

West Virginia's Racing Industry

REFLECTING | REIMAGINING | RESTORING
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STABILITY + INVESTMENT = JOBS



West Virginia Racing Industry Committee

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West Virginia's Racing Industry

TO: West Virginia Racing Commission
FROM: Jana Tetrault, Chairperson
DATE: October 16, 2015
RE: Racing Industry Report

Attached is the West Virginia Racing Industry Report, *Reflect, Reimagine, Restore*, a collaborative effort of more than 20 representatives from all facets of the racing in West Virginia. The committee was given the task through a resolution by the West Virginia Racing Commission to study the current conditions they face and provide ideas to preserve, protect and enhance the racing industry in West Virginia.

This committee was representative of individuals who are committed to the racing industry in West Virginia. They took their assignments seriously. They worked through ideas and suggestions finally making recommendations that will serve as the first step in a process for change and growth.

This report provides a brief history of the industry and its contribution to the state's economy. It further reviews the challenges and possible solutions. More importantly, the report is an attempt to provide reasonable suggestions for ideas to enhance West Virginia's racing industry and to preserve the thousands of jobs it provides to the residents of West Virginia.

This committee has taken the first step in confronting these issues, through collaboration and with legislative support, we remain confident that the industry can remain a viable, contributing member of our state.

Thank you to all of the committee members who committed their time and talents to this process for preserving and protecting the racing industry in West Virginia.

Reflecting, Reimagining and Restoring the West Virginia Racing Industry

The challenges facing the thoroughbred and greyhound racing industry have created an unstable environment in which breeders, owners, trainers, jockeys, racetrack management and workers are questioning their future in the racing industry in West Virginia. What has led to this concerning situation?

The partnership between the racing industry and the Legislature began long ago. In 1931, it was lawmakers that established the West Virginia Racing Commission (WVRC) to regulate and promote the thoroughbred horse and greyhound dog breeding industries in the state of West Virginia. More recently, the intent of the West Virginia Video Lottery Act and the Table Games Act was to “enhance,” “protect,” and “preserve” the racing and breeding industries in this state. West Virginia had the foresight to strengthen the gaming industry in the Mountain State by adding other gaming operations with the approval of racetrack video lotteries and table games to the original properties offering live thoroughbred and greyhound racing. These gaming and entertainment options set West Virginia as the regional leader.

However, there has been a proliferation of casino and racino gaming outlets in the regional market previously served by only racinos in West Virginia. As more states throughout the region approved casino gaming, the regional and national market has become saturated reducing gaming and racing revenues, leaving West Virginia with a fraction of the customers they originally serviced. In short, the pieces of the pie are shrinking due to an ever-increasing number of gaming outlets. This reduction in market share has negatively impacted casino and racing revenues, as well as revenue received by the state and local governments.

WHAT WE WERE ASKED TO DO.

The WVRC recognized the need to review the current status of the state’s racing industry, given their symbiotic relationship under West Virginia law. As a result, the WVRC gathered a group of thought-partners from a variety of professional, educational and personal backgrounds to assess the current state of the industry and make recommendations to preserve and protect the racing industry in West Virginia.

Members included leaders from the tourism industry, greyhound and thoroughbred owners and breeders, jockeys, trainers, racetrack managers and other industry stakeholders. This group attacked this challenge by dividing into four groups to study (1) the racing calendars and schedules, (2) marketing opportunities, (3) economic growth and revenue enhancement, and (4) modernization of the West Virginia Code to support the racing industry.

This report will review the challenges and possible solutions within the thoroughbred and greyhound racing industry. More importantly, the report is an attempt to provide reasonable suggestions for ideas to enhance West Virginia’s racing industry and to preserve the thousands of jobs it provides to the residents of West Virginia.

WHAT WE FOUND.

More than 3,000 hardworking permit holders in West Virginia make their living in the live racing sector of the gaming and entertainment portion of the state’s economy. In many cases, fourth generation family members continue the tradition of racing in West Virginia providing a positive entertainment and tourism experience for those visiting our state. Many have invested millions of dollars in breeding and training farm operations in West Virginia encouraging out of

state investment in the business model effectively designed by the West Virginia Legislature. The result of this model has been nothing short of remarkable. West Virginia bred horses have topped sales records and raced competitively in highly recognized national racing events. West Virginia bred greyhounds are considered to be among the most competitively bred dogs in the world. These successful programs have been cultivated within the borders of our great state and have brought notoriety to the programs offered in West Virginia.

The committee found that the strengths of the industry far outweigh the weaknesses. There may be untapped economic development opportunities that can be achieved in order to preserve and stabilize the industry. However, to achieve success the industry is reliant on the West Virginia Legislature to maintain a stable legislative environment that encourages investment of long-term capital to foster business growth and employment in the industry.

THE REFLECTION.

The thoroughbred and greyhound racing industry has a deep-rooted history within the Mountain State and, as such, shares a belief system with West Virginia residents. Live thoroughbred racing is a part of the fabric of the community. The first race in Charles Town was organized on the community's main street by none other than Charles Washington, the brother of the father of our country, George Washington. It is a fundamental element in the local economy as it accounts for thousands of jobs including bankers, farmers, farm supply stores, farm equipment dealerships, farriers, dozens of veterinarians, countless stable hands, exercise riders, jockeys, valets, horse trainers, horse breeders, pari-mutuel clerks, and a host of employees working at racetracks. These jobs provide for families living and working in the communities surrounding the four existing racetracks. Those that depend on the industry are taxpayers, parents, booster club presidents, public school supporters, local government workers, firefighters and community leaders.

Validation of the enormous contribution the racing industry has made to families, communities, and businesses in West Virginia has been established. A 2012 West Virginia University (WVU) College of Business and Economics study on the *Economic Impact of the Greyhound and Thoroughbred Industry* found the following:

- The thoroughbred and greyhound racing industry in West Virginia contributed more than \$321 million in total business volume to the state's economy. The report noted that this level of output constituted about 12 percent of the leisure and hospitality sector statewide.
- The industry supported more than 7,300 jobs in West Virginia. In 2012, this figure was equivalent to about 10 percent of employment in the state's leisure and hospitality sector.
- The industry generated more than \$100 million in total employee compensation.
- The industry generated \$4.6 million in total state tax revenue.

To provide a more localized perspective on what the economic impact report findings mean on a regional level, the report found that Charles Town Races, based in Jefferson County, accounted for nearly half of the total business volume impact of the industry. Mountaineer Park, in Hancock County, accounted for nearly 30 percent. More importantly, the WVU report details a strong case for the need to bring stability to the racing industry, recognizing that West Virginia cannot afford to lose jobs and dollars filtering through our economy which have been generated by the live racing industry and its many subsidiaries.

The people of West Virginia are known for their dedication to family, work ethic and honesty. Those same characteristics permeate throughout the racing community. There exists within this community an unwavering devotion to the animals that they care for and industry standards and safety. They have evolved as an economy important to West Virginia under

a model provided by the West Virginia Legislature. This model was designed to grow the live racing industry in West Virginia, build the state's agricultural economy, and create and preserve green space. The model was working and these initiatives were thriving. State leaders decided to intervene and reduce the economic provisions of the law that attracted hundreds of businesses to invest in West Virginia. A business model was created by statute and it has been significantly minimized by subsequent legislative action, imposing economic hardship on those who invested in the industry and the state of West Virginia.

Despite the historic positive impact on the state's economy, the fabric of the gaming landscape has changed. The committee is committed to exploring potential solutions including ideas for the gaming, thoroughbred and greyhound industries in West Virginia and reimagining the future in an effort for all components of the gaming and racing industries to remain viable in West Virginia.

THE REIMAGINING.

Change is constant. In order to survive, a thread of change is woven into the fabric of industries across our nation. The thoroughbred and greyhound racing industry is ever changing. That is why it is impractical to believe that the same tactics will make a difference. The committee believes that real change will happen through flexibility in state law, support of a steadfast connection between the racing and entertainment industries, and innovative approaches to revenue enhancement.

Perhaps most importantly, the reimagining of the thoroughbred and greyhound racing industry will be accomplished through collaboration. To expect legislative intervention alone to rejuvenate and refocus the industry is naive. Instead, lawmakers, racing industry experts, tourism leaders and others must all play a role. The following are recommendations to serve as stimuli for further discussion.

Racing Calendars and Schedules

Current law requiring a yearly racing calendar of 210 and 220 days of live racing for thoroughbred and greyhound racetracks needs to be addressed in order to facilitate profitable operational practices for both horsemen and racetrack management. Not being able to develop an annual racing calendar predicated on reasonable projections for purse money is one of the most significant obstacles to maintaining the racing industry in West Virginia. The availability of adequate purse money largely dictates the number of planned racing days. Consistency and predictability are essential for the business elements of live racing to be able to function. Increased competition for gaming dollars, horses and a struggling economy in general are challenges when racing year round. Those factors are further complicated by the seemingly repetitive statutory changes, which have mandated less purse money.

RECOMMENDATIONS:

- Immediately work to change West Virginia Code to create flexibility within the WVRC's oversight of the required number of racing days annually in response to market circumstances. It is beneficial to everyone from horsemen, employees export and import sites and customers to know a firm racing schedule prior to opening day annually.
- The WVRC should be given the oversight for approving race calendars and schedules based on currently available circumstances while maintaining resident breeding, training and racing industries.
- The racing associations should be given the responsibility for posting times and scheduled race days. Every racetrack should be positioning, watching post times and scheduling race days to maximize their handle.

Flexibility in Funding

Another significant challenge facing the industry is the lack of purse funds. In order for West Virginia racetracks to maintain and grow, this area must be addressed. Purse funds have deteriorated primarily due to competition from emerging gaming venues in surrounding states, legislative action, and potentially missing out on additional revenue by failing to enact wagering platforms such as Advanced Deposit Wagering (ADW) that keep pace with consumer preferences.

RECOMMENDATIONS:

- Obtain legislative support for the gaming industry to ensure its' long term health. The revenue that supports the purse and breeders fund is generated by racetrack video lottery terminals and table games. An environment aimed at maximizing, supporting and promoting the amount wagered on Video Lottery Terminals and table games would be immensely beneficial to the gaming and racing industry in West Virginia.
- Immediately work to update West Virginia Code to give the WVRC and industry stakeholders the flexibility they need to not only maintain current purses but also grow purses so that West Virginia racetracks can be competitive with surrounding tracks and guarantee stability.
- Average daily purse sizes at the two thoroughbred race tracks should be maintained:

Charles Town	\$130,000
Mountaineer	\$ 93,000

Marketing and Outreach

Racing is entertainment, which depends on wagering for its economic stability and growth. A simple statement but it will serve as the roadmap to success if strong connections are established and supported between the two.

In part thanks to the farsightedness of our legislative leaders, funds generated through casinos and the lottery help support our schools, our senior citizens and tourism. According to the 2014 West Virginia Lottery Commission Annual Report, lottery sales exceeded \$1 billion during the fiscal year. The report indicates that of the lottery sales, education received a little more than \$122 million, senior citizen programs received more than \$108 million, and the tourism industry received \$52 million. In addition, the West Virginia Lottery Commission gave local and county municipalities \$33 million in gaming revenues.

Successfully marketing the racing industry has been a challenge for both racino companies and stand-alone racetracks across the nation. Promoting the entire property and all of the gaming options in a responsible manner including racing as an overall entertainment option is essential to the success of the entire industry. However, it is recognized that marketing dollars are stretched and innovative, collaborative methods must be explored. Utilizing existing programs including regional and statewide tourism promotions are imperative.

The racing component of the gaming industry provides exciting sporting events that can be embraced and promoted as a focal point in tourism and event options in West Virginia. It is further recognized that marketing efforts need to take advantage technological advances.

RECOMMENDATIONS:

- The WVRC should develop a partnership with the West Virginia Division of Tourism and other state agencies to further promote the significant racing events in West Virginia as an exciting entertainment option.
- The racing industry should rebrand itself highlighting the entertainment value of racing, the number of jobs it supports, and its impact on the state and local economy. Legislative revision of West Virginia Code provides the opportunity for this stimulus. Expanding currently underutilized opportunities such as the top-level greyhound races and West Virginia's nationally competitive graded stakes within the thoroughbred industry could provide funding. It is important to note that oversight of these promotional funds by the WVRC is essential to success.
- A social media and grassroots campaign should be developed to feature the real people and the real stories within the racing community. All partners should be encouraged to "spread the good news" through social media avenues and community opportunities. In addition, social media could be used to drive off site audiences to tablet and telephone wagering or fantasy wager books.
- Develop and utilize existing programs and strategies to keep live audiences entertained between races while increasing off-track betting, which currently produces the most income should be explored.
- A relationship with the television industry should be nurtured so there is more coverage of human-interest stories, races, etc.

Revenue Enhancement

Restoration of some money removed from live racing in recent years by the Legislature should be considered. It, alone, has put into jeopardy the business operations of many owners, trainers and breeders of thoroughbred and greyhounds who made long-term business investments based on the statutory invitation. However, after they have invested millions of dollars, the terms expressed in that invitation drastically and negatively changed. There are other opportunities for revenue enhancement that must be explored to bring further stability to the industry.

RECOMMENDATIONS:

- The West Virginia Legislature should authorize ADW for races in West Virginia. Currently, a resident in West Virginia can wager by telephone or online on races throughout the country but not on our own state's races. This form of wagering already exists in many jurisdictions throughout the country. However, because it is not allowed and monitored in West Virginia, the state does not receive the benefits in terms of taxable revenue.
- Develop a higher end sports bar or restaurant network in locations that are not in close proximity to existing racing or gaming venues which are allowed to conduct Off Track Wagering.
- Create a jackpot style wager. It is important to note that a rule change is currently being sought that would make it easier to implement this recommendation from a technical perspective with track tote operators.

RESTORING.

Reflecting and reimagining the racing industry naturally leads to restoring commitment and stability. Once again, the partnership between the racing industry and the Legislature began long ago.

More recently, the intent of the West Virginia Video Lottery Act and the Table Games Act was to “enhance,” “protect,” and “preserve” the racing and breeding industries in this state. As mentioned earlier in this report, lottery sales exceeded the \$1 billion mark in 2014 and racinos statewide employed 12,500 individuals in 2015. These significant numbers were made possible through the foundation created by the thoroughbred and greyhound racing industry. After all, it was the racing industry that built the bricks and mortar that, in turn, allowed for the success of the legalization of video slot machines at racetracks. For all purposes, with passage of the Racetrack Video Lottery Act and the Table Gaming Act, the state of West Virginia established a gaming and entertainment business model that features live racing, video lottery terminals and table games as entertainment options offered at four select properties throughout the state.

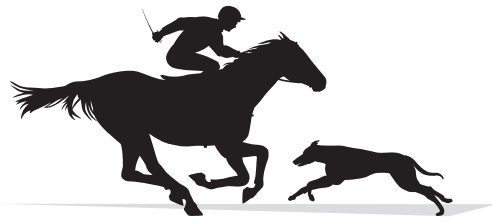
To restore full stability and commitment to the racing and gaming industry, key actions can be taken.

RECOMMENDATIONS:

- Revisit West Virginia House Bill 101 enacted in the First Extraordinary Session of the West Virginia Legislature in 2014, and develop statutory language that restores purse and breed fund percentages to their original percentage shares pre-2014 and restore money currently being diverted from the purse fund as contributions toward the discharge of the long term indebtedness of the West Virginia Workers’ Comp Fund, once the debt is officially fulfilled and which is projected to be fulfilled in 2016. Restoration of the purse fund to this extent would provide some certainty to investors---racetracks, small business owners, thoroughbred and greyhound breeders, owners and trainers, veterinarians and other entities who have an economic impact on our communities. These investors and employers cannot function as a viable business or maintain a stable business model in an unstable, annually appropriated environment.
- Provide adequate support for the WVRC, as it serves as the state’s only thoroughbred and greyhound industry regulator with unparalleled subject matter expertise.
- Financially support the continuation of the WVRC. The WVRC has unique experience in the complexities of regulation of live racing not otherwise replicated in West Virginia government. Due to its important role in regulating and serving the racing industry in West Virginia it is essential that its operations be sustained at a high level. One way to do this is to utilize a small portion of lottery administrative funds by amending West Virginia Code 29-22A-10 and 29-22C-27 as it relates to the distribution of lottery and table games funds. As a condition precedent to lawful casino gaming activities at the state’s four racetracks, live racing must be scheduled annually. However, the Racing Commission receives no share of gaming revenues allocated to administration of Racetrack Video Lottery or Table Games. Allocating a small percentage of funds dedicated to the West Virginia Lottery administrative account which routinely does not spend all that it collects, would benefit racing and would not impinge upon the revenues that the West Virginia Lottery needs to fulfill its functions.

THE FINAL FURLONG.

We hope this brief report provides the context for thoughtful debate and a comprehensive study of the benefits of a continued thoroughbred and greyhound racing industry. As mentioned several times in this document, the economic impact of the racing industry can be felt in homes across our state. Jobs created directly and indirectly through the racing industry are vital to the strength of communities, small business, families and the state of West Virginia. We are confident that additional jobs and enhanced revenue will result with strategic marketing efforts, innovative racing options and the modernization of West Virginia Code.



West Virginia's Racing Industry



STABILITY + INVESTMENT = JOBS

