
Historical Horse Racing Machines: Recent Trends and Future Impacts in Oregon

September 17, 2021

Prepared for:

ART Public Affairs

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ECONOMICS • FINANCE • PLANNING

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Introduction

ART Public Affairs engaged ECONorthwest for an analysis of historical horse racing machines (HHR) and how they may affect Oregon.

For all intents and purposes an HHR is a video slot machine. Gamblers insert money, select an amount to bet, press a button, and watch a brief animated display. Once the display stops, the gambler learns if they won or lost their bet.

Grants Pass Downs, a horseracing track in Grants Pass, is building an entertainment facility with 250 HHR machines. It will compete for gamblers against Oregon tribes and the Oregon Lottery, which operate video slot machines. Money earned from tribal and Lottery machines is used to pay for social services and economic development.

This report describes how HHRs will affect tribes and the Lottery, reviews the history of HHRs, and examines their effects on racing in other states. This report also considers avenues by which more HHR machines could be installed in Oregon and what impacts that would have.

Overview

The earliest versions of HHRs were called “instant racing machines.” They showed 14-second videos of old races, which players bet on. Instant racing was invented over 20 years ago by a racetrack in Arkansas to circumvent a state law prohibiting casinos in hopes the money the machines made would offset falling profits from their racing operations. The technology quickly evolved. Videos of old races were replaced with short animations of slot machines reels. Instant racing machines were rebranded as HHR machines.

HHRs, Slots, and Racetrack Betting

HHRs look and act like slot machines. There are differences, but from the standpoint of players they are not obvious. And whether the differences legally matter varies from one state to the next.

Slot Machines

A slot machine holds a long electronic list of possible win/loss outcomes. When a player places a bet, the machine uses a small program called a random number generator to randomly pick an outcome from the list. Then the video screen on the machines runs an animation that ends with the randomly picked outcome. That determines if the player won or lost, and if they won, how much they get. Many states legally define slots this way. HHR machines are a little different.

HHR Machines and Racetrack Betting

HHR machines are designed to get around the legal definition of slot machines by simulating racetrack betting, which is known as parimutuel wagering.

Parimutuel wagering is when the public bets on a race. The total money bet is called the “handle.” Tracks “take” a percentage of the handle (about 20 percent). That money goes to the state, the racetrack, horse owners, and other racing interests. The remainder is paid out to winners who are paid in proportion to the size of their bets. That proportion is called the “odds.” Thus, players are betting against each other.

In casino slot machine wagering, players bet against the house (casino operator) and not each other. Prize money is paid to winners. What remains is called “revenue” by casinos. Horse racing uses the term “net commissions” for this. Revenues on slots and HHR machines normally range from three to nine percent of the wagers.

Unlike slots, HHRs do not have a random number generator inside them, but they are connected to a central computer that does. That computer uses its random number generator to pick race results from a database of many thousands of old races. Another part of the computer determines if the player won or lost and how much they get if anything. It then triggers an animated video display on the HHR screen in front of the player simulating what a slot machine would do.

To make it more like horse racing, HHR machines give players the option of seeing a few seconds of a race finish and the option to select horses using limited information. Few ever use this option, choosing instead to let the machine randomly pick for them so that the HHR acts like a slot machine and, most importantly, plays faster.

Winnings come out of a pool funded by bets made by players. In early versions, all players shared the same pool on the same race, which is like traditional horse racing and, thus, potentially legal in a state that allows horse racing but not casino slots. Those machines did not perform as well as casino slots.

Over time, HHR manufacturers changed their systems to behave almost exactly like casino slot machines. Players are not betting on the same historic race at the same time. The pools are not being fully distributed each time. The house puts in an initial seed pool (house money) to ensure minimum payouts, which is unlike parimutuel betting.¹ Oregon law also defines HHRs as having a seed pool and using a computer-generated random selection system.²

New Versions

New versions of HHRs are more complicated and made that way so to replicate a slot machine rather than horse betting. For example, the HHRs made by Exacta Systems LLC concurrently select horses from multiple races, use the betting odds on those horses from historic races, and use the final rankings of how horses finished to determine wins and losses. The winnings come out of a common pool, but players wager on different races at the same time.³

¹ "The Family Trust Foundation v. The Kentucky Horse Racing Commission, *et. al.*" Supreme Court of Kentucky. September 24, 2020. Page 5.

² Oregon Revised Statute 462.200-0700 and 462.155.

³ "System and method of wagering on a plurality of events." U.S. Patent & Trademark Office. Patent Applications 20190325707. October 24, 2019.

Performance Comparison

Derby City is an HHR betting parlor in Louisville, Kentucky. It is owned by Churchill Downs Racetrack. They have no traditional casino slot machines but have some of the most current HHR machines instead. From January 2021 through June 2021, those HHR machines handled \$269 an hour from which Churchill Downs took out \$24 as revenue. The remainder was won by bettors.

Eleven miles away is a resort casino in Indiana called Caesars Southern Indiana. Owned by the company that operates Caesars Palace Casino on the Las Vegas Strip, the slot machines at the Indiana casino handled \$263 an hour and the casino took \$27 in revenues from those bets.

The comparison is shown in a per hourly performance because while casinos in Indiana operate 24/7, HHR parlors in Kentucky do not. Derby City closes for four hours on weekdays.

History

The idea for an HHR started with racinos. A racino is a casino with slot machines connected to a racetrack. The first racino opened in 1992 at a greyhound racetrack in Rhode Island. They put in the racino to generate profits so they could supplement falling wagering on races. Initially successful, four other states, with the help of lawmakers, legalized racinos. But other states were reluctant. So, a system using parimutuel rules to mimic slot machines was invented and Arkansas was the first state.

Oaklawn Park is a major horse racing track in Hot Springs, Arkansas. In January 1997, the track was suffering from flagging attendance and handle. Track general manager Eric Jackson and others brainstormed ways to increase revenues. Unable to get legislative approval for a racino, they came up with instant racing machines. In early 2000, Oaklawn and a greyhound racetrack in the state installed the first machines. Mr. Jackson later said, "If you can get slots, get them. They perform better. But if you can't, instant racing is not a bad alternative."⁴

Player interest in the new machines at Oaklawn was slow at first, but as the machines became more slot-like, interest grew. Over time, public objections to casinos and laws changed. Oaklawn got its racino and HHRs were replaced with slot machines.

⁴ "Oaklawn Report." [Arkansas Democrat-Gazette](#). January 5, 2003.

Weakening Connection with Horseracing

As some states became comfortable with HHR machines, they changed the laws to allow slots. In 2006, Arkansas let Oaklawn install slot machines. In November 2018, voters authorized a casino at Oaklawn.⁵ Slots replaced the HHR machines and Oaklawn became a major racino. Today, the track has 1,300 slot machines, table games, and no HHRs. The racino in Rhode Island that started it all got rid of its HHRs. Today it has 4,100 video slot machines, 111 casino table games, and no racetrack.

The link between HHRs to live racing is tenuous. In 2018, Virginia legalized HHRs even though the state's lone racetrack was closed.⁶ Soon after HHRs became legal, the track started opening "gaming emporiums" named "Rosie's."⁷ There are six around the state. Rosie's was advertised without mention of horseracing.⁸ The track, after a six-year hiatus, reopened four months after the first Rosie's.⁹ Their race meet was a short—15 days of racing.¹⁰

New Hampshire went one step further, ignoring any pretense that HHRs were supporting horse racing. They legalized HHRs under laws for horse racing left over after New Hampshire's only racetrack closed in 2009. It won't be reopening.¹¹ HHRs are now legal, but slots are not.

Using Gaming Machines to Subsidize Racing

Economic research has shown that horse racing is a declining industry and is decidedly less competitive than slot machines. Racing has inherent disadvantages compared to slots. Among them is racing's complexity, steep learning curve for novice bettors, long waits between races, a take-out rate three to ten times higher than slots, and high costs. Racing interests view slots as a tool for subsidizing money-losing tracks.

⁵ Yates, R. "Hard hats and horses mix as Oaklawn expansion continues." [Bloodhorse](#). December 3, 2019.

⁶ Vespe, F. "Colonial Downs: House approves historical horse racing." [The Racing Biz](#). February 13, 2018.

⁷ Arriaza, R. "Rosie's Gaming Emporium to open April 23." [The Virginia Gazette \(Williamsburg, VA\)](#). April 16, 2019.

⁸ Yates, R. "Hard hats and horses mix as Oaklawn expansion continues." [Bloodhorse](#). December 3, 2019.

⁹ Kimberlin, Joanne. "And they're off!" [Daily Press \(Newport News, VA\)](#). August 11, 2019.

¹⁰ "Live horse racing returns to Colonial Downs in 2019, creates 800 new jobs." [CBS-WTKR \(Norfolk-Portsmouth, VA\)](#). December 13, 2018.

¹¹ Robin, B. "Louisiana, New Hampshire latest states welcoming HHR machines." [Online Gambling](#). June 12, 2021.

For nearly 30 years tracks have wanted slot machines because they attract far more gamblers and are very profitable. In some states where laws stood in the way of slots, tracks managed to get HHR machines as an alternative; and manufacturers have steadily improved HHRs to better mimic slot machines. But over time, public objections to gambling have eased and more states allowed racinos. HHR betting parlors have effectively been a stepping-stone to slot racinos. Oakland and New Hampshire are examples.

Economic research suggests market pressures to add racinos will continue. As one recent study concluded,

[T]he fact that inflation adjusted tax revenues will continue to decline even if historical horse racing is allowed to return points to further difficulties regardless of how future tax revenues are allocated. In this case, the market solution of more racetracks becoming part of racinos (or casinos being bought up by the larger and more successful tracks) seems to be the most likely and effective scenario for the future of US horse racing. As with any struggling industry, one way to insure survival is through mergers and acquisitions as an industry shakeout occurs. This appears to be an inevitable and a best course for horse racing in a time when gambling is in a period of stagnation.¹²

Ruling Against Exacta Systems, LLC

In some states where tracks installed HHR machines, legal rulings and public objections have shut them down. This has happened in Idaho, Oregon, and most recently Kentucky. Although for the latter, the shutdown was short lived and applied to a particularly advanced slot-like HHR made by Exacta Systems, LLC that state Supreme Court justices felt stretched the definition of parimutuel too far.

¹² Lambert, T. "Kentucky and the thoroughbred industries: Prospects and challenges as gambling popularity declines." The University of Louisville's Institutional Repository. 2020. Page 11.

The motivation for the advancing technology was noted February 2021 by the Louisville, Kentucky Courier-Journal, which commented, "Real horse racing provides political cover for expanding gambling through HHR machines."¹³ They cited testimony to the Kentucky State House from Martin Cothran of the Family Foundation, who said, "Mechanized gambling drives out horses It's far more efficient and far more lucrative. Nevada, the state that houses Las Vegas, used to have a healthy horse racing industry. It no longer exists thanks to mechanized gambling. Slot machines will not save the horse industry. They will replace it."

Mr. Cothran's testimony arose because on September 24, 2020, the Kentucky Supreme Court ruled that the Exakta Systems' HHR machines were not parimutuel and, therefore, illegal. The crux of their decision was that the system does not create a wagering pool among patrons such that they are wagering among themselves. The HHR system is not establishing odds with other patrons wagering on the same races—a Kentucky legal definition of parimutuel betting.¹⁴

After the ruling, the Supreme Court allowed HHR betting parlors to continue operating while lawmakers changed the gambling laws. In April 2021, the State passed a law making the Exakta Systems' HHR machines legal in Kentucky.¹⁵

¹³ "Historical horse racing: Will it kill the real thing?" The Courier-Journal (Louisville, Kentucky). February 5, 2021. Page 9.

¹⁴ "The Family Trust Foundation v. The Kentucky Horse Racing Commission, *et. al.*" Supreme Court of Kentucky. September 24, 2020.

¹⁵ Babich, J. "Kentucky legislation clears way for historical horse racing machines at Oak Grove Racing & Gaming." Leaf Chronicle. April 6, 2021.

Wagering Trends

The premise behind HHR is to help horse racing by using some of the money they bring in to pay for racing operations and purses. A purse is the prize money earned when horses finish well in a race. Purse money is split between the horse's owner, trainer, jockey, and sometimes breeder.

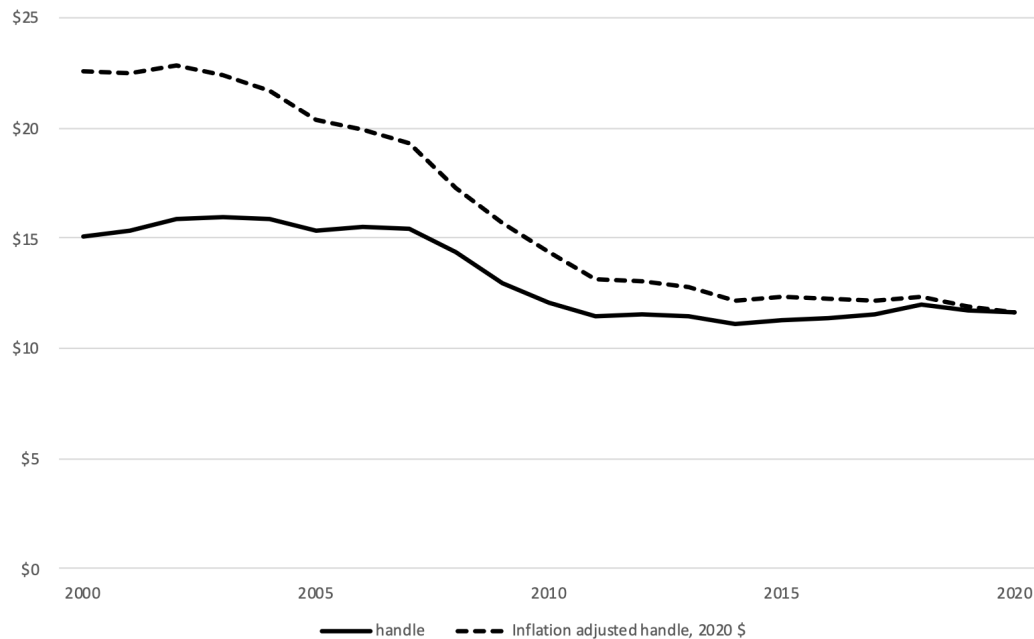
Higher purses attract more and better entrants to races. The more horses there are in a race the more likely bettors will wager on the race and, thus, raise the handle. At least that is the expectation, but trends in states where HHR has been introduced for attracting more wagering on horses don't support the premise.

Wagering on horse races has been trending lower over the past two decades. In states that have recently introduced HHR, no improvement in horse race wagering is evident.

National Perspective

The total betting handle on North American horse races has been declining at an average rate of two percent a year since 2000 and in inflation-adjusted terms, declining at a four percent rate, as illustrated in Figure 1. This has been happening even though the U.S. population has been growing 0.7 percent a year and personal income by 4.2 percent a year.

Figure 1: Total Horse Race Handle in North America, 2000 - 2020, BN \$



Source: Jockey Club 2021 Factbook available at <http://www.jockeyclub.com>.

The total betting handle is the sum of betting at racetracks on live races as well as live races shown at offtrack betting (OTB) parlors, simulcasting sites, and online. An OTB is a place with wagering windows with tellers and self-service betting machines where players bet on races shown on televisions where they are simulcast (transmitted live) by satellite. A simulcasting site is functionally the same as an OTB but is inside a racetrack and not a stand-alone facility. For simplicity in this report, the term OTB includes simulcasting.

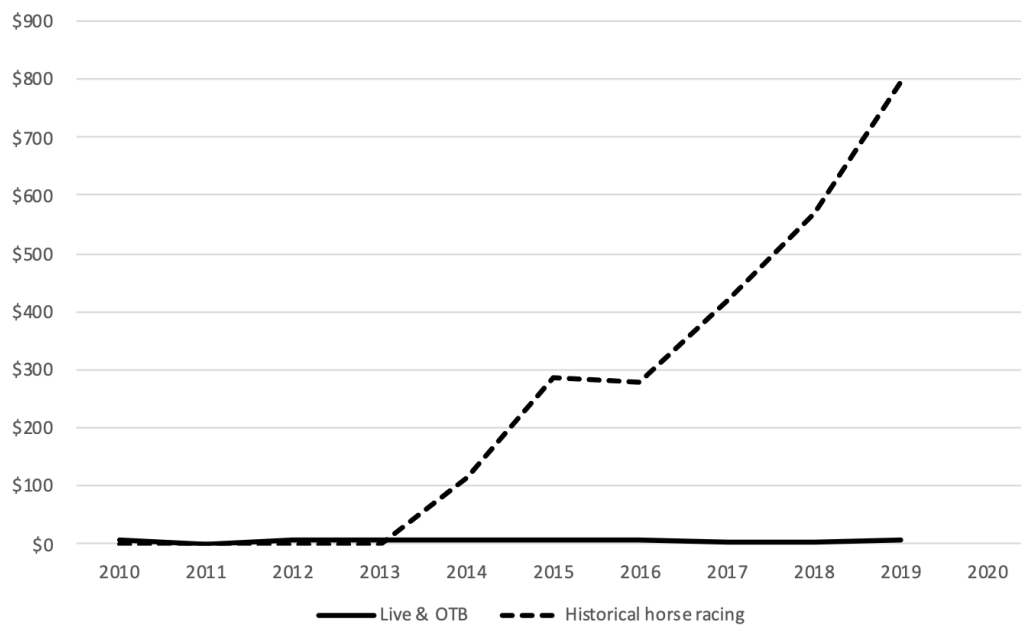
Trends in Four States the Introduced HHR

Wyoming, Virginia, Oregon, and Kentucky introduced HHRs and conducted thoroughbred horse racing in the last decade. Handles on racing in all four states fell while HHR handles rose, providing evidence that HHR did not cause wagering on races to go up.

Wyoming

Wagering at racetracks and OTBs in Wyoming totaled \$6.6 million in 2012. The next year HHRs were installed. The handle on HHRs rose from zero to \$793 million by 2019. The handle on Wyoming horse races fell to \$5.5 million, as shown in Figure 2.

Figure 2: Total Horse Race and HHR Handles in Wyoming, 2010 - 2019, MM\$



Source: Wyoming Gaming Commission annual reports.

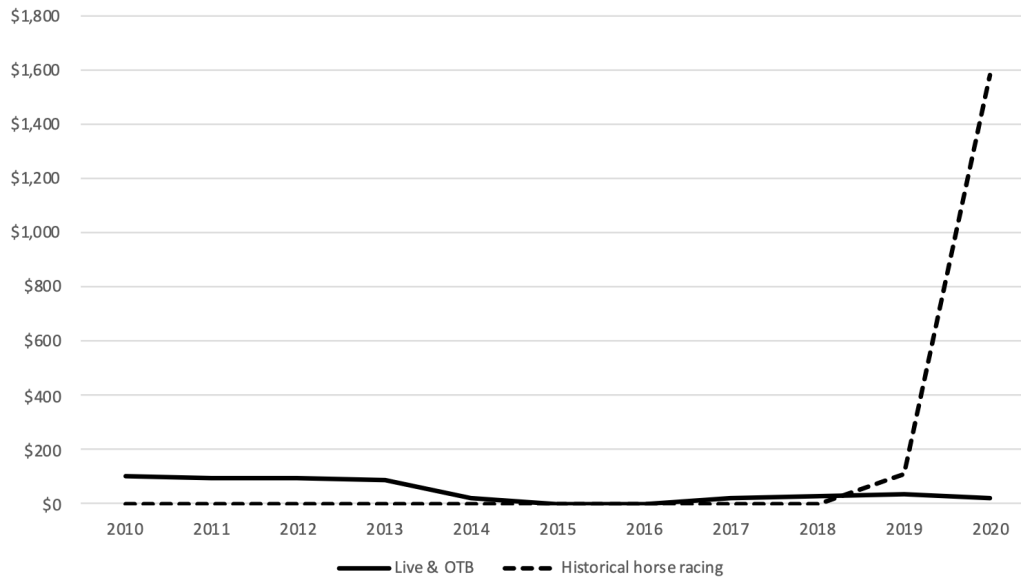
Virginia

Colonial Downs is the only racetrack in Virginia. Live racing ended there in 2014. They operated OTBs most of the time they were closed to live racing. In 2018, the OTB wagering handle was \$33 million. That same year, Virginia passed a law allowing Colonial Downs to operate HHR machines at the racetrack and at six OTB betting parlors around the commonwealth. They could not build a slot machine racino because casinos are not legal in the state.

Colonial Downs operates six OTBs around the state under the brand name “Rosie’s Gaming Emporiums.” They have between 37 and 700 HHRs each for a total of 2,337. The websites of Rosie’s Gaming Emporium advertise slot machines, slot games, and slot prizes without mention of historical horse racing machines.¹⁶

Some of the money earned from the machines goes to the Colonial Downs Racetrack. In August 2019, live racing resumed at the racetrack after the HHR machines went online. In 2020, the total racing handle at the track and the OTBs was \$23 million—a \$10 million drop from 2018. Wagering on HHR, however, rose from zero to nearly \$1.6 billion, as shown in Figure 3.

Figure 3: Total Horse Race and HHR Handles in Virginia, 2010 - 2019, MM\$



Source: Virginia Racing Commission 2020 Annual Report.

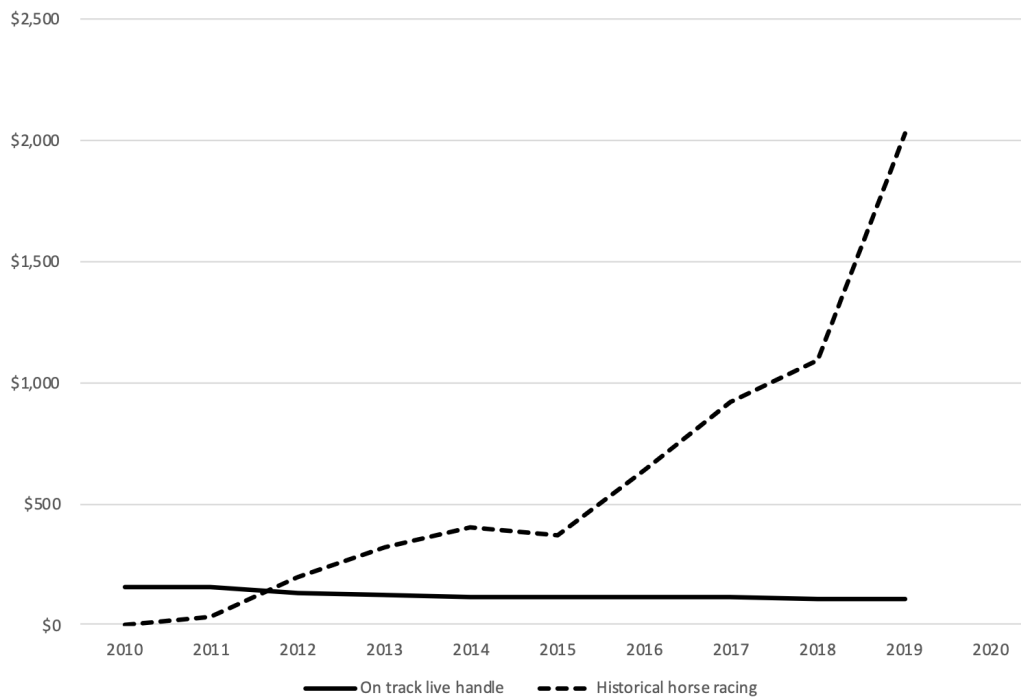
¹⁶ <https://rosiesgaming.com/gaming/>

HHR has done little to help live racing at Colonial Downs. The track will only operate 21 days in 2021. Telling, the race dates are Monday, Tuesday, and Wednesday.¹⁷ Successful tracks with good demand from the betting public do best on weekends. But by choosing the slowest three days of the week for live racing, Colonial Downs can sell their feed (transmit live video of their races to OTBs around the country by satellite and internet) when most tracks are closed and there is less competition. That way they attract more bets from around the country even though fewer locals can or will go to the racetrack.

Kentucky

Historical horse racing started in Kentucky in the fall of 2011. That year, the live on-track handle was \$154 million. Eight years later, the live handle fell to \$105 million while the handle on HHR machines climbed over \$2 billion. Kentucky's racetrack operators generated eight times more revenue from HHR machines than they did from live racing in the last year.¹⁸ Like Virginia, casinos are illegal in Kentucky, which is why tracks have HHRs and not slots.

Figure 4: Live On-Track and HHR Handles in Kentucky, FY 2010 - 2019, MM\$



Source: Kentucky Horse Racing Commission.

¹⁷ Colonial Down 2021 Condition Book, Page 1.

¹⁸ The Courier-Journal (Louisville, Kentucky). February 5, 2021. *Op. Cit.*

Oregon

There once were two racetracks in the Portland area: the Multnomah Kennel Club (dog racing) and Portland Meadows (horse racing). In 1992, the Oregon Lottery began placing up to five video poker slot machines in bars. Business at the tracks, which had a common owner, began to decline. The tracks asked the Legislature to allow them to have 300 Lottery machines each to counter falling wagering on live races. The Legislature passed a measure letting them have 75.

The Oregon Constitution prohibits casinos except for those owned by tribes and the state Supreme Court ruled video poker machines are only legal if they are not the dominant purpose of the establishment. Thus, the measure allowing 75 was deemed unconstitutional. Tracks were limited to ten machines and bars to six.¹⁹ The tracks turned to HHR machines.

Oregon became the first state to adopt the instant racing machines invented at Oaklawn. Twenty were installed in May 2003 at the Multnomah Kennel Club, where only \$130,000 was bet on them during the dog racing season. When horse racing resumed at Portland Meadows, the machines were moved there. These machines showed 14 second clips of old races, so they were unlike slot machines.²⁰ In November 2003, Portland Meadows got rid of the machines as their legal status was questionable.²¹

In 2013, the Legislature changed the law allowing HHR machines. No limit was established to the number of machines. The Oregon Lottery is limited to six machines per establishment and tribes to strict limits on the number of slots they may have.

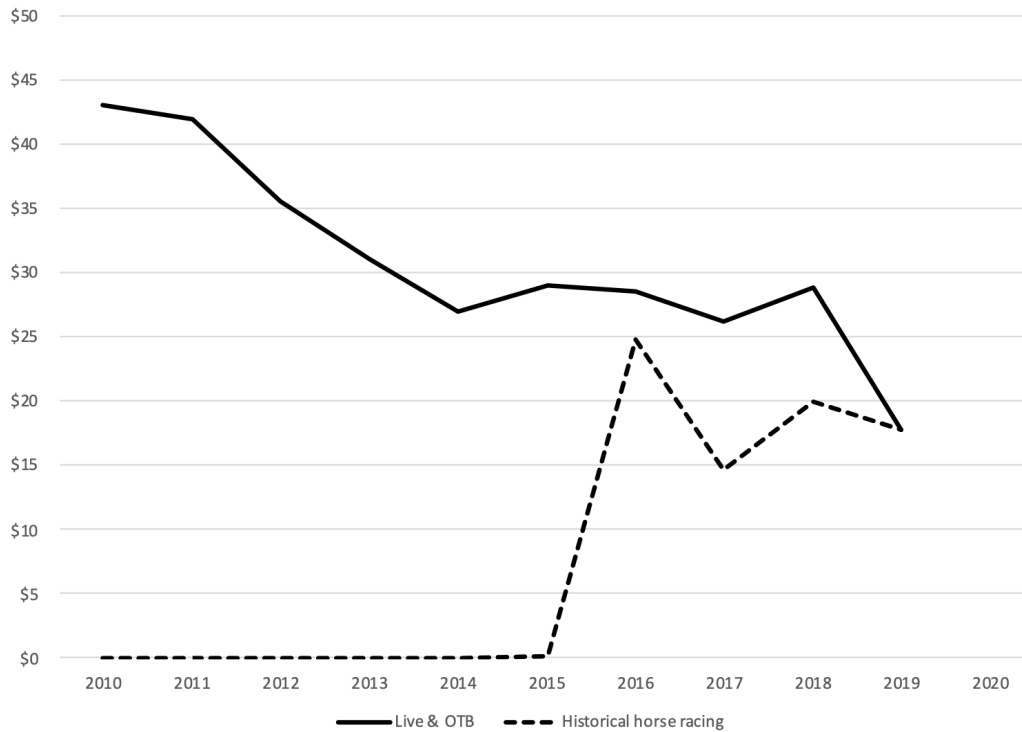
Portland Meadows installed 150 HHR machines in 2015. They attracted a modest handle of \$161,840 that year compared to a statewide handle from racing of \$29 million, as shown in Figure 5. The HHR machines did not save racing there. The handle on races fell to \$19 million in 2019 while HHRs rose to about \$18 million.

¹⁹ Mapes, Jeff. "Attorney General's opinion might fold video poker bill." *The Oregonian*. July 14, 1995. Page D-1.

²⁰ "Machines add new set of odds at the racetrack." *The Oregonian*. April 24, 2003.

²¹ "Owner of 2 parimutuel tracks scratches video games of races." *The Oregonian*. November 25, 2003.

Figure 5: Total Horse Race and HHR Handles in Oregon, 2010 - 2019, MM\$



Source: Oregon Racing Commission.

The HHR machines at Portland Meadows were of an earlier generation compared to the new Exacta Systems machines that are more like slot machines. The Oregon Racing Commission approved the Exacta System to operate in the state. This happened after Portland Meadows closed permanently in 2019.²²

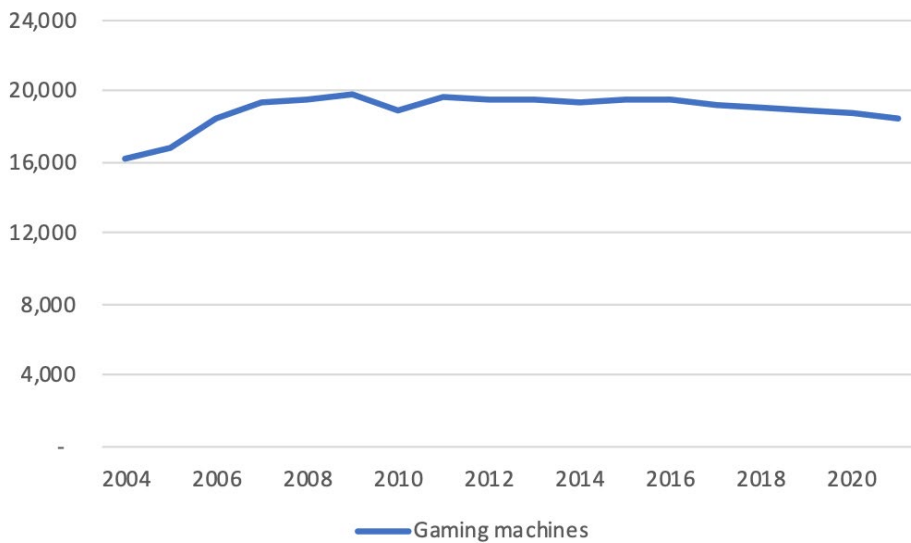
²² Minutes of the Oregon Racing Commission. October 16, 2019. Page 3.

Fair Share Analysis

A fair share analysis was used to estimate the impacts of a new gaming facility in Oregon. A fair share analysis assumes a new business in a market takes its fair share of the total sales from all established competitors in the market. In the end, the total market size remains the same. This happens in markets that are saturated and where the new business is selling basically something similar in quality and price as the existing businesses are. This characterizes Oregon’s market where adults 21 and older can bet on gaming machines, which are at ten tribal locations, and at 2,142 bars and restaurants throughout the state.

Market saturation occurs when the growth trajectory of supply stagnates. This clearly has happened in Oregon. Figure 6 shows the total number of gaming machines in Oregon since 2004. It peaked in 2009 at nearly 20,000 and has since declined—indicating the market is largely saturated.

Figure 6: Number of Tribal and Lottery Gaming Machines in Oregon, 2004 - 2021*



Sources: Oregon Lottery, Oregon Tribes, and Casino City.

* 2021 value is for June 30, 2021.

Grants Pass Downs

Grants Pass Downs is a commercial racetrack located at the Josephine County Fairgrounds in Grants Pass, Oregon. They are building a 35,000-square-foot entertainment complex with a restaurant, sports bar and about 250 historical racing machines.²³ Called the "Flying Lark," it is described as "Southern Oregon's premiere gaming, entertainment and dining destination. Escape with friends and family for a one-of-a-kind experience at an incredible facility that celebrates the magic and beauty of horses and the positive impact they've had on our communities."

The Oregon Racing Commission renewed the company license for Exacta Systems LLC.²⁴ The company's products are the HHR machines the Kentucky Supreme Court deemed did not meet the state's legal definition of parimutuel gaming. However, the Court gave the State Legislature and Governor the opportunity to change the law to allow the machines. The State Legislature and Governor took advantage of this change, and the Exacta Systems products are operating today.

Since the Oregon Racing Commission awarded Exacta Systems a license, we assume the Flying Lark will use them or machines like them. These HHR machines perform about as well as slot machines, as evidenced by recent data from adjoining markets in Kentucky and Indiana describe on Page 5.

Impacts from HHRs at Grants Pass Downs were estimated using three scenarios. The known scenario is the first: The Flying Lark opens with 250 machines. The second scenario assumes the expansion of HHR gaming to other fairground race-tracks in Oregon by changing their licensing. The third calls for placing HHRs at the OTBs operated by Grants Pass Downs, although this is not presently allowed.

Impact of 250 HHR Machines

The Flying Lark will add 250 machines to the Oregon market in late 2021. Using ECONorthwest's 2021 gaming market forecast, we estimated the fair share impact of adding 250 HHRs at the Flying Lark.

As shown on Table 1, there are presently 18,469 gaming machines in Oregon. The Oregon Lottery's machines will make about \$975 million in gaming revenue. Tribes will earn an estimated \$486 million from theirs.

²³ Drape, Joe and Kline, Joe. "A horse track that follows a gentler pace." [The New York times](#). July 19, 2021. Sports, page 4.

²⁴ Minutes of the Oregon Racing Commission. June 18, 2020.

Table 1: Impact of the Flying Lark Addition of 250 HHR Machines on the Oregon Lottery and Tribal Casinos, Fair Share Analysis, 2021

Gaming Venue	2021 Forecast		With 250 HHR Units		Revenue Impact
	Machines	MM\$	Machines	MM\$	
Oregon Lottery	11,114	\$975	11,114	\$962	(\$13)
Oregon Tribal Casinos	7,355	486	7,355	479	(6)
Flying Lark - Grants Pass	-	-	250	20	20
State Total	18,469	\$1,461	18,719	\$1,461	-

Sources: Oregon Lottery, Casino City, Oregon tribes, and ECONorthwest.

With a fair share, the Flying Lark HHR machines is assumed to do as well as the average Lottery and tribal machine. The Flying Lark will split the market in proportion to the number of machines they install. With 250, the Flying Lark will earn about \$20 million in annual revenue. Assuming a fair share split, the \$20 million will come at the expense of Oregon Tribal casinos and the Oregon Lottery. They will lose over \$6 million and \$13 million, respectively.

Expanding Market

Recent history shows that gaming usually expands in states. In the 15 years that followed Rhode Island’s foray into HHRs at a track, twelve other states followed with racinos. Ten others outright legalized casinos. As Oaklawn track general manager Eric Jackson noted back in 2001 about machines at racetracks, 10 years ago, if you and I were sitting here, we'd say, 'Well tracks are never going to have slot machines' ... now over 30 of them do."²⁵

The Flying Lark could expand. Its machines will compete most directly with the 201 video slot machines operated at 38 retailers currently in Grants Pass. In the COVID-affected fiscal year, which ended June 30, 2021, those machines made \$18 million in revenue or \$246 per machine per day—making them a formidable competitor.

Given that the market in Grants Pass is relatively saturated, the Flying Lark could expand by getting more people to gamble more money on HHRs. One way to do that is to let 18-year-old adults play on HHRs, which is unlikely.

The minimum age for parimutuel betting is 18. Tribes and the Oregon Lottery set their minimum age for slots to 21. The youth market is substantial. In Oregon, 26.5 percent of eleventh graders reported they had gambled in the last year.²⁶ However, the Flying Lark probably follow what Portland Meadows did and not allow those under 21 to play HHR machines.

²⁵ King, H. “Oaklawn Park’s GM eyes the future warily.” *Associated Press*. April 19, 2001.

²⁶ “2019 Oregon Healthy Teen Survey Problem Gambling Data Analysis.” *Oregon Health Authority*. Page 4.

That leaves one other way to expand—add more places around Oregon to bet on them. Grants Pass Downs could operate Oregon’s four other fairground race-tracks.

Impact of HHR Machines at All Fairground Racetracks

The other fairground tracks are in Union, Prineville, Tillamook, and Burns. If Grants Pass Downs replicates the Flying Lark concept at the four fairground racetracks, together the fairgrounds would add 1,000 HHRs to Oregon. Under this scenario, the Oregon Lottery would lose \$62 million and Oregon tribes \$31 million, as shown in Table 2.

Table 2: Impact if HHR Expands to All Fairground Racetracks, 2021

Gaming Venue	2021 Forecast		With 1,250 HHR Units		Revenue Impact
	Machines	MM\$	Machines	MM\$	
Oregon Lottery	11,114	\$975	11,114	\$914	(\$62)
Oregon Tribal Casinos	7,355	486	7,355	455	(31)
Flying Lark - Grants Pass	-	-	250	19	19
Plus 4 fairground racetracks	-	-	1,000	74	74
State Total	18,469	\$1,461	19,719	\$1,461	-

Sources: Oregon Lottery, Casino City, Oregon tribes, and ECONorthwest.

Impact of HHR Machines at All Oregon OTBs and Fairground Racetracks

A second expansion route is to use the OTB network. Grants Pass Downs operates eleven OTBs throughout Oregon. They are in the cities of Portland, Fairview, Milwaukie, Salem, Bend, Lake Oswego, and Medford. Should HHRs become legal at OTBs—as they are in Wyoming and Virginia, for example—then at 250 machines per OTB, Grants Pass Downs would have 2,750 HHRs in Oregon. Under this scenario, the Oregon Lottery would lose \$174 million and Oregon tribes \$86 million, as shown in Table 3.

Table 3: Impact if HHR Expands to All Fairground Racetracks and OTBs, 2021 Basis

Gaming Venue	2021 Forecast		With 4,000 HHR Units		Revenue Impact
	Machines	MM\$	Machines	MM\$	
Oregon Lottery	11,114	\$975	11,114	\$802	(\$174)
Oregon Tribal Casinos	7,355	486	7,355	399	(86)
Flying Lark - Grants Pass	-	-	250	16	16
Plus 4 fairground racetracks	-	-	1,000	65	65
Plus 11 OTBs	-	-	2,750	179	179
State Total	18,469	\$1,461	22,469	\$1,461	-

Sources: Oregon Lottery, Casino City, Oregon tribes, and ECONorthwest.

Impact on Tribes and Oregon

The loss of gaming revenue for tribes and the Oregon Lottery will directly reduce the amount of funding these organizations provide to others. For tribes, the losses will hurt tribal member families in need. For the Lottery, a drop in gaming revenue automatically lowers funding for public schools, parks, and other statewide needs.

Tribes

Oregon tribal members depend on their individual tribal governments for many of the services others may take for granted. Tribal governments spend over 75 percent of the money they make on gaming for tribal member healthcare, education, job training, public safety, housing, basic infrastructure, eldercare, and family and social services. Total spending averages about \$4,800 per member. There are nearly 29,000 Oregon tribal members.

Given the general lack of alternative means of replacing lost gaming income, tribes would be forced to reduce member services and it is unlikely the State or federal government would step in to replace those losses.

In the first scenario, tribal income would fall approximately 5 percent. In the second scenario, where HHR machines appear at all racetracks in the state, the amount Oregon tribes earn from gaming and used to pay for necessary tribal services would fall about 23 percent. With the third scenario, the loss would be 72 percent.

The State

In fiscal year 2019, the Oregon Lottery transferred over \$716 million in Lottery revenues to pay for many of the goods and services Oregonians use.²⁷

Over half the transfers went directly to public school districts. State parks received 7½ percent. Four percent paid for the outdoor school programs. A fourth went to a wide array of economic development projects for counties and towns. Natural resource habitat restoration, veteran services, and problem gambling support all received funding through the Oregon Lottery.²⁸ And all would receive less if the share of gaming going to the Lottery declines.

²⁷ "Comprehensive Annual Financial Report for the fiscal year ended June 30, 2019." Oregon Lottery. Page 15.

²⁸ <https://www.oregonlottery.org/oregon-wins/>

Summary

HHR machines have steadily changed over the years to replicate the look, feel, and action of casino slot machines. The public has a strong preference for slot machines, while betting on horse racing has been declining. Racetracks installed HHR machines to improve the quality of races that could attract more bettors. But in states where HHRs were installed, betting on races still fell. Over time in states such as Kentucky, HHRs have become the dominant source of revenue.

History shows that some states started with HHR machines, later changed their laws, replaced HHRs with slots, and now have casinos at racetracks.

Unless Grants Pass Downs increases the number of gamblers and the amount Oregonians gamble, the money they would earn from their 250 HHRs will come at the expense of the Oregon Lottery and tribes. If Grants Pass Downs is unable to increase the amount Oregonians spend gambling, we estimate the Lottery and tribes will lose \$13 million and \$7 million a year, respectively. They would then have to reduce the amounts of money they send to public schools, for healthcare, and other programs.

Should HHRs also be added at the state's four other fairground racetracks, the Oregon Lottery would lose \$62 million and tribes \$31 million a year. If added to all racetrack betting parlors, the losses for the Lottery and tribes would be \$174 million and \$86 million, respectively.