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FRONT**

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Mixed Signals on the NYRA Takeout Front

This article is a *mea minor culpa* one. When I was working in the New York State legislature on gambling issues in 2001, the one can't miss piece of legislation I worked on was the New York Racing Association [NYRA] takeout reduction legislation.¹ I figured this would be the ultimate win/win piece of legislation for NYRA and racing. You get lowered takeout, which should increase handle on NYRA races. Increased handle means increased purses, which should also arguably lead to better racing, and more fan interest in the sport of horse racing. Additionally, with 85% of the betting on NYRA races coming from simulcast sites, NYRA wouldn't take a hit on its reduced share of retention from on-track wagering. If handle increases at the simulcast sites, NYRA wins, and the guest sites pay the freight. Everybody inside New York would win: the fans, the horsemen, and NYRA. Even the state of New York would win by getting more tax revenue from added New York state handle on NYRA races.

While it been good for racing, the effect of the takeout reduction just hasn't been the outright total winner that I expected it to be. We're seeing increases at NYRA. Total handle on NYRA horse racing is up 9% since 2000, but we're not seeing exactly was expected.

The 2001 legislation lowered the takeout on straight (win, place, and show) wagers from 15% to 14%, and on multiple (two horse bets, basically doubles, exactas, and quinellas) wagers from 20% to 17.5%. The takeout on exotic wagers (everything else) was left at 25%, except that on days that the Pick Six did not have a carry-over, the Pick Six takeout would be lowered to 20%. The state did not lower its taxes on NYRA handle to help finance this takeout reduction. Instead, NYRA and the horsemen reduced their share of on-track wagers that would otherwise be due them. The horsemen agreed in the legislation to reduce their share of on-track handle from 5.94% to 5.4%,² and NYRA assumed the risk on all other additional risks in the reduction of their retention rate. The legislation became effective at the start of the 2001 Saratoga season.

The takeout reduction figured to lower NYRA takeout by about 6.75%. Assuming that NYRA derives 35% of its bets from straight wagers, 40% from multiples, and 25% from exotics, plus adding .5% due to breakage, the effective takeout rate at NYRA, prior to the change, was 20%. Assuming that betting per class of wager remains unchanged, the effective takeout rate should have been down to 18.65%.³ This was a 1.35 percentage point drop in a takeout and an overall reduction of 6.75%. Under studies (and popular racing belief) I though that a 6.75% reduction in takeout would be expected to yield

¹ Laws 2001, ch. 98.

² Racing, Pari-Mutuel Wagering and Breeding Law, §229.2.c.

³ The assumption was that the takeout on exotic wagers would not be affected by the change in the structure of the Pick Six takeout.

double that increase in greater handle.⁴ Thus, I was hoping for a 13.5% increase in handle.⁵

The one place I were sure of a large increase in handle was on-track. That's where the largest bettors are. That's where the most dedicated price-sensitive bettors are. Those are the people who will be most likely to know of and to take advantage of a takeout decrease. They would know that their betting dollars traveled further at NYRA and would continue to churn their added winnings into further bets on NYRA. If there's any place where we could expect to see a certain double digit increase in handle, it was on-track.

Only now, NYRA has released its figures on attendance and handle, and the on-track increase is not there. First of all, attendance at the NYRA tracks has remained virtually unchanged since 2000. More significantly, on-track handle on NYRA's own races in 2002 (the first full year of takeout reductions) fell when compared to 2000 (the last full year of higher takeout). Total NYRA on-track handle on its own races fell from \$370.2 million in 2000 to \$365.6 million in 2002. When comparing each NYRA meeting in 2002 to its predecessor in 2000, handle was only up at the Belmont spring meeting and the Aqueduct fall meeting. It was down at the Aqueduct winter-spring, Saratoga, and Belmont fall meetings. There may have been two fewer racing days in 2002 than in 2000, but 2002 did not have 103,000 fans present at Belmont to see if War Emblem could win the Triple Crown. Instead, it had Commendable slowly going wire-to-wire.

The closest thing to an apples-to-apples comparison (which avoids major race days) is contrasting the Aqueduct winter-spring meet in 2002 with the same meet in 2000. The number of race days is the same (87), but attendance was down in 2002 by 1.1%, and on-track handle on Aqueduct races in 2002 was down nearly 5%.⁶

The problem here is that with no increase in handle, thanks to takeout reduction NYRA retains 1.11 fewer cents on each dollar that is wagered on track. Based on a

⁴ Mukhtar M. Ali and Richard Thalheimer, "Product Choice for a Firm Selling Related Products: A Pari-Mutuel Application," 34 *Applied Economics*, No. 10, p. 1251, July 10, 2002. A somewhat more conservative approach has been taken by economist Maury Wolff who has estimated that for every one-percentage point increase in takeout, handle decreases by 7 to 8 per cent. See Tom Keyser, "Jockey Club Ups Ante; But Some Call It Bad Bet," *Baltimore Sun*, p. 1C (July 1, 2000); cf. Andrew Beyer, "Won't Make Dollars; Doesn't Make Sense," *Washington Post*, p. D 01 (April 20, 2000). Assuming that a percentage point change in takeout under the Wolff theory equates to a 7.5% change in handle, NYRA handle should have increased by slightly over 10%. If each percentage point change in takeout equates to a 7% change in handle, NYRA handle should increase by 9.45%.

⁵ Whatever NYRA may have believed about the expected increase in the volume of handle, it has maintained the consistent belief that it needed a 7% increase to break even.

⁶ This analysis slightly overstates the 2002 numbers. NYRA actually conducted racing in 2002 during the winter-spring meeting on 88 days, but racing was cancelled on March 20, 2002 after one race. The 2002 numbers presumably contain the NYRA attendance for that day plus the handle on the one race. Even if you add betting on simulcasts by bettors at Aqueduct, you get only an increase in total on-track wagering in 2002 of .26%. An increase in simulcast wagering by bettors at Aqueduct would actually tend to show the lack of effect of the takeout reduction. If the takeout reduction was so significant to bettors, they ought to be betting more on the NYRA product and less on the imported product. Additionally, the legislature, as part of the takeout reduction bill, authorized an additional out-of-state simulcast for three of the winter months, which would have served to increase handle in the winter of 2002.

handle of \$370 million in 2000, this translates into a loss of \$4.07 million. Yet, there's no reason to cry for NYRA's finances yet.

The fact is still that NYRA's commingled handle is up substantially. As stated previously, it is up by 9%, an increase of \$223 million since 2000. It's not the double-digit increase that I expected, but it is certainly significant.⁷ But where is it coming from? It is not coming from the on track patrons, and it's not coming from the OTB's in New York (traditionally the largest single source of wagering on NYRA) where handle on NYRA is basically unchanged from 2000. (It was down somewhat in 2001 and up slightly –according to the Racing and Wagering Board – in 2002.) The decreased takeout has not seemed to affect New York State OTB handle on NYRA. OTB customers in New York figure to have greater exposure to marketing information and media commentary on lowered takeout at NYRA than bettors at other guest sites. Accordingly, with greater awareness of takeout reduction than other players, one might expect an increase in NYRA wagering by OTB players. Yet, this greater exposure to information on the takeout reduction has not lead to greater NYRA handle at the in-state OTB's.

In 2000, NYRA on-track handle plus New York State OTB handle constituted 40% of the handle on NYRA races. The dollar amount of this handle has not increased since 2000. That means that the handle from out-of-state simulcast sites has increased not by just 9% but closer to a figure of 16.5%. The out-of-state increase in NYRA handle is far more than I would have imagined. If NYRA gets a 4% fee on its handle based from simulcast sites (which is then split 50-50 with its horsemen) on the extra \$223 million in simulcast handle, it makes \$4.46 million which more than makes up for its on-track losses – assuming that NYRA was not forced to lower the price of its signal to its guest tracks.

The issue remains where is NYRA's increased handle coming from. Many of us assumed that the NYRA takeout reduction would have had its greatest beneficial effects on handle on-track and from New York State OTB operators. That hasn't happened. Instead, it's gone up far more than anticipated out-of-state. Why did this happen? I don't have the answers, but there are some possibilities. The answer may come from an amalgamation of all these possible reasons, plus others that I have been unable to decipher.

1. Maybe it's part of a national trend. After all, total United States handle, per the Jockey Club statistics, increased 39.5% from 1995 –2001. The trend has been to higher simulcasting handle, and this added simulcasting has frequently boosted the share of handle that goes to the main racing circuits. Since NYRA represents the biggest of the big circuits, the money has gone to NYRA. Even if this national trend concept is valid, it should be understood, that since 2000, NYRA has done considerably better than the national average. The National Thoroughbred Racing Association has indicated that national thoroughbred

⁷ It is near the lower end of the level that the Maury Wolff analysis would have predicted for the increase in footnote 4. This is especially true if you use the daily average NYRA handle figures, which show a per diem increase of 9.8%. NYRA raced two fewer days in 2002 than in 2000.

handle increased by 3.19% last year,⁸ and according to the Jockey Club 2002 Fact Book, handle increased by 1.6% in 2000, which makes for an increase in 4.8% over the past two years. The NYRA increase was 9%, or almost twice the national average.⁹

2. Maybe, it's due to the increase in account wagering. The number of guest outlets taking NYRA racing may not have increased, but the expansion of in-home broadcasting and computerized streaming video of racing may be spurring increases in NYRA handle. It could be that the increases in wagering at Youbet and the Television Games Network (especially the introduction of account wagering in California¹⁰) have more to do with the increase at NYRA than any other single factor. The daily presence of NYRA racing on cable TV systems in California – racing against minimal major track competition - might be the key to some of NYRA's handle numbers. You need to have greater access to NYRA's numbers to see where the money is coming from and whether same-track sales on the NYRA product have increased.
3. Maybe, the decrease in takeout is working on-track at NYRA by preventing significant decreases in on-track handle. Most every track has seen and is seeing significant decreases in on-track wagering. It is reasonable to believe that the takeout reduction worked effectively by reducing this decrease at NYRA.
4. Maybe, the truly price-sensitive big bettors are no longer on-track. They have gone to Nevada for perks or to the account wagering rebate shops. This theory would mean that lowered takeout is working on those bettors who formerly went to the track but are now using more sophisticated (and lucrative) wagering methodologies. That would help to explain why there has been no perceivable effect on-track but a large increase from outside New York State. The big NYRA bettors may now be off-track, and that could explain why the big handle increases are off-track.

It's not that decreased takeout isn't working at NYRA. It's just working out far differently than many people (especially me) expected it to work.

⁸ Press Release, National Thoroughbred Racing Association, "United States Pari-Mutuel Wagering and Purses Up for 2002," January 9, 2003.

⁹ The NYRA increase from 2001 to 2002 was basically identical to the national increase as reported by the National Thoroughbred Racing Association.

¹⁰ This California increase would have been diminished by Santa Anita's decision not to offer its patrons racing from Aqueduct as an option in the winter of 2002.