

INCENTIVE vs SUBSIDY

AN ANALYSIS OF THE CTBA INCENTIVE AWARDS PROGRAM

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A DEBATE OF CURRENT PROMINENCE IN THE CALIFORNIA RACING INDUSTRY CENTERS ON THE CTBA INCENTIVE AWARDS PROGRAM. SOME OBSERVERS CLAIM THE PROGRAM HAS BEEN A "COMPLETE FAILURE," WHILE OTHERS HAIL IT AS A "GREAT SUCCESS."

WHETHER the CTBA Incentive Awards program should be labeled a "success" or a "failure" is not important. Rather, what is important is that we, as an industry, look critically and objectively at the program, and ask: "Has the program accomplished its objective?"

How do we answer this question? We start by identifying the program's objective.

OBJECTIVE OF THE PROGRAM

As I understand the program, it was established to create a fund to provide monetary incentives to owners and breeders through which they would be encouraged to invest in and develop a quality Cal-bred breeding program. Thus, by financially rewarding those who bred quality horses in the state, it was hoped that commercial breeders and stallions of prominence would be attracted to the state. *Has the CTBA Incentive Awards program accomplished this objective?*

CURRENT FUNDING AND STRUCTURE

In 1994, the CTBA received approximately \$11,961,000 in funding for the program. Of that nearly \$12 million, 5% was utilized for administration of the CTBA, leaving a balance of roughly \$11,363,000 for distribution as "incentive" awards.

The balance was distributed in the following percentages:

A. 10% to California bred race fund (including Cal Cup);

B. 15% to owners' awards (525 recipients);
 C. 20% to stallion awards (193 recipients); and
 D. 55% to breeders' awards (1,496 recipients).

It is important to note that this \$11,961,000 figure represents a funding increase of approximately 342% since 1980, when the CTBA received \$3,493,000. What has this dramatic increase in funding done for the Cal-bred breeding program?

DECLINING FOAL CROPS

According to the Jockey Club, since 1980 the California foal crop declined by nearly 20% (18.1 percent). Of the top five breeding states in the nation, only California saw a decrease in its foal crop from 1980 to 1994. By comparison, of the other four "Top Five" states, Florida was the next "least productive," increasing its foal crop by 6.4%. So too did Kentucky, increasing its foal crop by 18.9%, and protecting its position as the national leader.

California's decreases are even more troubling when one considers that in addition to the nearly \$12 million dedicated annually to the Incentive Awards program, Cal-breds also received \$14.3 million in restricted purses last year, excluding races run at the fairs. All told, in 1994 alone, over \$26 million was spent on the Cal-bred racing and breeding programs as an "incentive" to improving the quality of the Cal-bred programs.

Looking at these figures, and recognizing that they were compiled by an independent out-of-state source, one must ask: *Has the CTBA Incentive Awards program accomplished its objective?*

DISAPPOINTING CAL-BRED SALES RESULTS

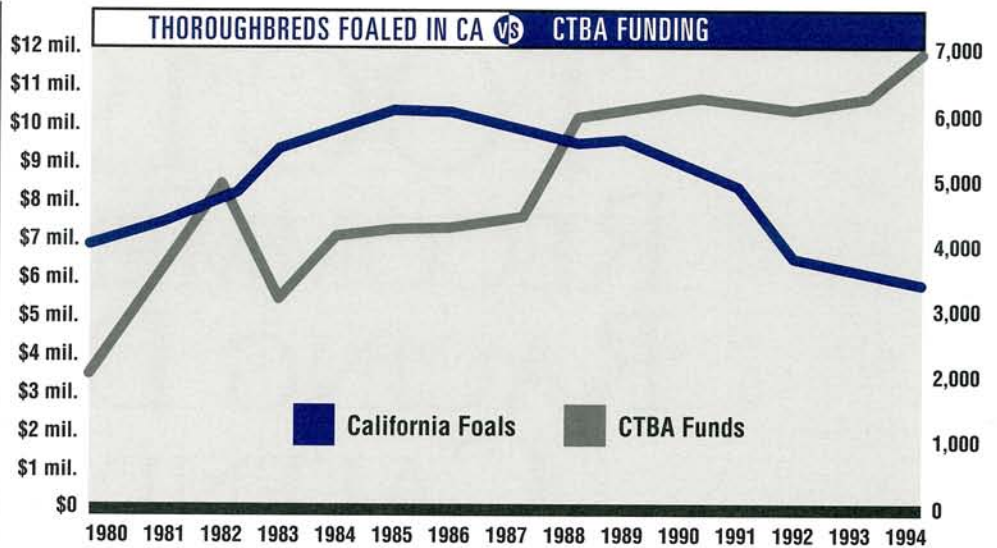
On Friday, August 18, 1995, three days after the Del Mar "Select" Yearling Sale concluded, the *Daily Racing Form* ran an article entitled "Heavy Losses at Del Mar." The article chronicled serious declines in the average and median price of yearlings sold at California's premier yearling sale.

How serious were the declines? Well, the average price of a yearling sold was \$13,352, which represented a 31.9% decrease from the prior year's average. Even more shocking is that this average price means that a "select" Cal-bred yearling sells for only 49% of the national average price for a yearling sold, based on 1994 figures. Similarly, the median price of yearlings sold at the Del Mar sale was \$10,000, and reflected a 37.5% decrease from last year's figure.

How does this year's average price compare to prior years? Again, using 1980 as a base, this year's average price reflects a decline in value of roughly 42%, from \$23,081 to \$13,352. Only ten years ago, the average price for a yearling sold at the Del Mar Select Yearling Sale was \$32,600, and was higher than the average at the corresponding Keeneland September Yearling Sale.

Unfortunately, since that time, the average price at the Del Mar sale has fallen dramatically, while yearlings sold at the Keeneland September sale have substantially increased in value. Figures in for the recently concluded Keeneland sale reflect that the average price increased by 18.4%, from \$37,181 to a new record of \$44,022.

How much concern did the decreases at Del Mar cause leading California breeders? If reports in the Sunday, August 20, 1995, *Daily Racing Form* are any indication of the level of concern,



Sources: California Horse Racing Board Statistical Reports, 1980-1994; The Jockey Club Fact Book.

then the answer is plenty. Apparently, the principals behind the sale have indicated that the future of the CTS yearling sale at Del Mar is very much in doubt. In fact, Chairman of the Sales Committee for the CTS, Eddie Gregson, observed that "the sale wasn't well received." Mr. Marty Wygod, one of the most prominent, successful owners and breeders in this state, deemed the sale "a nonevent," noting "it's a bad sale with bad horses."

One should recognize that these comments come not from TOC spokespersons, but are the candid assessments of some of the most influential members of the CTBA. Given their observations and the results of the sale, one must again ask: *Has the CTBA Incentive Awards program accomplished its objective?*

PERFORMANCE AND EXODUS OF CALIFORNIA STALLIONS

At the end of 1994, California had one stallion on the national list of Leading Sires by Money Won — PIRATE'S BOUNTY (22nd). As of September 16, 1995, according to the Blood-Horse, only one California stallion — PIRATE'S BOUNTY (18th) — was ranked among the top 50 stallions in the Nation.

It is equally alarming that despite sizable stallion incentive awards, one of our more respected and popular

stallions, SKYWALKER, stood his last season in California this past year. From now on he will be located in Kentucky, with his handlers apparently electing to stand in a market where some say he will likely be viewed as a "middle-tier stallion" rather than top-notch. With rumors circulating all summer that the young stallion of much promise, PRIZED, may also relocate, California's hopes of being viewed in the future as a prominent breeding state look dim.

Can anyone say, in good faith, that the CTBA's stallion incentive awards program has ever attracted a stallion of prominence to California, much less enticed a stallion "of promise" to stay? Sadly, the answer is "No." Consequently, we ask: *Has the CTBA's Incentive Awards program accomplished its objective?*

A NEED FOR OBJECTIVE EVALUATION

Despite the personal perceptions of many of those who benefit - financially - from the current CTBA Incentive Awards program, the facts clearly establish that the program has not accomplished its primary objective; namely, the development of a quality Cal-bred breeding program. However, recognizing its weaknesses should not be perceived as a death knell for the

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program. On the contrary, recognizing its weaknesses is the first step toward overall improvement of the program; it is a "wake-up call" to the industry that we must, together, act quickly to reverse downward trends in the program.

I hope that TOC would welcome constructive criticism from others if we were to fail to accomplish our primary objective. If we cannot accept criticism, we will certainly fail in the long-run. Similarly, the CTBA should welcome constructive criticism and be willing to objectively examine its own programs, periodically evaluating their success.

"Has the CTBA Incentive Awards program accomplished its objective?" By posing this question, TOC seeks only to stimulate meaningful debate within the industry. We are hopeful that through this debate an improved awards program can be developed. True, this assumes that the program needs "improvement," but obviously, we feel very strongly that improvement is necessary.

INCENTIVE vs. SUBSIDY

Where do we start? We start by recognizing the basic difference between what is an "incentive" and what is a "subsidy." The dictionary defines an "incentive" as something that incites, or tends to incite to action or greater effort, as a reward offered for increased productivity. It defines "subsidy" as a direct pecuniary aid furnished to a private industrial undertaking, a charity organization, or the like.

Which better defines the current CTBA Incentive Awards program? Is it analogous to the types of performance incentives found in professional athletes' contracts where outstanding achievement is rewarded by additional compensation, or is it more akin to the type of subsidy involved in a typical welfare program? Is the incentive award recipi-

ent paid for one's accomplishments, or simply as a result of "qualifying" for the payment? Does the CTBA Incentive Awards program motivate the recipient to improve the quality of their stock, or maintain the *status quo*?

TOC feels very strongly that the CTBA Incentive Awards program currently serves only as a subsidy and not as an incentive.

By increasing the amount of funds earmarked for owners' awards, we believe the Incentive Awards program will accomplish its objective.

A NEW EMPHASIS

TOC believes that the emphasis of the CTBA Incentive Awards program should be on creating market demand for Cal-breds.

Market demand for Cal-breds can be created by making it far more lucrative to own and breed a competitive Cal-bred. By increasing the amount of funds earmarked for owners' awards, we believe the Incentive Awards program will accomplish its objective.

Imagine if a Cal-bred competing in an open, qualifying race ran for 40%, 50%, or 60% more in purse money than a non Cal-bred of equal ability competing in the same race. Which horse would you rather own? If you're like most owners, you would elect for the horse with the greater earnings potential.

Imagine if the average earnings per start and the average earnings per starter of Cal-bred foals were far greater

than the national average. What greater incentive would there be to locate a promising stallion in this state? To consistently appear among the national leaders in these categories is something every stallion syndicate covets. Should we not as an industry encourage those with prominent stallions to remain in California, if not relocate here?

Is it also not logical to assume that Cal-breds sold at public auction would have a much greater market value given the real possibility that they would be competing for far greater purses than horses of equal ability foaled out of state?

It should be clear that the current program does not create such "incentives," nor has it increased the market value of a Cal-bred.

In short, TOC feels very strongly that the \$26 million spent annually on this program could be better spent. Through the cooperative efforts of the industry, the program can be modified to accomplish its original objective. The end result will be a stronger breeding and racing industry where full fields and greater purses are an everyday occurrence.

We ask that those TOC members who are also CTBA members objectively consider all of the facts. If you do that, we are confident that you too will encourage the CTBA to *consider* much needed modification of its Incentive Awards program. 🐾

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