Wednesday, December 6, 2017

Is It Possible to "Do More With Less"
When it Comes to Race Horses?

Moderator:
Dan Fick: Accredited Steward, Racing Officials Accreditation Program

Speakers:
Lonny Powell: CEO, Florida Breeder's and Owner's Association
Wilson Shirley: Independent Consultant
Alex Waldrop: President & CEO, The National Thoroughbred Racing Association

Ms. Wendy Davis: Good morning, everyone.

Audience: Good morning!

Ms. Wendy Davis: Welcome. On behalf of the faculty, the staff and the students of the Race Track Industry program, I'd like to welcome you to Tucson. Thank you for being here at the global symposium on racing. I'm Wendy Davis, director of the program, and 2017 marks the 44th renewal of this annual event.

I know that there are a few folks, even up here on the panel, who may not have been at number one, but they were at some of the very early panel sessions.

We're delighted to meet all of you who are making your first trip here, and really excited to welcome back some of you who have been here maybe since the first one, or at least for the majority of them.

I'm pleased to say that along with the diverse representation from U.S. based racetracks and regulators and industry vendors, we have almost 70 foreign attendees, and they are representing 15 different countries, this making it truly a global symposium.

Those who were here for the first conferences remember that there may have been as many attendees as there were speakers, but that has really changed over the years in size, attendance and subject matter.

What stays the same is the commitment of the program to offer the industry-quality programming to discuss cutting edge issues to be able to bring people together, and talk about what's right and what's wrong, and how to go forward with racing.

Having all of you here not only helps the industry, but it's a great advantage to our students, many of whom are here in the room today. If they aren't in the room, they are helping get everyone registered, and helping with the operations of the program. We certainly could not do that without them.

This is not the best time for students, it's actually the end of the fall semester, but the beginning of finals, so the students will be here as much as possible, and they really do enjoy speaking to you. The student name badges do have the name "Student" on them, and any time that you could spend with them is greatly appreciated.

Our seniors will also be showcasing their senior capstone projects this afternoon, from 3:30 to 5:30, just outside the doors here. They love to talk to you about their projects and get feedback. Please stop by and visit with them. Ask them the hard questions, see how well they've done.

Along with the thanks that go to the students for all their hard work and assistance coming up to this program, there are some other folks who this absolutely would not happen without their time, assistance and their dedication, because there's been no 40-hour work weeks in the last few weeks, and realistically the last couple of months. The people who work so tirelessly behind the scenes are Betty Prewitt, our administrative assistant, and I know she is never in this room. She never gets to be here because she's busy taking care of anybody in the registration area. I think probably most of you have visited with Betty at some point.

Another person who's invaluable to us is Denise Pharris. She's our graphic designer and our marketing person. You will see her, she'll be around changing nameplates, doing photographs, doing everything that needs to happen. She's the one that designs all of our handouts, our programs and our yearbook.

Certainly last, but not least, in that order is Liz Bracken, and I know Liz is in the room.

Really, Liz deserves all the credit for making this conference come together. We're still one person short at the race track program, so we've been spread pretty thin.

We are able to search for our third person, so we'll be back to full staff by the time we meet you again.

It's meant that Liz has taken on a whole lot of extra duties and making sure that this all comes together.

Liz, could you just stand? Thank you. Appreciate it.

[Applause]

Our sponsors are also incredibly important to us. We absolutely could not do this without them.

I'd like to thank everyone now, all of our sponsors, for all of the events that they're sponsoring during the week.

I'd like to specifically thank our diamond sponsor, Roberts Communications Network. They sponsored the reception last night, which was very well-attended. I hope you were all there and had a great time. This morning's breakfast was sponsored by our ruby sponsor, Exact Systems.

We have a really full agenda today.

Along with the panel sessions, there's an awards luncheon at 12:30.

The student presentations, as I said earlier, at 3:30, and the day concludes with a reception following the last panel, and that's at 5:30.

We have something a little extra today. Near our registration area where you picked up your conference packets, there are some beautiful bronzes and some rare books. It's called the Bergstein Collection.

They were donated by Al Bergstein, Stan's son. Very unique and rare items that came to us with the specific intent that their sale would support student scholarships.

I think everyone in this room remembers Stan certainly, an icon in racing. He had passions along with harness racing, but it was art and books. You have a chance to own a piece of Stan's library, so please, everybody stop by. There may one of those rare books that you just can't live without. The instructions on how the auction works is there at the table.

Plan on staying through the last session tomorrow, as our closing reception is titled, "Viva Tequila."

We've had a lot of great response to our closing receptions, so we will have a tequila tasting bar, so you'll get to learn what the difference between blanco, reposado and anejo in tequila is. They'll tell you what it is, and then you'll get to taste it. It's a lot of fun. Last year we did whiskey, this year it's tequila.

Yes, they're back in much higher numbers, the Sonoran dogs. There was a run on Sonoran dogs last year. Not to worry, for those of you who love them, they're back. We have plenty. We're ready for the rush.

With that, I would like to get to what you're all here for, and that's our first panel session. I'd like to introduce the Moderator of our session, Dan Fick.

He's an RTIP alumni who's really uniquely qualified to lead this discussion.

He has an incredible background in all facets of the industry, including his perspective through the eyes of an executive director of a breed registry, a racing secretary, as well as a steward at the track.

With that, I'd like to turn this over to Dan, and thank Dan and our entire panel for kicking off this year's global symposium on racing.

Mr. Dan Fick: Thank you, Wendy. It's certainly an honor to be here, as always, and to kick off the first panel is an additional honor.

As advertised, Wilson Shirley, Alex Waldrop and Lonny Powell and I are going to analyze and discuss the current state of horseracing amidst declining statistics, project how these numbers might play out in the future, and offer some potential solutions to return horse racing to the prominence it should have as a sport gaming opportunity and business.

We're going to do all this in a little over an hour, so we're gonna get started. We're going to save questions and audience participation until the end.

Let's begin. Wilson Shirley is an independent consultant with more than 30 years in the industry, advising breeder's associations, horseman's groups, racetracks and commissions on a myriad of subjects, including wagering simulcasting, legislative issues, takeout, race days.

Among Wilson's current clients is NYRA and Del Mar. He's gonna jumpstart our panel with a statistical analysis of foal crops. Wilson?

Mr. Wilson Shirley: Thank you, Dan. For this panel, is it possible to do more with less when it comes to racehorses?

I was invited to present the facts and figures that illustrate the connections between Thoroughbred foal production, racehorse inventory, starts in Thoroughbred races and numbers of races to show where we are in terms of racehorse inventory now, and to suggest what the immediate future might hold.

In other words, I'm the "with less" portion of this panel. Alex, Dan and Lonny are going to do the "doing more."

We'll start with a bird's eye view of U.S. Thoroughbred foal production.

This is a graph that shows the last 30 years of registered Thoroughbred foals, beginning about 1985 and ending in 2015, which is the last year for which the Jockey Club has pretty complete records or reports.

As you can see, there was a ten-year decline in foal production from 1986 or so, of about a third of the foal crop, about 13,000 foals from an all-time high of 47,000, to about 32,000 in 1995.

This is largely, or generally attributed to the fact of the Reagan Tax Reform Act of 1986, as a result of which, ownership of Thoroughbred horses was no longer a tax shelter.

For the next ten years, you can see that foal production rose gradually to about 35,000, except for that little blip in 2002. That is the result of what was called "mare reproductive loss syndrome."

That was in 2001, a caterpillar infestation in central Kentucky caused about 30 percent of pregnant Thoroughbred mares in Kentucky to lose their foals.

From the 35,000 foals that it got to in about 1996, it has fallen — in 2006, it's fallen again, foal production has fallen again by about 13,000 foals, a 35 percent reduction of foals.

This is largely attributed to the so-called Great Recession. Now there may not be much that U.S. racing can do about sub-prime mortgages or caterpillar infestations, or though Alex may disagree, federal tax reform, but we do have to deal with the consequences of foal production.

This slide shows the yellow diamonds are the foal production.

This slide shows how many individual starters U.S. Thoroughbred flat races have made at least one start in the last ten years.

The beige columns are the U.S. bred starters, the little green slivers at the top are foreign bred starters, which make up about 3 percent of the total starters and about 3 percent of the total starts.

You can see here that American bred runners have declined from about 64,000 in 2006 to about 47,000 in 2016, a 17,000 drop, or about 28 percent.

Now you can also see that there's a kind of a parallel between foal production and the number of race horses that are starting in our tracks, but that is a 28 percent reduction in runners, is roughly parallel to the 35 percent reduction in foals.

The difference is, you can see there's a lag. Well, that's because a horse doesn't become a runner until at least two years after it's foaled, and about 60 percent of U.S. runners are four years old and up.

That means it takes between three and six years for a full crop to have its full effect on the racing inventory.

This graph shows the correlation between the number of starts made in U.S. races, and the number of starters.

The beige circles at the top are U.S.-bred runners, that doesn't include the foreign. On the bottom, the beige columns are the starts by U.S.-bred horses and the greener foreign horses.

You can see there's a parallel here, from 2006 when horses — when there were about 407,000 starts by U.S.-bred runners until 2016, when there were fewer than 290,000 — that's a loss of almost 120,000 starts in 10 years. That's about 30 percent fewer starts.

This chart shows what happens when the number of starts declines. The beige triangles at the top are the total number of starts, the purple columns are the number of races run.

As you can see, there's also a parallel here from 2006, where there were about 51,000 races run to 2016, about 38,000.

There are about 13,000 fewer races — that's about a quarter of the racing product has been lopped off, but as the number of starts has declined by closer to 30 percent, as a result of which field sizes, average field sizes have declined, because race tracks haven't kept up with the inventory declines in cutting races.

For the last five years, average field sizes in U.S. Thoroughbred races have been below eight horses for the first time.

The last slide shows — well, if you have to cut out 25 percent of your races, how do you do that?

Well, you either have to reduce the number of races per day or you have to reduce the number of racing days.

The purple diamonds on the top are the number of races, and you can see the parallel columns on the bottom are the number of race cards, race programs, race days.

They've dropped from 6,075 to about 4,650, about 23 percent of racing days have been dropped over the last 10 years.

In effect, that means that virtually all U.S. race tracks have dropped from either from about five days of racing a week to three or four.

This slide summarizes all these trends.

You can see that foal production has declined by 35 percent — the relevant foal production has declined by 35 percent.

The stock racing inventory has declined by 27.5 percent, 30 percent, or 29 percent fewer starts, 25 percent fewer races, et cetera.

This contraction in the inventory has forced all the stakeholders in the industry to try to come up with different coping strategies.

The rest of the panel may talk about those. I'm gonna go on and quickly say, what happens now?

Where are we gonna go from here?

Well, we know right off the bat that in 2017 through the month of November, there have been about 1000 fewer runners, about 2.5 percent fewer runners, and about 2.5 percent fewer starts in 2017 through November than in 2016, and 650 fewer races, a 2 percent decline.

The trend is continuing in the dropping racehorse inventory, but it's much slower, because you can see again here, this is the slide I showed earlier — the slope of the decline in starters is still going down.

It hasn't leveled out yet.

The first thing we can look at is foal production.

This shows foal production over the last ten years, compared to the starters in the red circles.

What you can see is that in 2006, the blue bars at the bottom, the blue columns — that's Kentucky-bred racing. That's Kentucky-bred horses.

The multi-colored bars in the middle are the next five largest breeding states — Pennsylvania, California, Florida, New York and Louisiana.

The gray bar at the top are all the other U.S. breeding states. You can see in 2006, each of those segments represents about a third of the total U.S. foal crop.

By 2016, with the shrunken foal crop, Kentucky now represents closer to 40 percent of the foals, and everybody else beyond the 6 biggest breeding sites is down to about 17 percent.

Now, this table shows the last three years since the foal crops I've leveled out, broken down by the major breeding groups.

You can see that there's a very slight decline in the leveling out of 1 percent over the last three years, but note that Kentucky's foal crop has gone up by almost 15 percent.

Florida's has risen, California's has risen, New York's has risen.

Louisiana and Pennsylvania are down quite a bit, and the rest of the country is down about 11 percent.

Now, based on the recent history of the participation in the racing industry by foal crops, by states and by reports to the Jockey Club about mares bred, we can make some educated guesses about what the immediate future will hold.

That's because all the runners that are gonna be competing in the year 2020 already exist in some form.

Two-year-olds of 2020 are in foal in the bellies of mares right now. All the other ones have been born.

There isn't gonna be any increase over what we have now, and what has been reported, so it looks to me that there is gonna continue to be a slight decline — this is a chart showing total runners by foal state.

There is gonna be an increase in Kentucky runners, and a general decrease of about 2500 runners overall. It's gonna be about a 7 or 8 percent decline in the inventory over the next — through the end of the decade.

That's at least what it looks to me like.

This is the start, so there's gonna be a comparable decline in starts of 7 percent or so, and there's gonna be a comparable decline in races, another probably 3,000 races will be lost over the end of the — through the rest of the decade.

While the foal crops appear to have been leveling up, the racing inventory hasn't caught up with that yet.

The immediate future is going to continue to be exerting pressure on racetracks and racing offices to deal with a scarcity of inventory, although it will not be as severe as in the last ten years.

The racing industry is gonna have to — is gonna be challenged with trying to do more with less.

That's my job, is to show you the less. My friends here on the panel, I hope, are gonna address the more.

Thank you very much.

[Applause]

Mr. Dan Fick: Alex Waldrop is the president and CEO of the National Thoroughbred Racing Association.

Where he leads the thoroughbred industry's national office responsible for matters pertaining to federal legislation, advocacy, racing safety and integrity, marketing and promotion of the sport, group purchasing and management of issues of national significance to the horseracing industry.

Alex previously spent 20 years with Churchill Downs, Inc., first as general counsel, then general manager and president of Churchill Downs Racetrack.

Alex is currently the chairman of the Racing Medication and Testing Consortium, Trustee of the American Horse Council, and chair of the American Horse Council Racing Advisory Committee.

Alex will discuss key tax issues in Washington, and how they affect owners, breeders, racetracks and foal crops.

Mr. Alex Waldrop: Thank you, Dan. Good morning to all of you, it's a pleasure to be here on this panel.

Okay, let's talk about my premise — and this is moving slowly.

The premise of my remarks this morning is this: Tax policy does matter to horseracing and breeding.

I think as a correlator to that — that I would mention, which is that when we talk about horse population, we're not really talking about a lack of foals, we're talking about a lack of owners.

That's the important focus.

That's why tax policy is so important.

The question is, are owners sensitive to tax policy?

Let's talk about probably exhibit 1A, for why we know owners are sensitive to tax policy.

Wilson referred it, the '86 Tax Act, which was devastating, frankly, for horseracing.

You saw the numbers. The first slide he put up showed it.

We could talk a long time about why it was, but suffice it to say that you were able to use passive losses against active income at the time, which made horseracing an amazing tax shelter.

That went away with the Tax Act of '86, and it meant that we had to operate as a business, which meant that you could only get tax benefits if you were active in the trader business of horse ownership, which is relatively rare.

We've already seen the dramatic decline of the foal crop was about 25 percent over a 6-year period.

It's down 60 percent from that 1985-'86 high point.

The Thoroughbred yielding prices were crushed — 35 percent decline in those prices.

That's because owners didn't show up to the sales. You saw a precipitous drop in the number of starters per year, again, you saw some of that with Wilson's remarks.

Handle flattening — it didn't decline, but it did flatten.

It wasn't until full card simulcasting in the mid-'90s that we saw a rebound of handle.

We know tax policy can be devastating for horseracing, and that's — the tax of '86 proves it.

What's the question, I want to ask?

If enacted, will the 2017 tax reform package help or hurt the Thoroughbred industry?

Let me say this is not Thoroughbred-centric, I read this and realized I'm speaking to all breeds, really.

This is not — there's nothing in here breed-specific.

I do represent the National Thoroughbred Racing Association, but we have to say that a tax policy applies across the board.

I will say that we're gonna look at the House and Senate versions of the Tax Act. I'm not gonna take you into all the details, I promise. It is the Senate version — 500 pages, we've only had access to it for about 24 hours, so my apologies if I don't get everything.

I do think that it's worthy of looking at this.

I also say there are other things that make us at the NTRA know that tax policy matters. Look at what the Treasury Department has just done, to modernize withholding and reporting, which has revolutionized the business in some respects.

I haven't talked to a single person here this weekend, or this week, who hasn't seen a drastic decline in the number of signers, 90 to 95. In fact, online a 98 percent decline.

We know anecdotally that's affecting handle positively.

Things can happen good for this industry, when we pay attention to what happens in Washington, D.C. We at the NTRA have also been looking at things like three-year depreciation for racehorses, as opposed to the current seven-year schedule for two-year-old horses that are pulling in their training at two-year-old.

Bonus depreciation, 179 expense deductions — all these things have helped stimulate the horse sales industry since 2008.

While we haven't stopped the decline, when you see that, it certain has helped.

Tax policy is important, and we're there every day. This is a unique opportunity, we feel, to perhaps shape policy going forward. We'll see whether, in fact, that's occurring.

We're going to go through these provisions, but I'll remind you this is a very fluid process.

Congress has not come to any reconciliation between the two versions, House and Senate.

We have a sense of where that's going, but there are lots of tricks, of things that could complicate that effort. This is not a comprehensive review of all of the Tax Reform Act.

It's nonpartisan, I'm not taking sides here. This is primarily a GOP-led effort. We are decidedly nonpartisan at the NTRA, so you can choose how you view this.

From our perspective, we're looking at this solely from the perspective of horses and horseracing.

Very quickly, I think you can read that. You've got individual rates which, essentially, that's where the big-ticket item is here.

Those rates are being modified.

That's going to cost about a trillion dollars.

That's where the real tax reform is occurring. I'm not going to bore you with those details, because they don't really — the rates themselves don't really affect us directly, and they're going to change because House and Senate have not concurred. We'll have to see how those shake out.

State and local tax deductions — a big issues.

Both versions deal with it.

The House caps property tax deductions at $10,000, the Senate has a full repeal, but theirs sunsets after 2025.

It's a big issue throughout all of this.

When is this stuff — is it permanent?

Does it sunset? There's a lot of that in this Tax Act.

The tax rate for corporations drops to 20 percent. You've got an estate tax which goes away — maybe, maybe not after 2024.

It either disappears from the House side, or it actually in the Senate side, it may come back to life at some level.

You got the Obamacare taxes, which have been repealed in the Senate version.

Let's talk about some of the positive provisions for horseracing.

Number one, bonus depreciation to 100 percent — that's the expanded definition of new property. That means people who are purchasing horses, new horses for racing, breeding, stock — as long as it's a new asset for that individual, they get to depreciate that asset in year one 100 percent.

That's a very big thing for horse owners and breeders, because that makes it more affordable. That, frankly, drops the price immediately of that Thoroughbred, or any horse that you buy at auction.

We promote this at the auction sales because owners need to understand this.

Unfortunately, on the House side, this will be sunsetted in 2023. The Senate phases it out over another few years, but in neither case, will this be permanent.

Wish it were, but it's not gonna be. There's talk about making it permanent, but not so much. Okay, what happened here?

Okay, Alternative Minimum Tax. I was gonna tell you that it's gone, but it's not. It's back. The Senate put it back in.

It's got to be reconciled, and my guess is it's gonna stay in because Alternative Minimum Tax helps cover a lot of the cost on the Senate side, so they can remain through budget reconciliation and do this through 51 votes, not the 60 votes that a filibuster will require normally.

Look for Alternative Minimum Tax to come back in. Why does that matter? That's just — that increases taxes on folks that might be buying horses.

Third area is reduction or elimination of the gift in the state tax. I think that's real.

I think that's going to last, either going to go to $10 million, or perhaps repeal all outright.

House and Senate don't really agree about that. Why does that matter? Lots of family farm own horses.

A lot of equine facilities where families are looking at the prospects of paying a big estate tax, this gives them some relief, so that's a good thing.

I'm not sure how this happened — I think I just went too far. I was trying to be cute here, and I got a little too cute with these — the last thing was NQE Section 179 Expensing Limits.

Complicated, but it's still important.

That's similar to the bonus depreciation.

That allows horse owners and breeders to expense certain other costs — personal tractors, equipment, computers — things that they buy for the farm.

That allows them to expense those immediately, up front.

The House and Senate are a little bit different.

House has a $10 million exclusion, which phases out after $25 million, the Senate not nearly as generous. The exclusion for that is at $1 million, and it phases out at $2.5 million.

You can see the Senate is being a little bit more conservative, because they need to keep that price tag under a trillion dollars to make it work for their budget reconciliation process.

Another couple of quick issues — like kind exchanges — believe it or not, lots of horse people like to exchange horses.

They do it because what happens is, you can defer gain. If you have a horse and you want to sell it, and another guy has a horse they want to sell, you can trade horses and you can both defer gain.

That's gonna go away.

That's unfortunate.

That's one of those areas that — wish it was in there.

The limitation on the deductibility of business interest expenses — that's one of the give-backs for allowing the depreciation, the bonus depreciation on resources is.

Only 30 percent of business interest is going to be deductible now, so it's kind of a quid pro quo in the tax code now.

The House is going to exempt the first $25 million, Senate $15 million — there we go again, a little bit more conservative.

There is a provision in there for farm businesses to not elect this limitation, but they have to then go through normal depreciation schedules.

They can't get the benefit of bonus depreciation.

How much of an impact on horses and horseracing?

I don't know, but if you're an owner or you're an owner of a business and you rely on borrowed funds, this could be a factor.

I call this "areas of concern."

Treatment of pass-through entitles. You know what? I could bring you to tears if I were to take you through the pass-through entitles.

Actually, I would go to tears, because I don't know that I understand it.

House and Senate are different.

The House wants to make the maximum rate on these pass-through entitles, LLCs, partnerships, S-Corps, not C-Corps — they want to drop the maximum rate to 25 percent under certain circumstances, that the Senate is doing a deduction, 17.4 percent deduction, as opposed to a tax reduction.

Not quite sure how those two will work together. There's a lot of work to be done to reconcile those, it's not even worth talking about. I do think this will stay in.

To the extent that there are passive entities that are out there right now, and they're relying on, or they're paying higher taxes actually have income, which is not altogether — it's not that common, I have to say.

If they have income, this could be a positive for those passive entities, going forward.

I would say these could be positive, negative, neutral — not clear. It's really up to the real winners, in my estimation, of this tax bill so far, and that would be tax accountants and tax lawyers, because this is very complicated.

Now, I will say this. About 90 percent of the public will see, because of the increase in the standard deduction, a lot of people will stop itemizing. They'll start filing their taxes perhaps not on one page, but it will be very simplified.

That has its downsides, we'll talk about that in a minute.

For those 10 percent who still are going to be filing, this is a complicated bill. These are — and the interaction between those is, there's a lot to be earned yet.

I do think on balance, though, this will be a good thing for us.

Passive entity treatment is important, and I think it'll be good for us.

Another area of concern is the net operating loss carry-back period. We're gonna just go right through that one, that’s just another one, complicated.

If you want to know about net operating losses, see me afterwards. It's complicated.

If you net operating losses to deal with and carry-forwards, good for you.

That's probably not going to be a huge issue for horses.

Another area of concern, and it affects our horse players, and that is the limit on wagering losses.

There was some thought initially that what Congress was doing was taking away the right to deduct losses against winnings, which was important; miscellaneous deduction losses or miscellaneous deduction — you can deduct your losses up to the amount of your winnings, under Section 162 of the Internal Revenue code.

That remains.

It wasn't changed.

What has happened though is that previously, or currently, if you're a professional gambler and you have other expenses like travel, entertainment or lodging, you can actually deduct a portion of those under 165 as an ordinary necessary business expense.

What this provision says is, no, you can't do that.

You're going to have to — probably all of your winnings are going to be capped, all of your loss deductions.

Whether they're through losing wagers or through any other ordinary and necessary business deductions.

We're fighting this provision. We think that it doesn't make sense. It's inconsistent, it's unfair, and we'll have to wait and see how this comes.

At this point in time, we're trying to see that this comes out in the conference committee.

I will say that one of the things that is, as I said, one of the things we're looking at here is that more significant force, possibly, is the fact that by increasing the standard deduction to $24,000, that means that a lot fewer people will be itemizing, and if you can't itemize, you can't take that miscellaneous deduction for gambling losses.

The good news is, you'll get a standard deduction that's doubled, it's gonna be simple, but it might impact some horse players now who can't take advantage of that loss deduction, that miscellaneous loss deduction, because they're not going to be itemizing.

All the more reason why — and Roxy Roxborough said it the other day, thankfully we now have so fewer — such a limited number of people who are actually going through the process because we're not seeing the numbers of withholding and reporting with the IRS, which means people are getting tripped up in the system.

Because once you get in the system when it comes to taxes, it's very difficult to get out and get all your money back.

That was the case before, it's going to continue to be the case.

Better to keep you out of the process to begin with, and that's why it's important that we have the Treasury Department agree with us and eliminate that.

I've got to hurry here, I know my time is up. Entertainment expenses, right now both the House and Senate will disallow deductions for entertainment activities.

Currently you get a 50 percent deduction, it'll go to zero.

Query whether that'll hurt sales and tickets for racetracks and other groups that people rely on those entertainment expense to enjoy our properties — we'll see.

I don't know what that impact will be, but it could be significant.

It includes food and beverage expenses in the House, but not in the Senate.

One other area of concern, and it should be of concern to our charities, and that is, I know United Way in particular is really mad about the situation where charitable deductions will still be a below-the-line 162 deduction, you have to itemize to take that deduction.

If you take that standard deduction and double it, lots of people will no longer be making charitable contributions, because they won't see the advantage of it.

They won't be itemizing it, so they won't be giving money.

United Way says that's a $13 billion loss for charities.

That's got to include some of our horse adoption agencies that are there, the TAA and all the many, many good efforts that are out there.

They've got to be looking at this with some worry, because to the extent that anybody's doing that solely for tax purposes, and I think that's minimal in our industry, it could be a problem.

The gift of estate tax also goes away, which again, it's another opportunity for people to give.

Charitable organizations are very concerned about that, because the combination of the doubling of the standard deduction and the repeal of the gifts and estate tax could have significantly negative consequences.

One more area of concern, capital gains holding period.

You know, we've been trying for years to get the holding period for horses from two years to one. Why we are subject to a two-year holding period is — I can't explain that.

It was one of those things that it's been in the code forever.

We were hopeful to get that in this, but we were not. It was too expensive, frankly, that they score that provision and they see a lot less tax will be paid.

Anything like that that they considered expensive for the public Treasury, they're hard to get, so we didn't get that capital gains holding period.

We'll continue to advocate for this, but I'm not real optimistic that we're going to be able to make a change on that.

Three-year depreciation of race horses — that did not make it in, which is not altogether — it's not a tragedy, because we have this bonus depreciation which actually does similar to what this would do.

Once it sunsets in mid-2023, '24, or maybe a little later under the Senate version, we'll need three-year depreciation.

We'll continue to work for that at the NTRA. We wish we were in now, it would work even now, but I don't think it's going to get back in.

Again, the 100 percent bonus depreciation helps cover that problem for now.

Let's talk about time table.

We know the House has passed their reform bill.

The Senate passed theirs a couple of days ago.

Has a committee been formed to reconcile the differences?

I don't know.

It will be formed, it won't be a standard committee, it will be a committee made up of leadership.

It certainly won't have — probably will not be bipartisan.

We'll wait and see on that.

That committee has got a lot of work to do, because they're looking at getting this done before the end of the year, again so they can stay within the reconciliation rules, which allow Senate to act on 51 votes, not 60.

That's gonna drive a lot of compromise.

I see the House moving the Senate's way, because the House has more flexibility than the Senate, but there are limits to that, especially on some of the more conservative lawmakers who are concerned about certain provisions.

They've got some work to do, and it's far from a done deal, especially when you consider the fact that right now, you also have a government that as of Friday will no longer be funded.

We have a continue resolution that ends on Friday, and if there's not some action taken from the government, the government will close.

Well, guess what?

The funding votes are going to require 60 votes in the Senate, so the Democrats are back in play.

They have some leverage.

Believe you me, the interaction between the funding and this tax bill is, they're going to push the funding issue for a couple of weeks, so that they sit down and they resolve them all before Christmas.

Look for a very interesting Christmas Eve when lots of this will be put to bed.

The dynamics there are complicated, and I don't pretend to know how this is all going to come out, but I think there's lots of horse trading, if you will, to be done.

I think I will say this: I do believe this bill, in some form, will be passed.

We do believe that. We do think that there is enough momentum behind one or both of these bills, that there will be tax reform before the end of this year, in all likelihood.

It certainly seems that's the case.

Government will be funded, and how those two interplay, I'm not going to guess.

What's my conclusion?

I started with the premise that tax policy does matter to horseracing and breeding.

We ask the question, does the reform package help or hurt?

My answer on balance, I think it's a good thing.

Wilson asked me a great question as we were preparing.

He said, "Tell me that the 2017 Tax Act is going to be as good for horseracing as the 1986 Tax Act was bad for horseracing.

I wish I could tell you today that that's the case, but I don't think that's going to be the case.

I think on balance, it's a good thing.

It certainly doesn't hurt us.

It gives us some opportunity.

I think that it will help our business, it'll help owners.

Whether we'll see a 35 percent increase in the foal crop coming after this — let's hope.

Let's hope, but I don't see that happening right now.

It's a good thing — all right?

There you are.

[Applause]

Mr. Dan Fick: Moving right along, our next speaker is Lonny Powell, the CEO of Florida Breeders and Owners Association, where he not only sees the daily operations, but also manages Florida Equine Communications and Florida Thoroughbred Charities.

It goes without saying that Florida is, and always will be, one of the premier horseracing states in terms of breeding, sales, training and racing.

It's also very important internationally, and Lonny has led numerous overseas trades missions in his tenure at Florida Thoroughbred Breeders and Owners to South Korea, Argentina, Uruguay, Barbados, Trinidad, and most recently China.

I've known Lonny since we were students here at the University of Arizona, and I could spend the rest of the panel talking about his career in the industry.

He's a lifer in this industry, born into it and continues to work in it. Worked tracks like Longacres, Turf Paradise, Woodlands, Santa Anita, worked for UBET and ARCI, and was actually, I think many of you know, was the coordinator of this program at one point in time, which makes that broad spectrum, Lonny, the perfect person to talk about doing more with less from the viewpoint of the various industry stakeholders, because he's worked for most of them, and with particular emphasis on horse owners, breeders and buyers.

Lonny?

Mr. Lonny Powell: Thank you, Dan. Good morning, everybody. Happy symposium, season's greetings.

Wendy was talking about a number of symposiums attended.

I really will date myself, I attended my first one as a junior here at the University of Arizona when I transferred here, that means I've been to 36 of these, which is hard to believe.

I think the only person in the room that's been to more is Joe Harper, and he's a much older man than I.

[Laughter]

Anyway, Joe, I knew I was gonna getcha. It was going to take a couple of years — anyway — also, on behalf of all the alums, and I know there's a number of alums in the audience, we're very proud of the fact that a fellow alum, Wendy Davis, is the new director of this program. We look forward to supporting this program and moving it along, as the industry goes through its numerous changes.

Well, you know, the title of this panel is, like a lot of good panels, it's a question: Is it possible to do more with less when it comes to racehorses?

The one thing you've got to laugh about a little bit is, what are we supposed to do?

Get up here and say no?

Well, no, the symposium's over. Everybody go home, get a new job.

No. I mean, this industry has dealt with multiple forks in the road, at least as long as I've been involved, which has been my whole life.

Your answer has to always be, yes, but we understand it's gonna take a lot of hard work.

It's not gonna be easy.

It's gonna be full of challenges.

As Wilson said, I think I'm here to say there are ways to do more. It's just not easy.

I would submit to you in this room, and even our industry cohorts not in this room, that we are all used to doing more with less.

I don't care if you're a service provider or a wage provider, a regulator, a trainer, owner, jockey, track breeder — what have you. We know how to do more with less.

How many in this room are doing more with fewer resources?

With fewer personnel?

With less marketing spend?

Not coincidentally, sometimes with less marketing share.

We know we have less racing, we've seen it on the slides. We know nationally, globally, we have fewer foals.

We know at least since the '80s, we've been debating and worrying about the issue of field size.

Fast forward this many years later, and we're talking about field size.

I think we all more what doing more with less is.

I've got some general thoughts on the various stakeholders involved, then I'm gonna drill down.

When it comes to doing more with less, here's some observations I have in general, as it pertains to this issue.

It's just my opinions, it doesn't mean I'm right or wrong, or anything else.

Let's start with the racetracks, where I've spent the majority of my career.

I see a number of, again, alums in the audience.

I see we have a number of directors of racing that have graduated through here, I see Martin Panza out in the audience.

I know there's a number of other racing folks here.

Those of us that went through this program in the '70s, '80s, '90s and even the early 2000s, we were lectured upon and impressed upon the importance of the art of hustling horses.

Hustling horses wasn't an option, and it wasn't just what you did for stakes races.

Hustling horses was what you did to put your racing program together. While this industry has done more with less, and by no way am I being critical of the race tracks, but your racing offices, if you look at them, they have fewer people.

They probably have a lesser budget in some ways.

What they do have more of is technology, which is a wonderful tool to help tell you what kind of horses you have, and the way to put things together.

I would submit to you that none of that replaces boots on the ground. Though it might be contrary to what the current economics of this industry is, I would submit that most race tracks, based on everything we're talking about, need to recommit to hustling horses.

Hustling horses is not an option, and as it gets tougher and tougher to fill races, it's something you can't just rely on the computer and maybe some emails.

It takes the human voice, and it takes boots on the ground.

Again, our race tracks and our racing offices have a very difficult job to do.

When it comes to trainers, we all know how tough of a job that is.

You're working for multiple owners, they all have different ideas.

You're trying to find races for your horses to run.

At the same time, we're seeing this play out in different parts of the country.

The days of occupying stalls with horses that aren't going to start at that racetrack, those days have to end.

Those do no one any favors.

The patrons' distaste for short fields is obvious, or with number of horses owned by the same owner.

The tracks business hurts.

I would say the owners that want to run their horses aren't being helped, either.

Again, it's a complicated issue, but that's an observation there.

When it comes to owners — and I made a presentation on this a couple of years ago with the owner of UConference — some of the owners, if you look at them, they are individual businessmen.

A lot of them have come from other businesses where they're successful.

We get the romance of the business and everything else that goes along, but the one thing we would always ask our horse owners is, don't check out your common business sense just because you become a horse owner.

As far as breeders, breeders are making major adjustments.

They're gonna need to make major adjustments, as the slides that Wilson showed you play out.

There's no doubt that the current and trending needs and expectations of the marketplace — and it's a dynamic marketplace — have to be met.

You're seeing mares cold and taken out of production.

You're seeing stallions re-evaluated.

You're seeing people that might have owned 20 horses in the past, or bought 20 horses in the past and hoped that they had one or two good ones, now buying three and counting on all three being good ones.

The marketplace is changing dramatically, and breeders have to change with it.

Likewise, the sales companies; they can only sell with the market once.

I've got to throw in my old friends, the regulators, even though it's a bit of a stretch here, because that's one of my alma maters, and always near and dear to my heart.

When it comes to doing more with less, when it comes to regulators, all this of this industry expect — Ed, are you listening — we want you to keep integrity and safety of the game and the sport number one, job number one, but by the way, we can't help you much on your declining budget and manpower issues.

Just do a better job at it.

That’s what our industry has become.

There's no doubt our country's Great Recession escalated the national foal profit decline.

That decline, as we saw by the slides today, at least for today is a reality.

It's a new normal.

It's an absolute forced correction on the marketplace, that our entire industry throughout the globe must deal with. It is an equal opportunity disrupter to our industry and to our marketplace, and it impacts all aspects of our business.

Then we go to field size. We know how important it is to our players and our businesses. I would submit, I started managing my first racetrack in the mid-1980s. We've been obsessed with field size, and knew it was an issue all the way back then. We've talked about it, we've dealt with it some. Here, we're talking about it today like it's a new concept. Our industry has long had an issue with trying to deal with the field size problem.

I will say, based — we're a little blessed in Florida on the field size end, and that both our major Thoroughbred tracks do average just under 8.5 horses a race.

It's above the national average, but we all know there's no high-fiving in this business, unless you're averaging nine horses or more a race.

It is an issue for us all.

I think we'd agree in this room, and at this conference that, hey, there are so many people that are important to our business, that you miss one of the players, and you can't do without them.

We've all been in those arguments before, especially at the negotiation tables, and so forth.

You know, you can't have a jockey without a horse.

You can't have a horse without a breeder.

You can't have a horse without an owner.

You can't have any of that without a racetrack, and you can't have any of that without a regulator.

Okay, we're all important, and you've got to have the service providers to provide the technology and so forth.

Okay, so we all get into that, we agree.

I would submit, and I think most of you would agree, there are two major players in our industry that are the economic engines that have the lights turned on in this room for us, that put food on our tables when we go home.

Those two people are the player, and secondly the horse buyer, or horse owner.

Sometimes they're the same person, sometimes they're different.

What these two groups of individual economic engines have in common, as we know, is they're tough to replace, they're difficult to identify and recruit.

We must retain them once we have them, and none of it happens overnight.

It requires time, energy, and yes, sometimes investment.

They do have a number of things in common.

They have discretionary income, but more and more, they are becoming selective in how they spend that discretionary income.

They have competitive options and alternatives for how they invest their money.

Whether we like it or not, or agree with it or not, they truly dictate what our market needs to be.

As providers of a product, whether that we a wager or a horse, we must do our reasonable best to meet their expectations by selling them what they want to buy, whether that be a horse or a wager, because these people vote with their dollars.

I think we'd all agree, their voices have not been heard as much as maybe they should have in the past.

I know we're doing a better job of that.

Nonetheless, their voice needs to be heard.

So far I've dipped my toe in all those different industry stakeholder pools.

I want to go ahead now and take a deeper dive into the specific area of horse ownership, of which we've heard so much about this morning.

I think many of us would agree that the importance of retaining and recruiting horse owners, whether they be existing, or horse buyers, while trying to bring those new ones on board through the pipeline, is something that all of us in this room, whether we be a track, an association, a regulator, a horseman, what have you — we can all agree with that.

We can all get our arms around it.

It's a basic tenet of our business, unless you want to be one of the decoupled dog or a quarter horse or standard bred tracks in Florida, where you really don't want horses, you just want the gambling.

Most of the rest of us are in this to see the marriage of the two. As we know, if there are no horse owners and buyers, there are no horses, and there is no industry.

No matter how much — and I don't know what words we want to use, we call it "consolidation" or "contraction," but no matter how much we see a decrease in racing dates and races, numbers of tracks — and by the way, that estate tax had a lot to do with a number of tracks and farms going along the wayside the past, Alex, so that would be a good thing for our industry.

I digress.

No matter how much all these things are consolidating, I believe that the new and existing horse owners does not change.

In fact, I think in some ways, it's even more important.

It's even more of a challenge than ever before, because horse owner and buyer philosophies, their practices and their spending habits do more to reflect current events and the changing times and the marketplace.

What can we all think of doing about this?

Well, from a broader standpoint, we need to improve the owner environment, and just as importantly, the owner experience.

Because it really is, if you're in this business to have horses, you have to have an entire experience to reflect back on.

We know the economics are not easy, that's one of the biggest challenges.

Alex has talked about some more tools in the tool box, and a number of you out in the audience are working on the things.

Our industry nationally and locally always tries to work on things.

Because I think we all know, we've got to keep these people from — at least not — they have to at least break even in this business.

An industry and business model based on people losing money is never a strong model.

The economics is always going to be a difficult, but a fight worth fighting for us to improve for the horse owners and buyers.

I think owners also need much more representation around the board room tables at our various organizations.

They also need to be much more involved in advocacy at state capitals.

All of us in the industry need to do a better job of communicating to our owners.

It seems like they're very open to — I remember this even going on a farm tour with Ken Ramsey of all people, he knows a little bit about farms.

We went to another farm, and he was fascinated about their best practices, which shows you never stop learning in this business.

Owners love to know about others' best practices.

We need support systems, and there are some out there.

I think for the new and the potential, we even need more of a mentoring program for these people, as they look at entering into and staying in the business of horse ownership.

I do think all horse owners and potential horse owners expect us to market and deliver upon the ownership experience, you know, and it includes the sporting competition, which is very unique.

It includes the social aspects, which are really, really important if you're going to be involved in the game of ownership.

I think it includes fun, and I say that in all capital letters with an exclamation point, because owning the racehorse and sharing that experience could be a lot of fun.

This is where partnerships are going to be even a more important thing in the future, and things like these racing clubs are being started at different places.

I think they're tapping into that social and that fun element, while spreading the risk.

A little piece of self-advice, or to us in this room that just I had to bring up somewhere in this thing is, I think sometimes we, in this industry, when it comes to our inside baseball pitch or elevator pitch, our self-depreciating humor is great, but I think sometimes it hurts us.

I mean, I'm as guilty as anybody else.

How many of us, it used to be, I remember, decades ago somebody wanted to own a race track, we'd tell them about what a lovely experience that was going to be, but actually not a lovely experience.

Or if somebody — how many times have we been in a situation where somebody says, hey, this racing looks interesting, I want to start betting on it.

Or, you hear somebody say, "You know, I'm thinking about owning a racehorse," what do we typically do in our industry?

It's because it's our camaraderie, and we have ourselves appreciate a sense of humor, and just our way of dealing with things.

Think of what we would typically do.

Somebody comes to me, "Hey Lonny, I'd like to really start playing the races."

Then what would my typical industry response be?

"You know what, why don't you just get a bucket of gasoline and throw all your money in there and light it on fire?

That way your misery would be over immediately, and you wouldn't have to go for years being miserable."

Or, "Hey, you know, I'd like to buy a horse."

Well, you know what? Take all your money and put it out on a conference table and take a picture of it, because that's the last time you're gonna ever see your money."

Well, you know, that makes us laugh, and we know it's a tough game, but I submit to you we have to rethink the way we have those type of conversations with members outside our industry.

Because if that causes even one person to have bad word of mouth and they tell five other people and they tell five others, I don't think these are the times that our humor needs to be used in that direction.

I don't think it's always well-taken.

I also want to take a page from my presentation on this day last year at this symposium.

If you're in a racino market, and every bit of your racino profits are going to purses in the track bottom line and none of it's being invested into marketing programs and facilities specific to racing, including horse owners — you're missing the boat.

You're playing the short game.

You're not playing the long game.

Everybody that's here that's in a racino market and that's involved in the negotiating table and the splitting of revenues needs to encourage everybody else to get involved in a more aggressive ownership program, in my opinion.

Now nationally, we have to applaud in the past few years the efforts by people like the Jockey Club in particular, and TOBA, NTRA, the OwnerView conferences, the websites — all those kinds of things, because no doubt, they're very helpful.

They've really helped to bring this issue more to the forefront.

They're timely and substantial efforts, and they do help.

Yet in my opinion, these efforts alone are greatly diminished at the tracks, the horseman's groups, the breeders and the sales companies at the various states and provinces don't walk it in addition to talking it at our local levels.

If I could have the first PowerPoint slide, please — I'm going to give you an example of just a modest effort that we tried on an experimental basis in Florida this year, just to get this conversation rolling on a more localized level.

I'm sure many of you have done much better and more sophisticated things.

This was just us on a solo effort in cooperation with our state Department of Agriculture.

I'm coming up with an experimental ownership program, and it applied itself to outdoor, as you see, to print and the digital.

I might add that the Department of Agriculture was our partner in this as a cofounder, a matching funder.

That's because Florida is a very big ag state.

As most of you know, we're not only a top tier breeding industry, but we're one of the top global exporters of Thoroughbreds along the world.

Here's an example of a billboard — by the way, we didn't just place these billboards in proximity towards race tracks.

We placed one of these so close to the capitol, state capitol, that you could hit it with a rock.

There's a reason — there's always a reason, there's multiple applications to marketing and advertising.

Next slide, please.

We got into now the big Florida airports, you know, the Miami Internationals and Orlandos were just too expensive, but we did get into a lot of — Florida is full of commercial airports.

We got into a number of airports, like the junior Orlando Airport, the Tallahassee Airport, places like that, and had this digital presentation, all driving people to our website, where we had a landing spot for them to learn more about horse ownership.

Next slide, please.

That was the website.

A lot of the links we provide when you go there, in relationship to OwnerView and some of those other efforts.

We're trying to do our small part in getting this conversation going more on a localized level.

Next side, please.

Whenever we get a chance to get on a grand stage as well, this is our program ad from last year's Pegasus World Cup Day.

We are a member of the marketing alliance with the Stronach Group on the ground floor, on the Pegasus.

Next one, please.

This is our concept ad for this next year's — this upcoming Pegasus, where again we push the message.

You know, we had a pretty good Breeders' Cup.

We had ten horses, ten Florida breds go to the Breeders' Cup.

Of those ten, five lit the board.

The five of those, two of them won world championships.

We got a lot to talk about in Florida when it comes to the quality of our horses.

By the way, something that's encouraging is, our Commissioner of Agriculture, who supported us in this program, is also running for governor right now.

Now, we did this on our own as the Florida Thoroughbred Breeders and Owners.

My hope this year is to sit down with our two tracks, with their two horsemen's groups and with our sales company and say, what can we do to really explode this thing out on a grander basis, combining all of our resources and all of our technology?

If we can't get something in for the latter part of '18, let's have the grandest program possible that we could launch immediately in '19.

Those are my next steps from here.

We wanted to try this thing out ourselves to get a little feel for it.

When it comes to horse ownership, as I sum things up, I think no matter what, whether the horse owner or buyer is making a purchase at a sale or at a farm, or through the claiming box, there's no doubt they're a precious, valued commodity that we need.

We very much must try to get them the product, the information and the experience.

Again, the experience that meets their expectations.

To me, the challenge today is for all of us collectively to take this effort to the next level, and to also localize it like crazy.

In fact, I'm hoping that next year's symposium, God willing and we're all here, I'd like to be out in the audience, put a little pressure on Wendy and we have another panel on the exciting programs, those of you, the audience, and some people not here are undertaking to build horse ownership and horse purchases.

With that, I thank you. Again, enjoy your symposium.

[Applause]

Mr. Dan Fick: Thank you, Lonny.

I just wanted to briefly be able to tell you all about the different ownership initiatives going on within the industry.

I contacted my friends in a bunch of organizations, some national organizations, some locals, and asked them, what are you doing as far as ownership initiatives?

I'd like to start with the 2011 Round Table Presentation by McKinsey Company.

They hit it right on the nail.

We should have seen this coming, and some people did.

Their source of insight, the one that impressed me the most, they interviewed, surveyed, 920 thoroughbred owners.

Their executive summary concluded we still got a very powerful industry, but we're losing the battle for fans and betters.

We're going to lose 50 percent of our ownership bases in the next 10 years. Fifty percent of our owners.

What should we do?

They talked about refocusing our efforts on TV, working with the corps better with innovative betting.

The one that caught me was, re-enhance the ownership experience through additional tools and transparencies.

Well, what were the tools and transparencies that they recommended?

What are some of the ones that we're doing at this point in time?

Equibase shows us where we are here in just the last six years, if you look to the left-hand column, seven years.

We've lost 25 percent of our owners since that conference.

Their prediction was pretty right on.

What's come out of it?

OwnerView, as Lonny references.

This is a great effort, great website.

It was launched in 2012 to bridge the information gap that McKinsey exposed.

Our owners don't have the information, and especially our new owners don't have the information they'd like to have.

Their website in the last five years has had over two billion page views, six hundred thousand visitors — so it's working.

It's become the go-to source for information.

I like this quote: "What a great program that you are running for both current and new owners."

Then the organizers, as Lonny recommended, talked about with NTRA and TOBA, the National Thoroughbred Owners Conference.

The first one was held in Keeneland in 2014, more than 300 attended, new owners and existing owners.

There's been three since then at Gulf Stream, San Anita and Del Mar with similar numbers.

According to Gary Falter, they've had over 600 paid attendees in those four seminars, and over 1,000 people at the conferences to participate.

The next one's at Churchill Downs for Breeders' Cup this next year.

Here's some of the comments the people that have attended.

They're in the process right now of doing a survey of those 1,000 attendees. "We had never been owners until the conference."

We had never been owners until the conference.

"It did play somewhat of a role in advancing our ownership."

"It helped make the decision to become an owner."

"We have purchased a stake in a yearling, and we're going to do more." It's working.

Lonny referenced racing clubs — I remember a racing club Lonny started at Longacres back in the '80s, and they've been on and off at the racetracks. They're very successful.

These are some of the racetracks that have done them recently, or will do them recently.

At Prairie Meadows we did one this year, $300 a share.

Ninety-three participants, claimed a $5,000 horse, won two races.

They were refunded $275 per share.

Cost them 25 bucks to experience twice in the winner's circle and be a horse owner.

Go on the backside, learn about horse ownership.

Several of the club members have already bought horses by themselves for this year, and the club already has 85 members.

These work at developing new owners.

Talk to TOBA.

They do ownership seminars this year in Maryland, Indiana, Canada.

They covered exactly what you'd expect them to cover; how to buy a horse, how to claim partnerships, the dynamic between the owner and trainer, state-breds.

The resources are available, and also retirement and after care.

They also hosted breeding clinics and Kentucky and pedigree confirmation clinics in Florida, New York and Kentucky.

They've developed the Owners Concierge.

The goal is to ensure an exciting and successful off-track, as well as on-track experience by serving the diversities of thoroughbred owners.

We should have an owner's concierge at every racetrack in this country.

They talked about the owner's conference, and again, the next one is at Louisville, Kentucky.

These are all slides that these various organizations provided me.

The National HBPA — their ownership initiatives include establishing a horse of the year for their claiming crown event, financially and publicly being supportive of OwnerView, establishing greater owner participation in the claiming crown through qualifying races.

This is something we did at AQHA when we created the challenge with ten regions.

"Win and You're In" was the slogan that we started.

This works.

This gets owners involved locally, because then they can go on.

Positive social media is something all of us need to be doing.

This is a key; assist, mentor and lecture students on the possibility of working in this industry, and maybe future owners as well.

This is our future.

It's the students out there that have expressed an interest in horseracing, business, equine science.

Labor force initiatives — I don't have to tell you how important that is in this day and age.

Working with stewards and commissions on making the rules of racing fair and equitable for owners, and try to eliminate those unattended consequences we as stewards have to adjudicate and don't like to, legal owner representative groups and ensuring the revenue sharing for the owners.

HBPA is out there advocating and working hard for their owners.

Beyond the forefront of media issues, owner-trainer liability insurance is very important, the fire and disaster coverage they provide at 40 racetracks and training centers.

Then acting as a clearinghouse for communications where participants can leak to the HBPA database to collect and disseminate vital information.

They're being very active in trying to communicate with their owners.

USTA has always had a tremendous ownership initiative for the harness industry.

They have their own OwnerView, HorseracingFanZone.com.

They've gone one step further: They've got a team that focuses on personal interaction and personalized resources for new and novice owners.

They have a mentor program where a pre-approved USTA, typically an owner, will help a newbie find a trainer, buy a horse and navigate the licensing landscape.

They have a concierge hotline.

They do owner seminars, but the key here is they provide the resources for you at your harness tracks to do — and your harness associations locally — to conduct a New Owners seminar and ads [to do it]*.

They've taken what TOBA's doing on a national level to the local level, so it can happen at every state, every race track.

Two thousand eighteen plans — trainer education, trying to help the trainers market themselves.

Developing trainer's websites, social media, marketing education, sample print ads, business cards — helping them become the small business marketer that they need to be to be successful.

Breeding initiatives — I like this one too — their foal crops declining also, obviously.

They're doing feature articles in *Hoof Beats*.

We do articles in *BloodHorse*, *America's Horse*, the different magazines within the horse industry.

What they do is they take those and they repackage them as a breeder's basic booklet, and over 1,000 copies have been distributed already.

They're producing the how-to, when, where, why, what for potential breeders, and then producing it in a booklet, and then freely distributing it.

They're delivering the message.

AQHA — when I was at AQHA many years ago, we'd know that we had to expand our ownership base, so we developed an ownership guide book.

We had a video, we did commercials on our TV shows, and we did New Owner seminars at all the horse sales.

You've got to reach out. AQHA is doing the same thing right now, focused on the larger organization and on racing, and this is a point that we recognized back when I was at AQHA. You're encouraging ownership. Ownership is about a relation, and that's their new theme.

The overall owners of horses at AQHA, 75 percent are female 40 percent ride, 76 percent keep their horses at home, and 61 percent own more than one horse, one to five horses.

It's helped grow their membership and engage members, that's their strategy.

Folks, in the Thoroughbred industry, we have the performance horse, the show horses.

AQHA has their recreational air show horses.

These people know horses, they've got the facilities to keep them.

They understand the economics — what better target market do we have for new race horse owners?

This is their campaign — "Hold My Heart, These Type of Things we Need."

You saw what Lonny's ads looked like.

As far as racing-specific, they're distributing the racing experience, which is a day at the races for want-to-be owners, from 7:30 in the morning in the barn area until they shut the door at night, the total experience.

They're producing that for their affiliates in each jurisdiction.

They're gonna be creating more educational materials like we talked about.

Their future initiatives will include technology.

Look for more details at their March convention.

What I'd like to see this industry doing, I think Lonnie and Wilson and Alex talked about it too, is, we need a collaborative, communicative, cooperative effort under the industry organizations, in particular the breed registries and the racetracks, to get out and hustle owners.

We need to share the best practices on how to recruit owners, how to get them to the sale, how to give them the information they want.

I think, as Lonny said, I'd like to see us back here next year with a panel talking about, this is what we, of an industry, have done to increase the ownership and stop the decline.

Now, does anybody have any questions?

We've got a few more minutes.

Comments?

Yes, ma'am?

Audience: I just think it's really nice from an ownership point of view to hear so much attention ***.

Mr. Dan Fick: Anybody have another question?

Please go to the mic so we can hear you.

Audience: Sorry.

Audience: The presentation for me, it was spectacular, the expansion of the horse owner and the focus on that.

I'm going to the NAC in a month and a half.

My question is, in a pitch like this, when you highlight what you want to do, so will there be horse ownership representatives there are *** six, seven hundred participants that likely, to me what a spectacular opportunity to have some, I'll call it "passive" exposure?

Mr. Dan Fick: Alex?

Mr. Alex Waldrop: Well, that's a great question.

We find about 20 percent of players in the NAC — 40 percent are owners already.

Forty percent of the people.

We find that horse players generally are those that become horse owners.

Probably the best source of new horse owners.

We have, in the past, had partnerships that were sponsors, and they were there in the room.

I don't think we have a sponsor of a horse organization, Keith, this year, do we?

No, we don't have one now.

You're right.

Horse players are, perhaps, our best and maybe most unrecognized source of new horse owners.

Audience: Just an anecdote to that, I'm one of those.

I'm a 40-year player, and three years ago I went to Sovereign Stables and West Point Thoroughbreds and bought three horses.

That's a spectacular experience.

That's a venue where I'm thinking of a player, you know, this particular maturity level, we want to go into that arena.

It might start this year, it could have been last year, and maybe next year, but I really would like to see some representation there so that another three or five or fifteen people, right, can answer some questions and get some exposure.

Mr. Dan Fick: Absolutely.

I'd take it even one step further — at the racetrack.

Have a booth.

Your local horseman's representative and your local breed association, man that booth on a daily basis, with big "Ask Me" buttons, if you want to be a horse owner, and have the information there, and be a mentor.

Have a mentor team like the USTA. Eric?

Audience: Great presentation.

I wanted to expand a little bit on what Lonny had said, and just the importance of protecting the owners.

I truly feel like that's a big part of my job.

To throw the question to Mr. Shirley, one of the things that I've done in some independent, non-scientific comparisons, there is a drastic increase that we've seen over — really, since 1996 in the cost of keeping mares, in the cost of veterinary care, * fees are going up, cost of the yearlings has gone up, cost of maintenance has gone up.

Everything that enabled an owner to make a profit, yet that stayed stagnant in the first structures.

Have you found that in your comparison?

Because that's something that continues to drive me to get the owner in that revenue sharing that we try to protect, is to look at those costs as it's associated with a business management system to become an owner.

Mr. Wilson Shirley: I haven't looked at those trends of purses versus expenses.

For one, I think it's very difficult to quantify overall expenses industry-wide for keeping horses in training, and for the capital cost of the horses.

However, it's generally understood that the cost of owning horses, of operating a racing stable, is about twice what the purse money paid out is.

That is the bad economic model that Lonny's talking about.

That does have to be addressed, and part of that effort is through organizations like yours that have to represent owners' interests in negotiating the revenue models.

Yeah, the shortfall of owners is a structural problem that has to be addressed somehow. It's never going to be overcome, I think.

It's always gonna be a luxury item for owners.

I mean, maybe Lonny's pipe dream that all owners will break even someday — that may happen but I'm not…

Mr. Lonny Powell: Not in my lifetime. I'm not pipe dreaming.

Mr. Dan Fick: Hey, Lonny, quickly, because we're getting the high sign.

Mr. Lonny Powell: Yes.

No, just quickly, that will always be — that's why I started out with economics.

We're never gonna be able to totally solve that.

These are gonna be folks, overall, with some discretionary income and that can take the risk.

Eric, it's your job, my job and other people's in this room to make sure those owners are protected, and the breeders, and they're getting their fair share of future gaming and all the changes.

There's no doubt, that's always going to be the biggest challenge to us.

We have to augment that with the fun, the experience and social aspects, and all those other positive things, and some tax breaks.

I'm done, Dan.

Mr. Dan Fick: Thank you, Lonny.

The next panel is gonna tell us how we're gonna increase handle so we can have bigger purses for more owners.

Mr. Lonny Powell: Oh, good.

Mr. Dan Fick: Thank you very much.

[Applause]