

A HISTORY OF 2001 PROPOSED SALE OF NYCOTB

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In fiscal 2000 NYCOTB's annual handle topped the \$1 billion mark, the corporation contributed \$39.2 million to New York City, and Mayor Guiliani moved to sell the enterprise to commercial interests while retaining a minority interest for the city. With a minimum offer of \$250 million, two bidders ultimately emerged: Magna Entertainment Corporation of Ontario, Canada, and Churchill Downs Inc. of Louisville, Kentucky, in partnership with NYRA.

The sale faced several obstacles, including a lawsuit from labor unions representing 1,700 OTB employees which maintained that the city had not properly evaluated the impact of the sale on city employees as required by law. Any deal would also require approval from the state legislature, which was far from certain. In addition, both suitors for OTB were under somewhat of an ethical cloud. NYRA was under investigation by the state attorney general's office as well as federal authorities for possible tax evasion and money laundering at its three thoroughbred tracks. One of Magna's partners, Robert W. Green, a British bookmaker and track owner, was tainted by his close association with a New Jersey businessman who had just been convicted of money laundering and bank fraud.

A deal to sell OTB to Magna twice fell apart before Mayor Guiliani was able to announce in August 2001 that a deal had been struck for \$262 million, about \$113 million more than the runner-up bid, subject to the New York State Legislature's approval and authorization of "enhanced business capacity" for the OTB. The terms were that GMR-NY, LLC make an upfront payment of \$260, ongoing annual cash payments that could yield (in present discounted value) a purchase price up to \$389 million, and \$50 million in capital improvements to OTB locations throughout the City. If Legislatively approved without authorizing business enhancements, then the purchase price would be up to \$284 million, with an immediate payment of \$150 million, another \$50 million over five years, and ongoing annual cash payments.

GMR-NY, LLC was comprised of Magna Entertainment Corp., Greenwood Racing Inc., and Racing Enterprises LLC (owned by William Mack and Robert Baker). Mayor Guiliani claimed the sale would be an improvement by allowing the government to focus on delivering essential services rather than running a commercial enterprise for profit. Key aids to the mayor included NYC Economic Development Corporation President Michael Carey, whose office issued an RFP in October 2000, Director of NYC OMB Adam Barsky, and Senior Advisor to the Mayor Geoffrey Hess. The firm WL Ross & Co., LLC was retained to act as the City's financial advisor.

Critics claimed that the sale was shortsighted and opponents, which included NYRA and the OTB union, vowed to stop the transaction in the state legislature. The matter was put on hold following the September 11, 2001, terrorist attacks that destroyed Manhattan's World Trade Center. It was still pending when Michael Bloomberg took over as New York's mayor in 2002. He floated the novel alternative idea of selling OTB's future revenues for a single, up-front payment, but in the end decided to delay the sale for at least a year, saying that it was uncertain whether OTB would be sold or not. In the meantime, OTB continued to conduct its wagering business and implemented measures to broaden its appeal to a wider and younger audience. The deal subsequently fell apart.

BACKGROUND

By cutting the number of OTB shops from 157 to 90, OTB's annual handle slipped from \$959.2 million in 1990 to \$742 million in fiscal 1994, and despite cost-savings measures, the NYCOTB corporation lost over \$7.4 million that year. During Rudolph Guiliani's run for mayor in 1993, the state of OTB became a campaign issue when he questioned how a bookie operation could possibly lose money

Although mayoral candidate Guiliani vowed to sell OTB to private interests, after his election he did not promptly do so. Under the leadership of Robert Palumbo, who was soon succeeded by former New York Giants football coach Allie Sherman, OTB began to show improvement. A first step was to simply clean the OTB parlors, which were notoriously dingy and marred by graffiti. Sherman also lowered OTB's overhead by closing twelve poorly performing parlors, cutting back on the number of parlors opened on Sunday to reduce double overtime for labor and eliminating staff through buy-out packages. More important to revitalizing the fortunes of OTB was a new law that allowed OTB to simulcast out-of-state races in its parlors and the March 1995 introduction of experimental in-home simulcasting of races on the city's public access cable channel, which spurred growth in new telephone accounts for both OTB and NYRA. As a result of these developments, OTB posted a \$4.6 million profit for fiscal 1995 while improving the handle to \$821 million.

OTB outlets featuring simulcasts were added to several restaurant locations in 1997. Although it appeared that the simulcasts mutually benefited OTB and NYRA, especially in light of the rise of Internet wagering on horse races, the two sides soon fell out over the arrangement. NYRA blamed in-home signals for a significant drop in track attendance, which OTB officials pointed out was a nationwide trend unconnected to the telecasts. After an agreement covering the pricing of track signals expired in July 1997, OTB and NYRA engaged in protracted and sometimes heated negotiations. In July 1998, NYRA pulled the plug on the home telecasts, followed in October by cutting off the feed to OTB parlors and teletheaters as well as affiliated bars and restaurants. The impasse was not settled until November 1998 when the parties finally agreed on a four-year contract.

As he entered the final year of his administration, unable to run again because of imposed term limits, Mayor Guiliani sought to fulfill a long-term pledge to sell the NYCOTB enterprise to commercial interests while retaining a minority interest for the city.

These are the internet addresses where this history is presented by its authors:

<http://www.answers.com/topic/new-york-city-off-track-betting-corporation>

<http://www.nyc.gov/html/om/html/2001b/pr238-01.html>