

# WHERE DOES THE BET GO?

by Wilson Shirley

**MOST OWNERS KNOW THAT VIRTUALLY ALL OF THE FUNDING FOR THE PURSES OUR HORSES EARN IS TAKEN OUT OF THE WAGERING HANDLE. BUT PURSES REPRESENT ONLY A FRACTION OF THE WHOLE REVENUE STREAM DERIVED FROM PARI-MUTUEL WAGERING, USUALLY LESS THAN ONE-THIRD OF THE WHOLE. WHO ARE THE OTHER BENEFICIARIES OF THE GAME?**

State law dictates which kinds of wagering a track may offer, and how the proceeds are to be divvied up. What kind of bet it is, on what kind of race, and where the bet is placed, are all factored into the statutory distribution formulas. For simplicity's sake, we will look at only two examples: on-track and off-track wagering on Santa Anita races.

**Takeout:** The most important pari-mutuel distribution is the amount returned to the bettors in the form of winning pay-outs. State law requires that 15.43% of win-place-show wagers and 20.18% of exotic wagers be deducted from the handle before the bettors receive their pay-outs. This handle retention is called the "takeout," and it is the source of all pari-mutuel revenues for the industry. Note that the takeout on "exotic" wagers is almost one-third higher than on "straight" wagers; in other words, it costs the bettor about 31 cents to make a \$2 "straight" bet, but more than 40 cents to make a \$2 "exotic" bet. Since about 35% of all wagers are "straight" bets, we will blend the "straight" and "exotic" wagering mix at 35/65 to come up with the adjusted rates for total wagering on- and off-track; the blended takeout rate amounts to about 18.5%, meaning that the average cost of a \$2 bet is 37 cents.

**Distribution of Takeout:** State law also dictates how the takeout is to be distributed. The top table at right illustrates the mandated distributions for bets on Santa Anita races, placed on- and off-track.

We can look at these distributions two ways: as a percentage of the wagering dollar and as a percentage of the takeout revenue.

**Governmental Fees:** Taxes on wagering amount to about thirty-six percent (36.01%) of pari-mutuel takeout revenues on-track and a bit more than one-fifth (21.36%) of off-track takeout revenues. Most of these tax revenues go to the State of California and certain of its various agencies, but a small portion goes to the local municipal or county government where the bet is placed; the City of Arcadia, for instance, receives one-third of one cent of every dollar bet at Santa Anita. The University of California at Davis receives one-tenth of one cent of all wagering, which is used to fund its Equine Research Laboratory.

**Breeders:** The California Thoroughbred Breeders Association receives about two-and-one-half percent (2.54% - 2.70%) of all pari-mutuel takeout revenues, or about one-half cent from every dollar bet, to fund the various Incentive Awards programs for California-bred Thoroughbreds, including California Cup.

**Satellite Distributions:** When a bet is placed at an off-track satellite facility, a hefty portion of takeout revenues (one-third of takeout revenues, or 6.10% of the wager) is allocated to pay for a number of generally satellite-related expenses. These include the "Guest" commission (the profit retained by the satellite facility itself); satellite expenses (principally the cost of pari-mutuel labor at satellite facilities); satellite promotion (this is an expense fund for advertising/promoting satellite wagering); and stabling/vanning (these funds partially compensate racetracks/training centers for providing free off-track stabling).

**Track Distributions:** After government, breeders, and satellite distributions, the racetrack and the purse fund divides the remaining takeout revenue. In our example, Santa Anita receives about one-third of the total takeout revenues from on-track wagering (or 6.23% of the total amount wagered), and about one-fifth of the takeout (4.01% of handle) from off-track wagering on Santa Anita races.

**Purse Fund Distributions:** The purse account for Santa Anita races ends up with about one-quarter (27.8%) of on-track takeout revenues, or about a nickel of every dollar bet, and one-fifth (21.36%) of off-track revenues, or about four cents of every dollar bet on Santa Anita races at satellite facilities.

**Senate Bill 2000 State Tax Reduction:** In 1996 the State Legislature passed an industry-supported license fee (tax) reduction measure crafted by Fresno legislator Ken Maddy, Senate Bill 2000. The new law calls for the State tax on parimutuel wagering to be reduced by an amount equivalent to one-half percent (0.50%) of all wagers, beginning in 1997. This reduction is to be distributed 5% to breeders, 40% to racetracks, and 55% to purses; thus breeders will receive an additional 0.025% of handle, tracks an additional 0.20%, and purses an additional 0.275%. As the table below illustrates, using our previous distribution examples, SB 2000 will effectively increase the breeders' share of handle and takeout revenues by about 5%, the track share by 3% (on-track) and 5% (off-track), and purse share by 5% (on-track) and 7% (off-track).

Pari-mutuel wagering continues to be the driving force behind racing's funding. By lowering the tax on horseracing and directing the funds to increased revenues for racetracks, purses, and breeders, California's racing product can be improved if those revenues are put to good use. When that occurs and handle increases, the State's tax revenues will also benefit.

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**SUMMARY OF EFFECTIVE PARIMUTUEL WAGERING DISTRIBUTIONS**

Assume 35% Straight and 65% Exotic Wagering  
LIVE RACING : SOUTHERN CALIFORNIA THOROUGHBRED

	On-Track		Off-Track	
	As Percentage		As Percentage	
	Handle	Takeout	Handle	Takeout
State License Fees	6.24%	33.68%	3.53%	19.04%
UC Davis	0.10%	0.54%	0.10%	0.54%
City Fees	0.33%	1.78%	0.33%	1.78%
<b>Total Governmental</b>	<b>6.67%</b>	<b>36.01%</b>	<b>3.96%</b>	<b>21.36%</b>
<b>CTBA (Breeders)</b>	<b>0.47%</b>	<b>2.54%</b>	<b>0.50%</b>	<b>2.70%</b>
Satellite Guest			2.00%	10.80%
Satellite Expenses			2.50%	13.50%
Stabling/Vanning			0.60%	3.24%
Satellite Promotion			1.00%	5.40%
<b>Total Satellite Distributions</b>			<b>6.10%</b>	<b>32.94%</b>
<b>Track Revenues</b>	<b>6.23%</b>	<b>33.66%</b>	<b>4.01%</b>	<b>21.63%</b>
<b>Purse Revenues</b>	<b>5.15%</b>	<b>27.80%</b>	<b>3.96%</b>	<b>21.36%</b>
<b>Total Takeout</b>	<b>18.52%</b>	<b>100.00%</b>	<b>18.52%</b>	<b>100.00%</b>
<b>Returned to Bettors</b>	<b>81.48%</b>		<b>81.48%</b>	

**1997 EFFECTS OF SENATE BILL 2000**

	On-Track		Off-Track	
	As Percentage		As Percentage	
	Handle	Takeout	Handle	Takeout
<b>1996 Rates:</b>				
State Tax	6.24%	33.68%	3.53%	19.04%
Breeders	0.47%	2.54%	0.50%	2.70%
Track	6.23%	33.66%	4.01%	21.63%
Purses	5.15%	27.80%	3.96%	21.36%
<b>1997 Rates:</b>				
State Tax	5.74%	30.98%	3.03%	16.34%
Breeders	0.49%	2.67%	0.53%	2.84%
Track	6.43%	34.74%	4.21%	22.71%
Purses	5.42%	29.28%	4.23%	22.85%
<b>Effective Increase in Share of Handle, Takeout Revenues</b>				
State Tax	-8.02%		-14.18%	
Breeders	5.32%		5.00%	
Track	3.21%		4.99%	
Purses	5.34%		6.95%	