

MINUTES OF THE HOUSE COMMITTEE ON FEDERAL & STATE AFFAIRS

The meeting was called to order by Representative Robert H. Miller at
Chairperson

1:30 a.m./p.m. on 1-29-86, 1986 in room 526S of the Capitol.

All members were present except:

Committee staff present:

Lynda Hutfles, Secretary
Russ Mills, Research
Mary Torrence, Revisor's Office

Conferees appearing before the committee:

Dr. James Coffman, Kansas State University
Norman Harper, Scott County
Ruby Bracken, Topeka
William Plymat, Des Moines
Grant Cushinberry, Topeka
Reverend Richard Taylor, Kansans' for Life at Its Best
Reverend Steven Daniels, Topeka
Carol Brandert, Salina
Betty Lambert
Reverend Bob Visar, Wichita
Marc Rogers, Kansans' for Life at Its Best
Micki Hansen, Wichita
Betty Nall, Topeka

The meeting was called to order by Chairman Miller.

Representative Sughrue made a motion, seconded by Representative Peterson, to approve the minutes of the January 28 meeting. The motion carried.

See 5024: Parimutuel

As announced at the January 28 meeting, there was a conferee who was unable to attend the meeting for the proponents. This conferee is Dr. James Coffman.

Dr. James Coffman, Dean of the College of Veterinary Medicine, Kansas State University, gave testimony in support of parimutuel wagering in Kansas. He stated that this type of legislation would add to the agricultural economics of the state. See attachment A.

Hearings on proponents were concluded.

OPPONENTS:

Norman Harper, Scott County, gave testimony in opposition to parimutuel wagering in Kansas. He talked about tax exemptions on horses and slaughter houses. Tax exemptions only cause more taxes.

Ruby Bracken, Topeka, told the committee that she was against parimutuel gambling and that she had lived in California where this was permitted and watched people waste their money on gambling.

William Plymat, Des Moines, gave testimony on the experiences Iowa has been having since parimutuel legislation passed in that state. The state of Iowa will receive 1% of the revenue from parimutuel gambling until all facilities are paid off. There is one dog track in operation which is city owned by the city of Dubuque who held a \$12 million referendum to pay for it. Iowa is a long way from having a praimutuel horse track. Mr. Plymat distributed a copy of a chapter of a book, "Gambling is a Deadly Sin". See Attachment B. Federal law prohibits the use of industrial bonds to build a gambling facility.

When asked if there had been any reports on the impact on law enforcement with parimutuel, Mr. Plymat said he had not heard of any problems with law

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON FEDERAL & STATE AFFAIRS

room 526S, Statehouse, at 1:30 a.m./p.m. on January 29, 1986

enforcement.

Grant Cushinberry, Topeka, gave testimony in opposition to HCR5024. He said it is the little man who drops all the money at the track. Keep our state free of gambling and come up with a better solution to get the revenue needed. Poor people are not wise enough to use good judgment when it comes to gambling.

Reverend Richard Taylor, Kansan's for Life at Its Best, gave testimony in opposition to HCR5024. He stated that the issue was not letting the people of Kansas vote. Gambling promoters have deceived themselves into thinking parimutuel will bring them riches. See attachment C.

Reverend Steven Daniels, Topeka, opposed the passage of parimutuel legislation. He said he is convinced that if this legislation is passed, it will bring strife and hardship to the lower income families.

Carol Brandert, English teacher from Salina, gave testimony in opposition to HCR5024. She stated that parimutuel legislation does not give animals equal rights. Animals were not put on this earth for our amusement and exploitation.

Betty Lambert gave testimony in opposition to HCR5024 and explained that parimutuel horse racing was a cruel and inhumane practice to benefit people. She listed a number of abuses to the horses which included racing immature horses, excessive racing, racing on poor quality tracks, drug use, and the fate of the horses. She said she opposed the making of commercial objects out of animals.

Reverend Bob Visar, Wichita, told the committee he moved to Wichita from Colorado Springs. Wichita is a more relaxed place to live and is more friendly. He feels Kansas is a safer place to live and raise children because there is not parimutuel gambling. Passage of this resolution will not accomplish the revenue needed and will not create a better quality of life. He therefore opposed HCR5024.

Marc Rogers, Kansan's for Life at its Best, told the committee that the promoters have stopped talking about the revenues because they know these aren't going to be as much as they thought. He asked why the horse racing industry should be given special privileges. "Sin taxes" should be higher because people are going to do these things anyway so they should be made to pay a higher tax on them.

Micki Hansen, Wichita, gave testimony in opposition to parimutuel because it is inhumane to animals and people don't realize what goes on behind the scenes. She said the state should make do with what they have or do without.

Betty Nall, Topeka, told the committee she is opposed to parimutuel gambling because of the effect it will have on the children of Kansas.

Hearings on HCR5024 were concluded.

The chairman announced that he had a list of bills which he felt had been either incorporated into other bills or were no longer needed. He will be asking that these bills be reported adversely. If any committee member has bill requests, he needs to contact the Chairman.

The following fundamentally positive considerations should be taken into account in assessing the relative merits of presenting this question to Kansas voters. It should be noted that these observations are made as an individual and that neither Kansas State University, nor the College of Veterinary Medicine has a position on the question of pari-mutuel wagering.

I. The fundamental economics of broodmare units are important to both agriculture and other areas of enterprise as follows:

a. For an investor to profit from horse breeding (racing sector) yearlings must sell for \$10,000 and up. Two yearlings should gross the purchase price of the mare; this means economically viable mare units average \$20,000 to \$25,000 and, with a weanling and yearling in the pipeline, have the following economic effect annually:

1. \$2,000 in feed and goods
2. \$1,500 in insurance premium
3. \$1,000 in sale nominations and commissions
4. \$2,000 in breeding fee
5. \$ 250 in veterinary fees
6. \$1,500 in labor
7. \$ 500 miscellaneous

\$8,750

This has the same economic impact as approximately 40 commercial cows.

b. High quality broodmares have exceeded inflation over the past 30-40 years.

In 1955 the record average for a Quarter Horse sale was approximately \$1,300; in 1984 the average of the Super Select yearling sale was \$50,000 and in 1985 it was \$49,000. In 1985 the average of the four major (racing) yearling sales was \$9,500.

In 1940 the average of the Saratoga yearling Thoroughbred sale was \$3,000; in 1984, \$256,000.

While these figures represent the top of the industry they also set the trend.

- c. The depreciation and capitol gains characteristics of the breeding and racing business are favorable to the retention of federally taxable dollars and their distribution throughout the Kansas economy. This has a powerful effect since federal income tax is many times higher than Kansas income tax.
- d. The same geologic and climatologic characteristics that make Kansas an ideal location for the cattle feeding industry are favorable to competitive equine production systems. These features include large areas of favorable soil conditions, a large supply of feed and forage including irrigated alfalfa and an adequate number of days above freezing (particularly in the southwest half) along with dry enough conditions to favor good management and training activities.

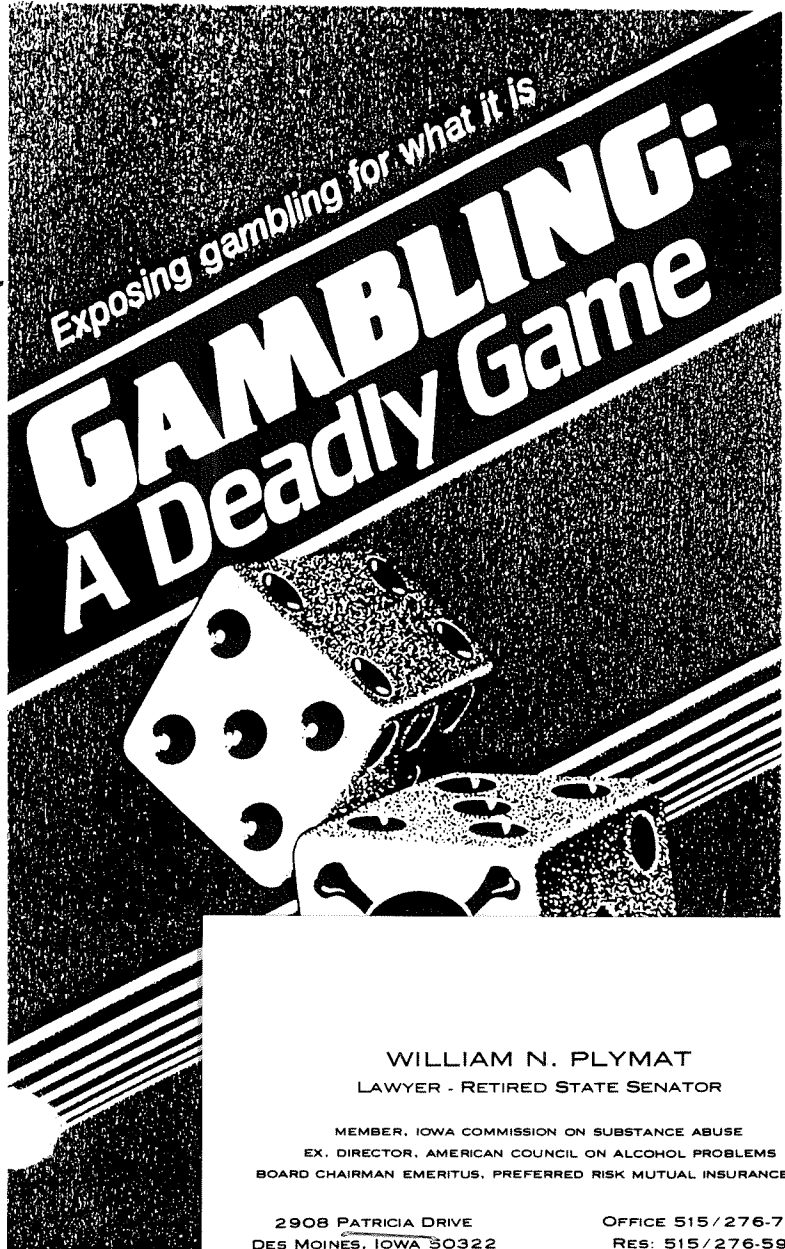
There is adequate freezing and thawing to minimize overwintering of parasites.

This activity is focusing more and more in Oklahoma as a result of pari-mutuel wagering and its effect on marketing outcomes.

- II. The cash outflow into New Mexico and contiguous states is an alarming problem. People going out of the state to buy, sell, and race horses or to attend the races spend (personal estimate) a bare minimum of \$20,000,000 per 100,000 people attending per year. A trend that can only be reversed with a high quality program instate. Quality is far more important than size.

- III. Based upon the Nebraska experience and the present Oklahoma City proposal, the state might expect \$5,000,000 to \$6,000,000 in share of handle; perhaps as much as \$8,000,000 (personal estimate). While a small percent (e.g., one percent) of this should be retained for research and development a substantial amount could be targeted at one or more specific areas of economic development.
- IV. Kansas is a major Greyhound producing state, and the headquarters of the National Greyhound Association are in Abilene. All of the dog racing activity is outside the state. A synergistic relationship between horse and dog racing has potential to minimize fixed costs, maximize handle share to the state, and give Kansas an edge over Oklahoma, Missouri, and Nebraska. The same areas of research and development are beneficial to both horse and dog racing.
- V. The research and development, and regulatory activity intrinsic to racing inevitably involves veterinary medicine. Growth in this area would have many peripheral benefits to veterinary medical service and research including comparative medical research in cardiopulmonary function, bone stress and metabolism, and muscle function. As an educator responsible for administration of academic programs, I find that projects with potential for synergistic interaction of funding, research, and service warrant careful attention.

Plymat B



WILLIAM N. PLYMAT
LAWYER - RETIRED STATE SENATOR

MEMBER, IOWA COMMISSION ON SUBSTANCE ABUSE
EX. DIRECTOR, AMERICAN COUNCIL ON ALCOHOL PROBLEMS
BOARD CHAIRMAN EMERITUS, PREFERRED RISK MUTUAL INSURANCE CO.

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Thoroughbred Racing

How would you feel if you paid \$8.25 million for a one-year-old thoroughbred colt at an auction and then discovered he had a foot problem that might keep him from ever racing? That actually happened to a buyer in July of 1984 at the Keeneland Sale outside Lexington, Kentucky!

The average person might respond that no thoroughbred yearling is worth \$8.25 million. Yet, that figure is not even the record. The current record was set in 1983 with a purchase price of \$10.2 million.

This one event discloses far more about the thoroughbred racing and breeding industry than you could ever learn from all the literature put out by thoroughbred experts and advocates who want the states to legalize pari-mutuel racing on thoroughbreds.

With these kinds of figures, the average person might question the possibility of making money in the thoroughbred industry. In fact, most owners of horses don't. Over 50 percent of the breeders are losing money, Kerry Fitzpatrick, president of International Thoroughbred Breeders, told participants in the 1985 Horse Seminar in Philadelphia. Fitzpatrick and Joseph Kellman, former member of the Illinois Racing Commission, have estimated that about 90 percent of the owners of racehorses lose money.¹

65

H. FLSA
1/29/86

Pari-mutuel gambling is the most widely practiced form of gambling legalized for the purpose of raising revenue for states. Pari-mutuel wagering is legal in thirty-six states on horse racing, dog racing, and/or jai alai (pronounced *hi li*—a game between contestants which resembles racquetball). Connected with pari-mutuel gambling on horse racing are several forms of wagering which do not require the individual to be at the racetrack.

The pari-mutuel gambling industry is seeking to expand its base of operations by securing legalization in untapped states. It says this expansion will raise revenue for the states and will develop a new industry which would be a boost to the states' economies and indirectly to state revenues.

Betting on thoroughbred and other kinds of horse racing is not necessary in order to have racing, but it is for the owners to be able to make the kind of money they want. The sport will not stand on its own if the operators simply engage in racing and depend on the revenues from fans who pay to watch.

Although there are numerous pari-mutuel gambling opportunities involving "sports" other than thoroughbred racing, that is where the money and most of the real pressure and power are. This chapter will be devoted primarily to thoroughbred racing and breeding. Other forms of pari-mutuel gambling will be treated in a different chapter.

Pari-Mutuel Gambling

Pari-mutuel gambling was invented in 1865 by a Frenchman. This system of gambling was soon to surpass the "bookie" as the main system of wagering.²

In pari-mutuel gambling the total amount of money

bet on a race constitutes the "handle." Most of this money (usually between 82 and 85 percent) is paid to the winning bettors when the race is over. The remainder of the handle, the "takeout," provides prize money for the owners of the winning horses, a share for the operators of the track, and a portion for the state in the form of pari-mutuel taxes.

Pari-mutuel betting on horses was first used in the United States in 1908 at the Kentucky Derby. By 1961, it was legal in twenty-three states, and the number had increased to thirty-two states in 1976. By 1983, the number had grown to thirty-five. In 1984, Missouri legalized pari-mutuel betting on horse racing.

The biggest push for legalization of pari-mutuel gambling has been made in connection with horse racing. Arguments for pari-mutuel gambling in connection with dog racing and jai alai are somewhat similar. Various arguments have been made for legalization of pari-mutuel gambling on horses.

"Freedom of choice" is one argument that has been used consistently. The "freedom-of-choice" argument says that individuals should be free to engage in betting activity if they want to.

This argument naively asks the citizen to treat pari-mutuel gambling in a category separate from other forms of social behavior. Depending upon the consequences, some forms of behavior are regulated. Others are prohibited. If the behavior is fundamental, such as freedom of speech or religion, we regulate it with scrupulous care. If the behavior is particularly devastating or harmful, we ban it altogether.

A second argument has been that pari-mutuel gambling will generate sizeable amounts of revenue for state budgets. Those who make this argument usually talk

about the sums of money that can be generated for the state by taxing gambling rather than enacting new taxes on property, sales, or income. They emphasize that gambling is voluntary. This tax, which is simply being collected for the state by the racetrack, is therefore a voluntary tax.

This particular argument has gone out of vogue in the last few years. The reason is quite simple: thoroughbred racing has not generated the sums in tax revenues it has claimed it could. As a matter of fact, the tax revenues from pari-mutuel gambling on thoroughbred racing have actually declined. Since the tax argument has increasingly proven to be bankrupt, the industry has shifted to another argument.

A third argument developed by the industry focuses on the positive "economic impact" of the horse breeding industry which it claims far surpasses the revenue generated in the form of pari-mutuel taxes. Pari-mutuel advocates talk about the capital expenditures connected with land, buildings, and animals. They emphasize jobs which are "created" by the industry and benefits through the purchase of goods and services.

This shift in arguments for legalization began to become apparent about 1982. The argument for legalization was formulated by a pro-industry analyst who regularly churns out authoritative "studies" about the economic benefits of the thoroughbred industry.³

It is no small coincidence that the conversation about "economic impact" has arisen simultaneously with broad and intense efforts at getting pari-mutuel taxes reduced in state after state. The shift in strategy has helped the racing industry in its pitch to convince state legislators to lessen the share of revenue which government received.

Kentucky: The State of the Art?

Kentucky is the heartland of the thoroughbred industry, but legalized pari-mutuel gambling has not been a financial boon to the state. In 1982, the state of Kentucky received a total of \$10,862,103 from the 292 days of thoroughbred racing in the state. This represented a 14 percent decrease over 1981.⁴ It was about three-tenths of 1 percent of the state budget.⁵ In 1983, after Churchill Downs initiated a lengthy summer racing schedule, the state got almost \$100,000 more.⁶

Racing in Kentucky is not "on top of the world." Churchill Downs had dramatic declines in attendance and in average amounts wagered during both its spring and fall racing sessions in 1983. Attendance was off 22 percent for the fall racing meet and 28 percent for the combined spring and summer meet. This was consistent with a nationwide trend, where attendance was down at thirty-two of the thirty-nine top racing meets in either 1982 or 1983.⁷ The track is seeking to generate more revenue for itself and for the horse owners, so it initiated summer racing in 1983. In just two years, newspaper accounts reported losses of approximately \$2.5 million.

As a state, Kentucky's average daily purse ranked only tenth among states with racing in 1983, lagging far behind states such as New York, California, Arkansas, and New Jersey.⁸ This is why in 1984 the Keeneland spring meet declined considerably in quality when its racing dates conflicted with those of the Oaklawn track in Arkansas. The top trainers took the top horses to Arkansas rather than the "Bluegrass State." This trend did not even change when the supposedly top three-year-old colt, Devil's Bag, was shipped to Keeneland in

the spring meet to hype his preparation for the Kentucky Derby.

An editorial on racing in Kentucky in mid-1984 stated that "there is too much racing of all kinds in Kentucky . . ." and that "what we often see is cheap horses running for low purses before sparse crowds." In the summer of 1984, this became even more true at Churchill Downs, where the person in charge of writing the racing schedule and planning the program took a leave of absence rather than bend to pressure from the track management to write racing cards with lower-quality horses to give the bettors more horses to bet on.

Racing may be cheap in Kentucky, but the thoroughbreds bred there are not. In 1983, Kentucky auctions sold 8,133 thoroughbreds for a total of \$542 million. Most of these sales were not taxed, which helps the Kentucky thoroughbred industry stay at the top of the breeding business.⁹

About fifty of the top sixty thoroughbred stallions in the nation are located in Kentucky.¹⁰ Sale of stallion shares and breeding fees are exempt from Kentucky state taxes.¹¹

States that look at legalization of pari-mutuel gambling on thoroughbred racing with the hopes of developing a strong breeding industry are deluding themselves. If states such as California and New York, with the accumulated wealth and the heavily populated areas, cannot generate the financial resources to challenge Kentucky for leadership in the breeding industry, how do advocates in states like Oklahoma, Mississippi, Alabama, and Tennessee have the gall to claim those states can develop quality breeding programs?

The thoroughbred industry plans to stay on top, with all of its benefits, in Kentucky. As of January, 1984, five

political action committees (PACs) had been established to promote the thoroughbred industry in Kentucky. The racing industry in Kentucky is experiencing the same decline in daily attendance and betting as in other places. The PACs exist to try to get better financial treatment from the state legislature for the ailing industry.

The Kentucky Thoroughbred Commission promotes racing in states which do not presently have thoroughbred racing. The week before a statewide referendum in Oklahoma, John Y. Brown of Kentucky (who was governor at the time) made a number of media appearances in support of the referendum. In addition to testifying before the Georgia legislature, the Commission claims to have entertained about half of the Georgia legislature in Kentucky. Former Governor Brown also appeared in Texas to testify in behalf of pari-mutuel legislation.¹²

Just prior to a statewide vote in Missouri, ads featuring Kentucky Governor Martha Layne Collins began appearing on Missouri television. Lieutenant Governor Bashears was in Texas in 1985 to promote pari-mutuel gambling.

States would be well advised to look at illustrations other than Kentucky to see the current economic realities of thoroughbred breeding and racing.

Meager Benefits for the State

The promise of easy money was a siren song for many states. By 1976, thirty-two states had legalized pari-mutuel gambling. Between 1976 and the end of 1983, Oklahoma, Iowa, and Minnesota had joined the list of states with legalized pari-mutuel gambling, although no tracks had been built in those states by the end of 1983.

One reason for the slowdown in legalization of pari-mutuel gambling is its inability to do for the state what it has promised. Several forms of evidence demonstrate this financial failure.

At present, the twenty-one states with state-operated lotteries are located in states with legalized pari-mutuel gambling. Rather than solving a state's fiscal woes, pari-mutuel gambling only establishes a tendency for the state to look for other sources of "easy money."

Also, the amount of revenue generated for the states is relatively insignificant. In 1981, no state received even as much as 1 percent of its budget needs from pari-mutuel gambling. Florida boasted the highest percentage with a meager nine-tenths of 1 percent. California received only .32 percent. New York received less than 1 percent of its budget from pari-mutuel gambling, which also includes its off-track betting operation.¹³

A third demonstration of the limited benefits from pari-mutuel gambling is the decline in total revenue from pari-mutuel gambling on all horse races. Pari-mutuel gambling on horse racing paid the highest amount of taxes to the states in 1976—\$714,629,120. Since then, taxes have declined yearly except for 1979 and 1980. These figures were substantially higher than the 1982 totals of \$652,888,463 for all racing and \$419,722,222 for thoroughbred racing. When inflation is figured in, as the horse racing industry does in asking for a bigger share of the takeout for operating expenses, the decline amounts to a drop of 45.5 percent in just six years.

The declines continued in 1983, with tax revenue to state governments being \$641,387,176. Of that amount, \$412,925,608 came from thoroughbred racing, representing another decline of about \$7 million.

This revenue resulted from 4,967 days of thoroughbred racing, attended by 41.7 million people (a daily average of 8,397) who wagered \$7.2 billion (a daily average handle of \$522,439).¹⁴

The industry, however, is attempting to convince legislators and voters that the money spent for land, horses, capital improvements, labor, and business goods will be a major benefit to the state. The usual strategy is to have an "economic impact study" prepared by some "expert" or by the state legislature.

The Texas Horse Racing Association estimated that each dollar of tax revenue for the state would be accompanied by between one hundred and three hundred dollars of business activity. Officials of the National Association of Horseracing Commissioners, the California Horseracing Board, and other industry sources found no basis for the estimates and called them unrealistic.¹⁵

A statewide referendum in Oklahoma approved the legalization of pari-mutuel gambling on horse races. Pre-referendum studies had projected an allocation of 6 percent of the total money wagered as income for the state, with 6 percent going to the operator of the track.

After the referendum passed, however, supporters "discovered" that a horse racing track could not make money if the state received 6 percent of the money wagered. The pro-gambling forces wanted the state's share reduced initially to 2 percent.¹⁶

A private group of businessmen promoting pari-mutuel gambling in Tennessee projected state revenues of \$115 million, or approximately ten times the income received by the state of Kentucky from its thoroughbred racing tracks. While proposing such items as a dog-racing track in downtown Nashville, no projections

were made of the expenses which would be associated with providing road construction and city services for a thirty-million-dollar track.¹⁷

A study done for a task force created by the Tennessee Senate was prepared by a team of business faculty members from a state university. The preliminary report painted an optimistic picture of the impact of legalized pari-mutuel racing of thoroughbreds in Tennessee. The report made no projections about the number of thoroughbred breeding operations in the state, the number of thoroughbreds in the state, the amount of land to be needed for these operations, or the actual increase in the number of operations in the state.

Yet the study was able to project a "conservative" estimate of \$11.5 million annual revenue to the state from thoroughbred tracks in Tennessee, which was about \$1 million more than Kentucky received from its thoroughbred tracks in 1982. The "realistic" estimate was about \$15 million, or almost \$5 million more than Kentucky received from its tracks.¹⁸

The Tennessee study was able to reach such rosy conclusions because it was done by analyzing and comparing Tennessee with projections for other states such as Georgia and Minnesota—states where no tracks exist.

One had to look carefully at the same impact study, however, to realize that the impact study was projecting a net loss for three racetracks of between \$8 million and \$15 million annually. The same study projected net losses to the owners of horses racing at those tracks of between \$7 and \$10 million annually. Projected expenses of breeding operations far exceeded reasonable income expectations. Yet Tennessee legislators gave no indication of having read the report carefully enough

even to be aware of these candid, although indirect, figures.

Perhaps the point may be illustrated more fully by looking in some detail at the projections which were offered for a thoroughbred track in Birmingham, Alabama, and how these projections compared with the actual performance of existing tracks and states.

Proponents claimed that 175 days of racing or betting on video racing would generate an average daily attendance of 6,800 persons who would bet an average of \$135 for a total of \$918,000 daily, or a total of \$160,650,000 annually.

In 1982, a track in Alabama averaging \$918,000 in daily wagering would have made Alabama the eighth-ranked state in thoroughbred racing—ahead of Louisiana, Kentucky, Nebraska, Pennsylvania, Ohio, New Mexico, and eleven other states.¹⁹

The odds of a track in Alabama attracting bettors who would wager \$135 per day were equally bad. In 1983, thirty thoroughbred tracks throughout the nation had an average daily amount wagered of \$1 million or more. These were the "cream of the crop" of thoroughbred racing. Yet, one-third of these tracks had a betting average lower than \$135 per person. Among these were historic Churchill Downs, site of the Kentucky Derby; Pimlico, site of the Preakness; Keeneland, the leading thoroughbred auction center in the world, located in the heart of thoroughbred country in Lexington, Kentucky; and Oaklawn Park in Hot Springs, Arkansas.²⁰

How did the projected \$160 million in annual betting compare with other states? In 1982, Arkansas with its Oaklawn Park, the most successful track in the Southwest, generated only \$159 million in annual bet-

ting. Kentucky, with four thoroughbred tracks, generated only \$237 million in annual betting.²¹

Simple comparisons with other states did not indicate fully how flawed the projections are. The takeout rate projected for the Alabama track, initially 19 percent, was probably the highest in the nation. This means that less of the money wagered would be returned to the bettors than in states where the takeout rate is in the 14-to-16 percent range. When the takeout rate becomes that high, bettors tend to divert an increasingly large portion of their wagering into illegal betting where the payoff rates are higher.

One thing cannot be faulted about the proposed Alabama racetrack. The state of Alabama settled for less money in taxes, both for itself and for the many supposed beneficiaries, than any other state to consider racing in recent years. The 2 percent tax rate is far below the average tax rate of 4.03 percent of money wagered which prevailed nationwide in 1982.²² The Alabama legislature was willing to settle for what thoroughbred industry spokesmen recommend as the desired tax rate for track operations.

In 1982, states got 26.4 percent of the money not returned to bettors.²³ The Alabama legislation required only about 11 percent of the amount taken out to go to the state and to other institutions receiving some "financial benefit."

So Alabama bought a flawed bill of goods, which is not surprising since it was prepared for the state by a thoroughbred analyst whose job is to advance the industry, not present objective information.

Such is the substance of the economic impact studies with which the industry tries to beguile the public!

The Economics of the Thoroughbred Industry

The thoroughbred industry talks about the "economic impact" of an industry that features both breeding and racing dimensions, an industry which creates "jobs" for people who need work. The starting point for looking at the thoroughbred industry was the phenomenally high prices being paid at auctions in Kentucky for thoroughbreds. Why would a person spend \$8.25 million for a colt?

There are three special reasons why thoroughbreds are bringing such astoundingly high prices and they have nothing to do with racing. They are Robert Sangster of Ireland, Shaikh Mohammed al Maktoum of Dubai (oil money), and Khaled Abdullah from Saudi Arabia (oil money). These men are rich, and they are spending millions of dollars on American thoroughbreds to export to their own breeding operations in Europe. For a variety of reasons these men are paying huge sums of money for the offspring of a small number of American thoroughbred stallions, primarily a stallion based in Maryland named Northern Dancer.

Thoroughbred breeders who have the "cream-of-the-crop" thoroughbreds are reaping astonishing returns on their investments.²⁴ In 1982, 6 percent of the yearlings sold were at the fashionable and prestigious Keeneland and Saratoga sales. Those yearlings averaged \$273,613.

Those are the types of catchy numbers frequently cited to demonstrate the health of the thoroughbred breeding industry. At those markets, prices rose by 25 percent over 1981.²⁵ The other 94 percent of the year-

lings sold in 1982, however, averaged only \$17,946, a decline of 14 percent from 1981.²⁶

These trends continued in 1983. As realization of the crisis began to sink in, the industry even began to do its statistics differently. One leading publication began to focus on the problem in the market as reflected by the median sale price. In 1979 the median sale price (the figure at which 50 percent sold above, 50 percent sold below) of auction yearlings was \$8,000. In 1980 it was \$10,000. In 1981 it was \$11,500. It began dropping in 1982 to \$8,116. Disbelief prevailed among most of the people in the industry, who thought this was a fluke rather than an indication of overproduction. But the downtrend barely reversed itself in 1983 when the figure rose to \$8,500.²⁷

Although 1983 auctions of yearlings totaled in excess of \$340 million, states such as Louisiana, Florida, California, and Texas combined had only about \$17 million in total yearling sales, or about 5 percent.

Now the bottom line to the economics can be put rather bluntly. Using industry figures, the cost of caring for and feeding a yearling to sale time amounts to \$8,030. So 50 percent of the yearlings sold in 1983 did not recover the cost of getting them there, if one figures in the cost of the mare, the stallion fees, insurance, and commission. *This would mean that well over 50 percent of the 1983 yearlings sold at auction lost money for their owners.*²⁸

Bill Oppenheim, editor, told a dismal story in the September 23, 1983, issue of *Racing Update*. He pointed out that 30 percent of the yearlings listed as sold in September sold for less than their 1981 stud fees. Even higher-priced stallions failed to insure profitability for the breeders, as almost half of the 638 year-

lings by stallions with the 1981 listed retail stud fees of twenty thousand dollars or more did not sell for as much as one nickel more than their stud fees.²⁹

In 1984, the average sales price rose to an all-time high of \$41,396. This resulted from the rise in prices of the "cream-of-the-crop" yearlings sired by Northern Dancer, Alydar, Seattle Slew, and Danzig. But the overall downward trend continued in 1984. The median sales price declined to about six thousand five hundred dollars, for a decline of almost 50 percent in just three years.³⁰

Almost anywhere you look, the industry is crying about the need for bigger purses, which usually translates into a desire to get the state to settle for lower tax revenues. State after state will either have impact studies or open discussion about the trouble in the industry, looking for ways to increase revenues, attract new bettors, and give less money to the state. Because of the effort and the money spent in lobbying, a number of states have reduced their pari-mutuel tax rate drastically in the last two to three years.

So why the big push by the pari-mutuel industry right now? Some racing analysts call it the search for "New Money." Andrew Beyer, noted racing writer, puts it quite succinctly:

. . . There are plenty of late-comers who are just now starting to put their money in horses through public stock offerings and limited partnerships. They expect tax advantages, potentially large profits and a little bit of glamor, but they are going to learn some painful lessons about the new economic realities of the business.³¹

So the shift away from talking about direct tax dollars generated at the racetrack reflected more than a strategy

for dealing with state legislators; it is an attempt to grapple with a larger problem affecting the thoroughbred industry: overproduction. Thanks to the massive influx of foreign money and to the 1981 tax laws which produced tremendous financial incentives for thoroughbred breeders, there are too many people raising thoroughbreds now for the thoroughbred breeding and racing industry to be profitable.

Building an industry like thoroughbred breeding and racing is always more fun when you can do it with someone else's money, and that's what's happening. Whether through deductions and tax credits (sometimes called loopholes) or through partnerships which offer tax writeoffs to wealthy taxpayers trying to avoid tax payments, the thoroughbred industry is "off and running."

Perhaps the most lucrative benefit to the thoroughbred industry was the 1981 tax reform which sweetened the manner in which, according to one industry source, "the tax system is encouraging investment and development of viable horse businesses." Horses can be depreciated or written off in three to five years, depending upon age and use. If a breeder buys a twelve-year-old thoroughbred mare for breeding purposes, the entire cost can be depreciated in three years.³²

So, if someone pays \$2.5 million for a twelve-year-old mare as oilman Nelson Bunker Hunt did, the entire cost can be deducted over a three-year period of time as a business expense.

This tax write-off has seemed to be so lucrative that large sums of money are being drawn into the thoroughbred business, providing badly needed capital for a cash-strapped industry, through stock offerings in partnerships and corporations. Although these new forms

of ownership raise the possibility of hidden-ownership problems (a recurring situation in regulating casino gambling),³³ in 1983 about \$75 million in "new money" was generated for thoroughbred breeders.³⁴

Racetracks are not doing well financially. In fact, many of the tracks are losing money. A New York study projected continuing declines in track attendance. Increases in wagering, both at the tracks and in off-track betting parlors, were projected at about 1 or 2 percent per year through 1986. The total net income of all of the New York tracks, which was at its recent highest at \$11.8 million in 1978, was projected to turn into a total net loss of almost \$19.2 million by 1986.³⁵ Both the New York study and a similar New Jersey study³⁶ indicated that the only tracks operating at a profit were in an area of very high population.

Some racetracks have closed. Track construction, renovation, and purchase would be much more difficult except for the American taxpayer. Numerous racing facilities have been purchased, built, or renovated through the use of tax-exempt or low-tax industrial bonds. These bonds are considered subsidies to encourage the stimulation of "economic development" in designated areas.

Garden State Park in New Jersey was rebuilt with \$40 million in bonds.³⁷ Keystone Race Track in Pennsylvania is being purchased and refurbished with the assistance of about \$30 million in bonds.³⁸ Arapahoe Park in Colorado was built with these bonds.³⁹ The Iowa⁴⁰ and Minnesota⁴¹ legislatures in 1984 dropped restrictions which would prevent the usage of such bonds for the construction of racetracks.

Thoroughbred racing is not a profit-making venture. Most Americans who race thoroughbreds aren't mak-

ing money. A frequent theme in racing publications is that racing purses have not kept up with the rate of inflation reflected in the expense of racing.

New York has been one of the leading racing states for years. In 1980, racing purses in New York totaled \$125 million. But racing expenses exceeded that amount by \$16 million.⁴² A Michigan study revealed that the average thoroughbred operation netted only three-hundred dollars in profit during 1982 on average investments of one-hundred-ninety thousand.⁴³ A study of horses sold at auction in Kentucky in 1974 and 1975 revealed that 26.5 percent of the horses didn't earn a single dollar racing.⁴⁴ And one horseman said in the summer of 1984, "Forty percent of the horsemen have to lose because there still isn't enough purse money."⁴⁵

Losing money in racing is not confined to the United States. In 1983, Shaikh Maktoum and his brothers spent \$65.4 million in just three weeks at the Kentucky sales. That surpassed by \$1.4 million the total prize money for all of the thoroughbred races in England, Ireland, and France for an entire year, places where Maktoum races. Maktoum and his brothers aren't making their money racing horses.⁴⁶

The thoroughbred industry claims that it will generate many jobs in connection with the industry. The subject is one which is given more rhetorical treatment than it is factual demonstration. One point never addressed is that most of the jobs supposedly created are of the low-paying variety which do little toward developing employment opportunities that can provide stable, long-range vocational options for large numbers of people.

The Tennessee study mentioned earlier projected a number of jobs to be created by the industry (ranging from the equivalent of 4,809 to 7,416 full-time jobs)⁴⁷

even though a survey of eighteen states had found no state labor department which had performed any study of the employment impact of racing within the state.⁴⁸

A 1984 article described the income level of the individuals registered as jockeys in 1983. The average jockey earned between eight and fifteen thousand dollars. How is that for precise statistics? But that amount, whatever it was, included a 25 percent commission which had to be taken out for the agent who arranged "mounts." Other expenses also had to be deducted. But, the article continues, there is no such thing as an average jockey. The person is either a regular rider or an exercise jockey looking constantly for mounts to ride in races.

Over half of the jockeys (52 percent) in 1983 had a mount less than one hundred times during the year, or once every three to four days. The average purse money won by the horses ridden by these jockeys during an entire year was \$7,194! One out of every five jockeys had only ten races for the entire year, with an average annual purse winning of \$511! Twenty-nine percent of the jockeys did not win a single race!⁴⁹

Kellman states that 84 percent of the jockeys riding in New York, among the most lucrative racing circuits, do not even make a living wage.⁵⁰

One of the few studies not financed by the racing industry which reports on the "breeding industry" in a state was done in Michigan in 1982. The average thoroughbred operation in that state employed 2.1 full-time workers, at an average annual salary of \$8,000, and 2.4 part-time workers, at an average annual salary of \$1,470.⁵¹ The thoroughbred industry tells people that it is a labor-intensive operation.

A study done of racing in New York provides some

measure of the economics of employment at the race-track. It is one of the few studies I have seen where it is even possible to calculate actual employment and salary levels of track operation. The vast majority of the jobs are part-time, with an average ratio of about one full-time job for each six or seven part-time jobs. When the figures from one track were discounted from the calculations since that track did not report the number of part-time jobs, the average salary at all of the other tracks in New York was \$6,380. This is a pathetic salary for a state with one of the higher costs of living in the nation.⁵²

Another part of the report describes the jobs on the "backstretch," where workers are the employees of the horse trainers and owners.

The backstretch is more than a place of employment for many of the individuals employed there. It is a way of life. A great number of the people who are employed as grooms, hot-walkers, and general stable help, would be unable to find employment without the opportunities available on the backstretch. Many of these individuals live in dormitories located in the backstretch. Daily preparation and training activities begin before sunrise and conclude well after sunset. It is not unusual for work schedules to be eighteen hours a day, seven days a week, at a weekly salary of less than \$200.⁵³

Most of the jobs which are associated with the race track are part-time, low-paying, and transitory. The figures from the Michigan study would indicate that the breeding industry is not lucrative employment either. Honesty would be better served by an up-front description of what the jobs are like, what they pay, and what they will do for the people who hold them.

Pari-Mutuel Gambling and Criminal Behavior

Pari-mutuel gambling, proponents claim, is a sporting activity with the same problems found in the rest of society. They argue that criminal activity is no more prominent in horse racing than in other activities which attract large numbers of people.

The claim by the gambling industry that organized crime is no longer attracted to states with legalized gambling is rejected by the public at large. A 1982 Gallup poll which judged attitudes about gambling indicated that 71 percent of those surveyed believed that legalized gambling would attract organized crime.⁵⁴

The problem of organized crime's involvement in pari-mutuel gambling is a serious matter. Authoritative opinion substantiates the claim that this involvement is real. Numerous forms of this involvement can be identified. One of the most serious problems of the racing industry related to criminal activity is the current state of medication within the industry.

Authoritative Opinion

Authoritative opinion clearly supports the contention that legalization of gambling—in any form—provides an opportunity for organized crime's involvement and stimulates and increases illegal gambling.

In a recent interview FBI Director **William H. Webster** answered several questions about the involvement of organized crime in gambling:

Q: How do you feel about legalized gambling. Is that a factor in encouraging crime?

A: Well, in my position, I hesitate to take moral positions on legislative issues. But I pointed out at the

time that Atlantic City was going into casinos that *we knew of no situation in which legalized gambling was in place where we did not eventually have organized crime* (emphasis added). Crime doesn't always show up in the same way. In Atlantic City organized crime influence is coming through the control of goods and services. It's different from the "skimming" we've seen in Las Vegas. We're also seeing evidence of corruption as organized crime tries to reach the gaming commission through other state officials.

So I really don't see how one can expect to run legalized gambling anywhere without serious problems—fraudulent tickets, counterfeit lottery processes. Anytime organized crime sees an opportunity to put a fix on something, to get an edge on something, it'll be there. And gambling is still the largest source of revenue for organized crime (emphasis added).

Q: More than the drug traffic?

A: More in dollars but not necessarily in profit. The profit margin in narcotics is very high.

Q: What about government involvement in lotteries?

A: Well, the argument is always made that we should give the poor people a little hope. But the probabilities of winning on a lottery ticket are so miniscule that it has to be called a false hope. The states really have to think seriously about what they are doing to their own citizens when they push for something like that.⁵⁵

Sean McWeeney, chief of the Organized Crime Section, Criminal Investigative Division, FBI, gave the following information in an interview conducted in January, 1984.

"Legalized gambling does not reduce illegal gam-

bling, but instead increases it. The major problem is credit. Legal gambling creates new gamblers who switch over to illegal gambling when their money is exhausted.

"Those who go overboard in their betting are likely to wind up getting involved with loan sharks. Only then, when they are unable to pay the exorbitant fees, do they run into the violent aspect of organized crime."

Charles Morin, formerly chairman of the Presidential Commission on the Review of the National Policy Toward Gambling from 1972-76, said the conclusion of the Presidential Commission was the incidence of illegal gambling increased where gambling was legal.⁵⁶

James E. Ritchie, formerly director of the Presidential Commission on the Review of the National Policy Toward Gambling from 1972-76, said legal gambling feeds on itself and is a stimulant to illegal gambling.⁵⁷

James B. Adams, director of the Texas Department of Public Safety, said,

Once pari-mutuel gambling is made legal, an untapped reservoir of non-betting individuals will join the already existing number of bettors.

Secondly, legal betting cannot compete with illegal betting because of certain advantages to the illicit bettor. Availability of credit, better odds which are often available, and obvious tax advantages (bookies do not report customers' winnings) combine to make illegal gambling much more attractive. Legalizing pari-mutuel betting would lead to a marked increase in illegal gambling activity as the ranks of bettors increase.

The connection between gambling and organized crime is another factor which we cannot ignore. This relationship is obvious when you list the states where

major organized crime families and activities have located—New York, New Jersey, Pennsylvania, Illinois, Nevada, California, and Louisiana. All of these states have legalized gambling activities. Legalizing pari-mutuel betting in this state would provide organized crime with a substantial profit-making opportunity that would be hard to ignore.⁵⁸

Austin McGuigan, chief state's attorney, state of Connecticut, speaking at a conference in September, 1984, offered the following information.

In many places in the Northeast, organized crime has quit accepting bets on pari-mutuel racing. So much race fixing was going on that organized crime became leery of handling racing action. Organized crime instead is involved in fixing the races, ownership of tracks and peripheral industries, horse ownership and other parts of the industry.

There is no major bookmaking operation in the United States which operates without organized crime. Organized crime connections are needed to handle betting "layoffs" and to insure collection of losses incurred by bettors.

Forms of Organized Crime's Involvement

Statistics on gambling-related crimes are hard to find. One reason is because of the different kinds of criminal activity which occur in connection with both illegal and legal gambling. Different state laws and federal laws relevant to the subject do not lend themselves to uniform crime reporting.

However, the following representative information substantiates the claim that there is a connection between legalized gambling and organized crime.

Ringers. Paul Berube, an investigator for the Thor-

oughbred Racing Protective Bureau, testified as early as 1973 that the extensive activities of shipping "ringers" (fast horses substituted for slow horses) from track to track was so expensive that it was probably financed by organized crime.⁵⁹

Sean McWeeny, in the January, 1984 interview, stated that organized crime continues to be involved in fixing races and financing "ringers."

Bookmaking. The most obvious and unquestioned involvement of organized crime is in illegal off-track bookmaking. This activity is associated with organized crime's loansharking activity in squeezing people who get hooked.

The Senate Permanent Subcommittee on Investigations held extensive hearings about the involvement of organized crime in Florida. The amount of money *bet illegally with organized crime's bookies at the track* often exceeded the amount legally wagered at the betting windows. The undercover agents estimated that on-track, illegal bookmaking was a multi-million-dollar operation in Florida alone. Investigators in Florida testified that on-track bookmaking was new to them, even though they were veteran law enforcement officers. Only continual surveillance enabled them to determine the on-track operation of illegal bookmaking which catered to high rollers and operated on credit. These bookies were then able to lay off bets by using the pari-mutuel windows. The bookies were individuals with ties to known organized crime figures.⁶⁰

On-track bookies have recently been reported by horsemen as operating openly at tracks in the Detroit, Michigan, area, where an investigation was begun in late spring of 1984 by state and federal officials.⁶¹

Computer Fraud. The Florida grand jury which investigated organized crime's influence in gambling also found evidence that the totalizator, the computer which totals the bets and fixes the odds on races, was being used to allow skimming of the money wagered.⁶²

McGuigan of Connecticut has also indicated that various forms of computer fraud have been common in that region.

Messenger Services. The Illinois Legislative Investigative Commission discovered that messenger services for betting at tracks were being used to run illegal bookmaking operations and that many owners and operators of these messenger services had links with organized crime.⁶³

Drug Use and Race Fixing. In states such as Illinois, Louisiana, and Nebraska, law enforcement officers have found extensive use of drugs among persons who work at racetracks. Investigators were very aware that persons involved with drugs could fix races and affect race safety.⁶⁴

Herbert Tyner, Detroit track owner, conceded that races probably had been fixed at his track, but added: "Anybody would be naïve if they believe that it does not happen, but it happens everywhere [in the country]."⁶⁵

Clerks. An investigation by New Orleans District Attorney Harry Connick indicated that, in spite of supposedly tight regulations in the licensing of mutuel clerks, ninety of approximately three hundred applications reviewed involved people who had falsified their applications to cover gambling-related arrests and convictions. Ten clerks were licensed in spite of the fact that their applications contained information that they had been arrested for bookmaking.⁶⁶

Medication Problems and Race Fixing

One reason for the continued concern about the fixing of races is the current status of medication regulation and enforcement. There is no industry-wide medication standard which is accepted and practiced. Medication rules vary from state to state, and efforts to establish national standards through federal legislation have failed. Also, the regulation within the state of the medication standards allowed there is subject to the limitations of budgets which make regulation highly tentative.

Joseph Kellman, former Illinois Racing Board member, resigned because he "felt dishonest in pretending to regulate racing in Illinois when there is no way of doing so on our budget." He observed that the current status of the industry—90 percent of owners losing money, 84 percent of jockeys in New York earning less than a living wage, trainers failing to make a living—demands the maximum security within the racing industry. He saw no likelihood of that occurring.⁶⁷

Andrew Beyer, racing columnist for the *Washington Post*, explained to the racing industry why there is public concern, even among fans, over medication rules. He laid much of the blame on the veterinarians.

When racing commissions in Maryland and other states were debating the legalization of Lasix, veterinarians appeared as expert witnesses. They were so determined to win approval of the drug that their testimony was not completely candid.

They assured commissions that Lasix wouldn't affect a horse's form, when every bettor knew otherwise. They didn't insist that a Lasix program had to be accompanied by adequate safeguards—a detention barn,

a top testing laboratory—or it could be used to hide the presence of illegal drugs in a horse's system.

One well-informed vet said there is a typical route for narcotics to reach the track. They are usually developed by European chemical companies; they are used first at quarter-horse tracks where, in the common view, anything goes. If they are effective, they wind up in thoroughbred racing.⁶⁸

The current lack of medication uniformity and enforcement leaves wide open the possibility of fixing races. Since in most jurisdictions, only the top three finishers have blood samples collected, and since not all of the samples are processed, the easiest way to fix a race is to drug a favored horse to insure that the horse finishes out of the money.

Testimony offered by Robert O. Baker, Field Investigator of the Humane Society of the United States, describes both Lasix and Butazolodin as medications which unquestionably having a "masking" effect that makes difficult the detection of drugs banned from use in horse racing. The testimony of Theodore A. Cochran, racing chemist from New Mexico, described the futility in most states of attempting to regulate drug testing to assure the integrity of racing.⁶⁹ Such a situation is an open invitation not only to trainers who are unethical but also to organized crime figures who search for ways to fix races.

Pari-Mutuel Gambling and Socioeconomic Concerns

Two major socioeconomic concerns exist about any form of legalized gambling, including pari-mutuel gambling. They are the regressive nature of revenues derived for the state and the resultant increase in the

number of problem gamblers. Although I will treat compulsive gambling more fully in a separate chapter, I want to make a few observations here.

The pari-mutuel industry, like other gambling, preys upon the weaker and more susceptible members of society. Legalized gambling as a means of taxation is generally regressive. Pari-mutuel gambling on horse racing, while not as regressive as state lotteries, is clearly regressive.

Perhaps the most thorough study of gambling ever undertaken was that of the Presidential Commission on the Review of the National Policy Toward Gambling.

The Commission Report clearly identifies pari-mutuel gambling as regressive:

. . . Families earning under \$5,000 a year spend a higher percentage of their income on horseracing than those earning more money.

The cost of gambling to any group is not the amount wagered, but the net loss to the player—that is, the amount taken out and retained by the operator. Another way of measuring regressivity, then, is to compare the takeout as a percentage of income. The figures show that, as a source of revenue for the government, on-track horserace betting, like most other forms of gambling, constitutes a regressive form of taxation.⁷⁰

This demonstrates that pari-mutuel gambling on horse racing is regressive, contrary to its image of being "the sport of kings." The percent of annual income wagered at the tracks by individuals with incomes under five thousand dollars was almost triple that of those with incomes over thirty thousand dollars.⁷¹

But the most startling statistic was the dramatic increase in percent of income wagered at off-track betting facilities. Betting at off-track betting facilities, which

were more accessible to poor people than were the actual tracks, was almost four times as high as with any other legal form of gambling for individuals with incomes under ten thousand dollars.⁷²

One aspect of the report which puzzled me for awhile was the relatively small spending by low-income individuals with illegal bookies. Percent of income wagered at off-track betting facilities was almost thirty times as high as with illegal bookies.⁷³ The report likewise reflected much greater participation by low-income individuals in the legal lottery than in the illegal numbers games. The extent to which this pattern of greater participation continues at the present time is a matter of uncertainty.

Austin McGuigan of Connecticut helped me understand why the regressivity of off-track betting was much higher than with illegal bookies. He pointed out the reluctance, and even unwillingness, of many illegal gambling operators to handle the betting of low-income families or individuals. Since they operate within the community and have to deal with the consequences of their actions within the community, illegal operators are actually more careful about who they handle bets for than are the legal operators. He has related the story of one illegal operator who complained about legal operators who "had no principles" about selling tickets and taking bets from people who were destitute.

These conclusions from the Presidential Commission are quite clear. They are further substantiated by analysis carried out by Daniel Suits, economics professor at Michigan State University.⁷⁴

Poor people spend a greater proportion of their income on pari-mutuel gambling than middle-income and upper-income individuals. There is evidence that this is

even more pronounced in geographical regions with high unemployment and poverty.⁷⁵

Many tracks in the U.S. and Canada are reporting dismal attendance due to the recession. But tracks in industrial areas hardest hit by the economic slowdown are generally holding their own or showing big attendance gains.

Unemployment appears to be the main reason for the higher attendance. Being out of work seems to spur some people to take big risks despite their precarious financial condition.

This same phenomenon has even been reported within the pari-mutuel community itself. The publicity director at one state track suggested that an improved economy might have hurt attendance. People who have been laid off from work have free afternoons to attend the races and gamble, but when they are on the job, many cannot get to the track.⁷⁶

A similar phenomenon has been reported in Green County, Alabama, in connection with the dog track there.

A good portion of the county's newfound millions is being paid out by those whom the money is intended to benefit—the poor and the jobless who are gambling away welfare and unemployment checks in hopes of striking it rich overnight.⁷⁷

Although the data on regressivity regarding pari-mutuel gambling is not as thorough as with lottery and casino gambling, available information points candidly in the direction of regressivity.

The pari-mutuel industry is doing its share to try to recruit younger bettors. Evidence shows teenagers go to the tracks in New York, place bets, and buy alcoholic

beverages.⁷⁸ In New Jersey, special comic books and other youth-oriented materials were prepared by the racing industry to teach youth how to read wagering charts and to present the pari-mutuel industry in its most appealing light.⁷⁹ A study on ways to improve the economic status of the racing industry in New Jersey suggested that schoolchildren be bused to the tracks during the daytime to watch the horses work out. The same study recommended greater emphasis upon Sunday racing as a time for family recreation, which means bringing the children to the track.⁸⁰

With these kinds of efforts at attracting younger bettors, can we reasonably be expected to believe that pari-mutuel gambling will not be a significant contributor to growth in the number of compulsive and problem gamblers in our society?

If 72 percent of the New Jersey High School students have gambled in casinos, with all of the attempts at regulation and control, how can we seriously contend that pari-mutuel gambling, with its inevitable collection of illegal bookies, can be conducted to assure that teenagers, and even children, do not respond to the greater availability of legal and illegal gambling? We can't.

The pari-mutuel industry insists that its product is not a major contributor to the problem of compulsive gambling. It should be noted, however, that neither the casino industry nor the lottery industry regards its product as the primary cause of growth in compulsive gambling either.

Conclusion

The thoroughbred racing and breeding industry does not appear to be the economic salvation of states looking for new revenue and economic development. It is easy

to find ample evidence of an industry in trouble, one in which few racers and breeders are prospering.

The industry with its impact studies does not answer a fundamental question. If tracks, racers, and breeders are losing money, how can the industry have a sustained, substantial economic benefit to the state? The impact studies I have examined have looked only at the "expenditure" side. There has been no reasonable disclosure of the economic viability of the industry. It certainly would appear that, barring a higher degree of profitability on the part of all segments of the industry, the talk about an "economic impact" is a mirage concocted in the hopes of a bailout.

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GAMBLING: A DEADLY GAME

By Larry Braidfoot Copyright 1985

Dr. Larry Braidfoot is general counsel and director of Christian citizenship development for the Christian Life Commission of the Southern Baptist Convention. He received his B.S. from Texas A & M, His LL.B. from the University of Texas School of Law, and his Ph.D. in Christian ethics from Baylor University.

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Des Moines Sunday Register

Lawmakers stir brash, spicy plans for an Iowa lottery

Des Moines, Iowa ■ November 25, 1984

By DAVID WESTPHAL

Register Staff Writer

Leaders of the Iowa Legislature have concluded that their recipe for a state lottery, twice rejected by Gov. Terry Branstad as too pungent for Iowans' tastes, needs to be spicier yet.

In fact, Democratic leaders Lowell Junkins and Don Avenson now say Republican Branstad did Iowa a favor by vetoing the two bills because they never would have worked. The reason, they say, is that the lottery would have been too bland to compete with the \$1 billion-a-year lottery bonanza in Illinois.

So Junkins and Avenson are adding some pizzazz to last year's lottery bill. They're rewriting the legislation to allow quick introduction of the bag-of-riches Lotto game, to fatten the advertising budget and to extend the lottery's guaranteed life from three to five years.

The result, they hope, will be a souped-up money machine that will produce \$50 million a year in profits for the state. They also acknowledge that it will have a brashness and flash that will surprise even lottery supporters.

"I'm sure most people don't realize that this is something that will have to

be very highly promoted," says Junkins, the Senate majority leader from Montrose. "But you better get out and tell it like it is right now. We're going to have to compete with Illinois. If we can't do that, people will still go there to buy their tickets and we might as well not even have it."

Avenson, the Iowa House speaker from Oelwein, estimates that Iowans are spending \$30 million to \$40 million a year on the Illinois lottery and will continue to do so unless Iowa comes up with something to compete with the multimillion-dollar pots offered across the Mississippi River.

Flexibility Needed

"We've learned a lot in the last year," said Avenson. "If the governor had signed the 1984 lottery bill, he would have signed a very limited lottery. We need much more flexibility in the games allowed and the advertising."

The move by Junkins and Avenson to a more aggressive lottery is especially significant this year because Branstad has indicated he has cast his

LOTTERY

Please turn to Page 5A

Officials study Arizona lottery to avoid losses

LOTTERY

Continued from Page One

last lottery veto. "It appears that the vast majority of people want it, and I don't intend to stand in the way," Branstad said last week. Although Branstad has not said directly that he will sign a lottery bill next legislative session, most leaders accept it as a given.

In fact, the Democrats already have a plan for spending the \$250 million in lottery profits they predict over the next five years. All of it would go for one-time expenditures designed to spur economic development, from building a world trade center in Des Moines to investing \$39 million for agricultural research.

Some Republicans are catching the scent of politics in all this, fearing the Democrats may try to pass a bill designed only to force a third veto from Branstad.

"It does make me a little nervous to hear about some of these changes," said House Minority Leader Delwyn Stromer (Rep., Garner).

Heavy Marketing

Nevertheless, he and Branstad acknowledge that if Iowa starts a lottery, it will have to be promoted heavily. "I think the legislators are starting to recognize the pitfalls I've

pointed out," said Branstad. "The proponents say you have to advertise the tar out of it. In Illinois, revenues were very low until they started really marketing."

The recent experiences of two of the nation's newest lottery states, Colorado and Arizona, point to one other pitfall. Lottery profits in Colorado, \$80 million the first year, are likely to drop to \$40 million this year. And in Arizona, the state's share is expected to fall below \$20 million in its third year of operation.

Lottery officials in both states point to the same cause for the unusually sharp profit decline: They've had difficulty supplementing their rub-off ticket games with Lotto, the hottest game in the lottery industry. (The usual course for a new lottery state is to start with an instant-ticket lottery, then add a Lotto game after a year or two. Weekly Lotto games now account for about one-third of all U.S. ticket sales and have made millionaires of hundreds of ticket buyers.)

Those states' troubles suggest that unless Iowa is willing to move quickly to the Lotto game, it has little chance of reaching the Democrats' goal of a \$50 million-a-year profit. That's why Avenson and Junkins want to give the lottery commission sufficient authority to make that decision without political interference.

Out of Reach

But looking at the same two states, Arizona and Colorado, some legislators see evidence that \$50 million a year is substantially out of Iowa's reach. First, residents of both states have incomes well above those of Iowans. Second, while Arizona's popu-

SEE OVER ---

lation is slightly smaller than Iowa's 2.9 million, Colorado has 3 million residents plus an enormous tourist industry.

Finally, the Arizona and Colorado lotteries operate virtually without competition, a luxury Iowa will not have.

Junkins acknowledged that he's concerned about how well an Iowa lottery can compete against the one in Illinois, which last year produced profits of \$377 million. "A lot of money will continue to go across the river," he said. "We're not going to match those big pots they have over there."

Nevertheless, he and Avenson say Iowa must try to compete in the lottery business if for no other reason than to stop the exodus of dollars. That flow soon may be headed south, as well as east, for voters in Missouri earlier this month amended their state constitution to allow a state lottery. Some gaming experts predict the number of lottery states, now at 17, will double by the end of the decade.

"It's almost a defensive reaction on our part," said Junkins. "We're losing that money now and it's going to get worse. So we've got to compete."

Arizona Lessons

Legislative workers have been studying lotteries in other states to identify the special ingredients that last year produced \$2.4 billion in profits nationwide. In Arizona, they can see a good example of how not to launch a lottery.

"We started before we were ready," said lottery spokesman Al France of the Arizona start-up in July 1981. Despite massive distribution problems, the Arizona lottery sold \$114 million worth of tickets that first year, far beyond expectations.

But as sales of the instant rub-off tickets fell to \$75 million, the lottery hit even bigger problems. Three unsuccessful bidders for Arizona's Lotto game business sued the state, claiming violation of the open meetings law. It took more than a year to reach an out-of-court settlement and, in the meantime, revenue continued to fall.

The state finally began its Lotto game last month and sales finally are beginning to pick up. "We've lost millions and millions of dollars over this," said France. "You can't wait three years like we did to start the Lotto game."

The Colorado lottery began with an even bigger bang in January 1983. In the first five months, Coloradoans broke national sales records by buying nearly \$135 million worth of instant rub-off tickets, more than had been estimated for the entire year.

Drop in Sales

But this year, instant ticket sales have dropped by about half and, like Arizona, lottery officials in Colorado have been unable to start a Lotto game to halt the decline. The problem there, though, is in the legislature, not the courts. Democrats last year succeeded in blocking an appropriation needed to get Lotto operating in Colorado.

(Lotto requires a statewide network of computer terminals that tracks all ticket purchases. Because the game is computerized, tickets may be purchased within minutes of the weekly drawing. No computer system is needed for the instant tickets, which resemble the rub-off game cards used by fast-food restaurants and in other promotional games.)

"It's up to the politicians what they want to do," says Bill Russell, marketing director for the Colorado lottery. "If they don't fund Lotto, we'll do the best we can do."

But Russell has given Colorado legislators data showing that lottery profits from the instant game will continue to drop — probably below \$30 million within two years — if they refuse to allow the second game. That even takes into account a new wrinkle added this fall: a weekly drawing for a \$1 million grand prize. After seven weeks, however, no one has won.

\$60 Million Profits

By comparison, Colorado officials project that a combination of Lotto and the instant ticket game likely

would produce profits of nearly \$60 million within three years. (In most states, lottery profits are about 40 percent of revenues).

A political fight like this is exactly what Avenson and Junkins say they want to avoid in Iowa. Their plan: To give the lottery commission enough power to choose its own games, independent of legislative action.

They also want to pad the advertising budget. Last year's bill limited lottery advertising to 4 percent of total revenues, and Junkins says that's too low.

Finally, the Democratic leaders are discussing the possibility of striking the ban on video lottery contained in last year's bill. Video lottery machines, a cross between Pac-Man-type video games and slot machines, were introduced last year in Nebraska and now are being tested in Illinois.

Some experts say the potential for profits is enormous. Officials in Bellevue, Neb., for example, say they could virtually eliminate city property taxes with their video earnings.

DES MOINES SUNDAY REGISTER ■

NOVEMBER 25, 1984 / 5A



Lowell Junkins



Don Avenson

SEE OVER ---

Committee moves to ease limits on budget for lottery advertising

By JANE NORMAN

Register Staff Writer

Iowa lottery officials moved one step closer to winning an advertising bonanza Monday when a key legislative committee agreed to loosen the purse strings that were carefully tied around the state game's advertising budget last year.

On a 13-6 vote, the Iowa House Economic Development Committee approved legislation that would scratch off all advertising limits for the first six months of Iowa's new lotto game and also remove from state control any matching ventures in which the Iowa lottery jointly sponsors promotions with local retailers.

As it is now, the state says officials may not spend more than 4 percent of lottery revenue to advertise the Iowa lottery. Under the proposal requested last week by lottery director Ed Stanek the first six months of lotto advertising and all jointly sponsored ads

would be exempt from that limit.

The advertising question sparked debate among committee members.

"One of the things done in order to pass the bill was to enact a 4 percent limit," said Representative Wayne Bennett (Rep., Galva), who opposed the change.

Representative Ed Parker (Dem., Mingo) contended, however, that the objective of the lottery is to provide money for economic development. "In order to make the lottery successful and bring in more revenue they need promotional dollars," said Parker.

Representative Richard Varn (Dem., Solon) wanted an upper limit of 8 percent on the lotto advertising budget for the first six months. "If the lottery commission can't design a decent ad program for \$3 million in this state, somebody ought to take a look at their program," he said.

Parker said the 4 percent was an "arbitrary limit, a political limit" designed to get the bill through the Legislature. "To be honest I don't care if they spend 80 percent, as long as they go back to 4 percent" after six months, he said.

Stanek told committee members that lotto, a game in which players pick a group of numbers, has been a slow starter in other states and would need advertising to help it along.

Other measures in the bill would allow the lottery to:

- Make retail sales of lottery tickets directly to the public at state lottery offices, instead of just wholesaling tickets to Iowa businesses.

- Authorize retailers to accept personal checks or money-machine transfers as payment for lottery tickets.

- Allow lottery tickets to be used as prizes in raffles or at bingo games.

- Use unmarked cars with unmarked license plates for security purposes.

- Permit the lottery to enter into special agreements with merchants for promotion of special lottery games in which the business may provide additional prizes to be awarded by the lottery.

- Exclude lottery tickets from local option sales or service taxes.

Studies estimate women comprise a third of compulsive gamblers

New York Times

New York, N.Y.

About a third of the nation's 12 million compulsive gamblers are women, according to Arnold Wexler, vice president of the National Council on Compulsive Gambling. Studies published recently indicate that by the year 2000, women may account for half of the Americans with the affliction.

The studies were published by Dr. Robert Custer, a Veterans Administration psychiatrist and the founder of the National Foundation for the Study and Treatment of Pathological Gambling, a research and treatment

center in Baltimore.

Custer said 600 male and female gamblers were studied over 13 years and the results were published in his recent book, "When Luck Runs Out."

Although only 1 percent of those seeking treatment and joining Gamblers Anonymous five years ago were women, Wexler said, the proportion has risen to 20 percent now.

"We used to see nothing but middle-aged, middle-class white businessmen," said Valerie Lorenz, a psychologist at the foundation in Baltimore. "But the compulsive gambler no longer fits into a nice, neat category. Since the lotteries started, we are seeing more women, blacks and teen-agers. Now gambling is truly democratic."

Lorenz said women with gambling problems were from all social classes, vocations and age groups.

One member of Gamblers Anonymous, Joy, can still remember when, as a young woman in New Orleans, she lost entire paychecks.

"I was working 40 hours a week and making \$35 after taxes," said Joy, 47 years old and now a resident of Connecticut. "I was gambling once a week, and when I lost my entire paycheck I would take a streetcar or bus instead of a taxi. I would buy one chicken and cut it up into four parts or eat hot dogs for the week."

What started as a social pastime soon turned into a 30-year compulsion that cost Joy thousands of dollars.

Experts cited several reasons for the surge in the proportion of gamblers who are women, including greater accessibility of gambling, the chang-

ing social role of women and the increasing availability of credit.

"There has been a change in the amount of risk-taking by women," said Carol Nagy Jackline, a professor of psychology at the University of Southern California and chairman of the Program for Study of Women and Men. "It has to do with having higher status."

While gambling is very visible nationwide — in casinos, off-track betting parlors and lottery games — compulsive gambling is dubbed the invisible disease.

"You are a junkie, but there are no signs," said Carol, another member of Gamblers Anonymous, who lost more than \$200,000, her business and her children's trust funds at Atlantic City casinos. "With an alcoholic you can tell, but with gambling there are no telltale signs. When my straight friends found out, they couldn't believe it. I am a rational person when it comes to money, but when I walked into the casinos money didn't mean anything. It was the thrill of playing."

Many gamblers cite the excitement of making a bet, not the potential windfall, as their driving force. "The feeling that comes with gambling is better than love, sex, your husband and children," Joy said.

In 1980, the American Psychiatric Association designated compulsive gambling a psychiatric disorder. The group defines a compulsive gambler as one who is "chronically and progressively unable to resist impulses to gamble" and for whom "gambling compromises, disrupts or damages family, vocation and personal pursuits."

The Des Moines Register

THE NEWSPAPER IOWA DEPENDS UPON ■ Des Moines, Iowa, Wednesday, January 15, 1986 ■ Price 25¢

C.R. group bows out on horse track

By BOB SHAW

Register Staff Writer

Plans for a \$30 million Cedar Rapids horse track are dead, its supporters announced Tuesday as they turned in their pari-mutuel license to a surprised State Racing Commission.

What was called the track's last chance for raising the money — a local referendum to issue bonds — was rejected by the Cedar Rapids Horse Racing Association, according to spokesman Von Elbert.

"I regret this is the answer I have today," said Elbert, who has been trying to raise money since the license was granted last July. "But I don't want Cedar Rapids to be the reason why a track was not built in Iowa."

Elbert said it wouldn't be fair to ask Cedar Rapids taxpayers to support the track, because the entire state would benefit from the new thoroughbred racing industry.

The announcement caught almost everyone off guard. "I am shocked," said Ken Grandquist, who has been trying since July 1984 to raise money for what is now a \$52 million track in Altoona.

The elimination of a competing track may make Grandquist's money-raising easier, but it also puts pressure on him.

For more than a year now, Grandquist's group has announced periodically that it was on the verge of getting financing. So Tuesday, when a lawyer for Grandquist said, "We have some excellent prospects" for getting financing, the reaction of racing commissioner Steve Sovern was swift.

"I don't hear a thing I didn't hear nine months ago," he said. "We have to fish or cut bait. We have heard nothing

here indicating that anything has changed. The time is today. Now is not the time to say, 'We hope to get it done.'"

Grandquist asked the commission for more time. "I apologize for not getting it done," he said. "I am not ready to throw in the towel."

The commission still found itself in the position of either relying on Grandquist's plans for a horse track or having none at all.

"What do we know about alternatives? We have to invite people to make innovative suggestions," said Sovern. The prospect of starting

TRACK

Please turn to Page 8A

No-interest loans suggested for race track

TRACK

Continued from Page One

pari-mutuel racing at the state fairgrounds is the alternative most frequently mentioned, but no developers have emerged with a proposal for that or any other plan, officials said.

With the death of one proposed horse track, and the continued delay of another, officials mulled new options for getting a track built.

Cedar Rapids mayor Don Canney and Elbert both said they think no horse track can be built in the state without some form of public money or a change in the state law.

"If we are really intent on creating a new industry, one that would pay for itself, one that would bolster the economy, then let's just take a look at the thing," said Canney.

He suggested no-interest loans from the state to developers, or a way to en-

sure higher profits in a track's earlier years. "We are creating a new industry for the entire state, an alternative crop — horses," said Canney.

"I don't see this investment as being much different than farm-to-market roads," said Elbert. In each case, he said, the public good was served with public money. "The state would be in a win-win situation."

But Grandquist said the time is not yet right to re-think the pari-mutuel law, or to get the state financially involved. "We have a good law," said Grandquist.

The Cedar Rapids track proposal faced an uphill fight from the time it was licensed last July. "There's plenty of money out there. It's a matter of who will guarantee that debt," said Elbert. Investors could be found, but they demanded guarantees that the track would remain open — the same demands that have proved a headache for Grandquist.

Last year, the commission adopted a policy banning competing greyhound tracks within a 100-mile radius of the Altoona track site. The Cedar Rapids track would have been surrounded by tracks in Waterloo, Dubuque and Moline, Ill.

The plan was dealt a devastating blow last fall when it lost its site near the Cedar Rapids airport. Last week, Elbert said that the last resort was a public referendum for bonds — the method used to finance the Dubuque greyhound track.

Canney said the city never gave serious thought to the referendum. "I can't even speculate if it would have passed or not," said Canney.

When that option was rejected Monday, it was the end of alternatives, said Elbert.

"We felt it was not fair to ask Cedar Rapids, which represents 4 percent of the state's population, to act as an anchor" for the statewide industry, Elbert said.

"But if [Grandquist's group] can do it, we should get out of the way and give them a chance," said Canney.

KANSAS DAY! 1986
Hearing on HCR 5024, Parimutuel gambling
House Federal & State Affairs Committee

Richard Taylor
Kansans For Life At Its Best!

This is KANSAS DAY! On January 29, 125 years ago today, President James Buchanan signed the Act that admitted Kansas into the Union as a free state. Our struggle to be added to the stars in Old Glory was difficult. We are the only state to enter the Union under the doctrine of "Popular Sovereignty."

Abraham Lincoln was out of politics when the Kansas-Nebraska Act was passed permitting new states to vote on the issue of slavery. He said that roused him like he had never been roused before because slavery was not a proper issue to be put to a vote of the people. The struggle in Kansas brought Lincoln back into politics and took him to the White House.

After years of bloodshed and terrorism, Kansas adopted the free-state Wyandotte Constitution. On April 11, 1860, the U. S. House of Representatives passed a bill admitting Kansas into the Union, but the Senate would not approve the measure. Not until Jefferson Davis and other southern senators pulled out of the Senate in 1861 did Kansas gain admission.

Many died to win free-statehood for this far frontier called Kansas and seven have died to win the far frontier called space. To the stars through difficulties is the story of Kansas and is the story of what happened yesterday high in our eastern sky.

Yesterday the proponents of commercial race track gambling gave you plenty of reasons for refusing to approve this proposed constitutional change. I remember February 19, 1981, when Chairman Reilly of the Senate Federal and State Affairs Committee called on KBI Director Thomas E. Kelly to testify before the committee as a proponent of parimutuel gambling. When Mr. Kelly finished, Chairman Reilly said he would have to deduct the Director's time from that allotted to the opponents. I was ready to give Mr. Kelly all our time. He presented a detailed report of law enforcement problems in all states with parimutuel, including Nebraska. The Wichita Eagle-Beacon carried this story. I asked Mr. Kelly why he was called as a proponent. His response, "Probably because I raise horses."

THE WICHITA EAGLE-BEACON **Friday, February 20, 1981**

TOPEKA (AP) — Both sides of the question of pari-mutuel wagering on horse races had their day of rebuttal Thursday before a Kansas Senate committee.

Thomas Kelly, director of the Kansas Bureau of Investigation, warned that introducing trackside betting would cause significant law enforcement problems.

HE SAID A KBI survey of the 32 states with pari-mutuel wagering indicated that such an operation in Kansas would mean increases in crime, including illegal gambling, bribery, race-fixing, fraud and corruption in the race organizations.

"There is a definite impact of pari-mutuels on law enforcement when it comes into a state," he said, adding that some states such as Oregon and Rhode Island had problems with organized crime trying to control the gambling operations.

ATTACHMENT C

H. FLSA
1/29/86

Page two -

The proponents yesterday proved revenue for the state is not the issue. Oklahoma voters were deceived into voting YES on the promise that 6% of all money wagered would go to the state. That is now 2%. Missouri and Iowa were also promised more than the parimutuel gamblers can deliver. If you ask people in Kansas why they support parimutuel, they will tell you it is to reduce their taxes.

Gambling tracks in Nebraska are built and paid for. They have been promoted and operated for years. Yet a news story indicates the tax at Ak-Sar-Ben must be reduced from 5 to 3 percent, with an exemption for the first \$7 million, or the track will die. Ak-Sar-Ben is Nebraska spelled backwards. Parimutuel gambling is economic development spelled backwards too!

Gambling promoters are masters of deceit. Not only have they deceived Kansans into believing parimutuel would relieve their tax burden, they have deceived themselves into thinking it will bring them riches.

The second issue of the wonderful KANSAS! magazine for 1985 carried pictures and a story on Eureka Downs. Horse racing is legal in all of Kansas for those who enjoy the sport. It describes the wonderful family atmosphere where admission prices permit an afternoon of entertainment for a few dollars. "And all the purse money will be contributed by the horsemen, like it is now," reported Lynn Braden in describing a potential million dollar purse at Eureka Downs.

The article went on to say, "Eureka has had no trouble finding the horses and owners willing to part with at least hundreds of dollars" for entry fees. Without commercial gambling, Kansas tracks are doing OK!

I am told the large organization of Kansas quarterhorse owners does not support parimutuel gambling. So why are some promoting parimutuel? Maybe a statement in KANSAS! sheds some light. "Ron Hall, one of Eureka's leading horse trainers, claims that for most owners, after expenses, racing horses is a losing proposition."

Gambling promoters have deceived themselves into thinking parimutuel will bring them riches. In 1980, Nebraska parimutuel promoters paid some \$100,000 to Dr. William Killingsworth for his company to study the Nebraska tracks and come up with recommendations to help that "industry with a troubled future." In his thick report, he told Nebraska gambling promoters that horsemen won \$8 million dollars in purses at Nebraska tracks during 1979 but "it was costing them \$15 million just to keep their horses in training, a net loss of more than six million dollars." A news story in the Topeka Capital-Journal on January 18, 1981, said, "Purses in Nebraska are now accounting for just a bit more than half of what it is costing the horsemen to keep their steeds running, so most of them are losing money. The bettors are, no doubt, voicing the same lament."

The Kansas Livestock and Farm Bureau lobbyists did not appear yesterday to promote race track gambling. I hope this was because they love animals more than they love gambling dollars.

Before the General Election of 1982, Governor Carlin wrote a letter to me dated September 9, saying, "Please find enclosed my responses to your questionnaire of September 7, 1982. I appreciate the opportunity to present my views to your membership."

Here is the exact wording of what was presented to the Governor. He responded YES to all three questions.

If elected Governor, will you:

7. Speak publically of the personal, social, and economic problems which will come with legal commercial gambling at Kansas race tracks? YES NO
8. Remind lawmakers that loyalty to their oath to uphold our Constitution requires them to consider parimutuel wagering on its merits? (They do not vote to submit a change to the people, they vote to approve the change.) YES NO

Persons who want to get rich from non-profit gambling race tracks in Kansas want the legislature to vote YES on a proposed constitutional change which would permit parimutuel wagering.

Persons who don't want to spend time, energy, and money to defeat at the polls what concerned lawmakers can easily defeat in Topeka want the legislature to vote NO.

9. Do you want the legislature to vote NO on a constitutional change which would permit parimutuel wagering in Kansas? YES NO

Over WIBW TV on March 5, 1983, Attorney General Bob Stephan said,

"As Attorney General, my concern has been with commercial gambling. The losses become more extreme. The likelihood of infiltration by organized crime will increase. I prefer keeping the law as it is. We've got a healthy state and I'm very pleased with it.

"I've a lot of friends who are in favor of parimutuel gambling, and I have a lot of friends who are not. Some of my good friends have horses. They raise them for racing purposes and are somewhat bewildered at my position on the parimutuel question. It is just that I see no positives in opening up the state to commercial gambling. I see a lot of negatives.

"We have very little problem with public corruption in Kansas. One of the reasons for that, for example, are the difficulties involved in opening liquor stores, in regulated private clubs, in the lack of commercial gambling. The cash flow that attracts so many problems just isn't here. And I'm glad.

"The thing other than organized crime, is the fact that there is always illegal off track betting and there are many stories of the drugging of horses, and about cheating in regard to the races. And then the regulation, and the problem of people who can't afford to gamble, and gamble too much. They hurt themselves and hurt their families. We have enough problems with bingo gambling.

"My main concern about commercialized gambling, particularly parimutuel betting, is the fact that I don't see any positives. All I see are negatives. I think we can continue to have a wonderful state and enjoy our wonderful people without those negatives.

"Every law is a moral issue and that is the business of government, to determine what is best."

Page four -

Gambling promoters claim the issue is "let the people vote." But they tell you Missouri is having problems building a track because the people have the right to vote every 4 years and decide if they will keep or get rid of the track. Proponents of parimutuel believe you should allow the people to vote a track in but you should not allow the people to vote a track out.

Parimutuel promoters yesterday said you can not trust the people to vote on a proper take-out tax rate. They believe only lawmakers have the wisdom to vote on that issue.

There was a third contradiction yesterday when the Kansas Chamber of Commerce and Industry supported a vote of the people on parimutuel yet they are against voter referendums.

A fourth double standard on the right of people to vote is in a Capital-Journal headline of January 25, 1985, BILL WOULD DODGE JAIL BOND VOTE with a story on legislation to help Shawnee County issue \$20 million in jail bonds without a public vote because Democrats on the County Commission said there was little doubt a referendum on the bond issue would fail.

But the right to vote is not the issue. The Kansas Supreme Court settled that when it said, "it is the right of every elector to vote on amendments to our Constitution in accordance with its provisions." Those provisions are contained in Article 14. (Words in CAPS are from the Constitution)

1. PROPOSITIONS FOR THE AMENDMENT OF THIS CONSTITUTION MAY BE MADE BY CONCURRENT RESOLUTION. HCR 5024 is "A Proposition to amend the constitution. . ." HCR 5024 does not claim to be a proposition to allow the people to vote on race track gambling. That is not stated anywhere.

2. If the LEGISLATURE. . . SHALL APPROVE SUCH RESOLUTION which is "A Proposition to amend the constitution,"

3. SUCH PROPOSITION TO AMEND THE CONSTITUTION SHALL BE SUBMITTED. . . TO THE ELECTORS FOR THEIR APPROVAL OR REJECTION.

Law Professor Slover explained it exactly this way to your committee in past years. The Kansas Supreme Court has explained it exactly this way. Governor Carlin and Governor Bennett have affirmed this explanation.

Today is KANSAS DAY. Our founding fathers knew that commercial gambling was a rotting influence on society. They wanted to keep it out of Kansas so our original Wyandotte Constitution rejected it forever! Kansas is great because a majority of people believe in getting money the old fashioned way - you earn it. Parimutuel promoters want your approval to change that.

The parimutuel logo carries a beautiful horse with the words LET US VOTE! I have always been in favor of letting the horses vote on parimutuel. This morning my wife said she asked the four horses out by our barn how they would vote. All four responded NAY!

Statement by Charles Marling, 3 Peppertree Lane, Topeka, Kansas.

I am a retired retail furniture merchant. During my business life I spent much time and money supporting economic development for Topeka. But pari mutual is not economic or industrial development. Pari mutual is based on half the participants losing. In true economic development the intent is benefit to the entire community.

I want totell you how it is to live and work in a community with a race track and pari mutual betting. I can tell you this first hand because I was in the army, stationed at Army and Navy General Hospital at Hot Springs, Arkansas from March 1943 to October 1945. I was commanding officer of the enlisted men stationed there.

First of all, during the race season which lasts two or three months, perhaps longer now, a very different feeling pervades the community. Nearly all eyes are on the race track. It is virtually impossible to ignore the race track activities and local folks really get caught up in it. You know how it is when world series games or Big Eight football or basketball games are on. Well imagine that every weekday for months. In a race track town many workers start talking about the races just about as soon as they get to work in the morning, so others in the office or plant/are^{or store} involved or distracted. There's talk of yesterday's results, winnings and losses. Then talk about today's horses, jockeys, odds, etcetera. Then about who is going to work that afternoon and who is going to be off for the races. Along toward noon the placing of bets gets underway, sometimes by phone, sometimes at a nearby bookie. Persons at work tune in the radio for the running of the six or eight races in the afternoon, and there are moments of despair or jubilation. Between the races much talk about what was won, bet, lost and so forth. There's just no ignoring a radio pla ying with a horse race on it.

Next day it is the same routine all over. The sports pages are heavy with news of the "sport of kings" which has takenover the city.

But these are the things one sees first hand. What one doesn't see is the true economic cost or loss. Merchants and lenders experience increases in bad debts and this cost has to be covered in the changes made to people who pay their bills. There is increased absenteeism of workers and there is a loss of wages to them or an increased cost to their employers and ultimately to consumers. Then there are heavy social costs to the families of addicted gamblers, and to their employers, be the employer be government or private business: Problems caused by a habit out of control. Pari mutual has introduced many many thousands of people to gambling who wouldn't have gambled otherwise.

Im opposed to pari mutual for the hardship it causes and for the disruption and distortion of community life. I don't want horse races or dog races or other forms of gambling to dominate life in my home town for several months a year. I'm sure you don't want to risk a big change in the way of life in your district, a change that once it is made is going to be almost impossible to rescind. I urge you to stand fast against pari mutual. Thank you.