

LSC Greenbook

Analysis of the Enacted Budget

Ohio State Racing Commission

Philip A. Cummins, Senior Economist
Legislative Service Commission

August 2015

TABLE OF CONTENTS

OVERVIEW	1
Agency Overview.....	1
Appropriation Overview	2
Summary of FY 2016-FY 2017 Budget Issues.....	2
ANALYSIS OF ENACTED BUDGET	5
Thoroughbred Development (875601)	5
Standardbred Development (875602).....	6
Racing Commission Operating (875604).....	6
Horse Racing Development–Casino (875610)	7
Revenue Redistribution (875611)	7
Simulcast Horse Racing Purse (875607)	8
Bond Reimbursements (875605)	8

ATTACHMENT:

Budget Spreadsheet By Line Item

Ohio State Racing Commission

- The Commission promotes and regulates Ohio horse racing
- Funding, all non-GRF, is from taxes on casino revenue and on horse race wagers, from payments by racino operators, and from 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 overwhelming majority of RAC's expenditures, 86% in FY 2015, are for subsidies to the horse racing industry. These subsidies are 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.

Funding of RAC's budget has shifted. Taxes on wagers on horse races accounted for much of the receipts supporting the Racing Commission in the past, along with fees paid by racing industry participants, fines, and penalties. In FY 2013, RAC started receiving 3% of the tax on casino revenue. Also in FY 2013, RAC began getting payments from racino operators of 9% to 11% of video lottery terminal (VLT) revenue, with the amount from each racino operator depending on an agreement reached with that operator. In FY 2015, receipts from these two sources accounted for 53% of the Commission's revenues. Historically, simulcast wagering, on live races elsewhere, was the largest source of receipts. Simulcasting of horse races takes place at Ohio's seven commercial tracks. In addition, wagers may be placed at a satellite wagering facility in Sandusky, Ohio, operated by one of the tracks.

Racing Commission staffing currently is eight full-time and seven part-time positions. The agency contracts with four stewards and judges, and with five veterinarians including one who serves in a back-up capacity. The five Commission members are not included in these numbers. Just 4% of RAC expenditures during FY 2015 were for personal services.

Appropriation Overview

The Racing Commission's budget for the next biennium is summarized in the following table.

Racing Commission Appropriations by Fund Group, FY 2016-FY 2017					
Fund Group	FY 2015*	FY 2016	% change, FY 2015-FY 2016	FY 2017	% change, FY 2016-FY 2017
Dedicated Purpose	\$19.9 million	\$31.5 million	58.4%	\$31.5 million	0.0%
Fiduciary	\$6.7 million	\$12.0 million	78.2%	\$12.0 million	0.0%
Holding Account	\$0.1 million	\$0.1 million	34.2%	\$0.1 million	0.0%
TOTAL	\$26.7 million	\$43.6 million	63.3%	\$43.6 million	0.0%

*FY 2015 figures are actual expenditures.

Appropriations for the funds in the Dedicated Purpose Fund Group in each year of the upcoming biennium are higher than expenditures in FY 2015 mainly because authorizations for expenditure of money paid by racinos, operators of VLTs at tracks, are \$11.4 million (202%) higher than prior-year spending. Appropriations for the Fiduciary Fund Group are higher each year because authorizations to spend money from simulcasting are \$5.3 million (78%) above actual outlays in FY 2015. This biennium's budget differs from that two years ago in that the Quarter Horse Development Fund (Fund 5640), in the Dedicated Purpose Fund Group, is eliminated in this budget, with the wagering tax revenue previously directed to this fund to instead support quarter horse development and purses through the Ohio Thoroughbred Race Fund (Fund 5620). Appropriations for funds in the Holding Account Fund Group, at \$0.1 million yearly, are \$25,500 higher in each year of the biennium than spending in FY 2015.

Summary of FY 2016-FY 2017 Budget Issues

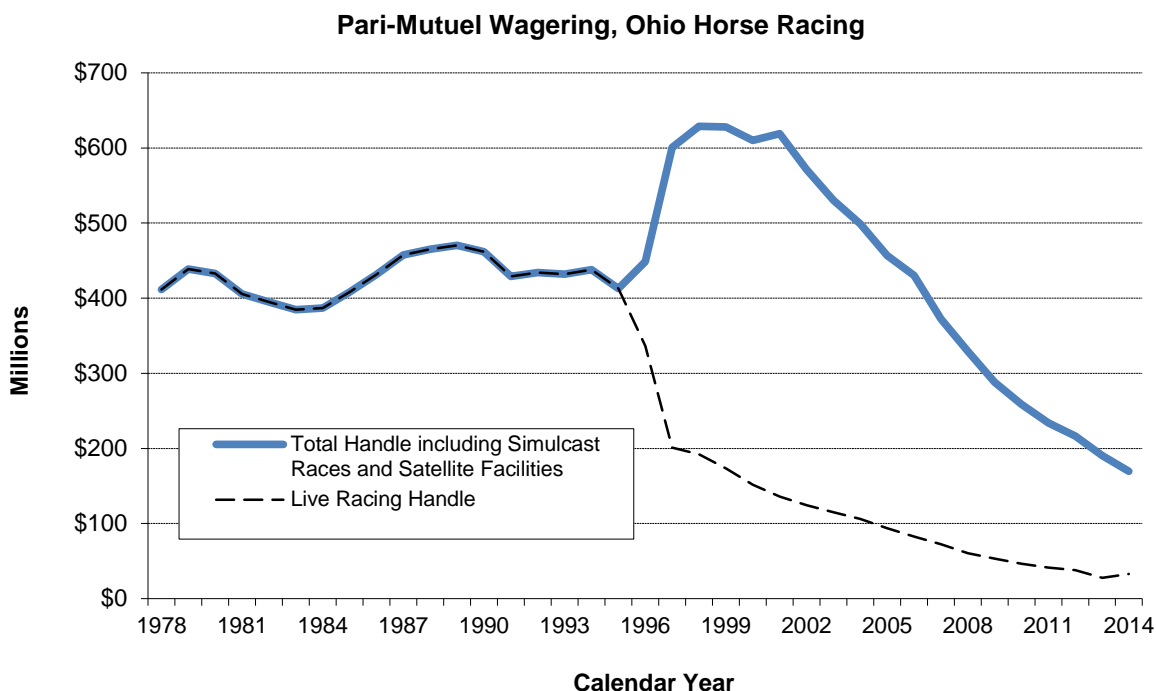
Three of the seven funds used by the Racing Commission – the Thoroughbred Race Fund, Standardbred Development Fund, and Simulcast Horse Racing Purse Fund – would retain investment earnings on the balances in those funds, according to the Revised Code. As in prior budgets, these interest earnings may be diverted to the GRF in the FY 2016-FY 2017 biennium under a provision of temporary law. Amounts of interest affected are small for the Racing Commission.

Pari-mutuel wagering at Ohio horse racing tracks and the satellite wagering facility, the tax base for the taxes that were a principal source of RAC's funding in years past, declined from 1998 through 2014. Such wagering at live horse races in the state peaked in 1989. The total including live horse races plus simulcast and satellite wagering rose to a new peak in 1998. Through last year, total pari-mutuel wagering in the state had declined by about 73% from that peak. The amount bet is referred to as the handle, and is shown in the accompanying chart through 2014. Although the total handle fell again last year, the live racing handle rose but remained far below levels in years past. The total handle has continued to decline in 2015.

The amount of wagering depends in part on the number of races run in the state. The enacted budget removes a provision in prior law prohibiting the maximum number of live racing days for any permit holder from exceeding 210. It also removes a provision that restricted pari-mutuel wagering on simulcast racing programs at racetracks located in the same county, or within 20 miles of each other.

The decline in the handle since 1998 appears to be due in part to bets placed through out-of-state or overseas wagering firms. No tax revenues are received by the Racing Commission on bets placed by telephone or the Internet with such firms located outside the state. Such gambling has grown rapidly in recent years. The declining horse racing handle shown in the chart plausibly understates considerably the amount of gambling on Ohio horse races by Ohioans.

Increased competition for Ohio gambling dollars from tracks in other states also contributed to the decline in wagering at Ohio tracks, though the situation appears now to be improving. Earlier, Ohio's racing industry lost market share to tracks in nearby states offering larger horse racing purses, supported in part by revenue from VLTs and slot machines. Bigger purses gave these tracks an edge in attracting faster horses, in turn attracting gambling dollars. In recent years, however, this situation appears to be turning around, as revenue from expanded gaming in Ohio has added substantially to racing purses here. Larger purses in turn appear to have contributed to increased horse breeding activity and improved quality of the breeding stock in Ohio, particularly for standardbred horses (harness racing), according to contacts with the Racing Commission.



Money began to flow to RAC from the tax on gross casino revenue in FY 2013. 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 budget appropriates \$8.5 million in each fiscal year of the biennium for these distributions, about the same amount as actual expenditures in FY 2015.

The Racing Commission also began to receive money in FY 2013 from a share of tracks' VLT commissions. These funds, deposited in Fund 5NL0, are to be spent for the benefit of breeding and racing in the state. The amount, between 9% and 11% of VLT revenue, is to be set by agreement between each track and the applicable horsemen's association, or as directed by rule. VLT gambling started in June 2012, expanded to four horse racing tracks in 2013, and to all seven commercial tracks in 2014. Based on the appropriation level, the amount of such funding is expected to triple in FY 2016 from the FY 2015 expenditure, and to remain at that higher level in FY 2017.

ANALYSIS OF ENACTED BUDGET

This section provides an analysis of each appropriation item in RAC's budget. The table below shows the line items for RAC and the appropriated amounts. A narrative describes how each appropriation is used.

Appropriations for the Ohio State Racing Commission				
Fund	ALI and Name		FY 2016	FY 2017
Dedicated Purpose Fund				
5620	875601	Thoroughbred Development	\$1,400,000	\$1,400,000
5630	875602	Standardbred Development	\$1,300,000	\$1,300,000
5650	875604	Racing Commission Operating	\$3,335,000	\$3,335,000
5JK0	875610	Horse Racing Development – Casino	\$8,500,000	\$8,500,000
5NL0	875611	Revenue Redistribution	\$17,000,000	\$17,000,000
Dedicated Purpose Fund Group Subtotal			\$31,535,000	\$31,535,000
Fiduciary Fund Group				
5C40	875607	Simulcast Horse Racing Purse	\$12,000,000	\$12,000,000
Fiduciary Fund Group Subtotal			\$12,000,000	\$12,000,000
Holding Account Fund Group				
R021	875605	Bond Reimbursements	\$100,000	\$100,000
Holding Account Fund Group Subtotal			\$100,000	\$100,000
Total Funding: Ohio State Racing Commission			\$43,635,000	\$43,635,000

Thoroughbred Development (875601)

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. In addition, beginning January 1, 2016, 0.625% of pari-mutuel wagering on quarter horse racing is to be paid into Fund 5620 to support quarter horse development and purses. Also, a portion of the tax on exotic wagering (wagers other than win, place, or show) paid by thoroughbred racing permit holders is to be paid into Fund 5620.¹ Interest earned on money in this fund is to be credited to the fund under permanent law.

¹ The wording of R.C. 3769.087 as amended by H.B. 64 appears, for thoroughbred racing permit holders, to direct the disposition of thirteen-twelfths of additional money to be paid as a tax from exotic wagering, and for quarter horse racing permit holders, eleven-twelfths. The

The Ohio Quarter Horse Development Fund (Fund 5640) is being eliminated in this budget. Few quarter horse races are run in Ohio, and horse racing wager tax revenues to Fund 5640 were small. Instead, wager tax revenues on quarter horse races will now be paid to Fund 5620 as noted above. A provision directing quarter horse racing permit holders to pay a horse racing tax of 0.25% of exotic wagers is eliminated effective January 1, 2016. The Racing Commission is to adopt rules providing for use of funds from the tax on quarter horse racing wagers and on exotic wagering to support quarter horse development and purses. Although R.C. 3769.083 as amended in the budget act makes reference to money collected for quarter horse development and purses under R.C. 3769.087, the latter section as amended makes no explicit reference to quarter horse racing.

The appropriations in the budget for this account are \$1,400,000 for both FY 2016 and FY 2017, 1.1% more than expenditures in FY 2015.

Standardbred Development (875602)

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.

The budgeted appropriations for this account are \$1,300,000 for both FY 2016 and FY 2017, 8.8% less than expenditures in FY 2015.

Racing Commission Operating (875604)

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. Racing Commission rules list more than 60 categories of licensees, of which several types are also available for use only at county fairs at reduced cost. 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 (thoroughbred racing) and presiding judges (harness racing), and issued by inspectors.

"additional money" is 3% of the total of exotic wagers under continuing law. Although H.B. 64 eliminates the Quarter Horse Development Fund, it does not eliminate issuance of quarter horse racing permits.

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.

The budgeted appropriations for this account are \$3,335,000 for both FY 2016 and FY 2017, 12.9% more than expenditures in FY 2015.

Horse Racing Development–Casino (875610)

This appropriation item (Fund 5JK0) was previously called Racing Commission Fund, in the budget for the FY 2014-FY 2015 budget (H.B. 59). The fund was created to implement the constitutional amendment allowing casinos in Ohio and directing 3% of the 33% tax on gross casino revenue to the Racing Commission. 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.

The budgeted appropriations for this account are \$8,500,000 for both FY 2016 and FY 2017, 0.2% less than expenditures in FY 2015.

Revenue Redistribution (875611)

This appropriation item (Fund 5NL0) was created by H.B. 386 of the 129th General Assembly to distribute VLT revenue for the benefit of breeding and racing in this state. Lottery sales agents are to pay a portion of the commission for conducting

VLT gaming on behalf of the state to the Racing Commission. This portion is to be 9% to 11% of VLT income, with the amount to be determined at each race track by agreement between the video lottery sales agent and the applicable horsemen's association, or directed through rule by the Racing Commission. Until these agreements were reached and VLT facilities opened at all seven commercial racetracks, amounts received by Fund 5NL0 were limited to about \$1.0 million in FY 2013, \$2.0 million in FY 2014, and \$6.9 million in FY 2015, with money kept instead in private escrow accounts. Expenditures, all for subsidies, totaled \$5.6 million in FY 2015.

The budgeted appropriations for this account are \$17,000,000 for both FY 2016 and FY 2017, 201.9% more than expenditures in FY 2015.

Simulcast Horse Racing Purse (875607)

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.

The budgeted appropriations for this account are \$12,000,000 for both FY 2016 and FY 2017, 78.2% more than expenditures in FY 2015.

Bond Reimbursements (875605)

Permit holders are required to post performance bonds, refundable upon performance. In addition, a licensee who appeals a finding that the licensee violated a Commission rule must deposit a bond with the Commission, refundable if the finding is reversed on appeal. 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.

The budgeted appropriations for this account are \$100,000 for both FY 2016 and FY 2017, 34.2% more than expenditures in FY 2015.

FY 2016 - FY 2017 Final Appropriation Amounts

All Fund Groups

Line Item Detail by Agency

			FY 2014	FY 2015	Appropriation FY 2016	FY 2015 to FY 2016 % Change	Appropriation FY 2017	FY 2016 to FY 2017 % Change
Report For Main Operating Appropriations Bill			Version: As Enacted					
RAC Ohio State Racing Commission								
5620	875601	Thoroughbred Development	\$ 640,449	\$ 1,384,654	\$ 1,400,000	1.11%	\$ 1,400,000	0.00%
5630	875602	Standardbred Development	\$ 1,106,298	\$ 1,425,746	\$ 1,300,000	-8.82%	\$ 1,300,000	0.00%
5650	875604	Racing Commission Operating	\$ 2,747,820	\$ 2,954,291	\$ 3,335,000	12.89%	\$ 3,335,000	0.00%
5JK0	875610	Horse Racing Development-Casino	\$ 7,710,970	\$ 8,517,066	\$ 8,500,000	-0.20%	\$ 8,500,000	0.00%
5NL0	875611	Revenue Redistribution	\$ 1,955,800	\$ 5,631,317	\$ 17,000,000	201.88%	\$ 17,000,000	0.00%
Dedicated Purpose Fund Group Total			\$ 14,161,337	\$ 19,913,074	\$ 31,535,000	58.36%	\$ 31,535,000	0.00%
5C40	875607	Simulcast Horse Racing Purse	\$ 7,702,922	\$ 6,734,990	\$ 12,000,000	78.17%	\$ 12,000,000	0.00%
Fiduciary Fund Group Total			\$ 7,702,922	\$ 6,734,990	\$ 12,000,000	78.17%	\$ 12,000,000	0.00%
R021	875605	Bond Reimbursements	\$ 83,300	\$ 74,500	\$ 100,000	34.23%	\$ 100,000	0.00%
Holding Account Fund Group Total			\$ 83,300	\$ 74,500	\$ 100,000	34.23%	\$ 100,000	0.00%
Ohio State Racing Commission Total			\$ 21,947,559	\$ 26,722,563	\$ 43,635,000	63.29%	\$ 43,635,000	0.00%