



New York Thoroughbred Breeders, Inc.

PUBLIC HEARING ORAL TESTIMONY

SUBJECT:

The Future of the New York City Off-Track Betting Corporation

PURPOSE:

To Evaluate the Future of the New York State Off-Track Betting Corporation

On behalf of the New York Thoroughbred Breeders, Inc. (“NYTB”), the trade association representing New York’s thoroughbred breeding industry, I would like to thank the members of the committee for providing the NYTB with the opportunity to express our views on the important issues surrounding the future of off-track betting in New York State. The state’s off-track betting system has played an important role in the successful development of the breeding industry in New York, for which we are very grateful. We therefore also appreciate the opportunity to give our input as the committee considers the future viability of OTBs, their benefit to state and local governments, as well as their statutory directive to strengthen the racing and breeding industries in New York.

The New York State Thoroughbred Breeding and Development Fund was created by the legislature in 1973 to support and expand the state’s thoroughbred breeding industry. Since the creation of the Fund and the state breeding awards program it administers, there has been a steady increase in both the quantity and quality of thoroughbreds being bred and raced in New York. There are now over 400 active breeding farms in New York State. They range in size from small family farms to large commercial breeding operations. In 2008, over 40,000 acres of farmland was utilized for breeding and training of thoroughbreds in New York State, contributing over \$2 billion to our state’s gross domestic product, and \$124 million in annual taxes. \$88 million of this tax revenue is paid to state government and \$13 million to local government. In keeping with the growing New York-bred population, in 2008 NYRA tracks conducted over 800 races restricted to State-breds. An additional 200 races restricted to New York-breds are carded at Finger Lakes Gaming & Racetrack.

New York's thoroughbred breeding fund receives no direct taxpayer money, no appropriation or member-item allocation from the State legislature. Instead, the incentives provided by the Fund are financed entirely from within the racing industry, from a small percentage of the total monies wagered through the pari-mutuel system on thoroughbred racing in New York State. Specifically, the regional off-track betting corporations pay the Fund one-half of 1% of total daily pools from regular, multiple and exotic bets, and 3% of super exotic bets. While this figure is but a small fraction of the OTB's revenues, it represents a significant portion of the revenues of the Breeding and Development Fund. In fact, the Fund received 36% of its annual revenue (\$3.8-million in 2008) from NYC OTB, making NYC OTB the single largest source of Fund revenue. The various other OTBs accounted for an additional 34% of the Fund's annual revenue (\$3.5-million in 2008). Collectively OTBs account for 70% of the Fund's annual revenue stream based on 2008 figures.

The breeding industry in New York has grown for the last 30 years shaping our racing product and signal, increasing OTB wagering, creating jobs, and saving and cultivating farmland in 50 New York counties. However, the past 24 months have been the most devastating ever suffered by the state's breeders. The economic slowdown has hit New York's equine industry hard and the national industry has begun a contraction phase that has further hurt New York breeders. Many farms participating in the industry are small, family-owned and run operations that struggle to keep up with the rising costs of gasoline, grain and hay, as well as the higher cost of doing business in general in New York and increased competition from other states.

In the last 12 months (3) of the largest commercial farms in New York have closed. From just those (3) farm closures, New York has lost over 400 broodmares or 15% of the producing mothers. Also, due to the infusion of VLT machines in our neighboring State of Pennsylvania, breeders have been flocking – and continue to flock – there with their broodmares to reap the benefits of increased purses and a breeders' awards program that is now 36% larger than New York's (\$21.7-million in 2008). Furthermore, and most important, the 2009 foal crop in New York was down 15% from the previous year and 21% from just 5 years ago. The result is that in 2 years' time there will be 500 fewer horses to race in New York than are available today. This will have a proportionately - and significantly – negative effect on the racing product, handle, and wagers taken.

The growth of the breeding industry and success of the NY breeding program has been largely dependent on revenue generated by in-state handle, both on and off the track. This has important implications for the future, since unfortunately the Fund receives no revenue from the out-of-state simulcasting of races run in New York, despite the fact that breeders provide what is essentially the raw material that drives the racing industry. The horses they breed are the “product” without which no venue could conduct pari-mutuel wagering. Without the product – the horses – there would be no race to hold, no ticket to wager and no handle to disburse. The simple fact is the organizations in this room today would cease to exist without the production of horses by breeders.

While simulcasting and phone account wagering have continued to grow, “live” on-track handle is diminishing year over year as track attendance declines. Obviously, this migration of handle away from the pools that sustain the breeding industry is of deep concern to the NYTB.

NYC OTB has asked to modify the current legislative distribution system to allow NYC OTB to pay its operating expenses before it calculates its mandatory distribution to the State thoroughbred industry as well as to State and local governments (payment on the “net” rather than the “gross”). This legislative request is one that NYTB cannot support. This new distribution scheme would be based on revenue that results after NYC OTB pays its hefty overhead costs, which would result in insufficient or potentially zero funds left over to distribute to the New York thoroughbred breeding and racing industries. Furthermore, why should the breeding and racing industries suffer as the result of a process and a “partner” that we have no control over? There would be no accountability of business practice that would ensure OTB operates a profitable operation. If racing is an “entertainment” activity like the theatre on Broadway is, then OTB is the box office. Do the performers on Broadway not get paid for “performing” when the box office doesn’t run its business effectively or efficiently? Simply put, some generally acceptable business principles should hold true here as well.

If OTB distributions to breeders should disappear, on top of the current financial distress breeders are suffering, this will decimate the breeding industry in the state. And if the New York breeding industry goes belly-up, this will put the racing industry here in New York out of business. The ultimate consequence of the destruction of the racing industry, of course, will be to put NYC OTB and every other OTB out of business as well.

The NYTB urges the committee to consider options which reflect the shared purpose of NYRA and OTBs in strengthening the racing and breeding industry, which is essential to the success of both. In order for the OTBs to improve efficiency and increase profitability they must work hand in hand with the tracks, the horsemen and the breeders to promote this amazing sport we all depend on to succeed.

New York Breeders play an important role in strengthening New York's horseracing industry by helping maintain the highest levels of racing, producing superior quality thoroughbreds and meeting the demands of an industry facing increased competition from other states. Furthermore, New York Breeders invest industry revenues BACK into breeding in New York, thereby keeping that money in the local economy, protecting open space, preserving property values and creating more jobs here in the state. The NYTB understands and appreciates the fiscal challenges facing the state's off-track betting corporations. However, we urge the committee to consider the fact that protecting the original intent of the New York Racing and Breeding Program is essential for the future viability of New York Racing, and thus of the OTBs themselves. Any new policies or proposals that would have a serious adverse effect on the State's thoroughbred breeding industry would defeat the purpose of even trying to resuscitate NYC OTB. If such proposals kill the breeding industry in the State, New York racing and the OTBs die with it.



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