

LSC Redbook

Analysis of the Executive Budget Proposal

Ohio State Racing Commission

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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 includes appropriations from six state special revenue funds and one Holding Account Redistribution Fund, totaling about \$28.4 million for both FY 2014 and FY 2015 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 Commission receives funds from fees imposed on various racing industry participants and from fines and penalties. Beginning in FY 2013, RAC receives a share of the tax on casino revenue. Three of the seven funds used by the Racing Commission – the Thoroughbred Race Fund, Standardbred Development Fund, and Simulcast Horse Racing Purse Fund – would retain investment earnings on the balances in those funds, according to the Revised Code. These interest earnings are being diverted to the GRF in the FY 2012-FY 2013 biennium, under a provision of temporary law. A similar provision is included in the current main operating budget bill. Amounts of interest affected are small for the Racing Commission. 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, and also 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. 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 12 employees 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. Funding in each year of the next biennium is unchanged from the estimate for FY 2013, except for an increase in the appropriation of funds expected to be received in Fund 5JK0, line item 875610, from the tax on gross casino revenue.

Executive Budget Recommendations by Fund Group, FY 2014-FY 2015					
Fund Group	FY 2013*	FY 2014	% change, FY 2013-FY 2014	FY 2015	% change, FY 2014-FY 2015
State Special Revenue	\$24.8 million	\$28.3 million	14.1%	\$28.3 million	0.0%
Holding Account Redistribution	\$0.1 million	\$0.1 million	0.0%	\$0.1 million	0.0%
TOTAL	\$24.9 million	\$28.4 million	14.0%	\$28.4 million	0.0%

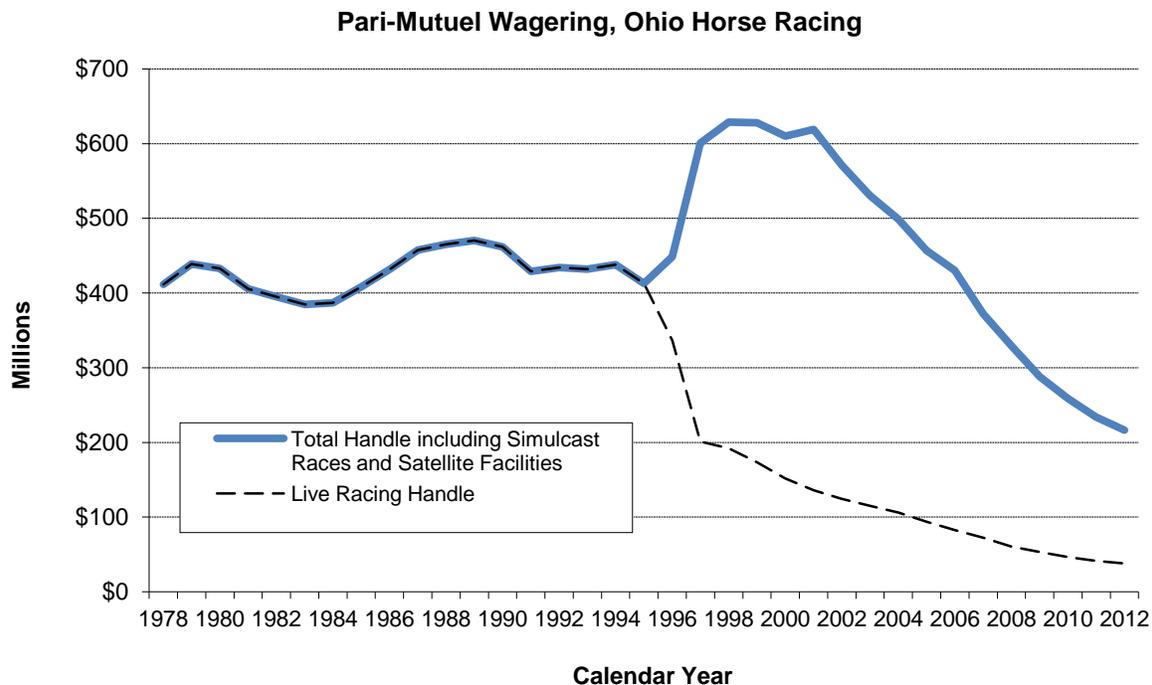
*FY 2013 figures are estimates.

Summary of FY 2014-FY 2015 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 had declined through last year by about two-thirds from that peak. The amount bet is referred to as the handle, and is shown in the accompanying chart.

The decline since 1998 appears to be due at least in part to increased competition from out-of-state gambling venues and Internet betting. The state's racing industry has lost market share to tracks in other states that offer larger horse racing purses. The bigger purses give these tracks 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 has been 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 have been enticed out of Ohio by the larger purses available elsewhere.

Money has begun to flow to RAC from the tax on gross casino revenue. The Ohio Constitution prescribes that 3% of the tax is to be distributed to the Racing Commission to support purses, breeding programs, and operations at commercial horse racetracks. The executive budget projects that these funds will total \$10 million in each of the next two fiscal years. Most of the money is channeled either to purse pools or through the Thoroughbred Race Fund and the Standardbred Development Fund.

Additional money may be directed to the Racing Commission, for benefit of breeding and racing in the state, from a share of tracks' VLT commissions, under a provision of H.B. 386 of the 129th General Assembly. This funding may be set by agreement between each track and the applicable horsemen's association, or as directed by rule.

VLT gambling commenced at Scioto Downs last June. The total live handle at Scioto Downs last year jumped 45% to \$4.5 million from \$3.1 million in 2011. The live handle declined last year at the other six commercial tracks and in total. Purses for live races at Scioto Downs were increased sharply in 2012. The live racing season there runs from May to September. Simulcast wagering on races elsewhere and VLT gaming at Scioto Downs are available every day.

VLT gaming at the state's other commercial racetracks has not yet begun. Start-up for VLTs at Thistledown racetrack is expected this spring. VLTs at the other five commercial racetracks may be in operation by the end of FY 2014. For additional information, see LSC's Redbook for the Lottery Commission, which regulates VLTs at racetracks.

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 \$1,696,456 for both FY 2014 and FY 2015, unchanged from the estimate for FY 2013.

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 \$1,697,452 for both FY 2014 and FY 2015, unchanged from the estimate for FY 2013.

Quarter Horse Development Fund (875603)

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

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

Implication of Executive Recommendation. The amount recommended for this subsidy account is \$1,000 for both FY 2014 and FY 2015, equal to the estimate for FY 2013.

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 57 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 \$2,934,178 for both FY 2014 and FY 2015, the same as the estimated amount for FY 2013.

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 both FY 2014 and FY 2015, the same as the estimated amount for FY 2013.

Racing Commission Fund (875610)

Program Description. This relatively new appropriation item (Fund 5JK0) was shifted from the Revenue Distribution Funds to the Racing Commission by H.B. 487 of the 129th General Assembly, the mid-year budget review. The fund was created by H.B. 519 of the 128th General Assembly to implement the constitutional amendment approved by voters allowing four casinos in Ohio. It receives 3% of the 33% tax on gross casino revenue. These funds are to be used to support Ohio horse racing, including support of racing purses, breeding programs, and operations at the state's seven commercial racetracks.

Implication of Executive Recommendation. The amounts recommended for this account are \$10,000,000 for both FY 2014 and FY 2015, up from the estimate of \$6,500,000 for FY 2013.

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 both FY 2014 and FY 2015, 13.6% more than the estimate for FY 2013.

REQUESTS NOT FUNDED

All amounts requested were funded. In addition, the executive recommended appropriating \$10,000,000 for line item 875610 (Fund 5JK0), Racing Commission Fund, in both FY 2014 and FY 2015. The Commission did not request any appropriation for this line item.

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Ohio State Racing Commission

State Special Revenue Fund Group

5620 875601 Thoroughbred Race Fund

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$2,056,804	\$1,482,734	\$1,791,517	\$1,696,456	\$1,696,456	\$1,696,456
	-27.9%	20.8%	-5.3%	0.0%	0.0%

Source: State Special Revenue Fund Group: 1.125% of pari-mutuel wagering on thoroughbred racing or a lesser amount on a prorated basis if sufficient funds from the tax are not available, and a percentage (that changes annually) of pari-mutuel wagering on commercial harness racing, plus an additional 0.25% of exotic wagering on thoroughbred racing

Legal Basis: ORC 3769.083(B); funding as provided in ORC 3769.08 and 3769.087; Section 369.10 of Am. Sub. H.B. 153 of the 129th G.A.

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 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$1,430,340	\$1,661,451	\$1,352,775	\$1,697,452	\$1,697,452	\$1,697,452
	16.2%	-18.6%	25.5%	0.0%	0.0%

Source: State Special Revenue Fund Group: 1.125% of pari-mutuel wagering on harness racing or a lesser amount on a prorated basis if sufficient funds from the tax are not available, plus an additional 0.25% of exotic wagering on harness racing; fees assessed for the Ohio Sires Stakes races

Legal Basis: ORC 3769.085; funding as provided in ORC 3769.08 and 3769.087; Section 369.10 of Am. Sub. H.B. 153 of the 129th G.A.

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

Ohio State Racing Commission

5640 875603 Quarter Horse Development Fund

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$0	\$1,000	\$0	\$1,000	\$1,000	\$1,000
	N/A	-100%	N/A	0.0%	0.0%

Source: State Special Revenue Fund Group: 0.625% of pari-mutuel wagering on quarter horse racing or a lesser amount on a prorated basis if sufficient funds from the tax are not available, plus an additional 0.25% of exotic wagering on quarter horse racing

Legal Basis: ORC 3769.086; funding as provided in ORC 3769.08 and 3769.087; Section 369.10 of Am. Sub. H.B. 153 of the 129th G.A.

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.

5650 875604 Racing Commission Operating

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$3,269,145	\$3,293,184	\$2,785,459	\$2,934,178	\$2,934,178	\$2,934,178
	0.7%	-15.4%	5.3%	0.0%	0.0%

Source: State Special Revenue Fund Group: 0.25% of thoroughbred, harness, and quarter horse racing wagering or a lesser amount on a prorated basis if sufficient funds from the tax are not available, plus an additional 1% of exotic wagering, and all license and permit fees paid by persons and employees engaged in racing

Legal Basis: ORC 3769.03; funding as provided in ORC 3769.08 and 3769.087; Section 369.10 of Am. Sub. H.B. 153 of the 129th G.A.

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.

Ohio State Racing Commission

5C40 875607 Simulcast Horse Racing Purse

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$11,267,416	\$9,610,257	\$8,542,561	\$12,000,000	\$12,000,000	\$12,000,000
	-14.7%	-11.1%	40.5%	0.0%	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 with no live racing program or as a simulcast guest, b) purse money from amounts wagered at satellite facilities on days when a permit holder serves as a simulcast host for a satellite facility; and c) one-half of the balance of the commission retained by a satellite facility

Legal Basis: ORC 3769.089; Section 369.10 of Am. Sub. H.B. 153 of the 129th G.A. (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.

5JK0 875610 Racing Commission Fund

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$0	\$0	\$0	\$6,500,000	\$10,000,000	\$10,000,000
	N/A	N/A	N/A	53.8%	0.0%

Source: State Special Revenue Fund Group: 3% of the receipts from the 33% tax on gross casino revenue

Legal Basis: ORC 5753.03; Section 601.40 of Am. Sub. H.B. 487 of the 129th G.A.; mandated by the Ohio Constitution as amended by state issue 3 on November 3, 2009 (fund originally established by Am. Sub. H.B. 519 of the 128th G.A.)

Purpose: To support horse racing in this state at which the pari-mutuel system of wagering is conducted (per statute); to support purses, breeding programs, and operations at all existing commercial horse racetracks permitted as of January 1, 2009 (per constitutional amendment). This line item was moved to the Racing Commission's budget under Am. Sub. H.B. 487 of the 129th G.A. It was originally created under the Revenue Distribution Funds by Am. Sub. H. B. 153 of the 129th G. A.

Ohio State Racing Commission

Holding Account Redistribution Fund Group

R021 875605 Bond Reimbursements

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$87,174	\$99,300	\$71,600	\$100,000	\$100,000	\$100,000
	13.9%	-27.9%	39.7%	0.0%	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 369.10 of Am. Sub. H.B. 153 of the 129th 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 2014 - FY 2015 Introduced Appropriation Amounts

All Fund Groups

Line Item Detail by Agency			FY 2012	Estimate FY 2013	Introduced FY 2014	FY 2013 to FY 2014 % Change	Introduced FY 2015	FY 2014 to FY 2015 % Change
Report For Main Operating Appropriations Bill			Version: As Introduced					
RAC Ohio State Racing Commission								
5620	875601	Thoroughbred Race Fund	\$ 1,791,517	\$ 1,696,456	\$ 1,696,456	0.00%	\$ 1,696,456	0.00%
5630	875602	Standardbred Development Fund	\$ 1,352,775	\$ 1,697,452	\$ 1,697,452	0.00%	\$ 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	\$ 2,785,459	\$ 2,934,178	\$ 2,934,178	0.00%	\$ 2,934,178	0.00%
5C40	875607	Simulcast Horse Racing Purse	\$ 8,542,561	\$ 12,000,000	\$ 12,000,000	0.00%	\$ 12,000,000	0.00%
5JK0	875610	Racing Commission Fund	\$ 0	\$ 6,500,000	\$ 10,000,000	53.85%	\$ 10,000,000	0.00%
State Special Revenue Fund Group Total			\$ 14,472,313	\$ 24,829,086	\$ 28,329,086	14.10%	\$ 28,329,086	0.00%
R021	875605	Bond Reimbursements	\$ 71,600	\$ 100,000	\$ 100,000	0.00%	\$ 100,000	0.00%
Holding Account Redistribution Fund Group Total			\$ 71,600	\$ 100,000	\$ 100,000	0.00%	\$ 100,000	0.00%
Ohio State Racing Commission Total			\$ 14,543,913	\$ 24,929,086	\$ 28,429,086	14.04%	\$ 28,429,086	0.00%