

# SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

BILL: SB 1490

SPONSOR: Senator Lee

SUBJECT: Breeders' Awards and Operation of Cardrooms

DATE: March 20, 2003

REVISED: 3/20/03 \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Sumner</u>	<u>Imhof</u>	<u>RI</u>	<u>Favorable</u>
2.	_____	_____	<u>FT</u>	_____
3.	_____	_____	<u>AGG</u>	_____
4.	_____	_____	<u>AP</u>	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

## I. Summary:

The bill expands the opportunities for Florida-bred thoroughbred horses to become eligible to receive special breeders awards. It also expands the eligibility requirements for Florida-bred thoroughbred horses that participate in specified races. It eliminates the requirement for thoroughbred racing permitholders to choose between a simulcast race after 7 p.m. or operating a cardroom.

The bill redefines the term "authorized game" to mean a game or series of games of poker. It provides for permitholders to amend an application to include the operation of a cardroom and authorizes the operation of a cardroom between 12 noon and 12 midnight, with certain limitations. It restricts the maximum bet to \$2 and prohibits more than three raises in any round of betting.

This bill substantially amends the following sections 550.26165, 550.2625, 550.5251, and 849.086 of the Florida Statutes:

## II. Present Situation:

### Breeders and Owners Awards

Sections 550.26165 and 550.2625, Florida Statutes, outline the provisions for encouraging breeding and training of racehorses in the state. Breeders' and stallion awards are given to breeders of registered Florida-bred horses winning horse races, and similar awards are given to the owners of stallions who sired Florida-bred horses winning or placing in a stakes race, if the stallions are registered as Florida stallions standing in this state.

Sections 550.26165 and 550.2625, Florida Statutes describe the payment rates and sources of funds for breeders' and stallion awards, eligibility requirements, and the type of races that would qualify for breeders', stallion, or owners' awards. The statutory sections also describe the requirements for the respective breeders' associations.

### **Cardrooms**

Cardrooms may only operate within two hours prior to the post time of the first live event conducted at the facility on which wagers are accepted to within two hours after the conclusion of the last live event on which wagers are accepted. A permit holder can operate a cardroom only on days when it is conducting live events. A player is limited to winning in a single round, hand, or game a maximum of \$10.

Section 550.5251, F.S., requires thoroughbred racing permit holders to choose between either operating a cardroom or engaging in simulcasting after 7 pm.

The Department of Business and Professional Regulation's Division of Pari-mutuel Wagering (division) is authorized and responsible for licensing and regulating cardroom activities in the state. The division may suspend, revoke, or deny licenses or permits for violations of the statute. Since the operation of a cardroom is conditioned upon the operation of live pari-mutuel events, the division may suspend, revoke, or deny a cardroom license if the licensee's pari-mutuel permit or license is suspended or revoked. Certain violations carry criminal penalties.

Each local government is required to pass an ordinance authorizing cardroom activity in their respective county before such operation can occur in that county.

Section 849.086, F.S., authorizes cardrooms. Specifically, cardroom operators are required to pay a 10 percent gross receipts tax. If a separate admissions fee is charged for entry to the cardroom, each patron must pay an admission tax equal to 15 percent of the admission charge or 10 cents, whichever is greater. Total tax is payable to the division monthly with one half of the tax revenues deposited into the General Revenue Fund and the other into the Pari-mutuel Wagering Trust Fund. Twenty-five percent of these deposits into the Pari-mutuel Wagering Trust Fund are required to be returned to the county in which the cardroom is located. If two or more pari-mutuel facilities are located in the same incorporated municipality, the cardroom revenue shall be distributed to the municipality. Greyhound and jai alai permit holders who operate cardrooms are required to use 4 percent of their gross receipts to supplement greyhound purses and jai alai player prize money. Thoroughbred and harness horse racing permit holders that operate cardrooms are required to distribute 50 percent of their monthly net proceeds as follows: 47 percent to supplement purses and 3 percent to supplement breeders' awards during the permit holders next meet.

Only those persons holding a valid cardroom license issued by the division are authorized to operate a cardroom. Moreover, only those persons holding an active pari-mutuel permit are eligible to apply for a cardroom license. After initial issuance of the cardroom license, application for both the pari-mutuel license and cardroom license renewal is to be made at the same time each year. To be eligible for renewal of the cardroom license, the applicant must

request to conduct at least 90 percent of the total number of live performances conducted during the state fiscal year in which its initial cardroom license was issued or in the state fiscal year immediately prior thereto.

The annual cardroom license fee is \$1,000 for the first table and \$500 for each additional table to be operated in the cardroom. If the need arises, permit holders may add tables during the year upon payment of the \$500 per table license fee. For FY 1998-99, 14 pari-mutuel permit holders operated cardrooms with 227 licensed tables. For fiscal year 2000-01, 11 pari-mutuel permit holders operated cardrooms with 180 licensed tables. For fiscal year 2001-02, pari-mutuel permitholders operated cardrooms with 132 tables.

Cardroom operators are responsible financially and otherwise for the operation of the cardroom and the conduct of its employees. Each applicant for a cardroom license is required to obtain a surety bond payable to the state in the amount of \$50,000 to guarantee the redemption of the chips or tokens. The bond is required to be in force during the term of the license. In lieu of a new bond to specifically cover the cardroom operation, a cardroom license applicant may provide evidence to the division that the applicant's pari-mutuel bond has been expanded to include coverage for the cardroom operation. Cardroom employees are required to hold an occupational license in the same manner that employees of a pari-mutuel facility are required.

Players may be charged a fee by the cardroom operator for the right to participate in the games. The fee may be either a flat fee or an hourly rate for the use of the seat at the gaming table, similar to the fee charged at pool halls for the use of a pool table, or the fee may be a percentage of the amount wagered in a game. The fee charged by the cardroom for participation in a game is in addition to the pot limit.

No wagers may be made using cash or any other form of negotiable currency. Players may only wager using chips or tokens supplied by the cardroom operator. Play chips must be purchased for money before play begins and will be exchanged for money when play is over. The same pot limit provided in the penny-ante games statute, \$10, is applicable to games conducted at a licensed cardroom.

In FY 1997-98, the first full year of cardroom operations, 15 cardrooms were licensed and cardroom tax revenue totaled \$652,593. In FY1998-99, cardrooms numbered 14 and cardroom tax revenues totaled \$559,851. During FY 1999-2000, cardroom tax revenues fell to \$475,821 and in FY 2000-01, revenues totaled \$391,052. For FY 2001-02, tax revenues totaled \$359,778.

### **III. Effect of Proposed Changes:**

The proposed legislation amends Sections 550.26165, 550.2625, Florida Statutes by allowing for special racing awards. According to the Florida Thoroughbred Breeders and Owners Association, who currently administer the breeders' awards, stallion owner awards, and stakes awards incentive program, this language will allow for an increase in purses for special races involving competition between Florida-breds and other state bred horses. It provides that before the Association can spend funds on these special races, an agreement between the breeders, the permitholder, and the horsemen must be executed. This allows Florida breeders some flexibility

in promoting their four billion dollar breeding industry by investing in special races agreed upon by the rest of the thoroughbred stakeholders

The proposed legislation also relaxes the current statutory restrictions found in s. 849.086 F.S. Subsection (2)(a) is amended to change the definition of “authorized games” which now includes “a game or series of games of poker, pinochle, bridge, rummy, canasta, hearts, dominoes, or mah-jongg” to a “game or series of games of poker.”

Subsection (4) is amended to allow thoroughbred racing permitholders, in a county in which the authority for cardrooms has been approved by the board of county commissioners, to operate a cardroom and when conducting live races during its current race meet, to receive and rebroadcast out-of-state races after the hour of 7 p.m. on any day during which the permitholder conducts live races.

Subsection (5)(b) is amended to allow permitholders who have operated a cardroom during the previous three fiscal years but, who fail to include a license renewal request for its cardroom operation, to amend its application for a license to include operation of a cardroom. If the application of a cardroom license is for a harness permitholder, the permitholder must have requested authorization to conduct a minimum of 140 live performances during the fiscal year immediately prior to application. In addition, if more than one permitholder operates at a shared cardroom facility, each permitholder must apply for a license to conduct a full schedule of live racing.

Subsection (7)(a) is amended to include the provision “or as otherwise authorized by law” regarding when a cardroom may be operated. The current law states that the cardroom may be operated only at the location specified on the cardroom license and, that this location must be where the pari-mutuel permitholder is conducting pari-mutuel activities under the pari-mutuel permit. This change allows for cardrooms in facilities where live pari-mutuel activities do not take place.

Subsection (7)(b) expands the hours of operation for cardrooms by allowing operation between the hours of 12 noon and 12 midnight on any day a pari-mutuel event is conducted live as a part of its authorized meet. It also allows a permitholder to operate between the hours of 12 noon and 12 midnight on any day that live racing of the same class of permit is occurring within 35 miles of its facility if no other holder of the same class within 35 miles is operating a cardroom at the same time and if all holders of the same class of permit within the 35 mile area have given their permission in writing to the permitholder. It further requires that cardroom application be made to the division as part of the annual license application.

Subsection (8)(b) eliminates the \$10 pot limit and provides, instead, for a \$2 maximum wager with a maximum of three raises in any round of betting. The fee for playing the game shall not include in the calculation of the bet amount. According to the Department of Business and Professional Regulation, this would mean that for a game like seven card stud with 7 participants, the maximum pot value could reach \$200 due to the number of raises and rounds played. Although some games would not reach this dollar amount, pot sizes would generally be higher, providing a greater incentive to potential participants and for cardroom operators to increase their total number of tables.

**IV. Constitutional Issues:**

## A. Municipality/County Mandates Restrictions:

None.

## B. Public Records/Open Meetings Issues:

None.

## C. Trust Funds Restrictions:

None.

## D. Other Constitutional Issues:

**Economic Impact and Fiscal Note:**

## E. Tax/Fee Issues:

According to the Division of Pari-Mutuel Wagering, the proposed bill does not change the 10% tax rate on monthly gross receipts, which results in an increase in cardroom tax to the state of \$859,074. An additional \$20,000 is projected in table fee revenue, thereby increasing total cardroom revenue to the state by \$879,074.

## F. Private Sector Impact:

According to the Division of Pari-Mutuel Wagering there will be no direct private sector costs. The direct private benefits are that permit holders that operate cardrooms would likely realize an increase in cardroom revenue. The effects on competition, private enterprise and employment markets are that it may allow pari-mutuel cardrooms to compete for wagering public that is currently patronizing "Cruises to Nowhere" and gaming on Indian lands.

## G. Government Sector Impact:

According to the Division of Pari Mutuel Wagering, since cardrooms were authorized in 1996, the statutes and rules governing such operations have remained virtually unchanged. Outside influences such as state lotteries, Indian gaming, and "cruises to nowhere" are competitive forces. The division states that it is difficult to determine the fiscal impact of increasing cardroom pot limits due to uncertainties associated with competitive forces and the absence of any past increases in pot limits to use as a benchmark. However, considering the three inactive cardroom permit holders who would most likely reactivate their licenses and the increased potential for thoroughbred

permitholders to operate a cardroom, the division estimates that the total cardroom gross receipts from permitholders could increase from a projected \$2,610,496 to approximately \$10,900,736 during fiscal year 2002/03.

Considering the potential for six additional cardrooms, the division estimates it would require one additional FTE to conduct field inspections and audits at the cardrooms to maintain adequate regulatory oversight. This position would be classified at the Pari-Mutuel Operations Specialist level with a salary and benefits cost of \$32,011 (\$25,009 Salary and \$7,003 Benefits). Furthermore the proposed bill would require an additional distribution of approximately \$107,384 to be transferred to local governments as required in s. 849.086(13)(h), F.S. The total estimated increase in expenditures to the state is \$139,395.

**V. Technical Deficiencies:**

None.

**VI. Related Issues:**

None.

**VII. Amendments:**

None.