

- The ceiling of \$600,000 per year for support of the equine marketing program and Horse Power Ohio would grow 2% per year until it reached \$1 million.
- Expenditures by the Racing 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 22, 2007, that more than \$17.7 million is wagered each month through the system, roughly triple the amount of wagering through the system two years earlier. 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 specifies that this tax is to be distributed as required in R.C. 3769.08.

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, except that part of this balance would be diverted initially each year as described below. 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 (but see below).....	7.680%
Returned to bettors as winnings.....	88.000%

Out of the balance to be retained by the tracks, 1% of the net commission, equal to up to 0.096% of the total wagered, is to be diverted to fund an equine marketing program and to support "Horse Power Ohio," a nonprofit corporation for benefit of equine related activities. This diversion would continue until \$600,000 had been accumulated for these programs each year, with 75% paid to the equine marketing program and 25% to "Horse Power Ohio." The \$600,000 ceiling is to grow 2% each year beginning in 2009 until it reaches \$1 million.

Equine marketing program

The bill would provide for the establishment and funding of an equine marketing program. The Department of Agriculture may incur expenses, expected to be minimal, due to staff time involved in the establishment of the program and for travel and incidental expenses for attendance of members of an operating committee at meetings and for other duties.

Horse Power Ohio

Horse Power Ohio is a nonprofit corporation which would use the funding from the instant racing program to support equine programs in Ohio, including therapeutic riding, the preservation and expansion of public bridle trails and facilities, and rider education and public equine awareness programs.

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 and is to be distributed as specified in R.C. 3769.08, which (in part) governs taxation of wagering on horse racing in Ohio. The Passport Fund would receive 25% of this amount or \$600,000. The balance would be divided among the Racing Commission's Standardbred or Thoroughbred Fund, the Ohio Fairs Fund, and the Racing Commission Operating Fund. R.C. 3769.08(M) references distributions specified in R.C. 3769.087(A), pertaining to wagers other than to win, place, or show (so-called exotic wagers). The distribution of instant wagering taxes could differ depending on whether the reference in the bill (R.C. 3769.0813(D)) to distribution of the tax in the manner required under R.C. 3769.08 is understood to encompass by reference the distribution specified in R.C. 3769.087(A). In addition, an administration fee of up to \$96,000 (of the assumed \$100 million wagered) 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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