

# Redbook

## LBO Analysis of Executive Budget Proposal

### Ohio State Racing Commission

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February 2021

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Attachment:

Appropriation Spreadsheet

# LBO Redbook

## Ohio State Racing Commission

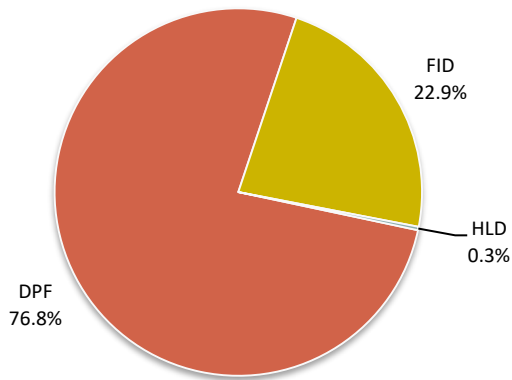
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### Quick look...

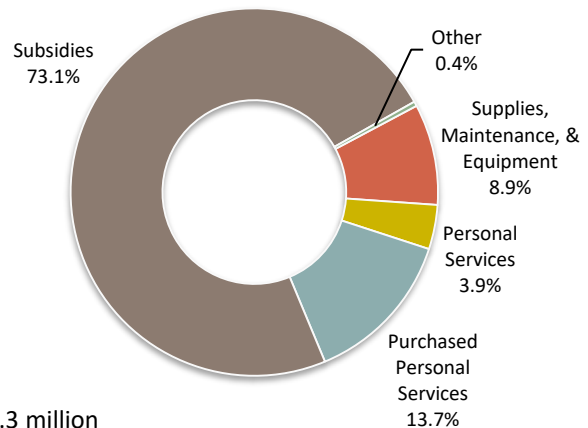
- The Ohio State Racing Commission (RAC) promotes and regulates horse racing in Ohio by licensing participants, subsidizing purses, policing racetracks, and auditing financial activities.
- RAC receives no funding from the GRF, and its revenue comes from three main sources:
  - Wagering on horse races;
  - Casino tax revenues;
  - Video lottery terminal (VLT) taxes.
- RAC employed 14 people as of January 2021, in addition to its five commissioners, appointed by the Governor.
- Over two-thirds of the RAC budget is used to subsidize horse racing and the equine industry.

Fund Group	FY 2020 Actual	FY 2021 Estimate	FY 2022 Introduced	FY 2023 Introduced
Dedicated Purpose (DPF)	\$20,138,486	\$22,478,945	\$23,533,043	\$23,533,043
Fiduciary Fund (FID)	\$5,009,287	\$5,500,000	\$7,000,000	\$7,000,000
Holding Account (HLD)	\$88,600	\$100,000	\$100,000	\$100,000
Total	\$25,236,373	\$28,078,945	\$30,633,043	\$30,633,043
% change	--	11.3%	9.1%	0.0%

**Chart 1: RAC Budget by Fund Group  
FY 2022-FY 2023 Biennium**



**Chart 2: RAC Budget by Expense Category  
FY 2022-FY 2023 Biennium**



Biennial total: \$61.3 million

## 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. RAC prescribes rules under which horse racing and wagering on racing events may be conducted, licenses participants, and oversees races at seven commercial tracks and most of Ohio's county fairs. To promote the equine industry, RAC provides purse subsidies that encourage breeding and racing. The Racing Commission employs administrators at its Columbus headquarters, as well as officials, veterinarians, and investigators at tracks.

RAC receives no funding from the GRF and its revenues come from three main sources. The Commission receives a percentage of revenues from wagering on racing events, both in person and at simulcast facilities, in addition to various fines and permit fees paid by industry participants. This revenue source provided \$6.4 million in FY 2020. The Commission also receives 3% of Ohio's casino tax revenues under R.C. 5753.03. That amount was \$8.3 million in FY 2020. Lastly, RAC is funded by a percentage of video lottery terminal (VLT) revenue. This percentage, which is to be between 9% and 11%, as pursuant to agreements between permit holders and horsemen's associations, totaled \$7.3 million in FY 2020.

Subsidies have historically accounted for the majority of RAC's expenditures. These subsidies take the form of supplements to purses at live horse races, additions to purses won by Ohio horses against horses residing in other states, and awards to Ohio breeders of winning race horses. Expenditures other than subsidies are for RAC operations, promotional activities, oversight and enforcement of rules, licensing, investigation, and drug testing.

## Appropriation overview

The Racing Commission's funding recommendation for the next biennium is approximately \$30.6 million each in FY 2022 and FY 2023, roughly \$2.6 million (9.1%) above estimated spending in FY 2021, with most of the increases related to subsidies. Amounts spent on purchased personal services were significantly higher in FY 2021 than the previous year, as labor contract prices were renegotiated; the executive budget does not account for further increases during the biennium. The table below provides an overview of expense categories in the executive budget.

Ohio State Racing Commission employees function within two programs: regulation and promotion. Regulatory employees ensure the proper functioning of wagering, as well as the safety of horses at tracks, and all those in the industry. The promotion program manages subsidies and further encourages industry participation and excellence. The Ohio State Racing Commission has a staff of 11 regulatory and two promotional workers, and funds the payroll for certain key workers at tracks during live racing days.

Budget Recommendations by Expense Category				
Category	FY 2020 Actual	FY 2021 Estimated	FY 2022 Introduced	FY 2023 Introduced
Personal Services	\$1,194,764	\$1,069,000	\$1,200,000	\$1,200,000
Purchased Personal Services	\$3,431,278	\$4,222,000	\$4,195,000	\$4,195,000
Supplies and Maintenance	\$2,032,125	\$2,308,000	\$2,722,948	\$2,722,948
Equipment	\$3,359	\$25,000	\$10,000	\$10,000
Subsidies Shared Revenue	\$18,443,074	\$20,328,000	\$22,401,095	\$22,401,095
Judgments, Settlements & Bonds	\$41,699	\$20,000	\$1,500	\$1,500
Transfers and Nonexpense	\$90,075	\$107,000	\$102,500	\$102,500
<b>Total</b>	<b>\$25,236,374</b>	<b>\$28,079,000</b>	<b>\$30,633,043</b>	<b>\$30,633,043</b>

## Analysis of FY 2022-FY 2023 budget proposal

This section provides an analysis of the executive's proposed funding for each appropriation item in RAC's budget. A summary describes how each appropriation is used.

### Thoroughbred Development (875601)

The thoroughbred program promotes thoroughbred racing in Ohio through purse subsidies and supplementing winnings for Ohio horses competing outside the state. It also provides funds for broodmare and stallion breeding and supports quarter horse development and race purses. For the upcoming biennium, the executive recommends appropriations of \$1.2 million per fiscal year for appropriation line item (ALI) 875601, Thoroughbred Development, an amount approximately \$366,000 higher than estimated spending in FY 2021.

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Estimate	FY 2022 Introduced	FY 2023 Introduced
<b>Fund 5620 ALI 875601, Thoroughbred Development</b>					
\$1,288,312	\$1,208,305	\$951,601	\$833,850	\$1,200,000	\$1,200,000
% change	-6.2%	-21.2%	-12.4%	43.9%	0.0%

The Ohio Thoroughbred Race Fund (Fund 5620) is the funding source for this line item. It receives 1.125% of all wagers on pari-mutuel thoroughbred racing within the state. A percentage of pari-mutuel wagering on harness racing, not exceeding 6% of total pari-mutuel wagering collections, is deposited into Fund 5620. In addition, the fund receives 0.25% of exotic wagering on thoroughbred races. Lastly, Fund 5620 receives 0.625% of pari-mutuel wagering on quarter horse racing and 0.25% of exotic wagering in order to support quarter horse development and purses. Any interest earned on fund balances is also credited to this fund. Total revenue for the Thoroughbred Race Fund was just under \$942,000 in FY 2020.

H.B. 49 (the operating budget act of the 132<sup>nd</sup> General Assembly) required 0.25% of exotic wagers on quarter horse races to be paid into Fund 5620 and reduced from 0.5% to 0.25% the amount of exotic wagers on thoroughbred races that are paid into the same fund. However, the fund's revenue has been in decline in recent years.

## Standardbred Development (875602)

The Ohio Racing Commission supports the racing and breeding of standardbred horses in the state by providing purse subsidies and funding for research and testing of horses. The Ohio Standardbred Development Fund (Fund 5630) receives 1.125% of pari-mutuel wagering on harness racing, in addition to 0.25% of exotic wagering on harness racing. Interest earned on moneys in Fund 5630 is to be credited to the fund. Total revenue for the Standardbred Development Fund was \$1.12 million in FY 2020. The executive budget recommends appropriations of \$1.55 million each for FY 2022 and FY 2023 for this fund, slightly higher than estimated FY 2021 spending.

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Estimate	FY 2022 Introduced	FY 2023 Introduced
<b>Fund 5630 ALI 875602, Standardbred Development</b>					
\$1,269,498	\$1,517,306	\$1,431,099	\$1,527,500	\$1,550,000	\$1,550,000
% change	19.5%	-5.7%	6.7%	1.5%	0.0%

## Racing Commission Operating (875604)

Most funding for RAC operations is used for ongoing administration and regulation of the horse racing industry. RAC employs investigators to police commercial tracks to examine stable areas, betting activity, and race outcomes to ensure no illegal activity is occurring. Investigators ensure Ohio tracks and racing teams comply with racing and wagering laws. RAC also conducts annual audits of bank account records and payments to permit holders. If any party fails to collect, pay, disburse, or account for any moneys or fees, the Commission must enforce payment to or by the collection and settlement agent.

In 2019, RAC certified 18,325 licenses, in approximately 55 occupations. Licenses are required for accountability and to maintain records of Ohio's horse racing industry participants, both to monitor criminal activity and to ensure the accuracy of any required inspections or audits.

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Estimate	FY 2022 Introduced	FY 2023 Introduced
<b>Fund 5650 ALI 875604, Operating Expenses</b>					
\$3,551,491	\$3,647,369	\$3,370,817	\$3,605,500	\$4,070,948	\$4,070,948
% change	2.7%	-7.6%	7.0%	12.9%	0.0%

The executive recommends an appropriation of \$4.1 million in each year of the biennium, an increase of about \$465,500 relative to estimated spending in FY 2021. The State Racing Commission Operating Fund (Fund 5650) is primarily supported by fees collected for licenses,

registration, permits, and fingerprinting. It also receives a portion of collected wagering taxes. This fund pays the salaries of employees and for the contracting of veterinary and policing services, in addition to the judges and stewards who help regulate the racing industry. 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. Compared to previous fiscal years, the executive budget increases spending on personal services and supplies and maintenance, while generally maintaining the previous levels of spending in other categories.

## Horse Racing Development – Casino (875610)

The Horse Racing Development Fund was established to support horse racing throughout the state. ALI 875610, Casino Revenues, subsidizes purses, breeding programs, and operations at commercial horse racetracks. The fund receives 3% of the 33% tax on gross casino revenue. The executive recommends appropriations of \$8.5 million in FY 2022 and in FY 2023, unchanged from estimated spending in FY 2021, which is much higher than spending in FY 2020 which was affected by COVID-19 business closures in the spring quarter.

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Estimate	FY 2022 Introduced	FY 2023 Introduced
<b>Fund 5JK0 ALI 875610, Casino Revenues</b>					
\$8,013,570	\$8,240,307	\$6,408,521	\$8,512,095	\$8,512,095	\$8,512,095
% change	2.8%	-22.2%	32.8%	0.0%	0.0%

## Revenue Redistribution (875611)

The Horsemen’s Development Fund (Fund 5NLO) was established to redistribute a portion of video lottery terminal (VLT) revenue taxes to RAC, for the purpose of supporting purses and racing operations around Ohio. Any agent participating in VLT sales must pay a portion, between 9% and 11%, of VLT revenue; the exact percentage is to be bargained on an individual case basis between the applicable horsemen’s association and the sales agent, or as directed through a RAC ruling. The executive budget recommends \$8.2 million in each year of the biennium for this line item, an amount 2.5% above estimated FY 2021 spending.

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Estimate	FY 2022 Introduced	FY 2023 Introduced
<b>Fund 5NLO ALI 875611, Revenue Redistribution</b>					
\$7,400,040	\$7,986,194	\$7,976,449	\$8,000,000	\$8,200,000	\$8,200,000
% change	7.9%	-0.1%	0.3%	2.5%	0.0%

## Simulcast Horse Racing Purse (875607)

Tracks and satellite facilities can earn wagering revenue by simulcasting, or broadcasting live races via video feeds. Smaller tracks can thus offer more races on which fans can wager, increasing revenues for the track and horse owners. Each dollar wagered is split among the simulcast facility or track, horsemen's associations, race purses, and the state via this line item.

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Estimate	FY 2022 Introduced	FY 2023 Introduced
<b>Fund 5C40 ALI 875607, Simulcast Horse Racing</b>					
\$6,278,121	\$6,107,423	\$5,009,287	\$5,500,000	\$7,000,000	\$7,000,000
% change	-2.7%	-18.0%	9.8%	27.3%	0.0%

The executive budget recommends appropriations of \$7.0 million each in FY 2022 and FY 2023, up from estimated spending in FY 2021 of \$5.5 million. Moneys received by Fund 5C40 are a portion of the wagers placed at commercial tracks or satellite facilities where there are no live races scheduled. The Ohio State Racing Commission collects these funds and distributes them each month to racing permit holders to be used for horsemen's purse accounts.

## Bond Reimbursements (875605)

Racing permit holders are required to post cash performance bonds, which are held in Fund R021. In the case of a licensee violating a Commission rule, any individual wishing to appeal a disciplinary decision must also deposit a bond with the Commission. The Bond Reimbursements Fund (Holding Account Fund R021) receives these bond deposits, which are reimbursed after completion of races or appeal rulings, minus any fines. The amount recommended for this appropriation is \$100,000 per fiscal year for the upcoming biennium, the same amount as estimated spending in FY 2021.

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Estimate	FY 2022 Introduced	FY 2023 Introduced
<b>Fund R021 ALI 875605, Bond Reimbursements</b>					
\$90,900	\$89,800	\$88,600	\$100,000	\$100,000	\$100,000
% change	-1.2%	-1.3%	12.9%	0.0%	0.0%

## Facts and figures

The handle (wagers) placed on horse races at the seven commercial race tracks (racinos), county fairs, or off-track betting parlors has trended downward, and as of CY 2019 was down over 65% since 2006. H.B. 561 of the 121<sup>st</sup> General Assembly established the official simulcast racing program in Ohio, and made wagering activity at satellite facilities taxable. The total revenue stream from wagering on horse racing events has declined markedly since that time, although it has leveled off in recent years. The total handle was approximately \$147.9 million in CY 2019; approximately 80.5% of the handle was collected at simulcast tracks, which offer more

than triple the number of racing days as live commercial tracks in Ohio.<sup>1</sup> Chart 3 displays the trends in and sources of pari-mutuel wagering in Ohio over the last four decades.

**Chart 3: Pari-Mutuel Wagering, Ohio Horse Racing**

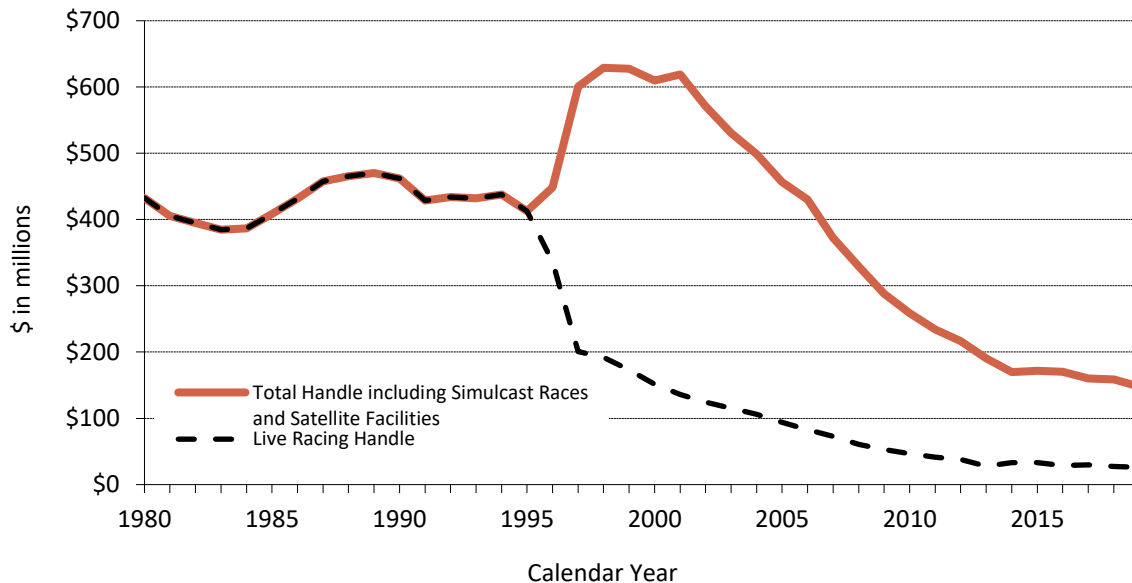


Chart 4 displays monetary disbursements made by RAC from CY 2006 through CY 2019 for operating expenses, industry support (subsidies and shared revenue), and other statutory transfers.<sup>2</sup> The chart demonstrates that industry support increased dramatically in CY 2014 after revenue from the casino tax and a portion of VLT revenue taxes was made available to RAC. Operating expenditures were about the same in CY 2019 than in CY 2006, but other disbursements declined. Note that these disbursements totaled \$25.2 million in CY 2019, up from \$14.7 million in CY 2006.

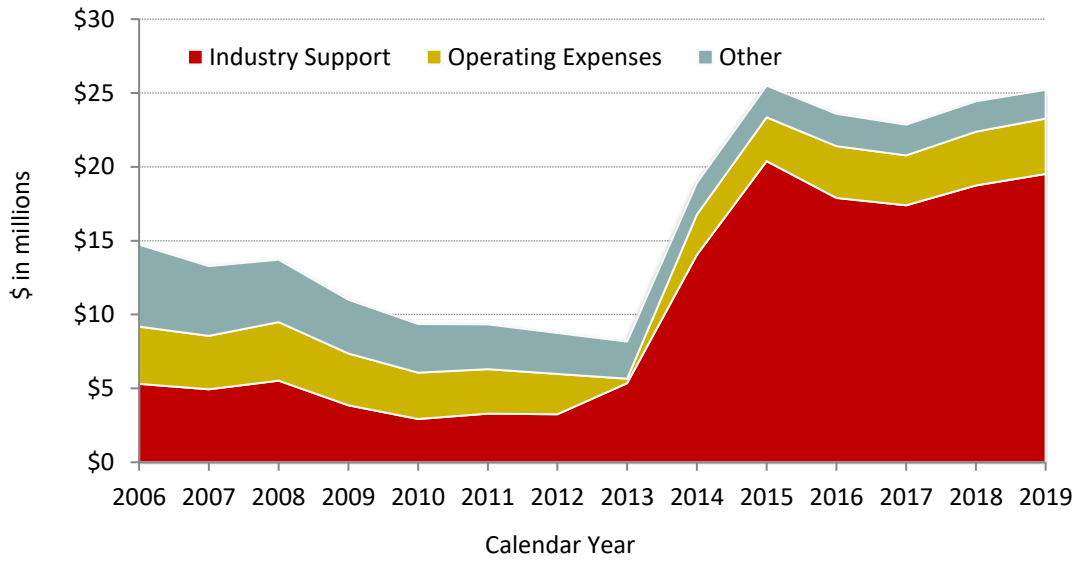
RAC licenses persons in approximately 55 occupations. Licensure standards are upheld in order to maintain accountability within the industry, ensure a high level of professionalism at racing venues, and to safeguard against fraud. During CY 2019, 18,325 licenses were issued by RAC.

<sup>1</sup> CY 2019 is used as the reference year since it is the last full year of operation for Ohio's racetracks.

<sup>2</sup> Other transfers include funding for the Agricultural Society Fund, Ohio Fairs Fund, and Passport Fund (used by the Ohio Department of Aging). Industry support includes disbursement of horse racing taxes and through the Thoroughbred Race Fund, Standardbred Development Fund, Casino Tax Revenue Fund, and Horsemen's Development Fund (VLT revenue). Data are from the Ohio Racing Commission's Annual Report.



Chart 4: RAC Disbursements, by Category



FY 2022 - FY 2023 Appropriations - As Introduced

All Fund Groups

Line Item Detail by Agency			FY 2020	OBM Estimate FY 2021	Introduced FY 2022	FY 2021 to FY 2022 % Change	Introduced FY 2023	FY 2022 to FY 2023 % Change
Report For: Main Operating Appropriations Bill			Version: As Introduced					
RAC Ohio State Racing Commission								
5620	875601	Thoroughbred Development	\$ 951,601	\$ 833,850	\$ 1,200,000	43.91%	\$ 1,200,000	0.00%
5630	875602	Standardbred Development	\$ 1,431,099	\$ 1,527,500	\$ 1,550,000	1.47%	\$ 1,550,000	0.00%
5650	875604	Racing Commission Operating	\$ 3,370,817	\$ 3,605,500	\$ 4,070,948	12.91%	\$ 4,070,948	0.00%
5JK0	875610	Horse Racing Development - Casino	\$ 6,408,521	\$ 8,512,095	\$ 8,512,095	0.00%	\$ 8,512,095	0.00%
5NLO	875611	Revenue Redistribution	\$ 7,976,449	\$ 8,000,000	\$ 8,200,000	2.50%	\$ 8,200,000	0.00%
Dedicated Purpose Fund Group Total			\$ 20,138,486	\$ 22,478,945	\$ 23,533,043	4.69%	\$ 23,533,043	0.00%
5C40	875607	Simulcast Horse Racing Purse	\$ 5,009,287	\$ 5,500,000	\$ 7,000,000	27.27%	\$ 7,000,000	0.00%
Fiduciary Fund Group Total			\$ 5,009,287	\$ 5,500,000	\$ 7,000,000	27.27%	\$ 7,000,000	0.00%
R021	875605	Bond Reimbursements	\$ 88,600	\$ 100,000	\$ 100,000	0.00%	\$ 100,000	0.00%
Holding Account Fund Group Total			\$ 88,600	\$ 100,000	\$ 100,000	0.00%	\$ 100,000	0.00%
Ohio State Racing Commission Total			\$ 25,236,373	\$ 28,078,945	\$ 30,633,043	9.10%	\$ 30,633,043	0.00%