

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	1.25	1.25	1.25	1.25	1.25	1.25	0.00	0.00 %
Personal Services	9,879	97,223	110,167	109,872	107,102	220,039	112,937	105.45 %
Operating Expenses	59,891	51,049	73,976	73,935	110,940	147,911	36,971	33.33 %
Total Costs	\$69,770	\$148,272	\$184,143	\$183,807	\$218,042	\$367,950	\$149,908	68.75 %
State/Other Special Rev. Funds	69,770	148,272	184,143	183,807	218,042	367,950	149,908	68.75 %
Total Funds	\$69,770	\$148,272	\$184,143	\$183,807	\$218,042	\$367,950	\$149,908	68.75 %

Program Description

The Board of Horse Racing (BOHR) Program is responsible for:

1. Regulation the live, simulcast, and advance deposit wagering horse racing industry;
2. Ensuring compliance by approximately 1,200 licensees with state laws and board rules;
3. Licensing all racing personnel, establishing race dates for various communities, and establishing veterinary practices and standards in connection with horse racing meets; and
4. Auditing, supervising and conducting investigations related to the pari-mutuel racing system in Montana.

The Board of Horse Racing is funded with state special revenue derived from a 1% tax on gross receipts from pari-mutuel betting. For live racing and simulcast facilities, the tax is the greater of 1% of gross betting receipts or the actual cost to the board for regulating the meet.

Program Highlights

Board of Horse Racing
<ul style="list-style-type: none"> • Executive proposes 68.7% increase when compared to the 2015 budget • Financial issues limited spending in FY 2014
Major LFD Issues
<ul style="list-style-type: none"> • Proposed budget does not appear sustainable

Program Discussion -

Comparison of the 2015 Legislative Base and the 2015 Appropriation

The Board of Horse Racing did not change the FY 2015 legislative appropriations. The number shown in the budget comparison table above reflects the budget approved by the 2013 Legislature.

Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations

Actual FY 2014 expenditures are \$78,502 below the FY 2015 legislative appropriation. Primary reasons for the differences were the financial condition of the fund supporting BOHR as discussed in the following "Executive Request" narrative.

Personal service costs in FY 2014 were significantly below anticipated levels as the regulatory program manager position was vacant all of FY 2014 and through November 2014.

Operating expenses for FY 2014 were below FY 2015 legislative base estimates in travel. These reductions were partially offset by increased costs for laboratory testing and consulting and professional services. In addition, the fund has an outstanding liability for a general fund loan that was provided in FY 2012. Loan payments were not part of the budgeted expenditures for the program.

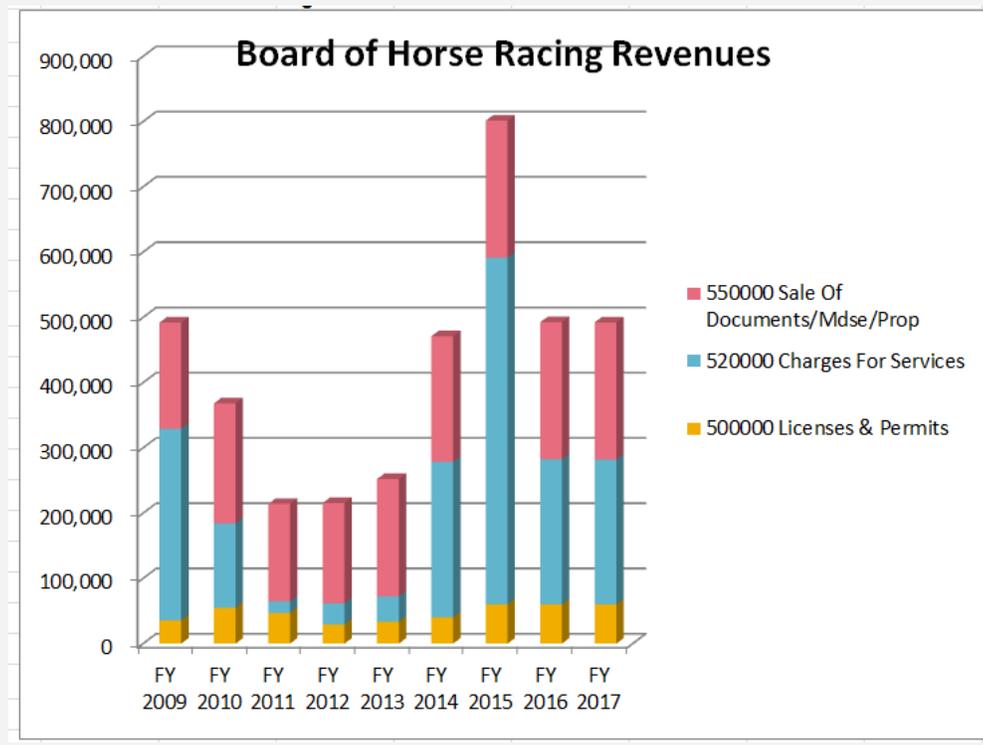
Executive Request

The legislature transferred the Board of Horse Racing from the Department of Livestock in SB 215. The state special revenue fund that supports the activities of BOHR had a negative fund balance when it was transferred to the department at the beginning of FY 2014 of (\$192,245). The balance of the fund also ended FY 2014 in the red at (\$214,357). The chart below shows the revenues, expenditures, and fund balance both actual and projected from FY 2014 through FY 2017. The figure includes both the HB 2 and statutory appropriations as reflected in the state's budgeting system.

Department of Commerce Board of Horse Racing				
	Actual FY 2014	Appropriated FY 2015	Proposed FY 2016	Proposed FY 2017
Beginning Fund Balance	(\$192,245)	(\$214,357)	\$12,315	(\$15,528)
Revenues				
Licenses and Permits	40,230	60,000	60,000	60,000
Charges for Services	237,907	531,512	222,464	222,128
Fines and Forfeits	1,650	2,000	2,000	2,000
Sales of Documents/Mdse/Prop	<u>192,705</u>	<u>210,000</u>	<u>210,000</u>	<u>210,000</u>
Total Revenues	472,492	803,512	494,464	494,128
Expenditures				
Personal Services	9,879	56,220	110,157	109,862
Operating Expenses	0	236,728	185,000	185,000
Other Services	60,620	26,624	41,453	41,453
Supplies and Materials	929	224	929	929
Communications	0	2,168	0	0
Travel	7,356	20,631	7,596	7,596
Rent	100	268	100	100
Maintenance and Repair	0	500	0	0
Other Expenses	<u>242,766</u>	<u>170,634</u>	<u>114,229</u>	<u>114,188</u>
Total Operating Expenses	311,771	457,777	349,307	349,266
Debt Service Payments	<u>62,843</u>	<u>62,843</u>	<u>62,843</u>	<u>62,843</u>
Total Payments	384,493	576,840	522,307	521,971
Adjustments - Recognition of FY 2011 Costs	(110,111)	0	0	0
Ending Fund Balance	<u>(\$214,357)</u>	<u>\$12,315</u>	<u>(\$15,528)</u>	<u>(\$43,371)</u>

**LFD
ISSUE**Proposed Budget Based on Receiving Twice the Amount of Horse Racing Simulcast Revenues in FY 2015

As shown in the figure above the charges for services revenue category more than doubles in the FY 2015 projections when compared to actuals in FY 2014 or proposed for the 2017 biennium. Charges for services include the revenues generated from horse racing simulcasts. The graph below shows the revenues received from Board of Horse Racing activities from FY 2009 through the proposed budget for FY 2017. As shown, FY 2015 is significantly higher than any of the previous years or those proposed for the 2017 biennium.



From discussion with Commerce staff it appears that the revenues included in FY 2015 were not entered correctly. The figure below provides the estimated fund balance using updated agency revenue estimates.

Department of Commerce Board of Horse Racing				
	Actual FY 2014	Appropriated FY 2015	Proposed FY 2016	Proposed FY 2017
Beginning Fund Balance	(\$192,245)	(\$214,357)	(\$204,197)	(\$139,504)
Revenues				
Licenses and Permits	40,230	60,000	60,000	60,000
Charges for Services	237,907	315,000	315,000	315,000
Fines and Forfeits	1,650	2,000	2,000	2,000
Sales of Documents/Mdse/Prop	<u>192,705</u>	<u>210,000</u>	<u>210,000</u>	<u>210,000</u>
Total Revenues	472,492	587,000	587,000	587,000
Expenditures				
Personal Services	9,879	56,220	110,157	109,862
Operating Expenses	0	236,728	185,000	185,000
Other Services	60,620	26,624	41,453	41,453
Supplies and Materials	929	224	929	929
Communications	0	2,168	0	0
Travel	7,356	20,631	7,596	7,596
Rent	100	268	100	100
Maintenance and Repair	0	500	0	0
Other Expenses	<u>242,766</u>	<u>170,634</u>	<u>114,229</u>	<u>114,188</u>
Total Operating Expenses	321,650	457,777	349,307	349,266
Debt Service Payments	<u>62,843</u>	<u>62,843</u>	<u>62,843</u>	<u>62,843</u>
Total Payments	394,372	576,840	522,307	521,971
Adjustments - Recognition of FY 2011 Costs	<u>(110,111)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Ending Fund Balance	<u>(\$214,357)</u>	<u>(\$204,197)</u>	<u>(\$139,504)</u>	<u>(\$74,475)</u>

Part of the reason for the negative fund balance is a general fund loan provided to the Board of Horse Racing in FY 2012. The loan balance was \$439,900 at FYE 2014. The loan payments are \$62,843 each year and are included as debt service.

Using updated revenue estimates from Commerce staff the Board of Horse Racing would continue to have a negative fund balance at the conclusion of FY 2017. The Board of Horse Racing proposed costs would need to be reduced by \$37,500 a year to address this shortfall. The legislature may wish to consider whether the budget as proposed is realistic in light the projected negative ending fund balance

Legislative Option

Reduce budgeted expenditures to ensure that the fund balance for the Board of Horse Racing is positive at the end of FY 2017.

Funding

The following table shows proposed program funding by source from all sources of authority.

Department of Commerce, 78-Board of Horse Racing Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
02029 Board Of Horse Racing	367,950	0	550,662	918,612	100.00 %	
02063 BOHR SIMULCAST	0	0	0	0	0.00 %	
State Special Total	\$367,950	\$0	\$550,662	\$918,612	100.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$367,950	\$0	\$550,662	\$918,612		

State special revenues supporting the Board of Horse Racing and appropriated in HB 2 are derived from two main sources:

- Simulcast racing with 1% of the statewide simulcast “handle” returned for operations and 1% of all “handles” and 3% of exotic “handles for live racing in Montana
- Pari-mutuel gambling whereby 26% of the revenues are divided between the BOHR (16%), pari-mutuel network provider (Montana State Lottery 6%), and game retailers (4%)

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category									
Budget Item	-----General Fund-----					-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	
2015 Budget	0	0	0	0.00 %	148,272	148,272	296,544	0.00 %	
PL Adjustments	0	0	0	0.00 %	35,871	35,535	71,406	0.00 %	
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %	
Total Budget	\$0	\$0	\$0		\$184,143	\$183,807	\$367,950		

Present Law Adjustments -

The “Present Law Adjustments” table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	0	12,944	0	12,944	0.00	0	12,649	0	12,649
DP 99 - LEG. Present Law	0.00	0	22,927	0	22,927	0.00	0	22,886	0	22,886
Grand Total All Present Law Adjustments	0.00	\$0	\$35,871	\$0	\$35,871	0.00	\$0	\$35,535	\$0	\$35,535

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

**LFD
COMMENT**

The executive proposes increases for personal services funding related to program manager positions that has been vacant all of FY 2014 through December 2014. BOHR contracted for administrative services instead.

DP 99 - LEG. Present Law -

As shown in the present law adjustment table on the previous page, overall the executive is proposing increases for the Board of Horsing operating costs when compared to the 2015 legislative base.