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Recent Impacts of Penny and Fixed Odds Wagering: What Does the Future Hold?

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In order hopefully to revive attendance at the tracks and/or fuel a resurgence in gambling (either in person or virtually), the last year has seen some recent wagering developments and changes at different horseracing tracks in the United States. At Ellis Park Racing and Gaming (Henderson, Kentucky) in the Evansville, Indiana metro area, penny wagering has been tried since the 2022 season to influence gambling revenues. Meanwhile, starting in 2022 Monmouth Park in New Jersey now offers “fixed odds” wagering as an alternative to parimutuel wagering for patrons who do not like the possible fluctuations in odds before a race starts. Kentucky and New Jersey official documents that have been posted over the last few months show that the results of these efforts are mixed at best. Finally, if fixed odds wagering comes to Kentucky, and if tax laws are not changed, the effect of such wagering could have profound impacts on parts of the state’s budget and various state and non-profit programs.

Penny Wagering

In July 2022, Ellis Park becomes the first racetrack in the US to offer penny wagering wherein customers are paid to the penny instead of winnings being rounded downward to the nearest dime according to the real odds on a race (Rees 2022). That is, if a payoff for \$1.00 on a race bet would be 1.579999 according to the parimutuel pool, instead of the payoff being \$3.00 (=2*1.50 after rounding 1.579999 down to 1.50) for a \$2.00 bet under usual practices, it becomes \$3.16. Previously, the tracks and horse owners would split the difference between what could

have been paid and what was paid. Part of the motivation for adopting penny wagering is that by offering slightly greater payouts to patrons, more gaming would take place and possible regular and online attendance or participation would be boosted for the races.

In looking at Table 1 below, a comparison of Ellis Park wagering before and after the switch to penny wagering shows a modest boost in average daily handle yet less revenues overall, although the latter is due to fewer racing dates (29 in 2021 and 23 in 2022). Whether penny wagering induces higher average wager amounts per customer is another research question, but unfortunately attendance numbers for Kentucky tracks have not been kept or given for quite some years now by the KHRC. No data is disclosed for online wagering either, and data disclosed for simulcasting for Ellis include races at other tracks.

	<u>Race Dates</u>	<u>On Track Handle</u>	<u>Return to Public</u>	<u>Payout</u>	<u>Avg Daily Live Handle</u>
Jul-21	15	\$ 1,458,579.00	\$ 1,045,325.00	71.67	\$ 97,238.60
Aug-21	12	\$ 1,272,232.00	\$ 980,804.00	77.09	\$ 106,019.33
Sep-21	2	\$ 235,855.00	\$ 154,017.00	65.30	\$ 117,927.50
Jul-22	12	\$ 1,300,900.00	\$ 958,030.00	73.64	\$ 108,408.33
Aug-22	11	\$ 1,305,160.00	\$ 979,340.00	75.04	\$ 118,650.91
		Total 2021	Total 2022		
		\$ 2,966,666.00	\$ 2,606,060.00		
		Daily Avg Live 2021	Daily Avg Live 2022		
		\$ 102,298.83	\$ 113,306.96		

Source: Kentucky Horse Racing Commission Reports on Parimutuel Wagering.

Fixed Odds Wagering

The US Jockey Club, using recommendations from the consultants McKinsey and Company, offers the opinion that fixed odds wagering could be a way for US horseracing to correct a downward trend in aggregate, US gaming expenditures because fixed odds betting is supposedly one favored by most sports gambling enthusiasts (Jockey Club 2019). Along those lines, Monmouth Park has allowed fixed odds wagering since the middle of 2022 (Bittenbender 2022). Table 2 is drawn from a 2022 New Jersey Racing Commission report and illustrates that although there is a boost in revenues for Monmouth from 2021 to 2022, these revenue levels are not as high as those before the Covid-19 year of 2020. However, it is the only New Jersey track to show improvement in track gross wagering from 2021 to 2022, although it is a modest gain at best if one factors in inflationary effects. When gambling from apps and other sources other than live track wagering and simulcasting are added, the track reports total parimutuel wagering of \$217.2 million, or a total increase of around \$43.7 million over 2021 (Bittendbender 2022). Not included in Table 2 is that fixed odds wagering is estimated to have been around 17% of all live (in person and at the track) parimutuel wagering, which would be approximately \$3.08 million (=17% of \$17,753,795). In 2022, Monmouth limits fixed odds wagering to on-track attendees and only win-place-show bets. It appears that gross revenues for fixed odds wagering appears under sports wagering reports posted by the New Jersey Gaming Commission. Given receipts of only 17% of parimutuel gambling, the fixed odds wagering innovation appears to have had modest effects. It is not clear whether the fixed odds wagering cannibalized any fixed odds gambling absent additional information from Monmouth. Whether the parimutuel amounts would have been higher absent the fixed odds gambling may never be known.

Table 2—New Jersey Parimutuel Gross Handle, On Track and Simulcasting

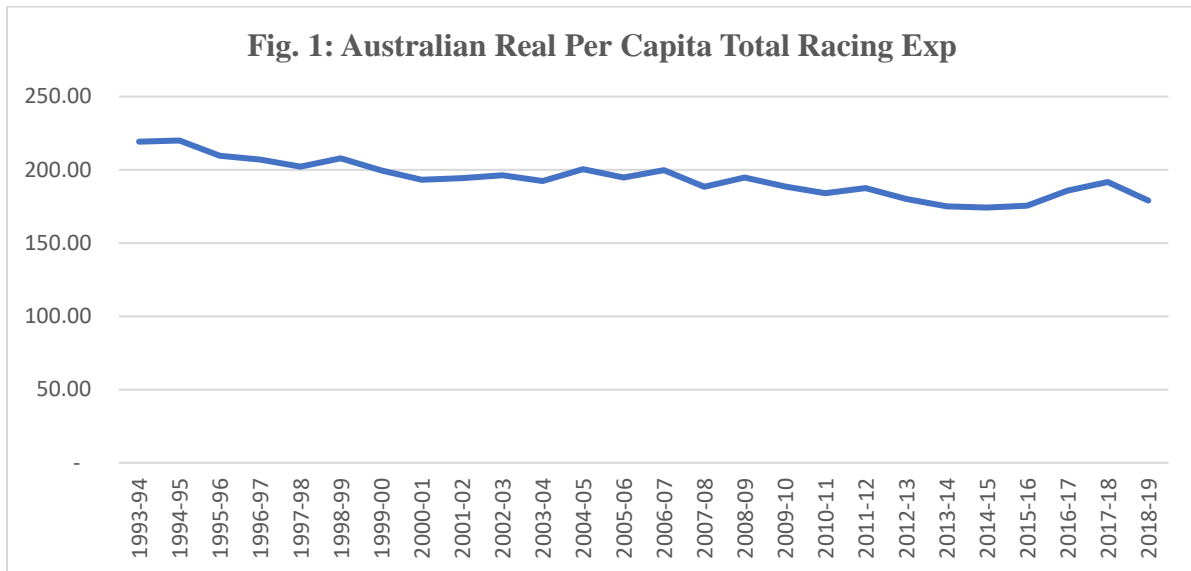
	2018	2019	2020	2021	2022
Atlantic City Harness	\$15,623,351	\$12,746,750	\$5,554,221	\$11,960,989	\$10,678,158
Far Hills	\$ 224,511.00	\$ 305,490.00	\$ -	\$ 3,001.00	\$ 22,932.00
Freehold Raceway	\$ 18,249,918.00	\$ 15,575,943.00	\$ 10,319,630.00	\$ 14,132,172.00	\$ 13,719,085.00
Meadowlands	\$ 44,889,545.00	\$ 40,215,260.00	\$ 31,748,005.00	\$ 31,473,776.00	\$ 29,311,058.00
Monmouth Park	\$ 82,165,976.00	\$ 80,457,771.00	\$ 44,454,604.00	\$ 70,754,171.00	\$ 71,412,580.00
New Meadowlands	\$ 110,224,260.00	\$ 104,532,739.00	\$ 46,816,834.00	\$ 78,317,930.00	\$ 73,401,326.00
TOTAL	\$271,377,560	\$253,833,953	\$138,893,293	\$206,642,039	\$198,545,139

Source: NJ Racing Commission reports.

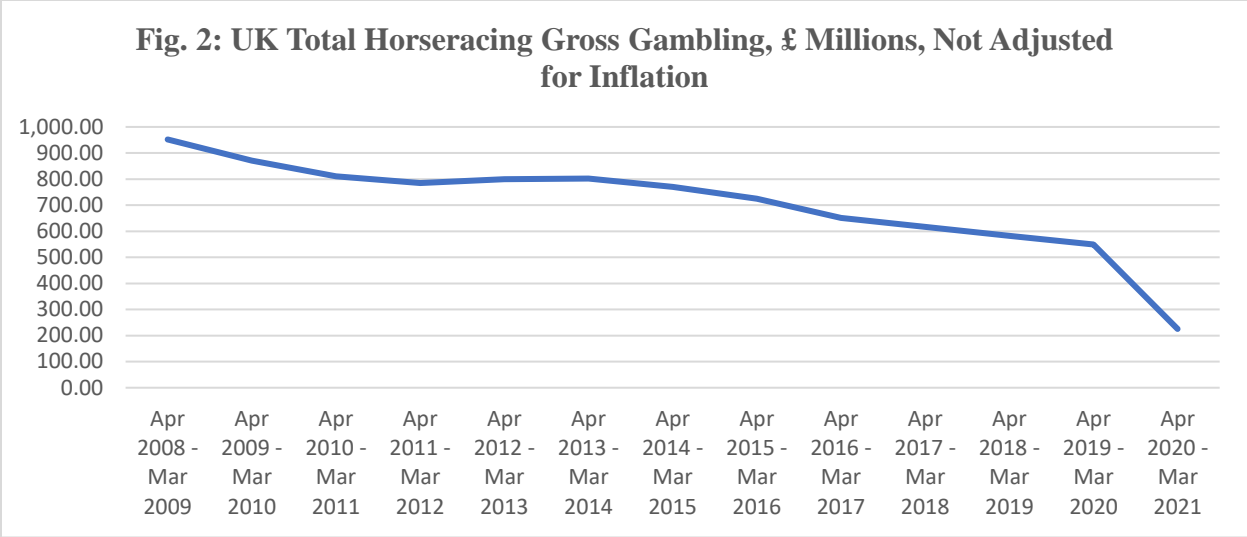
Fixed odds wagering and horse racing in Australia and the UK

According to different sources, fixed odds wagering on horse racing has been permitted in Australia since around 2003. Figure 1 below shows that the introduction of fixed odds wagering has not mattered that much when it comes to total gambling horse racing wagering in Australia. Real (inflation adjusted) expenditures per capita have pretty much flat-lined over the last several decades. However, how much of the total gambling that makes up fixed odds wagering after the introduction cannot be determined from Australian gambling reports, therefore it is not possible to determine how much, if any, parimutuel gambling was cannibalized by fixed odds gambling. Of course, fixed odds wagering also could have saved the racing industry from declines in gambling had it not been introduced. It is hard to determine this with the data that is available for Australia. In Figure 2 further below, one can see that overall horse racing wagering in the UK, which includes parimutuel and fixed odds wagering, has declined over the last few decades, and this occurs **without** adjusting values for inflation or per capita or per race wagering. Figure 3 below illustrates what portion of UK horseracing gaming is for “pooled” or parimutuel wagering, and at best this has been slightly under 5 percent from 2008 to right before the global pandemic starts. Fixed odds wagering apparently dominates in Britain.

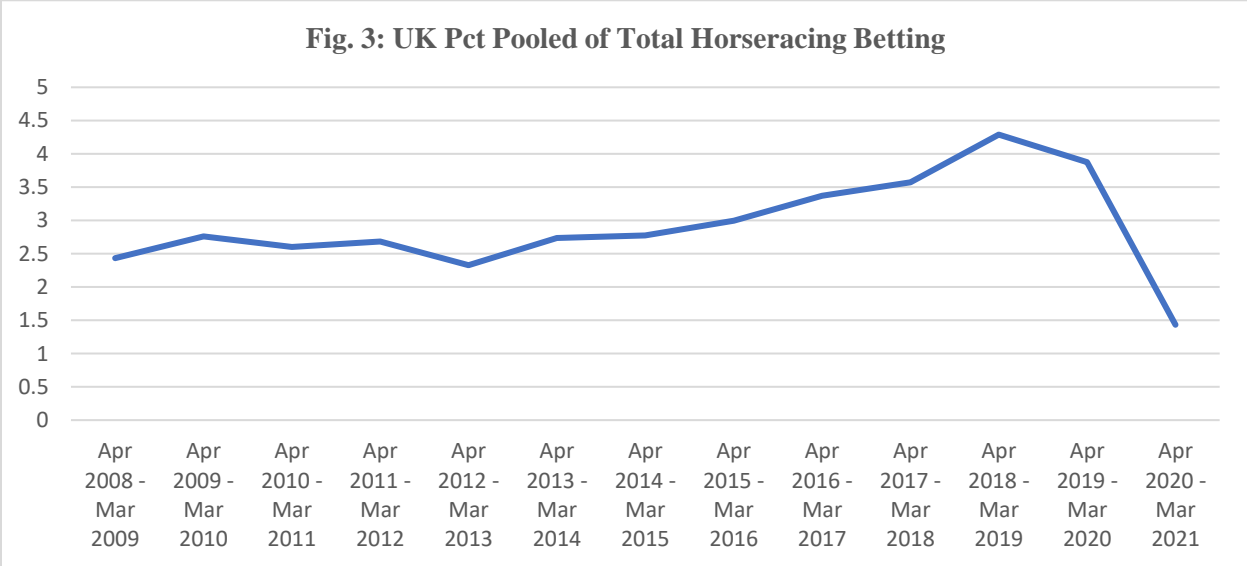
Some claim that fixed odds wagering helps to boost parimutuel wagering, and some sources claim that fixed odds will be only at most 15% of the horse racing industry in New Jersey (Longley 2021). The latter claim somewhat contradicts the claim made by the Jockey Club on the possible popularity of fixed odds gambling, but perhaps the success of fixed odds gambling is limited, at least as of now, because of current restrictions placed on it in New Jersey. Other sources write that the fixed odds wagering makes up a much greater share of horse racing wagering in Australia, and New Zealand just as in the UK (Longley 2021).



Source: Australian Gambling Statistics, <https://www.qgso.qld.gov.au/statistics/theme/society/gambling/australian-gambling-statistics>



Source: UK Gambling Commission, <https://www.gamblingcommission.gov.uk/about-us/statistics-and-research>



Source: UK Gambling Commission, <https://www.gamblingcommission.gov.uk/about-us/statistics-and-research>

Tentative Lessons and Conclusions

Although it may be too soon to discuss the full impact of penny wagering on handle in Kentucky or the effects of fixed odds wagering on parimutuel wagering at Monmouth Park, the preliminary results outlined in this paper indicate that penny wagering may only be having modest effects in boosting horseracing gambling whereas fixed odds wagering in New Jersey has

had restrained success. However, expanding penny wagering in Kentucky could boost parimutuel gambling slightly in the state, which could slow down declining wagering trends over the last few years. More importantly, if fixed odds wagering is expanded to off-track betting in New Jersey and elsewhere, then parimutuel wagering as a percent of total horseracing gambling could develop in the US as it exists in Britain with fixed odds wagering being a strongly preferred form of betting. Whether this expands overall US horseracing gambling, or at least helps it to avoid further decline, would remain to be seen. Given the flatlining of racing gambling in Australia, the latter development would be a best case scenario. Given results in the UK, and given statements by the US Jockey Club, parimutuel gambling probably would lose its dominant position in racing gambling. This likely would present problems in the way that gambling taxes are collected in different jurisdictions, especially in Kentucky. Since fixed odds wagering has been classified as sports gambling by New Jersey and since casinos and sports betting apps are playing key sports gambling functions within most states and will play key roles in sports gambling in Kentucky starting in the fall of 2023, fixed odds wagering on racing in Kentucky could be considered as sports wagering and therefore subject to different taxes than those imposed on parimutuel betting. As of now, the Commonwealth of Kentucky plans to impose a 9.25% tax on on-site sports gambling and a 14.25% tax on remote sports gambling with all the proceeds of the taxes earmarked for state employee pensions. In contrast, most of the tax proceeds on parimutuel wagering go to different programs related to the state's equine industries such as programs for equine health, industry training and educational programs at colleges and universities, incentives for breeders, etc. and with another portion going to the state's General Fund. Parimutuel taxes are much lower (around 1.5%) than those to be levied on sports wagering. If fixed odds gambling on horseracing comes to Kentucky, and if this gambling is

taxed as sports gambling, then barring any further changes in tax laws, the funding for the state's different equine programs essentially would be harmed. Education programs at the University of Louisville, the University of Kentucky, and Bluegrass Community and Technical College could suffer some lost funding as well as funding for the University of Kentucky's Gluck Center and programs for breeders. To keep these programs at their current levels, some other tax source would have to be accessed, and this probably would mean changing state tax laws.

On the other hand, historical horse racing (HHR) machines are taxed like regular horse racing in Kentucky and considered parimutuel wagering, and with HHR revenues growing every year and now outpacing regular horse racing revenues by more than 7 to 1 (around \$7 billion to \$900 million) for 2022 according to the KHRC, and if HHR would continue to be classified as parimutuel wagering if fixed odds wagering is ever allowed in Kentucky, then fixed odds wagering could have a much smaller impact on different equine programs funded by the state. Only if HHR gambling is classified as fixed odds would equine programs be in severe danger of losing substantial revenue amounts unless state government would implement new ways of funding them.

The preceding scenarios, of course, hinge upon fixed odds wagering for racing coming to Kentucky. Given horseracing's desire to prevent further aggregate shrinkage in the number of races and inflation adjusted gambling each year, fixed odds betting can be seen as a way to prevent greater losses and help the industry. Yet, if fixed odds wagering is taxed like sports betting, then one unintended consequence of permitting fixed odds could be some harm done to programs meant to help and sustain the industry.

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