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“ALL STATES WITH PARI-MUTUEL WAGERING UNDERSTAND THIS CONCEPT AND HAVE IMPLEMENTED BREEDER INCENTIVE PROGRAMS THROUGH THE SUPPORT OF THE RACING INDUSTRY.”

SUPPORT THE PAST, PRESENT AND FUTURE OF THE ARIZONA HORSE BREEDING INDUSTRY

by Kevin Owens, ATBA President

It is a critical time for the Arizona breeding industry as we face a loss of substantial funding. As you know, the small amount of stopgap funding that we previously received annually from the states general fund to pay quarterly breeder awards have been discontinued for 2016. However, there will be breeder and owner awards paid at the end of the race meet from the horsemen's purse account. Additionally, as of June, Turf Paradise management is withholding the funds we receive under a provision of the contract between the HBPA and Turf Paradise. This punitive measure essentially strips us of our last source of funding. It is quite simple, without funding the ATBA can no longer exist.

Without racing industry support we are struggling for survival in a business we all love and dedicate our time to. Most states with pari-mutuel wagering know the importance of a healthy breeder's incentive program to assist the racing industry with a population of horses in order to have a successful racing meet where all participant's involved can flourish.

Breeder incentives provide race track management with solutions to challenging issues such as the lack of horse population, short fields, a limited number of races on a race card and from cutting the number of live racing days from the calendar each year. These issue's could be resolved to satisfy the betting public and increase the on track handle with a supply chain of horses, but only if the Arizona breeders are rewarded with an incentive program.

Incentive programs have been legislated to created a local base of horses in each state. The local horsemen benefit by having more horses in their shed rows, more opportunity to win races and it essentially helps them achieve their goals of being profitable at the end of a race meet.

The local breeder's benefit with a reward for their initial investment in breeding their mare to a stallion and raising a foal. The incentive helps to showcase their efforts as the yearlings bring higher prices as they pass through a sale ring or obtain earnings from winning at the race track. It also encourages the breeder to produce the best horse they can and they will continue to breed more stock as the demand grows. *“All states with pari-mutuel wagering understand this concept and have implemented breeder incentive programs through the support of the racing industry”.*

In Arizona the belief is that increased purses for Arizona-bred horse's will remedy the lack of horse population, when in reality a purse increase only fixes a small portion of the many problems. By relying on out of state horses to fill the stalls at Turf Paradise we are also relying on out of state economies and outside breeder incentive programs to be healthy.

It is an important time for breeders to become proactive in developing a permanent incentive plan. Imagine the reappearance of

money that would be invested back into the local economy by supporting the people that stay here year around, paying property taxes, employing people, and supporting Arizona vendors/business owners (feed stores, horse supply companies, trainers, veterinarians, agriculture) including the local racing industry. Incentive programs clearly strengthen the economic impact of jobs and the quality of horses racing within the state.

California considers this an important part of the state economy. They have built a very strong incentive program for the breeders, who have responded by producing nearly 50% of all racing entrants that are Cal-bred horses.

Even smaller racing venues in the state of Colorado have 36 days of live racing days with 10 off track betting (OTB) sites that generate more than \$1.3 million for their breeder’s incentive fund. Colorado has already experienced new breeders bringing stallions to their state and mares being shipped there to foal. The majority of state’s with legislated pari-mutuel racing realized the value of a successful breeder’s incentive program and developed a lucrative fund to support the local breeder’s. The development of the fund rewards all involved and creates a superior “supply chain” of horses to enhance a greater racing venue.

A review of 26 pari-mutuel states showed that the foundation of breeders incentive plans are funded by a percentage of the racing industry income. Each state is slightly different, but the money is deposited into the breeder accounts through various types of funding such as a percentage of pari-mutuel handle, simulcasting handle, advanced deposit wagering, slots (racino tracks only) breakage, un-cashed tickets, video lottery terminals (VLTs), or a combination of all. Delaware and Arizona are the only pari-mutuel states that are relying on the general fund

(use of state taxpayers money). Which is not a permanent funding stream and is now failing the breeding industry. (Review Breeders Incentive chart on page 11)

Arizona breeders were once funded in the same manner as other pari-mutuel states. As recent as 1994, Arizona breeders were aided by a pari-mutuel tax that was eliminated as a hardship for the race track to pay down debt. The fund for the breeders was approximately \$800,000 annually. This type of funding needs to be reinstated in order for the horse breeding industry to maintain a foothold in Arizona .

Without reinstatement of a permanent revenue stream for a “Breeders’ Incentive Program” in our state the effects will carry a significant blow to the local breeders. They will disappear from the landscape and nothing will fill the void left behind.

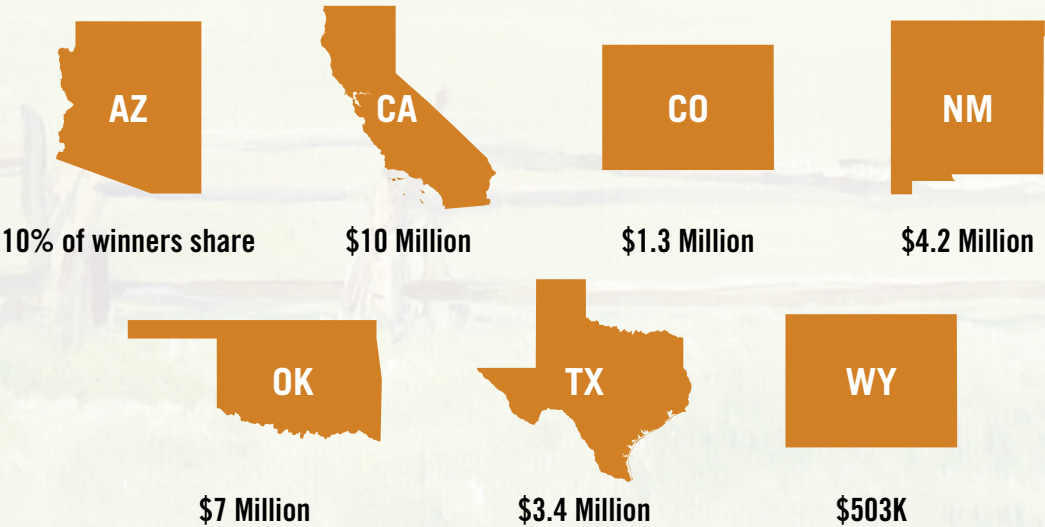
The Breeder Awards were divided among all breeds of horses and included greyhounds. The money is paid out quarterly per the statutes and regulations. Thoroughbreds (the largest certified population) received about 80% of the funds. The funding line was replaced by the states unclaimed property (general fund) as they realized that support was necessary.

The breeders were then deemed statutory recipients of the state general fund, until tough economic times hit hard and the \$250,000 for breeder awards were discontinued to help balance the state budget. Arizona Annual Commission Reports show that when the permanent source of money was replaced with a lesser amount (of \$250,000 and then were discontinued in 2011-2012) a decline in state foal crops began to “spiral downward” and the small breeder could no longer afford to breed a mare back to a local stallion.

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SOUTHWESTERN STATES BREEDERS INCENTIVE PROGRAMS

Dollar amount being distributed in Breeder Incentive Programs annually.



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Other commercial breeders began to diversify their broodmare bands into other neighboring states where healthy breeder incentives exist. Arizona is no longer paying stallion awards to owners (stallion awards were discontinued in 2011 and no longer exist) and with that went many stallions to other states. *"The reality is that the Arizona Breeders are considered stakeholders, but have no stake! And the Breeder Awards should have never been anything but the racing industries financial duty."*

"ARIZONA BREEDERS ARE CONSIDERED STAKEHOLDERS, BUT HAVE NO STAKE! AND THE BREEDER AWARDS SHOULD HAVE NEVER BEEN ANYTHING BUT THE RACING INDUSTRIES FINANCIAL DUTY."

With the closing of Yavapai Downs much has happened with the takeover of the simulcast handle, which equated to approximately \$7 million and was split between Turf Paradise and the horsemen's purse account, with the Arizona Breeders (known as a third party stakeholders) were left out in the cold. The simulcast handle is considered a windfall that should have benefited all stakeholders. It would have been an easy solution to have the simulcast income divided equally among Turf Paradise, the Horsemen's purse account and a Breeders Incentive Program. The income to the breeders would have created a "spiral up" effect and the increase of income would have been flowing back into the local horse breeding industry and our economy. It would have stabilized the declining foal crops and growth in horse population would have developed. (see page 11 for comparison of foal crops in neighboring states)

The closing of Yavapai also created a great loss in income to the local horsemen. The loss of purses earned by Arizona horse's during the meet was over \$2 million alone. The loss of racing at Yavapai was devastating to the state breeders, as it was largely populated by Arizona-bred horses and the breeders would have received another quarterly award. These participants at Yavapai aided the Phoenix racetrack by racing until the end of the meet, when other horses were preparing to leave the state for summer racing. These local horses would also show up at the beginning of the Turf Paradise meet ready to go when the track was open for business, while others were still on the road.

At this time the lack of a viable breeder incentive program seems to be the largest problem we are facing and no one has put an offer out as a solution. These are just a few possible remedies that are not being listened to or we are simply being met with a "no" answer. Turf Paradise is penalizing the Breeders Association by withholding our income and is demanding that we use the funds solely for purse enhancements.

The disbursement of funds for running the Breeders Association has not changed in 25 years. In our opinion, this is a punitive attempt to discourage the breeders from seeking alternative sources for funding that have been opposed by Turf Paradise. If, in fact, Turf Paradise is successful in withholding our income we will soon be unable to continue operation of our association.

Now is a crucial time for us to come together as a group to appeal to all parties for a solution. There is a civic duty that requires government leadership to step in when one entity (Turf Paradise) is destroying the livelihood of so many people.

We can no longer attempt to resolve these issues we are facing as individuals. Our numbers are great and we will be at a disadvantage if we continue to be divided. Please remember, breeders are horsemen too.

All of us must collectively ask our State Representatives and our Governor to join in to help revive a part of the industry that is vital to the success of all the Arizona horse breeders.

Thank you for your continued support and for all that you have contributed to the breeding and racing industry. 🍀

WE WOULD LIKE TO HEAR FROM OUR BREEDERS AND MEMBERSHIP.

To voice your support we would like to receive emails and letters written from you.

Please send your emails to atba@att.net or send letter's to the following address:

Arizona Thoroughbred Breeders Association
P.O. Box 41774 • Phoenix, Arizona 85080

NEIGHBORING PARI-MUTUEL STATES WITH BREEDERS INCENTIVE PROGRAMS

STATE	Breeder Incentive Programs Funding Sources	Live Race Days & Simulcasting Days	Breeder Awards Distribution Totals	Pari-Mutuel Handle
Arizona	a.) State General Fund (Unclaimed Property) Breeder Awards were discontinued FY 2011 - FY 2012 - FY 2016 Stallion Awards were discontinued in FY 2011 and no longer exist. Information Sources: 2014, 2013, 2000, 1997 Arizona Racing Commission Annual Reports, 2014-2013 Jockey Club TB Live Foal Rpt.	a.) Live 145 b.) Simulcast 363	\$ 250,000.00 Discontinued for FY 2016	\$ 163,119,490.00
California	a.) 0.54% on track handle b.) 0.54% off track handle California incentive awards are one of the most important uses of horse-racing revenue, because it promotes the agricultural programs in California by encouraging horse breeding. Information Sources: 2014, 2013 CHRB Annual Reports, CTBA website	a.) Live 656 b.) Simulcast 363	\$ 10,303,338.00	3 Billion Plus
Colorado	a.) Uncashed Tickets b.) 1.5% Pari-Mutuel Tax Colorado Breeders Fund consists of 0.5% of the mutuel handle on win, place and show wagers and 1.5% of the mutuel handle on all other wagers from all horse meets, including simulcast programs, plus uncashed ticket money from previous year. Information Source: 2013 Colorado DOR Annual Report	a.) Live 39 b.) Simulcast 363	\$ 1,315,093.93	\$ 81,192,652.25
New Mexico	a.) 20% "net take out" Gaming b.) 50% Breakage c.) 33.34% Uncashed Tickets d.) .625% Pari-Mutuel Handle e.) 1.375 % Exotic Wagering Pools \$42 Million of Casino Revenue is divided among purse structure/ Breeder Incentives/Stallion Awards/ Stake Races Information Source: 2010 NMRC Annual Reports, New Mexico Breeders website	a.) Live 296 b.) Simulcast 1825	\$ 4,244,956.00	\$ 186,308,422.00
Oklahoma	a.) Pari-Mutuel b.) Breakage c.) Uncashed Tickets Breeder Awards Paid from 1984 thru 2012 total \$67.2 Million FY-2012 Broodmare Awards \$2,397,458.00 & Stallion \$965.407.00 Information Source: 2012 OHRC Annual Rpt., Oklahoma Breeders website	a.) Live 211 b.) Simulcast 774	\$ 7,183,786.00	\$ 35,680,536.85
Texas	a.) 1% Pari-Mutuel Tax b.) 9.8% Breakage Paid Thoroughbred Breeder Awards \$1,837,399 Breeders Awards are paid to all certified state breeds. Information Source: 2013 Texas Annual Report	a.) Live 186 b.) Simulcast 363	\$ 3,453,573.00	\$ 371,688,853.00

COMPARISON OF FOAL CROPS IN NEIGHBORING PARI-MUTUEL STATES.

STATE	Jockey Club Foal Rpts	TB Mares Bred	Live Foals	% Live Foals
Arizona	FY 2014	118	n/a	n/a
	FY 2013	215	110	51%
	FY 2012	281	116	59%
California	FY 2014	2518	n/a	n/a
	FY 2013	2508	1629	64%
	FY 2012	2562	1600	62%
Colorado	FY 2014	174	n/a	n/a
	FY 2013	178	63	35%
	FY 2012	165	49	34%

Information obtained from The Jockey Club
Mares Bred Reports and Live Foal Statistics.