

Redbook

LBO Analysis of Executive Budget Proposal

Ohio State Racing Commission

Philip A. Cummins, Senior Economist
February 2023

TABLE OF CONTENTS

Quick look	1
Agency overview	2
Appropriation overview	2
Analysis of FY 2024-FY 2025 budget proposal	3
Thoroughbred Development (875601).....	3
Standardbred Development (875602).....	4
Racing Commission Operating (875604)	4
Horse Racing Development – Casino (875610)	5
Revenue Redistribution (875611).....	5
Simulcast Horse Racing Purse (875607)	5
Bond Reimbursements (875605).....	6
Facts and figures	6

Attachment:

Appropriation Spreadsheet

LBO Redbook

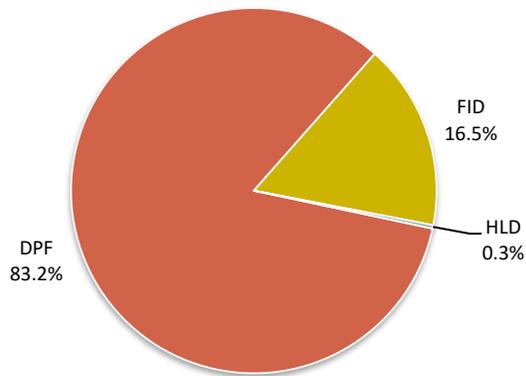
Ohio State Racing Commission

Quick look...

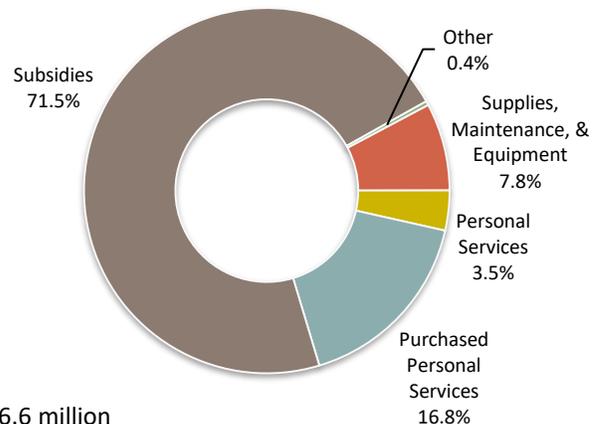
- The Ohio State Racing Commission (RAC) promotes and regulates horse racing in Ohio by licensing participants, subsidizing purses, policing racetracks, and auditing financial activities.
- RAC receives no funding from the GRF. Its revenue comes from three main sources:
 - Wagering on horse races;
 - Casino tax revenues;
 - Video lottery terminal (VLT) taxes.
- RAC employs seven full-time and six part-time staff members. This count does not include five commission members, appointed by the Governor. Persons who officiate at the tracks and veterinarians provide these services under contracts with RAC, rather than as employees.
- 72% of the RAC budget is used to subsidize horse racing and the equine industry.

Fund Group	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
Dedicated Purpose (DPF)	\$29,857,830	\$23,580,893	\$27,710,497	\$27,710,497
Fiduciary Fund (FID)	\$4,962,324	\$7,000,000	\$5,500,000	\$5,500,000
Holding Account (HLD)	\$94,110	\$100,000	\$100,000	\$100,000
Total	\$34,914,264	\$30,680,893	\$33,310,497	\$33,310,497
% change	--	-12.1%	8.6%	0.0%

**Chart 1: RAC Budget by Fund Group
FY 2024-FY 2025 Biennium**



**Chart 2: RAC Budget by Expense Category
FY 2024-FY 2025 Biennium**



Biennial total: \$66.6 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 and investigators, and contracts for the services of officials and veterinarians at the tracks.

RAC receives no funding from the GRF. 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, as well as various fines and permit fees paid by industry participants, and other receipts. This revenue source provided \$10.0 million in FY 2022. The Commission receives 3% of Ohio's casino tax revenues under R.C. 5753.03. That amount was also \$10.0 million in FY 2022. RAC is funded by a percentage of video lottery terminal (VLT) revenue, between 9% and 11% as agreed between permit holders and horsemen's associations. This revenue totaled \$10.2 million in FY 2022.

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.

In its budget request, RAC said effects on thoroughbred racing of the Horseracing Integrity and Safety Act, signed into federal law in 2020, are uncertain. The law created the Horseracing Integrity and Safety Authority (HISA) to draft and enforce a national, uniform set of safety and integrity rules applicable to all thoroughbred racing participants and racetracks. RAC anticipates possible costs to Ohio's thoroughbred tracks, but notes pending court cases, and is waiting to see if and when the new law will be implemented.

Appropriation overview

The Racing Commission's funding recommendation for the next biennium is \$33.3 million in each of FY 2024 and FY 2025, \$2.6 million (8.6%) above estimated spending in FY 2023, with most of the increase due to larger subsidies. The table below gives an overview of expense categories in the executive budget.

Ohio State Racing Commission employees promote and regulate pari-mutuel horse racing in Ohio. The promotion program manages subsidies and encourages industry participation and excellence. The regulatory program aims to ensure the proper functioning of wagering, as well as the safety of horses at tracks and of all those in the industry. The Ohio State Racing Commission has a staff of 13, not including the five commission members, and contracts with two State Stewards, two Presiding Judges, and five State Veterinarians for personal services at the seven racetracks.

Budget Recommendations by Expense Category				
Category	FY 2022 Actual	FY 2023 Estimated	FY 2024 Introduced	FY 2025 Introduced
Personal Services	\$1,183,816	\$1,128,997	\$1,161,497	\$1,194,497
Purchased Personal Services	\$4,710,472	\$5,714,876	\$5,610,000	\$5,610,000
Supplies and Maintenance	\$2,218,283	\$2,461,000	\$2,560,000	\$2,560,000
Equipment	\$49,643	\$54,000	\$25,000	\$25,000
Subsidies Shared Revenue	\$26,662,550	\$21,204,520	\$23,836,500	\$23,803,500
Judgments, Settlements & Bonds	\$0	\$15,000	\$15,000	\$15,000
Transfers and Nonexpense	\$89,500	\$102,500	\$102,500	\$102,500
Total	\$34,914,264	\$30,680,893	\$33,310,497	\$33,310,497

Analysis of FY 2024-FY 2025 budget proposal

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

Thoroughbred Development (875601)

The thoroughbred program promotes thoroughbred racing in Ohio by purse subsidies and by 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 \$1.1 million per fiscal year for appropriation line item (ALI) 875601, Thoroughbred Development.

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
Fund 5620 ALI 875601, Thoroughbred Development					
\$951,601	\$862,844	\$973,257	\$1,202,876	\$1,100,000	\$1,100,000
% change	-9.3%	12.8%	23.6%	-8.6%	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, and 0.25% of exotic wagering on thoroughbred races. Fund 5620 also receives 0.625% of pari-mutuel wagering on quarter horse racing and 0.25% of exotic wagering on quarter horse racing in order to support quarter horse development and purses. In addition, a percentage of pari-mutuel wagering on harness racing, determined by the Tax Commissioner, is deposited into Fund 5620. Any interest earned on fund balances is also credited to this fund. Total revenue to the Thoroughbred Race Fund was about \$839,000 in FY 2022.

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 to the Standardbred Development Fund was about \$555,000 in FY 2022. The executive budget recommends appropriations of \$1.4 million each for FY 2024 and FY 2025 for this fund, 10% lower than estimated FY 2023 spending.

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
Fund 5630 ALI 875602, Standardbred Development					
\$1,431,099	\$1,286,205	\$1,481,367	\$1,555,425	\$1,400,000	\$1,400,000
% change	-10.1%	15.2%	5.0%	-10.0%	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 who police commercial tracks, examining stable areas, betting activity, and race outcomes to protect against illegal activity. Investigators seek to ensure that 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 is responsible for enforcing payment to or by the collection and settlement agent.

In 2021, RAC licensed 13,050 industry participants in 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 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
Fund 5650 ALI 875604, Racing Commission Operating					
\$3,370,817	\$3,393,884	\$3,755,827	\$4,110,497	\$4,210,497	\$4,210,497
% change	0.7%	10.7%	9.4%	2.4%	0.0%

The executive recommends an appropriation of about \$4.2 million in each year of the biennium, 2.4% more than estimated spending in FY 2023. 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 most of the salaries of employees and a portion of the cost of purchased personal services for State Stewards and Presiding Judges who help regulate the racing industry, and for veterinary services. State Stewards and Presiding Judges represent the Racing Commission at thoroughbred

and standardbred racetracks, respectively. 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 executive budget increases spending on supplies and maintenance and on personal services.

Horse Racing Development – Casino (875610)

The Horse Racing Development Fund was established to support horse racing throughout the state. ALI 875610, Horse Racing Development – Casino, 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 \$10.5 million in FY 2024 and in FY 2025, 23.4% higher than estimated spending in FY 2023.

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
Fund 5JK0 ALI 875610, Horse Racing Development – Casino					
\$6,408,521	\$3,859,632	\$14,378,914	\$8,512,095	\$10,500,000	\$10,500,000
% change	-39.8%	272.5%	-40.8%	23.4%	0.0%

Revenue Redistribution (875611)

The Horsemen's Development Fund (Fund 5NLO) was established to redistribute a portion of video lottery terminal (VLT) tax revenues to RAC, to support purses and racing operations in Ohio. Any agent participating in VLT sales must pay a portion, between 9% and 11%, of VLT revenue; the 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 \$10.5 million in each year of the biennium for this line item, an amount 28.0% above estimated FY 2023 spending.

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
Fund 5NLO ALI 875611, Revenue Redistribution					
\$7,976,449	\$10,052,610	\$9,268,465	\$8,200,000	\$10,500,000	\$10,500,000
% change	26.0%	-7.8%	-11.5%	28.0%	0.0%

Simulcast Horse Racing Purse (875607)

Tracks and satellite facilities 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 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
Fund 5C40 ALI 875607, Simulcast Horse Racing Purse					
\$5,009,287	\$4,636,537	\$4,962,324	\$7,000,000	\$5,500,000	\$5,500,000
% change	-7.4%	7.0%	41.1%	-21.4%	0.0%

The executive budget recommends appropriations of \$5.5 million each in FY 2024 and FY 2025, less than estimated spending in FY 2023 of \$7.0 million. Fund 5C40 received a portion of the wagers placed at commercial tracks or satellite facilities at times when no live races are 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)

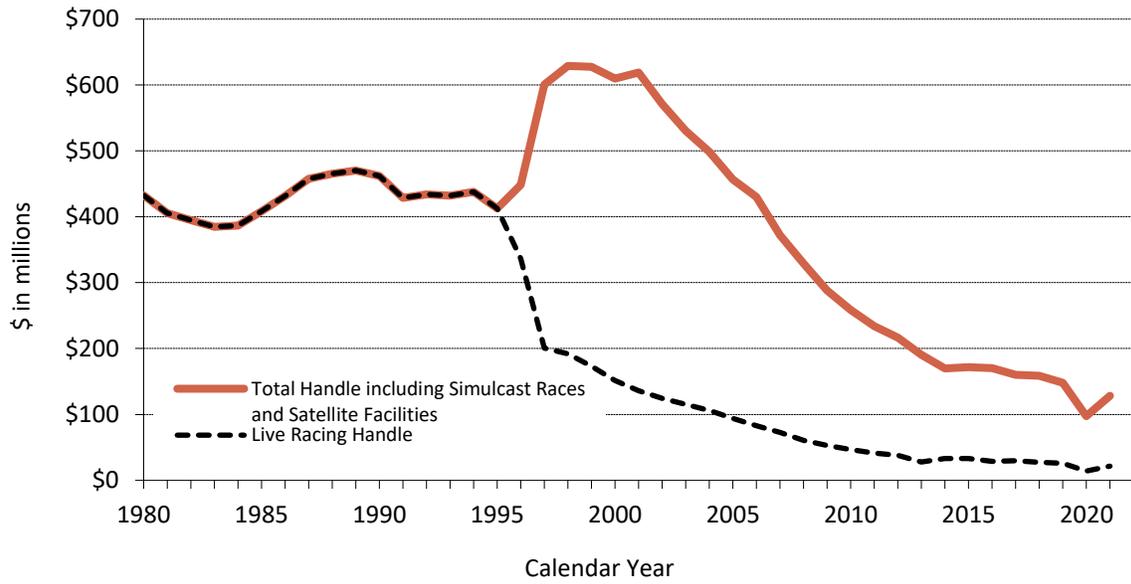
Racing permit holders are required to post cash performance bonds, which are held in Fund R021. In the case of a licensee violating a Commission rule, any individual wishing to appeal a disciplinary decision must also deposit a bond with the Commission. The Bond Reimbursements Fund (Holding Account Fund 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 2023.

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
Fund R021 ALI 875605, Bond Reimbursements					
\$88,600	\$86,700	\$94,110	\$100,000	\$100,000	\$100,000
% change	-2.1%	8.5%	6.3%	0.0%	0.0%

Facts and figures

The handle (the amount of wagers placed) on horse races at the seven commercial race tracks (racinos) including simulcasting of races run elsewhere, at county fairs, and through the off-track betting parlor has trended downward, and as of CY 2021 was down 80% since a peak in 1998, as shown in Chart 3. In recent years, the total revenue stream from wagering on horse races dropped in 2020 with the onset of the COVID-19 pandemic, and recovered only partially in 2021. The total handle was about \$128.4 million in CY 2021, of which \$21.5 million was wagers on live racing at the locations where the wagers were placed.

Chart 3: Pari-Mutuel Wagering, Ohio Horse Racing



FY 2024 - FY 2025 Appropriations - As Introduced

All Fund Groups

Line Item Detail by Agency			Estimate	Introduced	FY 2023 to FY 2024	Introduced	FY 2024 to FY 2025	
			FY 2022	FY 2023	FY 2024	% Change	FY 2025	% Change
Report For: Main Operating Appropriations Bill			Version: As Introduced					
RAC Ohio State Racing Commission								
5620	875601	Thoroughbred Development	\$ 973,257	\$ 1,202,876	\$ 1,100,000	-8.55%	\$ 1,100,000	0.00%
5630	875602	Standardbred Development	\$ 1,481,367	\$ 1,555,425	\$ 1,400,000	-9.99%	\$ 1,400,000	0.00%
5650	875604	Racing Commission Operating	\$ 3,755,827	\$ 4,110,497	\$ 4,210,497	2.43%	\$ 4,210,497	0.00%
5JK0	875610	Horse Racing Development - Casino	\$ 14,378,914	\$ 8,512,095	\$ 10,500,000	23.35%	\$ 10,500,000	0.00%
5NLO	875611	Revenue Redistribution	\$ 9,268,465	\$ 8,200,000	\$ 10,500,000	28.05%	\$ 10,500,000	0.00%
Dedicated Purpose Fund Group Total			\$ 29,857,830	\$ 23,580,893	\$ 27,710,497	17.51%	\$ 27,710,497	0.00%
5C40	875607	Simulcast Horse Racing Purse	\$ 4,962,324	\$ 7,000,000	\$ 5,500,000	-21.43%	\$ 5,500,000	0.00%
Fiduciary Fund Group Total			\$ 4,962,324	\$ 7,000,000	\$ 5,500,000	-21.43%	\$ 5,500,000	0.00%
R021	875605	Bond Reimbursements	\$ 94,110	\$ 100,000	\$ 100,000	0.00%	\$ 100,000	0.00%
Holding Account Fund Group Total			\$ 94,110	\$ 100,000	\$ 100,000	0.00%	\$ 100,000	0.00%
Ohio State Racing Commission Total			\$ 34,914,264	\$ 30,680,893	\$ 33,310,497	8.57%	\$ 33,310,497	0.00%