

# Ohio State Racing Commission

House Agriculture & Development Subcommittee

*Nickie Evans, Economist*

*Legislative Service Commission*

*March 20, 2003*

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# **LSC Redbook**

## **for the**

# **Ohio State Racing Commission**

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*March 20, 2003*

Note: The estimated General Revenue Fund (GRF) spending for FY 2003 used in this LSC Redbook reflects the 2.5% reduction made as a result of the Governor's January 22, 2003 budget cut order. The executive reduction was applied across-the-board to FY 2003 GRF appropriations, subject to certain exceptions. Subsequent to such reductions (and not reflected in the Redbook), state agencies were permitted to reallocate the amount that each of their GRF appropriation line items was reduced, while still absorbing the 2.5% budget cut within the total amount of their GRF appropriations.

# Ohio State Racing Commission

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- The Racing Commission receives no funding from the GRF, it is funded by permits, fees, and a share of the horse racing wager tax
- Contract amounts with the OSU Analytical Toxicology Laboratory are expected to increase significantly in FYs 2004 and 2005

## OVERVIEW

The Ohio State Racing Commission (RAC) regulates and promotes the horse racing industry in Ohio. The Commission generally promotes racing by providing purse funds to racetracks. Ideally, the greater the amount of money provided to the winners of a race, the higher the quality horses, and the higher the quality of competition.

The majority of the Commission's resources are dedicated to the regulation of the horse racing industry in Ohio. The Commission prescribes the rules, regulations, and conditions under which horse racing with pari-mutuel wagering may be conducted. It is responsible for governing Ohio's seven commercial racetracks, its two satellite wagering facilities, and over 60 county fairs. Among the commercial racetracks are three thoroughbred tracks (Beulah Park, River Downs, and Thistledown) and four standardbred or harness racing tracks (Lebanon, Northfield Park, Scioto Downs, and Raceway Park).

The Racing Commission consists of five members, including a chairman, who are appointed by the Governor for four-year terms. These members are generally from the horse racing industry, but cannot be associated with or have a legal or beneficial interest in pari-mutuel meetings. The Commission has a regular staff of 35 employees, and regularly contracts with 11 other employees to serve as judges, stewards, and veterinarians. The Ohio State University Analytical Toxicology Laboratory is contracted to be the official laboratory of the Racing Commission.

The Commission's annual budget is funded through license fees and a percentage of moneys wagered on all races in the state, with the exception of those sponsored by fairs and agricultural societies. The executive recommendation for FY 2004 funding is \$31,981,695. This amount is \$2,585,421 greater than the FY 2003 estimated spending, an increase of 8.8%. Recommended funding for FY 2005 is \$32,255,739. This amount is \$274,044 greater than the recommended funding for FY 2004, a 0.9% increase. The majority of the increase in funding is due to expected spending increases for purse subsidies on standardbred races and contracts with the Ohio State University Analytical Toxicology Laboratory.

## ANALYSIS OF EXECUTIVE PROPOSAL

### Horse Racing Promotion and Regulation

**Purpose:** The mission of the Ohio State Racing Commission is to promote and regulate horse racing.

The following table shows the line items that are used to fund this program series, as well as the Governor’s recommended funding levels.

Fund	ALI	Title	FY 2004	FY 2005
562	875-601	Thoroughbred Race Fund	\$4,642,378	\$4,642,378
563	875-602	Standardbred Development Fund	\$2,908,841	\$3,161,675
564	875-603	Quarterhorse Development Fund	\$1,000	\$2,000
565	875-604	Racing Commission Operating	\$4,485,777	\$4,759,834
5C4	875-607	Simulcast Horse Racing Purse	\$19,730,799	\$19,476,952
R21	875-605	Bond Reimbursements	\$212,900	\$212,900
<b>Total funding: Horse Racing Promotion and Regulation</b>			<b>\$31,981,695</b>	<b>\$32,255,739</b>

Specific programs within the Horse Racing Promotion and Regulation program series on which this analysis will focus include:

- **Administrative/Operating Program**
- **Thoroughbred Program**
- **Standardbred Program**
- **Quarter Horse Program**
- **Simulcast Horse Racing Program**

#### Administrative/Operating Program

**Program Description:** The Ohio State Racing Commission is charged with regulating and promoting the horse racing industry in Ohio. The majority of the Commission’s funding for administration is dedicated to the regulation of the horse racing industry in Ohio. Licensing is a large part of this responsibility. There are currently 56 categories of regular (annual) licensees and eight categories of restricted licensees. The licensing program requires potential licensees to submit to fingerprinting sanctioned by the Ohio Bureau of Criminal Identification and the FBI. Licenses are approved by state stewards and presiding judges and issued by inspectors.

The Commission also employs three investigators to police the commercial tracks. Investigators work closely with stewards and judges. Investigators examine computer printouts that detail betting patterns, investigate public complaints related to the outcomes of races, and search stable areas when it is felt illegal activity is occurring. They complete investigations ranging from routine inquiries to full-scale operations. If an investigation results in a licensee being formally charged for violating a specific rule, the individual is entitled to the right of appeal. Individuals who appeal Commission rulings must deposit a bond with the Commission. The Bond Reimbursement Fund was established on January 1, 1986 to receive these bond deposits as well as cash bond deposits from permit holders.

The Commission also tracks the flow of dollars wagered in the state to ensure that Ohio tracks comply with wagering laws. It conducts an annual audit of the bank account records, receipts, and payments of

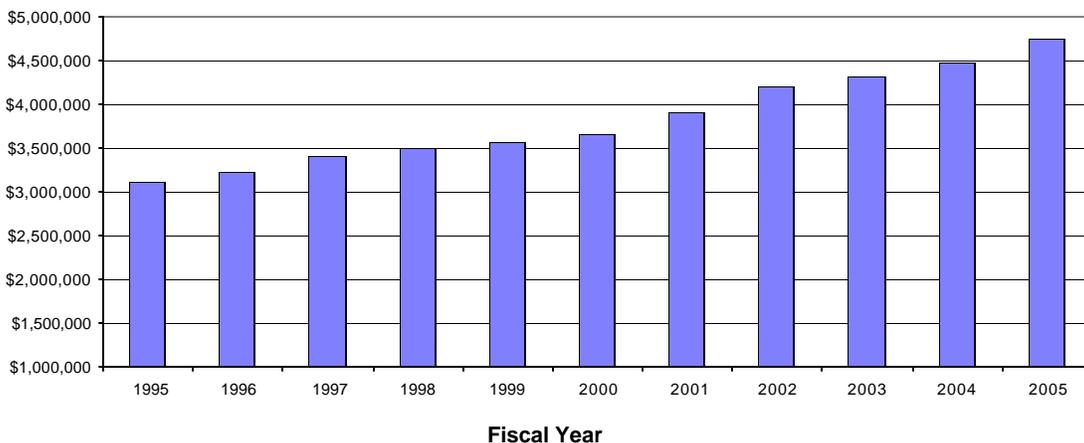
the permit holder selected as Ohio’s collection and settlement agent and investigates when a track or the collection and settlement agent fails to collect, pay, disburse, or account for money and fees. If necessary, the Commission must enforce payment to or by the collection and settlement agent.

The Racing Commission Operating Fund provides funding for 32 full-time employees and three part-time employees. However, purchased services also makes up a significant portion of the Racing Commission’s budget. In fact, the executive budget recommends \$2.3 million in FY 2004 and \$2.5 million in FY 2005 for purchased service. This money funds the state stewards, presiding judges, and the state veterinarians, who also help regulate the racing industry. State stewards and presiding judges represent the Racing Commission at racetracks, acting essentially as “referees.” State stewards work at thoroughbred tracks while presiding judges are employed at standardbred tracks. Veterinarians are responsible for the drug testing process at all commercial tracks. Following each pari-mutuel race the state veterinarian must collect a test sample of the winning horse’s blood or urine for the purpose of analysis. Human samples are also tested. The samples are then sent to the Ohio State University Analytical Toxicology Laboratory.

The Ohio State University Analytical Toxicology Laboratory is the official laboratory of the Commission, as they have been since 1964. As noted above, the OSU lab tests both human and equine samples for prohibited substances. The contracts between OSU and the Commission require the Commission to fund the testing as well as many of the daily operation costs of the lab. The costs of these contracts are significant. The contract with the OSU lab was \$1.38 million in FY 2003. In FY 2004, the amount of the contract is expected to be \$1.5 million. In 2005, the contract costs are expected to increase again, to \$1.7 million.

Simulcasting is a process of presenting horse races from tracks other than the one where live racing is occurring. By simulcasting races, a track can present more races to fans to wager upon, thereby increasing revenues for track and horse owners. Since the implementation of simulcast racing in September of 1996, the Racing Commission’s responsibilities have increased dramatically. Not only are racetracks open longer in the day, they are open more days during the year. In fact, while there are less than 200 live racing days per year at each track, most Ohio racetracks are open greater than 360 days per year. As one would expect, these additional responsibilities have also influenced the Commission’s budget, requiring an increase in funding.

Chart 1: Historical Operating Funds



**Funding Source:** Fees collected (license, fingerprinting, registration, permit, etc.), a share of the horse racing wager tax, and bond deposits

**Line Items:** Fund 565 875-604, Racing Commission Operating; Fund R21 875-605, Bond Reimbursements

**Implication of the Executive Recommendation:** The recommendations provide for the ongoing operation of the Commission, allowing it to keep pace with increasing costs of operation.

### **Thoroughbred Program**

**Program Description:** The Thoroughbred Program provides purse subsidies for various overnight/stake races, supplements purses for registered thoroughbreds that win open races, and provides broodmare and stallion awards to breeders of winning registered horses. It also funds equine research that is conducted at the Ohio State University Analytical Toxicology Laboratory. In addition, this line item, 875-601, Thoroughbred Race Fund, provides funding for two FTEs employed by the Racing Commission.

**Funding Source:** 1.125% of pari-mutuel special account wagering on thoroughbred racing and 0.71% of pari-mutuel wagering on commercial harness racing plus one-twelfth of exotic wagering revenue from thoroughbred racing

**Line Item:** Fund 562 875-601, Thoroughbred Race Fund

**Implication of the Executive Recommendation:** The executive recommendations maintain current funding levels and provide for ongoing operation of the Thoroughbred Program.

### **Standardbred Program**

**Program Description:** By providing purse subsidies for the Ohio Sires Stakes series of races, the Fund encourages breeding and racing in the state. The Standardbred Program also provides funds for research and testing to the Ohio State University Analytical Toxicology Laboratory. This line item, 875-602, Standardbred Development Fund, also provides funding for one FTE employed by the Racing Commission.

**Funding Source:** This program is funded completely by the Standardbred Development Fund. This Fund receives 1.125% of pari-mutuel wagering on harness racing plus one-twelfth of exotic wagering revenue from harness racing

**Line Item:** Fund 563 875-602, Standardbred Development Fund

**Implication of the Executive Recommendation:** The executive recommendations provide a 32.2% increase in the Standardbred Program for FY 2004, and an 8.7% increase for FY 2005. The majority of this increase is in response to the Commission's new responsibility to collect and disburse fees for the Ohio Sires Stakes. This was previously a responsibility of the Ohio Harness Horseman Association.

### **Quarter Horse Program**

**Program Description:** The Quarter Horse Program provides quarter horse racing purse subsidies.

**Funding Source:** This program is funded completely by the Quarterhorse Development Fund. The Fund receives 0.625% of pari-mutuel wagering on quarter horse racing plus one-twelfth of exotic wagering revenue from quarter horse racing.

**Line Item:** Fund 564 875-603, Quarterhorse Development Fund

***Implication of the Executive Recommendation:*** The Commission will be able to provide up to \$1,000 in quarter horse purse subsidies in FY 2004 and \$2,000 in FY 2005. Because there are very few quarter horse races run in Ohio each year, this low funding level will be sufficient.

**Simulcast Horse Racing Program**

***Program Description:*** Simulcasting is a process of presenting horse races from tracks other than the one where live racing is occurring. By simulcasting races, a track can present more races to fans to wager upon, thereby increasing revenues for track and horse owners. A portion of every wager on a simulcast race is returned to the track, to horsemen's associations, race purses, and the state. The Ohio State Racing Commission is responsible for collecting and distributing this money. Monthly distributions to purse accounts are made according to a formula based on average amounts wagered at all tracks on live racing days.

In addition, line item 875-602, Simulcast Horse Racing Purse Fund, provides funding for one FTE employed by the Racing Commission.

***Funding Source:*** The Simulcast Horse Racing Purse Fund receives revenues from a portion of the wagers placed at commercial tracks when there are no live races scheduled. The Ohio State Racing Commission collects the funds and then redistributes them to permit holders to be used for horsemen's purse accounts. Thus, this Fund acts simply as a pass through account. However, moneys credited to this account earn interest. The interest on this account is used by the Racing Commission to pay the salary of the state director of pari-mutuel wagering.

***Line Item:*** Fund 5C4 875-607, Simulcast Horse Racing Purse Fund

***Implication of the Executive Recommendation:*** The executive recommendations provide a 9.5% increase in the Simulcast Horse Racing Purse Fund for FY 2004, and a -1.3% decrease for FY 2005. This will allow for the ongoing operation of the Simulcast Horse Racing Program.

## ADDITIONAL FACTS AND FIGURES

Ohio State Racing Commission Staffing Levels						
	2000	2001	2002	2003	<i>Estimated</i>	
	2004	2005				
RAC Staff (Including Commission Members)	37	37	39	39	39	39
Contracted Employees	11	11	11	11	11	11

### Satellite Wagering Facilities

Amended Substitute House Bill 361 of the 120th General Assembly initially established satellite facilities and simulcasting in Ohio. The bill authorized Ohio's horse racing tracks to establish 14 satellite wagering facilities. The new satellite facilities were envisioned as a means to geographically expand the horse race viewing population in Ohio. Through satellite facilities, racing from Ohio thoroughbred and standardbred tracks, as well as those tracks located outside Ohio, would be made available for viewing and pari-mutuel wagering in areas where no track was located.

Substitute House Bill 561 of the 121st General Assembly greatly enhanced the provisions of H.B. 361. Although it was estimated at that time that satellite wagering (also known as off-track betting) would be the wave of the future, Ohio currently has only two of these facilities in operation. The first opened in Sandusky in 1999, followed by a facility in Mansfield in March of 2000. Opposition to new facilities has remained quite strong. Stark County voters rejected an off-track betting parlor proposed for Canton in 1998. Recently, a parlor proposed for Niles, Ohio was defeated when Thistledown Racetrack refused permission to open the betting facility within 50 miles of its own facility. Another parlor in Lima, Ohio was defeated through a county referendum.

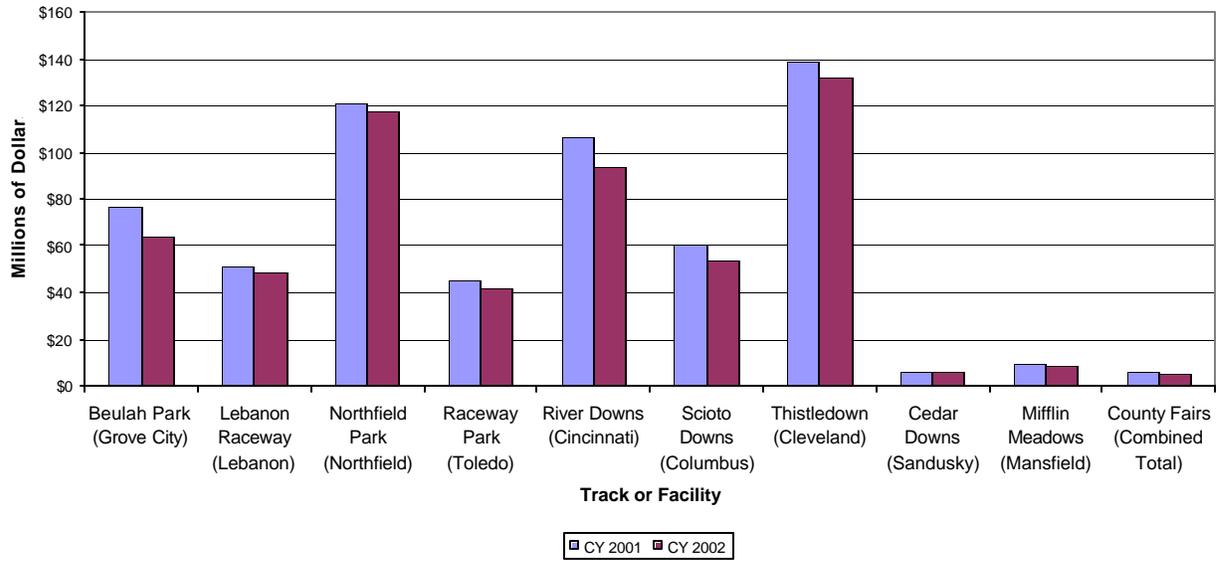
Nonetheless, the Commission has been responsible for overseeing these satellite facilities, and continues to promote new facilities where and when they are possible. Satellite facilities generate an average of \$20,000 in wagers per day and are open almost every day of the year.

### Wagers Placed on Horse Racing in Ohio

Chart 2, below, displays the amount of wagers placed at each racetrack and satellite facility in Ohio for calendar year (CY) 2001 and CY 2002. It also displays the total amount of wagers placed at county fairs around the state. Statewide, wagers placed on horseracing in Ohio fell by 7.7% between CY 2001 and CY 2002. In CY 2001, \$619.1 million was wagered on horseracing in Ohio. In CY 2002 that amount fell to \$571.2 million.

At the heaviest-bet racetrack, Thistledown, \$131.7 million was wagered on horse racing in CY 2002. In contrast, at Raceway Park, only \$41.6 million was wagered on horse racing in CY 2002. At the two satellite facilities, Cedar Downs and Mifflin Meadows, \$6.3 million and \$8.4 million, respectively, was wagered during CY 2002.

**Table 2: Wagers Placed on Horse Racing in Ohio,  
Calendar Years 2001 and 2002**



## PERMANENT AND TEMPORARY LAW

This section describes permanent and temporary law provisions contained in the executive budget that will affect the Commission's activities and spending decisions during the next biennium.

### *Permanent Law Provisions*

There are no permanent law provisions with fiscal effects on this agency.

### *Temporary Law Provisions*

There are no temporary law provisions with fiscal effects on this agency.

## REQUESTS NOT FUNDED

Ohio State Racing Commission						
Fund Group	FY 2004 Requested	FY 2004 Recommended	Difference	FY 2005 Requested	FY 2005 Recommended	Difference
State Special Revenue Fund Group	\$31,972,908	\$31,981,695	\$8,787	\$32,213,065	\$32,255,739	\$42,674
Holding Account Redistribution Fund Group	\$212,900	\$212,900	\$0	\$212,900	\$212,900	\$0

The executive recommended funding for the Ohio Racing Commission is actually more than the agency originally requested. This is a result of adjustments made by the Commission and OBM. The majority of the adjustments were made in line item 875-604, Racing Commission Operating, and line item 875-607, Simulcast Horse Racing Purse.

After taking a closer look at the amount of the contracts with the Ohio State University Analytical Toxicology Laboratory, OBM felt the agency would not have enough appropriation authority in line item 875-604, Racing Commission Operating, if only the request was funded. At the same time, both OBM and the Commission felt the requested amount of funding for maintenance in that same line item could be slightly reduced. Thus, the executive recommendations include an additional \$37,696 for this line item.

The executive recommendations for 875-607, Simulcast Horse Racing Purse, are \$29,963 less than requested by the Racing Commission. This adjustment reflects a reduction in funding for payroll. The requested funding would have included enough money to fund 1.5 FTEs, while the agency only has one FTE funded by this line item.

## State Special Revenue Fund Group

### 562 875-601 Thoroughbred Race Fund

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$4,304,915	\$4,042,341	\$4,274,286	\$4,642,378	<b>\$4,642,378</b>	<b>\$4,642,378</b>
	-6.1%	5.7%	8.6%	<b>0.0%</b>	<b>0.0%</b>

**Source:** SSR: 1.125 percent of pari-mutuel special account wagering on thoroughbred racing and 0.71 percent of pari-mutuel wagering on commercial harness racing plus one-twelfth of exotic wagering revenue from thoroughbred racing

**Legal Basis:** ORC 3769.083(B)

**Purpose:** The purpose of this line item is to enhance the thoroughbred racing industry in Ohio by providing purse subsidies and supplements, broodmare and stallion awards for breeders, and equine research funds to The Ohio State University Analytical Toxicology Laboratory.

### 563 875-602 Standardbred Development Fund

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$2,055,663	\$2,106,207	\$1,937,723	\$2,200,810	<b>\$2,908,841</b>	<b>\$3,161,675</b>
	2.5%	-8.0%	13.6%	<b>32.2%</b>	<b>8.7%</b>

**Source:** SSR: 1.125 percent of pari-mutuel wagering on harness racing plus one-twelfth of the money collected by the tax commissioner from wagering on harness racing; investment earnings; fees assessed for the Ohio Sires Stakes race

**Legal Basis:** ORC 3769.085; funded through ORC 3769.08

**Purpose:** The purpose of this line item is to supplement standardbred purses, thereby encouraging breeding and racing and to provide research funds to The Ohio State University Analytical Toxicology Laboratory.

### 564 875-603 Quarter horse Development Fund

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$3,000	\$0	\$0	\$1,000	<b>\$1,000</b>	<b>\$2,000</b>
		N/A	N/A	<b>0.0%</b>	<b>100.0%</b>

**Source:** SSR: 0.625 percent of pari-mutuel wagering on quarter horse racing plus one-twelfth of exotic wagering revenue from quarter horse racing

**Legal Basis:** ORC 3769.086; funded through ORC 3769.08

**Purpose:** The purpose of this line item is to provide quarter horse racing purse subsidies, to advance and improve the breeding of racing quarter horses in Ohio, and to pay the actual and necessary expenses of members of the Ohio Quarter horse Development Commission.

**565 875-604 Racing Commission Operating**

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$3,666,266	\$3,907,925	\$4,196,156	\$4,314,143	<b>\$4,485,777</b>	<b>\$4,759,834</b>
	6.6%	7.4%	2.8%	<b>4.0%</b>	<b>6.1%</b>

**Source:** SSR: One-sixth of the revenues from the 3.0 percent exotic wagering tax, 0.25 percent of thoroughbred and harness racing wagering and all license/permit fees paid by persons and employees engaged in racing

**Legal Basis:** ORC 3769.03; funded through ORC 3769.08 and ORC 3769.087

**Purpose:** This fund serves as the agency's primary revenue source and is used to maintain effective levels of regulation and enforcement. The fund also allows for the completion of other duties related to office administration.

**5C4 875-607 Simulcast Horse Racing Purse**

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$16,482,778	\$18,756,307	\$19,372,574	\$18,025,043	<b>\$19,730,799</b>	<b>\$19,476,952</b>
	13.8%	3.3%	-7.0%	<b>9.5%</b>	<b>-1.3%</b>

**Source:** SSR: a) Purse money from wagering on intrastate and interstate simulcast racing by a permit holder operating as a simulcast host or simulcast guest with no live racing program; b) purse money from amounts wagered at satellite facilities on days when a permit holder serves as a simulcast host for a satellite facility; c) one-half of the balance of the commission paid to a satellite facility.

**Legal Basis:** ORC 3769.089 (established by Am. Sub. H.B. 561 of the 121st G.A.)

**Purpose:** The purpose of this line item is to accurately collect and distribute revenues associated with simulcast horse racing. The commission distributes the balance monthly to purse accounts at commercial tracks. Track share percentages are maintained in official records and an annual report is prepared.

## Holding Account Redistribution Fund Group

**R21 875-605 Bond Reimbursements**

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$149,775	\$189,850	\$183,000	\$212,900	<b>\$212,900</b>	<b>\$212,900</b>
	26.8%	-3.6%	16.3%	<b>0.0%</b>	<b>0.0%</b>

**Source:** 090: Cash bond deposits from permit holders and individuals appealing various commission rulings

**Legal Basis:** Section 93 of Am. Sub. H.B. 94 of the 124th G.A. (originally established by the Controlling Board on December 29, 1985)

**Purpose:** This line item replaces the Commission Depository Trust Account. Fund receipts represent cash bond deposits from permit holders for performance bonds and bond deposits from individuals who appeal commission rulings.

## LSC Budget Spreadsheet by Line Item, FY 2004 - FY 2005

<i>Fund</i>	<i>ALI</i>	<i>ALI Title</i>	<i>2002</i>	<i>Estimated 2003</i>	<i>Executive 2004</i>	<i>% Change 2003 to 2004</i>	<i>Executive 2005</i>	<i>% Change 2004 to 2005</i>
<b><i>RAC Racing Commission, Ohio State</i></b>								
562	875-601	Thoroughbred Race Fund	\$ 4,274,286	\$4,642,378	\$ 4,642,378	0.0%	\$ 4,642,378	0.0%
563	875-602	Standardbred Development Fund	\$ 1,937,723	\$2,200,810	\$ 2,908,841	32.2%	\$ 3,161,675	8.7%
564	875-603	Quarter horse Development Fund	---	\$1,000	\$ 1,000	0.0%	\$ 2,000	100.0%
565	875-604	Racing Commission Operating	\$ 4,196,156	\$4,314,143	\$ 4,485,777	4.0%	\$ 4,759,834	6.1%
5C4	875-607	Simulcast Horse Racing Purse	\$ 19,372,574	\$18,025,043	\$ 19,730,799	9.5%	\$ 19,476,952	-1.3%
<b>State Special Revenue Fund Group Total</b>			<b>\$ 29,780,739</b>	<b>\$ 29,183,374</b>	<b>\$ 31,768,795</b>	<b>8.9%</b>	<b>\$ 32,042,839</b>	<b>0.9%</b>
R21	875-605	Bond Reimbursements	\$ 183,000	\$212,900	\$ 212,900	0.0%	\$ 212,900	0.0%
<b>Holding Account Redistribution Fund Group Total</b>			<b>\$ 183,000</b>	<b>\$ 212,900</b>	<b>\$ 212,900</b>	<b>0.0%</b>	<b>\$ 212,900</b>	<b>0.0%</b>
<b><i>Total All Budget Fund Groups</i></b>			<b>\$ 29,963,739</b>	<b>\$ 29,396,274</b>	<b>\$ 31,981,695</b>	<b>8.8%</b>	<b>\$ 32,255,739</b>	<b>0.9%</b>