CHAD B. HARMON

GAME CHANGER

BY FRANK ANGST

Imagine decisions made by a Class A minor league team such as the Hickory Crawdads forcing the New York Yankees to adjust their business model and you have a baseball version of the horse racing industry in recent years that traces back 25 years to when a struggling Mountaineer Park added on-site gaming.

Adding casinos at racetracks has reshaped the racing industry

By 1996 Mountaineer had been joined by Delaware Park, Prairie Meadows, and Charles Town Races in adding casino gaming at their tracks, even creating a new word in the process, racino, to describe tracks that offer pari-mutuel wagering on horses and on-site gaming—specifically some version of slot machines.

Going back to 1990, a time when many in the Thoroughbred industry believed simulcast wagering would provide plenty of revenue for racing going forward, small tracks' moves to bring in casino gaming were written off by some as merely actions to survive. But racinos soon proved to be a wild success, on the gaming side providing many new casinos throughout the country; and on the racing side, providing added money for purses.

NON-PARI-MUTUEL REVENUES TO U.S. THOROUGHBRED PURSES

	U.S. Handle	Year-to-Year Change	Percent Change	U.S. Purses	Total Non-PM Rev. to Purses	Purses Derived From Handle	Percent Change	Year-to-Year Difference	Purses Derived From Handle (as a % of handle)
2003	$15,180,000,000	$118,000,000	0.78%	$1,055,500,000	$149,474,722	$906,025,278	-2.75%	($25,662,292)	5.97%
2004	$15,099,000,000	($81,000,000)	-0.53%	$1,092,100,000	$177,920,213	$914,179,787	0.90%	$8,154,509	6.05%
2005	$14,561,000,000	($538,000,000)	-3.56%	$1,085,000,000	$199,655,650	$885,344,350	-3.15%	($28,835,437)	6.08%
2006	$14,785,000,000	$224,000,000	1.54%	$1,120,400,000	$208,180,961	$912,219,039	3.04%	$26,874,689	6.17%
2007	$14,725,000,000	($60,000,000)	-0.41%	$1,180,600,000	$255,822,758	$924,777,242	1.38%	$12,558,203	6.28%
2008	$13,648,000,000	($1,077,000,000)	-7.31%	$1,165,000,000	$297,211,526	$867,788,474	-6.16%	($56,988,768)	6.36%
2009	$12,315,000,000	($1,333,000,000)	-9.77%	$1,098,200,000	$320,645,951	$777,554,049	-10.4%	($90,234,425)	6.31%
2010	$11,419,000,000	($896,000,000)	-7.28%	$1,031,317,175	$300,847,352	$730,469,823	-6.06%	($47,084,226)	6.40%
2011	$10,770,000,000	($649,000,000)	-5.68%	$1,061,210,899	$308,935,025	$752,275,874	2.99%	$21,806,051	6.98%
2012	$10,882,000,000	$112,000,000	1.04%	$1,127,775,188	$380,287,239	$747,487,949	-0.64%	($4,787,925)	6.87%
2013	$10,876,000,000	($6,000,000)	-0.06%	$1,127,210,057	$400,497,251	$726,712,806	-2.78%	($20,775,143)	6.68%

Prepared by: Thoroughbred Racing Associations of North America, Inc. (July 2014)
Source for non-pari-mutuel revenue statistics—various racing commissions, tracks and horsemen's associations
Source for total purse and handle statistics - The Jockey Club

The purse increases for the tracks with added-gaming were dramatic. In 1990 the average purse for Mountaineer was $2,107 a race. An average purse at Prairie Meadows was $2,471; at Charles Town, $3,187; and at Delaware, $5,149. By 2001, when each of these four tracks had offered added gaming for at least five years, Mountaineer paid $16,243 a race, 7.7 times the 1990 purses. Prairie Meadows awarded $19,190 a race, 7.8 times its 1990 payouts while increasing total races 22% to 774. Charles Town was up to $14,286 a race, 4½ times its 1990 average; and Delaware checked in at $28,014, up 5½ times its 1990 average purse.

In 2012 at the University of Arizona Global Symposium on Racing, Erich Zimny, vice president of racing operations at Charles Town, said it was important for tracks with this added purse money to improve their racing product. During the presentation Zimny acknowledged that many horseplayers already had formed a low opinion of Charles Town. The track hoped to change that perception by offering some big days and big races.

In 2009 the track added a pair of lucrative open stakes in the Charles Town Classic, which this year carried a $1.5 million purse and grade II status; and the Charles Town Oaks, which this year offered a $350,000 purse and grade III status. Zimny said the races help in today's market, which largely involves attracting off-track eyeballs to your signal.

"Outside of giving a reprieve from extinction in some places, the most significant operational impact the advent of gaming has had at tracks was the influx of purse money that was in some cases dramatic," Zimny said. "A question Charles Town and other tracks have had to answer is how that purse money is best utilized to not only impact its racing product but also attract more attention from customers to its racing and its signal."

Other tracks, of course, took notice of the success of the initial racinos. Added gaming arrived at New Mexico racetracks in 1999, in Ontario the same year, and at Finger Lakes in New York in 2004. Louisiana offered video poker games at tracks and off-track sites in 1992 with its tracks moving to more lucrative slot machines in 2002, with Delta Downs acting first. Other states followed including Florida, Indiana, Oklahoma, and Pennsylvania.

For states considering expanded gaming, racinos were an easier sell with voters than new, free-standing casinos. With ties to the racing industry, racinos support more jobs than typical casinos and adding gaming at already established racetracks seemed like a smaller step than the leap of adding completely new facilities. As more states came on board, racino money also provided boosts for state breeding programs, again tying in more jobs.

The impact on breeding has been positive for added-gaming states. After Kentucky (which now offers historical racing) and California, the next six states by foal numbers for 2014 all have added-gaming: Florida, New York, Louisiana, New Mexico, Pennsylvania, and Oklahoma.

The racino boom, which took shape in the late 1990s and 2000s, coincided with growth in racing's traditional revenue generator, pari-mutuel wagering, which reached a still-record $15.94 billion in 2003. Those two forces helped North American purses increase 72% from 1993 to 2007, going from $770 million to $1.328 billion.

But the golden goose of added-gaming has thrown in a few rotten eggs. According to Thoroughbred Racing Associations, $400.5 million was pumped into 2013 U.S. purses from non-pari-mutuel revenues, accounting for 35% of all purses paid that year (the most recent available for all relevant numbers). If that gaming money were removed from the purse equation, U.S. purses in 2013 would be comparable to those paid in 1994.

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W.VA'S RISE AND FALL

COURTESY MOUNTAINEER CASINO RACETRACK AND RESORT

It was by design that developers chose a sleepy spot near the top of West Virginia's Northern Panhandle region to build Waterford Park, which opened in 1951.

Not far away along the Ohio River in West Virginia and in communities in neighboring Pennsylvania and Ohio, the steel industry was still humming. The larger cities nearby—Pittsburgh, Youngstown, Cleveland, and Wheeling—were known as gambling havens. And the only legal form of gambling was pari-mutuel horse racing.

Waterford was known for cheaper racing, but business was good, enough so that the track offered more than 300 racing days a year. The track's fortunes, however, hinged on the regional economy, and by the late 1980s there was talk of closing the facility.

Waterford was purchased by Bill Blair and renamed Mountaineer Park in 1987 which, by virtue of an experiment, became the first racetrack in the United States to offer gaming machines.

Twenty-five years have passed since Mountaineer Park received permission to operate, in conjunction with the West Virginia Lottery, video lottery terminals in a small glass-enclosed room on the top floor of the clubhouse. The experiment was called "Mountaineer Magic," which proved so popular that hundreds more VLTs were placed on the grandstand's second floor.


COADY PHOTOGRAPHY/MOUNTAINEER

Questions about the legality of the operation, however, led to the West Virginia legislature passing a 1994 law authorizing the state's four pari-mutuel facilities to install VLTs only if voters in the county in which the tracks were located approved.

Hancock County voters approved the referendum, and not long after Mountaineer was sold, went public as MTR Gaming, expanded to a full resort, and for a time had one of the most lucrative gaming operations in the country.

Thoroughbred racing at the track, now called Mountaineer Casino, Racetrack & Resort, greatly benefited from the thousands of VLTs through a 14% cut of revenue. Total purses peaked at $38.9 million—that's a lot of money for a track that cards many $5,000 claiming races—in 2003, the year before the Pennsylvania legislature authorized casino gambling.

In 2009 Ohio voters approved a referendum for casinos in the state's four largest cities, and in 2011 racetracks got the legislature's blessing to install VLTs. The competition, coupled with several moves by the West Virginia legislature to redirect VLT purse revenue to other state programs, has made a facility that had become a trendsetter for the industry just another racetrack casino struggling to maintain an acceptable racing program.

For 160 programs of racing this year—50 more dates were cut to avoid purse reductions—purses averaged $98,391 per day, the lowest since $84,760 in 1999. The high point came in 2003 when Mountaineer paid $175,244 per night over 222 racing days.

Winter racing, which consistently generated the track's highest nightly average handle

UPSIDE IN MARYLAND

As racetrack casinos began to pop up in the closely knit Mid-Atlantic region, the Maryland Thoroughbred industry could only play the waiting game.

In 1994 the legislature in neighboring Delaware authorized video lottery terminals for the state's racetracks. Voters in nearby Jefferson County, W.Va., in late 1996 authorized Charles Town Races to install VLTs. And just north of Maryland in Pennsylvania, racetrack slot machines were approved by the state legislature in 2004.

Despite years of lobbying, casino legislation in Maryland stalled until 2008, when voters approved a constitutional amendment authorizing casino gambling. The law, however, didn't guarantee gaming for racetracks; licenses were put up for bid. Things didn't go well for The Stronach Group-owned Maryland Jockey Club in 2009.

The MJC, operating as Laurel Racing Association, challenged the legality of a provision in the state gaming law that called for each bidder to submit a licensing fee. The MJC submitted a bid for VLTs but didn't include the fee, which was based on the number of machines in each application.

Despite a legal fight, the license was awarded to Cordish Cos., which eventually built a massive casino at the Arundel Mills Mall not far from Laurel Park. The only Maryland track that won a gaming license was Ocean Downs, a small harness track on the Eastern Shore.

But six years after the bidding debacle, Thoroughbred racing in Maryland is in the midst of a renaissance. Racing gets a 7% share of VLT revenue from all casinos in the state, as well as 1% for capital improvement projects.

That contribution to purses and breed development is having a positive impact, and with another mega-casino scheduled to open just south of Washington, D.C., in Prince George's County, revenue is expected to increase substantially. Through the first 10 months of 2015, Maryland racing received $46 million in VLT revenue, 80% of which went to the Thoroughbred industry and 20% to the Standardbred industry.

Purse statistics show the growth in Maryland since 2010. That year, acbecause of its popularity in the simulcast marketplace, is gone, as is year-round stabling. The trailers that used to carry horses from racetracks and training centers in Kentucky to capitalize on good purses and easier competition don't make nearly as many trips.

Despite a decade of indications the racetrack gaming model has serious flaws, not the least of which is reliance on a non-core revenue source at the expense of the pari-mutuel business, the industry has been slow to react. There has, however, been proactiveness on the part of horsemen, racetracks, and regulators the past two years.

In 2014 the West Virginia Racing Commission not only granted reductions in racing dates for Mountaineer and Hollywood Casino at Charles Town Races but acknowledged the statutory minimums—220 dates a year for Charles Town and 210 for Mountaineer—are no longer practical. The WVRC is now working on legislative changes that would give it more flexibility and control in efficiently assigning racing dates.

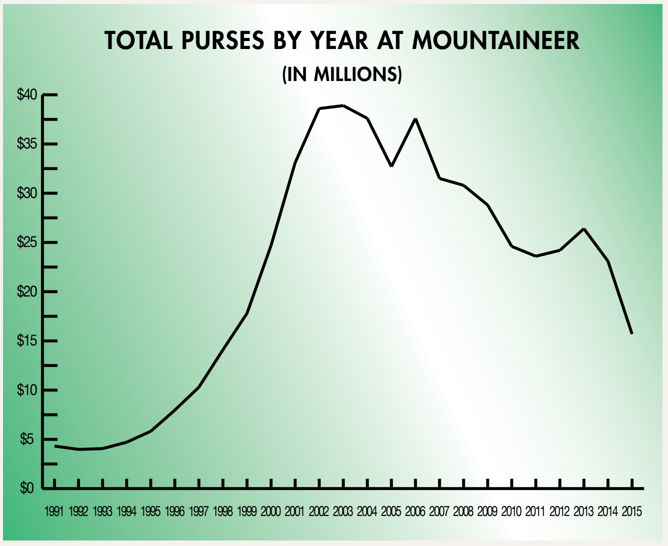
In addition, horsemen's groups have come to the realization that racing schedules must be trimmed in order to maintain acceptable purses. It would have been unheard of even five years ago, but the Mountaineer Horsemen's Benevolent and Protective Association and Charles Town HBPA are working with racetrack management to devise workable formulas for racing dates.

Mountaineer in 2016 intends to offer 160 programs from late March through late October, but the request could change, given a letter to the WVRC from the Mountaineer HBPA that suggests 137 is a better number. The Charles Town HBPA said it believes 175-190 programs next year are optimal with an expected 8% purse reduction; the schedule also would preserve year-round racing in Jefferson County, the hub of the West Virginia Thoroughbred breeding industry.

"You know and we know we can't run 210 days anymore," Mountaineer consultant Nelson Robinson told the WVRC at its November meeting. "For 210 days, purses would be less than $70,000 a day. We know we can't do that."

"We all want a stable environment," Charles Town HBPA board member Joe Funkhouser said. "We respectfully want to run as many days as possible without drastically cutting purses. That would have a devastating effect on the industry."

A group of stakeholders issued a report that identifies ways to stabilize and perhaps provide new revenue for the industry in West Virginia. The document calls for reinstatement of funds that were first taken from purses in the mid 2000s; authorization of account wagering; approval to establish an off-track betting network; a focus on marketing and promotion in conjunction with the West Virginia Department of Tourism; and a transfer of funds from the West Virginia Lottery administrative account to support regulation through the WVRC. *By Tom LaMarra*



cording to The Jockey Club Information Systems, Laurel and Pimlico Race Course combined paid $25.8 million in purses over 139 racing programs. Through Nov. 30 this year the two tracks have paid $43.1 million in purses over 128 racing days.

MJC president and general manager Sal Sinatra said the model of getting casino revenue without a casino has some advantages.

"We have two separate businesses thriving in Maryland," Sinatra said. "If you have a casino at the track, you could end up with one business overshadowing the other, which could lead to the demise of racing."

Sinatra noted that the VLT-fueled capital improvement fund, which offers a 50% match on what the MJC spends, can only be used for racing-related projects. In other states, racing improvements often rely on how much the casino operator is willing to spend.


COURTESY MARYLAND LIVE! CASINO

"If I spend a million dollars on a project at Laurel, I get back $500,000," Sinatra said. "That money goes into an account and can only be used for capital improvements. We focus on the barns, the track, and the building."

Much of the progress in Maryland stems from a 10-year agreement among the MJC, the Maryland Thoroughbred Horsemen's Association, and the Maryland Horse Breeders Association. Signed in 2012, the deal covers everything from racing dates to stabling and has led to a spirit of cooperation.

"When we wanted to create Maryland Pride Day (for state-bred runners), the track, horsemen, breeders, and Maryland Million got together," Sinatra said. "We said, 'How much money do we need? Let's get everyone to put it up and let's just do it.' The meeting lasted 45 minutes. It got done.

"You also have a history of horses in Maryland that you don't have in some other states. And right now there's nothing but upside here."

By Tom LaMarra

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The reliance has increased because racing's main revenue driver, pari-mutuel wagering, has struggled since reaching new heights in the early 2000s. In 2014 pari-mutuel handle totaled just $11.12 billion, down nearly a third from 2003. The 2014 pari-mutuel numbers are similar to the numbers registered in 1995, and that's not even factoring inflation. The popularity of racinos, which has brought casino gaming to many more outlets throughout the U.S., very likely has cut into the pari-mutuel wagering pie.

Industry consultant Will E. Cummings, whose Cummings Associates specializes in the economics of legal gambling, said racinos have been a mixed blessing.

"There are dozens of tracks and whole states—half a dozen or more—where racing on a commercial scale would not exist today," Cummings said, later noting that lumping nearly all of the revenues generated from added-gaming into purses isn't the best approach for racing's long-term growth. "Many wise people in the racing industry have said that we should be devoting some of this money to research and development, to giving some back to the players, and to finding new ways of doing business instead of doing business the same old way."

Thanks to the buffer provided from added-gaming revenue, purses since racing's top pari-mutuel year of 2003 to 2014 actually have increased a bit, up 5.3% to $1.11 billion, despite the declines in pari-mutuel handle. That has been good news for racing participants but perhaps has brought complacency in regard to the erosion of racing's main revenue generator, pari-mutuel wagering.

Thoroughbred Racing Associations executive vice president Chris Scherf has cautioned against racing's increased reliance on money from added-gaming. He noted that the money is less reliable because it could be pulled by state governments when budgets become tight.

"I think we need a great effort to move the pari-mutuel business forward," Scherf said at the TRA's 2014 International Simulcast Conference. "That said, we face great challenges in trying to do that at a time when the foal crop is going down and we're facing short fields."

As Scherf noted, governments can lower purse commitments from added gaming, moves that often force dramatic changes to racing. States and provinces that have seen commitments to purses from added-gaming reduced include Ontario, Pennsylvania, and West Virginia.

Initially some of the increased foot traffic at racinos led to some of those custom-

GAMING COMPANIES TAKE ON TRACK OWNERSHIP

With the financial success of racinos the past 25 years, gaming companies have moved to the fore in racetrack ownership.

Some of the casino track ownership players include Penn National Gaming Inc., which owns five Thoroughbred tracks in five different states; as well as multiple Thoroughbred track owners such as Rock Gaming, Eldorado Resorts, Global Gaming, a subsidiary of the Chickasaw Nation; and Boyd Gaming.

For many of these casinos, racing represents a small sector of their overall operations. For instance in 2014, 84% of PNGI's revenue came from slot machines.

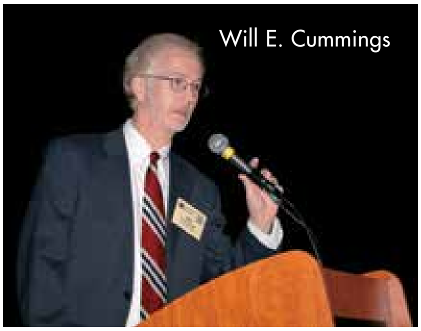
Will E. Cummings, a consultant on gambling, said that because of a lack of options executives on the racing side have to make the new model of casino ownership work.

"The alternative is no owner at all," Cummings said. "It's not the best situation because their focus is on the gaming product rather than the racing product, but if they weren't investing in racetracks, who else would be?"

Even Churchill Downs Inc. and The Stronach Group, both owners of multiple tracks, now find a large percentage of their revenues—and profits—coming from gaming. In 2014, CDI saw $329,010,000 in revenues from its casino operations compared with $261,453,000 from its racing operations.

Cummings said it is still possible for racing operations to make money.

"You can still make a profit on racing usually at the higher level as a racetrack operator by having a quality product and getting people elsewhere to bet on your product," he said.



Will E. Cummings

DENISE PHARRIS/RTIP PHOTOS

Penn National has tried to make its racing product more competitive by adding open stakes such as the $1.5 million Charles Town Classic (gr. II) at Charles Town Races and Slots and the $500,000 Penn Mile at Penn National Race Course.

"Just five years ago, the portfolio of Penn National gaming tracks contested one graded race and in 2016, we'll be contesting five," said PNGI's vice president of racing Chris McErlean. "The infusion of this element of quality has been the bright spot for racing at both venues. We're looking forward to our attempt to move the needle even further in the future."

Oddly enough, Cummings believes racing as a pari-mutuel business product would fare better today if some tracks saved by the addition of added gaming had simply died out. He believes racing would have featured fewer tracks but pari-mutuel wagering would have thrived as bettors concentrated on those tracks, which would have featured larger fields and better quality.

Cummings believes that with the crutch of money from added gaming to tracks and purses, there's been little creativity in pari-mutuel wagering, marketing of race betting, or innovation in these areas.

"There's less a sense of concern than would otherwise be the case; less impetus, less motivation, for making fundamental changes, painful as some of those will be," Cummings said. "It's been a theme that knowledgeable people in the business have harped on for many years; we have to focus on the customer, focus on our players."

by Frank Angst

ers giving pari-mutuel wagering a try. That cross-over, however, has not widely occurred or has not been maintained.

In 1990 all wagering at Delaware was conducted on-track and handle reached $82.2 million. But in 2014 that on-track handle had dwindled to $5.4 million, a number also impacted by the move toward off-track wagering.

In 2001 at Charles Town, Delaware, Mountaineer and Prairie Meadows, each having at least five years of added-gaming at that point, total wagering on those four tracks reached $757.3 million. In 2014 the combined handle at those four tracks was down 28% from 2001 to $541.6 million. (The only track that improved of the group was Charles Town, up 0.4% to $198.4 million.)

As each state has made its own decision on added-gaming, a racing—and breeding—environment of "haves" and "have-nots" has developed. A look at some of the top-handle U.S. tracks in 1990 reveals some of the biggest losers were 10 tracks that at the time were doing relatively well, averaging more than $720,000 in daily pari-mutuel handle. But without added-gaming, and some eventually forced to compete with neighboring states that offered purses enhanced by added gaming, all 10 would be closed by 2015.

Those closed tracks, their 1990 average daily handle, and date they ended live Thoroughbred racing follow: Aksarben, $720,921, 1995; Balmoral, $996,643, 1991; Bay Meadows, $2.4 million, 2008; Detroit Race Course, $881,122, 1998; Fairplex Park, $3.2 million, 2013; Garden State Park, $1.6 million, 2001; Hollywood Park, $6 million, 2013; Longacres, $1.3 million, 1992; Rockingham Park, $783,958, 2002; and Sportsman's Park, $2.2 million, 2002.

That list doesn't include significant tracks such as Meadowlands and Suffolk Downs, which continue to offer racing at a greatly reduced level in terms of days.

In 1990 most would have bet the first four racino tracks would be more likely to shut down than many of the tracks on the list. Their average daily handle ranged from a high of $548,000 at Delaware to a low of $225,000 at Mountaineer. But perhaps their desperation for a new revenue source helped save them.

Three Texas tracks opened from 1989-97: Sam Houston Race Park, Retama Park, and Lone Star Park. They have struggled, along with the state's breeding industry, in recent years; forced to compete without added-gaming while surrounded by racino states.

Today the largest of racing states have been impacted by racino states. California has not allowed added-gaming and has seen the closure of Bay Meadows, Fairplex, and Hollywood in recent years. New York Racing Association welcomed a casino at Aqueduct Racetrack and the added purse funding has helped its racing product thrive.

While Kentucky has not allowed the addition of casino gaming at its tracks, seeing horsemen opt to race their horses in the surrounding states that offer added gaming prompted the state's racing commission to allow tracks to add historical racing games, machines that look like slot machines but base payouts on a pari-mutuel formula. Even venerable Keeneland, perhaps racing's version of the Yankees, joined the historical racing party this year. BH

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DECOUPLING A DEVELOPING ISSUE

In 2014 the Iowa Greyhound Association agreed to deal with two racetrack casino operators that would terminate dog racing in Iowa in exchange for a $72 million buyout.

Horseshoe Casino in Council Bluffs was approved by the Iowa legislature to end racing at the end of 2015 while the IGA negotiated with Mystique Casino in Dubuque to continue live racing on a year-to-year basis through 2022. Mystique has said live greyhound racing will resume in May 2016.

Many dog tracks have closed over the past 15 years, in large part because of campaigns by animal-rights groups coupled with declines in pari-mutuel wagering, but the Iowa situation was the first legislative action on decoupling, which eliminates the requirement for racetrack casinos to offer live racing.

The issue has bubbled up in West Virginia, which has two dog tracks that are among the highest in purses paid in the United States. The West Virginia Racing Commission has approved applications for about 500 performances—individual racing programs—at both tracks combined, but a special legislative committee already has taken testimony on whether the two tracks, which offer full casino gambling, should continue greyhound racing.

Some in the Thoroughbred industry have paid close attention to the developments even though horse racing, until recently, hasn't been part of the decoupling mix. That changed this year in Florida, where the legislature is looking to overhaul state gaming law.

Thoroughbred, Quarter Horse, and Standardbred owners, trainers, and breeders in Florida initiated a "No Decoupling" campaign in advance of the 2016 session of the Florida legislature to explain the economic impact of the horse racing and breeding industry in the state. Thoroughbred, Standardbred, and greyhound tracks in Broward and Miami-Dade counties in South Florida have slot machines.

"It has been 10 years since the initial deal for Florida's slots referendum, the resulting revenue of which was earmarked to put Florida's horse racing industry on a level playing field with other states," said Bill White, president of the Florida Horsemen's Benevolent and Protective Association. "By design, these funds spurred our breeding industry, creating jobs and increasing tax revenue in turn.

"So just imagine our lawmakers' embarrassment once they realize—perhaps all too late—that by approving decoupling they will have both inadvertently expanded gambling almost overnight, as well as chased our horsemen right into the welcoming barns of more racing-friendly states."

Thoroughbred horsemen's groups in West Virginia are on alert as well. Representatives have indicated it would be naïve to think a push to end greyhound racing in the state couldn't become an issue in the future for racing at the state's three Thoroughbred tracks.

By Tom LaMarra