CHAIRPERSON JAMES: With that I'd like to proceed to our first briefing, and I would call, I think, Doug Seay. Commissioners, you know that Doug is on our staff. He has presented before this Commission before. He is coming before you today with a new job title, however. He is the Director of Policy, and he briefed us on lotteries in Boston and river boat casinos in Chicago. And today Doug has prepared a briefing on pari-mutuel gambling.

Doug, welcome.

MR. SEAY: Thank you, Chairman James.

CHAIRPERSON JAMES: Thank you.

MR. SEAY: I should start by saying that I'm opposed in principle to reading from prepared text, but I didn't have a chance to write anything else last night because Dr. Moore kept me out too late. So if there are any complaints, and I'm sure there will be, please direct them to him.

Now, this briefing today is on pari-mutuel gambling. Webster's defines it as "a betting pool in which those who bet on competitors finishing in the first three places share the total amount bet minus a percentage for the management." In other words, the familiar win, place and show. In the U.S. this sector of the gambling industry comprises horse racing, greyhound racing, and jai-alai, the latter being a game of Latin American origin sort of like handball. Of the three horse racing is by far the largest segment of the industry, with nearly $15 billion wagered in 1996, as opposed to $2.3 billion for greyhound racing, and $280 million for jai-alai. So quite a bit of difference between these three components of the industry.
As a mature industry, pari-mutuels have not experienced the rapid growth in recent years as newer forms of legalized gambling have. The total amount wagered on all forms of pari-mutuel betting in 1996 was virtually unchanged from the previous year. This was caused, this lack of performance in increasing revenues has led a number of observers to characterize the industry as a whole as a dying one. I'm not sure that's accurate because that term masks large differences in fortune. Greyhound racing has experienced a fairly steep decline in recent years, dropping 11 percent in the amount wagered from the year 1995 to 1996. Jai-alai fell by 8 percent in the same period over a single year. This was looked upon as good news. I don't know how the drop of 8 percent is looked upon as good news, except for the proceeding years were so terrible. And when I saw that as good news I thought well, I finally figured out where the former managers of the General Motors have ended up.

By contrast, the amount wagered on horse racing rose by 2.3 percent in the same year. So you can see very distinct differences in financial fortunes.

Not to go into too long a history, horse racing obviously goes back thousands of years to the domestication of the horse. I imagine racing horses was one of the first uses they found after they domesticated it, and it's common to a range of cultures around the globe. From its inception it's been associated with aristocratic pursuits. In fact, a lot of theories about structure are based upon, are centered around the horse and the invention of the stirrup; if you can imagine that, as having produced a profound political and cultural revolution.
So it's had an intimate relationship in western civilization at least for a long time. And as a result it has a very broad social acceptance that other forms of legalized gambling don't share necessarily. One that strikes me is that of all the states where it is legal, there are 43 states I believe where horse racing is legal, but I think tracks are only operating in 41, but almost none of them have a legal minimum age for attendance. It's thought to be perfectly appropriate for children to be at racetracks, whereas to see them in casinos it raises eyebrows, and for some people that's an important distinction. I think it just indicates the different level of cultural acceptance. In addition, horse racing has extensive connection to the agri-industrial sectors in many, many states. That also contributes to its broader public acceptance.

Given its very long pedigree, horse racing is heavy with tradition, especially when compared with the newer forms of legalized gambling, and until recently it changed little over time. The core of the industry remains "live racing". That is the race is actually taking place at racetracks such as Del Mar across the street, with betting occurring on sites on those races. But, as with lotteries, we see an introduction of new technologies has brought about an evolution in this fairly old industry, and it continues to push it into directions of change that separate it from its past. But most important of these was the initiation of televised, simultaneous broadcasting otherwise knows as "simulcast", which allows people not at the track to actually bet on the races either at other tracks -- that's known as "inter-track" betting where you can be at one track and bet on
a race at another and watch it on the television or at Off-Track
Betting sites where no live racing occurs at all.

The advent of satellite broadcasting and computers
made possible the creation of national pools of much larger sums
of money, thereby broadening the interest in the races and
increasing the rewards to the participants. That single change
initiated a rapid growth in the industry, and now simulcast
accounts for the majority of money wagered on horse racing. And
even though the tracks themselves seem to be in the aggregate
operating at a loss, the profits from simulcasting comfortably
exceed those. I'm not sure they're distributed on a per capita
basis, but the industry as a whole is still financially in the
black, even though certain segments of it are definitely not.

And, as I indicated before, though relatively small
in terms of other forms of gambling, the horse racing industry is
unusual in having a very extensive network of connections
throughout the economy, and these are located primarily in the
agri-industrial sector where it includes such things as horse
breeding, veterinarians, owners of stables, so on and so forth.
Some people estimate -- these are industry estimates -- that the
total employment is 119,000. I think that's probably on the high
side, but that's certainly within the ballpark of what is
possible, and they're generating, obviously, several billions of
dollars in economic growth per year.

Just to break out one state, California, which has by
far the largest industry in terms of employment, the calculation
is that there are almost 15,000 jobs that are directly related to
horse racing in some form or another, either be it at the
racetrack, in the raising of horses, medical services, so on and so forth.

It is a combination of a fairly extensive network throughout the economy, as well as significant employment figures that give the industry, in the words of one observer, the significant political capital, making horse racing, despite its size, very influential in the State Legislature.

Although it's not a gold mine for state governments, horse racing does produce a significant amount of taxes. New York takes in $122 million, or at least did in 1996. In California $111 million. New York, even though it has a smaller industry per se, has a lot more simulcasting and Off-track Betting operations, and therefore it profits from those in other states. Down to Vermont's $32,000. I find that very interesting. I'm not sure that even pays for a single horse racing commissioner, anyway. And as a whole the industry estimates that its total revenue at government at all levels, it's almost half a billion dollars in 1996, so it's not insignificant.

In this relatively quiescent industry, however, a couple of issues have been raised in recent years dealing with its financial health. I'll dwell on one of those. I'm sure there are many others but I'm fortunate to have two panels of experts to follow me to correct the impression that these are the only issues here. Perhaps the most contentious issue facing horse racing are proposals to introduce slot machines and other casino-type games at the racetracks. Proponents have argued that
impact on racetracks, and especially casino gambling. And in order to be able to compete on a level playing field they need to be able to introduce casino-style games at the racetracks. The few studies that I've seen -- there may be others that I haven't come across -- that looked at what happens to racetracks when you introduce such things as lotteries and casinos, does seem to indicate that there is in fact a negative relationship. The correlation is pretty strong, cause and effect is difficult to figure out, but casinos and lotteries don't seem to, at least in the short term, have much of an impact on one another, but both seem to have an impact, a negative impact, on the racetrack industry. The assumption, I guess, is that people who used to go to racetracks are simply attracted to the faster paced, more varied types of games at the casinos.

In response, some racetrack owners and others argue that the racetracks should be allowed to install slot machines in order to remain competitive and financially viable. The argument is that without this implicit subsidy both of the operations, as well as taking a portion of the proceeds from the slot machines and making bigger purses, and thereby attracting crowds to the racing industry, but the racing industry won't survive. So in this argument, by introducing casino-style gambling at racetracks is actually an agent of allowing racetrack racing to continue, at least as we've known it.

Critics, however, argue that the real motive in introducing these proposals is not to save racetracks, but to turn horse tracks into casinos. The profits from casinos are considerably larger than those of most racetracks, and it's
assumed that financial gain is one of the motivations of the owners. I don't think that's an unlikely motivation. It goes to a large extent about intent, however. Opponents say that owners -- and I'm going to make this a very simple argument. I know it's much more complex than this, but just to lay it out. That owners really have no interest in promoting live -- continued live racing. What they really want are casinos and to use the racing as window dressing at the cost of doing business of opening a casino. Owners, as I said before, and others in the racing industry -- it's not just owners -- have said that if horse racing is to survive in any reasonable form there needs to be some supplement to its declining fortunes, and casino-style gambling, since it's an obvious proven attraction to the public, is one way of doing that.

One of the criticisms that is made by critics is that the reports of the demise of horse racing are overdone, that in fact they're still profitable. The real story is that the profits from horse racing simply pale in consideration in comparison to those of casinos. So what you have here is simply a desire for higher profits, not for profits. It's very difficult to make an assessment based on the limited amount of information available, but those are the arguments basically as they're laid out there.

According to one critic: "Racetracks that secure the right to install (slots, video poker, et cetera) are potential gold mines." So this is a controversy that is not simply for proponents of the spread of legalized gambling versus horse racing people. It divides the horse racing industry itself to
some extent. Those who feel that perhaps there is a possibility that the horse racing itself may be sidelined while the owners concentrate on the casino aspects, but that is not a neat divided industry as well.

It is clear, however, despite the allegations of some of the opponents, that racetracks have been hard hit by competition in other forms of gambling. One study in New Jersey found that since the introduction of legalized gambling in 1978, the industry has shed several thousand jobs, and in a period of just five years, from 1991 through 1995, attendance at the racetracks fell by one-third. So this is not an industry that is in healthy shape, at least in that state. Recently a very old racetrack near Atlantic City just closed.

Now, a number of states either are considering legalizing casino-style gambling at racetracks, or have already done so. It's interesting to watch for a student of political acrobatics, as I think most of us are, it's interesting watching some of these campaigns at the Statehouse. As I said before, the horse racing industry has significant clout in the state legislatures for a whole number of reasons. But some of the alliances they form are fairly interesting. Louisiana's Legislature this session, for example, there was an alliance between the horse racing industry and the Anti-Boll Weevil Coalition trying to share some of the revenues they thought would emerge, and it came very close to approval but didn't go through, and it's expected to be taken up next year. As I recall, Tip O'Neil was part of the Anti-Boll Weevil Coalition.
A similar proposal in Maryland for those of us in Washington, D.C., is very much a part of the gubernatorial campaign as Governor Glendening has taken an anti-slot machines at racetracks position and has elevated this to a much higher prominence in that state than in most other states, but it occurs in other states as well. The evidence from those states that have actually allowed this to occur is somewhat ambiguous. It is clear that it has produced profits at the racetracks that do have them. It's unclear if that's been healthy for the horse racing industry or not. Increased employment is not necessary to the horse racing industry, but remember again the argument is that the introduction of casino-style games will allow the continuance of horse racing as it is, not necessarily to its expansion. However, in the Polk County, Iowa Racetrack, which -- that was the Prairie Meadows Racetrack. I'm sorry. They just installed slot machines a few years ago. Not only has the racetrack's overall financial condition improved, as was expected, but it seems to have actually led some of the casino patrons to wager on horse races. So there is actually some evidence that it actually has had a positive impact on horse racing.

Let me address very briefly greyhound racing and then jai-alai. Greyhound racing operates at 49 sites in 15 states. Florida is by far the largest proponent of that business. It has been in a fairly steep decline since the late 1980's. If you look at a demographic profile of the players, they tend to be elderly gentlemen, and with not a whole lot of recruiting of younger players, and therefore, time alone is going to reduce that particular pool of clientele. As I said before, the gross
amounts wagered in 1996 amount to $2.3 billion with revenues of $500 million. So this is still a fairly significant industry even if it is in decline. And the industry figures claim that approximately 14,000 people, full and part time, are directly employed in greyhound racing operations. Greyhound racing, the structure of it and the problems that it faces are very similar to horse racing except on a much smaller scale. That's significant for a number of reasons, one of which is that it has much less clout in the state's legislature, as you might imagine. But it's also introduced things like simulcasting, simulcast broadcasting, inter-track betting, Off-track Betting, what have you, and also the same proposals for introducing casino-style gambling at the racetracks. But again here the ability to push this through the state legislatures has been lacking, and there just isn't a whole lot of ground swelter. According to one of the legislators in Kansas where this proposal is being pushed for the Wichita facility, and I quote here simply because I think it sums up a number of the reviews of legislators about this industry which has a reputation that it is dying. It says:

"We, in the government, are not in the business of picking winners and losers...The problem is that the pari-mutuel business throughout the country is dying...I don't think it's an industry that can be saved. I think it's a simple function of the marketplace."

Whether that's true or not, that is simply a position that many legislators have. Proponents, however, counter it is government itself that has caused this problem by hamstringing the racetracks by legalizing casinos on river boats, on Indian
reservations, and elsewhere. They have in fact taken away the
ability of the racetracks to compete fairly, and it's government
restrictions that they would like to see removed, government
restrictions on gambling, casino-style gambling. They say
they're not looking for a handout, but in fact they're looking
for the government to simply get out of the way. So it's
interesting watching both sides' debate arguing for less
government interference in this particular industry.

A brief note on jai-alai. Jai-alai is concentrated
in just three states: Florida, Connecticut, and Rhode Island.
I'm not exactly sure why it's in Connecticut and Rhode Island,
but I believe it's connected to heavy Portuguese immigration. I
think that is the connection, but I'm not exactly sure. But
Florida is by far the dominant player here. It has two-thirds of
the industry and there is a very modest amount of simulcast
betting here. Jai-alai has been in virtual free-fall since the
late 1980's. Gross amounts wagered have dropped from $700
million in the late 1980's to $280 million. That's a two-thirds
drop in 1996. As bad as that is, these figures have not been
adjusted for inflation, so in cost in dollars it's more dramatic
than that. And just looking at the revenues from the government
-- oh, the amount wagered on the game fell by an average of 12
percent per year from 1990 to 1995. That's why 8 percent looks
so good. And the revenues -- this is another indication of how
quickly this industry is contracting -- dropped by three-quarters
in the eight years from 1988 to 1996. Again, the figure is
unadjusted for inflation.
In conclusion, let me just say although the pari-mutuel industry is often depicted as a "dying industry", significant portions of it are in fact in relatively good financial condition, primarily in the horse racing industry. While it is true that a mature industry of this type may not experience the rapid growth revenues as newer forms of legalized gambling, many tracks are comfortably in the black. Nevertheless, some sectors, principally the greyhound racing industry and jai-alai, have been contracting for some time. And there are a number of horse tracks that have either closed or have experienced a succession of lean years. Increased competition from other forms of gambling is generally pointed to as the culprit, but other likely factors include such imponderables as changes over time in consumer preferences and cultural standards.

And I'll end my presentation there. I apologize again for reading from the text, but hopefully I won't do that again.

CHAIRPERSON JAMES: No apology is necessary, and thank you. We have about five or ten minutes if any Commissioners would like anything for clarification or any additional background information from Doug before we go into our panel.

Doug, again I want to thank you for that kind of preparation. It puts all of what we do for the rest of the day at their panels in the proper context, and the Commissioners and I are indeed very grateful for that. Thank you.