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AN INTERTRACK WAGERING EXPERIMENT

by
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INTRODUCTION

In the wake of the "new federalism" program initiated by the Reagan administration in conjunction with increasingly popular austerity movements by the voting constituency, it is hardly surprising that many state and local governments are grappling with severely strained budgets. While seeking fresh revenue sources, many states are considering the introduction of new forms of public gaming such as lotteries, numbers, casinos, sports wagering, and off-track horserace wagering. The "voluntary tax" nature of these mechanisms is particularly appealing to legislators attempting to avoid unpopular increases in the traditional taxes of property, sales, and income.

A state government's budgetary dilemma is compounded by the fact that the local horseracing industry is, in many cases, also experiencing financial difficulty in consequence of escalating costs coupled with deteriorating demand. Numerous racetracks have had to discontinue operations.[1] It is ironic that a substantial portion of the racing industry's problems is attributable to an increase in competition for the wagered dollar as lotteries, bingo, casino gambling, and other forms of parimutuel wagering are introduced to buoy state revenue.

The importance of the continued viability of the horseracing industry to many state and local governments is reflected in the overall economic impact of the industry. In New York State in 1980 the racetracks, in coordination with off-track wagering systems, have generated over $3.0 billion in wages, and $350 million in revenues to state and local governments. The industry employs upwards of 37,000 people and provides $340 million in business to tertiary industries providing goods and services. The agribusiness of racehorse breeding generates an additional $120 million in cash flow. Magnifying this economic contribution many times over in reflecting similar operations in the other thirty racing states, and it is apparent that the horserace industry is not only important to local economies, but has nationwide economic significance.

Many racetracks operate approximately 150 days per year in either the day or evening. The vast majority of the potential operating time is unused and unproductive. The racing industry has attempted to reverse its financial plight in the most obvious manner--requesting tax relief from state government. But, generally, the state is not in the position to be able to forego revenues already in short supply. An alternative solution has therefore been sought by means of the experimental mechanism of intertract

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[1]Rockingham Park, Brandywine Raceway, Delaware Park are some of the larger racetracks which have had to recently close their doors. Many other racetracks in New York, Ohio, Maryland, and Pennsylvania are currently seeking lifesaving tax relief.

wagering (ITW). Intertrack wagering permits an idle racetrack to televise and accept wagers on the race offerings of an active sister racetrack in the state. The revenues generated from wagering at the idle track accrue to state and local governments, the racetrack and horsemen providing the wagering opportunity, as well as the racetrack and horsemen of the inactive track accepting the intertrack wager.

In effect, intertrack wagering is multipurposed: (1) it generates needed revenue to state and local governments, (2) it provides a revenue injection to racetracks and horsemen, and (3) it assists in alleviating the excess capacity of the racetrack. Furthermore, ITW provides a framework which may easily adapt to forthcoming new wagering forms.

In 1978 the Interstate Horseracing Act permitted interstate horserace wagering. That is, races from one state may be televised to other states which can accept wagers. Currently, interstate wagering is limited to only major racing events (Kentucky Derby, etc.) However, the practice may be broadened to include more interstate opportunities, and a more general form of televised racing and wagering known as simulcasting is on the horizon.

Simulcasting potentially involves both intrastate and interstate telecasts of races not only at existing racetracks, but also at a network of off-track betting parlors and lavish teletheaters. Some enthusiasts envision the ultimate involvement of cable television and telephone betting. Because intertrack wagering has seemingly unlimited future adaptability, the results of the initial experiment are of particular interest.

The objective of this paper is to report and illuminate the results of the first U.S. intertrack wagering experiment. The participants were the Meadowlands and Atlantic City racetracks in New Jersey. Monitoring the revenues which accrued to government, and the racetracks and horsemen is the overriding concern. The profitability of ITW for the inactive receiving track is reviewed, along with an analysis of the factors which may effect participation in the ITW scheme. A discussion of the future applicability of intertrack wagering to other new wagering forms provides the conclusion.

The Revenue Results of the New Jersey Experiment

The financial condition of horseracing in New Jersey which played host to the initial U.S. intertrack wagering experiment is weak at best. The historic racetrack of Garden State Park was destroyed by fire in 1979, and is just now ready to resume operations. The Meadowlands which began operations in 1976 is in direct competition with the first-class horseracing of New York City. As a means to assist the beleagured racing industry, the state government of New Jersey receives only .50 percent of every dollar wagered--the smallest state parimutuel tax in the nation. Consequently, the state revenue generated by the ITW experiment is not overly impressive.

In the revenue analysis which follows, horsemen will be narrowly defined to include owners and breeders of racehorses whose rewards are purse offerings and contributions to a breeder's fund. A designated portion of each wagered dollar is earmarked for purses and the breeder's fund. The Meadowlands racetrack receives compensation from Atlantic City for providing the wagering opportunity. The Atlantic City racetrack retains all monies not paid to the state government, horsemen, and the Meadowlands.

The regression analysis attempts to explain the variation in the total wager at Atlantic City as a function of the quality of racing as reflected in the purse offerings, the day of the week with a positive dummy variable for Friday and Saturday, the weather with poor weather days having a positive dummy variable, and the presence of other sports competition reflected as a positive dummy variable.

The results presented in Tables 1 and 2 are generated from 77 nights of thoroughbred racing at the Meadowlands from September 28 to December 31, 1983; with Atlantic City racecourse accepting wagers on these races.

The Atlantic City racetrack had approximate operating expense of $11,000 per day in providing the racetrack wagering opportunity. Hence, net profits accruing to Atlantic City were generally $9,000 per day, exclusive of admission, concession, and parking receipts.

Horsemen and the Meadowlands are obvious beneficiaries of the ITW system. Horsemen receive added purse money, and the operators of the Meadowlands receive a revenue injection with no negative impact on their market area or fan base. As expected, state government receipts are not terribly impressive. However, ITW of New Jersey was not designed with state government revenue as the overriding concern, but more importantly to assist the beleagured local racing industry. The management has proclaimed the ITW experiment a success; and in fact, has continued the program by currently accepting wagers on the Meadowlands harness meet.

Future Considerations

The New Jersey racetracks and horsemen are quite pleased with the preliminary results of ITW, and are continuing the operation. Furthermore, the Chicago racetracks have also initiated ITW, and early results appear promising. Of course, other state governments may be more attracted to ITW, given that their portion of parimutuel revenues is in the 4-6 percent range, substantially above benevolent New Jersey's meager portion. A better assessment of ITW should arise from the Chicago system which encompasses a larger metropolitan area, and where the state government receives a more equitable share of the receipts.

There are states presently without parimutuel horseracing which are contemplating the introduction of a full-blown horseracing system including ITW as both an entertainment form and as a revenue source. Minnesota, Oklahoma, and Iowa have initiatives under consideration in the respective state legislatures. However, the development and operation of a parimutuel horseracing system is an enormously costly and lengthy task. In addition, there is no profit guarantee. As mentioned earlier, many of the well established systems are caught in a severe financial downturn. But, given the Interstate Horseracing Act of 1978 and the likelihood of simulcasting, options exist for states which currently do not offer parimutuel horseracing.

Consider the following alternative. Instead of creating a local parimutuel system, states may find it more profitable to employ existing racing operations through a simulcasting network. That is, inactive states may simulcast the horseraces of racing states through a state-wide network of parlors or teleheaters. Employing the major racing that currently exists may satisfy the state's entertainment and revenue objectives while avoiding the costs and risks of providing the "show."

Connecticut operates a simulcasting teleheater based on the horseraces of New York. The Teletrack of New Haven contributes 8.25 percent of every wagered dollar to state government, which amounts to over $5 million annually. Given the revenue

Table 1
REVENUE ANALYSIS: 1983 NEW JERSEY ITW EXPERIMENT

	Revenue	Revenue Per Day
State	$ 79,245	$ 1,030
Horsemen	692,347	8,990
Meadowlands	434,869	5,647
Atlantic City	1,508,478	19,590
Total Racetracks	1,943,347	25,237
Total	2,714,939	35,258

Table 2

REGRESSION ANALYSIS: TOTAL WAGER AT ATLANTIC RACECOURSE

Variable	Coefficience	T-value
Purses	.1621	3.65
Day of Week	42,454.6	5.63
Weather	-2,210.4	-.25
Sports Competition	-10,939.2	-1.39
$R^2 = .66$		F = 15.73

capabilities of this single theater, one can imagine the revenue potential of a state-wide network of teletheaters and simulcasting parlors; especially in more populated states and metropolitan areas.

The revenue capabilities of simulcasting could be enormous, such that simulcasting seems worthy of consideration by states seeking fresh revenue sources at minimal risk and expense.