

## Who Gets What - Part 2

# Changing Sources of Purse Revenues

s CA ADW  
\$27 - 4%

Live Races On-Track  
\$32,408,989 - 23%

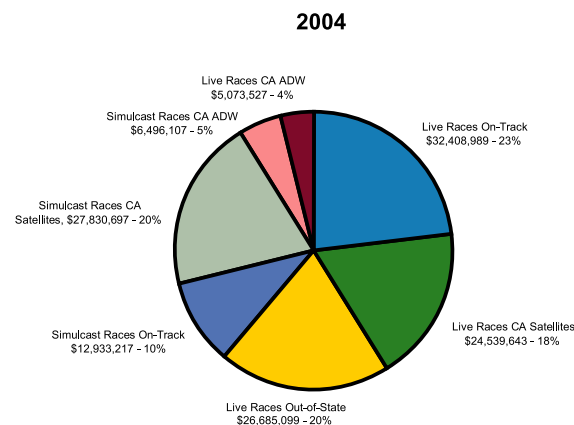
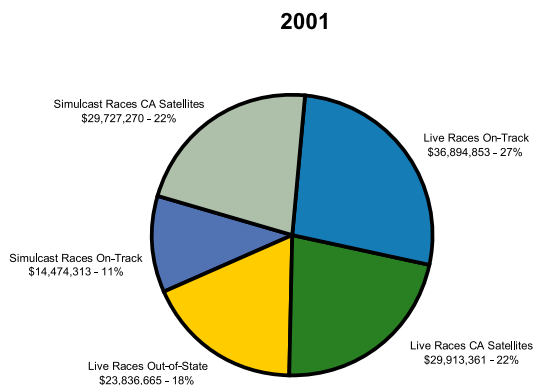
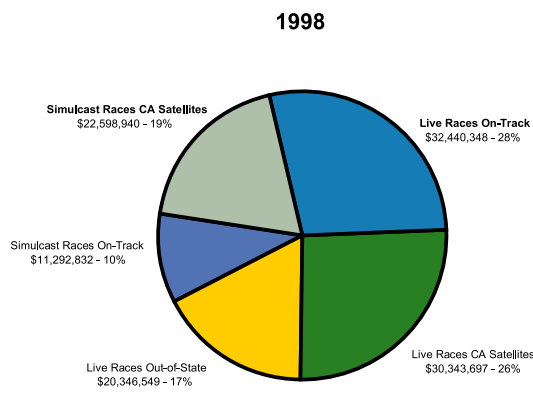
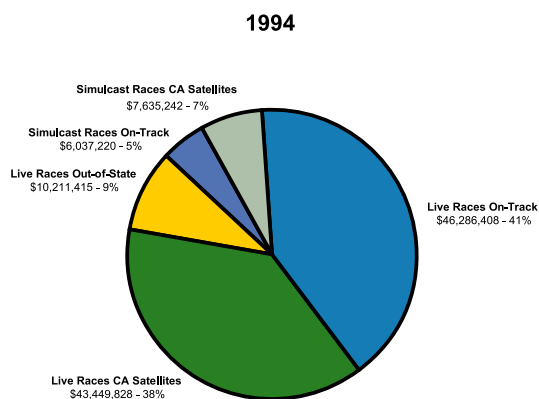
Live Races CA Satellites  
\$24,539,643 - 18%

Races Out-of-State  
\$6,685,099 - 20%

*Understanding the sources of one's revenues is an essential part of any well-run business. Fortunately, not many businesses are as heavily regulated as the racing industry, and thus identifying and understanding their sources of revenue is a far less complex exercise.*

*When it comes to reconciling the sources and percentages of pari-mutuel revenues that are earmarked for purses in California, it takes a patient and uniquely talented individual. In that regard, the TOC is extremely fortunate to have been associated with Wilson Shirley since the organization's inception in 1994. Since that time, Mr. Shirley has monitored purse revenues generated in the state on behalf of all Thoroughbred owners, and has advised TOC on the potential impact of proposed legislation and/or administrative actions on those revenues.*

*From time to time, TOC requests Mr. Shirley review revenue sources and trends in order to better enable the organization to represent the interests of Thoroughbred owners. We recently requested that he review the evolution of purse revenues and their sources through the past decade, particularly those related to the expansion of simul-casting and the introduction of advanced deposit wagering.*



## Significant Legislative Changes

The distribution of revenues from California pari-mutuel wagering activity is regulated by state laws that tightly govern how those revenues are allocated among industry beneficiaries, including tracks, horse owners (as purse money), breeders, simulcast operations, and the State itself. Defining how, where, when, and on what races Californians may wager, these laws establish the parameters of revenue generation for all sectors of the industry, such that changes in these laws have significant consequences for the industry.

Over the past ten years, there have been three major changes to California wagering law:

- The expansion of simulcast wagering;
- Pari-mutuel tax “relief;” and,
- The legalization of account wagering.

### Expansion of Simulcast Wagering

In California, 1994 was the inauguration of the intrastate simulcast era – the first year in which patrons of Southern California tracks and satellite facilities could bet on Northern California races and *vice versa*. Wagering on imported simulcast races conducted in other states remained limited to a very few “races of national importance,” such as Breeders’ Cup, Triple Crown races, and a handful of major stakes races.

At the time, pari-mutuel tax rates in California were on the order of 4.75% of all handle. Upwards of 80% of all purse revenue in 1994 was derived from on-track wagering and

from wagering at local satellite facilities on races conducted by operating tracks.

By 1998, authority to import simulcast races had been extended from intrastate and certain out-of-state imports to include night time races imported from out-of-country locations, including Canada and several Pacific Rim countries. Simultaneously, pari-mutuel taxes were reduced, albeit slightly. The following year, limited out-of-state “full-card” simulcasting was legalized. Legalization of full-card imports meant that several out-of-state race cards could be imported into the California pari-mutuel wagering market on a daily basis.

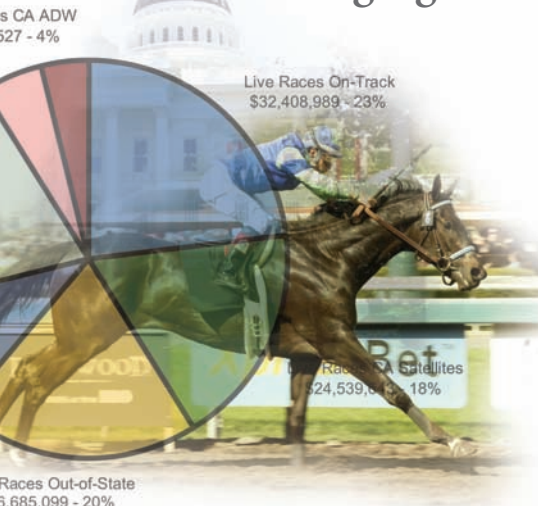
### Parimutuel Tax Relief

1999 was also the year our industry received further partial pari-mutuel tax “relief,” reducing the effective pari-mutuel tax rate from 3.67% to less than 2%.

As a result of these changes – and of a reduction in the number of live races run in California – the proportion of purse revenue generated by simulcast wagering nearly tripled, from 12% to almost 30%. At the same time, a nationwide expansion of simulcast markets doubled the amount and proportion of purse revenue generated from out-of-state wagering on California Thoroughbred races.

By 2001, the expansion of limited “full-card” simulcasting of out-of-state races in California led to the near complete elimination of night time out-of-country imports. Given these changing, additional sources of pari-mutuel revenues,

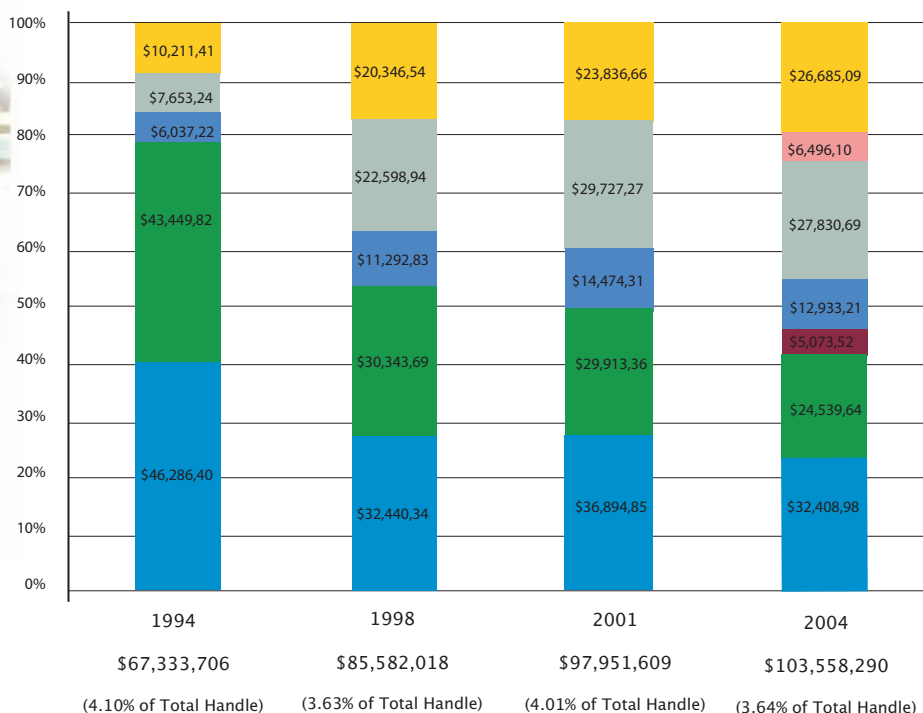
# Our Ever-Changing Sources of Purse Revenues



## Sources of Thoroughbred Pari-mutuel Purse Revenue

Relative Percentages by Live & Simulcast Races From On-Track, CA Satellite, Out-of-State wagering

1994-2004



a portion of these revenues were earmarked to cover the increasing incremental costs of conducting simulcast operations. Fortunately, there was a corresponding final, substantial reduction in the state's pari-mutuel tax rate to 1.8% of total handle.

For comparison sake, it is important to keep in mind that 2001 was also the last year before the legalization of account wagering in California. Moreover, though total purse revenue increased dramatically—15%—for the first time, on-track and local satellite wagering produced less than one half (49%) of total California purse revenues.

### The Legalization and Development of Account Wagering

By 2004, account wagering – or “Advanced Deposit Wagering” (ADW) as it is more precisely known – in California had been legal for almost three full years. Because no other significant changes in the regulatory environment occurred between 2001 and 2004, percentage changes among the sources of purse revenues in this time frame are due almost exclusively to the expansion and maturation of the California ADW market.

Accordingly, California account wagering now accounts for nearly 10% of all California purse revenue. In this three-year period, both gross revenue and the proportion of revenue derived from live and simulcast wagering within the state has declined, while revenues derived from out-of-state sources has continued to grow, though at a lesser rate of approximately 2%.

### Changing Sources of Wagering Revenue and Their Impact on California Purse Revenues

Based on our analysis, it's clear that in the past 10 years racing's traditional sources of revenue have changed rather dramatically. While once limited to wagering revenues derived entirely from live on-track races, we have seen – in a relatively short period of time – an evolution, and supplementation, of purse revenues through the introduction of intrastate wagering (North/South), limited importation of out-of-state and international simulcasts, broader interstate distribution of our signal, and the legalization and development of account wagering.

Identifying both the associated relative percentage changes in these sources of purse revenue and their total dollar value are two important metrics tracked and utilized by TOC. However, they are just two of many factors TOC monitors and reviews on a regular basis as part of a seemingly never-ending process to improve the business for California Thoroughbred owners.

Like the Thoroughbred races conducted nearly every day in California, the economics of this business are *dynamic*, not *static*. Our thanks go to Wilson Shirley for helping to make the complicated task of monitoring these dynamic sources of purse revenues a much more manageable task!