

LSC Greenbook

Analysis of the Enacted Budget

Ohio State Racing Commission

*Phil Cummins, Economist
Legislative Service Commission*

July 2009

TABLE OF CONTENTS

OVERVIEW	1
Agency Overview.....	1
Appropriation Overview	1
Video Lottery Terminals.....	2
ANALYSIS OF ENACTED BUDGET	3
Thoroughbred Race Fund (875601)	3
Standardbred Development Fund (875602)	3
Quarter Horse Development Fund (875603)	4
Racing Commission Operating (875604).....	4
Simulcast Horse Racing Purse (875607)	5
Bond Reimbursements (875605)	5

ATTACHMENT:

Budget Spreadsheet By Line Item

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. RAC 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 racing purse subsidies. RAC contracts with the laboratory at the Ohio Department of Agriculture for testing. The Racing Commission had 14 full-time and 5 part-time employees in FY 2009, and contracted with 11 stewards, judges, and veterinarians. Commissions on wagers on simulcast horse races account for most of RAC's receipts. Other receipts are mainly from taxes on betting at the tracks where live horse racing is taking place, from fees imposed on various racing industry participants, and from fines and penalties.

Appropriation Overview

The Commission's budget consists of five state special revenue funds and one holding account redistribution fund, totaling about \$22.1 million for each of FYs 2010 and 2011 under the budget. The Racing Commission's budget for the next biennium is summarized in the following table:

Appropriations by Fund Group, FY 2010-FY 2011					
Fund Group	FY 2009	FY 2010	% change, FY 2009-FY 2010	FY 2011	% change, FY 2010-FY 2011
State Special Revenue	\$18,623,809	\$21,943,342	17.8%	\$21,959,818	0.1%
Holding Account Redistribution	\$84,850	\$145,000	70.9%	\$145,000	0.0%
TOTAL	\$18,708,659	\$22,088,342	18.1%	\$22,104,818	0.1%

*FY 2009 figures represent actual expenditures.

Video Lottery Terminals

When the General Assembly was completing work on the budget bill, Governor Strickland issued a directive to the Lottery Director to begin implementing video lottery terminal (VLT) games only at seven Ohio horse race tracks. H.B. 1 includes language specifying that the state Lottery Commission has authority to operate VLTs. Neither H.B. 1 nor the news release regarding the Governor's directive specified a portion of the VLT proceeds that would be required to be used to support horse racing programs, such as by supplementing racing purses as in some other states. Larger racing purses are thought to attract faster horses to the tracks, in turn attracting more betting dollars on horse racing. The plan for implementation of VLTs in Ohio faces court challenges that may delay its startup. If the plan proceeds and is implemented in a way that results in increased gambling on horse races, Racing Commission revenues would increase.

The Racing Commission is authorized by uncodified law in H.B. 1 to let a horse racing permit holder conduct live horse races at a location other than one at which that permit holder previously conducted races, subject to a number of restrictions, notwithstanding any other provision of the Revised Code chapter governing horse racing (R.C. 3769.). This provision appears to affect just one of the state's seven commercial horse tracks, Lebanon Raceway, which has for many years operated at the county fairgrounds in Warren County. The provision in H.B. 1, Section 737.10, would allow the move to a different location if county officials chose not to have VLTs at the county fairgrounds.

Further information on the video lottery program is included in LSC's Greenbook for the Ohio Lottery Commission.

ANALYSIS OF ENACTED BUDGET

This section provides an analysis of the budget for each appropriation item in RAC's budget. A narrative describes how each appropriation is used. For three of the funds used by RAC, statutory law provides for interest earnings on balances in those funds to be retained by each of the funds; however, uncodified law in the FY 2010-FY 2011 budget act permits the Director of Budget and Management to transfer the interest earnings to the General Revenue Fund.

Thoroughbred Race Fund (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 plus one-twelfth of 3% of exotic wagering on thoroughbred racing. Interest earned on money in this fund would be credited to the fund; however, the FY 2010-FY 2011 budget permits the Director of Budget and Management to transfer these interest earnings to the General Revenue Fund, continuing a diversion that was included in the previous main operating appropriation act.

The amounts appropriated for this subsidy account are \$2.3 million for each of FYs 2010 and 2011. This is 4.0% more than actual expenditures in FY 2009, but is less than expenditures in earlier years.

Standardbred Development Fund (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 one-twelfth of 3% of exotic wagering on harness racing. Interest earned on money in this account would be credited to the account; however, the FY 2010-FY 2011 budget permits the Director of Budget and Management to transfer these interest earnings to the General Revenue Fund, continuing a diversion that was included in the previous main operating appropriation act.

The amounts appropriated are \$1.9 million for each of FYs 2010 and 2011. This amount is 10.1% more than actual expenditures in FY 2009, but is less than outlays in earlier years.

Quarter Horse Development Fund (875603)

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 one-twelfth of 3% of exotic wagering on quarterhorse racing.

The amounts appropriated for this subsidy account are \$1,000 for each of FYs 2010 and 2011, equal to actual expenditures in FY 2009.

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. There are 57 categories of licensees listed on the Commission's web site. Licenses are approved by state stewards and presiding judges and issued by inspectors. The Commission also employs investigators to police the commercial tracks, working 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, 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.

The amounts appropriated are \$3.7 million for FY 2010, an increase of 1.8% from actual expenditures in FY 2009, and \$3.8 million for FY 2011, an increase of 0.4%. These amounts are thought to be sufficient to allow the Racing Commission to continue current levels of regulatory activities. However, if wagering taxes received continue to decline as they have for the past decade, 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)

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.

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. Thus, this fund acts as a pass-through account. Interest earned on money in this account would be credited to the account; however, the FY 2010-FY 2011 budget permits the Director of Budget and Management to transfer these interest earnings to the General Revenue Fund, continuing a diversion that was included in the previous main operating appropriation act.

The amounts appropriated for this subsidy account are \$14.0 million for each of FYs 2010 and 2011, 27.2% higher than actual expenditures in FY 2009.

Bond Reimbursements (875605)

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.

The amounts appropriated are \$145,000 for each of FYs 2010 and 2011, 70.9% more than actual expenditures in FY 2009.

RAC.docx / cm

FY 2010 - 2011 Final Appropriation Amounts

All Fund Groups

Line Item Detail by Agency			FY 2008	FY 2009	FY 2010 Appropriations	% Change FY09 - FY10	FY 2011 Appropriations	% Change FY10 - FY11
Report For: Main Operating Appropriations Bill			Version: Enacted					
RAC Ohio State Racing Commission								
5620	875601	Thoroughbred Race Fund	\$ 2,376,533	\$ 2,212,265	\$ 2,300,000	3.97%	\$ 2,300,000	0.00%
5630	875602	Standardbred Development Fund	\$ 2,286,173	\$ 1,725,923	\$ 1,900,000	10.09%	\$ 1,900,000	0.00%
5640	875603	Quarter Horse Development Fund	\$ 2,000	\$ 1,000	\$ 1,000	0.00%	\$ 1,000	0.00%
5650	875604	Racing Commission Operating	\$ 3,227,465	\$ 3,677,891	\$ 3,742,342	1.75%	\$ 3,758,818	0.44%
5C40	875607	Simulcast Horse Racing Purse	\$ 13,254,785	\$ 11,006,730	\$ 14,000,000	27.19%	\$ 14,000,000	0.00%
State Special Revenue Fund Group Total			\$ 21,146,956	\$ 18,623,809	\$ 21,943,342	17.82%	\$ 21,959,818	0.08%
R021	875605	Bond Reimbursements	\$ 131,100	\$ 84,850	\$ 145,000	70.89%	\$ 145,000	0.00%
Holding Account Redistribution Fund Group Total			\$ 131,100	\$ 84,850	\$ 145,000	70.89%	\$ 145,000	0.00%
Ohio State Racing Commission Total			\$ 21,278,056	\$ 18,708,659	\$ 22,088,342	18.06%	\$ 22,104,818	0.07%