

Ohio State Racing Commission

House Agriculture and Development Subcommittee

*Phil Cummins, Economist
Legislative Service Commission*

March 27, 2007

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LSC Redbook
for the
Ohio State Racing Commission
House Agriculture and Development Subcommittee

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March 27, 2007

Ohio State Racing Commission

- The Commission promotes and regulates Ohio horse racing on which pari-mutuel betting is allowed
- This agency's budget, all non-GRF, is funded mainly with a tax on wagering on races and with fees. The amount of wagers on which this tax is imposed has fallen since 1998

OVERVIEW

The Ohio State Racing Commission (RAC) promotes and regulates horse racing in Ohio. Its five members are appointed to four-year terms by the Governor. The Racing Commission prescribes rules under which horse racing with pari-mutuel wagering may be conducted, licenses participants, and oversees races at seven commercial tracks and most of Ohio's county fairs. To promote horse racing, RAC provides purse subsidies and supplements that encourage breeding and racing. It also pays the laboratory at the Ohio Department of Agriculture for testing. The Racing Commission employs administrators at its Columbus headquarters, and officials, veterinarians, and investigators at tracks.

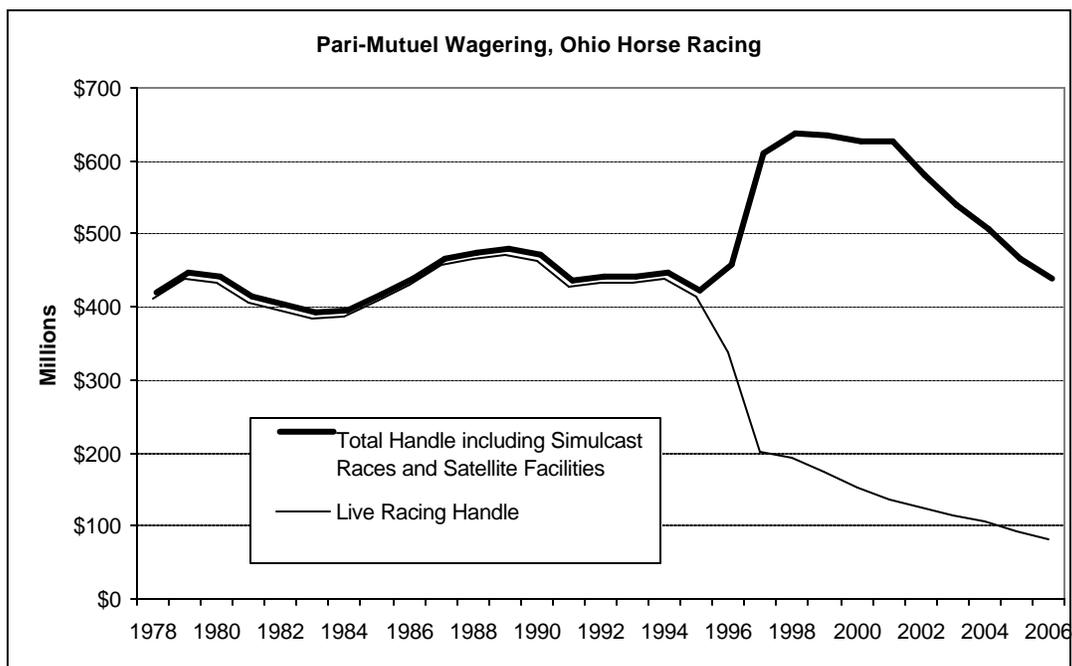
The Commission's budget consists of five state special revenue funds and one holding account redistribution fund, totaling about \$26.4 million in each of FY 2008 and FY 2009 under the executive's proposed budget. Commissions on wagers on simulcast horse races account for almost two-thirds of RAC's receipts. Simulcast wagering, on live races elsewhere, takes place at Ohio's commercial tracks. Other receipts are mainly from taxes on betting at the tracks where live horse racing is taking place. In addition, wagers may be placed at a satellite wagering facility in the state. A second satellite wagering location is currently closed. The Racing Commission also receives funds from fees imposed on various racing industry participants and from fines and penalties. Two of the six funds of the Racing Commission have in the past received investment earnings on the balances in those funds, and H.B. 546 of the 126th General Assembly, effective April 4 of this year, included a provision for a third Racing Commission fund to retain the earnings on its balances. However, under the terms of the FY 2006-2007 main operating appropriations act, H.B. 66, these interest earnings were instead diverted to the GRF. The executive proposal for the FY 2008-2009 biennium would continue this transfer. Amounts involved are small. The holding account redistribution fund receives performance bonds from commercial permit holders and county fairs as well as bonds from license holders appealing commission rulings.

The majority of RAC's expenditures are for subsidies, mostly additions to purses at live horse races. Part supports the Ohio horse racing industry in other ways, including awards to Ohio breeders of winning race horses, supplements to purses for Ohio horses that win races at Ohio tracks against horses from other states, and other promotional activities. Most outlays other than subsidies are for regulation, including oversight of horse races and enforcement of rules; drug testing, mainly of horses but also of licensees; expenses related to licensing; and investigation. The Racing Commission has 16 full-time and 5 part-time employees, and contracts with 11 stewards, judges, and veterinarians. The 5 Commission members are not included in these numbers.

Summary of FYs 2008-2009 Budget Issues

Pari-mutuel wagering at Ohio horse racing tracks and satellite wagering facilities, the source of most of RAC's funding, has been declining. Such betting at live horse races in the state peaked in 1989 and declined gradually in the first half of the 1990s, before betting at simulcast race meets was introduced in the state in 1996 to compete with gambling programs in surrounding states. The total of pari-mutuel

betting at live horse races in Ohio as well as simulcast and satellite wagering peaked in 1998, as shown in the accompanying chart. The amount bet is referred to as the handle. The decline since 1998 appears to be partly due to increased competition from out-of-state gambling venues and Internet betting. The state's racing industry is having difficulty competing with tracks in other states that offer larger horse racing purses, which gives them an edge in attracting faster horses. Better horses in turn attract gambling dollars. A prospering racing program helps to support horse breeders. The Racing Commission does not currently receive revenues from bets placed through the Internet.



The ability of tracks in other states to offer larger purses is in part a result of allowing video lottery terminals (VLTs) at tracks, with a portion of the gambling proceeds added to horse racing purses. West Virginia, for example, has VLTs at racetracks as well as other locations, and uses part of the proceeds to increase horse race purses. Horses and breeders are enticed out of Ohio by the larger purses available elsewhere.

In response to the shrinking of the pari-mutuel wagering tax base that is the Racing Commission's principal source of funding, the agency downsized two years ago. In FY 2007, two additional investigators were hired so that an investigator could be present at each track when live horse racing is taking place. The Commission wants to increase drug testing by 25% in the upcoming biennium, and has purchased equipment that can be used to test horses before they race to protect against and deter cheating. Full-time in-house legal counsel was added to help with legal issues facing the Commission.

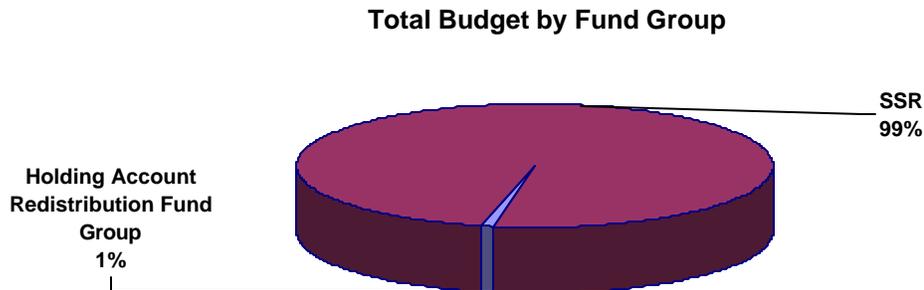
A temporary source of increased funding to the Racing Commission expires at the end of the current fiscal year. H.B. 530 of the 126th General Assembly directed an additional one-quarter of one percent of wagers other than win, place, or show, referred to as exotic wagers, to the Racing Commission for FY 2007. This provision had previously been enacted for earlier fiscal years but had been allowed to lapse in FY 2006. The Governor's budget bill would make this source of Racing Commission funding permanent. The Racing Commission estimates that this change will bring in additional revenue of \$675,000 per year.

Staffing Levels

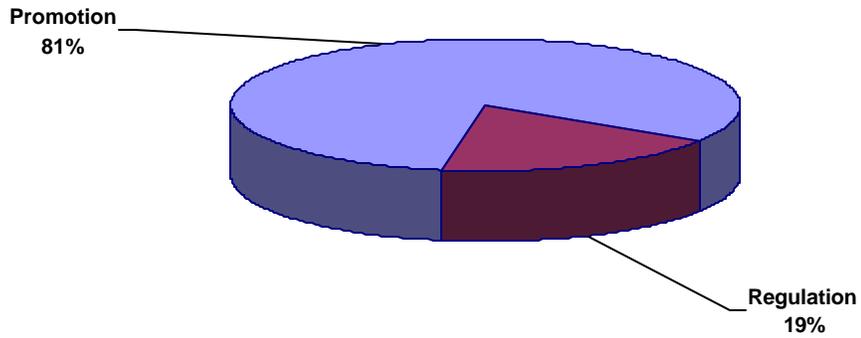
Numbers of employees shown below are full-time equivalents. The five Commission members and contractors are not included in these numbers.

Racing Commission Staffing Levels						
	2004	2005	2006	2007	Estimated	
	2004	2005	2006	2007	2008	2009
Totals	31.5	29.5	19	19	20	20

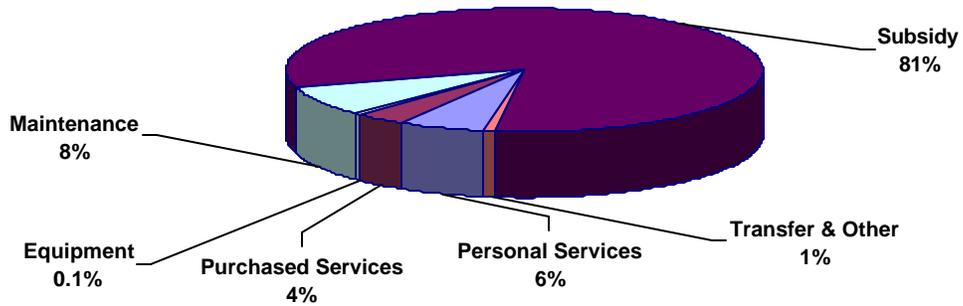
In addition to these employees, the Racing Commission for many years has contracted with six or seven judges and stewards, and with four or five veterinarians, to perform services at the seven commercial racetracks. The employee count for 2004 is as of June and the number for 2005 is as of February prior to staffing cuts later that year. Numbers for 2006 through 2009 are based on the Racing Commission's budget submission for the upcoming biennium.



Total Budget by Program Series



Total Budget by Object Code



MASTER TABLE: EXECUTIVE'S RECOMMENDATIONS FOR FY 2006 AND FY 2007

The following table provides a comprehensive presentation of the executive's recommendations for each of the agency's line items and the programs each line item supports. Please note that some line items may provide funding for multiple program series and/or programs. See the Analysis of Executive Proposal section for more information on specific program funding.

Executive Recommendations for FY 2008 and FY 2009, By Line Item and Program				
Fund	ALI	Title	FY 2008	FY 2009
State Special Revenue Fund Group				
5C4	875-607	Simulcast Horse Racing Purse	\$16,000,000	\$16,000,000
		Promotion	\$16,000,000	\$16,000,000
		Regulation	\$0	\$0
562	875-601	Thoroughbred Race Fund	\$3,100,000	\$3,100,000
		Promotion	\$2,983,220	\$2,979,132
		Regulation	\$116,780	\$120,868
563	875-602	Standardbred Development Fund	\$2,600,000	\$2,600,000
		Promotion	\$2,518,935	\$2,516,098
		Regulation	\$81,065	\$83,902
564	875-603	Quarterhorse Development Fund	\$1,000	\$1,000
		Promotion	\$1,000	\$1,000
		Regulation	\$0	\$0
565	875-604	Racing Commission Operating	\$4,487,599	\$4,487,599
		Promotion	\$0	\$0
		Regulation	\$4,487,599	\$4,487,599
State Special Revenue Fund Subtotal			\$26,188,599	\$26,188,599
Holding Account Redistribution Fund Group				
R21	875-605	Bond Reimbursements	\$212,900	\$212,900
		Promotion	\$0	\$0
		Regulation	\$212,900	\$212,900
Holding Account Redistribution Fund Subtotal			\$212,900	\$212,900
Racing Commission Total Funding			\$26,401,499	\$26,401,499

ANALYSIS OF EXECUTIVE PROPOSAL

1: Promotion

Purpose: To promote horse racing in Ohio

The following table shows the line items that are used to fund the Promotion program, as well as the Governor's recommended funding levels. Note that parts of two of these line items are shown in this program, with the balance included in the regulation program.

Fund	ALI	Title	FY 2008	FY 2009
State Special Revenue Fund				
SSR 5C4	875-607	Simulcast Horse Racing Purse	\$16,000,000	\$16,000,000
SSR 562	875-601	Thoroughbred Race Fund	\$2,983,220	\$2,979,132
SSR 563	875-602	Standardbred Development Fund	\$2,518,935	\$2,516,098
SSR 564	875-603	Quarterhorse Development Fund	\$1,000	\$1,000
State Special Revenue Fund Subtotal			\$21,503,155	\$21,496,230
Total Funding: Promotion			\$21,503,155	\$21,496,230

This analysis focuses on the following specific programs within the Promotion program series:

- **Simulcast Horse Racing Purse**
- **Thoroughbred Race Fund**
- **Standardbred Development Fund**
- **Quarterhorse Development Fund**

Simulcast Horse Racing Purse

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 on which fans can wager, 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. Monthly distributions to purse accounts are made according to a formula based on average amounts wagered at all tracks on live racing days.

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 as a pass-through account. Interest earned on money in this account would be credited to the account, except for a provision of the FY 2008-2009 main operating appropriations act that permits the Director of Budget and Management to transfer these interest earnings to the General Revenue Fund.

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

Implication of Executive Recommendation: The amount recommended for this subsidy account for each of FY 2008 and FY 2009 is \$16,000,000. This continues the downtrend underway for a number of years.

Temporary and Permanent Law Provisions

A temporary law provision in the executive budget would continue the current diversion of interest earnings from this account to the GRF.

Thoroughbred Race Fund

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 currently conducted at the Ohio State University Analytical Toxicology Laboratory.

Funding Source: 1.125% of pari-mutuel special account wagering on thoroughbred racing and 0.52% of pari-mutuel wagering on commercial harness racing plus one-twelfth of 3% of exotic wagering on thoroughbred racing. Interest earned on money in this account, under a provision of H.B. 546 of the 126th General Assembly, effective April 4, would be credited to the account. However, the FY 2006-2007 main operating appropriations act permits the Director of Budget and Management to transfer these interest earnings to the General Revenue Fund. The budget bill for FY 2008-2009 continues this transfer.

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

Implication of Executive Recommendation: The amounts recommended for this subsidy account for each of FY 2008 and FY 2009 are \$2,983,220 and \$2,979,132, respectively. These amounts are less than the estimate for FY 2007 but higher than actual outlays in FY 2005 and 2006.

Temporary and Permanent Law Provisions

A temporary law provision in the executive budget would continue the current diversion of interest earnings from this account to the GRF.

Standardbred Development Fund

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.

Funding Source: 1.125% of pari-mutuel wagering on harness racing plus one-twelfth of 3% of exotic wagering on harness racing. Interest earned on money in this account would be credited to the account, except for a provision of the FY 2008-2009 main operating appropriations act that permits the Director of Budget and Management to transfer these interest earnings to the General Revenue Fund.

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

Implication of Executive Recommendation: The amounts recommended for FY 2008 and FY 2009 are \$2,518,935 and \$2,516,098, respectively. These amounts are less than estimated spending in FY 2007 but about even with actual outlays in FY 2006.

Temporary and Permanent Law Provisions

A temporary law provision in the executive budget would divert interest earnings from this account to the GRF.

Quarterhorse Development Fund

Program Description: The Quarterhorse Program provides quarterhorse racing purse subsidies. Few quarterhorse races are run in Ohio.

Funding Source: This program is funded completely by the Quarterhorse Development Fund. The Fund receives 0.625% of pari-mutuel wagering on quarterhorse racing plus one-twelfth of 3% of exotic wagering on quarterhorse racing.

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

Implication of Executive Recommendation: The amount recommended for this subsidy account for each of FY 2008 and FY 2009 is \$1,000. Little quarterhorse racing takes place in Ohio.

Temporary and Permanent Law Provisions

There are no temporary or permanent law provisions in the executive budget that pertain to this Racing Commission program.

Regulation

Purpose: To regulate horse racing in Ohio

The following table shows the line items that are used to fund the regulation program, as well as the Governor's recommended funding levels. Amounts shown for the thoroughbred and standardbred funds pay the costs for RAC staff members who regulate those activities.

Fund	ALI	Title	FY 2008	FY 2009
State Special Revenue Fund				
SSR 562	875-601	Thoroughbred Race Fund	\$116,780	\$120,868
SSR 563	875-602	Standardbred Development Fund	81,065	83,902
SSR 565	875-604	Racing Commission Operating	\$4,487,599	\$4,487,599
State Special Revenue Fund Subtotal			\$4,685,444	\$4,692,369
Holding Account Redistribution Fund Group				
R21	875-605	Bond Reimbursements	\$212,900	\$212,900
Holding Account Redistribution Fund Subtotal			\$212,900	\$212,900
Total Funding: Regulation			\$4,898,344	\$4,905,269

This analysis focuses on the following specific programs within the program series:

- **Racing Commission Operating**
- **Bond Reimbursements**

Racing Commission Operating

Program Description: The majority of the Commission's funding for administration is used for regulation of the horse racing industry in Ohio. Licensing is a large part of this responsibility. There are currently 57 categories of licensees listed on the Commission's web site. The licensing program requires potential licensees to submit to fingerprinting sanctioned by the Ohio Bureau of Criminal Identification and Investigation and the FBI. Licenses are approved by state stewards and presiding judges and issued by inspectors.

The Commission also employs investigators to police the commercial tracks. They 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 they suspect that illegal activity is occurring. They complete investigations ranging from routine inquiries to full-scale operations.

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 most of RAC's employees. Purchased services also make up a significant portion of the Racing Commission's budget. This money

funds the stewards, judges, and veterinarians who help regulate the racing industry. Stewards and judges represent the Racing Commission at racetracks, acting essentially as "referees." Stewards oversee thoroughbred tracks and judges oversee standardbred tracks. Veterinarians are responsible for drug testing horses at all commercial tracks. Human samples are sometimes also collected. The samples are processed by the Racing Commission's laboratory at the Ohio Department of Agriculture.

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

Line Item: Fund 565, 875-604, Racing Commission Operating

Implication of Executive Recommendation: The amount recommended for this account for each of FY 2008 and FY 2009 is \$4,487,599. This is 12% higher than estimated spending in FY 2007.

Temporary and Permanent Law Provisions

A permanent law provision in the executive budget provides that an additional one-quarter of one percent of wagers other than win, place, or show, referred to as exotic wagers, is to be paid by permit holders as a tax. These amounts will add to funding of the Racing Commission Operating Fund.

Bond Reimbursements

Program Description: Permit holders are required to post performance bonds. In addition, if a licensee is found to have violated one of the Commission's rules, the individual is entitled to appeal the decision. Individuals who appeal rulings must deposit a bond with the Commission. The Bond Reimbursement Fund receives these bond deposits. This fund was established on January 1, 1986, replacing an earlier fund used for the same purpose.

Funding Source: Performance bonds collected from permit holders, and bonds posted by appellants

Line Item: Fund R21 875-605, Bond Reimbursements

Implication of Executive Recommendation: The amount recommended for this account for each of FY 2008 and FY 2009, \$212,900, matches estimated FY 2007 reimbursements.

Temporary and Permanent Law Provisions

There are no temporary or permanent law provisions in the executive budget that pertain to this Racing Commission program.

REQUESTS NOT FUNDED

All requests were funded.

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State Special Revenue Fund Group

562 875-601 Thoroughbred Race Fund

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$3,672,045	\$2,884,194	\$2,678,733	\$3,216,622	\$3,100,000	\$3,100,000
	-21.5%	-7.1%	20.1%	-3.6%	0.0%

Source: SSR: 1.125% of pari-mutuel wagering on thoroughbred racing and 0.52% (in 2005) of pari-mutuel wagering on commercial harness racing plus one-twelfth of 3.0% of exotic wagering on thoroughbred racing

Legal Basis: ORC 3769.083(B); funded through ORC 3769.08 and 3769.087

Purpose: The purpose of this line item is to enhance the thoroughbred racing industry in Ohio by providing purse subsidies, supplements for winning Ohio horses competing with out-of-state horses, broodmare and stallion awards for breeders of winning horses, and equine research funds.

563 875-602 Standardbred Development Fund

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$2,538,565	\$2,539,509	\$2,585,460	\$3,161,675	\$2,600,000	\$2,600,000
	0.0%	1.8%	22.3%	-17.8%	0.0%

Source: SSR: 1.125% of pari-mutuel wagering on harness racing plus one-twelfth of 3.0% of exotic wagering on harness racing; fees assessed for the Ohio Sires Stakes race

Legal Basis: ORC 3769.085; funded through ORC 3769.08 and 3769.087

Purpose: The purpose of this line item is to supplement standardbred purses, thereby encouraging breeding and racing, and to provide equine research funds.

564 875-603 Quarter Horse Development Fund

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$0	\$0	\$2,000	\$2,000	\$1,000	\$1,000
		N/A	0.0%	-50.0%	0.0%

Source: SSR: 0.625% of pari-mutuel wagering on quarter horse racing plus one-twelfth of 3.0% of exotic wagering on quarter horse racing

Legal Basis: ORC 3769.086; funded through ORC 3769.08 and 3769.087

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.

565 875-604 Racing Commission Operating

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$4,341,561	\$3,922,589	\$3,721,951	\$4,000,000	\$4,487,599	\$4,487,599
	-9.7%	-5.1%	7.5%	12.2%	0.0%

Source: SSR: One-sixth of the revenues from the 3.0% exotic wagering tax, plus 0.5% of exotic wagering in FY 2004 and FY 2005 and 0.25% of exotic wagering thereafter; 0.25% of thoroughbred, harness, and quarter horse racing wagering; and all license and permit fees paid by persons and employees engaged in racing.

Legal Basis: ORC 3769.03; funded through ORC 3769.08 and 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

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$17,737,546	\$16,569,596	\$16,139,334	\$16,563,948	\$16,000,000	\$16,000,000
	-6.6%	-2.6%	2.6%	-3.4%	0.0%

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 (originally established by Am. Sub. H.B. 561 of the 121st G.A.)

Purpose: The purpose of this line item is to 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

2004	2005	2006	2007 Estimate	2008 Executive Proposal	2009 Executive Proposal
\$167,600	\$162,400	\$164,200	\$212,900	\$212,900	\$212,900
	-3.1%	1.1%	29.7%	0.0%	0.0%

Source: 090: Cash bond deposits from permit holders for performance bonds and from individuals appealing Commission rulings

Legal Basis: Section 209.60 of Am. Sub. H.B. 66 of the 126th G.A. (originally established by Controlling Board on December 2, 1985)

Purpose: Performance bonds are retained in the fund until racing events have taken place, then are returned to the permit holders. Bond deposits of individuals appealing rulings are returned if the Commission rules in favor of the appellant, otherwise are applied to any fines that may be imposed. This line item replaced the Commission Depository Trust Account.

LSC Budget Spreadsheet by Line Item, FY 2008 - FY 2009

Fund	ALI	ALI Title	2006	Estimated 2007	Executive 2008	% Change 2007 to 2008	Executive 2009	% Change 2008 to 2009
RAC Racing Commission, Ohio State								
562	875-601	Thoroughbred Race Fund	\$ 2,678,733	\$3,216,622	\$ 3,100,000	-3.6%	\$ 3,100,000	0.0%
563	875-602	Standardbred Development Fund	\$ 2,585,460	\$3,161,675	\$ 2,600,000	-17.8%	\$ 2,600,000	0.0%
564	875-603	Quarter Horse Development Fund	\$ 2,000	\$2,000	\$ 1,000	-50.0%	\$ 1,000	0.0%
565	875-604	Racing Commission Operating	\$ 3,721,951	\$4,000,000	\$ 4,487,599	12.2%	\$ 4,487,599	0.0%
5C4	875-607	Simulcast Horse Racing Purse	\$ 16,139,334	\$16,563,948	\$ 16,000,000	-3.4%	\$ 16,000,000	0.0%
State Special Revenue Fund Group Total			\$ 25,127,479	\$ 26,944,245	\$ 26,188,599	-2.8%	\$ 26,188,599	0.0%
R21	875-605	Bond Reimbursements	\$ 164,200	\$212,900	\$ 212,900	0.0%	\$ 212,900	0.0%
Holding Account Redistribution Fund Group Total			\$ 164,200	\$ 212,900	\$ 212,900	0.0%	\$ 212,900	0.0%
Total All Budget Fund Groups			\$ 25,291,679	\$ 27,157,145	\$ 26,401,499	-2.8%	\$ 26,401,499	0.0%