

Senate Bill - 183

An act recognizing the Montana Board of Horse Racing's authority to authorize new forms of racing; allowing the board of horse racing to present a complete proposal of historical horse racing to the 2021 legislature; providing a definition of historical horse races; amending section 23-4-101, MCA; and providing an immediate effective date and a termination date.

Historical Review of Horse Racing In Montana

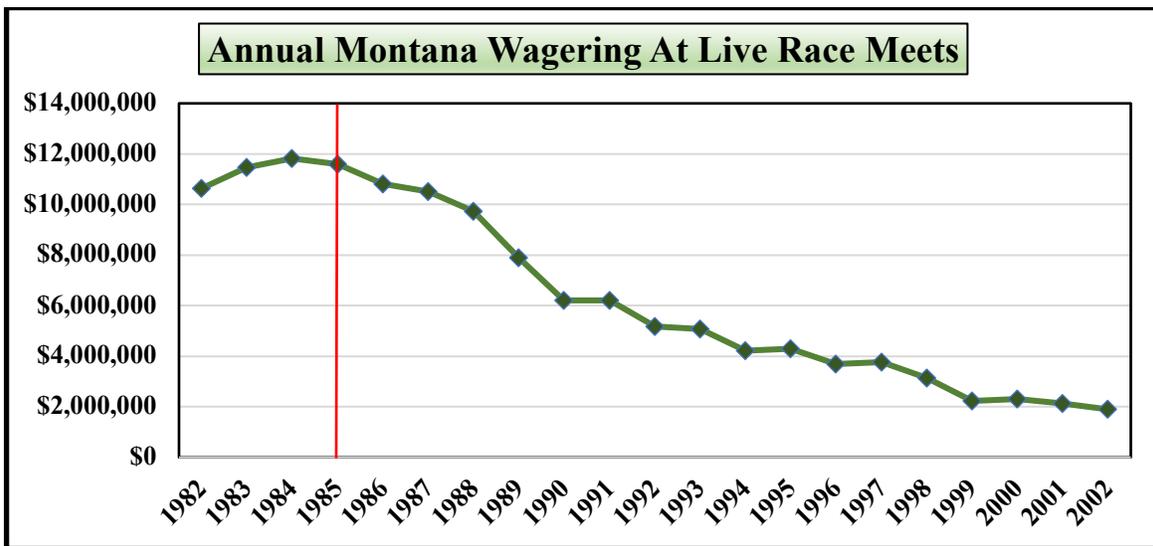
Horse racing in Montana can trace its roots back to the 1800s with stories of the settlers and traders matching their horses against one and another. Horse racing was also part of the Tribal Nations. In 1889, a horse foaled near Twin Bridges, raised and trained in a round barn went on to win the Kentucky Derby. Marcus Daly's thoroughbred, Scottish Chieftain was a horse bred in Montana that went on to win the 1897 Belmont Stakes. Daly's farm in Hamilton Montana recorded over 200 mares at one time, including Standardbreds used for harness racing.

In 1965, the Montana legislature passed statutes to create the Montana Board of Horse Racing. During the 1980's, Montana racing had reached its pinnacle in terms of the number of days of racing along with amounts of dollars wagered at the tracks. Below are the tracks & race dates for **1982 - 1991**.

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Track Name and City	Days									
Big Sky Racing - Great Falls	18	17	0	0	0	0	0	0	0	0
Eastern Montana Fair - Miles City	6	9	8	9	7	0	0	0	0	0
Fallon County Fair - Baker	3	3	3	3	2	0	0	0	0	0
Last Chance 1 - Helena	6	6	17	14	14	21	24	0	11	8
Last Chance 2 - Helena	8	8	0	0	0	0	0	0	0	0
Marias Fair - Shelby	4	4	4	5	5	3	4	4	4	4
MetraPark - Billings	33	39	40	36	35	32	35	29	32	22
Miles City Racing - Miles City	12	12	12	14	12	11	12	8	7	0
Missoula Maverick - Missoula	0	0	6	0	0	0	0	0	0	0
Northeast Montana Fair - Glasgow	4	5	5	3	3	4	0	0	0	0
Northwest MT Fair - Kalispell	6	6	6	6	6	6	5	5	5	5
Ravalli County Fair - Hamilton	4	4	5	5	3	4	4	4	4	4
Rosebud County Fair - Forsyth	3	3	3	3	3	0	0	0	0	0
State Fair - Great Falls	12	12	28	29	29	29	33	34	28	28
Western MT Fair - Missoula	6	6	6	6	12	6	6	4	5	6
Total Days	125	134	143	133	131	116	123	88	96	77

In 1985 the state legislature passed the Video Poker Machine Act, which allowed five poker machines per liquor license and unlimited keno machines. The law established license fees for machines rather than a tax. In 1986, the state issued 2,887 video poker licenses. ⁽¹⁾

With competition from the newly legislated gaming as well as changes in national tax laws regarding hobby farms, Montana began to see a decline in dollars wagered at the track which then caused a drop in the number of racing days along with track closures. The following graph indicates the trend during the 1980's and 1990's as more competition came in the form of gambling opportunities.



Montana yearly handles from 1982 thru 2002. Red vertical line denotes passage of Video Poker Machine Act.

In 2019, Montana had two race tracks in operation. Three days of horse racing in conjunction with the world-famous Miles City Bucking Horse Sale in May operated in Miles City. In Great Falls, with support from Cascade County Commissioners, the Great Falls Turf Club offered five days of racing in July. A total of 8 days of horse racing were conducted.

The Montana Thoroughbred Breeding Industry Declines

In direct proportion to the reduction of race dates in Montana, the number of Thoroughbred horses in Montana also declined. Many horse owners decided to close their operations or move to another state. Other horse breeds suffered the same fate. The following statistics were published by The Jockey Club – registry for the Thoroughbred industry.

Year	Mares Bred	Stallions	Foals
1991	616	98	265
1992	628	102	250
1993	519	95	271
1994	487	90	238
1995	508	85	219
1996	466	75	182
1997	413	72	187
1998	357	72	150
1999	316	71	150
2000	340	61	128
2001	274	51	120
2002	243	43	78
2003	203	46	107
2004	208	47	104
2005	176	41	96
2006	166	38	67
2007	125	33	72
2008	115	31	48
2009	78	26	57

The Montana Quarter Horse Numbers Decline

The effect of less racing opportunities fell upon the Quarter Horse industry of Montana as well. The following statistics were provided by the American Quarter Horse Association - Racing Department.

Registered Montana Bred Horses by Year

Year	Registered	Year	Registered
2000	4898	2010	2685
2001	5005	2011	2434
2002	5326	2012	2490
2003	5337	2013	2549
2004	5230	2014	2491
2005	5328	2015	2469
2006	5060	2016	2419
2007	4639	2017	2296
2008	4047	2018	2305
2009	3266	2019	1085 to date

The Value of Horse Racing

Though the horse industry provides unique entertainment in Montana, the economics behind the industry is where the value lies. Horse owners, trainers, jockeys and all others connected to the industry travel hundreds of miles to bring their animals to race and along with that, spend money in local communities. Jobs are created at the race meets, feed products and services are sold to participants. But beyond that, the real economic value is generated in the industry of breeding and raising these horses. Multiple studies have been performed over the year.

1. Oklahoma study showed the equine industry totaled these numbers: 4.2 million acres used, 269,700 horses, 50 jobs per race horse were created, \$34,700 of economic impact per horse created, local and state taxes created - \$100 million.⁽²⁾
2. Oregon study showed that even though the horse racing industry has declined in recent years, the combined economic impacts of Portland Meadows race track and the horse racing supply chain in Oregon totaled just shy of \$203 million dollars.⁽³⁾
3. On the national level ... “In the racing sector, about 430,000 horses are involved in the breeding process, which has a direct impact of \$2.5 billion dollars to the equine industry and a total economic impact of almost \$6 billion dollars.”⁽⁴⁾

Montana has lost millions of dollars in economic output over the past 20 years due to the decline of the horse racing and horse breeding industries in the state.

THE ECONOMICS OF MONTANA’S HORSE RACING INDUSTRY

Prepared by the Montana Department of Commerce

A summary analysis of potential impacts a revitalized industry could have in Montana

This report presents results from a scenario analysis of what economic impacts may look like in Montana if the horse racing and subsequent breeding industry were to rebound in the State. These estimates reflect prospective economic impacts for every \$1 million spent by operators within the industry – breeders and owner expenditures and racetrack operations.

Background

It’s no secret... live horse racing in Montana has been on the decline for years. In the eighties, Montana’s horse racing and breeding industries were alive and well in the State. More than 130 days of racing across the State provided ample opportunity for breeders to race their Montana bred and raised horses. Since then, the horse racing and breeding industry has steadily declined year over year. Today, less than 10 days of live racing take place in Montana and nearly all Montana breeders have either shut down operations or moved out-of-state to places with more racing opportunities.

However, historic trends don’t necessarily have to dictate future realities. Horse racing is not dead in this State and currently impacts Montana in a positive way. However, if the industry were to realize a revitalization those impacts would be notably greater.

Scenario Analysis

The results below estimate the potential impacts the horse racing industry may have on Montana’s economy for every one million dollars expended within the State’s economy. It should be noted that impacts on employment may be seasonal. Total *employment* figures represent the number of workers supported by added economic investment; they don’t necessarily represent full-time, year-round jobs.

Montana Horse Racing Tracks Increasing Operational Investment – For every one million dollars invested by Montana horse racing tracks through continued operations, 26 workers are supported earning \$428 thousand in labor income. The investment is estimated to contribute an additional \$620 thousand in value added to the State’s economy with a total output value of \$1.9 million.

Scenario: Estimated Impacts from Montana Track Operations Increasing by \$1 million

	<u>Employment</u>	<u>Labor Income</u>	<u>Value Added</u>	<u>Output</u>
Direct Impacts	16	\$183k	\$254k	\$1,000k
Supported Indirect / Induced Impacts	10	\$245k	\$366k	\$930k
Total	26	\$428k	\$620k	\$1,930k

Source: IMPLAN analysis using 2018 Montana multiplier model. Current as of April 2020

Montana Breeders & Owners Increasing Operational Investment – For every one million dollars invested by Montana racehorse breeders and owners, 32 workers are supported earning \$1.1 million in labor income. The investment is estimated to contribute an additional \$1.2 million in value added to the State’s economy with a total output value of \$1.8 million.

Scenario: Estimated Impacts from MT Breeder/Owner Expenditures Increasing by \$1 million

	Employment	Labor Income	Value Added	Output
Direct Impacts	26	\$866k	\$803k	\$1,000k
Supported Indirect / Induced Impacts	6	\$252k	\$427k	\$831k
Total	32	\$1,118k	\$1,230k	\$1,831k

Source: IMPLAN analysis using 2018 Montana multiplier model. Current as of April 2020

It's assumed that as Montana breeders and owners win more breeder award dollars and on-track purses, those winnings are reinvested into their breeding programs. Those investments positively support many local service industries such as veterinarians, feed shops, farm implement dealers, transportation services, and more.

Discussion & Summary

The estimates presented here are not all inclusive of the total potential economic impacts the horse racing industry has on Montana's economy. Impacts from tourism related spending, increased state and local municipal spending, and others are not included in this report. A commissioned, full-scale economic impact analysis of the industry would be necessary to evaluate the industry's effects on MT's economy.

The Wyoming horse racing industry conducted such a study in October 2019. The report was commissioned by Wyoming Horse Racing LLC and Wyoming Downs LLC and prepared by The Innovation Group of New Orleans, LA. The 29-page report details the economics of the horse racing industry and its importance to the economy of Wyoming. A few statistics from that report are listed on page 6.

Like other sporting enterprises, the success of horse racing relies on incentives – increased on-track purses and breeder/owner bonus program payouts. With larger “carrots” for owners and breeders to race their horses, more races and race days are demanded. More racing expands the opportunity for racing enthusiasts to wager on these races (higher handles). Larger handles then get redistributed back to on-track purses and breeder/owner bonus program payouts... And the cycle continues.

Assumptions & Methods

Analysis utilized the IMPLAN 2017 Montana State multiplier model (a product of IMPLAN Group, LLC); this was the most current model available at the time of analysis. Estimating impacts of investment spending using input/output modeling assumes constant returns per investment dollar; in other words, prices are not affected in the model and the economic structure within the model region remains unchanged. These conditions are necessary for this type of input/output model estimation.

The IMPLAN model estimates direct, indirect, and induced multiplier effects on an area's economy. The direct effects represent the initial change within an industry (i.e. construction). Indirect effects are changes from inter-industry transactions when supplying businesses respond to increased demands from the directly affected industry – these are impacts from business-to-business expenditures. Induced effects reflect changes in local spending of labor income by employees of the directly and indirectly affected industry sectors – impacts from wage expenditures. The direct, indirect, and induced impacts in aggregate represent the estimated total effects.

Economic impact models used in this analysis estimate the ability for an industry to fulfill the demand within an area; this is known as the local purchasing percentage. In some cases, like construction, all of the demand can be fulfilled by in-area (i.e. Montana) businesses and firms. Other industries, however, may not have the capacity to fulfill total demand, and therefore it's assumed a portion of that industry spending goes out of Montana. This analysis uses the estimated industry specific local purchasing percentages built into the IMPLAN Montana multiplier model.

The following is information contained in a report presented in October 2019 for the Wyoming horse racing industry by The Innovation Group of New Orleans, Louisiana

Wyoming Horse Racing Industry - Economic Impact Analysis ⁽⁵⁾

In a study produced in October 2019 by The Innovation Group for Wyoming Horse Racing LLC, Wyoming Downs LLC and the State of Wyoming, the overall horse racing industry metrics are detailed. In 2010, no live horse racing existed but with the advent of historical horse racing (HHRs), Wyoming currently enjoys a thriving and growing equine industry. Not only has the number of days of live racing expanded to the mid-thirties, but horsemen travel to Wyoming to breed and race their horses. The Annual Direct Contribution to **GDP is estimated at \$25.0 million**, while the Annual Total Value Added to the Wyoming economy is **\$38.0 million**.

"Horse racing involves extensive economic activity. Racehorses require substantial expenditures on breeding, maintenance and training, and those expenditures support industries such as agriculture, veterinary, farming equipment, construction, travel/tourism."

Additional Statistics:

- Out-of-state horsemen licenses in 2018 amounted to 85%.
- Wyoming bred horses racing: 2014: 55 2018: 176
- Wyoming breeder's awards: 2011: \$9,405 2018: \$2,318,717
- 2020-2023 Industry forecasts show a continued yearly increase of 10.6 % to 10.8 %.

(5) Economic Impact Analysis: Wyoming Horse Racing Industry - State of Wyoming

Prepared for: Wyoming Horse Racing LLC & Wyoming Downs LLC

Report Date: October 2019

Prepared by: The Innovation Group

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What are Historical Horse Racing Machines (HHR's) Originally known as 'Instant Racing'

Historical Horse Racing is a parimutuel video gaming machine (VGMs) using race results from previously contested horse races. The machines are made to look similar to slot machines in an effort to bring familiarity to the patrons. What makes HHRs different than a typical video gaming machine? How do they work?

1. HHR's are parimutuel machines. Parimutuel is a wagering system in which all wagers of a particular type are placed into a pool. A predetermined percentage is taken out for expenses and the remainder in the pool is divided by the number of winning tickets/players. Different from some forms of wagering, "Pari-Mutuel" is a French term meaning "mutual betting"; patrons betting against each other instead of a company or the 'house'.
2. Minimum and maximum payouts are determined by the amount in the pools divided by the number of winning tickets/players. Depending on the wager, the minimum could amount to pennies while the maximum could amount to thousands or even tens of thousands of dollars.
3. Since all machines are connected, an automated accounting system is already available for site and governmental auditing.
4. Patrons have the ability to review statistics and handicapping information on the upcoming races.
5. Wagers may be placed with multiple selections and multiple races.
6. Once the wagers are placed and a button is pushed, those wagers are combined with other wagers in the parimutuel pool and a winner is determined using historical horse results from a pool of over 10,000 races (depending on the vendor supplying the machine).
7. If the patron is a winner, the money is credited to the machine and the patron may continue to wager or print a voucher to be cashed.
8. The size of the payout is determined by the size of the parimutuel pool. Payouts can range from a few dollars to over \$100,000.
9. IRS tax information is built into the system.
10. Depending on the selected game, a takeout rate (withholding for distribution to vendors, casino operators and governments) can be set from 5% to approximately 12%.

PariMAX and ExactaSystems are two of the top Historical Horse Racing machine suppliers in the United States. Though their games differ in looks and presentation, the underlying fact that they are parimutuel VGMs is still the same. Below are some images of historical racing machines - HHRs.



**State's Racing & Breeding Industries Come Back to Life
With the Support of Historical Horse Racing Machines (HHR's)**

- It saved 'Oaklawn Park' – Eric Jackson, General Manager of Oaklawn Park – Hot Springs, Arkansas. Historical horse racing machines more than doubled the purses available at Oaklawn Park from 2002 (\$11.4 million) to 2016 (\$27.0 million).⁽⁶⁾
- HHR's in Kentucky have generated over \$3 billion in new wagering since 2011 with revenues going to the Kentucky General Fund, Kentucky Higher Education, purses and prize monies, horse breeding industry, equine industry programs and equine drug research.⁽⁶⁾
- In 2016, HHR's in Kentucky contributed over \$5.5 million dollars to breeding and development incentive programs in the state.⁽⁶⁾
- Colonial Downs was built in 1997 and hosted both Thoroughbred and Standardbred racing. It closed in 2014 due to financial problems. In 2019, HHR legislation was passed in Virginia, bringing horse racing back to the state. According to an economic impact analysis distributed by Colonial Downs the new venture is projected to take in \$203.7 million in revenue by 2022, with \$161.9 million coming from historical horse racing (HHR's).
- Wyoming horse racing goes from **0 days** in 2010, to **20 race days** in 2014 and **32 races days** in 2015⁽⁷⁾. HHR's were introduced to save the industry.
- In Wyoming, with the help of HHR's revenues, Owner-Breeder-Stallion incentives jumped from \$46,729 in 2013 to \$2,324,854 in 2019⁽⁸⁾.
- HHR is currently legal in Arkansas, Kentucky, Oregon, Virginia and Wyoming.
- Kentucky Downs to expand in 2020, adding more HHR machines and approximately 18,000 square feet. In 2019, Kentucky Downs paid out a record \$41+ million dollars in purses for their five-day race meet. \$5 million was transfer to Ellis Park to strengthen their racing.⁽⁹⁾



Racing at Kentucky Downs | *Equisport*

Historical Horse Racing Machines & Gaming In Montana

By keeping the takeout rates in the range of 6-8%, the HHR machine should return to the vendors, casino operators and government agencies the same percentages that the current video gambling machines (VGMs). The advantage of a parimutuel video game machine is the possibility of larger payouts and generating more interest in the games. Here are some additional points to consider in any legislation dealing with HHR's:

1. Denomination of the games can range from as low as 1 penny up to \$5.00.
2. Each licensed gaming facility would be eligible for the historical horse racing gaming machine(s) (HHRs).
3. Licensing fees should match current licensing fees under the Gambling Control Division for machine manufacturers, vendors as well as licensed gaming facilities when it comes to the historical horse racing gaming machine(s) (HHRs).
4. A higher portion of the license fees for the HHRs could be set aside in the first few years to help Gambling Control in the development of security measures for the new gaming terminals.
5. Current vendors of other video gaming machines in the state could purchase or lease these machines to supply to interested casino operators.
6. It is possible to have multiple historical horse racing networks in the state where two or three different vendors supply to their customers.
7. Large payouts (ie: \$1,000 or more) could be handled by ACH transfers between the network's main office and the casino location. The larger the network of machines, the larger the payouts could grow. Money between HHR vendor(s), casino operators and even state government could be done by ACH transactions.
8. Hub operations of any network of HHR machines needs to be located in Montana at a location approved by Gambling Control and available to Gambling Control.
9. Even though the HHR machine competes with other video gaming machines, if the return to the patron, vendor, casino operator and government agencies is approximately the same, any increase in play will result in an increase in revenue to all parties.
10. Terminology between Historical Horse Racing machines and video gambling machines (VGMs) is different. HHR's use **'takeout rates'** to define the amount of money withheld from the **'played or wagered'** while VGMs use **'money in'** minus **'money out'** to determine the **'hold'**. If the 'theoretical payout percentage' or RTP (return to player) for the video gambling machines is set to 92%-94%, this should match the 6%-8% 'takeout rates' used for Historical Horse Racing machines; meaning the net result to patron, vendor, casino operator and government agencies will be approximately the same.
11. In FY2019 (fiscal year, video gambling machines generated \$62,996,012⁽¹⁰⁾ in tax revenues to the state (15% of gross revenues is the state tax). Therefore, in fiscal year 2019, video gambling machines had gross revenues of \$419,973,413. Gross revenues are equal to **'money in'** minus **'money out'**; the **'hold'**.
12. There are 1400 licensed gambling operators and locations in the state of Montana that offer more than 16,000 video gambling machines to the public.⁽¹¹⁾

13. The revenue potential of HHRs to casino operators is the same as VGMs, but with an added benefit of \$1,000 - \$10,000 - \$50,000 payouts. The following shows a comparison of the FY2019 figures using VGM & HHR terminology and numbers from #7 above showing the similarities of the gaming machines.
- **VGMs:** 24%⁽¹²⁾ of ‘**money in**’ is ‘**held**’. Therefore, \$1.75 billion was put into the video gambling machines. Based on historical data, the average plays is 4 times⁽¹²⁾ the amount of ‘**money in**’. This means that \$7 billion dollars was ‘**played**’ in the video gambling machines
 - **HHRs:** ‘**played**’ in VGMs is the same as ‘**handle**’ in HHR. If every machine in FY2019 was an HHR machine and \$7 billion was ‘**played or handled**’, the gross revenues at 6% ‘**takeout**’ would be \$420,000,000; returned 15% to the state or \$63,000,000. This is the exactly what happened in FY2019 with video gambling machines (VGMs).
14. In 2018, Wyoming Historical Horse Racing machines wagered \$570,598,999.60 on approximately 850 machines located in 16 sites. If 1/3 of the 1,400 licensed gambling operators in Montana added 3 Historical Horse Racing machines in ADDITION to their existing machines that would equal 1,400 machines which could, if they handled as much as the 16,000 VGM’s in 2018, would result in wagers of \$584,850,000. If the return to the operator is at the same percentage but wagering increased, it would be a win-win for everyone; vendors, casino operators and the state of Montana.
15. Being conservative, if HHRs did 50% of the projection in #10, the result would be \$292,425,000. With an average ‘**take-out**’ rate of 7% gross revenues would be \$20,469,750. State tax would be \$3,070,463 and \$17,399,288 for vendors and casino operators.

What New Legislation Might Look Like

In an effort to simplify the legislation and reach a general consensus of how best to add Historical Horse Racing machines to the gaming landscape in Montana, new legislation should contain or deal with the following points:

1. Legislation for the HHR machines falls under the supervision and statutes of the Montana Department of Justice – Gambling Control Division.
2. The licensing process, including costs and allocation of fees should be the same as video gambling machines, when possible.
3. Each licensed gambling facility would be eligible for up to five Historical Horse Racing machines. These machines are in ADDITION to any machines currently at the gambling location.
4. Vendor or vendors have the opportunity to purchase or lease HHR machines and construct a statewide network to handle the parimutuel wagers.
5. Each HHR machine should display the minimum and maximum payout for every wager made while playing. It also should display the size of the pools that are currently being generated.
6. Reporting of daily wagers is automatically transmitted to the state and individual gambling locations.

Points 7 & 8 on next page.

7. 15% of the takeout (same as the ‘**hold**’) is sent to the state for distribution in the same time frame that is currently used for the video gambling machines.
8. Revenues for the Montana Board of Horse Racing: of the 15% tax sent to the state, 50% of the amount that stays with the state (which is 1/3 of the 15%) will be earmarked for the Montana Board of Horse Racing for support and rebuilding of the live horse racing industry in Montana. *(Using previous predictions on page 9 - #11: results in \$511,744 for the board of horse racing)*

References

- (1) *History of Gambling in Montana - Montana Department of Justice (2019)*
- (2) *Oklahoma Equine Industry Study (2012)*
- (3) *Portland Meadows, County Fair Meets and the Horse Racing Industry in Oregon (2010)*
- (4) *US Equine Economic Impact Study – The Horse (2005)*
- (5) *Economic Impact Analysis: Wyoming Horse Racing Industry (Oct 2019)*
- (6) *Exacta Systems – A Provider of Historical Horse Racing Systems. (2018)*
- (7) *The Economic Contribution of Historic Horse Racing in Wyoming*
- (8) *Wyoming Horse Racing Commission (2019)*
- (9) *Thoroughbred Daily News (October 10, 2019)*
- (10) *Montana Gambling Control - Fiscal Year 2020 - 1st Quarter Report - Page 4*
- (11) *Montana Department of Justice website (Nov 2019)*
- (12) *Historical data from gambling machines in Montana per Montana Gambling Control.*