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HARNESS RACING**

JUNE 30, 2004



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A Modest Proposal for New York Harness Racing

Let's face facts. There is no longer any real handle or significant fan interest in New York harness races. Live harness racing on-track in New York (with six tracks)¹ now has an annual handle of approximately \$50 million.² That's considerably less than the \$63 million that was bet on just the Belmont Stakes earlier this month.

The figures are not significantly better when you add in the total handle throughout New York State on harness races run inside New York. That handle figure which includes – handle on live racing, inter-track wagering and OTB's - is now at \$180 million. 70% of the racing programs conducted inside the state are harness programs,³ but New York's own harness racing now accounts only for approximately 6% of all the pari-mutuel betting inside New York State.

In 1970, the last year before OTB started in New York, live harness racing handle in New York State stood at \$843 million. If you factor into inflation, New York harness handle in 1970 – in terms of 2003 dollars – was \$4 billion. Now on-track, it's \$50 million. It's 1.25% of where it was in 1970.

The consulting firm, Christiansen Capital Advisers has recently estimated the size of the gambling market in New York State. It places revenues for harness tracks (and this number includes revenues from live racing and simulcasts of thoroughbred and harness racing) at \$52.2 billion.⁴ With total projected gambling revenue of \$4.03 billion, the harness market is 1.3% of the gambling market in New York State. And the figures only get worse. Christiansen projects very limited growth in the harness market over the next five years so that he estimates that harness tracks in 2008 will constitute .8% of the gambling market in New York State.

Video lottery terminals at harness tracks will certainly increase purses at the tracks and help provide greater moneys for the harness breeding fund. But if the racino experience is similar in New York to the rest of North America, we can not expect much added fan interest in harness racing. It just doesn't create many new fans to bet on the races.

Eventually, this has to be troublesome. If racinos are not especially prosperous, and there is a belief that racinos in New York are a very tenuous business proposition,⁵ then the first casualty is likely to be the live harness product. If VLT's are not producing enough revenue for the track, wouldn't the track look to cut live harness racing, which certainly represents a money losing enterprise for any track in New York?

¹ Technically, there are seven tracks if you count the Syracuse Mile which conducts only a handful of programs each year.

² These handle statistics on harness tracks were provided by the New York State Racing and Wagering Board. The Racing Board's 2002 Annual Report

³ See http://www.racing.state.ny.us/pdf/2002%20Annual%20Report_final.pdf.

⁴ <http://grossannualwager.com/NY%20State%20Gaming%20June%202003,%202004.ppt>

⁵ Tom Precious, *Analysts: New York Racinos No Sure Bet, Blood- Horse*, June 28, 2004.

There are only a limited of ways we can help harness racing. Improving the quality of the actual product through improved purses does not seem to increase attendance or fan interest. Better racing in racino states and provinces has not translated into bigger audiences for racing.

The best approach to creating a fan base for harness racing is a significant decrease in the takeout rates. Nobody is betting New York harness racing. Maybe if we give players a chance to win, that will change. While it's certain that lowered takeout can spur demand for the racing product, the changes in the takeout rates need to be significant. We've found that modest decreases in takeout rates (at a time when people can bet on almost any racing product) such as the NYRA 2001 takeout reduction have only minimal effects. On the other hand, the drastic takeout rates spurred by rebating organizations are resulting in significant increases in handle. The changes need to be significant. In New York State, the takeout probably should be 10% for win place and show wagers and 15% on all other wagers. Only a major effective price reduction will fuel bettor interest in New York harness racing.

But there figure to be losers unless harness handle drastically expands. The tax rate on harness racing is so small that a takeout reduction cannot in any manner be financed by New York State. The State receives virtually nothing from live harness racing today. So the tracks and OTB's would have to bear the burden of funding any takeout reduction.

But the fact is that the amount of betting on New York harness racing is currently so minimal that lowering live harness handle will not be a significant threat to those tracks with video lottery terminals. Take a look at Yonkers. Yonkers has more than half of the live harness racing handle in New York with an annual total in excess of \$26 million. If you assume that the average takeout is 21% on a bet at Yonkers, it will likely be reduced to 13% under the new takeout scheme. This means that Yonkers stands to lose \$2.08 million (\$26 million times .08) if takeout does not increase. Yet. The same Yonkers proposes to have 5,000 – 7,000 VLT's.⁶ If 5,000 VLT's produce \$300 per day (a very low estimate for the NYC metropolitan area) in gross revenues and Yonkers keeps 20% of that figure, that translates into approximately \$110 million in revenue to Yonkers. Surely, Yonkers can afford the maximum of \$2 million needed to fund the takeout reduction. With video lottery terminals in place, the harness tracks themselves should be able to afford a lower takeout on their track's own races.

The situation is somewhat trickier at the OTB's. A little less than 6% of the betting at the six New York OTB corporations takes place on New York harness racing. This might not seem like a large amount, but it adds up to about \$120 million in handle. If the OTB's lose 8% of their retention, this is a loss of \$9.6 million. For some OTB's, loss of this harness revenue might very well place them in a deficit position. Obviously, if the OTB's had VLT's, they could easily absorb this hit on their revenues. Failing that, there will probably need to be a politic way for the OTB's to be held harmless as a quid pro quo for the harness takeout reduction. You could do this in a variety of ways. The feudalistic

⁶ Michael Gannon, *Raceway hearing on casino planned for next week*, [The Journal News](#), July 1, 2004.

OTB payment structure in New York State - under which OTB's pay their vassal-like obligations to their regional tracks for the privilege of taking bets - could be ended or reduced. The fees that OTB's pay to the host tracks could be reduced significantly. Some of the OTB taxes could be reduced. Failing this, the harness breeding fund - which stands to benefit greatly from the VLT's - could be authorized to help fund the takeout reduction.

If you go to a racino state, you will often witness the phenomenon of thousands of people playing the slots and dozens playing the races. The racing part isn't merely the weak sister. It is the weakest link. By empowering bettors to wager on harness racing, New York State can avoid making harness racing the weakest link.

If part of the point of having racinos at harness tracks is to reinvigorate the harness industry, this goal will only be accomplished if we can encourage new harness racing fans. Only by significantly lowering the takeout rate in harness racing in New York can we create these new harness fans. It's time we used the revenues from racinos in New York to stimulate interest in betting on the harness races of New York. Racinos will help the breeders, the tracks, and the horsemen. They won't necessarily help racing fans or breed interest in developing racing fans. They help racing's participants, but they also place harness racing in a continual position of being subsidized by VLT's.

By lowering the takeout substantially on harness racing in New York, we can do something for the fans of racing. They are significant participants in the racing industry, and they merit the same breaks accorded to drivers, owners, trainers, and tracks. Perhaps most importantly, we can invest the racinos proceeds into developing new racing fans, and if we do a good job of developing new fans, we can keep harness racing off the corporate welfare rolls.

Let's stop harness racing from being the loss leader for VLT's. Let's use the racino revenue to support and increase public interest in harness racing and keep harness racing off the corporate welfare roles. We may not bring back the glory days of Roosevelt Raceway to New York, but we can make harness racing something worth betting on.