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by Dan Liebman

RAISING TAKEOUT TO STAY COMPETITIVE

Two headlines in early April regarding Churchill Downs:

* In Louisville *Business First* (based on a report by WFPL-FM), that the five highest-paid Churchill Downs Inc. (the parent company that owns the tracks, casinos and twinspires.com) executives collected a combined \$27.9 million in compensation in 2013.

* In the Louisville *Courier-Journal*, that Churchill Downs will raise its takeout this year to the highest levels allowed under state law.

Other than the fact both stories involve Churchill Downs, the two are obviously totally unrelated. But, they give pause to some thoughts about how they actually are related.

Business at Churchill Downs Inc. is good, but only because the company has wisely invested in casinos, and racetracks that have become racinos.

The stock price of Churchill Downs Inc. was up 35% last year, and obviously the mission of public companies is to realize a profit while working for the benefit of its shareholders. That Churchill's executives are being so richly rewarded--\$23.3 million of their compensation is in the form of company stock--is based on their decision that casinos are a better bet than racing.

Nowhere is that more evident than at Churchill Downs, where as the second headline indicates, the company will begin extracting more from each wager when the meet opens Apr. 26.

We won't wax nostalgic about the days when the Twin Spires actually towered over the facility, when there was still a press box that looked out over the racetrack, or when the grandstand had people in it on days other than Kentucky Oaks and Kentucky Derby days. But we take offense at grouping the suckers who play slot machines with the--now apparently--suckers who support the racing game. And we especially take umbrage with hitting bettors with additional takeout because the leaders of Kentucky's racing industry have failed--yet again--to convince the state's House and Senate members to pass gaming legislation.

While these leaders found an end-run around the law to allow for Instant Racing machines, they have fallen flat time after time in their attempts to secure slot machines or full-fledged casinos within the state's borders. You don't have to drive far across state lines to Indiana, Ohio or West Virginia to reach a casino, and the money gambled at those facilities (and those in many other states) boosts purses for racing and funnels money to projects for cities and counties.

The quote from Churchill spokesperson John Asher says it all: "If Churchill Downs is to present a competitive racing product ..."

In other words, competitive meaning compared to those states that have gaming to supplement their purses.

So, Churchill will raise its takeout at the start of the spring meeting to between 17.5% and 22%, up from the current 16 to 19%. The *Courier-Journal* reported had the higher rates been in place in 2013, an additional \$8 million would have been realized. The good news, at least, is most of the revenue gained from the higher takeout will go to purses. Based on last year's wagering, the *Courier-Journal* reported about \$8 million more in revenue would have been realized, which would have increased purses by almost that amount because of its contract with horsemen.

But it is a shame that a company whose stock rose 35% in one year can only find one solution to raise purses and that is by taking more from the people who continue to support you. We understand this takeout increase will amount to nickels and dimes to the \$2 better, but studies consistently show tracks are better off taking care of their big players, and those men and women are the ones that will be hurt more by this move.

For those who wager millions a year, nickels and dimes turn into dollars, and they have many tracks--and many forms of gambling--to choose from. Col. Matt Winn made the Kentucky Derby what it is, but Churchill Downs Inc. officials have bastardized it to what it is today. They have built seats where seats don't belong so they can charge premium prices for less than premium locations. In a state where the brokering of tickets is illegal, Churchill "legally" charges scalper prices for the privilege of attending the Derby. Because there are so many seats in bad locations or with bad sightlines, it has installed a massive (and we assume massively expensive) screen in the infield.

Churchill Downs Inc. is making money from casinos. It understands the casino business. It knows what casinos can do to help racing (and breeding). Instead of taking more from the pockets of its bettors, or spending to build more and more seats for Oaks and Derby days, track executives should figure out how it can unify the industry in the state to finally pass gaming legislation.

The company's investment in casinos has clearly made good economic sense. How does harming those who continue to support your racing product make the same economic sense? [CLICK HERE TO SHARE THIS STORY](#)