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California State Senate



KENNETH L. MADDY
SENATOR, FOURTEENTH DISTRICT

TESTIMONY TO THE NATIONAL GAMBLING IMPACT STUDY COMMISSION BY SENATOR KEN MADDY

JULY, 29, 1998, DEL MAR, CALIFORNIA

Good morning. My name is Ken Maddy, State Senator for the 14th Senate District. Thank you for inviting me to speak to this commission on a subject that has been an important part of my legislative and personal career.

As background, I grew up going to the horse races. My parents were fans. At one point - I think the only time my father ever had any money -- he bought a race horse and our family dreams were realized. This was particularly so when the horse won her first out! During the summers of my last two years in high school and then in college, I worked on the backside as a hot-walker and groom from 1950 to 1957.

Over the last several years, I have owned, bred and raced Quarter Horses and Thoroughbreds. As a legislator, I have carried substantial legislation affecting the horseracing industry. Essentially, this has been a labor of love for the sport as well as a recognition that the industry makes a substantial economic contribution to the State of California.

California has a unique racing structure. We have five major racetracks, nine racetracks at fairgrounds around the state and a racetrack dedicated to Quarter Horse and Harness racing. California racing is divided into three tiers which gives us two full racing circuits that run all year. Tiered geographically, there is the Northern California and the Southern California racing circuits. The third tier is the California's fair racing network. At any time, there are two, and sometimes three, Thoroughbred racing meetings running simultaneously in this state. In addition, Quarter Horse and Harness racing is conducted at night times nearly all year long.

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CALIFORNIA'S WINE INDUSTRY

The California satellite wagering network was created in 1984, by legislation I authored, as an effort to halt the decline in handle and attendance that racing had been experiencing for several years. This unique structure includes not only the two racing circuits but, also, a network of satellite wagering facilities that are, for the most part, publicly owned. Besides the facilities directly at the enclosures of our racing associations and at Indian casinos, satellite wagering is allowed only on California's public fairgrounds. All of our fairs are governmental entities, a majority of which are state agencies. In fact, the Del Mar Racetrack, near where we are meeting today, is a public facility, built with state funds on a state agency fairground. All fair funding comes from racing revenues. The relationship between the Network of California Fairs and the Thoroughbred racing industry dates back to 1933 when the People of California authorized parimutuel wagering on racing. Since 1933, racing revenues have provided a stable funding source for the fairs. The satellite system has held the industry steady for the last decade.

Directly and indirectly, racing and breeding in the Golden State creates 52,500 full-time jobs and contributes more than \$4 billion annually to the state's domestic product. Furthermore, racing has directly subsidized state and local government by upwards of \$1.5 billion over the last ten years. California's Thoroughbred industry pays the highest license fee rate in the country. The license fee structure was imposed at a time when Horseracing had a monopoly on legalized gaming in California. Racing pays over \$8 million a year to local governments; \$7 million to the California Horse Racing Board for regulation; \$30 million to the fairs and \$2 million in state mandated charity payments. No other industry or gaming enterprise is forced to make such payments. There has been no level playing field for horseracing (attachment 1 and 1a).

California horseracing is facing many problems for which there are no easy answers. Overall, the sport is not attracting new fans. It is losing to the competition both as a sport and as a form of gaming. The impact is obvious. When compared to other gaming activities and sports, it is clear that the investment in people and dollars behind every horse is great and a loss of business is a loss to our economy (attachment 2).

Much of racing's decline can be laid at the feet of the industry, itself. The industry failed, in my opinion, to recognize the importance of television in the early 1950's. As horseracing remained static, other sports leagues began to thrive by embracing television as a marketing strategy. Racing lost out in terms of popularity to NHL, NFL, NBA, NASCAR, etc. The new National Thoroughbred Racing Association (NTRA), of which California is a major participant, is designed to be horseracing's version of the other major sports leagues' organizations. It is hoped that the NTRA will bring horseracing back to the forefront as a prominent mainstream sport.

Horseracing also lost their monopoly on legalized gambling in California. The introduction of the California Lottery, the growth of card clubs and Indian gaming brought gaming competition. Yet, the monopoly tax and regulation has not disappeared. When it was authorized in 1933, horseracing accounted for 90 percent of the gross wagering in the state. This phenomenon lasted through the 1950's and '60's. As recently as 1982, horseracing accounted for more than 64% of the \$6.2 billion in gross annual wagers made in California. In 1984, the California State Lottery was created and card rooms as a result of the authorization of Asian games, blossomed. By 1996, horseracing's share of the gross annual wagers dwindled to a mere 16.5% of the \$14.5 billion in wagers made in California. These figures do not include Indian gaming as such figures are not reported. For this reason I have carried legislation to reduce license fees and allow the racing industry to compete on a more level playing field.

Senate Bill 27, which many are calling the most important state racing legislation offered in four decades, cuts the California horseracing license fee tax in half and gives the industry the freedom to participate and adjust to the changing market. The bill gives the racing associations more flexibility in the importation of out-of-state racing signals and creates a "statewide marketing commission" for the promotion of thoroughbred and fair racing. This will work in tandem with the NTRA, which you will here more about, today. In California, we are trying to keep the industry alive and well.

It is my opinion that, notwithstanding the fact that horseracing in California has lost ground, it has survived under difficult conditions. Nevada is right next door. The industry has survived the growth of legal card clubs, the Lottery and the gaming boom on Indian reservations. I think racing will continue to survive until such time as California, and or the federal government, allows full scale casino gaming in this state. This could be right around the corner. An initiative placed on the November ballot by certain Indian tribes will, in my opinion, have the effect of bringing full scale casino gaming to California.

Racing is not casino gambling. Racing is a way of life, a culture and tradition unto itself with a history going back hundreds of years. Thousands of families have, for generations, made their livelihoods from involvement in the racing industry. Unlike casino type gambling, racing is conducted in public. Everyday, the racing results, amounts wagered and paid to winners is published in the daily newspapers. Nowhere do you see the results and pay-outs for slot machine and card games published daily. Racing is strictly regulated by a public regulatory board. We need to do all we can keep this way of life and unique sport alive and thriving.

Thank you very much.

Economic Impact of the Horse Racing Industry in 10 States*

ATTACHMENT 1

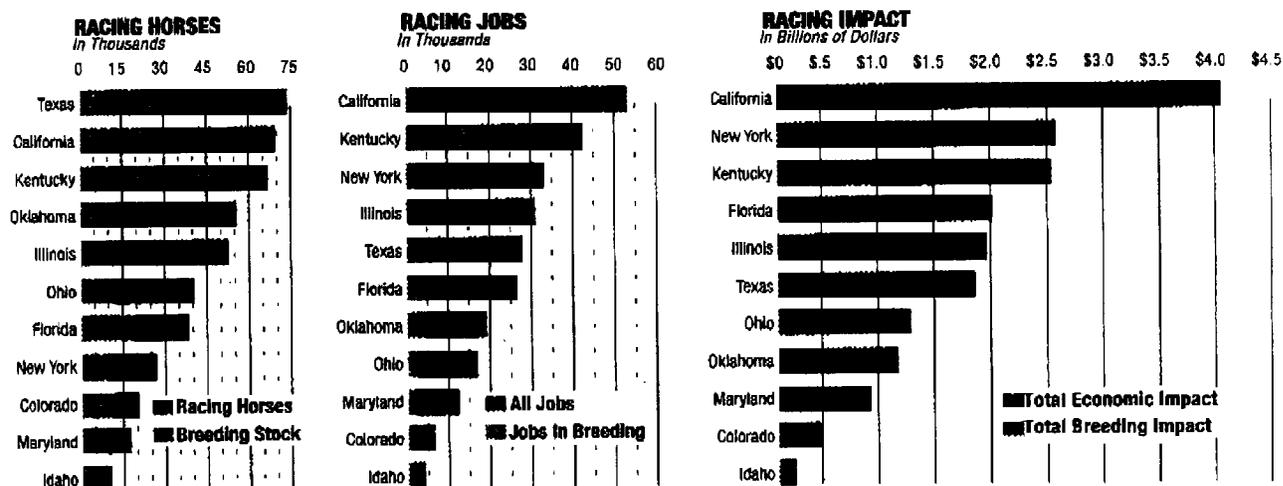
State	Economic Impact Effects on GDP	Number of Full-Time Equivalent Jobs	Number of Horses and People Participating
California	\$4.02 billion	52,500	148,200
Florida	2.02 billion	27,300	81,400
Texas	1.81 billion	27,900	162,300
New York	2.58 billion	33,600	71,100
Illinois	1.98 billion	30,700	149,400
Kentucky	2.54 billion	42,400	142,000
Oklahoma	1.14 billion	19,700	112,600
Ohio	1.25 billion	17,000	92,300
Colorado	0.45 billion	6,600	53,400
Maryland	0.83 billion	12,700	38,800

California horse racing ranks first in economic impact.

*Source: Barents Group, LLC
(A KPMG Company)

Sizing Things Up

Economic Impact Study Looks at 11 States



By Ray Paulick

Horse industry lobbyists in many states have been empty-handed when they have gone to their state legislatures seeking help. Now, thanks to phase two of an economic impact study prepared for the American Horse Council Foundation, lobbyists in 11 states will have some statistical clout showing the scope and significance of the horse industry they represent.

Like the national economic impact study released in December, "Volume Two: Estimates for Eleven Focus States" was compiled by the policy economics practice division of Barents Group LLC, a KPMG company. A subsequent volume of the study will separate the information for Thoroughbreds and Quarter Horses. Funding for the studies came from numerous organizations and individuals, including The Jockey Club, Thoroughbred Owners and Breeders Association, Kentucky Thoroughbred Association, American Quarter Horse Association, Keeneland Association, and Breeders' Cup Ltd.

The national study found that on an annual basis, the horse industry generates approximately \$25.3 billion in goods and services and has a \$112.1-billion impact on the U.S. economy when all direct and indirect spending is taken into account (*The Blood-Horse* of Dec. 21, page 6678). It estimated that 338,500 full-time jobs are linked directly to the horse in-

dustry nationally, and that spending by suppliers and employees brings the job impact total to 1.4 million. The study concluded that there are approximately 6.9 million horses of various breeds and disciplines in the U.S., 725,000 of which come from the racing sector.

The authors of the study offered a word of caution about the interpretation of results from the 11 individual states—California, Colorado, Florida, Idaho, Illinois, Kentucky, Maryland, New York, Ohio, Oklahoma, and Texas. Horse owners participating in the survey were not asked to identify the states in which their horses were stabled. Instead, the results were tabulated based on the owner's mailing address. Because of this methodology, the authors suggest the results for New York may be understated while those in Kentucky may be overstated.

Not surprising considering its heritage, Texas was found to have the largest horse population among the 11 focus states, with a total of 678,000 equines. Racing (primarily Quarter Horses and Thoroughbreds) accounts for the smallest portion of the Texas equine population, 74,000, with 127,000 horses for showing, 180,000 for recreation, and 296,000 used for other purposes.

In the racing category, California with 69,000 horses ranks second to Texas, followed by Kentucky's 67,000. Kentucky, by a wide margin, has the highest number of breeding horses used in the racing sector, 45,500. Oklahoma is sec-

ond, with 31,000 breeding horses, followed by 25,500 in Texas, and 23,500 in California.

In terms of jobs and economic impact, the clear leader is California's racing sector, which accounts for 42% of the 124,400 total full-time jobs attributed to the state's horse industry. The study estimates that direct and indirect spending account for 52,500 full-time jobs in racing and breeding, 7,700 of them falling within the latter category. Kentucky, with 42,400 racing sector jobs (15,600 in breeding), is next, with New York third (33,600 racing jobs, of which 2,000 are in breeding), followed by Illinois (30,700/6,600), Texas (27,900/3,800), and Florida (27,300/4,800).

The national horse industry has an \$11.4-billion impact on California's economy when direct and indirect spending is applied, with \$4.015 billion falling in the racing sector. The overall horse industry in the other 10 states examined have economic impacts ranging from Idaho's \$900 million to the \$7.1-billion impact in Texas. The second-largest impact of the national racing industry is felt in New York, with \$2.583 billion, followed closely by Kentucky, at \$2.537 billion. The breeding portion of Kentucky's racing sector impact is \$902 million, ranking first, well ahead of California's \$490 million.

To acquire copies of either volume of the Barents economic impact study, contact the American Horse Council in Washington, D.C. ■

CALIFORNIA HORSE RACING

A JOB-INTENSIVE SPORT

Racing's Athletes

ATTACHMENT 2

Baseball Athlete



BALL PLAYER

AGENT/
LAWYER
ACCOUNTANT

