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TERRY HUNT, Owner/Operator
Cottonwood Farm, Kane County

ED DUFFY
Race Track Executive, Lobbyist, Lake County

PHIL LANGLEY, Director of Racing
Balmoral Park and Maywood Park
Will County and Cook County

ED TEEFEY
Standardbred Owner/Breeder, Brown County

ERVIN MILLER
Standardbred Trainer, Sangamon County

ED MILLER
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DAVID MCCAFFREY
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JIM REYNOLDS, Standardbred Owner, Breeder,
Former Director of County Fairs and Horse racing for
Department of Agriculture, Iroquois County

D. WAYNE LUKAS
Hall of Fame Thoroughbred Trainer

DR. RICHARD THALHEIMER, President
Thalheimer Research Associates
Professor of Equine Business University of Louisville

GARY STEVENS
Hall of Fame Jockey

CHRIS BLOCK
Thoroughbred Trainer, Lake County

INTRODUCTION AND PURPOSE

In July of 2006, the Illinois Racing Board conducted several days of hearings to examine the state of the Illinois horse racing industry.¹ In scheduling these hearings, the Board was mindful of The Horse Racing Act of 1975, (the Act) which recites the General Assembly's intent to assist in economic development and promote tourism by, among other things, supporting the horse racing industry, ensuring that it is competitive with neighboring states, and encouraging the race horse breeding industry. By these hearings, the Board undertook to determine whether these goals are presently being met. Twenty-two industry experts offered their perspective on racing from the local, national, and international level. Testimony primarily focused on the history and contribution of horse racing to the economy of Illinois, reasons for the drastic decline in industry revenues over the past thirty years, and potential solutions that would allow Illinois racing to compete effectively with both other racing jurisdictions and the diverse gaming opportunities presently available in Illinois.

THE STATE OF ILLINOIS HORSE RACING

Pari-mutuel horse racing has been conducted in Illinois since 1927. Today, live racing is conducted in over forty counties, either at one of Illinois' five pari-mutuel race tracks or at county fairs and the Illinois and DuQuoin State Fairs. Racing provides a well-regulated gaming and entertainment outlet for five million fans that attend or wager on Illinois races annually. The Act also acknowledges horse racing as a "significant component" within the agribusiness industry. There are hundreds of small businesses,

¹The Board thanks former Commissioner John Simon, who gave generously of his time to conduct the hearings. Commissioner Simon's term on the Board ended following conclusion of the hearings.

mostly training and breeding operations, and vendors that depend on them, such as veterinarians, feed and equipment suppliers, farriers and horse care workers located in virtually every county in Illinois. Illinois' five race tracks employ thousands of individuals in jobs ranging from ushers, valets, heavy equipment operators, track service maintenance workers, and food service employees, to pari-mutuel clerks, totalizator employees, and executive and administrative staff. The Illinois Racing Board itself has 68 employees including executive and office staff, security personnel and racing officials. Thoroughbred jockeys and harness drivers are highly trained and successful athletes, many of whom live in Illinois year round.

The state benefits directly through pari-mutuel tax, and indirectly through income, real estate and sales tax. Additionally, local governments reap a pari-mutuel tax benefit where race tracks and off track betting parlors (OTB's) are located within their jurisdiction. In 2005, municipalities and counties earned \$10.4 million.²

Illinois is rich with racing tradition. Greg Avioli, President of the National Thoroughbred Racing Association (NTRA), testified that of the forty-two racing states, less than ten are considered major racing states by the NTRA -- Illinois being one of them. Arlington Park is one of the finest race tracks in the nation, if not the world. Arlington hosts several races of national significance each year, including the prestigious Arlington Million, and has hosted the Breeders Cup day of championship racing. Balmoral Park, easily the second most successful harness track in the nation, paid \$1.6 million in purses and handled \$2.6 million on its 2006 annual Supernight.³ Hawthorne Race Course is a 100 year old family business. Hawthorne is the only

²Exhibit A, IRB Annual Report, 2005, p. 14.

³IRB Records Re 2006 Supernight.

remaining dual-breed track in Illinois. Maywood is a one-half mile harness track serving a major west suburban population center.

Nevertheless, Illinois racing finds itself in dire circumstances, unable to compete with other far less significant racing jurisdictions, or with other gaming destinations within the state. A look at the past thirty years of racing's financial performance is illustrative. In 1973, before the Illinois lottery, before riverboats, before off-track betting and full card simulcasting, the handle (dollars wagered) on all racing in Illinois was \$686 million.⁴ In other words, this money was all bet at the track on live racing. In 2005, the amount bet in Illinois on Illinois racing, including at OTB's, was \$300 million. Of that, only \$120 million was bet at race tracks on live racing.⁵ This reflects the shift from betting on live races to betting on out-of-state races (simulcast wagering). In 2005, 70% of wagers made in Illinois were made on races occurring elsewhere.⁶ Accordingly, 15% of the "take out" (money divided between horsemen, race tracks and the state) on such out-of-state races goes to out-of-state sources. This negative balance of trade continues to escalate each year. Based on historical inflation rates, handle of \$686 million in 1973 equates to \$3.017 billion in 2005. In fact, total handle in 2005 including simulcast wagering and live handle was \$1.02 billion;⁷ only double what it was thirty years ago. Considering inflation, this represents a 66% reduction in handle in thirty years. Significantly, handle did increase, albeit slowly, between 1973 (the year before

⁴IRB Annual Report, 1973 pp. 128-129.

⁵IRB Annual Report, 2005 p. 16.

⁶Ibid. p. 26.

⁷IRB Annual Report, 2005 p. 16. This amounted to \$900,000 in 2005, but this figure is misleading because the tracks and the horsemen receive only a combined 3% (compared to 20% on wagers made in Illinois) and the state receives **nothing**. Not including commingled wagering, which is watering out of state on Illinois races.

the lottery) and 1991 (the year before riverboats).⁸ Since the introduction of casino gaming in to Illinois, the handle has actually **decreased** by 19.6%, and, considering inflation, has declined by 41%. In the same thirty year period, purses have tripled, though they have remained stagnant for the last fourteen years.⁹ Purses are a reflection of what the horsemen earn. This means the horsemen's collective income from racing alone has not increased for **fourteen years**.

Even worse, state revenue generated from racing in 1973 was \$56 million.¹⁰ In 2005 it was \$11 million, an 80% gross reduction.¹¹ The decline in state revenue is clearly out of proportion even with the decline in handle. This is due to legislative efforts to support the industry by reducing and eliminating pari-mutuel-interstate and OTB taxes and shifting outstanding winning tickets and breakage back to the industry. Additionally, since 2000, the state has been rebating a portion of the tracks' real estate tax liability (\$3.9 million).

THE CAUSES OF RACING'S DECLINE

Clearly, the decline in racing's economic health is multifactoral. Nevertheless, the expansion of gaming opportunities is obviously the most significant factor. The decline in racing revenue parallels the expansion of legal gambling in Illinois, beginning with the lottery. Handle, state revenue and purses are all lower today than they were in

⁸IRB Annual Report, 2005, p.12; IRB Annual Report 1973 p. 129.

⁹Ibid.

¹⁰IRB Annual Report, 1973, p. 11.

¹¹IRB Annual Report, 2005, p. 10.

1991, the year before riverboat gaming was authorized in Illinois.¹² The same trend has not been experienced in other jurisdictions where casino gambling has been introduced, because Illinois and California are the **only** jurisdictions where initial alternative gaming legislation did not include protection for the racing industry from its inception.¹³

A more recent development is the development of advance deposit wagering, (ADW) the ability to place horse bets online or by telephone with the money being transferred through an account maintained by the wagering operator. Some ADW operators are state licensed and sanctioned, others operate in non-regulated, off-shore locations. In most cases, ADW operators merely accept domestic and off-shore wagers and commingle the corresponding wagering pools into those of the originating live race track.

From a revenue perspective, the tracks and horsemen split 3% of the handle as opposed to the 18.5% they would share if those bets were made at a licensed Illinois facility.¹⁴ The state does not get any pari-mutuel tax revenue since the bet actually comes into the Illinois pool as a commingled wager.

Racing is the only form of wagering that is legal on the internet as a matter of federal law.¹⁵ Although ADW is offered in nineteen U.S. racing jurisdictions, there is presently no legislation or IRB rules to allow for licensing of ADW entities in Illinois.¹⁶

¹²Ibid, p. 12.

¹³Exhibit B, Thalheimer's slides pp. 3-4; Exhibit C, ARCI Report, p. 14.

¹⁴230 ILCS 5/29 (The Illinois Horse Racing Act of 1975).

¹⁵The Unlawful Internet Gambling Enforcement Act of 2006 was passed as Title VII of the Safe Ports Act, which amends Title 31 U.S.C. Sects 5361 through 5367. The new law targets the financial transactions that fund what already constitutes unlawful internet gambling. Wagering on horse racing is exempt; specifically the bill does not include authorized intrastate gambling and gambling that does not violate the Interstate Horse racing Act.

¹⁶Avioli Testimony, Tr. 7/18/06, p. 49:12.

An Attorney General's opinion, issued in September 2000 by then Attorney General Jim Ryan, held that, under the Act, ADW is illegal in Illinois.¹⁷ Nevertheless, ADW operators take the position that it is only betting on Illinois racing by Illinois residents which has been deemed illegal; therefore, they feel authorized to set up accounts for Illinois residents and take bets on out-of-state races. In other words, patrons of Illinois tracks and OTB's can sit in the dining room at Hawthorne Race Course, for example, and place bets over the phone, instead of through the betting window.

It is estimated that, conservatively, between \$50 to \$100 million in Illinois wagers are processed through ADW operators. The industry and the state are simply losing their share of this wagering.¹⁸

As racing in other states has faced similar reversals, most jurisdictions have passed legislation to afford relief. According to testimony given by Dr. Richard Thalheimer, President of the Thalheimer Research Associates and Professor of Equine Business at the University of Louisville, four states have passed laws granting a subsidy to horse racing from casinos, including Illinois.¹⁹ In fact, the General Assembly has twice authorized such relief for Illinois. House Bill 1918, passed in 2006, provided for a 3% impact fee on qualifying riverboats, with the money (an estimated \$36 million) earmarked to purses and capital improvements at existing race tracks.²⁰ The Horse

¹⁷IL AG Opinion, 2001-10.

¹⁸Avioli, Tr. 7/18/06, p. 53:15.

¹⁹Thalheimer Tr. 7/24/06, p. 44:12.

²⁰PA 94-0804.

Racing Equity Act, passed in 1999, provided for 15% of adjusted gross revenue from the tenth Illinois riverboat license to be transferred to the horse racing industry.²¹

Fourteen other states allow slot machines, card rooms and/or other electronic gaming at race tracks. Allowing alternative forms of gaming at tracks has been highly successful in terms of boosting purses and filling fields.

The experience in the Canadian province of Ontario is illustrative. Sixteen of Ontario's seventeen race tracks have slot machines. John Walzak, Chief Operations Officer of the Ontario Harness Horsemen's Association, described the changes in the Ontario horse racing industry since the installation of slot machines.²²

- Three completely new race tracks were built, with one more track in the planning stages;
- From 1994 to 2004 purses grew from \$64 million to \$190 million;
- Racing and breeding revenues increased \$238 million;
- Horse population increased by 30%, and horse sales increased as well. Horse purchases and operating costs increased as well;
- Increase in the number of out-of-province owners, out-of-province racing stock, and out-of- province participants;
- 8,000 new jobs were created on the harness side alone;
- Various levels of government gained between \$66 and \$71 million in new taxes;

²¹PA 91-0040. The industry has yet to see the benefit of this either of these measures as the "10th license" has never been granted by the Gaming Board and is presently tied up in litigation, as is HB 1918 which has been challenged as unconstitutional by the casino industry.

²²Walzak Testimony, Tr. 7/24/06, pp. 223:8-10; 234:9-11; 236:2-4; 237:1-4; 239:3; 241:1-2.

In all, of the 27 U.S. racing jurisdictions that have both racing and casino gambling, 18 have attempted to ameliorate the devastating impact the proliferation of casino gambling has had on horse racing.²³

Naturally, this has compounded the problems facing Illinois. The economics of pari-mutuel gambling are simple. The amount wagered determines the size of purses. Size of purses determines the quality and number of horses that enter races. The quality and number of horses in a given race determines the amount bettors will wager. In the modern era of racing, bettors, no matter where they are physically located -- at the track, at an OTB, or sitting in front of their office computer anywhere in the country -- have hundreds of races to choose from. It is just as easy to bet on a race at Gulfstream Park as one at Arlington Park. Therefore, Arlington's competition is every race track in the country, every day. If Arlington's purses are low, its field size and the quality of its races mediocre, then the handle is depressed, and the downward cycle is perpetuated.

As a result of alternative gaming at race tracks, formerly second-rate tracks have seen their purses increase exponentially. For example, Mountaineer Park in West Virginia has slot machines. Their yearly purses have increased from \$5.6 million in 1994 to \$32 million in 2005.²⁴ During the same period, Illinois purses have steadily declined to the point where total purses paid in 2005 are actually lower than what they were in 1991.²⁵ As purses decline, horsemen choose to leave Illinois to race where purses are higher. These opportunities are as close as Indiana, where 65¢ per \$3

²³Of the remaining nine states which do not afford protection eight are minor jurisdictions with handles of less than \$4 million. Exhibit B, pp. 3-4; Exhibit C.

²⁴Thalheimer Tr. 7/24/06 p. 65:9-10.

²⁵IRB Annual Report, 2005, p. 12.

casino admission fee goes directly to racing. This amounts to an additional \$10.4 million in purses alone.

In 2005, Illinois thoroughbreds raced for approximately \$58 million in purses. Florida, New York, and Pennsylvania paid purses of \$78, \$131, and \$42 million, respectively, in 2004,²⁶ and have approved legislation for slot machines to further boost their purse accounts. When slot machines come online in these three major racing states, it is inevitable that Illinois' market share will diminish even further.

IMPACT ON THE INDUSTRY AND THE STATE

Clearly, the very survival of Illinois horse racing is at stake. The jobs it provides, the businesses it supports, our nationally respected breeding industry, and our venerable race tracks may well be lost. Edward Duffy, Past President of Arlington Park and National Jockey Club and presently a lobbyist and consultant to National Jockey Club, testified:

“So the three efforts we’ve successfully had over the past 20 years, while we passed legislation, have done little, if any, to benefit the industry. And we remain now, I think, probably in the worst shape we’ve ever been in the State of Illinois.”
(12:9-14)

Fairmount Park is a case in point. Since the closing of Quad City Downs in 1995, Fairmount Park has been the only horse racing facility outside the Chicagoland area to conduct live racing. In 1984, Fairmount Park hosted 167 thoroughbred racing days and 88 harness days.²⁷ By 2005, Fairmount had discontinued harness racing, and was racing only 102 thoroughbred days. In the same twenty year period, handle decreased

²⁶ARCI Annual Report, 2004, p. 19.

²⁷IRB Annual Report, 1984, p. 33.

from \$126 million to \$19 million, and state revenue decreased from \$6 million to \$288,000. Purses decreased by 30%.²⁸

William Stirtz, Chairman of Fairmount Park, described the Fairmount Park experience. Located in southern Illinois, Fairmount is just a ten minute drive from the five casinos located on the Missouri border that have an adjusted gross revenue of over \$1 billion. Fairmount Park lost \$1.8 million last year, and was forced to close three OTB facilities. Nevertheless, Fairmount's economic impact in southwestern Illinois is in excess of \$50 million. If Fairmount closes, the state stands to lose in excess of \$5.5 million in tax revenue, plus the additional cost associated with the unemployment of over 1500 workers. Fairmount Park is the largest employer in the city of Collinsville and one of the largest private employers in Madison County. It employs over 550 workers, 90% of which are union, as well as an additional 400 outside service providers. Additionally, if live racing is not preserved, an estimated 1000 horsemen will be forced to relocate and run their horses at more competitive Illinois tracks, leave the jurisdiction, or simply go out of business.²⁹

Phil Langley, President of the United States Trotting Association and Director of Racing for Balmoral and Maywood Park, explained that the strong harness racing tradition in Illinois has, so far, kept a large number of horsemen from leaving the state. Langley testified that there are still a large number of successful horse people in Illinois that do not want to leave. He estimates that upwards of 60% percent of the harness drivers and their families live within ten miles of Balmoral Park. They live in Illinois year

²⁸IRB Annual Report, 1984, p. 33; IRB Annual Report, 2005, p. 36.

²⁹Stirtz Testimony, Tr. 7/19/06, pp. 10:18-11:5.

round because Illinois affords year round racing opportunities. Trainers are similarly situated, with a significant number of training facilities and farms in the Crete area near Balmoral Park. However, higher purses in competing racing jurisdictions is making it more attractive for horsemen to consider relocating; a number already have left, and some are sending a significant number of their horses out of state to race.³⁰

While horsemen's income and track revenues have stayed flat or decreased, expenses obviously have not. Justin Cassity, Executive Director of the Illinois Thoroughbred Horsemen's Association, testified that the 2000 thoroughbreds stabled in Illinois represent a \$179 million dollar investment. It costs between \$22,000 and \$26,000 annually to keep a thoroughbred horse in training, which equates to about \$52 million in annual expense.³¹ Hall of Fame thoroughbred trainer D. Wayne Lukas explained the economics from a trainer's perspective. He testified:

"The breeding industry fuels the agricultural business. . . our foal crop in the United States has not gained and expanded at the same level the race tracks have expanded. We're still breeding around 50,000 foals a year, and we've added some 16 or 18 race tracks. So consequently, there's a very, very competitive nature as to where the horses are going to go and where they're going to come from. . . People migrate to where they can make money. It's just that simple. The dollar has always been the driving force." (18:12-19:21)

In Illinois the total number of thoroughbred broodmares has dropped from 2900 in 1990 to 1,670 in 2005.³²

Bill Wright, a standardbred owner and Past President of the Illinois Harness Horsemen's Association, testified, ". . . inadequate purse structures are driving

³⁰Langley Testimony, Tr. 7/18/06, pp. 188:18-198:6.

³¹Cassity Testimony, Tr. 7/24/06, p. 67:7-20.

³²Holland Testimony, Tr. 7/24/07, p. 147:13-22.

participants like me and others to either downsize or go to other states.”³³ Mr. Wright himself has gone from a peak of eighteen horses down to eight. Additionally, many top harness drivers have left Illinois for other jurisdictions.

Prominent standardbred owner and breeder Terry Hunt, whose 365 acre breeding farm is located in Kane County, has reduced his number of broodmares from 120 to 68. Even with this reduction Hunt’s annual expense for veterinarians, blacksmiths, vendors, hardware suppliers and staff is over \$800,000. All of his employees and vendors are Illinois residents.

Racing’s decline is felt no more acutely than among those who make their living working on the backstretch of the race tracks and in livestock care generally. In 2005, the Illinois Racing Board issued 5,100 racing licenses to grooms, hot walkers and exercise people who play a vital role in the training and care of horses. The vast majority of these workers are Hispanic. In 1982, a federal court decision required race tracks to allow families to live together in subsidized backstretch dorms which had traditionally housed only men. This required substantial improvement and expansion of backstretch living quarters. Also in 1982, the Racing Industry Charitable Foundation [RICF] was established. This foundation offers services including medical and dental care, substance abuse counseling, parenting classes, language classes, and other educational programs to backstretch workers and their families. Since 1982, the race tracks have funded the RICEF’s annual budget of \$750,000. Additionally, the tracks have markedly improved their backstretch housing. Arlington Park offers supervised day camp activities for the 400 children who reside with their families on the backstretch and

³³Wright Testimony, Tr. 7/18/06, p. 99:17-19.

has recently built two new dormitories with greatly improved amenities. National Jockey Club purchased off-track apartment buildings to house workers' families.

Economic opportunity for these workers will be compromised if owners opt to stable their horse populations in other jurisdictions. This is already starting to happen. Chief Illinois State Steward Eddie Arroyo testified that this is the first time in his recollection that there have been empty stalls at Arlington Park. Empty stalls equate to fewer jobs for backstretch workers. Decreasing handle also diminishes job opportunities.³⁴ Many workers have spent their entire adult lives working on the backstretch, their children attend local schools, often their spouses work as well. It should be a high priority of the General Assembly to protect these jobs.

RECOMMENDATIONS OF THE ILLINOIS RACING BOARD

It is clear that, absent legislative relief which will allow Illinois racing to compete with its formidable national competition and the expanding Illinois gaming industry, racing and breeding in this state will become unprofitable and die. Thousands of businesses, jobs, farms, and horses will be lost to Illinois. Additionally, racing's direct contribution to state revenue will be lost at a time when it needs to be maximized.

There are a limited number of solutions that can reverse these trends.

1. **Advance Deposit Wagering** should be authorized, regardless of any other steps that might be taken. It is simply impossible to enforce a ban on this form of wagering activity since it is legal in other states, legal under federal law, and takes place in private. Without enabling legislation, the state is simply losing millions of dollars a year by failing to tax an activity it cannot stop.
2. **Subsidies from the casino industry** have been enacted in Illinois, but are subject to legal challenges and the uncertainty of the implementation

³⁴Arroyo Testimony, Tr. 7/18/06, p. 88:4-9.

of the “10th” riverboat license. Additionally, proposed expansion of casino gambling will again throw the issue of subsidies for the industry into a complicated political mix. Dr. Thalheimer testified that subsidies are not necessarily a long-term solution for overall success in Illinois. For one thing, slot machines would yield more revenue than a subsidy. Secondly, and probably most important, is the fact that slots are more permanent and not easily subject to legislative change. Fundamentally, a subsidy is just that, not a business opportunity that the racing industry can develop, maintain and grow.

3. **Slot machines and/or other alternative gaming at race tracks** is clearly the most effective way to redress the economic disadvantage faced by the industry and bolster state revenue from racing. Nevertheless, creation of “racinos” is not without its own set of concerns. It is critical that any such enabling legislation guarantee the survival and growth of live racing, and not allow racing to become overshadowed by the “casino” aspects of the operation. Dr. Thalheimer stressed that “racino” legislation in other states has uniformly cited as its intent the *preservation* of the racing industry. The challenge is how to draft legislation that will put sufficient protections in place, and allow the Illinois Racing Board the authority and the flexibility to protect live racing while effecting a productive merger of racing and supplemental gaming opportunities.

The Board closes this report with a portion of the testimony of William Stirtz, Chairman of the Board of Fairmount Park.

“We are very grateful to Jay Hoffman, to the legislature, and to Governor Rod Blagojevich for the passage of a reduction of our taxes. As a result, we’ve committed to . . . conduct a meet in 2007. But beyond 2007, our future is questionable. I will look forward to working with other entities . . . to come up with long-term solutions to the untenable situation in which we find ourselves today.”

“ . . . I’m optimistic that something positive will be done if the true situation becomes apparent to those who can change it. The benefits for giving Fairmount Park the right to offer other wagering activities, or a share of what the casino handles, are enormous for Illinois, and here’s the reason. . . Fairmount Park is located in the St. Louis market, and it draws its revenue primarily from another state, Missouri. . . . [I]t confers its economic value to Illinois in terms of wages and taxes and jobs.”

“So, finally, if I were an Illinois official charged with improving the economic lot of state residents, I would bear

this in mind: Live thoroughbred racing is labor-intensive. Casino wagering is much less so. Live thoroughbred racing accounts for perhaps 1 to 3 percent of [all wagering] . . . including casino online wagering, et cetera, in the state. . . But it employs a disproportionate[ly high] percent[age] of the people who work in the wagering industry.”

”. . . Thoroughbred racing is the most labor-intensive wagering in the state, it generates a huge number of jobs, it accounts for a disproportionate share of the wages paid by wagering businesses. In fact, the state has de facto underwritten its demise. The state legislature in awarding the casinos a monopoly on slot machines, combined with Fairmount’s location in the booming Missouri casino market, have resulted in a grossly unfair advantage to the point of dooming downstate live racing to extinction.” (15:1-17:1)

The Illinois Racing Board urges Governor Blagojevich and the General Assembly to aggressively address the economic and competitive crisis that threatens the existence of horse racing. To do so will serve the dual goals of preserving one of the states oldest and best-loved sports, while bolstering state revenue and saving jobs.

Respectfully Submitted,

Lorna Propes, Chairman

Marc Laino, Executive Director