Horseplayers Association Newsletter—January 2017

The Future

By Barry Meadow

The thoroughbred industry keeps complaining about declining handle and attendance, yet little has been done to fix some of the most obvious problems. Some require money--who will pay for a better system of transmitting bets, for instance? Others require somebody high up--in state government, on a racing board, in the executive suite of a racetrack--to take some bold action. Just read the proceedings at industry confabs, though, and you will discover that some of the sport's most influential executives actually believe that slogans ("Go baby go!") and food trucks in the infield will turn the sport around.

Of course, as long as the higher-ups think that we horseplayers are a bunch of idiotic addicts who will put up with anything, don't expect much to change. It's not likely there'll be much done about late odds drops, high takeouts, or wrist slaps for drug violators. And betting exchanges, a game-changer overseas more than a decade ago, figure to remain a distant dream for U.S. players (except in New Jersey, where such betting is legal).

But let's look at some good news. Mandatory withholding regulations have gotten better for horseplayers. Before the Treasury Department and the Internal Revenue Service recommended revising the regulations in December (they are likely to take effect shortly after the 90-day comment period ends), if you invested $1,500 in a pick 6 and collected $6,000, you had somewhere north of 25% (depending on state regulations) withheld from the entire $6,000, even though your winnings were only $4,500. Now, if your entire bet was on one ticket at the track--though there is no such requirement for ADW's--you will be taxed on only the $4,500 won. And that's below the $5,000 withholding number, so you won't have anything withheld (though you'll have to pay tax on your winnings later unless you have offsetting losses).

Overall, there figures to be much more money in horseplayers' pockets for a much longer time, and that can only help handle. And that's the second piece of good news—handle seems to have stabilized. Wagering on U.S. races in 2016 was slightly above $10.7 billion, an increase of 0.58% from 2015, despite a drop of 707 races (38,284 from 38,941). The handles on the sport's signature events—the Kentucky Derby and the Breeders Cup—remain strong.

Tournaments continue to gain in popularity. The National Handicapping Championship was set to award more than $2.5 million in prizes in 2017, the largest yet. An estimated 627 players—the highest number ever—were scheduled to compete. Tournament sites, particularly online, have continued their momentum. Both *nhcqualify.com* and *horsetourneys.com* offer numerous low-cost opportunities to qualify for larger tournaments. *Derbywars.com* is a fantasy league tournament site which occasionally hosts NHC qualifiers. Another site, *horseplayersqualify.com*, is a feeder site for the big-bucks Horseplayers World Series.

However, these positives for the future are more than offset by disturbing possibilities in other areas. Among the changes we can expect in the not-too-distant future:

The end of racinos. While slots money has propped up several tracks—and now accounts for one-third of all industry purses—casino operators more and more are looking to get out of the racing business. Why, after all, should they be forced to pay any of their profits to racetracks, who are seen as little more than cash drains? And from another direction, state legislators are beginning to ask why racetracks should get any subsidies when that money could go to health care or education. Sooner rather than later, racetracks will have to stand, or fail, on their own. Type "decoupling horse racing" into Google and you will discover a number of scary stories about this.

Trouble for ADW's. The large number of advance deposit wagering services (ADW's) chasing after the same few dollars will probably result in some of them closing, particularly as tracks establish their own on-line betting services. And it's possible that your money may disappear when they close, because not every state mandates that account-holders' funds be segregated in an escrow account; in some places, ADW's could go under if a track suddenly closes its doors while owing settlement monies that were supposed to be used to pay the ADW's winning bettors, forcing the

ADW's to join a long line of creditors.

Rebate reductions. It's estimated that 20% of nationwide handle comes from computerized robotic wagering teams, and many other players depend on rebates from micro-bet ADW's. But no track is interested in cutting its signal fees, and rebate houses are likely to be squeezed. More places may add source market fees, these assessments being high enough to eliminate rebates altogether for some players. As rebates decline, so will the handle of these teams, and individual players, leading to a downward spiral in total handle. And as handle drops, any particular bet will have more of an effect on payoffs.

Smaller fields. With economic conditions more uncertain these days, the horse-loving pizzeria owner or advertising executive who could afford to blow $20,000 to buy a horse, and maybe run a yearly deficit after purses of another $20,000 to maintain his purchase, now is scrambling to keep his business afloat or avoid being caught in the tsunami of downsizing. At tracks without racinos, the number of claims has dropped precipitously in the last few years. The market for yearlings is not what it used to be, and many small breeders have left the business altogether. The average field size in 2016 was 7.8, the second smallest mean since nationwide record-keeping began in 1950.

The death of newspapers. As newspapers continue to close and horse-racing writers go the way of the telegraph operator, investigations of the sport will come close to disappearing. The industry magazines generally run puff pieces and the racing network hosts are relentlessly upbeat ("While Trainer Smith is currently 0-for-83, he's really a much better trainer than that"), so how is the public going to get balanced information on what is really happening in the game? If you expect serious coverage about how some veterinarians are recommending unneeded shots to run up the bills, or how even today grooms live in deplorable conditions at some tracks, good luck.

Goodbye racetracks. More tracks will close, and no new ones will open. And those that remain open will offer fewer days per year, with longer breaks in between meets. With fewer horses and less interest in the game, and the possible loss of racino money, who will argue that year-long racing at dozens of tracks is necessary? And with 90% or more of the money being bet away from the track, who needs these giant plants in the middle of urban areas? Look for more tracks to race on reduced schedules.

Racing will survive. It's still a great sport, and a great gambling game. But a few years from now, it may not resemble what it looks like today.

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