

LSC Redbook

Analysis of the Executive Budget Proposal

Ohio State Racing Commission

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March 2011

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Ohio State Racing Commission

- The Commission promotes and regulates Ohio horse racing.
- Funding, all non-GRF, is mainly with a tax on wagering on races and with fees.

OVERVIEW

Agency 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 draws appropriations from five state special revenue funds and one Holding Account Redistribution Fund, totaling about \$18.7 million for FY 2012 and \$18.4 million for FY 2013 under the executive's proposed budget. Commissions on wagers on simulcast horse races account for most of RAC's receipts. Simulcast wagering, on live races elsewhere, takes place at Ohio's seven 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 Sandusky, Ohio, operated by one of the tracks. The Racing Commission also receives funds from fees imposed on various racing industry participants and from fines and penalties. Three of the six funds used by the Racing Commission – the Thoroughbred Race Fund, Standardbred Development Fund, and Simulcast Horse Racing Purse Fund – retain investment earnings on the balances in those funds, according to the Revised Code. These interest earnings were diverted to the GRF in the FY 2010-FY 2011 biennium, under a provision of temporary law. The executive proposal for the upcoming biennium is available at this time (March 18) only in Blue Book form, and a search of the Blue Book did not find this provision. Amounts involved for the Racing Commission 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 currently has 13 full-time and five part-time employees, is in the process of filling another full-time position for an investigative supervisor, and contracts with ten stewards, judges, and veterinarians. The five Commission members are not included in these numbers.

Appropriation Overview

The executive's recommendation for the Racing Commission's budget for the next biennium is summarized in the following table:

Executive Budget Recommendations by Fund Group, FY 2012-FY 2013					
Fund Group	FY 2011*	FY 2012	% change, FY 2011-FY 2012	FY 2013	% change, FY 2012-FY 2013
State Special Revenue	\$17.3 million	\$18.6 million	7.4%	\$18.3 million	-1.4%
Holding Account Redistribution	\$0.1 million	\$0.1 million	13.6%	\$0.1 million	0.0%
TOTAL	\$17.4 million	\$18.7 million	7.4%	\$18.4 million	-1.4%

*FY 2011 figures are estimates.

Summary of FY 2012-FY 2013 Budget Issues

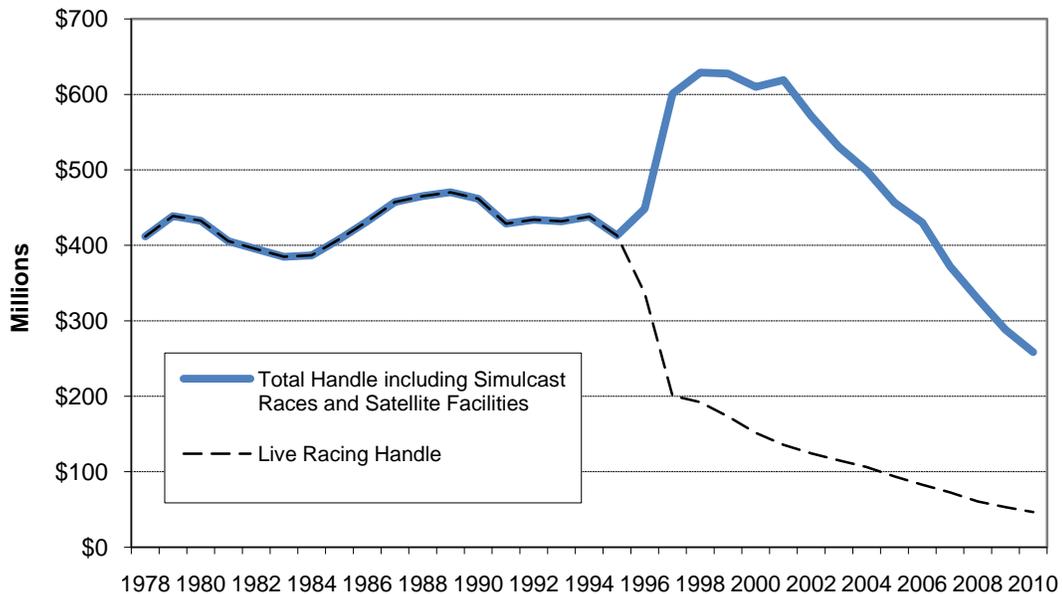
Pari-mutuel wagering at Ohio horse racing tracks and the satellite wagering facility, the source of most of RAC's funding, has been declining. Such betting at live horse races in the state peaked in 1989 and declined gradually in the first half of the 1990s, before betting at simulcast race meets was 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 rose to a new peak in 1998, and has been declining since then. The amount bet is referred to as the handle, and is shown in the accompanying chart.

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 losing market share to 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 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 shrinkage in their revenues, several tracks in the state have reduced the number of live race days, the Commission noted in its budget request. This cuts into the amount of taxes on wagering supporting the Racing Commission. If its revenue sources are sufficiently impaired, the Commission may have difficulty continuing to fund drug testing of horses and licensees at current levels.

Pari-Mutuel Wagering, Ohio Horse Racing



ANALYSIS OF EXECUTIVE PROPOSAL

This section provides an analysis of the Governor's recommended funding for each appropriation item in RAC's budget. A narrative describes how each appropriation is used.

Thoroughbred Race Fund (875601)

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.

The Ohio Thoroughbred Race Fund (Fund 5620) is the funding source for this line item. Fund 5620 receives 1.125% of pari-mutuel wagering on thoroughbred racing and a percentage of pari-mutuel wagering on commercial harness racing that varies from year to year plus 0.25% of exotic wagering (wagers other than win, place, or show) on thoroughbred racing. Interest earned on money in this fund is to be credited to the fund under permanent law.

Implication of Executive Recommendation. The amounts recommended for this account are \$1,796,328 for FY 2012 and \$1,696,456 for FY 2013. The FY 2012 recommended appropriation is 22.0% more than estimated expenditures in FY 2011. The FY 2013 amount is 5.6% less than that for FY 2012.

Standardbred Development Fund (875602)

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.

This appropriation line item is supported by the Ohio Standardbred Development Fund (Fund 5630). Fund 5630 receives 1.125% of pari-mutuel wagering on harness racing plus 0.25% of exotic wagering on harness racing. Interest earned on money in this fund is to be credited to the fund under permanent law.

Implication of Executive Recommendation. The amounts recommended for this account are \$1,697,418 for FY 2012 and \$1,697,452 for FY 2013. The FY 2012 recommended appropriation is 3.0% less than estimated expenditures in FY 2011. The FY 2013 amount is virtually unchanged from that for FY 2012.

Quarter Horse Development Fund (875603)

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

This program is funded completely by the Ohio Quarterhorse Development Fund (Fund 5640). The Fund receives 0.625% of pari-mutuel wagering on quarterhorse racing plus 0.25% of exotic wagering on quarterhorse racing.

Implication of Executive Recommendation. The amount recommended for this subsidy account is \$1,000 for each of FY 2012 and FY 2013, equal to the estimate for FY 2011.

Racing Commission Operating (875604)

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 60 categories of licensees listed on the Commission's web site. The licensing program requires applicants for licenses 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 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 State Racing Commission Operating Fund (Fund 5650) receives fees collected, including those for licenses, fingerprinting, registration, and permits, and receives a share of the horse racing wager tax. This fund pays salaries and other expenses for most of RAC's employees. Purchased services also make up a significant portion of the Racing Commission's budget. The stewards, judges, and veterinarians who help regulate the racing industry are paid from the Operating Fund. Stewards and judges represent the Racing Commission at thoroughbred and standardbred racetracks, respectively, acting essentially as "referees." Veterinarians are responsible for drug testing horses at all commercial tracks. Human samples are sometimes also collected. The samples are processed for the Racing Commission by the laboratory at the Ohio Department of Agriculture.

Implication of Executive Recommendation. The amounts recommended for this appropriation are \$3,095,331 for FY 2012, an increase of 0.3% from estimated expenditures in FY 2011, and \$2,934,178 for FY 2013, a decrease of 5.2%. However, if wagering taxes received continue to decline as they have in the past, the Racing Commission may need to make adjustments partway through the biennium. The Commission has discretion to make such adjustments through increased fees as well as less frequent drug testing, but neither change is desirable.

Simulcast Horse Racing Purse (875607)

Program Description. Simulcasting is a process of presenting horse races from tracks other than one where live racing is occurring. By simulcasting races, a track can present more races on which fans can wager, increasing revenues for the 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.

The Simulcast Horse Racing Purse Fund (Fund 5C40) 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. Interest earned on money in this fund is to be credited to the fund under permanent law.

Implication of Executive Recommendation. The amount recommended for this subsidy account is \$12,000,000 for each of FY 2012 and FY 2013, an increase of 9.1% from the estimate for FY 2011.

Bond Reimbursements (875605)

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 Reimbursements Fund (Fund R021) receives these bond deposits. This fund was established on January 1, 1986, replacing an earlier fund used for the same purpose.

Implication of Executive Recommendation. The amount recommended for this appropriation is \$100,000 for each of FY 2012 and FY 2013, 13.6% more than the estimate for FY 2011.

REQUESTS NOT FUNDED

This section describes RAC requests that are not funded in the executive budget. As shown in the table below, RAC requested appropriations totaling \$19,733,175 in FY 2012 and \$19,520,659 in FY 2013. The executive's recommended funding level is lower for each year by somewhat more than \$1 million. Most of the difference is in the Simulcast Horse Racing Purse Fund (Fund 5C40), which is essentially a pass-through account the funding for which depends on amounts wagered. Much of the remaining difference is in the Racing Commission Operating Fund (Fund 5650), with funding \$36,844 lower in FY 2012 and \$35,481 lower in FY 2013.

Racing Commission						
Fund	FY 2012 Recommended	FY 2012 Requested	Difference	FY 2013 Recommended	FY 2013 Requested	Difference
5620	\$1,796,328	\$1,800,000	\$3,672	\$1,696,456	\$1,750,000	\$53,544
5630	\$1,697,418	\$1,700,000	\$2,582	\$1,697,452	\$1,700,000	\$2,548
5640	\$1,000	\$1,000	\$0	\$1,000	\$1,000	\$0
5650	\$3,095,331	\$3,132,175	\$36,844	\$2,934,178	\$2,969,659	\$35,481
5C40	\$12,000,000	\$13,000,000	\$1,000,000	\$12,000,000	\$13,000,000	\$1,000,000
Subtotal	\$18,590,078	\$19,633,175	\$1,043,098	\$18,329,087	\$19,420,659	\$1,091,573
R021	\$100,000	\$100,000	\$0	\$100,000	\$100,000	\$0
Total	\$18,690,078	\$19,733,175	\$1,043,098	\$18,429,087	\$19,520,659	\$1,091,573

RAC.docx / rs

Ohio State Racing Commission

State Special Revenue Fund Group

5620 875601 Thoroughbred Race Fund

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
\$2,376,533	\$2,212,265	\$2,056,804	\$1,472,365	\$1,796,328	\$1,696,456
	-6.9%	-7.0%	-28.4%	22.0%	-5.6%

Source: State Special Revenue Fund Group: 1.125% of pari-mutuel wagering on thoroughbred racing and a percentage (that changes annually) 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.

5630 875602 Standardbred Development Fund

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
\$2,286,173	\$1,725,923	\$1,430,340	\$1,750,000	\$1,697,418	\$1,697,452
	-24.5%	-17.1%	22.3%	-3.0%	0.0%

Source: State Special Revenue Fund Group: 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 races

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.

5640 875603 Quarter Horse Development Fund

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
\$2,000	\$1,000	\$0	\$1,000	\$1,000	\$1,000
	-50.0%	-100%	N/A	0.0%	0.0%

Source: State Special Revenue Fund Group: 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.

Ohio State Racing Commission

5650 875604 Racing Commission Operating

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
\$3,227,465	\$3,677,891	\$3,269,145	\$3,087,450	\$3,095,331	\$2,934,178
	14.0%	-11.1%	-5.6%	0.3%	-5.2%

Source: State Special Revenue Fund Group: One-sixth of the revenues from the 3.0% exotic wagering tax, plus (beginning in FY 2007) 0.5% of exotic wagering; 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.

5C40 875607 Simulcast Horse Racing Purse

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
\$13,254,785	\$11,006,730	\$11,267,416	\$11,000,000	\$12,000,000	\$12,000,000
	-17.0%	2.4%	-2.4%	9.1%	0.0%

Source: State Special Revenue Fund Group: 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.

Ohio State Racing Commission

Holding Account Redistribution Fund Group

R021 875605 Bond Reimbursements

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
\$131,100	\$84,850	\$87,174	\$88,000	\$100,000	\$100,000
	-35.3%	2.7%	0.9%	13.6%	0.0%

Source: Holding Account Redistribution Fund Group: Cash bond deposits from permit holders for performance bonds and from individuals appealing Commission rulings

Legal Basis: Section 367.10 of Am. Sub. H.B. 1 of the 128th 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.

FY 2012 - FY 2013 Introduced Appropriation Amounts

All Fund Groups

Line Item Detail by Agency			FY 2010	Estimate FY 2011	Introduced FY 2012	FY 2011 to FY 2012 % Change	Introduced FY 2013	FY 2012 to FY 2013 % Change
Report For Main Operating Appropriations Bill			Version: As Introduced					
RAC Ohio State Racing Commission								
5620	875601	Thoroughbred Race Fund	\$ 2,056,804	\$ 1,472,365	\$ 1,796,328	22.00%	\$ 1,696,456	-5.56%
5630	875602	Standardbred Development Fund	\$ 1,430,340	\$ 1,750,000	\$ 1,697,418	-3.00%	\$ 1,697,452	0.00%
5640	875603	Quarter Horse Development Fund	\$0	\$ 1,000	\$ 1,000	0.00%	\$ 1,000	0.00%
5650	875604	Racing Commission Operating	\$ 3,269,145	\$ 3,087,450	\$ 3,095,331	0.26%	\$ 2,934,178	-5.21%
5C40	875607	Simulcast Horse Racing Purse	\$ 11,267,416	\$ 11,000,000	\$ 12,000,000	9.09%	\$ 12,000,000	0.00%
State Special Revenue Fund Group Total			\$ 18,023,705	\$ 17,310,815	\$ 18,590,078	7.39%	\$ 18,329,087	-1.40%
R021	875605	Bond Reimbursements	\$ 87,174	\$ 88,000	\$ 100,000	13.64%	\$ 100,000	0.00%
Holding Account Redistribution Fund Group Total			\$ 87,174	\$ 88,000	\$ 100,000	13.64%	\$ 100,000	0.00%
Ohio State Racing Commission Total			\$ 18,110,879	\$ 17,398,815	\$ 18,690,078	7.42%	\$ 18,429,087	-1.40%