



New York Thoroughbred Breeders, Inc.

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Senate Committee on Racing, Gaming and Wagering WITNESS RESPONSE INFORMATION: HEARING TO CONSIDER THE FUTURE OF THE NEW YORK RACING ASSOCIATION

I am grateful for this opportunity to testify at the Senate Committee on Racing, Gaming and Wagering hearing on the future of the New York Racing Association. I present this testimony in my capacity as Executive Director of the New York Thoroughbred Breeders, Inc. (NYTB), which is the sole authorized representative of the thoroughbred breeding industry in New York State and, in doing so, I speak on behalf of thousands of New York breeders.

The New York breeding industry

The New York Thoroughbred Racing and Breeding incentive program (“the Fund”) was established by statute in 1973 to promote the thoroughbred industry in the state and preserve greenspace. Over the decades, the program met these aims, but until relatively recently could be regarded, like most regional breeding and racing programs, as a poor cousin of Kentucky breeding and racing.

Since 2011, however, the program has undergone a quantum transformation. Today, the New York breeding and racing program is a nationally-recognized powerhouse. Every day, New York-breds run for purses that are the envy of the nation. New York-breds are popular commodities at auctions throughout the calendar year. The state is producing horses that compete at the sport’s highest-levels across the country and are winning national championships.

From the perspective of the State, thoroughbred breeding is one of the most important economic engines of the New York’s equine industry, which is our second-largest agri-business. The industry has a \$4.2 billion economic impact on New York’s economy and contributes to the local economies of every one of its 62 counties by generating \$187 million in state and local taxes. The breeding and racing industries are responsible for the majority of the equine industry’s 33,000 full-time jobs, and play a large part in preserving 1.3 million acres of precious farmland.

How we got here

As recently as 2010, the New York-breeding industry was teetering on the brink of extinction.

In 2001, the State authorized the installation of video lottery terminals (VLTs) at racetracks. The law provided that VLT revenue would contribute to the State and provide direct supports for New York breeding and racing. For a decade, the promised VLTs fell victim to on-again off-again legislative wrangling. By the time the State concluded its contract negotiations with Genting for the Aqueduct VLT facility in September 2010, it was almost too late for the racing industry.



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In 2005, Fund revenue could no longer pay out all the incentive awards earned by breeders. The deficit grew year by year, and forced the Fund to reduce breeders' awards by 50%. The situation was exacerbated by the recession of 2008, which decimated the New York-bred sales marketplace.

The years 2005-2010 were bleak. One hundred farms closed, breeding declined by 25% and over 4,000 breeding jobs left the State. In 2010 alone, three of the largest commercial farms in New York closed their doors. The bankruptcy and shuttering of NYC OTB, the largest single source of Breeding Fund revenue, in December 2010 seemed like the final nail in the coffin of the State's breeding industry.

Dramatic changes started once the racino contract with Genting was finalized. The Resorts World groundbreaking took place on October 28, 2010, and a year later to the day, the facility celebrated its grand opening. In 2012, NYRA introduced its year-round enhanced purse structure, and the Fund announced a 50% across-the-board *increase* in breeders' awards.

Breeding in New York appeared to be saved. Farms started to reopen, new players brought business to the State, and the quality of stock improved. All of this has resulted in the best measure of breeder success: a boom market for New York-breds at thoroughbred auctions. From 2010-2016, the value of the average New York-bred yearling has increased by 120.9%. The value of 2-year-olds, whose sales have also been fueled by an enhanced 2-year-old stakes program at NYRA tracks, has increased by 121.3%.

The fortunes of NYRA and breeders go hand in hand

It is imperative that we not allow for a reversal in this progress for the industry. As we and other stakeholders join elected officials in embarking on a plan to re-organize NYRA, we are presented with a once-in-a-lifetime opportunity to create a modern structure for breeding and racing that will define New York's industry for the next 50 years.

We believe that that a properly-executed re-organization of NYRA can align the goals and aims of the racetrack operator with those of the industry stakeholders – the breeders, owners, trainers and equine workers of New York State who have the most "skin in the game," risking their capital, time and resources. These groups have years of accumulated experience in issues critical to the long-term health and growth of our industry and are deeply invested in the success of the enterprise.

We are all on the same side here and must put our heads together. Breeder success fuels racing success, supplying the racetrack operators with the full, competitive fields that drive racetrack handle. Racing success is a catalyst for breeder success, stimulating a market for the stock they breed and helping them grow their businesses.



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Breeders' top aims and goals for the NYRA Reorganization

1. Protecting gaming revenue for breeders and purses

NYTB, the horsemen and owners are committed, above all, to protecting breeding and racing's share of gaming revenue on which the successes of their respective enterprises depend. Specifically, in the context of the long-term reorganization of NYRA, we ask for the creation of "hard floor" for the Fund and purse share of gaming revenue at the 2015 level both (1) for the length of the franchise and (2) no matter what the classification of the Genting facility at Aqueduct.

With all the progress the state racing and breeding industries have made since 2012, with the potential for further progress down the road, it would be a mistake to take a step backwards.

2. Preserving race-date integrity

We have a core belief that year-round racing is critical and fundamentally important to a business plan for New York's thoroughbred industry. Changes to the calendar would seriously disrupt the hundreds of small businessmen and women and their 33,000 employees, who live and work in New York year-round.

This really hits close to home for breeders. Consider the following:

- 32% of all NYRA purses earned by New York-breds were earned at Aqueduct.
- 43% (297) of the 683 NYRA state-bred races were conducted at Aqueduct.
- 45% (3624) of the 8126 starts made by NY-Breeds in 2015 occurred at Aqueduct.

A reduction in winter racing opportunities at Aqueduct would drive horses out of state, lead to job loss and a reduce the marketplace value of New York-breds.

At the same time (and for the same reasons) breeders seek a commitment to maintaining the current minimum level of 600 New York-bred races per year. New York-bred races are not only the backbone of winter racing, but of the NYRA racing calendar year-round. New York-breds account for 54% of all starts at Aqueduct Racetrack, 46% of all starts at Belmont Park, and 35% of all starts at the world-renowned Saratoga meet in July and August.

3. Ensuring voting representation on the NYRA board for breeders and horsemen

Currently one representative each from the breeders (NYTB) and horsemen (NYTHA) has a seat on the NYRA board. These representatives do not, however, enjoy the right to vote. We believe this makes no sense and needs to change.

As outlined above, breeders and horsemen are the most deeply and personally vested stakeholders in the NYRA enterprise. They also have the most accumulated experience in issues critical to the long-term health and growth of this business. They should have a concrete say in NYRA's decision-



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making process. Legislation introduced and passed by the Legislature last session granted voting rights to the breeders and horsemen on the NYRA board. We hope the Legislature will advocate for this provision again this year.

The challenge of Nassau County OTB VLTs at Genting

Finally, I would like to take some time to focus on an issue that is directly impacting the first goal stated above, protecting of breeding and racing's share of gaming revenue at this very moment.

As a result of last-minute negotiations to which neither the breeders nor the horsemen were privy, the enacted 2016 New York State budget granted permission for the 1,000 video lottery terminals (VLTs) assigned to Nassau County Off-Track Betting Corp., to be located at and operated by Resorts World Casino at Aqueduct. Pursuant to pre-existing provisions of the Racing Law, these "Nassau" VLTs contribute substantially less to breeders (.50% vs. 1.5%), purses (2.3% vs. 7.5%) and NYRA (1.3% vs. 3.0% for operations and .90% vs. 4.0% for capital), and contribute only if total VLT revenue for the equine sector drops below 2013 levels.

The details of the new agreement were not spelled out at first, and we had some hope that Nassau's VLTs would be "add-ons." Genting currently has 5,400 machines, but is permitted to operate as many as 6,400. The 1,000 Nassau OTB VLTs could have been *new* machines, brought online to bring the number up to its full complement. We were, however, sorely disappointed.

In the final quarter of 2016, Genting selected 460 of its best-performing machines to become "Nassau OTB VLTs," with the stroke of a pen, effectively taking them offline for breeder and purse revenue. It appears that because Nassau VLTs were worth 8% more to Genting than their other "Aqueduct" VLTs, the company cherry-picked machines for reassignment that had the highest "win per machine" rate (WPM). Currently, Nassau OTB VLTs at Genting generate a \$739 WPM rate, more than twice the \$361 WPM generated by the other machines.

This is an outright loss for equine sector, which now receives revenue not only from fewer, but also less profitable machines. The dollar amount is staggering. Projecting from figures for the last few months of 2016 and using 2015 figures as a baseline, breeders may lose nearly \$1.8 million in revenue this year, purses could take a hit of \$9.1 million and NYRA could lose \$8.5 million for capital improvement and operations. These projected losses, based on 460 machines, have the potential of being twice as much if Genting reassigns 540 more machines over to Nassau OTB use, to make up the full thousand.

We do not believe that the State intended the Nassau OTB VLTs to deprive breeders, horsemen and NYRA of substantial revenue, but the fact remains that this new arrangement is extremely detrimental to the breeding and racing sectors. The loss needs to be addressed sooner rather than later in the form of immediate relief and/or protection for the racetrack, horsemen and breeders. This development cannot be allowed to be the "thin edge of the wedge" that would begin to erode all that our industries have gained in success and stature.



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Conclusion

As the breeders' representative, I am looking forward to joining the racetrack operator, horsemen and owners in this opportunity to work with the Legislature and Governor's office on the NYRA reorganization.

I sincerely believe that we can create a modern structure for thoroughbred breeding and racing in New York based on a set of shared core principles and shared interests that will be a platform for growth and success for the next generation and beyond.

Sincerely yours,

Jeff Cannizzo
Executive Director
New York Thoroughbred Breeders, Inc.