

POLITICS AND THOROUGHBRED RACING



op/ed
by fred pope

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Don't you just hate politics?

Seems like politics creeps into everything today. Banks, real estate, autos, you name it and politics is now involved.

The Kentucky horse industry has thrust itself into politics in pursuit of slots at the tracks.

For those of you outside Kentucky, adding slots at the tracks might seem a no-brainer for the center of the Thoroughbred industry.

But politics in Kentucky, like everywhere, is complicated. My ad agency used to do political campaigns in Kentucky, including an amendment to the state constitution. During such campaigns, you gain insight into what Kentuckians value and hold dear.

I'm concerned about a message today that says, "If you like the Thoroughbred industry, you will let us bring slot machines into your state and possibly your community." That's a big jump for Kentuckians to make, especially those with strong beliefs against gambling, but who give racing a pass as part of their culture and heritage.

It's like having a nephew you like come see you for approval to develop the family farm. After you have told him no, he doesn't accept it and just keeps coming back. The relationship becomes strained and before long you care for him a little less.

Our industry needs to be careful about its relationship with the people of Kentucky. This isn't a bridge to be burned. Cool, experienced heads need to prevail.

The Political Gift of Legal Wagering

I am not against casinos. I'm just for Thoroughbred racing, which enjoys the political gift of legal wagering. If you think this gift is set in stone, you need to learn more about the give and take of politics.

How many of us were down in Texas during the 1980's to get racing restored after 50 years of exile? Racing was thrown out with the bathwater of other gambling in 1937. Now, Texas racing is trying to repeat history and climb back into the same tub.

Kentucky racing survived the last national backlash by having the tracks separate from other gambling facilities.

Public sentiment toward gambling is cyclical. It always has been, it always will be. Today, sentiment is red hot and there is no ceiling in sight, kind of like the housing market in 2006. There is no holding in-place; it is either on its way up or on its way down.

When we talk about the need to package a better racing product ([TDN Oct. 10, 2008](#)), or a structure within the sport to ensure integrity, we're talking about changes to the sport that will give the public reasons to continue the precious gift of legal wagering. When we give the public cheating, drugs and package our product in a way no one wants to see, we are putting the political gift in play.

Regardless of whether slots are approved at the tracks in Kentucky, the fact is the state has a very small population to wager on slots or racing. If Kentucky's future in the industry is based on the money wagered in the Commonwealth, then it will lose to states with more people. Pennsylvania has five times more people and Texas has 10 times more people than Kentucky.

While slots will not make Kentucky racing revenue equal to larger states, let's consider what Kentucky and other year-round racing states have that can make them equal.

Small State - Big Exports

Kentuckians buy a lot less bourbon than the \$700 million we export each year. The same goes for Kentucky's two Thoroughbred products: breeding and racing.

The bourbon industry has a normal business model. The distiller who produces the product gets the lion's share of the money. Straight up.

The breeding side of our industry has a normal business model. If you produce a yearling, you get the lion's share of the money. Straight up.

The racing side of the industry, though, has two very different business models:

- 1) The On-track model is normal business. The track and purse account get the lion's share of the money bet on-track. Straight up.
- 2) The Off-track model is anything but normal. The host track and purse account do not get the lion's share of the bets on their product. They only get three percent and out-of-state bet takers keep 18 percent. Not Straight Up--Upside Down.

As an analogy: If a bottle of bourbon after taxes retails for \$21, and the bourbon maker only gets \$3 because the retailers keep \$18, then bourbon will no longer be made.

Two-hundred forty-five million dollars was bet in Kentucky on races imported from other states, but a whopping \$1.2 billion is wagered out-of-state on Kentucky races.

Kentucky is exporting five times more racing product than it imports, but Kentucky racing gets less total money from those exports. How could that be possible? How could the Kentucky industry be allowing this travesty to continue?

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The Upside Down Off-Track Model

Last July 18 in the *TDN*, I wrote [Racing's Upside Down Distribution Model](#), which pointed out the host tracks are only getting three percent of the off-track bets, while off-track bet takers are getting up to 18 percent. It's an upside-down model that is killing the sport and the headlines tell us it is happening at an ever-quickening pace.

If you click on the above link to the article, you will find out about the problem and the solution--both are found in the Interstate Horseracing Act (IHA). Here's what correcting the IHA would mean for Kentucky racing:

Kentucky Racing Revenue Will Double to \$160 Million

In 2007, Kentucky's total racing revenue to tracks and purse accounts from imported and exported wagering was about \$80 million.

By correcting the IHA, Kentucky racing would double from \$80 million currently to over \$160 million in the first year. That comes from a basic 50-50 split of takeout between racetracks and charging non-racing entities a higher percentage. (I can send you an email with the calculations.)

The Task Force on Kentucky Racing failed to mention this new revenue is possible, but it did note many areas to improve racing integrity and safety and those will need to be funded even if slots are not approved. All these needed items can be funded quickly by the new revenue, which is currently bleeding out because of the upside-down model.

I understand the desire for added revenue; that's because under the current model, the host track and purse account get almost nothing (three percent) for the racing product they export. Our major tracks are failing.

If Not Now, When?

I wrote variations of the article for other trade publications. Hundreds of people in breeding and racing have contacted me and said they were "shocked" to find out the business model is upside down.

One of the media carried the headline "Priority 1 - Racing's Business Model" and then conducted a poll of its readers, which showed 93 percent of those responding felt the current business model should now be changed.

But, while 93 percent of you might feel the current model needs to be changed, none of you are stepping forward to change it.

I fear many of you think there is still plenty of time, that the sport and commercial breeding are just going to slowly decline over the years, but not collapse unexpectedly like the American automakers.

The feedback from organization heads is this: "Sure, it needs to be done, but I am not going to be the one who cracks open the IHA."

I understand them. They don't want to stick their necks out and take the risk that someone in Congress might insert an item into the IHA that hurts the industry. They have everything to lose and nothing to gain individually. Their boards need to get involved.

Here are three thoughts on making the decision:

1) The business model for 90 percent of all racing revenue from wagering is upside down because of the wording in the IHA. That percentage will grow this year.

2) The only way to correct the problem is to amend the IHA. So yes, there are risks, but without amending the IHA the sport dies.

3) Take the risk of amending the IHA versus the certain, cowardly death from waiting.

The Emergency

Those betting into the tote today at both host and receiving tracks are paying full "retail." Their wagers are the high-profit funding for the tracks and purses today.

How long will it take the folks paying retail to realize the guy on the phone next to them is getting a rebate and they too can switch to phone bets, which means they stop funding the game? How soon will it happen? How many people have a cell phone today?

But just as fast as racing can collapse, correcting the IHA to favor the host tracks can turn the sport around quickly.

Oh, Look at the Kitty

A few years ago, the comic Robin Williams did a funny impersonation of President Bush's attention span. He had the President answering a serious question in a press conference, when suddenly Bush glanced down and said, "Oh, look at the kitty."

If owners, breeders and journalists are distracted by the "kitty" of non-IHA issues like rebates and takeout rates, the baton drops and the business model race is over. The IHA is business-distribution legislation; so lets win this specific race first, and then tackle other issues.

If those of you with a big investment in racing and breeding think someone else is going to do this for you and you don't have to take an active role, you might reconsider that thought. This isn't an industry where people stick their necks out and lead.

I'm going to guess that millions of dollars have been raised and spent on the political process of bringing slots to Kentucky racetracks, and it appears the legislature will not vote them in this year.

Correcting the IHA is not an alternative to slots, but a real way to save racing in Kentucky and every racing state. The IHA was created in 1978 for one purpose, to expand the distribution of the host track's wagering across state lines. Politics got involved and the wording of the IHA was screwed up and has never been corrected. As simulcasting grew and morphed into phone and Internet betting, the wording of the IHA went from just being unfair to the host tracks, to being certain death for live racing.

Correcting the IHA will not only restore the original intent of the IHA, but then host tracks could distribute their races directly to the betting customers in every racing jurisdiction.

This will allow us to achieve a virtual "on-track" business model, with no limits on how much can be wagered through expanded distribution. Making 12-15 percent versus three percent changes everything.

The new IHA will be the business foundation for a new Golden Age of Thoroughbred Racing.

I have recently been asked to look over some innovative ideas for Thoroughbred racing. These are private capital efforts. I have told them that nothing can succeed until the business model is corrected by the IHA. Think about it. But, once we do correct the IHA, the sky is the limit for the sport. New, creative racing ventures are on the horizon and will come forward.

My Role and Your Role

I see my role like the first leg of a relay race. I have identified the problem and provided the solution, which is correcting the IHA.

Here's how you can take the baton and do your part in the race to save the sport.

We need Policy Statements from the boards of TOBA, The Breeders' Cup, NTRA, The American Horse Council, TOC and as many state breeding organizations as you can deliver in support of correcting the IHA. This will make it easier politically.

Pick up the phone, email or write to the presidents and board members of the organizations. Tell them you support correcting the Interstate Horseracing Act (IHA).

This isn't like I'm asking you to visit someone in the hospital. Your readership of *TDN* means you have a vested interest in restoring the sport. The business model is the first step and popular support (political pressure) is needed now. If they don't hear from you, they can assume the status quo is your preference.

Former editor of *The Blood-Horse* Kent Hollingsworth said, "When Thoroughbred people aren't wringing their hands, they're sitting on them." We can do better.

This isn't a decision for next year; it is a decision for today.

If you agree the off-track business model is upside down, because it favors the bet-takers over the host tracks, and if you agree that we must restore a real-world business model, then it should follow the IHA must be corrected or live racing will fail quickly.

Technology gives us the ability to deliver a message quickly and with little effort to a select target audience.

Just click on [this email link](#) and you will need to do nothing more than add your name and address, then hit "Send." The subject line is: I Support Correcting the IHA. They will understand what you mean. If you want to add or delete some of the addressees, elaborate or ask for a response, have at it. If you want to copy me, that's fine.

If you've gotten this far, you realize I'm putting you on the spot. You can click on the link and respond, or perhaps, tell your friends and associates you didn't see this issue of *TDN*.

I need your help, but this isn't my project; it is yours and your children's.

Comments? Write to *TDN* management at suefinley@thoroughbreddailynews.com.

Fred Pope may be reached at fpope@popead.com.