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KEEPING THE RACE IN THE RACINO

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Keeping the Race in the Racino

Peter Carlino of Penn National Gaming is certainly a backer of the concept of pari-mutuel racetracks serving as the site of casinos.¹ It surely is in his best interest. After all, he is the chairman of the board of Penn National Gaming which owns two tracks² and operates 11 OTB's in Pennsylvania, is a partner in Freehold Raceway in New Jersey, owns Charles Town Races in West Virginia, and runs an account wagering provider. Besides its pari-mutuel racetracks, Penn National owns two casinos in Mississippi, a casino in Colorado, and a riverboat casino in Louisiana. Charles Town, operating as a racino, also houses more than 2,500 slot machines, and Penn National holds the management contract for an Indian casino in the province of Ontario.³

By casino standards, Penn National is hardly a major player. Yet its casino operations dwarf its racing operations. Its casino revenues are four times larger than its racing revenues. All told, racing revenues are less than 20% of Penn National's revenues. At Charles Town in 2001, gaming revenues exceeded racing revenues by a ratio of 7.5 – 1, and this figure includes revenues on wagers placed on simulcast venues on Charles Town races.⁴

So when Peter Carlino says that racing and gaming aren't mixing, and that the tracks themselves are now 4% of his company's business,⁵ maybe it's time to rethink the racino concept. The whole *raison d'être* of a racino is that locating a casino at a racetrack will create a synergy for the racetrack. It will increase purses, which will stimulate interest in racing and attendance at the track. Racing as a sport is supposed to benefit from this addition of further gaming opportunities. That's what separates racetracks from other potential casino venues. If Peter Carlino is correct, however, we have established a system of *de facto* segregation at the racino with no mixing of the racetrack patrons and the casino patrons. Casino patrons aren't going to the racetrack, and there is no increased interest in racing. Due to the influx of casino funds, racetrack management is finishing first, horsemen place, the breeders finish in the money, but overall interest in the sport of racing is an also-ran.

The point of a racino should be to better the conditions of racing. If racino facility patrons are going to ignore the racetrack, what's the point of a racino? This ought to be distressing to the operators and wannabe operators of racinos as well as to horse racing fans. If racinos don't improve attendance and on-track handle, it becomes far more likely that politicians will begin to view racino wannabe's as indistinguishable from every other Tom, Dick, or Donald who wants a casino license. Racetracks will be viewed as land grabbers and not traditional corporate citizens trying to protect a longstanding,

¹ "Penn National Gaming Posts Record Earnings," The Patriot News, October 24, 2002 p. D07.

² Penn National and Pocono Downs.

³ The information on Penn National Gaming's holdings is derived from its website at www.pngaming.com

⁴ Penn National Gaming, Form 10-Q, Securities and Exchange Commission, November 14, 2002.

⁵ Richard Eng, "Racing Ideas Flow at Gaming Expo," Las Vegas Review-Journal, September 20, 2002 p. 7C. This was based on a speech delivered by Peter Carlino at the Global Gaming Expo in Las Vegas on September 18, 2002

agriculturally based light industry. The racetracks will lose their uniqueness, and legislators will increasingly view a pari-mutuel license as a mere pretext for a casino license.

If racing wants to make racinos work, something needs to be done to stimulate business at the racing end of the racino. Perhaps the best-proven weapon racing has to increase business is to lower the takeout. Almost nothing has worked over the years to increase business at a racetrack than to lower the cost of a bet. What would be wrong with forcing a racetrack, as a condition of obtaining a casino license, to lower its takeout? If a casino license is regarded by many as a license to print money, shouldn't some of that money go to the fans who support racing? It ought to be time to put the horse before the casino.

The arrangement ought not be too difficult. You can start with an arbitrary figure that lowers the takeout to about an overall figure of 17%, which is probably where takeouts in racing were 30 years ago. A racetrack that gets a casino license ought to be required to have a maximum takeout of 15% for its straight wagers and 18% on its other wagers. If the racetrack wanted additional gaming devices or tables, it would again need to lower its takeout.

Peter Carlino is saying that racinos aren't improving handle and attendance at the racetracks. If the cost of betting at a racetrack is lowered, the likelihood that casino players will bet the horses has to increase. Some of the casino players will bet the ponies, and there may actually be some synergy at the track. In the long run, racetrack owners, in order to obtain casino licenses, need to show state legislatures that they are distinctive. If the racing part in the racino equation fails – which is what Peter Carlino seems to be saying - the racetrack loses its distinct, preferred status. Lowering the takeout – and actually helping racing - will help the racetracks retain that discrete status. For the best interest of the racetracks and the sport of horse racing, lowered takeout on horse racing should be required by law in order to keep the race in the racino.