TDN Q&A

For Jeff Cannizzo, the executive director of New York Thoroughbred Breeders, Inc., the last nine years have been difficult ones. Everyone involved with the New York racing industry has had to deal with frustration, setbacks and some hard times while the state's politicians couldn't get their act together where it came to getting Video Lottery Terminals up and running at Aqueduct. The legislation that allowed VLT's at the New York tracks was passed in 2001.

Jeff Cannizzo

The situation finally changed earlier this week when the last few details were taken care of and the official sign was posted. There will be VLT's at Aqueduct and they should be up and running by next spring. For New York racing, New York-bred horses and the state's breeding industry, this can only mean that much better times are ahead.

The *Thoroughbred Daily News* caught up with Cannizzo this week to get his thoughts on what's ahead for New York racing and what the VLT's will mean when it comes to dollars and cents.

TDN: Let's start with the past before we move on to the present and the future. The last nine years were not easy. How difficult was it for you to sit there and know that the slots goldmine was just sitting there, ready to go, and ready to get New York racing back on track and yet nothing ever seemed to get done?

JC: There's no question that this was a challenging process that we've just been through here and that people have been dealing with for the last nine years in New York. Our entire industry has been in jeopardy nationally over the last decade in terms of downward trends. But I tried to keep my focus on the ultimate goal of moving forward. As soon as you step down from a battle, you're ultimately doomed to defeat. I tried to stay positive and focused. That was our agenda and our mission in New York. That helped me personally to continue to battle for this because it was in the best interests of all the people I represent and the people who are working here in New York state in the racing and breeding industries. We all wanted to get this done.

TDN: As far as the "tough times" go, what did the failure to get the VLT's approved at Aqueduct mean to the overall health of the New York breeding industry?

JC: After 2001, there was a lot of interest out there in being involved in the New York program. Then Funny Cide came about and just added to that interest. We went through a peak period and that was right around 2004. That's when things were really booming and, of course, that was right around the time of Funny Cide. It was a time where people were seeing New York as something that was turning into something big, bold and great. Since that point, we've seen a definite downward spiral in the state's breeding industry in terms of farms that have closed. Over the last six years, we have lost about 70 farms here in New York. It's not all small farms; some of the largest farms in New York have closed here, too. It was all related to inaction within our legislature because of VLT's. We went from 400 down to 330 farms over the last five to six years. Our foal crop has gone from, in 2004, right around 2,200, down to last year's figure, which was 1,788. There's been a downward turn in terms of people who were highly invested in New York.

TDN: Let's take a look at the numbers, at least what they will look like once the VLT money starts rolling in. What's the bottom line?

JC: There's always been a lot of discussion about regional programs. That's the buzz in terms of the breeding industry--where should you place your stock regionally to take advantage of these incentive programs? We see advertisements and numbers all the time about various states and their regional incentives. The reality is that based on the sheer numbers, New York's program today is one of the most lucrative and that's without any help from VLT's. We have a total program value of about $46 million a year. What I include in that figure is total purses paid in restricted New York-bred races and stakes and awards to breeders, owners, and stallions. If you contrast that to every other state, we dwarf everyone else, and that's today. We're still the largest regional breeding program in terms of total value, dollar for dollar. Now, as we move forward, in year one, purses will get 6.5 percent of the revenue from the VLTs. That will be bumped to 7.5 percent by year three. Obviously, we are talking about a lot of money.

TDN: Let's get back to the dollars and cents in a minute. We've already heard NYRA officials say purses will increase by 35 to 40 percent over current levels. Where do these numbers come from?

JC: We've been comparing the future Aqueduct VLT operation to what is happening at Yonkers Raceway and some of the other racinos in the area. The number that is floating out there is $350 per machine in win per day. That adds up to the yearly dollar amounts that we are talking about. If you take that $350 figure and multiply it out by the 4,500 machines Aqueduct is going to have, you're talking about roughly $570 million a year.

TDN: What do these numbers and figures mean for purses and New York breeder awards?

JC: Take this $570 million figure and divide it by 6.5 percent that will go into the purse fund and you're talking roughly $40 million more per year for purses. That $40 million has nothing to do with breeders' awards or anything else. That's simply money that NYRA is going to be able to utilize strictly for purses. Going forward, there will be roughly $140 million in purse money distributed each year at the NYRA tracks. That's a significant number. Take a $50,000 allowance race; it will become a $70,000 allowance race. The breeding fund in 2010 was worth around $11 million. The fund is going to get, in year one, one percent, which will be bumped up to 1.5 percent in year three. Use those same numbers, the same equation, and you're talking almost $6 million in year one.

That's more than a 50-percent increase in breeders' awards. We're going to see a significant bump to the breeding program in terms of what is given out in awards and incentives.

TDN: Could it turn out to be even better than that? Are you of the opinion that these may be conservative estimates?

JC: Absolutely. What Genting (the Malaysian Company awarded the casino contract) is going to be doing at Aqueduct and in the Queens area is completely different than what some of the other racino operations have done. They have the plans to create a true destination-type establishment. Their immediate goals include rebuilding a subway bridge from the A Train that comes out of Manhattan directly to Aqueduct, so there is convenient public transportation access to Aqueduct, which some of the other racinos do not have. It's going to be much easier to draw people to this facility than some of the others. Long-range, they are talking about implementing some sort of transportation from JFK Airport, which is right around the corner. The ability for them to draw in so many people, maybe even more people than anyone expects, should ultimately help increase that daily win number out of those machines, which, ultimately will increase purses and awards.

In my personal opinion, if you look at this from a straight business perspective and from Genting's track record, I believe they are going to put a lot of money into this project in order to maximize their revenue. This will be the first New York City casino ever established. It's going to have the ability to draw people from all over the region, and a lot of them. I have to believe they are going to be able to produce a higher level of revenue than anything we've seen before.

TDN: You've talked about how New York lost farms and how the foal crop declined. What now? Are you already hearing from people who want to look into what is going on with the New York breeding program?

JC: There's been a ton of buzz. Because of the national issues we are having and the economic problems the entire industry and country are going through, people are ultimately looking for an opportunity to make money. People who have an open mind to where they can potentially operate are very much interested in coming to New York, and in different ways--in terms of moving mares, in terms of opening satellite stallion stations, in terms of placing stallions and or just owning a New York-bred that has an earning potential and a chance of being profitable. That's really the ultimate decision people are going to face. Where can I produce a foal that has commercial value in the marketplace and has earning power on the race course? Because of those components and how New York is going to change, people are definitely interested in either coming back here or coming for the first time with some part of their operation. I have had dialogues with people all over the country who are interested in where our program is going to go.

TDN: How do you think this is going to impact Kentucky? Without slots, they are having problems and risk falling behind states like New York.

JC: I am definitely an optimistic person, but I like to think realistically. Stallions are made in New York. Stallions are made in the graded races that are run in New York. Now, New York's races have just gotten that much more important because of the purse structure and what's going to happen here. Our success and where we go is going to help nationally in terms of the stallion market. It's going to be particularly important to Kentucky because many of the stallions standing there were made in New York. Having said that, the third-year Kentucky stallion that needs a change of scenery or a different marketplace, here's the primary opportunity to give it a new shot in a regional program. He can be reinvested and he can set a book of mares that will help him prolong his career. It all comes down to making business-based decisions on how and where he can be profitable.

Ultimately, the pain that a lot of people are going through is because they are not at a profitable point. When people, whether in Kentucky or some other state, when they look at the bottom line, they are going to have to look at New York because we're going to give them the best opportunity to actually start to turn a profit.

TDN: Let's talk timelines. When do you expect that the VLT's will be up and running and when will we start to see the increases in purses and awards that you have been talking about?

JC: We are looking at maybe late October for them to break ground. They have come out and said they will have 1,600 of these machines operational in six months. If you look at that six-month window, the VLTs will be up and running in May, and revenue will then start to get disbursed. As for the breeding industry, we will start to receive revenue by, potentially, late spring or some time in June. By the middle part of the Belmont spring meet, the breeders in New York will be earning the revenues we are talking about. In terms of purses, I know it has been mentioned that Saratoga would not be affected by this, but I'd like to believe that come Belmont Fall, enough revenue would be flowing at that point from VLT's that NYRA would then be ready to modify the purse structure.

TDN: It's important to also look at a bigger picture. In some states, and with many casino companies, no one seems to care any more about emphasizing racing or marketing the sport. Can VLT's do more for the game in New York than just increase purses and breeder awards?

JC: New York racing and breeding, moving forward, is going to have to lay out a long-range plan. In order to evaluate a long-range plan, we're going to need to look at the capital and revenue that is coming in through pari-mutuel wagering and alternative gaming and figure out the best equations. By that, I mean the best equations that allow us to finance purses to the highest levels, create a racing product that is at the highest levels possible and see to it that the customers are getting the most out of what is being offered. There's a lot that will have to be looked into in terms of race days and meets. I think we need to look at the model as a whole in New York and consider how things will benefit the owners, the breeders, the racetrack owners and the customers. In New York, this is going to be our opportunity to actually move forward in taking steps to create a better product. What we can't do is sit back on our heels and just let money flow in without doing anything. Ten years from now, the political environment might change and the revenue stream we expect to see could potentially change. We don't want to be back in the sort of position we were in been for the last nine years. What I'd like to see happen is for us to be at the forefront on making long-range plans in how we are going to reinvest this revenue and capital back into our own product and our own sport here in New York. In doing that, yes, we could potentially see changes that could mean better racing as a whole in New York. How do we reinvest the money we will be receiving back into the racing product and the customer set? That's a very important question.