

Redbook

LBO Analysis of Executive Budget Proposal

Ohio State Racing Commission

Eric Makela, Economist
March 2019

TABLE OF CONTENTS

Quick look	1
Agency overview	2
Appropriation overview	2
Analysis of FY 2020-FY 2021 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)	6
Bond Reimbursements (875605).....	6
Facts and figures	7

Attachment:

Appropriation Spreadsheet

LBO Redbook

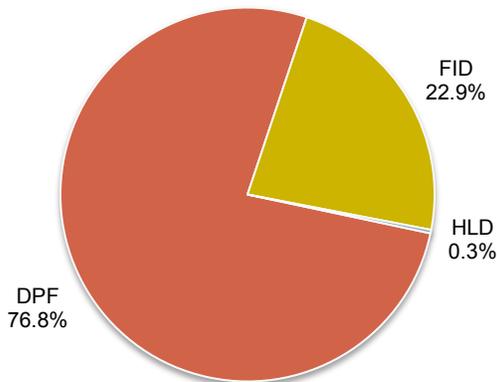
Ohio State Racing Commission

Quick look...

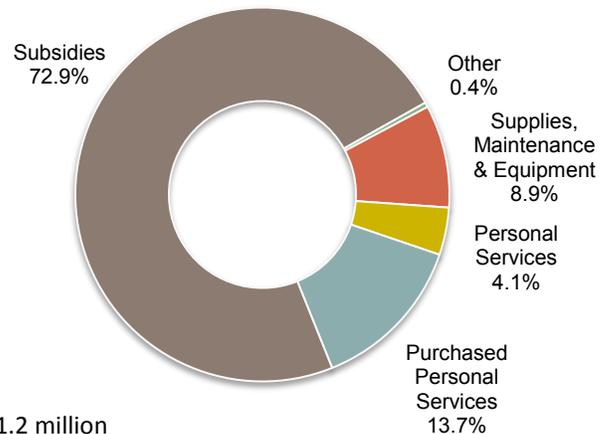
- The Ohio State Racing Commission (RAC) promotes and regulates horse racing in Ohio by licensing participants, subsidizing purses, and policing racetracks.
- Commission revenue comes from three main sources:
 - Wagering on horse races;
 - Video lottery terminal (VLT) taxes;
 - Casino revenue taxes.
- The Ohio State Racing Commission receives no funding from the GRF.
- A total of 14 people are employed by RAC in FY 2019, in addition to its five commissioners.
- Commissioners are appointed by the Governor.

Fund Group	FY 2018 Actual	FY 2019 Estimate	FY 2020 Introduced	FY 2021 Introduced
Dedicated Purpose	\$21,522,911	\$23,233,043	\$23,496,415	\$23,533,043
Fiduciary Fund	\$6,278,121	\$7,000,000	\$7,000,000	\$7,000,000
Holding Account	\$90,900	\$100,000	\$100,000	\$100,000
Total	\$27,891,932	\$30,333,043	\$30,596,415	\$30,633,043
% change	--	8.8%	0.9%	0.1%

**Chart 1: RAC Budget by Fund Group
FY 2020-FY 2021 Biennium**



**Chart 2: RAC Budget by Expense Category
FY 2020-FY 2021 Biennium**



Biennial total: \$61.2 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. 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 that encourage breeding and racing. The Racing Commission employs administrators at its Columbus headquarters, and officials, veterinarians, and investigators at tracks. RAC also contracts with veterinarians to provide care for racing participants.

RAC receives no funding from the GRF and its revenues come from three main sources. The Commission receives 3% of Ohio's casino tax revenues under R.C. 5753.03. That amount was \$8.11 million in FY 2018. RAC also receives a percentage of revenues from pari-mutuel wagering, as well as penalties, fees, and fines paid by industry participants. This revenue source yielded \$6.28 million in FY 2018. Lastly, the Commission is funded by a percentage of video lottery terminals (VLT) revenue. This percentage, which is to be between 9% and 11%, as pursuant to agreements between permit holders and horsemen's associations, totaled \$6.86 million in FY 2018.

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, awards to Ohio breeders of winning race horses, and other promotional activities. Expenditures other than subsidies are for purposes relating to commission operations, oversight and enforcement of rules, licensing, investigation, and drug testing.

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 encourages industry participation. The Ohio State Racing Commission currently funds employment of 12 regulatory and two promotional workers.

Appropriation overview

The Racing Commission's funding recommendation for the next biennium is about \$30.6 million each in FY 2020 and FY 2021, roughly \$0.3 million above estimated spending in FY 2019. The executive budget proposes an increase of approximately \$37,000 in FY 2021, a 0.1% increase over FY 2020 funding. Recommendations by expense category are summarized in the following table. Subsidy amounts are to decrease by \$0.4 million in FY 2020. Moneys spent on personal services, in-house and purchased, are expected to rise by \$0.5 million between FY 2019 and FY 2020, due primarily to increased costs for purchased personal services. Personal services costs are the only expenses budgeted for an increase in FY 2021.

Budget Recommendations by Expense Category				
Category	FY 2018 Actual	FY 2019 Estimated	FY 2020 Introduced	FY 2021 Introduced
Personal Services	\$1,093,844	\$1,122,500	\$1,235,872	\$1,272,500
Purchased Personal Services	\$3,247,883	\$3,810,000	\$4,210,000	\$4,210,000
Supplies and Maintenance	\$2,410,796	\$2,558,873	\$2,708,373	\$2,708,373
Equipment	\$5,172	\$5,500	\$5,500	\$5,500
Subsidies Shared Revenue	\$21,012,671	\$22,704,595	\$22,305,095	\$22,305,095
Judgments, Settlements & Bonds	\$28,571	\$28,575	\$28,575	\$28,575
Transfers and Non-Expense	\$90,800	\$103,000	\$103,000	\$103,000
Total	\$27,889,737	\$30,333,043	\$30,596,415	\$30,633,043

Analysis of FY 2020-FY 2021 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 \$1.4 million per fiscal year for ALI 875601, Thoroughbred Development.

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Estimate	FY 2020 Introduced	FY 2021 Introduced
Fund 5620, ALI 875601, Thoroughbred Development					
\$1,371,272	\$1,383,062	\$1,288,311	\$1,400,000	\$1,400,000	\$1,400,000
% change	0.9%	-6.9%	8.7%	0.0%	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 \$1.13 million in FY 2018. H.B. 49 (132nd 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.

Standardbred Development (875602)

The Ohio Racing Commission supports the racing and breeding of Standardbred horses in the state by providing purse subsidies, and supplies funds 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 \$1.53 million in FY 2018. The executive recommends appropriations of \$1.55 million each for FY 2020 and FY 2021 for the Standardbred Development Fund. Yearly proposed funding for the biennium is unchanged from estimated spending in FY 2019.

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Estimate	FY 2020 Introduced	FY 2021 Introduced
Fund 5630, ALI 875602, Standardbred Development					
\$1,189,122	\$1,272,825	\$1,269,498	\$1,550,000	\$1,550,000	\$1,550,000
% change	7.0%	-0.3%	22.1%	0.0%	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 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.

As of February 1, 2019, over 20,000 licenses were certified through RAC. Licenses are required 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.

Funds appropriated for ALI 875604, Operating Expenses are budgeted to increase by about \$0.3 million in each year of the biennium, above estimated spending of \$3.8 million in FY 2019. The increase in expenses from this line item is due to expected increases in spending on personal services.

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Estimate	FY 2020 Introduced	FY 2021 Introduced
Fund 5650, ALI 875604, Operating Expenses					
\$3,206,384	\$3,380,760	\$3,551,491	\$3,770,948	\$4,034,320	\$4,070,948
% change	5.4%	5.1%	6.2%	7.0%	0.9%

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. A total of \$4.0 million in FY 2020 and \$4.1 million in FY 2021 is the proposed funding for this line item.

Horse Racing Development – Casino (875610)

In order to support horse racing throughout the state, the Horse Racing Development Fund was established. The fund receives 3% of the 33% tax on gross casino revenue. In FY 2018, distributions of receipts from this tax to the Racing Commission totaled \$8.1 million.

This line item subsidizes purses, breeding programs, and operations at commercial horse racetracks. The executive budget recommends appropriations of \$8.5 million in FY 2020 and in FY 2021, unchanged from estimated spending in FY 2019.

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Estimate	FY 2020 Introduced	FY 2021 Introduced
Fund 5JK0, ALI 875610, Casino Revenues					
\$8,458,040	\$8,516,607	\$8,013,570	\$8,512,095	\$8,512,095	\$8,512,095
% change	0.7%	-5.9%	6.2%	0.0%	0.0%

Revenue Redistribution (875611)

The Horsemen’s Development Fund (Fund 5NL0) was established to redistribute a portion of video lottery terminal (VLT) revenue taxes to RAC, for the purpose of supporting purses and other 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.

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Estimate	FY 2020 Introduced	FY 2021 Introduced
Fund 5N10, ALI 875611, Revenue Redistribution					
\$7,098,379	\$6,422,429	\$7,400,040	\$8,000,000	\$8,000,000	\$8,000,000
% change	-9.5%	15.2%	8.1%	0.0%	0.0%

The executive budget recommends appropriations of \$8.0 million in each year of the biennium for this line item, unchanged from estimated spending in FY 2019.

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 (Fiduciary Fund 5C40).

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Estimate	FY 2020 Introduced	FY 2021 Introduced
Fund 5C40, ALI 875607, Simulcast Horse Racing					
\$7,356,183	\$6,447,604	\$6,278,121	\$7,000,000	\$7,000,000	\$7,000,000
% change	-12.4%	-2.6%	11.5%	0.0%	0.0%

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. Estimated spending for this line item in FY 2019 is \$7.0 million, which is the same level of recommended funding in the executive budget for FY 2020 and for FY 2021.

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 2019.

FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Estimate	FY 2020 Introduced	FY 2021 Introduced
Fund R021, ALI 875605, Bond Reimbursements					
\$83,400	\$90,300	\$90,900	\$100,000	\$100,000	\$100,000
% change	8.3%	0.7%	10.0%	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 have trended downward and were down over 69% since 2002, as shown in Chart 1 below. Thus, this revenue stream has declined markedly in recent years, although it has leveled off in recent years.¹ The total handle was approximately \$160.1 million in CY 2017, down 6.2% from \$170.1 million in CY 2016.

Chart 3: Pari-Mutuel Wagering, Ohio Horse Racing

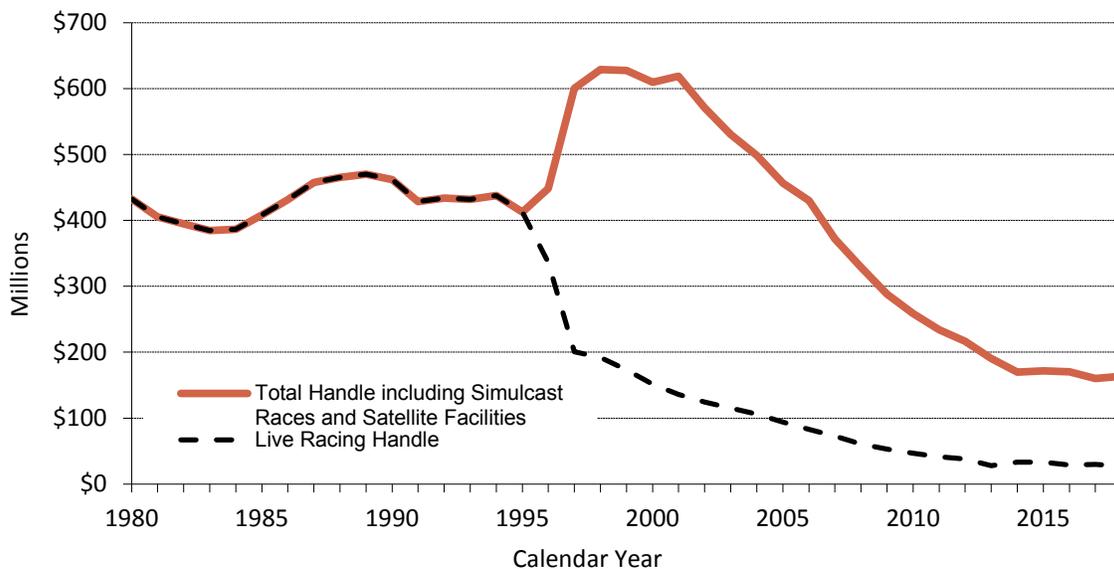
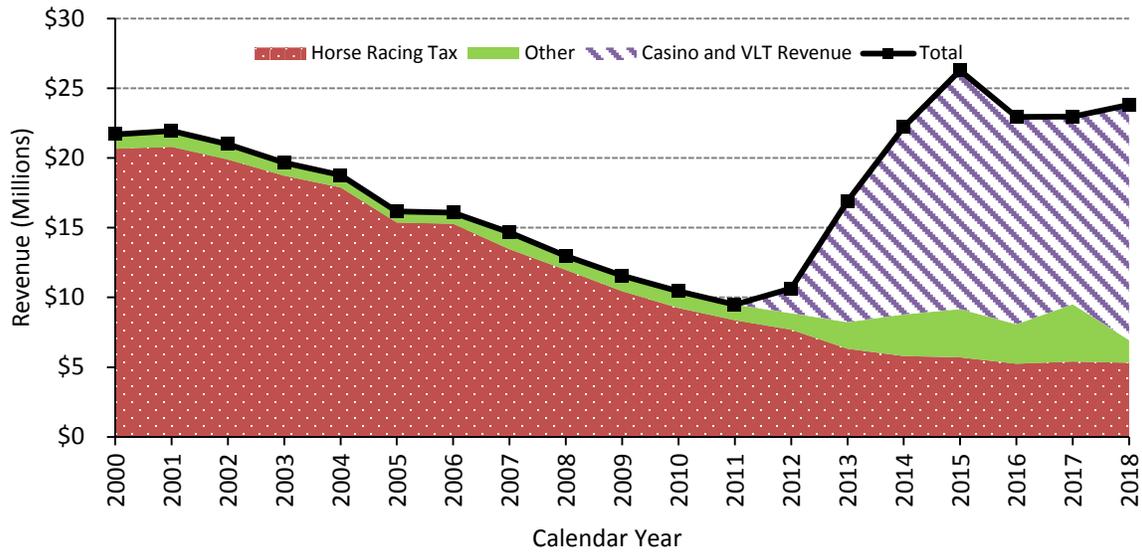


Chart 4 displays the Racing Commission’s revenue by source. As gambling on horse racing has declined, revenue from casino gaming and VLTs has helped to support the Commission’s mission of promoting and regulating pari-mutuel horse racing and breeding in the state of Ohio.

¹ For both Chart 3 and Chart 4, CY 2018 totals are unaudited at the time of publication.

Chart 4: Racing Commission Revenue by Source



The majority of revenue for RAC now comes from casinos and racinos sources, as revenue from those operations have exceeded receipts from horse racing. The Ohio State Racing Commission also authorizes approximately 55 occupations to participate in the racing industry in order to maintain accountability and prevent fraud. Over 20,000 licenses, covering a wide range of industry participation levels, were issued as of February 2019. License fees also support the operations of RAC.

Line Item Detail by Agency			FY 2018	Estimate FY 2019	Introduced FY 2020	FY 2019 to FY 2020 \$ Change	% Change	Introduced FY 2021	FY 2020 to FY 2021 \$ Change	% Change
Report For: Main Operating Appropriations Bill			Version: As Introduced							
RAC Ohio State Racing Commission										
5620	875601	Thoroughbred Development	\$ 1,288,311	\$ 1,400,000	\$ 1,400,000	\$ 0	0.00%	\$ 1,400,000	\$ 0	0.00%
5630	875602	Standardbred Development	\$ 1,269,498	\$ 1,550,000	\$ 1,550,000	\$ 0	0.00%	\$ 1,550,000	\$ 0	0.00%
5650	875604	Racing Commission Operating	\$ 3,551,491	\$ 3,770,948	\$ 4,034,320	\$ 263,372	6.98%	\$ 4,070,948	\$ 36,628	0.91%
5JK0	875610	Horse Racing Development - Casino	\$ 8,013,570	\$ 8,512,095	\$ 8,512,095	\$ 0	0.00%	\$ 8,512,095	\$ 0	0.00%
5NLO	875611	Revenue Redistribution	\$ 7,400,040	\$ 8,000,000	\$ 8,000,000	\$ 0	0.00%	\$ 8,000,000	\$ 0	0.00%
Sub-Total Dedicated Purpose Fund Group			\$ 21,522,911	\$ 23,233,043	\$ 23,496,415	\$ 263,372	1.13%	\$ 23,533,043	\$ 36,628	0.16%
5C40	875607	Simulcast Horse Racing Purse	\$ 6,278,121	\$ 7,000,000	\$ 7,000,000	\$ 0	0.00%	\$ 7,000,000	\$ 0	0.00%
Sub-Total Fiduciary Fund Group			\$ 6,278,121	\$ 7,000,000	\$ 7,000,000	\$ 0	0.00%	\$ 7,000,000	\$ 0	0.00%
R021	875605	Bond Reimbursements	\$ 90,900	\$ 100,000	\$ 100,000	\$ 0	0.00%	\$ 100,000	\$ 0	0.00%
Sub-Total Holding Account Fund Group			\$ 90,900	\$ 100,000	\$ 100,000	\$ 0	0.00%	\$ 100,000	\$ 0	0.00%
Ohio State Racing Commission Total			\$ 27,891,932	\$ 30,333,043	\$ 30,596,415	\$ 263,372	0.87%	\$ 30,633,043	\$ 36,628	0.12%
Grand Total			\$ 27,891,932	\$ 30,333,043	\$ 30,596,415	\$ 263,372	0.87%	\$ 30,633,043	\$ 36,628	0.12%