

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

April 18, 2017

TO: Honorable John Kuempel, Chair, House Committee on Licensing & Administrative Procedures

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB3926** by Kuempel (Relating to the regulation of horse racing and greyhound racing and pari-mutuel wagering in connection with that racing.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3926, Committee Report 1st House, Substituted: a positive impact of \$392,000 through the biennium ending August 31, 2019.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2018	\$155,000
2019	\$237,000
2020	\$345,000
2021	\$458,000
2022	\$553,000

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from <i>General Revenue Fund 1</i>	Probable Revenue Gain/(Loss) from <i>Fund for Veterans' Assistance 368</i>	Probable Revenue Gain/(Loss) from <i>Texas Racing Comm Acct 597</i>	Probable Savings/(Cost) from <i>Texas Racing Comm Acct 597</i>
2018	\$155,000	\$76,000	\$30,368	(\$30,368)
2019	\$237,000	\$117,000	\$160,313	(\$160,313)
2020	\$345,000	\$170,000	\$234,281	(\$234,281)
2021	\$458,000	\$226,000	\$798,570	(\$798,570)
2022	\$553,000	\$272,000	\$815,445	(\$815,445)

Fiscal Year	Change in Number of State Employees from FY 2017
2018	0.0
2019	2.5
2020	2.5
2021	10.2
2022	10.2

Fiscal Analysis

The bill would amend the Texas Racing Act to authorize a racetrack association licensed to offer pari-mutuel wagering on horse races or greyhound races and granted live or simulcast race dates to also offer purpose-driven pari-mutuel wagering on any day during the calendar year. The bill would define purpose-driven pari-mutuel wagering as wagering on greyhound or horse races that were previously conducted at a licensed facility and were concluded with official results. The bill would require a racetrack association to set aside for the State one percent of each dollar wagered in a purpose-driven pari-mutuel wagering pool for allocation in the following priority order: (1) 45 percent annually, not to exceed \$20.0 million, to the criminal justice division of the Governor's office to provide financial assistance to law enforcement agencies for certain body armor equipment; (2) 33 percent annually, not to exceed \$10.0 million, to the Fund for Veterans' Assistance; (3) 22 percent annually, not to exceed \$10 million, as financial assistance to survivors of law enforcement officers, firefighters, and others killed in the line of duty under Chapter 615, Government Code; and (4) any remainder allocated annually for deposit to the General Revenue Fund. The bill would provide that the breakage from purpose driven pari-mutuel wagering be allocated in the same manner as breakage from other pari-mutuel wagering.

The bill would take effect on September 1, 2017.

Methodology

The Comptroller's office assumes that the introduction of purpose-driven pari-mutuel wagering would result in the growth of total wagers from fiscal year (FY) 2018 to 2022, with some decline in the growth rate in later years; and wagers on purpose-driven wagering would comprise an increasing share of the total wagers on horse and greyhound racing, reaching 40 percent by fiscal year 2022. This assumed growth in wagers would result in increased revenue from the state's share of wagering pool funds, as well as new revenues from the proposed purpose-driven pari-mutuel pool deductions, for estimated revenue gains to the General Revenue Fund of \$155,000 in FY 2018 increasing to \$553,000 by FY 2022 and to the Fund for Veterans' Assistance of \$76,000 in fiscal year 2018 increasing to \$272,000 by FY 2022.

Based on the information and analysis provided by the Texas Racing Commission (TRC), it is assumed three currently inactive Class 2 horse racetrack licensees would become active due to the authorization to conduct purpose-driven pari-mutuel wagering. TRC assumes each newly active horse racetrack would become operational in FY 2019 to offer simulcast and purpose-driven pari-mutuel wagering and begin offering live racing in FY 2021; and all currently active horse and greyhound racetracks would begin offering purpose-driven pari-mutuel wagering in fiscal year 2019. TRC estimates the agency would need additional personnel for licensing, investigations, and auditing beginning in fiscal year 2019 (2.5 FTEs in FY 2019 and FY 2020); and, assuming 20 days of live racing per year at each newly active racetrack beginning in FY 2021, additional FTEs for stewards, veterinarians, test barn supervision, and increased occupational licensing, investigations, and auditing (10.2 FTEs each fiscal year). Costs for salaries and employee benefits

for the additional FTEs are estimated be \$147,281 per year in FY 2019 and FY 2020 and \$691,679 per year in FY 2021 and FY 2022. TRC estimates additional costs for personal computers, networking hardware, peripheral equipment, and software to be \$75,000 in FY 2020. Travel costs are estimated to be \$9,000 in FY 2019, \$12,000 in FY 2020, and \$77,400 per year in FY 2021 and FY 2022. TRC also estimates additional costs for criminal history background checks with the increase occupational licensing activity, estimated to be \$29,491 in FY 2021 and \$46,366 in FY 2022.

TRC estimates the costs of database programming changes for the implementation of purpose-driven wagering to be \$30,368 in fiscal year 2018 and \$4,032 in fiscal year 2019.

This analysis assumes that any increased costs to TRC, which is statutorily required to generate sufficient revenue to the Texas Racing Commission Account 597 to cover its costs of operation, would be offset by an increase in fee-generated revenue of an equal value.

Based on the information provided by the Governor's office and the Veterans Commission, it is assumed the agencies could absorb any costs or duties associated with implementing the provisions of the bill within existing resources.

Based on the analysis of the Comptroller's Office and TRC, it is assumed increases in total wagers from purpose-driven pari-mutuel wagering and increased live and simulcast wagering at newly active racetracks would result in additional revenue to Texas Racing Commission Account 597 from amounts set aside for the Texas Bred Incentive Program. Pursuant to the Texas Racing Act and the 2016-17 General Appropriations Act, it is assumed any increase in amounts remitted to Account 597 would be passed through for disbursement to Texas race animal owners and breeders in accordance with state law and, therefore, are not shown in the tables above.

This legislation would do one or more of the following: create or recreate a dedicated account in the General Revenue Fund, create or recreate a special or trust fund either with or outside of the Treasury, or create a dedicated revenue source. The fund, account, or revenue dedication included in this bill would be subject to funds consolidation review by the current Legislature.

Technology

Technology costs are estimated to be \$34,400 in the 2018-19 biennium for database programming and \$75,000 for acquisition of computer hardware, software, and equipment in fiscal year 2020.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 300 Truusted Programs Within the Office of the Governor, 304 Comptroller of Public Accounts, 403 Veterans Commission, 476 Racing Commission

LBB Staff: UP, CL, EH, TG, LBe, GGo