OBM

October 5, 2006

The Honorable J. Kenneth Blackwell
Ohio Secretary of State
180 E. Broad Street, 15th Floor
Columbus, Ohio 43215

Dear Secretary Blackwell:

Pursuant to section 3519.04 of the Ohio Revised Code your office requested the Office of Budget and Management to analyze the impact of the proposed constitutional amendment certified for the November 2006 ballot as State Issue 3. State Issue 3 would amend the state constitution to expand gambling in Ohio at seven racetracks and two additional locations in Cleveland. Under this proposal, the expansion would be limited to 31,500 slot machines statewide at the nine locations.

In response to your request, the Office of Budget and Management has prepared a detailed revenue and expenditure analysis. The attached analysis includes our estimates as well as the methodology and assumptions used to develop the estimates. This is a consolidated response with the Department of Taxation.

Clearly, there are significant revenue and expenditure impacts as a result of this proposal. In summary:

- Revenues generated from slot machines are estimated to be $1,080 million, beginning in fiscal year 2009. The revenue would be distributed as follows:
  - Fifty-five percent of gross revenues – or $594 million – would be kept by gambling facility owners.
  - Thirty percent – or $324 million – would fund two college scholarship programs.
  - Eight percent – or $86 million – would be transferred to local governments (minus up to 1%, or $11 million, for the Gaming Integrity Commission).
  - Six percent – or $65 million – would be set aside for racetrack purses.
  - One percent – or $11 million – would be dedicated to gambling addictive services.
- In order to create scholarship programs sustainable through fiscal year 2012 as the amendment dictates, the programs would cost an estimated $92 million in the 2009 academic year.
- Administrative costs to implement the scholarship program are estimated between $1 and $2 million annually.
- The proposed constitutional amendment creates a Gaming Integrity Commission. Expenditures associated with the commission include estimated start-up costs of $7.7 million and an annual operating cost of $11.7 million.
- While the amendment requires a portion of the revenue to be transferred to local governments, the local government share may be reduced by one percent ($11 million) to support administrative costs for the Gaming Integrity Commission. The revenue may only be used to support economic development purposes and may not be used to supplant resources already designated for local governments.
- The proposed amendment would also result in a significant increase in the number of problem gamblers in this state. The cost to treat these individuals will far exceed the $11 million set aside under the amendment for this purpose.

Please contact me if you have any questions.

Sincerely,

Timothy S. Keen

Timothy S. Keen
Director

Attachment

State Issue 3

Summary of Proposal and Fiscal Analysis

State Issue 3 would significantly expand gambling in the state of Ohio. The amendment would allow the seven racetracks in the state and two other specific locations in Cleveland to operate a maximum of 31,500 slot machines statewide.

Revenue Generation & Distribution: As later described in detail, OBM estimates gross revenues from slot machines in the first full year would total $1,080 million. Fifty-five percent of the gross revenues would be kept by gambling facility owners. Thirty percent of the gross revenues would fund two college scholarship programs. The total gross revenues would be divided between facility owners ($594 million), the scholarship program ($324 million), local governments ($86 million minus up to $11 million for the Gaming Integrity Commission), race track purses ($65 million), and gambling addictive services ($11 million).

Scholarship Programs: The two scholarship programs created by the amendment would be merit-based and the high school graduating class of 2009 would be the first cohort of students eligible to receive the scholarships, which would be paid in fiscal year 2010. Assumptions were made in defining the program in order to estimate program expenditures. The initial assumption is that a student would only be eligible for one type of scholarship. The first type of scholarship, which shall be referred to as the Section 12(A) program, is generally defined in terms of eligibility and allows the Board of Regents some flexibility in designing the program. The eligibility criteria defined in the section includes college readiness and public service criteria. Based on student participation estimates, approximately 17,200 students in the graduating class of 2009 would be eligible for the Section 12(A) program to be paid in fiscal year 2010. The second type of scholarship, which shall be referred to as the Section 12(B) program, is strictly defined to be awarded in uniform amounts to the top five percent of graduates of each public and non-public high school from 2009 through 2020. Approximately 6,650 students are potentially eligible in fiscal year 2010. However, based on assumptions concerning higher education attendance and attendance out of state, actual scholarship utilization would be less. Estimates of scholarship usage are 13,725 for Section 12 (A) and 4,740 for Section 12 (B). Based on the estimates developed, $942,000 would be expended on initial administrative costs in fiscal year 2007 (six months) and ongoing administrative costs would range between $1-2 million depending on the Board of Regent's interpretation of the type of scholarship programs that would be developed. Administrative costs to manage the two scholarship programs would be taken from the total amount allocated for scholarships ($324 million) and the amount remaining after administrative expenses would be reserved for the two defined scholarship programs (Section 12 (A) and (B)).

To provide some context, the state of Ohio provided nearly $2.5 billion in fiscal year 2006 to support direct student grants and the statewide higher education system.

Gambling Regulation: The amendment also creates a Gaming Integrity Commission to regulate all gambling authorized under this proposal. The start-up costs of this commission are estimated to be $7.7 million. Ongoing operating costs for the commission are estimated to be $11.7 million per year.

This proposal will result in increased state expenditures on local governments, horse race track purses, and gambling addictive services. Expenditures are expected to align with dollar amounts that correspond to the percentage distribution of AGR specified in the proposal to each of these entities. Based on estimated adjusted gross revenue (AGR) of $1,080 million, expenditures would increase by up to $86 million to local governments, $65 million to horse race track purses, and $11 to gambling addictive services. The costs of the Gaming Integrity Commission are taken from the local government allocation, which could decrease the local government share by up to $11 million.

Description of Proposal

State Issue 3 proposes two college scholarship programs which would be funded by 30 percent of gross revenues from slot machines at the seven racetracks in the state and two other specific locations in Cleveland. Under this proposal, the Board of Regents would design and administer both scholarship programs. The amendment requires that the scholarship programs begin with students who graduate two graduating classes after the passage of the amendment. If the amendment passes in November 2006, high school seniors graduating in the spring of 2009 would be the first group eligible for the scholarships.

Scholarship Programs: Funding for the scholarship programs and associated administrative costs would not be subject to appropriation by the General Assembly, and eligibility criteria for both scholarship programs would be solely determined by the Board of Regents. Additionally, expenditures for administrative costs associated with the scholarships and the amounts available for award through the scholarship programs are directly impacted by the variability of the revenues generated by the slots.

The amendment establishes basic guidelines for the two proposed scholarship programs. The Section 12(A) program is briefly described in the proposal and would reward students for college readiness activities, meeting testing requirements, advance placement courses, and volunteer work. Grant amounts from this program would be determined under a method developed by the Board of Regents. The Section 12(B) program is briefly described in the proposal and stipulates that for the first twelve eligible graduating classes, all students in the top five percent of their graduating class who graduate from accredited public and non-public high schools in Ohio would be eligible to receive a scholarship. These students would receive uniform tuition grants and the grant amounts may not exceed the weighted average tuition charged by Ohio's public four year institutions of higher education. All scholarships under both programs are to be used at an institution of higher education that has their principal offices located in Ohio and are authorized by the Ohio Board of Regents.

Types of Gambling Authorized: The amendment authorizes the use of slot machines at the seven horse race tracks in the state and two specific locations in downtown Cleveland. Each site can have up to 3,500 slot machines, with some ability to transfer machines within a county. No site can exceed 4,000. The two specific locations in Cleveland are permitted to petition the voters of Cuyahoga County for authorization to add table games. This petition to the voters may occur at the fourth general election (four years) following the approval of this amendment.

Gambling Regulation: The amendment creates a Gaming Integrity Commission to regulate slot machines in Ohio. The commission is to have five members. The Governor appoints three members, with no more than two members from the same political party. The Speaker of the House and the President of the Senate each appoint one member, but those two members cannot belong to the same political party. The operating costs of the Gaming Integrity Commission are paid from funds allocated to the counties, townships and municipalities, and cannot exceed one percent of statewide adjusted gross revenue. The details and operations of the commission are to be determined by the General Assembly within six months of passage of this amendment. The regulatory duties will be transferred to the Lottery until such legislation is passed. Additionally, one-time licensing fees may be assessed to the nine slot machine sites to pay for the start-up of the Gaming Integrity Commission. If table games are approved at the two sites in downtown Cleveland, a one time fee of $15 million must be paid by each site. No other licensing fees may be assessed on the facilities.

Tax Exempt: In addition to the provision forbidding on-going licensing fees, the amendment also forbids fees on or taxation of gross slot machine revenue, amounts wagered, or proceeds from other authorized games.

Aggregate adjusted gross revenue (AGR), total wagers less total winnings from the slot machines, is allocated as follows in the amendment:

Proposed Adjusted Gross Revenue Distribution

Entity	Percent of AGR
Owner's Revenue Share	55%
Scholarship Program	30%
Counties, Townships, and Municipalities*	8%*
Race Track Purses	6%
Gambling Addictive Services	1%

** Up to 1% of AGR from the County, Township, and Municipality allocation can be used for operation of the Gaming Integrity Commission.*

All government expenditures resulting from State Issue 3, except the scholarship programs, are subject to appropriation by the General Assembly.

Local Governments: The eight percent allocation to the counties, townships, and municipalities is broken into smaller more specific percentages that target the areas where the casinos will be located. It is important to note, up to one percent of Adjusted Gross Revenue can be used for administration of the Gaming Integrity Commission. The proposal clearly states that this allocation is to come from the local government share, but the appropriation amount is to be determined by the General Assembly. Dollars allocated to local governments must be used for economic development activities. The local government allocation is as follows:

Counties, Township, and Municipalities Adjusted Gross Revenue Distribution

Entity	Percent of AGR
Municipalities and Township where facilities are located	0.6%
County and County Seat where facilities are located	3.0%
County where the non-track facilities are located [*Cuyahoga County*]	0.8%
City where the non-track facilities are located [*Cleveland*]	0.8%
County and County Seat with a population greater than 750,000 and no more than one facility *[Hamilton County & Cincinnati]*	0.4%
All other Counties based on the Local Government Revenue Assistance Fund (LGRAF) formula	2.4%

Components of Fiscal Analysis

Revenue Estimate and Methodology

To determine the fiscal impact of the proposed State Issue 3 amendment, first the potential revenue from the slot machines was estimated.

Slot Machine Estimate and Methodology

The estimate was developed by assembling a list of Ohio counties whose population lives within fifty miles of one of the proposed nine slot machine sites. A few counties in Kentucky and 50% of the population in two counties in Michigan were also included given their proximity to slot machine sites and the lack of slot machine outlets in Kentucky. Also Hamilton and Butler Counties were discounted by 10% to reflect the fact that the Indiana casinos would be closer than the Ohio facilities to some residents. It was assumed that a percentage of people within this 50 mile radius are the most likely to make multiple trips to the slot machine sites. Census population estimates from July 2005 were used to determine the adult (over 18) population in each of these counties. Figures from Harrah's 2006 and 2003 surveys – "Profile of the American Casino Gambler" – were used to determine the participation rate of the population and the average number of visits an individual would make. A participation rate of 33% was used. This was based on participation rates of market areas with casinos in the 2003 survey. The 2006 survey reported that U.S. adults who gambled in the past twelve months visited a casino on average 6 times per year. Average visitation rates include visits to casinos close to a gambler's residence and visits to resort locations such as Las Vegas. Using the population data, participation rate, and average number of visits, a potential visitation statistic was developed. The estimated market population for Ohio slot facilities from this analysis totaled 2.4 million. If those who participated go an average of 6 times a year, annual visitation at Ohio facilities would total 14.2 million.

Next data from Illinois, Indiana, Iowa, and Missouri casinos was used to determine the AGR per admission. Statistics from the 43 casinos in the four states during the 2002 – 2005 time periods were examined with an emphasis placed on the 2005 data. The data showed considerable variation. In 2005, the AGR per admission ranged from $44 to $156. An AGR per admission of $75 was used. This was approximately equal to the average AGR per admission from all 43 casinos examined. **An estimated total AGR for Ohio of $1,080 million resulted from this approach to the analysis.**

A second method of estimation was also explored. A visitation statistic was developed using the total adult (over 18) statewide population. A participation rate of 33% and average 6 visits per participant was again assumed. This produced 17.2 million visits. In an effort to account for the continuation of visits to out-of-state casinos in Indiana, Michigan, Nevada, New Jersey, and West Virginia by some Ohio participants net of out-of-state visits to Ohio, this visitation statistic was discounted by 15%, or approximately one out-of-state visit per participant, yielding total visitation at Ohio casinos of 14.7 million.

Examining the number of admissions and the number of slot machines in Illinois, Indiana, Iowa, and Missouri revealed that at each site there were approximately four admissions per slot machine per day. Using this statistic, along with the visitation statistic, produced a demand in Ohio for 10,035 slot machines statewide, approximately a third of the number authorized. Using AGR per slot machine per day, statistics from Indiana, Illinois, Iowa, Missouri, Delaware and West Virginia produced an average of approximately $270. This would generate a statewide AGR of approximately $990 million.

The 3,500 slot machines authorized per Ohio location exceed the number of slot machines at all 43 facilities examined in Illinois, Indiana, Iowa and Missouri. The average number of slot machines at the 43 facilities was only 1,357. If Ohio sites were to average this number of slot machines, the nine facilities would house 12,213 slot machines in total.

The proponents of State Issue 3 used a third approach to determine statewide AGR. The amendment authorizes 3,500 slot machines at each of the nine sites. This means that Ohio could potentially have 31,500 slot machines at one time. According to the "Vote YES Issue 3 Fact Book", the proponents of State Issue 3 use an AGR per slot machine per day of $247 and assume all slot machines authorized will be employed. These assumptions produce a statewide AGR of approximately $2,840 million.

This is a vastly different result than the $1,080 million calculated using the market population simulation and the $990 million calculated based on slot machine demand. These estimates suggest that the number of proposed slot machines far exceeds the potential Ohio demand for gambling. If the potential statewide AGR is $1,080 million, this would translate into a demand for approximately 11,830 slot machines statewide earning $250 per machine per day, requiring less than 40 percent of the proposed number of machines.

The approach using the market population simulation is similar to analysis done by other states as well as the approach used by consulting firm Crowe, Chizek and Company in a 2000 study provided to the Lottery Profits Review Commission. This approach is preferred due to its basis in actual population statistics as well as documented participation and visitation rates from the Harrah's survey. Even if all authorized slot machines were employed at the nine Ohio gambling locations, the dollars available for gambling would be limited by the market population. Thus if Ohio utilized 31,500 slot machines, the AGR per slot machine per day could drop to $94.

Revenue Timeline

Based on the experiences of other states, it takes 12-18 months to get gambling venues operational once the authority is granted. The proposal does not specify the type of structures required for gambling. The possibility of temporary structures while permanent structures are being built may affect the timing and amount of revenue. Given that it takes at least 12 months for implementation, FY 2008 revenues would be a partial year (25%). FY 2009 revenues would represent the first full year of slot machine revenues.

The following chart displays expected revenue for the first three years of the proposal:

Projected Statewide AGR

Fiscal Year	State-wide Adjusted Gross Revenue (AGR)
2007	$0.0 million
2008	$270 million
2009	$1,080 million

Using the projected AGR for FY 2009, revenues distributed to the designated sources would be as follows:

Projected AGR Dollar Distributions

Entity	Dollar Distribution
Owner's Revenue Share	**$594 million**
Scholarship Program	$324 million
Counties, Townships, and Municipalities*	$86 million*
Race Track Purses	$65 million
Gambling Addictive Services	$11 million

** Up to 1% of AGR from the County, Township, and Municipality allocation that can be used for operation of the Gaming Integrity Commission would total $10.8 million from the local government distribution.*

The two locations in Cleveland would be eligible to petition the Cuyahoga County voters for table games in November, 2010. It would likely take at least 6 months to begin table game operations. Thus additional revenue from these locations would substantially affect FY 2012. Based on the data from the casinos examined, it is reasonable to assume an additional $10 AGR per admission at those two locations. This would produce an additional $55 million each year.

Impact on Lottery: Gambling activity has the potential to impact other sources of state revenue. Lottery revenues are likely to drop due to increased gambling opportunities in the state. Based on the experiences of other states, lottery sales are likely to drop by four to five percent. Sales revenue would decrease by $100 to $110 million, and in turn Lottery Profits Education Fund (LPEF) transfers would decrease $27 to $35 million annually. Under the state's foundation program for education, any decrease in lottery profits must be made up by higher General Revenue Fund expenditures.

Taxation: Tax revenue for other sources may be affected as well. The proposal includes language prohibiting taxation of gross revenues, wagering, or other proceeds from activities authorized by the amendment. If this is interpreted to prohibit taxation of gross revenue under the commercial activities tax, the state would forego approximately $2.8 million in annual revenue. Further, the diversion of resources from other taxable activities to gambling could affect both the commercial activities tax and the sales tax.

Risks to the Estimate

Looking at the detailed casino-by-casino data for AGR per slot machine per day statistics from the 43 casinos reveals a rather large range. The AGR per slot machine per day ranged from $85 to $842. Thus there is potential for both upside and downside risk to the AGR per slot machine per day depending on demand.

It is possible that the current estimate may overstate the revenue potential for slot machine operations in the state. Research and anecdotal evidence show that location is a key determinant of casino prosperity. Better locations and locations in high income areas produce more revenue. Research by Cummings Associates shows that the distance traveled to a casino affects the number of visits one makes. As logic would indicate, the closer one is the more visits one makes, and conversely those that live farther away visit casinos less often. This principle would explain why Iowa, which has 20 casinos and racinos, has higher admission levels than Illinois, which only has nine casinos. Ohio will only have nine casinos. Location also influences the number of out-of-state visitors at facilities. For instance, a large portion of visits at Indiana casinos are from the large metropolitan areas on Indiana's border – Chicago, Cincinnati, and Louisville. Ohio would not be similarly positioned, with no major metropolitan area on its border.

Examining casinos in the Chicago area demonstrates how location and population affect revenue potential. The Elgin Grand Victoria Casino made $842 per slot machine per day in 2005. This was close to $200 more than the next highest earner in the Chicago area (Harrah's - $655). The Illinois Department of Revenue attributes the difference in the performance at the Elgin casino to the casino being closer to a captive market and wealthier population than the other Chicago casinos.

Impact of Location: Under the proposal all of the locations of the gambling facilities in Ohio are predetermined, rather than using a bid process to choose the most favorable sites. With the exception of the two Cleveland facilities, the seven racinos are in less than ideal locations. Major populations centers, such as Dayton, are underserved, with the closest location being the Lebanon Raceway, an approximately 30-40 minute drive. In Franklin County, the two racinos would be south of Columbus. One location would be directly south in a sparsely populated area. The other location would be in a southwestern suburb of Columbus. The population of the Columbus metro area is significantly north of the city center and these two locations. Further, the higher income areas of the region are generally north of the city as well. Both of these factors would affect the attractiveness and participation levels at the two Franklin County racinos.

The data utilized in this analysis are from mature gambling markets, and much of the data is from full casino sites-- not slot machine only sites. This adds to the downside risk in the estimate. Further, the quality of the facilities, the timeline in which they are built, and the associated restaurants, hotels, and entertainment may not be subject to state oversight. These elements affect revenue. Many other states with competitive selection of gambling sites have more control over the nature and location of the facilities.

Scholarship Expenditure Estimate and Methodology

Description of the Proposed Programs

The State Issue 3 amendment creates two types of merit-based scholarships and requires that eligibility begins with the graduating class of 2009 from both public and nonpublic high schools. The first actual awards would be distributed in fiscal year 2010. The funds allocated for the scholarships and administration of the scholarship programs are not subject to appropriation by the General Assembly. A requirement in the amendment also states that these scholarships must supplement and not supplant current state per pupil post-secondary education funding.

The Section 12(A) program does not have restrictions in terms of uniformity of grants; however, the proposal stipulates that a scholarship program be developed for those students who have met four basic eligibility criteria and any additional criteria as determined by the Board of Regents:

1. Complete a rigorous core curriculum;
2. Participate in college readiness activities;
3. Comply with testing requirements at any public and nonpublic high school; and
4. Participate in community service activities.

The Section 12(B) program would be awarded to students who graduate in the top five percent of their high school class (both public and nonpublic high schools). The amendment requires that for the first 12 years, uniform scholarships be provided to these students (from 2009 to 2020).

A student meeting eligibility criteria would be able to use the scholarship to attend any public or private not-for-profit institution of higher education in the state that has its principal office located in Ohio and has received a certificate of authorization, as defined in Ohio Revised Code Section 1713.02, by the Board of Regents to award degrees, certifications, or provide coursework towards degrees or certifications beyond high school completion. The scholarship may only be applied to undergraduate tuition. Additionally, there is no time limit explicitly stated within the proposal. Students choosing to attend for- profit institutions of higher education or institutions that have principal offices located outside of the state of Ohio are ineligible for the scholarships.

Student Participation

The following estimates take into account that there is a significant difference between scholarship eligibility and actual utilization. For the purposes of providing an estimate of actual student participation in the two scholarship programs, student utilization has been estimated to calculate plausible scholarship amounts and total expenditures.

Student Participation - Section 12(A) Program

Section 12(A) of the State Issue 3 amendment provides general guidance in terms of scholarship eligibility stating that four basic criteria and any additional criteria as determined by the Board of Regents must be met in order to receive a tuition scholarship.

Based on a trend analysis of data for public and nonpublic high school graduates and data from the Board of Regents' *2005 High School Transition Report*, the total number of students who have taken a complete college preparatory curriculum and would be eligible for the Section 12(A) program in fiscal year 2010 is estimated to be 22,200. Utilizing the assumption that a student would only be eligible to receive one type of scholarship would reduce this number to approximately 17,200 students eligible for the Section 12(A) program scholarship. Eliminating the students from this population who would enroll at an out of state institution would further decrease this number to 13,725.

Student Participation - Section 12(B) Program

Section 12(B) of the State Issue 3 amendment requires uniform scholarships be awarded to students who graduate in the top five percent of their high school class in the first 12 years of operation (from class year 2009 to 2020). The first scholarships would be paid in fiscal year 2010.

Based on a trend analysis for public and nonpublic high school graduates, the total number of students who would be eligible for the scholarship in fiscal year 2010 is estimated to be 6,650. Given this particular population we can assume a greater college going rate beyond the typical 66% for Ohio high school graduates. Utilizing the assumption that 95% of these students will pursue higher education, approximately 6,320 would be eligible for the Section 12(B) program. However, the estimate must account for the increased level of mobility of this particular student population as a result of their high class rank and presumably other factors that would make them highly competitive for merit based grants and scholarships on the national level. Considering these factors, this analysis assumes a portion of students (approximately 25%) within the top five percent of their graduating class would leave Ohio for an out of state school regardless of the availability and amount of the scholarships provided (1,580). After these adjustments this analysis assumes an estimated 4,740 students in the class of 2009 would be eligible and utilize the Section 12(B) program scholarship.

Models for Expenditure of Scholarship Funds

There are at least two basic options the Board of Regents may employ to distribute the scholarship funds:

Scenario One: Distribute the total slot machine proceeds generated in each year to the total population eligible in each particular year. In this scenario, the maximum award level would be granted to each student eligible resulting in $183 million distributed. Approximately $141 million of the $324 million allocated for scholarship awards would remain available for distribution in future years. This particular approach provides awards in the first year of the scholarship programs at levels that are unsustainable in subsequent years.

Scenario Two: Distribute a portion of the proceeds generated each year for each high school graduating class cohort to be used throughout their higher education career. In fiscal year 2010, the amount of scholarships distributed to the high school graduating class of 2009 is estimated to be $92 million. The remaining $230 million would be held in reserve to provide scholarship awards for the class of 2009 throughout the duration of their higher education careers.

Scenario One would result in variable awards on an annual basis since award levels would be dependent on the number of students eligible for scholarships that utilize awards and the slot machine proceeds generated that year. The risk in this method is that the first year scholarship awards would equal the full tuition maximum amount since only one cohort of students would be eligible. This would result in providing scholarship awards in Year 1 at levels that would be unsustainable in subsequent years. However, the grants for the first three years could be reduced to amounts that are judged to be sustainable levels. The remaining funds could be place in reserve for future contingencies.

Scenario Two would provide a more stable award amount for each class of students, though it would still be dependent on the number of students eligible who would utilize the awards and the amount of funds generated. However, students would know how much they could potentially be eligible for in each year. Scenario Two would ensure built-in grant award stability for classes of students already participating in the program if slot machines were eliminated at a later point in time.

An example of how the Section 12(A) and (B) programs may be applied using Scenario Two is that the students eligible for the Section 12(B) program (4,740), could be awarded a scholarship equal to the weighted average tuition (WAT) at a four-year public institution of higher education, which is estimated to be $9,888 (assuming eight percent increase each year over the current year WAT) costing approximately $48 million. The remaining students eligible that are estimated to utilize the scholarship for the Section 12(A) program (13,725) would receive varying amounts of tuition grants based on criteria established by the Board of Regents. The award amounts would be established in the first year of program implementation and would account for student retention and tuition growth to ensure grant award stability in each year. Disbursements for each graduating class cohort by year could be planned so that in the final year of student scholarship eligibility, the Board or Regents would retain a cash balance to account for any unanticipated expenses such as increases in student retention or greater than eight percent tuition growth in any one year.

The following table illustrates how the scholarship programs could be implemented beginning with the high school graduating class of 2009 as the first student cohort utilizing the estimated $324 million in VLT proceeds allocated for scholarship distribution in fiscal year 2010.

Scenario Two: Scholarship Award Model

Multi-Year Distribution of Fiscal Year 2009 Proceeds Class of 2009 Cohort	Total Eligible Students for Each Type of Scholarship	Scholarship Amounts	Total Amount Allocated for Each Type of Scholarship	Total Set-Aside After Award Distribution for 2009 Cohort Awards in Years 2 through 4
2009-2010 Academic Year	Section 12(A):13,725	$3,325	$45 million	$230 million
	Section 12(B): 4,740	$9,888	$47 million	
2010-2011 Academic Year	Section 12(A): 9,608	$3,325	$32 million	$152 million
	Section 12(B): 4,270	$10,680	$46 million	
2011-2012 Academic Year	Section 12(A): 8,647	$3,325	$29 million	$79 million
	Section 12(B): 3,840	$11,534	$44 million	
2012-2013 Academic Year	Section 12(A): 7,782	$3,325	$26 million	$10 million
	Section 12(B): 3,455	$12,457	$43 million	

Note 1: The table assumes $324 million will be available in fiscal year 2010 for award distribution.
Note 2: $2 million set-aside in FY 2010 for administrative costs (deducted from the $324 million total).
3: Assumptions used for the award and eligibility calculations:

- 70% retention rate for Section 12(A) students and 90% for Section 12(B) students from year one to year two.
- 90% retention rate for both groups for each year thereafter.
- $3,325 average grant award, awards would be variable depending on program requirements and individual student achievement.
- $10 million cash balance could be used for students that have delayed higher education enrollment, but qualify for one of the two scholarship programs; have dropped out of an institution of higher education and have re-enrolled at a later date; enrolled in an Ohio institution of higher education after leaving an out-of-state institution; or completion of undergraduate degree is not progressing at the anticipated four years (unless time and or credit hours earned restrictions are part of the program).

Administration of the Learn and Earn Program

The proposal creates the Learn and Earn Scholarship Program; however the actual program and its operations have yet to be defined and as a result of the many uncertainties actual costs are difficult to determine. For purposes of this analysis, some assumptions were made by looking at other states, such as Georgia, that have implemented similar programs.

Regardless of the model used, the Board of Regents would have approximately 30 months to develop and implement a statewide system that could accommodate all public and nonpublic students beginning with scholarships awarded to the 2009 high school graduating class.

Program Administration

The state of Georgia created the Georgia HOPE Scholarship Program in 1992. It is funded by proceeds of the State Lottery. The Georgia Student Finance Commission has approximately 51 full time equivalent employees (FTEs) to operate the state's student loan corporation and student financial assistance programs, but only a portion of total operations is dedicated to the Georgia HOPE program. Several basic assumptions could be made when determining the start-up costs necessary to design, develop, and implement these new scholarship programs in Ohio:

1. Design of the Program would require additional staff to research and gather best practices from similar programs.
2. Funds would be needed to determine program requirements and begin design and implementation immediately.
3. The new program would require outreach and training for school district guidance counselors, Ohio College Access Network (OCAN) affiliates, colleges and universities, students, parents, etc.

Assuming that the administration of the program would reside in the State Grants and Scholarships division of the Board of Regents, which currently employs nine full time equivalent (FTE) staff to administer state grants and scholarships, the division would grow by an additional 14 FTE and contract staff costing approximately $542,500 in fiscal year 2007 (funding beginning January 2007) for salary and fringe benefits.

To fully outfit an office with computers, printers, workstation environments, provide for branding and marketing services for the new program, and outreach to school districts and various college access groups would cost approximately $400,000 in fiscal year 2007 (funding beginning January 2007). In total, approximately $942,500 would be needed initially until the program specifications were developed. Ongoing administrative costs would range between $1-2 million depending on the Board of Regent's interpretation of the scholarship program to be developed and the implementation strategy for those programs. Actual operating expenditures would be deducted from the total amount allocated for the scholarship programs and would not be subject to appropriations by the General Assembly.

Gaming Integrity Commission Expenditure Estimate

The proposal creates a Gaming Integrity Commission to regulate all gambling authorized in the amendment. It stipulates that the Commission be made up of five members appointed by the governor, speaker of the house and president of the senate. The commission is charged with the responsibility of regulating all gambling activity associated with this amendment. To support such activities the amendment allows up to one percent of the statewide AGR from the AGR allocation for local governments to be directed to the Gaming Commission for operations. Adjusted gross revenues of $1,080 million per year would translate into no more than $10.8 million for the Gaming Commission operations from this source. Unlike the scholarship revenues, these revenues would be subject to appropriation by the General Assembly.

Based on a review of the organizational structures of other states, the associated duties of executing the regulation of gambling in Ohio would likely require a staff of approximately 121 FTE. The majority of this staff would consist of law enforcement personnel (90 FTE) stationed at the gambling facilities across the state. There would also be a need for central administrative staff (31 FTE) to perform background checks, audit sites, deal with legal issues, and coordinate the initiatives of the commission.

Most of the Gaming Integrity Commission staff would consist of law enforcement personnel stationed at the nine facilities. Based on models from Indiana and Illinois, there would be a need for eight general law enforcement personnel, one supervisor, and one administrative assistant at each site. Other states often contract with the state police to provide for this function. If Ohio contracted with the State Highway Patrol the personnel costs for the nine sites would be approximately $7.8 million.

The remaining staff members for the commission would provide central staff support, legal and auditing services, and background checks. The personnel costs of this staff would be approximately $1.5 million. This includes the cost of the commission members. After the initial start-up activities, the commission would likely meet six times per year and require approximately 60 hours of service per year from each member.

Other necessary expenses, including purchased service, maintenance, and equipment, would total $2.4 million. Thus estimated commission expenses total $11.7 million. There is a $900,000 dollar gap between the amount the commission could expect to receive from the AGR allocation and projected costs.

To supplement the AGR revenue the commission could use licensing fees as a source of revenues. The amendment only allows for one-time fees to be levied against the facilities to cover start-up costs. However, it is typical for states to not only levy fees on facilities, but also suppliers of gambling equipment and employees for the facilities. Based on information from Indiana and Missouri, a one time application fee of $10,000 and an annual license fee of $5,000 might be reasonable for suppliers of gambling equipment. A survey of seven other states showed an average of two licensed suppliers per location. With nine sites Ohio could have approximately 18 suppliers of gambling equipment. Thus application fee revenue would total $180,000, and annual licensing fees would total $90,000. The application and licensing fees are levied to cover investigation costs. When the fee amounts are not sufficient to cover investigation costs, Indiana and Missouri both require reimbursement for additional costs from the licensee.

Occupational licenses are usually of two types – key personnel and other employees. (Sometimes the occupational licenses for other employees are broken down into gambling and non-gambling.) Based on Illinois Gaming Board Commission Minutes, it is likely that a facility will have 10-12 key individuals or entities. The application fee for these individuals might be $1,000 with a $75 annual renewal fee. Here again, investigation costs can be extensive. In Indiana they can run anywhere from $3,000 to $20,000. Thus all additional expenses could be billable to the individual. If approximately 100 people require this type of licenses application revenues would total $100,000 and annual fee revenues would total $7,500.

All other employees would likely need a license as well. The requirements and investigation efforts are less extensive for these employees. The fees for this type of employee would likely be $100 for the application and $50 annually for the licenses. A survey of gambling employment data from 18 other states revealed average employment per site of approximately 900 individuals. In Ohio with nine sites, total employment in the gambling sector would be approximately 8,100. Application revenues would total $810,000 and annual license revenue would be approximately $405,000.

Application revenues for all licensees would total $1.1 million in the initial start-up phase. Assuming 20% turnover, after start-up, approximately $200,000 annual application revenues could be expected. Annual license fees would total $500,000. Thus after start-up fees would add $700,000 to the revenue stream for commission operating costs. Revenue from AGR and fees would total $11.5 million. If costs total $11.7 million, there is a $200,000 gap between revenues and expenses in the first year. Growth in AGR might allow revenues to cover expenses in later years.

The amendment allows the state to charge the nine gambling facilities a one-time fee to cover the start-up costs of the commission. In the initial stages of the commission, there would be a need for more extensive work by the commission members. All of the central support staff would be necessary and thus personnel costs for this staff for two years should be included in start-up costs. Equipment and maintenance costs for two years and the cost of training for officers would be a part of the initial costs for the commission. Estimated costs for all start-up expenses total $7.7 million. Divided between the nine casinos, costs per casino total approximately $855,000.

Other Expenditures

Impact of Local Government Share: Expenditures related to the allocations for counties, townships and municipalities, for race track purses, and for gambling addictive services would be subject to appropriation by the General Assembly. These expenditures are expected to align with the designated percentages contained in the proposal. Based on an estimated $1,080 million in statewide AGR, increased state expenditures to local governments would total $86 million minus up to $11 million for the Gaming Integrity Commission. The proposal specifies that all increased local government expenditures must be for economic development purposes and supplement not supplant monies already designated for those governments. Assuming the $11 million for the Gaming Integrity Commission is subtracted from the total local government allocations as equal percentage reductions, the $75 million remaining would be distributed as follows:

Dollar Distributions to Local Government Entities

Entity	Dollar Distribution
Municipalities and Township where facilities are located	$5.6 million
County and County Seat where facilities are located	$28.1 million
County where the non-track facilities are located [*Cuyahoga County*]	$7.5 million
City where the non-track facilities are located [*Cleveland*]	$7.5 million
County and County Seat with a population greater than 750,000 and no more than one facility *[Hamilton County & Cincinnati]*	$3.8 million
All other Counties based on the Local Government Revenue Assistance Fund (LGRAF) formula	$22.5 million

Race Track Purses: Expenditures on horse race track purses, payments to racers, would increase by approximately $65 million. This would more than double the $54 million spent on horse race track purses in 2005, according to the Ohio Racing Commissions 2005 Annual Report and conversations with their fiscal officer. Finally, an increase in expenditure of $11 million on gambling addictive services would be expected.

Gambling Addiction Services: As noted above, $11 million would be available in FY 2009 to support gambling addiction services (i.e., one percent of AGR). According to a recent Cleveland State University study, casinos across Ohio would result in more than 109,000 new pathological and problem gamblers. Experts conservatively estimate that outpatient treatment costs for gambling addiction cost $3,500 per addict. Using this conservative estimate, the cost for treating 109,000 new gambling addicts in an outpatient setting would be $381,500,000. If residential treatment is required for any of the more than 109.000 new gambling addicts, residential costs can cost between $3,500 and $35,000 per addict.