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Disconnect With Racinos

Moderator/Speaker:

Jack Ketterer, Executive Director, Iowa Racing & Gaming Commission

Speakers:

The Honorable William A. Oberle, Jr., Representative 24th District, Delaware

Sal Sinatra, Director of Racing/Racing Secretary, Philadelphia Park

John Walzak, C.O.O., Ontario Harness Horse Association

MS. WENDY DAVIS: So this afternoon's panel session is called, "The Disconnect with Racinos." And certainly it's something that we talk about in the Race Track Program all the time. We used to teach handle and revenue and it was pretty much written in stone and certainly those things are changing and it's a lot of what we talk about with our students as how the racing industry is changing. And so that's why this panel has been brought together.

Today your moderator and speaker is Jack Ketterer, he is the executive director of the Iowa Racing and Gaming Commission. Jack is certainly well suited to moderating and speaking on this panel as his commission oversees not only racinos but also casinos, both land and on, well it's not sea, but something other than land. I think it's going to be a fantastic panel, so Jack, without any further ado, I would like to turn it over to you and your panelists.

MR. JACK KETTERER: Thank you, Wendy. Thank you all you brave souls for being here on a wonderful day when you could be outside here in Tucson. We have a great panel, I think, today assembled. Bill Oberle, who is a representative of the 24th district of Delaware and president of the National Conference of Legislators

From Gaming States. Sal Sinatra, who is the director of racing and racing secretary at Philadelphia Park. And John Walzak, who is the chief operations officer of the Ontario horse racing association.

Couple of disconnects before we even got started, my first was my flight from Des Moines was disconnected from the flight in Denver that was supposed to bring me here and so it resulted in two hours late and then I was advised by several of my friends when I got here that looked in the Symposium pamphlet, that the picture in here was really disconnected from what I really look like now. That was my high school graduation picture.

I'm going to give a few introductory remarks and slides. Then I'm going to turn it over to our panel members for their presentations. Then we'll take questions at the end and we should get everybody out on time and enjoy the rest of the weather and the receptions tonight.

My slides are going to focus on three areas, the racinos, the horsemen and government, and kind of show how the relationships among those three elements of racinos and the relationship between them and the racing fans has kind of gone through a little bit of a transformation in the states that have had racinos for a little while.

First slide you'll see talks about current operators were racetrack owners and operators first. In other words, we have a few in Pennsylvania, there are a couple now that are racinos for the first time, I think maybe New Mexico and Louisiana maybe had one each, but most of them were racetracks first, they were racetrack operators first then they became involved in gaming. So as the net revenue disparity between gaming and pari-mutuel grows and as new owners take over the operation of racinos through acquisitions and consolidation, the question will be what connection will there be to racing and how strong will it be?

The example would be the number of public companies who now own racetracks and whose primary focus must be to maximize the return of their shareholders. Politically they are going to do in their states what is necessary to protect their franchise, but there should be no mistake about their fixation on the bottom line. And for the racinos, if only a small portion of their patrons are there for racing and if only a small amount of the net revenue from their facility is generated by racing, you have to wonder how much of the marketing budget as they go forward will be spent on attracting racing fans. How much of the cap ex will be allocated to racing related improvements as opposed to gaming related improvements.

With horsemen, horsemen obviously when legislations pass, ours in Iowa, we were one of the first; there was really no model so the horsemen negotiated their

share of the purse on an ongoing basis, the gaming revenue that would be allocated to purses on an ongoing basis, now it has been fixed at 11 percent. But the horsemen obviously have a vested interest and negotiate for their share of the gaming revenue. Horsemen also vigorously negotiate to protect and extend the number of live racing dates and races in their jurisdiction. Add to that, we all know that field size is a barometer of fan wagering and fan interest; the larger the better, higher payouts result. Yet short fields are desirable from the horsemen's perspective, they are guaranteed a piece of the purse and shop vigorously for tracks and condition books for short fields. And as Wendy said, the horsemen in racino jurisdictions are really no longer aware of pari-mutuel handle that much, it doesn't really have any meaning for them. Their primary source of purse revenue is now gaming revenue.

And as far as government is concerned, our industry has rightly sold the economic impact argument to government at all levels. I think that that has been the argument that has encouraged state governments to allow gaming to go into racetracks and that the racing industry was one that was worthy of being saved and subsidized to some extent. The question is how long will that last? It seems as though each succeeding state's gambling legislation for gaming at the racetracks contains a higher share of gaming revenue to the government. We saw on the panels early today, 50 percent tax at Pennsylvania and Florida. Indiana charging a \$250 million license fee for their racinos. And as we know in government, certainly for regulators and legislators, fiscal crises come and go. Will the purse subsidies for horsemen and racino operators' share of gaming revenue make sense to the next wave of politicians? And will issues that unite urban and rural interests in the legislature prevail to remove dollars from purses and operators, for example, education, healthcare and homeland security.

So I think these are the questions and the concerns that racino operators, horsemen, everybody who is vested in this industry need to be concerned with as we go forward.

Our panelists are going to address each of these. The first is Bill Oberle; Bill is the representative for the 24th district for Delaware for 31 years. Now, that tells me that this guy is a good listener, he's paying attention to what his constituents are have to say to be representing the same district for 31 years. He sponsored the enabling legislation for VLTs, and as I said, is currently the president of the national conference for state legislatures for gaming states. So please welcome Bill.

MR. BILL OBERLE: Thank you, Jack. Like Mark Klein, our luncheon speaker, I am also a horse owner, I should be more specific, I own half a horse. Unfortunately it is the half that eats and the one that needs veterinary care all the time. And I'm also a part-time comedian, but it's completely unintentional, as my wife reminds

me constantly. But I have a passion like Mark for the racing industry and that was really what stimulated my interest in salvaging what really was a declining industry in our state. The potential for a disconnect, in my opinion increases geometrically if the stakeholders in the agribusiness community are not involved, are frozen out of the process of crafting the end product. By necessity, those in the agribusiness community must be an integral part of what I refer to as the gaming triangle consisting of the licensees, the horsemen and the state or involved government agency in granting those licenses. If this model of reasonable balance is violated, then in my opinion a disconnect will inevitably occur and horse racing will be doomed to a slow and painful death.

In Delaware, unlike some other jurisdictions, the only reason that we entertained the notion of slots at our three racetracks was to preserve a way of life that was historically important, and I cite Harrington Raceway as an example, I believe that it's the second longest continuously operated standardbred track in the nation, while providing a mechanism to insure financial prosperity on a generational scale. We have people in Delaware that have been involved in the horse racing industry for six and seven generations, so there is a history there that needed to be respected and treated fairly. The creation of our racinos was not driven by the lust for additional state revenues. Quite honestly, at the time Delaware was well off financially and estimates suggested, naively so, that the revenues that we would generate to our state coffers would be minimal at best. And again, there was a level of naiveté on our part because, like in Iowa, we were broaching new territory, if you will. Our governor, in the late '80s, hated the concept and quite honestly, vetoed our first attempt at bringing racinos to the forefront. In 1994, our then governor, now U.S. Senator, Tom Carper, was disinterested at best.

Quite honestly, that was a situation that I believe worked to our benefit, because without the political wrangling that takes place in situations of this nature, we were kind of left to our own devices. The normal administrative give and take with the executive branch of government really played no role in the outcome. So we started with a clean slate so to speak. To be historically precise, the introduction of slots at our racetracks was simply an end to a means, it was purely blue collar driven on the wheels of a collective sensitivity around the need to assist the beleaguered segment of our agribusiness community with the added intent of preserving our diminishing farmland, and it has worked better than anyone could have imagined.

In 2004, we completed an equine financial impact study in our state through our Department of Agriculture. And it was established that since 1994, 25,000 acres of land that otherwise would have been developed had been reserved and was now actively used as farmland, particularly for the training and breeding of horses. The study further concluded that 6,000 horses were then stabled in Delaware strictly for the purpose of racing with an estimate economic impact to our

state of \$360 million annually. Now, for some of you from larger states, that may seem like a small number, but for a state the size of a large municipality, that's a significant number.

Let me — I want to call your attention to the PowerPoint. You've got to bear with me, I'm an old DuPont guy that was trained in flip charts, so this new technology kind of throws me sometimes. But if you take a look in 1994, the total purses available at Delaware Park, nearly \$8 million is no, in 2007, grown to \$38 million. Over this period of time, that is a significant increase, as a result of an introduction of racinos.

Dover Downs, in 1994 we had 36 days of racing at Dover Downs with an average purse of \$952, and I raced for those purses and I can tell you that I didn't race for \$952 with a \$1,500 claimer, it was more like \$700 or \$600. Today that total purse has grown to over \$27 million, at a \$13,000 average.

Harrington Raceway, 28 days of racing in 1994, average purse of \$895, today, 107 days, nearly \$17 million in purses. This influx of revenue into the agribusiness community by way of enhanced purse structure has had a positive, life changing event for those who toil in the industry. Increased racing dates beyond the statutorily required minimums have solidified this industry. Farmers who grow hay, grain, those who sell trucks, trailers, tack shops, real estate companies, farriers, veterinarians, fence companies and many others in this sector have all benefited financially and will continue to do so. The horsemen, now themselves in a position to offer a better product, and that really was part of the end gain, are enjoying benefits typically associated with more traditional economic sectors. Through their collective bargaining associations, the Delaware Standardbred Owners Association and the Delaware Thoroughbred Horsemen Association, horsemen now are able to secure affordable healthcare, dental insurance and participate in meaningful pension programs, and they do participate. Living wage employment opportunities have also grown dramatically at the three venues. Prior to the introduction of slots there were approximately 150 individuals collectively employed at our three tracks, today the number has grown to over 3,000. To be fair, the bulk of these jobs are on the slot side of the equation, however, there is a cross-pollination effect, the energy and labor expended at these venues generated revenue for the horse racing side. There is a symbiosis that cannot be dismissed when looking at the end game, that end game being purse enhancement.

Now, how does one establish whether there is a disconnect? What are the signs that we should look for? Many in the industry hypothesize that the diminishing live wagering is an indicator of doom over the horizon. I would respectfully disagree. I'm not a sociologist but even the most casual observer can readily conclude that our society is changing. Whether it is a result of daily demands placed on us at work and at home or advancements in technology or a combination of both, the way people choose to wager is changing. Why drive an

hour to the track when you can wager from a legally sanctioned remote facility or better yet, the comfort of your own home? I believe very strongly that the future of pari-mutuel wagering is in the remote interactive area of that process. Except for extraordinary race events, it is my belief that people will no longer routinely turn out in thousands or even hundreds to watch and wager because they can do it more conveniently and comfortably somewhere else. As a half horse owner myself, I use myself as an example, rather than drive myself 80 miles roundtrip to watch my mare race, I can watch from home in the comfort of my lounge chair on TVG. Remembering the good old days, I must admit that it's distressing to see fewer and fewer people at the tracks. But if the signal is sold and the wagers are placed, does it really matter how the pool is being generated? **Other terms, concepts and keywords contained in the balance of this transcript are:** agrarian model, economic driver, agribusiness, Sal Sinatra, Philadelphia Park, slot machines, breeders' program, slot parlor, John Walzak, Ontario Harness Horse Association, Get Sulky, infusion of revenue, impact of the numbers of horses, Woodbine, stabilization, race dates, variability, impact of slots, focus of racetracks, exclusion of horse racing, economic benefit, reinvest into the facility.....If you desire a full transcript contact bprewitt@ag.arizona.edu

