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REBATES IN UTOPIA

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REBATES IN UTOPIA

I WANT TO THANK THE HTA AND THE TRA FOR HAVING ME BACK HERE, AND I PROMISE NOT TO TAKE UP MUCH OF YOUR TIME FROM THESE BEAUTIFUL SURROUNDINGS, BUT I CERTAINLY BELIEVE THAT REBATES ARE AN ESPECIALLY MAJOR TOPIC FOR RACING'S FUTURE.

I ALSO NEED TO COMPLIMENT MAURY WOLFE AND DAVE CUSCUNA FOR THEIR WORK IN THIS AREA. THINK OF IT. THEY'RE MAJOR, HIGHLY-SKILLED BETTORS, WAGERING WITH REBATE OUTFITS. MOST PEOPLE IN THEIR POSITIONS WOULD JOIN THE SHAH!, SHAH!, DON'T SAY A WORD SCHOOL. THEY WOULD HIDE, RECOGNIZE THEY HAVE A GOOD THING, AND STAY OUT OF SIGHT. INSTEAD, THEY HAVE GONE PUBLIC AND HAVE AS MUCH AS POSSIBLE DOCUMENTED THE ISSUES AND THE EXTENT OF REBATES. THEY NEED RACING'S COMMENDATION AND NOT ITS CONDEMNATION.

NOW WHILE REBATES ARE A SERIOUS SUBJECT, THERE ARE NUMEROUS REASONS NOT TO TAKE ME SERIOUSLY. FIRST OF ALL, I WAS A RACING COMMISSIONER FOR OVER A DECADE. AS MY CHAIRMAN MIKE HOBLOCK KNOWS –IN THE COURSE OF RECORDED HUMAN HISTORY NOBODY HAS EVER TAKEN A RACING COMMISSIONER'S VIEWS SERIOUSLY. SECONDLY, I WORK AS A TEACHER IN A LAW SCHOOL. EVERYBODY KNOWS THAT THOSE WHO CAN'T DO, TEACH.

THIRD, BEFORE I BECAME A RACING COMMISSIONER, I BASICALLY DID LEGAL ETHICS WORK IN STATE GOVERNMENT. EVERYBODY SHOULD KNOW THAT IN LAW, THOSE WHO CAN'T PRACTICE, PRACTICE ETHICS. THUS, MY VIEWS ON RACING ARE THRICE DAMNED. THEY ARE IN THE WORDS OF HAMILTON BERGER, THE LOSING PROSECUTOR IN THE OLD PERRY MASON SHOW INCOMPETENT, IRRELEVANT AND IMMATERIAL. WORSE FOR RACING, MY VIEWS ARE UNDOUBTEDLY NAÏVE AND QUIXOTIC.

I CAN CONFESS TO A LIMITED ROLE IN THE BIRTH OF THE REBATE SYSTEM AS WE NOW KNOW IT. NINE YEARS AGO, I WAS SITTING AT MY DESK IN DOWNTOWN ALBANY WHEN I GOT A CALL FROM ONE OF THE HIGHERUPS AT THE STATE DIVISION OF THE BUDGET. HE WAS ECSTATIC. HE HAD HAD – WONDER OF WONDERS - A FRIENDLY, PRODUCTIVE MEETING WITH THE NEW YORK RACING ASSOCIATION, AND WHEN THE ISSUE OF TAKEOUTS CAME UP, THE NYRA GUY SAID, “WE RAISED THEM IN FLORIDA, AND NOBODY KNEW THE DIFFERENCE.”

BASED ON THIS UNDERSTANDING, THE LEGISLATURE RAISED THE TAKEOUT AT NYRA. THE LARGER NYRA BETTORS COMPLAINED, AND THEY ENDED UP IN NEVADA GETTING MUCH MORE IN RETURN THAN NYRA'S 3 PERCENTAGE POINT INCREASE IN MULTIPLE HANDLE.

MY OTHER 1995 INVOLVEMENT CAME AT THE BEHEST OF SUFFOLK COUNTY OTB. THEY HAD A BETTOR NAMED ERNIE DAHLMAN WHO WAS REPUTED TO BE THE BIGGEST SINGLE BETTOR IN AMERICA. RACING BOARD INTELLIGENCE PEGGED HIM AS BETTING \$12 MILLION PER YEAR AT SUFFOLK OTB ON NYRA RACES. I RECOGNIZE THAT SOME OF YOU OUT THERE REGARD RACING BOARD OR COMMISSION INTELLIGENCE AS AN OXYMORON, BUT THE INFORMATION WAS LIKELY CORRECT. SUFFOLK WANTED TO KNOW WHETHER IT COULD INDIRECTLY PAY HIM FOR HIS WAGERS. WE MAY BE NAÏVE, BUT AS NORMAL COVER YOUR ASS BUREAUCRATS WE WEREN'T GOING TO SIGN OFF ON A POSSIBLE JOB WHERE YOU GET PAID TO BET. THUS, ERNIE WENT TO VEGAS – LEADING TO WHERE REBATES ARE TODAY.

AND WHERE WE ARE TODAY IS A KIND OF NEVER NEVERLAND OF CONFLICTING VIEWS. WE KNOW WE'RE NOT IN KANSAS ANY MORE, BUT WE'RE NOT IN THE EMERALD CITY EITHER. WE KNOW SOME THINGS. WE KNOW THAT REBATES ARE OUT THERE. WE KNOW THAT NEARLY ALL OUR BIG BETTORS UTILIZE THEM, AND WE KNOW THAT THE HANDLE ON REBATES IS ENORMOUS. EVEN IF YOU DON'T BUY INTO MAURY AND DAVE'S FIGURES, YOU NEED TO KNOW THAT THESE NUMBERS ARE HUGE. LAST YEAR, THE LEWISTON MAINE HUB – REGARDED BASICALLY AS THE SITE OF MOST REBATE LOCALES – BET \$135 MILLION ON NYRA RACES. THAT HUB ALONE ACCOUNTED FOR 6% OF ALL NYRA WAGERS. IT'S MORE THAN

ANY OTHER SINGLE SOURCE BESIDES ON-TRACK AND NEW YORK CITY OTB. IT'S MORE THAN NEVADA. IT'S MORE THAN NEW JERSEY. IT'S MORE THAN ANY OF THE NON NEW YORK CITY OTB'S. CHRISM CERLEAN ON THE LAST PANEL GAVE A FIGURE OF 20% ON THE HANDLE REOM REBATE SHOPS ON THE MEADOWLANDS. RACING SERVICES INC. – THE NORTH DAKOTA FIRM CURRENTLY UNDER INDICTMENT – BET \$214 MILLION IN 2002. THEY WERE BETTING UP TO \$10 MILLION PER WEEK IN 2003 BEFORE THE SCANDAL BROKE. BACK IN 1995, WE USED TO MARVEL AT ERNIE DAHLMAN, RACING'S \$12 MILLION MAN. NOW WE HAVE WHALES THAT DWARF THAT AMOUNT, WITH ONE PETER WAGNER BETTING AN ESTIMATED \$130 MILLION PER YEAR BEFORE THE RACING SERVICES DOWNFALL. YOU CAN'T FIND THAT RACING HANDLE HASN'T BENEFITED FROM REBATES.

SECONDLY, THE TRACKS HAVE LARGELY NOT PARTICIPATED IN THE REBATE SYSTEM. SOMETIMES, THEY HAVE BEEN UNABLE TO PARTICIPATE DUE TO INTERPRETATIONS OF THEIR GOVERNING LEGISLATION. OTHER TIMES IT HAS BEEN TOO DIFFICULT TO WORK OUT A PRICING SYSTEM THAT STILL PAYS BACK DECENT VALUE TO THE HORSEMEN, AND THE TRACKS HAVE SEEN A COTTAGE REBATE INDUSTRY FLOURISH WHILE THEY'VE SAT IDLY BY.

BUT THERE'S SO MUCH NOT IN THE PUBLIC RECORD. SO MUCH IS BECAUSE THE MEDIA COVERAGE OF THIS ISSUE HAS BEEN

LIMITED. WE'VE HAD GOOD COVERAGE FROM MATT HEGARTY AT THE FORM, ANDY BEYER AT THE WASHINGTON POST AND IN NORTH DAKOTA, THE FARGO FORUM. BUT OTHERS HAVE BEEN MISSING IN ACTION. THE NEW YORK TIMES HAS MENTIONED HORSE RACING REBATES IN A GRAND TOTAL OF TWO ARTICLES AND COVERAGE WAS LIMITED IN EACH ARTICLE.

WE DON'T KNOW IF REBATES HAVE HURT PURSES. WE DON'T KNOW WHY SO MANY OF THE MAJOR GAMBLERS STILL RESIDE IN NEVADA WHEN NEVADA OUTLAWED REBATES 6 ½ YEARS AGO. WE DON'T KNOW WHY NEVADA PARI-MUTUEL WAGERING REACHED ITS PEAK IN THE YEAR AFTER NEVADA BANNED REBATES. WE DON'T KNOW FOR CERTAIN IF THERE IS A DIRECT CONNECTION BY SOME ARBITRAGING BETTORS TO THE TOTE SYSTEM WHICH ENABLES THEM TO WAGER AT THE LAST SECOND. WE DON'T KNOW THE EXTENT OF BATCH BETTING. WE DON'T KNOW IF ORGANIZATIONS HAVE DIVERTED BETS IN SUCH A MANNER AS TO MAKE IT APPEAR THEY WERE WAGERED AT LOCATIONS WHICH PAY SMALLER SIMULCAST FEES. WE DON'T KNOW IF THESE ARE REBATES OR SIMPLY DIVIDENDS TO INVESTORS AS SUSAN BALA OF RACING SERVICES CALLED THEM SEVERAL YEARS AGO. IN SHORT, THE RACING INDUSTRY HAS PLAYED SERGEANT SHULTZ ON THE SUBJECT OF REBATES. WE KNOW NOTHING.

MY SUGGESTION IS A SIMPLE ONE. LET'S LEGALIZE REBATES EVERYWHERE, FULLY DISCLOSE THEM, AND REGLATE THEM.

I'M REPHRASING ONE OF WOODROW WILSON'S FOURTEEN POINTS: "OPEN REBATES, OPENLY ARRIVED AT." REBATES ARE HERE TO STAY. LET'S MAKE SURE THEY WORK FOR THE ENTIRE INDUSTRY.

HERE ARE THE FIVE GOALS THAT A COHERENT RATIONAL REBATE SYSTEM OUGHT TO FULFILL. A REBATE SYSTEM SHOULD DEMONSTRATE OPENNESS, FAIRNESS, FLEXIBILITY, MUTUALITY AND INTEGRITY.

OPENNESS – LET'S DEVELOP A SYSTEM WHERE EVERYBODY KNOWS WHERE THE REBATES ARE. LET'S MAKE SURE THAT THE REBATES ARE OPEN AND AVAILABLE TO ALL ELIGIBLE CUSTOMERS. LET'S FULLY DISCLOSE THE EXTENT OF THE REBATES TO ENABLE TRACKS AND HORSEMEN TO MAKE INTELLIGENT USE OF THEIR SIMULCAST DECISION-MAKER STATUS UNDER THE INTERSTATE HORSE RACING ACT, AND LET'S DISCLOSE SO THE REBATES TO ENABLE BETTORS TO KNOW WHOM THEY SHOULD USE AS A BETTING SERVICE.

FAIRNESS – LET'S BEGIN BY RECOGNIZING THAT THE FREE MARKET HAS COME TO HORSE RACING. MAUREY AND DAVE AND THOUSANDS OF OTHERS HAVE JUST TAKEN THEIR BUSINESS TO WALMART INSTEAD OF TO WOOLWORTHS OR KRESGES OR WT GRANT. THEY'RE BUYING THEIR CALVIN KLEIN JEANS AT SAM'S CLUB AND NOT A THE CALVIN KLEIN STORES. UNDER THESE CIRCUMSTANCES, GOVERNMENT

SETTING THE TAKEOUT RATES NEEDS TO REACT, SO ITS RACETRACKS DON'T TURN INTO WOOLWORTHS. FAIRNESS TO BETTORS, WHO ARE ALSO TAX PAYERS REQUIRES LOWERED TAKEOUT RATES. WE'VE ESTABLISHED A SYSTEM WHERE HORSE RACING IS LARGELY UNCOMPETITIVE WITH CASINO GAMBLING, AND AS CASINO GAMBLING SPREADS THROUGH URBAN AND EASTERN AMERICA, RACING WILL NEED LOWERED TAKEOUT RATES. GOVERNMENT HAS TO REALIZE THAT A FAIR PARI-MUTUEL SYSTEM IS ONE THAT DOES NOT GOUGE ITS CUSTOMERS.

FLEXIBILITY – OVERALL LEGALIZATION OF REBATES ALLOWS RACETRACKS TO BE FLEXIBLE. AS I'VE SAID BEFORE THE MARKET IS IN CONTROL OF RACING NOW. IF RACETRACKS WANT TO BE IN THE REBATE GAME, THERE IS NO LONGER ANY REASON FOR THEM NOT TO BE. IT'S ABSURD TO SEE CASINOS IN NEVADA AND RACINOS IN NEW YORK OFFERING REBATES TO THEIR CASINO CUSTOMERS THROUGH PLAYER REWARD CARDS WHILE BEING UNABLE TO OFFER REBATES TO THEIR RACING CUSTOMERS. LET'S AT LEAST LET OUR TRACKS GET IN THE GAME.

MUTUALITY – THE REASON FOR OUR PARI-MUTUEL SYSTEM IS MUTUALITY. ALL BETTORS ARE SUPPOSED TO BE TREATED EQUALLY. THIS HAS LEGITIMIZED AND DISTINGUISHED OUR SYSTEM OF WAGERING FROM THE OLD BOOKMAKING SYSTEM WHERE BETTORS WERE NOT TREATED EQUALLY. IN FACT,

THERE IS AN ELEMENT OF UNFAIRNESS INVOLVED IN OFFERING REBATES TO A SELECT FEW. MY SUGGESTION IS TO RECOGNIZE THAT MUTUALITY DOES NOT REQUIRE ARITHMETICAL EXACT TREATMENT. ALL IT REQUIRES IS THAT ALL PEOPLE ARE ELIGIBLE TO HAVE THE OPPORTUNITY TO RECEIVER EQUAL TREATMENT. MAKE IT THE DISCOVER CARD FOR RACING. BET \$100 – GET BACK 2% BET \$1,000, GET BACK 5%. EVERYONE CAN PARTICIPATE. THEIR LEVEL OF PARTICIPATION DETERMINES THE REWARD. WHAT’S WRONG WITH THAT?

NOW ONE THING THAT CAN BE WRONG IS THE CRITERIA FOR A REBATE. IF I’M RUNNING A TRACK AND I HAVE CARTE BLANCHE TO DO ANYTHING I WANT WITH REBATES, I’M GIVING THEM TO HORSEMEN AND OWNERS TO KEEP THEM RACING AS MANY HORSES AS POSSIBLE AT MY TRACK. I’M GIVING REBATES TO FRIENDS AND CONTRIBUTORS TO THE GOVERNOR AND THE LEGISLATIVE LEADERS. UNFORTUNATELY, THAT WOULD BE WRONG. THE CRITERIA FOR REBATES SHOULD BE LIMITED TO THE AMOUNT OF WAGERING, THE TYPES OF BETS, AND THE TRACKS ON WHICH THE PLAYER IS BETTING. AGAIN, THE POINT OF A RESPONSIBLR REBATE SYSTEM SHOULD BE TO PRESERVE MUTUALITY. EVERY BETTOR OUGHT TO BE ELIGIBLE FOR THE SAME REWARDS.

FINALLY INTEGRITY – THIS OPEN, MUTUAL SYSTEM LETS US SEE WHAT IS GOING ON. WE CAN TELL IF SOMEONE IS SENDING THEIR WAGERS THROUGH DIFFERENT HUBS. WE CAN TRACK

BETS. WE KNOW WHAT IS HAPPENING AT POST TIME. A REBATE SYSTEM WITH THESE ELEMENTS CAN GIVE PLAYERS MORE CONFIDENCE IN THE SYSTEM, AND IT CAN HELP REGULATORS TRACK SUSPICIOUS WAGERS MORE EFFICIENTLY.

SO WE HAVE OPENNESS, FAIRNESS, FLEXIBILITY, MUTUALITY, AND INTEGRITY . O-F-F-M-I. IF I WAS BEING HOKEY, I 'D GIVE IT THE ANAGRAM "OFF MI." IT WOULD BE THE ONLY ANAGRAM NOT UTLIZING THE CURRENT BUZZWORD TRANSPARENCY FOR EVERY BUSINESS ETHICS PROBLEM, BUT I THINK IT'S SIMPLER TO SAY "OPEN REBATES, OPENLY ARRIVED AT."

NOT ONLY IS IT HOKEY, IT'S QUIXOTIC TOO. IT'S NOT COMING QUICKLY. IN AN INDUSTRY THAT CAN'T AGREE ON WHETHER RACETRACK IS ONE WORD OR TWO, ON HOW TO SPELL PARI-MUTUEL, AND WHETHER A BET PLACING THE THREE TOP HORSES IN THEIR CORRECT ORDER IS A TRIFECTA, TRIPLE OR TRIACTOR, IT'S NOT A LIKELY CHANGE. BUT IT RECOGNIZES THAT THE FREE MARKET HAS COME TO RACING AND THAT RACETRACKS NEED THE ABILITY TO COMPETE. THERE'S NO REASON FOR THE RACETRACKS TO KEEP PLAYING HAMILTON BERGER TO THE REBATE SHOP'S PERRY MASON.

BUT IS IT UNREALISTIC? I HONESTLY DON'T THINK SO. IT ALLOWS FOR THE FLEXIBILITY OF THE MARKET AND RESPECTS THE CONCEPT OF MUTUALITY. EVERY TRACK AND OTB CAN OFFER REBATES. EVERY BETTOR CAN BE TREATED EQUALLY.

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OPENLY ARRIVED AT CAN WORK FOR EVERYONE, AND IT
REALISTICALLY RECOGNIZES THE SYNDROME THAT “WE
RAISED THE TAKEOUT, AND NOBODY KNEW THE DIFFERENCE”
NO LONGER WORKS IN THE BEST INTERESTS OF HORSE RACING.

THANK YOU.