

Racinos – The Marriage of Horse Racetracks and Casino/Slots-Style Gambling – Friends or Foes?

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Abstract

Horseracing and gaming are related activities that often appeal to a similar demographic. The development and increased legalization of casino/slots-style gaming and the establishment of state sponsored lotteries have increased competition for gambling/gaming dollars across the country. The relationship between racetrack and casino/slots-style gaming and the development of “racinos”, a hybrid of racetrack and casino, are explored in this paper.

Keywords: Racino, off track betting, inter-track wagering, pari-mutuel, handle, video lottery terminal



Racing and betting

Horse racing is one of the oldest sports in North America and Europe. The first recorded horse race occurred in Greece in 600 B.C., but racing is thought to be at least 6,000 years old (Rudd & Marshall, 2000). In the 1800s, dozens of horse racing tracks were built in Maryland, Virginia, and Kentucky, the start of a national industry.

Horse tracks provide consumers opportunities to place wagers on the outcomes of races, with such activity most oftentimes taking the shape of pari-mutuel betting. A post on Pace Advantage's message board defines this system of betting on races as one where the winners divide the total amount of bet, after deducting management expenses, in proportion to the sums they have wagered individually, was invented by a Frenchman in 1865 and made its first appearance in the U.S. in 1871 in New York. However, it became established as the standard for horse wagering in 1908 when used at the premier horse race event, the Kentucky Derby. Pari-mutuel betting is legal in 42 states and is the most popular form of race betting in the U.S.

The creative development and expansion of betting opportunities mark the history of horse betting. The ability to bet legally on racing in the U.S. was dramatically increased when off-track betting (OTB), previously a totally illegal form of gambling, was legalized by New York in 1970 (Plesser, 1986). At OTB establishments, races are simulcast from tracks, allowing consumers to bet on a multitude of races. OTB reduces the opportunity cost of betting on races by making betting more accessible to consumers. A second expansion of betting opportunities was inter-track wagering (ITW), race simulcasts from one track to another with wagering. Since 1970 both OTB and ITW have increased in the U.S. as legal restrictions have been removed.

Legal betting on races away from the track (OTB and ITW) is a much more recent development in the US than in Britain. In the early 1960s, legislation legalized and regulated cash off-course betting in Great Britain (Munting, 1996) and by 1963 there were 14,388 betting shops open (p. 98). Currently in Britain, over 90% of legal betting on horse races takes place off-track. In the U.S., tracks have seen a shift in betting from 1986, when less than 20% of legal betting was off-track, to 2003, when 87% of bets on horse races were placed off-track (Jockey Club, 2004). This is a reflection of the opening of OTB establishments and ITW.

The extent of off-track betting varies from country to country. It is less developed in Canada where a lack of simulcasts reduces the ability of Canadian tracks to offer betting opportunities on races occurring elsewhere (Rudd & Marshall, 2000). In contrast, over 95% of the betting on horse races in Puerto Rico is off track and in France the state owned gambling service, Pari-Mutuel Urbain, now provides an off-track betting service through the telephone and the MINITEL (Paristurf). And, as expected, betting through these newer outlets has increased (IGWB, 1996).

From an industry in trouble to one on the rise – Incorporating OTB and ITW

The horse racing industry has experienced a broad decline in recent years of several key factors; number of races, size of purses, attendance and handle (the amount bet) at the track.

For example, from 1989 to 2003 the number of horse races in the U.S.

decreased by 27.8%. In contrast, the pari-mutuel handle has increased, due almost exclusively to the rise in the off-track sector of betting (Jockey Club, 2004). Although initially opposed by racetrack operators for the negative impact on track betting revenue, racing experts now view OTB and ITW (simulcasting) as a means by which racetracks can survive and even prosper.

Off track betting options are both a bane and a blessing for the track industry. ITW gives tracks the ability to offer patrons more chances to wager while at the track by bringing in races from other locations, thus increasing the utility of going to the track. Convenience becomes a tangible factor of this consumer utility as the OTB establishment brings the opportunity for a broader scope of wagering closer to the customer. In addition, traditional racetracks also get a share of the increased handle generated by OTB and ITW.

On the other hand, race simulcasts can reduce the demand for live racing as consumers can substitute OTB for actual track attendance. Such was the case in New York as tracks lost more from a drop in attendance (in addition to other gaming opportunities) due to OTB than the expected gain from the service. Even with increased legalization of off-track betting in New York, real net pari-mutuel receipts have decreased. However, it is worthwhile to note that without off-track betting pari-mutuel wagering would be more costly to consumers and less pari-mutuel wagering would occur. To this end, it is anticipated that expanding race simulcasts internationally will be a help to the racetrack industry and, as such, it is foreseen that pari-mutuel betting will increase the 24-hour activity of a venue although it will not be as attractive at all hours of the day (McQueen, 2003).

The approach of track operators toward increased legalization of gaming opportunities has evolved from opposition to opportunity as operators have grown to perceive these movements as complements to current activities rather than as substitutes. For example, OTB has been increasing in the U.S. for a number of years illustrated by the off-track handle, the amount wagered in an absentee manner on thoroughbred horse races, has increased by 65% since 1996 while the on-track pari-mutuel handle has itself suffered reporting an overall decrease by 64% since 1996. By contrast, the net pari-mutuel handle has increased in real dollars by over 61% from 1990 to 2003 (Jockey Club, 2004). Accordingly, the pari-mutuel handle wagered on thoroughbred racing in the United States (including separate pools first reported in 2000) over the last year (2002-03) increased 0.8% to nearly \$15.2 billion while the combined US and Canada handle advanced 0.5% (Jockey Club, 2004). The bulk of these gains continue to come exclusively from the off-track sector, which account for 87.5% of the US handle (Jockey Club, 2004).

“It wasn’t long ago that many skeptics predicted horseracing was entering the home stretch, an industry on the verge of collapse. But a funny thing happened on the way to the finish line. Some hot prospects for the industry are just leaving the starting gate” (McQueen, 2004). McQueen states that horse racing is one of the few sports to have shown an increase in fan awareness over the past few years some of which may be attributable to the popularity of the 1930’s racehorse-turned-box office hit, Seabiscuit.

Casino/slots-style gaming as a competitor to horse track betting

As discussed previously, racetracks, over the past several decades, have perceived many threats such as OTB and ITW to the industry's core operations. In these instances, the industry learned to reap the benefit behind the perception and, as such, has discovered complementary forms of industry income that have allowed fans more access to horse race wagering. Currently, the industry again finds itself facing a unique set of challenges shaped primarily in the form of the growth and availability of gambling alternatives. The consumer's willingness to spend money on any one item for entertainment, such as a day at the racetrack, depends upon the availability of related entertainment items. Today, land-based casinos, riverboat gambling, cruise ship casinos, lotteries, and slot machines can satisfy the consumer's desire to gamble and can be, therefore, readily available and appealing substitutes for the racetrack. As people choose to engage in more casino/slots-style gaming options, racetracks, once again, face a potential decline in their operations.

"The slot program has provided some stability and hope for the future that we'll be able to continue to race for the purses and maintain the investments that we've made into the industry, however it seems the slots have become a crutch to some of the racetracks, and rather than trying to promote their core business [of racing], they're satisfied to collect the slot revenue" (McQueen, 2003).

The competition of attractive casino/slots-style games and lotteries pose a problem for horseracing as does the current ESPN-induced rise in the popularity of poker. "Some industry observers believe live horse racing, as a form of gambling, faces too much competition these days to thrive like it once did. Attending a horse race is an event that requires preparation, whereas a lottery ticket is an impulse buy. And floating casinos offer more games and more amenities than the lottery or a racetrack" (Plume, 2002).

Casino/slots-style gaming as a complement

The horse racing industry once looked down on forms of gaming where winning is a matter of pure chance (Goodman, 1995). Today, however, in light of the aforementioned intensification of the competitive landscape, many in the industry actively seek the right to offer patrons gaming opportunities to complement pari-mutuel wagering. This evolution in industry thought patterns its previous development with regards to the acceptance of off-track and simulcast betting into a complementary form of industry activity and income. Complements, by definition, are items which, when used together, enhance consumer satisfaction beyond what is possible from individual use. In this manner, the incorporation of casino/slots-style gaming into the traditional horse racing track environment is not a threat but another opportunity.

The hypothesis that followed this opportunistic view was that slots and games are complementary, not competing, functions. This model met with success at several locales including the Delaware-based Dover Downs, a facility which is framed by a hotel featuring 232 luxury guest rooms, 12 top floor suites and 25,000 square feet of meeting space, and a NASCAR track. Dover offers live horse racing content from November through April complemented with live ITW simulcasts all year. In addition, the Dover

setting has an 80,000 square foot facility that includes 2,000 of the most popular slot machines. Prior to the addition of these machines, Dover Down's last recorded pre-slot revenue fiscal year was 1997 at 39 million dollars. The post-slots era, which began in 1998, witnessed revenue more than triple to 140 million dollars.

Charles Town Races in West Virginia, which found itself under duress in the 1990's, also became an example for success under this complementary slots/horse model. "Purses were low and the future looked dim. In 1995, the racetrack was put up for sale. Penn National Gaming, Inc. came to the rescue. The company agreed to purchase the racetrack if Jefferson County approved the installation of video lottery terminals. The vote passed on November 5, 1996, and two months later, Penn National Gaming Inc. bought the racetrack. The Silver Screen Gaming® Center opened September 10, 1997, with 220 operating video lottery terminals" (Retrieved March, 2, 2003, from <http://www.ctownraces.com/history.php3>). Currently, Charles Town Races is the largest employer in Jefferson County and gives 2% of its revenue back to the county. The facility reportedly provides approximately \$150 million in an annual revenue stream to the state government; an entity still burdened with hefty deficit budget constraints.

In addition, Hanover Slots, located in Ontario, Canada, also has both horse racing and slot machines. This content combination has produced revenue in excess of more than 10 million Canadian dollars that has been funneled back to the surrounding municipalities. Hanover Slots also purports that the slot machine operation is responsible for direct job creation totaling 51 new positions.

As Dover and others have discovered, racetracks are increasingly viewing gaming options as complements, or enhancements to their core operations. The installation of gaming options such as slot machines has provided the racetracks with an additional form of entertainment, and revenue, to offer their customers. According to Adam Steinberg, "Slots not only boost the financial condition of the tracks, breeders and jockeys, they also improve the overall quality and long-term appeal of racing" (Plume, 2002).

Nor is this integration merely a domestic phenomenon, France's Pari-Mutuel Urbain ("PMU") leads the way in the integration of casinos and race betting (IGWB, 1996). In 1996 PMU opened an off-track betting parlor within its casino at Deauville and within its first two months of activity upwards of 2,000 people attended afternoon and evening sessions. While this attempt has not been a significant revenue driver, it is seen as an important step in the overall integration of the two types of gambling.

In the United States, non-racino states, those states not integrating horse racing and casinos, experienced a decline of nearly 38% in live handle at racetracks between 1995 and 1999, while racino (combination of race track and casino) states reported a 7% increase. In total, the handle from both live and simulcast races, non-racino states had an 8% increase and racino states had a 19% increase (Plume, 2002). These differences are substantial, thus, revealing great favor toward racino states that have adopted the casino/slots-style gambling in combination with live and simulcast horse racing. Non-adopting states of the racino hybrid such as Massachusetts and New Hampshire have horse track operators specifically concerned that the horse supply will dwindle even further as many New York, Pennsylvania and Maryland tracks move closer to racino approval complete with their gaming enhanced purses (Plume, 2002).

Obstacles

The way is not smooth for complete implementation, integration, and acceptance of the racino hybrid model as uncertainty still abounds at the state legislative level about the perceived merits, and detriments, of introducing additional gambling measures upon its constituency. As such, many long-standing legal barriers have remained in tact. Furthermore, this legislative stance has been bolstered somewhat by a rise in the anti-gambling citizenry in many states that decry the social and moral costs to such activity.

A trend, however, is being seen towards leniency in such matters as more states face significant budget deficits due to the depressed economic climate that the nation as a whole has endured the last few years. As such, revenue from gambling, or its more discreet contemporary descriptor, gaming, has an increased appeal as states look to fill these budgetary gaps. As recent as November, 2004, thirty-(30) states have gambling-based legislative debates of which 14 were racino specific, i.e. horse tracks with some form of electronic gaming such as video lottery terminals, slot machines, etc. Four of these have gained approval, increasing the number of pro-racino states to ten, and are moving forward towards implementation; the most recent of which is the Commonwealth of Pennsylvania.

After years of debate upon the matter, Governor Edward Rendell touted expanded gaming as a means to cover the purported \$1 billion dollar shortfall in the state budget as well as a means to save the states horse tracks. He cunningly tied his proposal to property tax relief measures thereby crafting an alluring appeal to the state's populace. Standing upon such beliefs and measures, and facing the pro-gaming border pressures of neighboring states, he signed into law a measure that would distribute 61,000 slot machines to a combination of 14 racinos and casinos statewide. This move gives Pennsylvania the potential to become the third-largest slot machine market in the country trailing only Nevada and California (McQueen, 2004).

Certainly, formidable obstacles remain to the approval, implementation, and expansion of additional gaming measures throughout the U.S. However, as Pennsylvania has proven, these same formidable obstacles may be overcome with creativity and persistence, hastened by the convergence of current societal and economic issues and trends.

The Bettor

The bettor ultimately becomes the determinant of whether or not casino/slots-style gambling is a substitute for or a complement to horse wagering. The ideal situation for track operators who have added alternative gambling options such as VLTs and slots is that these machine-oriented gamers will, by extension, engage traditional horse racing strictly as a result of the proximity of the activities. This desired result would provide new gamblers for the racetracks and support the view of casino/slots-style gambling as a complement.

It is possible, however, those bettors view slot machines as substitutes for horse betting. For some gamblers, the simplicity of the VLT's and slot machines may be more appealing than the perceived skill of betting on horses; a skill that is predicated upon

some knowledge about the sport and pertinent factors that go into a race. This perspective purports that a veteran horse racing bettors weigh the horse's prior experience, the jockey, the weather factor, and finally, the odds, therefore, the perceived stereotypical complexity of the horserace wager may be too intimidating for the bettor to be drawn away from the casino/slots-style games. Thus, horse wagering under this concept would derive no benefits, and, in a worse case scenario, convert the timid horseracing fan into a machine player.

This crossover tendency has most recently been reported in the latter sense; horse racing enhancing the slot business. As Ed Sutor, COO of the previously profiled Dover Downs, notes, "there is a positive impact on slots revenue during the live racing season, however, on-site pari-mutuel handle has not grown" (Plume, 2002). Thus, it is important to note that while betting on horses and slot machines share some similarities (especially for machines such as video poker where an element of skill is involved) there are salient differences between these derivatives of gambling. These differences lend credence and plausibility to a theory of substitution.

Conclusion

There are many arguments for and against casino/slots-style gaming at racetracks. At one time casino/slots-style gaming was viewed solely as a competitor or substitute for horse race wagering. Today, however, accompanied by a renewed interest in horseracing and other types of gaming, there is evidence that the two styles may complement each other.

Statistics have shown that there have been increases in horse track wagering in states that also allow casino/slots-style gaming whether at the track or at off-track betting parlors. This increase is evidence that casino/slots-style gaming can complement horse racing and together become a critical support towards the industry's attempted turnaround. In support of this position, states with the largest percentage increases in available purse money in 2003 were those with tracks featuring expanded gaming options, namely New Mexico (29.3% increase) and Louisiana (18.4% increase) (Jockey Club, 2004).

Before launching such a hybrid venture the macro picture must be considered. Retail marketers and gaming operators alike must determine if an existing community can support new or expanded storefronts. Each region must be evaluated by track and gaming operators for a "saturation" point in wagering options. Legislative and state licensing bodies will also need to consider regional market saturation in handing out licenses, including across-the-border competition from surrounding states.

Gaming taxes are also a consideration for operators as they may well tip the cost-benefit analysis in favor of non-adoption. In other words, might gaming taxes reach such a level as to make it unprofitable for operators to have casino/slots-style gaming options? In addition, taxes imposed on racetracks may differ from casino/slots gambling taxing.

And finally, what are the long-term prospects for racinos? Although there will be industry fluctuations, it remains to be seen if the current increase in legalized betting both on and off-track and casino/slots-style gaming will continue. Operators must be flexible and proactive in adapting to ever-evolving consumer changes in gaming

preferences. Casino/slots-style gambling must provide a strong complementary presence to traditional horse race wagering in order to provide any sustainable competitive advantage over the long term. In addition, states must carefully monitor the fiscal advantages and disadvantages of incorporating casino/slots-style gaming into horse tracks before signing any legislation to such an effect. In this manner, state administrations and private track operators must be ever-vigilant in overseeing the future of racinos for its future is inexorably tied with the future of the gaming industry.

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