



U.S. Representative • 9<sup>th</sup> CD, New York • Brooklyn-Queens

# ANTHONY D. WEINER

Report

## **OTB: OUT OF THE BLACK**

The Failure of Off-Track Betting Under Bloomberg

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### **Executive Summary**

The Off Track Betting Corporation has traditionally been a cash cow for New York City. After all, it is a gambling operation, and the house always wins. OTB has 75 branches throughout the five boroughs where bettors can wager on thoroughbred and harness racing. The city derives two sources of revenue from OTB: money from a surtax, and left over funds (i.e. profit) after OTB pays off its obligations.

First, New York City receives revenue from a 5% surtax on all winning OTB bets, the proceeds of which are split with municipalities hosting races outside of the city. So, on every winning bet the city gets a piece of the action.

The second pot of money comes from OTB's profits. OTB's profit derives from a share of losing bets (i.e. take out) placed with OTB – and split with the tracks holding the races – in addition to proceeds from concessions at OTB restaurants, branches and teletheaters. OTB's share of "take out" is different based on the type and location of the race wagered on, but usually averages out to a 20% share of the total bets (i.e. handle). Revenues is then distributed to New York State, the race tracks and the racing industry, and used to pay operating expenses. Anything left over is the profit that is given to New York City.

For example, in 2003, OTB's handle was \$1.025 billion, of which \$784 million was given back in winning bets, and \$32 million was reserved for surcharge payments. This left a total "take out" of \$209 million. Of this, \$104 million was used to pay race tracks, New York State and the racing industry. The additional \$118 million was entirely used to pay operating costs. The result was a net loss for OTB, and no profit for New York City.

Unfortunately, the way OTB's finances are headed, the failure to produce revenue for the city is becoming the norm, rather than the exception. Since 2001, despite a clientele that has actually risen, profits have plummeted, and OTB is on the brink of going broke.

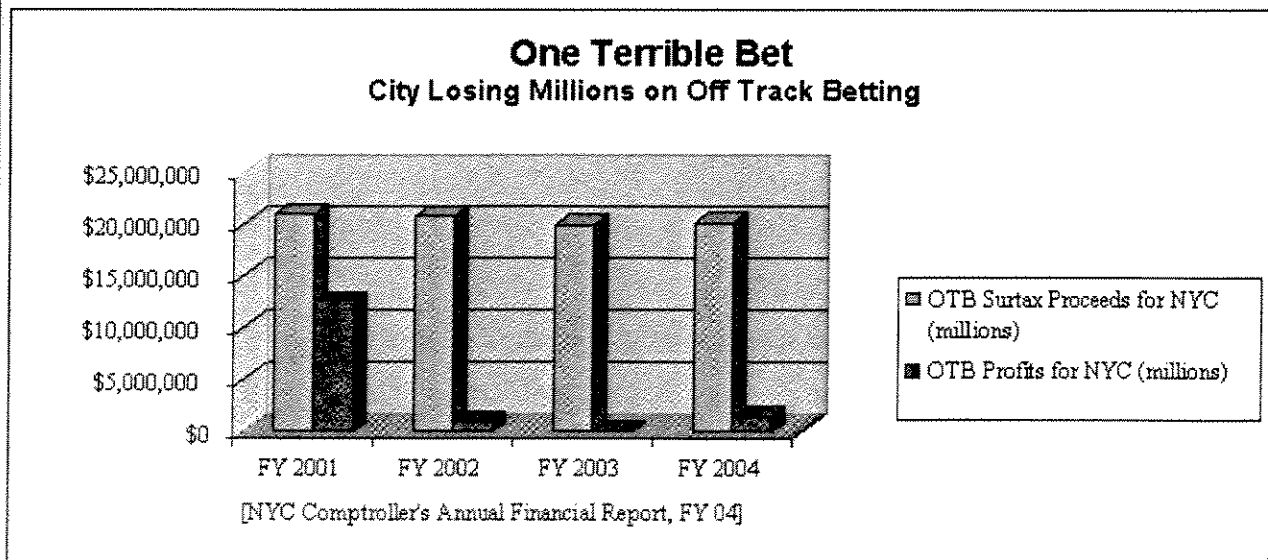
### The Bloomberg Record on OTB: The Worst Bet in New York

Upon taking office, Mayor Bloomberg promised a revitalization of OTB. To run OTB, Bloomberg appointed Ray Casey – former director of the Trade Waste Commission under Mayor Giuliani – saying “we need somebody that really can take OTB to a new level, and I think that Ray Casey is exactly the guy to do that,” adding, “my instructions to Ray were run it like a business. Make it as good as you possibly can.” Yet, since 2001, betting at OTB has remained essentially even:

Year	NYC OTB Bets Placed
2003	\$1,025,066,708
2002	\$1,030,285,839
2001	\$1,014,631,269

[NYS Racing and Wagering Board, 2003 Annual Report]

As a result, city revenues from the 5% surtax have remained flat, at approximately \$20 million per year. During the same period the city's take from OTB revenue has fallen dramatically, from a ten-year high of \$12.5 million in FY 2001 to a low of \$0 in FY 2003 – when it ran its first deficit since 1994. In FY 2004, revenue barely rebounded, with the city's take coming in at an anemic \$1.326 million:



### How Did We Get in This Mess?

It isn't easy to lose money in a gambling operation. Especially when you are the house. But bad decisions by the city and the state have made the stream of OTB dollars to New York City run dry.

When the Bloomberg administration first took over OTB, it promoted expanded OTB hours as a possible solution to its revenue problems. The Bloomberg administration aggressively lobbied the state government to give OTB the right to simulcast thoroughbred racing at night, which was supposed to produce \$15 million in revenues.

Unfortunately, when the change required approval of the state legislature, the Bloomberg administration allowed the state to negate any gain by imposing an additional state fee on OTB. The Mayor's budget message for FY 2003 explicitly empowered the governor to seek such changes, stating, "the State Executive 2003-04 Budget proposes a number of changes to the racing and wagering law, including a new 0.5 percent regulatory fee, an increase in simulcast racing and new flexibilities for racetracks to set different takeout rates. While the Governor is taking steps to address these racing issues, the City recommends that the City's requested nighttime racing proposal be enacted."

So, when nighttime simulcasting was approved, the state required the payment of an annual .39% regulatory fee from OTB's entire betting handle to the New York State Racing and Wagering Board. Now, according to a report by the State Comptroller's office, this fee – along with rising pension and collective bargaining costs – is one of the primary reasons for falling OTB profits. As a result, OTB's revenue distributions have actually increased although betting has remained flat. Thus, the racing industry and the state have sucked OTB revenues dry.

**Recommendations:**

1. Repeal the .39% regulatory fee.
2. Guarantee city share of OTB profits before state and racing industry gets take.

Sources: News Reports; New York State Racing and Wagering Board, 2003 Annual Report; New York City Comptroller's Annual Fiscal Report, FY 2004; [www.nycotb.com](http://www.nycotb.com); New York State Comptrollers' Review of NYC Fiscal Plan for 2005-2008; FY 2003 NYC Executive Budget, Mayor's Message

Congressman Anthony D. Weiner

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