequent distribution to the various horse racing programs. The Horse Racing Law does not provide any specific program for the distribution of AEIDF revenue to tracks. Therefore, the current-year budget (P.A. 353 of 2004) contains language directing the Department of Agriculture to allocate the $3.0 million to the tracks based on each track's proportion of total wagering during calendar year 2004. The funding will be distributed on a 50/50 matching basis and must be used only for capital improvements that comply with the Horse Racing Law. Table 3 lists the distribution of the capital improvement grants in FY 2004-05 under P.A. 353.

Table 3

Distribution of FY 2004-05 Capital Improvement Grants

Licensee	Total Wagering	% of Total	Grant
Great Lakes Downs	$15,433,095	4.57%	$136,279
Hazel Park	$147,810,670	43.80%	$1,305,216
Jackson	$13,247,746	3.93%	$116,982
Mt. Pleasant	$2,479,293	0.73%	$21,893
Northville Downs*	$71,266,124	21.12%	$629,303
Northville Racing Corp.*	$41,843,963	12.40%	$369,496
Saginaw	$12,852,151	3.81%	$113,489
Sports Creek	$32,540,420	9.64%	$287,342
Total	**$337,473,462**	**100.00%**	**$2,980,000**

* Two licensees, Northville Downs and Northville Racing Corp., conduct racing during different times of the year at the track in Northville Township.

Conclusion

The primary revenue source of the Agriculture Equine Industry Development Fund, the State simulcast wagering tax, has declined since FY 1997-98 as a result of increased wagering competition in Michigan. This decline has been offset, in part, by the establishment of two new revenue sources to the Fund, uncashed winning tickets and the Detroit casino tax, which will account for over one-third of total Fund revenue in FY 2004-05. While most of the AEIDF is still appropriated for programs established under the Horse Racing Law of 1995, including horse racing programs, appropriations from the Fund support a number of new programs. For example, the Fund is helping balance the State's General Fund and supports a grant program to provide capital improvements at tracks. As the Governor and Legislature begin the process of crafting the FY 2005-06 budget, AEIDF appropriations will command considerable attention relative to the funding levels for these new programs and for those historically supported by the Fund.