

House Bill 1023
ND Racing Commission – Budget No. 670
Gail Allensworth, Administrative Officer
March 8, 2023

68th Legislative Assembly
Senate Appropriations Committee
Education and Environment Division
Senator Ronald Sorvaag, Chairman

To the Honorable Chairman Sorvaag and other Honorable members of the Senate Appropriations Committee. Thank you for the opportunity to appear before you to present my testimony for HB 1023, the ND Racing Commission's 2023-2025 biennium budget.

I am here as our previous Executive Director, Jack Schulz, retired in early February 2023. The ND Racing Commission has hired a new Executive Director and he should start in mid-to-late March.

The ND Racing Commission regulates all Pari-mutuel Wagering and live horse racing in accordance with Chapter 53-06.2. This is the regulatory body for all live racing and pari-mutuel wagering. The ND Racing Commission does not own or operate any live racetracks or any pari-mutuel gaming sites.

We have requested \$20,000 for the next biennium to hire up to 3 Interns, each year, to work at our office and at the live race meets. The intent is to assist university/college students, primarily in agriculture programs, to learn and experience the horse racing industry firsthand and to generate more interest in this industry with our state's young adults.

The Racing Commission received one-time funding for our Interns for the 2021-2023 biennium. Thanks to the one-time funding, the Racing Commission was able to hire 2 Interns in 2021, and 3 Interns in 2022. These students attended ND State University, Jamestown University, Dickinson State University, the University of Mary, and the University of Washington in Seattle. These students consisted of a second-year Law student, Pre-Veterinarian, Agriculture, and Business majors. One of our first interns, Jessica Benson, is now one of our current Commissioners. The program has been a success and it would be beneficial for the funding to become part of our permanent appropriation.

We have also requested an additional \$12,000 for the increase in our office lease. We moved from our offices located at the Attorney General's office located at 500 North 9th Street in Bismarck in July 2021, as the AG's office

asked us to move. The new office space has improved parking as the previous office space had limited/no parking for clients/visitors. In addition, the previous office was in the basement of the building with no ADA accessibility making it difficult for our disabled clients.

The last item requested is due to our current appropriation levels as it does not cover the entire cost of salaries/benefits of our two FTEs. The current funding is between the General Fund and our horse racing operating fund. This has been the routine funding for several years.

Since our budget was submitted, we have learned that additional FTEs may be needed in the future as possible definition changes may make private contractors into employees, rather than contracted service providers. These positions would include the Veterinarians, Stewards, Investigators, and Licensing Staff/Interns that the Racing Commission hires for the live race meets. If this definition change occurs, this would create the need for an additional eight additional part-time temporary staffing positions, thus creating another \$75,000 to \$85,000 in salaries and expenses.

Due to the recent and unexpected retirement of our Executive Director, we are also requesting an additional \$35,000 in salary/benefits expenses to

cover the costs of hiring a new Executive Director to stay competitive in the job market.

The Racing Commission deposits into the General Fund from the taxes that we collect on the monthly handle from our licensed Account Deposit Wagering companies (ADWs). The 2021-23 estimate for taxes collected for this biennium was \$421,000. As of February 28, the Racing Commission has deposited \$537,370. We have exceeded our estimate by over \$116,000, and there are four months to go for tax collections this biennium. The estimate for 2023-25 is \$525,000, and it is likely it will be higher than that if the current trend continues.

There is a bill before the Legislature this session, HB 1331, which is a bill to amend definitions; eliminate the breakage tax, but replace it with an increase to the maximum allowable tax to \$500,000 per fiscal year for the licensed ADWs; and to increase the tax paid into the promotion fund to 1/8 of 1% of the handle; and to increase the percentage of promotion fund that can be used for operating expenses from 25% to 35%.

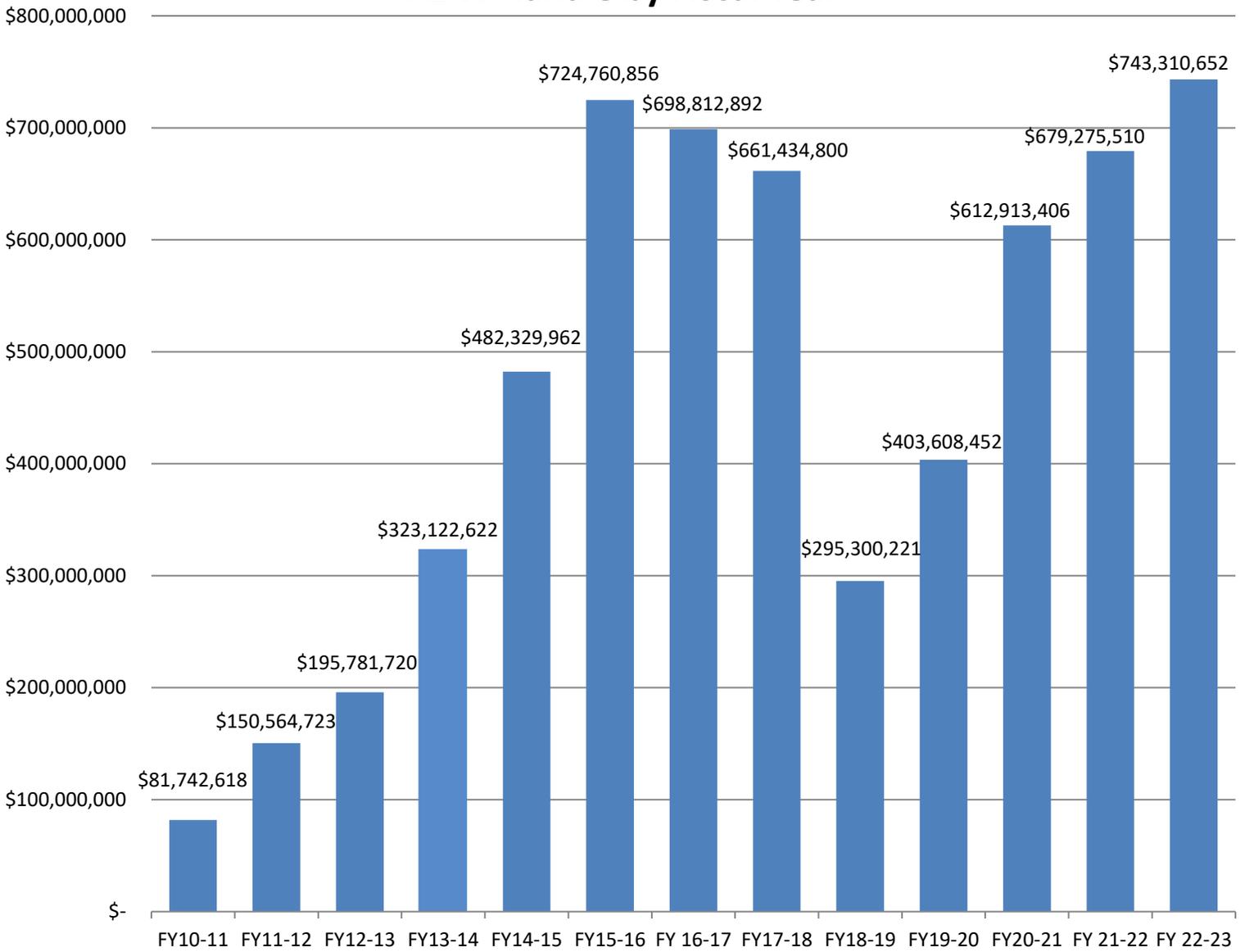
The changes requested should help maintain our 15 licensed ADW's to stay licensed in the State of ND, and the goal is to attract additional ADW's that

could potentially increase the tax collections by \$500,000 each year. We currently have two new ADWs that have applied to be licensed and there is interest in licensing from two other ADWs due to regulation changes in Oregon.

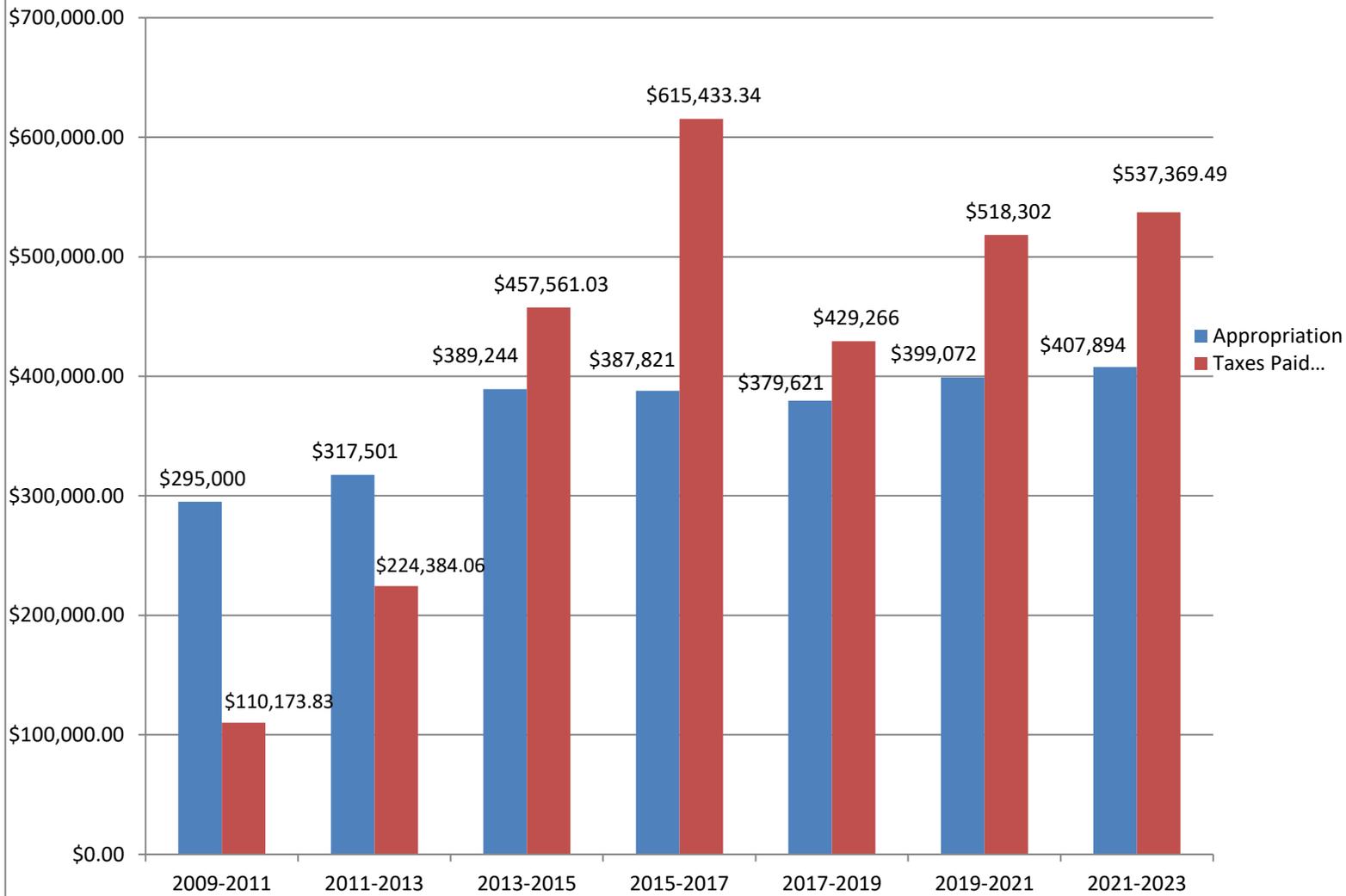
The Racing Commission has been able to maintain and improve its payments to the General Fund and even exceeding our appropriations for the past five biennia. We already have the highest handle ever this fiscal year.

Please see the charts on the next two pages.

ADW Handle by Fiscal Year



General Fund Appropriation and Revenue



The future of horse racing in North Dakota has risks and challenges going forward. One such risk is the effect of the Advanced Deposit Wagering (ADWs) markets on our revenues. We are seeing that minor changes in a company’s business structure, regulatory changes in other jurisdictions, or rate differences between companies, result in significant shifts in wagering volume away from

North Dakota. In fact, these changes are demonstrated by our wagering volume during the 2018-2019 fiscal year as shown by the graph on page 6.

While the Commission has done its best to plan and mitigate the effects of any changes, significant impacts to our wagering volume have occurred. COVID-19 created an unanticipated 2020 with wagering and revenues exceeding our expectations. However, we are already seeing a shift in those numbers with the re-start of other sports wagering around the world. Going forward, it is imperative that the horse racing industry in the state identify and obtain more reliable sources of revenue by attracting more ADW's to license with our state.

The economic contribution of horse racing to North Dakota in a 2016 impact study conducted by NDSU reports a total economic impact to the state of over \$24 million dollars. Of that amount, the majority (\$20.2 million) was associated with expenditures including racehorse owners, breeders, and trainers.

North Dakota has been and will always be a state rich in horse culture. Unfortunately, horse racing has seen challenging times for several years. Due to the success of the Commission in developing additional revenue and

supporting innovative programs, the future of racing in North Dakota is looking brighter. The Commission believes that the people of North Dakota, not to mention the horsemen and horsewomen, want to see a vibrant racing culture again. With hard work, strong administration, thoughtful guidance and the support of the Legislature, the Racing Commission can build on these past successes to ensure a more stable future for this great sport in North Dakota.