

NEW JERSEY
OFF-TRACK BETTING STUDY COMMISSION

INTERIM REPORT
on
The Feasibility of Off-Track Betting

New Jersey State Library

ATTORNEY GENERAL'S LIBRARY

JUNE 1, 1972



**NEW JERSEY
OFF-TRACK BETTING STUDY COMMISSION**

ATTORNEY GENERAL'S LIBRARY

**INTERIM REPORT
on
The Feasibility of Off-Track Betting**

NJ
10
G191
1972

JUNE 1, 1972

INTERIM REPORT
OF THE
OFF-TRACK BETTING STUDY COMMISSION

(Established pursuant to Chapter Joint Resolution No. 1,
Adopted March 3, 1972)

June 1, 1972

MEMBERS OF THE COMMISSION

1. John F. Evers (Assemblyman, District 14C), Chairman
2. Joseph L. McGahn (Senator, Second Senate District)
3. James C. Brady, Jr. (Far Hills)
3. Thomas F. Connery, Jr. (Woodbury)
3. John W. Duckett (Woodbury)
3. Judge Arthur S. Lane (Harbourton)
3. Bruno Mancuso (Totowa)
4. W. Daniel Williams (Commissioner, New Jersey State Racing Commission)
4. George F. Kugler (Attorney General)

-
1. Appointed by Speaker of the General Assembly
 2. Appointed by President of the Senate
 3. Appointed by Governor
 4. Ex Officio

TABLE OF CONTENTS

LETTER OF TRANSMITTAL

CHAPTER JOINT RESOLUTION NO. 1

SUMMARY OF STUDY COMMISSION FINDINGS AND RECOMMENDATIONS

DETAIL REPORT:

I.	STUDY COMMISSION APPROACH.....	1
II.	FEDERAL AND STATE LEGAL ASPECTS OF OTB.....	3
III.	NEW JERSEY RACE TRACKS.....	6
IV.	NEW JERSEY LOTTERY.....	9
V.	FINANCIAL ANALYSIS OF OFF-TRACK BETTING.....	13
VI.	RECOMMENDATIONS OF THE NEW JERSEY OTB STUDY COMMISSION.....	18

APPENDICES

- A - HISTORICAL BACKGROUND OF OTB
- B - RESULTS OF MARKET RESEARCH STUDY

LETTER OF TRANSMITTAL

June 1, 1972

Governor William T. Cahill
Members of the Legislature

Gentlemen:

The Off-Track Betting Study Commission, established pursuant to Chapter Joint Resolution No. 1, of March 3, 1972, "to study the feasibility of authorizing an off-track betting system of wagering on horse races in New Jersey," herewith respectfully submits an interim report.

/s/ John F. Evers
John F. Evers
Chairman

/s/ Joseph L. McGahn
Joseph L. McGahn

/s/ James C. Brady, Jr.
James C. Brady, Jr.

/s/ Thomas F. Connery, Jr.
Thomas F. Connery, Jr.

/s/ John W. Duckett
John W. Duckett

/s/ Arthur S. Lane
Arthur S. Lane

/s/ Bruno Mancuso
Bruno Mancuso

/s/ W. Daniel Williams
W. Daniel Williams

/s/ George F. Kugler
George F. Kugler

LAWS OF NEW JERSEY 1972
CHAPTER JOINT RESOLUTION NO. 1

STATE OF NEW JERSEY

ADOPTED MARCH 3, 1972

A Joint Resolution creating an Off-Track Betting Study Commission.

WHEREAS, Additional revenue is required for the operation of State Government and the furnishing of services to the residents of New Jersey; and

WHEREAS, A system of off-track betting may be a source of additional revenue for the State; and

WHEREAS, An in-depth study is required to determine the feasibility and all the ramifications of off-track betting; now, therefore

BE IT RESOLVED by the Senate and General Assembly of the State of New Jersey:

1. There is hereby created the Off-Track Betting Study Commission to consist of nine members to serve without compensation, two of whom shall be members of the Legislature, one a member of the Senate to be appointed by the President thereof, and the other a member of the General Assembly to be appointed by the Speaker thereof, no more than one of such legislative members shall be of the same political party, five citizens of the state to be appointed by the Governor, one of whom shall be designated by the Governor as chairman, a member of the New Jersey Racing Commission ex officio to be appointed by the Governor, and the Attorney General ex officio. Vacancies in the membership of the commission shall be filled in the same manner as the original appointments were made.

2. The commission shall organize as soon as may be

after the appointment of its members and shall select a secretary who need not be a member of the commission.

3. It shall be the duty of the commission to study the feasibility of authorizing an off-track betting system of wagering on horse races in New Jersey. In making such study, the commission shall consider the following:

a. The public interest of the State of New Jersey and its residents as affected by off-track betting.

b. The anticipated revenues to be derived by the State from off-track betting.

c. The effect off-track betting may have on the existing on-track pari-mutuel system of wagering and the interrelationship these two systems should have to each other.

d. The experience of other states in the area of off-track betting.

e. The various methods and manner of establishing, financing and administering and controlling off-track betting whether through a State authority or a State agency.

f. The various operating aspects of off-track betting including locations for betting, tabulation of bets, promotion, advertising and the applicability of the laws governing racing generally.

g. The extent to which off-track betting, if authorized, should be conducted through the racing season among the various tracks in New Jersey.

h. Such other relevant matters as the commission may deem necessary or advisable.

4. The commission shall be entitled to call to its assistance and avail itself of the services of such employees of any State, county or municipal department, board, bureau, commission or agency as it may require and as may be available to it for said purpose,

and to employ such stenographic, clerical, technical and expert assistance and incur such traveling and other miscellaneous expenses as it may deem necessary, in order to perform its duties and as may be within the limits of funds appropriated or otherwise made available to it for said purposes.

5. The commission may meet and hold hearings at such place or places as it shall designate during the sessions or recesses of the Legislature and shall report its findings and recommendations to the Governor and the Legislature on or before June 1, 1972, accompanying the same with any legislative bills which it may desire to recommend for adoption by the Legislature.

This joint resolution shall take effect immediately.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

Summary

The New Jersey Off-Track Betting Study Commission, established pursuant to Chapter Joint Resolution No. 1 of 1972, was directed by the Legislature to study the feasibility of authorizing an off-track betting system in New Jersey for wagering on horse races and to submit a report to the Governor and the Legislature.

In accordance with the specific directives of the resolution, the commission has polled state residents as to interest in OTB; prepared preliminary estimates of revenues to be derived and operating costs to be incurred in such a system; explored the effect of OTB on existing race track operations; reviewed the experience of other government officials, both in the United States and foreign countries, in operating OTB systems; held hearings with race track owners, horse breeders, jockeys, labor representatives and other New Jersey state officials; and considered the effect of OTB on the state lottery.

The study commission has determined that because of the many factors involved, there was not adequate time to obtain and fully analyze the information required to reach a conclusion as to the feasibility of off-track betting for New Jersey. For example, more time is required to determine the alternative methods of processing bets and the possible system that could be developed to minimize the startup costs. Also, the commission believes that a more thorough market research study is required. Further, the commission would like to give the race tracks the opportunity to participate more fully in the study.

The commission has prepared an interim report on the results of the study and work to date. Included in this report are recommendations for additional studies concerning OTB and the racing industry and some preliminary conclusions based on a

review of the data now available. The main points of this report are summarized briefly below.

History of OTB

The main objectives in reviewing other OTB operations were to provide background information on OTB and to develop a basis on which to analyze the market potential, systems costs and expected revenues of OTB in New Jersey. Most of the background information on OTB was provided from a study of OTB operations in other countries. Other detailed information, including estimates of operating, administrative and systems costs, was obtained through an analysis of the New York City Off-Track Betting Corporation. Some of the more pertinent New York OTB operating statistics follow.

Off-track betting in New York is operated as a public benefit corporation by the City of New York under the rules and regulations of the State Off-Track Betting Commission. New York OTB presently provides racing programs from other states when New York tracks are closed, day and night racing programs and exotic as well as conventional betting. In addition, over 100,000 people per day bet with OTB in New York, with an average of approximately \$15 in bets for each person. This amounts to a total annual betting handle of approximately \$500 million. Appendix A contains details on the history of OTB.

Market Research Data Analysis

A preliminary survey of the market potential of OTB in New Jersey was included as part of the study. The market survey consisted of two polls of the New Jersey adult population, some in-depth interviews and an analysis of a previous poll of OTB users conducted for New York City OTB.

Due to time constraints, the research work was limited in scope. However, the results of the study provide a general

estimate of the market potential of OTB for New Jersey and of the expected behavior patterns of potential OTB users. An analysis of the preliminary market data indicates that approximately 70 per cent of adult residents in New Jersey supported the OTB concept, with one third of the adult population being potential users of an OTB system. The polls also indicate that 6 per cent of this group now utilized the New York OTB system. Other information concerning the potential behavior patterns of OTB users, including predictions on the location of betting shops, was also obtained. For more details, see Appendix B.

Legal and Social/Economic Considerations

The implementation of an OTB system in New Jersey would require an amendment to the State Constitution, followed by enactment of the OTB law. Present state laws now restricting OTB would also be amended through this process. Nothing in the federal statutes now prohibits the state from establishing an OTB system. However, some federal laws may restrict the interstate communication of race information, betting information and some forms of televising betting results.

The social/economic considerations that were evaluated as part of the study, particularly as indicated in the study of OTB in other countries, show that no negative social impacts have occurred. According to preliminary market information, only 4 per cent of the adult population of New Jersey, for example, opposed OTB gambling for either moral reasons or for having an adverse effect on the underprivileged.

A recent research poll of the New York OTB user indicated the heavy user of OTB in New York has an income between \$10,000 and \$15,000 per year. The contention that OTB is mainly a regressive tax on the poor is not substantiated.

Racing and Lottery Implications

Presently OTB, as conducted in New York City, appears to have caused a decline in the betting handle and attendance at the New York City area tracks. However, one New York harness track has experienced an increase in betting handle.

The implementation of OTB in New Jersey may also have a somewhat negative effect on New Jersey racing. The magnitude and amount of the potential effect should be more fully studied by all concerned so that more precise estimates of these factors can be determined.

The study commission believes that each of the various methods of operating OTB, such as "exotics only," etc., will in some degree probably affect the handle and attendance at New Jersey race tracks. Each alternative method should be studied to determine its potential effect on track handle and attendance. This review should also be a joint effort on the part of the race tracks and the study commission and should include other factors which will influence the conduct of racing in the future. Examples of these are the number and division of racing days, the number and quality of horses available for racing, the day/night and thoroughbred/harness operating method, purses and division of betting handles, and the conduct of the operation of racing in the future. With information generated from such a study, a more exact estimate of the effect of OTB on on-track betting could be provided.

There is no history of a statewide off-track betting system and a statewide lottery system upon which to base an analysis. Officials of the lotteries operating in New York and New Jersey indicated that OTB, as operated for New York City, does not adversely affect lottery sales. However, if an OTB system based on exotic wagering is implemented, an adverse impact on lottery operations may occur. Further information concerning this relationship and a more thorough review of this situation should be undertaken.

Financial Analysis

The study of the financial feasibility of OTB for New Jersey was based on a projected OTB systems design and system capacity which were developed from preliminary estimates of betting handle market potential. Based on this data, operating costs and expected revenues from OTB were calculated. Estimates were also made of the costs associated with the startup and pre-operating phase as well as the annual operating revenues.

With a fully operational computerized OTB betting system, which occurs at the end of a 33-month period, preliminary projections show a potential betting handle of over \$346 million based on 300 race days per year. From this, the state would receive approximately \$19 million as net income, with the return to the tracks estimated to be over \$10 million annually. Considered on a cash flow basis, the revenue to be expected from OTB would exceed costs after sixteen to eighteen months of operation. Included in these calculations are an assumed pre-operating period of nine months and startup costs, based on a fully operational computerized betting system, calculated to be in the range of \$4 million to \$5 million.

These startup costs are estimated to be paid back at the end of the twenty-second month of operation. The major cost factor is salaries, including fringe benefits. Based upon preliminary estimates, between 1,500 and 2,000 employees would be required to operate the system. There are also alternative methods of implementing an OTB system which could possibly reduce startup costs and, therefore, the initial investment required. More work is required to define the most economical method of starting OTB for New Jersey.

The interim financial work also included a preliminary review of the effect of different betting handle commission structures on net income to the state. It was determined that with a surcharge on winning bets and a higher takeout commission on exotic bets, net income to the state from OTB could be as high as \$31 million per year.

Recommendations

The preliminary analysis of OTB for New Jersey, conducted by the study commission over a six-week period, indicated that significant revenues can be obtained from OTB by the state and by the racing industry. The projected revenues from OTB would amount to approximately a 50 per cent increase in the revenue the state now achieves from betting at all the race tracks in the state. The projection also shows that race tracks could increase their revenue up to 40 per cent of present amounts by participating in OTB. Any decrease in on-track attendance and handle as a result of OTB implementation would have to be deducted from these percentages.

A more precise definition of the actual net income depends upon the method and timing of implementation, the type of system, and the amount of the commission to be removed from the betting handle. The definition also depends on the impact OTB may have on the race tracks and revenues presently recognized from on-track betting handles and attendance.

Because of the limited time available, the study commission was not able to review, to the extent necessary, all of the factors which must be considered in reaching a conclusion as to the feasibility of OTB for New Jersey. However, based upon the potential financial benefits and possible implications of OTB on the racing industry in New Jersey, the study commission recommends additional analysis be made in order to prepare a report as to the feasibility of OTB. This study would be undertaken to provide more detailed information about the:

- Racing Industry
 - Attendance and betting handle trends and projections
 - Availability and quality of horses
 - Breeders industry
 - Purse structure
 - Operating costs

- Racing days
- Future structure of the industry

- Off-Track Betting - Systems alternatives, including semi-automatic and manual
- Market data
 - Implementation plan
 - Cost development by system and level of betting handle
 - Minimization of startup costs
 - Effect on on-track attendance and handle
 - Future structure in relation to racing

In addition, the study commission recommends that consideration be given to having the racing industry participate in the future detailed review work recommended by the commission. In this way, the race tracks would become more involved and participate in the future operation of OTB. Further, although the recommended study will postpone the possible implementation of OTB in New Jersey for an additional year, the more precisely the various facets of OTB can be defined through the joint efforts of the racing industry and the study commission, the more likely the ultimate implementation of a viable OTB system for New Jersey.

More detail concerning the conclusions and recommendations of the study commission are contained in the following report.

I. STUDY COMMISSION APPROACH

The New Jersey OTB study commission developed an overall approach to the study of OTB for New Jersey so as to review the background and present developments in OTB here and in foreign countries, while studying in detail those aspects which make OTB unique to New Jersey. Subcommittees were formed, with assignments and responsibilities as follows:

Legal Subcommittee
Racing Industry Subcommittee
OTB Background Subcommittee
Systems Subcommittee

In addition to the subcommittees, some of the sociological aspects and implications of OTB, the preliminary market potential and the financial feasibility of OTB were developed and reviewed by the commission. The members of the subcommittees served as coordinators and reviewers of all information developed during the study.

In the market research area, the preliminary market potential betting handle, as well as the betting attitudes and the predictive behavior of potential bettors concerning OTB in New Jersey, were studied. The methods used to gather this information included group interviews and telephone surveys (polls).

For the purposes of the study, a fully computerized betting system was assumed to determine the financial feasibility of OTB. This system consists of 100 branch offices located throughout the state and a telephone betting center with 50 stations; all tied into a central computer. The computer will be used to totalize off-track bets and serve as a communication link to the various in-state race tracks. A description of this system, with overall operating and capacity specifications, was forwarded to equipment suppliers for their estimate of the system costs. Also the New Jersey Bell Telephone Company was contacted for estimates of communication line charges.

New Jersey State Library

With this information, the financial analysis was undertaken. The system operating and personnel costs were estimated and preliminary cash flow and cost analysis statements were prepared.

II. FEDERAL AND STATE LEGAL ASPECTS OF OTB

One of the important tasks of the commission was to examine the applicability of federal or state statutes to an off-track betting system and its operation. This was accomplished with the assistance of the Attorney General of the State of New Jersey.

State Statutes

Implementation of OTB would first require an amendment to the New Jersey Constitution, followed by enactment of an OTB law. Such a law would detail the various aspects of operating an OTB system, such as the proposed use of television, telephone betting, etc. It appears that present state laws would cause no problems for New Jersey OTB because our laws could easily be amended if the Legislature enacted an OTB law.

Federal Statutes

Federal statutes present the most important legal considerations in any proposed OTB system. However, nothing in these statutes will prohibit the state from establishing an OTB system. In addition, New Jersey OTB operations, because of a specific exemption in the law for a licensed pari-mutuel enterprise, would be exempt from the federal excise tax of 10 per cent (26 U.S.C., Sec. 4402).

The following summarizes briefly those federal statutes which appear to affect the manner in which a state off-track betting operation may be conducted.

Television

The use of television broadcast facilities appear to be strictly limited. The Federal Communications Commission's 1964 policy statement does not seem to make a distinction between commercial and public broadcasting facilities but, rather, between broadcasting and closed-circuit television transmission. Accordingly, New Jersey OTB

would be able to use a commercial television station, as New York City OTB does, as well as Channel 13, Channel 52, or another public broadcasting station. The use of closed-circuit television facilities appears to be virtually unlimited as long as the transmission is received at OTB facilities.

Telephone

The federal statute which prohibits the placing of bets by means of a telephone (18 U.S.C., Sec. 1084) applies only to interstate or foreign telephone communications. This does not prohibit the use of telephones to place bets within the state.

The statute also appears to impose a criminal penalty on either the person placing the bet or the person receiving the bet or both so long as they knowingly place an interstate bet by telephone. It would therefore be advisable for New Jersey OTB to require, as part of normal operating procedures, identification from each person having a telephone betting account that the person either resides or works in New Jersey. This would help insure that New Jersey OTB was not knowingly accepting bets from interstate telephone calls to an OTB facility. It would also be advisable to indicate to each person having an off-track betting account that telephone bets should only be placed from a location within New Jersey.

Race Information

The same federal statute which limits telephone betting (18 U.S.C., Sec. 1084) also applies to the transmission of wagering information across state lines by means of telephone or telegraph wires. The statute specifically allows the use of wire communication facilities for the interstate transmission of information assisting in the placing of bets on horse races from a state where such betting is legal. This would enable New Jersey OTB to get direct and current race information from out-of-state race tracks for the use of betting patrons in the OTB parlors in New Jersey.

There is a possibility, however, that legislation will be introduced in Congress to require a state OTB operation to contract with race tracks in other states for race information. A contractual arrangement of this type would appear to be advisable even without legislation in order to maintain relations with the out-of-state racing industry.

Bi-State Betting Pools

Federal statute (18 U.S.C., Sec. 1084) also applies in connection with the combination of the New Jersey OTB betting pools with the betting pools at race tracks outside of New Jersey. This federal law prohibits such an interstate combination of betting pools. The statute only permits the transmission of information assisting in the placing of bets, rather than the interstate transmission of the actual bets themselves. At present, New York City OTB maintains its own betting pool for all out-of-state races, such as the Kentucky Derby.

Advertising Restrictions

The Federal Communications Commission has ruled that advertising of New York City OTB on radio and television broadcasts must be limited to "institutional advertisements." This would appear to parallel the kind of advertisements which race tracks currently employ on radio and television to attract people to the track. Advertisements on broadcasting facilities, therefore, would not be able to explain how OTB works but only where one could go to place a bet. There does not appear to be any other federal statutes which would inhibit the advertisement of New Jersey off-track betting.

III. NEW JERSEY RACE TRACKS

The New Jersey OTB study commission, as part of this study, contacted representatives of the racing industry for the purpose of discussing off-track betting for New Jersey. The study commission's main objectives in meeting with racing representatives were to help insure that racing in New Jersey would remain at its present high quality level if an OTB system was implemented and to hear recommendations from the racing industry concerning the proper approach to OTB for New Jersey. The study commission received presentations and discussed OTB with the following racing groups:

- . Off-Track Betting Committee representing the Garden State Racing Association, Monmouth Park Jockey Club, Atlantic City Racing Association, New Jersey Horsemen's Benevolent Protective Association, and the Jockey's Guild, Inc.
- . Thoroughbred Breeders' Association of New Jersey
- . Atlantic City Raceway and Freehold Raceway
- . Standardbred Breeders & Owners Association of New Jersey

Among the subjects of these discussions were the proposed OTB structure, common betting pools, expanded racing season, out-of-state wagering, type of bets, the race track's share of OTB betting handle, and the market potential for OTB.

Most of the representatives of the New Jersey racing industry believed that OTB should be structured as a state agency or authority. Some believed that an autonomous public corporation or an extension of on-track betting to the OTB area would be preferred. Also the use of on-track expertise and personnel to assist in the implementation of OTB was stressed.

The kinds of wagers, types of bets and frequency of betting was discussed. In summary, OTB exotic type betting with separate betting pools appeared to be the approach which had the consensus of the industry. If straight wagering was permitted, all

agreed that the OTB betting pools should be joined with those on track.

The racing industry generally was in favor of an expanded racing season in New Jersey. They indicated that out-of-state OTB wagering would be acceptable when in-state tracks were not operating. In addition, the industry prepared a detailed report on the possible effect of OTB on race track betting handles and proposed reimbursement percentages to the race tracks to counter such an effect. Several of these proposals were contained in their report to the study commission.

The study commission believes that for purposes of determining the financial feasibility of OTB for New Jersey:

- . The racing industry should participate in and assist the commission in the further study of OTB in the state.
- . The racing industry should be able to maintain and offer a high quality level of racing to the public.

Therefore, the Commission recommends additional study by all concerned to determine the extent that OTB would cause attendance and betting handle at the track to decline.

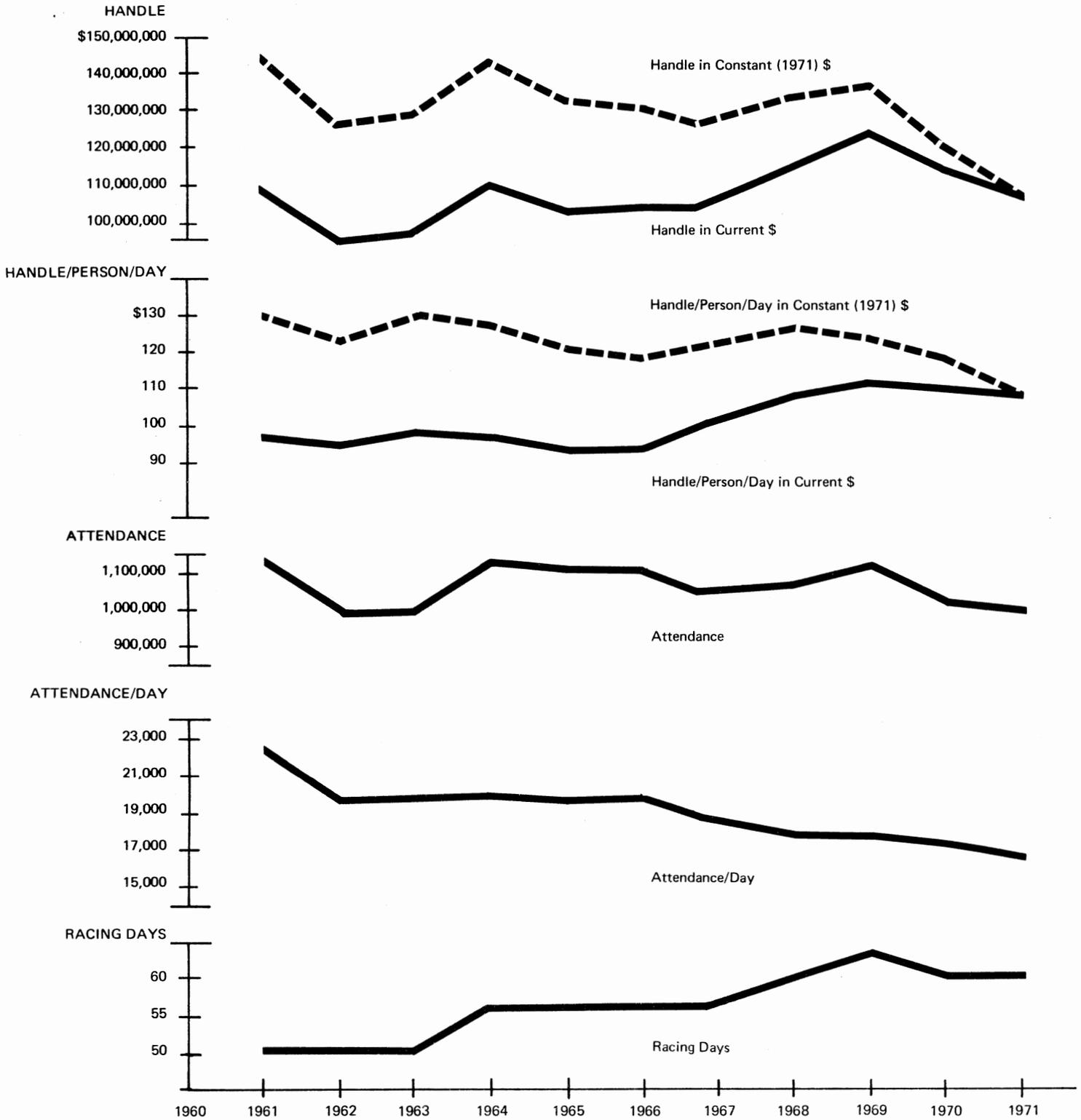
The financial analysis performed as part of the study utilized several of the proposed suggestions concerning reimbursement percentages. More detail concerning this is presented in Section V of the report. Based on the projections developed in that section, the per cent return to the race tracks was estimated at 3 per cent of gross OTB handle. This returns approximately \$10 million per year, after the OTB system has reached maturity.

The study commission also reviewed the historical performance (1961-1971) of the various race tracks in New Jersey (Exhibits III-1 to III-5). While this review was not an economic analysis, due to time constraints, the study commission believes that such an economic study is necessary and should be undertaken

as part of the implementation process of OTB in New Jersey. This will also be important to determine the potential effect of New Jersey OTB on in-state race tracks.

During the preliminary market research study, some indication of this effect was indicated, although the magnitude of this effect could not be determined. Most "heavy" bettors stated that they would use off-track betting only as a convenience at times when they could not ordinarily visit the race tracks. Also, some novice bettors thought that off-track betting might stimulate their interest in betting on horses and subsequently motivate them to visit the track more often. More work in this area is required to arrive at meaningful conclusions concerning the ultimate relationship of off-track to on-track betting.

NEW JERSEY OTB STUDY COMMISSION
 GARDEN STATE: THOROUGHBRED HANDLE, ATTENDANCE, AND RACING ACTIVITY



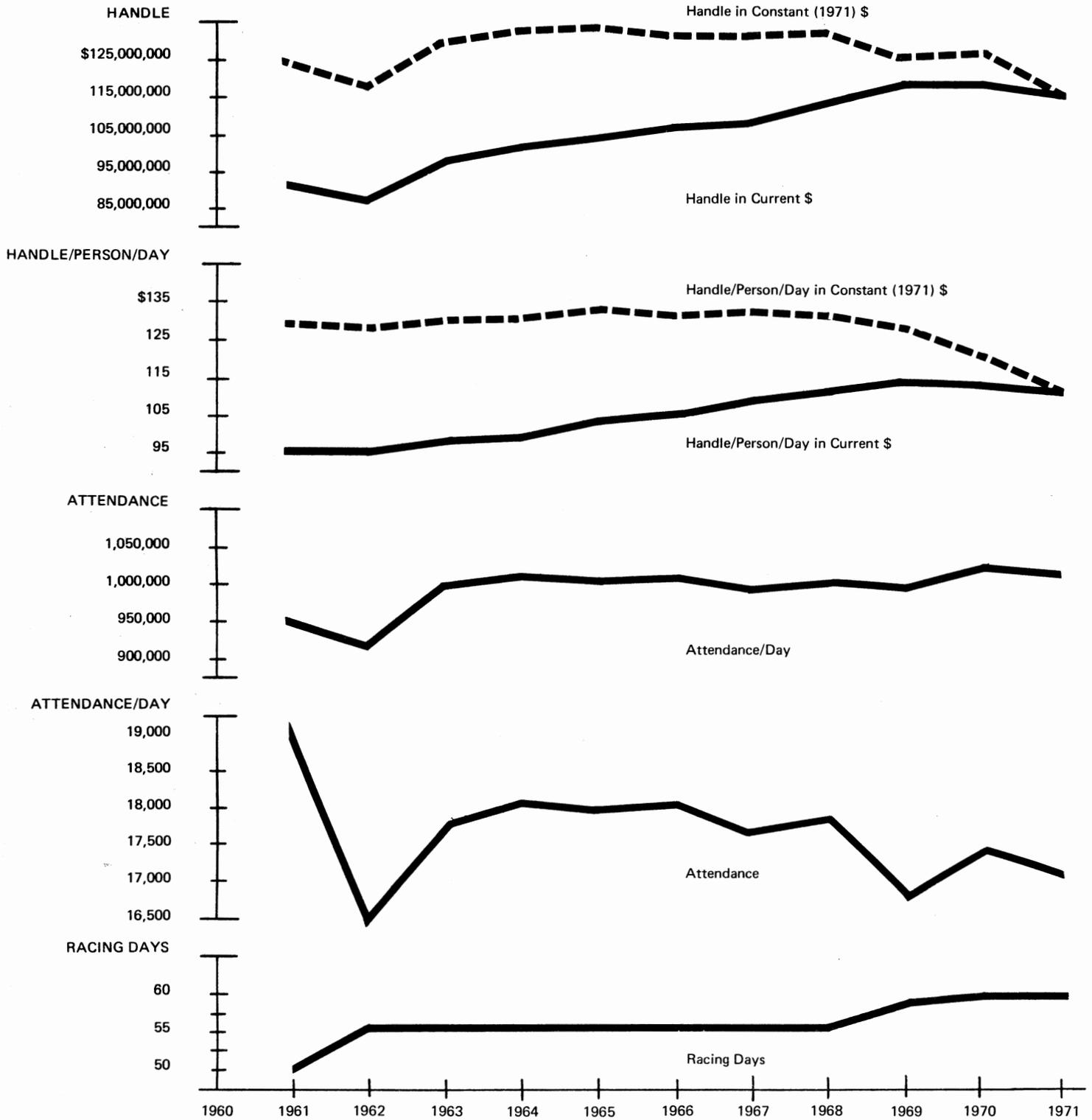
NEW JERSEY OTB STUDY COMMISSION

GARDEN STATE RACING ASSOCIATION
THOROUGHBRED RACING ACTIVITY, ATTENDANCE AND HANDLE *

	<u>1961-1971</u>										
	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
Racing Days	50	50	50	56	56	56	56	60	63	60	60
Attendance (000)	1,116.0	987.7	996.3	1,123.3	1,105.9	1,112.5	1,051.2	1,064.1	1,119.2	1,026.5	989.3
Attendance/Day	22,321	19,754	19,926	20,054	19,749	19,865	18,770	17,734	17,764	17,108	16,488
Handle (\$000) in Current \$	106,615	93,542	96,841	108,586	102,945	103,755	103,837	114,264	123,588	112,826	105,612
Handle (\$000) in Constant 1971 \$	144,857	125,728	128,607	142,668	132,661	130,020	126,476	133,642	137,168	119,140	105,612
Handle/Person/Day in Current \$	95.53	94.71	97.20	96.69	93.08	93.40	98.80	107.39	110.97	109.97	106.75
Handle/Person/Day in Constant 1971 \$	129.80	122.36	129.08	126.72	119.95	117.04	120.34	125.60	122.59	116.13	106.75

* Calendar Year Data

NEW JERSEY OTB STUDY COMMISSION
 MONMOUTH PARK: THOROUGHBRED HANDLE, ATTENDANCE, AND RACING ACTIVITY



NEW JERSEY OTB STUDY COMMISSION

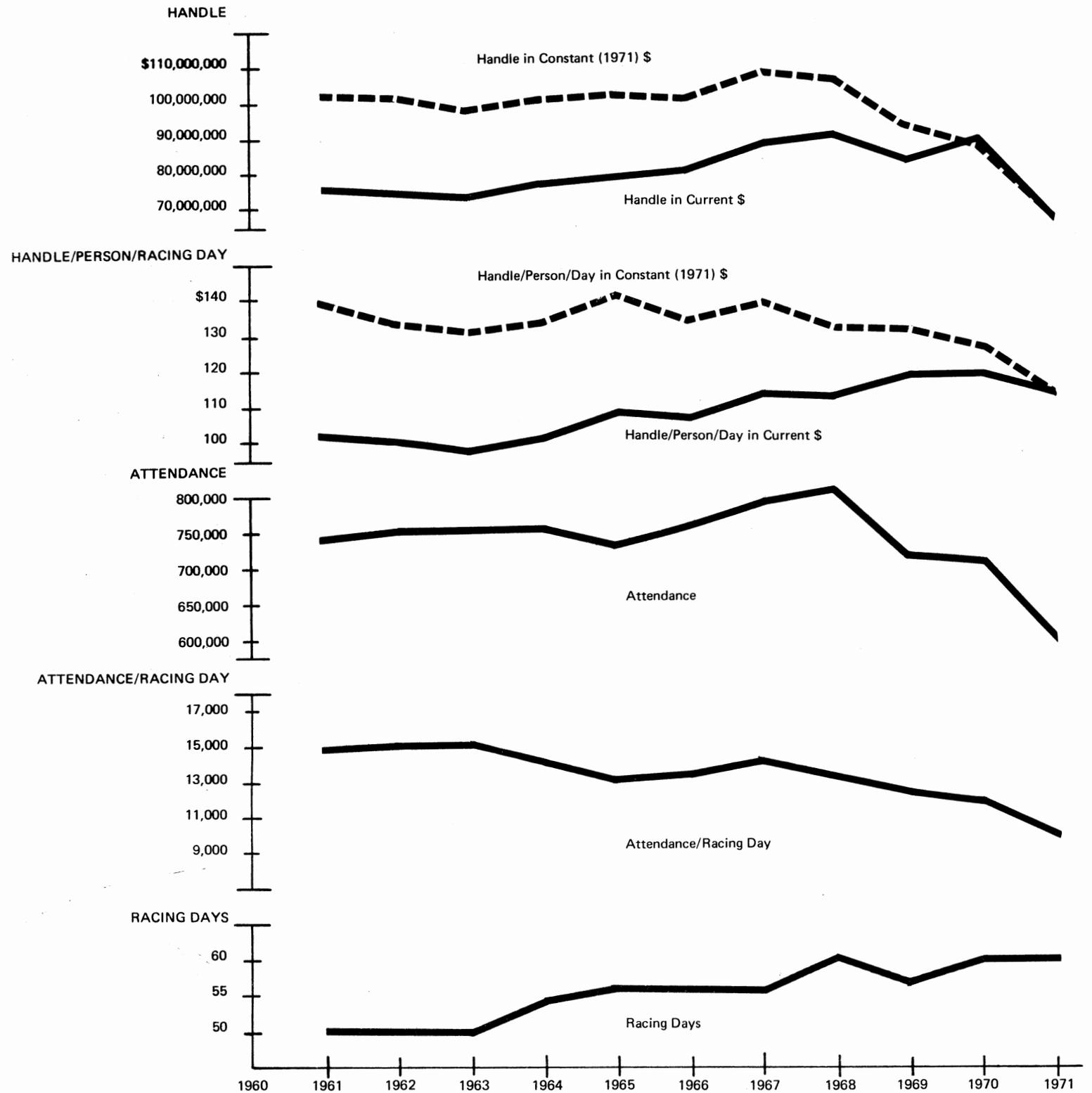
MONMOUTH PARK JOCKEY CLUB
THOROUGHbred RACING ACTIVITY, ATTENDANCE AND HANDLE

1961-1971

	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
Racing Days	50	56	56	56	56	56	56	56	59	60	60
Attendance (000)	949.6	918.6	999.1	1,011.7	1,006.6	1,009.5	991.2	1,001.0	995.3	1,047.9	1,027.6
Attendance/Day	18,991	16,404	17,734	18,067	17,975	18,026	17,700	17,875	16,869	17,465	17,127
Handle (\$000) in Current \$	90,677	87,877	97,517	101,034	103,565	106,297	108,042	111,778	114,075	119,868	115,026
Handle (\$000) in Constant 1971 \$	123,338	118,114	129,594	132,417	133,460	133,204	131,591	130,735	126,609	126,577	115,026
Handle/Person/Day in Current \$	95.41	95.66	98.19	99.86	102.89	105.30	109.00	111.66	114.61	114.39	111.93
Handle/Person/Day in Constant 1971 \$	129.63	128.58	130.40	130.88	132.58	131.95	132.76	130.60	127.20	120.79	111.93

New Jersey OTB Study Commission

NEW JERSEY OTB STUDY COMMISSION
 ATLANTIC CITY: THOROUGHBRED HANDLE, ATTENDANCE, AND RACING DAYS



NEW JERSEY OTB STUDY COMMISSION

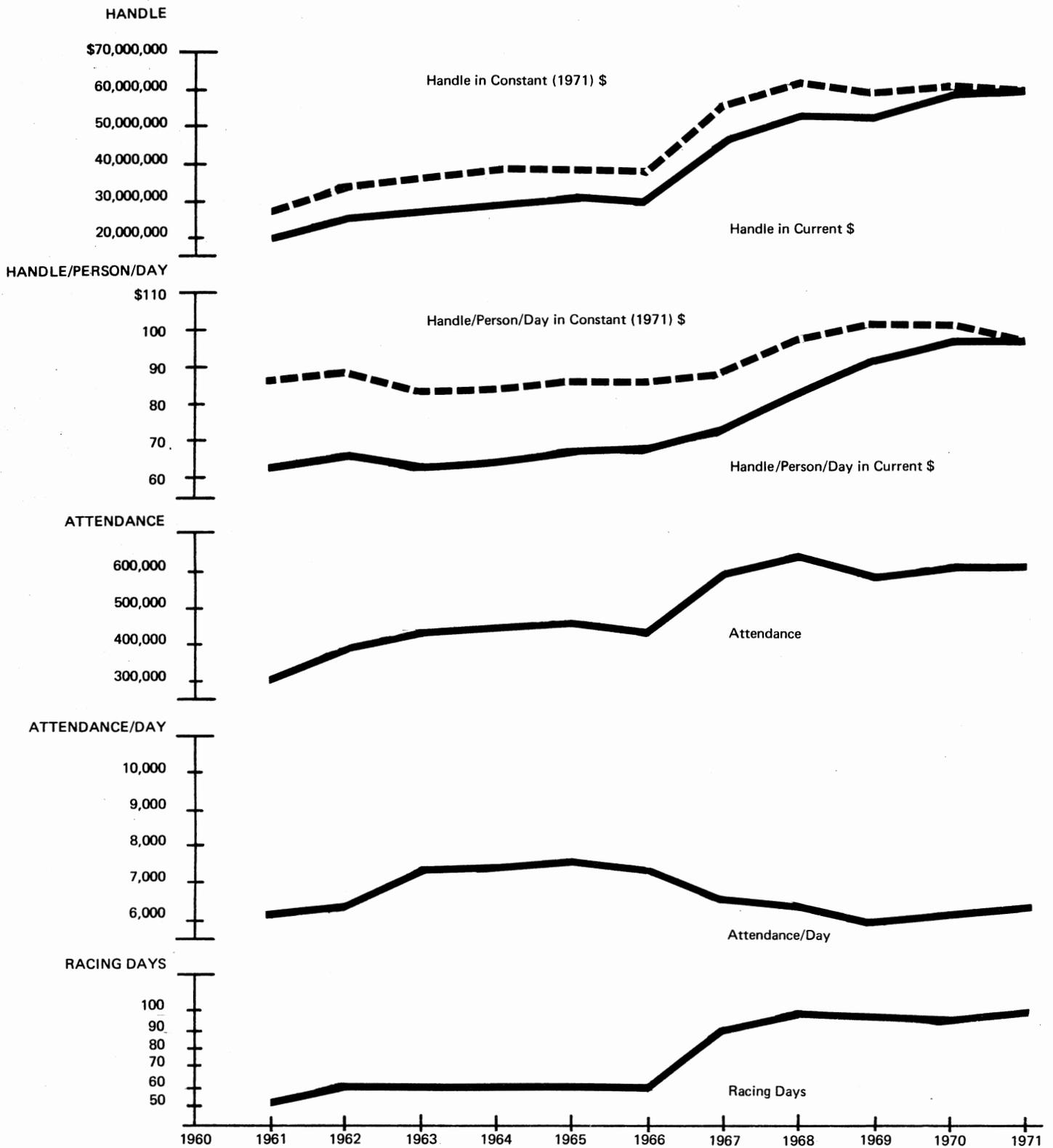
Exhibit III-3

ATLANTIC CITY RACING ASSOCIATION
THOROUGHBRED RACING DAYS, ATTENDANCE AND HANDLE

1961-1971

	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
Racing Days	50	50	50	54	56	56	56	60	57	60	60
Attendance (000)	742.0	750.7	752.7	760.2	732.8	758.0	787.1	808.6	711.7	709.5	594.3
Attendance/Day	14,840	15,013	15,054	14,078	13,086	13,536	14,055	13,477	12,486	11,825	9,905
Handle (\$000) in Current \$	75,986	75,261	74,021	77,571	79,834	81,079	89,531	91,255	84,468	84,387	66,894
Handle (\$000) in Constant 1971 \$	103,241	101,157	98,031	101,666	102,879	101,603	108,918	106,730	93,749	89,110	66,894
Handle/Person/Day in Current \$	102.41	100.26	98.34	102.04	108.94	106.96	113.74	112.86	118.86	118.94	112.56
Handle/Person/Day in Constant 1971 \$	139.14	134.76	130.60	133.74	140.39	134.06	138.54	132.00	131.72	125.60	112.56

NEW JERSEY OTB STUDY COMMISSION
 FREEHOLD: HARNESS HANDLE, ATTENDANCE, AND RACING DAYS



NEW JERSEY OTB STUDY COMMISSION

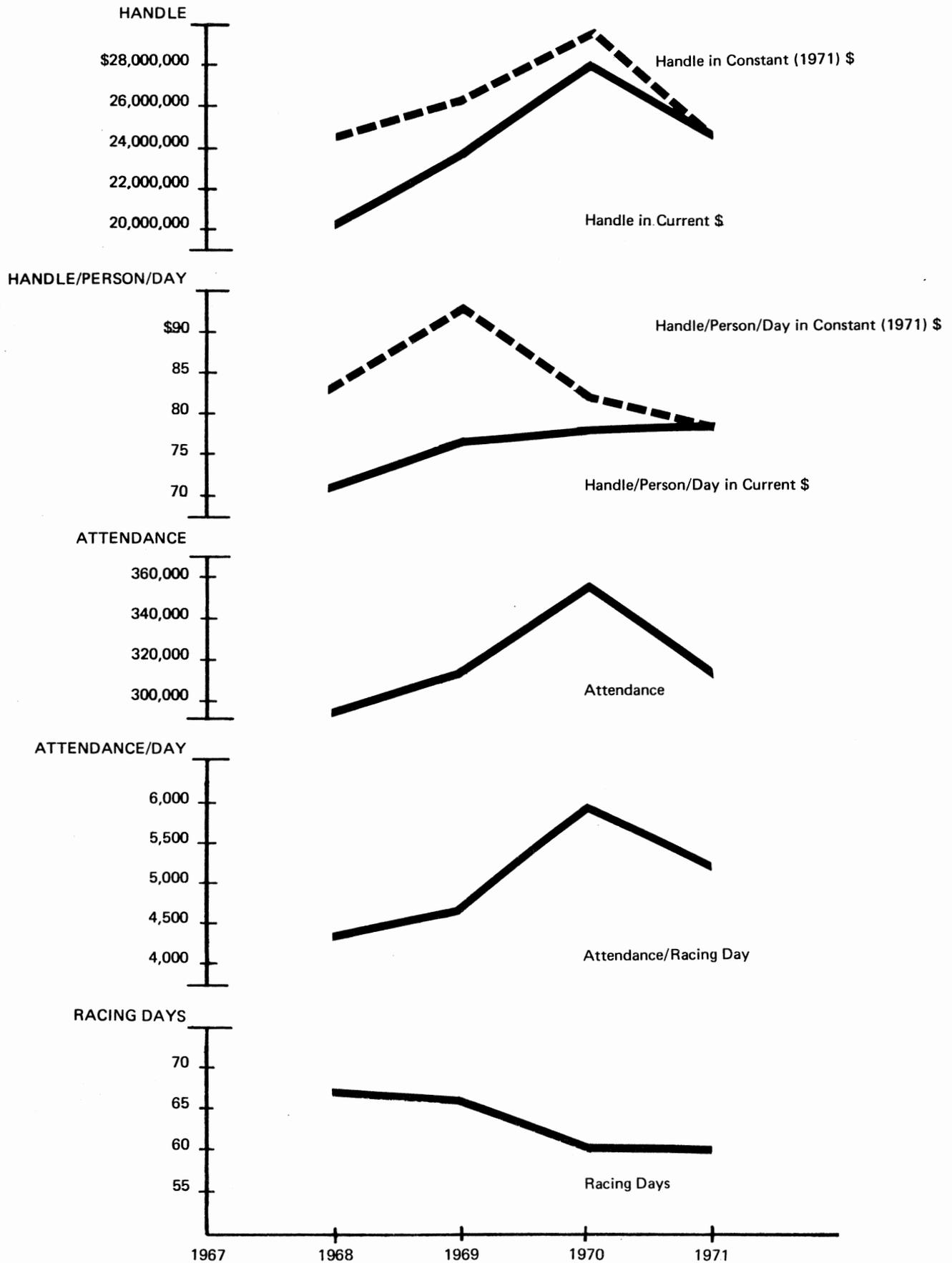
Exhibit III-4

FREEHOLD RACING ASSOCIATION
HARNES RACING ACTIVITY, ATTENDANCE AND HANDLE

1961-1971

	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
Racing Days	50	60	60	60	60	60	90	100	98	97	98
Attendance (000)	303.5	380.3	437.3	447.5	455.7	445.3	589.6	643.2	581.2	602.8	614.0
Attendance/Day	6,071	6,338	7,290	7,459	7,595	7,422	6,551	6,432	5,992	6,214	6,266
Handle (\$000) in Current - \$	19,078	25,153	27,733	28,726	30,521	30,603	46,153	53,937	53,416	58,048	59,618
Handle (\$000) in Constant 1971 \$	25,921	33,808	35,419	37,649	38,983	38,350	56,216	63,084	59,285	61,297	59,618
Handle /person/day in Current \$.	62.85	66.13	63.40	64.19	66.98	68.72	73.19	83.86	91.90	96.30	97.09
Handle/person/day in Constant 1971 \$	85.39	88.88	84.20	84.13	86.31	86.12	89.15	98.08	102.00	101.69	97.09

NEW JERSEY OTB STUDY COMMISSION
 ATLANTIC CITY RACEWAY: HARNESS HANDLE, ATTENDANCE, AND RACING DAYS



NEW JERSEY OTB STUDY COMMISSION

ATLANTIC CITY RACEWAY
HARNES RACING ACTIVITY, ATTENDANCE AND HANDLE

1961-1971

	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
Racing Days	67	66	60	60
Attendance (000)	293.9	311.9	358.9	312.6
Attendance/Day	4,386	4,725	5,981	5,209
Handle (\$000) in Current \$	20,908	23,774	27,961	24,588
Handle (\$000) in Constant 1971 \$	24,453	26,386	29,526	24,588
Handle/Person/Day in Current \$	71.15	76.23	77.91	78.66
Handle/Person/Day in Constant 1971 \$	83.22	92.66	82.27	78.66

IV. NEW JERSEY LOTTERY

A review of the experience in other states indicates that there is no precedent in the United States of a statewide OTB system being operated simultaneously with a statewide lottery. Therefore, it is difficult to evaluate what effect, if any, the introduction of an OTB system in New Jersey will have on the New Jersey lottery. Comparisons may be made, however, keeping in mind that the analogies are far from exact, and some broad conclusions may be inferred.

There appears to be no reason to believe, from the experience elsewhere, that OTB will have a negative effect on lottery income. For instance, lottery tickets in New Hampshire have been marketed very successfully at the state's race tracks, while the latter's pari-mutuel income has apparently not been affected. Of course, the structure of the New Hampshire lottery is quite different from New Jersey's, and many customers at New Hampshire tracks come from out of state. In addition, only on-track betting exists in New Hampshire.

As New York City is the only place which has an OTB system, the commission attempted to determine if this had any effect on the New York State lottery or the New Jersey lottery. Therefore, two sets of figures were studied. First, lottery sales in New York City as a percentage of statewide lottery sales were reviewed. If the OTB operation in New York City was affecting lottery sales, it would appear reasonable to expect a decline in New York City's share of lottery sales. Second, the preliminary survey research in New Jersey determined that approximately 6 per cent of New Jersey residents used New York City OTB. The majority of these live in four northern counties (Bergen, Essex, Hudson and Passaic). For the New York OTB operation to affect the New Jersey lottery sales, a decline in the sales in the four counties mentioned would be expected as a percentage of statewide

lottery sales. Exhibit IV-1 shows the per cent of gross lottery receipts by month as a means of comparison.

For New Jersey lottery sales, there appears to be a positive relationship to the New York OTB operation. As New York OTB expanded, so did lottery sales in the four northern counties. A form of OTB exotic betting, the Superfecta, was introduced in New York in November 1971. Although these exotic-type bets potentially compete with a lottery-type bet, there seems to have been no effect on the New Jersey lottery.

The New York lottery also does not appear to have been adversely affected by New York OTB. While the city's share of lottery sales has dropped off slightly in 1972, it should be noted that the New York lottery shifted to a 50 cent weekly lottery in January 1972. This changeover produced dramatic growth in the volume of sales throughout the state. However, the growth was slightly less in New York City than in the rest of the state. In a comparison of gross lottery sales for the first four months of 1971 with the same period in 1972 within the city, an increase of over 75 per cent or \$9,675,000 occurred. The fact that the New York lottery could attract so much new money in a market already well covered by OTB suggests that there is little impact of one on the other. Officials of the lotteries in New York and New Jersey believe that OTB did not adversely affect the lotteries.

There appears to be a significant psychological distinction between wagering on horse races and buying a lottery ticket. Skill is considered an important asset to the horse race bettor, who can increase his chances of winning through knowledge of "odds" and form. One of the primary motivations for betting on horses found in the preliminary survey research was the challenge of picking a winner. Win, place and show bets, as well as exactas and daily doubles, can be handicapped by the knowledgeable bettor. Exotic bets, such as the Superfecta, are more

difficult, if not impossible to handicap and thus are a matter of luck rather than skill. In a sense, exotic bets are a form of "pick-your-lucky-number" lottery.

Purchasing a lottery ticket is placed in the same category as buying a raffle ticket or a charity chance. Some of the bettors interviewed in depth in the market research reported that for them, the hope of winning is there, but the expectation is low. They purchase a limited number of tickets, and the rate varies little from week to week. The experienced horse bettor sees the lottery as totally different from horse betting. However, the introduction of OTB may have a greater impact on the lottery among inexperienced bettors, where the two types of betting are not as clearly distinguished.

Even among those who intend to use OTB regularly and are presently heavy lottery users, there appears to be little reason to expect that lottery purchases would be substantially affected. The research study indicated that 14 per cent of New Jersey residents are heavy lottery users. On the basis of three lottery tickets per week, this means that the heavy lottery user spends more than \$1.50 a week on lottery tickets. Regular OTB users projected spending between \$15 and \$20 a week on OTB. While there was some overlap between the two groups, the difference in the amount expended would suggest that there is no direct trade-off between lottery betting and OTB betting. An individual who is willing to bet \$15 a week on OTB will probably continue to buy three lottery tickets per week.

This conclusion is based on the assumption that a New Jersey OTB system would offer a different kind of betting to the customer (win, place and show betting, plus exacta and daily double). An OTB system based entirely on exotic-type bets, with a low change of winning and a high payoff, would appeal to much the

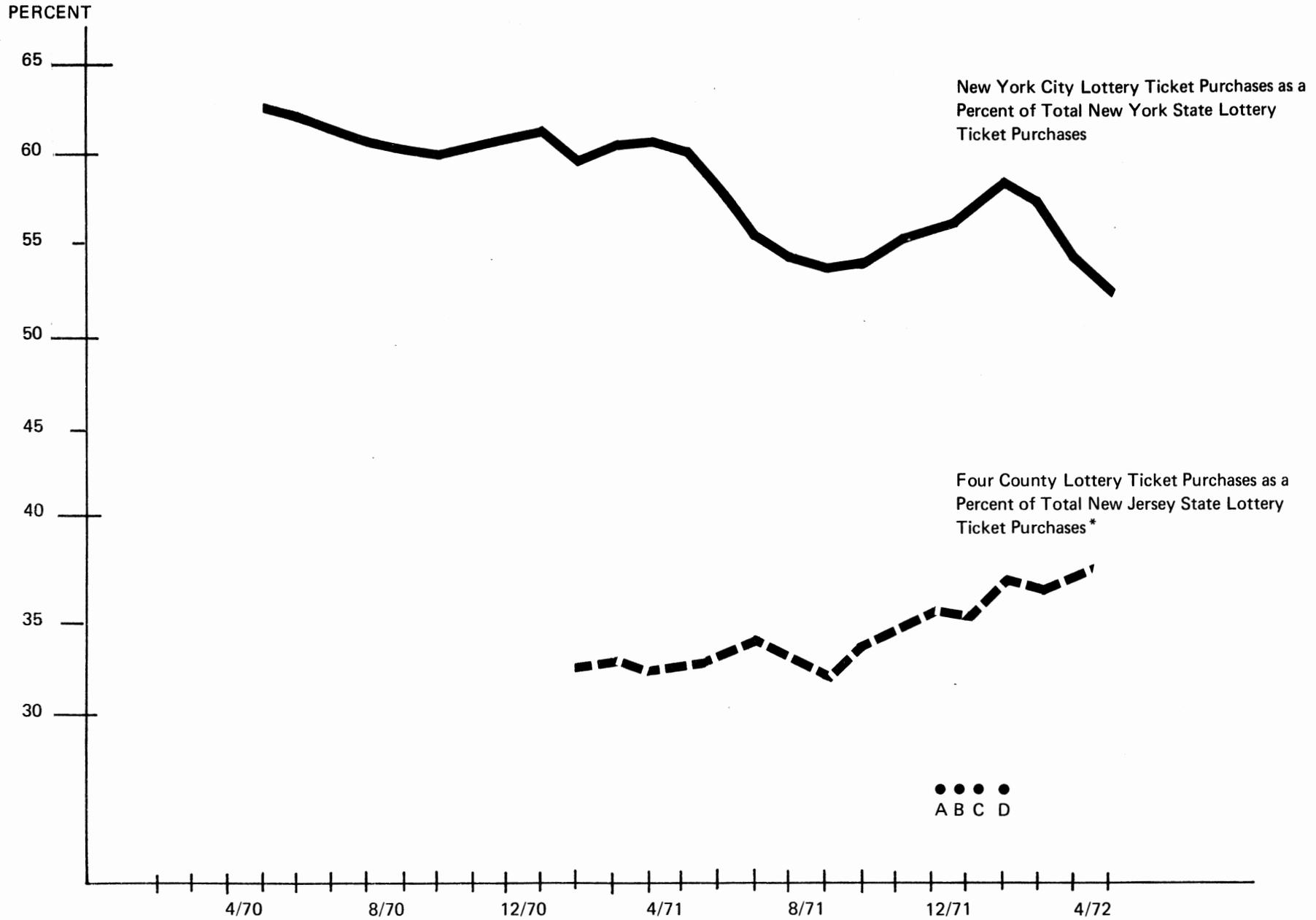
same kind of gambling motivation which is the lottery's main appeal.¹

In such a system, there would probably be a serious impact on the lottery and vice versa. Survey research indicated that the entertainment aspects of horse betting appear to be the primary motivations for most potential OTB users and especially those who would use OTB most extensively. Straight or conventional wagering is likely to have a much greater appeal to those bettors than does exotic wagering. However, a significant minority appear to be attracted by exotic wagering, though these potential OTB users are far less likely to make extensive use of an OTB system.

The New Jersey lottery is a well-established and widely-used system - with 83 per cent of New Jersey residents indicating that they have at one time or another purchased lottery tickets. Purchasing habits are established, and as long as OTB does not attempt to compete directly with the lottery by limiting itself to exotic bets only, there is every reason to believe that there will be no impact on the state lottery.

¹ Market Research Survey for New Jersey State Lottery,
R. H. Bruskin Associates, August 1971, p. 15.

**NEW JERSEY OTB STUDY COMMISSION
PERCENT OF GROSS LOTTERY RECEIPTS BY MONTH**



- A – Superfecta betting commences
- B – Televising of races commences
- C – Televising of races terminates
- D – New York State \$0.50 per ticket lottery commences

* Bergen, Essex, Hudson, and Passaic Counties

V. FINANCIAL ANALYSIS OF OFF-TRACK BETTING

The study commission has developed projections of the estimated betting handle, costs and net income which may be expected from the operation of an OTB system for New Jersey. For the purposes of these projections, a period of thirty-three months was assumed to reach a full operating mode utilizing one-hundred branches and fifty telephone outlets. Additional branches and telephone outlets would be activated as required by additional business.

The initial nine months would be utilized for systems development and implementation. During the tenth to twelfth months, fifteen branches would be opened for betting. Branches would be opened during each succeeding quarter (except the last two) at the rate of thirteen branches a quarter. Ten branches would be opened during the last two quarters.

Preliminary projections were developed for each quarter and have also been annualized for each quarter to show the effect if no further branches were opened after that particular quarter. In addition, we have prepared estimates of the cash required during startup (initial nine months) and for the initial operating period until revenue covers costs. At the end of the 33-month period, the projection shows a potential handle of \$346,816,000 per year. Exhibit V-1 shows the results of these projections.

Revenue Projections

The revenue projections have been developed utilizing the results of the market survey discussion in Section II. The predictive behavior patterns of potential OTB bettors in New Jersey were defined by the survey work. This information provided the input into a computer model which projected the behavioral information into a distribution of expected handle.

As indicated earlier, a telephone survey was used to

develop a profile of the population of New Jersey that would be "likely" to participate in OTB. This betting population was divided into three categories of bettor ("very likely," "somewhat likely," and "not at all likely") and three groups within each category. The group definition reflected the location where the various type bettor indicated a preference for betting. These were suburban, urban, and telephone locations.

A betting behavior profile was established for each of the six groupings. Betting behavior was described in terms of the number of visits per week, the number of bets placed per visit, and the average amount of each bet; and through the simulation process, handle distributions for each group and category were established. The amount of handle expected in each location served as the basis for determining the overall specifications of the betting system, including volume and computer capacity criteria, location of branches and size of the telephone betting facility.

The calculations were performed 1,000 times (simulation) to arrive at mean, high and low estimates of expected handle and average amount bet. The resultant mean values of potential handle and average wagers are:

Daily phone handle	\$ 435,965
Daily urban handle	109,081
Daily suburban handle	<u>611,006</u>
	<u><u>\$1,156,052</u></u>
Phone average bet	\$3.45
Urban average bet	\$2.34
Suburban average bet	\$3.10

The results of this process indicated that approximately 64 per cent of the projected market handle was generated by respondents considered "very likely" to participate in an OTB betting system in New Jersey.

Cost Projections

The market research study also indicated the preference of the respondents concerning location of branch offices. From this preliminary location information, the overall communications network required to operate OTB was determined. The costs associated with communications hardware and line charges for data and voice communications were obtained from telephone company representatives.

The computer and related equipment costs were obtained primarily from equipment suppliers who responded to a request for proposal from the study commission. Five firms were invited to submit preliminary proposals on systems equipment costs to the commission. Four proposals were received. For the purposes of the projections, the commission utilized these proposals to develop an estimated cost for a system to process the betting volume projected by the market survey.

The study commission also estimated staffing levels and related costs for each branch and telephone station. Further, estimated costs for administrative personnel, training, leasehold improvements, rents, supplies, etc., were also developed. Exhibit V-2 contains an organization chart upon which the staffing levels are based.

Net Income Projections

The computer model was utilized to measure the effect on net income of many variations of costs and retention percentages. Also several estimates of potential market handle were used. Throughout this analysis, emphasis was placed on being conservative in estimating staffing levels and associated costs.

Net income was estimated on two bases. The first method provides for the amortization of startup costs over a period of five years. Exhibit V-3 shows the commission, gross revenue and costs for this method. On a fully operating basis, the

projections are that New Jersey could realize an annual net income of approximately \$19 million. The projection assumes an estimated daily handle of \$1,156,052. The net income will be increased if a higher commission is taken from exotic betting and if a betting surcharge is imposed.

Exhibit V-4 shows the increase in net income by adding a surcharge to the winning wagers. Net income is increased approximately \$3 million for each 1 per cent surcharge. A possible justification for a surcharge is that it is in lieu of an admission charge at the race track and helps defray operating costs.

Exhibit V-5 shows the increase in net income by increasing the commission on exotic bets to 25 per cent and adding a surcharge to winning wagers.

Both exhibits contain net income amounts calculated for handle based upon the low, mean and high estimates of handle based upon the market survey. As a result of the calculations using the computer simulation model, the low estimate is based upon the premise that there is a 70 per cent probability that the handle will be realized. The mean estimate has a 50 per cent probability, and the high estimate, a 30 per cent probability.

As a practical matter, the negative net income amounts shown for the low handle on both exhibits are not realistic, since the personnel and systems costs would be reduced to reflect the lower volume of bets. The personnel and systems costs have been estimated for the mean handle and would also be adequate for the transaction volumes associated with the high estimated handle.

Cash Flow Analysis

The estimated handle, commission and cost bases contained in the cash flow analysis (Exhibit V-6) are the same as shown

in Exhibit V-3 (calculation of net income by amortizing costs over a five-year period). However, for cash flow purposes, startup expenses were treated as costs in the period incurred. Utilizing this method, revenue would exceed costs in the sixth quarter (sixteen to eighteen months). Based upon the data in this exhibit, startup cash requirements in the amount of approximately \$4 million to \$5 million are necessary.

Exhibit V-6 also shows that the OTB operation would generate sufficient cash to pay back the pre-operating expense and initial operating costs approximately at the end of the twenty-second month of operation (eighth quarter).

Estimated Reduction in Handle and Attendance

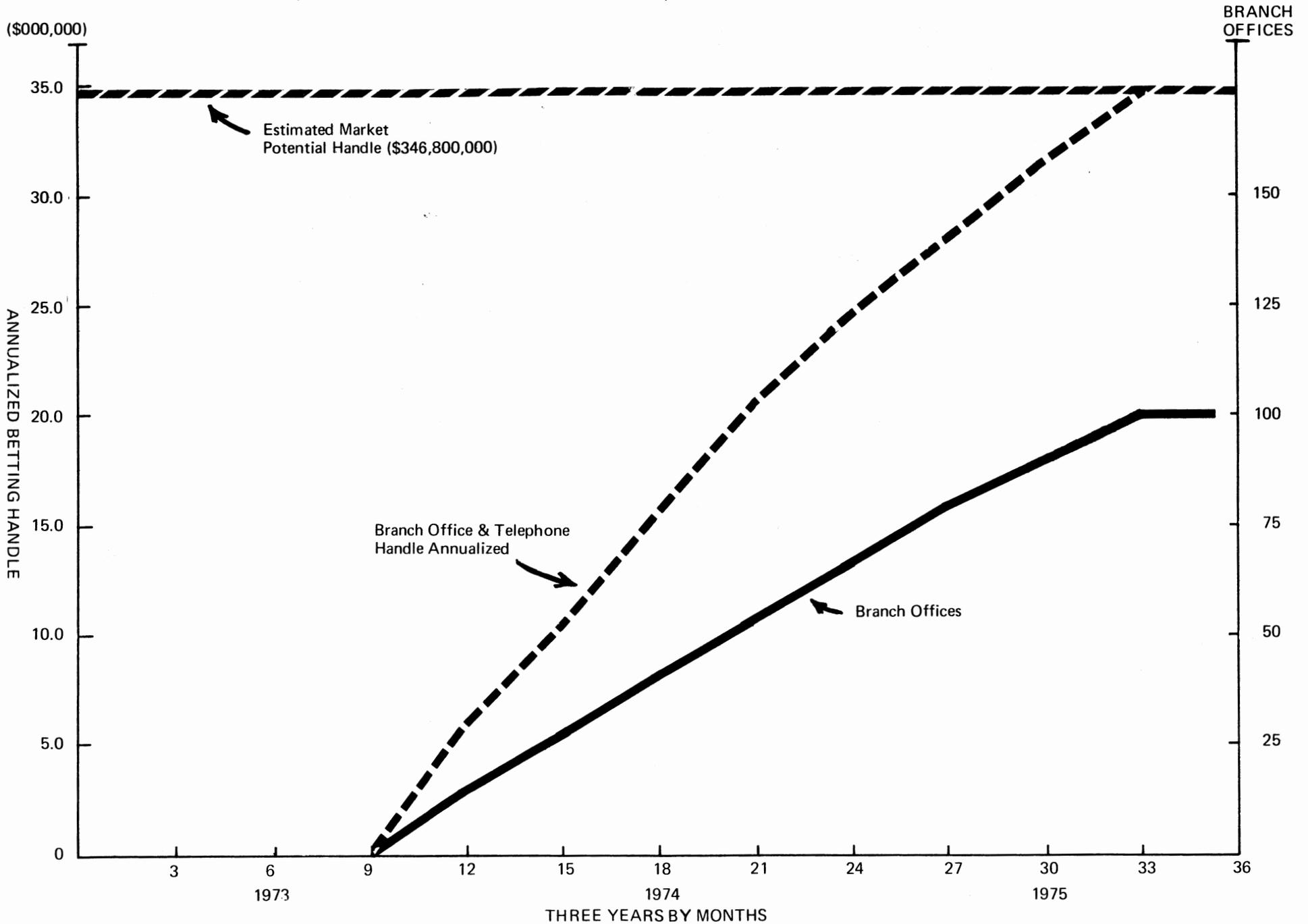
Exhibit V-7 page 1 shows the effect on the return to the tracks and the state for an estimated 10 per cent reduction in handle and attendance. Exhibit V-7 page 2 shows the effect with an estimated 15 per cent reduction in handle and 20 per cent reduction in attendance, which is the experience of the New York tracks this year to date. These percentages represent the total reduction in handle and attendance. The study commission was not able to determine what portion of the decrease could be attributed to OTB in New York.

A 10 per cent reduction in handle and attendance would reduce the estimated \$10,400,000 return to New Jersey tracks (Exhibit V-3) from OTB by \$3,470,000; and a 15 to 20 per cent reduction would reduce the return by \$5,639,000.

The reduction in the estimated \$18,916,000 return to the state utilizing the 10 per cent factor amount to \$3,718,000. The 15 to 20 per cent reduction would reduce the return by \$5,576,000.

NEW JERSEY OTB STUDY COMMISSION

ESTIMATED PLANNED GROWTH OF BETTING HANDLE AND NUMBER OF FRANCH OFFICES
(NINE MONTHS FOR START-UP AND TWENTY-SEVEN MONTHS OF OPERATION)



New Jersey OTB Study Commission

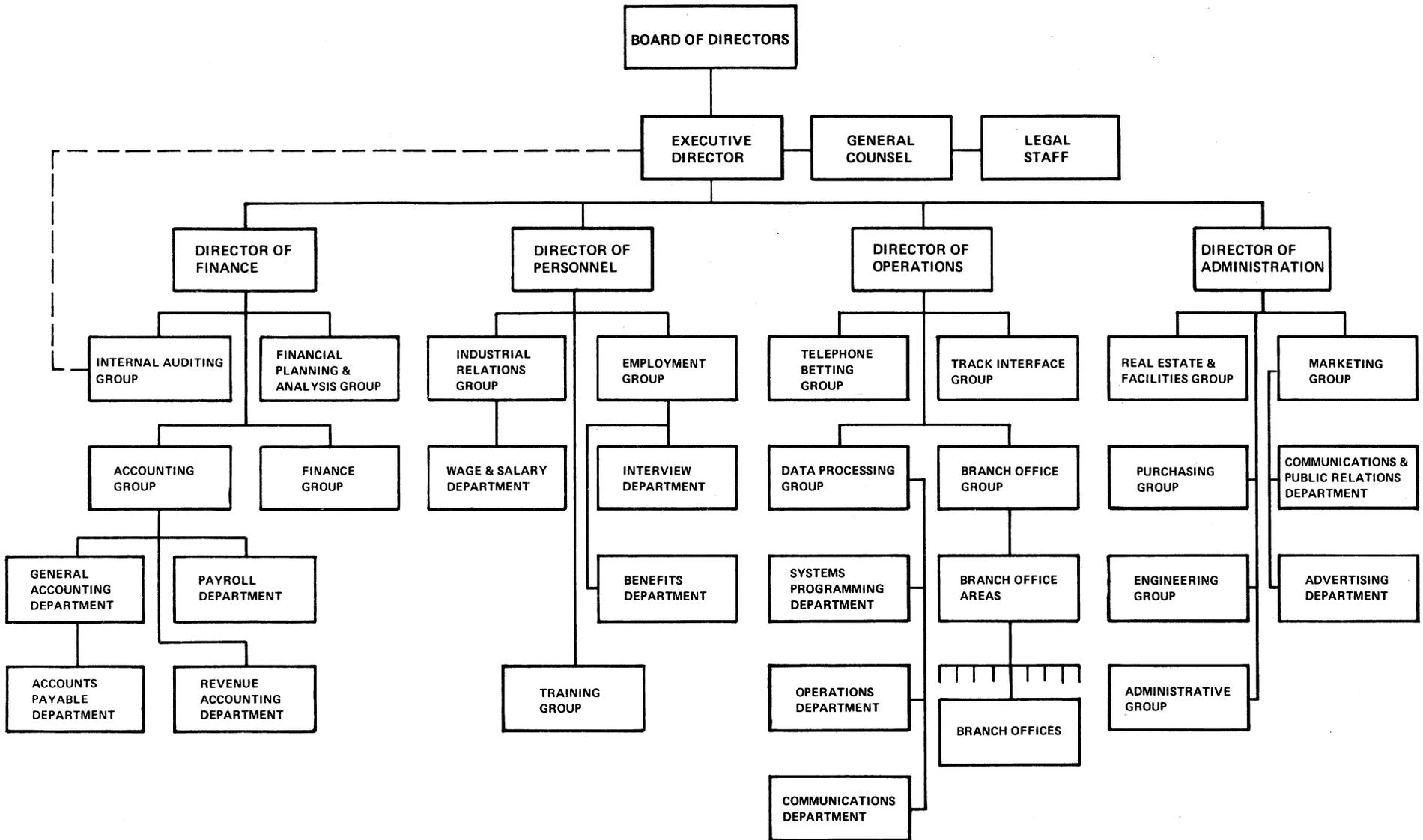
Assumed Growth of Expected OTB Handle and Branch Offices

<u>Months</u>	<u>Number Branch Offices</u>	<u>Quarterly Handle (000)</u>	<u>Annual Handle (000)</u>
1-3			
4-6			
7-9			
10-12	15	\$14,954	\$ 59,816
13-15	28	\$26,033	\$104,132
16-18	41	\$39,409	\$157,636
19-21	54	\$51,636	\$206,544
22-24	67	\$61,559	\$246,236
25-27	80	\$70,269	\$281,076
28-30	90	\$78,979	\$315,916
31-33	100	\$86,704	\$346,816

Notes:

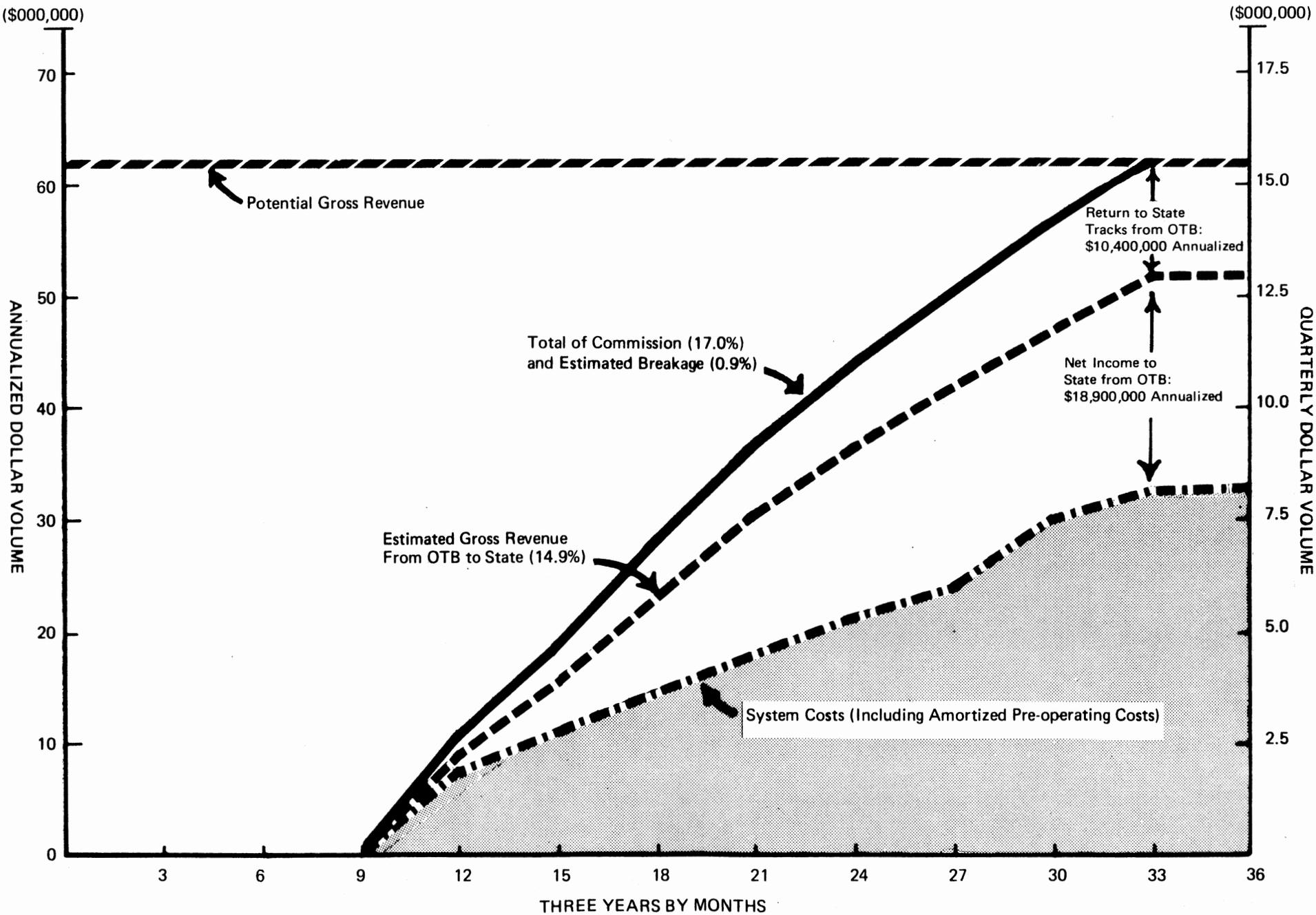
1. Nine month startup time period assumed.
2. Annual handle is quarterly handle times four.

**NEW JERSEY OTB STUDY COMMISSION
PROPOSED OPERATING ORGANIZATION**



NEW JERSEY OTB STUDY COMMISSION

COMPARISON OF COMMISSION, GROSS REVENUE, AND SYSTEM COSTS
INCLUDING AMORTIZED PRE-OPERATING COSTS (COST BASIS)



New Jersey OTB Study Commission

Comparison of Commission, Gross Revenue and System
Costs Including Amortized Pre-Operating Costs (Cost Basis)

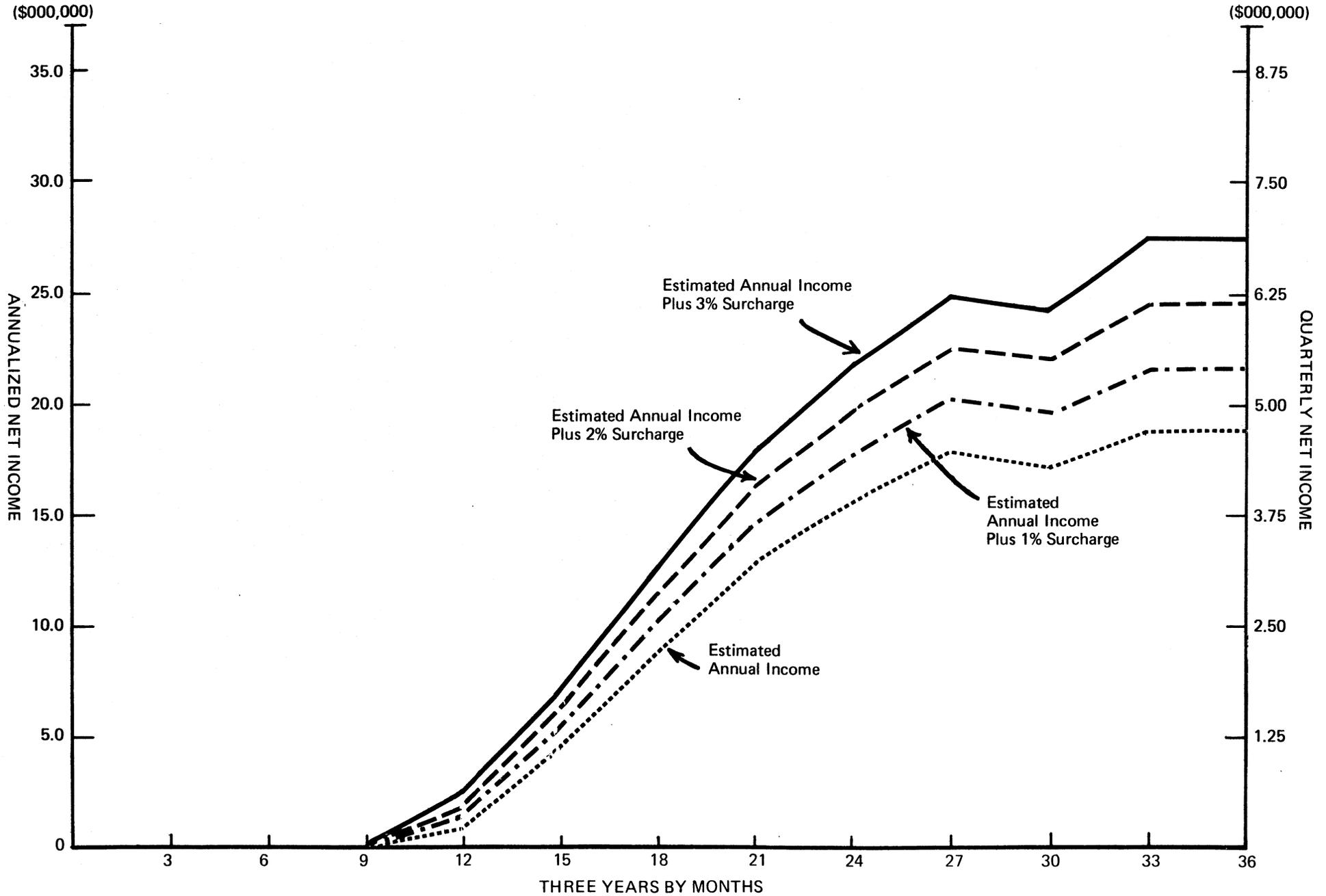
<u>Months</u>	<u>Commission (17%)</u>	<u>Breakage (.9%)</u>	<u>Total</u>	<u>Gross Revenue (14.9%)</u>	<u>System Costs</u>	<u>Net Income</u>
1-3						
4-6						
7-9						
10-12	2,542	135	2,677	2,228	1,985	243
13-15	4,425	234	4,659	3,879	2,747	1,132
16-18	6,699	355	7,054	5,872	3,637	2,235
19-21	8,778	465	9,243	7,693	4,463	3,230
22-24	10,465	554	11,019	9,172	5,225	3,947
25-27	11,946	632	12,578	10,470	5,986	4,484
28-30	13,426	711	14,137	11,768	7,508	4,260
31-33	14,740	780	15,520	12,919	8,190	4,729

Notes:

1. All figures are shown on a quarterly basis.
2. Based on 300 betting day operation.
3. The difference between gross revenue and total is 3 per cent, which goes to the race tracks (\$10,404,000).

NEW JERSEY OTB STUDY COMMISSION

ANALYSIS OF THE EFFECT OF BETTING SURCHARGE ON NET INCOME



New Jersey OTB Study Commission

Analysis of the Effect of Betting Surcharge on Net Income

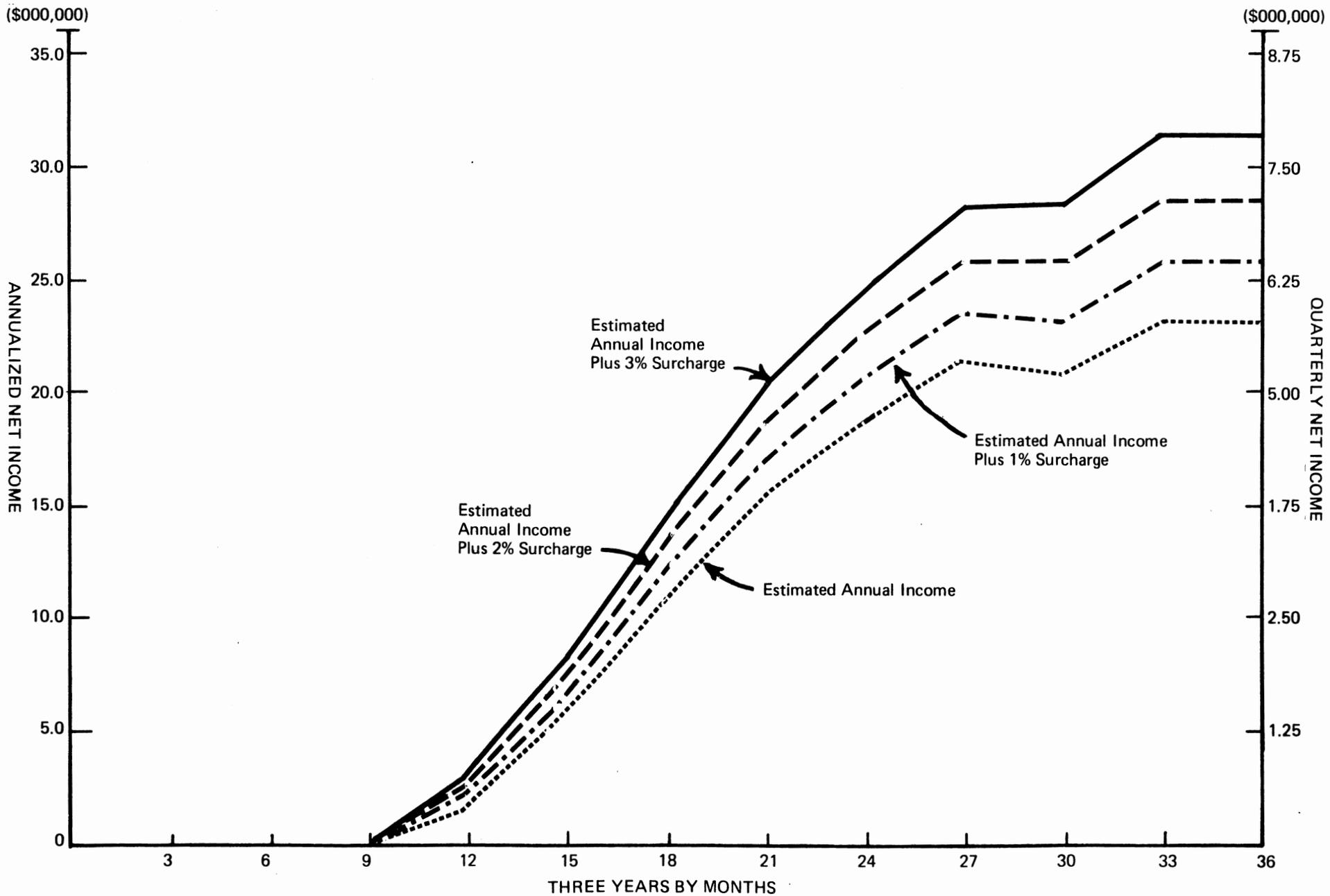
	<u>ESTIMATED EXPECTED HANDLE (\$000)</u>		
	<u>Low</u>	<u>Mean</u>	<u>High</u>
Daily Handle	<u>470</u>	<u>1,156</u>	<u>1,235</u>
Gross Handle	<u>141,111</u>	<u>346,816</u>	<u>370,565</u>
Commission (17%)	23,989	58,959	62,996
Breakage (.9%)	<u>1,270</u>	<u>3,121</u>	<u>3,335</u>
Total	25,259	62,080	66,331
Tracks (3%)	<u>4,233</u>	<u>10,404</u>	<u>11,117</u>
Gross Revenue	<u>21,026</u>	<u>51,676</u>	<u>55,214</u>
<u>Expenses</u>			
Branch	27,598	27,598	27,598
Telephone	1,450	1,450	1,450
Corporate	<u>3,712</u>	<u>3,712</u>	<u>3,712</u>
Total	<u>32,760</u>	<u>32,760</u>	<u>32,760</u>
Net Income	<u>(11,734)</u>	<u>18,916</u>	<u>22,454</u>
Net Income with Surcharges:			
1%	(10,575)	21,763	25,496
2%	(9,416)	24,610	28,538
3%	(8,257)	27,458	31,581

Notes:

1. Surcharge on winning wagers only, not gross handle. Winning wagers are calculated as 82.1 per cent of gross handle.

NEW JERSEY OTB STUDY COMMISSION

ANALYSIS OF THE EFFECT OF HIGHER COMMISSION ON EXOTIC BETS
AND BETTING SURCHARGE ON NET INCOME



New Jersey OTB Study Commission

Analysis of the Effect of Higher Commission on
Exotic Bets and Betting Surcharges on Net Income

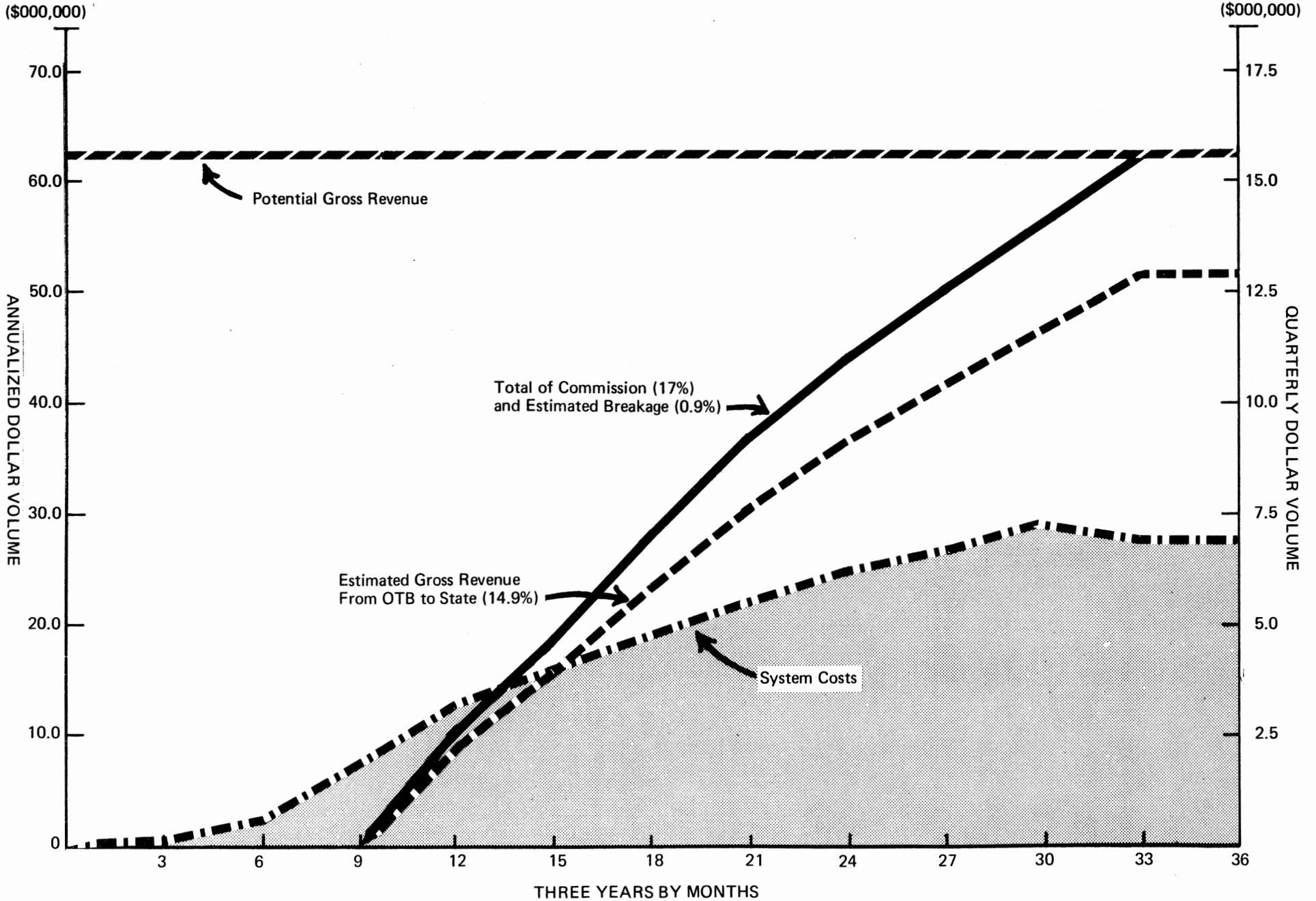
	<u>ESTIMATED EXPECTED HANDLE (\$000)</u>		
	<u>Low</u>	<u>Mean</u>	<u>High</u>
Daily Handle	<u>470</u>	<u>1,156</u>	<u>1,235</u>
Straight Handle	119,944	294,794	314,980
Exotic Handle (15%)	<u>21,167</u>	<u>52,022</u>	<u>55,585</u>
Gross Handle	<u>141,111</u>	<u>346,816</u>	<u>370,565</u>
Straight Commission (17%)	20,390	50,115	53,547
Exotic Commission (25%)	5,292	13,005	13,896
Breakage (.9%)	<u>1,270</u>	<u>3,121</u>	<u>3,335</u>
Total	26,952	66,241	70,778
Tracks (3%)	<u>4,233</u>	<u>10,404</u>	<u>11,117</u>
Gross Revenue	<u>22,719</u>	<u>55,837</u>	<u>59,661</u>
<u>Expenses</u>			
Branch	27,598	27,598	27,598
Telephone	1,450	1,450	1,450
Corporate	<u>3,712</u>	<u>3,712</u>	<u>3,712</u>
Total	<u>32,760</u>	<u>32,760</u>	<u>32,760</u>
Net Income	<u>(10,041)</u>	<u>23,077</u>	<u>26,901</u>
Net Income with Surcharges:			
1%	(8,882)	25,824	29,943
2%	(7,696)	28,671	32,985
3%	(6,564)	31,519	36,028

Notes:

1. Exotic handle calculated as 15 per cent of gross handle.
2. Surcharges on winning wagers only, not gross handle. Winning wagers are calculated as 82.1 per cent of gross handle.

NEW JERSEY OTB STUDY COMMISSION

COMPARISON OF COMMISSION, GROSS REVENUE, AND SYSTEM COSTS
ON A CASH FLOW BASIS



New Jersey OTB Study Commission
 Comparison of Commission, Gross Revenue and
 System Costs on a Cash Flow Basis

(000)

<u>Months</u>	<u>Commis- sion (1.7%)</u>	<u>Breakage (.9%)</u>	<u>Total</u>	<u>Gross Revenue (14.9%)</u>	<u>System Cost</u>	<u>Net Income</u>	
						<u>Quarter</u>	<u>Cumula- tive</u>
1-3					125	(125)	(125)
4-6					537	(537)	(662)
7-9					1,896	(1,896)	(2,558)
10-12	2,542	135	2,677	2,228	3,231	(1,003)	(3,561)
13-15	4,425	234	4,659	3,879	4,016	(137)	(3,698)
16-18	6,699	355	7,054	5,872	4,782	1,090	(2,608)
19-21	8,778	465	9,243	7,693	5,538	2,155	(453)
22-24	10,465	554	11,019	9,172	6,289	2,883	2,430
25-27	11,946	632	12,578	10,470	6,729	3,741	6,171
28-30	13,426	711	14,137	11,768	7,286	4,482	10,653
31-33	14,740	780	15,520	12,919	6,868	6,051	16,704

Notes:

1. All figures are shown on a quarterly basis.
2. Based on 300 betting day operation.
3. The difference between gross revenue and total is 3 per cent, which goes to the race tracks (\$10,404,000).

New Jersey OTB Study Commission

Analysis of Estimated Attendance and Handle Reductions

	<u>Estimated Reduction</u>
	<u>10%</u>
Attendance	347,054
Handle	\$37,173,837

For reductions of 10% in handle and attendance

	<u>Reduction</u>	<u>Track Loss</u>	<u>State Loss</u>	<u>Total</u>
Attendance	347,054	\$ 867,635		\$ 867,635
Handle	<u>\$37,173,837</u>	<u>2,602,168</u>	<u>\$3,717,384</u>	<u>6,319,552</u>
Total		<u>\$3,469,803</u>	<u>\$3,717,384</u>	<u>\$7,187,187</u>

Notes:

1. Attendance and handle figures used are 1971 figures, with a total attendance of 3,470,525, and a total handle of \$371,738,369.
2. Loss due to reduction in attendance is estimated reduction in attendees times \$2.50.
3. Loss due to reduction in handle is estimated as handle reduction times 10 per cent for the state and 7 per cent for the tracks.

New Jersey State Library

New Jersey OTB Study Commission

Analysis of Estimated Attendance and Handle Reductions

	Estimated Reduction	
	15%	20%
Attendance	520,581	694,108
Handle	\$55,760,806	\$74,347,674

For reductions of 20% in attendance and 15% in handle

	Reduction	Track Loss	State Loss	Total
Attendance	694,108	\$1,735,270		\$ 1,735,270
Handle	\$55,760,806	<u>3,903,256</u>	<u>\$5,576,081</u>	<u>9,479,337</u>
Total		<u>\$5,638,526</u>	<u>\$5,576,081</u>	<u>\$11,214,607</u>

Notes:

1. Attendance and handle figures used are 1971 amounts with a total attendance of 3,470,535 and a total state handle of \$371,738,369.
2. Loss due to reduction in attendance is estimated as reduction in attendees times \$2.50.
3. Loss due to reduction in handle is estimated as handle reductions times 10 per cent for the state and 7 per cent for the tracks.

VI. CONCLUSIONS AND RECOMMENDATIONS

The study commission, after analyzing the information and financial data developed during the study period, believes that additional work is required to determine the feasibility of OTB for New Jersey. Although such additional work would postpone the implementation of OTB for a year, the commission believes that the added evaluation would improve the definition of the OTB market potential handle, provide an opportunity for the racing industry to participate directly in the study and allow the development of alternate OTB implementation methods. For example, a semi-automatic or a manual betting system could be used to start up OTB. These methods would allow earlier recognition of revenue and would tend to minimize the startup investment required. More specific recommendations follow.

Racing Considerations

From the study work conducted, a reasonable possibility exists that an off-track betting system could affect both attendance and betting handle at the state race tracks. The degree of this effect could not be determined with any precision in the time available for the study. Since a strong racing industry is in the best interest of the state as a viable source of revenue, everything possible should be done to help the industry.

In addition, the commission's studies showed that an off-track betting system, to be fully effective, should operate with the complete cooperation of the New Jersey tracks. The bets made off track must be included with the bets made on-track. The off-track bettors should know the latest track conditions, jockey changes and horse scratches. These are just a few of the more significant areas where race track operators and off-track bettors will need to cooperate.

The study commission recommends that additional studies be made to determine the feasibility of OTB and the effect on the racing industry if OTB is implemented. These include studies on:

- . Attendance and betting handle trends and projections.
- . The number and quality of horses available for racing
- . The effect of increases in racing days and effect on betting handle
- . Purse structure
- . The costs involved in racing up to 300 days
- . Other effects of 300 days' intrastate racing
- . The effect of day/night and thoroughbred/harness racing, etc.
- . Future structure of the racing industry in New Jersey

These studies are required in order to retain a strong racing industry and to encourage the state race tracks to cooperate with the study commission. These recommendations for new studies also include considerations of the factors that affect track attendance, concessions, on-track betting handle, reductions in the track variable expenses, track promotion to encourage attendance, and the need to increase purses to maintain the quality of the racing industry in New Jersey.

OTB Considerations

For analysis purposes, an OTB system of 100 branch offices and a telephone betting center with a central computer was assumed. The analysis also assumes 300 days of betting on both day and night races and that bets will be taken on out-of-state tracks when New Jersey tracks are not operating. In this latter case, the state OTB system would maintain its own betting pools and odds. It is against federal law to combine the state's off-track betting pool with an out-of-state track's pool.

The study commission estimated costs and determined expected revenues for a fully computerized betting system using a mean

daily handle projected as a result of the market research study. Revenue was also projected for the low and high estimates of daily handle. However, costs were estimated only for the mean projection. The commission recommends that additional work be done to develop a range of costs for each level of projected handle.

The commission also believes that other alternatives to a fully computerized system should be evaluated. For example, a semi-automatic system, utilizing a computer only for communications and totalizing purposes, would allow a shorter startup period for OTB implementation. Revenues would also be generated earlier than with the full computer system. In addition, a semi-automatic system, if designed and utilized, would serve as a backup system to the full computer system in the event of the computer system breakdown. Studies are also required to aid in making decisions concerning the location and design of branch offices, use of closed-circuit television and commercial television, food and beverage services, sale of racing publications, kinds of betting to be offered, and the type of system required.

The study commission also recognizes that a large initial investment is required to fund the establishment of an off-track betting system. This investment is needed to hire and train personnel, rent space, make leasehold improvements, lease and/or purchase communications, computer and business equipment and conduct advertising and sales promotion programs. This initial funding is estimated to be approximately \$4 million to \$5 million. Based on preliminary information, it is estimated that approximately nine months will elapse before the first off-track betting parlors will open and an additional six to nine months before the OTB business will break even. Alternative methods of implementing OTB should be studied in order to minimize these startup costs and reach a breakeven point earlier in the operating period.

In addition, more precise definition of the market potential of OTB is required. This is required in order to provide better estimates of the size of the system required, systems costs and potential revenues. Market data can also be utilized to locate the branch offices and predict the potential acceptance of telephone betting.

Although the financial analysis of OTB for New Jersey should be expanded to fully explore the financial feasibility of OTB, the analysis undertaken as part of the study indicates that net income to the state will be approximately \$19 million (annualized).

The commission believes that this is significant additional revenue to the state compared to the net revenue now received from the racing industry.

During the study of OTB, the study commission also investigated the effect of the addition of betting surcharges and increased commissions for exotic wagering on net income. For each 1 per cent surcharge on winning bets, the net effect is approximately \$3 million more in net income. Winning bets as used here are calculated as the amount of gross handle returned to winners less breakage amounts.

Increasing the commission on exotic wagers also affects net income. An increase from 17 per cent to 25 per cent on exotic bets, for example, increases net income from \$1.6 million to \$4.4 million, depending on the amount of gross handle. In this analysis exotic wagers were considered to be 15 per cent of gross handle.

The greatest increase to net income to the state occurs with increased commission and the addition of surcharges to winning wagers. Following is a summary of this effect on net income:

	<u>(000)</u>
Mean Daily Handle	<u>\$ 1,156</u>
Net Income - 17%	\$18,916
- 25% Exotic	\$23,077
- 25% Exotic + 1%	\$25,824
- 25% Exotic + 2%	\$28,671
- 25% Exotic + 3%	\$31,519

Additional revenues can be generated by increasing the exotic percentage above 17 per cent and adding a winning bet surcharge. These calculations did not allow for decreases which may occur in gross handle because of the additional commission structure. Also the percentage return to the race tracks remained at 3 per cent, which may be increased. In addition, the effect of utilizing alternative startup methods which may also improve the income from OTB was not considered.

In summary, the study commission believes additional time and additional studies are required before deciding the feasibility of OTB for New Jersey. This approach will allow more detailed analysis to be prepared and will also give the racing industry the opportunity to participate more fully in the study work and give maximum consideration to the needs of the racing industry.

HISTORICAL BACKGROUND OF OTB

The work performed to develop background information concerning OTB was coordinated by the subcommittee assigned to this area. In all, information on OTB operations was reviewed by the study commission for the following locations: New York City Off-Track Betting Corporation, Japan, England, France, Australia, New Zealand, and Toronto, Ontario.

The main objective in reviewing other OTB operations was to determine the methods and operating concepts in each system which could be utilized for an OTB operation in New Jersey. Other objectives were to develop the basis on which to construct an analysis of OTB systems market potential and the effect of OTB on state race tracks.

New York City Off-Track Betting Corporation - NYC/OTBC - started operations on April 8, 1971. At present, OTB has more than 70 offices and a telephone betting center.

	<u>Thoroughbred</u>	<u>Harness</u>
Win/Place/Show	61%	36%
Daily Double	15	15
Exacta	24	23
Superfecta (Exotic)	(not available)	26

The table demonstrates that there is a definite market for both win/place/show betting and exotic betting.

OTB currently handles races at Aqueduct, Belmont Park and Saratoga. OTB also handles harness racing at Roosevelt, Monticello and Yonkers Raceways. The current breakdown of OTB handle shows 40 to 45 per cent is from thoroughbred racing, and 55 to 60 per cent is from harness racing. When there is no activity at the New York tracks, OTB takes bets on out-of-state tracks. In addition, New York OTB handles special events, such as the

Kentucky Derby, the Preakness, the Colonial Cup and others. OTB presently combines its betting pools with the in-state tracks and operates its own pools on out-of-state races.

New York state law enabling OTB prohibits the sale of refreshments and merchandise, including racing publications, in the branch offices. However, racing information is generally available, and information such as probable odds, jockeys, type of race, etc., is posted in the branch offices. New York OTB officials would like to sell racing forms in their branch offices. They would also like to provide current information on scratches.

New York OTB also has the facility to pay winning bettors about 30 minutes after the close of a race. Previously, OTB paid winners on the day following the race, although according to reports, immediate payoff has had very little effect on the volume of business.

To participate in telephone betting, a patron must apply for a telephone account and deposit a minimum of \$25 in the account. The bettor may then bet up to the total amount in the account. Winnings are credited to the appropriate accounts overnight by the OTB computer. Withdrawals from telephone accounts may be made only by mail. Statements of the telephone accounts are provided to the patron periodically. New York OTB officials expect to place additional emphasis on the development and marketing of telephone betting in the near future.

Foreign

Although off-track betting is a relatively new concept in North America, it is well known and quite successful in many other areas of the world. In particular, off-track betting is flourishing in Japan, England, France, New Zealand, and Australia. In the case of the latter three countries, the

practice was started for three reasons: to cut down illegal bookmaking, to increase revenue for racing and the racing industry, and to increase tax revenue. In these instances, the combined on-course and off-course mutuel handle proved to be greater than the previous on-course handle, and additional revenue was returned to racing.

Although a particular system of off-track betting has proved to be successful in one country, an identical off-track betting system may not attain identical success in the United States. Custom, betting habits and operating costs vary dramatically from one country to another and may influence the type of system required here. However, existing experiences with off-track betting in other countries does provide a basis for comparison and a means of evaluation for OTB.

The following is a summary of off-track betting systems in Japan, England, France, Australia and New Zealand and an anticipated system in Toronto, Canada.

JAPAN

The association is authorized to take out 25 per cent of the betting handle for government taxes, off-track betting expenses and profit. For the present and into the foreseeable future, the association's main problem is handling the vast numbers of bettors within the limits of facilities permitted by law. Horse racing and off-track betting are controlled and operated by a single semi-governmental body known as the Japan Racing Association. It operates a maximum of 15 multi-story betting offices, eight of which are in Tokyo. Off-track betting is extremely popular in Japan, with as many as 70,000 patrons placing bets on a Saturday at the largest of the betting buildings.

ENGLAND

The volume of OTB betting in England is high, and OTB is mainly operated by private legal bookmakers. The tax revenue to the British Government from betting approximated \$163 million in 1970. The racing industry reports low purses and deteriorating facilities because relatively little is returned to the tracks from off-track betting handles.

FRANCE

Off-track betting in France is based on exotic or combination bets. Revenue generated from this betting provides 85 per cent of racing industry revenue. As a result, purses for races in Paris are considered the richest in the world.

Horse racing in France is controlled by a racing association designated by the government. While off-track betting is controlled and operated by the Pari-Mutuel Urbain (P.M.U.), a network of small, one-person offices located in some 5,000 locations throughout France provides the outlets for OTB bets. The operator receives a 1 per cent commission on all wagers placed through his shop.

Off-track betting in France in 1970 amounted to \$1.32 billion. Of this amount, the P.M.U. realized a profit of \$220 million, a part of which was ultimately used for various urban programs and water supply systems. Off-track betting revenues are substantial enough to provide not only large tax revenues but also substantial revenues to the entire racing industry.

The most popular bet in France is the Tierce, in which the bettor forecasts the order of finish of the first three horses in a single race. Tierce bets are taken on one or two races per week and constitute over 50 per cent of money bet on- and off-track. The present commission on Tierce betting is over 30 per cent. The government believes that a higher tax can be tolerated on exotic bets because payoffs to the relatively small

number of winners is very high. Win and place betting accounted for only 8.2 per cent of the total handle in 1969, while 91.8 per cent of the handle was derived from exotic forms of betting, mainly the Tierce.

In summary, the French off-track betting system is similar to a lottery system and has little competition. The national lottery established in 1933 is very small in comparison. The off-track collection and distribution system could not presently accommodate full scale daily win, place and show betting because of its predominantly manual nature. A new computer system recently installed at the Paris race track will be refined and utilized for off-track betting throughout France in 1973.

AUSTRALIA

Australians have bet a total of \$3.3 billion through the Totalisator Agency Board (TAB) since off-track betting was legalized in 1961. Further, tax revenues for the three largest betting states in Australia (total population of 13 million) in 1970 exceeded \$120 million.

Off-track betting is operated through branch offices and over the telephone. Betting takes place up to 30 minutes before a race, and winnings can be collected about 20 minutes after a race. The off-track bets are merged with those on track to form one betting pool.

NEW ZEALAND

In 1949 a proposal to legalize off-track betting was approved, and in March 1951 the first two betting offices were opened. By 1971 off-track betting had grown to over 300 agencies and branch offices with a total betting handle for the year ending July 1971 of \$93 million. The government realized revenues from the pari-mutuel tax of over \$8 million, and \$3.5 million were distributed to the race tracks.

In New Zealand, off-track betting is operated by the Totalizator Agency Board of New Zealand, which handles bets on thoroughbred racing, harness racing, and dog racing within New Zealand and also major races in Australia. At present, OTB in New Zealand is mainly a manually operated betting system.

TORONTO, CANADA

The Task Force on Off-Track Betting conducted a feasibility study on off-track betting and listed as the objectives of an OTB system:

- . The suppression or diminution of illegal bookmaking
- . The provision of a service to the public
- . A contribution to the financial integrity of the racing industry
- . Revenue to the government.

The task force envisioned OTB as being operated by an independent commission responsible through a government ministry to the legislature. The directorate of the commission would be composed of a majority of public representatives and a minority of racing industry representatives. The task force recommended conventional wagering with some exotic bets being offered through 88 branch shops and a telephone system. Because of the low population density of much of Ontario, the task force felt that much of the ultimate OTB system would be manually operated at the outlets, with a central computer communication with the tracks. On- and off-track pools would be combined, with a share of OTB going to the racing industry as a percentage of net income, not of gross handle.

The task force projected a gross off-track handle of \$140 million per year after two years, with growth to \$300 million after five years. Also this occurs with no appreciable effect on the current on-track handle of \$300 million.

RESULTS OF MARKET RESEARCH STUDY

In order to determine the attitudes of the people of New Jersey and the market potential concerning OTB in New Jersey, several methods were used. These included in-depth group interviews and polls (telephone surveys). Overall, two polls were conducted. The first was conducted between February 18 and 28, 1972. In this survey 1,221 New Jersey residents over 18 year of age were interviewed by telephone. In the other telephone survey (April 28 to May 6, 1972) 1,218 residents in the over 18 years' age market were contacted and interviewed.

Both surveys represent a probability sample of the adult population of New Jersey. The preliminary results of the survey can, therefore, be considered to represent the attitudes of the population at large within the limits of sampling error. In both cases, a random telephone number generator was used to minimize error by insuring all families with telephones an equal chance of being contacted.

Two in-depth group interviews were also conducted with eighteen New Jersey residents who were regular or occasional gamblers. Although such a small number of people cannot be considered a representative sample of New Jersey adults, their responses appear to represent the attitudes and opinions of people who may become "typical" users of OTB. The in-depth nature of the interviews permitted a more detailed exploration of the various aspects of gambling behavior and a probing of the preferences of people who are quite likely to regularly use New Jersey OTB.

In telephone surveys the attitude of New Jersey residents concerning gambling and their actual and potential gambling behavior were investigated. Attitudes toward the lottery and potential attitudes toward off-track betting, sports gambling, and casino gambling and descriptions of the potential lottery and OTB users were obtained.

Approximately one third of adult residents over 18 say they might use an established state OTB system. These residents were divided into three groups: "very likely," "somewhat likely," and "not very likely" to use OTB. Of these groups, those in the "very likely" category indicated they would use OTB more often, place more bets each time and bet more money at each visit.

The preferred location for New Jersey OTB offices, as indicated in this preliminary survey by all categories of bettors, is in the suburban shopping center. The shopping center is also preferred by both city dwellers and suburbanites. Most bettors appear willing to travel up to 15 minutes to reach an OTB branch office, and of the "most likely" group, a substantial minority will travel up to 30 minutes.

In other areas, such as the use of television, the effect on track attendance and exotic versus straight wagering, the following preliminary conclusions were made relative to OTB in New Jersey:

Television

Home television would be attractive to all classes of bettors, while closed-circuit television attracted only those "very likely" to bet. A substantial portion of the "very likely" group would also be willing to pay to see closed-circuit television.

Track Attendance

According to information developed from the interim market study, those potential OTB users and those who regularly attend the races represent two largely overlapping groups. In addition, race tracks and OTB appear to attract somewhat different types of people. While it is assumed that OTB will have an effect on track attendance, the potential users of OTB will not be drawn only from race track goers, and further, not all race track attendees will use OTB. Some impact of this attitude will also affect the nearby out-of-state tracks.

Exotic Wagering

In the "very likely" and "somewhat likely" groups, the motivations for gambling were investigated. As a result, it appeared that the entertainment aspects of betting are the primary motivation for most potential OTB users. Also conventional wagers appeared more appealing than exotics. However, a large proportion of potential OTB users would also be likely users of exotic bets. In order to attract both types of bettors, both conventional and exotic betting should probably be offered by the OTB system.

More detailed descriptions concerning the potential expected attitudes and behavior of New Jersey residents regarding off-track betting follow.

Attitudes Towards Gambling

The lottery is overwhelmingly supported in the state of New Jersey, with approximately 88 per cent of New Jersey residents approving of the state lottery. Support is strongest among male and higher income residents, with approximately 70 per cent of each of the major demographic groups in the state favoring the lottery.

According to the preliminary survey results, off-track betting also receives strong support from New Jersey residents. Approximately 68 per cent support off-track betting. This figure is somewhat lower than the number favoring the lottery. A majority of every major group except nonwhites favors having off-track betting in the state. Although OTB does not gain majority favor among nonwhites, it is favored by a plurality, with a relatively large number undecided.

Sports gambling is supported by a majority of citizens, but there appears to be considerable opposition. Although 55 per cent of citizens across the state favor legalized sports gambling, support is very uneven across various demographic groups. A majority of high income residents favor it, while a majority of those of low income oppose it. In addition, casino gambling

is opposed by a plurality of New Jersey residents, with 48 per cent of the residents rejecting casino gambling in New Jersey and 44 per cent favoring it.

In summary, the four types of gambling which might be regulated by state government can be ranked from most to least favored by New Jersey residents. The state lottery and off-track betting are perceived in a generally favorable light. Sports gambling and casino gambling appear to have significant opposition.

Actual and Potential Gambling Behavior

In general, a majority of the residents of New Jersey have used the lottery, but a relatively small number of them account for much of the sales. While 53 per cent of adults in the state have bought lottery tickets, the 14 per cent who are "heavy" users have purchased 47 per cent of all the lottery tickets. "Heavy" usage is defined as purchasing as few as three tickets per week. Almost two fifths of the state's residents spend at least \$1 a week on the lottery. Since these are fairly modest expenditures, the market for lottery tickets, as well as for other forms of gambling, is probably not saturated.

The preliminary survey results show that lottery usage varies among different groups in the state. In general, high income residents use the lottery less but buy more tickets when they do use it. Nonwhite and women are less frequent users and buy fewer tickets than whites or men. Among the various age groups, those from 50 to 59 are both the heaviest users and biggest purchasers. Catholics are more likely to have tried the lottery and buy more tickets than other religious groups. This same pattern holds for blue collar workers and high school graduates, who are heavier users and purchasers than those of other occupational or educational groups.

One out of three residents of the state is a potential OTB user. Approximately a third of the state's residents say that they would use OTB facilities if they were opened in the state. A larger proportion of nonwhites than whites say they would patronize OTB, a reversal of the picture of lottery usage. Those in the middle income group - \$5,000 to \$15,000 per year - and high school graduates say they would use OTB in greater numbers than those of lower or higher educational attainments and income. It should be remembered that, unlike the figures for the lottery, these data represent potential rather than actual use of OTB facilities.

In fact, some residents are already using New York OTB. The survey shows that about 6 per cent of adult residents have used New York OTB, including 15 per cent of heavy users of the New Jersey lottery and 17 per cent of those who say they would use New Jersey OTB. It would seem that there is already an "OTB market" in the state, since 86 per cent of New Jersey users of New York OTB say they would use a New Jersey OTB, as well as over half - 52 per cent - of the present heavy lottery users.

Not all those favoring New Jersey OTB would use it. Only 42 per cent of those who favor establishment of New Jersey OTB say they would use such a facility. It is clear that people have reasons for supporting OTB other than a desire to bet, such as expectation that the revenue it would generate might hold down state taxes and that it might have some impact on organized crime.

In addition, preliminary information on the profiles of New York OTB users and potential New Jersey OTB users appear to be similar. The profile of the New Jersey resident who uses New York OTB seems similar to that of the potential New Jersey OTB patron. There are a few differences worth noting, however. Those under 30 make up the largest age segment of actual and

potential OTB users, but only 37 per cent of potential New Jersey OTB users are under 30, as compared to 46 per cent of the New Jerseyans who already bet in New York. The proportion of high income people and men is also larger in the New York group than the New Jersey "potential user" group, perhaps because these two groups are more heavily represented among commuters to New York City.