

CALIFORNIA CLAIMING PURSES

Has the Current Structure Fostered A Diminished Racing Product?

By Guy Lamothe

As one of its many responsibilities, the TOC Racing Affairs Committee reviews, evaluates, and negotiates purses with partner racing associations. Two vitally important goals of this Committee are to:

1. Structure purses statewide so as to encourage continued owner investment in the industry; and,
2. Explore varied means to enhance the national perception of California racing, particularly as a wagering product.

Both the TOC Board and this Committee are very mindful of the long-term strategic implications of California's purse structures, especially in light of significant extrinsic factors impacting our purse programs today, including slot-supported purses in other states, decreasing racing inventories, and a startling reduction in the number of California farms, to name a few.

Purses At Lowest Claiming Levels Growing Fastest

One of the troubling areas on which TOC is focusing more of its attention is our claiming race program. As part of

these efforts, TOC staff undertook a review of claiming data encompassing open and maiden levels – between \$10,000 and \$62,500 – from Santa Anita meets beginning in 1981. Santa Anita was chosen as the barometer for the other California meets because of its consistent racing dates and claiming levels over the past 25 years. The accompanying charts reveal some intriguing, yet disconcerting trends and implications that will likely impact policy considerations going forward.

Santa Anita's claiming purses over the last 25 years are reflected in Chart 1. Since 1981, purses have increased approximately 33% to 117%, depending on the claiming level, while claiming levels have not changed. However, these increases represent annual average growth rates of only 1.2% to 3.1% per year, which means they have not kept pace with inflation of 3.2% over that same time.

Focusing on the last 10 years from 1996 to 2006 (see highlighted columns), purse growth for the maiden claiming and upper claiming levels (\$25,000 to \$50,000) has fallen significantly short of growth at the lower claiming levels (\$10,000 to \$20,000). For example, \$10,000-claimer purses increased 27%, yet \$40,000-maiden claimer purses decreased 5%.

As previously mentioned, claiming purses have not kept pace with inflation, as measured by the consumer price index. In Chart 2, historical purses are adjusted for inflation

Chart 1: Santa Anita Historical Claiming Purses

1981-2006: 25 years
Nominal Dollars (not adjusted for inflation)

Claiming Level	Purses*						% -change in purses			
	1981	1986	1991	1996	2001	2006	1981-96 (15 yrs)	1996-06 (10 yrs)	1981-06 (25 yrs)	c.a.g.r.** (25 yrs)
\$10,000	\$10,000	\$ 11,000	\$ 12,000	\$ 11,000	\$ 15,000	\$ 14,000	+10%	+27%	+40%	+1.4%
\$12,500	\$12,000	\$ 13,000	\$ 14,000	\$ 14,000	\$ 18,000	\$ 16,000	+17%	+14%	+33%	+1.2%
\$16,000	\$13,000	\$ 14,000	\$ 17,000	\$ 17,000	\$ 21,000	\$ 20,000	+31%	+18%	+54%	+1.7%
\$20,000	\$14,000	\$ 16,000	\$ 19,000	\$ 22,000	\$ 25,000	\$ 23,000	+57%	+5%	+64%	+2.0%
\$25,000	\$16,000	\$ 18,000	\$ 21,000	\$ 27,000	\$ 30,000	\$ 27,000	+69%	+0%	+69%	+2.1%
\$32,000	\$18,000	\$ 20,000	\$ 24,000	\$ 33,000	\$ 37,000	\$ 32,000	+83%	-3%	+78%	+2.3%
\$40,000	\$22,000	\$ 22,000	\$ 28,000	\$ 37,000	\$ 41,000	\$ 36,000	+68%	-3%	+64%	+2.0%
\$50,000	\$30,000	\$ 22,000	\$ 32,000	\$ 42,000	\$ 48,000	\$ 40,000	+40%	-5%	+33%	+1.2%
MCL \$25,000	\$10,000	\$13,000		\$16,000	\$18,000	\$16,000	+60%	+0%	+60%	+1.9%
MCL \$32,000	\$11,000	\$14,000	\$19,000	\$19,000	\$20,000	\$19,000	+73%	+0%	+73%	+2.2%
MCL \$40,000	\$11,000	\$15,000	\$21,000	\$22,000	\$22,000	\$21,000	+100%	-5%	+91%	+2.6%
MCL \$50,000	\$12,000	\$16,000	\$23,000	\$25,000	\$26,000	\$26,000	+108%	+4%	+117%	+3.1%
MCL \$62,500			\$25,000	\$28,000	\$30,000	\$30,000		+7%		
CPI ***	90.90	109.60	136.20	156.90	177.10	200.60	+73%	+28%	+121%	+3.2%

* Generally, purses at the beginning of the meet (Jan/Feb), Open Claiming, 4YO and up, Sprint (<7f). Source: *Daily Racing Form*.

** Compound annual growth rate.

*** Consumer Price Index (CPI), All Urban Consumers-U.S. City Average, U.S. Dept. of Labor, Bureau of Labor Statistics.

Chart 2: Santa Anita Historical Claiming Purses

1981-2006: 25 years
Adjusted in 2006 Dollars

Claiming Level	Purses* in 2006 dollars						%change in purses			
	1981	1986	1991	1996	2001	2006	1981-96 (15 yrs)	1996-06 (10 yrs)	1981-06 (25 yrs)	c.a.g.r.** (25 yrs)
\$10,000	\$22,068	\$ 20,133	\$ 17,674	\$ 14,064	\$ 16,990	\$ 14,000	-36%	-0%	-37%	-1.8%
\$12,500	\$26,482	\$ 23,794	\$ 20,620	\$ 17,899	\$ 20,388	\$ 16,000	-32%	-11%	-40%	-2.0%
\$16,000	\$28,689	\$ 25,624	\$ 25,038	\$ 21,735	\$ 23,787	\$ 20,000	-24%	-8%	-30%	-1.4%
\$20,000	\$30,895	\$ 29,285	\$ 27,984	\$ 28,127	\$ 28,317	\$ 23,000	-9%	-18%	-26%	-1.2%
\$25,000	\$35,309	\$ 32,945	\$ 30,930	\$ 34,520	\$ 33,981	\$ 27,000	-2%	-22%	-24%	-1.1%
\$32,000	\$39,723	\$ 36,606	\$ 35,348	\$ 42,191	\$ 41,910	\$ 32,000	+6%	-24%	-19%	-0.9%
\$40,000	\$48,550	\$ 40,266	\$ 41,239	\$ 47,305	\$ 46,440	\$ 36,000	-3%	-24%	-26%	-1.2%
\$50,000	\$66,205	\$ 40,266	\$ 47,131	\$ 53,698	\$ 54,369	\$ 40,000	-19%	-26%	-40%	-2.0%
MCL \$25,000	\$22,068	\$23,794		\$20,456	\$20,388	\$16,000	-7%	-22%	-27%	-1.3%
MCL \$32,000	\$24,275	\$25,624	\$27,984	\$24,292	\$22,654	\$19,000	+0%	-22%	-22%	-1.0%
MCL \$40,000	\$24,275	\$27,454	\$30,930	\$28,127	\$24,919	\$21,000	+16%	-25%	-13%	-0.6%
MCL \$50,000	\$26,482	\$29,285	\$33,875	\$31,963	\$29,450	\$26,000	+21%	-19%	-2%	-0.1%
MCL \$62,500			\$36,821	\$35,799	\$33,981	\$30,000		-16%		

* Generally, purses at the beginning of the meet (Jan/Feb), Open Claiming, 4YO and up, Sprint (<7f). Source:Daily Racing Form.

** Compound annual growth rate.

and reflected in 2006 dollars. Looking at the far-right column, purses have declined about 1%-2% per year on an average annual basis, after adjusting for inflation.

Another perspective to consider is the impact this “deflation” of purses has had on California racing. For example, the \$10,000 purse for a \$10,000 claiming race (i.e., the lowest claiming level in Southern California over the past 25 years) in 1981 would be worth \$22,068 in today's dollars. However, the actual purse for a \$10,000 claiming race today is only \$14,000. Is this necessarily good or bad? Consider, further, that claiming levels have not materially changed over the past 25 years even though, for example, a \$32,000 maiden claimer in 1981 was worth \$70,618 in today's dollars. How do these factors effect the interpretation of this

trend? In Chart 3, we take a closer look at the effects of inflation from 1981 to 2006.

Referring to Chart 3, 1981 claiming levels and purses are hypothetically inflated to 2006-dollars. Clearly, what we actually have in 2006 falls well short of the values in 1981: today's claiming levels are 45%, and purses 60%-98%, of the values in 1981. Has the product cheapened in California?

Incentive To Buy Low Level Claimers vs. Developing New Inventory

From the data in Chart 3, one could point out that purse as a percentage of claiming level today is much greater than in 1981, and therefore argue that owners are better off

Chart 3: Santa Anita Historical Claiming Purses

1981 Inflated to 2006 \$'s

"What it was in 1981" (1981, in 1981 \$'s)			"What 1981 would be in 2006 if adjusted for inflation" (1981, in 2006 \$'s)			"What it actually is in 2006" (2006, in 2006 \$'s)			Comparing 2006 as % of 1981 (in 2006\$'s)	
Claiming Level	Purses	Purse % of Claiming	Claiming Level	Purses	Purse % of Claiming	Claiming Level	Purses	Purse % of Claiming	Claiming Level	Purses
\$10,000	\$10,000	100%	\$22,068	\$22,068	100%	\$10,000	\$14,000	140%	45%	63%
\$12,500	\$12,000	96%	\$27,585	\$26,482	96%	\$12,500	\$16,000	128%	45%	60%
\$16,000	\$13,000	81%	\$35,309	\$28,689	81%	\$16,000	\$20,000	125%	45%	70%
\$20,000	\$14,000	70%	\$44,136	\$30,895	70%	\$20,000	\$23,000	115%	45%	74%
\$25,000	\$16,000	64%	\$55,171	\$35,309	64%	\$25,000	\$27,000	108%	45%	76%
\$32,000	\$18,000	56%	\$70,618	\$39,723	56%	\$32,000	\$32,000	100%	45%	81%
\$40,000	\$22,000	55%	\$88,273	\$48,550	55%	\$40,000	\$36,000	90%	45%	74%
\$50,000	\$30,000	60%	\$110,341	\$66,205	60%	\$50,000	\$40,000	80%	45%	60%
MCL \$25,000	\$10,000	40%	\$55,171	\$22,068	40%	\$25,000	\$16,000	64%	45%	73%
MCL \$32,000	\$11,000	34%	\$70,618	\$24,275	34%	\$32,000	\$19,000	59%	45%	78%
MCL \$40,000	\$11,000	28%	\$88,273	\$24,275	28%	\$40,000	\$21,000	53%	45%	87%
MCL \$50,000	\$12,000	24%	\$110,341	\$26,482	24%	\$50,000	\$26,000	52%	45%	98%

because of a greater return on investment. But, that is only true if we look at one end of the claiming level spectrum – the “bottom end” – not the overall picture; i.e., the data suggests that California's current purse structures offer relatively greater returns at the lowest levels.

For example, purses at the \$10,000 level are 140% of the claiming price, compared to only 80% at the \$50,000 level and 52% at the \$50,000 maiden claiming level. However, the fact is that the cost to bring/develop a young or unraced horse to the track is tens of thousands of dollars more than claiming a horse, at just about any level. A structure that offers relatively greater returns at the cheapest levels does not encourage and protect owners' and breeders' investment in new, quality racehorses. Instead it pushes owners to claiming levels where the same inventory is reused, without any corresponding growth in overall racehorse inventory.

Imagine a scenario in which the number of claimed horses increases, yet total number mares bred or unraced horses purchased decreases. Where will the new horse inventory needed to sustain California racing come from?

While some owners might still wish to develop young or

imate? According to California Thoroughbred Breeders Association and Jockey Club data, the number of California mares bred in 2006 is down about 20% from a recent peak in 2003. Furthermore, 406 horses were claimed at the 2006 Santa Anita meet, up 25% from the prior year. Not only that, but consider that there were 804 horsemen who put in claims (“shakes”) for those horses, up 31% from the prior year.

So, the question is: Are we already headed down the slope of “cheapening” the California racing product and, if so, how far down have we gone?

To answer that, we tried to look at the data using a different perspective. Chart 4 depicts 2006 claiming levels “deflated” back to 1981 dollars. The data indicates 2006 levels are 45% of 1981 levels. In other words, an owner had to pay \$10,000 at the lowest claiming level in 1981; today, adjusting for inflation, it would cost only \$4,531 to purchase the lowest claimer using 1981 dollars.

Have our horses gotten cheaper over the past 25 years in California, or have we as an industry failed to periodically and properly adjust claiming levels to reflect actual economic conditions?

If the structure is correct as it is, and no adjustments should be made, why then are there one-third fewer licensed California Thoroughbred owners than there were just five years ago?

Chart 4: Santa Anita Historical Claiming Levels

2006 Deflated to 1981 \$'s

1981 Claiming Level <i>in 1981 \$'s</i>	2006 Claiming Level <i>in 1981 \$'s</i>	Comparing 2006 as % of 1981 <i>in 1981 \$'s</i>
\$10,000	\$4,531	45%
\$12,500	\$5,664	45%
\$16,000	\$7,250	45%
\$20,000	\$9,063	45%
\$25,000	\$11,329	45%
\$32,000	\$14,500	45%
\$40,000	\$18,126	45%
\$50,000	\$22,657	45%
MCL \$25,000	\$11,329	45%
MCL \$32,000	\$14,500	45%
MCL \$40,000	\$18,126	45%
MCL \$50,000	\$22,657	45%

quality horses that race in allowance or stakes caliber events, continuation of purse structures that disproportionately reward the lowest claiming levels suggests an ongoing contraction of California's racehorse inventory. In other words, there is growing concern that continuation of current purse to claiming level structure will not give owners an incentive to invest in new racehorse inventory, but will economically confine their investment to the lowest of claiming levels where the ratio of purses to investment level is greatest. Unfortunately, these levels are the ones at which California racing is least competitive – where slot fueled purses in other states exceed California purses both in Northern and Southern California.

Is there any evidence that suggests these concerns are legit-

Conclusion

In sharing these observations, we do not mean to suggest that the only cause for the industry's recent troubles is an antiquated purse to claiming level structure that has not kept pace with inflation. No, in fact, there seem to be several causes that together have led to a decline in investment and disillusionment among some owners.

Fortunately, most of these conditions can be reversed through the implementation of strategic management decisions that put aside calls to continue the failed policies of the past, maintained largely for the sake of convenience of those who have grown comfortable with the current system. The installation of engineered racing surfaces is one such strategic change that will only better California racing. So, too, will proposed curbs on the pre-race use of cortisone injections, and calls for greater transparency and the modification of “accepted” but highly questionable auction sales practices.

Nonetheless, we believe it helpful to give consideration and further evaluation to the inferences that can be drawn from the trends we have identified above. Together we must ask ourselves if these trends have contributed to our racing inventory woes. Specifically:

- Does offering relatively higher purses at the lower claiming range encourage and foster growth in “cheaper” inventory?
- Over time, will these trends further reduce owner incentives to invest in new or quality racehorse inventory?