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RECENT TRENDS IN THE CALIFORNIA HORSE RACING INDUSTRY

A Background Paper

for the

Assembly Governmental Organization Committee

VALERIE K. BROWN
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The California horse racing industry is an industry in transition. While firmly established as a California institution since the electorate approved a constitutional amendment authorizing pari-mutuel wagering on horse races in 1933, the industry now must contend with increased competition and declining interest in the product. Given changing demographic and consumer demands, the industry now faces many challenges in order to maintain its status as a viable entertainment and gambling option for California residents.

The health of the California horse racing industry is not an insignificant issue for California. The horse racing industry adds to California's economy by employing over 50,000 residents and generating over $3 billion in economic activity. Moreover, millions of dollars in industry-generated tax revenues annually flow to state and local treasuries.

The purpose of this hearing is to examine recent economic trends in the horse racing industry to determine what, if any, actions should be considered by the Legislature to address one dominant aspect of the industry's slide: declining on-track attendance and wagering activity. Attention will also be focused on what initiatives have been taken in other states on behalf of and in support of their respective horse racing industries, and whether such actions may be appropriate in California.

The California Horse Racing Industry

The state is a major participant in and a beneficiary of the California horse racing industry. Pari-mutuel wagering was in part originally supported by the electorate as a means to fund health, safety, and maintenance projects at California's state and local fairgrounds. Today, approximately $38 million in horse racing revenue is annually distributed through the state to the Division of Fairs and Expositions within the Department of Food and Agriculture for the benefit of the 81 County and Agricultural Fairs located throughout the state.

As one of California's oldest gambling industries, the horse racing industry has contributed over $3 billion in state license fees since its inception. Horse racing also has a longstanding record of service to the state and local communities through charitable contributions, creation of jobs, and through its contribution of tax revenue to both state and local government. For example, in the 1995-96 fiscal year, the state General Fund received nearly $70 million in license fees. Furthermore, more than $7.7 million was distributed to the local governments where the racing activities took place and over $1 million was contributed to charity beneficiaries.

The California horse racing industry is comprised of the following principal participants: horse owners, breeders, trainers, racing associations and their employees, county fairs and district agricultural associations, the bettors/fans, and the state. The participants are linked through the pari-mutuel pool, the total amount of money wagered on a horse race (i.e., the "handle"), which is the primary source of funding for the industry. The majority of the pari-mutuel pool is returned to the winning bettors (approximately $.80 or $.85 on the dollar, depending on the type of bet), while the remaining portion (i.e., the "takeout"), is retained and divided among the other participants. The primary economic incentive for the horsemen is a share of the pari-mutuel pool which is paid out in the form of purses (i.e., prize money going to the winners and top finishers in horse races), which averages approximately $.04 on a dollar bet. Purses for California race meetings during 1996 totaled more than $135 million.

California horse race meetings are conducted by racing associations or fairs, and in exchange for their role in the production of horse racing meetings, the associations also receive a percentage of the pari-mutuel pool in the form of a commission which average approximately $.04 on a dollar bet. The thoroughbred racetracks are Santa Anita, Hollywood Park, Del Mar, Golden Gate, and Bay Meadows. Thoroughbreds, harness, Quarter Horses, Arabians, and Appaloosa's are run at Los Alamitos racetrack. Mixed breeds and thoroughbreds also race at nine county fairs. In addition, simulcast-only wagering activities take place at 20 facilities throughout the state, including four Indian reservations. In the 1995-96 fiscal year, track commissions retained by California racing associations totaled more than $143 million.

The breeding and owning of California-bred horses is an important segment of the California horse racing industry which also receives a share from the pari-mutuel pool. Every racing association licensed to conduct a horse racing meeting in California must provide each racing day for the running of at least one race limited to California-bred horses. In 1996, the breeders and owners of California-bred thoroughbreds and the owners of California-based stallions received almost $11 million in premiums through the California's breeding incentive programs. In addition, more than $15 million in purses was made available for races restricted to California-bred horses. The breeding incentive programs derive its funding by retaining approximately .34% - .45% from the take-out.

Recent Industry Trends

Declining Popularity or Increased Competition?

Despite the excitement resulting from this year's Triple Crown competition, the industry is experiencing difficulty in expanding its fan base and increasing demand for the product. Much of this is attributable to an aging and declining fan base, poor television and media coverage, and increased competition with other forms of gambling.

The robust national growth in the gambling industry hasn't included the horse racing industry. Since 1982, national wagering activity has more than quadrupled, with the largest percentage increases occurring in casino games, cruise ship and riverboat gambling, and Indian gambling. In 1980, only 14 states offered lotteries, by 1995 this number has risen to 37. Similarly, in 1982 only the states of Nevada and New Jersey offered legalized casino gambling, by 1995, 26 states offered some form of casino gambling. Horse racing in the 1970's maintained a 28% share of the national gambling market; by 1996, that market share had eroded to less than 8%. California has major gambling competition within its own borders as well, with an estimated $7.5 - $9 billion is wagered annually at card clubs; over $2 billion wagered on the state lottery, compared with the $3.5 billion on California horse racing (this includes out-of-state wagers on California races).

Horse racing's problems competing with other gambling enterprises appear to be fundamental to the sport. This is due in part to the fact that people are more comfortable playing mechanical games of chance and table games versus the difficulty of attempting to handicap horse races. Moreover, horse races are usually run on ½ hour intervals, as opposed to the harried pace of casino gambling which generally can respond to the speed with which much of the gambling public public desires.

The question is whether horse racing's stagnant or declining fan base is capable of supporting the California horse racing industry. In other states, declining popularity and increased competition has led to either state assistance in the form of license fee or regulatory relief, increased wagering opportunities (full-card simulcasting or slot machines), or, ultimately, reduced track and racing operations. For example, The owner of Arlington International Racecourse, one of the nation's oldest and most venerable race tracks recently decided to cease operations, a decision the owner contends was attributable to the introduction of nearby river boat gambling. The demise of this track is a familiar scenario in the racing industry: As the track's income declined, so did the monies available for winner's purses; as purses begin to shrink, the quality of horses running suffered and, consequently, public interest and on-track attendance declined.

While other tracks are closing across the country, in California a flurry of recent investment activity involving several publicly traded racetracks and their recent purchase by large, real estate investment trusts raises questions as to their futures. While it is generally acknowledged these tracks represent sound investments due to their real estate values and gambling licenses, racing enthusiast are concerned this attractiveness could perhaps hasten the sale and closure of these tracks. However, concerned parties should be heartened by the various proclamations coming from these entities regarding their commitment to live racing in California. Proclamations supported by recent capitol improvements made at Santa Anita and Bay Meadows racetracks. Moreover, Ladbroke's purchase of Golden Gate Fields and their announced plans for track renovations seem to bode well for northern California live racing.

The Decline of Live Racing vs. Increased Simulcasting

In 1996, California racing associations and simulcast wagering facilities reported a total pari-mutuel handle of over \$3.5 billion, an increase of approximately 12% from the proceeding fiscal year. Of this amount, over \$980 million was wagered on-track - a reduction of almost 5% from the previous year - while pari-mutuel wagers placed at intrastate simulcast wagering facilities increased 4% to over \$1.5 billion and interstate wagering on California racing increased **50%** to over \$1.1 billion.

Since 1990, on-track attendance for all tracks and fairs has declined over 40 percent, and on-track wagering has declined by nearly 50 percent. Conversely, during that same time period, off-track attendance and handle in California has increased over 21% and 31%, respectively. Out-of-state wagering on California racing has increased during this period over 2,000 percent, as more and more betting systems outside of California contracted with state racing associations to accept the California racing product. Overall wagering during this six-year period has risen over 20%, largely fueled by the increase of out-of-state betting locations wagering on California races.

Despite the tremendous growth in off-track wagering (intrastate, interstate, and international), there remains a concern that the dramatic decrease in on-track attendance and handle will undermine the state's horse racing industry. Again, this is most directly due to the fact that owner purses, track commissions, and the state's portion of the take-out are less profitable with respect to off-track wagering (especially when the wager is out-of-state). As indicated in appendix charts 7 and 8, the simulcast wager must be divided in more ways to take into account the additional parties to that type of wager: i.e., the simulcast operators and out-of-state betting systems, who both receive a significant portion of the take-out.

To date the growth in off-track wagering has exceeded the decline in on-track wagering, and in effect is helping to offset losses in on-track wagering. Increased simulcasting underscores the fact that it is cheaper for tracks and racing associations to function as a satellite facility than it to operate as a live race track, particularly with on-track attendance (and profits) down. Simulcast wagering on races imported (interstate and international) to California tracks also serve to boost owner purses and track commissions by essentially filling in gaps between live races in the track's program.

Indeed since intra and interstate wagering came into existence in the late 1980's and early 1990's, the California bettor has had ample opportunity to wager on a variety of races throughout the state and country. However, the state restricts an association's ability to import of out-of-state races to those races with a purse of over $50,000, or if the race is of significant stature, such as any of the Triple Crown races (the association must also be running live racing). Additionally, an unlimited number of international thoroughbred races may be imported and distributed by a thoroughbred racing association if the association conducts at least eight live races per day. Both of these restrictions are intended to help protect live racing. The state likewise requires private racing associations to also feature a live racing program in order for them to also operate a satellite wagering facility on the grounds of the racetrack.

Thus, despite the increases in overall wagering, there is concern that unless the existing revenue distribution structure is changed to reflect this trend, the live racing industry could continue to suffer economic hardship and the industry could ultimately undermine the very live product that is now so desired to export. Visions of races run before near-empty pavilions for the sake of producing a simulcast that may be exported and sold to other jurisdictions could represent the future of California horse racing.

While an opening day or a featured race at any one of California's marquis race tracks still garners significant public interest, maintaining this level of excitement and interest through the grind of an extended race meeting is proving near-impossible. When combined with the fact that there are so many other entertainment and gambling options, and that many people are reluctant to navigate southern California and Bay area traffic to reach the principal race tracks, one can see how off-track wagering options have become more attractive and why attendance at live horse racing is on the decline.

The exception to this is the seven-week Del Mar Race Meeting, the one bright spot in California's live racing program. The Del Mar meet remained the nation's leader in average daily attendance at its 1997 August/September meeting with an attendance average of 30,578 (This figure includes attendance at other California satellite wagering facilities when they are viewing the Del Mar meet). On-track daily average attendance for the 43-day stand was 14,732. The average daily handle and average purse distribution remains near the nations highest, due largely to substantial increases in out-of-state wagering activity. Unfortunately, Del Mar's success is impossible to replicate. With its "Where the turf meets the surf" slogan – it represents some of the best racing the country and California has to offer.

Breeding Industry and Ownership Concerns & the Impact on Live Racing

Many racing advocates suggest that one of clearest signs of weakness in the horse racing industry is the decline in the horse population and the resulting short racing fields sometimes experienced at race tracks. Short fields are symptomatic of problems in the breeding industry, which serves as an obvious foundation to the racing industry. The horse racing industry and the racing associations are dependent upon the breeding industry to supply quality horses in order to assure large, competitive races. Statistical data indicates that as field sizes increase, fan interest and wagering activity increases accordingly. Furthermore, certain popular exotic bets require minimum field sizes of at least eight horses.

A major goal of the state breeding incentive program is to increase the quality and quantity of California-bred foals. The foal crop has steadily declined over the past two decades and has been cause for significant concern throughout the industry. Between 1990-94, the thoroughbred foal crop decreased by 36%, and during that same approximate time period the total number of horses competing in this state dropped 15%. However, recent enhancements to the Cal-bred incentive program have increased the value and earning potential of owning a California-bred horse. This should, in turn, increase the demand for quality Cal-breds as the breeding industry favorably reacts to meet demand and supply more and better quality horses.

It has been suggested that tracks should consider running fewer races to ensure quality horses and races in their program. In 1996, the California bettor was exposed to over 857 California race days. This includes all breeds ran at northern and southern tracks, including the fair circuit. This translates into over 8,500 live races. These numbers lead some in the industry to ask: Is the racing calendar over saturated and the bettor tapped-out? If the number of racing days were reduced, would there be fuller fields and increased wagering to offset the fewer races being run? However, as the industry guards these racing days it is likely these questions will ultimately be left to the laws of supply and demand and the will of the marketplace.

With respect to racehorse ownership, it is generally accepted that owner purses drive the industry by keeping people interested and financially motivated to be in the business. This is in addition to love for the sport, which may be why people get involved in this business in the first place. The incentives for owning a Cal-bred horse are also helping in this regard. New owners may be reluctant to enter the business given the rising costs of horse ownership and maintenance, which have increased while revenues and purses have remained stagnant. To combat this problem, the owners have supported efforts to expand the racing market by introducing their product to other areas, in addition to continuing to promote a variety of ways to supplement their purses, including: license fee relief, expanded simulcasting, new wagering technologies such as telephone or internet, or, allowing horsemen to share in the proceeds generated by video lottery terminals or slot machines located at either racetracks, card clubs or Indian casinos. The latter proposal having been broached within the industry as a way to compensate the horse racing industry for their loss of customers presumably to the Indian casinos.

The Labor Impasse

As noted earlier, the horse racing industry provides thousands of employment opportunities to California residents. These employees, many of whom are represented by organized labor unions, have a vested interest in the welfare of the racing industry and its continued success in California. Accordingly, labor unions have had to react and adjust to the same economic trends that have negatively affected the horse racing industry.

Recognizing that their jobs depend on the viability of the horse racing industry, the pari-mutuel clerks in 1996 played a key role in assisting the industry secure enactment of SB 2000, legislation which provided the horse racing industry approximately $10 million in license fee relief. Labor was accorded some nominal rewards for its participation in this effort but, according to the clerks, little in terms of actual compensation or employee benefits.

One trend in particular has challenged the industry and may continue to frustrate efforts to assist the horse racing industry. This trend is the increasing use of self-service automated wagering machines at racetracks and satellite wagering facilities. Unions representing track employees argue these machines have resulted in significant job losses to members of the Pari-mutuel Employees Guild, Local 280, a subsidiary of the Service Employees International Union (SEIU). This labor group has over 1,700 active members with about 530 employed full-time at the 6 private tracks, racing fairs (when they are running live race meets), and satellite facilities throughout the state.

Since the passage of SB 2000, and minus any commitment from the tracks of increased benefits or job guarantees, the clerks have mounted an effective opposition campaign to any initiative designed to benefit the industry. This was most apparent last year with respect to the industry's failed attempts to secure license fee relief, full-card simulcasting, and additional satellite wagering facilities.

The pari-mutuel clerks also sponsored legislation (AB 422, Floyd) which would provide the industry significant license fee relief, but only if the wager was placed using a pari-mutuel clerk, rather than a machine. This proposal met with concern from the racetracks and racing associations. This bill, along with the industry-sponsored license fee reduction effort (AB 172, Wright), is pending consideration in the Senate.

Industry Issues & Proposals

The horse racing industry in other states has aggressively petitioned their respective Legislatures for assistance and support. The states have responded in many cases by either decreasing the effective tax rates, increasing the track's simulcasting abilities, or allowing tracks to offer other forms of gambling (see appendix B). Beyond the license fee relief of last year the California horse racing industry has been looking at numerous other options to strengthen their product. The following section outlines some of these options.

License Fee Relief

The horse racing industry has long-argued that no gaming enterprise is more regulated, nor any sport or entertainment more taxed. Indeed, the industry notes that of the three other forms of gambling legal in California, only the horse racing industry is taxed and regulated at the state level - and furthermore forced to operate under a body of law that was written when no competing forms of wagering were legal in California.

The enactment of SB 2000 in 1996 provided the horse racing industry approximately $10 million in license fee relief. This was done in response to industry complaints that the California had the highest horse racing license fees in the country and had thus placed the industry at a competitive disadvantage with the other horse racing states. The ½ of 1% license fee reduction was distributed as follows: 55% to owner purses, 40% to track commissions, and 5% to the Cal-bred incentive program.

According to the horse racing industry, the license fee relief provided in that effort has proved to be insufficient and has not supported the industry to the extent they feel is necessary in order for horse racing to remain viable in California. In light of such sentiment, one of the industry's primary goals will be to seek additional license fee relief, an effort which stalled this year due to the lack of money available from the general fund and the labor problems previously mentioned which affected all horse racing issues.

Tax relief has also surfaced in full-card simulcasting discussions (see below), where various 1997 legislative proposals sought to lower and "flatten" the state's license fee to an amount of approximately 1%. Many of the current impact and producer fees, which are part of the simulcasting distribution rocess, would also be eliminated pursuant to these efforts.

Additional license fee relief is expected to take shape in the form of SB 25, legislation pending consideration in the Assembly Appropriations Committee. This bill would repeal the 8% license fee charged for out-of-state wagering activity on California racing and redistribute these revenues to the California thoroughbred Breeders Association to support their breeding incentive programs (based on 1996 figures, this would amount to between $2 and $3 million).

Full-card Simulcasting

California is one of the few live thoroughbred racing states in the country which doesn't authorize "full-card simulcasting." This is a term describing a racing association's ability to import and accept wagers with minimal restrictions on a full card of races conducted in other states.

While some industry proponents envision "full-card" simulcasting as a means to offer the California bettor more wagering opportunities, some segments of the industry express concern that this would divert both interest and wagering on live races run at California racetracks and possibly result in the "cannibalization" of our own product.

Full-card simulcasting is generally opposed by the night industry – quarter and harness racing horsemen and associations who fear that the average California bettor will have less interest – and money – after being exposed to an inordinate number of races imported from other jurisdictions prior to their first evening race. The night industry cites as precedent the reduction in wagering and total handle resulting from California thoroughbred racing associations running on Friday evenings, a traditionally prime night for the quarter horse and harness industries. (Conversely, by running on Friday evenings the thoroughbred industry has met with some success in developing a younger fan base).

Full-card simulcasting has detractors from other parts of the industry as well. The northern tracks and fairs are concerned that there might be greater demand for races from New York, Florida or Kentucky rather than from northern California races, either at the private tracks or the fair circuit. The California Authority of Racing Fairs (CARF) suggests that unlimited full-card simulcasting will disadvantage the live California racing product and in the long term contribute to the decline of the agricultural foundation of California horse racing and reduce the profitability of live racing and satellite wagering facilities. CARF also has concerns relating to operational overhead in that satellite wagering facilities would be forced to stay open for extended periods of time to display and accept wagers on an increased number of races.

The results of full-card simulcasting in other states appear mixed. It seems that there is evidence in some states of short-term increases in handle, but again due to a lack of demonstrated progress in broadening demand for the product, those gains may be fleeting.

Video Lottery Terminals, Slot Machines, or other gaming options.

In the eyes of some in the industry, slot machines and video lottery terminals (VLT's) would be the industry's salvation. In other states, the introduction of slots has helped boost fan attendance at tracks which offer slot machines. Success stories include Prairie Meadows in Iowa, Delaware Park, and most recently New Mexico tracks, where a significant portion of the net proceeds derived from slot machines go into owner purses. These are fairly recent changes and it remains unclear as to what long-term benefit slot machines will have on on-track attendance and wagering. Furthermore, authorizing California racing associations to feature slot machines or VLT's would represent a dramatic public policy shift for the state. Major state constitutional and statutory hurdles would have to be overcome, as well as public sentiment, in order to approve this dramatic expansion of gambling.

Other means of wagering: telephone or the Internet

Another means of increasing fan interest and handle which has been raised would be to allow racing associations to accept wagers placed over the telephone or the Internet, a practice eight other states currently permit in some fashion.

SB 137, legislation currently before the Assembly Governmental Organization Committee, would authorize California racing associations to establish accounts with out-of-state bettors in order to accept wagers placed by telephone or other communications means on races conducted by the association. The purpose of this bill is to help retain additional revenues for the California racing industry and the state's General Fund, which are now lost when wagering on California races is conducted through out-of-state betting systems. These out-of-state betting systems retain off-track betting systems to simulcast and accept wagers on California racing. The contracts pay the host California track a percentage of the handle (usually in the 3-4 percent range) for this service. California horse racing law stipulates that out-of-state betting systems must provide for a take-out which is equal to the take-out at the California host track, which depending on the type of wager is generally in the 15-20 percent range. Therefore, minus the contract at 3-4 percent with the California host track, the out-of-state betting system retains somewhere between 12-17 percent of the take-out on the California races they show, and they are not required to distribute these revenues with the other industry participants, as is required in California where the three percent retained by the California racing association has to be divided among the horsemen, breeders, racing associations, and the state (which taxes the contract at an 8 percent rate).

The goal behind this legislation is to remove the "middleman" from every out-of-state wager, and in doing so allow the California horse racing industry to share the full 15-20 percent now retained by the out-of-state betting system. The state would likewise benefit in higher revenues generated. Ideas such as this are important, proponents note, to allow the industry to share in the growth of their product and to continue to support the competitiveness of the California horse racing industry. The fact that many businesses and public corporations in other states currently accept wagers made by telephone and computer from across the country support this sentiment. A perusal of any racing publication features advertisements offering this service. In fact, just last year the state of Oregon authorized tracks to accept wagers placed over the phone or through the Internet.

In-home or interactive wagering on horse races is also being pursued by a cable television/racetrack partnership, which is in the development stages. Customers in states which permit telephone wagering would presumably be allowed to bet on in-home simulcast signals – a practice already offered in New York. While the introduction of this service to an area could further detract from on-track attendance at existing wagering facilities located within the programs' service area, the program's growth potential in attracting new fans is of keen interest to the horse racing industry. These efforts could potentially work in conjunction with the National Thoroughbred Racing Association, a newly assembled group of prominent racing interests, including Santa Anita, Hollywood Park, Del Mar, and Oak Tree, whose goals include implementing a comprehensive marketing plan with a cable and interactive (in-home wagering) network.

However, S. 474, the Internet Gambling Prohibition Act of 1997, which is presently before the US Senate, could complicate many of the wagering advances the industry is seeking. This legislation was originally introduced to outlaw gambling on the Internet, primarily due to increases in the number of off-shore companies operating beyond regulation that are now offering this service. The latest version of this legislation would override a state's ability to offer this service (some feel this preemption would include telephone wagering as well), placing a complete ban on Internet wagering.

Additional Satellite Facilities

Just as telephone or Internet wagering is seen as a means to support the horse racing industry by making wagering on its races more convenient, satellite wagering facilities have also, in effect, made wagering more convenient by bringing the "track" (i.e., simulcast racing) closer to its customers.

Declining on-track attendance indicates that fans aren't willing to navigate southern California or Bay area traffic to go to tracks and place a wager. There are only 32 locations in California where one can place a legal wager. With a population of approximately 35 million people, some in the horse racing industry suggest that more satellite wagering facilities should be permitted to bring this service even closer to all major population centers throughout the state

Most of the satellite wagering facilities are located on either tracks or fairgrounds. However, two card clubs in the state also presently offer simulcast wagering: Hollywood Park and Club One in Fresno, which have taken advantage of a provision in existing law which allows certain fair districts to locate a satellite wagering facility off the grounds of the fair but within the fair district's boundaries. Many in the industry would like to expand upon this program and see sports bars or other commercial venues authorized to offer simulcast wagering to its patrons.

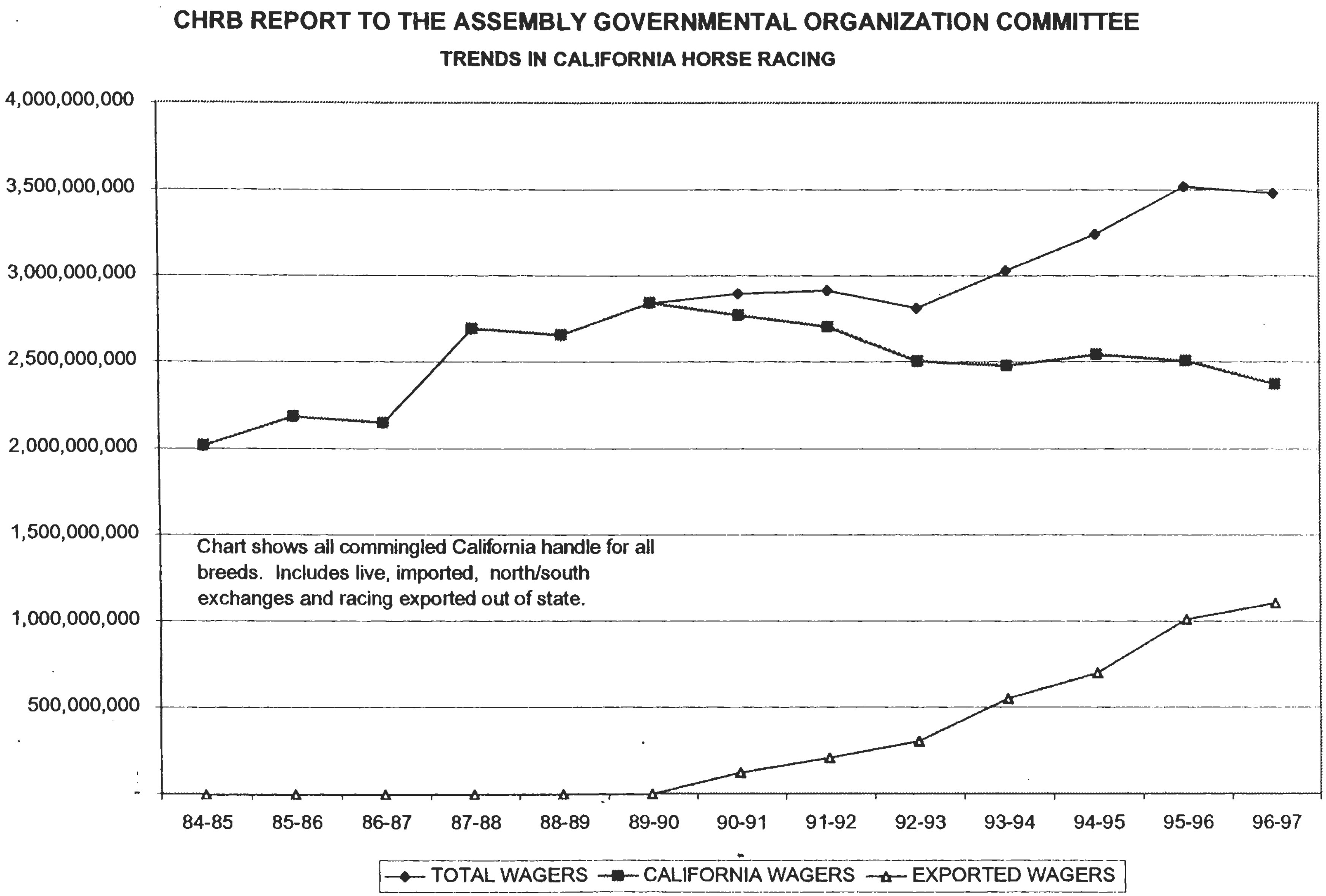
Conclusion

Whereas there is significant interest in assisting the horse racing industry remain viable in its changing marketplace, and to help support this important segment of the California economy, there are no easy answers or solutions to what plagues the industry. Internal strife among segments of the industry and between labor and track management further complicates this process.

Moreover, the industry must not only contend with the ever-fickle conditions of consumer demand and the marketplace, but also the strong anti-gambling sentiments and law enforcement concerns that accompany any discussion regarding assistance to the industry, particularly if the solutions involve an expansion of the type of gambling presently conducted by the industry.

It is clear that should the horse racing industry hope to realize any meaningful relief in the coming years, it must first reach consensus throughout the industry regarding any of the previously mentioned options. The Legislature, in turn, may want to ask the industry to demonstrate how any option will improve the condition of live racing in California, as measured in on-track attendance and handle.

Chart 1



Appendix A-1

Chart 2

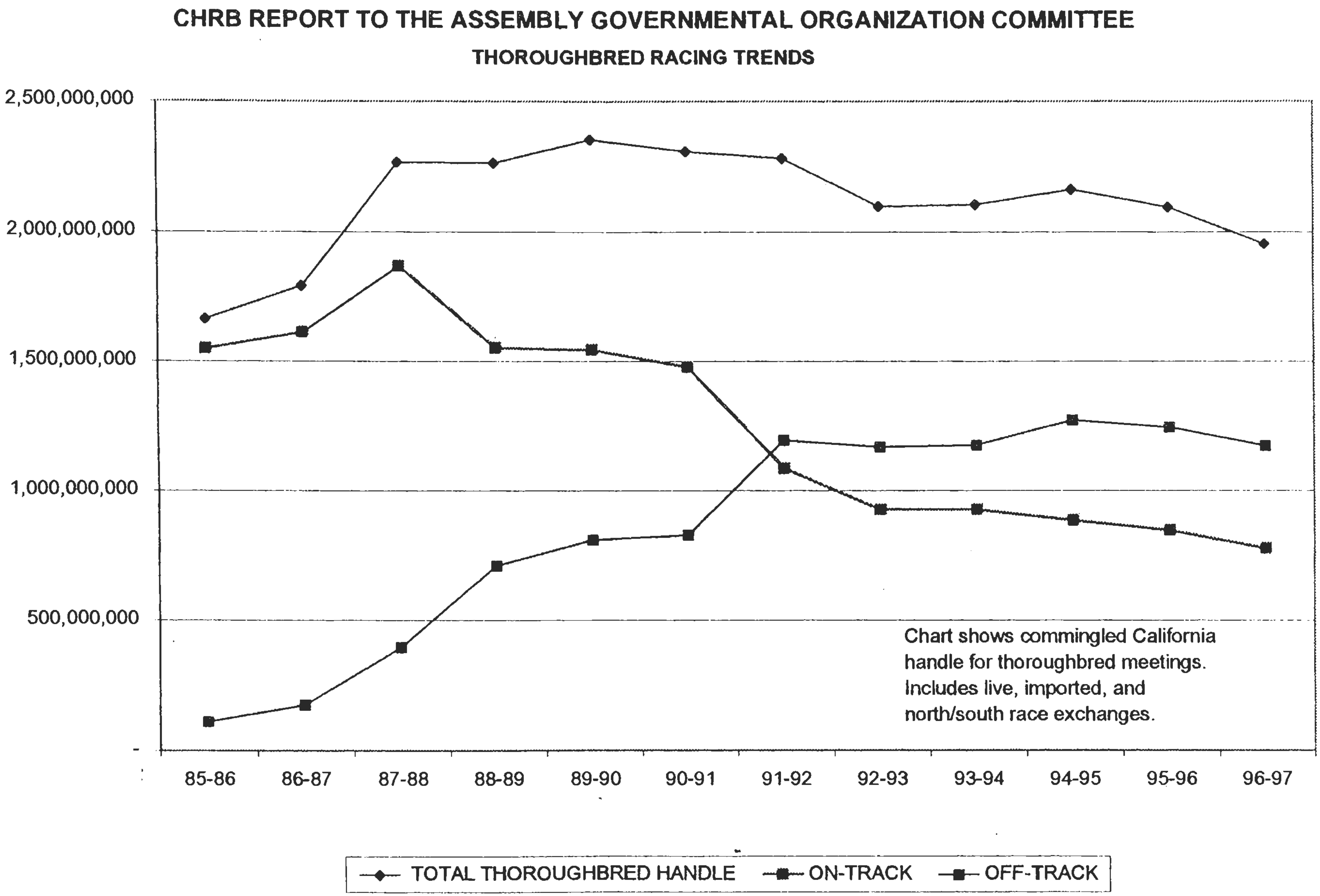

CHRB REPORT TO THE ASSEMBLY GOVERNMENTAL ORGANIZATION COMMITTEE
THOROUGHBRED RACING TRENDS
2,500,000,000
2,000,000,000
1,500,000,000
1,000,000,000
500,000,000
-
85-86
86-87
87-88
88-89
89-90
90-91
91-92
92-93
93-94
94-95
95-96
96-97
Chart shows commingled California handle for thoroughbred meetings. Includes live, imported, and north/south race exchanges.
TOTAL THOROUGHBRED HANDLE
ON-TRACK
OFF-TRACK

Chart 3

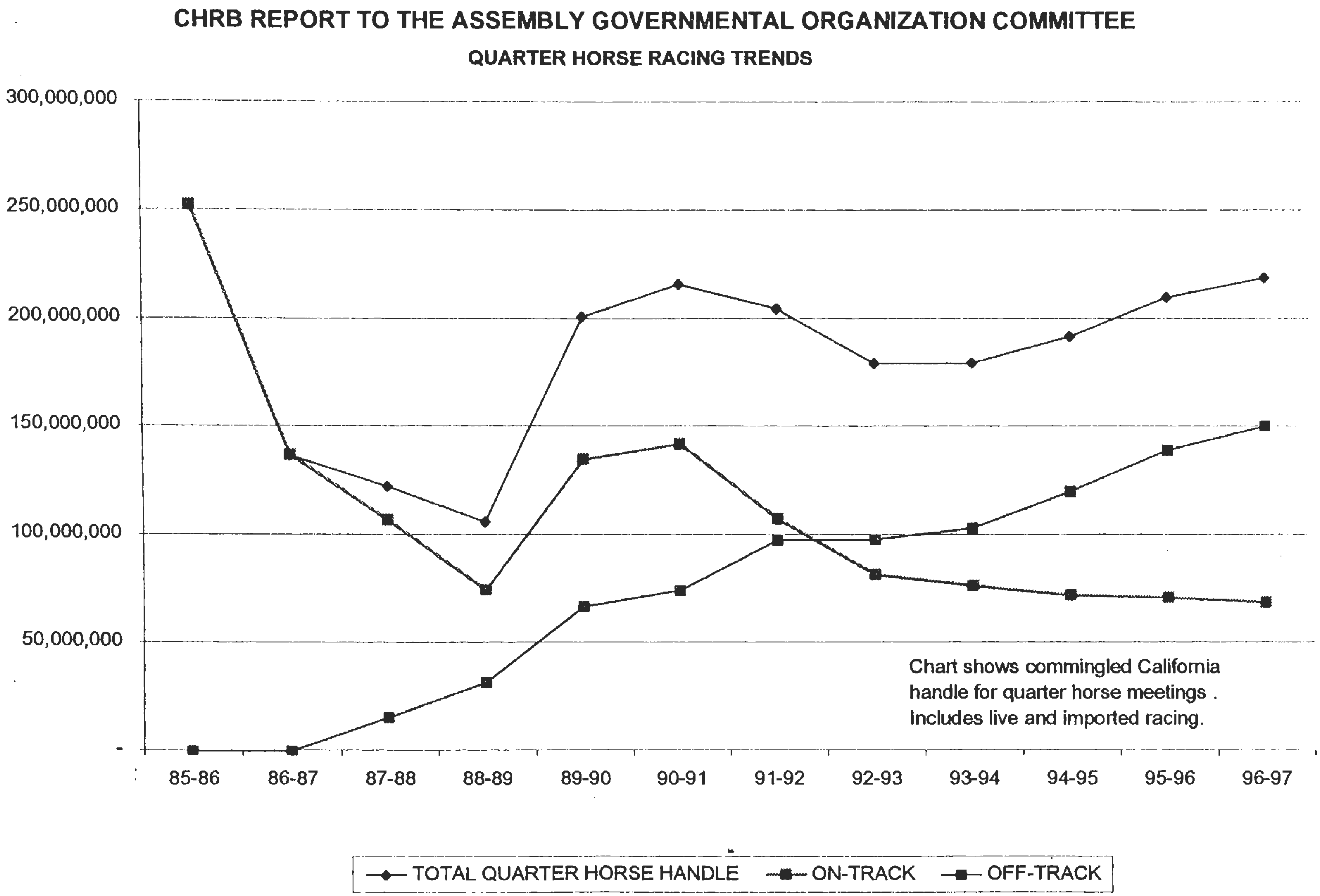
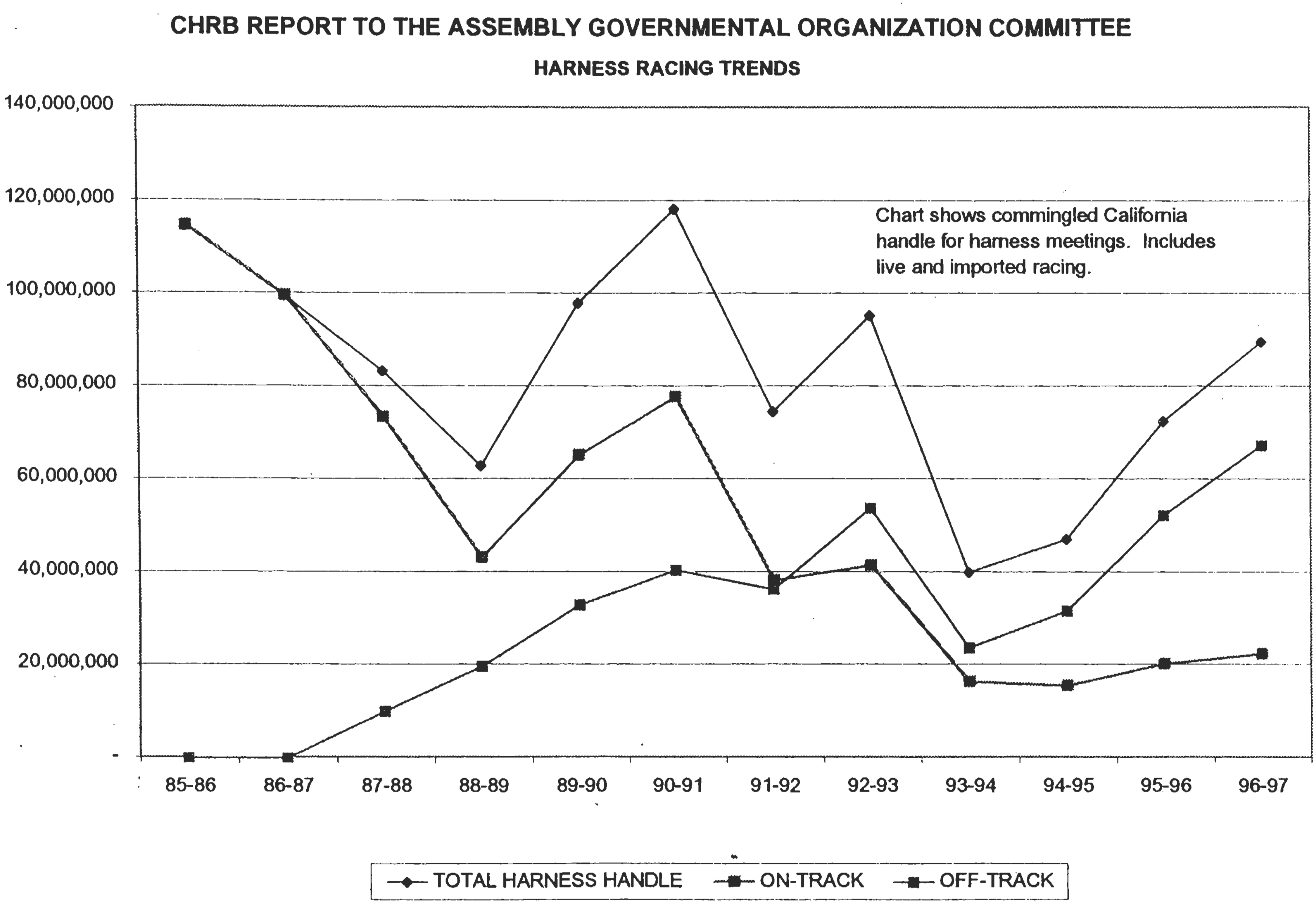

CHRB REPORT TO THE ASSEMBLY GOVERNMENTAL ORGANIZATION COMMITTEE
QUARTER HORSE RACING TRENDS
300,000,000
250,000,000
200,000,000
150,000,000
100,000,000
50,000,000
-
85-86
86-87
87-88
88-89
89-90
90-91
91-92
92-93
93-94
94-95
95-96
96-97
Chart shows commingled California handle for quarter horse meetings . Includes live and imported racing.
TOTAL QUARTER HORSE HANDLE
ON-TRACK
OFF-TRACK

Chart 4



Appendix A-4

Chart 5

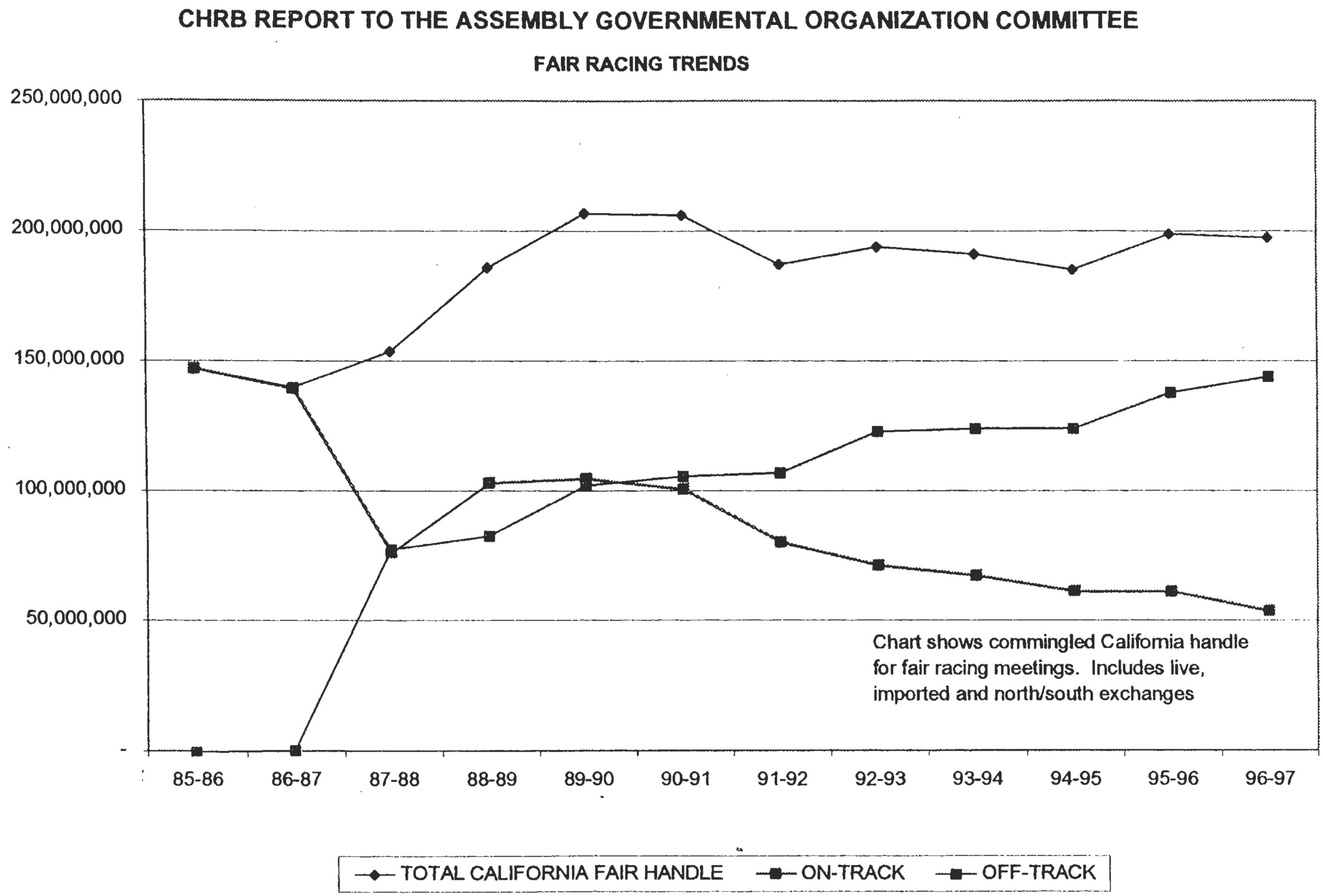

CHRB REPORT TO THE ASSEMBLY GOVERNMENTAL ORGANIZATION COMMITTEE
FAIR RACING TRENDS
250,000,000
200,000,000
150,000,000
100,000,000
50,000,000
-
85-86
86-87
87-88
88-89
89-90
90-91
91-92
92-93
93-94
94-95
95-96
96-97
Chart shows commingled California handle for fair racing meetings. Includes live, imported and north/south exchanges
TOTAL CALIFORNIA FAIR HANDLE
ON-TRACK
OFF-TRACK

Chart 6

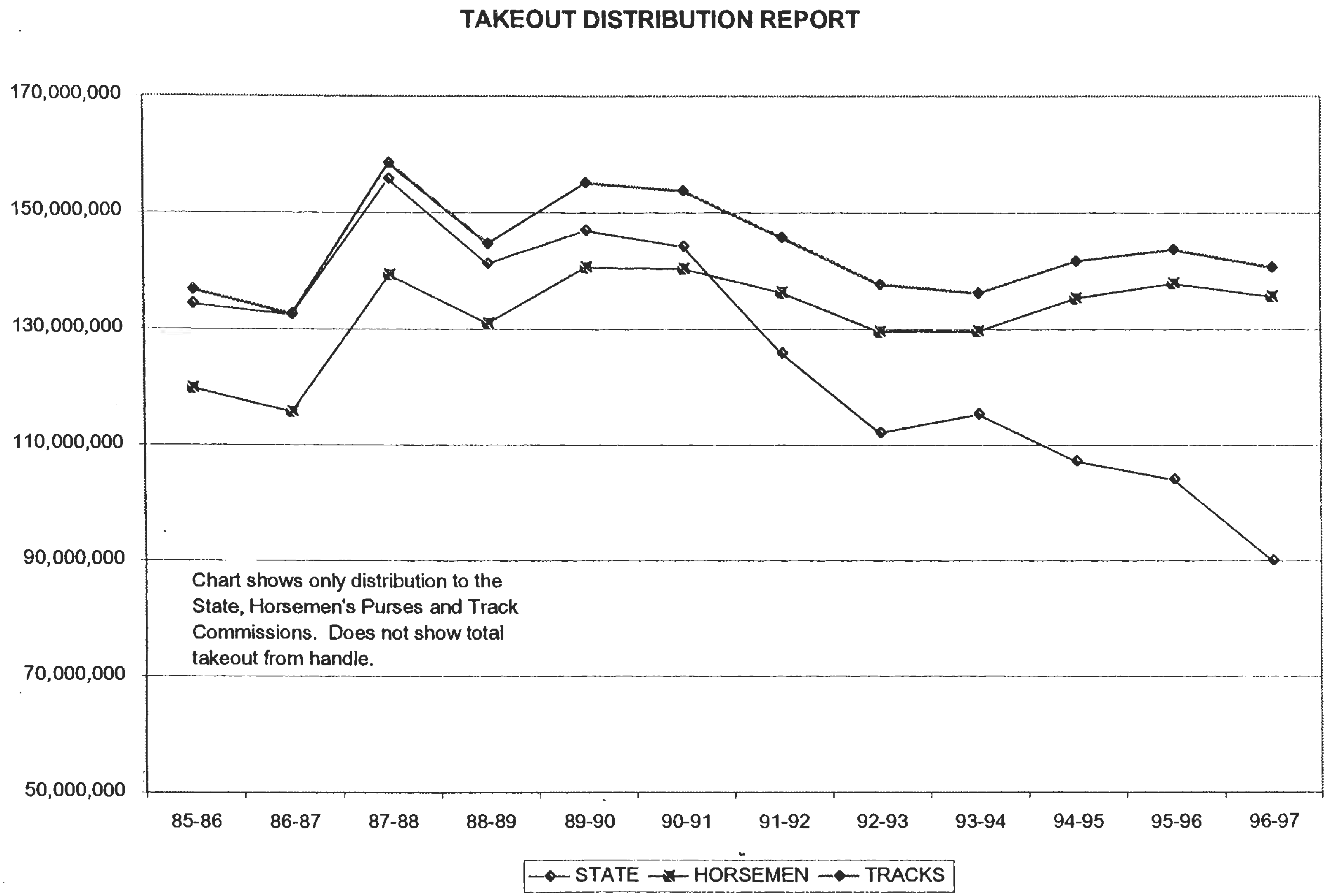

TAKEOUT DISTRIBUTION REPORT
170,000,000
150,000,000
130,000,000
110,000,000
90,000,000
70,000,000
50,000,000
Chart shows only distribution to the State, Horsemen's Purses and Track Commissions. Does not show total takeout from handle.
85-86
86-87
87-88
88-89
89-90
90-91
91-92
92-93
93-94
94-95
95-96
96-97
STATE
HORSEMEN
TRACKS

Chart 7

ON-TRACK DISTRIBUTION OF TAKEOUT FOR FISCAL 1996-97

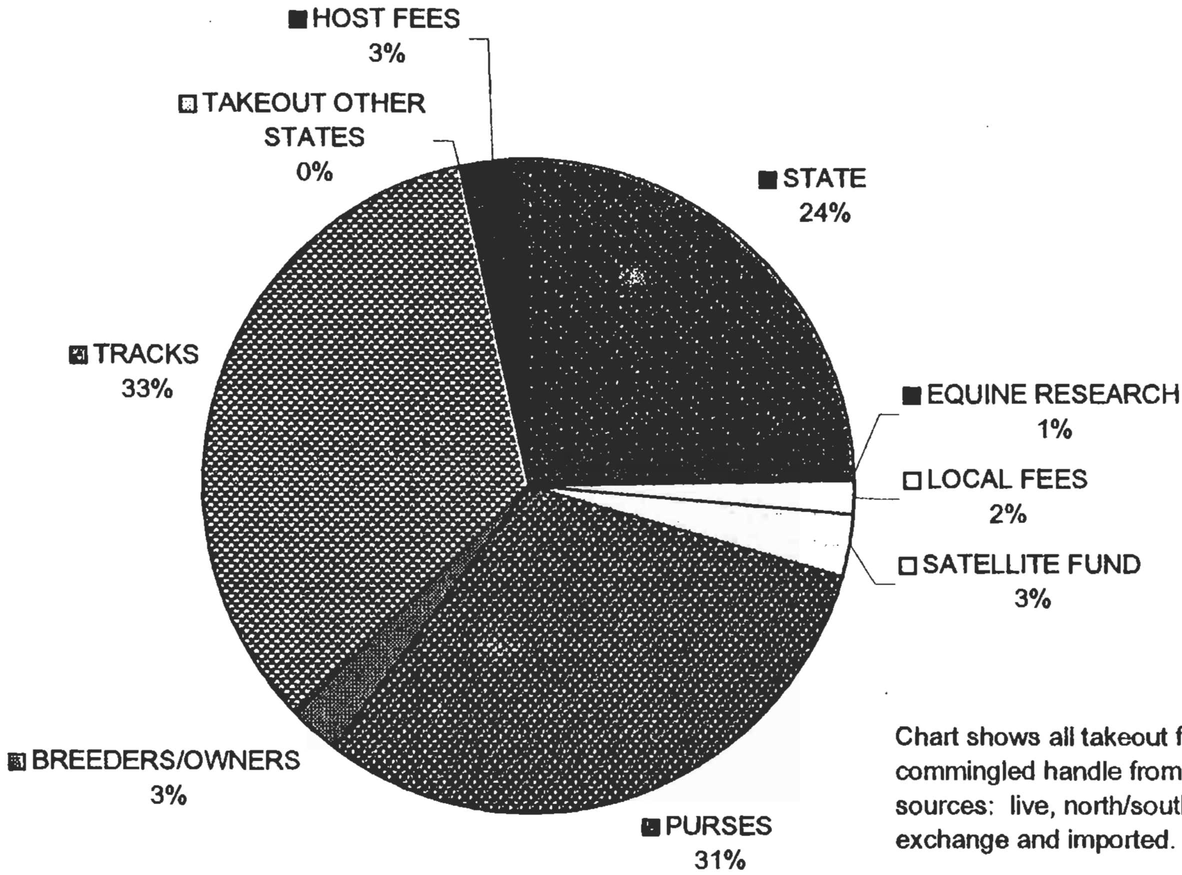


Chart shows all takeout from commingled handle from all sources: live, north/south exchange and imported.

Chart 8

OFF-TRACK DISTRIBUTION OF TAKEOUT FOR FISCAL 1996-97

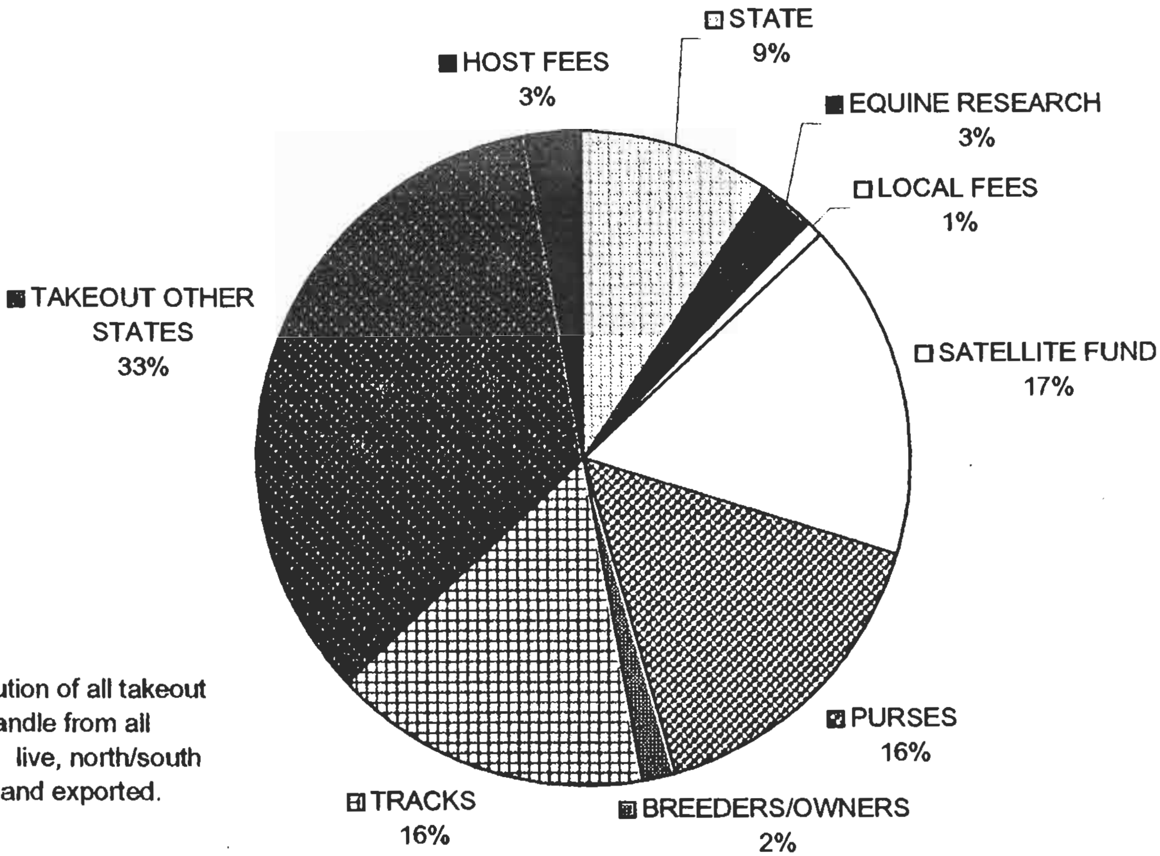


Chart shows distribution of all takeout from commingled handle from all breeds and sources: live, north/south exchange, imported and exported.

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Actions Taken by Other States to Support Horse Racing

Requested by Assembly Governmental Organization Committee Assemblywoman Valerie Brown, Chair

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Summary
Industry sources in most states report that their Legislature has enacted recent laws to help support the industry. The most common actions are opening other gaming activities on tracks, lowering taxes, and relaxing restrictions for simulcasting races. The group of states that report that the industry is in the best financial shape are those where the industry receives an infusion of cash from another source of gaming. Typically those are slot machines or video-lottery terminals at the racetracks. (Video-lottery terminals are essentially slot machines and are commonly known as VLTs.) A few other states are doing well without a subsidy from other forms of gaming. Without exception, however, these states raise funds from sources other than live racing. The other source is usually full card simulcast with few restrictions.

The following information is based on telephone surveys with individuals and organizations in these states.

Alabama: Although the state no longer has an active horse racetrack, the Legislature has acted to support the industry. The state sponsors Alabama-bred races elsewhere.

Arizona: In 1991, the Arizona Legislature passed a law allowing off-track betting establishments. These are typically restaurants or bars that provide the space, but do not incur any direct costs. The track sets up the facility to take the wagers. According to industry sources, this effort has been very helpful for horse racing in Arizona. In 1994, the Legislature followed up with a tax credit for tracks that have falling handle. The state tax is not levied for those tracks whose handle (amount wagered) drops below a base year amount. The practical effect has been to essentially exempt horse tracks from paying the tax. The state puts the remaining funds that it collects back into the industry.

Arkansas: The state lowered the parimutuel tax in 1989. At that time, the state also established a construction fund for tracks and augmented purses. Allowing slot machines at tracks was put to the voters twice, but they refused to pass the measure.

Colorado: The Colorado Legislature recently reduced the number of required live racing days that a track had to run races in order to keep simulcast racing. Now at 30 days, previously the law had required the track run 60 days of live racing. The extended season was no longer profitable. Another recent action of the Legislature was to allow each racetrack authority to obtain a license for an off-track betting facility. The Legislature also passed a law that would allow video-lottery terminals at racetracks, but the Governor vetoed the measure.

Delaware: Delaware has video lottery terminals at racetracks. This has bolstered the industry significantly.

Florida: In 1996, the Legislature passed a measure that allows tracks the option of operating a cardroom. Fifty percent of the profit goes to purses or breeder's awards. Strict betting limits, however, will limit how much cardrooms can contribute to racing. The Legislature also reduced the tax rates. The tax rates vary by track with the facilities that hose less popular racing dates paying the lowest rate, as low as 1.5 percent. Both of these measures were contained in a five-year plan that the Legislature developed and approved.

Idaho: Industry analysts report that the Legislature has not taken any actions to improve racing in Idaho recently. The racing industry attempted to gain approval from the Legislature for off-track betting, but that failed.

Illinois: The industry has been doing poorly with two tracks closing. The horse racing industry attempted to gain the Legislature's approval for slots for the tracks, but these efforts failed. Illinois already has legal slots on riverboats.

Indiana: The voters enacted a constitutional amendment in 1994 that legalized horse racing in Indiana. That action was part of a constitutional amendment that also legalized riverboat casinos. Horse racing gets a portion of the admission tax on riverboats. This tax has produced a virtual windfall for the industry. A majority of the funds go for purses and breed development. The tracks also get a significant share and a small amount goes for industry promotion.

Iowa: The Iowa racing industry is awash in money. Under Iowa law, the racetrack can have slot machines. This action is already bringing in $10 million annually to the industry. The law requires the Iowa Horsemen's Benevolent and Protective Association and the racetrack to come to an agreement for expenditure of the funds, before the track can get a license. The Legislature added this requirement to ensure that the track did not take the profits without sharing them with the rest of the racing industry. A specified amount of money goes to purses under that agreement. The slots have brought more people to the racetracks, but have also diverted money that bettors might have wagered on horse racing. The overall effect has been overwhelmingly positive because of the subsidy for racing.

Kansas: The state has increased its financial support of the industry in a small way. The state has picked up the costs for the tracks' veterinarians and judges, an estimated cost of $750,000 per year. The Legislature considered allowing slot machines or video lottery terminals at the track, but this failed passage.

Kentucky: The Kentucky Legislature added full card simulcast in 1994, and the law allowed the tracks to accept the signal even when they are not racing. The net effect has been a significant positive impact on purses. Simulcast has been particularly helpful to racing in Kentucky as the law provides for a favorable split of simulcast revenues for the horse racing industry. Racing interests in the state are also considering sponsoring legislation to allow VLTs at the tracks. They are concerned because of competition with a neighboring state, Indiana, which has riverboat casinos with slot machines.

Louisiana: Two weeks ago, voters went to the polls to decide if racetracks can have slot machines. These were parish elections and two parishes voted yes and another no. The state's fourth track did not seek voter approval. The tracks could already operate video poker machines, a type of gaming that is widely available and legal in Louisiana. Analysts are uncertain how much this will help the industry. There is already significant competition for the gambling dollar. Louisiana already has a land-based casino, Indian casinos, riverboat casinos, and video poker.

Michigan: In 1995 the Legislature allowed full card simulcasting at the track. This has led to a significant 20% increase in attendance and a 50% increase in wagers. The legislation that expanded the simulcast racing required the tracks to continue a minimum number of live races. The industry is looking into new amendments that would allow telephone wagering and electronic gaming.

Minnesota: Two years ago, the Legislature reduced the horse racing tax. The Legislature established a floor and funds below the floor are not subject to the tax. The racing interests in Minnesota have worked on gaining approval for slots. They claim that Indian casinos, which have slots in Minnesota, have cut heavily into their business. They have not, however, been successful in making a case for slot machines.

Montana: The legislature recently made significant changes in the allocation of the parimutuel tax. The new law gave a greater share to owner and breeder bonuses and increased purses. According to racing interests, these have had a favorable impact in drawing more horses, but the handle has continued to decline.

Nebraska: Last year, a statewide initiative to allow slots at racetracks failed to qualify for the ballot. In the wake of the measure a racetrack closed. Another measure that would allow unlimited off-track betting failed by a large margin at the polls. The Legislature is conducting an interim study on the industry.

New York: The state allows off-track betting including betting over the Internet. It is unclear how much this helps horse racing. The law grants the horse racing industry a smaller proportion of money wagered away from the track

Ohio: The Legislature has enacted two major laws that have helped the industry. In 1994, the Legislature authorized tracks to open two off-track satellite facilities. The Legislature followed this in 1996 by allowing full card simulcasting from outside of the state, dropping breed restrictions, and expanding simulcast to 365 days a year. Prior to the change, breed restrictions meant that a thoroughbred track could only simulcast thoroughbred races. The new law requires tracks to continue a minimum number of live races. The result of the change has been a 30% increase in instate wagering. The law also allowed a favorable split, so that off track betting does not lead to lower revenues for the industry. In some states, a lower take from simulcast has led to reduced industry funds. Expanded simulcast wagering usually leads to a lower level of bets at the track.

Oregon: Last year the Legislature allowed tracks to allow account wagering. Bettors will be able to set up an account and make bets over the telephone or via the Internet. The state is developing regulations for this and plans to implement them by January 1, 1998.

Pennsylvania: This is another state where the Legislature acted recently, 1992, to relax rules on simulcast. Under this law, each track that has live racing for a minimum number of days is allowed a number of sites for off-track betting. Another measure that has helped the industry is an exemption from sales taxes for purchases of horse-related goods, such as feed, horses, hay, tack, and other goods. The Legislature almost passed a measure to allow slot machines last year. After passing the Senate, the legislation failed by 9 votes in the House, gaining 103 of the needed 112 votes.

Texas: Racing is fairly new in Texas, being legalized in 1987. A recent action by the Legislature that should help the industry is to streamline and improve Racing Commission operations and organization. Another measure that passed allows cross-breed simulcasting. The Legislature reduced the state tax rate, although some debt repayments will delay the implementation of the actual lower rates.

Virginia: Horse racing was only made legal in Virginia in 1988. Since then, the Legislature has taken a number of actions to support the industry. First was the legalization of simulcast. Additional legislation loosened restrictions to allow full card simulcast without limitations on the number of days. Minimum standards on the number of live racing days were also enacted to ensure that live racing is maintained in Virginia. Each track can also operate a number of off-track betting parlors. Since racing is in its infancy, industry sources cannot say how successful the measures have been.

Washington: The Legislature dropped the tax rate in the early 1990s for the horse racing industry. That action followed the closure of a major track. In 1997, the Legislature allowed full card simulcast. The law also allowed a number of off-track locations to open. The tracks can either contract for these or operate them themselves.

West Virginia: In 1990 the Legislature allowed tracks to have video lottery terminals. According to industry observers, this action was not successful because the split gave too much to the state and tracks and not enough money was going to the owners and breeders of horses. The Legislature changed the percentage for distribution of the profit. The new law splits the funds more broadly with money going to the state, tracks, purses, a capital improvement fund, and the affected local governments. A legislation required a local referendum for a track to gain approval for VLTs. The tracks can have up to 1000 machines. Although initially the purses have increased, racing interests are worried that the VLTs will take in money that was previously wagered at the track. This would hurt the racing industry because they get a smaller proportion of the VLT take than for wagers made at the track.