

NORTH DAKOTA LEGISLATIVE MANAGEMENT

BUDGET SECTION

Tuesday, December 13, 2011
Senate Chamber, State Capitol
Bismarck, North Dakota

Presentation: Winston E. Satran
Director, North Dakota Racing Commission

Thank you for allowing the Racing Commission to make a presentation on the developments that have occurred over the past year. The Commission has looked at prospects that would bring about improvements and give the horse racing industry hope that it will not only survive but have the opportunity for a positive future.

When an individual, organization, or governmental entity begins to remedy persistent problems, they look for methods to save their existence and prosper. The Racing Commission has had the opportunity to investigate answers to its multiple problems the past two years and to seek solutions. I would like to describe some of the activities that have crossed the path of the Racing Commission and explain the action taken by the Commissioners.

During the 2009 Legislative Session the taxes for account deposit wagering were reduced significantly to provide an incentive for account deposit wagering companies to come to North Dakota and become licensed by the Racing Commission. The business activities of these companies are taxed and those taxes sustain horse racing. The results of this legislative action created significant licensing activity that resulted in nine companies becoming licensed in North Dakota. We have closely monitored their activity

and watched some new companies thrive and others stall and go out of business in their attempt to make their venture successful.

Horse racing and wagering is a complicated business that depends on multiple factors to build a successful commercial enterprise. When the major corporations in racing - Churchill Downs Incorporated, Monarch Racing, and the New York Racing Association - make business judgments, it affects the whole spectrum of the racing world. The State regulatory bodies and private businesses have to be flexible and responsive to these major corporations and their business decisions if they want to remain viable. These corporate choices have affected a number of the companies that have been licensed in North Dakota.

The Racing Commission has licensed nine account deposit wagering companies in the past two years. Five of the nine licensed companies are in business and four of them are out of business or in the process of closing down. The businesses that are successful have adequate capital, experience, and technology to overcome the challenges of becoming established in the racing world. There continues to be an interest in creating new companies and we presently have three new applications that are seeking a Racing Commission license.

We also have received significant interest from one of the major corporations in the racing world, the New York Racing Association. They are a non-profit corporation that owns the three major New York tracks - Belmont, Aqueduct, and Saratoga. Their Business Development Vice President, Dave O'Rourke, came to meet with us and discuss

potential business opportunities through North Dakota. They are considering North Dakota as a possibility for obtaining an account deposit wagering license.

If the New York Racing Association were to become licensed in North Dakota it would result in an immediate increase in handle by \$300,000,000 per year. The Racing Commission will continue to stay in contact with the New York Racing Association to encourage their interest in acquiring a North Dakota license.

The second major development was the approval of changes of the Racing Commission's administrative rules that govern simulcast and account deposit wagering. In the process of developing these rules we wrote three new bet types. These are bets not used in any other location in the U.S. The bet that has stirred the most interest is a wager that is called the Mad Scramble. This bet requires choosing six horses in their exact finishing order to win the daily pool and also gives bettors the opportunity to win the carryover pool from previous Mad Scramble races. The carryover pool can be won if the random number printed on the purchased pari-mutuel wager matches the number drawn at the conclusion of the race. The owner or owners of those wager tickets would then win the total carryover of the pari-mutuel funds from the previous races.

This wager has caused interest within the U.S. and internationally. Presently, companies from Australia to Europe have been in discussion with the Racing Commission concerning the Mad Scramble wager. We are presently exchanging information with them to see if the relationship is compatible and workable.

The obvious question that arises "why internationally"? There are several reasons; the most significant is this wager will have worldwide appeal and generate

significant revenue. This wager was modeled after two successful international wagers, one in Sweden, the V-75, and the other in France, the Quinte Plus.

There has been significant research into the legality of this wager and that information has been shared with the Attorney General's staff. The Racing Commission has submitted this wager to the Racing Commissioners International Pari-Mutuel Audit Committee. The Racing Commissioners International is a professional organization made up of membership from states and countries where horse racing is legal. We presented the wager to the Pari-Mutuel Audit Committee and their decision was to submit it to the Legal Review Committee. We are awaiting a hearing before the Legal Review Committee and will provide our justification to them for this wager. If we are successful we will then move through the process on to the Model Rules Committee. If they approve this wager it will then be sent to all the states as a model rule that will allow them to use it as a wager.

The third development that has gained momentum is the licensing of companies that have created self-serve kiosks that allow public access to internet wagering. These kiosks are being installed through non-profit charitable organizations in North Dakota at the present time. Contracts have been entered into by Horse Race North Dakota, the Cowboy Hall of Fame, and the Fort Lincoln Foundation, and a Canadian Company, MTPBets, to install kiosks in bar locations throughout North Dakota. These kiosks are self-contained and allow for viewing of live racing and wagering at locations throughout North Dakota.

I want to assure the Legislators that these kiosks are live racing and are pari-mutuel wagering. They are not pre-recorded races that have machines similar to slot machines that provide a venue to see pre-recorded races. These kiosks are very similar to the venue that is still provided in some locations that is known as simulcast wagering. The kiosks are simple to use, served by a highly technical computer system and require each participant to register and open an account by either depositing money or a credit card and personal information before wagering.

The Racing Commission is also cognizant of the social problems that can potentially come along with gambling. In discussions with Lisa Vig, Director of the gambling addiction programs with Lutheran Social Services, she gave me the following breakdown on the sources of gambling and ranking of gambling addictions that brings clients into the addiction programs:

1. Casino Gambling
2. Charitable Gambling
3. Powerball and Lottery

There are no reported cases of gambling addictions related to horse racing in North Dakota.

As you can see the Racing Commission has been actively pursuing avenues to reinvigorate horse racing in North Dakota. There are still many challenges facing us. The number one challenge is to reinstate racing in Fargo. The second major issue is to assist the Fargo track in meeting their financial obligations to the City of Fargo and the Fargo-Moorhead Economic Development Corporation. We are also focusing on how to

provide oversight, accountability, investigation powers, and education to the racing participants. The Racing Commission felt that it was necessary to bring you up to date to the possible opportunities that it is pursuing to make the Racing Commission self-sufficient and provide ample funds to generate growth in the horse industry in North Dakota.