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Minnesota Racing Commission

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<https://mn.gov/mrc/>

AT A GLANCE

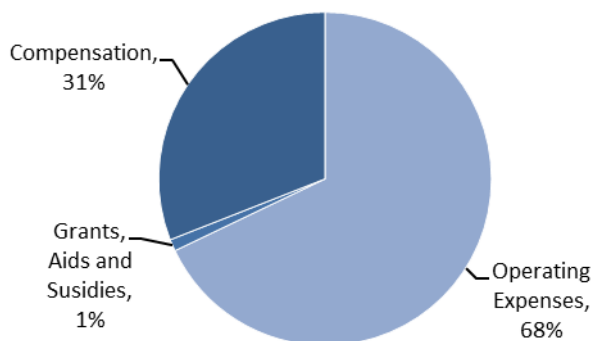
- Regulates wagering activities on Horse Racing (\$92 million annually) and Card Playing (\$82 million annually) at both Canterbury Park and Running Aces Casino, Hotel and Racetrack
- Licenses Advance Deposit Wagering (ADW) providers and regulates wagering conducted in Minnesota on horseracing via ADW platforms (\$69 million annually)
- Administers \$1.2 million in the Minnesota Breeders Fund for the benefit of owners and breeders of Minnesota bred racehorses
- Issues more than 4500 occupational and vendor licenses to industry participants per year

PURPOSE

The Minnesota Racing Commission (MRC) operates in the public interest to ensure the integrity of horseracing and card playing by providing robust regulatory oversight, overseeing the distribution of funds back into the industry, and providing for the safety and welfare of the human and equine participants. Additionally, the commission works to promote the horse racing and breeding industries in Minnesota to provide economic stimulus, offer residents and visitors exciting entertainment options, and support agriculture and rural agribusiness.

BUDGET

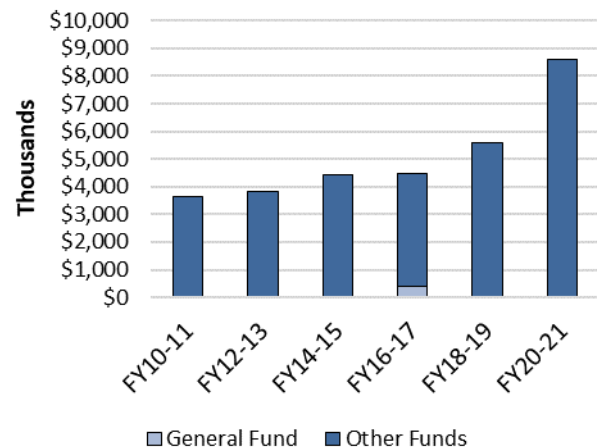
**Spending by Category
FY 2021 Actual**



Note: FY 19 operating expenses include \$1,147,000 in breeder fund payouts, which is 49% of the total operating expenses.

Source: Budget Planning & Analysis System (BPAS)

Historical Spending



Source: Consolidated Fund Statement

The Racing Commission's basic operations are currently financed entirely by the industry it regulates. Racetrack and occupational license fees (limited by a direct appropriation from the special revenue fund per statute), reimbursements outlined in M.S. 240.30 Subd.9 (<https://www.revisor.mn.gov/statutes/cite/240.30>) and M.S. 240.155 Subd.1 (<https://www.revisor.mn.gov/statutes/cite/240.155>) paid by the racetracks, and regulatory fees paid by advance deposit wagering (ADW) providers provide the funding for Commission operations.

STRATEGIES

To accomplish the Racing Commission's mission of regulating this extremely complex industry, administering the Breeders Fund, and overseeing the safety and welfare of the human and equine participants, several strategies are employed:

1. Licensing – Facilitate a licensing process that is detailed, accurate, and administered in a way that licenses are issued only to individuals and vendors who meet the criteria established in law and rule, and whose participation in racing and/or card playing is consistent with the best interests of the industry.
2. Fiscal Oversight – Ensure that all monies flowing through the pari-mutuel, ADW, and card revenue streams are reviewed, tested, and verified to keep associations in compliance with their obligations to the participants, the public, and the state.
3. Policing – Engage contractors and hire staff who are experts in the fields of veterinary science, criminal justice, and the rules of racing to conduct drug testing, investigate potential criminal activity, and administer the rules governing horseracing and card playing to maintain the highest level of integrity for the wagering public.
4. Civic Engagement – Lead the industry forward through active communication with all areas of state government to encourage public policy that will afford the greatest opportunity for the industry to expand and thrive.
5. Education – Educate all participants including licensees, vendors, and all those who work with our equines or the public, on what is expected under our laws and rules.

RESULTS

<i>Type of Measure</i>	<i>Name of Measure</i>	<i>Total</i>	<i>Dates</i>
Quantity	Equine Drug Testing (blood, urine, and hair)	CY 20/ 4,420 samples CY21/ 5,160	CY 20/CY21
Quantity/Results	Purse Money Industry Awarded to Horse Owners	\$13.7/\$19.7 million	CY 20/CY 21
Quality	Overtime & Premium Compensation	1.5%/1.0% of total comp	FY 21/FY 22
Results	Breeders Awards	\$602,178/\$612,629	CY 20/CY 21

Source: Minnesota Racing Commission record

The Minnesota Racing Commission's legal authority comes from M.S. Chapter 240 (<https://www.revisor.mn.gov/statutes/?id=240>).

Racing Commission

Agency Expenditure Overview

(Dollars in Thousands)

	Actual FY20	Actual FY21	Actual FY22	Estimate FY23	Forecast Base FY24 FY25		Governor's Recommendation FY24 FY25	
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Expenditures by Fund

1000 - General							1,000	
2000 - Restrict Misc Special Revenue	4,070	4,541	4,347	6,397	5,116	5,126	5,136	5,167
Total	4,070	4,541	4,347	6,397	5,116	5,126	6,136	5,167
Biennial Change				2,133		(502)		559
Biennial % Change				25		(5)		5
Governor's Change from Base								1,061
Governor's % Change from Base								10

Expenditures by Program

Racing Commission	4,070	4,541	4,347	6,397	5,116	5,126	6,136	5,167
Total	4,070	4,541	4,347	6,397	5,116	5,126	6,136	5,167

Expenditures by Category

Compensation	1,310	1,403	1,243	1,639	1,775	1,832	2,025	1,832
Operating Expenses	2,701	3,097	2,944	4,520	3,154	3,132	3,924	3,173
Grants, Aids and Subsidies	59	38	154	236	185	160	185	160
Other Financial Transaction		2	5	2	2	2	2	2
Total	4,070	4,541	4,347	6,397	5,116	5,126	6,136	5,167

Full-Time Equivalents

15.50	16.09	14.67	19.30	19.30	19.30	21.30	19.30
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Racing Commission

Agency Financing by Fund

(Dollars in Thousands)

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY20	FY21	FY22	FY23	FY24	FY25	FY24	FY25
1000 - General								
Direct Appropriation							1,000	
Expenditures							1,000	
Biennial Change in Expenditures				0		0		1,000
Biennial % Change in Expenditures								
Governor's Change from Base								1,000
Governor's % Change from Base								
Full-Time Equivalents							2.00	
2000 - Restrict Misc Special Revenue								
Balance Forward In	2,673	3,193	3,275	3,961	2,530	2,766	2,530	2,766
Direct Appropriation	913	913	913	913	913	913	933	954
Receipts	3,282	4,044	4,120	4,053	4,439	4,463	4,439	4,463
Transfers In	673	602	613	653	653	653	653	653
Transfers Out	673	602	613	653	653	653	653	653
Cancellations		464						
Balance Forward Out	2,798	3,145	3,961	2,530	2,766	3,016	2,766	3,016
Expenditures	4,070	4,541	4,347	6,397	5,116	5,126	5,136	5,167
Biennial Change in Expenditures				2,133		(502)		(441)
Biennial % Change in Expenditures				25		(5)		(4)
Governor's Change from Base								61
Governor's % Change from Base								1
Full-Time Equivalents	15.50	16.09	14.67	19.30	19.30	19.30	19.30	19.30

(Dollars in Thousands)

	FY23	FY24	FY25	Biennium 2024-25
Direct				
Fund: 1000 - General				
Change Items				
Horseracing Integrity and Safety Act		1,000		1,000
Total Governor's Recommendations		1,000		1,000
Fund: 2000 - Restrict Misc Special Revenue				
FY2023 Appropriations	913	913	913	1,826
Forecast Base	913	913	913	1,826
Change Items				
Maintain Current Service Levels		20	41	61
Total Governor's Recommendations	913	933	954	1,887
Dedicated				
Fund: 2000 - Restrict Misc Special Revenue				
Planned Spending	5,205	4,203	4,213	8,416
Forecast Base	5,205	4,203	4,213	8,416
Total Governor's Recommendations	5,205	4,203	4,213	8,416
Revenue Change Summary				
Dedicated				
Fund: 2000 - Restrict Misc Special Revenue				
Forecast Revenues	4,053	4,439	4,463	8,902
Total Governor's Recommendations	4,053	4,439	4,463	8,902
Non-Dedicated				
Fund: 2000 - Restrict Misc Special Revenue				
Forecast Revenues	820	820	820	1,640
Total Governor's Recommendations	820	820	820	1,640

Minnesota Racing Commission

FY 2024-25 Biennial Budget Change Item

Change Item Title: Horseracing Integrity and Safety Act

Fiscal Impact (\$000s)	FY 2024	FY 2025	FY 2026	FY 2027
General Fund				
Expenditures	1,000	0	0	0
Revenues	0	0	0	0
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	1,000	0	0	0
FTEs	2.0	0	0	0

Recommendation:

The Governor recommends \$1 million for FY 2024 to provide onetime funding for the initial implementation of the new federal Horseracing Integrity and Safety Act that was signed into federal law in 2020. The Horseracing Integrity and Safety Authority (HISA) is responsible for drafting and enforcing uniform safety and integrity rules in thoroughbred racing in the U.S. Overseen by the Federal Trade Commission (FTC), HISA was created to implement, for the first time, a national, uniform set of rules applicable to every thoroughbred racing participant and racetrack facility. HISA is comprised of two programs: the Racetrack Safety Program, which went into effect July 1, 2022, and the Anti-Doping and Medication Control (ADMC) Program, which will go into effect in January 2023.

The new federal requirements are sweeping in nature, requiring the appointment of several positions to enforce the new rules promulgated as part of HISA implementation, including a designated HISA Safety Officer, as well as a HISA Steward and HISA Veterinarian. Additionally, new testing requirements place additional cost burdens on the Racing Commission not previously part of the agency's operating expenses. HISA has started billing state racing commissions, and Minnesota's expected annual cost is projected to be just under \$1 million. The onetime state funds would offset the costs and prevent the need to drastically increase licensing fees in FY 2024, many of which would be passed on to low-income workers and tradespeople, or passing on the costs to the horsemen, breeders, and track operators, while the Racing Commission engages with stakeholders to determine a long-term HISA compliance funding solution.

According to a 2017 economic impact report by the University of Minnesota, horseracing in Minnesota generates nearly a half billion dollars in economic impact. The risk of being shut down because the state is unable to meet HISA regulations or pay the anticipated invoices, poses undue risk to horseracing, and undermines the economic activity provided by Thoroughbred racing.

Rationale/Background:

HISA was passed without any implementation or administrative funding, thus imposing a significant new cost burden onto state racing authorities to meet the new requirements, estimated to be approximately \$1 million per year for the state of Minnesota.

HISA calls for a Safety Director, an Equine Veterinary Medical Director and a Safety Officer, all new positions to MRC. The new law will also require changes to the licensing system as individuals will need to provide proof of CE prior to licensing.

Changes to the proposed cost of drug testing will be much larger the Racing Commission currently pays for equine drug testing. There will also be required IT changes in the detention barn, because HISA will require electronic submission of all forms and documents and electronic check in/check out of all horses in the detention barn.

Options to cover those costs are limited: a drastic increase in licensing fees, an increase in MRC's general fund appropriation, paying the costs through the ADW fund, which is unsustainable and somewhat unpredictable, or passing the cost to Canterbury Park, which could pose a risk to their ability to continue operating given the ambiguity surrounding the marketing agreement that is set to expire at the end of 2022.

The funds are intended to provide a transition while MRC works with the tracks to identify a longer-term solution, which may involve one or a combination of the options listed above.

Proposal:

This is a new request to provide onetime funding to pay the cost of the new federal HISA law in FY 2024. It will allow MRC to fund two FTEs for FY 2024 and ensure that the commission meets the additional staffing and regulatory requirements of the law until a long-term funding solution can be reached. Additionally, it will offset the cost of the projected \$1 million annual invoice to Minnesota in FY 2024 that is funding federal implementation.

Deliverables if funded:

- 1 FTE - Designated HISA Safety Officer
- 1 FTE - HISA Steward
- Cost of new testing requirements
- Cost of updating current license applications and reporting

Additional information:

- This is a new initiative mandated by the federal government under a new federal agency and new federal administrative rules and regulations.
- The agency is required by the new federal authority, HISA, to employ safety and other personnel to enforce new federal regulations on its behalf. If the agency does not have certain people in required positions, HISA can put such personnel in place and further charge the agency with those costs. The agency is maintaining its level of service but doing so with the added costs to regulate new federal laws and administrative rules.
- The proposal will buy the federally mandated positions and new job functions required by the new federal laws and regulations. This will include expanded oversight, equine biological sample collection, implementing and enforcing federal racetrack safety and medication standards and federal reporting requirements.
- The proposal will allow the agency to continue to work alongside of the Board of Animal health in ensuring equine health and safety.
- It will allow the agency to undertake its new responsibilities required by HISA while not taking away from the economic benefits that flow to the State's general economy and the agricultural economy. The alternative to such a change item could result in substantial cost increases to the thoroughbred racetrack in Minnesota and others that participate in thoroughbred racing.
- Racetrack Safety Protocols went into effect on July 1, 2022, with the requirement that the state have a Safety Director and Equine Veterinary Medical Director and a Safety Officer. HISA assessed the Racing Commission \$204,000 for the months of July through December 2022. A significantly higher assessment is expected for the 2023 when the Anti-Doping and Medication protocols
- The agency will be subject to oversight by HISA, and it is expected HISA will be evaluating each states' conduct including that of Minnesota.

Impact on Children and Families:

Horseracing in Minnesota provides 1278 jobs, many to low wage, immigrant workers who fill jobs on the backside of the tracks and come to Minnesota with their families for the racing season. This number does not include the many farmers and breeders that gain from horseracing as well.

The potential suspension or disruption of racing could impact the livelihoods of these workers and, by extension, the children and families of these workers. Further harm to hundreds of permanent and seasonal employees who might be laid off or experience reduced hours if racing is suspended could adversely impact the economic status of those workers and their families.

Tribal Consultation:

Does this proposal have a substantial direct effect on one or more of the Minnesota Tribal governments?

☐ Yes

☒ No

Results:

Quantity: Quantity is determined by the number of equine biological samples are collected and the number of the tests conducted result in a positive finding of a prohibited drug measures the quality of oversight.

The agency also monitors track safety in conjunction with the licensed racetrack and the number and severity of any equine or human accidents and injuries. All participants and the betting public are better off by safe racing and the integrity of the product.

Commission staff already collects the data on an annual basis and communicates it through its biennial report and other communication with horseracing participants and the betting public.

Statutory Change(s):

N/A

Minnesota Racing Commission

FY 2024-25 Biennial Budget Change Item

Change Item Title: Maintain Current Service Levels

Fiscal Impact (\$000s)	FY 2024	FY 2025	FY 2026	FY 2027
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Other Funds				
Expenditures	20	41	41	41
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	20	41	41	41
FTEs	0	0	0	0

Recommendation:

The Governor recommends additional funding of \$20,000 in FY 2024 and \$41,000 in each subsequent year from other funds to maintain the current level of service delivery at the Racing Commission.

Rationale/Background:

Each year, the cost of doing business rises—employer-paid health care contributions, FICA and Medicare, along with other salary and compensation-related costs increase. Other operating costs, like rent and lease, fuel and utilities, and IT and legal services also grow. This cost growth puts pressure on agency operating budgets that remain flat from year to year.

Agencies face challenging decisions to manage these costs within existing budgets, while maintaining the services Minnesotans expect. From year to year, agencies find ways to become more efficient with existing resources.

However, cost growth typically outstrips efficiencies, and without additional resources added to agency budgets, service delivery erodes.

For the Racing Commission, operating cost pressures exist in multiple categories—increases in compensation and insurance costs at the agency, racing-related fees, compliance with federal regulations, breeder fund contributions, increasing costs to maintain our current staff complement in a challenging labor market, and increasing IT costs. If an operational increase is not provided, the services the Racing Commission delivers to Minnesotans will be impacted. An example of a potential impact includes:

- Passing increased operations costs along to Canterbury and other racetracks as well as racing associations and other racing stakeholders.

Proposal:

The Governor recommends increasing agency operating budgets to support maintaining the delivery of current services. For the Racing Commission, this funding will cover maintaining current services without reducing staff.

Results:

This proposal is intended to allow the Racing Commission to continue to provide current levels of service and information to the public.