Funding Shortfalls Lead to Review of Southern California Off-Track Stabling & Vanning Programs

By Guy Lamothe

Over one year ago, TOC management advised the Southern California Off-Track Stabling & Vanning Committee that the financial condition of the fund was deteriorating and advocated for an immediate increase in the funding rate to the statutory maximum of 1.25%. Without an increase, and simultaneous reductions in expenses, the fund was projected to operate in the red with an expanding deficit, quickly eroding the fund's reserves.

Today, reserves have practically evaporated and the fund is expected to run out of cash within 60 days without changes to current policies. TOC and its track partners on the Stabling & Vanning Committee have been assessing various revenue-enhancement and expense-reduction initiatives, but immediate action is required to address a projected operating deficit of $2.8 million in 2009.

In the short-term, the Committee is limited in ways to increase revenues. The funding rate was eventually increased to 1.25% starting with the 2008/09 LATC meet last December. Nevertheless, this revenue stream is considered stagnant, if not declining, because it is derived from handle/bets placed through the off-track network of satellite wagering facilities around the state. Since the inception of Advance Deposit Wagering ("ADW") in 2001, California has experienced an ever-increasing shift of handle from the satellite network to the ADWs. That shift directly correlates to the decline in revenues needed to support the off-track stabling infrastructure.

An expense reduction strategy is the only way, realistically, to close the deficit and remain solvent in the short-term. TOC is committed to assessing all viable alternatives that would result in not only cutting costs, but also increasing productivity and securing long-term stabling needs into the future. In its current state, the Stabling & Vanning fund is supporting too much stall capacity for too few horses, as illustrated in Table 1.

TABLE 1

2008 STABLING INVENTORY DURING SANTA ANITA MEETS*

	Available Stalls	Occupied Stalls	% Occupied
Santa Anita (live on-track)	2,000	1,900	95%
Off-track Facilities:			
Hollywood Park	1,928	1,450	75%
Fairplex	**700**	**456**	**65%**
San Luis Rey Downs	**500**	**279**	**56%**
Subtotal: Off-track	3,128	2,185	70%
Total Inventory	5,128	4,085	80%

* LATC and Oak Tree.

The situation has worsened in the first quarter of 2009, as the effects of a depressed economy, shrinking foal crops, and an exit of owners have taken their toll on the horse population. During the past several months, the Committee and other broad-based groups have convened several planning sessions to assess these factors and the future impact of Hollywood Park's eventual exit on Southern California's stabling infrastructure. In response to these factors and the financial deficit, the Committee voted unanimously to reduce funding and work with the management of Fairplex and San Luis Rey Downs (SLRD) to devise alternative operating plans that enabled each to remain open in the immediate term, as further consideration could be given to longer term planning. Fairplex's management developed a schedule to close the facility after its May sale, then reopen at times to support its race dates and fall sale. At SLRD, labor chose to take a pay cut, and horsemen stabled there accepted an increase in stall rent in order to keep that facility open.

TABLE 2

KEY METRICS: ANNUAL OFF-TRACK STABLING

	2006	2007	2008
Fairplex:			
Annual Funding Reimbursement			
Available Stalls (monthly avg)	700	700	700
Occupied Stalls (monthly avg)	617	533	479
Occupancy rate	88%	76%	68%
No. of Starts (annual)	614	603	561
Funding/available stall	*$3,143*	*$3,857*	*$3,857*
Funding/annual starts	***$3,583***	***$4,478***	***$4,813***
Starts/occupied stall	***1.00***	***1.13***	***1.17***
San Luis Rey Downs (1):			
Annual Funding Reimbursement			
Available Stalls (monthly avg)	500	500	500
Occupied Stalls (monthly avg)	383	342	254
Occupancy rate	77%	68%	51%
No. of Starts (annual)	788	793	696
Funding/available stall	*$3,400*	*$3,400*	*$3,400*
Funding/annual starts	***$2,157***	***$2,144***	***$2,443***
Starts/occupied stall	***2.06***	***2.32***	***2.74***

(1) SLRD charges a daily stall rent.

These corrective measures are intended to shore up short-term cash flow problems, but an efficient long-term solution to off-track stabling is still needed. As part of the effort to assess long-term solutions, TOC has been gathering information to enable consideration of key operating and productivity metrics, such as the data included in Table 2.

What this data suggests is that, while Fairplex has reported higher occupancy than SLRD, it has not translated into greater racing productivity or cost efficiency. For example, in 2008, SLRD produced over twice the "Starts/occupied stall" as compared to Fairplex (2.74 vs. 1.17) at half the cost per start ($2,443 vs. $4,813).

Data such as this assists the Stabling & Vanning Committee and the industry in general, in crafting short and long-term stabling solutions intended to stabilize off-track programs, while maximizing their productivity and controlling costs. Recognizing that the program was established to provide for and subsidize only the stabling of horses currently participating in California Thoroughbred race meets, and given current economic conditions including a $2.8 million shortfall in operating revenues, facilities and horsemen alike are obligated to ensure that only eligible horses receive the benefit of the program. Unless the industry can find an appropriate short-term solution, consistent with the program's intent, the long-term outlook for off-track stabling is bleak.