

Volume One



Report of the Task Force on Off-Track Betting

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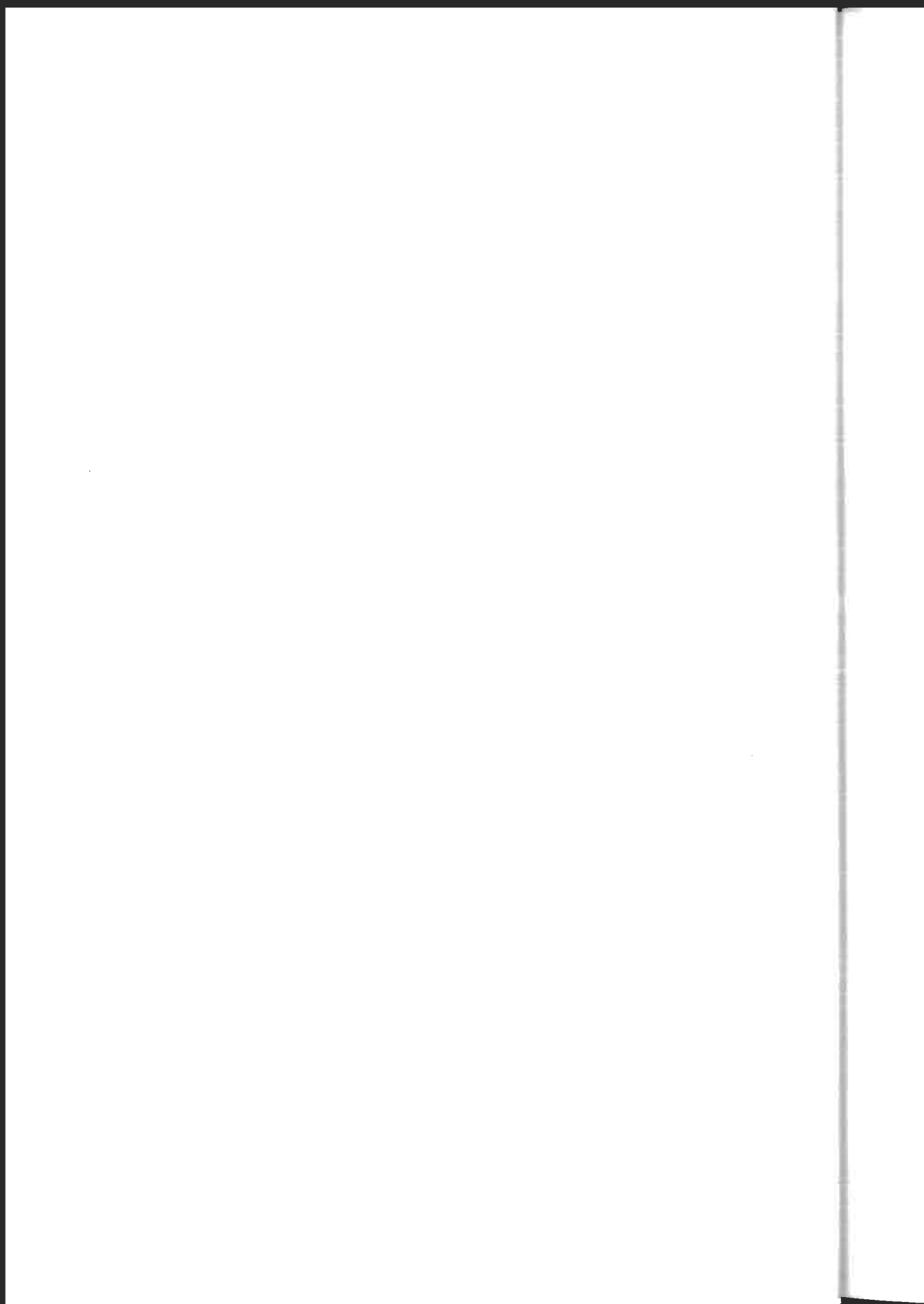


The first part of the paper discusses the importance of understanding the local context in which a project is implemented. This involves a thorough analysis of the social, cultural, and economic factors that may influence the success or failure of the intervention. The second part of the paper describes the methodology used in the study, including the selection of participants, the data collection methods, and the analysis techniques. The third part of the paper presents the results of the study, which show that the intervention had a positive impact on the target population. The final part of the paper discusses the implications of the findings for future research and practice.



Report of the
TASK FORCE ON
OFF-TRACK BETTING

VOLUME ONE



TASK FORCE ON OFF-TRACK BETTING

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ONTARIO

To His Honour
The Lieutenant Governor of the
Province of Ontario

May it please Your Honour:

We, the members of the Task Force on Off-Track Betting, appointed by Order-In-Council No. 2215/71, dated the 23rd day of July, 1971, to examine and review the various systems, methods and procedures of off-track betting and to advise the Government as to those which seem most suitable for implementation in Ontario, submit to Your Honour, herewith, our final report.

A handwritten signature in cursive script, appearing to read "A. R. Dick".

A. R. Dick, Q.C., *Chairman*

A handwritten signature in cursive script, appearing to read "Everett Biggs".

Everett Biggs

A handwritten signature in cursive script, appearing to read "H. I. Macdonald".

H. I. Macdonald

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F. J. Pillgrem

A handwritten signature in cursive script, appearing to read "D. J. McClellan".

D. J. McClellan

June, 1972.

ORDER-IN-COUNCIL

Copy of an Order-in-Council approved by His Honour the Lieutenant Governor, dated the 23rd day of July, A.D. 1971.

The Committee of Council have had under consideration the report of the Honourable the Minister of Justice and Attorney General, dated the 23rd day of July, 1971, wherein he states that—

WHEREAS the Government of Ontario has had under consideration several recommendations and submissions relating to the desirability of a system of off-track betting in the Province;

AND WHEREAS the Government of Canada is considering the amendment of the Criminal Code of Canada to allow the Provinces to licence, operate and regulate off-track betting activities;

AND WHEREAS it is deemed advisable to continue the research, on a more formal basis that will allow greater public participation, into the development of a system of off-track betting consistent with the public interest, which will protect the integrity of the horse racing industry, and which will not attract undesirable elements, or encourage illegal practices;

The Honourable the Minister of Justice and Attorney General therefore recommends that a Task Force be established consisting of:

Everett Biggs, Esq.,
Deputy Minister of Agriculture and Food¹

A. R. Dick, Esq., Q.C., (Chairman)
Deputy Minister of Justice and
Deputy Attorney General²

H. I. Macdonald, Esq.,
Deputy Treasurer and
Deputy Minister of Economics³

(1) Now Deputy Minister of the Environment.

(2) Now Deputy Provincial Secretary for Justice.

(3) Now Deputy Treasurer and Deputy Minister of Economics and Intergovernmental Affairs.

F. J. Pillgrem, Esq.,
Deputy Minister of Financial
and Commercial Affairs⁴

D. J. McClellan, Esq.,
Comptroller of Revenue,
Department of Revenue

to examine and review the various systems, methods and procedures of off-track betting and to advise the Government as to those which seem most suitable for implementation in Ontario.

The Honourable the Minister of Justice and Attorney General further recommends that all Government Departments, Boards, Agencies and Commissions shall assist the Task Force to the fullest extent in order that it may carry out its duties and functions, and that it shall have authority to engage such counsel, research and other staff and technical advisers as it deems proper at rates of remuneration and reimbursement to be approved by the Treasury Board.

The Committee of Council concur in the recommendations of the Honourable the Minister of Justice and Attorney General and advise that the same be acted on.

Certified,

“O. C. Mowat”

Acting Clerk, Executive Council.

(4) Now Deputy Minister of Consumer and Commercial Relations.

Preface

THE Task Force on Off-Track Betting was formally established on July 23, 1972, by Order-in-Council, to examine and consider the various systems and methods of off-track pari-mutuel wagering and recommend to the Government those which might be most suitable for use in Ontario.

It has endeavoured to investigate the bettor and, in equal part, the traditional object of his attention, the horse racing industry. Throughout these investigations the Task Force has been guided by the mandate of the Honourable William G. Davis, Q.C., Premier of Ontario who said in announcing its formation on July 7, 1971:

"The question is not whether we shall have off-track wagering, which has long been a common practice, lawful or otherwise, but how best we can provide such a service consistent with the public interest, which will protect the integrity of the horse racing industry, and which will not attract undesirable elements nor encourage illegal practices."

As well as examining, in a general way, the legal, social and economic problems raised by off-track betting, the Task Force undertook some rather extensive research, making every effort to solicit submissions and comments from interested persons and members of the general public.

Perhaps the most widely publicized aspect of its investigation involved the hearings of December 1st and 2nd, 1971, which were open to the public and attracted a wide variety of interest in off-track betting. An advertisement regarding the dates and location of the hearings was placed in every daily newspaper in Ontario on two occasions, so that a province-wide perspective could be obtained. The Task Force heard from a considerable number of individuals and organizations from all over the Province. Toronto was selected for the site of the public hearings as it appeared to be the most appropriate and convenient location for all who indicated a desire to appear.

Oral submissions were made by representatives of all segments of the racing industry; spokesmen from the currently operating off-track betting shops; and members of the general public who had formulated some ideas of their own. Newspaper coverage was explicit enough to permit those not in attendance at the hearings to grasp some of the basic problems which confront the people who are more directly involved in the betting business. As a result of the public forum, valuable information was made available to the Task Force. The hearings also provided the opportunity to bridge the communications gap which appeared to exist between the opposing, or at least contrasting, viewpoints of the interested parties. In total 25 formal briefs were filed with the Task Force, and 24 oral submissions were made at the public hearings. To those who took the time and effort required to prepare and submit briefs and to appear at the hearings we are indeed indebted. (See Appendix B).

We are no less indebted to the host of informed persons from many fields, both in Canada and abroad, with whom we held extremely valuable informal discussions (see Appendix A). They were approached for assistance and guidance and proffered them generously.

To obtain information regarding the economic profile of the racing industry the Task Force retained Woods, Gordon and Company to conduct a study of the industry and detail the complex interrelationships that exist among its several components. With the study as a guide, we were able to place the information provided by the racing associations, horse owners and breeders in its proper perspective.

In another phase of their study Woods, Gordon and Company also undertook to provide the Task Force with its opinion as to the financial feasibility of alternative systems, and to assist in attempting to determine the appropriate implementation schedules for each.

In order to proceed with some idea of what the demand for legalized off-track betting might be, not only in a major urban centre such as Toronto, but also in other areas of the Province where race tracks are either small or non-existent, Innovative Marketing (1971) Ltd. was selected to measure public attitudes. As well as polling certain cities with convenient race tracks at their disposal—Toronto, Kingston, London and Windsor—they sam-

pled the population of Sault Ste. Marie and Thunder Bay. Probes were advanced as to the betting habits of those contacted, with the result that the researchers were generally able to ascertain the impact that off-track betting, as a private enterprise, has already had, and the further acceptance it might gain if legalized and supervised by the Government. Other general trends relating to public betting attitudes and practices were explored by the extensive enquiries made by this company on behalf of the Task Force.

Time permitted the Task Force to study the off-track betting systems of other countries and we obtained precise information as to the efficiency, cost and value of certain types of complex installation. Particular attention has been paid to the systems operating in New York; New Zealand; the Australian States of Victoria and New South Wales, and the Australian Capital Territory; Britain; France and Japan. Our study of these jurisdictions also helped us to determine the value of manual operations which might be used in the more distant or sparsely populated areas. A balanced approach, combining men and machines, seems to result in greater savings and appears eminently practical in instances where it has already been accepted.

We examined alternative types of system which were proposed by a number of computer suppliers, viewed a number of demonstrations sponsored by these companies and, accordingly, are in a position to better appreciate both the advantages to be derived from a computerized off-track betting system and the technical problems associated with it.

The Task Force was always pleased to receive letters, briefs and phone calls from interested members of the public. Concerned with the economic situation of the industry, the established racing associations and affiliated groups saw the Task Force as an opportunity to publicly present their views concerning off-track betting. Many of the off-track betting shops presently operating in Metropolitan Toronto and vicinity were also willing and eager to present their side of the story. The law enforcement agencies not only shared their experiences with us but made valuable data available to the Task Force. We also heard from those "un-committed" persons who, generally speaking, just wanted off-track betting to exist as an efficient public service under the supervision of some form of government agency.

The Task Force presented an Interim Report of its findings and recommendations (Appendix C) in February, 1971.

We have divided our final report into two volumes, the first containing the report itself and the second the Appendices which consist, in the main, of the principal research studies.

The Task Force very much appreciated the time and efforts of W. R. McDonnell, Secretary-Treasurer and Supervisor of Administration of the Ontario Racing Commission and our consultants Professor J. W. Graham, Director of the Computing Center at the University of Waterloo, and John J. Mooney, President of the Ontario Jockey Club, whose technical knowledge and experience contributed considerably to our work.

Finally, the members of the Task Force are particularly indebted to the Executive Director and Counsel, Marshall Pollock, who undertook his responsibilities with an effectiveness that enabled the members to discharge their duties with expedition. In extending its appreciation to Mr. Pollock, the Task Force recognizes that there were many persons associated with him and gratefully acknowledges the assistance of Mr. D. K. Gray, of the Ministry of the Attorney General, Mr. R. G. Holloway, of the Ministry of Treasury, Economics and Intergovernmental Affairs, and Mr. R. E. Hakala of the Management Board Secretariat, who aided in our deliberations and Mr. R. C. McKay, Miss M. K. Dillon and Mr. André Philpot who assisted in various projects of research and Mrs. J. Jensen, the secretary to the Task Force, Mrs. P. Sawyer and Miss B. Marrast for their efficient and conscientious secretarial services. Without their enthusiastic and effective support, the completion of this task would have been much delayed.

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PART ONE:
ONTARIO

CHAPTER 1

The Problem

LEGAL ASPECTS

Background

SINCE 1892, all versions of the *Criminal Code* have prohibited the accepting or registering of bets on elections, races or "any contest or trial of skill or endurance of man or beast".¹ Against this general prohibition has been allowed the exception of controlled on-track betting during a horse race.

The early sections of the *Code* were phrased to exempt bets "made on the race course of an incorporated association during the actual progress of a race meeting".² This regrettable form of words meant that for some time it was unclear as to whether or not on-track bookmaking by a private individual was within the law. In *Stratford Turf Association v. Fitch*,³ an Ontario court held that an agreement, made by an incorporated association running a race meeting, to sell the betting and gaming privileges was legal. In the Supreme Court of Canada this view was severely limited by the case of *Saunders v. the King*⁴ in which it was decided that the selling of betting privileges could not be legal if it were construed as a contract to permit the keeping of a common gaming house. Even by arrangement with the presiding track association bookmakers could not open private booths on a racecourse. What was never decided, but often mooted, was whether or not the early statutes permitted a professional bookmaker to accept bets on-track provided he moved through the crowd without a booth.

In 1927, the basic framework of control which still obtains today was established over horse racing and bookmaking.⁵ The

1. *Criminal Code*, Stat. Can. 1892, 55-56 Vic., c. 29, s. 204.

2. *Ibid.*

3. (1897), 28 O.R. 579.

4. (1907), 12 C.C.C. 174.

5. *Criminal Code*, R.S.C. 1927, c. 36, s. 235.

Criminal Code of that year corrected the vagueness of its predecessors as to private bookmaking on-track and provided for the basic regulatory framework within which horse races are still run. Section 235 was expanded to prohibit not only bookmaking itself but the related activities of transmitting messages conveying bookmaking and poolmaking information; advertising, printing or publishing any information intended to assist in bookmaking; importing, manufacturing or dealing in equipment for bookmaking and so forth. Section 235(3) forbade, as does the present section 186(1)(e), any agreement for the sale or purchase of betting or gaming privileges; hence removing any possibility that private on-track bookmaking would be deemed legal if arranged with the racing club.

As well as better defining the notion of criminal bookmaking, the 1927 amendment expanded the provision for the exception of legitimate on-track betting which was to be brought under more stringent governmental control. The new section 235(2) set out the requirement that legal on-track betting be run according to the pari-mutuel system as detailed in the Act and regulated by the federal **Minister of Agriculture**.

For the first time the maximum percentage of the pari-mutuel pool, which the track association could retain, was set. At first 7 percent was set as the permissible limit if the amount of betting was less than \$20,000; if the total betting was higher, the percentage chargeable on each increment dropped until only 3 percent of the moneys bet over a total of \$50,000 could be retained by the racing association. By 1951 these percentages were changed to 4 percent and 5 percent respectively. In 1955 the number of basic percentage categories was increased, allowing 12 percent retention from the smallest pools and 9.5 percent from the largest.

In order to ensure an honest and, just as importantly, a trusted administration of the pari-mutuel pool, the 1927 Act established the supervision of the Minister of Agriculture. The Minister was charged with ensuring that pari-mutuel machines were properly constructed and fairly operated within the percentage limits. Where the Minister was not satisfied that the provisions of section 235 were being "carried out in good faith" he could "order the pari-mutuel machines to be locked and their operation stopped for such

time as he may think fit."⁶ By section 188(6) of the present *Code*, similar power is still invested in the Minister's officer. Today, the Minister of Agriculture has the additional responsibility of supervising the conduct of race meetings including photo-finishes, film patrol and urine and saliva testing, and the associated power to prohibit, regulate or restrict the use of medications and drugs. While the cost of supervision had always been payable by the racing associations, section 188(3) of the *Code* instructs that a sum of between $\frac{1}{2}$ percent and 1 percent, as determined by the Minister, shall be paid for his supervisory services. This percentage was first set at $\frac{1}{2}$ of 1 percent but was on June 24th, 1971 increased to 6/10ths of 1 percent.⁷

The overall legislative approach since 1892 has been to make all bookmaking an offence except when conducted in a regulated manner on-track at a horse race. In keeping with this intent, the present *Code* permits only private betting between individuals not engaged in the business of betting, and bets made through an approved on-track pari-mutuel system. The law's condemnation has not been a moral one against betting *per se*, but rather, an attempt to limit and control gambling to assure its fairness. Because Canadian society does not condemn betting outright and, indeed, approves of its occasional enjoyment, it has been most difficult to limit it to restricted circumstances. Where legal on-track betting is permitted, illegal off-track bookmaking may well be unavoidable.

The Messenger Services

Quite apart from illegal bookmaking it became evident that the specific language of section 186 of the *Code* allowed legal betting in unanticipated circumstances. The first case indicating what appeared to be a legal loophole was *R. v. Lemelin and Brisson*.⁸ Two Welland, Ontario taxicab drivers were charged with engaging in the business or occupation of betting contrary to what was then section 177, now 186, of the *Criminal Code*. Both accused admitted going to the track in order to place bets in accordance with instructions given them by persons who would not be attending the races. In consideration for so doing the taxi-drivers were usually paid a dollar or two. There was no evidence

6. *Ibid.*, s. 235(2).

7. Pari-Mutuel Payments Order, SOR 71-290.

8. Unreported; discussed in *R. v. Gruhl and Brennan*, [1969] 2 O.R. 163 (C.A.).

to suggest that the money was not in fact properly transported and bet through the on-track pari-mutuel system. In confirming the accuseds' acquittal, the Ontario Court of Appeal held that they were not engaged in the business or occupation of betting, rather they were merely agents placing a legal bet on-track on behalf of their principals.

Later in 1967, two Welland men, Robert Gruhl and Howard Brennan set up a similar but more substantial and more organized messenger service. Operating openly as "Pari-mutuel Brokers" and advertising in their street display window, they offered to place bets at Fort Erie race track in exchange for a percentage of the sum wagered, with a minimum of 50¢. For each bet placed an authorization, purporting to establish a principal-agent relationship for the placing of an on-track bet, was completed in triplicate. Winning bets were collected from the track and the bettors paid off.

Within a few days of opening, Gruhl and Brennan were charged with bookmaking under what was then section 177(1)(c), now section 186(1)(e), of the *Code*. In dismissing the charge the trial magistrate expressed the opinion that the bets were not made on the premises of the accused but properly on-track when they were taken to the pari-mutuel wicket. The accused were agents acting for their customers in accordance with explicit written instructions and hence they were not bookmakers. Because of this agency relationship, recognized both at trial and on appeal in the Ontario Court of Appeal,⁹ Gruhl and Brennan were under the protection of section 178(1)(c), now section 188(1)(c), which specifically exempts individuals placing bets on-track during the progress of a race meeting. Any hope of further appeal by the Crown was terminated by a decision on February 17th, 1969, refusing an application by the Attorney General of Ontario for leave to appeal to the Supreme Court of Canada.

Almost at once, commercial betting services modelled on Gruhl's sprung up across Canada. At the peak of activity it was estimated that 300 such shops were operating across Canada, with two-thirds of them in Ontario. Within a month of the decision nearly one hundred of them were providing an "off-track messenger service" in the Toronto area alone.

9. [1969] 2 O.R. 163.

The legal decisions and the resulting commercial enterprise had clearly come as a surprise to government and the racing public alike. All versions of the *Code* since 1892 had contained language similar to that which suddenly was being interpreted by the Courts as allowing off-track messenger services. Yet the legal establishment of such shops permitted the type of enterprise the controlled system of on-track betting had been designed to avoid.

While the messenger services were probably less objectionable than other kinds of bookmaking, they carried with them many disadvantages associated with bookmaking. The atmosphere of gambling could be brought into every corner of the commercial city. There was the fear that messenger services could be merely a most useful front for illegal bookmakers—that is, that the money would not in fact be bet through the pari-mutuel pool as arranged. The race tracks stood liable to lose out to the new betting competition if customers bet in-town instead of at the track. Loss of receipts from admissions, parking and concessions seemed probable. For the better, there was always the risk that when he came to collect his winnings, the messenger betting service would be bankrupt or simply gone.

After consultation with the provincial Attorneys General, it was decided by the Minister of Justice for Canada that legislation should be introduced to curb the messenger services. Bill C-197 was given first reading on May 22nd, 1969 and passed third reading on June 19th. It became law as of May 22nd, 1969. The bill created section 177A(1), now section 187, which provides that:

“Every one who places or offers or agrees to place a bet on behalf of another person for a consideration paid or to be paid by or on behalf of that other person is guilty of an indictable offence and is liable to imprisonment for two years.”

While this section clearly was designed to prohibit the kind of messenger betting service offered since the *Gruhl* case, it did not deal a death blow to all off-track messenger services. The new section prohibited placing bets for a consideration but it did not prohibit placing bets *per se*. In order to legally continue operations, messenger betting services were, in effect, forced by the new law to drop their mandatory service charges. Those shops remaining open contrived to survive on gratuities or, in some cases, on the sale of racing papers, lists or odds.

Some enterprising operators have attempted to find loopholes in the new section, with limited success. Where one messenger service attempted to sell racing papers for a fee calculated at the rate of 10 percent of the amount bet, the Ontario Court of Appeal had no difficulty in piercing such a patent attempt at circumvention.¹⁰ As the Court noted:

"This was at best a very feeble effort to impart an air of legality or respectability to a business which fell clearly within the prohibition of s. 177A—a poor ruse which even the most credulous mortal would be disposed to find barren and unconvincing."

On the other hand, where an operator charged a fee of 10% to cash winning tickets, but left the bettor the option of cashing his ticket at the track (for which there would be no charge), the Alberta Court of Appeal held that, as no consideration was demanded for the actual placing of a bet, there could be no conviction.¹¹ An appeal by the Crown to the Supreme Court of Canada was dismissed.¹²

The Present Situation

The result which still obtains after the enactment of the legislation is that the shops which opened after the *Gruhl* decision are still open and many of the disadvantages they may be seen to have are still existent if not increased. By removing the messenger services' right to charge a fee, the legislation has perhaps increased the possibility that instead of actually taking the bets to be properly placed on-track, the messenger will form a bookmaking pool of his own. That this may in fact be the case is evidenced by the fact that during one month of investigations into off-track messenger services operating in Toronto during the summer of 1971, police laid 174 charges against 33 people.¹³

Our law enforcement agencies have been placed in the unenviable position of attempting to enforce a law which, as evidenced by the very existence and patronization of the off-track betting shops, does not appear to be supported by the general public. Evidence for a successful prosecution for bookmaking is difficult

10. *R. v. Canavan and Busby*, [1970] 5 C.C.C. 15 (Ont. C.A.).

11. *R. v. Williams and Adams* (1971), 2 C.C.C. (2d) 476 (Alta. C.A.).

12. (1971), 3 C.C.C. (2d) 91.

13. *Toronto Globe & Mail*, Saturday, August 14, 1971, p. 5.

to obtain because of the quasi-legal nature of the business, and even if convictions are registered the messengers continue in business, treating the resulting fines as a cost of operation.

The experience of bookmaking control in Canada has made it clear that legislation by itself cannot be expected to substantially reduce the profitable and socially harmful business of illegal bookmaking. The present framework of law permits the bookmaker a legal front in a closely related business. The bets he wishes to cover himself are simply not placed at the track. Apart from any moral considerations, illegal bookmaking deprives the racing association of its handle, is thereby detrimental to the sport, and cheats the government of its tax.

From the foregoing, it should be obvious that an amendment to the *Criminal Code* will be required in order to remedy the unsatisfactory conditions which presently exist. We are firmly of the opinion that the amendment should permit each provincial government in Canada to deal with off-track betting in its own way, either by regulation, licensing, or by permitting the provincial government itself, or an agency established by it, to operate it. Such an amendment would permit the Government of Ontario to implement any or all of the recommendations contained in this report, and would allow other provinces to choose other appropriate forms of regulation, if they so desire, or not to permit off-track betting at all.

The flexibility embodied in such a scheme is very important, as different attitudes towards betting and gaming may exist in different parts of Canada, and decisions should be made by the government of each province to reflect such local differences. A similar approach was taken in the federal *Lord's Day Act* which prohibits certain activities on Sunday except as may be provided by provincial law, and in the provisions of the *Criminal Code* prohibiting lotteries except those operated by the government of a province in accordance with provincial law and those operated by individuals in certain circumstances under the authority of a licence granted by the Lieutenant Governor-in-Council.

This flexibility is also necessary because the structure of the racing industry and the scope of wagering from which it derives its revenue, varies widely across Canada. For example, the Canadian breeding industry is concentrated in Ontario, with about

85 percent of the standardbred breeders and about half of the thoroughbred breeders based here. In 1970, approximately one-half of the 10-million who attended racetracks in Canada did so in Ontario, and over half of the nearly \$600-million wagered in Canada was placed at Ontario racetracks. The next largest province was Quebec with 29 percent of attendance and wagering, followed by British Columbia with 8 percent of the attendance and Alberta with 7 percent of the wagering. More than 40 percent of Canadian race courses are located in this province. These differences become critical when consideration is given to the nature and amount of assistance which should be given to the various segments of the racing industry from the revenues gained through off-track betting. Furthermore, if the racing industry is to be permitted to participate in the actual operation of off-track betting, the nature of such participation will depend upon the composition or form of the industry in the province in which it may be found.

An additional factor which causes us to come to the conclusion that we have reached is that racing itself is under the jurisdiction and control of provincial agencies such as, in the case of Ontario, the Ontario Racing Commission. Racing and betting are very closely related and, while each activity may be subject to different provincial agencies, they should at least be given the same policy direction that can best come from the level of government which is closest at hand, namely the provincial Government. Close supervision and control, based on policies which reflect local conditions and circumstances, will be necessary and, again, this control can be best accomplished by the Province.

Finally, while we realize that no system of off-track betting will eliminate bookmaking, since a large portion of the betting done with bookmakers would appear to be on sports other than horse racing, we are of the opinion that a formal system of off-track betting would at least remove some of the betting business from the illegal bookmaker and make it more difficult for him to carry on his activities. As an additional means of combatting illegal bookmakers and illegal off-track betting shops, the largest concentration of which is found in Ontario, it is an integral part of law enforcement which has historically been and is the function and responsibility of the provincial Attorney General, and should fall within the jurisdiction of the Province.

For these reasons, therefore, we recommend that the *Criminal Code* be amended to provide that off-track betting in any form shall be prohibited except as authorized by provincial law.

SOCIAL ASPECTS

At the outset, one of the questions which we felt ought to be considered was the possible social and moral impact of off-track betting in Ontario. However, as we progressed, it became apparent to us that this has become a very minor issue in today's society. There was practically no opposition to off-track betting on social or moral grounds expressed either in written briefs or in oral submissions before us at the public hearings. Indeed, several Royal Commissions on racing, gaming and off-track betting¹⁴ have expressed the view that gambling generally and off-track betting in particular, properly controlled, should have no serious social or moral effect on the community. As the British Royal Commission commented in 1951:

"We are left with the impression that it is extremely difficult to establish by abstract arguments that all gambling is inherently immoral, without adopting views as to the nature of good and evil which would not find general acceptance among moralists. Our concern with the ethical significance of gambling is confined to the effect which it may have on the character of the gambler as a member of society. If we were convinced that, whatever the degree of gambling, this effect must be harmful, we should be inclined to think that it was the duty of the State to restrict gambling to the greatest extent practicable. This point of view was put to us by some witnesses, but we do not think that it can be established either by abstract argument or by an appeal to experience. It would be out of place to discuss here the abstract arguments, but from our general observations and from the evidence which we have heard we can find no support for the belief that gambling, provided that it is kept within reasonable bounds, does serious harm either to the character of those who take part in it, or to their family circle and the community generally. It is in immoderate gambling that the dangers lie; an individual or a community in whose life

14. Royal Commission on Betting, Lotteries and Gaming (1949-1951) (U.K.); The Royal Commission on Gaming and Racing in New Zealand (1958); The Royal Commission of Inquiry into Off-The-Course Betting in New South Wales (1963); Report of The Royal Commissioner Appointed to Inquire into Off-The-Course Betting (1959) (Victoria, Australia); Report of The Royal Commission of Inquiry into Horse Racing, Trotting and Dog Racing in New Zealand (1970).

gambling plays too prominent a part betrays a false sense of values which cannot but impair the full development of the personality or the society. It is the concern of the State that gambling, like other indulgences such as the drinking of alcoholic liquor, should be kept within reasonable bounds, but this does not imply that there is anything inherently wrong in it."

In moderation, betting on horses would appear to have no more deleterious effect than would be the result of speculation of any other kind. It is but another outlet for individual entrepreneurial action. Indeed, in Australia and New Zealand, the act of wagering is termed "investing" and the payoff to the winner is referred to as a "dividend".

The effect of gambling on the sense of values of the average bettor can be exaggerated. He may delude himself on his chances of winning an individual bet but he does not fail to see that those who provide the facilities for betting are prosperous and he realizes that it is he and his fellows who provide the profit. While betting attracts him as an amusement, he realizes that it is unlikely to be a profitable way of life and the typical bettor keeps his outlays within limits.

We consider it to be far more important to attempt to build respect for the law by providing it with a greater degree of consistency. Betting on horse races has always been legal when one is physically at the race track, and it would, therefore, seem to be logically indefensible to assert that it is wrong to bet on the same races when one is physically distant from the track. While it is difficult, if not impossible, to obtain any kind of accurate estimate of the amount of wagering done through bookmakers and off-track betting shops, their very existence seems to imply a large measure of public acceptance of this principle. We believe that it is more socially desirable to provide a legal outlet for off-track betting so that the revenues to be derived therefrom can be applied for the benefit of the community at large. We do not think that we are being unduly naive when we express the view that given a legal or illegal alternative, most people will prefer the former.

For these reasons, we have not concerned ourselves with the social and moral aspects of off-track betting but, instead, have concentrated our efforts in attempting to ascertain the best method by which a legal alternative to the unregulated situation which now prevails, might be accomplished.

ECONOMIC ASPECTS

Betting and racing are distinct activities, although they are very closely connected, as betting on horse races could not take place without horse racing. Currently, every dollar bet at a major race track in Ontario is divided as follows:

1. 9½ cents plus "breakage" (odd cents remaining over any multiple of 5 cents after calculating payoffs on the basis of each dollar bet) to the racing association conducting the race meeting at which the bet was made.
2. 7 cents to the Government of Ontario under the *Race Tracks Tax Act*.
3. 6/10ths of a cent to the Government of Canada pursuant to the *Criminal Code*.
4. The balance (approximately 82½ cents) to the winning bettors.

Out of the retained commission (the 9½ percent referred to above) the race tracks are required to pay "purse money" to the owners of the horses finishing "in the money" (i.e.: first, second, third and fourth) in each race. The actual proportion of that commission to be dedicated to such a purpose is the subject of periodic negotiations between the representatives of the horse owners (The Horsemen's Benevolent and Protection Association for thoroughbreds and the Ontario Harness Horsemen's Association for standardbreds) and the race tracks. At present it is 47.5 percent. Part of this money is further distributed when the owners purchase new stock from the breeders, and when they retain trainers and jockeys. As can be seen, the entire racing industry is highly dependent upon revenues obtained from wagering at race tracks—so dependent that without it horse racing, as we know it today, would probably not exist.

Some segments of the industry, and some race tracks in particular, have expressed the fear that off-track betting might decrease the source of revenue through losses in admissions and concessions, since the customers will decline to attend the track, particularly if an off-track betting system is made too attractive. We think there is some basis for these fears, and it is self-evident that the objectives of off-track betting should not be to destroy racing or impair its financial integrity.

One of the primary problems facing the Task Force, therefore, is the manner in which any possible adverse impact of off-track betting on the racing industry can be minimized, particularly

in the early years of operation. This concern may be less important in the future since, as was expressed by some representatives of the racing industry, off-track betting may eventually create a renewed interest in horse racing and develop a new generation of supporters who will attend the race track. Initially, however, the possible impact of off-track betting on the racing industry can be alleviated in two ways. First, the industry can be permitted to participate financially in the proceeds of off-track betting. Second, certain advantages can be retained for the bettor who goes to the race track so that he will be encouraged to go when he is physically able to do so. In later chapters of the report, we deal with the questions of the appropriate degree of financial participation of the racing industry and how funds should be distributed among the segments of the industry, and the extent to which the off-track betting system should compete with the race track.

These factors cannot be considered in the abstract but must be viewed against the background of the industry itself. Many representatives of the industry who appeared before us asserted that racing was in dire financial difficulties and our subsequent investigations have, to a considerable extent, borne out these assertions.

Why, then, are new people attracted each year to such an industry? It seems to us that a breeder or an owner of horses who continues to lose money must be motivated by something other than purely monetary considerations. Perhaps the industry is not truly an "industry" like most others and cannot be measured simply in terms of profit and loss. Increasing affluence and the reduced requirement to use existing stabling and pastureland for farm horses may have attracted many to become owners. Other factors, such as the pride of ownership, the exhilaration of the contest, the thrill of winning a race, status, and the pleasure of association with others of like interest, would seem to be at least as important as the possibility of financial return. If, therefore, the controlling motive is not "profit" then it should be asked whether *any* financial return from off-track betting will have an appreciable impact on the industry as a whole.

In addition, it should be asked whether an off-track betting system should attempt to keep afloat a money-losing race track or any other marginal enterprise. If racing is to be conducted on commercial principles, there seems to be an urgent need for the

Ontario race tracks to undertake research to ascertain who the racing public is and what the catchment areas of the individual tracks are, in order to develop marketing measures and—more importantly—measures of rationalization. Special attention would seem to be required in relation to the competition between tracks, particularly between tracks supplying the same form of racing (thoroughbred or standardbred) in close proximity.

While it is clearly appropriate for racing to take action to put its own stables in order, it is also appropriate for Government to ensure that any action which it takes in developing off-track betting does not add to the financial difficulties of racing.

Related to these questions is the amount of revenue to be obtained by the Government from off-track betting. This will obviously depend on the amount of money distributed to the racing industry, and the racing industry's interest must be balanced against the broader public interest in securing Government revenue for other public purposes.

These issues will be dealt with more fully in later chapters.

CHAPTER 2

The Racing Industry In Ontario

FORMS OF RACING

THERE are two forms of horse racing in Ontario: thoroughbred and standardbred. All thoroughbred horses are of known descent through the male line from three eighteenth-century English stallions.¹ Standardbred horses, a unique North American breed, are off-bred horses of the same origin which are able to attain stipulated time standards. In Ontario, thoroughbreds are used for flat racing or galloping and, occasionally, steeplechasing. Standardbreds are trotters and pacers, used in harness racing.

To some extent these different forms of racing overlap, the same track sometimes being used for both, but for the most part they are distinct and even mutually competitive in terms of attracting attendance and wagering. The costs involved in thoroughbred racing are higher than in standardbred racing but so are the purses. On the other hand, the lower costs of standardbred racing provide easier access to the sport for owners. Partly due to the abundance of standardbred racing stock and the competitive advantage that it has over thoroughbred racing in providing evening entertainment, there has been a strong growth of standardbred racing over the past decade.

In marked contrast to (and probably at the expense of) thoroughbred racing which has, with one exception,² offered a constant number of racing days per year (196-197), the number of days for standardbred racing has quadrupled over the decade from 270 in 1962 to 1,055 in 1971. However there are signs that standardbred

1. ECLIPSE (1764-1789, a descendant of the Darley Arabian); HEROD (1758-1779, a great-great grandson of the Byerley Turk); and MATCHEM (1749-1781, a grandson of the Godolphin Arabian).

2. 214 days were offered in 1971. The increase was due to the unsuccessful thoroughbred meet at Windsor Raceway which was cancelled after 17 days.

TABLE 1: Racing Days in Ontario, 1962-1972

Thoroughbred		Standardbred			Total
		Major	Minor	Total	
1962	196	197	73	270	466
1963	196	269	97	366	562
1964	196	357	94	451	647
1965	196	430	105	535	731
1966	196	597	111	708	904
1967	197	590	177	767	964
1968	197	611	216	827	1,024
1969	197	608	231	839	1,036
1970	197	615	299	914	1,111
1971	214	587	331	918	1,132
1972	197	631	424	1,055	1,252

Source: Canada Agriculture

racing, too, may be reaching its profitable limits. As shown in Table 1 growth appears to be levelling off at the major tracks although the minor standardbred tracks continue to demonstrate a strong upward trend. As in other jurisdictions the overall market position of racing in Ontario may be summed in the conclusion that the supply of racing appears to be in danger of outpacing public interest.

ADMINISTRATION

As has already been noted in the previous chapter, while the control of betting has, since 1927, been under the jurisdiction of the Canada Department of Agriculture, the control of horse racing is a matter of provincial responsibility. In Ontario this responsibility is exercised through the Ontario Racing Commission, an agency reporting to the Ministry of Consumer and Commercial Relations.

The Canada Department of Agriculture

Initially, the Federal Minister of Agriculture was only concerned with the regulation of the pari-mutuel operations. Representatives were appointed to preside at each race meet where this form of wagering was in force. It was the duty of these officials to

ensure that wagering and pool calculating were properly carried out by track management. In 1955 these duties were expanded to cover the "film patrol" which is used by the stewards and judges in their assessment of questionable riding activities and urine and saliva testing which are meant to detect and discourage the use of artificial stimulants or depressants on race horses.

The Ontario Racing Commission

The Commission is empowered to "govern, direct, control and regulate" horse racing in Ontario in all its forms. Besides administering the rules of racing and licensing tracks, owners, jockeys, drivers and others engaged in racing and supporting trades, it registers colours, names, partnerships, leases, contracts and agents and issues eligibility and validation certificates for horses. It also maintains track security, provides veterinary services, employs track stewards and judges, and reviews their rulings on appeals.

The Commission also channels grants through the racing associations to owners and breeders and provides funds to the Ontario Veterinary College for equine research.

The Canadian Trotting Association (C.T.A.)

This Association is the national governing body of harness racing. About half of its 14,000 registered members live in Ontario. Under the aegis of the Commission and the Canada Department of Agriculture, the C.T.A. attempts to maintain high standards of "professional competence and moral character . . . of all participants in the industry . . .". Its rules and regulations form the basis of the regulatory scheme and establish the procedures to be followed by the standardbred race tracks and the horsemen using their facilities.

The Ontario Harness Horsemen's Association (O.H.H.A.)

From its inception in 1962, the O.H.H.A. has made valuable contributions to harness racing in this province, in pursuit of its constitutional aspirations: "to encourage, improve and promote breeding, training and racing of trotting and pacing standardbred race horses".

The Toronto based organization has developed several programs to aid its 2,267 members in the realization of its objectives. Four stakes races for two and three year old Ontario-sired pacers and trotters, running at "A" class tracks have been supported by O.H.H.A. funds since 1963. In 1970, a similar program for two and three year old Ontario-sired pacers, racing on "B" class tracks, was introduced by the Association.

Its members benefit from several aid programs designed to improve harness racing in the province. These include special insurance for race horses and driving equipment, representation at purse negotiation meetings, and investigation of track premises to ensure high standards for resident horsemen and their animals.

The Horsemen's Benevolent and Protective Association (H.B.P.A.)

Originally, the H.B.P.A. was concerned only with the problems of thoroughbred owners and trainers but gradually expanded its operation to include the remaining elements of the industry. Horsemen faced with difficulties of any description (financial, legal, medical, spiritual) are encouraged to seek counsel from the H.B.P.A. If a small sum of money is needed to rectify a particular problem, it is usually forthcoming from the Association.

Perhaps its most visible role is that of bargaining agent for the thoroughbred owners in their periodic purse negotiations with the race track operators.

No fees are payable to the organization which considers all persons associated with thoroughbred racing in Ontario to be members. This means that roughly 700 people in this province can rely on the H.B.P.A. for help. Administrative and other expenses are covered by a one percent deduction from purse monies.

The Canadian Standardbred Horse Society (C.S.H.S.)

Founded in 1910, the Society functions principally as a clearing house for information that would assist Canadian standardbred breeders in their efforts to maintain high standards. In 1963, it assumed the responsibility, previously vested in the Canada Department of Agriculture, of maintaining standardbred horse records

in accordance with the *Canadian National Live Stock Act* and the *Live Stock Pedigree Act* and acting as the standardbred horse registration board.

The Canadian Thoroughbred Horse Society (C.T.H.S.)

This Society has grown since 1906, the year it was founded. Currently, a membership of 1,080 throughout Canada depends upon the organization to "promote and develop thoroughbred breeding techniques" and educate the breeder so that the Canadian industry remains at a level competitive with similar programs in foreign jurisdictions. Provision of a market place for breeders is one of the most important functions performed by the Society.

Unlike its counterpart in the standardbred industry, the C.T.H.S. does not function as a registration board. That responsibility remains with the Canada Department of Agriculture.

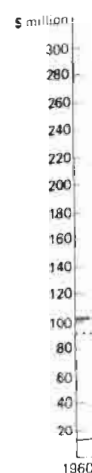
The Ontario Standardbred Improvement Association, Incorporated

In the summer of 1970, this non-profit association was incorporated under Provincial charter. As the name implies, the organization's main objective is to improve the standardbred breed in this province. Approximately 1,200 Ontario breeders support its work and agree with the statement of its President that "the success of the breeding industry in Canada depends to a large degree on the provision of stake races in Ontario, so that the potential earning power of a young colt is improved".³

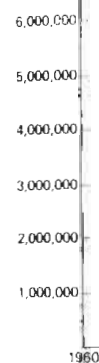
A sire's stake program has been proposed by the Association which would, in its opinion, go far to improve the earning potential of its members and the quality of the breed. Owners of broodmares, it is suggested, would travel to this province to have their mares served by an Ontario stallion. The buyer of the foal, it is argued, would be willing to pay a high price at the yearling sale, since eventually his purchase would be eligible for larger purses offered at Ontario tracks in races for horses sired in this province.

3. Task Force Public Hearings, December 1, 1971, Mr. E. J. Boland, President, Ontario Standardbred Improvement Association, Inc.

WAGER



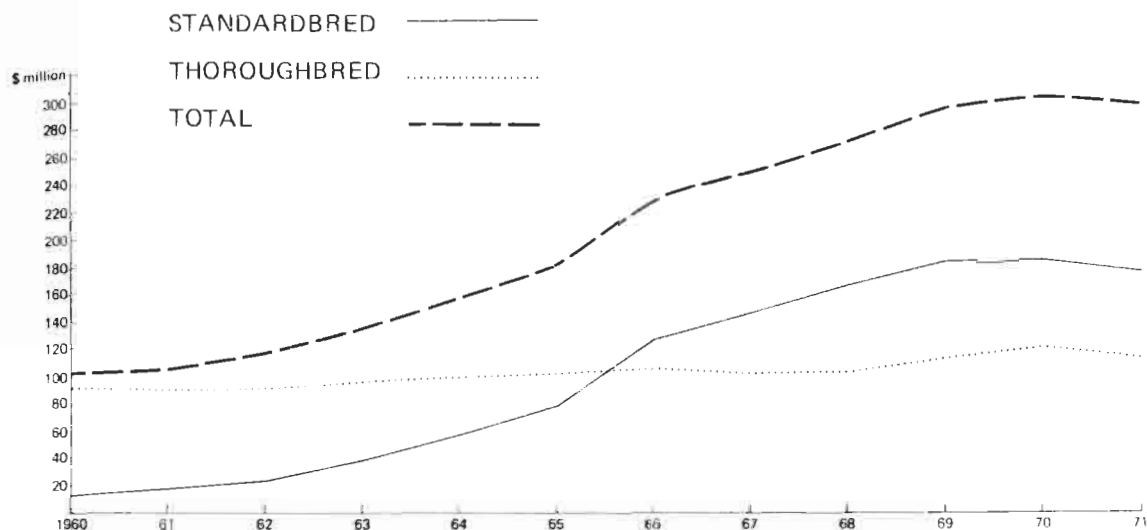
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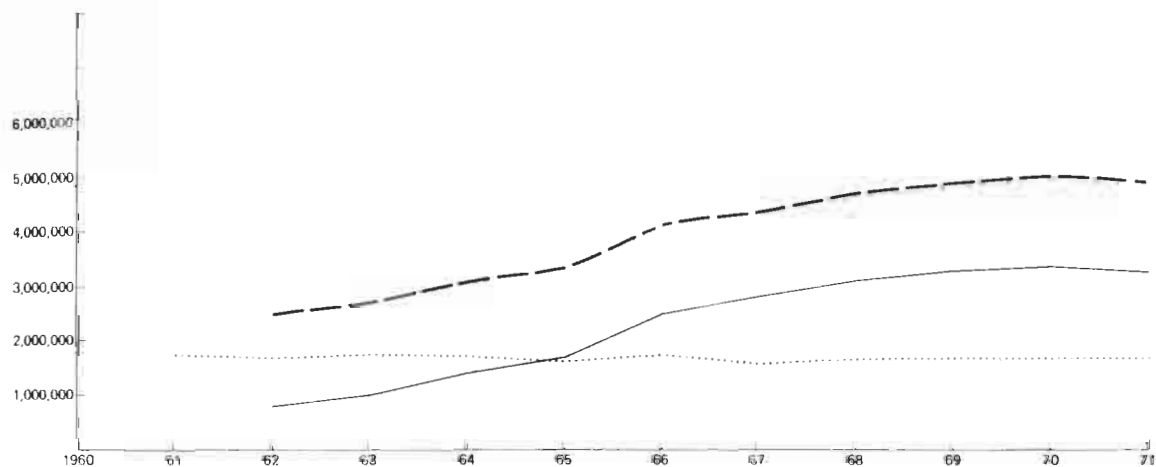
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WAGERING - ONTARIO



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RACING DAYS - ONTARIO

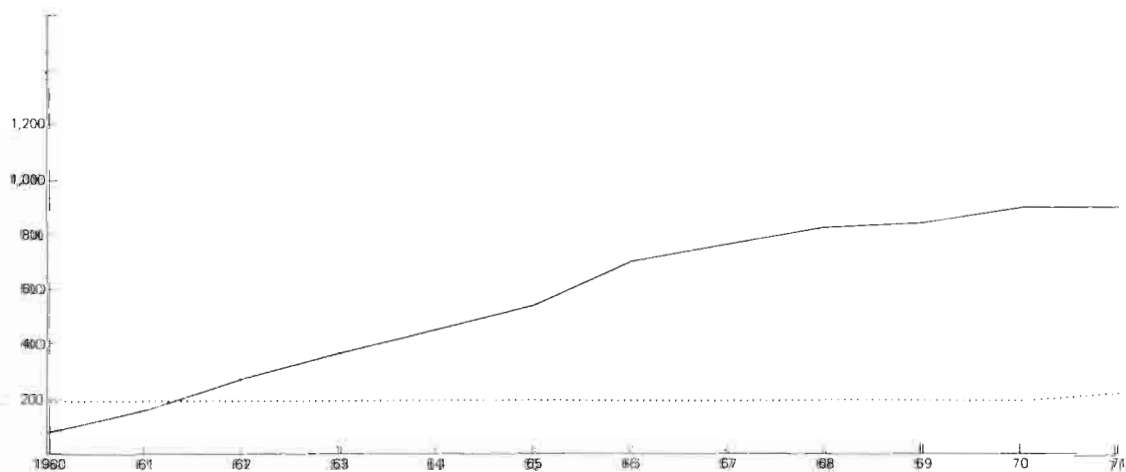


FIGURE 1: Annual Wagering, Attendance and Number of Racing Days at Ontario Race Tracks, 1960-1971.

THE ECONOMICS OF THE INDUSTRY

The Racing Industry in Ontario: An Economic Study

In order to gain an appreciation of the economic position of the industry on which off-track betting depends, the Task Force commissioned Woods, Gordon and Company to undertake a study⁴ which would, among other things, analyse the growth of racing activity with particular emphasis on the impact of recent developments, identify the inter-relationships between the various components of the industry, including the track operators, horse owners and breeders, establish their current economic position and forecast the growth of the industry on the basis of established projections and trends. What follows in this section is largely based on those findings which are reproduced in full in Appendix D to this report.

Breeders

Racing begins with breeding. Except for a few notable exceptions, most breeders are farmers or persons associated with farming. They may breed for their own racing stables or for sale to others, either privately or at auction.

In addition to money from sales, breeders derive revenue from stud fees and the government-sponsored breeders' awards. These awards have been in existence since 1950, but since 1968 they have been drawn from a specific fund. In that year, the rate of the Race Tracks Tax of Ontario was increased from 6 percent to 7 percent, on the understanding that 85 percent of the increase was to be used for such things as breeders' awards, grants towards increased purses, and equine research.⁵ These funds are distributed by the Ontario Racing Commission.

Awards for standardbred breeders have been paid only since 1960. The pattern of these awards can be seen from Table 2. The method of calculating the awards, and the manner of their payment, varies as between standardbred and thoroughbred breeders.

4. Similar to the one conducted by them in 1966 on behalf of the Committee of Ontario Thoroughbred and Standardbred Horse Industries.

5. The annual allocation for research has, since 1968, been fixed at \$25,000, and has been directed to the Ontario Veterinary College at Guelph, Ontario.

TABLE 2: Government of Ontario Breeders' Awards, 1950-1971

Year	THOROUGHBRED		STANDARD BRED		COMBINED	TOTALS
	No. of Awards	Amount	No. of Awards	Amount	Total Awards	Total Amount Paid
1950	79	\$ 16,934.75	—	—	79	16,934.75
1951	86	18,101.39	—	—	86	18,101.39
1952	88	22,136.73	—	—	88	22,136.73
1935	94	26,512.25	—	—	94	26,512.25
1954	105	28,910.20	—	—	105	28,910.20
1955	105	28,012.25	—	—	105	28,012.25
1956	112	41,623.50	—	—	112	41,623.50
1957	130	50,057.06	—	—	130	50,057.06
1958	144	58,366.00	—	—	144	58,366.00
1959	148	59,497.25	—	—	148	59,497.25
1960	146	65,154.88	288	\$ 18,989.80	434	84,144.68
1961	159	61,486.88	358	26,136.37	517	87,623.25
1962	160	64,752.37	423	41,293.43	583	106,045.80
1963	161	69,296.12	478	51,168.46	639	120,464.58
1964	156	73,519.11	528	80,738.09	684	154,257.20
1965	157	77,887.98	588	96,989.51	745	174,877.49
1966	175	86,739.74	649	131,767.51	824	218,507.25
1967	186	84,879.10	711	140,983.89	897	225,862.99
1968	201	95,807.58	759	178,471.26	960	274,278.84
1969	206	103,621.25	788	206,523.56	994	310,144.81
1970	203	108,956.53	856	203,129.30	1,059	312,085.83
1971	217	110,384.68	922	226,653.61	1,139	337,038.29

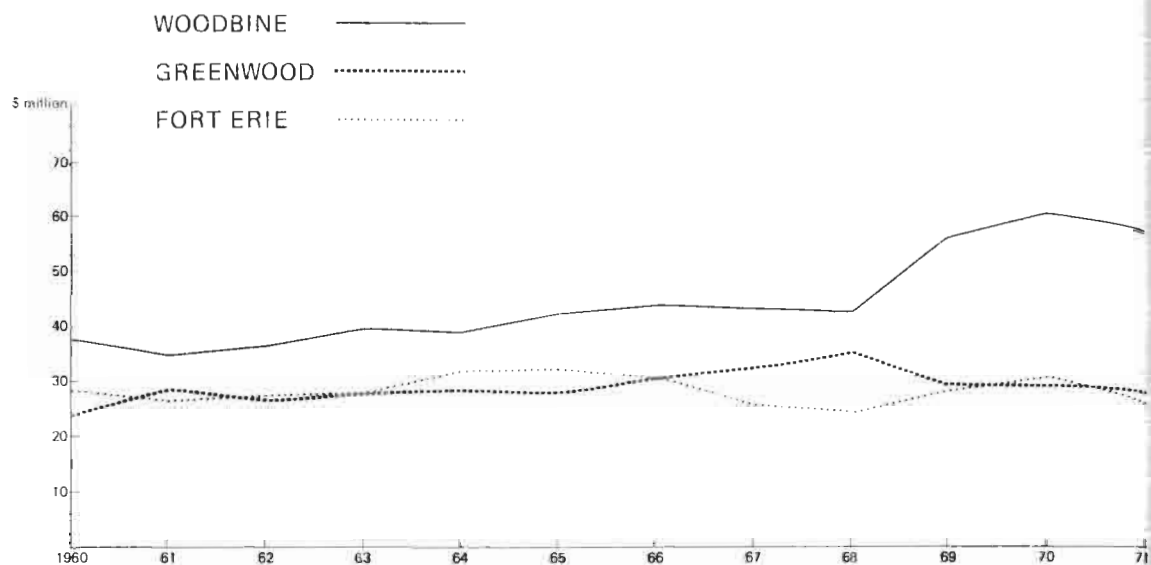
Source: Ontario Racing Commission.

The breeder of a standardbred is deemed to be the owner or lessee of the dam at the time she was served while the breeder of a thoroughbred is the owner or lessee of the dam at foaling time.⁶ The breeder of an Ontario standardbred receives an award calculated at the rate of 5 percent of the *gross purse* when his mare's progeny wins a race. On the other hand, the breeder of an Ontario thoroughbred receives an award equal to 5 percent of the *winner's share* of the purse when his mare's offspring wins a race.

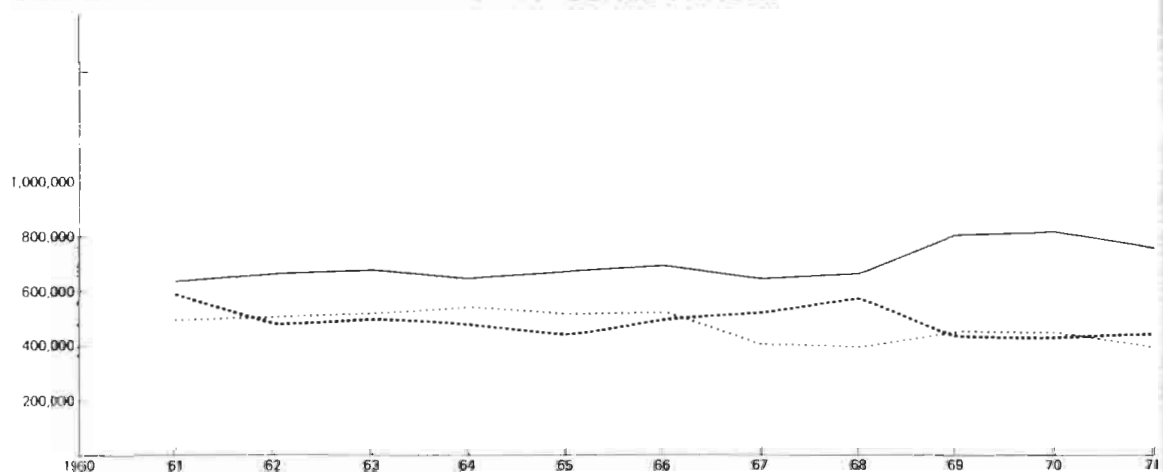
The Ontario Racing Commission compiles a list of breeders eligible for awards, and the Ministry of Consumer and Commercial Relations distributes the money required for the awards to the Canadian Thoroughbred Horse Society and the Canadian Trotting

6. For example, the purchaser of a pregnant thoroughbred mare is a breeder.

WAGERING – THOROUGHBRED "A" CLASS TRACKS



ATTENDANCE – THOROUGHBRED "A" CLASS TRACKS



RACING DAYS – THOROUGHBRED "A" CLASS TRACKS

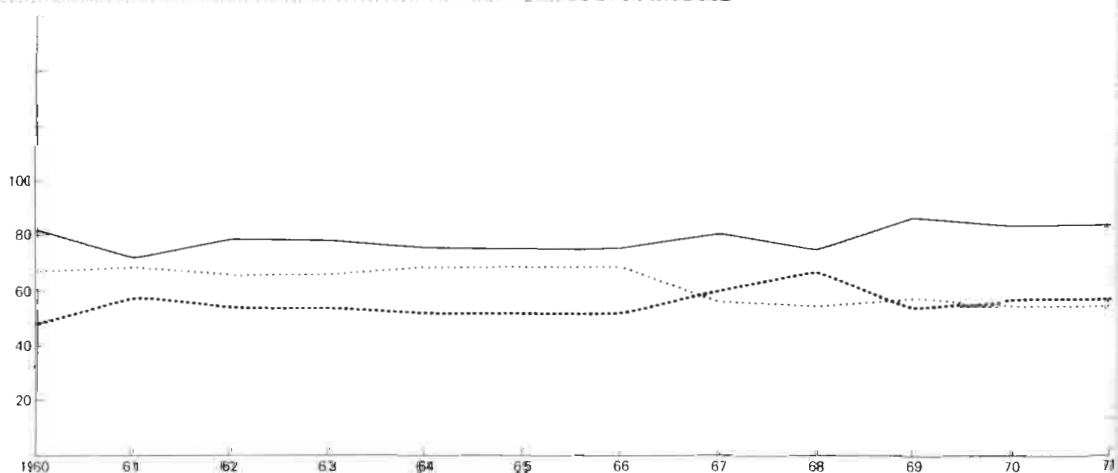


FIGURE 2: Annual Wagering, Attendance and Number of Racing Days at Ontario Thoroughbred "A" Class Race Tracks, 1960-1971.

Association for thoroughbred and standardbred awards, respectively. The money is then distributed to the individual breeders by the Canadian Thoroughbred Horse Society and the Canadian Trotting Association.

The purpose of the awards and the nature of the results expected do not appear to have been clearly defined. A large proportion of the total awarded is paid to a relatively small number of very successful breeders who appear to make sufficient profit not to need them. On the other hand, the remainder of the awards are probably too widely dispersed to provide an appreciable incentive to the great majority of breeders. Even if the awards did have a significant effect on the quality of breeding, American-bred horses of equivalent quality would continue to fetch higher prices since they would be eligible for the higher purses available in the numerous U.S. stakes races for American sired and bred horses.

As indicated by the Woods, Gordon study thoroughbred breeding has grown since 1965. It is significant to note, however, that while the number of foals registered has risen from 1,215 in 1965 to 1,978 in 1971⁷ the demand for better horses continues to exceed the supply.

Woods, Gordon estimated that thoroughbred breeders, on the average, made a net profit of \$1,220 per yearling sold in 1970-71 before deduction of depreciation.⁸ This represents a considerable improvement over the slight loss incurred in 1965. However, since the higher average sale value of yearlings partly reflects improvements in stock, much of this apparent gain is likely to be offset by higher depreciation costs. A few thoroughbred breeders are making money on their operations, but most are not. Even so, Woods, Gordon expect Ontario breeders to maintain an adequate supply of thoroughbreds. Perhaps more importantly, however, they found no assurance that quality will be improved or even maintained.⁹ As a comment on the quality of local breeding, it is significant that about 40 percent of the thoroughbred purses awarded in Ontario are won by foreign-bred horses.

The study disclosed an even more substantial increase in standardbred breeding but mainly of lower quality horses.¹⁰ Al-

7. Appendix D

8. *Ibid.*

9. *Ibid.*

10. *Ibid.*

though the financial position of Ontario standardbred breeders seems to have improved somewhat in recent years, breeders generally continue to suffer substantial losses. Including depreciation, the standardbred breeding industry appears to lose over \$4 million a year¹¹ but, for some reason, this is not reflected in a reduction in numbers. Indeed, the number of breeders increased from 1,870 in 1965 to 2,800 in 1970. During the same period the numbers of foals registered increased from 925 to 1,863. As with thoroughbreds, however, the demand for better quality is not being satisfied by Ontario breeders—as can be seen from the number of imports (from the United States) which was 349 in 1971.¹²

It appears that an across-the-board increase of the breeders' awards is not an answer to deteriorating quality since such a general increase might well attract more breeders rather than encourage better breeding—a sort of equine version of Gresham's Law.¹³

Owners

In 1970 there were 1,230 thoroughbred owners in Ontario—an increase of more than a third over 1965. While the exact number of thoroughbred horses is not known, data compiled by the Ontario Jockey Club suggest an increase of 22 percent between 1965 and 1970 (from 1,530 to 1,872) in the number raced.

Revenues are derived from winning purses. The purse structure is usually negotiated periodically with the horse owners, as represented by the Ontario Harness Horsemen's Association for standardbred owners and the Horsemen's Benevolent and Protective Association for thoroughbred owners. Currently, purses at the Jockey Club tracks are fixed at 47.5 percent of the track commissions (the 9½ percent of each dollar bet which the track is entitled to retain).

As has already been mentioned, the Ontario Government makes an annual grant, which is distributed by the Ontario Racing Commission, to be used to increase purses. The money is divided among Ontario's race tracks according to the proportion of the volume of wagering that each track had of the previous year's

11. *Ibid.*

12. It should be noted that part of the import demand results from the higher potential winning capacity of U.S. bred horses eligible for sires stakes programs in the U.S.

13. Gresham's Law—bad money tends to drive out good.

WAGERI

G

W

G

M

W

R

\$ million

70

60

50

40

30

20

10

1960

RACING

160

140

120

100

80

60

40

20

1960

ATTEND

1,200,000

1,000,000

800,000

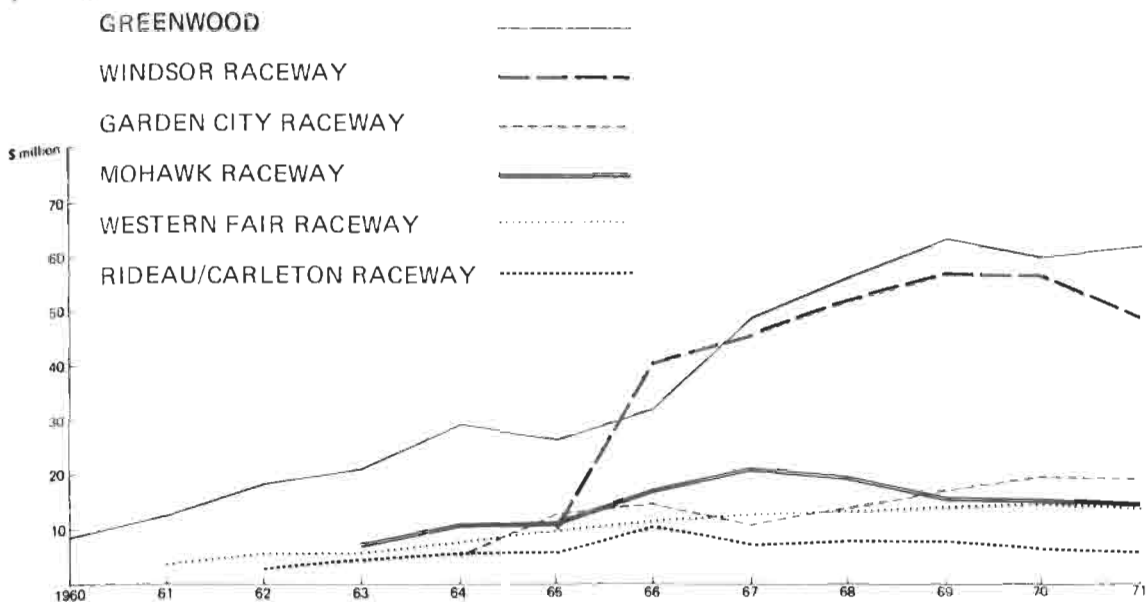
600,000

400,000

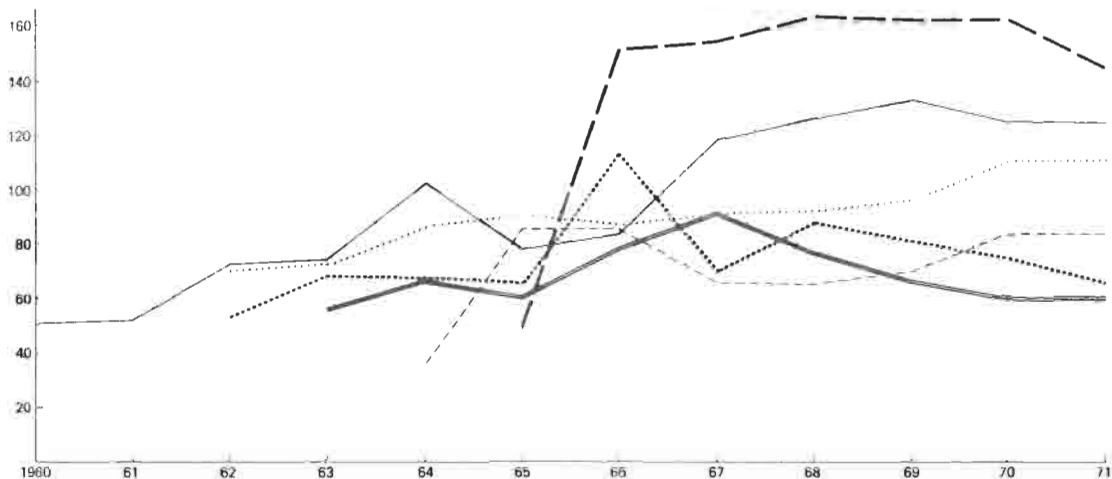
200,000

1960

WAGERING – STANDARDBRED "A" CLASS TRACKS



RACING DAYS – STANDARDBRED "A" CLASS TRACKS



ATTENDANCE – STANDARDBRED "A" CLASS TRACKS

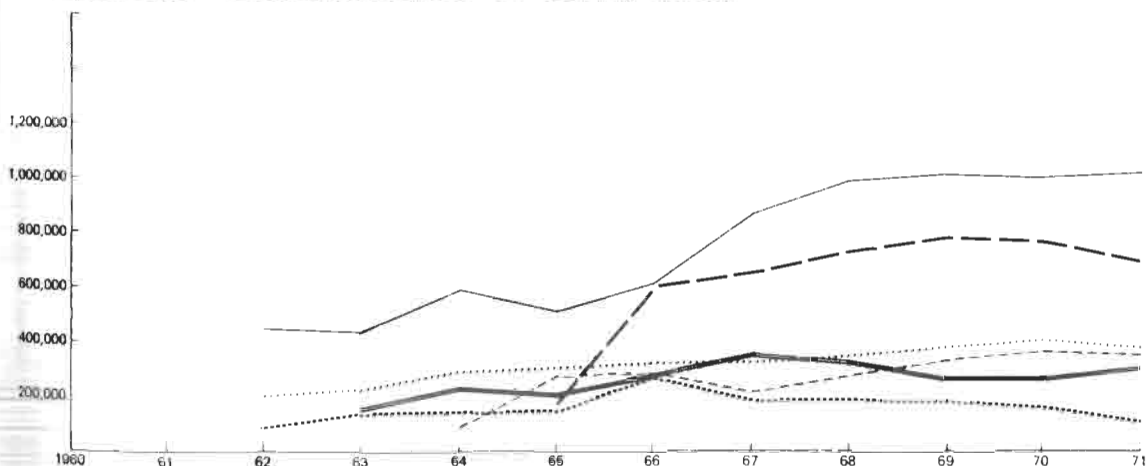


FIGURE 3: Annual Wagering, Attendance and Number of Racing Days at Ontario Standardbred "A" Class Race Tracks, 1960-1971.

total wagering. Accordingly, standardbred tracks receive approximately 60 percent of the pool and the thoroughbred tracks receive the remainder. Table 3 sets out the amounts of the purse supplements since their inception in 1968.

TABLE 3: Government of Ontario Grants to Increase Purses, 1968-1971

Year	Purse Supplement
1968	\$1,525,000
1969	1,500,707
1970	1,464,955
1971	1,950,045

For thoroughbreds a total of \$6,168,400 in purses was awarded in 1970.¹⁴ Excluding depreciation, Woods, Gordon estimate an average net annual cost of keeping, training and racing a thoroughbred in 1970 at about \$4,900, an increase of about 20 percent over 1965.¹⁵

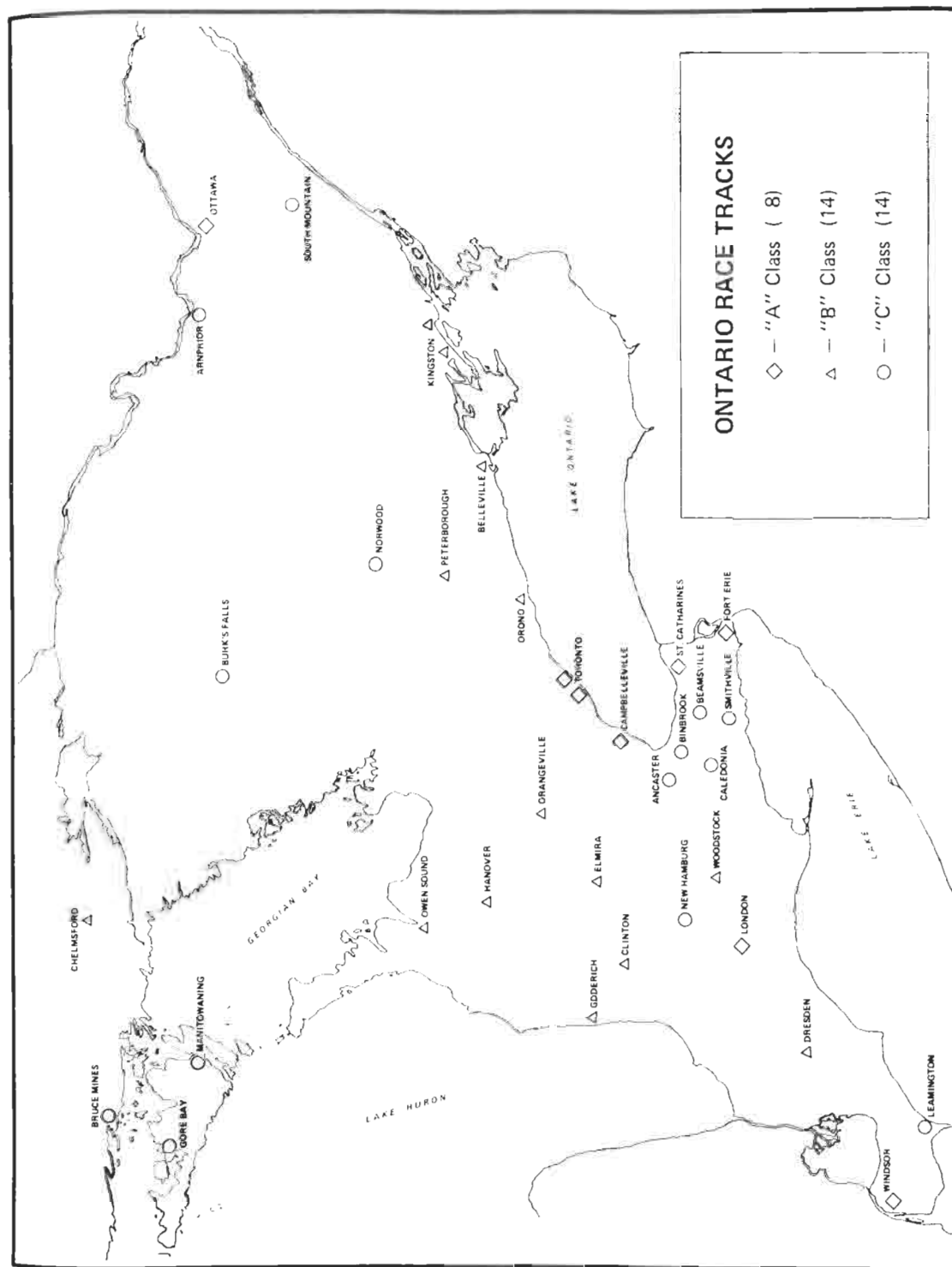
Using the Jockey Club figures for thoroughbreds raced in 1970, the average potential purse winnings per horse would be \$3,295 which is \$1,600 less than the average net annual cost of \$4,900. Of course, just as there are no "average horses" there are no "average purses" and many horses actually had no winnings at all during 1970 while a few won several thousands of dollars.

In 1971, there were 5,600 Canadian standardbreds eligible to race in Ontario—nearly double the number in 1965. In addition, there were 210 American-owned horses, up from 84 in 1965. Although average purses per race have increased at both major and minor tracks, the Woods, Gordon study shows that average winnings per horse have been diluted by the increase in the number of horses competing and this dilution has been more serious at the minor tracks. The net annual cost per standardbred was estimated at \$1,220 in 1970, an increase of 22 percent compared with 1965 (in constant dollar value terms). Depreciation increases the average deficit per horse to about \$1,525.¹⁶

14. While all of these winnings did not go to Ontario owners it is felt that the foreign winnings of Ontario owners (which are not included in this figure) are probably sufficient to offset the amount of Ontario purses paid to foreign owners.

15. Appendix D

16. *Ibid.*



MAP 1: Location of "A", "B" and "C" Class Race Tracks in Ontario, 1971.

There appears to be little risk of any shortage of standardbred racing stock although it does seem likely that average quality will continue to decline, despite a recent improvement in purses in line with that for thoroughbreds. However, higher purses may have the effect of attracting more participation rather than effecting improvements in overall quality.

Before concluding it should be again pointed out that for the reasons mentioned in the previous chapter, the language of the balance sheet may be inappropriate to horse racing which is as much a sport as a business. People are attracted to it for the myriad of non-quantifiable, non-measurable rewards that one associates with other sporting activities and it would be wrong to attempt to measure the industry only in terms of "profit and loss".

Race Tracks

The Ontario Racing Commission divides the 36 Ontario race tracks into three categories or classes ("A", "B" and "unsupervised" [also known as "C"]) according to the number of race days allocated to each.

The "A" class tracks are the major tracks having extended racing seasons (generally more than 50 days of racing per year). They are: Woodbine and Fort Erie for thoroughbreds; Greenwood for both thoroughbreds and standardbreds; and Garden City Raceway, Mohawk Raceway, Windsor Raceway, Western Fair Raceway, and Rideau Carleton for standardbreds.

The 14 "B" class tracks each have more than seven days of racing per year, and usually race one or two days per week during the season, but their seasons are not extended. These courses are usually located near small urban areas, mostly in Southern Ontario, such as Goderich, Orangeville, Peterborough, Kingston and Hanover. The 14 "C" class tracks¹⁷ generally have only one or two days of racing per year and are usually operated by agricultural societies in conjunction with country fairs. They are not supervised by the Ontario Racing Commission. Included in this group are tracks located at Ancaster, Leamington, Gore Bay, Norwood and Beamsville.

17. With racing in 1971.

\$MILLION
300

WAGERING — ONTARIO

- T.B. — THOROUGHBRED TRACKS
- A — STANDARD BRED "A" CLASS TRACKS
- B — STANDARD BRED "B" CLASS TRACKS
- C — STANDARD BRED "C" CLASS TRACKS

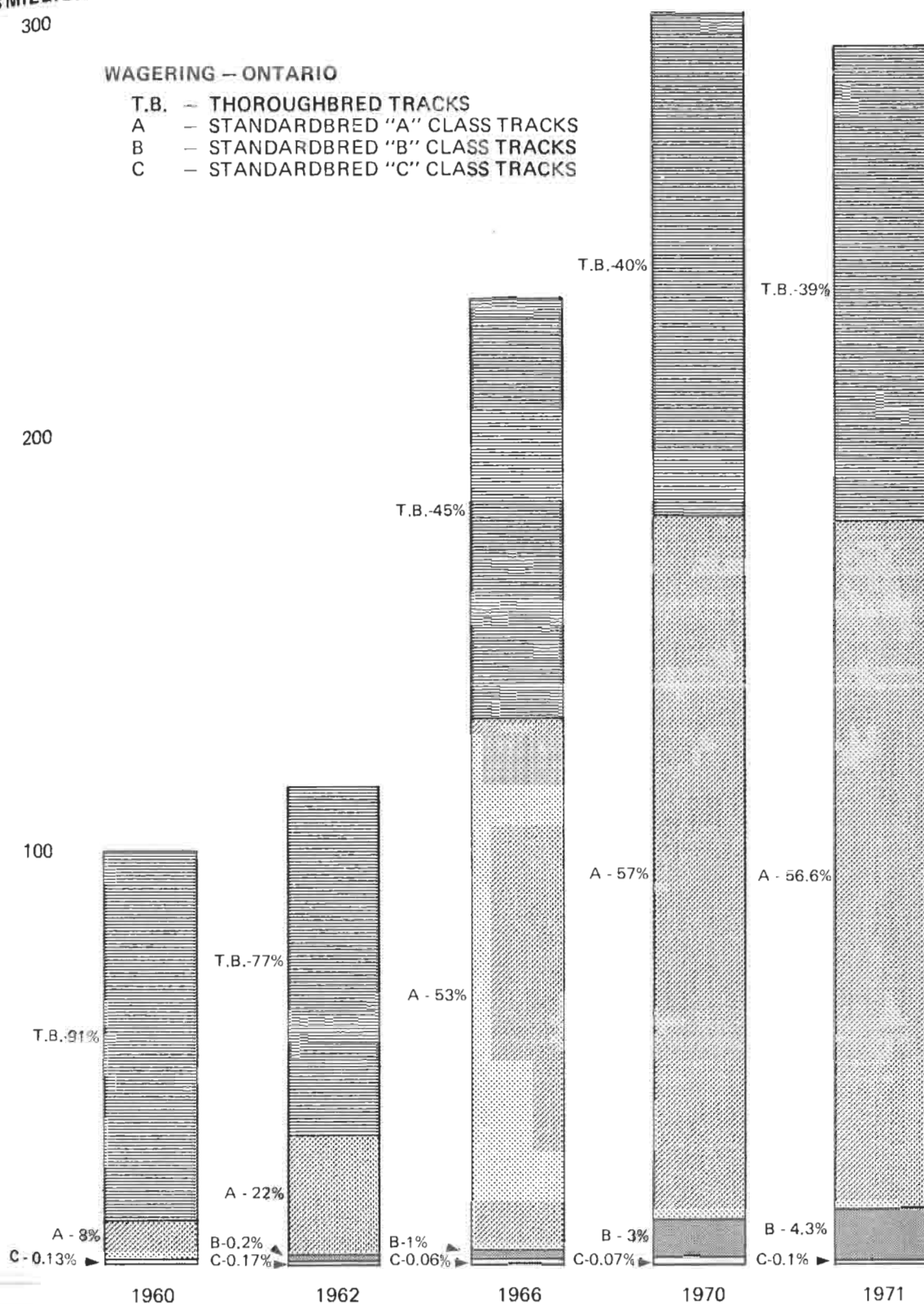


FIGURE 4: Volume of Pari-Mutuel Wagering at "A", "B" and "C" Class Race Tracks in Ontario, 1960-1971.

TABLE 4: Volume of Wagering on Thoroughbred and Standardbred Racing in Ontario, 1961-1971

THOROUGHBRED			
Year	Amount Wagered	Provincial Tax	Federal Tax
1961	\$ 89,549,959	\$ 5,372,997 (6%)	\$ 447,737 (½%)
1962	90,477,564	5,428,653	452,375
1963	96,483,152	5,788,989	482,403
1964	99,464,915	5,967,894	479,311
1965	101,872,209	6,112,332	509,361
1966	104,645,712	6,278,743	523,229
1967	100,174,152	6,010,449	500,853
1968	102,442,122	7,170,948 (7%)	512,210
1969	113,982,249	7,978,757	569,911
1970	120,094,243	8,406,597	600,471
1971	115,222,323	8,065,562	649,954 (½% to 6/10ths%)
STANDARD BRED			
1961	\$ 15,779,433	\$ 946,765 (6%)	\$ 78,890 (½%)
1962	25,825,539	1,549,532	129,114
1963	38,412,098	2,304,725	192,057
1964	57,496,039	3,449,762	287,452
1965	77,833,146	4,669,988	389,165
1966	126,289,102	7,577,346	631,445
1967	147,861,734	8,871,704	739,308
1968	167,345,886	11,244,296 (7%)	836,729
1969	181,697,898	12,718,853	908,489
1970	182,262,986	12,758,409	911,315
1971	177,212,268	12,404,858	966,992 (½% to 6/10ths%)

As indicated by the figures in Table 4 and by Figures 1 to 6, with the exception of a small decrease in 1971, pari-mutuel wagering at Ontario's race tracks has had a remarkable growth in the last ten years, particularly on standardbred racing. The growth pattern becomes more striking when today's figures are compared with those for 1921. In that year, race-goers in the whole of Canada wagered \$75,110,551. In 1971, in Ontario alone, bettors parted with \$292,434,591 (\$302,357,229 in 1970), while across Canada the figure was \$564,792,223 (\$575,447,381 in 1970).

As might be expected, the "C" class tracks are responsible for almost none of this wagering activity; the "B" class tracks, while their share is growing, continue to have little impact; and the "A"

ATTENDANCE - ONTARIO

T.B. - THOROUGHBRED TRACKS
A - STANDARD BRED "A" CLASS TRACKS
B - STANDARD BRED "B" CLASS TRACKS
C - STANDARD BRED "C" CLASS TRACKS

4

3

2

1

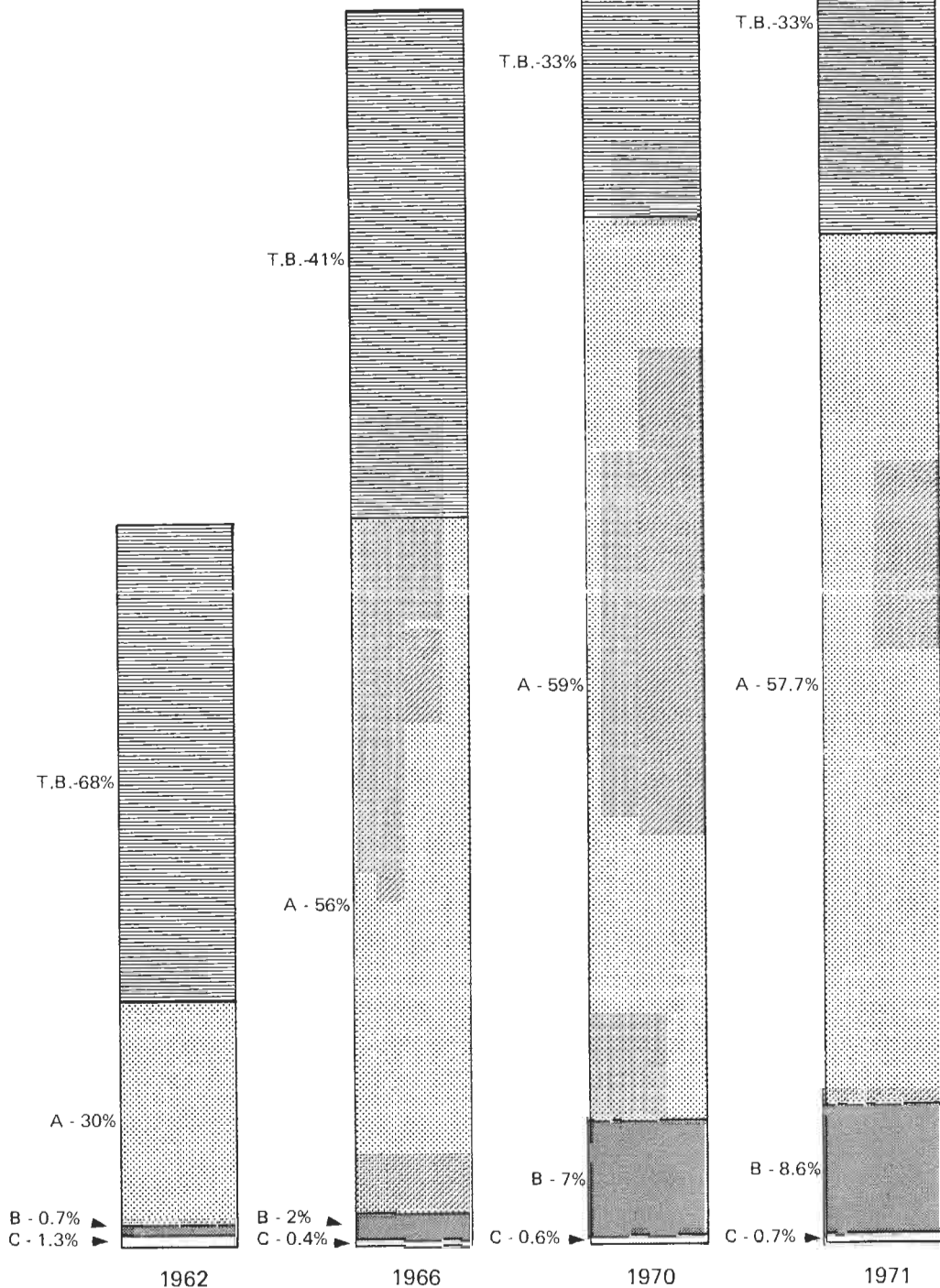


FIGURE 5: Attendance at "A", "B" and "C" Class Race Tracks in Ontario, 1962-1971.

class tracks produce almost all of the betting. In 1971 the "A" class tracks had 71 percent of the racing days, 90.7 percent of the attendance and 95.6 percent of the wagering. The "B" class tracks accounted for 28 percent of the race days, 8.6 percent of the attendance and 4.3 percent of the wagering. "C" class tracks had only 1 percent of the race days, 0.7 percent of the attendance and 0.1 percent of the wagering.

Perhaps the most striking example of the industry's growth in recent years is evidenced by the increase of standardbred racing at "minor" ("B" and "C" class) tracks from 73 days in 1962 to 331 days in 1971. Most of this increase can be attributed to the establishment of new tracks in secondary population centres such as Belleville and Kingston. Expansion of activity at existing tracks was also significant. There has been a substantial shift over the past decade from relatively short local "fair associated" meets to more extended meets at bigger tracks.

Woods, Gordon forecast a continued growth of minor track racing days and attendance. However, the favourable growth prospects for minor track racing are unlikely to have a significant effect on racing in total since, as has already been mentioned, the minor tracks currently account for only about 9 percent of attendance and 4 percent of the total amount wagered.

With the minor exception of an unsuccessful meeting held at Windsor in 1971, thoroughbred racing in Ontario is confined to tracks operated by the Ontario Jockey Club. Although the number of racing days for thoroughbreds has remained almost static in recent years the number of races per day and of starters per race has increased. Together with improvements in the quality of the horses racing and other amenities, the quality of sport offered to the public has improved. Despite this improvement in quality, average attendance has slowly declined and appears likely to continue to do so. This may, in part, be due to the striking growth of standardbred attendance, although average thoroughbred attendance in New York State, where standardbred attendance has been relatively static, has also tended to decline.

The financial performance of the Jockey Club tracks (Woodbine, Fort Erie, Greenwood, Garden City and Mohawk) appears to have been reasonably satisfactory, as evidenced by the success with which the Club has converted its equity into 10 percent debentures.

DAYS
1200

1000

800

600

400

200

T.B.-72%

A-18%

C-10%

RACING DAYS - ONTARIO

T.B. - THOROUGHBRED TRACKS
A - STANDARD BRED "A" CLASS TRACKS
B - STANDARD BRED "B" CLASS TRACKS
C - STANDARD BRED "C" CLASS TRACKS

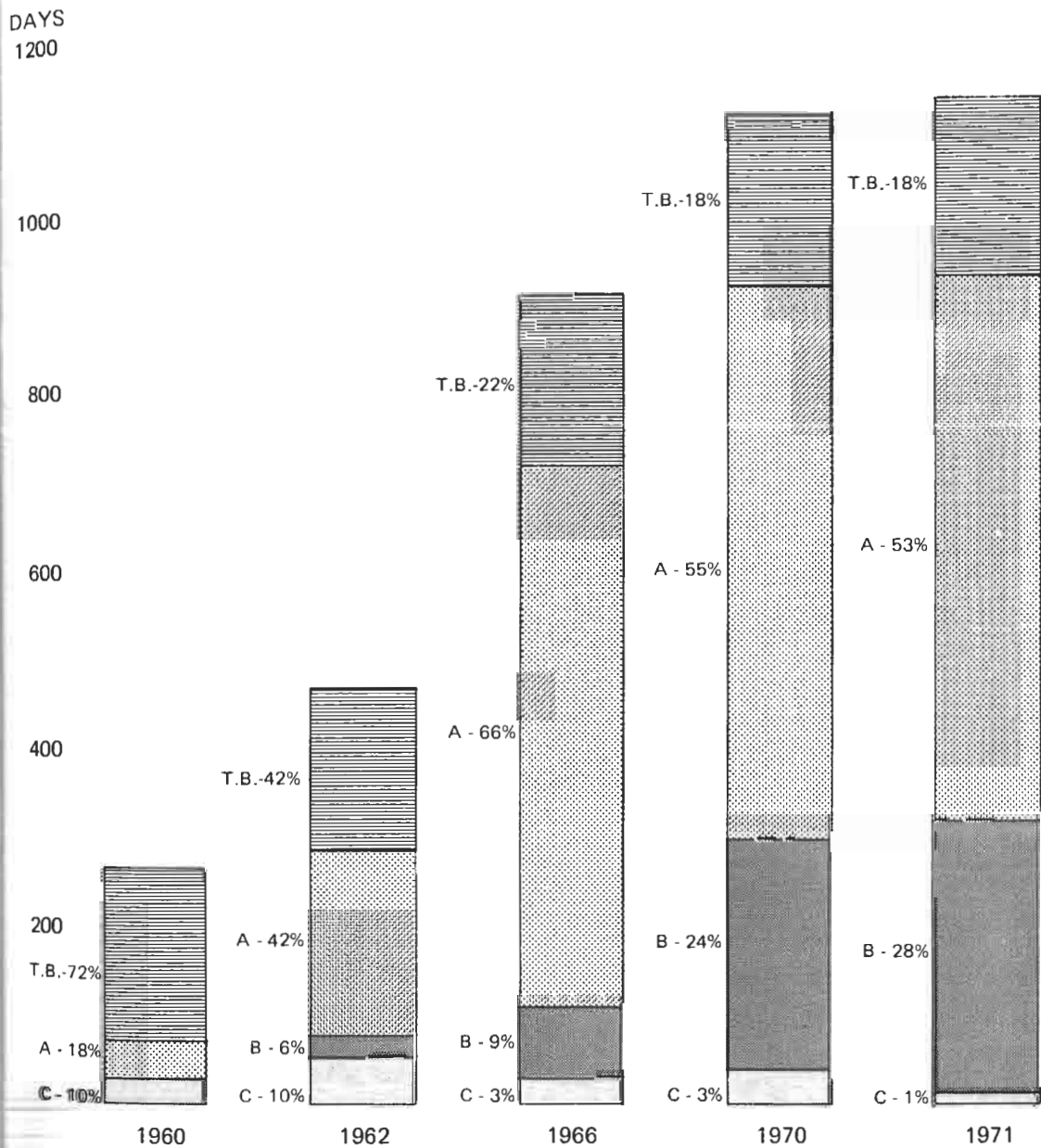


FIGURE 6: Racing Days at "A", "B" and "C" Class Race Tracks in Ontario, 1960-1971.

The financial performance of other tracks is not fully available but it appears to vary widely. Windsor, at one end of the scale, achieved a phenomenal 40 percent rate of return on capital employed in 1970 and Rideau Carleton, at the other end, was in receivership between 1963 and 1971.

On the basis of the accounts available to our consultants, it appears that total track revenue has grown at an average annual rate of 14 percent over the past decade which is about 50 percent faster than the gross provincial product. Receipts from commissions on wagering account for 70 percent of track revenue while revenues from refreshment, program sales and parking contributed 17 percent. Admissions, which account for only 12 percent of total track revenue, have declined in relative importance.

Analysis of these accounts shows that operating disbursements have grown slightly faster than revenue. Employee and supply costs increased their share of total operating disbursements from 38 percent in 1961 to 45 percent in 1970. Purses declined in terms of their relative importance from 32 to 29 percent while municipal taxes increased their standing from three to five percent. Regulatory fees, on the other hand, continue to remain below one percent.

CHAPTER 3

On-Track Wagering in Ontario

THE PARI-MUTUEL SYSTEM

THE pari-mutuel system of betting on horse races is reputed to have originated in France more than a century ago. After its popularity grew there, it was transplanted to the United States in the 1870's where it flourished. In Canada, the 1927 amendments to the Criminal Code recognized the pari-mutuel system as the only legitimate method of betting on horse races, and the law is, by and large, the same today.

Literally, pari-mutuel betting means betting "among ourselves" and, although the calculations today may be made by computer, the system in operation is the same. At every track in Ontario where betting is authorized, bettors are permitted to place bets to "win" (the horse must win the race for the bettor to be paid), "place" (the horse must place first or second for the bettor to be paid) and "show" (the horse must place, first, second or third for the bettor to be paid). In addition, the tracks may have one or more specialty bets. The most common types are the "daily double" (bettor must pick winners of two consecutive races), "exacto" (bettor must pick first two horses in one race, in correct order of finish), and "quinella" (bettor must pick first two horses in one race, not necessarily in correct order of finish). A separate betting "pool" is set aside for each bet type. For example, there is a separate pool for each of win, place and show bets, and a separate pool for each specialty bet. After the provincial Race Tracks Tax (7 percent), the federal administrative levy (0.6 percent) and the racetrack operator's commission (usually 9½ percent) have been deducted, the balance of the pool (approximately 83 percent) is divided among the holders of the winning tickets.

Since 1927, the Canada Department of Agriculture has been responsible for the supervision of all pari-mutuel systems in Canada. Details of these responsibilities have already been discussed in the section of the report dealing with the legal aspects of off-track betting.

ATTENDANCE AND WAGERING

The overall pattern of attendance and wagering at Ontario's race tracks has already been described in some detail in the previous chapter. As can be seen from Figures 7 to 16, wagering and attendance did decline slightly in 1971. While some of this decline might have been caused by the operation of off-track messenger services, there are certain other factors which undoubtedly had some effect as well.

During the Fort Erie spring meet (April 24th to May 22nd, 1971) the Peace Bridge between Buffalo, New York and Fort Erie, Ontario was under repair and traffic was reduced to one lane each way. That this may have had a very serious effect on wagering and attendance¹ is evidenced by the fact that, according to the Jockey Club, about 50 percent of the wagering at Fort Erie comes from American patrons.

The Jockey Club also introduced certain changes in the types of betting allowed. The traditional show betting was eliminated and place betting was expanded, depending on the number of starters in the race, to include horses finishing third. The number of exactors offered each day was also increased to five. These changes were not popular with the betting public and may have led many of them to bet less than they otherwise might have.

In addition, the general downward turn in the economy in 1971 unquestionably had the same depressant effect on the racing industry as it did on other leisure industries.

Although it is impossible to measure the individual effect of each of these four factors the cumulative effect was that wagering and attendance were down by \$6.1 million and 83,000 from 1970. Some clue as to the effect of off-track betting in this decline might be gained from an examination of the early 1972 figures.

1. Wagering was down over \$3 million compared to the same meet in 1970 and attendance was down 28,000.

WOODBINE: THOROUGHBRED WAGERING, ATTENDANCE AND ACTIVITY

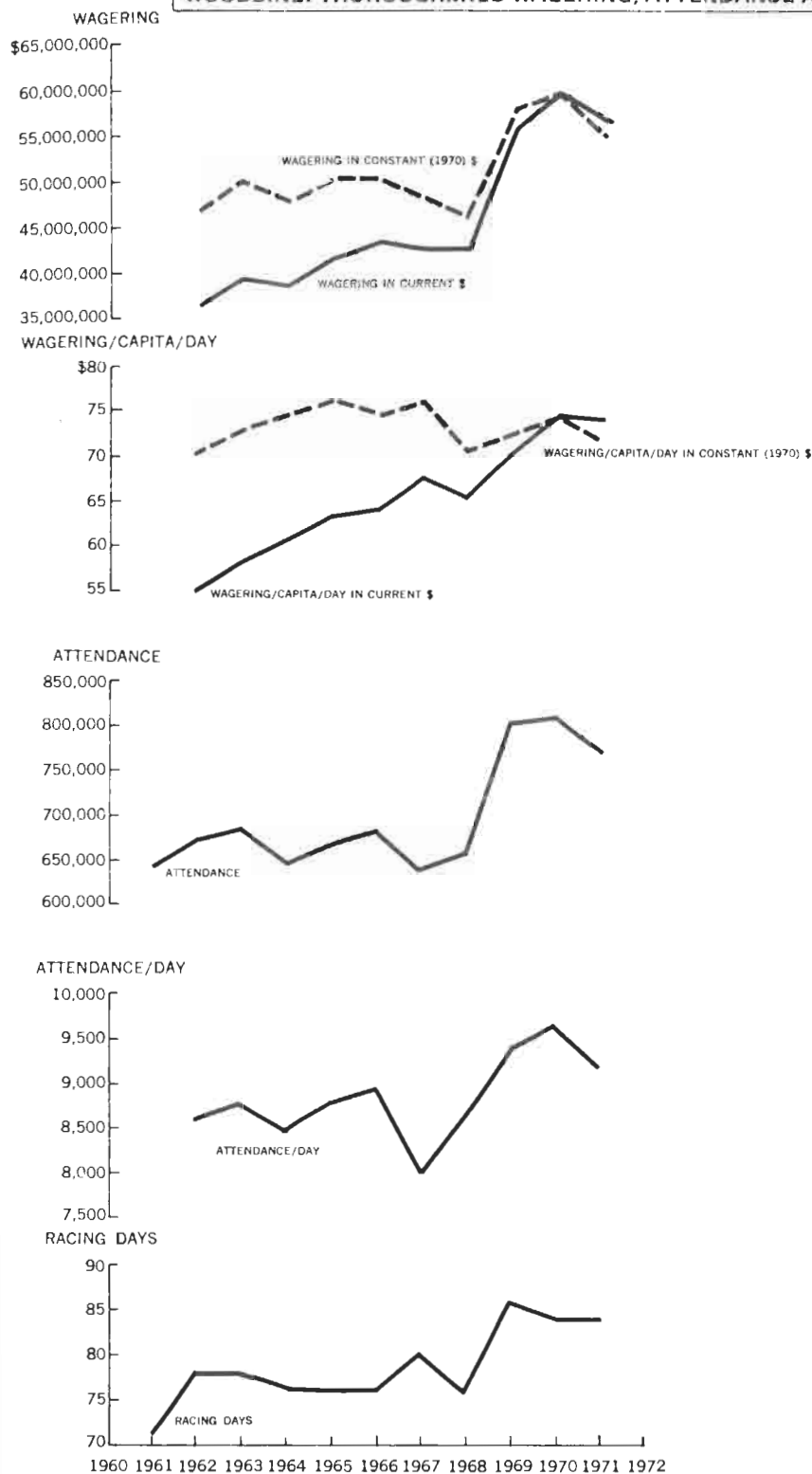


FIGURE 7: Woodbine, Thoroughbred Wagering, Attendance and Activity, 1961-1971.

GREENWOOD: THOROUGHBRED WAGERING, ATTENDANCE AND ACTIVITY

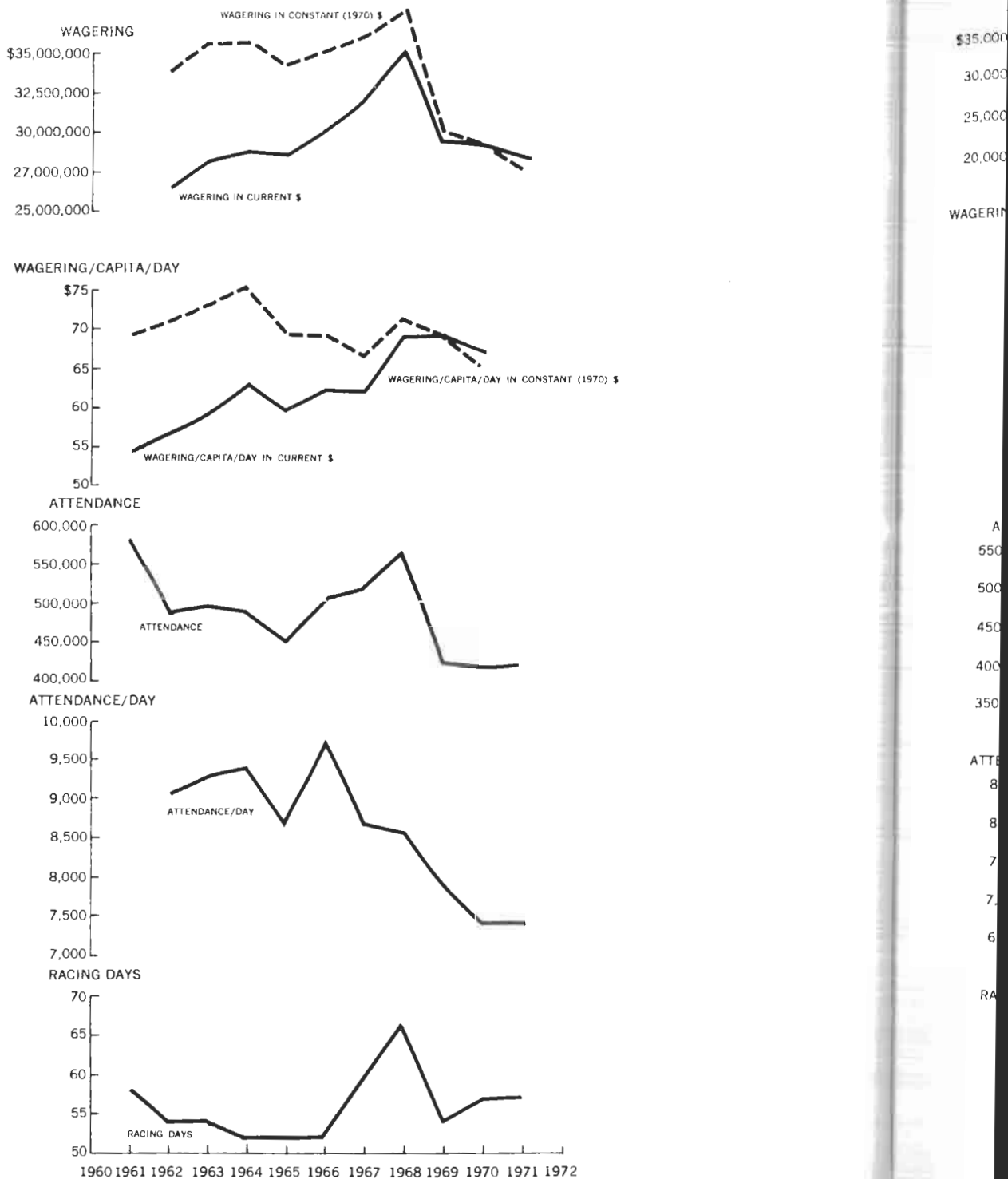


FIGURE 8: Greenwood, Thoroughbred Wagering, Attendance and Activity, 1961-1971.

FORT ERIE: THOROUGHBRED WAGERING, ATTENDANCE AND ACTIVITY

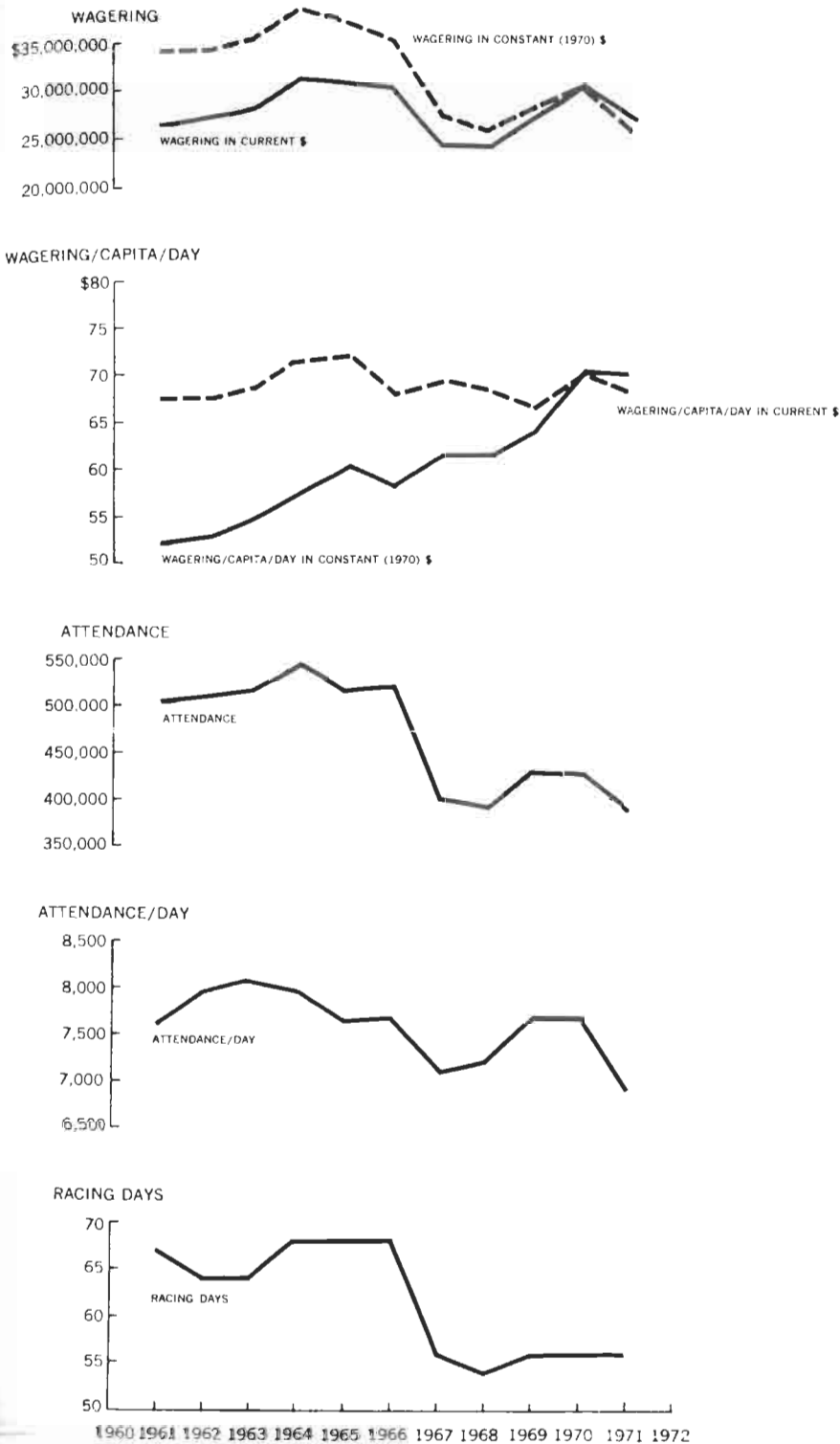


FIGURE 9: Fort Erie, Thoroughbred Wagering, Attendance and Activity, 1961-1971.

GREENWOOD: STANDARDBRED WAGERING, ATTENDANCE AND ACTIVITY

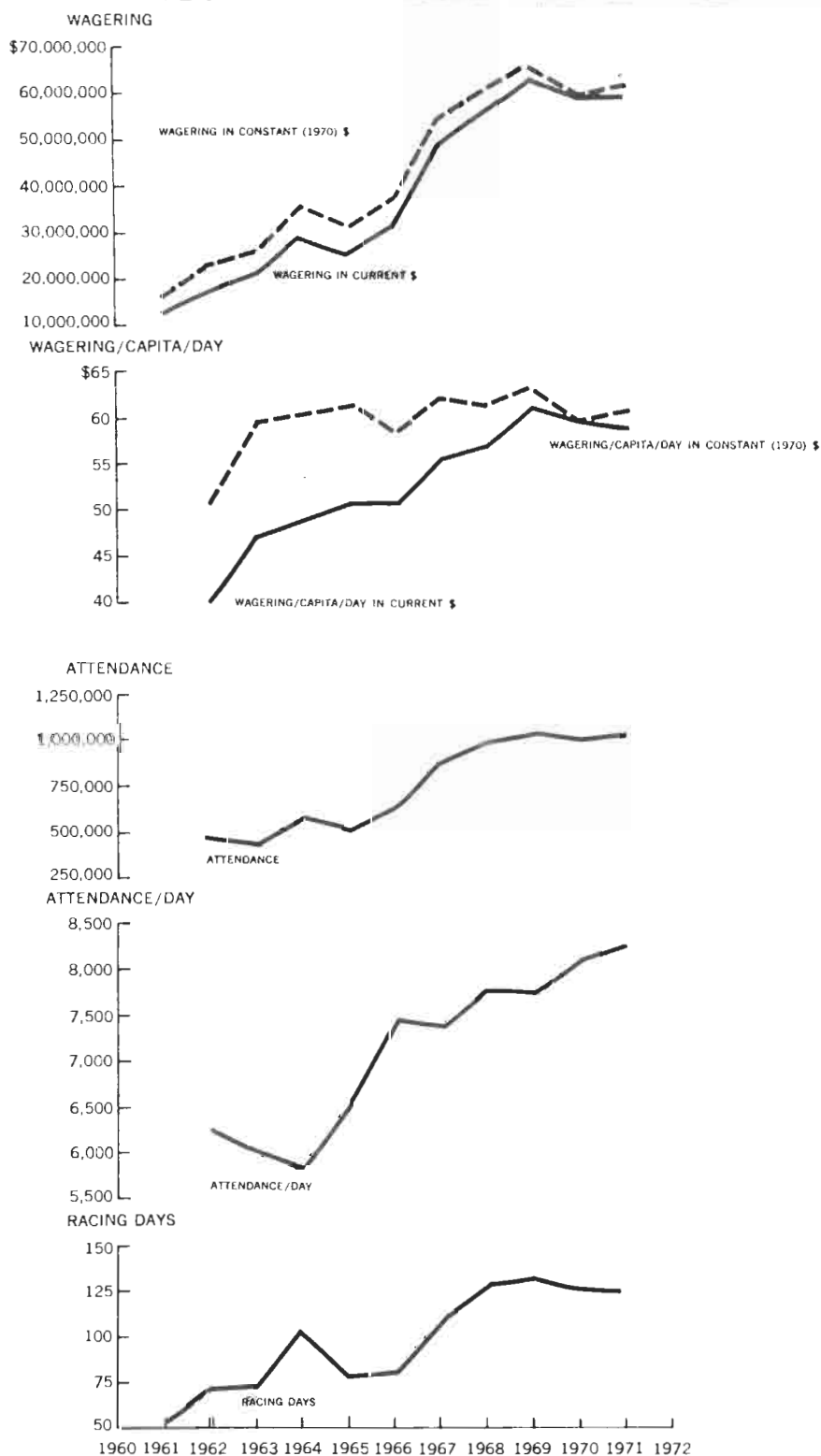


FIGURE 10: Greenwood, Standardbred Wagering, Attendance and Activity, 1961-1971.

GARDEN CITY: STANDARDBRED WAGERING, ATTENDANCE AND ACTIVITY

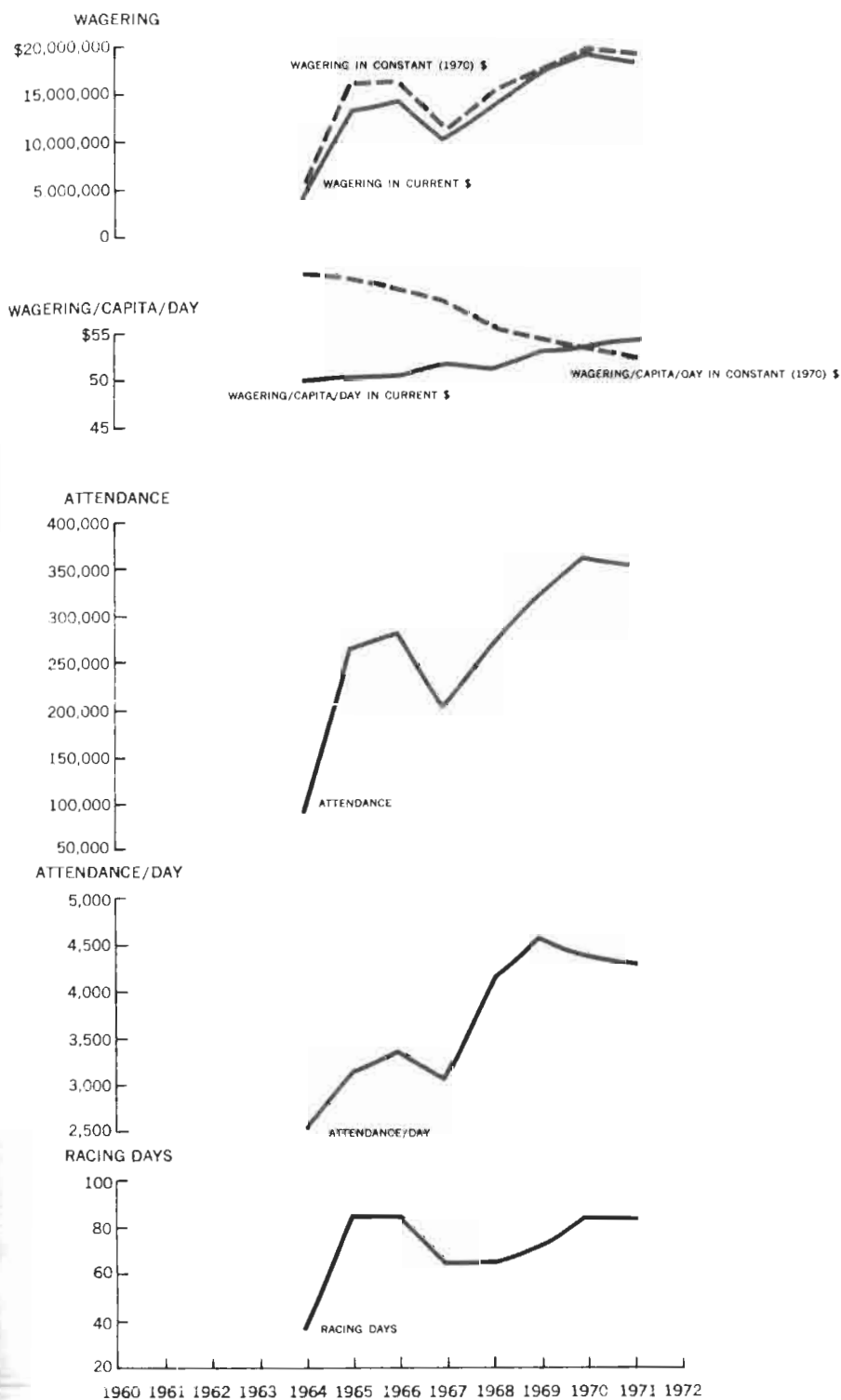


FIGURE 11: Garden City, Standardbred Wagering, Attendance and Activity, 1964-1971.

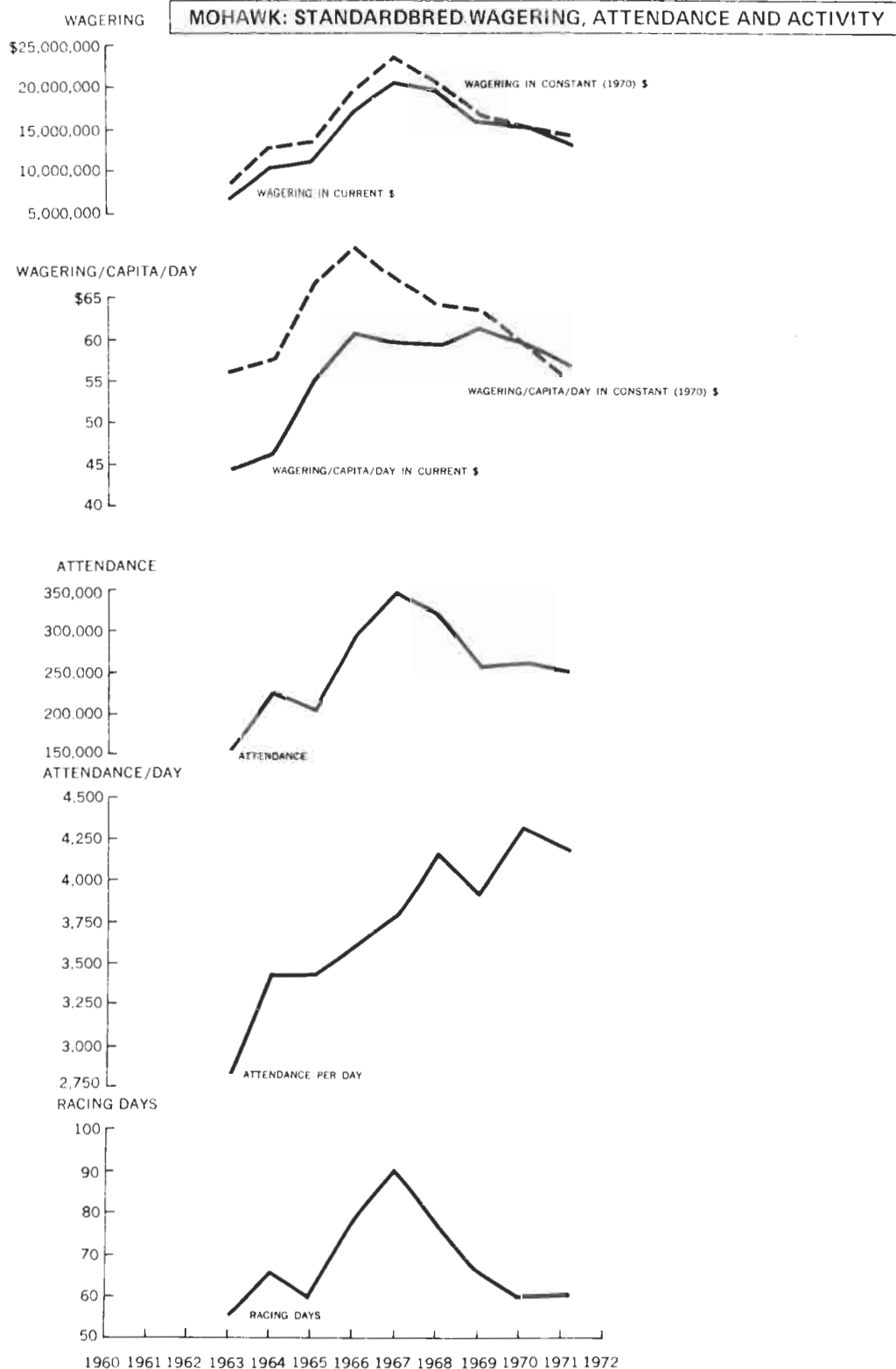


FIGURE 12: Mohawk, Standardbred Wagering, Attendance and Activity, 1963-1971.

CARLETON: STANDARDBRED WAGERING, ATTENDANCE AND ACTIVITY

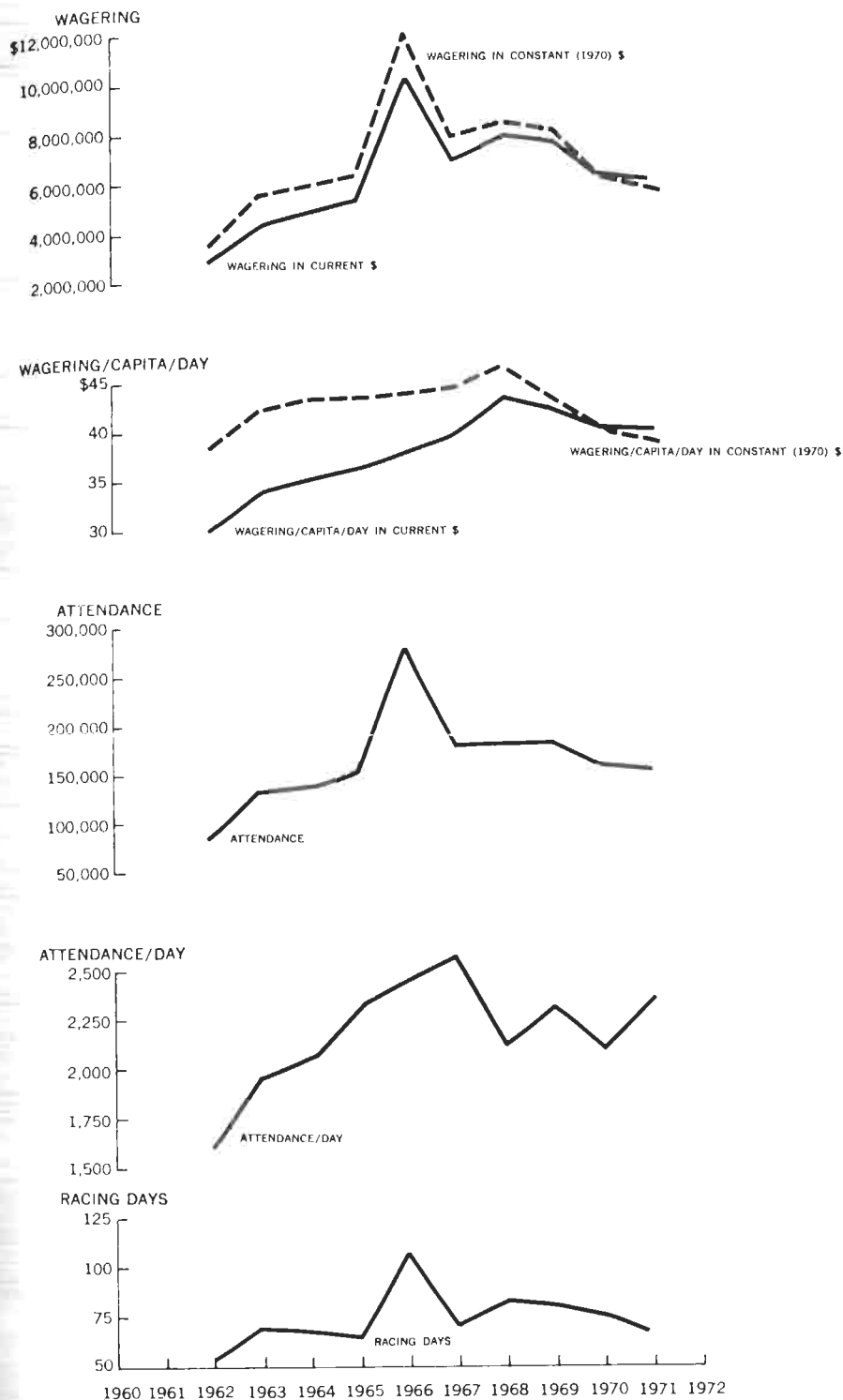


FIGURE 13: Rideau Carleton, Standardbred Wagering, Attendance and Activity, 1962-1971.

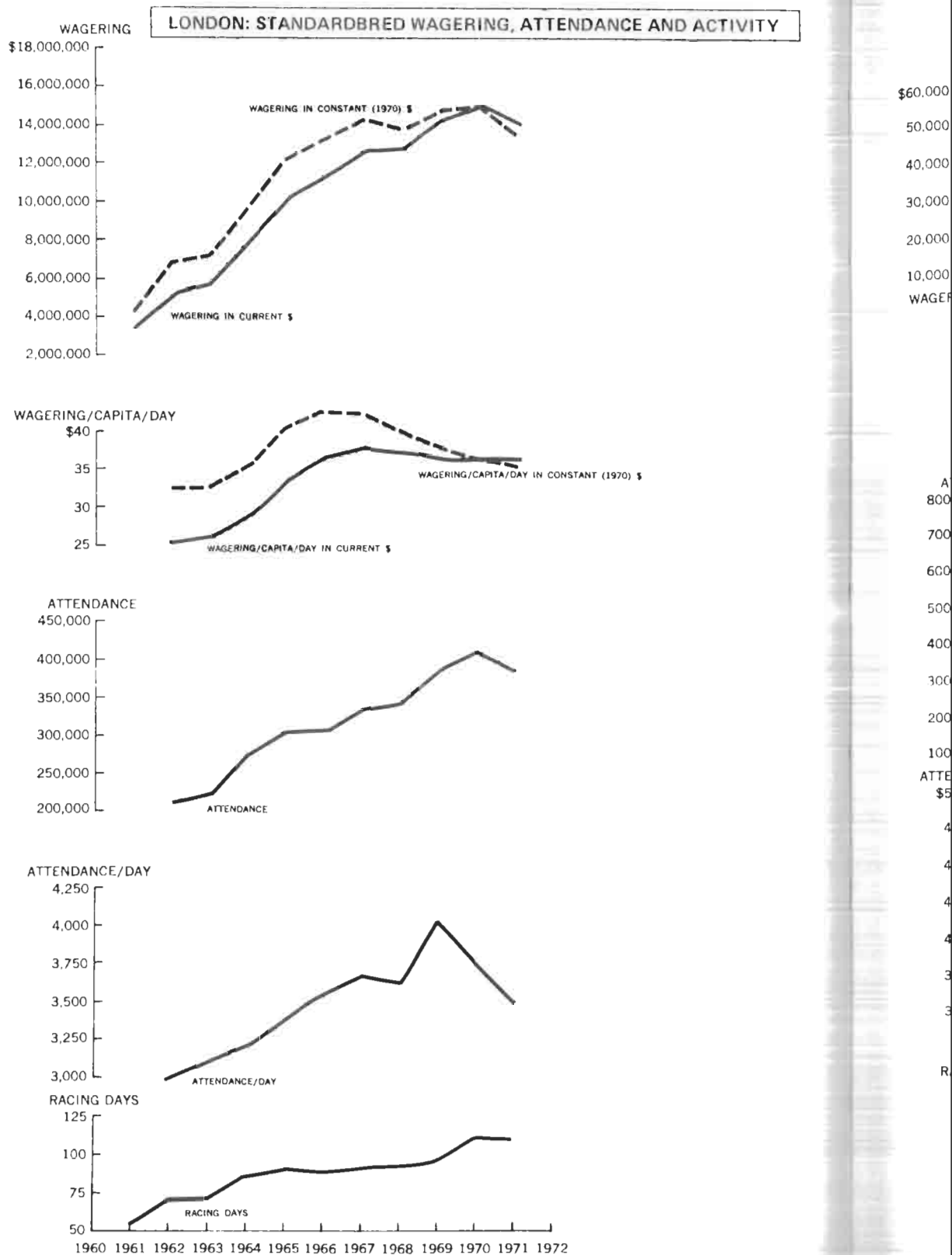


FIGURE 14: London, Standardbred Wagering, Attendance and Activity, 1961-1971.

WINDSOR RACEWAY: STANDARDBRED WAGERING, ATTENDANCE AND ACTIVITY

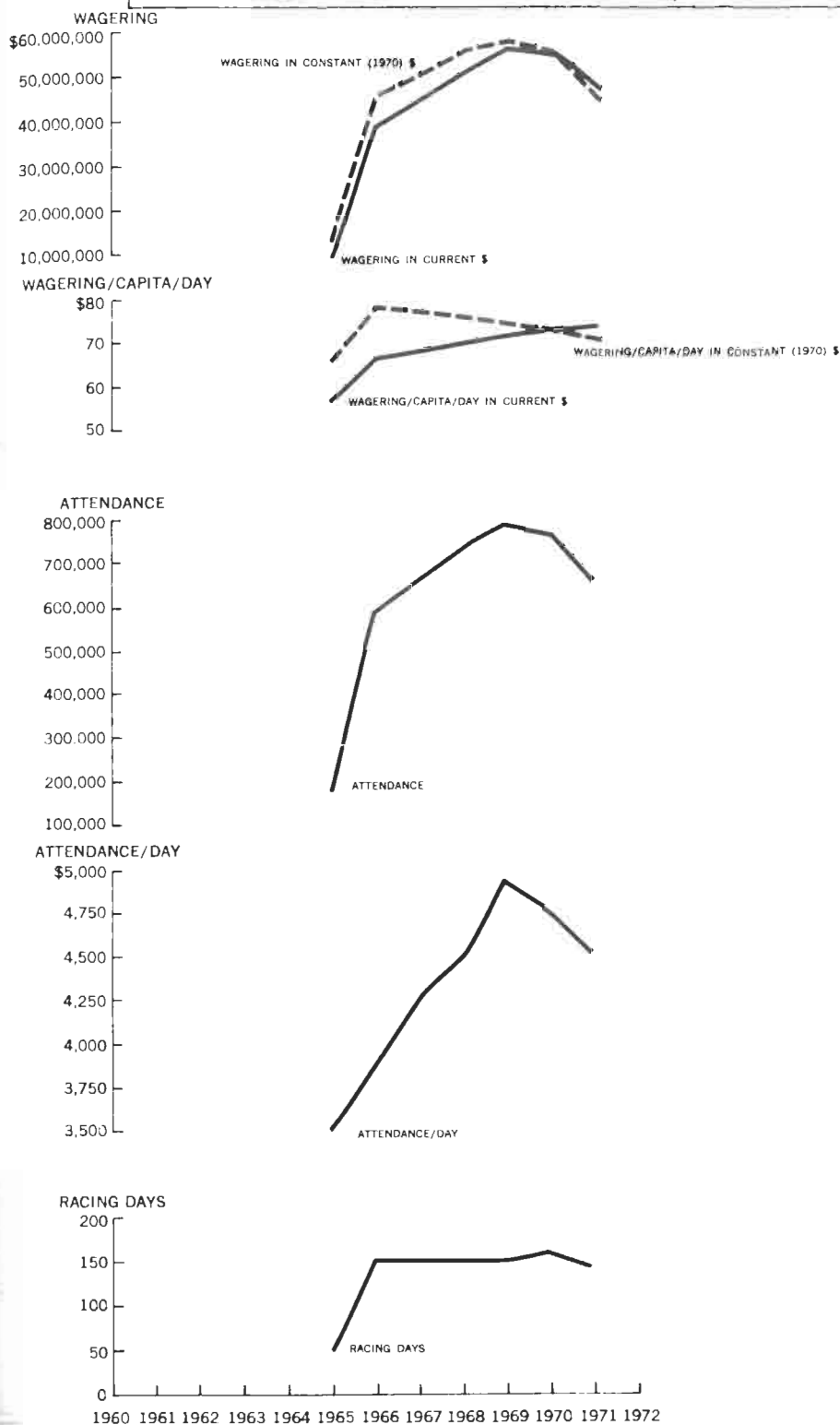


FIGURE 15: Windsor Raceway, Standardbred Wagering, Attendance and Activity, 1965-1971.

MINOR TRACKS: STANDARDBRED WAGERING, ATTENDANCE AND ACTIVITY

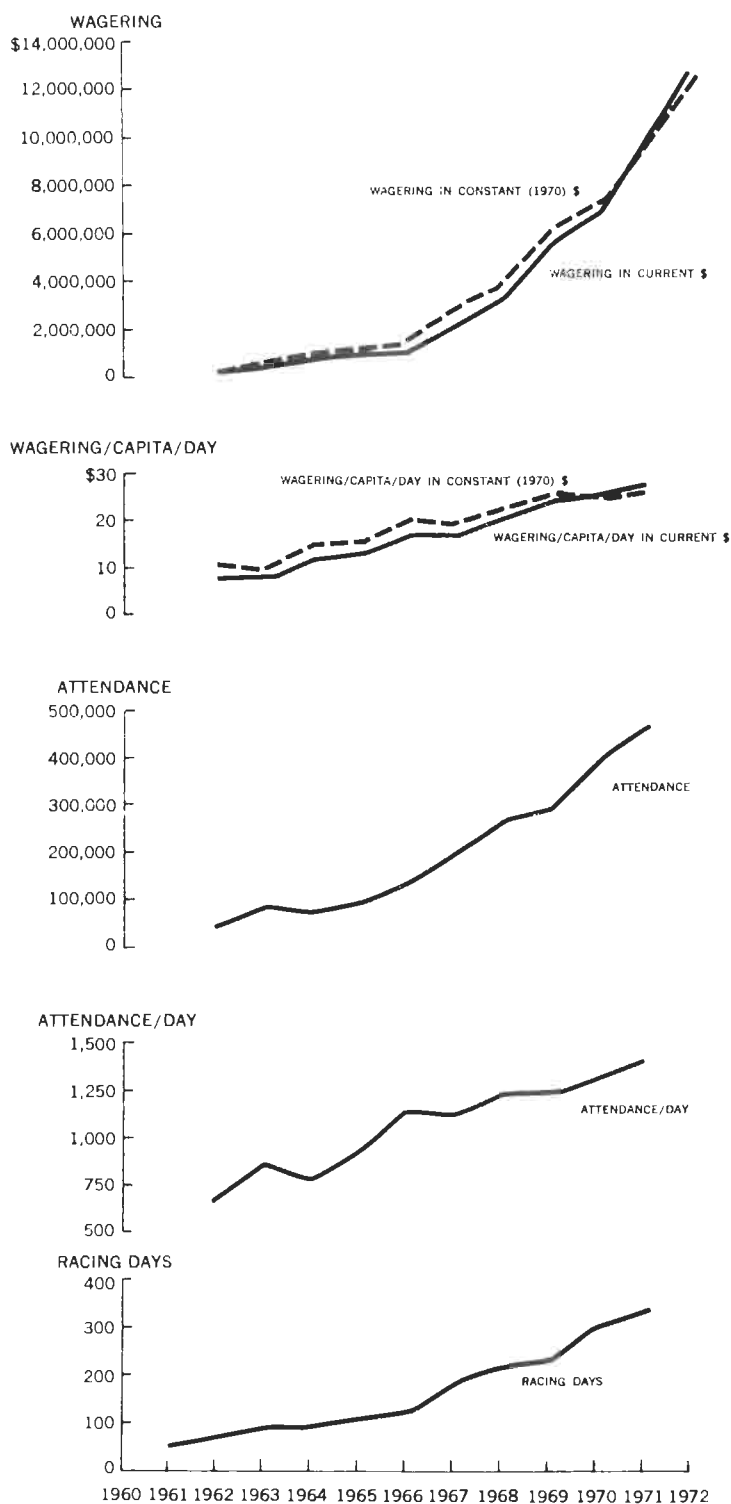


FIGURE 16: Minor Tracks, Standardbred Wagering, Attendance and Activity, 1961-1971.

Of the four factors discussed above only the activity of the off-track betting messenger services has remained roughly constant. The Peace Bridge has been restored to full service, the Jockey Club has abandoned its betting experiment and restored the traditional types of bets, and the economy would seem to have taken a turn for the better.

Under these changed conditions, attendance and wagering, so far this year, are significantly up at all the Jockey Club tracks as compared with 1971. Standardbred wagering to May 14th, 1972 is up \$5.5 million and attendance has increased by some 40,000. The thoroughbred meets for the corresponding period in 1972 also boast an increase of \$2.6 million in wagering and 13,000 in attendance. It is, therefore, somewhat difficult to accept the submissions of the racing industry that much of the decrease in attendance and wagering experienced in 1971 was due to the off-track messenger services when this unquestionable growth has taken place at a time when the number of messenger shops has remained fairly static. In other words, notwithstanding the continued operation of the messenger services, 1972 wagering and attendance at the Jockey Club tracks has increased by \$8.1 million and 53,000 persons over last year's figures. Indeed, the Jockey Club, in slightly more than one-quarter of its 1972 season, has more than made up the *total* 1971 decline in wagering!

PROFILE OF THE ON-TRACK BETTOR

Insofar as the average on-track bettor is concerned, the Innovative Marketing survey identifies him as being male, over 31, reasonably well-educated with an annual family income of over \$10,000 (\$7,000 outside Metropolitan Toronto).² The majority (54.1 percent) of Metropolitan Toronto bettors attend thoroughbred racing only, as compared to only 18.9 percent who attend standardbred racing only. Twenty-seven percent of the Metropolitan Toronto bettors attend both. Roughly 13.4 percent of the general population in Southern Ontario, and 5 percent in Northern Ontario, expressed a general interest in horse racing.³

According to the Jockey Club's statistics, five times as many patrons of their courses prefer the grandstand to the club house where one is available. Insofar as the amount of money wagered

2. Appendix F, detailed tables (not reprinted).

3. Appendix F, detailed tables (not reprinted).

is concerned, as might be expected, the average club house patron wagers about twice as much. In 1971 the average amount of money bet on thoroughbreds by each club house patron was about \$120 per day as compared with about \$60 for his grandstand counterpart. For standardbred racing, at Greenwood, the only standardbred Jockey Club track with a club house, the average 1971 club house patron wagered \$106 each day as compared with \$53 for bettors in the grandstand. Average wagering on standardbreds at Mohawk and Garden City was about \$57.

Again, on the average, the split between specialty betting such as daily double and exactor, and win, place and show betting on the thoroughbred tracks was, in 1970, about 23 percent and 77 percent respectively. In 1971 about 32 percent of the money was bet on the specialty bets and only 68 percent on win, place and show. At the standardbred tracks in 1970, 19 percent of the wagers were on daily double, exactor and quinella and 81 percent on win, place and show. In 1971 the market share of specialty bets almost doubled to 31 percent of the total race handle as compared with 69 percent for win, place and show betting. About 80 percent of the tickets purchased were of the \$2 denomination and about 18 percent were \$5. The \$10 and \$50 varieties accounted for about 1.2 percent and 0.8 percent respectively.

While it is statistically possible to determine the demographic and financial profile of the on-track bettor, it is much more difficult to determine in any precise way, his motivation for attending. One could probably formulate as many categories of bettors as there are bettors. Spindletop Research,⁴ suggested the division of race goers into the following general groups according to principal interest:

1. *The Racing Fan*: Those who primarily attend to enjoy the racing events and the track environment. Betting is incidental. This is the group, probably small, who would attend even if there were no betting.
2. *The Handicapper*: Those who go to bet on racing in particular. They believe they understand racing and the art of handicapping (evaluating odds on) racing stock. They expect to beat the pari-mutuel or other (illegal) odds with their special skills or knowledge.

4. *Off Track Betting—Boon or Bog*, Spindletop Research Inc., Lexington, Kentucky, March, 1971, prepared for the Off-Track Wagering Study Committee of the National Association of State Racing Commissioners.

3. *The Sports Bettor:* Those who go primarily to legally bet on a sports event. They either prefer the legality of the opportunity or else illegal alternative opportunities are inconvenient or not available.
4. *The Lottery Bettor:* Those who go primarily for the opportunity to obtain a large return on a small wager. This group bets primarily on daily double, perfecta, exacta, tierce, quatero, or other unconventional wagering. The competition for this group comes from lotteries not based on racing.
5. *The Club House Patron:* Those who go because it is a place to meet people, to drink and dine, and to enjoy entertainment. For this group, the races are just one of the many places for entertainment. Night clubs and lounges compete for this group. The market for group or club meetings or entertainment falls in this category.

In an effort to quantify this categorization, Innovative Marketing, in the survey conducted on our behalf, devised a series of questions designed to roughly place each bettor interviewed into one of the categories.

As will appear from the data contained in their report (Appendix F), of those bettors interviewed in Metropolitan Toronto, the first category, "the racing fan", proved to be by far the largest, with 43.8 percent of respondents assigning themselves to this group.⁵ A roughly even distribution was achieved for the other groups, 12.5 percent falling within "the handicapper" category, 16.3 percent "sports bettors", 12.4 percent "lottery bettors" and 15 percent "club-house patrons". This is perhaps an indication (supported to some extent by the experience of other jurisdictions) that a larger percentage of those who now attend the race track do so to actually see the horses run or to take advantage of the other facilities provided exclusively at the track and in all likelihood will continue to do so even after the introduction of off-track betting.

VALUE OF THE AVERAGE BETTOR

Race track operators obtain revenue from only one source—the bettor. The Race Tracks Tax and the federal government levy also come from him. The race tracks' share can be roughly divided into commission and concession components.

5. Appendix F

Receipts from commissions and breakage are the major source of track revenue accounting for \$31.3 million in 1970 which was 70 percent of the revenue from all sources. Revenues from admissions are approximately 12.3 percent of the total and concession revenues are approximately 16.8 percent.⁶

According to Woods, Gordon,⁷ the tracks average revenue per patron per day in 1970 was \$9.82, made up as follows:

Commissions and breakage	\$6.84
Concessions	1.65
Admissions	1.21
Other	.12
	<hr/>
	\$9.82

These figures help to explain the anxiety of the race track operators in their attempt to maintain levels of attendance. They are, so to speak, on the horns of the "cost-price" dilemma and are afraid to increase admission revenues by raising prices for fear of reducing overall attendance.

In 1970, the bettor also contributed some \$21.2 million to provincial revenue by way of the Race Tracks Tax and provided the federal government with a \$1.5 million contribution to defray the costs of the services provided by the Canada Department of Agriculture.

6. Appendix D

7. *Ibid.*

CHAPTER 4

Off-Track Wagering In Ontario

THE BOOKMAKER

Legislation

THE history of Canadian legislation relating to off-track betting has already been outlined in the section of this report dealing with the legal aspects of off-track betting. It is sufficient to say here that under the *Criminal Code* it is illegal to be in the business of taking bets or to permit one's premises to be used for so doing. Certain related activity such as transmitting betting information is also prohibited. In essence, only private bets between individuals not engaged in the business of betting and bets made through the agency of an approved pari-mutuel system on the race course are lawful.

Notwithstanding the provisions of the *Criminal Code*, few can deny the existence of the bookmaker in our society. A service is demanded and the bookmaker provides it. We are in substantial agreement with the following submission made to us by the Ontario Jockey Club:

"It is a simple fact that persons who want to bet but are unable to go to the race track, due to transportation difficulties or time limitations, become potential customers. Like many similar laws, the laws against illegal bookmaking are not susceptible to effective enforcement, despite the diligent efforts of our police forces, because the public generally does not consider wagering to constitute a vice. There is no moral stigma in placing a bet, on or off track."

According to Innovative Marketing, 46.4 percent of those questioned in Metropolitan Toronto were of the opinion that bookmakers provide a real service, while 52.8 percent were of the view that they do not. Bettors like the following services provided by bookmakers, in order of preference: telephone betting, betting

when one cannot attend the track, betting on other sports, specialty bets, short-term and long-term credit.

Method of Operation

The image of the bookmaker held by most members of the public is of a single independent operator in a small shop or back room, taking bets in person or by telephone and recording them on "flash paper" which disappears at the touch of a cigarette. While this picture is accurate to a certain extent, our discussions with police officers and some bookmakers lead us to believe that it is only partially correct. The visible contact with the public is known as a "front end" and is, in most cases, simply an agent, taking bets on behalf of another person, known as the "back end", who keeps the "book" or record of bets made. A back end may have a number of front ends working for him, and each of these in turn may employ one or more "runners" who collect bets, usually from industrial plants. Members of the public have contact, by and large, only with the runners or front ends.

Types of Betting

Bookmakers traditionally have accepted bets on horse races, both within and outside the jurisdiction in which they reside. However, Ontario police estimate that today most of the betting action is on sports other than racing. Bookmakers will provide credit to regular customers, will sometimes accept bets at less than the \$2 minimum on-track, and will also take specialty bets not available at the track, such as the "parlay" (winnings from one horse are placed on another horse if the first horse wins) and the "round robin" (a series of parlays).

The "Book"

Bookmakers, large and small, must maintain records in some form—hence the name "bookmaker". The "book" usually shows the customer's name, horse, race number and track, and the dollar amount bet. These records when seized by the police are used as incriminating evidence against the bookmaker. As a result, bookmakers prefer to keep records which can be quickly disposed of. Facial tissue, tissue paper, or flash paper, all of which burn rapidly and easily, are employed as well as sheets of glass or formica which can quickly be wiped clean with a damp cloth. As already outlined

in an earlier section of this report. some off-track messenger shop operators who actually engage in bookmaking have found it unnecessary to engage in such subterfuge since they are in an apparently legitimate business for which the keeping of similar records is expected.

The bookmaker, generally speaking, will pay winners at track odds, up to a maximum, usually 15 to 1, over which he will not pay. Since the payoffs at the track are calculated on the basis of a deduction of 17½¢ from every dollar wagered, the bookmaker is automatically assured of a similar profit margin if an appropriate amount is wagered on each horse. When accepting wagers on other sports, he will fix the odds, or the "point spread" (i.e., bets are taken, and payoffs made, on the basis that team A will win by so many points over team B) so that he is assured of a profit no matter who wins, provided that an appropriate amount is wagered on each team or contestant. In other words, the bookmaker must attempt to "balance his book". To do this it may be necessary for him to "lay off" some of his business or, in other words, transfer some of the bets to another bookmaker or group of bookmakers, some of whom provide a layoff service only.

International Aspects

It was stated in the 1961 Report of the Attorney General's Committee on the Law relating to Gambling that some of the profits from bookmaking are used to finance other illegal activities of organized criminal elements. Some secondary sources¹ and police officials lend support to the statement but there is no direct evidence one way or the other. We are also advised (although again we have no direct evidence) that organized crime provides layoff centres in Buffalo, Atlanta, Las Vegas and New Jersey, as well as betting information service centres, for the provision of odds, and "point spreads" where necessary. A lay-off centre is apparently essential for most bookmakers to survive. They cannot afford to refuse bets or they will lose customers, while a payoff on some large bets would put many out of business. The closing of layoff centres in the United States can apparently have a significant impact on bookmakers in Toronto and other Canadian cities. The connection with a large operation, usually international, is essential.

1. Lawrence J. Kaplan and Leo C. Loughrey, *Ins and Outs of On-track and Off-track Betting*, Gould Publications, 1970, p. 31.

Law Enforcement

Police have great difficulty in obtaining evidence for successful prosecutions against bookmakers because the front ends retain few records of any permanence which can be seized; because the back ends have very little communication with the general public; and because of an almost universal refusal on the part of the public to co-operate with police and come forward and testify against a person providing a desired service. That this is a problem of universal magnitude is evident from the following passage from the Report of the Royal Commission of Inquiry into Off-the-Course Betting in New South Wales, 1963 (Mr. Justice Kinsella), at page 25:

"The reason for this is not far to seek. The public generally is aware that off-the-course betting is forbidden by law. It is also aware that the race course will not accommodate more than a small fraction of those who wish to bet. It is equally aware that unlimited betting goes on inside the boundaries of race courses, with the approbation of the law, so that the legality or illegality of betting depends on which side of the race course fence it is done. What ever the law may be, it is scarcely surprising if the average citizen rejects the notion that it can be morally right to bet on one side of the race course fence and morally wrong to bet on the other side of it. Hence there is no enthusiasm on his part to help the police apprehend bookmakers whose offence is not that they bet, but that they bet on the wrong side of the fence. In short, he feels none of the moral resentment of wrong doing which in respect of most types of crime impels a law-abiding citizen to assist the police."

Scope of Operations

The bookmaker's operation, as in any other business, comes in all sizes. As one writer puts it:

"... The underprivileged bookie, like his clientele, usually hustles the street, taking action on a catch-as-catch-can basis: street corners, playgrounds, hallways. The middle-class bookie operates out of a permanent location. And those bookies who cater to the rich give all the advantages to the beautiful people: tell-a-phone [sic] credit-card action."²

Ontario's police forces tend to categorize bookmakers as either "large" or "small", the former located in urban centres, each

2. J. Flaherty, *Frank Carlin, the Bookie*, New York Times Magazine Section, No. 6, April 2, 1967, p. 28.

handling perhaps \$1-million per year or more in wagering, mostly on sports other than racing, employing front end men and runners, and possibly having international connections for layoff and betting information purposes. The "small" bookmakers handle far less money, in smaller denominations and proportionally more on racing, usually operate from fixed establishments such as billiard rooms, and confine their layoff and information network to other bookmakers in the community. The Ontario Provincial Police, Metropolitan Toronto Police and Hamilton Police estimate that there are about 30 "large" bookmakers in Ontario and about 350 "small" ones, about two-thirds of these located in Toronto. These police forces estimate that Ontario's bookmakers handle at least \$120 million annually, well over half of which is bet on sports other than racing. About \$25 million to \$30 million of this is bet in Toronto, according to Metropolitan Toronto Police.

Innovative Marketing estimate that the total bookmaker handle on races run at the Jockey Club tracks in Ontario is \$26.3 million, comprising \$17.4 million from Metropolitan Toronto, \$7.6 million from the rest of Southern Ontario and \$1.3 million from Northern Ontario.

Kaplan and Loughrey estimate that there are about 300,000 bookmakers in the United States.³ They also note that estimates of the volume of betting handled by bookmakers in the United States vary between \$7 billion and \$50 billion per year, with the figure \$20 billion commonly mentioned.⁴ If these figures are projected to Ontario using comparative population statistics, they indicate that there are 10,000 bookmakers in Ontario handling some \$700 million annually (based on the \$20 billion figure), a far cry from the figures estimated by Ontario's police forces. We use this example only to indicate that there are many different ways of making such "estimates" by which many widely differing figures can be obtained, and it is extremely difficult to know which, if any, approach any degree of accuracy.

THE MESSENGER SERVICES

Background

Almost five years have elapsed since the appearance, in Welland, of Ontario's first off-track betting shop. In July, 1967, Robert

3. Kaplan and Loughrey, *Ins and Outs of On-track and Off-track Betting*, Gould Publications, 1970, p. 30.

4. *Ibid.*, pp. 26 and 29.

Gruhl and Howard Brennan, operating out of a rented store, set up business as "Pari-Mutuel Brokers". They intended to charge a fee for their messenger services and thereby develop a profitable enterprise. However, the venture was short-lived and, within a few days after opening, they were charged under what is now section 186 of the *Criminal Code* for engaging in bookmaking. The charge was dismissed on the grounds that the accused had acted merely as agents for their customers and that the bets were actually placed through the pari-mutuel windows at the race track, that is to say, they were "made through the agency of a pari-mutuel system . . . upon the race course . . ." which is an exception to the general proscription of the section.

An appeal by the Crown to the Court of Appeal was dismissed⁵ as was an application for leave to appeal to the Supreme Court of Canada.⁶ Off-track betting was "off and running" in Ontario!

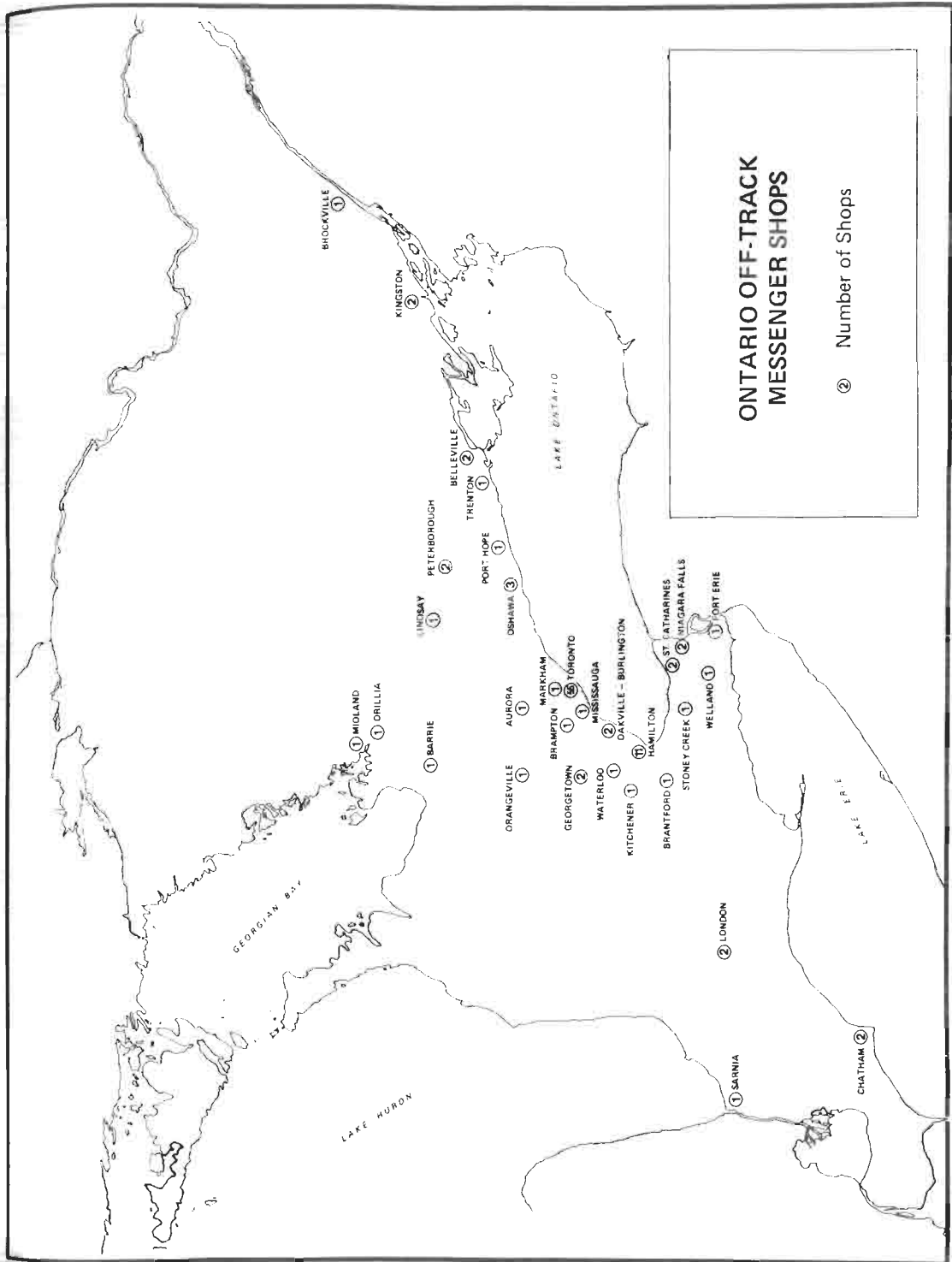
Pioneer off-track betting shop operators conducted business at a fairly elementary level, assigning "agents" in such places as variety stores, pool rooms, and cigar stores to carry out transactions with their customers, much the way bookmakers employ their "front end" men. Bettors were asked to pay a service charge, equivalent to 10 percent of their wagers. This fee represented the sole source of income for off-track betting shop operators and was divided between the principal and his agent, usually on an equal basis. The agent's "handle" was delivered to a central depot, and from there it was transmitted to the track where various "trackmen" wagered it, according to customers' instructions.

Within the four months following the Supreme Court's refusal to review the *Gruhl and Brennan* case, more than one hundred outlets had blossomed in the Toronto vicinity alone. At least another hundred had been established throughout the province, mainly in urban centres where the population was already familiar with horse racing and betting (e.g. London, St. Catharines, Oshawa, Kingston).

At this stage, those people associated with off-track betting began to organize a more sophisticated system to cope with the rapidly expanding market. Shops, catering exclusively to the horse

5. *R. v. Gruhl and Brennan* [1969] 2 O.R. 163; Jan. 8, 1969.

6. [1969] S.C.R. x; Feb. 17, 1969.



MAP 2: Location of Off-Track Messenger Services in Ontario, 1971.

betting, replaced the majority of "corner store" agencies. It became difficult for even the disinterested to ignore the flourishing new business since, in most instances, large, prominently displayed signs proclaimed the availability of messenger services for race track fans. Inside the stores the decor was usually simple and to the point. A few racing forms were displayed on the counter for the convenience of patrons while, behind the desk, one or more clerks attended to business. The betting shops were never designed to encourage loitering or socializing—even the clerks received the minimum amenities—a chair, a desk and an adding machine.

Coinciding with these developments was the introduction in Parliament of an amendment to the *Criminal Code* which made it unlawful to place a bet for another person and charge a consideration or commission. On June 27, 1969, this amendment was passed and proclaimed in force. Whereupon it was established that:

"Every one who places or offers or agrees to place a bet on behalf of another person for a consideration paid or to be paid by or on behalf of that other person is guilty of an indictable offence and is liable to imprisonment for two years."

Law enforcement authorities had come to suspect that the shops were actually "fronts" for illegal bookmaking activities and were, therefore, a potentially strong attraction to the organized criminal elements of society. Since the profit motive had been removed, they felt confident that this amendment would discourage the majority of off-track betting shop operators from remaining in business.

In an effort to avoid the rigours of the amendment, the stores published and sold a racing sheet or trotting form to the customer at a variable price equal to 10 percent of the amount of the wager, a technique which the Court of Appeal for Ontario, in a recent case, described as "a poor ruse which even the most credulous mortal would be disposed to find barren and unconvincing".⁷

Financial

At present, betting shop operators must rely on what they refer to as "donations" from their patrons to provide a legal income. For this purpose most shops have a small wooden box with a slot in the top, situated on a visible portion of the counter. Gratuities

7. *R. v. Canavan and Busby*, [1970] 5 C.C.C. 15 (Ont. C.A.).

apparently average 8 to 9 percent of the handle, which operators claim is sufficient to cover expenses and provide a modest profit.

Costs or operating expenses run about \$8,000 a year. According to the owner of a two-shop operation, total expenses for both stores are:

Rent	\$ 3,900
Wages	10,400
Telephone	1,260
Sign, invoices, etc.	324
TOTAL	\$15,884

The total annual handle for the two stores combined is purported to be approximately \$250,000; gross profit is estimated at \$20,000. The owner indicated that these two shops depend entirely upon gratuities and the sale of trotting forms to meet expenses.

Betting Turnover ("handle")

Various cities in Southern Ontario have demonstrated that a lucrative off-track betting market exists. In the normal course of their law enforcement duties, police in these centres have carried out raids on the shops and have seized records and cash at the time of arrest. Using this often incomplete data pertaining to a shop's financial status, the Task Force has attempted to determine probable "handle" as it varies from town to town.

Windsor police estimate, according to records and other available information, that one of Windsor's popular off-track shops was enjoying a handle equalling \$10,000 per week during its busy period, with an expected annual handle of about \$400,000.

The Ontario Provincial Police provided information on eleven off-track shops located at Stoney Creek, Guelph (two), Belleville, Orillia, Barrie, Oshawa (three), Sarnia, and Brockville. Records seized, covering 372 wagering days, disclosed \$287,494 in total handle. On the average, this works out to \$772 per day and \$232,000 per year for each shop.

In the fall of 1971, the Metropolitan Toronto Police Morality Bureau estimated that a total of \$32,500 was wagered daily at the 55 shops operating in Toronto at that time. This figure would indicate an annual total handle of \$9.75 million or an annual average shop handle of \$177,000.

Also in 1971, one of the larger Toronto based operations showed a total gross income from gratuities and trotting form sales

of \$320,000, which represents an average of \$20,000 for each of its 16 shops. If, as we were advised, gratuities and income from trotting form sales ranged between 8 and 10 percent of the handle, the annual handle amounted to about \$220,000 per store.

Another operation consisting of four shops in Toronto estimates its daily handle at between \$2,000 and \$3,000 in total, or \$500 to \$750 per shop. On this basis, average annual handle per shop would be approximately \$150,000 to \$225,000.

A most helpful set of figures was provided to us by a messenger service which, at the time, operated 14 shops in Toronto and vicinity. Wagers accepted by all shops over a three month period totalled \$797,158. If these figures are accurate, the average shop's annual handle would be approximately \$227,000.

And, finally, the former operator of an off-track shop in Toronto advised that the daily handle at his shop was approximately \$1,000 to \$1,200 per day or about \$300,000 per year.

In conclusion, according to police and shop owners themselves, the handle enjoyed by individual shops appears to vary from \$125,000 to \$400,000 annually, with the average shop's handle probably in the vicinity of \$200,000 per year. If that figure were extended to the approximately 100 to 150 off-track betting shops in Ontario, a rough estimate of total annual off-track wagering of \$20,000,000 to \$30,000,000 is produced.

Agents or Principals?

How much of this money is actually reaching the race course? "All of it", say the messenger service operators or, at least, "most of it". Statements such as these are sceptically received by persons who regard the present off-track betting system as unacceptable. It has been suggested by Ontario Jockey Club officials that the shops,⁸ presently operating in Ontario, placed a maximum of

8. In the main the shops are controlled by 10 organizations, two of which control 80 percent of Ontario's shops. Greenback Investments Limited operates 65 shops; "The Nunnally Group" of off-track shops operating under the names: Birks Off-Track Betting, Easy Off-Track, Western Messenger, Golden Circuit, Unique Messenger and Pari-Mutuel Messenger Service operate 41 shops; Metro Off-Track Betting Services (also known as Adrian Messenger Service) operates 12 shops; Chantelle Off-Track Betting operates 2 shops; Kwick Pari-Mutuel Delivery (Bowmanville) operates 1 shop; Mower Messenger Service (St. Catharines) operates 1 shop; Raceway Messenger Service (Oakville) operates 2 shops; Uptown Off-track Betting (Hamilton) operates 1 shop.

\$500,000 through the Club's pari-mutuels in 1971. If a handle of \$25 million flowed through off-track betting shop channels in 1971, then less than 2 percent of it reached the race tracks.

In view of the high rate of convictions imposed on the messenger services, it seems reasonable to discount their claim that 100 percent of their handle is placed through the pari-mutuel machines. If we strike a rough balance between the Ontario Provincial Police, the Metropolitan Toronto Police and the Hamilton Police estimates, then about 5 percent of all off-track wagers seem to reach the track.

If the estimate of messenger service handle of \$20-\$30 million is accurate, which seems likely as it accords with the research study of Innovative Marketing,⁹ and if only 5 percent or \$1,500,000 actually reaches the track, the Government and the race track operators are being denied tax and commissions on about \$25-million annually. This would mean a loss in 1971 of about \$3 million to the race tracks and, through them, about \$1.5-million in purses to owners; over \$2-million in provincial Race Tracks Tax and almost \$200,000 in fees to the federal government for administrative services. Of course it must be recognized that all of that money was not originally destined for the on-track pari-mutuels. Innovative Marketing estimates that a considerable portion (about 42 percent) of the money bet through the off-track messenger services in 1971 was actually diverted from the bookmaker. About 35 percent was the result of new or additional wagering and only 23 percent would have been bet directly at the track had there been no messenger services available.

In an attempt to document its suspicions that the shops were operating contrary to the law, the Ontario Jockey Club performed certain experiments in September, 1970. On three occasions sizable wagers were placed by agents of the Club at off-track betting shops on horses expected to attract few bettors (longshots). In two of the cases the actual pari-mutuel records show that the total amount bet on each of the horses was less than the amount actually wagered at the shops, indicating that at least some of the money had been retained by the messengers. On the third occasion only slightly more money appeared in the pool than had been wagered at the shops.

9. They estimate a Metropolitan Toronto handle of \$35.0 million and a province-wide handle of \$43.2 million.

Spurred on by this evidence, the Jockey Club announced that it would bar and, if necessary, remove all employees of messenger services from its tracks. One agency, Adrian Messenger Services Limited, carrying on business under the name Metro Off-Track Betting Services, commenced an action against the Jockey Club for an injunction to restrain the Club from denying Adrian's employees admission to the tracks. A temporary injunction until trial was granted on November 18, 1970.¹⁰ Following a lengthy trial, this injunction was dissolved and the action was dismissed.¹¹ That decision is, at present, under appeal to the Court of Appeal.¹²

Greenback Investments Limited—A Case Study

Ontario's largest operator of off-track betting shops is Greenback Investments Limited which, by early 1972, operated or controlled about 85 shops—more than half of all the outlets in the province. In view of this market dominance, the Task Force examined the nature of Greenback's operations.

A six-room penthouse on the 29th floor of a residential apartment building in Toronto is currently the principal head office of Greenback Investments Limited. The offices of the President and Vice-President and facilities for statistical clerks are located there. Four more offices, also termed "head offices", which act largely as collation centres for gets taken in other regions are located in Fort Erie, Hamilton, Oshawa and Georgetown.

At present Greenback operates between 60 and 65 shops, the number fluctuating constantly as store managers resign or as shops are raided and closed by police. Despite the uncertainty associated with off-track betting, the operation is growing slowly with more shops opening in various parts of Toronto and in small Ontario towns. However, it would appear that most of the change is in moving existing shops to better locations, such as major shopping centres.

10. *Adrian Messenger Services v. The Jockey Club*, [1971] 1 O.R. 575.

11. *Adrian Messenger Services and Enterprises Limited and James Johnstone v. The Jockey Club Limited and The Fort Erie Jockey Club Ltd.*, judgment of Fraser, J., [1972] 2 O.R. 369, Feb. 15, 1972.

12. An interim application, by Adrian Messenger Services, for a further injunction pending the outcome of the appeal was rejected by the Court of Appeal on March 7, 1972, at which time the Jockey Club again publicly advised all of the messenger services that they would be barred from their tracks.

The operation, as described by company representatives, commences with the selection of a horse by the customer. A betting slip or receipt (two copies of which are retained by the shop) is issued to the bettor, who signs a declaration that he has paid no consideration and pays over the amount of the bet. At the same time, the shop manager or clerk attempts to sell the customer a "Trotting Form" (this was before it was declared to be unlawful) at a price of either 50 cents or 10 percent of the amount of the bet, whichever is larger. Failing that, the attention of the customer is directed to the "contribution box" which is prominently displayed and the bettor is encouraged to "donate". What happens if the customer refuses is not clear but it would appear that his future patronage is discouraged.

At race closing (usually three hours before post time) each store manager, using the retained copies of the betting slips, prepares a "master sheet" setting out the total amounts to be bet on each horse in each race. This information is telephoned to the head office where a comprehensive list is made up containing complete totals from all of the shops of the amounts bet on each race. At periodic intervals "trackmen" stationed near the track contact the head office by telephone and are given the appropriate bet totals. The bets are then placed through the pari-mutuel machines and winning tickets cashed. Winning bettors are paid off at the shops the next day.

This description of the procedure, if accurate, bears some similarity to the manual operation presently employed by the Totalisator Agency Board in New Zealand.

Law Enforcement

There are seven charges under the *Criminal Code* of Canada commonly used against bookmakers and off-track messenger shop operators. They are:

Keeping a betting house:

"185(1) Every one who keeps a common gaming house or common betting house is guilty of an indictable offence and is liable to imprisonment for two years."

Betting, Pool-Selling, Book-Making, etc.:

"186(1) Every one commits an offence who

"(a) uses or knowingly allows a place under his control to be used for the purpose of recording or registering bets or selling a pool;

"(d) records or registers bets or sells a pool;

"(e) engages in pool-selling or book-making, or in the business or occupation of betting, or makes any agreement for the purchase or sale of betting or gaming privileges, or for the purchase or sale of information that is intended to assist in book-making, pool-selling or betting;

"(i) wilfully and knowingly sends, transmits, delivers or receives any message by radio, telegraph, telephone, mail or express that conveys any information relating to book-making, pool-selling, betting or wagering, or that is intended to assist in book-making, pool-selling, betting or wagering."

Placing Bets for Consideration:

"187. Every one who places or offers or agrees to place a bet on behalf of another person for a consideration paid or to be paid by or on behalf of that other person is guilty of an indictable offence and is liable to imprisonment for two years."

It is interesting to note that most of the charges today are for bookmaking contrary to section 186 and not for taking bets for a consideration under section 187 which, it will be recalled, was originally passed to stem the burgeoning growth of betting shops.

In the major centres where messenger shops abound—Toronto, Hamilton, and portions of Southern Ontario—law enforcement action has been extremely vigorous. During the past year over 350 raids were conducted against off-track messenger shops and hundreds of charges have been laid against more than 190 individuals. In the vast majority of those cases that have come to trial, convictions have been registered.

In Toronto, during the seven-month period ending January 31, 1972, at least 87 raids were conducted against off-track messenger shops, resulting in the arrest of about 123 persons and the laying of 525 separate charges. Convictions were obtained in cases relating to all but two shops.

Police action in Hamilton has been the most intensive of any Ontario area reviewed. Approximately 14 shops were raided at least 250 times since May of 1971, and over 300 charges have

been laid. At the time of writing there are only 11 of the original 14 shops in operation.

Off-track shops never presented a major problem in Windsor. At its peak in 1969, Windsor had only five shops and when section 187 came into effect these shops, apparently voluntarily, ceased operations. Few attempts have been made to open shops since that time. The only two shops which did open for business were raided and are now closed down.

In 1971 33 raids were conducted against shops in Sarnia, Guelph, Belleville, Brockville, Oshawa, Stoney Creek, Orillia, Barrie, Thorold, Port Colborne, Welland, Fort Erie, Niagara Falls, and St. Catharines, in which about 54 people were charged with a total of 151 offences. Five people were convicted, three acquitted and the remainder of the charges are pending.

Perhaps the most widely publicized case¹³ was that of John Brian Benwell, former President of Greenback Investments, who, along with others, was convicted of engaging in the business or occupation of betting; bookmaking; keeping a common betting house; and receiving and registering bets. On June 29, 1971 he was sentenced to.

"... a term of nine months in an Ontario Reformatory . . . a fine in the sum of 50,000 . . . and in default of payment of the fine an additional twelve months in an Ontario Reformatory . . ."¹⁴

The six other men involved in the case, employed by Greenback in various capacities, were fined a total of \$10,150, bringing the fines, including Benwell's, to a total of \$60,150. Despite these penalties, Greenback Investments Limited has remained in business.

The same case revealed that some off-track betting shop operators have been known to employ "stoopers", persons who would collect discarded, losing pari-mutuel tickets at the race track, in order to make it appear that wagers had in fact been placed through the pari-mutuel wickets. However, most shops no longer bother to collect tickets. With charges being laid and convictions being registered so readily under one or more of the sec-

13. *R. v. Benwell, Jarman, Frost, Dupuis, Dowds, Kazcmarek and Tantardini*, before His Honour, Judge Vanek of the Provincial Court (Criminal Division) for the Judicial District of York (unreported).

14. *Ibid.*, transcript of evidence, p. 1015.

tions of the *Code*, the incentive to "demonstrate" proof of on-track wagers has all but disappeared.

A review of the record of 53 persons who were convicted in 1971 (most of whom were employed as bet shop clerks in Toronto) reveals that, while fines ranged from \$100 to \$2,000, the usual fine for a first offence was \$150. Total fines amounted to \$17,000, for an average of \$323. In addition to fines, forfeitures to the Crown amounted to more than \$23,900.

Generally these fines and forfeitures could not be regarded as insubstantial and yet, overall, shops appear to be growing in number. The fines seem to be regarded by the operators as only a minor nuisance—a kind of business expense or licence fee that must be borne by the enterprise.¹⁵

PROFILE OF THE OFF-TRACK BETTOR

The Bookmaker Customer

Who uses the bookmaker? The Innovative Marketing study suggests that the average customer is attracted to this service by the convenience of telephone betting and, to some extent, by the availability of credit. Table 5 indicates that he is male, over 31 years of age, reasonably well-educated, and has an annual family income of over \$10,000 (\$7,000 outside Metropolitan Toronto).¹⁶

TABLE 5: Profile of the Bookmaker Customer

	Percentage of Metro Toronto %	Southern Ontario %	Northern Ontario %
Male	88	90	82
Female	12	10	18
Secondary or better education	90	70	75
Over 31 years old	84	80	70
Over \$10,000 family income	72	30	44

Table 6 would seem to indicate that the average bettor in Toronto bets twice as much annually through his bookmaker on

15. This attitude is not limited to Canada. The Royal Commission Inquiry into Off-the-Course Wagering in New South Wales (1963) reported at page 38: "The evidence of a number of starting price bookmakers indicates clearly that fines are regarded by them merely as incidents of overhead expenses. In a copy of an income tax return produced to me by one of them the amount of fines were claimed as a deduction for business expenses."

16. Appendix F, table 7.

racers at Jockey Club tracks as the bettor in Northern Ontario, and three times as much as his counterpart in the rest of Southern Ontario.¹⁷

TABLE 6: Bookmaker Usage

Bookmaker Usage	Metro Toronto	Southern Ontario	Northern Ontario
Annual Handle/person			
Thoroughbred	\$1,870	\$655	\$ 999
Harness	1,613	145	1,000
Daily Handle/person			
Thoroughbred	\$ 58	\$ 32	\$ 29
Harness	66	18	29

The Messenger Service Customer

As with the bookmaker customer, the average patron of the messenger services appears to be male, over 31 years of age, reasonably well educated, with an annual family income of over \$10,000 per year in Metropolitan Toronto (\$7,000 per year in the rest of Southern Ontario).¹⁸ These findings correspond with the results of a study done for the New York City Off-track Betting Corporation (OTB) in September, 1971, by Daniel Yankelovich, Inc., which identified most of the OTB patrons as male (84 percent), over 30 (72 percent), high school graduates (78 percent), married (59 percent), and earning over \$10,000 per year (57 percent).

As a result of inquiries made during the course of their investigations, Innovative Marketing identified certain of the betting characteristics of the customer of Metropolitan Toronto's messenger services. The bettor attends a messenger shop on the average of 3.7 times per week, bets 3.3 races per day and \$4.87 per race for a total of about \$16 per day.¹⁹ This would appear to correspond to the New York experience where it is reported that the average OTB patron makes 4.5 bets per day at an average value of \$3 per bet.

17. *Ibid.*, table 7.

18. *Ibid.*, table 6.

19. Appendix F

PART TWO:
OTHER JURISDICTIONS

CHAPTER 5

Racing In New Zealand

ADMINISTRATION

RACING (galloping) and trotting in New Zealand are administered in a non-statutory framework by voluntary, non-profit clubs or associations.

The oldest racing clubs go back to the middle of the nineteenth century. They are usually incorporated and are of two types: those which are authorized to conduct wagering on their meetings (totalisator clubs) and those which are not (non-totalisator clubs). At present there are 88 totalisator clubs having a membership of over 40,000.

The Racing Conference, the successor of the New Zealand Jockey Club originally established in 1892 by the larger metropolitan clubs to act as the coordinating and controlling body of racing, is by its constitution a voluntary association of racing clubs. Unlike the Ontario Racing Commission whose function it parallels, it is not a statutory body or a corporation. It derives its authority solely from the Rules of Racing to which all of the participating clubs, members, owners, trainers and jockeys subscribe on a contractual basis.

Trotting is organized on a similar basis under the aegis of the New Zealand Trotting Conference which consists of 47 totalisator and 19 non-totalisator clubs registered under the Rules of Trotting.

Several auxiliary organizations representing breeders, owners, trainers and jockeys perform similar functions on behalf of their members as do their Canadian counterparts.

ECONOMICS OF THE INDUSTRY**The Clubs**

Racing and trotting club revenues are derived from totalisator income (commissions, duty rebates, unclaimed dividends, breakage), TAB¹ profits and other miscellaneous income. In 1968-1969 the total revenue from these sources, after deducting totalisator operating costs was \$8,485,437, made up as follows:

	Racing	Trotting	Total
Totalisator income:	\$2,709,694	\$1,108,708	\$3,818,382
TAB profits ²	1,367,141	532,695	1,899,836
Other income:	1,929,291	837,928	2,767,219
TOTAL	6,006,106	2,479,331	8,485,437

From this revenue, the clubs paid a total of \$4,439,740 for purses (racing \$3,050,290 and trotting \$1,389,450).

Looked at in terms of profit and loss, during the 1968-69 season, 63 racing clubs suffered losses totalling \$439,291 as compared with 25 clubs which reported profits totalling \$391,240. Twenty-seven trotting clubs lost \$127,033 and twenty made profits of \$26,071.

The Owners

During the 1968-69 racing season 3,870 horses raced an average of 8.5 times each. Of these, almost half had no earnings and almost two-thirds earned less than \$400. Only 398 won enough money to cover their losses, estimated to be about \$2,000 each.

Trotting owners fared just as badly. Out of the 1,662 horses raced in 1968-69 only 207 earned more than their annual expenses, estimated to be about \$2,000 each.

On the average, racing and trotting owners recovered just slightly over one-third of the cost of training and racing their horses.

The Breeders

New Zealand produces about 1,800 thoroughbred foals a year, about two-thirds of which are exported (62 percent by volume and 78 percent by value). Trotting breeders, on the other hand,

1. The Totalisator Agency Board, the organization responsible for off-track betting.
2. It should be noted that because of different year-ends of TAB and the clubs, additional TAB revenue earned but not paid would, had it been included, have resulted in an overall profit of \$633,451.

tend to produce more horses for local consumption although the trend in exports appears to be growing (194 in 1961 and 398 in 1969). The principal overseas destination continues to be Australia although, in 1969, 175 trotters were exported to the United States and Canada.

Conclusion

In general, since the inauguration of TAB in 1950 on-course totalisator handle has declined from a record high of \$54 million (a level it did not again reach until 1969-70) to a low of \$43 million in 1958 (equivalent to what it was in 1946). It then grew unsteadily to an all time record of \$62 million in 1970-71. In terms of constant dollars, the trend has been one of steady decline despite an almost half million increase in adult population and an increase of 53 racing days, from 351 to 404. In 1950-51, club commissions totalled just over \$4 million; in 1968-69, despite an increase of 2.68 percent in doubles commissions (from 1 August, 1968), total commissions decreased by \$12,000.

On the other hand, TAB turnover increased from a nominal \$250,000 in 1950-51 to almost \$93 million in 1970-71 when TAB profits paid to clubs reached \$3.5 million. It was the TAB payout which, very largely, enabled clubs to increase stakes by 42 percent from \$3.1 million in 1950-51 to \$4.4 million in 1968-69.

GAMING LEGISLATION

The totalisator machine was developed and patented in New Zealand in 1880 and within a year had made significant inroads into the field of betting which had hitherto been the exclusive preserve of the bookmaker and the private sweepstake organizer. *The Gaming and Lotteries Act* of 1881 established a licensing scheme for totalisators but it was not until 1894, in response to a rather unseemly alliance of bookmakers and churches, that the numbers of these machines were actually limited.

Although not prohibited by statute, bookmakers were gradually being displaced from the race tracks by the totalisator which provided greater commissions to the operator. At the same time a conviction seemed to have developed that it was in the public interest to confine betting on races to the race courses. *The Gaming and Lotteries Amendment Act* of 1907 carried that conviction into law.

By that Act off-course wagering was prohibited, doubles totalisator betting was outlawed and racing clubs were required to licence "fit persons" to operate as bookmakers on their courses. This latter provision caused such enmity that the clubs:

"with a view to discrediting bookmakers, did not scruple to grant licences to any rogue or vagabond who might make application and have sufficient money to pay the fee . . . The results of the licensing system were disastrous. The country was invaded by men of criminal tendencies, and the whole position became a scandal."³

As a result, the legislation was again amended in 1910 and this time bookmakers were excluded from the race courses. However, they were not cast out in a barren and hostile land. The abolition of the on-course doubles betting gave the bookmaker a monopoly of this extremely popular bet type. Moreover the continuing proscription against the use of telephone and telegraph as a means of putting money through the totalisator made him the only outlet for those physically unable to attend the races. Business boomed!

Consequently, in a last attempt to curtail these activities, the Legislature, in 1920, made it an offence to bet with a bookmaker and declared his business to be unlawful. How effective this approach was can be seen by the testimony before the Finlay Royal Commission in 1946 where it was established that in the previous racing year \$48 million had been bet with illegal bookmakers and only \$40 million with the totalisator.

It was not surprising, therefore, that the Commission concluded that a legitimate alternative was the only effective means of combatting the illegal bookmaker:

"The conclusion is thus unescapable that if a system of off-course betting can be devised which will insure that the moneys staked go through the totalisator, the interests of honesty will be subserved, active solicitation into the habit of betting will be eliminated, the interests of the sport of racing will be advanced, the greater comfort of the racegoing public will be secured, and the payment of taxation made certain."⁴

3. "TAB—Its Background and Functions," published by TAB, New Zealand, Wellington, New Zealand, 1970, page 11.

4. Report of the Royal Commission on Gaming and Racing, (New Zealand), 1948, page 33.

In response to this "invitation" and a subsequent supporting referendum, the Racing and Trotting Conferences submitted a detailed scheme for off-course wagering through totalisator agencies, which was approved by the Government on September 20, 1950.

THE TOTALISATOR AGENCY BOARD (TAB)

The scheme provided for a Board (the Totalisator Agency Board—or TAB) of not less than six and not more than eight members, two of whom were to be, *ex officio*, the Presidents of the New Zealand Racing and Trotting Conferences with the remainder of the members to be drawn equally from the clubs affiliated with each of the Conferences. There were no public or government members. However, under recent amendments, following upon the recommendations of the Royal Commission Inquiry into Horse Racing, Trotting, and Dog Racing in New Zealand (December, 1970) that composition has been altered to include public representation.

The Board was authorized to operate a cash off-course betting system through agencies established throughout the country (operated either by the TAB staff or by commission agents) and to accept telephone and postal bets against deposits already made. All bets were to be transmitted to and included in the on-course totalisator pools.

The Board commenced operations on March 28th, 1951 with two experimental offices and a handle of \$250,000. From this modest beginning total betting turnover has grown from \$7 million in 1951-52 (its first full year of operation) to almost \$93 million in 1970-71. Total turnover to date (31 July, 1971) was \$1.1 billion.

The expansion of facilities was extremely rapid. By the end of 1951 there were six betting outlets in operation. This number was increased to 145 during the next year and that figure reached 208 in 1953 and 303 in 1958. At present there are 325 betting offices made up of 25 branches operated directly by the TAB and 300 agencies operated by commissioned agents.

Twenty-four of the branches actually handle betting as well as acting as collating centres for the agencies attached to them. The other is the headquarters operation and acts as a final collation

centre for all branches. The branches are staffed by less than 200 permanent employees assisted on race days by 1,000 casual employees. The 300 agents run their agencies under contract and employ an average of five casual employees each on race days.

Win and place betting closes 70 minutes before the advertised starting time of the race and doubles betting 20 minutes earlier.

Doubles, a most popular form of betting, still accounts for about half of all monies wagered, however, its market share has declined from 56.2 percent in 1967 to 47.7 percent in 1971. About three-quarters of all money wagered off-course is bet on galloping (thoroughbred) races.

Race results and dividends are telephoned from the tracks to TAB headquarters, where they are broadcast at regular intervals by the New Zealand Broadcasting Corporation. These broadcasts are monitored in all TAB betting offices and the results given are treated as official for payout purposes. In addition to those broadcasts, periodic live broadcasts of the actual running of some races also take place.

There are three ways of betting through the TAB: cash betting, telephone betting, and postal betting.

Cash Betting

The bettor attends at an agency or branch, selects his horses, makes his bets and pays cash. He receives a ticket for each bet showing the date, meeting, race, horse number, type of bet (win, place or double) and the amount. The tickets are written in triplicate on printed forms. One copy of the ticket is given to the bettor and the other two are retained by the vendor for collation purposes. To collect a winning bet, the bettor must present his ticket at the agency or branch at which it was purchased. Until recently, winning bets could only be cashed on the following day but now, following the recommendations of the Royal Commission, winning tickets can now be cashed on the same day. Cash betting amounted to \$84.6 million or 91 percent of all off-course wagering in 1970-71.

Telephone Betting

The bettor opens what in effect is a current account at a branch or agency by depositing at least \$4. He is given an account and telephone number and can then bet by telephone to the extent

of his deposit. Winnings are credited to his account from which he may make withdrawals. Until recently, telephone betting had the advantage over cash betting in that winnings could be used to cover bets placed later the same day. In 1970-71 the 18,430 account holders bet \$8.3 million which is 8.9 percent of all off-course wagering. This represents a growth of 60 percent in five years in dollar value and a 1.8 percent increase in market share.

Postal Betting

The bettor mails his instructions together with his money to certain designated branches. Bets must be received by 6:00 p.m. on the day preceding the race. Winnings are paid by mail. Because of the inconvenience involved, this type of betting is not very popular and accounts for less than 0.01 percent of all off-course betting.

TAB FINANCES

Capital

Initial capitalization of TAB was obtained by deducting an extra one half percent from on- and off-course wagering for a period of five years. This produced almost \$2 million. Additional financing has been by way of loans from participating clubs.

Revenues

TAB revenues are derived from the 8 and 10.68 percent commission deducted from win-place betting and doubles betting respectively. In 1970-71 commission revenue amounted to \$8,616,247, made up of \$3,887,452 for win and place betting and \$4,728,795 doubles betting.

Operating Costs

It was predicted by the representatives of the Racing and Trotting Conferences, appearing before the Finlay Royal Commission in 1946, that TAB operating costs should fall within the range of 5 to 7 percent of total betting turnover. To date costs have ranged from a low of 4.87 percent in 1953-54 to a high of 6.24 percent in 1968-69 (1954-1970 average: 5.7 percent). In dollar terms, operating costs have grown annually in direct relation to handle from \$1.8 million in 1954 to \$5.9 million in 1971.

Profits

Profits, on the other hand, have fluctuated between a low of 2.51 percent of betting turnover in 1968 and a high of 4.27 percent in 1970 (1954-1970 average: 3.19 percent).

The basic scheme of profit distribution is established by the Board but must be approved by the Minister of Internal Affairs. The Board's annual profit is divided into two pools, the "racing fund," and the "trotting fund" on the basis of the combined on-and-off-course turnover for each type of racing. Each pool is then split up among the racing and trotting clubs in proportion to their market share of the on- and off-course turnover.

The Board also has a discretion to distribute a portion of each pool on an equal basis among the clubs. In this case the equal distribution is first calculated and deducted from the pool before the balance is allocated as above.

The total annual profit for 1970-71 was \$3,500,494 and was divided into the racing fund of \$2,493,488 and the trotting fund of \$1,007,006. The Board determined that an equal distribution of 10 percent of each pool was desirable which means that the 88 totalisator racing clubs each received \$2,834 and the 47 totalisator trotting clubs \$2,143 each, in addition to a proportional share of the balance.

The 1971 distribution brings the total amount of profits disbursed to racing and trotting clubs by TAB since it commenced betting operations in March, 1951 to almost \$36 million.

Revenue to the Government

The tax on off-course totalisator turnover now fixed at 9.32 percent yielded more than \$8.7 million in 1971. This brings the aggregate tax paid during the 21-year period of TAB operations to almost \$105 million.

THE FUTURE OF TAB IN NEW ZEALAND

The Royal Commission Inquiry on Horse Racing, Trotting and Dog Racing

On August 25, 1969 the Governor General appointed a Royal Commission to inquire into and report on all aspects of horse racing, trotting and greyhound racing and betting in New

Zealand including the operations of the Totalisator Agency Board. The Commission held its formal opening in Wellington on November 20th of that year and its report was released in December, 1970.

After an exhaustive analysis of the subject, much of which forms the basis of this section of our report, the Commission's chief recommendations related to a rationalization of the disparate horse racing industry with a view to maximizing the effect of the distributed TAB profits. Unlike North America, all of New Zealand thoroughbred racing takes place on the turf which precludes extended meetings such as are familiar to the North American audience. Instead, many very large and elaborately appointed race courses are used no more than 15 to 18 times per season. This, in the view of the Commission, was a luxury that New Zealand could no longer afford.

The Commission was also of the opinion that the economic problems facing the industry were so great that they could not be solved within the dispersed framework under which racing and trotting were administered. It recommended the establishment of a National Racing Authority with functions that would include the promotion of stability within the industry, the maintenance of the general economic well being of its associated organizations and general control over stakes, subsidies and amenity benefit funds.

In conjunction with this scheme the Commission also recommended a more regional approach to allocation of racing dates in the hope that over a period of time the widely dispersed racing and trotting interests would regionalise their operations in such a way as to be able to benefit from the economies of scale.

Greater public representation on the TAB was also a principal recommendation which the Commission felt would contribute to the resolution of the very considerable financial and economic problems facing the industry.

On receiving the recommendations, the Government was quick to act and within a year had passed the *Racing Act, 1971* (effective August, 1972) which established the New Zealand Racing Authority comprised of nine members appointed by the Government, two directly by the Minister responsible; two on the nomination of the Racing Conference; two on the nomination of the Trotting Conference; one on the nomination of the thorough-

bred owners, trainers and breeders and one on the nomination of the trotting owners, trainers and breeders. The Secretary for Internal Affairs is a member *ex officio*.

Its functions are to develop policies conducive to the economic and financial welfare of racing, trotting and greyhound racing consistent with the public interest. It also assumes a major fiscal responsibility for the industry by administering the Distribution Account (the basis of distribution of profits from off-course wagering), the Amenities Account (the fund from which grants to totalisator clubs for providing, maintaining, improving and renewing race courses and facilities are provided), and the Stakes Subsidies Account (the fund from which grants to totalisator clubs for supplementary stakes or purses are made).

Emphasizing the change in direction to a more publicly responsible administration, the composition of the Totalisator Agency Board was altered to include among its nine members at least three representatives of the public.

Computerized Betting System

After a lengthy period of study the New Zealand TAB has recently let a contract for the automation and computerization of its betting operations. Under the proposed scheme both cash and telephone betting will be handled by electronic machines automatically transmitting each bet to a central computer in much the same fashion as is presently the case in Australia. It is anticipated that the first offices will be in an on-line state by early 1974.

CHAPTER 6

Racing in Victoria

RACING in Victoria is almost as old as the settlement itself. The first race meeting was held in Melbourne in 1838 when the total population was only a few hundred persons. Since then Victoria has become the most densely populated state (3.5 million) in Australia and Melbourne, its capital, has grown to a city of more than two million people.

ADMINISTRATION

General

Unlike New Zealand which, until recently, had adopted a much looser administrative framework, racing in Victoria falls under the jurisdiction of the Chief Secretary (a senior cabinet minister) whose department is responsible for the general policy of racing and the administration of the *Racing Act* of 1958. The approval of the Chief Secretary is required before totalisators can be used on race courses or totalisator agencies established or the annual profits from the Totalisator Agency Board may be distributed.

Also deriving its authority from the *Racing Act*, the Race Courses Licences Board, comprised of the Under Secretary, the Chairman of the Victoria Racing Club, and a representative of country racing appointed by the Chief Secretary, licenses country race courses, determines the number of days on which they may race, regulates capital improvements and administers the Race Courses Development Fund. It is also charged with the complex responsibility of bringing about a regionalization of racing by encouraging the merger of several small country clubs so as to avoid redundant capital expenditures.

Racing

The Victoria Racing Club, a voluntary non-profit association established in 1864, is the "principal club" under the Australian Rules of Racing. As such, it allots the actual dates on which clubs race, controls the licensing of trainers and jockeys, appoints stipendiary stewards and officials, controls the stud book (in conjunction with the Australian Jockey Club) and generally performs all of the functions of its statutory counterpart in Ontario, the Ontario Racing Commission.

Trotting

Trotting in Victoria is administered by the eight-member government appointed Trotting Control Board which consists of a government Chairman, three members nominated by the Royal Agricultural Society, three members nominated by the Executive Committee of the Metropolitan and Country Trotting Association, and one member nominated by the Executive Committee of the Association of Victoria Country Trotting Clubs. As the controlling, registration and licensing authority, it has charge of all trotting meetings in Victoria and its stewards officiate at all meetings in the State.

Greyhounds

Unlike racing and trotting, until 1955, greyhound racing was run by "proprietary" (profit making) companies. In 1955 the Greyhound Racing Control Board was established and the proprietary clubs were displaced by a system of non-proprietary greyhound racing. The Board which is responsible for the allocation of race dates, acts as a licensing and appeal tribunal and appoints the stewards. It is composed of a Chairman, nominated by the Chief Secretary, and six other members, five of whom are appointed at the nomination of the national, metropolitan and country Racing Clubs and one at the nomination of the Owners, Trainers and Breeders Association.

THE INDUSTRY**Racing**

All horse racing, i.e. galloping as distinguished from trotting, in Victoria takes place on the grass or turf of the more than 80

metropolitan and country race courses spread throughout the state. While the "heart of Victorian racing" may be in Melbourne where meetings are held at one or more of the four metropolitan race tracks (Flemingdon, Caulfield, Mooney Valley and Sandown) on every Saturday and public holiday during the year (and occasionally mid-week as well), there are about 400 registered "country meetings" and other programmes described as "picnic meetings" taking place outside of Melbourne. These races are usually scheduled so as not to conflict with the major metropolitan events and tend to be held during the week. As a result, there is at least one race meeting, and often several, on every day of the year except Sundays.

Attendance at the major Melbourne tracks, which reaches 100,000 on Melbourne Cup Day, probably averages between 20,000-30,000 at other times during the year.¹ Attendance at the country and district race meetings averages about 1,000 to 2,000 per day with the race tracks in the Port Phillip District, the area closest to Melbourne, averaging about 4,000.

There is probably no other part of the world where an owner can race a horse with better prospects of receiving a profit on his outlay than in Victoria. To keep a horse in training and to race it probably costs between \$1,200 to \$1,750 a year. Even the ordinary races in the metropolitan area of Melbourne carry a minimum prize money of \$3,000. Of this, \$2,100 goes to the owner of the winner and the remainder is divided among the owners of the second, third and fourth runners. It follows that a horse needs only to win one ordinary race in the metropolitan area in a year to recoup its owner's expenses. This is a situation which can be found in very few countries of the world and certainly not in Ontario.

As might be expected, stakes and purses on the country and district racing programmes are proportionately smaller although, again on the average, they run about \$2,000.

In 1971 there were about 10,000 race horses registered in Victoria but only 6,500 actually raced.

1. Flemingdon has accommodation for 100,000 people on its 320 acre site. Caulfield, which boasts the only swimming pool for horses in Australia, can accommodate 80,000 people. Mooney Valley, located about four miles from Melbourne, has a capacity for 50,000 people. Sandown race course, the newest of the four metropolitan race courses, (established in 1965) can accommodate 30,000 people.

Trotting

Trotting usually takes place at night with attendance at metropolitan tracks averaging around 20,000 and on occasion running well in advance of 35,000. It is increasing in popularity as a result of the televised races from the Melbourne Showgrounds.

Greyhounds

Greyhound racing in Victoria has made greater advances than either racing or trotting during its short history. One of the reasons for the rapid growth of interest may be the relative ease of access into the industry as an owner, compared with either racing or trotting. While it can run as high as \$5,000 for a proven racer, the initial investment for a sound animal runs around \$200-\$250. No stable or other special training facilities are required and many of the competitors are housed and trained in residential suburbs. This, together with its faster action and the "apparently" better opportunity to choose a winner (there are only eight dogs per races as compared with as many as 20 or more starters in racing and trotting) combine to make the sport more attractive to the young.

Growth of the industry has been phenomenal, with the increase in the number of greyhounds registered more than doubling between 1967 (1,975) and 1971 (4,489). There are at present two metropolitan greyhound race tracks (Olympic Park and Sandown Park) and seven located in provincial and country areas. Meetings are held at Olympic Park on Monday nights. There is one country meeting on Tuesday nights, one country meeting and a metropolitan meeting (Sandown Park) on Thursday nights, a country meeting on Friday nights and four country meetings on Saturday nights. Average attendance at the metropolitan meetings is about 6,000. Stake money varies from \$600 for minor races up to \$25,000 for the Australian Greyhound Cup.

ON-COURSE WAGERING**The Bookmaker**

On the race courses of Victoria, "punters" have the choice of betting either with bookmakers or through the pari-mutuel totalisator. Bookmakers and their clerks are licensed by a Board which

includes representatives of the Government, the racing clubs, the police and the bookmakers themselves. To obtain a licence, a bookmaker must be of good character and financial standing. At present there are about 500 registered bookmakers in Victoria including those permitted to bet at trotting and greyhound racing. They are licensed from year to year and pay registration fees to the racing clubs, a permit fee to the Government, stamp duty on betting tickets and a tax on their turnover. This tax is at the rate of 2 percent in the metropolitan area and $1\frac{1}{2}$ percent in the country. From an annual handle of \$160 million, Government revenue from this tax is approximately \$3 million per year.

The bookmaker may accept either win bets only or win and place bets.² Some bookmakers bet for place only and others are licensed to bet on races held in other states.

Each bookmaker shows his odds on a prominently placed board which enables race goers to "shop around" for the best price on their bet. The wager is recorded on the bookmaker's betting sheet and on a numbered ticket given to the bettor which sets out the amount to be paid if the bet is successful.

Some race-goers may have credit established with a bookmaker against which they can wager. Bets can range from a \$1 minimum to many thousands of dollars. In fact, many bookmakers will "lay off" large sums of their own bets with other bookmakers at the track in an effort to balance their books. While they may not be a major source of revenue to the State, bookmakers in Victoria are a very colourful addition to the racing scene.

The Totalisator

All of the major race courses (the metropolitan courses and over half of the country race courses) are equipped with totalisators for pari-mutuel wagering. The chief difference between this type of wagering and the "fixed price" wagering of the bookmaker is that the bettor, under the pari-mutuel system, will not know the probable odds of his pay off until after the race is closed. In addition to accepting win and place bets on all races (the minimum "investment" is 50¢) the on-course totalisator provides facilities for "the this and the next race doubles" which involve, as is suggested by the title, the selection of the winners of two successive

2. Place includes a horse finishing third when there are, as is usually the case, more than eight starters in a race.

races. There is also a special daily double on two selected races as well as quinella betting on some races.

The same betting style is available to patrons of the trotting and greyhound racing tracks.

At the larger country race courses in Victoria, almost five to six times as many on-course bettors bet with a bookmaker as with the on-course tote. However, almost two-thirds of all of the money bet on the races covered by TAB is bet through TAB, with the on-course tote accounting for only 6 percent and the bookmaker about 30 percent. At courses closer to Melbourne, the on-course figures are improved to about 8.4 percent (average) for the on-course tote, and 40 percent (average) for the bookmaker, leaving slightly more than half to the TAB. This seems to confirm the experience in other jurisdictions that if bettors can conveniently reach the race course they prefer to bet there rather than through the off-course system.

Deductions

A deduction of 13 percent is made from all on-course wagering and the remaining 87 percent is returned to the winning bettors. For Melbourne metropolitan clubs, the percentage deducted is divided as follows: doubles and quinella betting, 5 percent to State revenue and 8 percent to the club conducting the meeting; win and place bets, 8 percent to State revenue and 5 percent to the club. From country meetings, 3 percent of the totalisator wagering goes to State revenue and 10 percent to the club.

OFF-COURSE WAGERING

The Royal Commission

In 1958, concerned with the several evils associated with the burgeoning illegal off-track betting operations, the State Government appointed a Royal Commission to inquire into off-course betting. At its hearings the Commission heard evidence to support the fact that there were existing in the State a very large number of unlicensed bookmakers operating illegally (starting price bookmakers) whose existence contributed to bribery and corruption of police and other Government officials.

It was estimated that in the State of Victoria, which had a 1958 population of 2.7 million, \$324 million was being wagered illegally off-course—\$224 million by telephone and \$100 million in street betting. None of this money ever found its way back into the sport on which it depended or into State revenue.

In addition to the corruption and financial reasons the Commission also learned there was developing the general disrespect for the law that usually attends a general disobedience of an “unpopular” and “unenforceable” legal restriction on public morality. There were also very practical reasons for the suppression of this illegal type of activity. It was, as can be seen from the following extract from the Report, considered by many to be a general nuisance:

“There is evidence that the street bookmaker generally carries on his business in a lane, in close proximity to an hotel, and that there is a constant passage of persons between the two places. As the day lengthens some of these persons become intoxicated, or nearly so, and misbehave by using foul language, urinating against the fences, squabbling among themselves, and in other ways, to the annoyance of the adjoining householders, particularly those who have children playing in the yards.

All of these bookmakers are protected from raids by the police by ‘nit-keepers’ (lookouts) which tends to render the making of a bet a furtive undertaking which, some witnesses suggest, is degrading to the decent citizen who desires a wager. It was also suggested that a goodly proportion of young people mingle with the customers of the bookmaker and, seeing how the law is flouted by their elders, are inculcated with a disrespect for law generally and led to believe that off-course is a manly past-time.”³

As a result, the Commission recommended the establishment of a system of off-course wagering similar to the one in operation in New Zealand. Victoria TAB was born.

The Totalisator Agency Board (TAB)

The Board consists of eight members, including a Chairman, drawn from the racing, trotting and greyhound segments of the industry. There are no “public” members. According to the guidelines established by the Royal Commission it was to provide an

³Report of the Royal Commission Appointed to Inquire into Off-the-Course Betting (Victoria) 1958-59, page 32-3.

efficient off-course betting service to the public by means of telephone and cash betting facilities but without encouraging the spread of gambling. It was also to avoid any suggestion of a "betting shop atmosphere" and was to ensure that its agencies were designed to "blend into the normal business life of the community" and were not located close to churches or schools.

TAB Operations

Operations commenced in Victoria on March 11, 1961 with ten offices and a limited telephone betting system for the metropolitan area. Net turnover on the first day was about \$70,000. This had grown by year's end (July, 1961) to \$4 million. During its first full year of operation (1961-62) TAB operated on 295 meetings on which \$27.7 million was bet through the 83 betting offices i.e. both branches and agencies. Those figures doubled the next year (\$52.8 million and 140 offices) and were redoubled again two years later (\$111.6 million and 283 offices). In 1971 there were 441 betting offices (34 branches, one telephone betting branch, 30 on-course offices, and 376 agencies) which operated on over 800 races and handled \$231.7 million. During its ten and a half years of operation TAB Victoria has handled over \$1.3 billion.

For the first six years the mode of operation was essentially similar to the New Zealand system on which it was directly patterned. Each branch and agency would collate its bets and at prearranged times telephone its figures to a regional headquarters. The regional offices then telephone the totals to a central headquarters where they are again collated and transmitted to the race course. There they are combined with the on-course wagering to produce a common dividend and payoff for both on-course and off-course bets.

As the volume of wagering grew, the problems associated with collation and handling of that tremendous volume grew as well. On September 13, 1967 a semi-automated computer-coordinated system (CARBINE) was inaugurated. Under this system all Metropolitan agencies were equipped with an input device, not unlike a teletype, by which each race's transactions were transmitted to the computer. All betting information was stored in the computer until shortly before the race was due to start when it automatically calculated total figures for each type of bet on each horse in the race. These summary figures were printed out on line

printers and transmitted to the appropriate race track for amalgamation with the on-course wagering pool.

In accordance with a planned programme of automation, a new system of high speed automated ticket selling machines (RIMFIRE) was introduced on May 3, 1971 in two city branches. It is planned to install one thousand of these ticket issuing machines in the 260 branches and agencies in the metropolitan area by the end of 1972.

The principal aim of the system is to replace manual selling and manual collation of betting and allow winning bettors to cash their tickets at other RIMFIRE equipped shops on the day of the race.

Branches and Agencies

In accordance with the principal objective not to encourage gambling but to channel illegal betting into fields where it would be of greater public benefit, the TAB offices maintain the functional dignity of banks and offer no inducement to the public to remain any longer than is necessary to place their bets. There are no broadcast facilities, no announcement of results or odds, no seats, no television and no toilets.

TAB Victoria also maintains the distinction between branch offices and agencies (the former managed by TAB personnel and the latter operated by an agent working on commission) and like New Zealand, the vast majority (over 80 percent) are operated by agents. These agents, who are responsible for hiring, training and paying their operational staff, are paid a base weekly fee of between \$63 and \$74 (depending on the size and location of their shops) together with a commission of 2¼ percent of net turnover. At the end of the year, they are allowed an additional subsidy amounting to 2½ percent of the total base fee and commission. The RIMFIRE or automated shop agents are guaranteed a weekly return of \$110 which includes allowances for cleaning and other sundries. They also receive a commission of ½ percent on gross turnover and are allowed a processing allowance of \$5.80 per thousand tickets.

Types of Betting

Bettors may bet to win or to place and they also may buy the TAB daily double which is run on the two feature races of the day. They also may buy a quinella and from time to time may purchase feature doubles on such races as the Caulfield and Melbourne Cups. Metropolitan agencies accept bets up to 25 minutes prior to the advertised start time of the race, country agencies up to 30 minutes. Telephone bets are accepted to within 15 minutes of the advertised start time. All bets made with the TAB are relayed to the race course where they are combined with the on-course totalisator pools and a common dividend or pay out is declared for both.

About two-thirds (\$154 million) of the 1971 TAB turnover was on racing and half of that on the metropolitan courses. Country and inter-state racing accounted for 21.3 percent and 11.3 percent respectively. Trotting was responsible for attracting \$49 million in TAB turnover (21.1 percent). Interest there was split roughly equally between metropolitan and country trotting at \$20 million and \$25 million respectively, with inter-state trotting accounting for only \$3.6 million in turnover. Metropolitan greyhound racing contributed \$28.5 million or 12.2 percent of the total TAB handle.

Win and place and daily doubles betting account for 49 percent and 47 percent of the off-course racing pool respectively, with quinella betting attracting only about 3 percent of the interest. Win and place betting on trotting represents about 42 percent of the handle, daily doubles 54 percent and the quinella 3.6 percent. The pattern is slightly different on greyhounds where more than twice as much (62.8 percent) is bet on daily doubles than on win and place (30.7 percent). Even the quinella on greyhounds attracts 8.1 percent which is more than double the share of the quinella on the racing and trotting events.

Cash betting continues to be the principal source of TAB turnover, accounting for 86.7 percent of the total handle. Telephone betting contributes 13.3 percent.

TAB FINANCES

Capital

Initial capitalization was provided by the three leading Victorian racing clubs (the Victoria Racing Club, the Victoria Ama-

teur Turf Club and Mooney Valley Racing Club) and the Trotting Control Board. This capital was guaranteed and repaid by the State out of revenues from TAB.

Revenues

As with the on-course totalisator, the deduction from TAB "investments" is 13 percent (in the case of the daily double 14 percent). Of this the State receives 5 percent and the remaining 8 percent, after operating costs are deducted, is divided between the racing, trotting and greyhound clubs in accordance with the scheme of distribution agreed to by them. In addition to allocations to assist the actual meetings they conduct, the Victoria Racing Club (the administrator of racing in Victoria), the Trotting Control Board (which supervises all trotting meetings) and the Greyhound Racing Association (the sport's senior body in the state) receive special financial contributions to assist in covering their administrative costs.

TAB's share of the 1971 turnover of \$231.7 million was \$18.5 million—up \$2.2 million from 1970.

Operating Costs

In 1971 costs of operation were \$11.5 million or 4.95 percent of the total betting turnover. This compares favourably with the 1970 rate of 5.06 percent.

Revenue to Government

In addition to these costs, TAB paid about \$11.6 million to the State by way of tax or commission. Between March, 1961 and July, 1971 total government commissions from TAB amount to \$63.2 million.

Profits and the Distributive Scheme

Profits available for distribution in 1971 amounted to \$7,713,560, up almost \$750,000 from 1970. In accordance with the general scheme of distribution prevalent in Australia, these funds are divided among the racing, trotting and greyhound divisions of the industry on the basis of the proportionate share of TAB turnover for the year. In each case the "principal club" in each sport receives a "first charge" payment from the pool to cover its

administrative costs which include stewards' salaries, registrations, training programmes, contributions for veterinary research and other administrative functions. The balance of the pool is then distributed to the individual racing, trotting and greyhound clubs in accordance with, in the case of racing and trotting, the formulas agreed to between the representatives of the clubs and approved of by the Chief Secretary, and in the case of greyhound racing, in accordance with a formula determined by the Greyhound Racing Grounds Development Board.

In 1971, after administrative costs of \$776,637 had been paid to the Victoria Racing Club, the three metropolitan totalisator clubs divided \$2.6 million and the 83 country clubs divided \$1.7 million (\$1.4 million to the totalisator clubs and \$300,000 to the non-totalisator clubs) which accounts for a total profit distribution of \$5.1 million to racing.

Trotting divided its \$1.6 million roughly equally between its metropolitan and country clubs after paying \$111,000 administrative costs to the Trotting Control Board.

Greyhounds shared \$853,127 (after the first charge of \$94,792) between the two metropolitan totalisator clubs (\$197,925). The distribution to the non-totalisator clubs is made on an equal basis as there is no means of determining a proportional share where there is no betting on their races.

Since the commencement of operations in March, 1961 the Victoria TAB has distributed \$44,132,948 to the industry on which it depends.

CHAPTER 7

Racing in New South Wales

ADMINISTRATION

THE legislative framework for racing, trotting and greyhound racing in New South Wales is the *Gaming and Betting Act, 1912*, as amended, which is administered by the Chief Secretary (a senior cabinet minister). In addition to restricting betting to licensed race courses at which a race meeting is in progress, the Act also provides for the regulation and control of poker machines (slot machines) which, as will be seen below, provide more revenue to the government than is derived by taxes and levies on both on-and off-course wagering.

Racing

The Australian Jockey Club, founded in 1841, is the oldest racing club in Australia and has the general supervisory responsibility for racing in New South Wales. An unincorporated club of about 2,000 members, it is the successor of the Australian Race Committee which held its first race meeting in Sydney in 1842.¹ All race meetings in New South Wales are registered with the Australian Jockey Club and the programmes are submitted to it for approval. Country clubs outside metropolitan and provincial areas are grouped under the control of nine Regional Racing Associations to which the Australian Jockey Club has delegated limited licensing and supervisory powers.

Although the Australian Jockey Club, as "principal club", registers all racing clubs, it does not interfere in their internal or financial affairs apart from establishing a minimum level of prize money.

1. The first race meeting at Randwick, the principal race course in Sydney, was held in May, 1860, some three years before America's oldest continuing meeting—the Saratoga August Meeting.

Trotting

The New South Wales Trotting Club Limited, a non-profit corporation, is the principal trotting club and the controlling body for that sport in the state.² It acts as the registration and licensing authority and its stewards officiate at all trotting meetings in New South Wales. Five Regional Associations have local authority only and are concerned merely with the fixing of racing dates within their areas.

Greyhounds

The Greyhound Racing Control Board, established in 1949, is composed of seven members. The chairman, and two other members are appointed on the nomination of the Minister and the balance of the Board is appointed (two each) on the nomination of the New South Wales Greyhound Breeders, Owners and Trainers Association and the New South Wales Greyhound Racing Clubs.

Under the general aegis of the Chief Secretary, the Board licenses owners, trainers and bookmakers, appoints stewards for the major meets, registers all greyhound racing clubs and allocates racing dates. While the Board can issue its own registration certificate, most of the greyhounds are registered by the New South Wales National Coursing Association.

ON-COURSE WAGERING

The actual conduct of race meetings and the on-course wagering activity is similar to the pattern existing in Victoria which has already been discussed. In 1971 there were 2,750 race meetings (galloping 794, trotting 492, greyhounds 1,464) on which the on-course punter "invested" over \$372 million. Almost 85 percent of this was bet through the more than 900 licensed bookmakers. The balance was handled by the on-course totalisator.

Deduction from totalisator betting is 13 percent with the State getting 8 percent and the club 5 percent on metropolitan courses and the reverse on the country courses.

2. The Trotting Control Board and the Committee of the New South Wales Trotting Club Limited are the same.

Bookmakers pay a basic licence fee which varies depending on location and course.³ In addition they pay a turnover tax of between one and two percent and a stamp duty of about 2¢ per ticket.

OFF-COURSE WAGERING

The Royal Commission

Notwithstanding the provisions of the *Gaming and Betting Act, 1912*, which restricted betting to a licensed race course at which a race meeting was held and subjected offenders to penalties of up to six months' imprisonment on a second offence, the Royal Commission of Inquiry Into Off-The-Course Betting in New South Wales in 1963 reported that "illegal betting is rife through the State and its volume is immense".

They estimated that "there are 6,000 bookmakers engaged in illegal off-the-course betting, that the number of persons who 'more than seldom' bet with them is of the order of 500,000 (in a population of 2.4 million) and that the annual turnover of off-the-course betting is in the order of £275 million (over \$600 million)".

After considering the relative ineffectiveness of the existing law in suppressing off-course betting and the countervailing objections to its legalization, the Royal Commission rejected two submissions involving the registration and licensing of bookmakers. It concluded that the system best suited to New South Wales was one similar to the one then in operation in the neighbouring state of Victoria:

"I am of opinion that of the several methods which have been propounded the only one of which the advantages outweigh the disadvantages is the off-the-course totalisator. I am satisfied that it would be the most effective of them in safeguarding the Crown revenue and contributions to the racing industry and in eliminating corruption; that it would provide reasonable opportunities for all sections of the community to bet off-the-course and, since it would not advertise or solicit business, would have less tendency to increase gambling generally or to induce excessive gambling in individuals and so would avoid the undesirable aspects of betting shops; that it would eliminate the personal profit motive

3. For the prime location (the paddock) at the principal race course (Randwick) the bookmaker will pay \$140. In the lesser locations (the ledger and the flat) he is charged \$56 and \$14 respectively. On other courses, the fees range between \$10 and \$56.

and its consequent evils, and would give more satisfaction to the community as a whole."⁴

The Totalisator Agency Board (TAB)

The *Totalisator (Off-Course Betting) Act* became law in 1964, and the New South Wales TAB began operations on December 9th of that year with six shops and telephone betting. By June 30, 1965 (the financial year end) the 35 shops had handled almost \$10.9 million. By the end of the next year about three times as many shops (107) had produced almost six times that amount (\$59.7 million) and by 1969, with slightly over 300 shops in operation TAB handle was close to \$200 million. In 1971, the 355 offices (276 agencies and 79 branches) covered 772 race meetings and handled about \$280 million.

The Totalisator Agency Board of New South Wales is composed of nine members, the Chairman and another are government nominees, two are appointed on the recommendation of the Metropolitan Racing Clubs, three on the recommendation of the Country Racing Clubs and one each on the recommendation of the Trotting and Greyhound Clubs.

Operations

Following the recommendation of the Royal Commission, the method of operation was patterned after the system described in Victoria. Until recently (when the automated system was introduced into some shops) the bettor after making his selection on a form provided, presents it to the cashier together with his wager.⁵ The cashier validates the form by passing it through a type of cash register, separates the validated ticket along a perforation into two duplicate parts and returns one part to the customer as a receipt. The retained portion is used for collation purposes. Betting on win and place closes 30 minutes before the advertised post-time. On daily doubles the interval is 45 minutes and for quinellas it is two hours.⁶ After all of the bets have been collated

4. Report of the Royal Commission of Inquiry into Off-the-Course Betting in New South Wales (1963), page 61.

5. Not unlike the procedure presently employed in the Liquor Control Board of Ontario stores.

6. These additional periods are required due to the difficulty in manually collating these types of combination bets.

the totals are transmitted to the track for incorporation in the on-track pools (usually about 15 minutes before post-time).

After the race, and unlike Victoria and New Zealand, holders of winning TAB tickets are able to collect their dividends by returning to the shop where they bought the ticket. However, this does not seem to be as important a feature to Australian bettors as one might have expected. It is estimated that only 15 percent of the winners avail themselves of this opportunity with the remainder being content to return after the last race or on the following day. Perhaps some of this may be explained by the fact that a considerable amount of wagering (39.1 percent) takes place on the TAB double for which, as it is run on the feature races of the day (usually the 5th and 7th), a winner is not declared until the programme is almost complete. Another factor may be TAB's own conscious policy of discouraging what has been described as the "betting shop atmosphere" such as exists in Britain where the bettor is encouraged to remain on the premises to reinvest his winnings. In any event, for whatever the cause, immediate payoff in New South Wales, at least, does not seem to be a prerequisite to success.

Types of Betting

As can be seen from Table 7, \$170 million or 60.84 percent of all wagering was on galloping, with trotting and greyhound racing accounting for \$46 million (16.58 percent) and \$63 million (22.58 percent) respectively. These figures represent a decline in market share for galloping (8.8 percent) over the past five years, a slight increase (1.2 percent) for trotting and a significant jump (8.5 percent) for greyhounds which grew from about \$15 million in 1965 to \$63 million in 1971.

TABLE 7: Turnovers and Percentage of Total Turnover Derived from Galloping, Trotting and Greyhound Races in New South Wales, 1965-1971

Year	Galloping		Trotting		Greyhounds	
	Turnover	% of Total	Turnover	% of Total	Turnover	% of Total
	\$		\$		\$	
1965/66*		69.66		15.31		14.03
1967/68	105,598,248	67.38	26,337,941	16.81	24,782,571	15.81
1968/69	127,690,863	65.57	31,172,332	16.01	35,864,136	18.42
1969/70	148,764,768	61.76	37,586,632	15.60	54,520,408	22.64
1970/71	170,128,640	60.84	46,375,823	16.58	63,149,835	22.58

* Turnover figures for 1965/66 are not available.

Cash betting continued to be the major source of wagering in 1971, accounting for \$267 million (95.4 percent) as compared with \$12.7 million (4.57 percent) for the 17,670 telephone betting customers. While win and place betting on racing events continues to be preferred (62.8 percent) over daily and feature doubles (34.2 percent) with quinellas drawing only 3 percent of the interest, their market share has declined slightly. On trotting, win and place account for 54.9 percent of the bets and the doubles 42.1 percent. Only on greyhounds are the bettors more interested in doubles (49.8 percent) as compared with win and place betting (47.2 percent).

TAB FINANCES

Capitalisation

TAB was initially authorized to borrow up to \$2 million from the racing clubs who were to be reimbursed by a Government rebate of one percent of its tax. The initial capitalisation was subsequently doubled to \$4 million. By 1968, this sum had been totally repaid out of the reimbursement fund. Since that time TAB has been financed out of its own revenues.

Revenues

TAB's revenues are derived from its 7½ percent share of the off-course turnover (5½ percent goes to the State). In 1971 it amounted to almost \$21 million, up about \$3 million or 14 percent from 1970.

Operating Costs

In 1971 the costs of operation and administration came to \$13.2 million or 4.7 percent of the total betting turnover.

Revenue to Government

The Government share of TAB turnover was \$15.4 million bringing its total revenues from TAB since it began operation in December of 1964 to \$56.5 million.

As mentioned earlier, New South Wales has legalized the use of poker or slot machines and is the only state in Australia to do so. From this source the State received \$34.8 million in 1971

which is over \$10 million more revenue than was derived from all forms of racing (on-and off-course deductions, bookmakers' licences and fees, stamp duties, etc.). Since 1965, the first year of TAB operations, poker machines have contributed over \$164 million to the State Treasury. In other words, while TAB accounts for 19.3 percent of total State revenue from all forms of gambling, the poker machines contribute 43.3 percent.

Distribution of Profits

Over 200 racing, trotting and greyhound clubs shared in the distribution of the Board's profits for 1971. All racing clubs in the state share in the distribution with the exception of the "picnic clubs" and those meetings conducted for charitable purposes. The profits are normally distributed in early September although interim distributions may be made at the Board's discretion. In 1971, TAB profit amounted to \$8.1 million (3 percent of turnover), an increase of 16.5 percent from 1970.

In 1971 \$250,000 was paid to the Race Course Development Fund and the balance was divided between racing, trotting and greyhounds in proportion to the turnover on each class of race. After deducting first charges to cover the administrative costs of the "principal clubs", the balance was distributed in accordance with a complex scheme relating to on-course and off-course turnover and stakes and prize money. The 24 racing clubs divided \$4.9 million, the 48 trotting clubs \$1.3 million and the 40 greyhound clubs \$1.8 million.

Since the commencement of operations in 1964 the New South Wales TAB has distributed almost \$28.7 million to the racing, trotting and greyhound clubs of the State.

CHAPTER 8

Racing in New York

AMERICA'S first track was opened in New York in 1665 and, even after three centuries, the growth of public interest in racing continues to outpace population growth. As can be seen from Figure 17, thoroughbred attendance is considerably higher than standardbred though the pattern of growth has been similar.

ADMINISTRATION

There is no national control of racing. The National Association of State Racing Commissioners has been organized for the purpose of pooling ideas and promoting uniform rules but it has no formal authority. This is vested in the State Racing Commissions, the Jockey Club and the Trotting Association.

Racing Commissions are appointed by State Governors for the purpose of promulgating the rules and regulations of racing, approving the allotment of racing dates, and licensing tracks, owners, trainers, jockeys and other people associated with racing.

In New York, the State Racing Commission is concerned with thoroughbreds and the State Harness Racing Commission with standardbreds.

The Jockey Club, formed by charter in 1894, is the thoroughbred stud book authority for North America and, in New York and Delaware, its stewards are responsible for the registration of partnerships, leases, stable names, colours and such matters as jockey contracts. The United States Trotting Association is the stud book authority for U.S. standardbreds.

Thoroughbred Tracks

The New York Racing Association is a non-dividend paying corporation operating thoroughbred tracks at Aqueduct and Bel-

ATTENDANCE
Millions
(100,000)

44
42
40
38
36
34
32
30
28
26
24
22
20
18
16
14
12
0

UNITED STATES
ANNUAL ATTENDANCE

* covers all tracks and States which reported figures during period 1961 through 1971

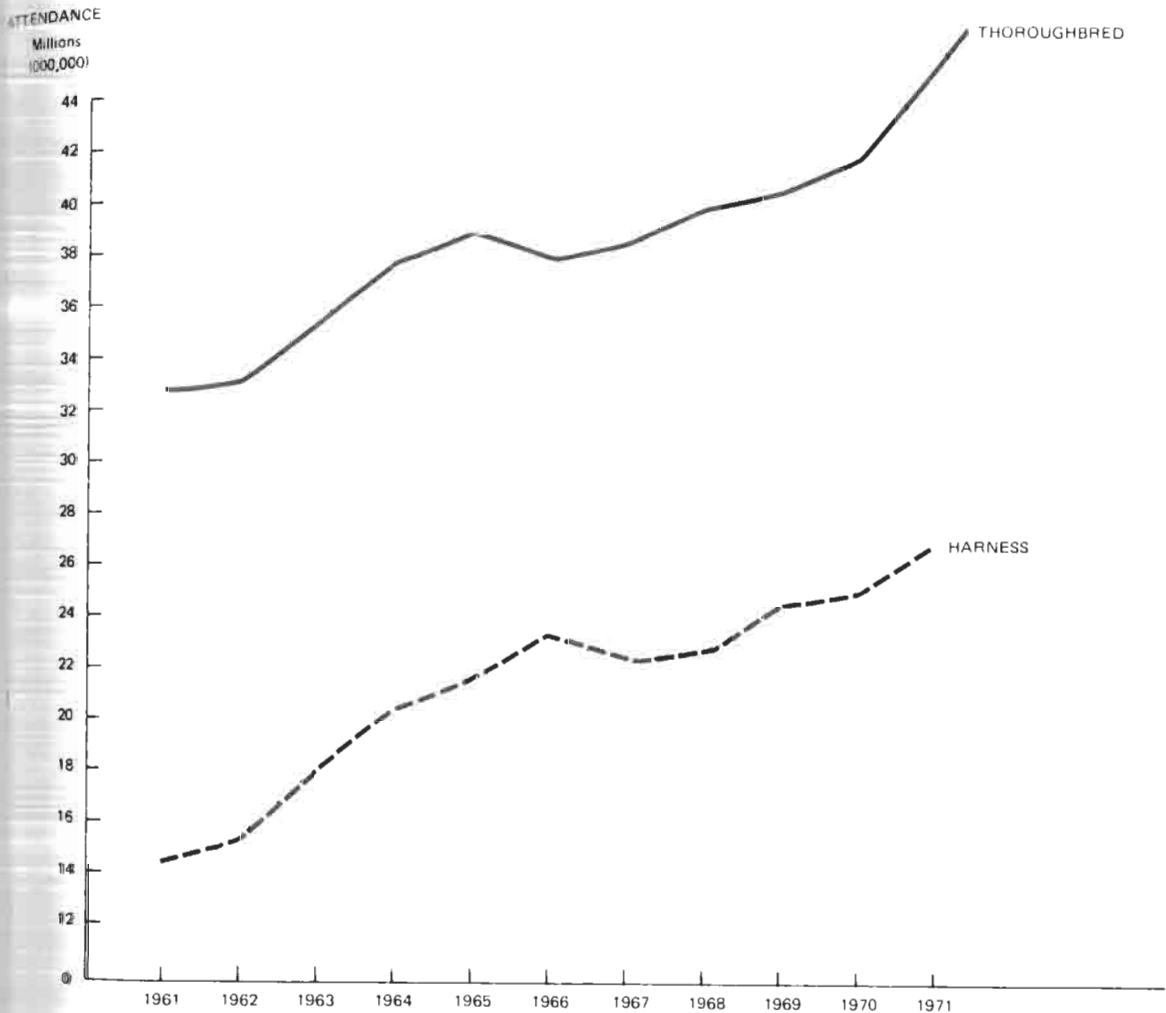


FIGURE 17: Annual Attendance at Race Tracks
in the United States, 1961-1971.

mont (both in New York City) and Saratoga (near Albany). Most of the races at these tracks are flat gallops but there are also a few steeplechases and hurdle races. The only other thoroughbred track in New York is near Rochester and is operated by the Finger Lakes Racing Association, a profit-making stock company.

Standardbred Tracks

The two major New York standardbred tracks are operated by the Roosevelt Raceway, Inc. and Yonkers Raceway, Inc. and are located in New York City. Other standardbred tracks are Batavia Downs, Buffalo, Goshen, Monticello, Saratoga and Vernon.

ON-TRACK BETTING

In 1971 New York bettors wagered more than \$1.6 billion at the races (\$784 million on thoroughbreds and \$837 million on standardbreds). As might be expected the vast majority of this money, 90 percent of the thoroughbred and 73 percent of the standardbred, was bet at the New York City tracks where the average daily attendance ranged between 20,000 (Yonkers and Roosevelt) and 27,000 (Aqueduct and Belmont).

Until the mid-1940's deduction from wagering on thoroughbred races was 10 percent which was split evenly between the state and the track. In 1946 the municipal government entered the field which raised the takeout to 15 percent. Within a few years the city was forced to yield its 5 percent to the state which wound up doubling its share from 5 to 10 percent. In 1967 and again in 1971 the track share was increased by one percent to augment dwindling purses. This brought the thoroughbred takeout up to 17 percent—the same as for standardbreds.

Although New York remains a leading racing state, its attendance figures have shown no signs of growth in recent years and 1971 attendance was below that for 1970. The 2.5 percent decline has been attributed to the growth of off-track betting in New York City but it is significant that attendance also fell in three other north-eastern states and that the fall in two of these states was much greater. Neither New Jersey (which experienced a drop of 15 percent in attendance) nor Maine (with a 24 percent drop) had off-track betting.

Experience in New York is of particular interest not only because it is a leading racing jurisdiction in North America and, moreover, a neighbouring jurisdiction, but also—and most importantly—because it is the only jurisdiction on this continent with experience in legal off-track betting. Adding to the significance of New York experience are two further factors: *first*, the striking similarity in betting behaviour between New York and Ontario (Figure 18) and, *second*, the unique features of New York City's rapid rush into this method of raising revenue for government with little apparent regard for the interests of racing.

OFF-TRACK BETTING

General

Bookmaking off-track was prohibited in 1910 as was bookmaking on-track in 1939, leaving on-track pari-mutuel betting with a legal monopoly on horse race wagering. In 1954 a committee of the legislature rejected a proposal for a regulated off-track betting system and draft legislation was again rejected in 1959. Despite a New York City referendum which demonstrated overwhelming support, similar attempts to legalize off-track betting were defeated in each successive sitting between 1964 and 1969.

During 1970, however, a Bill developed by the Mayor of New York City with the concurrence of the Governor and legislative leaders was rushed through with little deliberation at the end of the session, and passed because it promised a quick and major contribution to ailing municipal finances. This new law¹ created a framework within which off-track betting could be established according to local wishes. This local option provision is, perhaps, the most significant feature of the New York legislation.

The New York State Off-Track Pari-Mutuel Betting Commission

The new law created the New York State Off-track Pari-Mutuel Betting Commission within the Department of State, its members being appointed by the Governor on the advice of the Senate. The Commission determines basic policy, approves or rejects municipal applications, and issues operational directives. It may also operate off-track betting directly.

1. N.Y. Laws 1970, c. 143 as amended by s. 422 and 423 of the Laws of 1971.

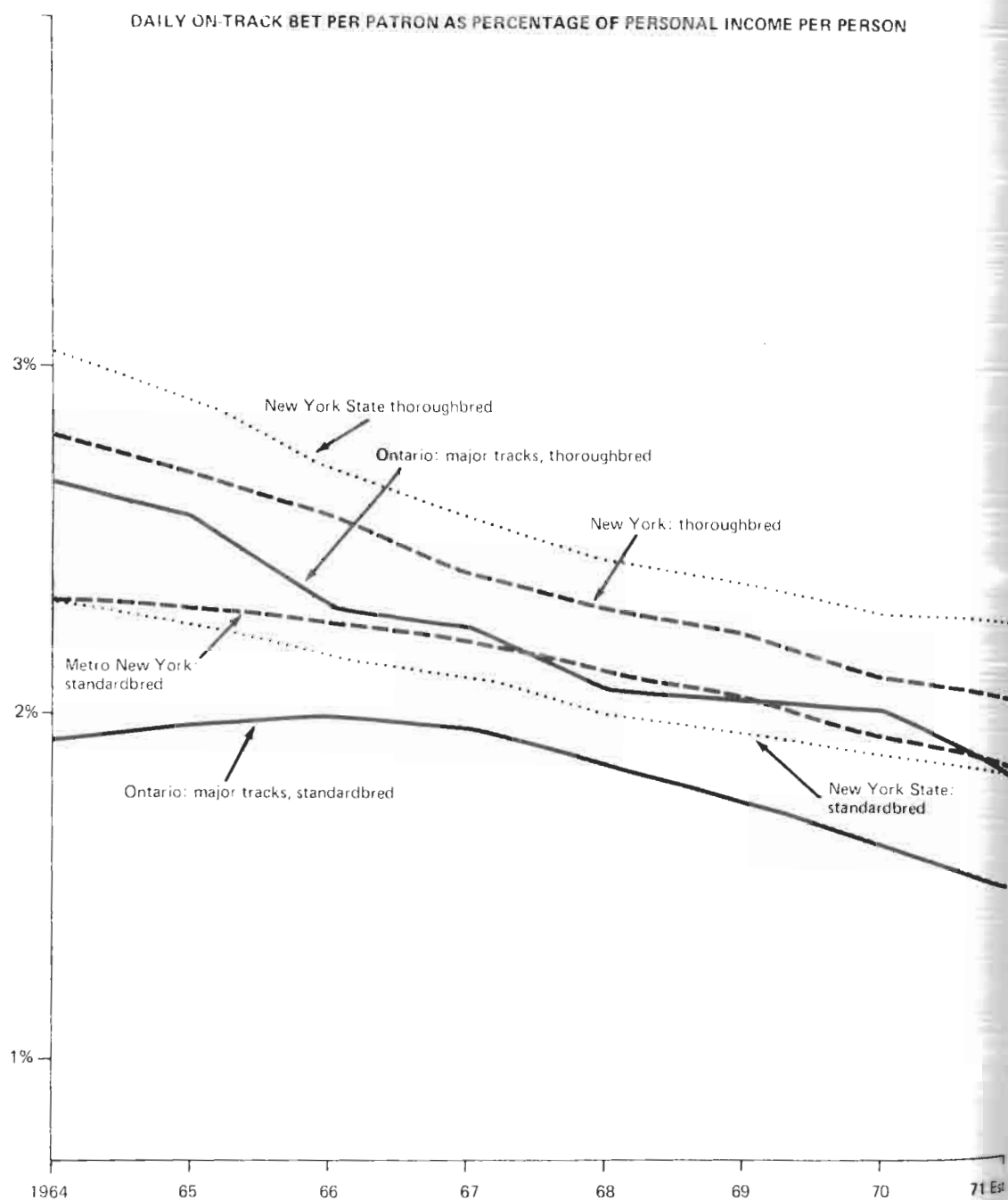


FIGURE 18: On-Track Bet per Person as Percentage of Personal Income Per Person — Comparison of Ontario and New York, 1964-1971.

So far, however, it has not chosen to do so. Instead, it has left this to approved "participating municipalities" with New York City being the only municipality with actual operating experience. Other municipalities evidenced an interest in going into the off-track betting business but the threat of confusion resulting from such a proliferation of activity together with the attendant administrative costs has led the Commission to place a one-year moratorium on new approvals.

The New York City Off-Track Betting Corporation (OTB)

The Scheme

The New York City Off-Track Betting Corporation (OTB) is a public benefit corporation created by specific statute.² The OTB is directed by five members appointed by the Mayor and is authorized to operate a system of off-track betting within the city limits with bets on races within the state combined, as totals, with the track pools. It also operates separate betting pools on racing in other states as Federal law prohibits transfers of bets across state borders. Racing interests are pressing for the extension of this prohibition so as to preclude betting on races in other states altogether. This would leave the OTB free to operate its own pools only on races outside of the United States, such as the Queen's Plate in Ontario, a possibility already under consideration.

Because off-track betting results are determined by a sporting event arranged, financed and staffed by race track operators, statutory compensation of 1½ percent of the off-track handle is paid to racing (with about half of this going to purses and the balance kept by the track operator).³ In exchange, track operators are required to supply racing information and to provide necessary on-track facilities for both the incorporation of off-track totals and for the transmission of results to off-track offices. If negotiations as to the extent of these facilities break down, the State Racing Commission or the State Harness Racing Commission, as appropriate, may be requested to mediate.

As might be expected, the most contentious element of the relationship between the OTB and the tracks is that once requested,

2. New York Law, 1970, c. 144.

3. The statutory compensation to the tracks is 1% but about 25% of this is allocated to purses. With this 0.25% added to the 0.50% of the handle dedicated to purses as statutory compensation, the effective purse and track shares are each about 0.75%.

the track operator must enter the scheme "at the prescribed price" whether he wishes to or not. This forced involvement in off-track betting has been challenged by the tracks as amounting to an improper expropriation of their proprietary rights in a sports event but the New York Court of Appeals has rejected this contention.⁴ At the time of writing, an appeal by the tracks to the Federal courts is under consideration.

In an attempt to compensate track operators for declines in attendance and volume of wagering attributed to off-track betting, the *New York State Off-Track Pari-Mutuel Betting Law* requires the Commission to adopt rules and regulations providing for reimbursement of proven revenue losses up to 1975. To be entitled to payment, the track must be situated within fifty miles of a participating municipality and have maintained a racing program at least equal to its racing program during 1969. The quantum of reimbursement is designed to ensure to the track operator 90 percent of the average daily attendance revenue (limited to the number of racing days in 1969) together with 100 percent of the 1969 pari-mutuel revenues. The local and State governments are also eligible for compensation for reductions in admission tax and pari-mutuel tax revenues.

This legislation also fixes the takeout, or deduction, from the off-track handle at 17 percent, the same as on-track. The OTB is required to pay 1/2 percent to the State in addition to the 1 1/2 percent paid to racing. It also pays the supervisory expenses of the Commission.⁵ The OTB is permitted to retain breakage and unclaimed winning tickets.⁶ After payment of operating expenses (in 1971 about 10.8 percent of the handle) the net profit is divided 80:20 between the municipality and the State, provided that any profit over \$200 million is to be divided equally.

Certain restrictions are imposed on the operation of betting shops. No radio or television equipment is permitted in the shops

4. *Finger Lakes Racing Association Inc. v. New York State Off-Track Pari-Mutuel Betting Commission and City of New York*, March 23, 1972.

5. These will be apportioned when other systems have been established.

6. An unexpected source of revenue arises from unclaimed winning tickets. While not enough time has elapsed to warrant considering any tickets "dead", OTB reports that as of December 15, 1971, winners have failed to cash \$1,854,773 worth of tickets. This seemingly large amount may be due to a number of factors, chief among which are the novelty of the system which may attract bettors whose purchase of a ticket is for "souvenir" value; the transient nature of much of the Manhattan population and their general inexperience in betting resulting in winners not realizing they have actually won.

and no drunks, bookmakers, disorderly persons or minors are allowed in the shops.

Implementation

A board of directors for OTB was appointed in July 1970. They had the statutory option of raising capital by issuing and selling bonds but preferred to borrow \$4.8 million from the City.

An agreement was reached with a computer company for the development of an automatic totalizing system. Various completion dates were set but had to be extended as many problems, perhaps inherent in the legislative scheme, evidenced themselves. Tracks were nearly uniformly uncooperative, computer systems malfunctioned and there were labour problems. Start-up costs, which at first were estimated at \$1.5 million, soon ballooned to twice that, and had reached \$22.5 million by February, 1972.

OTB started operations with a manual system in April, 1971. The first day of computer operation was June 15, 1971—seven months after initially promised delivery. Regular coverage now includes the thoroughbred meetings at Aqueduct, Belmont and Saratoga and the harness races at Roosevelt and Yonkers Raceways. OTB also covers special out-of-state races such as the Kentucky Derby by operating its own separate pools.

Not all the tracks have been unwilling partners. Monticello Raceway, a small harness track tucked away in the Catskill Mountains, signed a three-year contract with the OTB for the telecasting of three races nightly, two taped and one live. The live telecast was linked with a superfecta (a bet which may result in payoffs of many thousands of dollars since it consists of the selection of the first four horses in their exact finishing order). Other types of off-track bets for this televised coverage were across-the-board bets (combination bets on one horse to win, place or show), daily doubles and exactors.

The provision of this new service was a great success with viewers who not only saw the races on which they had placed bets but also heard the results and payouts for other Monticello races. Restrictions placed on the OTB by the Federal Communications Commission precluded the mention of scratches, post-time changes, weights, jockeys and odds, however.

The provision of this service was also a great success for the OTB and Monticello. On the day prior to its marriage with television Monticello's superfecta attracted less than \$100,000 through the OTB's shops. After, it attracted \$400,000. In addition to a \$200,000 annual payment (equivalent to about \$10,000 per night) the track was able to benefit from the statutory commission on the off-track handle. Its total handle rose to record levels but attendance fell. The track, however, was satisfied with the outcome. But the other tracks were not. They took court action with the result that further telecasts were prohibited. The key argument appears to have been the conflict with the opening of the season at Roosevelt Raceway.

OTB counter-attacked by negotiating a deal with Bowie, a Maryland thoroughbred track. Taped Bowie races were televised together with oral rundowns from Monticello and Roosevelt of as many results as could be fitted into the program while still observing the statutory half-hour delay in their transmissions.

OTB Operations

The principal method of placing bets is through one of the 72 branch offices presently located throughout the five boroughs of the City of New York. Nearly half of OTB's customers prefer to bet in offices near their homes and nearly a third bet close to work. Although there are no statutory restrictions on their locations within the city, it has been OTB policy to consult local churches and schools before signing leases. The branch offices (or "parlors") are often located near taverns and restaurants so that patrons can consult their racing forms and friends there instead of adding to the crowds in the bet shops. Decor and facilities in the shops are functional.

Customer complaints centre principally on the paucity of racing information—scratches, track conditions and so forth—available at the branch offices. During the opening months, long and slowly moving line-ups were precipitated by employee inexperience and by equipment failure. Even now, these conditions do not seem to have been entirely eliminated.

At first, betting at branch offices was terminated two hours before post-time but now, for the most part, the interval has been reduced to one hour. The eventual aim is to be able to carry betting

to post-time. The minimum bet is \$2 and OTB accepts the same types of bets that are offered on-track. Successful bettors must return to the same outlet the next day to collect their winnings, although some offices are now capable of providing pay-offs later on the same day.

If the bettor deposits a minimum of \$25 he can use the telephone betting service. Each depositor receives an account number and selects a secret code name for identification when placing bets. At the Telephone Deposit Betting Centre operators record and transmit the bets by means of computer terminals linked to the central computer system. Like bets accepted at branch offices, telephone bets are totalled and incorporated into the single on- and off-track pool on which odds are computed.

Winnings are normally credited to the bettor's account⁷ but may be mailed on request. This account feature was designed to eliminate an advantage bookmakers would otherwise have had. Although initially exceeding branch office handle, telephone betting has shown no signs of growth for some months. OTB attributes this, at least in part, to the telephone company's labour problems.

The central computer calculates total bets placed on each track, on each horse and for each position and, for in-state races, these figures are transmitted to the tracks for inclusion in their pools. It also analyses the incoming results from the tracks. When OTB covers out-of-state races, the central computer is used to create an independent pari-mutuel pool and to establish odds unrelated to those available on track.

A number of computer breakdowns demonstrated the need for a back-up system⁸ and in the summer of 1971, a back-up system operated by another supplier was established. The back-up system was intended to be used only when the main system failed but it has demonstrated greater reliability and is now being used as the main system for some branches.

Physical on-track facilities required by the OTB are minimal. Tracks are obliged to convey pre-race information to the off-track system and OTB reports the off-track totals to the tracks at intervals shortly before post-time. Totals can be updated every two minutes.

7. OTB is seeking to upgrade its computer operation to post winnings and charges in half an hour or so instead of at the end of the day.

8. When the computer failed on August 4, 1971, over \$130,000 had already been taken for a race at Roosevelt and OTB had to form a pool of its own.

You think this guy will pay off a 40-1 shot at 40-1?



© 1977 New York City Off-Track Betting Corporation

Wanna bet?

Your friendly neighborhood bookie isn't in business for his health.

So naturally he's out to make as much off of you as he can.

For example, many bookies won't pay off more than 30 to 1 on a win bet. (That means the most you can win is \$60 on a \$2 bet.) But OTB pays the same as the track* if your horse pays \$80 or even \$380, that's what you get.

We also handle the same bets as the track does (win, place, show, exacta and daily double), all the time. Bookies magically refuse to take

certain bets if they feel there's a good chance of getting beat.

And OTB will take any size bet. Most bookies won't.

Then there's the matter of collecting. Who hasn't heard of someone who was all set to collect a bundle when he learned his bookie skipped town? There's no chance of that happening at OTB.

Stop in at one of our 28 convenient offices the next time you want to bet. You'll find in New York, your best bet is a legal bet.

Off-Track Betting **OTB**

*Tracks within New York State

At first, data were transmitted to teletype terminals at the tracks where they were printed out. The print-outs were then entered manually into the pools by means of a bank of specially dedicated pari-mutuel machines which issued non-negotiable \$100 tickets. Input is now accomplished by magnetic tape and a direct computer-to-computer interface is planned.

After a year's operation, the OTB has established 72 of its intended 125-150 shops. It has nearly 3,500 employees (with about 600 at headquarters). Stimulated by advertisements such as the one appearing on the opposite page, there are over 100,000 customers daily, placing 400,000 bets and producing a turnover averaging between \$25,000 and \$28,000 per shop, plus \$1 million annually by telephone. It takes at least four weeks for a branch to reach its expected betting level. Under current plans the estimated market potential of \$1 billion is unlikely to be achieved before 1974. The build-up so far is shown in Figure 19.

There should be about 90 shops this summer with 250,000 daily customers. Operating costs are expected to be under 9.5 percent by then and it is hoped that they will eventually level off around 5 percent. The budget for the year starting in July is based on a projected annual handle of \$706 million but the OTB considers this could be increased to \$800 million with the cooperation of racing and TV. Earlier notification of entries and scratches by the thoroughbred tracks, in particular would enable OTB to increase its handle and, at the same time, correct the imbalance of betting between thoroughbreds and standardbreds; currently 40 percent of the off-track handle is on thoroughbreds compared with 55 percent on-track. This higher handle of \$800 million would also result in a profit of \$72 million instead of the \$58 million expected on the handle of \$706 million. Even the lower figure represents a profit of eight cents on each wagered dollar, however.

EVALUATION

The aims of any OTB system are basically three. *First*, it offers a public betting service designed to recapture betting money normally given to illegal bookmakers; *second*, it generates income for government and, *third*, it tends to increase the public interest and thereby improve the quality of racing as a sport to the benefit of the industry. Has New York OTB achieved these aims?

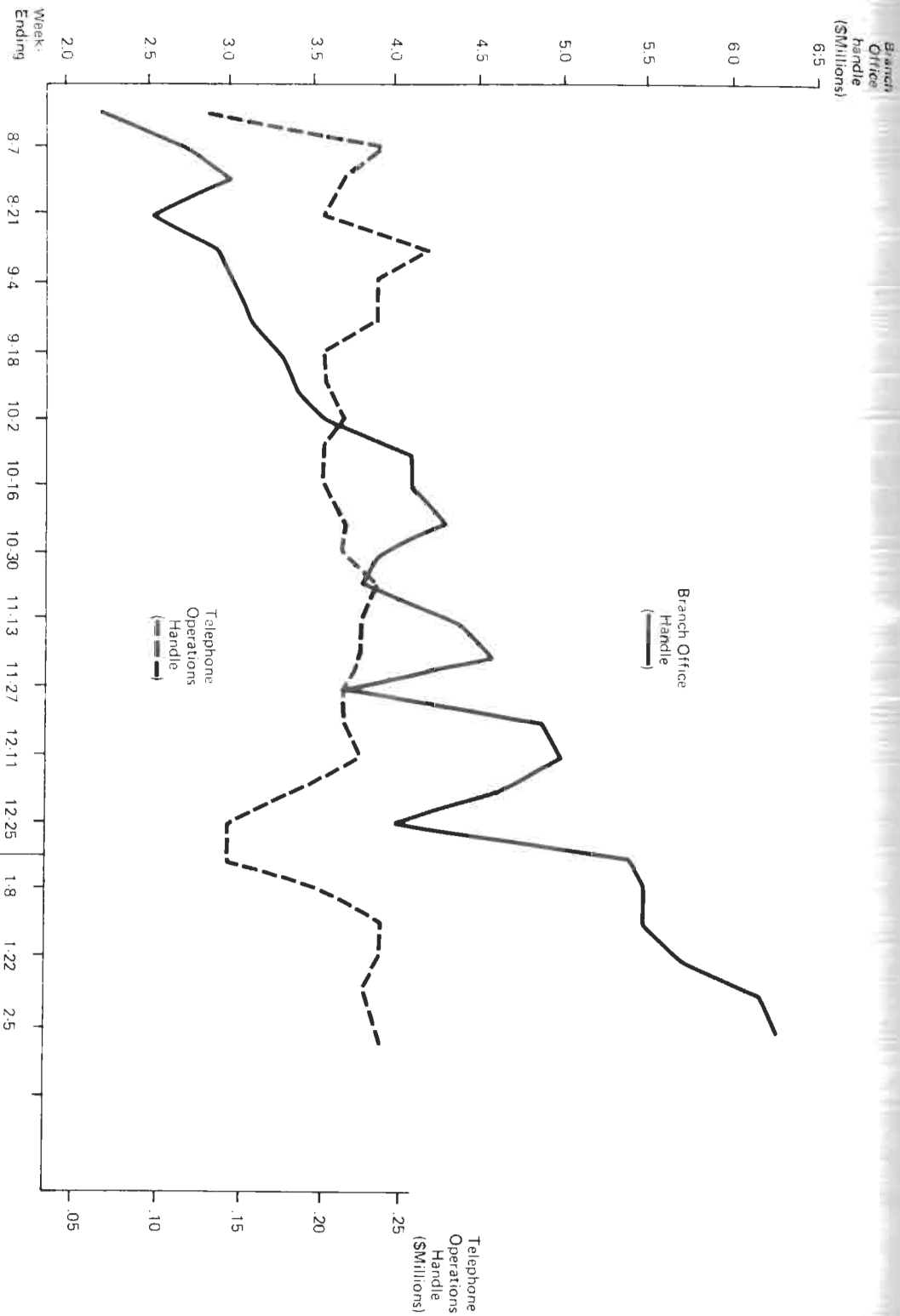


FIGURE 19: New York City Off-Track Betting Corporation, Branch Office and Telephone Centre Volume of Wagering, 1971-1972.
 (Source: Office of the New York State Comptroller)

A Betting Service to Combat Bookmakers

Apart from the sort of physical failures incumbent upon the creation of such an enormous corporation in so short a time, the New York OTB has succeeded in offering a viable alternative to illegal gambling. Customer complaints have been noted and no doubt will be increasingly acted upon as operations are regularized.

While the establishment of telephone account betting and of allowing betting almost up to post time will undoubtedly remove some of the bookmakers' advantages, it would be naive to suppose that illegal gambling will be eliminated. The bookmaker can always adapt to offer advantages, such as credit betting (rejected by OTB as morally objectionable), fixed odds, and specialty combination bets offered neither on- nor off-track. Perhaps most encouraging is the Yankelovich study which indicates that at least 40 percent of OTB's customers had previously bet with bookmakers. Indeed, it has been reported that the impact has been so great on some bookmakers that many are actually offering odds that are better than at the track.

One flaw in the betting operation, which may be peculiar to New York, would seem to be the \$2 minimum bet. Illegal betting patterns, especially in New York City, would seem to indicate that organized crime profits more from very small bets placed regularly than from larger gambling and this small betting, largely on "numbers", is still the underworld's unchallenged domain.

Revenue Source

While the initial stages of OTB in New York City have resulted in revenue much below the somewhat hopeful expectations of politicians, the revenue-earning potential has been evidenced.

Effect on Racing Industry

The third factor in evaluating any OTB system has, in New York State, become the most contentious. Relations between OTB officials and both branches of the racing industry have been, at the best, strained.

The State legislation was concerned primarily with obtaining "a reasonable revenue for the support of government and to prevent and curb unlawful bookmaking and illegal wagering on horse racing". In the Act, little thought appears to have been given to

the development of a system consistent with the financial integrity of the horse racing industry.

As well as competing with illegal bookmaking, OTB competes with legal on-track betting. The short-term result of betting facilities off-track is a decrease in the use of those on-track. This principle appears to be demonstrated in the drop in attendance at tracks covered by the OTB system. While attendance is determined by a host of factors, the inauguration of OTB has been labelled as one of the causes of attendance drops of as much as 11 percent at Belmont racetrack. When attendance drops, on-track handle does as well, and inevitably so will purses. The quality of racing is affected.

OTB faces claims for compensation for loss of revenue by Yonkers Raceway, Inc., the New York State Horse Breeding Development Fund and the American Totalisator Company. OTB denies liability for these claims. Support for this contention seems to lie in the findings of the Office of the State Comptroller⁹ that the average off-track bettor is a different type of bettor from his on-track counterpart (who bets, on the average, over \$10 per race compared with an OTB average of \$3). The midday peaking of OTB betting in commercial areas also seems to indicate betting which would not have gone to the tracks since the working bettor would be unable to attend. Further, OTB betting on non-local races is viewed as competing with bookmakers rather than local tracks. While OTB supports a change in the legislation to increase the sport's share of the take-out, it is quick to point out that even without such a change, OTB operations will mean an addition of about 20 percent to purses in 1973.

Much of the trouble experienced in the starting up of the OTB system has been as a result of the racing industry's disenchantment. Negotiations with tracks were difficult and prolonged. Partly because of the animosity, the system was deprived of the expertise, available within the racing community, in the complicated business of pari-mutuel betting.

9. Office of the State Comptroller, *Report on Operating Results New York City Off-Track Betting Corporation* (Report NYC-1-73).

The Future

While OTB experts are confident that the New York system is basically sound, the sheer volume of criticism levelled against it has made it apparent that it must be partially revamped.

The most important criticisms, those from the racing industry, have been discussed above. Those criticisms levelled at the inefficiency of the physical operations of OTB outlets are more the result of development problems than of the legislation itself. Staff are becoming more adept and most operations are now covered by reliable back-up systems.

To Howard Samuels, the Chairman and President of OTB, the most needed amendments are those designed to permit it to gain a wider clientele. He argues that the betting age should be lowered to 18 and that minors should be permitted into shops if accompanied by adults. If the betting minimum could be lowered to \$1 or even 50¢, greater effect could be had on bookmakers. Instigation of specialty bets, akin to the French "*tiercé*", would serve a like purpose, providing a betting opportunity similar to the "numbers" game. Samuels predicts that betting, if permitted, on other sports events could provide a handle exceeding that provided by horse racing. Further provisions could also be enacted to allow OTB to cover out-of-state races on a more regular basis.

CHAPTER 9

Racing in Britain

GENERAL

HORSE racing is the most important form of racing in Britain and mainly consists of flat racing, although steeplechasing and hurdle racing also take place on major tracks. In addition, point-to-point meetings are held on temporary courses by fox hunters.

The number of tracks has fallen slightly over recent years and both total and daily track attendances have markedly declined. However, largely due to sponsorship by the Levy Board, the total days raced, the total number of races, the total runners and the total prize money have all increased:

TABLE 8: Pattern of Racing in Britain, 1965-1971

	1965	1966	1967	1968	1969	1970	1971
Tracks	67	64	64	64	64	64	63
Attendance (million)	5.2	5.1	4.7	4.4	4.1	4.1	4.3
Daily attendance (thousand)	7.0	6.6	6.3	5.6	5.2	5.0	5.0
Days raced	753	774	747	801	792	831	855
Races (thousand)	4.6	4.8	4.5	4.9	4.9	5.1	5.3
Runners (thousand)	49.6	53.7	47.7	51.7	51.0	53.0	53.0
Prize money (£ million)	3.8	3.9	3.8	4.0	4.8	5.0	5.3

Although owners experience an average loss of over \$2,750 per flat racing horse, it appears to have no effect on bloodstock prices. At the three big yearling sales last year, no fewer than 25 horses sold for over \$70,000 each. *The British Racehorse* states that these astronomical prices suggest that yearling buying has moved out of the sphere of mere racing and has developed into a form of international stock market or casino.

BETTING

Betting is the dominant form of gambling in Britain. In constant price terms and also when expressed as percentages of

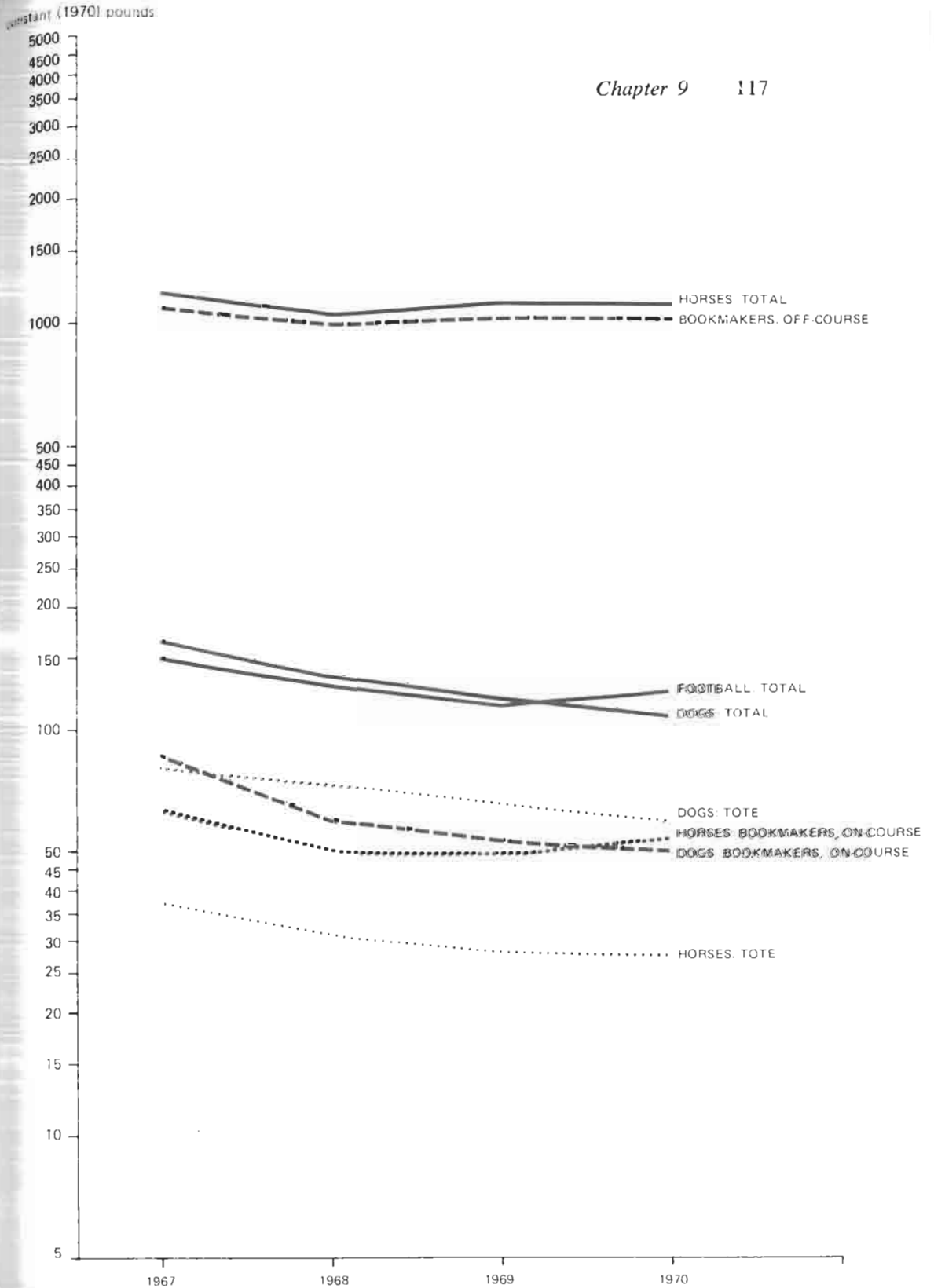


FIGURE 20: Betting in Britain, 1967-1970.

personal income, however, the main forms of betting—horses, football and dogs—have declined. With signs of recovery probably mainly due to the taxation and stricter control of gaming, betting on horses still accounts for most of the gambling turnover and money lost. Most of this betting is in the hands of bookmakers.

"Bookies" are a traditional part of the racing scene, adding colour and excitement to the atmosphere at the tracks. However, Britain's off-track betting shops have revolutionized the betting industry since they were permitted in 1960 and almost all the betting on horses is now handled off-track.

HISTORICAL BACKGROUND

In 1845, in an attempt to discourage gambling, legislation was passed declaring all gaming and wagering contracts null and void. This led to the introduction, on a very wide scale, of cash betting in shops and houses. However, in 1853 it was made illegal to keep or use any house, office, room or other place for betting or receiving money in advance (deposits) in respect of betting. This resulted in bookmakers taking to the streets and lanes to bet. Attempts by local authorities to suppress this business were unsuccessful and in 1906 the *Street Betting Act* was passed which made it illegal for anyone to frequent or loiter in the streets or public places for the purpose of bookmaking or making or settling bets. The net effect of these Acts was that the only off-course betting that was legal was that where a bettor established credit with a bookmaker and made his bets by telegram, telephone or mail.

Notwithstanding all of these efforts, illegal street betting still flourished and a Royal Commission was finally appointed in 1933 to inquire into lotteries and betting. Another commission was established after the war and in its report to Parliament in 1951 recommended *inter alia* that off-course betting be made legal in a very strictly controlled system of betting offices.

THE PRESENT SYSTEM

Off-track betting was legalized for a variety of reasons. Most importantly, the *Street Betting Act* of 1906 was unenforceable and furtive cash betting flourished on the sidewalks and in back alleys alongside its legal companion, telephone credit betting with

"turf accountants". The street bookmakers regarded their routine prosecutions as harassment while the police viewed them as an obstacle to good public relations. The police were supported in their view by the magistrates who believed the small fines permitted by the Act to be ineffectual, with their repetition tending to bring the law into disrepute. Further, licensing betting offices made it possible to subject off-track cash betting to a levy for the benefit of horseracing and to taxation for the benefit of general government revenue.

Although it was also considered undesirable to restrict the individual's freedom to bet, Parliament did place restrictions on the freedom to promote betting (making it illegal, for instance, to advertise betting offices). Even so, the 1960 *Betting and Gaming Act* not only made off-track betting more socially acceptable but also a ready subject for commercial exploitation.

The first bet shops were mostly small premises in minor streets. These locations were convenient and adequate as replacements for street betting but their effect was to quickly modify the pattern, with continuous wagering replacing the placing of bets once a day. "Not only was telephone betting reduced but also many began to bet frequently who had previously done so rarely or not at all".¹

Business boomed, the atmosphere in the betting shops expertly heightened to achieve this. Loitering is permitted and betting information and race commentaries are broadcast live from the tracks. With immediate payment of winnings, these conditions encourage bettors to chase their losses or re stake their winnings until they are lost.

As the volume of betting increased, the shops were moved to bigger premises on more important streets. Despite the increased overheads, profits grew—with the result that one bookmaker² called the betting offices "money factories". Most of them have turnovers of less than \$3,000 per week but many of those run by large organizations have turnovers five times as high.

1. Gordon E. Moody, *The Facts about the "Money Factories"* (London: Churches' Council on Gambling, 1972). This booklet has been used as a major reference in this chapter.

2. Mr. John Banks, as quoted in *The Observer*, February 2, 1969.

These organizations appear to have at least 25 percent of the off-track betting business and some of them have become public companies, with four of them ranking in the top twenty for share performance by all public companies.³ Some of these chains have diversified into gaming and bingo while the Rank Organization, having already converted some of its movie theatres into bingo halls, has now entered off-track betting. Hotel and property development companies have also set up betting offices. Off-track betting has become a sophisticated operation and many of the old-time bookmakers with criminal records have been driven out of business. Bookmaking has become respectable.

While bookmakers handle about three times as much betting on-track as the government-owned Horserace Totalisator Board ("Tote") their off-track handle is about seventy times that of the Tote. This ratio would be higher if an estimate could be made for illegal bookmaking in factories and other work places, often by former licensed agents of the legal bookmakers.⁴

THE HORSERACE TOTALISATOR BOARD (TOTE)

For some years, the Tote has been operating at a loss as a result of maintaining totalisators at every track without being able to take fixed odds bets and other types of bets (such as bets on foreign races and on non-racing events) which are popular with the public and highly profitable for bookmakers. In order to meet its operating expenses, taxes and levy, it has had to deduct an average of 18.7 percent from every betting pool (this deduction including the betting tax). This is almost double the sum bookmakers withhold and makes the Tote's odds uncompetitive. In particular, its "dividends" have not been competing successfully with the bookmakers' starting prices in the vital areas of shorter-priced horses ("favourites").

The Tote has responded by adopting a new method of calculating the win pool dividend in order to improve the pay-out in the range where it had previously been at a disadvantage in comparison with bookmakers' starting prices. In addition, the

3. Mr. John Davis, *Business Observer*, December 20, 1970. In 1970 Coral shares rose by 119 per cent, placing the company eighth. Ladbroke's, the largest public company, had 660 betting office licences by the middle of 1971.

4. Bookmakers are able to obtain licences to engage agents on a commission basis but the numbers licensed have fallen, most rapidly when taxation was increased.

"forecast" (quinella) pool has been extended to include races with ten runners. The Tote operates "win", "place", "forecast", "daily double" and "daily treble" pools at every meeting. In addition, a "jackpot" (accumulator) pool is operated at major meetings and a "tricast" pool (first, second and third in correct order) is operated on the Derby and the Grand National.

The Tote's off-track turnover is nearly as large as its on-track and is handled through both cash and credit betting offices. The imposition of a tax on off-track betting premises which came into effect in 1969 forced it to close a number of cash betting offices and also a number of credit betting offices established to handle telephone betting. The tax on off-track betting premises was repealed in 1970 but the tax on off-track turnover was increased from 5 percent to 6 percent, one percentage point higher than the on-track tax (which remained unchanged). These rates are low compared with those imposed in other countries.

To restore the Tote's tottering finances, its annually determined contribution to the Levy Board has been made subject to its meeting its other commitments, though otherwise maintained at 1½ percent of its betting turnover. Because of its extremely difficult financial position, it made no contribution to the levy in 1970/71 and its plans for mechanization and computerization have been shelved.

The Tote has been restricted to accepting pari-mutuel bets on horse races in the United Kingdom since its inception in 1928 but legislation now at the committee stage in Parliament is intended to enable it to operate pari-mutuel bets on foreign races and fixed odds bets on any sporting event. In addition, the Home Secretary would be given power to approve further extensions of its activities. This Bill has encountered considerable opposition, however.

The racing industry would like to see a Tote monopoly in order to maximize the subsidization of racing by betting but Lord Wigg, Chairman of the Horserace Betting Levy Board, opposes such "a desire to pour large sums of money into rich owners' pockets . . . at the expense of the bookmaker", adding: "Britain no more needs a tote monopoly than it does a bookmakers' monopoly. Both methods of betting are needed by the public. If unwise legislation sought to repress the kind of betting that the

general public indulges in with bookmakers, the result would be a spate of illegal activities with all the consequences of racketeering that would follow as surely as night follows day."⁵

Lord Wigg holds the view that the Tote cannot be efficiently run as a government body and that it ought to be handed over to private enterprise.

THE HORSERACE BETTING LEVY BOARD

Like the Horserace Totalisator Board, the Horserace Betting Levy Board is responsible to the Home Secretary. But while the members of the Totalisator Board are appointed without restriction as to background, only the Chairman and two of the seven members of the Levy Board are appointed by the Home Secretary. Three are appointed by the Jockey Club (the non-profit regulating authority for flat racing) and the remaining members are, *ex officio*, the Chairman of the Bookmakers' Committee and the Chairman of the Totalisator Board.

The Levy Board has encouraged and subsidized weekday afternoon racing in order to maximize off-track betting.⁶ It has done this because it derives most of its revenue from a complicated system of levies on bookmakers, mainly scaled according to turnover. These levies are very low.

The Board's pattern of expenditure has responded to and conformed with changing needs and circumstances. Besides providing stallions for private breeding and operating tracks, race starting, photo-finishes and race timing, film units and a video unit, public address systems, and race commentaries, the Board makes discretionary grants for the improvement of horseracing and of breeds of horses and for the advancement of veterinary science and education. It also makes loans and advances to track owners, and the legislation before Parliament would empower it to provide financial support to the Tote.

The grants for the improvement of horseracing have been the most important of these outlays since the Board's establishment in 1961 and have mainly consisted of prize money, with track improvements being the next most important item. Despite these expenditures, exceeding \$50 million over the past ten years,

5. *The Times*, March 29, 1972.

6. Lord Wigg, letter to the Editor, *Daily Telegraph*, July 13, 1971.

the requirements of the racing industry have not been fully met although, as a result of flexible allocation of grants to tracks (previously related to totalisator turnover), all but a few are now expected to be profitable.

Prize money was doubled in 1969/70, the first claim on the additional money being an increase in minimum purses. At the same time, the ratio of Board prize money between flat racing and jumping was restored to the 2:1 ratio of betting between the two racing codes. For both Board and other prizes, 10 percent must go to the trainer, 7½ percent to the jockey and 2½ percent to the stable personnel.

TABLE 9: Levy Funds Used for the Benefit of Horseracing in Britain, 1968-1972

Year ended March 31	1968	1969	1970	1971	1972
	Percentage of horserace betting handle				
Levy funds used for the benefit of horseracing	0.30	0.32	0.45	0.46	0.51

CONCLUSION

Probably mostly for historical reasons, Britain has opted for a system of betting dominated by bookmakers. As well as being only a very minor source of tax revenue, this system makes an extremely low contribution to racing compared with the contributions made in France, Japan, Australia, New Zealand and Ontario. It may therefore be concluded that the British system of betting provides an example to be avoided.

CHAPTER 10

Racing in France

GENERAL

FRANCE is reputed to have the best racing in the world. It is organized in three codes: *plat* (flat galloping), *trot* (harness) and *obstacle* (hurdle, steeplechase and cross-country). Most of the races are harness but most of the horses are gallopers and flat racing provides nearly half the purses and awards.

TABLE 10: Pattern of Racing in France, 1970

1970 data	Plat	Trot	Obstacle
Races	3,654	6,599	1,693
Different runners	7,557*	7,432	3,646
Purses and awards	46%	32%	22%

*Of which 2,039 also race over obstacles.

French racing is dominated by the five Parisian societies. The *Société d'Encouragement pour l'Amélioration des Races de Chevaux en France*, founded in 1833, promulgates and administers the rules for flat racing and conducts races at Longchamp, Chantilly and Deauville. The *Société des Steeple-Chases de France*, founded in 1863, promulgates and administers the rules for obstacle racing and also conducts steeplechasing at Auteuil. The *Société du Cheval Français*, founded in 1864, promulgates and administers rules for harness racing which it also conducts at Vincennes. The *Société Sportive d'Encouragement* conducts flat racing at Saint-Cloud and Maisons-Lafitte and harness and obstacle racing at Enghien. The *Société de Sport de France* specializes in races for amateurs and apprentices, conducting races at Longchamp, Chantilly, Maisons-Lafitte and Vichy. Tracks may be used by different societies and for different forms of racing.

The five Parisian societies are joined with the 351 other private, non-profit racing societies in the *Federation Nationale*

which meets annually to set the racing calendar and to determine the amount to be paid by the Parisian societies to subsidize racing in the provinces.

BETTING

The annual betting handle is nearly \$2 billion or about 60 percent of the total gambling turnover. Most of the other gambling is in casinos. The national lottery has been losing popularity for some years and is now of little importance.

In 1970, 52 percent of the betting was on flat races, 27 percent on harness races and 21 percent on steeplechases and other obstacle races. Over 90 percent of the betting is on races conducted by the Parisian societies and 86 percent of the betting is off-track.

ON-TRACK BETTING (Pari Mutuel Hippodrome)

Invented by a Frenchman, pari-mutuel betting was made a track monopoly in 1891 and it is the only form of on-track betting allowed. It is operated by a common service of the Parisian societies known as the *Pari Mutuel Hippodrome (PMH)*. This form of betting offers win and place pools, accumulators and exact order and non-order pools requiring the selection of the first three horses in one race (like a triactor). The *jumulé accumulator*, requiring the selection of the first two horses in each race, has proved very successful, accounting for over 25 percent of the on-track handle. The total annual PMH handle is about \$220 million, of which nearly two-thirds is on races run by the Parisian societies. Operating costs average 4.5 percent of handle.

OFF-TRACK BETTING (Pari Mutuel Urbain)

In an effort to discourage off-track bookmaking (which was and is illegal) and to raise more money for racing and government, an off-track pari-mutuel service was established in 1930. With the exception of two insignificant forms of combination bets (the *triplé* and *trio*) operated by some of the provincial societies as extensions of their on-track pools, off-track betting is the exclusive preserve of the *Pari Mutuel Urbain (PMU)*. Although this is operated as a department of the *Société d'Encouragement*, it is controlled by all the Parisian societies and it also provides a service to the provincial societies.

The PMU operates 21 betting shops directly (six in Paris and fifteen in other centres). These handle only *simples* (win and place pools and accumulators on these pools) which are combined with track pools. Bettors using these shops have no indication of the final odds if they place their bets in the morning but those who bet in the afternoon are given the probable odds. These shops handle less than 15 percent of the off-track handle. Telephone betting is also available but accounts for less than 1 percent of the handle.

Most of the off-track betting is handled by the PMU's 5,000 café-owner agents who receive a commission of 1.13 percent of their turnover. They would like a small salary as well but the PMU considers the commission to be adequate when allowance is made for the café customers their agents are able to draw away from cafés not used as agencies. This additional business is not restricted to refreshments since cafés often sell tobacco as well. At present there are about 103 betting agencies in Paris and the suburbs.

More than 80 percent of the off-track betting is on two forms of combination bets—the *tiercé* and the *couplé*—handled by these agents. With large fields, small stakes and high payouts, these differ little in character from the sweepstakes on horse shows which are the most popular draws of the national lottery.¹

Unlike the *simples* bets accepted by agents, the *tiercé* and *couplé* pools are not combined with on-track pools.

The *tiercé*, the leading form of off-track bet, consists of choosing three horses in their correct order of finish. If they finish as the first three but not in the selected order, the bettor gets a consolation or "basic" dividend. The exact order dividend is always five or more times as high. The minimum stake is three francs (60 cents) and there is a maximum wager of sixty francs (\$12) per bettor. This limitation was imposed largely as a result of the unprecedented success of one systematic player—Patrice des Moutis—who, on at least three occasions, has won over a million dollars. One of these coups, a win of over \$800,000 in 1962, has involved him in charges of fraud based on his alleged circumvention of the maximum bet rule by enlisting friends to place bets on his behalf. The case was dismissed in the Paris Criminal Court but with the stern judicial admonition that his activities amounted to

1. As many as seven million players have bet as much as \$15 million on a single *tiercé*. Payouts of over a million dollars are not unheard of.

"a waste of his intelligence in these vile enterprises". The Racing Societies and the *Pari Mutuel Urbain* plan to appeal.

Tiercés take place between 70 and 80 times a year, on Sundays or holidays. Restricted to one race, a classic or major stake is chosen by the selected track unless the field is too small or two or three runners stand out. Fields number as many as 30 but the ideal is about 18.

Couplés operate on five different races each day, three in the afternoon and two in the evening. A win *couplé* consists of picking the first two horses, regardless of order. A place *couplé* requires that the two selected horses finish among the first three. The bet can also be placed "both ways". The minimum stake of two francs (40 cents) is the lowest available, comparing with the on-track minimum of five francs (\$1).

The Operation

Each *tiercé* and *couplé* ticket has three parts which the bettor folds before writing out his selection in order to provide carbon copies. He confirms his selection by clipping notches on the edge of the ticket. He then presents his ticket for validation by taking it along to an agent at any time between 8:00 a.m. and shortly before 1:00 p.m. and handing it over with his money. The agent has a small machine which marks the ticket with the date, race numbers, place of registration and special code of the day.

Special carbons and inks are used to indicate whether the ticket was validated before being written on. As a further part of the process to prevent fraud, the agent returns only one part to the bettor, keeping the other two for sending on to one of the 43 collating centres (which retains one part and sends the other to a regional office as a further check against alteration).

Winning bets are identified manually at the collation centres and are transmitted to Paris for calculation of the payouts. The serial number of each winning bet and its payout is then recorded on a sheet at the centre and the sheet returned to the agent. If the payout for a ticket is under \$2,000 the agent is able to cash the ticket the next morning. As an additional step to prevent fraud, winning bets over \$2,000 are paid by cheque.

Deductions

The system of deductions from the wagering is extremely complicated. The amount varies according to race locality and the type of bet as well as whether it is placed on-track or off-track. Not only do the commissions to tracks vary but there are local taxes as well as various national taxes and there are progressive taxes as well as proportionate. To complicate matters further, there is a separate breeding levy which also varies.

The simplest way to make sense of these complications is to say that, on average, deductions total 26 percent of the amount bet. Taxes (including breakage) average 17 percent, commission averages 8.5 percent and the levy 1.5 percent.

After paying the expenses of the national stud, 40 percent of the breeding levy revenue is allocated to improving the breeding of non-race horses and 60 percent is paid into the Common fund which is administered by a committee of seven members, three representing the Government, two representing the Parisian societies and two representing the provincial societies. In addition to these proceeds the fund receives voluntary contributions from the Parisian societies

Payments from the fund consist of awards to breeders and of subsidies and loans to provincial societies. The breeders of the first three horses in each race receive awards equal to 10 percent of the purse money earned by the horses they breed in France. In subsidizing provincial racing, the fund provides 82 percent of the purse money as well as some track expenses and long-term loans for capital expenditures.

Track commissions on off-track handle average 8.5 percent. They are lower for metropolitan on-track betting and higher for provincial on-track betting. Since the operating expenses of the PMU average 3.6 percent the net profit for the Parisian societies from off-track betting is 4.8 percent.² This compares with 2.7 percent on-track (where operating costs are much higher). This return, it should be noted, is after *all* taxes.

Since 86 percent of the betting is off-track, it is clearly the off-track betting system which enables the Parisian tracks to offer the richest purses in the world.³

2. Over \$60 million annually.

3. Averaging more than \$10,000 for flat races.

CONCLUSION

The main conclusion which can be derived from French experience is that combination betting, offering very high odds on very small stakes, is especially attractive to the betting public and that this lottery form of betting can be operated very profitably separately from on-track pools.

CHAPTER 11

Racing in Japan

GENERAL

WHILE horse racing in Japan can be traced to the year 701, it was not until 1861 that modern organized racing began in what is now Yokohama. By 1888, coinciding with the introduction of pari-mutuel betting, the popularity of the sport increased rapidly and racing clubs sprang up all over the country.

Alarmed at the phenomenal growth of pari-mutuel betting, the Government reacted by prohibiting pari-mutuel betting in 1908. Racing activities were brought to a standstill.

In 1923 the law was amended to permit pari-mutuel betting subject to strict government controls. Limits were placed on the number of bets permitted (one per person per race) and the amount of winnings (ten times the face value of the wager). At the same time, the racing clubs were converted to non-profit organizations and amalgamated into the Japan Racing Society.

With the outbreak of hostilities in 1937, the Government increased its deduction from 6 to 11.5 percent making the total deduction 18 percent. As the war progressed and further funds were required, the *Pari-Mutuel Ticket Tax Law* increased the deduction rate to about 35 percent and, finally, in 1944 horse racing was suspended.

In 1948, a new horse racing law dissolved the Japan Racing Society and vested the control and supervision of racing directly in the hands of the Ministry of Agriculture and Forestry. Jurisdiction for local racing was transferred to the regional and municipal governments. At the same time, the limitations on pay off were abolished and pari-mutuel betting on other activities such as bicycle racing, motorcycle and motor boat racing was recognized. By 1950 the pari-mutuel deduction reached its current rate of 25 percent.

National Racing (The Japan Racing Association)

In 1954, the Japan Racing Association, a public corporation, was established to assume responsibility, under the aegis of the Minister of Agriculture and Forestry, for the administration and control of national (as distinct from local) horse racing. In addition to operating the ten national race courses and the related on and off-track pari-mutuel systems, it registers owners, horses and racing colours, licences trainers and jockeys and provides facilities for training jockeys and rearing horses.

Local Racing (The Japan Local Racing Association)

Local racing, on the other hand, is the joint responsibility of the Japan Local Racing Association which is concerned with the registration of owners and horses, licensing of jockeys and the promotion of breeding and the local Prefecture and Municipal Governments which operate the 32 local race courses in Japan.

Racing

Although 30 American trotting horses were imported into Japan in 1956, national horse racing consists of either thoroughbred flat races, thoroughbred steeplechase races of Anglo-Arab flat races. Over 90 percent of the races are thoroughbred races and almost 94 percent of all racing is flat racing with steeplechasing accounting for only slightly more than 6 percent.

During the 286 racing days in 1971, the Japan Racing Association conducted over 3,000 races on its ten race courses located throughout Japan. Total turnover (both on and off-course) amounted to over \$1.4 billion or, as can be seen from Table 11 23.58 percent of all moneys wagered on all kinds of racing. Local horse racing was responsible for almost 17 percent of the net turnover and attendance.

Dirt or sand courses were first introduced to Japan in 1961 at the Tokyo race course. Now there are three other national race courses which have either dirt or sand facilities in addition to the turf course and two race courses which have a sand track as the main course. This allows the Association to hold extended race meetings lasting up to eight days.

TABLE 11: Racing in Japan, 1971

Type	Number of Courses	Racing Days	Net Turnover (\$ million)	Percentage of Total	Attendance (million)	Percentage of Total	Turnover (\$ million)	Average per Day Attendance
National Horse Racing	10	286	1,404	23.58	13.2	11.39	4.9	46,013
Local Horse Racing	31	2,069	1,008	16.94	20.4	17.63	.49	9,841
Bicycle Racing	51	3,678	1,824	30.64	42.3	36.67	.50	11,516
Motor Boat Racing	24	3,888	1,471	24.71	32.7	28.30	.49	8,406
Motor Cycle Racing	6	623	246	4.14	6.9	6.01	.40	11,147
Total	120	10,544	5,953	100.00	115.5	100.00	.56 (average)	10,955 (average)

Breeding

Over the past few years the number of horses bred in Japan far exceeds the number of runners required per year. The supply so greatly exceeds the demand that only 10 to 20 percent of the total number of thoroughbreds bred are even offered for sale and less than one-third are actually sold. In 1971, for example, 819 horses were offered for sale but only 262 were sold.

OFF-TRACK BETTING

The racing industry in post war Japan was faced with the problems of rebuilding its ruined race courses and replacing its racing stock. These problems were further accentuated by the deteriorated transportation facilities. Unable to cope with the increasing number of fans attracted to racing, the industry watched as illegal bookmaking flourished. In order to resolve these problems, a system of off-track pari-mutuel wagering was conceived and, in the summer of 1948, the first off-course betting office was opened on the Ginza in Tokyo. Today there are about 14 off-course betting offices located throughout Japan, nine in the Tokyo-Yokohama (Kanto) region and five in the Osaka-Kyoto (Kansai) region.

The growth of off-course betting has been neither smooth nor free from restriction. By 1961 its popularity had grown to such a level that a concerned Government established a Public Gaming Advisory Committee to consider and advise on the extent of gaming in general. The attitude of this Committee was that gaming such as horse racing, bicycle racing, motorcycle and motor boat racing ought not to be encouraged above the existing conditions and the establishment of new on or off-course betting facilities was curtailed.

The Operation

It should be pointed out, at this stage, that unlike the modest agencies in New Zealand and Australia, the off-course betting facility in Japan is a multi-story complex consisting of about six or seven floors and up to 340 betting windows.

Win and place betting in Y200 (60¢) and Y1,000 (\$3) denominations and quinella betting in Y200, Y500 and Y1,000 denominations are available. Due to the 25 percent deduction (10

percent to the National Treasury, 9 percent for operational expenses and 5 percent for purse money) almost 93 percent of all the wagering takes the form of the quinella with win and place betting accounting for only three percent and 4 percent respectively.

As can be seen from Table 12 the off-course share of the betting market has steadily increased from 31.9 percent in 1955 to 50 percent in 1971. In that year about \$700 million of the \$1.4 billion was wagered off-course.

TABLE 12: Off-Course Turnover of Japan Racing Association, 1955-1971

Year	Total Turnover (A)	Off Course Turnover (B)	(B)/(A)
1955	¥ 11,117,877,800	¥ 3,551,621,900	31.9
1956	13,858,104,700	5,108,311,500	36.8
1957	16,408,352,500	6,240,252,100	38.0
1958	18,986,103,300	7,863,380,300	41.4
1959	22,851,509,800	9,497,364,000	41.5
1960	29,074,485,400	11,493,649,900	39.5
1961	37,392,591,400	14,574,679,800	38.9
1962	48,559,530,800	20,017,702,400	41.2
1963	53,534,415,700	23,773,216,100	44.4
1964	65,416,780,600	29,063,815,300	44.4
1965	86,778,545,100	38,408,229,800	44.3
1966	121,882,027,800	57,227,417,400	47.0
1967	152,864,959,800	74,191,103,000	48.5
1968	243,000,984,600	123,827,237,200	51.0
1969	323,217,573,400	154,886,579,500	47.4
1970	407,366,075,900	203,637,790,400	49.9
1971	469,058,348,900	234,593,327,600	50.0

As can be clearly seen from Figure 21 the total turnover on national horse racing has shown a tremendous growth from \$80 million in 1960 to \$1.4 billion in 1971.

The System

On the day of the race, the sale of pari-mutuel tickets for all races begins at 9:00 a.m. It closes for each individual race between one and two hours before post-time. After the race is closed, the totals are calculated and reported to the off-course betting collation centres by telephone. There they are integrated with the reports from the other off-track betting establishments and communicated to the race course by either telephone or radio about 10 to 30 minutes before post-time for incorporation with the on-course pari-mutuel pool.

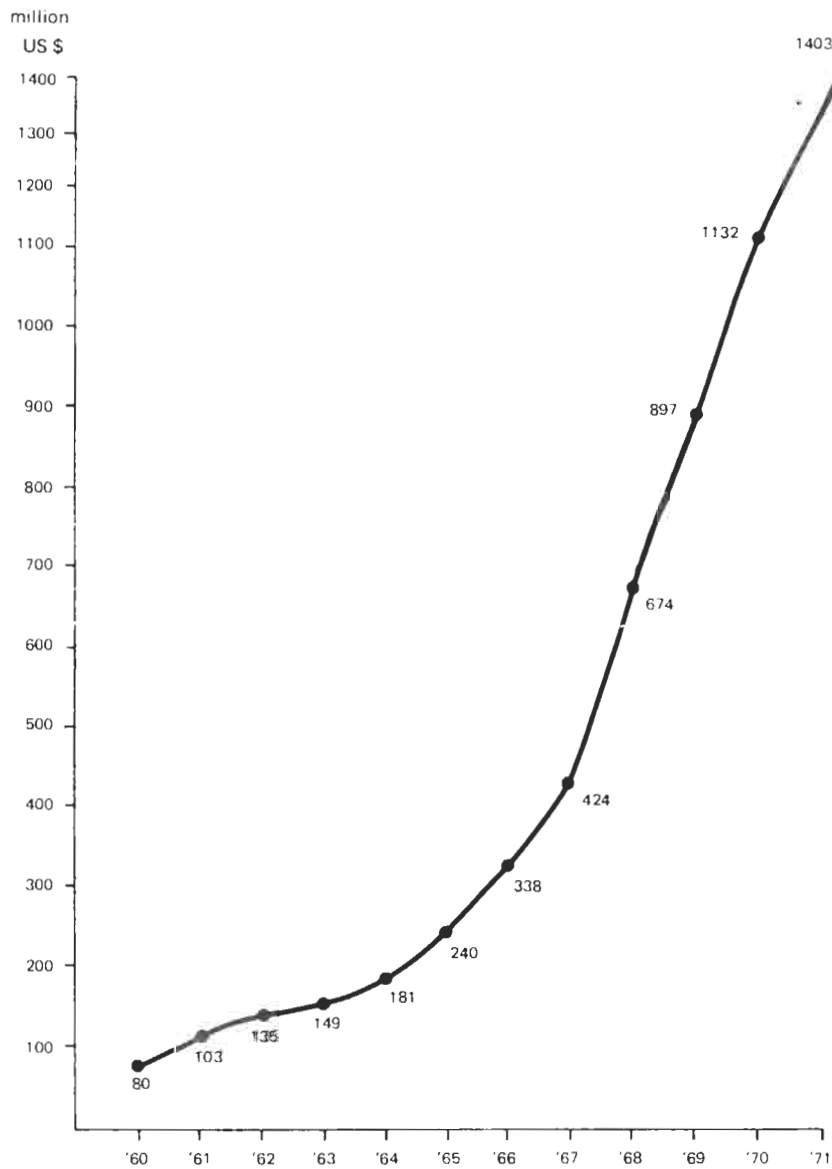


FIGURE 21: Volume of Wagering on Races of the Japan Racing Association, 1960-1971. (Source: Japan Racing Association)

A live broadcast of the race is transmitted to each off-course betting office and after the winner is declared and the pay off confirmed winning tickets are cashed.

Recently, the two principal off-course betting offices in Tokyo were computerized and the information is now capable of direct transmission to the off-track betting headquarters.

PART THREE:
THE PROPOSAL

CHAPTER 12

A Pattern for Organization

GENERAL

IN this section of the report, we are concerned with outlining the appropriate form of organization needed to administer an off-track betting system in Ontario. The operating system itself is described elsewhere.

Overall, our investigations have been guided by a number of factors which we consider of paramount importance. These basic criteria for establishing any form of organization have been a predominant (and we feel valid) theme of the majority of briefs presented to the Task Force. In summary, these guidelines are:

- (1) Although a particular system of off-track betting (and consequently organization) is proved to be successful and a help to the racing industry in one country, it should not be presumed that an identical system would necessarily attain identical success in other jurisdictions.
- (2) Legislators however, considering the initiation of off-track betting should not ignore existing experiences in other countries—some business principles, some general concepts, some lessons may be learned from operations elsewhere.
- (3) All sectors of the industry—racing associations, horse owners, breeders, suppliers—depend for their survival upon the revenues generated at one point—the race track; further, the pricing aspect of most track revenue is either set by law or negotiated with the horsemen's organizations and concessionaires within a highly competitive entertainment industry with the result that price increase is a response not open to track management, should off-track betting lead to reduced track attendance.

- (4) In view of the parameters on revenue and the financial situation of the industry as outlined earlier in this report, it is essential that all major segments of the industry have an effective voice on the off-track betting organization, which can so intimately affect their position, so as to ensure that the economic base of the industry is not jeopardized.
- (5) Government, as an existing major influence and controlling factor on the economics and integrity of the industry, must necessarily also have a major voice in any off-track betting operation.

THE ORGANIZATIONAL IMPLICATIONS FOR ONTARIO

Legalized off-track betting has been operated in a number of countries for sufficient years to allow us to profit from their background of experience. Systems have been operational in Britain, France, Japan, South Africa, Brazil, Australia, New Zealand and several other countries. In addition, New York already has and a number of other states in the U.S. are proposing to legalize off-track betting.

What observations can be made about the experiences in these other jurisdictions? What lessons can be learned from their organizational patterns?

In all 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 to improve it. The amount of additional revenue returned to racing was dependent upon how efficiently the off-track betting was handled and how much the government decided to take from it. In addition, no matter how intelligent, earnest or highly paid the executives of an off-track betting agency or members of a commission are, lack of experience and technical knowledge in the highly specialized business of pari-mutuel betting is a grave handicap to success. Even with race track operators administering off-track betting and experienced pari-mutuel managers operating it, off-track betting is pointless if expenses exceed revenues. A low cost of operation is essential.

Off-track betting may adversely affect track attendance and reduce the profits of racing clubs. Government, too, depending on

its "take-out" from the betting turnover for revenue purposes, can adversely affect the industry by not allowing sufficient funds to be returned to the industry for such matters as capital improvements and increased purses. In addition, the lower the takeout (by way of the groups involved), the closer the competition of the bookmaker is met; a higher takeout results in a greater profit margin for the bookmaker—consequently bookmaking flourishes.

Most jurisdictions which are successful in operating off-track betting started the scheme slowly and gradually expanded operations as experience dictated.

The system for purposes of effective co-ordination should be province-wide and controlled by one organization. Otherwise a chaotic situation could develop.

The interests of small tracks, horse owners and breeders—the "grass-roots" of the industry—need to be protected if these are to survive in parallel with an off-track betting operation.

The off-track betting organization and the race tracks, for either to be ultimately successful, should not deliberately compete with each other. The off-track betting operation should not provide services designed to draw significant numbers of people away from tracks.

In some jurisdictions (notably Ontario itself) the racing industry is confronted by financial problems and limits on revenue. Hence, all major segments of the industry, including government, should have a voice in the off-track betting operation which can so directly affect their financial positions.

Flexibility of administration is another key ingredient of a successful off-track wagering operation. This flexibility is especially necessary in the areas of staffing (due to fluctuations in volume and odd operating hours—witness the Australian and New Zealand operations) and in the ability to quickly respond to market requirements (i.e. public demand for introduction of various types of combination or speciality betting). The success of the French system has been due in large part to flexibility in this latter area.

Finally, for off-track betting to help the racing industry it must successfully compete with the bookmakers in matters such as convenience of location and types of betting.

Bearing in mind the trends and experiences in other jurisdictions, it is apparent that certain organizational patterns are viable while others offer significant drawbacks.

However, before we can effectively develop an organizational pattern for Ontario, we must first establish the basic objectives of the organization, whatever form it might take. Our investigations, and the particular state or situation of the racing industry in Ontario lead us to believe (and a majority of the briefs presented to the Task Force are in agreement) that the following are the prime objectives of any Ontario off-track betting organization or system:

- to provide a legal opportunity for pari-mutuel wagering as an alternative to illegal untaxed gambling and to thereby suppress bookmaking and related criminal activities;
- to provide a fraud-free service to the wagering public;
- to assist in maintaining the financial integrity of the racing industry;
- to increase the income to the racing industry as a whole to allow for the improvement of the sport of racing;
- to increase revenue to government.

Given these objectives, a number of organizational alternatives become apparent and are discussed below.

THE ORGANIZATIONAL ALTERNATIVES

It should be pointed out that we are concerned here with only overall or broad "corporate" forms of organization. The specific or detailed organization and staffing (i.e., to the branch, section and individual position level) of the off-track betting agency will, in the final analysis, depend on the type of operating system adopted, the size of the system, and other similar matters. Hence, it becomes pointless to speculate upon the exact form of detailed organization at this time. Furthermore, we feel that it is the prerogative of the key senior operating executives appointed to the agency to participate in the final detailed shaping of their organization. However, the organization will require certain basic functions common perhaps to all businesses such as audit, personnel and payroll operations. For a guideline, no doubt, the final detailed organization structure will bear some resemblance to those utilized in other

jurisdictions. Several of these structures have been referred to earlier in this report. However, for the purposes of costing a scheme and determining the financial requirements we have assumed, for the time being, an organization structure such as shown in the section on financial feasibility.

Before considering further the structure of any agency to *operate* off-track wagering, the *regulatory* aspects of the problem should be first examined.

Regulation

The Canada Department of Agriculture enjoys jurisdiction over the supervision of *on-track* pari-mutuel wagering, and has done an effective job in this area. Some segments of the racing community have suggested that in any new legislation enacted this jurisdiction should be extended to also include regulation of all off-track wagering activities. However, we feel that such a step would seriously impair the administrative flexibility so essential to a successful off-track wagering operation since every change in betting and other procedures would have to be negotiated with another level of government.

The matter is further complicated by the fact that the Ontario Racing Commission is responsible for the regulation and control of horse racing and would also have to be consulted to some degree. As we have already indicated in the first chapter of this report, we feel that the necessity to negotiate with two different organizations, at two different levels of government, would seriously hinder the effectiveness of any off-track betting organization.

However, we do recognize that effective supervision of off-track wagering is necessary and valid—a system of checks and balances on such an organization is definitely required, if for no other reason than to ensure the integrity of the system.

As expressed earlier in the report, our recommendation is that the *Criminal Code* be amended to provide that all off-track betting is unlawful except as provided by provincial law. Such an approach would provide the flexibility necessary to allow off-track betting to be dealt with in different ways in different parts of the country as circumstances warrant.

One might ask why off-track betting in Ontario should not be supervised by an already existing body; namely, the Ontario

Racing Commission. It is important to understand that racing and betting, while related, are distinct activities and are presently under the jurisdiction of separate bodies. The Ontario Racing Commission, under its legislation, is required to regulate and supervise racing in Ontario in all of its forms. Betting, on the other hand, is under the control and supervision of the Canada Department of Agriculture.

We feel that the regulation and supervision of the organization could be best achieved through the Provincial Government. The statute creating the off-track wagering organization could provide that any major proposals for changes in operation would have to be submitted to and approved by the Lieutenant Governor in Council. Minor changes would be left to the discretion of operating management. In any case, the areas requiring Government approval could be specifically delineated in the legislation establishing such an organization.

Operation

As to the structure of the operating agency itself, certain organizational alternatives are available. These are:

1. Private licensees
2. Private monopoly (i.e. one private corporation)
3. Racetracks
4. Racing industry consortium
5. Government
 - (a) Ontario Racing Commission
 - (b) Department or Ministry
 - (c) Crown corporation
6. Government—racing industry consortium
(Crown corporation or provincial board or commission)

We will endeavour in this section to outline the advantages and disadvantages of each form of organization and arrive at a recommended form of "corporate" organization.

1. Private Licensees

We see no reason why private licensees (for instance, messenger services) who have contributed nothing to the racing industry should be introduced into the system of off-track wagering and in this view we are supported by those who appeared at the public hearings representing all branches of the industry. In such

a system, a monitoring and supervisory agency would still be required for co-ordination purposes and to ensure the integrity of the operation. This latter requirement is absolutely essential, considering the personal profit motive involved. In fact, myriad licensees, of various backgrounds and experience would compound the problems of integrity and security. A large supervisory and investigative staff with all of the attendant costs would be necessary to ensure that criminal influences were excluded and public confidence maintained. Since the difficulty of audit is increased, a greater potential thus is created for loss of revenues.

On the other hand, more staffing flexibility and perhaps economy could be achieved since the employees of the licensees would not be hired under the sometimes inflexible constraints of *The Public Service Act*. A private sector operation would have the stimulus of a profit motive and hence an inherent drive to maintain operating costs at low levels.

In any case, such a step as outlined above would inherently negate the principle that the racing industry "owns its own show". Because the industry has to entail the risks, bear the costs, and do the promotion involved it may be argued that it has a proprietary interest in its product. The principle is aptly illustrated by the current situation in New York State. There the racetrack owners feel that their property rights as operators have been ignored and what is essentially their "show" has been usurped by others, in this case, the government¹

A private operation comprised of the existing Messenger services would have a certain expertise to offer in a manual messenger system. But a private operation affords the least effective method of eliminating criminal elements and avoiding excessive inducements to wager and unreasonable annoyances to the non-betting public. It would also reduce the share of revenues going to the industry and government.

The rejection of this alternative should not in any way be taken as indicating that the Task Force is against the concept

1. The track owners regard this as an unconstitutional taking of their property without just compensation and are presenting their views in court. The constitutionality of the law was upheld by the New York Court of Appeals by a 4-3 decision. State of New York Court of Appeals, March 23, 1972, *Finger Lakes Racing Association Inc. v. New York State Off-Track Pari-Mutuel Betting Commission and City of New York* (Unreported). At the time of writing, an appeal to the Federal courts is under consideration.

of private enterprise (in fact it has certain definite benefits to offer—see our further remarks later in this section). The question is merely one of achieving the most economical operation while protecting the integrity and interests of both the existing racing community and the general public.

2. Private Monopoly

All the same arguments as described above apply to a private monopoly except that perhaps it would be easier to supervise and the ensuring of integrity would be less of a problem since one would be dealing with one group. If any private group were given a legal monopoly, it is reasonable to assume that the profits of such an enterprise would be subject to public scrutiny and control (such as exercised on telephone companies).

No doubt a monopoly would bring certain economies of scale. Whether these economies, in view of the other disadvantages of a monopoly, would offer significant advantages as contrasted with other forms of organization is open to question. In any case, the concept of free enterprise is eroded even under a monopoly situation. Consequently, this approach is rejected.

3. Racetracks

To allow the racetrack owners to operate the system has perhaps a certain equitability (and successful precedents elsewhere). Racetrack personnel also have a certain expertise in pari-mutuel wagering to offer, but it must be emphasized that such on-track expertise is not always capable of direct translation into the more complex activity associated with off-track betting.

In addition such an organization would eliminate, to some extent, the voices of others in the industry such as the horse owners, breeders, and suppliers. The Government would also be excluded from direct involvement in operations. As shown earlier in this report (and in the Woods, Gordon study of the industry) the whole industry is closely inter-connected and interdependent. To exclude other segments of the industry amounts again to a monopoly position and is rejected by the Task Force on the same basic grounds.

In any event, a separate co-ordinating and controlling agency would still be required.

4. Racing Industry Consortium

This alternative, at least to this point in our deliberations, presents perhaps the most attractive advantages. Experience in pari-mutuel wagering and other facets of the racing industry would be readily available as well as the most effective interface with on-track wagering. All private sectors of the industry would have a voice in operations. A mechanism would also thus be established for internal resolution of intra-industry conflicts. This approach most closely approximates the administrative structure of the Totalisator Agency Boards (TAB) of Australia and New Zealand but, because racing there is operated on a non-proprietary basis markedly different from the North American pattern, the similarity is, perhaps, more apparent than real.

Furthermore the arrangement completely neglects, as do the previous alternatives, the very substantial governmental involvement in the industry. Not only is the government interested in the revenue or financial aspects but it has a prime responsibility for protecting the integrity of the industry as a whole.

Given this very substantial governmental influence, any consortium without government participation would be unrealistic and ineffective. The general public, and the wagering public, *per se*, would simply not be represented.

It is also interesting to note that in New Zealand (where the racing clubs now alone operate the off-track wagering system), a Royal Commission has recently recommended government control in management of the system in order to achieve greater rationalization of operations.

5. The Government

Another organizational alternative is that the Government itself operate the complete off-track wagering system. Such an absolute step would, of course, negate the principle of private enterprise and participation completely. It would effectively exclude the "voices" of those segments of the racing industry that are most sincerely concerned with its growth and well-being. This is not to say that the government would be insensitive to representation—it merely means the procedure would be more lengthy and cumbersome. Lost also would be the expertise of the industry itself.

On the advantages side of the ledger, control would be more secure and absolute. Elimination of any potential connection between off-track wagering and criminal elements would be readily achieved. The Government could also capitalize the operation more easily and cheaply than the private sector alone.

A "natural" monopoly arrangement, such as the Government, would also, no doubt, bring certain economies of scale. Such a set-up would also offer the most direct way to obtain and maximize revenues.

On the disadvantages side of the ledger, staffing flexibility would be severely hampered under a completely government-run system. Staffing flexibility is essentially required due to variations in volume and odd hours, occasioned by different betting habits and opportunities, race scheduling, particularly at night, and many other factors. The use of full-time employees would simply, in most cases, be uneconomical.

However, even in any primarily government-operated scheme, staffing inflexibility could be somewhat reduced by utilizing agents on commission to run the betting shops. More will be said about this approach later.

A government operation may also conflict with governmental policies to restrain public spending (unless agents are utilized) and the size of the public employment sector. Other factors are also involved due to the so-called "stigma" of association with an activity not universally approved, and the potentiality of poor public relations resulting from inevitable problems in the operation or possible shortfalls in revenue predictions.

Nevertheless, if complete government control is assumed, three alternatives present themselves.

(a) Ontario Racing Commission

The Ontario Racing Commission could regulate and operate the system, or it could operate the system with the regulatory power being vested in Cabinet. In any case, for the reasons previously mentioned, we feel that the Ontario Racing Commission should not handle this operational function in conjunction with its other regulatory responsibilities.

(b) Branch of Department or Ministry

Conceivably, the operation of the off-track wagering system could be handled by a branch of an existing Department or Ministry, as, for instance, the Lotteries Branch of the Ministry of Consumer and Commercial Relations. However, we feel that this Branch is primarily a regulatory body and has no operational experience or expertise in pari-mutuel wagering. Given the experience of other jurisdictions, **some background in the extremely** complex business of pari-mutuel wagering is absolutely essential for success. The Branch could, of course, be expanded in this area, or a new Branch could be established, but as with any Branch of government, it would be constrained by the staffing and organization inflexibilities presented by *The Public Service Act*.

(c) Crown Corporation

An exclusive governmental Crown corporation could, of course, be established to operate the system. Such a step would, perhaps, assist in eliminating **some of the** staffing inflexibilities presented by *The Public Service Act*. The corporation could have its own terms of employment or utilize agents on a commission basis. However, formation of an exclusive governmental crown corporation, we feel, would not fairly represent the varied existing interests involved in the racing industry. The Government would also have to bear exclusively the initial start-up and capital costs involved.

6. Government-Racing Industry Consortium

The logical and most equitable and effective solution we feel is a non-profit Crown corporation or board or commission composed of and controlled by representatives of government and all the major segments of the racing industry. Such a consortium would ensure the integrity of the system and adequate returns of **revenue by ensuring that the system** is operated economically. The **broad industry representation** would, of course, ensure that all viewpoints in the racing community are represented and their interests protected. Racing and pari-mutuel wagering expertise would be available and the interface between on and off-track betting made simpler. Start-up and initial capital costs could be shared with the industry and thus would be more economical from a public viewpoint. Government participation would also probably make initial capitalization costs more favourable. Greater staffing

flexibility could also be achieved through a crown corporation arrangement. A certain built-in conflict would however exist in terms of the extension of wagering to cover other sports. In addition, in this type of consortium, a potential hazard exists for the industry to eventually press the government to subsidize it to an ever increasing extent even to the abandonment of revenue considerations.

The corporation, board or commission could be established either with share capital or without. If a corporation was established with share capital its activities could be funded by the sale of shares (i.e. equity financed). On the other hand, if the corporation was established without share capital it could be financed by loans, bonds or debentures (i.e. debt financed) as may be specified in the legislation.

Representation on the board of directors and control of the corporation would, in the former case, be directly proportional to share ownership or investment. The Government of Ontario representing the public interest, could be authorized to purchase 51 percent of the shares with the remainder available for sale or distribution to the various segments of the racing industry. Profits would be distributed, *pro rata*, by declaration of dividends.

While such an approach may be suitable to a purely profit oriented enterprise where "he who pays the piper calls the tune" is the governing philosophy, we are of the opinion that it is not appropriate to the situation with which we are concerned. What is required on the board of directors is a qualitative and not a quantitative voice—it is all interests that should be represented, not only the wealthier ones. In short, it is the public and not the pecuniary interest that should govern—a public interest with as wide a functional basis as possible—reflecting the attitudes of all segments of the general community as well as that of the racing community.

We are in favour of the second approach, primarily for the reason that it insures that all segments of the industry will be represented on the board and that entitlement to representation will not depend on the ability to purchase shares. In addition, the lack of share capital emphasizes the public service nature of the operation. Development is not fettered by proprietary interests in the operation. For example, the location of shops and the provision of serv-

ices in some areas of the province may have to be governed by criteria of public service and not profit. Furthermore, flexibility in the distribution of revenue is maintained and is not restricted to shareholding proportions.

The major disadvantage of either alternative which involves the substantial commitment of public money, is that the Government becomes, thereby, committed to the racing industry. As a result it becomes increasingly vulnerable to racing interests, and if confronted with a threatened cessation of racing, is faced with, not only the passive loss of taxes, but the active loss of a large investment.

All representatives of the racing industry who appeared before us at the public hearings recommended that off-track betting should be controlled by the industry itself, with Government representation. We reject this approach, since in our view the board must make most of its decisions with the whole of the public interest in mind, and not just racing interests. We have taken note of the fact that the New Zealand Royal Commission on Horse Racing, Trotting and Dog Racing in 1970 recommended that the New Zealand Totalisator Agency Board, which for some 20 years had been dominated by racing representatives, should be reorganized so that three of its five members would be appointed by the Government.

One further point should be stressed again. For success, expertise in pari-mutuel wagering is necessary—it is not a simple business. Consequently the corporation must endeavour to obtain expert consultative services in the field and to hire management and staff with appropriate experience in such operations.

RECOMMENDATION

We recommend, therefore, that a fifteen-member Board or Commission, reporting to the Government through a Ministry, should be created as a corporation without share capital. The Government itself, representing the public interest, should appoint the majority of its members with the balance appointed on the recommendation of the various segments of the racing industry as follows:

- eight members appointed by the Government of Ontario, one to act as Chairman, one to act as Vice-Chairman and

Chief Executive Officer, and one who **might**, *ex officio*, be the Chairman of the Ontario Racing Commission;

- one member appointed by the Government of Ontario upon the recommendation of the breeders of thoroughbred horses (Canadian Thoroughbred Horse Society);
- one member appointed by the Government of Ontario upon the recommendation of the breeders of standardbred horses (Canadian Standardbred Horse Society);
- one member appointed by the Government of Ontario upon the recommendation of the owners of thoroughbred horses (Horsemen's Benevolent and Protective Association);
- one member appointed by the Government of Ontario upon the recommendation of the owners of standardbred horses (Ontario Harness Horsemen's Association);
- three members appointed by the Government of Ontario upon the recommendation of the race track operators, with one member nominated by the largest operator, the Ontario Jockey Club, one member nominated by the rest of the "A" class tracks, and one member nominated by the "B" class tracks.

Because of the disparate nature of the "C" class tracks and their lack of formal organization it is felt that their interests could be best represented by the general public members.

The essential characteristic is that equitable representation from all major sectors of the racing industry be inherent on the Board. The exact duties of the directors, reporting arrangements to the Legislature, legal requirements, financing, revenue distribution and other matters would, of course, be spelled out in the corporation's charter or legislation establishing the organization. The legislation could also provide for an executive committee, the composition and duties of which could be detailed in the regulations.

The foregoing recommendations in no way negate the principles of private enterprise. The recommendations merely equitably protect both the *private and public interests* involved, and provide an apparatus for resolution of conflicts and co-ordination of activities. From the experience of other jurisdictions it is clear that a low cost of operation is essential. It is also apparent, as

discussed previously, that due to the particular nature of the off-track wagering industry, flexibility in the area of staffing is very important. To avoid inflexibilities it is possible that commissioned agents could be retained to manage and operate some of the betting shops. These agents could be remunerated either by commission or retainer and would have the power to hire and fire their own employees as business conditions indicated, subject, of course to any negotiated agreements they might enter into with employees. General policy and detailed operating instructions would emanate from the Board.

The agents and their employees, would, of course, be investigated and approved by the Board to ensure the integrity of the system. Everyone involved would be subject to close scrutiny to prevent the infiltration of criminal elements. Without close central supervision, an increased possibility of fraud and lowering of public confidence in the system exists, due to the nature of the transactions and the numbers of people involved.

On the other hand, it may be necessary for the corporation to actually operate some of the betting shops with its own staff. Some jurisdictions do, in fact, utilize a combination of agents and corporation-operated shops. Both concepts may be appropriate in Ontario, depending on local conditions.

Finally, it should again be noted that we have not addressed ourselves to specifics of detailed organization. We feel that to equitably determine these specifics, the various interests represented on the off-track betting corporation must provide inputs of view. What we have recommended is merely a framework to achieve this situation and make possible an interchange of ideas. The crystallization of the organization in detailed form at this time, without the participation of those ultimately charged with operating the system, we feel would be premature and unwise. Furthermore, it is too early to determine the exact nature of the organization and staffing requirements since the type of system finally adopted (i.e. manual, semi-computerized or highly automated) will drastically effect the characteristics and manpower needs of the organization. We feel that the agency itself should be allowed to develop the operational rules for off-track wagering, such as the location of the shops, the hours of operation and the like. These rules and any subsequent major changes in operation could be presented to the

Government for final approval and would be embodied in the formal regulations. Routine day-to-day operating decisions would be left to corporation management within the limits prescribed by the legislation establishing the organization.

CHAPTER 13

The System

THE TYPE OF SYSTEM

AS will be apparent from our discussion of other jurisdictions, there are basically three different types of off-track betting systems in use in various parts of the world:

Manual

In this approach bets made at the off-track betting shop are totalled by hand and are telephoned to a district or regional centre where they are collated by hand and the totals then telephoned to a central office. From there the totals are integrated with the results from other districts and the results are telephoned to the appropriate race track where they are incorporated into the on-track betting pool. This is the system presently in use in New Zealand.

Semi-automated (or modified manual)

This is really a manual system with some electronic features. It is similar in principle to the completely manual system except that a teletype or some other similar device is used in place of a telephone for transmission of the bet totals from the shop to the headquarters where a computer is employed to collate them for transmission to the race course. This was the system in use in Victoria, Australia, from 1967 to 1971.

Fully automated

This involves a completely electronic system in which automated ticket issuing terminals are employed at the off-track betting shops for recording the bets and issuing tickets. The bets are automatically transmitted to a central computer, are validated and collated by the central computer, and relayed to the appropriate race track by communication line to be incorporated into the on-track betting pool. This is the system in use in New York City and presently being incorporated in Victoria and New South Wales, Australia.

Telephone Betting

With any of the above, it is possible to incorporate a telephone deposit wagering system in which the bettor can open an account by depositing a certain amount of money against which he can bet, but bets cannot be placed on credit. Security is maintained by the use of code numbers and code names which must be given over the telephone before bets can be placed. A telephone deposit wagering system provides the maximum convenience for the public, and is essential if significant inroads are to be made on illegal bookmakers. As its chief components are existing telephone communications facilities, it presents an attractive, convenient and relatively inexpensive method of achieving a province-wide off-track betting service with a minimum of investment and delay.

We are of the opinion that the completely electronic system in its final form, will provide the greatest accuracy and service to the public, and is the system which should be the ultimate objective. However, we also recognize that serious difficulties can be encountered if a completely computerized system is installed in a short period of time, as evidenced by the problems experienced in New York City. Experience in Australia and New Zealand has demonstrated, to our satisfaction, that it is preferable to commence operations with a system that will work and will secure the confidence of the betting public. Technically advanced systems can be incorporated as experience increases and the need arises. In some areas of the province the volume of activity may not justify fully automated shops. In those localities an adequate level of service could be provided by a manual operation.

As the New York experience bears grim witness, even the most sophisticated automated systems occasionally malfunction and we feel, therefore, that it is essential that a back-up manual system be available if, for any reason, the computer system breaks down. Accordingly, if such a manual system might be required in emergency circumstances, some experience in its development and operation should be gained at the outset.

For all of these reasons, we are in favour of the semi-automated or modified manual system referred to earlier. It can be implemented more quickly and can be converted to a completely computerized operation over a period of time. It has the added

advantage that the central computer can be used in operating the telephone betting system.

Recommendation

We therefore recommend that the system should initially employ manual ticket-selling procedures with a central computer for collating bets and operating the telephone betting system, but that bets should initially be transmitted from the betting shops to the central computer and from the central computer to the race tracks by teletype or telephone.

We have consciously not discussed any specific mechanical details which might be incorporated into the general type of system which we recommend, since we believe that this is an area which is peculiarly within the jurisdiction of those who may be charged with the responsibility of implementing off-track betting in Ontario. Nevertheless we are certainly grateful to those in other jurisdictions who have made every effort to show us, in great detail, the methods by which their systems operate, and to those computer and other suppliers who have demonstrated to us their equipment and capabilities. We have stood on the shoulders of their collective experience and have gained a general perspective to this task that would otherwise not have been available to us.

FINANCIAL FEASIBILITY

Our survey of other jurisdictions indicates that the cost of operating off-track betting varies from about 3.6 percent of total wagering in France, where it employs café-owner agents to about 6 percent in New Zealand where the system is also a manual operation. In Victoria and New South Wales the operating costs run to about 5 percent of betting turnover. In New York, which has the only completely automated system¹, it is really too early to tell. Operating costs for the first year reached 10.8 percent but are expected to decline as the system matures and more outlets are opened.²

In order to assist us in determining the probable cost of implementing and operating an off-track betting system in Onta-

1. Victoria expects to have all of its metropolitan shops on line by the end of 1972.
2. Officials indicate that by July 1972 costs will be below 9.5 percent and should eventually be in the 5-7 percent range of Australia and New Zealand.

OFF-TRACK BETTING COSTS AND CONTRIBUTIONS (CASH FLOW BASIS)

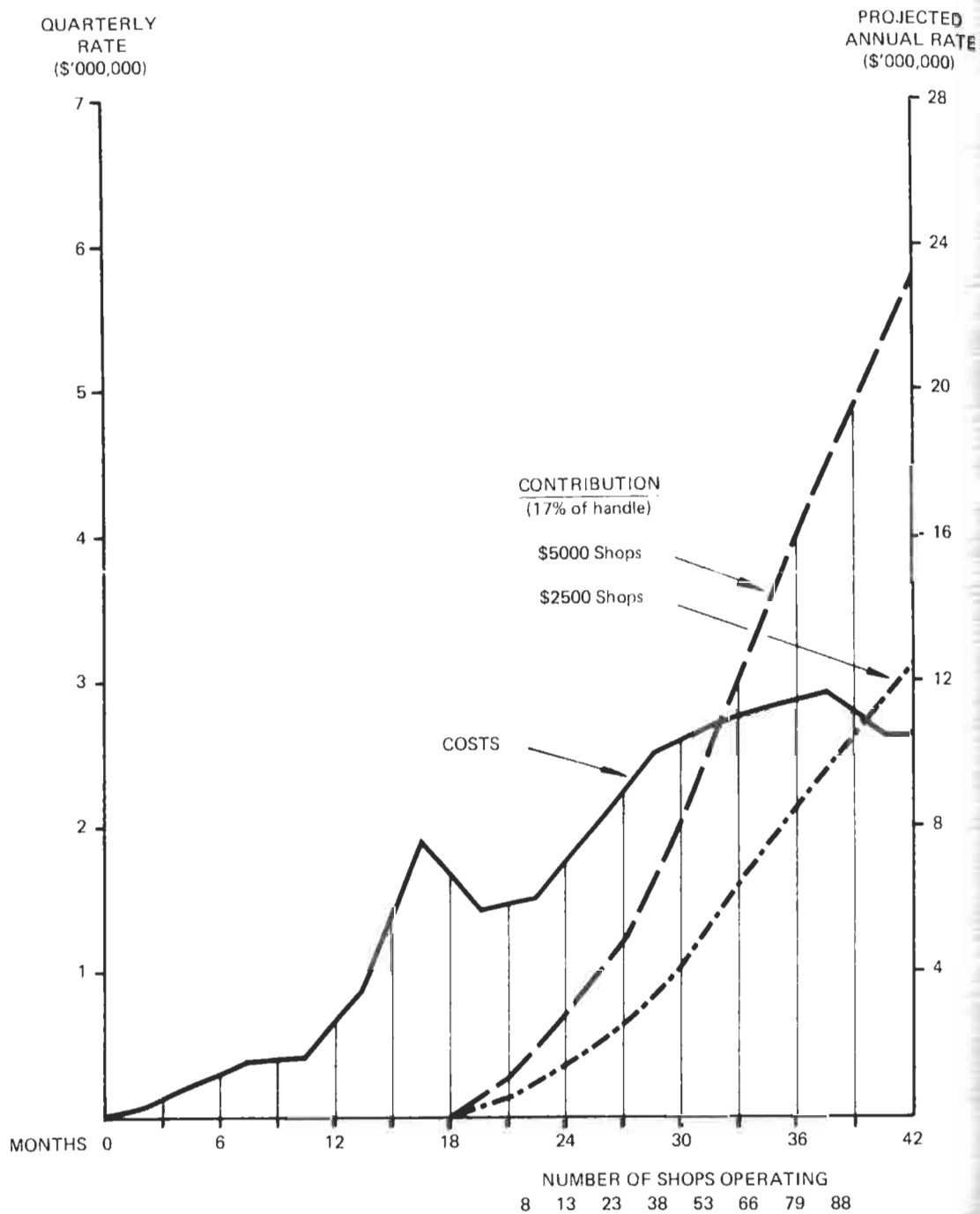


FIGURE 22: Off-Track Betting Costs and Contributions (Cash Flow Basis)

rio, Woods, Gordon and Company were retained to conduct a financial feasibility study. (Appendix E)

For the purposes of their study, Woods, Gordon arbitrarily assumed that the off-track betting system would expand to 88 shops and 20,000 telephone betting accounts during its first two years of operation. A staged development was conceived, and for this purpose, the province was divided into five regions: Central Ontario region with 57 shops; Western Ontario region with 9 shops; Eastern Ontario region with nine shops; Niagara Peninsula with five shops; and Northern Ontario region with eight shops. It was alternatively assumed that each shop would have a daily volume of wagering of either \$2,500 or \$5,000. At these volumes the system would handle \$12.3 million during its first year and \$52.3 million in its second year if the \$2,500 assumption is correct and double those volumes if the average daily wagering is \$5,000 per shop.

It was also assumed, for the purposes of these calculations, that the system would be fully automated and the start-up costs were accordingly estimated to be approximately \$6 million. This includes an assumption that expensive computer terminals or ticket-issuing machines would be required for the automated system. In considering the feasibility of the semi-automated or manual systems, Woods, Gordon pointed out that, while this cost of terminals would be saved, it would be largely offset by the larger staff requirements of those two systems. It was concluded, therefore, that the resultant differences would not significantly affect their initial estimate of \$6 million for start-up costs.

As can be seen from Figure 22, the \$5,000 shops achieve a positive cash flow approximately 32 months after the decision to proceed or 14 months after the commencement of operations. Positive cash flow for the \$2,500 shops should occur roughly eight months later. At the end of the first year, with little more than half of the 88 shops in operation, total costs, including the 18 months pre-operational period, for salaries, data processing and supplies, head office and shop facilities, advertising, consulting and other expenditures, are estimated to be about \$11.2 million. During that period, corresponding revenues from a 17 percent deduction from handle, would be around \$4 million if the \$5,000 estimate is correct and half that amount if the average daily handle per shop is only \$2,500. If the initial start-up costs (of \$6

PROJECTED
ANNUAL RATE
(000,000)



OFF-TRACK BETTING COSTS AND CONTRIBUTIONS (AMORTIZED BASIS)

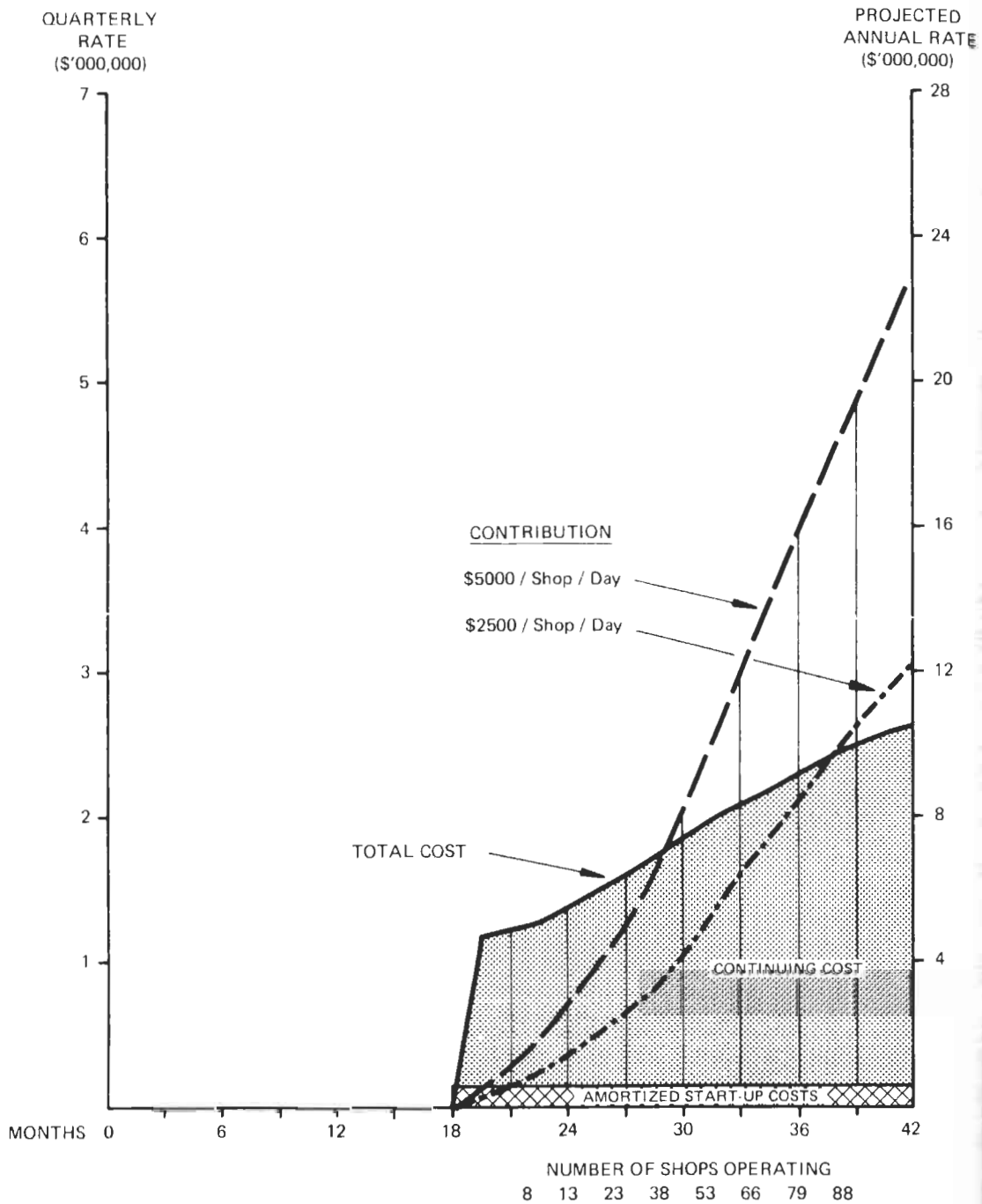


FIGURE 23: Off-Track Betting Costs and Contributions (Amortized Basis)

million) are amortized over ten years and the cumulative costs thereby reduced, the financial picture in the early years is much improved. (Figure 23).

At the end of one year of operation, the total cost, including the amortized start-up costs, is about 14.1 percent of the handle for a \$5,000 a day shop system and 28.2 percent for a \$2,500 a day system. At the end of two years of operations the cost would decrease to a more respectable rate of 7.1 percent and 14.2 percent respectively. It is interesting to note that Innovative Marketing estimates the annual handle for an off-track betting system in Ontario, once the system has matured, to be about \$140.8 million. This is reasonably close to Woods, Gordon's assumption that the handle in the second year of operation, when the system is approaching maturity (i.e., the 88 shop system), would be \$104.6 million if each shop had an average daily handle of \$5,000.

It goes without saying that the lower the cost of operating the system can be kept the more money will be available for distribution to the racing industry and to the Government. We are encouraged, therefore, that Woods, Gordon has estimated that the cost can approach 7 percent of the total handle, although we realize that that figure would certainly not be achieved in the first year of operation.

IMPLEMENTATION OF THE SYSTEM

As part of their study conducted on our behalf, Woods, Gordon also had to consider the implementation time required for each type of system that we have discussed. It is estimated by them that at least 18 months will be required to implement the fully automated system, 12 months to implement the partially automated system, and nine months to implement the manual system. The seemingly large amounts of time are required to, among other things, engage and instruct staff, write tender specification, select appropriate suppliers, plan and develop facilities, and develop appropriate system procedures. The implementation time could, of course, be abridged but with the inherent risk of losses in efficiency and effectiveness. (Figure 24.)

Innovative Marketing estimates that 65.7 percent of the off-track betting handle in Ontario will be generated in Metropolitan Toronto, 30.3 percent will be derived from the rest of Southern

PROJECTED
ANNUAL RATE
(00,000)



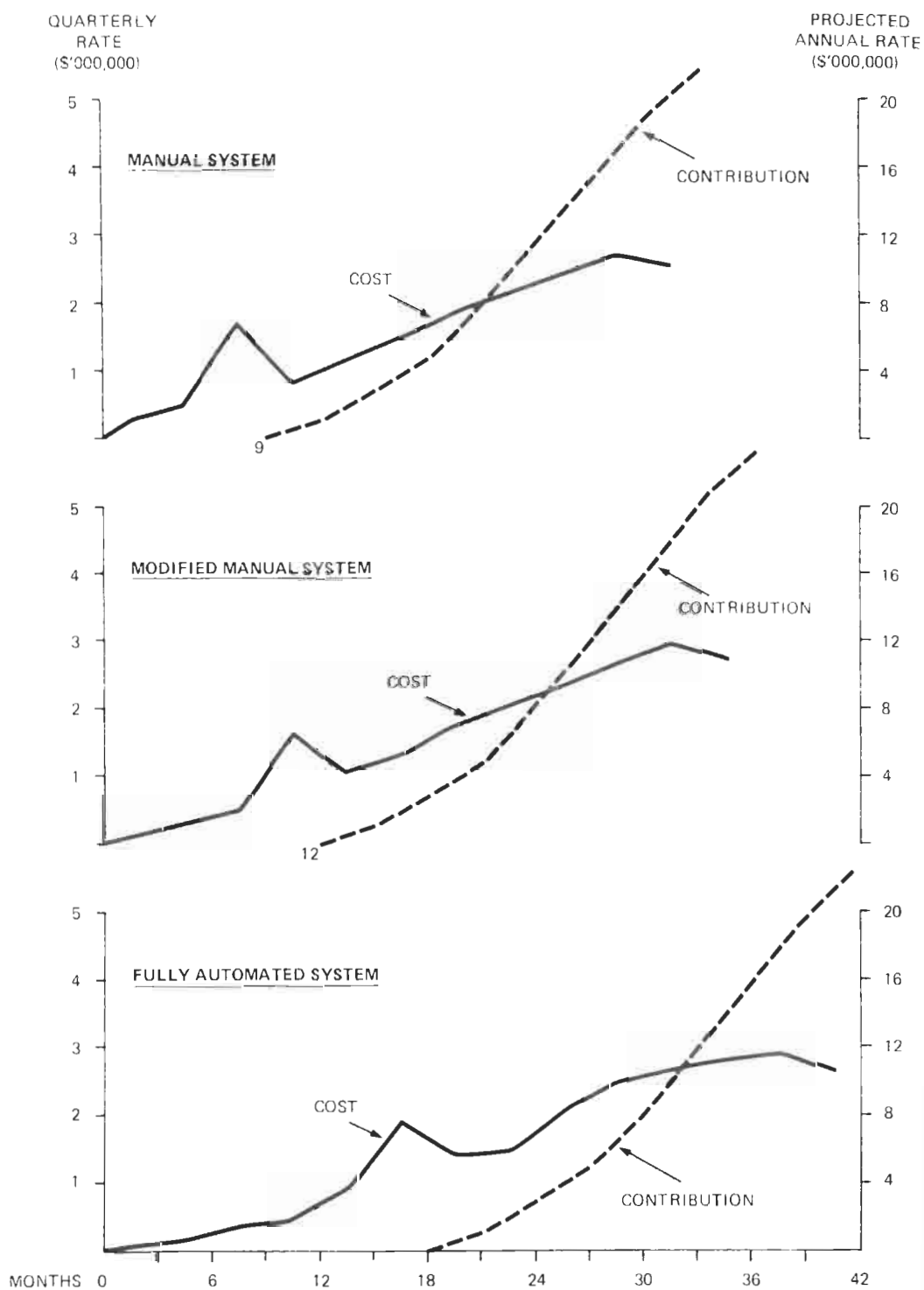


FIGURE 24: Off-Track Betting — Alternative Implementation Projections.

TABLE 13: Cost of Manual System @ \$5,000/Shop/Day (\$'000)

Months	Costs		Contribution		Net Cash Flow	
	Per Quarter	Cumulative	Per Quarter	Cumulative	Per Quarter	Cumulative
1- 3	285.5	285.5			(285.5)*	(285.5)
4- 6	506.0	791.5			(506.0)	(791.5)
7- 9	1,706.5	2,498.0			(1,706.5)	(2,498.0)
10-12	810.0	3,308.0	255.0	255.0	(555.0)	(3,053.0)
13-15	1,116.0	4,424.0	699.0	924.0	(447.0)	(3,500.0)
16-18	1,529.5	5,953.5	1,148.0	2,072.0	(381.5)	(3,881.5)
19-21	1,857.5	7,811.0	1,944.0	4,016.0	86.5	(3,795.0)
22-24	2,141.0	9,952.0	2,900.0	6,916.0	759.0	(3,036.0)
25-27	2,435.5	12,387.5	3,793.0	10,709.0	1,357.5	(1,678.5)
28-30	2,704.0	15,091.5	4,621.0	15,330.0	1,917.0	238.5
31-33	2,538.0	17,629.5	5,323.0	20,653.0	2,785.0	3,023.5

* Numbers in brackets indicate negative cash flows.

TABLE 14: Cost of Modified Manual System @ \$5,000/Shop/Day (\$'000)

Months	Costs		Contribution		Net Cash Flow	
	Per Quarter	Cumulative	Per Quarter	Cumulative	Per Quarter	Cumulative
1- 3	151.0	151.0			(151.0)	(151.0)
4- 6	319.0	470.0			(319.0)	(470.0)
7- 9	493	963.0			(493.0)	(963.0)
10-12	1,661.0	2,624.0			(1,661.0)	(2,624.0)
13-15	1,058.0	3,682.0	255.0	255.0	(803.0)	(3,427.0)
16-18	1,316.0	4,998.0	682.0	937.0	(634.0)	(4,061.0)
19-21	1,722.0	6,720.0	1,199.0	2,136.0	(523.0)	(4,584.0)
22-24	2,060.0	8,780.0	2,046.0	4,182.0	(14.0)	(4,598.0)
25-27	2,355.0	11,135.0	3,059.0	7,241.0	704.0	(3,894.0)
28-30	2,663.0	13,798.0	4,016.0	11,257.0	1,353.0	(2,541.0)
31-33	2,925.0	16,723.0	4,940.0	16,197.0	2,015.0	(526.0)
34-46	2,746.0	19,469.0	5,769.0	21,966.0	3,023.0	2,497.0

* Numbers in brackets indicate negative cash flows.

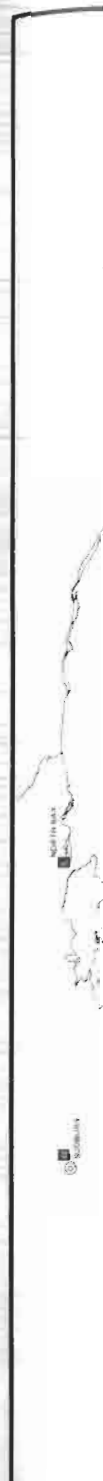
TABLE 15: Cost of Fully Automated System @ \$5,000/Shop/Day (\$'000)

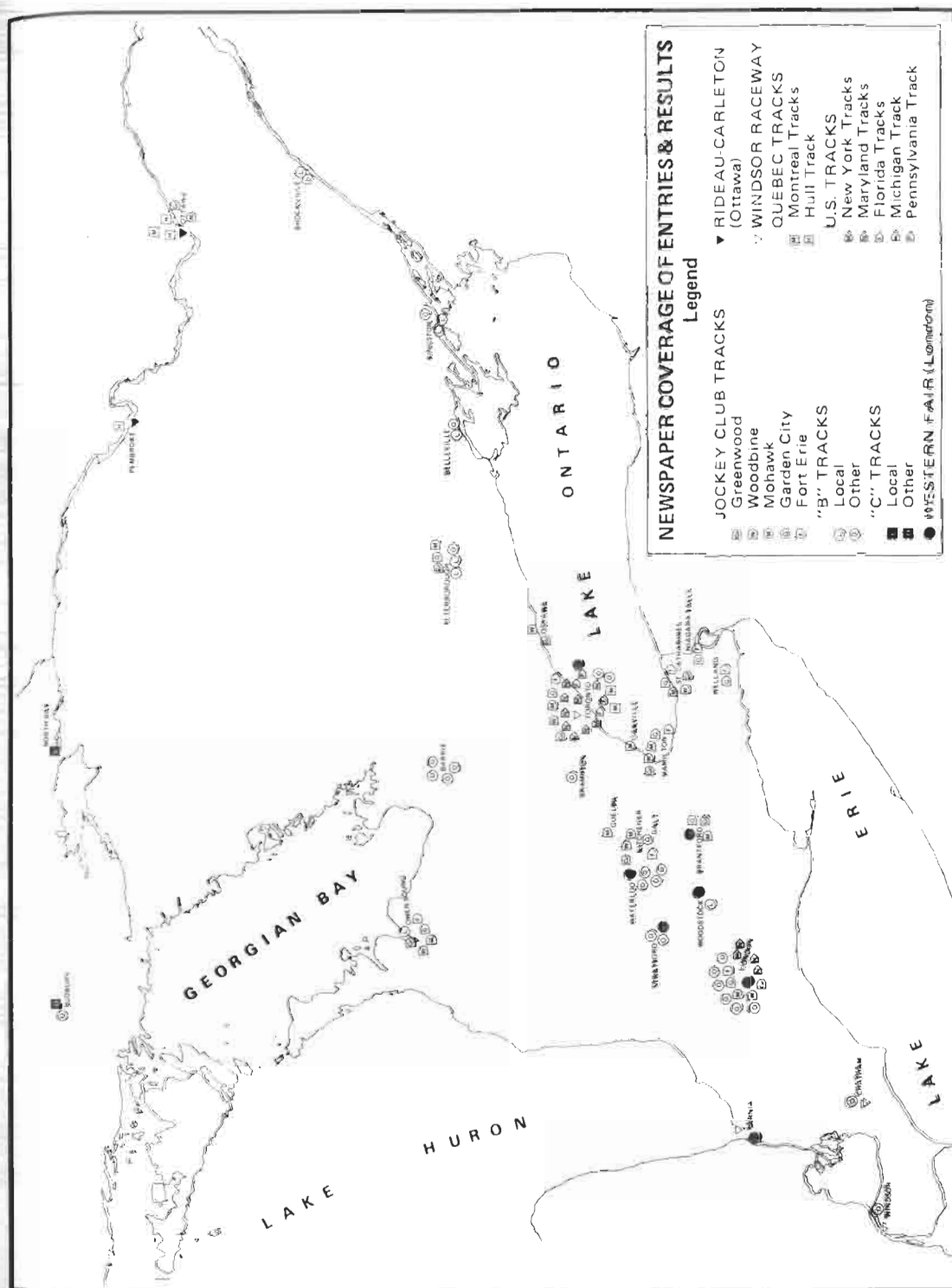
Months	Costs		Contribution		Net Cash Flow	
	Per Quarter	Cumulative	Per Quarter	Cumulative	Per Quarter	Cumulative
1- 3	46.5	46.5			(46.5)	(46.5)
4- 6	185.5	232.0			(185.5)	(232.0)
7- 9	352.0	584.0			(352.0)	(584.0)
10-12	406.0	990.0			(406.0)	(990.0)
13-15	889.5	1,879.5			(889.5)	(1,879.5)
16-18	1,896.5	3,776.0			(1,896.5)	(3,776.0)
19-21	1,402.5	5,178.5	255.0	255.0	(1,147.5)	(4,923.5)
22-24	1,509.5	6,688.0	682.0	937.0	(827.5)	(5,751.0)
25-27	2,039.0	8,727.0	1,199.0	2,136.0	(840.0)	(6,591.0)
28-30	2,470.0	11,197.0	2,046.0	4,182.0	(424.0)	(7,015.0)
31-33	2,673.0	13,870.0	3,059.0	7,241.0	386.0	(6,629.0)
34-36	2,817.5	16,687.0	4,016.0	11,257.0	1,198.5	(5,430.5)
37-39	2,910.5	19,598.0	4,940.0	16,197.0	2,029.5	(3,401.0)
40-42	2,629.5	22,227.5	5,769.0	21,966.0	3,139.5	(261.5)

* Numbers in brackets indicate negative cash flows.

Ontario, and only 4.0 percent will come from Northern Ontario. Based on this estimate, we would suggest that the system be implemented in stages on a regional basis, commencing in Metropolitan Toronto and moving to centres where consumer demand appears to be concentrated. In this way, the market for off-track betting in various parts of the province can be assessed gradually, and with greater accuracy, as the system develops. Errors can be corrected and policies changed before the system becomes too large. In addition, it may be discovered that different types of operation will be necessary in different localities, depending on demand and local conditions. Early province-wide coverage can be achieved by a system of telephone deposit wagering which it should be possible to institute fairly quickly.

If newspaper coverage of racing information is a gauge of public interest in racing, then Map 3, which shows the dissemination of that information, tends to confirm the market analysis that interest is concentrated in Southern Ontario.





MAP 3: Daily Newspaper Coverage of Racing Entries and Results in Ontario, 1971.

CHAPTER 14

Revenue

REVENUE DISTRIBUTION

General

A VARIETY of revenue distribution techniques are utilized in the jurisdictions now operating off-track betting systems. Most of the techniques vary according to who is the operator of the system and the primary reasons for instituting a system in the first place. As already described in other sections of this report, revenue distribution techniques in other jurisdictions range from a straight percentage split between government, tracks and horsemen in New York, to an extremely complex formula employed in Australia and New Zealand.

Most of the submissions to the Task Force, recommended that whatever formula was devised, provision should be made to ensure that no racing association (large or small) should suffer due to OTB and that some funds be allotted for breeders awards and a sires stakes program.

Generally, in the jurisdictions studied, the government "share" and the operating costs are taken out first. The conclusions to be drawn from the experience of other jurisdictions concerning revenue distribution are:

- the racing industry generally is experiencing financial difficulties;
- the racing industry has some rights in the "product";
- the industry should not be made to suffer because of the institution of OTB;
- OTB should not compete unduly with the industry, but rather, all major segments of the industry (and government) should participate together;

- any revenue distribution scheme adopted should be flexible to allow for the dictates of experience and changing conditions;
- the government should not be placed in the position of having to carry a marginally profitable industry.
- since it is under government control the overall scheme of revenue distribution must take into account the overall public need, over and above that of the racing industry.

Bearing the foregoing criteria in mind the Task Force feels the formula for an equitable distribution described in the next section worthy of serious consideration.

A Proposal for Revenue Distribution

Provincial revenue (as distinct from corporation or commission revenue) would take the form of an Off-Track Betting Tax of a fixed percentage similar to the Race Tracks Tax which is levied on "every holder of a winning ticket issued under the pari-mutuel system upon a race run at a race meeting" and is calculated "at the rate of 7 percent upon the amount that would be payable to him if no percentage were deducted or retained by the person holding the race meeting in respect of such race" i.e. 7 percent of the gross handle prior to any deductions.

The off-track betting corporation would be allowed to charge for its services, the difference between that tax and the total present on-track deduction, including breakage, so that the percentage of the on-track handle and off-track handle available for distribution to winning bettors would be the same irrespective of where the bet was placed. In other words, if for example, the Off-Track Betting Tax is initially fixed at 6 percent, then the off-track betting corporation would be entitled to deduct a further 11.1 percent plus breakage (the present 17.1 percent on-track deduction minus the Off-Track Betting Tax) as gross revenue from which it would pay its operating costs etc.

From this gross revenue the corporation would be required, by statute, to cover its costs of operation including capital charges. The balance or residue would be available for distribution in accordance with the general principles enunciated in the incorporating legislation, as the Board may determine.

DEDUCTIONS

ON-TRACK	%	OFF-TRACK	%
Race Track Tax	7.0	Off-Track Betting Tax	6.0
Federal Levy	.6	OTB Corp. Commission	11.1
Race Track Commission	9.5		
Total	17.1	Total	17.1
Breakage (approx.)	.8	Breakage (approx.)	.8
Total	17.9	Total	17.9

This legislation should incorporate the criteria outlined previously as a basic philosophy. It should, above all, be flexible. To achieve this flexibility, it is suggested that the details of revenue distribution after taxes be left to the discretion of the Board under its regulatory powers (subject of course, to the approval of the Lieutenant Governor in Council). Otherwise, a rigidity is built in which does not take into account future experience, changing economic conditions and revised public priorities. Furthermore, a rigidly detailed arrangement spelled out in the initial legislation could commit the Corporation and the Government to a course of action it may be necessary to change in the future.

Subject to the legislative guidelines, the Board should be left to decide such matters as whether a capital reserve fund should be established; whether allocation of funds should be to the race courses conducting the race on which the bet is made or to the race courses in the region from which the bet originated, or both; whether direct funding of sire's stakes programs or breeder's awards is worthwhile; whether provisions should be made for additional purses for specified stake races and the like.

Under this system of revenue division, the distribution to the race courses on which the bet is made would be directed to those responsible for "putting on the show" and the payments to the race courses in the area from whence the bet originated would take into account the possible losses of attendance and on-track wagering within the region. Limits on both of these amounts could be established either by fixing a percentage or upper dollar limit on the amount of residue to be dedicated to each item but in order to maintain flexibility, at least during the early stages until some experience is gained, this approach is not suggested. In any case, the majority Government representation on the Board will ensure equitable distribution of funds.

It is important to emphasize that it is only the residue after taxes and costs have been deducted that will be available for distribution in accordance with the Board's formula and that there is no dedication of tax revenue—at least at this stage. Thus the Government is in no way committed to support the industry.

As mentioned previously in this report, there will, in all likelihood, be insufficient funds during the early operations to pay taxes and costs and still **leave much for distribution** to the industry. It is possible, therefore, that the operation could run at a loss, particularly if the Off-Track Betting Tax is fixed at a rate roughly equal to the Race Tracks Tax and the initial operating costs approach the 10.8 percent New York figure. It may therefore be necessary, in order to recognize the participation of the tracks, for the Province to subsidize the operation either by way of grants or loans, with or without interest.

The statutes establishing the Ontario Deposit Insurance Corporation, the Ontario Development Corporation, the Ontario Housing Corporation, the Ontario Municipal Improvement Corporation, the Ontario Universities Capital Aid Corporation, the Ontario Water Resources Commission (as it then was) and the Sheridan Park Corporation, all contain provisions **permitting** the various corporations to raise money by issuing and selling bills, notes and debentures, and permitting the Government to guarantee payment on such bills, notes and debentures. In addition, each statute contains a provision similar to section 10 of *The Sheridan Park Corporation Act*, which reads:

- “10. (1) The Lieutenant Governor in Council may authorize the Treasurer of Ontario
- (a) to purchase any debentures, bills or notes of the Corporation; and
 - (b) to make advances to the Corporation in such amounts, at such times and on such terms and conditions as the Lieutenant Governor in Council may consider expedient.
- (2) The moneys required for the purposes of subsection 1 shall be paid out of the Consolidated Revenue Fund.”

As can be seen, there is legislative precedent for giving the Government authority to make advances, which could be by way of grant or loan (with or without interest).

Another technique which might be considered is the remission or forgiveness of tax in certain circumstances. However, for constitutional reasons the tax levied in this case would, in all likelihood, be levied, as is the present Race Tracks Tax, upon the bettor himself, and the off-track betting organization would only be the agent of the Minister of Revenue for the purpose of its collection. Accordingly, it seems inappropriate, then, to speak of the "remission" or "forgiveness" of a tax to a corporation which, in law at least, it is imposed on individuals.

In the long run, if it appears that the racing industry is constantly collecting a windfall, or if the off-track betting organization is persistently suffering a deficit, under the financial arrangements entered into at the outset, the basic tax rate can be increased or decreased, as the case may be, by a change in the legislation. This should be determined when the system has stabilized. Hence the need for initial flexibility.

Finally, it has been suggested in some quarters that the OTB operation and its revenue distribution procedure should be subject to the same budgetary scrutiny and rigid financial procedures as a government Ministry. We cannot but agree that adequate controls are desirable and necessary, but those suitable for a Ministry may not be suitable for a business. Further, due to the nature of the operation and uncertain revenue prospects, we feel that a rigid distribution scheme should not be imposed from the start. In any case, the Board with a majority of government nominees and subject to the approval of the Lieutenant Governor in Council will ensure that the most suitable distribution of funds is made bearing in mind overall public priorities.

PROJECTIONS FOR ONTARIO

There are two principal methods of estimating the potential handle of a government off-track betting system. One is to ask potential customers how they would react. The other is to look at experience and expectations and other jurisdictions. The Task Force followed both approaches. However, before considering the results the reader is cautioned that because these projections are based on predictive research and inter-jurisdictional comparisons they should be treated as trend figures indicating orders of magnitude only.

Ontario Forecast

The consumer research study among Ontario residents conducted by Innovative Marketing (1971) Limited for the Task Force is appended to this Report.¹ It considered consumer reaction to government off-track betting shops and a telephone betting system. Analysis was restricted to **betting on the three major thoroughbred race tracks (Woodbine, Greenwood and Fort Erie)** and the three **major harness race tracks (Greenwood, Mohawk and Garden City)**.

In considering **off-track** betting shops, Innovative Marketing concluded that the provision of up-to-the-minute odds in the shops would not attract sufficient additional revenue to justify the expense.² Reference in the rest of this section to betting shops is, therefore, to shops without up-to-the-minute odds. These are termed "minimum shops" in the consumer research study.

Innovative Marketing estimated that the existing consumer demand for government off-track betting shops represented an annual handle of \$141-million.³ Apart from the qualifications that this estimate is based on bets on races at Jockey Club tracks only (the tracks listed above) whereas a government system could handle bets on other major tracks in Ontario and also create its own pools on races outside Ontario, this estimate may be regarded as conservative since it represents "exogenous demand", that is, the demand for a commodity or service which exists before that commodity or service is provided. It does not include "induced demand", that is, the demand for a commodity or service which is created by its promotion and experience of its usefulness.⁴

There are, therefore, reasons why the Innovative Marketing estimates may be too high and there are reasons why they may be too low and the acknowledged margin of error may be considerable.

With these major qualifications, it is interesting to note that Innovative Marketing estimate the **handle of a government off-track betting system using shops only as much higher than a system confined to telephone betting**. The telephone system is estimated to attract \$87-million a year in wagering as compared with the \$105-

1. Appendix F.

2. *Ibid.*

3. *Ibid.*

4. It is especially significant in considering this component to recall that the Innovative Marketing study only measured the attitudes of known horse bettors. No attempt was made to gauge the potential market for "non-bettors". That this may be an important group is indicated by the New York experience which shows that 10% of the bettors using OTB for the first time are new bettors.

million for the shop system.⁵ Combining shops and telephone facilities, however, does not result in a proportionate increase in handle, since these facilities are mutually competitive. The estimated annual handle for the combined system is \$141-million. Innovative Marketing estimate that 65.7 percent of this handle would come from the Metropolitan Toronto region while 30.3 percent would come from the rest of Southern Ontario. Only 4 percent would come from Northern Ontario.⁶

Comparison of Other Jurisdictions

In looking at the experience and expectations of other jurisdictions, it is necessary to have regard to both the market potential and the rate of progress in reaching that potential.

In terms of long-term potential, experience in New Zealand seems most relevant since New Zealand is the jurisdiction with the longest history of operating a government off-track betting monopoly. There are two points of New Zealand experience which are of particular interest: *first*, the off-track handle is declining, in terms of constant dollars and as a percentage of personal income; *second*, the off-track handle is about 50 percent higher than the on-track handle. This relationship between on- and off-track handle is reasonably stable since the on-track handle is also declining at much the same rate. Since the Ontario on-track handle is also declining in terms of constant dollars and as a percentage of personal income, estimation of future Ontario handle on this basis is extremely hazardous. Nevertheless, it does suggest that the long-term expectation for an off-track betting system operated by the Ontario Government is an annual handle of almost \$400-million.

This long-term handle would probably be relatively constant since the rise in personal incomes in real (constant price) terms could be expected to do no more than offset the decline in the percentage of personal income bet.

What would be the rate of progress towards this long-term potential? If we assume that the Ontario OTB handle bears the same relationship to the New York OTB handle as 1971 Ontario betting at major tracks bears to betting at the tracks in the metropolitan New York area (21.6 percent) the market potential for the Ontario system is \$216-million, reached in the fifth year. This

5. Appendix F.

6. *Ibid.*

is significant because the Task Force has been repeatedly advised to expect a period of about five years before reaching maturity.

This figure of \$216-million in the fifth year is also significant in that it is very close to the \$220-million fifth-year handle which results from projecting known New York OTB handle.

Application of New York City experience to Ontario suggests a handle of \$45-million in the first year, \$88-million in the second year, \$130-million in the third, \$170-million in the fourth, and \$220-million in the fifth. The build-up in the first year is shown in the table below.

How many shops would this mean? The average handle per shop in New York is between \$25,000 and \$28,000 per day or between \$600,000 and \$672,000 per four-week period (each week having six business days). This suggests an average daily handle for an Ontario shop between \$5,400 and \$6,050—say \$5,725. So that 44 shops at the end of the first operational year could be expected to handle \$6-million (with telephone operations bringing the total to the \$6.35-million given for period 13 in the table). In other words, New York experience suggests that the Woods, Gordon assumption, mentioned in the previous chapter, of a \$5,000 per shop per day handle with 88 shops at the end of the second operational year was a good working estimate.

TABLE 16: Ontario Handle Based on New York OTB

On the basis that Ontario = 21.6% New York OTB
(as for on-track betting)

4-week Period (non-cumulative)	\$ million New York OTB	\$ million Ontario
1	3.80	0.82
2	6.80	1.47
3	9.00	1.94
4	8.60*	1.86
5	12.00	2.59
6	13.00	2.81
7	16.20	3.50
8	18.07	3.90
9	19.46	4.20
10	19.97	4.31
11	24.79	5.35
12 est	27.10	5.85
13 est	29.40	6.35
Year 1 Total	208.19	44.97

* computer problems

Beyond that, shop requirements are less certain. But it is relevant to note that New Zealand had 45 percent of its 1971 total in operation at the end of the second year, 64 percent in operation at the end of the third year, 74 percent in operation at the end of the fourth year and 84 percent in operation at the end of the fifth year. Victoria built up rather more slowly, having 32 percent of its 1971 total open at the end of year two, 46 percent open at the end of year three, 64 percent open at the end of year four and 74 percent open at the end of year five.

Effects on Bookmakers and Race Tracks

Innovative Marketing estimate that 28 percent of the \$249-million wagered on races run at the major Ontario tracks (the Jockey Club tracks) in 1971 was bet off-track. Of this messenger services handle \$43-million annually and bookmakers \$26-million.⁷

If a government off-track betting system is introduced they estimate that the total handle on these races, when the system reaches maturity, will increase from \$249 million to \$328 million if the government system consists of a combination of telephone and shop betting facilities.⁸

TABLE 17: Composition of Race Handle Before and After Implementation of Government Off-Track Betting

	PRESENT		FUTURE		NET GAIN (LOSS)
	(million)	%	(million)	%	(Million)
On-Track	\$179.9	72.1	\$172.4	52.5	\$ (7.5)
Bookmaker	26.3	10.5	15.1	4.6	(11.2)***
Off-Track	43.2*	17.3	140.8**	42.9	97.6
TOTAL	\$294.4	99.9	\$328.3	100.00	

* Messenger Services.

** Government OTB.

*** This sum is to be added to the estimated \$18 million already diverted from the bookmaker by the messenger services for a total of \$29 million.

These increases in handle may be surprising but it is relevant to note that the Yankelovich study in New York found that 10 percent of OTB customers had not previously bet on horse races, and that three out of four customers increased their betting as a result of the services provided by OTB.

7. *Ibid.*

8. *Ibid.*

Not only does the study show that a government system would increase the total volume of wagering but there is an indication that it would substantially alter its composition.

Instead of 28 percent being wagered off-track as at present, the off-track share would be 47.5 percent of the *new expanded total*, and, as can be seen from Table 17, most of this increase would be achieved at the expense of the bookmakers. In addition to the \$18 million estimated to have already been diverted from the bookmaker by the messenger services, a government operated system would result in a further decline in his volume of almost \$11 million. Here it is relevant to mention that Yankelovich estimated that at least four out of every ten off-track betting customers had previously bet with bookmakers and had reduced their betting with them after OTB was introduced.

A government system would have an effect on ~~the tracks~~ as well as bookmakers. Innovative Marketing estimate that the Jockey Club handle could be reduced by as much as \$7.5 million when the government system reaches maturity.

Yankelovich did not examine the impact on tracks and the Office of the State Comptroller has not directed any concentrated inquiry as to the specific causes of the drop in attendance and betting experienced by tracks in New York State.

However, there have also been declines in other States where there was no off-track betting and this suggests a more general economic causation. In addition it appears that the average OTB customer may be a different type of bettor from his on-track counterpart. For example, the average daily bet per person at OTB offices is about \$13.50 whereas the daily track bet per paid admission exceeds \$100.

Further, OTB is servicing approximately 100,000 bettors a day and no local track regularly attracts this volume of attendance. In effect it is like opening two new race courses the size of Aqueduct in the New York City area. Since the decline in attendance was not of that proportion, the conclusion may be drawn that a substantially different customer market is being served.

To revert to Ontario, the conclusion of Innovative Marketing regarding the impact of a government system on the major tracks is highly significant:

"The pattern is therefore clearly established—a very significant percentage of trackgoers will not substitute a Government Off Track Betting System for the 'real thing'. The success of the Government Off Track Betting System will result from the fact that it will satisfy the present strong consumer demand for a legal, reliable off track betting facility (as evidenced by the 'new money' which it will generate and the considerable transfer of betting from bookmakers to the Government Off Track Betting System, both of which are discussed earlier in this report). Its success is *not* dependent upon a transfer of betting from direct wagering at the major race tracks to wagering at the Government Off Track Betting System.

"There is a possibility that within a short period of time the handle and usage of the major race tracks will increase. Current non bettors who become Government Off Track Betting System customers have a high probability of attending the race tracks. Their curiosity about racing, and horses, which will be initiated by the Government Off Track Betting System, will encourage them to attend the race track. The excitement of watching the horses run and the enjoyment of a stimulating social environment provided by the race tracks will be positive motivators for a segment of these new bettors to return to the track. The number of new bettors will depend upon the extent that the Government is prepared to advertise and promote its System. The experience of other jurisdictions (e.g. New York City) should be used to estimate the number of new bettors who will develop as a result of the Government Off Track Betting System. It is then reasonable to assume that a significant percentage of those new bettors will attend the major race tracks. The onus is then on the race tracks to create the kind of environment which will create the desire in these individuals to return.

"It is believed, therefore, on the basis of the foregoing, that the future of the major race tracks will *not* be jeopardized by the current concept of the Government Off Track Betting System."⁹

On the basis of logic and our analysis of experience in other jurisdictions, we see no reason to differ from this conclusion.

9. *Ibid.*

CHAPTER 15

Conclusions

AS we have indicated, we conceive that the objectives of any off-track betting system should be:

1. The suppression, or at least diminution, of illegal book-making;
2. The provision of a service to the public;
3. The contribution to the financial integrity of the horse racing industry;
4. Revenue to the government.

From our study of Ontario and other jurisdictions, we conclude that ~~these objectives can be best accomplished by the following:~~

1. The *Criminal Code* should be amended to provide that all off-track betting shall be unlawful except as authorized by provincial law.
2. A Board or Commission should be established as a corporation without share capital, to operate off-track betting in Ontario, subject to guidelines in the implementing legislation and subject to Government approval of some major policy questions. The composition of the Board or Commission should be:
 - (a) eight members appointed by the Government of Ontario, one to act as Chairman, one to act as Vice-Chairman and Chief Executive Officer, and one who might, *ex officio*, be the Chairman of the Ontario Racing Commission;
 - (b) one member appointed by the Government of Ontario upon the recommendation of the breeders of thoroughbred horses (Canadian Thoroughbred Horse Society).

- (c) one member appointed by the Government of Ontario upon the recommendation of the breeders of standardbred horses (Canadian Standardbred Horse Society).
 - (d) one member appointed by the Government of Ontario upon the recommendation of the owners of thoroughbred horses (Horsemen's Benevolent and Protective Association).
 - (e) one member appointed by the Government of Ontario upon the recommendation of the owners of standardbred horses (Ontario Harness Horsemen's Association).
 - (f) three members appointed by the Government of Ontario upon the recommendation of the race track operators, with one member nominated by the largest operator, the Ontario Jockey Club, one member nominated by the rest of the "A" class tracks, and one member nominated by the "B" class tracks.
3. An off-track pari-mutuel betting system should be instituted which would initially employ manual ticket-selling procedures. A central computer would be used for collating bets and operating the parallel telephone deposit betting system. A completely automated system should be the ultimate objective.
 4. The system should be implemented in stages on a regional basis, in centres where consumer demand appears to be concentrated.
 5. The revenue derived from off-track betting should be divided in the following manner:
 - (a) A percentage of each dollar wagered through the off-track betting system would be deducted, equal to the total amount deducted at the race track on which the bet is placed;
 - (b) Provincial revenue would be deducted from this amount in the form of a fixed tax;
 - (c) The costs of operating the off-track betting system, including capital charges, would be paid out of the amount remaining;

- (d) The balance or residue would be available for distribution, as the Board or Commission may determine, in accordance with general principles enunciated in the implementing legislation and subject to the approval of the Lieutenant Governor in Council.



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