

Legislative Analysis



REVENUE DISTRIBUTIONS TO THE AGRICULTURE EQUINE INDUSTRY DEVELOPMENT FUND

Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 4823 as introduced
Sponsor: Rep. Julie Alexander

Analysis available at
<http://www.legislature.mi.gov>

House Bill 4824 as introduced
Sponsor: Rep. Kevin Hertel

Committee: Agriculture
Complete to 5-11-21

SUMMARY:

House Bills 4823 and 4824 would respectively amend the Lawful Internet Gaming Act and the Lawful Sports Betting Act to remove the cap on revenues collected under those acts that are distributed to the Agriculture Equine Industry Development Fund (AEIDF).

The Lawful Internet Gaming Act,¹ which authorizes licensed internet gaming in Michigan, imposes a tax on adjusted gross receipts from that gaming and earmarks tax revenue as follows:

- 30% to the city in which the internet gaming operator's license is located.
- 65% to the Internet Gaming Fund established in the act.
- 5% to the AEIDF. The Lawful Internet Gaming Act also limits the amount of the deposit to the AEIDF to \$3.0 million per state fiscal year, and any revenue in excess of the \$3.0 million is to be credited to the Internet Gaming Fund.

Similarly, the Lawful Sports Betting Act,² which authorizes licensed sports betting, imposes a tax on sports betting gross proceeds and earmarks tax revenue in the same amounts (and with the same \$3.0 million cap) as described above.

The bills would amend the respective acts to remove the \$3.0 million annual cap on revenue distributed to the AEIDF. The bills would not change the 5% distribution to the AEIDF.

MCL 432.315 (HB 4823)
MCL 432.415 (HB 4824)

BACKGROUND:

The AEIDF is established in section 20 of the Horse Racing Law of 1995. Since the fund's creation, its revenue has been derived primarily from a 3.5% tax on simulcast horse race wagering. Beginning in 2020, AEIDF revenue has been supplemented by a tax on advance

¹ 2019 PA 152 (House Bill 4311): <http://legislature.mi.gov/doc.aspx?2019-HB-4311>

² 2019 PA 149 (House Bill 4916): <http://legislature.mi.gov/doc.aspx?2019-HB-4916>

deposit wagering on horse races as made through licensed third-party facilitators. AEIDF revenue was \$2.3 million in 2019 and \$2.0 million in 2020. AEIDF revenue is used for horse racing supplements and awards paid to owners and breeders of Michigan racehorses and regulatory costs of the Michigan Gaming Control Board.³

Legislation that proposes increasing breeders' awards in Michigan from the AEIDF has recently been passed by the House of Representatives.⁴

FISCAL IMPACT:

Although the Lawful Internet Gaming Act and Lawful Sports Betting Act both took effect in December 2019, the Michigan Gaming Control Board did not finalize administrative rules governing internet gaming and sports betting until December 2020. Operators could not begin accepting wagers until 2021.⁵ Based on estimates at the time of enactment, a mature internet gaming market is expected to generate approximately \$30.0 million in wagering tax revenue from commercial casinos, and a mature internet sports wagering market is estimated to generate approximately \$8.0 million in wagering tax revenue. Wagering tax revenue from either revenue stream would need to reach \$60.0 million for the AEIDF cap to be reached.

Wagering tax revenue from internet gaming at commercial casinos through the first three months of the fiscal year totaled approximately \$30.0 million. While revenues are currently running above estimates, it should be noted that brick-and-mortar casino revenues have been depressed because of pandemic restrictions around capacity. Full-year estimates are not available and likely will correspond to changes in capacity limits at brick-and-mortar casinos. Statute requires the first draw of Internet Gaming Fund revenue to satisfy the hold-harmless provision for city of Detroit wagering taxes. The hold-harmless provision requires funds in the Internet Gaming Fund to be dedicated to the city of Detroit if total gaming taxes fall below \$183.0 million (capped at 55% of the fund minus the 30% internet gaming tax received by the city of Detroit).

It is unknown how much of the Internet Gaming Fund, if any, will be needed at the close of this fiscal year to satisfy this hold-harmless provision. Outside of possible impacts on this provision, any redirected revenue to AEIDF under HB 4823 would result in a corresponding reduction in School Aid Fund (SAF) revenue due to the provision that any remaining funds in the Internet Gaming Fund at the close of the year must be deposited in the SAF.

Based on both estimates (noted above) and actual collections through the first three months of the year (just over \$1.0 million), internet sports wagering taxes are not expected to meet the threshold necessary (\$60.0 million) to trigger the AEIDF cap. If internet sports wagering taxes did reach this threshold in any given fiscal year, there would be a

³ For additional information on horse racing and the AEIDF, see the 2017 House Fiscal Agency publication "Fiscal Focus - Horse Racing in Michigan - A Primer": https://www.house.mi.gov/hfa/PDF/Agriculture/FiscalFocus_Horse_Racing_in_Michigan.pdf

⁴ <http://legislature.mi.gov/doc.aspx?2021-HB-4599>

⁵ https://www.michigan.gov/mgcb/0,4620,7-351-79131_79259---,00.html

corresponding reduction in SAF revenue for the same reason mentioned above for the Internet Gaming Fund.

In sum, the fiscal impact of House Bills 4823 and 4824 would be contingent on whether or not the earmark to the AEIDF from either the Lawful Internet Gaming Act or the Lawful Sports Betting Act, or both, exceeded the current \$3.0 million limitation. The bills would not affect total state revenue, but could affect the distribution of revenue between two state restricted funds. The bills would have no impact on local units of government.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.