

HOUSE BILL REPORT

HB 2575

As Reported by House Committee On:
Commerce & Labor

Title: An act relating to the management of moneys by the Washington horse racing commission.

Brief Description: Relating to provisions of the Washington horse racing commission's authority.

Sponsors: Representatives Cairnes, Cody, Conway, Wood and Kenney; by request of Horse Racing Commission.

Brief History:

Committee Activity:

Commerce & Labor: 1/22/04, 2/3/04 [DPS].

Brief Summary of Substitute Bill

- Horse Racing Commission (Commission) accounts are transferred from a local bank to interest-generating accounts in the custody of the State Treasurer.
- The Commission's Board of Stewards is given specific authority to levy fines for violations of Commission regulations.

HOUSE COMMITTEE ON COMMERCE & LABOR

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Conway, Chair; Wood, Vice Chair; McMorris, Ranking Minority Member; Condotta, Assistant Ranking Minority Member; Crouse, Holmquist, Hudgins, Kenney and McCoy.

Staff: Susan Kavanaugh (786-7106).

Background:

There is one for-profit owner-operated racetrack in Washington, Emerald Downs, located in Auburn. There are also four non-profit racetracks where horse races take place no more than 10 days per year and a limited amount is wagered. These tracks are located in Kennewick, Waitsburg, Walla Walla, and Dayton. They are known as Class C tracks.

Three taxes are levied on horse race wagering in Washington:

Washington Bred Owners' Bonus: For-profit tracks pay 1 percent of gross receipts. This money goes into the Washington Bred Owners' Bonus Account. For newly built tracks, half of the principal is paid to owners of Washington bred horses that come in first through fourth at the track from which this tax comes. The other half goes to reimburse any new for-profit track for construction costs. Interest on the account is distributed to the non-profit tracks for capital improvements -- upgrading the tracks or horses quarters.

Class C Purse: All racetracks pay one-tenth of 1 percent of gross receipts. This money goes into the Class C Purse account and is used for prize money at non-profit tracks that have operated at least five years.

Operating: For-profit tracks with annual gross receipts over \$50 million, pay 1.3 percent of gross receipts. This money goes into the operating account of the Commission. Along with fees and fines, this tax covers salaries and all other costs of operating the Commission.

Each year, the Commission must distribute to the non-profit tracks, from its operating funds, the difference between \$300,000 and the amount generated from the one-tenth of 1 percent tax that goes into the Class C Purse Account. In 2004, this difference is about \$161,000.

The Commission has two bank accounts in a local commercial bank, an operating account and a second account with monies from both the Washington Bred Owner's Bonus and the Class C Purse taxes. The operating account does not, because of the volume of transactions, generate interest. Based on historical operating account fund balances and interest rates, the Office of Financial Management estimates that this account would generate \$20,000 annually in interest if it was managed by the State Treasurer.

Gross receipts from horse racing declined from \$165 million in calendar year 2000 to \$139 million in calendar year 2003, continuing a long-term trend in the industry. Declining gross receipts means both a decline in funds available for operation of the Commission and an increase in the amount that the Commission must contribute to the non-profit tracks for prize money.

The Commission fines licensed tracks and individuals for rules violations. They do this under their general authority to regulate the horse racing industry. Fines are levied by a Board of Stewards, appointed by the secretary of the Commission to see that horse racing meets are conducted properly.

The Treasurer's Office (Office) maintains and invests a trust fund comprising money in the custody of the Office, but not required to be in the state treasury. In general, interest

earned on the trust fund goes to the state General Fund. However, for some accounts within the fund, it is specified that they retain the interest earned on their share of the trust fund.

Summary of Substitute Bill:

The Commission's bank accounts are moved from a local bank to a trust fund in the custody of the State Treasurer. The purpose of this change is to generate interest from the Commission's operating account to support non-profit tracks, in turn reducing the amount from Commission operating funds that goes for this purpose.

Three accounts are created in the custody of the State Treasurer. They are, respectively, the Washington Bred Owners' Bonus Fund Account, the Class C Purse Fund Account, and the Horse Racing Commission Operating Account. The uses of each fund are specified. The Operating Account is appropriated, while the other two are not. Interest from these accounts stays with the accounts, except that interest from the Operating Account goes to the Class C Purse Fund Account.

The Board of Stewards is given specific authority to levy fines. Money generated from fines goes into the Class C Purse Fund Account.

It is specified that the Commission will annually make up the difference between \$300,000 and the amount in the Class C Purse Fund. The Class C Purse account will contain fine money and operating account interest, as well as money from the Class C Purse tax.

Various clarifying and technical changes are made.

Substitute Bill Compared to Original Bill:

The definition of "stewards" or "board of stewards" is deleted.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect immediately.

Testimony For: This change will maximize interest earnings, which will be invested back into the Class C Purse Fund, and will, in turn, mean more money is available to the Commission for monitoring horse racing. The Office of Financial Management, Small

Agency Client Services recommended the account transfers. The Office of the Attorney General recommended that the statute be corrected to give specific authority to levy fines for violation of horse racing rules. The Commission held a meeting with stakeholders on this issue in September and there was no opposition.

(With concerns) We are glad to have the work of stewards recognized in statute. However, the definition of stewards shows them working only at horse racing meets. That would be a change of working conditions and subject to collective bargaining.

Testimony Against: None.

Persons Testifying: Bob Leichner, Horse Racing Commission.

(With concerns) Bev Hermanson, Washington Federation of State Employees.

Persons Signed In To Testify But Not Testifying: None.