

# HOUSE BILL REPORT

## SHB 2192

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### As Passed House:

June 4, 2003

**Title:** An act relating to parimutuel taxation.

**Brief Description:** Taxing parimutuel machines.

**Sponsors:** By House Committee on Finance (originally sponsored by Representatives Cody and Clements).

### Brief History:

#### Committee Activity:

Finance: 4/16/03 [DPS].

#### Floor Activity:

Passed House: 4/24/03, 84-8.

#### First Special Session

#### Floor Activity:

Passed House: 6/4/03, 87-5.

### Brief Summary of Substitute Bill

- Increases the parimutuel tax rate, from 0.52 to 1.803 percent, on the race meet gross receipts of small licensees.

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## HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Gombosky, Chair; McIntire, Vice Chair; Cairnes, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Ahern, Conway, Morris, Roach and Santos.

**Staff:** Mark Matteson (786-7145).

### Background:

The parimutuel tax is a state tax that applies to the gross receipts of parimutuel machines within the state, used in connection with horse racing meets. Parimutuel wagering is a system of betting on races whereby the total amount waged is divided among the winners

after deducting management expenses, in proportion to the sums they have wagered individually. The rate of the base tax depends on whether the race is for-profit or nonprofit, and whether the annual receipts of the licensee in the previous year was greater than \$50 million:

<u>Race Type/Annual Receipts</u>	<u>Base Tax Rate</u>
Nonprofit (maximum of 10 days/yr.)	0 percent
For profit	
Annual receipts less than \$50 M	0.52 percent
Annual receipts at least \$50 M	1.30 percent

Additional tax rates also apply: 0.1 percent, for the purpose of providing additional funding to support nonprofit race meets, and 1.0 percent, which applies to the receipts of large race meets only to provide additional prize money for the owners of the top four finishing horses.

The parimutuel tax applies to parimutuel wagering that occurs on-site at the race track and at off-track satellite betting facilities. For the purpose of determining odds and computing payoffs for a particular race, the track owner must combine the pool of wagers at both on-site and off-track locations. In addition to in-state races, parimutuel wagering is permitted on out-of-state races through simulcasts. Simulcasts are transmittals of live races that occur out-of-state, where the transmitted signals are received at track facilities or off-track satellite facilities.

Activity in the state horse racing industry has decreased in recent years. Currently, the only operating track is Emerald Downs, located in Auburn; facilities at Yakima Meadows and at Playfair in Spokane shut down in 1998 and 2001, respectively.

In June 2002 the State Horse Racing Commission (Commission) received an application for a license to conduct parimutuel horse racing at Playfair in Spokane. The Commission approved the license in October 2002, and racing is scheduled to commence in September 2003.

Revenues attributable to wagering activity at larger racetracks have historically been used to subsidize regulatory costs at meets at smaller and nonprofit racetracks. The Commission expects that the annual tax revenues from the racing activity scheduled at Playfair, which will be subject to the 0.52 percent tax rate, will not meet the costs of regulating the meets.

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#### **Summary of Substitute Bill:**

The parimutuel tax rate on the gross receipts of for-profit licensees whose annual receipts

are less than \$50 million is increased from 0.52 percent to 1.803 percent.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on January 1, 2004.

**Testimony For:** In 2002 the Horse Racing Commission (Commission) received and approved an application for a license to conduct parimutuel racing at Playfair in Spokane. In their order granting the license, the Commission acknowledged that there would be insufficient funds to regulate the meets, based on the current tax structure. Regulatory costs are estimated to be about \$279,000 annually, while taxes and license fees would only yield about \$101,000. This bill increases the tax rate so that there will be sufficient revenues to regulate races at Playfair.

Horse racing is regulated at the state level because it involves gambling. Regulation is funded by a tax on the parimutuel handle. Last year, in approving the new licensee, the commission put itself in a deficit situation. In its order, the Commission asked the stakeholders to offer suggestions to reduce costs or generate additional gambling revenues, but none of the potential approaches were very palatable. We want to see more live racing, but not at the expense of a cross subsidy or by driving the expansion of other types of gambling.

The deficit must be resolved. Larger tracks have subsidized the smaller tracks in the past but this is no longer appropriate.

**Testimony Against:** None.

**Testified:** Hartley H. Kruger and Robert Leichner, Washington Horse Racing Commission; Dick VanWagenen, Governor's Policy Office; and Jim Halstrom, Northwest Racing-Emerald Downs.