Fiscal Note & Local Impact Statement

127 th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **H.B. 118** DATE: **May 23, 2007**

STATUS: **As Introduced** SPONSOR: **Rep. Seitz**

LOCAL IMPACT STATEMENT REQUIRED: **No — No local cost**

CONTENTS: **Instant Racing System**

State Fiscal Highlights

STATE FUND	FY 2007	FY 2008	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	Potential gain	Potential gain
Expenditures	- 0 -	- 0 -	- 0 -
Racing Commission Funds			
Revenues	- 0 -	Potential gain	Potential gain
Expenditures	- 0 -	Potential small increase	Potential small increase

Note: The state fiscal year is July 1 through June 30. For example, FY 2007 is July 1, 2006 – June 30, 2007.

- The bill provides for commission of up to 12% of wagering on an Instant Racing System. Disposition of the balance is not explicitly addressed in the bill, but presumably it would be returned to bettors as winnings. Out of this commission, 20% or up to 2.4% of total wagers would be paid as a tax, which in the absence of designation of another fund or funds into which this tax is to be distributed, would be paid to the GRF; provides for payment of a small administrative fee to the Racing Commission Operating Fund; and permits additional payments to other funds overseen by the Racing Commission.

- Expenditures by the Commission could increase for regulation of the new gambling system; any such increase appears likely to be small.

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions. However, if implementation of the bill resulted in increased traffic around racetracks or an increase in problem gambling, it could lead indirectly to increased local costs.

Detailed Fiscal Analysis

The Instant Racing System consists of a database of previously run horse races, which are sent electronically to terminals at which bets can be placed on the races. Under the bill, these terminals could be installed at the state's seven commercial horse racetracks. The identities of the races are hidden to prevent bettors from gaining an advantage using knowledge of the winners of these previously run races. The races are replayed at individual terminals whenever players choose to rerun them. Players need not wait for the full race to be run, but can jump ahead to find out quickly if they won, subject to the restriction that the system not permit the last ten seconds of a race to be fast-forwarded. Consequently, action can be fast and the system could allow bettors to place wagers on many more races in an afternoon or evening than with a live racing program.

This betting system has the potential for substantial growth. It is in use at a horse racetrack in Arkansas, and a track in Oregon is building a facility for an Instant Racing System. The web site for the track in Arkansas, at which this system has been in operation since 2000, indicated on May 23, 2007, that more than $17.7 million is wagered each month through the system. The amount of wagering through the system roughly tripled from 2004 through 2006. If similar levels of betting were realized on installations of the system at Ohio's seven commercial racetracks, the total wagered could rise to more than $1 billion per year.

This program could bring in additional money to the racing industry, by adding to horse racing purses and by attracting additional customers. Larger purses might attract faster horses and more gambling dollars for live racing programs in Ohio. Some portion of the wagering on an Instant Racing System might displace bets made on the tracks' current programs of live and simulcast races.

Payout structure

The bill provides that proceeds from an Instant Racing System would be subject to a set of requirements for distribution separate from those for other racing programs in Ohio. The commission on instant racing would be 12% or less of the total wagered through this system. Implicitly, the rest would be returned to bettors as winnings, though disposition of this remaining 88% or more is not explicitly specified in the bill. A tax equal to 20% of the commission would be payable to the Tax Commissioner. The bill does not specify what is to be done with this tax or the fund or funds into which it is to be paid. Revised Code sections 113.08 and 113.09 require that all money received by the state be paid to the Treasurer of State for credit to the General Revenue Fund, unless otherwise provided by law. In the absence of other provision for the disposition of these tax receipts, therefore, the funds would be paid to the GRF.

Out of the commission net of this tax, which would be at most 9.6% of amounts wagered, 19% (at most 1.824% of amounts wagered) is to be paid into each participating track's purse account, except that horsemen's groups may designate half or 9.5% of the net commission (at most 0.912% of amounts wagered) to go to either horsemen's health and benevolence programs or to the Ohio

Thoroughbred Race Fund, and the other half or 9.5% of the net commission to any of horsemen's health and benevolence programs, the Ohio Standardbred Development Fund, or the Ohio Fairs Fund. An additional 1% of the net commission, or less at the discretion of the Racing Commission, would be paid into the Racing Commission Operating Fund as an administrative fee. This fee would be at most 1% of 9.6%, or 0.096%, of amounts wagered. The balance, 80% to 81% of the net commission, would be retained by each track under the bill. The fee charged by the provider of the Instant Racing System presumably would be paid out of this share of the amounts wagered.

These fees are illustrated in the following table:

Payout Structure, Instant Racing System

	Shares of Total Wagered			
Commission (12% or less)	12.000%			
Tax, 20% of commission		2.400%		
Commission net of tax		9.600%		
Purse account, 19% of commission net of tax			1.824%	
Half or less may be designated to horsemen's health and benevolence programs or Thoroughbred Race Fund				0.912%
Half or less may be designated to horsemen's health and benevolence programs, Standardbred Race Fund, or Fairs Fund				0.912%
Racing Commission Operating Fund, 1% or less of commission net of tax			0.096%	
Balance retained by tracks			7.680%	
Returned to bettors as winnings	88.000%			

Fiscal effects on the state

Implementation of an Instant Racing System would generate additional tax revenues to the Tax Commissioner plus a much smaller amount of additional receipts to the Racing Commission Operating Fund. For example, if the system generated $100 million in wagering and commissions were set at 12% of total wagers, $2.4 million of tax would be owed to the Tax Commissioner, which in the absence of provisions specifying the fund or funds into which this tax is to be paid, would go to the GRF. An administration fee of up to $96,000 would be payable to the Racing Commission Operating Fund. Additional amounts, up to $1.824 million, could be added to purses or, at the discretion of horsemen's groups, could be divided among the thoroughbred and standardbred funds administered by the Racing Commission, the Ohio Fairs Fund, and horsemen's health and benevolence programs.

Larger purses and a resulting more competitive Ohio horseracing program could attract additional gambling dollars to the state and as a result increase state receipts. Alternatively, some erosion of betting on live and simulcast horse races, with wagers instead shifted to instant racing, could result. Implementation of an Instant Racing System might also lead to additional regulatory responsibilities and expenditures by the Racing Commission. The amount of any such increase in regulatory oversight costs appears likely to be small. An assessment from the Racing Commission was that existing systems could be used for this purpose, with little added workload for Commission staff.

Fiscal effects on local governments

An Instant Racing System would have no direct fiscal effects on local governments. To the extent that such a system proved very popular and resulted in significant increases in traffic into and out of racetracks, it could require additional policing in the vicinity of the tracks. To the extent that such a system increased the incidence of problem gambling in the state, it could lead to increased local outlays for social services.

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