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TO

NATIONAL GAMBLING IMPACT STUDY COMMISSION

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INTRODUCTION

Racing has been a popular sport in America for over 200 years. Presidents Washington and Jefferson raced thoroughbreds, on occasion against each other. President Andrew Jackson stabled his race horses on the White House lawn.

The pari-mutuel sports of horse and dog racing, and jai-alai, contribute approximately \$20 billion a year to the nation's economy. They provide approximately 250,000 jobs, over a billion dollars in taxes, and entertainment to 20 million individuals. Yet, interest in racing and jai-alai has been dwindling in recent years. Competition from lotteries and casino gaming has had a devastating impact on numerous tracks and frontons, and has put many out of business.

The Association of Racing Commissioners International and its members have a responsibility to protect the integrity of racing through appropriate regulatory controls. We believe we also have a responsibility to promote the industry in various ways and to make the bureaucratic process of licensing less cumbersome, especially for owners.

Unless we take such measures, we may face the alternative of having a continually shrinking industry to regulate.

The mission of the RCI is to protect and uphold the integrity of the pari-mutuel sports of horse racing, dog racing and jai-alai through an informed membership and by encouraging forceful and uniform regulation; and to promote the health and welfare of the industry through various programs and projects.

HISTORICAL BACKGROUND

Racing in North America began growing in earnest in the early 1930s. With this proliferation of new race tracks in new racing states, it became clear that, if racing was to mature as a national sport, each state no longer could function alone, as an island, unmindful of other states' rules and regulations. So in August of 1934, racing commissioners from seven states—Florida, Kentucky, Maryland, Michigan, New Hampshire, New Jersey and Ohio—met to form a national organization that would

“encourage forceful and honest nationwide control of racing for the protection of the public.”

Thus was born the National Association of State Racing Commissioners (NASRC). The founders represented thoroughbred racing only, but in later years the Association was broadened in scope to include all other forms of flat racing, as well as harness and greyhound racing and jai-alai. In 1988, the Association changed its name to the Association of Racing Commissioners International, Inc. (RCI) to more accurately reflect the composition of its membership.

Among the goals of the new organization were reciprocity in enforcing each other's official rulings (penalties) and uniform rules and practices. From the beginning, the Association has functioned as a repository and redistribution center for all official rulings by stewards and racing commissioners. As racing grew, so grew this important file of rulings.

The regular membership of the RCI comprises 24 states and five neighboring territories or countries. Thirty-two racing commissions and approximately 60 associate members participate in RCI activities.

The RCI, a non-profit Kentucky corporation, is governed by a board of directors. It has approximately 30 functioning committees and subcommittees. The Association holds an annual meeting and regional meetings.

RCI ACTIVITIES AND OBJECTIVES

Since the RCI was founded in 1934, it has been looked upon as a leader in the racing industry. It has assisted in the development of new and innovative methods of regulation and information. These methods include:

- Multi-jurisdictional licensing reciprocity and fingerprinting and background investigations of licenses;

- Development and implementation of Model Rules for Flat, Harness and Greyhound racing;

- Development and implementation of Totalisator Standards as technological improvements permit new forms of wagering. This includes the first Inter-Tote Standards Protocol, which is used throughout North America to enable tracks to share tote information when simulcasting.
- Administration of industry-wide accreditation programs for racing stewards and judges.
- Development of a database with nearly one and one-half million entries. This database, which can be accessed by member jurisdictions, contains licensing information, stewards and racing commission rulings, and court orders.
- Development of a Web Page and Internet site to allow for instant submissions, and access, of data;
- Sponsorship of a Drug Testing Standards and Practices program that develops tests for illegal drugs used on horses and greyhounds and monitors the efficiency of testing laboratories. As part of that program, the RCI has categorized over 700 drugs into five classifications and has recommended uniform fines and suspensions for violations in each category;

- Sponsorship of an accreditation program for drug testing laboratories through the American Association of Laboratory Accreditation;
- Sponsorship of annual “university-style” workshops designed to educate new commissioners and to keep experienced ones informed on the latest developments affecting regulators;
- Development of a uniform licensing concept to eliminate the bureaucracy often faced by individuals who race in multiple jurisdictions;
- Service as an umbrella organization for the Winners Federation and to assist that group in the development and implementation of meaningful human substance abuse programs in all jurisdictions.

AUTHORIZATION AND REGULATION

Gambling has always been of concern to the federal and state governments. Throughout American history, the prohibition or legalization and regulation of gambling has primarily been a function of the states. The only time the federal government has become involved has been when a state could not solve a problem by itself. But even in

these instances, pari-mutuel racing has often been either treated differently or specifically considered under federal gambling laws.

STATE REGULATION – A LONG HISTORY

Pari-mutuel racing has been conducted in the United States under state authority and regulation for over 75 years. Over the years the states have consistently acted on the perceived need to closely regulate legal wagering and protect the public's interest in pari-mutuel sports. The actions of state legislatures and the racing commissions which carry out their policies have been predicated on the desire to: (1) maintain the integrity of the events on which the public is allowed to wager; (2) oversee the state's tax-related and economic interest in that wagering; (3) ensure that licensees meet specific standards of qualification; and (4) control any unlawful activities which may attempt to associate with the wagering aspects of the sport. These regulatory efforts have fostered the growth of racing as a sport.

STATE RACING COMMISSIONS

In every state that has allowed legalized wagering on horse racing, strict state oversight and regulation has accompanied its introduction and growth. In each state the pari-mutuel industry is regulated by an agency most commonly known as the state racing commission. These commissions, whose members are appointed by the governor, protect the integrity of racing within their respective jurisdictions. All matters pertaining to the operation of pari-mutuel racing are regulated by these agencies on behalf of the governors and state legislatures. Virtually every facet of racing is subject to direct regulation and/or aggressive regulatory oversight, including the conduct of pari-mutuel wagering, the security at racetracks, the drug testing of both horses and participants and the adequacy of public accommodations.

The licensing requirements in the racing industry are extensive. All states require background checks on track owners. Moreover, although the category of racing participants required to be licensed varies from state to state, every racing state requires horse owners, trainers, jockeys, drivers, kennel operators, stewards, judges and

backstretch personnel to obtain licenses. Some states also require licenses of pari-mutuel clerks, office employees and service providers. Security at tracks is controlled and access to non-public areas is limited to those with proper licenses and identification. Bases for denying a license and the opportunity to participate in racing include criminal records, false representations in a license application, failure to disclose true ownership of a horse or greyhound, inadequate training, prior problems in racing and questions about a person's integrity. Licenses can be, and are, denied, suspended or revoked.

State regulations govern the care and conditioning of racing animals. States impose a variety of requirements in an effort to insure that animals are properly trained and physically "sound" when entered to race. Horses undergoing their initial training must be "schooled" in the starting gate and must receive a "gate card" before they can be entered in a race.

UNDERAGE GAMBLING

The states and the racing industry are very concerned about the possibility of a minor wagering on racing. Every state that has passed legislation authorizing pari-mutuel racing has imposed age requirements for attendance and wagering at a race track. Many state laws have no minimum age requirement to attend the races, although most jurisdictions do impose conditions on the admission of individuals under 18, such as they must be accompanied by an adult. All states impose minimum age requirements for wagering. The minimum age requirements vary from 17 to 21 with most being 18.

ROLE OF THE RCI IN A CHANGING INDUSTRY

The pari-mutuel sports industry has dramatically changed in recent years. Gone are the days of record-setting attendance and betting handles at race tracks throughout North America and the Caribbean. RCI members are now regulating an industry that faces declines in fan interest and wagering, and in some cases, the closing of racetracks and frontons. The explosion of off-track betting, simulcasting, and the introduction of

other forms of gaming at some racetracks have brought on increased regulatory responsibilities. No geographic area has been immune from these problems.

In recent years many race tracks have reported financial difficulties. The RCI is critically aware of these problems and is interested in helping to resolve them. Tracks must be given a fair chance to make a profit. However, they have a responsibility to ensure that expenses are minimized and that all opportunities for revenues are explored and developed.

In the past 25 years, horse racing attendance has fallen 65 per cent, and the sports share of the gambling market has declined from 28 per cent to 7.8 per cent.

Thirty-five states now have lotteries and 23 states now offer some form of casino gaming. A growing number of racetracks offer either slot machines, video poker, or video lottery terminals.

It has become apparent that pari-mutuel sports betting no longer can be considered a source of "soft" money to relieve state and local governments of funding

responsibilities. Unlike most other professional sports stadia, few race tracks have been built at taxpayer expense.

Wherever alternative forms of gambling have been introduced into countries, states or provinces which previously had wagering exclusively on pari-mutuel sports, these alternative forms of gambling have reduced the amount wagered on those sports.

Perhaps the most comprehensive research on the effects of various factors on horse race betting was conducted in New Jersey by the University of Louisville School of Business. The study found that the lottery reduced the real totalisator betting handle on racing by 17 per cent and that the state's 12 casinos reduced the handle by an additional 34 per cent. These drastic reductions were partially offset by a 22 per cent increase in handle caused by the introduction of intrastate intertrack wagering.

Later studies on Kentucky's lottery and on Minnesota's casinos showed negative effects on racing handle of 22 per cent and 70 per cent, respectively.

These and other negative factors affecting racing have caused, among other things, a deterioration of fan interest, a reduction in the quality of racing, a decrease in the horse population, a reduction in employment, and economic cutbacks by race tracks.

Betting on racing requires certain basic skills which are not generally understood by the public at large. It obviously is far easier to press the button on a slot machine than it is to decide on and place a bet on the outcome of one or more races. Even less skill is required to purchase a lottery ticket and the attraction of vast payouts appeals to a high percentage of the public.

If racing is to have a fair opportunity of competing with alternative forms of gambling, and particularly if it is to be able to develop into a dynamic and growing industry, it must be empowered to have a range of products which are competitive against those offered by alternative forms of gambling.

In addition, it must be empowered and enabled, either on its own or in association with partners, to compete in the alternative gambling activities that are to be introduced.

The most important single influence on the takeout rate has typically been the tax rate levied on betting on racing. This rate, more than any other factor, has been responsible for the relative uncompetitiveness of betting in racing compared with betting on other gambling products, and consequently for the decline in real betting dollars experienced in many different jurisdictions.

Fortunately, a trend is now developing where informed and far-sighted legislators are recognizing that the cost of these historic taxation policies, when measured in terms of employment and decreased economic activity, outweighs any short-term benefits available from overtaxing one competitor in the gambling business.

In recent years, governments have shown a growing understanding and in general, have substantially reduced pari-mutuel takeout rates on racing—from a low of 0 per cent in New Jersey to a high of approximately 5 per cent in California and New York.

When racing was the only legal form of gambling and when a significant number of people had strong reservations about permitting gambling at all, it was not surprising

that legislators took extraordinary steps to legislate and regulate racing and the gaming which took place on it.

Over the years, however, the pari-mutuel sports industry has developed a generally excellent record for maintaining integrity in racing and gaming.

CONCLUSION

In summary, North American racing has developed into a multi-billion-dollar industry with a sound infrastructure largely because until recently it has been the only legal form of gambling in most jurisdictions.

- Because of the betting conducted on them, regulated pari-mutuel sports generally have developed good control systems to protect both participants and customers.
- The industry is largely supported by the so-called \$2 player and by a much smaller number of members of the upper-income group—many of whom own racetracks or frontons, racehorses or racing greyhounds.

- The industry is dependent on betting handle for its viability but this is compromised by a punitively high level of tax on its income.
- The industry is also dependent on the substantive financial contributions made by owners.
- The industry is an important employer, tax generator and contributor to the economy.
- There are public perceptions about pari-mutuel sports which need to be addressed.

First, they must find the means of attracting a greater involvement from a wider section of the community. Second, they must upgrade the facilities and services they provide their customers. Third, they must develop more television interest. Finally, they must take advantage of telephone account and Internet betting and, where competition makes it necessary, utilize casino-type games to enhance tax and operating revenues and prize monies for owners.

- Because integrity is essential to the success of the pari-mutuel sports industry, it needs to be carefully, but not overzealously, regulated. This role is being performed well by individual racing commissions with consensus-building oversight from the RCI.