



GAMING MARKET ANALYSIS:

Assessment of Potential Pari-Mutuel Wagering On Steeplechase Racing in North Carolina

Prepared for North Carolina Education Lottery
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Executive Summary

The North Carolina Education Lottery (“NCEL”) engaged Spectrum Gaming Group (“Spectrum,” “we” or “our”) as a result of Senate Bill 574 to “examine on-site betting at horse steeplechases.” Steeplechase races are races in which the horses and their jockeys race over a course that includes various obstacles that the horses are required to hurdle. The more common form of horse racing is often called “flat” racing. Spectrum researched statutes, regulations and other related regulatory issues, reviewed the history of steeplechase racing, gathered data on industry trends, interviewed stakeholders, compared events that conduct pari-mutuel wagering on steeplechase races, and estimated revenues and taxes that may be generated in North Carolina as the basis for our recommendations in this report.

Pari-mutuel wagering is a betting system in which all bets of a particular type are placed together in a pool. Those who bet on competitors finishing in the first three places share the total amount bet, minus a percentage for the management (the “takeout”).

Currently pari-mutuel wagering is prohibited in North Carolina. Chapters 14 and 16 of North Carolina General Statutes contain language that is highly relevant to the legality and would most likely need amendments. There are two North Carolina bills related to pari-mutuel wagering that are also relevant. Senate Bill 154¹ was signed into law on July 26, 2019, and the language is unclear as to how horse race wagering would be conducted and regulated on Indian lands. Senate Bill 165 currently resides with the Committee on Rules and Operations of the Senate but has some relevant language if pari-mutuel wagering legalization moves forward. In addition, there is federal legislation that is relevant if permitting simulcasting (simultaneous live television transmission of a race to other tracks, off-track betting offices or other outlets for the purposes of wagering) of steeplechase races in North Carolina is desired.

There are several national and industry sources available to the State if pari-mutuel wagering is pursued. The National Racing Compact, the Association of Racing Commissioners International Model Rules and the National Steeplechase Association are valuable resources if enabling legislation and the promulgation of rules for pari-mutuel racing is moved forward.

The National Steeplechase Association currently sanctions many steeplechase race meets and, in Spectrum’s experience, has a good reputation for regulation of the races.

The regulatory structures vary extensively by state, as do their budgets. There are significant differences state-to-state in the forms of wagering being regulated. Spectrum believes that the two jurisdictions most relevant as comparative models for North Carolina if it were to

¹ North Carolina Senate Bill 154 / SL 2019-163. <https://www.ncleg.gov/BillLookup/2019/S154>

legalize on-site horse steeplechase betting are Idaho and Montana, each of which has limited amounts of live horse racing, with both racing commission budgets exceeding \$225,000. However, when examining the details of those budgets there are expenses and revenues that would not be relevant in North Carolina under the limited-wagering model reviewed for this report.

Any plan to initiate pari-mutuel wagering must start with the passage of statutory language that enables the legality of pari-mutuel wagering and establishes a regulatory authority and mandate. Once a state agency has been identified by statute as the regulatory authority, rules would need to be adopted for the conduct of racing. If pari-mutuel wagering is limited to steeplechase racing, the cost of regulation will be a barrier because the expected revenues will be minimal. Therefore, Spectrum suggests that if North Carolina were to permit pari-mutuel wagering just for steeplechase racing, it may wish to explore a different model for regulation. Creating a public-private partnership with the National Steeplechase Association would be the most cost-efficient, in our opinion. The addition of pari-mutuel regulation could be managed by NCEL while leaving the racing/equine regulation to the NSA with NCEL oversight/sanctioning.

Steeplechase racing and horse racing have a long history in North Carolina. Horse racing disappeared many years ago in the state but in the late 1940s steeplechase events became popular. The oldest event, which began in 1947, was the Tryon Block Steeplechase, near Mill Spring, NC, a about one hour from Asheville. That event moved in 2017 to a site just a few miles south of the Tryon International Equestrian Center. The event is run as a partnership between the Tryon Riding and Hunt Club and the Tryon International Equestrian Center. There were five steeplechase events in North Carolina in the 1990s, but now there are only two. The other, larger event is the Queen's Cup, which is hosted by the Charlotte Steeplechase Foundation and championed by the Price family at the 260-acre property purchased by the family in Mineral Springs, NC.

The Thoroughbred is the breed of horse that participates in steeplechase races. The supply of Thoroughbred horses has declined, as has the number of races and overall wagering nationwide. The foal crop for Thoroughbreds has declined 41 percent since 2003, the number of Thoroughbred races has declined 31.6 percent, and the number of steeplechase races has declined 17 percent since 2003. The decline in actual steeplechase race meets (days) since 1990 has been 27 percent.

Pari-mutuel handle (the total amount wagered) on Thoroughbred races peaked in 2003 but has declined 25.8 percent since. Also of note, in 2018 more than 90 percent of pari-mutuel wagers were made off-track and not at the site of the races. One bright spot has been that the purses (prize money) have increased 5.9 percent overall and 26 percent for steeplechase races. The average purse for a steeplechase race is \$13,178; for all races it is \$30,549.

There is a limited sample of steeplechase race meets with pari-mutuel wagering. Recent live on-site handle at those events ranges from \$68,311 to a high of \$294,142 in fall 2019 at Far Hills, NJ. The off-track wagering has not done well, but the highest handle off-site was \$144,438, also this year at Far Hills.

In addition to the standalone steeplechase race meets, a number of steeplechase horse races are run at Thoroughbred racetracks that include Colonial Downs (VA), Monmouth Park (NJ), Parx (PA), and Saratoga Racetrack (NY). When comparing steeplechase races run at those tracks to similar flat races run at the same facilities, the pari-mutuel handle of the steeplechase races was significantly lower. Wagering ranged from 12 percent to 30 percent less on-track and from 20 percent to as much as 67 percent less off-track for the steeplechase races run at those racetracks.

The difference in events and the popularity of steeplechase racing varies. In the US, according to Bill Gallo, National Steeplechase Association director of racing, the events can be categorized into three tiers:

- There are a number of top-tier events such as Far Hills, Virginia Gold Cup, and Iroquois Steeplechase that are doing well.
- The middle-tier events, which include the North Carolina events, which comprise approximately the middle third of events, are doing fair to good.
- The lower-tier events are struggling. Figure 12 in the report compares the top half of events measured by prize money offered. The Queen's Cup is the more successful of the two in North Carolina, but both events are smaller when compared to the events examined that have pari-mutuel wagering.

The Queen's Cup is a standalone event with attendance of approximately 15,000, and the economy and the weather are key factors in its success, according to Bill Price, Co-Race Chairman. The event earns a good net income (for FY 2018 net income exceeded \$100,000), enabling the organizers to make significant charitable donations. The demographics of attendees are well-educated, affluent, about 80 percent between the ages of 25 and 64, and they travel less than 60 miles to attend. Unlike the Queen's Cup, the Tryon Block House Steeplechase event is just one event hosted by the Tryon International Equestrian Center. The October 2019 event had to be rescheduled for April 2020 due to construction at the new Tryon steeplechase course and safety concerns. The Tryon event, with attendance of approximately 9,000, is close to break-even after charitable donations, organizers said, but they believe there is a good upside to grow attendance and sponsorship.

Spectrum also examined international steeplechase racing for two reasons: First, some markets may provide a supply of steeplechase horses for owners, which is important to growth; the other reason is that some markets, if simulcasting is permitted, may provide growth for off-site pari-mutuel handle.

In Ireland, steeplechase racing (known as national hunt races) is more popular than flat racing, and both pari-mutuel and bookmaking on the races are permitted. It is also popular in Great Britain and France; it is often referred to as “jump racing” in both places. In Great Britain, steeplechase meets make up 38 percent of all race meets. In France, 31 percent of all races are steeplechase. There is also reasonable interest in jump racing in Australia and Japan, but for horse supply or simulcast markets neither seem promising.

Based on interviews conducted for this report and based on Spectrum’s experience, key factors in analyzing potential growth of the steeplechase events in North Carolina include:

- The economy
- The weather
- The ability to sell sponsorships, including hospitality tents and tailgating
- The competitive entertainment event environment
- Horse supply
- Prize money
- Having an advocate or champion of the event that loves the sport, or a sponsoring charity

There is a mix of opinions regarding potential growth in steeplechase racing. Many of those interviewed by Spectrum believe attendance growth is possible. However, the investment cost of new events is a significant barrier to entry. The NSA is exploring all options to expand, including venues in Atlanta, Tennessee, New York and more races at existing tracks. Reviving old events or using multi-source complexes may be an option for growth. The model used for successful events is a 501(c)3² or 501(c)4³, which pairs the races and event with a good cause. The charity helps with attendance, good will, marketing and volunteers.

The largest consideration when assessing issues affecting potential capital investment for new steeplechase events is the size of the initial investment. Without an advocate/champion of an event, the return on investment – compared with other options that are a lot easier – does not entice someone to create an event. Most of the existing steeplechase events have been around for 40 to 100 years on property that often was family-owned, so the primary investment now is only upkeep.

² “Section 501(c)(3) is the portion of the US Internal Revenue Code that allows for federal tax exemption of nonprofit organizations, specifically those that are considered public charities, private foundations or private operating foundations.” <https://www.501c3.org/what-is-a-501c3/> (accessed November 26, 2019)

³ “To be tax-exempt as a social welfare organization described in Internal Revenue Code (IRC) section 501(c)(4), an organization must not be organized for profit and must be operated exclusively to promote social welfare.” <https://www.irs.gov/charities-non-profits/other-non-profits/social-welfare-organizations> (accessed November 26, 2019)

Against this backdrop, there are a number of equine industry trends that are not favorable, including:

- Horse owners and horses are essential for growth of more steeplechase events, and having dates on the calendar for the event that can attract the horses and the public are essential.
- If pari-mutuel wagering is to attract revenue, the trends for racing and wagering on horses nationwide have been poor and the steeplechase races seem to be less attractive as a product and much less familiar to the national public. The familiarity and popularity are important if simulcasting of the races is permitted as a way to grow the amount wagered on races.
- Animal-welfare issues are at the forefront at racetracks across the country. While steeplechase racing is “under the radar” now, the fatality rate of steeplechase racing is worse than flat racing. Some sponsors may have concerns associating with events that may be perceived as negative or have gambling associated with them.

The distribution of pari-mutuel wagers has changed dramatically and is a factor when considering any pari-mutuel model. As noted above, 90 percent of pari-mutuel wagers today are made off-track. The two greatest factors that impact handle as it relates to this report are familiarity and distribution. Other important factors are field size (number of horses in a race), type of wagers offered and the price of wagering (takeout).

The more familiar the customer is with the product offered, the more will be wagered. This presents two challenges for steeplechase races. Steeplechase racing takes place only in the eastern part of the US, so customers in many states do not know steeplechase racing exists and have never seen a race. Also, the greater the distribution of the product (more locations and ways to place a wager) the greater the wagering handle will be.

Selling the steeplechase race signal to a large network is a challenge. The challenge with simulcasting of steeplechase races, to seek a reasonable return on investment, is that the product suffers from lack of familiarity and the distribution of a one-day event when achieved must compete in a market with a lot of choices that customers are already familiar with.

The current operators of steeplechase events that have pari-mutuel wagering view it as a loss leader. The expenses to operationalize the pari-mutuel wagering and simulcasting on those events at best has been a break-even venture. Operators do see a value to it as they believe it drives additional customers to the event and adds to the overall entertainment value.

Based on the wagering results at other pari-mutuel steeplechase events, Spectrum’s projections for potential revenue and taxes in North Carolina are low. Using the existing data with reasonable assumptions, Spectrum projects that revenues would, at most, amount to less than \$30,000 for the more successful North Carolina steeplechase event, which would not cover

expenses and at a reasonable tax rate would only generate, at most, a couple of thousand dollars for the State of North Carolina.

Based on the market, comparison to existing pari-mutuel steeplechase events, industry trends and low demand from current operators, it would be extremely challenging to make steeplechase pari-mutuel work in North Carolina for the limited number of events for two primary reasons:

1. It would take a long-term commitment by the operators of the events to show a profit from the investment, and
2. The cost of the regulatory framework for such a limited number of races would be expensive and add to the overall cost side.

If pari-mutuel were legalized, enabling legislation must be passed, the appropriate structure for regulation determined, rules passed, and an appropriate partner to regulate events determined. Given the limited scope of this report and the limited number of races to be regulated, Spectrum recommends creating a commission comprised of members of NCEL and partnering with the National Steeplechase Association to implement many aspects of regulation.

The recommendations in this report assume this is the only form of gambling expansion that currently may be implemented. Of note, NCEL has separately (and currently) engaged Spectrum to undertake a comprehensive study looking at all forms of current and potential future gaming in North Carolina, including pari-mutuel horse racing. How the State of North Carolina ultimately chooses to proceed with expanded gaming would have an impact on the potential steeplechase pari-mutuel wagering, distribution and regulation.

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Introduction

The North Carolina Education Lottery (“NCEL,” “the Lottery,” or “Client”) engaged Spectrum Gaming Group (“Spectrum,” “we,” or “our”) as a result of Senate Bill 574 of the 2019 session of the General Assembly of North Carolina, entitled “An Act to Study the Status of Sports Betting and Whether or Not to Establish a Gaming Commission.”

Section 1, Part 3 of the Act stated that the North Carolina State Lottery Commission shall “[e]xamine on-site betting at horse steeplechases, including the following:

1. Any authorizations and restrictions on such activities in this State.
2. The potential economic development impacts of revitalizing horse steeplechases in this State.
3. Potential revenues and expenditures for the State, if on-site betting at horse steeplechases is authorized.
4. Appropriate regulation and oversight of on-site betting at horse steeplechases, including potential licensing requirements.”

Steeplechase races are races in which the horses and their jockeys race over a course that includes various obstacles that the horses are required to hurdle.

This study includes data collection, research, analysis and interviews with 21 people by telephone and by email. We contacted a wide range of stakeholders, including regulators, horsemen, racetrack operators, and racetrack personnel. (See Appendix 1 for the interview list.)

A. Methodology

Spectrum relied on the following methods for our research and analysis:

1. Research North Carolina State statutes and regulations that pertain to authorization or restrictions for pari-mutuel activities, horse racing, sports wagering and horse racing, and intrastate and international wagering on steeplechase horse racing.
2. Review the history of existing horse steeplechase events in the State.
3. Research regulatory policies that are currently provided by the National Steeplechase Association and what regulatory aspects would need to be implemented in North Carolina if wagering were permitted.
4. Research data for similar events in other states that host steeplechase racing, both non-pari-mutuel and pari-mutuel.
 - a. Data collection of pari-mutuel wagering handle and revenues from horse steeplechase events – Far Hill Races (NJ), Fair Hill Races (MD) and the Virginia Gold Cup and International Gold Cup (VA).

5. Examine the potential for expansion of steeplechase in North Carolina.
 - a. Interviewed and solicited comments from stakeholders in the horse steeplechase industry to evaluate factors that would impact expansion of horse steeplechase racing in North Carolina, including the supply of horses and horse owners, the market potential for additional events and other factors.
6. Collect historical data available from existing horse steeplechase events with pari-mutuel wagering.
 - a. Comparison of North Carolina events to those in other jurisdictions, using data from National Steeplechase Association and steeplechase operators including the Queen's Cup Steeplechase in Mineral Springs, NC, and the Tryon Block House Races in Asheville, NC.
 - b. Study the interest in steeplechase wagering in other jurisdictions and the sports wagering and/or pari-mutuel wagering on such events.
7. Contact state gaming commissions to access expenditures related to pari-mutuel regulation.
8. Outline current industry trends including capital investment and other direct economic impacts.
 - a. Review how industry trends would pertain to steeplechase racing in North Carolina, including the potential for capital investment if steeplechase wagering were authorized.
9. Estimate pari-mutuel revenues and wagering taxes that could be generated from steeplechase racing in North Carolina based on data collected and industry trends.
10. Review various distribution models in other horse racing states and research any changes made in those jurisdictions, including the resulting effects.
 - a. Analyze data with correlation to markets in North Carolina.
11. Research and assess industry and state regulatory issues, options and potential models for North Carolina.
12. Present a comprehensive narrative report with our findings and recommendations.

B. About Spectrum Gaming Group

Spectrum Gaming Group is an independent research and professional services firm founded in 1993 that serves private- and public-sector clients worldwide. We are a non-partisan consultancy that specializes in the economics, regulation and policy of legalized gambling worldwide.

Spectrum holds no beneficial interest in any casino operating companies or gaming equipment manufacturers or suppliers. We employ only senior-level executives and associates

who have earned reputations for honesty, integrity and the highest standards of professional conduct. Our work is never influenced by the interests of past or future clients.

Each Spectrum project is customized to our client's specific requirements and developed from the ground up. Our findings, conclusions and recommendations are based solely on our research, analysis and experience. Our mandate is not to tell clients what they want to hear; we tell them what they need to know. We will not accept, and have never accepted, engagements that seek a preferred result.

Our 250-plus clients have included government entities of all types and gaming companies (national and international) of all sizes, both public and private. In addition, our principals have testified or presented before the following governmental bodies:

- British Columbia Lottery Corporation
- California Assembly Governmental Organization Committee
- Connecticut Public Safety and Security Committee
- Florida House Select Committee on Gaming
- Florida Senate Gaming Committee
- Georgia House Study Committee on the Preservation of the HOPE Scholarship Program
- Georgia Joint Committee on Economic Development and Tourism
- Illinois Gaming Board
- Illinois House Executive Committee
- Indiana Gaming Study Commission
- Indiana Horse Racing Commission
- International Tribunal, The Hague
- Iowa Racing and Gaming Commission
- Louisiana House and Senate Joint Criminal Justice Committee
- Massachusetts Gaming Commission
- Massachusetts Joint Committee on Bonding, Capital Expenditures, and State Assets
- Michigan Senate Regulatory Reform Committee
- National Gambling Impact Study Commission
- New Hampshire Gaming Study Commission
- New Jersey Assembly Regulatory Oversight and Gaming Committee
- New Jersey Assembly Tourism and Gaming Committee
- New Jersey Senate Legislative Oversight Committee
- New Jersey Senate Wagering, Tourism & Historic Preservation Committee
- New York Senate Racing, Gaming and Wagering Committee
- New York State Economic Development Council
- Ohio House Economic Development Committee
- Ohio Senate Oversight Committee
- Pennsylvania Gaming Control Board
- Pennsylvania House Gaming Oversight Committee
- Puerto Rico Racing Board
- US House Congressional Gaming Caucus
- US Senate Indian Affairs Committee
- US Senate Permanent Subcommittee on Investigations
- US Senate Select Committee on Indian Gaming

- US Senate Subcommittee on Organized Crime
- Washington State Gambling Commission
- West Virginia Joint Standing Committee on Finance
- World Bank, Washington, DC

Disclaimer

Spectrum has made every reasonable effort to ensure that the data and information contained in this study reflect the most accurate and timely information possible. The data are believed to be generally reliable. This study is based on estimates, assumptions, and other information developed by Spectrum from its independent research effort, general knowledge of the gaming industry, and consultations with the North Carolina Education Lottery. Spectrum shall not be responsible for any inaccuracies in reporting by NCEL or its agents and representatives, or by any other data source used in preparing or presenting this study. The data presented in this study were collected through as late as October 31, 2019. Spectrum has not undertaken any effort to update this information since this time.

Some significant factors that are unquantifiable and unpredictable – including, but not limited to, economic, governmental, managerial and regulatory changes; and acts of nature – are qualitative by nature and cannot be readily used in any quantitative projections. No warranty or representation is made by Spectrum that any of the projected values or results contained in this study will actually be achieved. We shall not be responsible for any deviations in the project’s actual performance from any predictions, estimates, or conclusions contained in this study.

This study is qualified in its entirety by, and should be considered in light of, these limitations, conditions and considerations.

C. Principal Author

Spectrum Senior Pari-Mutuel Associate F. Douglas Reed, a renowned authority in the horse-racing industry, is the principal author of this report. Reed is Director Emeritus of the University of Arizona Race Track Industry Program (“RTIP”) and has extensive experience as a racing official, track executive, and racing and gaming industry consultant.

Reed was affiliated with the RTIP for more than 20 years, where he was responsible for all aspects of the racing program, including administration, instruction, promotion and fundraising. He was also director of the RTIP’s annual Global Symposium on Racing & Gaming, North America’s largest pari-mutuel racing conference.

Prior to joining the University of Arizona, Reed was vice president of Santa Fe Racing, which operated two pari-mutuel tracks in New Mexico. He also spent many years as a racing official, including serving as racing secretary at Arlington Park, Oaklawn Park and Rockingham Park.

Reed has been a featured speaker and presenter at numerous industry conferences, seminars and events, including events hosted by the Asian Racing Conference, Association of Racing Commissioners International, Harness Horsemen International, International Simulcast Conference, National Council for Legislators from Gaming States, and the International Conference of Gambling & Risk Taking.

Highly regarded on the international racing scene, Reed has ties to many international racing jurisdictions, including Japan, Hong Kong, Singapore, Canada, New Zealand, Australia, Ireland, United Kingdom, France, Sweden, South Africa and Korea.

He earned an undergraduate degree in mathematics from Albright College and an MBA from the University of Arizona, Eller School of Management.

I. The Regulatory Outlook

In this section, we examine existing authorizations and restrictions on pari-mutuel activities in North Carolina, regulations currently in place at sanctioned events, and costs of regulation if pari-mutuel is permitted. We examine options for efficient regulation given the market potential for pari-mutuel is limited in scope in this report.

A. North Carolina Current Authorizations and Restrictions for Wagering on Steeplechase Races

North Carolina General Statutes Review

Pari-mutuel wagering has, for close to 100 years, been regulated by those states wishing to conduct legal wagering on horse racing, dog racing and jai alai. There are 43 states that have passed legislation that permits pari-mutuel wagering, although not all of those states currently offer wagering. The enabling legislation typically establishes a state government agency with the power to promulgate rules to regulate the conduct of wagering and the events being wagered on. The agency is also often given a mandate in this enabling language to protect the health and welfare of the participants in the event.

After reviewing the current North Carolina General Statutes, it is clear that pari-mutuel wagering is prohibited in the state. The relevant section can be found in Chapter 14, “Criminal Law,” and is cited below:

§ 14-292. Gambling.

Except as provided in Chapter 18C of the General Statutes or in Part 2 of this Article, any person or organization that operates any game of chance or any person who plays at or bets on any game of chance at which any money, property or other thing of value is bet, whether the same be in stake or not, shall be guilty of a Class 2 misdemeanor. This section shall not apply to a person who plays at or bets on any lottery game being lawfully conducted in any state. (1891, c. 29; Rev., s. 3715; C.S., s. 4430; 1979, c. 893, s. 1; 1983, c. 896, s. 1; 1993, c. 539, s. 204; 1994, Ex. Sess., c. 24, s. 14(c); 2005-344, s. 3(e).)

There is also a specific prohibition in Chapter 14 involving pari-mutuel wagering on greyhound racing:

§ 14-309.20. Greyhound racing prohibited.

- (a) No person shall hold, conduct, or operate any greyhound races for public exhibition in this State for monetary remuneration.
- (b) No person shall transmit or receive interstate or intrastate simulcasting of greyhound races for commercial purposes in this State.
- (c) Any person who violates this section shall be guilty of a Class 1 misdemeanor. (1998-212, s. 17.16(d).)

Additionally, in Chapter 16, “Gaming Contracts and Futures,” there is language that dates to 1810 that seems to place an apparent prohibition on any form of wagering and specifically mentions the outcome of a “race”:

§ 16-1. Gaming and betting contracts void.

All wagers, bets or stakes made to depend upon any race, or upon any gaming by lot or chance, or upon any lot, chance, casualty or unknown or contingent event whatever, shall be unlawful; and all contracts, judgments, conveyances and assurances for and on account of any money or property, or thing in action, so wagered, bet or staked, or to repay, or to secure any money, or property, or thing in action, lent or advanced for the purpose of such wagering, betting, or staking as aforesaid, shall be void. (1810, c. 796, P.R.; R.C., c. 51, ss. 1, 2; Code, ss. 2841, 2842; Rev., s. 1687; C.S., s. 2142.)

While the purpose of this language and the rest of the Chapter are somewhat unclear, it does seem to directly prohibit wagering on the outcome of a race. It should be mentioned, however, that this language was written and enacted well before pari-mutuel wagering was even invented. Absent legal opinion to the contrary, this section of the General Statutes seems highly relevant to the legality of pari-mutuel wagering in North Carolina, no matter how archaic it may be.

A thorough review of the rest of the North Carolina General Statutes did not uncover any other relevant or applicable sections of law in any other Chapter.

Current Legislative Issues

Two North Carolina bills involving pari-mutuel wagering were introduced early this year, as follows.

Senate Bill 154: SB 154 was filed on February 27, 2019, and signed into law on July 26, 2019. The bill added language to “§14-292.2. Class III gaming on Indian lands” that made sports betting and horse race wagering legal forms of Class III gaming on tribal lands pursuant to the Indian Gaming Regulatory Act. Horse race wagering was not part of the initial bill that was filed but was added in the Commerce and Insurance Committee version and adopted on April 3, 2019. The relevant section is cited below:

(4) Horse race wagering. – Fixed odds or pari-mutuel wagering on Thoroughbred, harness or other racing of horses, including simulcasting and off-track betting. For purposes of this subdivision, the wager shall be deemed to occur where it is initiated and received, all of which must occur on Indian lands within the State lawfully permitted to conduct Class III gaming activities pursuant to G.S. 14-292.2(a).

As this is the only language that was adopted, it is unclear how the wagering would be conducted and regulated, especially given the consents required in federal law (Interstate Horseracing Act) regarding the transmission and acceptance of simulcast signals, as discussed in the next section. Additionally, it appears Indian casinos in North Carolina could accept wagers on

any steeplechase event in the state without being required to pay anything into the pari-mutuel system.

Senate Bill 165: SB 165 was filed February 27, 2019, passed the first reading, and was assigned to the Committee on Rules and Operations of the Senate, where it currently resides. The bill, which is entitled “An Act To Allow The North Carolina State Lottery Commission To License And Regulate Off-Track Pari-Mutuel Horse Race Wagering,” edits several sections of §18C and creates a new Article 9 that serves to enable the North Carolina Lottery Commission as the state agency that regulates off-track wagering facilities. Unlike SB 154, compliance with the Interstate Horseracing Act is explicitly stated in §18C-181 (c).

The proposed language is complete as it relates to off-track wagering but would need to be revised to enable the North Carolina Lottery Commission to regulate on-track wagering at a steeplechase event.

Federal Law

The Interstate Horseracing Act of 1978

There is one piece of federal legislation that is potentially relevant to pari-mutuel wagering in North Carolina, and it is presented here for awareness should the import or export of simulcast signals be considered at some stage. The legislation is entitled the “Interstate Horseracing Act of 1978” and is housed in U.S. Code Title 15, Chapter 57, Sections §3001-§3007. This legislation governs the exportation of simulcast signals transmitted interstate. It creates a specific exemption for pari-mutuel wagering to the Federal Interstate Wire Act of 1961.

The legislation also establishes a series of consents required to be obtained in order to export a simulcast signal for legal pari-mutuel wagering out-of-state. The relevant section is cited below:

§3004. Regulation of interstate off-track wagering

(a) Consent of host racing association, host racing commission, and off-track racing commission as prerequisite to acceptance of wager. An interstate off-track wager may be accepted by an off-track betting system only if consent is obtained from

(1) the host racing association, except that

(A) as a condition precedent to such consent, said racing association (except a not-for-profit racing association in a State where the distribution of off-track betting revenues in that State is set forth by law) must have a written agreement with the horsemen’s group, under which said racing association may give such consent, setting forth the terms and conditions relating thereto; provided,

(B) that where the host racing association has a contract with a horsemen’s group at the time of enactment of this chapter which contains no provisions referring to interstate off-track betting, the terms and conditions of said then-existing contract shall be deemed to apply to the interstate off-track wagers and no

additional written agreement need be entered into unless the parties to such then-existing contract agree otherwise. Where such provisions exist in such existing contract, such contract shall govern. Where written consents exist at the time of enactment of this chapter between an off-track betting system and the host racing association providing for interstate off-track wagers, or such written consents are executed by these parties prior to the expiration of such then-existing contract, upon the expiration of such then-existing contract the written agreement of such horsemen's group shall thereafter be required as such condition precedent and as a part of the regular contractual process, and may not be withdrawn or varied except in the regular contractual process. Where no such written consent exists, and where such written agreement occurs at a racing association which has a regular contractual process with such horsemen's group, said agreement by the horsemen's group may not be withdrawn or varied except in the regular contractual process;

(2) the host racing commission;

(3) the off-track racing commission.

(b) Approval of tracks as prerequisite to acceptance of wager; exceptions

(1) In addition to the requirement of subsection (a), any off-track betting office shall obtain the approval of

(A) all currently operating tracks within 60 miles of such off-track betting office; and

(B) if there are no currently operating tracks within 60 miles then the closest currently operating track in an adjoining State.

(2) Notwithstanding the provisions of paragraph (1) of this subsection, any off-track betting office in a State with at least 250 days of on-track parimutuel horseracing a year, may accept interstate off-track wagers for a total of 60 racing days and 25 special events a year without the approval required by paragraph (1), if with respect to such 60 racing days, there is no racing of the same type at the same time of day being conducted within the off-track betting State within 60 miles of the off-track betting office accepting the wager, or such racing program cannot be completed. Excluded from such 60 days and from the consent required by subsection (b)(1) may be dark days which occur during a regularly scheduled race meeting in said off-track betting State. In order to accept any interstate off-track wager under the terms of the preceding sentence the off-track betting office shall make identical offers to any racing association described in subparagraph (A) of subsection (b)(1). Nothing in this subparagraph shall be construed to reduce or eliminate the necessity of obtaining all the approvals required by subsection (a).

(c) Takeout amount

No parimutuel off-track betting system may employ a takeout for an interstate wager which is greater than the takeout for corresponding wagering pools of off-track wagers on races run within the off-track State except where such greater takeout is authorized by State law in the off-track State.

(Pub. L. 95-515, §5, Oct. 25, 1978, 92 Stat. 1813.)

To summarize, in order to export a signal for off-track, interstate wagering, the host track (where the race is run) must first obtain the approval of the local horsemen's group, the state regulatory agency in that state, and the state regulatory agency where the race is being broadcast for wagering purposes.

Horse Racing Integrity Act of 2017 (Barr-Tonko Bill)

Over the last 15 years, there have been several attempts to pass federal legislation aimed specifically at providing some level of federal oversight related to health, welfare and doping issues in horse racing. The Horse Racing Integrity Act of 2017 (H.R. 2651) is the latest such example. It aims to hold states to an unspecific drug and testing standard as a precondition of participating in interstate simulcasting under the Interstate Horseracing Act of 1978. The bill has been endorsed by several racing industry stakeholder groups and opposed by others. While the chance of passage of this Act appears to be remote as of this writing, it is presented here to underscore the frustration felt by some racing industry participants on issues of differing state-by-state regulations and integrity perceptions, and also the potential for federal intervention in the future that could impact or usurp the regulation of pari-mutuel racing by state entities, using the Interstate Horseracing Act as a vehicle.⁴

Industry Initiatives

While there is no direct non-governmental regulatory oversight of horse racing the United States, there are several industry-led initiatives that could be useful in the future should North Carolina proceed with allowing and regulating pari-mutuel wagering. They are presented here for informational purposes.

The National Racing Compact

The mission of the National Racing Compact is "to establish uniform requirements for and issue licenses to participants in pari-mutuel racing to ensure that all participants who are licensed meet a uniform standard of honesty and integrity, and to reduce the regulatory burden on those participants in pari-mutuel racing who are indisputably welcome to race in every state and province by providing them with a single license recognized in all racing states and provinces."⁵

It was created as an independent, interstate governmental entity, composed of pari-mutuel racing regulators from participating states, which has been authorized by the states and approved by the Federal Bureau of Investigation to receive criminal history information from the FBI.

⁴ Barr-Tonka Bill, Horse Racing Integrity Act of 2017. <https://tonko.house.gov/uploadedfiles/barr-tonko-horseracing-integrity-act-of-2017.pdf>

⁵ National Racing Compact. <http://www.racinglicense.com/> (accessed November 10, 2019)

The Compact is empowered to set standards for individual licenses, accept applications and fingerprints, analyze criminal history information and issue a national license that will be recognized by all member states and other states that may elect to recognize the license. Participants need only to complete one license application and provide one set of fingerprints instead of duplicating the licensing process in each state. Once approved for the national license, a participant then pays only a participation fee in each state in which the national licensee wishes to race.

Membership in the National Racing Compact is open to all racing states that pass the model legislation, which is available at <http://racinglicense.com/modellegislation.html>.⁶

Model Rules

The Association of Racing Commissioners International (“RCI”) is the umbrella organization of the official governing rule-making bodies for professional horse and greyhound racing. The bulk of its members are located throughout North America and parts of the Caribbean, although its standards are relied upon worldwide in making regulatory policy.

One of the chief initiatives of the RCI is the development and maintenance of a comprehensive set of Model Rules. It is recognized worldwide as a standard for the independent and impartial regulation of horse and greyhound racing as well as the conduct of pari-mutuel wagering. In some racing jurisdictions, the Model Rules have the force of law as they have been adopted by reference statutorily or through a regulatory rule making. In others they form the basis upon which rules are written, ensuring substantial uniformity in the regulation of the sport.⁷ They can serve as a valuable resource to any eventual state agency enabled by statute to regulate pari-mutuel wagering in North Carolina.

B. Current National Steeplechase Association Regulation of North Carolina Races

The National Steeplechase Association (“NSA”) is the official sanctioning body of US steeplechase racing. The NSA is the regulatory body for all sanctioned races run without pari-mutuel wagering. The four events that have pari-mutuel wagering (in Maryland, New Jersey and Virginia) are regulated by the racing commissions in those jurisdictions per the statues regarding the regulation of pari-mutuel racing in those states. Each of those states created a racing

⁶ Ibid.

⁷ Association of Racing Commissioners International, “Model Rules.” <https://www.arci.com/model-rules-standards/> (accessed November 10, 2019)

commission when pari-mutuel wagering was legalized in those states many years ago. Still, the NSA helps with the regulation and provides support for those pari-mutuel events.⁸

The regulation of the races by the NSA is similar to what the racing commissions do in states that have flat racing with a state racing commission. The NSA establishes and enforces the rules of racing.⁹

The NSA trains racing stewards and officials. It supplies a core group of officials for the event. It supplies three stewards, a safety steward, steward secretary, clerk of scales and horse identifier. The host facility is responsible to provide placing and patrol judges and a veterinarian. The NSA oversees and is responsible for the drug testing of the equine athletes, and their procedures are very similar to state racing commissions in the US. The NSA uses the same laboratory for specimen testing as the Maryland Racing Commission. All participants (including jockeys, owners, trainers, etc.) must be licensed by the NSA. At the events that have pari-mutuel racing, the participants are also licensed by the state racing commission.¹⁰

Based on Spectrum's experience and our interviews with industry steeplechase operators, the NSA has a very good reputation for regulating the events, and having events sanctioned is important to the operator. The event operators value the job the NSA does, know the organization's efforts for safety are important and find it helpful that the rules are the same from state to state at the non-pari-mutuel events. The event organizers do pay fees for the sanctioning that goes to cover costs of the regulations. The entry fees and a small percentage of the purses paid go to the NSA.

C. Cost Review for Pari-Mutuel Steeplechase Regulation

It is difficult to make direct comparisons regarding cost structures and revenues between the various state agencies that regulate pari-mutuel wagering in the United States. There are myriad adjunct funding mechanisms employed, especially since tax revenues to the states from pari-mutuel wagering have been steadily in decline over the last thirty years. Because of this, the trend has been going from being reliant on appropriations from state general funds to currently more self-funding revenue stream models. As an example, the Arizona Division of Racing, which is part of the Arizona Department of Gaming, now relies on a "racing wagering assessment," which is a percentage of the amount wagered in the state, for the bulk of its revenue. Expenses are similarly difficult to compare because there are significant differences state-to-state in the

⁸ Interview with William Gallo Jr., National Steeplechase Association, Director of Racing, October 11, 2019.

⁹ A copy of the NSA rule book is available at <http://www.nationalsteeplechase.com/wp-content/uploads/pdf/RuleBook.pdf>.

¹⁰ Ibid.

forms of wagering being regulated. Some racing regulatory agencies are housed within larger gaming divisions, and some have extensive off-track and advanced deposit wagering facilities that fall under their regulatory mandate. There are also significant differences in the number of live racing dates between states.

Similarly, it would be difficult to predict the revenues and expenses associated with regulating a new endeavor as part of an existing state regulatory agency. There are likely to be areas in which costs can be shared (information technology, human resources, etc.) that would reduce overall expenditures. But there are also jobs that require specialized knowledge that may be difficult to attract to a state with a small number or highly seasonal live racing dates. This could potentially lead to an increase in personnel costs relative to other jurisdictions.

With the above caveats in mind, two jurisdictions have been selected to provide a general understanding of the expenses associated with pari-mutuel regulation. While neither is likely to be a perfect comparison, they have been selected because of their similar number of racing dates to what would be anticipated in North Carolina and the general lack of other significant regulatory components, such as gaming.

Below, we examine performance data from Idaho and Montana, the two states Spectrum believes would be most relevant to pari-mutuel steeplechase racing in North Carolina.

Idaho

Background: For CY 2018, there were 25 live racing dates in Idaho spread out at seven different racetracks, most of which comprise a state fair circuit.¹¹

Revenue: There were 1,040 Occupational Licensees issued, however once fingerprint fees, fines and duplicates are removed the total drops to 772. Of these, 242 were for horse owners, which comprised the highest percentage of the total. License fees accounted for \$40,346 in revenue, with an additional \$5,100 from fines paid by licensees.

Pari-mutuel handle for the 181 races was \$417,941 for an average handle of \$16,717 per racing date. The Idaho State Racing Commission received \$7,010 from the handle, while an additional \$12,300 was collected by the Commission from simulcast license fees.

Idaho has a developed off-track wagering and an advanced deposit wagering network that provide additional revenue to the Commission. In 2018, total handle on simulcast races was \$1,909,451, and handle on advanced deposit wagering was \$8,258,424, which provided \$37,718 and \$35,171 of revenue to the Commission. The total revenue for CY 2018 for the Commission was \$137,645. (There was a discrepancy in the Idaho Racing Commission report regarding receipts from simulcast and advance deposit wagering, but the difference was not material.)

¹¹ Idaho State Racing Commission 2018 Annual Report.

Expenses: On the expense side, the Idaho State Racing Commission has three full-time employees; an Executive Director, a Business Operations Manager, and a Technical Records Specialist. There are also three part-time, seasonal employees who serve as the state stewards. The stewards are responsible for overseeing the day-to-day activities at the racetrack. The Commission also employs, by contract, one veterinarian who operates the Commission test barn on race days and oversees the health and welfare of the horses. In CY 2018, the total personnel-related expenses were \$156,680, but it should be noted that the position of Executive Director was vacant during this period, which likely impacted these expenses significantly.

Other expenses to consider for comparison purposes include the Commission's contract with the post-race testing laboratory, which accounted for \$8,944 in expenses. Testing contracts are typically awarded on a per-sample testing basis. There was \$8,615 in fingerprinting fees and also \$33,220 in fees paid to other state government agencies, including Auditing and the Attorney General's office.

Total actual expenses for CY 2018 were \$227,209¹², however the total appropriation for CY 2019, which was submitted in August 2019, was \$427,900, which provides some idea of the total expense anticipated for hiring a full-time Executive Director. The CY 2019 appropriation is broken down as \$241,900 in personnel expenses, \$156,000 in operating expenses and \$30,000 in trustee and benefit payments.¹³

Bottom line: Idaho relies on other sources of revenues to offset the cost of regulation for live racing. It has simulcasting, off-track wagering and advanced deposit wagering that generate revenues for the racing commission to help defray costs of the regulatory body. Despite those additional revenues, the net for the Idaho Racing Commission was a loss of \$89,564.

Montana

Background: For CY 2018 there were eight live racing dates in Montana at two racetracks. The state agency responsible for regulating pari-mutuel wagering is the Montana Board of Horseracing, which is housed within the Montana Department of Commerce. The Board of Horse Racing is funded with state special revenue derived from a 1 percent tax on gross receipts from pari-mutuel betting or the actual cost to the Board for regulating the meet, whichever is higher.

Revenue: There were 460 Occupational Licenses issued in CY 2018, which produced revenue of \$15,270. Of those licenses, 88 were for horse owners and 79 for owners/trainers. The next-highest license category was for pari-mutuel clerks at 48 licenses. The Board also received

¹² Ibid.

¹³ Agency Summary and Certification, Adam Jarvis Analyst, August 30, 2019, Idaho State Racing Commission. https://dfm.idaho.gov/publications/exec/budget/fy2021/requests/public-safety/state-police_idaho/racing-commission.pdf

an additional \$5,930 in revenue from the licensing of advanced deposit wagering and simulcast facilities. There was \$900 in revenue from fines paid by licensees.

Pari-mutuel handle for the 75 races was \$598,349 for an average daily handle of \$66,483. This provided \$5,983 in revenue, while an additional \$16,280 was collected by the Board and distributed for the Montana Owners and Breeders Bonus program.

Montana has a developed off-track wagering and an advanced deposit wagering network that provide additional revenue to the Board. In 2018, total handle on simulcast races was \$4,389,723, which provided \$43,897 in revenue. Handle on advanced deposit wagering was \$3,858,979, which returned \$136,426 in source market fees, of which the Board retains 10 percent for a total of \$13,642 in revenue. (Additionally, the Board regulates fantasy sports, which provided \$55,095 of revenue. Interestingly, the fantasy sports aspect was contracted by the Board to the Montana Lottery for operational purposes and has games based on NASCAR and the NFL.)

Expenses: The Board reported expenses associated with regulating the live racing meets for CY 2018 of \$39,663. This is comprised of \$18,946 of payroll, \$5,380 in travel expenses, \$7,967 in lodging/meals and \$7,370 in post-race testing laboratory fees. The CY 2018 expenses of the Board totaled \$283,207, but that includes the monies being held for distribution to the tracks (\$157,275), bonus programs (\$20,891) and debt service to the Montana Department of Administration (\$62,842), which lowers the operating expenses to \$42,199. This makes total expenses for the racing operations of approximately \$81,862.¹⁴

Bottom line: Montana relies on other sources of revenues to offset the cost of regulation for live racing. It has simulcasting, off-track wagering and advanced deposit wagering that generate revenues for the racing commission to help defray costs of the regulatory body. Excluding revenue from fantasy sports, Montana Racing Commission's bottom line was nearly break-even in CY 2018, with a net of \$3,760.

Note: A third commission budget Spectrum explored but did not use for comparison was the 2018 Virginia Racing Commission. For 10 harness days and two steeplechase events, the budget was about \$925,000.¹⁵ We did not examine this state for several reasons. Virginia has a significant off-track wagering network that accounted for over \$440,000 in tax revenue. The annual report does not provide details of the commission expenses and the size of the budget in comparison to the other two states examined, so it would not be practical to implement if North Carolina only has pari-mutuel for steeplechase racing.

¹⁴ Montana Board of Horse Racing 2018 Annual Report.

¹⁵ Interview with David Lermond Jr., Executive Director, Virginia Racing Commission, October 21, 2019.

D. Assessment of Regulatory Options and Outcomes

Any plan to initiate pari-mutuel wagering in North Carolina must start with the passage of statutory language that enables the legality of pari-mutuel wagering and establishes a regulatory authority and mandate. As it currently stands under North Carolina General Statutes, pari-mutuel wagering is not a permitted form of wagering. The previously mentioned Senate Bill 165 could serve as a potential starting point, although in its current form it does not establish the legality of accepting wagers at an on-track facility and instead focuses solely on off-track wagering. The bill would need to be rewritten and reintroduced in order to add an on-track component that would except on-track pari-mutuel wagering from the restrictions in §14-292 and possibly also that found in §16-1.

Once a state agency has been identified by statute as the regulatory authority, a body of rules would need to be adopted by that agency in order to both regulate the act of pari-mutuel wagering and provide sufficient regulation for the conduct of racing, including licensing of participants and the actual act of racing. Numerous resources identified in this report could speed this process considerably, including the potential to incorporate significant portions by reference in lieu of drafting original rule language. If this is deemed a desirable strategy, however, some thought should be given when drafting the statutory language mentioned above, to ensure the state agency has the explicit authority to incorporate outside documents by reference as regulations.

If pari-mutuel wagering in North Carolina is limited to steeplechase racing, the cost of regulation will be a barrier because the expected revenues to the State will be minimal (see section VII-B.) Even using Montana as an example, the cost of regulation under a traditional model will exceed the expected revenues if the two existing steeplechase events in North Carolina host wagering during their events without any other legal pari-mutuel wagering the rest of the year. If the expense of this regulation, or even the amount above what the state is able to recapture, is passed on to the operators of the events as a mandatory expense in addition to the expenses associated with putting on the race meet (see section VI-A), it would be doubtful that the operators could see a benefit to implementing such wagers for customers.

Therefore, Spectrum suggests that if North Carolina wishes to permit pari-mutuel wagering just for steeplechase racing, the State may wish to explore a different model for regulation, rather than copying traditional regulatory structures found in most states with a greater distribution of pari-mutuel wagering.

The most cost-efficient regulation, if only steeplechase pari-mutuel wagering is permitted, is to create a public-private partnership with the NSA. As outlined above (see section IV-B), the NSA does a thorough job of regulating the racing, integrity and safety of the races. The addition of pari-mutuel wagering does include additional tasks and oversight. North Carolina

would still need to establish a regulatory commission and would probably want to do so in order to maintain some degree of control over the wagering process and the licensed participants. This could be achieved with NCEL as the regulator responsible for the wagering aspect of the event (audits, cash accounting, tote functions) and licensing participants while establishing the NSA as a “de facto regulator” for the conduct of the actual race itself.

This option would greatly reduce the cost of regulation because there would be no redundancy for sanctioned meets, as the NSA currently does a good job of race regulation. The cost to the NSA for pari-mutuel regulation (which could be passed on to the state commission through a sole source contract via public-private partnership or other similar mechanism) would be much less than having a full paid commission staff. Audits, licensing of proper totalizator¹⁶ companies and participants and other aspects of wagering regulation could be the sole focus of the Lottery Commission and likely fits, at the very least, the general expertise that already resides within the Commission.

This would obviously differ dramatically from Maryland, New Jersey, Virginia and other states that currently regulate pari-mutuel steeplechase events. Those commissions were established decades ago to regulate a much larger infrastructure of racing venues and many more race days. The proposed structure of the regulation above would be very different if forms of pari-mutuel wagering beyond the steeplechase events and potential simulcast of those events for wagers takes place. For example, if off-track wagering, historical horse racing machines, or racetracks with a greater number of live race days were to be permitted, what we recommend would differ and there would need to be larger budgets to take on aspects of regulation that the NSA does not or could not provide.

¹⁶ A totalizator is a machine used in pari-mutuel betting for registering bets, and computing the odds and payoffs while the bets are being placed.

II. Historical Review

A. North Carolina's Steeplechase Past and Present

Steeplechase racing in America and abroad has a long history. Its history traces back to Ireland in the mid-18th century.¹⁷ “Steeplechasing found its way to the United States The sport’s first footholds were in Long Island, Maryland, Virginia and eastern Pennsylvania, and steeplechasing soon spread to the Carolinas, Georgia, Massachusetts, and other states.”¹⁸

Horse racing in North Carolina dates back to colonial times and was popular until after the Civil War. Gambling on horse racing was popular, racing conducted major social events, and breeding was a significant business. After the Civil War a number of the racing organizations disappeared, but horse racing remained active at the North Carolina State Fair and at county fairs.¹⁹

While most horse racing (flat racing and harness racing) disappeared in the late 1940s, steeplechase events became popular. The longest continuous occurring steeplechase event in North Carolina is the Tryon Block House Steeplechase, which began in 1947.²⁰ The race moved to a new location for 2017, moving from “its 30-year-old location at the Foothills Equestrian Nature Center to a 115-acre site off Highway 9 [in Tryon, NC], just a few miles south of the Tryon International Equestrian Center. The Equestrian Center is partnering with the race’s original organizer, the Tryon Riding and Hunt Club, which started the event in 1947.”²¹ The event was scheduled to run in October 2019 but due to construction (with approximately a \$1 million investment), irrigation and safety concerns of the course, the race has been rescheduled for the spring 2020.²²

The second-oldest formal steeplechase event in North Carolina was Stoneybrook. “Originating in 1949 the Stoneybrook Steeplechase enjoyed its first 49 years at the Southern Pines farm of its founder Mickey Walsh. Following Walsh’s death, the farm was sold and the

¹⁷ “History of Jump Racing,” National Steeplechase Association. <https://www.nationalsteeplechase.com/history/> (accessed October 24, 2019)

¹⁸ Ibid.

¹⁹ Jim Sumner, “Horse Racing,” Encyclopedia of North Carolina, 2006. <https://www.ncpedia.org/horse-racing>

²⁰ “Tryon Block House Steeplechase,” RomanticAsheville.com. <https://www.romanticasheville.com/steeplechase> (accessed October 17, 2019)

²¹ Karen Wynne, “Blockhouse Steeplechase moves to new location after 30 years,” News ABC 13 WLOS, February 28, 2017. <https://wlos.com/news/local/blockhouse-steeplechase-to-new-location>

²² Interview with Molly Oakman, Director of Equestrian Operations, Tryon Resort/Tryon International Equestrian Center, October 18, 2019.

Stoneybrook Steeplechase ceased to exist. In 2001 a group of equestrian enthusiasts revived the event in its new location at the Carolina Horse Park in Raeford, NC, where it ran for another 16 years.”²³

Another popular event that has ceased operations was Tanglewood Steeplechase. The event started in 1963. “The last ‘original’ steeplechase was held in 2002, though the event was briefly revived in 2010.”²⁴

The 1990s saw two new steeplechase events organized in North Carolina. The Brookhill Steeplechase began in 1993 and was run in Clayton until 2007. The race drew about 15,000 spectators and raised money for the Jaycees, but because the land was being considered for development the race was ended.²⁵

The Charlotte Steeplechase Foundation began what is now known as the Queen’s Cup Steeplechase in Union County in 1995. The Price family purchased 260 acres in Mineral Springs, NC, and moved the event. After a sizeable investment of \$2.6 million, “The course and farm ... officially opened to the public for the 5th annual Queen’s Cup, April 29, 2000.”²⁶

In sum, there were five steeplechase events in North Carolina but only two remain. There are three fewer meets than in 1992, and this trend is mirrored nationwide as events have declined about 30 percent.²⁷

B. Steeplechase Events in Multiple Jurisdictions – Compared and Contrasted

To examine North Carolina’s steeplechase industry and opportunity it must be looked at in comparison to national trends and similar events. Because the steeplechase industry in the United States is limited regionally and is relatively small in comparison to other horse racing industries in the country, a number of factors affect all the events in the United States. For example, with a limited supply of riders, trainers and horses, the scheduling of races elsewhere

²³ “The Stoneybrook Steeplechase,” Carolina Horse Park, November 17, 2016. <http://carolinahorsepark.com/79-carolina-horse-park-featured-events/118-stoneybrook>

²⁴ “Flashback: Tanglewood Steeplechase,” *Winston Salem Monthly*, April 30, 2018. https://www.journalnow.com/winstonsalemmonthly/flashback-tanglewood-steeplechase/article_b19cb5de-4c87-11e8-985a-ab1a13e98d9f.html

²⁵ “2001 Brookhill Steeplechase cancelled,” JohnstonCounty.Today, February 23, 2007 <http://forums.johnstoncounty.today/threads/2007-brookhill-steeplechase-cancelled.11639/>; and “New developer targets Earp tract in Clayton,” *The News & Observer*, October 31, 2014. <https://www.newsobserver.com/news/local/community/clayton-news-star/article10113239.htm>

²⁶ “Queen’s Cup – History.” <https://www.queenscup.org/steeplechasing/history/> (accessed October 24, 2019)

²⁷ Interview with Bill Price, Co-Race Chairman, Charlotte Steeplechase Foundation Inc., October 17, 2019.

and the trends nationwide have an impact on regional events. The comparison is also useful to determine potential pari-mutuel opportunities based on data and experiences elsewhere.

National Trends and Statistics

Steeplechase racing relies on Thoroughbred horses, so a number of Thoroughbred racing statistics impact steeplechase racing. The steeplechase owners and trainers do not exclusively rely on Thoroughbreds bred in the United States, but those horses do make up a very significant percentage of the entries in steeplechase events. There is some potential to see growth of imports from Europe to supply horses for steeplechase races in this country because the sport is more popular in the United Kingdom and Ireland.

Figure 1: United States Thoroughbred foal crop, 2003 – 2018

Year	USA Foals	Percent Change
2003	33,976	3.0%
2004	34,800	2.4%
2005	35,050	0.7%
2006	34,905	-0.4%
2007	34,358	-1.6%
2008	32,332	-5.9%
2009	29,612	-8.4%
2010	25,954	-12.4%
2011	22,653	-12.7%
2012	21,469	-5.2%
2013	21,429	-0.2%
2014	21,418	-0.1%
2015	21,486	0.3%
2016	21,024	-2.2%
2017*	20,900	-0.6%
2018*	19,925	-4.7%

Source: The Jockey Club – 2019 Fact Book. *Estimated

The foal crop has decreased 41.4 percent since 2003, which has had a negative impact on the number of Thoroughbred races that have been run in the US and the field size of those races, which has a negative impact on the pari-mutuel handle.

This decrease in the number of horses available for training and racing has had an effect on both the flat racing and the steeplechase racing in the US. One positive development, according to Don Clippinger, communications director for the National Steeplechase Association,

is that American buyers have been shopping in foreign markets for their steeplechase horses, and more overseas horses are racing at Far Hills, NJ, and other NSA race meets.²⁸

Figure 2: Thoroughbred races and steeplechase races run in the United States, 2003 – 2018

Year	Number of Thoroughbred Races Run in USA	Percent Change	Number of Steeplechase Races Run in USA	Percent Change
2003	53,500	-1.5	570	12.8%
2004	53,595	0.2	572	0.4%
2005	52,257	-2.5	580	1.4%
2006	51,668	-1.1	543	-6.4%
2007	51,304	-0.7	516	-5.0%
2008	50,120	-2.3	508	-1.6%
2009	49,368	-1.5	529	4.1%
2010	46,379	-6.1	490	-7.4%
2011	45,417	-2.1	479	-2.2%
2012	45,086	-0.7	483	0.8%
2013	43,139	-4.3	456	-5.6%
2014	41,276	-4.3	454	-0.4%
2015	38,941	-5.7	479	5.5%
2016	38,284	-1.7	498	4.0%
2017	37,628	-1.7	480	-3.6%
2018	36,586	-2.8	473	-1.5%

Sources: The Jockey Club – 2019 Fact Book, 2018 National Steeplechase Association Annual

The decline in total Thoroughbred races has been 31.6 percent since 2003; the steeplechase decline (on a much smaller number of races) was 17 percent over the same time period.

Figure 3: US steeplechase race meets (days), 1990 vs. 2019

	1990	2019
Days run at racetracks	21	16
NSA events days at steeplechase facilities	37	27
Total days	58	43

Source: The National Steeplechase Association

The decline in actual race meets (days) since 1990 has been 27 percent at steeplechase venues and almost 26 percent at both racetracks and steeplechase venues such as the two in North Carolina.

²⁸ Interview with Don Clippinger, Director of Communications, National Steeplechase Association, October 23, 2019.

Another indicator of the business is the purses (prize money) for the races, as shown in the following table.

Figure 4: US total and steeplechase purses, 2003 – 2018

Year	Total Purses - United States (\$M)	Percent Change	Total Purses - Steeplechase Races (\$M)	Percent Change
2003	1,055.5	-1.7	4.947	2.3%
2004	1,092.1	3.5	4.959	0.24%
2005	1,085.0	-0.7	5.120	3.25%
2006	1,120.4	3.3	4.846	-5.35%
2007	1,180.6	5.4	5.357	10.54%
2008	1,165.0	-1.3	5.359	0.04%
2009	1,098.2	-5.7	4.948	-7.67%
2010	1,031.3	-6.1	4.390	-11.28%
2011	1,061.2	2.9	4.426	0.82%
2012	1,127.8	6.3	4.629	4.59%
2013	1,127.2	-0.1	4.763	2.89%
2014	1,111.7	-1.4	5.233	9.87%
2015	1,093.7	-1.6	5.836	11.52%
2016	1,083.7	-0.9	6.139	5.19%
2017	1,079.7	-0.4	5.995	-2.35%
2018	1,117.7	3.5	6.233	3.97%

Sources: The Jockey Club – 2019 Fact Book and 2018 National Steeplechase Association Annual

A bright spot for steeplechase racing is the fact that purses since 2003 have increased 26 percent, compared with the national total increase over the same period of only 5.9 percent. The fact that the number of races is declining while the purse has grown also means the average purse per race has seen significant increases, which can help drive participation. The average purse for all races and the average purse for steeplechase races have both increased more than 50 percent. However, the purses for all races average \$30,549 vs. only \$13,178 for the steeplechase race. The incentive from a purse perspective is not great when compared to the alternative of racing in a Thoroughbred flat race.

Figure 5: Total pari-mutuel handle on Thoroughbred races in the US, 2003 – 2018

(\$M)	On-Track	Off-Track	Total	Percent Change
2003	1,902	13,278	15,180	0.8%
2004	1,860	13,239	15,099	-0.5%
2005	1,741	12,820	14,561	-3.6%
2006	1,688	13,097	14,785	1.5%
2007	1,670	13,055	14,725	-0.4%
2008	1,489	12,173	13,662	-7.2%
2009	1,325	10,990	12,315	-9.9%
2010	1,199	10,220	11,419	-7.3%
2011	1,229	9,541	10,770	-5.7%
2012	1,239	9,643	10,882	1.0%
2013	1,185	9,692	10,877	0.0%
2014	1,175	9,377	10,552	-3.0%
2015	1,122	9,553	10,675	1.2%
2016	1,058	9,686	10,744	0.6%
2017	1,041	9,868	10,909	1.5%
2018	999	10,268	11,267	3.3%

Source: The Jockey Club – 2019 Fact Book

US pari-mutuel wagering handle has declined 25.8 percent since its peak in 2003. Also of note, in 2018, more than 90 percent of wagers were placed off-track.

Those results are just some of many factors that have influenced the decline in pari-mutuel wagering on races. None of the national trends (with the exception of increases in prize money) appears strong for steeplechase growth. Later in this report, other factors that could influence the opportunities for steeplechase racing are examined.

Pari-Mutuel – Comparing Events in Multiple Jurisdictions

Next, we examine how pari-mutuel steeplechase events are doing in other jurisdictions and how these other events compare to those in North Carolina. Because an important focus of this analysis is the prospect of pari-mutuel for North Carolina steeplechase, first we will look at the historical records and pari-mutuel results of steeplechase events in Maryland, New Jersey and Virginia, as well as the pari-mutuel handle at racetracks hosting steeplechase races.

Figure 6: Virginia Gold Cup and International Gold Cup steeplechase pari-mutuel handle, 2013 – 2019

Year	Total Live Handle	VA Gold Cup	International Gold Cup	Spring Simulcast Handle (export)	Fall Simulcast Handle (export)	Spring KY Derby Handle (import)
2013	\$ 119,956	\$ 81,017	\$ 38,939			
2014	\$ 240,302	\$ 135,811	\$ 82,451			
2015	\$ 222,682	\$ 165,569	\$ 80,664			
2016	\$ 241,860	\$ 170,422	\$ 71,438			
2017	\$ 179,931	\$ 113,376	\$ 66,555			
2018	\$ 194,528	\$ 137,950	\$ 56,578		\$ 9,921	\$ 14,837
2019	\$ 196,358	\$ 128,047	\$ 68,311	\$ 4,871	Not offered	\$ 8,842

Sources: Virginia Racing Commission 2018 Annual Report and Interview with David Lermont Jr., Executive Director, Virginia Racing Commission

Neither the Virginia Gold Cup nor the International Gold Cup in Plains, VA, have demonstrated any real growth of the pari-mutuel handle with the exception of Year 1 to Year 2, which most likely was driven by familiarity and experience of both the operators and the customers. The export of the steeplechase races for simulcast (a broadcast of a horse race that allows wagering at two or more sites) handle was only recently offered (fall of 2018 and spring 2019.) The results were poor and not nearly enough to cover the transmission cost of the signal for wagering. Several people interviewed for this study told Spectrum that efforts to acquire distribution outlets for wagering was not given the focus/effort needed for growing that handle. This fall (2019) they did not simulcast the International Gold Cup races.

A significant factor affecting the potential handle for the spring Virginia Gold Cup is the fact that the race is run on the first Saturday in May – the same day as the Kentucky Derby. The latter race captures tremendous interest nationwide, and most experienced pari-mutuel customers would focus their efforts on that race and other races instead of the Virginia Gold Cup. The Gold Cup operators decided in 2018 and 2019 to import the Kentucky Derby race for wagering at the Gold Cup site. Neither the export simulcast numbers or the import Kentucky Derby handle is part of the total on track live handle in the chart above but is additional handle.

Figure 7: Fair Hill, MD, steeplechase attendance, pari-mutuel handle and tax revenue, 2015 – 2019

Year	Attendance	Handle	Tax to State (9%)	Track Share (16%)
2015	12,000	\$ 162,414	\$ 14,617	\$ 25,986
2016	15,106	\$ 132,518	\$ 11,927	\$ 21,203
2017	14,104	\$ 157,712	\$ 14,194	\$ 25,234
2018	11,114	\$ 151,676	\$ 13,651	\$ 24,268
2019	11,110	\$ 124,920	\$ 11,243	\$ 19,987

Sources: Maryland Racing Commission 2017 Annual Report and Interview and Email with Michael Hopkins, Executive Director, Maryland Horse Racing Commission

According to Nancy Simperts, president of Fair Hill Races, the organizers are lucky if they break even on the pari-mutuel revenue. The crowd expects it, so they do it. In 2019, they reported a loss of just under \$400 and that was without simulcasting and excluding the cost of

video and transmission of a signal. The Fair Hill races are not exported for simulcasting in other locations. Fair Hill was going to try to export the races for simulcast in 2019 but it was unable to make the necessary arrangements in time for the event. Management attributed the decline this year to price increases and loss of volunteers. Purses are a key to Fair Hill’s ability to expand, and the Maryland Lottery provides almost half of its purse money from sponsorship, which is vital.²⁹ Again, we can see there has been little growth of the pari-mutuel handle, and considering the costs it does not generate any ancillary revenue, according to management. It should be noted (and will be discussed later) that the tax rate of 9 percent is the highest in the US. But those funds, while directed to the Maryland Racing Commission, are then reallocated to the Department of Natural Resources to help fund maintenance and upkeep of the facilities of Fair Hill.³⁰

Of the existing pari-mutuel venues for steeplechase in the United States, Far Hills (NJ) is best positioned to generate the most revenue and growth from wagering. This is because the purses for their races are by far the largest and they have the most international horses in the races, which makes wagering on those races more attractive in Europe. According to Scott Finley, Country Manager, Pari-Mutuel Urbain, France’s wagering and totalizator company, the addition of Irish and UK trainers and horses will significantly add to the wagering handle and appeal of the steeplechase races in those foreign markets.³¹

Figure 8: Far Hills, NJ, steeplechase pari-mutuel handle, 2018 – 2019

Year	Live Handle On Track	Gross Handle	Simulcast Only (export)
2018	\$ 210,695	\$ 355,041	\$ 144,346
2019	\$ 294,142	\$ 438,580	\$ 144,438
Percent Change	39.6%	23.5%	0.1%

Sources: New Jersey Racing Commission 2018 Annual Report and Bill Knauf, Vice President of Business Operations, Monmouth Park

While only in its second year of simulcasting and pari-mutuel wagering, the on-track live handle showed excellent growth of nearly 40 percent. The crowd was estimated at 35,000.³² What is disappointing is the lack of growth from the off-track wagering, if management wants to see eventual profits from the pari-mutuel wagering. The revenue percentages are greater for the on-track handle, but the opportunity for significant ancillary income in the long term would come from growing the export off-track simulcast handle. The distribution of pari-mutuel wagering has

²⁹ Interview with Nancy Simpers, President, Fair Hill Races, October 21 and 28, 2019.

³⁰ Interview with Michael Hopkins, Executive Director, Maryland Racing Commission, October 18, 2019.

³¹ Interview with Scott Finley, Country Manager, Pari-Mutuel Urbain, France, October 21, 2019.

³² Amanda Hoover, “Thousands converge for tailgating, horse racing at Far Hills,” NJ.com, October 19, 2019. <https://www.nj.com/entertainment/2019/10/thousands-converge-for-tailgating-horse-racing-at-far-hills-photos.html>

dramatically changed over the past three decades and now 90 percent of pari-mutuel wagers are made off-track at simulcast locations or by internet wagers with account wagering providers.

When Spectrum interviewed racing executives at Thoroughbred racetracks that host steeplechase races, each said that the steeplechase pari-mutuel wagering is far less than on a similar flat race. Their estimates varied from 25 percent to 40 percent less per race.³³ Spectrum’s analysis supports those estimates, as follows.

Parx racetrack in Pennsylvania hosted two steeplechase races in 2019. We examined the handle on those two races using the historical race charts at Equibase.com and compared them to two similar flat races. On July 1, 2019, the steeplechase races (Race 3 and Race 5) handled 20 percent less than flat races (Race 2 and Race 4).

Colonial Downs in Virginia hosted 10 steeplechase races, two each day for five days. First, we compared the first and third races (steeplechase races) to the second and fourth races (flat races). We found that on-track handle was 27 percent less on the steeplechase races and the simulcast handle was 67 percent less for those races. Knowing the earlier races on the race card usually attract less wagering than later races we also examined the first and third races compared only to the second race to make sure the fourth race, later in the card, did not have an unusually high handle skewing the averages. Again, the difference was significant, with the on-track handle 12 percent less on the steeplechase races and 59 percent less on the simulcast handle. The results are not surprising given that Virginia hosts a fair number of steeplechase races and those type of races would be more familiar to the live on-track customer compared to the customers across the country wagering via simulcast.

Figure 9: Colonial Downs, VA, pari-mutuel handle averages of steeplechase races and comparable flat races, 2019

Races	Colonial Downs	Off-Track Handle	On-Track Handle
Race 1 + 3 each day	Total steeplechase	\$228,212.76	\$96,748.60
	Average per race	\$22,821.28	\$9,674.86
Race 2 & 4 each day	Total flat races	\$685,494.85	\$132,766.90
	Average per race	\$68,549.49	\$13,276.69
	Percent less	67%	27%
Race 1 & 3 each day	Total steeplechase	\$228,212.76	\$96,748.60
	Average per race	\$22,821.28	\$9,674.86
Race 2 each day	Total flat races	\$280,600.21	\$54,917.40
	Average per race	\$56,120.04	\$10,983.48
	Percent less	59%	12%

Source: Colonial Downs via email from Jill Byrne, Vice President of Race Operations

³³ Interview with Jill Byrne, Vice President of Racing Operations, Colonial Downs, October 22, 2019; interview with Bill Knauf, Vice President of Business Operations, Monmouth Park, October 23, 2019; interview with Martin Panza, Senior Vice President of Racing Operations, New York Racing Association, October 24, 2019.

Monmouth Park in New Jersey, like Parx, hosted two races in 2019. We compared the same day in 2019 versus 2018 and the same races. Total handle for both days was nearly the same, and we compared the same races on the card. The only difference was the field size; in both cases, the steeplechase races had one more horse in the race. This would only skew the data in favor of the steeplechase races, as studies have demonstrated the handle increases as field size increases.

Figure 10: Monmouth Park, NJ, 2019 versus 2018 handle comparisons

Races	Monmouth Park	Off-Track Handle	On-Track Handle	Total Handle
2019 Race 1 + 3	Total steeplechase	\$ 357,290	\$ 37,357	\$394,647
	Field size: 8, 9 respectively			
	Average per race	\$ 178,645	\$ 18,679	\$197,324
2018 Race 1 + 3	Total flat races	\$ 465,405	\$ 52,678	\$518,083
	Field size: 7, 8 respectively			
	Average per race	\$ 232,703	\$ 26,339	\$259,042
	Percent difference	-23.2%	-29.1%	-23.8%

Source: Monmouth Park, Bill Knauf, Vice President of Business Operations

Even with larger fields, the steeplechase races still underperformed compared to similar flat races for Thoroughbreds. In this case, the live on-track handle was 29 percent less and the total handle for the races was almost 24 percent less on the steeplechase races.

To fairly compare the New York races at Saratoga and Belmont, it was difficult to compare all races because inclement weather in 2019 caused several race cards to be cancelled. Because the steeplechase race each day was the first race, the best comparison was to compare the first race on days that the total handle was nearly equal. We found seven days in 2018 and 2019 that made for fair comparisons where the races and total handle for the day were similar.

Figure 11: New York Racing Association pari-mutuel handle comparison of steeplechase races and comparable flat races, 2018 – 2019

1st Race Handle Comparison						
Steeplechase Races				Flat Races		
Date	Handle	Field size	Track	Date	Handle	Field size
7/30/2018	\$ 278,522	7	Saratoga	7/23/2018	\$ 412,471	6
8/1/2018	\$ 239,446	6	Saratoga	8/8/2018	\$ 380,710	5
8/23/2018	\$ 338,706	8	Saratoga	8/16/2018	\$ 517,031	7
8/7/2019	\$ 239,215	6	Saratoga	7/18/2019	\$ 496,267	6
8/28/2019	\$ 229,220	7	Saratoga	7/31/2019	\$ 402,362	5
9/18/2019	\$ 240,442	7	Belmont	9/11/2019	\$ 372,032	7
9/19/2019	\$ 303,771	9	Belmont	9/12/2019	\$ 342,035	6
Average	\$ 267,046	7.14			\$ 417,558	6

Source: Equibase Historical Race Charts

Even with the flat race average field size one less than the steeplechase (which would reduce handle from 12 percent to 20 percent), the steeplechase races handled 36 percent less than comparable Thoroughbred flat races.

Operations – Comparing Events in Multiple Jurisdictions

Steeplechase races are no small achievement, and all have a history of being supported by advocates, volunteers and in most cases charities; this is different from the Thoroughbred racing at racetracks throughout the country. The steeplechase events are more than races – they are social events that are unique and attract a different demographic than horse races that are run daily at many racetracks in the US.

Figure 12: NSA sanctioned steeplechase events – North Carolina and comparable events

Event	State	Attendance Estimate	Purse Money 2018	Pari-Mutuel Handle (last running)	Inaugural Year
Far Hills	NJ	30,000	\$ 898,500	\$ 438,580	1920
Iroquois Steeplechase	TN	25,000	\$ 516,000	n/a	1941
Virginia Gold Cup	VA	45,000	\$ 431,800	\$ 141,760	1922
International Gold Cup	VA	20,000	\$ 356,200	\$ 68,311	1937
Carolina Cup	SC	35,000	\$ 322,900	n/a	1934
Fair Hills	MD	11,110	\$ 209,550	\$ 124,920	1934
Middleburg Spring Races	VA	7,500	\$ 198,500	n/a	1920
Radnor Hunt Races	PA	20,000	\$ 182,200	n/a	1930
Shawan Downs (Legacy Chase)	MD	7,000	\$ 165,050	n/a	2000
Steeplechase at Callaway Gardens	GA	10,000	\$ 159,200	n/a	1984
Queen’s Cup	NC	15,000	\$ 146,850	n/a	1995
Montpelier Hunt Races	VA	17,000	\$ 141,400	n/a	1929
Virginia Fall Races	VA	10,000	\$ 139,550	n/a	1955
Tryon Block House	NC	9,000	\$ 124,450	n/a	1947

Sources: See Appendix 2 for a list of sources

The table above is a comparison of the top half (14 of 28 events) by prize money offered of the 2018 NSA steeplechase sanctioned races. According to Bill Gallo, NSA director of racing, the events could be categorized into three tiers. There are the top-tier events such as Far Hills, Iroquois and Virginia Gold Cup, a second tier consisting of about the middle third of events, which would include the North Carolina events, and a bottom third not included on this list.³⁴

³⁴ Interview with William Gallo Jr., National Steeplechase Association, Director of Racing, October 11, 2019.

In general, the top-tier events are doing well, the middle-tier events are doing fair to good, and the bottom-tier events are struggling. North Carolina's two events specifically are doing well, according to Gallo.³⁵

The Queen's Cup's co-race chairman, Bill Price, says the key factors to the event's success are the economy and the weather. The weather often has a significant impact on ticket sales for the following year because all tickets are pre-sold before the event. The average attendee is well-educated and affluent. Almost 80 percent are between the ages of 25-64, and about 89 percent travel less than 60 miles to attend. The fans are not sophisticated racing fans but love the competition and do not want to see horses fall, he said.³⁶ According to management, the event realizes a good net income (FY 2018 net income exceeded \$100,000) and as a result is able to make significant charitable donations.

Price said he was concerned about the supply of horses because the field size for the races was small and the heavy favorites seem to win often. Because the Queen's Cup does not offer pari-mutuel wagering, he believes the short field size was not a significant issue for his event. While his event is a non-profit, it has done well and is profitable and growing. But the return on investment versus other easier options is not enticing to investors looking for options.³⁷ The average field size for the five races in 2019 was only 6.6 per race.

Unlike the standalone Queen's Cup Steeplechase, the Tryon Block House Steeplechase event is just one event hosted by the Tryon International Equestrian Center, which hosts events throughout the year, including a large variety of equestrian events of many disciplines. Organizers have recently made a \$1 million investment in the Green Creek Race Course – five miles from the equestrian center – to host the steeplechase event. The October 2019 event was rescheduled for April 2020 due to construction and safety concerns. It is management's desire to have an event course similar to and as successful as the Queen's Cup. Currently the event is close to a financial break-even and they hope to grow the event, management told Spectrum. Molly Oakman, director of equestrian operations for Tryon International Equestrian Center, said she believes the event can grow on the spectator side. While the population is not great enough to have an event like the top-tier steeplechase events, there is room for growth. Corporate sponsorship is a key factor and if the regional events would work together, Oakman feels there is an upside to

³⁵ Ibid.

³⁶ Interview with Bill Price, Co-Race Chair, Charlotte Steeplechase Foundation, Inc., October 17 and 19, 2019.

³⁷ Ibid.

attracting those sponsors.³⁸ Similar to the Queen’s Cup, Tryon had five races in 2018 and an average field size of only 6.8 horses per race.

International Interest in Jump (Steeplechase) Racing

There are two reasons to examine interest in steeplechase racing outside the United States (referred to as jump racing or national hunt in other countries):

1. If pari-mutuel wagering is to be successful today it should include the simulcasting of the races to other locations. Over 90 percent of all wagers on horse races take place at locations away from the place where the live race occurs. The ability to realize a return on investment must include simulcasting.
2. The supply of horses in the US has declined. If steeplechase events hope to expand there will be a need for more steeplechase horses; the importing of horses bred outside the US would be one potential resource.

Steeplechase (jump) racing is extremely popular in Ireland and Great Britain. Besides pari-mutuel wagering on those races, they have fixed-odds wagering (i.e., traditional sports wagering) as well. Ireland is the only country where steeplechase racing, referred to as national hunt races, is more popular than the flat racing. There are more steeplechase race meets and a significant number of horses and interest in the sport.

Figure 13: Ireland steeplechase race meet statistics, 2017 – 2018

Year		Flat Racing	National Hunt	Both	Total
2017	Meets	142	186	29	357
2017	Attendance	325,114	695,344	260,823	1,281,281
2017	Races	1,172	1,434		2,606
2017	Average Field Size	11.5	11.4		
2018	Meets	156	187	20	363
2018	Attendance	236,599	341,125	696,305	1,274,029
2018	Races	1,234	1,410		2,644
2018	Average Field Size	11.4	11.2		

Source: Horse Racing Ireland Factbook 2018

Great Britain’s steeplechase racing (jump racing) is quite popular but not quite as popular as the flat racing. There are a substantial number of steeplechase race meets in Great Britain and there is a significant number of horses and interest in the sport.

³⁸ Interview with Molly Oakman, Director of Equestrian Operations, Tryon International Equestrian Center, October 18 and 29, 2019.

Figure 14: Great Britain steeplechase race meet statistics, 2014 – 2018

Year	Jump Meets	Flat Meets	Total Meets	Jump Average Attendance	Flat Average Attendance
2014	545	884	1,429	3,885	4,189
2015	557	883	1,440	4,046	4,379
2016	549	885	1,434	4,082	4,233
2017	571	894	1,465	3,884	4,179
2018	558	914	1,472	3,823	3,982

Source: British Horse Racing Authority

There are more than twice as many flat races in France compared to steeplechase races but, there is still a significant number of steeplechase races. There are 109 courses that host steeplechase races, 130 for flat races, and some courses that host both. There is a total of 153 racetrack locations in total. Some of the tracks have several courses, enabling them to host different types of races.

Figure 15: Number of steeplechase races in France, 2011 – 2015

Year	Jump Races	Flat Races	Total Races
2011	2,235	4,792	7,027
2012	2,256	4,878	7,134
2013	2,262	4,887	7,149
2014	2,258	4,908	7,166
2015	2,249	4,908	7,157

Source: France Galop

Two other countries that have a reasonable number of steeplechase races are Australia and Japan, but the opportunities for both simulcasting and importing horses from those countries would be much lower.

Figure 16: Number of Australia steeplechase races run, 2006-07 vs. 2017-18

		New South Wales	Victoria	Queensland	South Australia	Western Australia	Tasmania	Northern Territory	Australian Capital Territory	Total
2006-07	Jump races		382		111		19			512
2017-18	Flat races	5,662	4,348	4,536	1,429	2,176	560	413	196	19,320
2017-18	Jump races		70		19					89

Sources: Racing Australia Fact Books, 2017/18 and 2006/07

In the last 11 years in Australia the number of steeplechase races has declined 83 percent. The main reasons for this have been the cultural pushback by animal welfare groups and the declining interest. Similar to Ireland and Great Britain, they have both pari-mutuel and fixed-odds

wagering on the jump races. Steeplechase racing was hosted in three jurisdictions in Australia but in 2007 Tasmania abolished it due to steadily declining interest.³⁹

Figure 17: Japan steeplechase racing statistics, 2013 – 2018

Year	Races Run	Actual Starters	Total Runners	Average Starts per horse	Average Horses per race
2013	130	533	1,608	3	12.4
2014	125	507	1,584	3.1	12.7
2015	128	509	1,582	3.1	12.4
2016	128	505	1,579	3.1	12.3
2017	126	497	1,563	3.1	12.4
2018	126	504	1,564	3.1	12.4

Source: Japan Racing

Japan is a large market for wagering on horse racing, but the likelihood of importing races there is not good. The government limits the number of races that are simulcast into Japan, and only races that have a horse from Japan competing are likely to be imported. Two examples were the Arc de Triomphe in France and a Breeders Cup Race in the US, both of which were simulcast in Japan. Despite the time zone difference, \$15 million and \$17 million were wagered, respectively, on those races.⁴⁰

³⁹ Tony Bourke, “Tasmania Calls End to Jumps Races,” The Age, April 28, 2007, <https://www.theage.com.au/sport/racing/tasmania-calls-end-to-jumps-races-20070428-ge4r11.html>

⁴⁰ Interview with Scott Finley, Country Manager, Pari-Mutuel Urbain, France, October 21, 2019.

III. Steeplechase Industry Outlook and Growth Potential

A. Interviews and Industry Perspectives

Based on Spectrum’s experience and our interviews with industry officials, there are a number of factors to look at when analyzing the potential for growth of the steeplechase events in North Carolina.

The key drivers to the success and growth of all current steeplechase events are the economy, weather, ability to sell sponsorships, hospitality tents, box seats and tailgating sales. Other factors include the ability to market and stay on the social calendar given the competitive nature and number of options people have for entertainment. From a horse-supply point of view, having sufficient opportunities to run horses and good purse money for those races is important to the event. Another key factor is that each event has one or more key advocates or champions of the event who – for the love of the sport, or charity, or a combination of factors – drive the event. A good example of this is Bill Price and the Queen’s Cup. While Price is bullish on the event, and the event has raised almost \$1 million over time for charities and shown a net positive income, Price knows that if he were not the event’s advocate and driving its efforts, someone would need to fill that role for it to be a success.⁴¹

The event at Tryon at its current location operates at about a break-even, excluding the donation made to charity. When including charitable donations, the net income for last year resulted in a slight loss. There is an upside for the event, and organizers expect to show a profit in the near term because they have not incorporated their sponsorship team on this event yet and in time can grow the revenue and spectators.⁴²

There is a mix of opinions regarding the potential growth of new venues/events and/or growth of current events. One upside that many see is the growth of spectators for existing events. To expand with new events, possibilities include resurrecting those that went under, having an event as just one part of a multi-use facility such as the Tryon International Equestrian Center hosting the Block House Steeplechase, or expanding events at racetracks such as was done when Colonial Downs reopened in 2019.

The NSA is exploring all options to expand. The Colonial Downs racetrack reopening in 2019 presented 10 new steeplechase races. At the Fair Hill property in Maryland, a \$20 million project is under way to build a state-of-the-art equine facility to host a five-star equestrian event.

⁴¹ Interview with Bill Price, Co-Race Chair, Charlotte Steeplechase Foundation, Inc., October 17 and 19, 2019.

⁴² Interview with Molly Oakman, Director of Equestrian Operations, Tryon International Equestrian Center, October 18 and 29, 2019.

While the Fair Hill steeplechase races will not be run in 2020, that event will benefit in the future from the ability to use the new racecourse and facilities for the steeplechase races after all construction is completed.⁴³ The NSA president, Guy Torsilieri, said other properties in New York, Atlanta and Tennessee are being looked at for potential growth and new facilities to host steeplechase races.⁴⁴

Without an advocate/champion of an event, the return on investment versus other options that are a lot easier does not entice someone to create an event. A single event at a location is very difficult to make profitable because the costs of maintenance, rentals, and many other items are only offset by the revenue of one day. With multiple events, many of the costs can be allocated over numerous events. Perhaps one of the best events, Far Hills, is an example of how a combination of an advocate, work for charity, location and proper planning can make a very profitable event. Far Hills has donated millions to charities; this year organizers expect to be able to make approximately \$500,000 in donations. Far Hills will gross about \$3.2 million in revenue this year and has done even better in other years.⁴⁵

Similar to Far Hills, the Virginia Gold Cup and International Gold Cup in Virginia are successful and profitable before donations are made to the charities. The model used for most steeplechase events is a 501(c)3 or 501(c)4, (nonprofit organizations) that pairs the races and event with good causes. The charity helps with attendance, good will, marketing and volunteers.⁴⁶

One example of helping events achieve profitability is that instead of a single site hosting multiple events, several regional events cooperate and share resources and look for cost savings on purchases, shared knowledge and other synergies as a way to leverage the high costs. This is done by three events in southeast Pennsylvania and Delaware. Willowdale Steeplechase, Radnor Hunt Races and Winterthur Races share equipment, look to find economies of scale with purchasing, and share intelligence on their events. They even work together and market the three

⁴³ Katie Tabeling, "Fair Hill International May Not See Full 5-Star until 2022," *Cecil Whig*, September 18, 2018. https://www.cecildaily.com/spotlight/fair-hill-international-may-not-see-full--star-until/article_5efb420e-d563-5066-895b-c8b714f9367a.html

⁴⁴ Interview with Guy Torsilieri, Race Chair, Far Hills Race Meeting Association, Inc. and president, National Steeplechase Association, October 30, 2019.

⁴⁵ Ibid.

⁴⁶ Interview with Al Griffin, Co-Chair and Director of Racing, Virginia Gold Cup Association and Board Member, National Steeplechase Association, October 31, 2019.

events in May as a trio of events for people to attend and brand it as a type of triple crown for steeplechase.⁴⁷

There was no consensus on whether pari-mutuel could provide sufficient ancillary revenue. Given the data of existing events thus far, covering the cost of pari-mutuel and showing a profit on the wagering does not seem to have happened yet. The most successful pari-mutuel steeplechase event in the US based on pari-mutuel handle was this year's races at Far Hills. Total handle was \$438,580. Guy Torsilieri, chairman of the Far Hills Race Meeting Association, says the goal with pari-mutuel is to break even eventually; however, he says it was costly but worth it. He looks at the pari-mutuel as a loss-leader; the pari-mutuel brings more to the package and helps make the event more entertaining by having the wagering component.⁴⁸ Far Hills – in northern New Jersey and less than 50 miles from Wall Street – is an excellent market with a large population of potential customers familiar with pari-mutuel horse race wagering. Like other operators, Al Griffin with the Virginia Gold Cup Association views pari-mutuel wagering as a loss-leader but believes it helped increase attendance. In Virginia he thought it also helped legitimize the race event because making it pari-mutuel put the race under the auspices of the Virginia Racing Commission for oversight.⁴⁹ Nancy Simperts at Fair Hill felt the crowd expects pari-mutuel, so even though she is lucky to break even, they have pari-mutuel wagering.⁵⁰ (Note: Fair Hill has had pari-mutuel wagering for decades, the longest time of any steeplechase event in the US.)

Many who participate in steeplechase events do it for the love of the sport. The horse owners are running for a much smaller purse structure than if the Thoroughbred ran in flat races at the racetracks. Sponsorship sales for purse money is essential to creating a new event or enhancing existing ones from the horse owner's perspective. The horse and owner population to run races has declined severely and has a negative impact on the number of events and is a barrier to expansion. Another concern is the animal welfare issues facing the racing industry nationwide, and spectators do not like to see a horse or rider fall or be fatally injured.

B. Trends and Issues Effecting Capital Investment and Growth

Perhaps the largest consideration when looking at the issues affecting potential capital investment for new steeplechase events is the large investment necessary and the cost/benefit

⁴⁷ Interview with Kathy Smith, Associate Director of Development, Corporate Relations and Race Director, Radnor Hunt Races, November 8, 2019.

⁴⁸ Interview with Guy Torsilieri, Race Chair, Far Hills Race Meeting Association, Inc. and President, National Steeplechase Association, October 30, 2019.

⁴⁹ Interview with Al Griffin, Co-Chair and Director of Racing, Virginia Gold Cup Association and Board Member, National Steeplechase Association, October 31, 2019.

⁵⁰ Interview with Nancy Simperts, President, Fair Hill Races, October 21 and 28, 2019.

potential versus other options for investment. The steeplechase events require large tracts of land. The Queen’s Cup is run on a 260-acre parcel in Mineral Springs, outside of Charlotte.⁵¹ The land cost, coupled with a \$2.5 million investment⁵² to make the facility what it is, is an extreme cost of entry. Those initial investments do not include the recurring costs of upkeep, selling sponsorships and annual sales, event marketing and planning. Most of the existing steeplechase events have been around for 40 to 100 years on property that often was family owned, so the investment now is only upkeep compared to establishing a new event.

Horse population and steeplechase horse owners have been in decline, and the calendar of existing US steeplechase events runs from March 23, 2019, to November 17, 2019, with 43 days of racing. While some race days are consecutive, and sometimes there is more than one event on the same day, this averages to one event every 5.5 days, so the calendar is quite full and any new event would have to compete for horses with existing events, putting a greater demand on the supply of horses. There is also a limited supply of jockeys and when race meets compete that can become a problem.⁵³ The number of steeplechase events and races have declined. The time of year, the purse money available and the horses to fill the races would be factors in finding a place on the calendar for a new event in North Carolina.

One factor that was not significant years ago but is a serious threat today is animal welfare. The culture has changed, and so have attitudes toward the use of animals, resulting in protests against horse racing. Because steeplechase racing has not been on television or had wide distribution beyond live spectator attendance, it has been “flying under the radar.”⁵⁴ Racetracks such as Keeneland recently have had animal-rights activists protest outside the racetrack.⁵⁵ National media including the *New York Times*, CNN, *Washington Post*, *Los Angeles Times* and others have put the spotlight on Thoroughbred racing, and the threat to steeplechase would be the same if it becomes more high-profile or mainstream through television and other mass media.

The horse fatality rates both in Great Britain and the US are greater in steeplechase racing than in flat racing. In the US for 2018, the fatality rate for steeplechase races was 3.36 per 1,000

⁵¹ “Queen’s Cup – History,” <https://www.queenscup.org/steeplechasing/history/> (accessed October 24, 2019).

⁵² Interview with Bill Price, Co-Race Chair, Charlotte Steeplechase Foundation, Inc., October 17 and 19, 2019

⁵³ Interview with Don Clippinger, Director of Communications, National Steeplechase Association, October 23, 2019.

⁵⁴ Interview with William Gallo Jr., National Steeplechase Association, Director of Racing, October 11, 2019.

⁵⁵ Karla Ward, “Protesters Against Horse Racing Rally Outside Keeneland as Fall Meet Comes to a Close,” *Lexington Herald Leader*, October 26, 2019. <https://www.kentucky.com/sports/horses/keeneland/article236687753.html>

starts (2.7 for just hurdle races)⁵⁶ compared to half that (1.68 per 1,000) for flat racing.⁵⁷ In Great Britain, the discrepancy was larger in 2018: 3.9 for steeplechase versus 1.2 per 1,000 for flat racing.⁵⁸ These trends could have a negative impact on investment, spectator interest and sponsorship. Purses for the steeplechase races are primarily driven by sponsorship dollars. If sponsors do not want to associate with something perceived as negative with the animal-welfare issues or gambling, this could restrain potential growth of events. The NSA “places its highest priority on assuring the safety of steeplechase athletes, both equine and human.”⁵⁹ The NSA requires all sanctioned races to adhere to its comprehensive safety protocols.

Another factor that would affect growth or capital investment is the increase in competition and the greater expectations of spectators, which increases costs for the operator. (Examples include demand for Wi-Fi, cellular reception, high definition, etc.) The calendar of potential dates that races could be run and options that spectators have – for example, any fall races must compete against college or pro football, which are very popular in North Carolina – limit the number of events that could be added to the existing steeplechase racing calendar or at least present strong competition on many days.

The next chapter of this report examines the revenue potential for North Carolina pari-mutuel wagering, but how the trends in pari-mutuel wagering may impact steeplechase events is relevant. First, as noted previously, the pari-mutuel wagering handle in the US has declined 25.8 percent since 2003 which is due to a number of factors including increased gaming competition, declining interest in the sport and the declines in horse races and number of horses per race. Another factor is that steeplechase races’ handles are significantly less than flat races for Thoroughbreds, which make that product less competitive for wagers during any given day at facilities that simulcast races from all over the US and often other countries.

The pari-mutuel wagers placed at steeplechase events are predominantly by more casual bettors who know much less about betting and who wager much less per capita. This is evident when looking at the types of bets they make in comparison to national averages (win, place and show wagers in much higher percentage compared to exotic wagers) and taking handle divided by the attendance produces a small per-capita wagered compared to the per-capita at racetracks.

⁵⁶ Interview with Reynolds Cowles, Chairperson for the Safety Committee, National Steeplechase Association, October 25, 2019.

⁵⁷ Equine Injury Database, The Jockey Club. <http://jockeyclub.com/default.asp?section=Advocacy&area=10> (accessed October 28, 2019)

⁵⁸ British Horse Racing Authority, <https://www.britishhorseracing.com/regulation/making-horseracing-safer/> (accessed November 17, 2019.)

⁵⁹ NSA Safety Protocols 2020, Reynolds Cowles, NSA Chairperson, NSA Safety Committee, email November 8, 2019.

There are development benefits that are hard to measure but are a positive result of the steeplechase events. For the facilities that provided Spectrum with information on where customers came from, the majority of their crowds came from within a 60-mile radius and sometimes less. Most ticket sales were very regional, so events did not seem to bring a great influx of tourists. For each event, for the most part the horse owners, trainers, riders and other help travel the circuit of races so they would represent some small amount of tourism. There would be other benefits of any development of steeplechase race events. All the successful events are tied to a cause or charity. The profitable events are all 501(c)3 or 501(c)4, contributing greatly to charities. Each facility also preserves large tracts of land for green space. In addition, if new facilities are developed, there is significant construction investment that goes into the economy.

IV. Outlook and Analysis

A. Distribution Models and the Effect on Potential Revenues – a Look at Other Jurisdictions

Distribution of the pari-mutuel wagers has changed dramatically over the past three decades. Most wagering on races prior to the mid-1980s was done at the track where the horse races took place. A series of steady experiments with sending the signal of the races and permitting wagering to take place at other locations (simulcasting) and changes in technology have changed wagering on the sport in the US. Live wagering at the track where the race takes place is usually less than 10 percent of the total handle. Because this has changed wagering throughout this country, Spectrum will look at both the potential of on-site betting as well as simulcasting of the horse steeplechases.

A recent development in some states that permit pari-mutuel wagering is the legalization of electronic pari-mutuel wagering machines that accept wagers on historical horse races (“HHR” machines). While not the focus of this report because it is considered pari-mutuel wagering in those states (Alabama, Arkansas, Kentucky, Oregon, Virginia and Wyoming), we note this aspect for completeness because it has fueled significant tax revenue for states – money that has been used to enhance the purses and race operations at tracks.

There are a number of factors that influence the wagering on horse races regardless of location. The type of customer that is at the venue will determine how much per capita is wagered. If the customer is familiar with the type of wagers, has experience using the data to analyze the race (handicapping), and likes the product or type of races they will wager more than a casual attendee not familiar with how to wager or handicap a race. The number of horses in a race (field size) will matter; larger field sizes mean greater wagering, all other things being constant. The variety of the type of wagers offered will have some influence on the total amount bet per race. The takeout (often called the price of the wager – the amount taken out of the pool before winners are paid) will have an indirect or longer-term impact on totals wagered. There are other factors that are not important to this analysis that affect the amount wagered such as weather, time of day, etc.

What is perhaps important for this analysis is the type of customers that currently attend or may attend a steeplechase race in North Carolina. As mentioned in the prior section, most customers wagering at steeplechase events are casual bettors who know less about betting and wager relatively little. New Jersey and Maryland, two jurisdictions we use for comparable pari-mutuel wagering on steeplechase, have a customer base to draw from that has been familiar with pari-mutuel horse wagering for many decades. Many people in the New Jersey and Maryland markets are more familiar with horse races and wagering than people in North

Carolina. Far Hills steeplechase races are also close to New York, one of the largest markets for horse race wagering customers.

Two key factors influence the wagering on simulcast signals: familiarity and distribution. First, the more familiar the customers are with the product offered to wager on at any simulcast outlet, the more will be wagered. Steeplechase racing suffers from a lack of familiarity in many markets that simulcast horse races. In the US, steeplechase racing only takes place in the eastern part of the country, so customers in many states either do not know steeplechase races exist or have never seen one. Customers unfamiliar with the product (races) will bet less or not at all. The risk of horses falling in a steeplechase race makes it less appealing because it decreases the predictability of the outcome. One aspect that is true but not well known or promoted is the fact that the steeplechase races are more predictable, meaning the favorites or low-odds horses win more often.

The second key factor influencing simulcast wagering is distribution. The more outlets receiving the signal the more will be wagered on the race. Currently, the only steeplechase event in the US that has wide distribution of the races has been Far Hills. The two pari-mutuel steeplechase events in Virginia did attempt to simulcast those races but did not achieve a wide distribution of the product. The other steeplechase event with pari-mutuel race wagering, Fair Hill in Maryland, thus far has only offered on-track wagering and not simulcasting.

To sell the race signal for simulcast to a large network of locations is a lot of work and takes someone knowledgeable about simulcasting. The better the product being sold, the more locations want to pay for it. Far Hills partnered with Monmouth Park to help in the distribution of the simulcast signal, which is why their results were better than the Virginia simulcast sales. It would be worth the fees for any steeplechase operator to partner with one or more successful distributors (examples include Monarch, New York Racing Association, Sportech, Oregon hubs for account wagering, etc.) to broaden the distribution if they simulcast the pari-mutuel wagers. Wider distribution to foreign markets, especially Ireland and the UK, provide opportunity to grow wagering on steeplechase races.

Unfortunately, the steeplechase venues face several challenges before they could expect to gain a reasonable profit from pari-mutuel wagering. The upside to any real long-term gain would have to include the sale of the simulcast signal. The on-track wagers could cover costs but the chance to gain significant revenue on-track is limited by logistics, costs and the customers who attend those events.

The challenge with simulcasting to seek a reasonable return on investment is that the product suffers from lack of familiarity and the distribution of a one-day event – even with a good simulcast partner – is challenging because it is difficult to promote and market the event in the wide distribution networks that have plenty of content on a daily basis. Saturdays and Sundays

are the days that have the most content and the best content to compete with for wagers at all the simulcast outlets but those are the days large social events like the steeplechase races must be conducted.

The foreign simulcast markets may have an upside, but Far Hills has not been able to exploit that opportunity. This year, Far Hills had several horses from Europe, which should help the interest and familiarity of the Far Hill races in those markets. Still, the simulcast handle showed no growth from last year. The time zones when the races are run make it somewhat challenging as the races run in the US daytime would be in the evening in two markets where jump racing is popular, Ireland and Great Britain. Another opportunity that has not been explored, but also a challenge, is that much of the wagering in those markets is done with the bookmakers (i.e., traditional sports betting). The bookmakers pay flat fees per race or per race card regardless of how much is bet, as the wagers are not part of the pari-mutuel pool. This would not represent a large revenue source but it could help defray costs or create some ancillary revenue.

Looking at the Maryland and Virginia steeplechase races that conducted pari-mutuel wagering, the wagering revenue from handle can barely cover the cost incurred. As shown in Figure 6 and Figure 7, the handle at both locations has been reasonable flat. Far Hills, unlike the other two venues, only has two years of data to compare; the on-track handle grew almost 40 percent, but can that continue? Virginia's two events both experienced larger Year 2 on-track gains than Far Hills did in Year 2, but Virginia never grew beyond the second year's handle numbers.

If North Carolina permits pari-mutuel wagering on steeplechase races, those venues would have similar expenses for the totalizator operators and equipment, tellers to sell pari-mutuel tickets, any tax imposed on the wagers by state statute, transmission of the video signal, television production and crews, cost of regulation, armored car services, commissions or fees with partners used to help with distribution and other expenses.

B. The North Carolina Market Potential and Estimates of Revenue and Wagering Taxes

Based on the results of traditional pari-mutuel wagering at steeplechase events in the US, there would not be significant tax revenues generated. Given that current operators of steeplechase pari-mutuel events hope to break even, the higher the tax rate the more difficult it would be to reach that break-even point.

In many pari-mutuel states, pari-mutuel taxes have been reduced over the last 50 years to where the norm is 0 percent to 2 percent tax on gross receipts (total handle.) Fair Hill steeplechase has perhaps the US highest rate at 9 percent. At the flat racetracks in Maryland, the

tax is only 0.32 percent.⁶⁰ The tax on pari-mutuel at Fair Hill goes to the racing commission, but then is reallocated to the Department of Natural Resources, which uses the funds to maintain the facilities at the property where the Fair Hill Races take place.

Another factor that would impact the potential tax receipts is that in most cases there is a different tax rate and sometimes none (Virginia for example) on out-of-state simulcast handle. Because the revenue generated on the sale of simulcast wagers is approximately four percent (versus 20 percent to 25 percent for live on-track handle) for current operators the margins are so slim that a tax of any significant amount would make it prohibitive to offer the out-of-state wagers.

Figure 18: Estimated revenue and taxes using 2019 steeplechase handles

	2019 On-Track Handle	2019 Off-Track Handle	On-Track Revenue at 22%	On-Track Tax at 1%	On-Track Tax at 9%
Fair Hill, MD	\$124,920	n/a	\$27,482	\$1,249	\$11,243
Far Hill, NJ	\$294,142	\$144,438	\$64,711	\$2,941	\$26,473
International Gold Cup, VA	\$68,311	n/a	\$15,028	\$683	\$6,148
Virginia Gold Cup, VA	\$128,047	\$4,871	\$28,170	\$1,280	\$11,524

Source: See Figures 6, 7, 8 above; Spectrum Gaming Group estimates for revenue and tax

The estimates in Figure 18 show potential revenue before expenses for a track using 22 percent as the approximate takeout on all on-track wagers for a typical day. The revenue range for the live on-track handle ranges from approximately \$15,000 to almost \$65,000. In all cases the track did not make money after expenses.

The tax calculations for tax on live handle use the range of 1 percent to 9 percent, but based on national tax rates those estimates are higher than normal. One percent is the highest Spectrum would recommend in order to provide the operator an incentive to try to break even in the early years as it attempts to grow pari-mutuel handle on steeplechase races. At a 1 percent tax rate on the simulcast (which in comparison to many jurisdictions is high) the tax revenue based on current results is inconsequential. In the long term, the out-of-state wagers have the greatest upside for gross handle, but the margins are smaller. So, for attractive revenues or tax receipts, the growth would have to be significant and take a long time. Also, the 9 percent tax rate at Fair Hill is essentially returned to the landowner for upkeep of the property; for other comparable events, that is an expense of the operator.

A reasonable estimate of revenue from the off-track wagers would range from 3 percent to 5 percent of that handle. No estimates for the off-track wager tax are included because revenue would be at best negligible if any tax were imposed. The highest off-track handle

⁶⁰ Maryland Racing Commission 2017 Annual Report.

recorded at steeplechase events was this year at Far Hills was \$144,438, which did not cover the cost of implementation, so we believe it would take quite a few years to grow this market.

Spectrum used optimistic but reasonable assumptions to estimate revenue and taxes for the two current steeplechase events in North Carolina. We used a tax rate of 1 percent of gross receipts (handle) and a revenue of 22 percent of the handle as a blended takeout rate on various types of wagers. We first calculated the average wagering per capita from the four New Jersey/Maryland/Virginia events, with pari-mutuel wagering using the actual on-track handle and the estimates of attendance given to us by the event operators. This calculates to approximately \$6.83 per person. Next, knowing that there is a learning curve to wagering and familiarity is important to wagering handle, in Year 1 of pari-mutuel wagering in North Carolina we used 80 percent of the average per capita wagered to account for the fact that the North Carolina market has no pari-mutuel wagering and the customers will lack familiarity with wagering. In Year 2 we used 90 percent of the per capita wager, and by Year 3 we estimate that the patrons in North Carolina will be near the sophistication level as the average patrons at existing steeplechase events. In Figure 19 below we used a 5 percent growth rate for attendance in Year 2 and Year 3. In Figure 20 we used a 10 percent growth rate for attendance. The attendance growth was based on two conditions:

1. The current operators of the North Carolina events were optimistic regarding growth of their events; and
2. Some of the current pari-mutuel steeplechase operators felt that the offering of wagering added to their reach for attendees.

Another factor to consider is that the Queen's Cup this year only had five races, whereas the other events used for estimates had six, seven or eight races. If we were to take this into consideration you could lower our estimates by 10 percent to 30 percent, but we have no way of knowing how many races will be offered at future events.

Figure 19: North Carolina pari-mutuel attendance, handle, revenue and tax estimates at 5 percent attendance growth

	Queen's Cup	Tryon
Year 1 Attendance	15,000	9,000
Year 1 Handle	\$ 81,929	\$ 49,157
Year 1 Revenue	\$ 18,024	\$ 10,815
Year 1 Tax on pari-mutuel	\$ 819	\$ 492
Year 2 Attendance	15,750	9,450
Year 2 Handle	\$ 96,779	\$ 58,067
Year 2 Revenue	\$ 21,291	\$ 12,775
Year 2 Tax on pari-mutuel	\$ 968	\$ 581
Year 3 Attendance	16,538	9,923
Year 3 Handle	\$ 112,909	\$ 67,745
Year 3 Revenue	\$ 24,840	\$ 14,904
Year 3 Tax on pari-mutuel	\$ 1,129	\$ 677

Source: Spectrum Gaming Group

Figure 20: North Carolina pari-mutuel attendance, handle, revenue and tax estimates at 10 percent attendance growth

NC Pari-Mutuel Estimates	Queen's Cup	Tryon
Year 1 Attendance	15,000	9,000
Year 1 Handle	\$ 81,929	\$ 49,157
Year 1 Revenue	\$ 18,024	\$ 10,815
Year 1 Tax on pari-mutuel	\$ 819	\$ 492
Year 2 Attendance	16,500	9,900
Year 2 Handle	\$ 101,387	\$ 60,832
Year 2 Revenue	\$ 22,305	\$ 13,383
Year 2 Tax on pari-mutuel	\$ 1,014	\$ 608
Year 3 Attendance	18,150	10,890
Year 3 Handle	\$ 123,918	\$ 74,351
Year 3 Revenue	\$ 27,262	\$ 16,357
Year 3 Tax on pari-mutuel	\$ 1,239	\$ 744

Source: Spectrum Gaming Group

Spectrum did not include simulcasting estimates of revenue for two reasons. First, thus far under the best terms (Far Hills) it is not paying for itself. Second, we believe it is possible to grow this market but it will take a long time to gain greater familiarity for the product, and the European market must be better penetrated for distribution growth.

If the goal of pari-mutuel wagering on steeplechase in North Carolina is solely to drive revenue and taxes, it is difficult to see any substantial upside in those revenues in the near term. The only exception to this is if HHR machines (pari-mutuel historical horse racing) machines are considered in the state as an acceptable form of pari-mutuel. It would take very large growth of

the on-track and off-track handle to generate significant revenues. We will review various approaches in the following section of recommendations that would drive decisions on pari-mutuel and steeplechase based on goals and expected outcomes.

V. Recommendations

Spectrum will first consider potential goals for consideration of pari-mutuel and the various options that exist. Second, options perhaps beyond the scope of this report are worth mentioning. Finally, we discuss what steps must be taken if the State decides to move forward with legalizing pari-mutuel on steeplechase races. A separate Spectrum report will look at a broader view of pari-mutuel beyond the scope of this report's examination of only steeplechase races.

A. Goals and Options

Senate Bill 574 looks to address "on-site betting at horse steeplechases," but when looking at the current market of pari-mutuel wagering and also the specific pari-mutuel wagering currently on steeplechase races, Spectrum felt it was necessary to consider the potential of wider distribution options. To formulate the best recommendations, we must consider the goals of any action. Another thing to consider are options available that may not fit into the original scope of this report.

First, because we were asked to examine potential revenues and taxes, one goal may be the consideration of generating greater revenue for the event hosts and related charities or generating greater revenue to generate significant tax revenues for the state or local governments. It is relatively evident that based on the data, trends and existing steeplechase events with pari-mutuel wagering that in the near term without alternative efforts to grow the interest and wagering on pari-mutuel events in North Carolina, the goal of raising significant revenue or taxes from such efforts would not be realized. Far Hills, the top steeplechase event sanctioned by the NSA by prize money and located in an area near a large population familiar with horse pari-mutuel wagering, has not been able to make money on the pari-mutuel wagers and so far, sees it as a loss leader.

There are alternatives to consider beyond the on-site wagering on steeplechase races. Either of two things would be needed to achieve a net revenue growth: lower the costs or raise the amount wagered and thus the revenue. Simulcasting as a means to increase revenue is the first to consider because Far Hills with its premier steeplechase product has already done this for two years. It has not grown that market enough to pay for the effort and in the second year of simulcast did not grow the out-of-state handle from Year 1. It would take significant growth of awareness, familiarity and much broader distribution of the simulcast product of North Carolina steeplechase races to see this as sufficient growth in less than 5 to 10 years to become more profitable to the host tracks.

Currently there does not seem to be a great demand from the two steeplechase operators in North Carolina for pari-mutuel wagering under the current cost/benefit structure. To reduce costs, laws permitting instant wagering accounts, telephone/internet wagering, and credit card use for wagers are things that would have to be legalized to keep an operator from having the cost of pari-mutuel teller employees, pari-mutuel machines on site, and the structures to facilitate traditional on-site wagering. Currently in some states that permit pari-mutuel wagering, laws either need to be changed or laws were changed to make such wagering legal and easier. While this was beyond the scope of this report, we felt it was something to consider. If North Carolina does consider pari-mutuel, it does not have to be held to old regulatory laws established in other states many years ago. However, even if the wagering laws permit all types of technology to permit mobile devices to place wagers, there are two challenges:

- First, a well-planned infrastructure to enable proper Wi-Fi and cellular service for a large outdoor area would need to be properly installed. That is expensive.
- Second, and perhaps a greater challenge, is getting customers to download an application and be knowledgeable with the system of wagering. That is a long-term challenge because the customers at a “one-off” event like the steeplechase have a great learning curve and are unfamiliar to begin with about how to wager.

As mentioned in this report, five states have made the historical horse racing machines legal for pari-mutuel wagers. Those machines act very much to many end users like a slot or VLT machine but the calculations, pools created for wagers, etc., are pari-mutuel as defined by the laws in those states. When those machines are permitted at the facilities that legally conduct pari-mutuel wagering, they have generated significant revenue and taxes in those states.

In North Carolina, one consideration may be to legalize pari-mutuel only for horse racing charity events. This would limit the expansion of gaming only to the charity-tied steeplechase events. Because the successful steeplechase events each have a champion, an advocate, a cause and are a non-profit, contributing to charities, this might create revenue for both the State and the charities.

If creating profit or increased taxes are not the goal, then as a loss leader the wagering does bring some benefit to the event, according to existing operators, but by itself would not generate much growth beyond some increase in attendance at existing events.

Other benefits are possible. If new facilities were established, benefits could include preservation of large tracts of green space necessary for the event, economic development of the land to re-purpose it for such events, a small amount of tourism from horse owners, trainers, riders and workers coming for events and significant economic benefit to the charities the non-profits contribute to as a result of successful events. However, much of those benefits come without the pari-mutuel wagering because the event itself through sponsorship, ticket sales, etc.,

is what drives the success. Again, each event that is successful has a champion and a cause that would be critically essential to creating a new event on the North Carolina steeplechase calendar.

For potential operators wishing to establish new steeplechase venues or events, pari-mutuel wagering would not seem to be a primary factor in their decision. If pari-mutuel laws are enacted, it would give the event host the potential to make some profit from the wagers. But that would be a long-term goal and require much effort. It is important to consider laws to allow available and future technologies and ease of wagering and distribution with low or no tax rate. This would mean allowing wagers beyond the on-site venue. It would also mean allowing on-site customers to wager on the event with their phones using an easy-to-set-up instant account and the ability to utilize various forms of payment.

In summary, it would be extremely challenging to make pari-mutuel wagering work for just a very limited number of steeplechase events for two reasons. One, it will take a long-term commitment of the operators of the events to show a profit on the investment. Second, the cost of the regulatory framework for such a limited number of races would be expensive and add to the overall cost side to reach any benefit long-term.

B. Steps Necessary if Pari-Mutuel were Legalized

For pari-mutuel wagering to be legal, enabling legislation would have to be passed and the various sections of existing statute would need to be amended. (See Section IV-A).

The enabling legislation would need to establish the necessary regulatory authority or commission and authorize the promulgation of rules. The type and extent of the regulatory body would depend on the intent and scope of the permissible pari-mutuel wagering. For this report, assuming only wagering on steeplechase is enacted, we believe the only way to have the proper regulation while keeping costs at a reasonable level is to partner with the NSA.

A commission – composed of members of NCEL – must be created as the authorizing body to sanction the NSA to perform the duties of race regulation and perhaps pari-mutuel regulation. In addition to this, it likely would be necessary to allocate a partial FTE (full-time equivalent) from administrative staff at the lottery to handle clerical issues pertaining to racing during the course of the year because NSA staff will not be in the state year round.

There are resources available to help in the creation of rules. The NSA already has a rule book governing the sanctioned events (see Section IV-B, Current National Steeplechase Association Regulation of North Carolina Steeplechase Races). The RCI maintains a comprehensive set of model rules for racing and they are recognized as a standard for regulation of horse racing and the conduct of pari-mutuel wagering (see Section IV-A, North Carolina Current Authorizations and Restrictions for Wagering on Steeplechase Races). The NSA racing rules could be adopted and the pari-mutuel rules from the model rules used.

It would also be easiest if the State or commission could defer/acknowledge the NSA licensing of personnel for the races and defer disciplinary action and hearings to the NSA. If the NC Administrative Code would preclude the NSA from involvement in disciplinary hearings and action, the commission (with advisement from the NSA) would need to conduct such hearings.

The recommendations in this report assume this is the only form of gambling expansion that currently may be implemented. We understand there may be a more comprehensive report looking at recommendations for all types of gambling in the state; other decisions on gambling and the necessary regulation of those would impact these recommendations.

Other gambling permitted would have an impact on the potential pari-mutuel wagering, its distribution and regulation.

In summary, the steps necessary would be:

1. Pass enabling legislation that permits pari-mutuel wagering
2. Determine within an enabled state agency the appropriate structure for regulation
3. Pass regulations that will be enforced by the state agency
4. Determine appropriate partners (if necessary) to regulate events
5. Hire necessary staff to fill in gaps in expertise

Appendix 1: Individuals Interviewed

Spectrum interviewed the following individuals for this study, either by telephone or by email. A number of the individuals were interviewed more than once.

Last	First	Affiliation	Title
Arthur	Betty	Middleburg Spring Races	Office Administrator
Byrne	Jill	Colonial Downs	Vice President of Racing Operations
Clippinger	Don	National Steeplechase Association	Director of Communications
Cowles	Reynolds	National Steeplechase Association	Chairperson, NSA Safety Committee
Edwards	Toby	Carolina Cup Racing Association & Tryon Block House Races	Executive Race Director, Race Director
Finley	Scott	Country Manager	Pari-Mutuel Urbain
Fischer	Michelle	Darting Star, LLC	Consultant
Gallo Jr.	William	National Steeplechase Association	Director of Racing
Griffin	Al	Virginia Gold Cup Association & National Steeplechase Association	Co-Chair, Director of Racing, NSA Board Member
Hopkins	Michael	Maryland Racing Commission	Executive Director
Knauf	Bill	Monmouth Park	Vice President of Business Operations
Lermond Jr.	David	Virginia Racing Commission	Executive Director
Oakman	Molly	Tryon Resort/Tryon International Equestrian Center	Director of Equestrian Operations
Panza	Martin	New York Racing Association	Senior Vice President, Racing Operations
Price	Bill	Charlotte Steeplechase Foundation Inc.	Co-Race Chairman
Raffetto	Lou	LJR Consulting, LLC	President
Silver	Dan	Roberts Communication Network	Director of Sales, Marketing, and Business Development
Simpers	Nancy	Fair Hill Races	President
Smith	Kathy	Radnor Hunt Races	Associate Director of Development, Corporate Relations and Race Director
Torsilieri	Guy	Far Hills Race Meeting Association Inc. & National Steeplechase Association	Chairman , NSA President
Waterman	Scot	ADASAW, LLC	Proprietor

Appendix 2: Sources Used for Figure 12

Too many resources were used to compile the data in Figure 12 to list them with the table. The following is a list of resources used:

- 2018 National Steeplechase Association Annual – for a listing of the 2018 Purse Money for each event.
- 2017 Maryland Racing Commission Annual Report – for pari-mutuel handle and attendance at Fair Hill.
- 2018 Virginia Racing Commission Annual Report – for pari-mutuel handle on VA steeplechase races.
- www.Equibase.com – historical race charts used to calculate the pari-mutuel handle for October 26, 2019 International Gold Cup races.
- Interview with the following people helped compile pari-mutuel handle, attendance and inaugural running dates for some of the events:
 - Bill Price, Co-Chairman, Charlotte Steeplechase Foundation, Inc.
 - Bill Knauf, Vice President of Business Operations, Monmouth Park
 - Toby Edwards, Executive Race Director, Carolina Cup Racing Association
 - Michael Hopkins, Executive Director, Maryland Racing Commission
 - David Lermond, Jr., Executive Director, Virginia Racing Commission
 - Al Griffin, Co-Chair and Director of Racing, Virginia Gold Cup Association
 - Guy Torsilieri, Chairman, Far Hills Race Meeting Association, Inc.
 - Kathy Smith, Race Director, Radnor Hunt Races

The following websites were accessed between October 23 and October 27, 2019, to compile estimates for attendance and inaugural running dates for some of the events:

- <https://www.iroquoissteeplechase.org/>
- <https://www.vagoldcup.com/va/race-day-information>
- <https://vagoldcup.com/va/history#targetText=Organized%20steeplechase%20races%20have%20run,a%20fashionable%20spa%20near%20Warrenton.&targetText=Just%2034%20days%20later%2C%20they,the%20best%20hunters%20in%20America.%E2%80%9D>
- <https://www.virginiahorseracing.com/events/virginia-gold-cup-race-day-at-great-meadow-steeplechase-flat-pari-mutuel-races/>
- <https://festivalnet.com/15402/Camden-South-Carolina/Sports-Events/Carolina-Cup>

- https://legistarweb-production.s3.amazonaws.com/uploads/attachment/pdf/305382/Middleburg_Spring_Races_2019-2020_Funding_Request.pdf
- <https://www.brandywine.org/press-room/press-releases/thrilling-day-racing-open-space-draws-crowd-25000-89th-radnor-hunt-races>
- <https://www.gbmc.org/workfiles/give/corp-bundle/GBMC-CorpSponsor-LegacyChase.pdf>
- <http://www.steeplechaseatcallaway.org/>
- <http://soviewsmag.squarespace.com/interviews/2018/10/31/michelle-blanchard-2018-steeplechase-director>
- <https://www.montpelieraces.org/about/history-of-montpelier-races/>
- <https://festivalnet.com/19697/Montpelier-Station-Virginia/Sports-Events/Montpelier-Hunt-Races>
- <https://middleburglife.com/64th-virginia-fall-races/>
- <https://www.romanticasheville.com/steeplechase>
- <https://tryon.coth.com/article/71st-block-house-races-attracts-high-praise-and-strong-attendance-at-the-new-tryon-international-equestrian-center-venue>