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Raising the NYRA Takeout?

It's one thing to say that the 2001 takeout decrease at the New York Racing Association has not been a huge financial success. It's another thing to blame the takeout decrease for much of the current financial distress of the OTB's in New York State.

In the middle of 2001, the State Legislature lowered the takeout rate on NYRA races. The takeout on regular (one horse) wagers went from 15% to 14% and the takeout on multiple (two horse wagers) wagers went from 20% to 17.5%. The takeout on exotic wagers (everything else) stayed at 25%. This probably works out to about a 7% decrease in total takeout at NYRA. The OTB's have been complaining long and hard about this legislation. They have found no increase in their NYRA handle, and they have blamed the NYRA takeout decrease - which has left them with lowered retention on NYRA races - for their subsequent financial woes. Now with some OTB's in near-deficit situations, they have finally persuaded Senator William Larkin to sponsor a bill increasing the takeout rate at NYRA. See Senate Bill No. 6431. <http://assembly.state.ny.us/leg/?bn=S06431&sh=t>

But, is there any reason to blame the NYRA takeout decrease for the OTB's problems? A strong case can be made that the NYRA takeout decrease served to stabilize OTB handle on NYRA while handle on all other New York races was plummeting.

New York racing in the past decade has seen a huge shift from on-state racing to out of State racing. Legislation has opened the New York market to out-of-state racing, and New Yorkers now bet more on out-of-state horse racing products than on the New York racing product. Comparing 2000 figures - the year before the takeout decrease - and 2002 figures (the first full year after the takeout reduction) you find that NYRA handle at the OTB's actually increased slightly. It was \$706.6 million in 2000 and \$707.1 million in 2002. Since NYRA ran one fewer program in 2002 than in 2000, per program handle on NYRA races actually increased at the OTB's by .5%.

On the other hand, a review of non-NYRA New York racing shows a huge decrease in handle at the OTB's from 2000 to 2002. Total non-NYRA New York handle at the OTB's fell by 17.3% from 2000 to 2002 to \$243 million despite a significant increase in racing programs due to the reopening of Batavia Downs. Finger Lakes handle at the OTB's decreased by 25.3% on a per program basis. New York harness handle at the OTB's decreased by 17.4% on a per program basis. Over this two year period, NYRA handle actually increased at the OTB's. All non-NYRA New York racing programs sank at the OTB's.

In 2000, NYRA racing accounted for 35.78% of all OTB handle. With the increased popularity of out-of-state racing, in 2002, that number was reduced to 34.62% in 2002, a drop of 3.2%. On the other hand, non-NYRA New York racing was 14.72% of OTB handle in 2000. By 2002, that number dropped to 11.92%, a decrease of 20.9%. The point is that the NYRA product - in the face of increased out-of-State competition - fared more than decently at the OTB's over this two year period. The New York tracks that did not

lower their takeout rates suffered enormous drops in handle. Maybe, just maybe, the lowered takeout rates at NYRA prevented a much larger decrease in handle at the OTB's.

In May of 2003, the State legislature totally opened New York to out-of-State racing. While the full figures have not been officially reported, with unlimited simulcasting, it is likely that NYRA handle at the OTB's dropped by about 9% from 2002-2003. But even here, the percentage drop in NYRA handle has been minimal compared to the percentage drop in non-NYRA New York handle. Handle at the OTB's on NYRA races is now probably 3x more than the OTB handle on all other New York races. In 1998, handle at the OTB's on non-NYRA New York races was more than \$360 million. By 2002, that figure was reduced to \$243 million. It is now probably down below \$200 million. Handle on these non-NYRA races at OTB is probably down by 45% over a five year period and more than 30% over the three most recent years. The handle drop on NYRA races over that same five year period is likely to be about 15% and only 9% over the last three years. NYRA racing remains competitive at OTB. Other New York races are not. Shouldn't the takeout decrease receive some of the credit for NYRA races remaining competitive at OTB in a completely open market?

From 2000 to 2003, NYRA handle at the OTB's dropped by about 9%. OTB handle on all other New York racing fell by more than 30%. If NYRA had not dropped its takeout rate, perhaps its handle loss would have been far closer to the percentage of the other tracks in New York. If only half of the difference in the percentage drops between NYRA and the other New York tracks is attributable to the NYRA takeout decrease, this would mean that the OTB's handle was increased by \$70 million. (This figure is reached by using 20% as the difference in the handle drop at the OTB's between NYRA races and non-NYRA races and then assuming that only half of this 20% difference in the handle drop is due to takeout. 10% of OTB's year 2000 \$700 million handle on NYRA yields \$70 million.) Assuming that the OTB's would gross 14% (including surcharge) from this \$70 million handle gain, this would yield \$9.8 million in additional revenue to the OTB's. On the other hand, the OTB's would claim that their lost retention on NYRA would be about 1.4 cents per dollar wagered. Again assuming approximately \$700 million wagered on NYRA at OTB's, that loss would also be \$9.8 million. In short, if lowered takeout at NYRA meant an adjusted 10% increase in handle – than might otherwise have been expected - at OTB's on NYRA races, then it would be difficult to attribute any harm created by the NYRA takeout reduction at the OTB's.

It's become the rage to blame NYRA for many of the problems in New York racing, but OTB's financial imperfections have relatively little to do with NYRA's takeout rates. A case can be made that lowering the takeout at NYRA has increased OTB handle and not significantly adversely affected the bottom line at OTB.