

# Ohio State Racing Commission

*Phil Cummins, Economist*

- 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 investigators at tracks, and contracts with officials and veterinarians at the tracks.

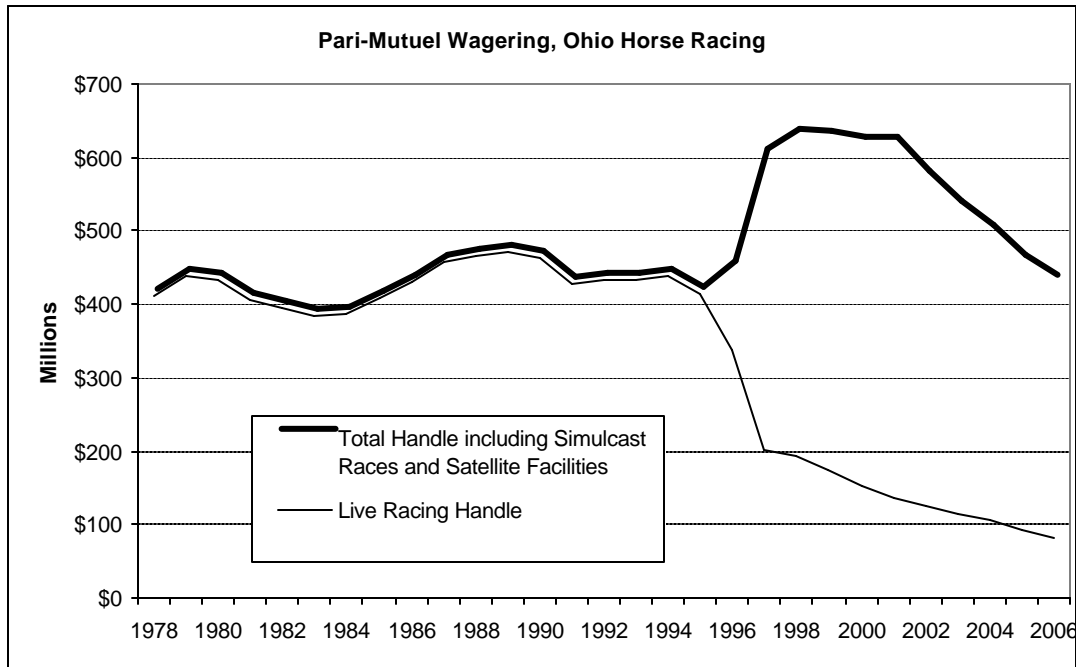
The Commission's budget consists of five state special revenue funds and one holding account redistribution fund, totaling about \$26.4 million in each of FY 2008 and FY 2009. Commissions on wagers on simulcast horse races account for almost two-thirds of RAC's receipts. Simulcast wagering, on live races 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 main operating appropriations acts for the current and previous bienniums, these interest earnings have instead been diverted to the GRF. 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.

## Duties and Responsibilities

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.

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. Total 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. Declines in wagering at Ohio commercial tracks plus off-track betting have continued in CY 2007; the total handle through August 25 was down 12% from a year earlier. 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 in FY 2007 was made permanent beginning in FY 2008. 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 in temporary law for earlier fiscal years but had been allowed to lapse in FY 2006. The budget act, H.B. 119, made this source of Racing Commission funding permanent.

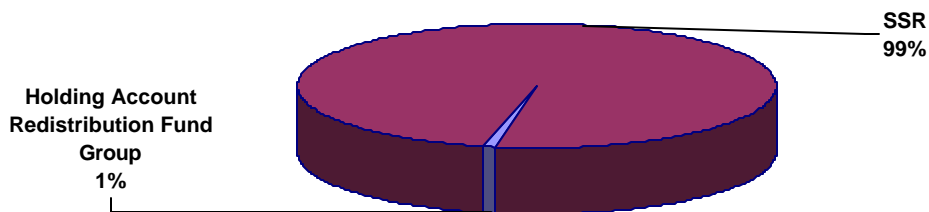
### Agency in Brief

Agency In Brief					
Number of Employees*	Total Appropriations-All Funds		GRF Appropriations		Appropriation Bill(s)
	2008	2009	2008	2009	
21	\$26.40 million	\$26.40 million	\$0	\$0	Am. Sub. H.B. 119

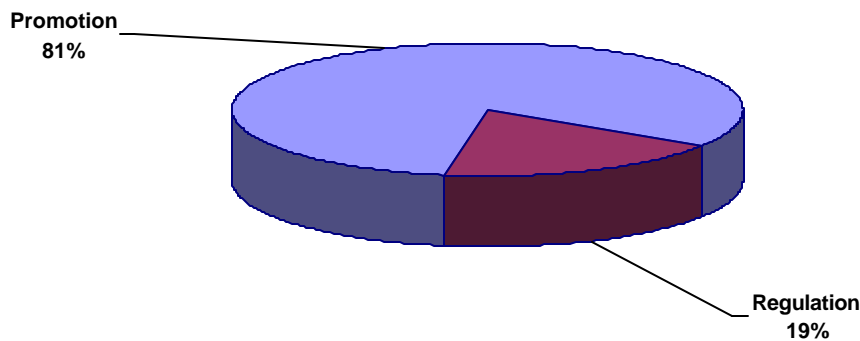
\*Employee count obtained from the Department of Administrative Services (DAS) payroll reports as of June 2007.

The number of employees shown above includes 15 full-time and 6 part-time employees. In addition, the Racing Commission contracts with 11 stewards, judges, and veterinarians. The five Commission members are not included in these numbers.

**Total Budget by Fund Group**



**Total Budget by Program Series**



## ANALYSIS OF THE BUDGET

### Program Series

### 1: Promotion

**Purpose:** To promote horse racing in Ohio

The following table shows the line items that are used to fund the Promotion program. 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
<b>State Special Revenue Fund</b>				
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
<b>State Special Revenue Fund Subtotal</b>			<b>\$21,503,155</b>	<b>\$21,496,230</b>
<b>Total Funding: Promotion</b>			<b>\$21,503,155</b>	<b>\$21,496,230</b>

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.

**Implication of the Budget:** The amount appropriated 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.

## Thoroughbred Race Fund

**Program Description:** The Thoroughbred Program provides purse subsidies for various races, supplements purses for registered thoroughbreds that win races, and provides broodmare and stallion awards to breeders of winning registered horses.

**Funding Source:** 1.125% of pari-mutuel special account wagering on thoroughbred racing and 0.54% (in 2007) 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 permitted 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.

**Implication of the Budget:** The amounts appropriated 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 adjusted appropriation for FY 2007 but higher than actual outlays in FY 2005 and FY 2006.

## 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.

**Implication of the Budget:** The amounts appropriated for FY 2008 and FY 2009 are \$2,518,935 and \$2,516,098, respectively. These amounts are less than the adjusted appropriation for FY 2007 but about even with actual outlays in FY 2006.

## 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.

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

**Program Series****2: Regulation**

**Purpose:** To regulate horse racing in Ohio

The following table shows the line items that are used to fund the regulation program. 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
<b>State Special Revenue Fund</b>				
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
<b>State Special Revenue Fund Subtotal</b>			<b>\$4,685,444</b>	<b>\$4,692,369</b>
<b>Holding Account Redistribution Fund Group</b>				
R21	875-605	Bond Reimbursements	\$212,900	\$212,900
<b>Holding Account Redistribution Fund Subtotal</b>			<b>\$212,900</b>	<b>\$212,900</b>
<b>Total Funding: Regulation</b>			<b>\$4,898,344</b>	<b>\$4,905,269</b>

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. 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

**Implication of the Budget:** The amount appropriated for this account for each of FY 2008 and FY 2009 is \$4,487,599. This is 12% higher than the adjusted appropriation for FY 2007.

## **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

**Implication of the Budget:** The amount appropriated for this account for each of FY 2008 and FY 2009, \$212,900, matches the adjusted appropriation for FY 2007.

**FY 2008 - 2009 Final Appropriation Amounts**

**All Fund Groups**

<i>Line Item Detail by Agency</i>			<i>FY 2005:</i>	<i>FY 2006:</i>	<i>Adj. Appropriations:</i>	<i>FY 2008 Appropriations:</i>	<i>% Change 2007 to 2008:</i>	<i>FY 2009 Appropriations:</i>	<i>% Change 2008 to 2009:</i>
<b>Report For: Main Operating Appropriations Bill</b>			<b>Version: Enacted</b>						
<b>RAC Racing Commission, Ohio State</b>									
562	875-601	Thoroughbred Race Fund	\$ 2,884,194	\$ 2,678,733	\$ 3,216,622	\$ 3,100,000	-3.63%	\$ 3,100,000	0.00%
563	875-602	Standardbred Development Fund	\$ 2,539,509	\$ 2,585,460	\$ 3,161,675	\$ 2,600,000	-17.77%	\$ 2,600,000	0.00%
564	875-603	Quarter Horse Development Fund	----	\$ 2,000	\$ 2,000	\$ 1,000	-50.00%	\$ 1,000	0.00%
565	875-604	Racing Commission Operating	\$ 3,922,589	\$ 3,721,951	\$ 4,000,000	\$ 4,487,599	12.19%	\$ 4,487,599	0.00%
5C4	875-607	Simulcast Horse Racing Purse	\$ 16,569,596	\$ 16,139,334	\$ 16,563,948	\$ 16,000,000	-3.40%	\$ 16,000,000	0.00%
<b>State Special Revenue Fund Group Total</b>			<b>\$ 25,915,888</b>	<b>\$ 25,127,479</b>	<b>\$ 26,944,245</b>	<b>\$ 26,188,599</b>	<b>-2.80%</b>	<b>\$ 26,188,599</b>	<b>0.00%</b>
R21	875-605	Bond Reimbursements	\$ 162,400	\$ 164,200	\$ 212,900	\$ 212,900	0.00%	\$ 212,900	0.00%
<b>Holding Account Redistribution Fund Group Total</b>			<b>\$ 162,400</b>	<b>\$ 164,200</b>	<b>\$ 212,900</b>	<b>\$ 212,900</b>	<b>0.00%</b>	<b>\$ 212,900</b>	<b>0.00%</b>
<b>Racing Commission, Ohio State Total</b>			<b>\$ 26,078,288</b>	<b>\$ 25,291,679</b>	<b>\$ 27,157,145</b>	<b>\$ 26,401,499</b>	<b>-2.78%</b>	<b>\$ 26,401,499</b>	<b>0.00%</b>