

# Selling the Game:

## Becoming an Owner—Types of Ownership and Costs

*To become an owner, it's important to understand the types of ownership options and costs*

By Fred Taylor Jr.

*This is part three of Selling the Game, a series of articles about the excitement of Thoroughbred racehorse ownership and how to attract new owners, by Fred Taylor Jr. He is the founder and managing partner of Mojo Thoroughbred Holdings LLC, which operates Mojo Racing Partners offering affordable opportunities for newcomers and veterans to become involved in Thoroughbred ownership. Taylor serves as a liaison to the Department of Transportation for a major airline and is a former recipient of the Texas Thoroughbred Association's Allen Bogan Memorial Award for member of the year. If you missed a previous installment, you can find past issues of American Racehorse at [americanracehorse.com](http://americanracehorse.com).*

*Hello, American Racehorse readers! After a long and harsh winter, spring racing is finally upon us. The prep races for the Kentucky Oaks and Derby are in full swing, and people across the country are getting very excited about horse racing. The time leading up to the first Saturday in May is when the public sees, hears and learns the most about the sport of Thoroughbred racing.*

*And, through televised races, personal interest stories and advertisements about the races, it's also a time when fans want to learn more about racehorse ownership. The first two articles in the "Selling the Game" series focused on why people own racehorses. In this article (and the next), I'm going to talk about how to become an owner. During the time when the interest in our sport is in full bloom, I'm always asked two "how" questions: How can I get involved? How much does it cost?*



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### TYPES OF OWNERSHIP

I encourage those wanting to become racehorse owners to fully understand their options before they dive in. There are several options to consider, and similar to choosing the things you like to do, the best racehorse ownership choice is the one that's the right fit for each person's personality. I also encourage people thinking about ownership to consider their options to be like different levels of expertise: beginner, active participant and experienced veteran. That being said, in the end, one thing is true about ownership: Whether you own a little or a lot, just having any level of vested interest in a racehorse provides an experience that is far greater and more fulfilling than watching as a fan.

#### Sole Ownership

Perhaps the most straightforward and gratifying type of ownership is being the sole owner. Just like independently owning a business, the sole owner is responsible for almost everything—acquiring the bloodstock, finding a trainer, taking care of the administrative tasks and paying the bills. I say almost because, unless the interested person is also a licensed trainer and veterinarian,

these are services that have to be hired.

Being the sole owner has the primary benefit of "calling the shots," but it also comes with the equally high level of responsibility of covering all of the expenses/liabilities. Additionally, just like running a business, being the sole owner requires being 100 percent attentive to all of the administrative details, too.

Most people who haven't been owners don't fully understand what has been done when they see a proud owner standing in the winner's circle. While it is true that a sole owner is proud because his or her horse won the race, that owner also experiences pride in all the personal effort he or she contributed leading up to the race.

#### Partnerships

Horse racing partnerships are formed to share the costs of owning a racehorse. For the purposes of this article and simplicity's sake, a partnership exists when two or more people agree to share responsibility—all of it. Usually, the responsibility is shared equally between the owners, but it's not uncommon for partnerships to be formed based on differing percentages of ownership.

Most racing partnerships are made with some sort of written

agreement that outlines the level of commitment (insofar as the financial commitment and duties) of each partner, the percentage of ownership and length of time in which the partnership is expected to exist. The partnership agreement also defines how the partnership's expenses will be covered and the way any revenues will be utilized and distributed. It's not necessary for a partnership agreement to be drafted, reviewed and approved by an attorney. To be binding (should a dispute take place that needs to be settled in a court of law), the agreement needs to include three basic things: an offer, acceptance and consideration.

Some general partnerships are formed with a "gentleman's agreement," however, when it comes to dealing with expenses and revenues (particularly those that involve large sums of money), it's always best to have a written agreement to ensure everyone involved has a basic understanding of (and reference document for) the way the business matters will be handled. Also, in terms of tax purposes, the IRS and other state/federal governing agencies will expect to see official documents that spell out the partnership's business structure. I highly recommend ensuring a written agreement is made and a copy available before entering into any type of partnership agreement. And, if a written agreement isn't provided, you should probably avoid joining in that partnership.

### Racing Groups and LLCs

One of the easiest, least demanding and most economical ownership options—especially for someone who has never owned a racehorse but is looking to learn without being fully responsible for all of the costs/liabilities—is to join a racing group that's filed as a limited liability corporation (LLC).

Racing groups are typically formed by a corporate entity to offer small ownership portions in a particular horse or set of horses (i.e., multiple horses bundled together into one racing group). These portions can be offered as permanent vested interests (like capital stock) or they can be offered as leasehold shares—much like renting property for a limited period of time.

Similar to a partnership, a racing group or LLC should offer an

agreement that explains each participant's rights, obligations and potential distributions. A racing group will also provide the terms and conditions of the services that will be provided to the participant.

Of course, the more complex the structure of an entity, the higher the level of understanding and consideration required. Since owning racehorses can be a complex enterprise, an advanced type of busi-

ness structure (such as an LLC) becomes necessary to ensure the business affairs of the entity are in order, being managed properly and upholding its corporate responsibilities, particularly regarding licensing, accounting and tax matters.

Thus, participating in a racing group is the most flexible, secure and enlightening option because the corporate entity handles all of the business

matters, and the person who owns a portion of the horse(s) is able to participate and receive the same type of ownership experience.

### The Purpose of Written Agreements

**The statute of frauds (the laws related to contracts that protect one person from being tricked and another person from being held accountable for an unintentional mistake) state, among other things, that agreements for goods and services that are (a) priced higher than \$500 and (b) make guaranties of another person's obligations need to be put in writing. That means, the more there is to consider, the more an offer has to be spelled out.**

**Once you decide to participate, the racing group or limited liability corporation will ask you to sign a participation document that basically says, "I understand the risk and agree to the terms." Doing so fulfills the second essential element of a binding contract: acceptance. The document serves to avoid any inferences, counter offers, misunderstandings about assignment, implications about each partner's risk, secret deals or silent handshakes.**

**The last thing that's needed to make the contract binding is consideration. In the world of contracts, consideration is something of value (namely money) that is exchanged for a product, service or both. The bottom line reason for having a written agreement is that it would be shifty and irresponsible not to provide each participant with an explanation in writing up front about what's expected.**

### THE COSTS OF OWNERSHIP

Like nearly everything else in life, the things we do boil down to what we can afford, and this is true for racehorse ownership. Fortunately, because of the different types of ownership, there are affordable racehorse ownership options that can fit into just about anyone's personal budget.

The costs for each owner vary based on what a person or group is willing to pay to acquire the bloodstock, the prices charged by the corresponding service providers and the health of the horse.

The actual cost of acquiring a racehorse can range from as low as \$1,000 to as high as a million dollars or more. The annual cost of having a racehorse in training is based on three common expenses: training/racing charges, veterinary care and administrative expenses. The annual cost of one racehorse in training is typically between \$30,000 and \$40,000.

### Bloodstock Acquisition

The first, and potentially the single largest, outlay of cash by an owner is the amount needed to buy a racehorse.

Racehorses can be purchased at auctions that are held based on

their age and pedigree (the quality of the horse's father and mother), they can be claimed from a race for a set price (based on the perceived competitive ability of the horse at the time of the race) or they can be acquired by way of private purchase or by breeding one's mare to a particular stallion.

In a future article, I'll talk about the strategy of acquiring racing bloodstock, but for now, the thing to keep in mind is that a racehorse's purchase price is determined by the present-day market value, which is predicated on various economic factors affecting the sellers and buyers. That being said, when acquiring racing bloodstock, it's equally important to remember that the price doesn't necessarily determine a horse's competitive ability.

### Training and Racing

Once your horse has been acquired, it has to be placed with a licensed trainer who will then prepare, qualify and enter your horse to race. (I'll explore the training process in greater detail in the next article.) Most trainers follow general routines for preparing Thoroughbreds to race, but each also has his or her own particular practices to help a horse reach its highest racing potential.

Trainers bill their clients monthly. They typically charge by a set day rate and a percentage (generally 10 percent) for purse money that your horse wins. Also included in their monthly billing are expenses related to the care and grooming provided while under their care—these include farrier or blacksmith charges, general vitamins/supplements, clipping (haircuts/grooming) and transportation between racetracks.

A trainer's day rate, which can vary from about \$50 to \$100 or more, is based on the cost of keeping your horse in the barn, exercising it daily, schooling it in the different areas of the racetrack and breezing the horse (timed workouts either alone or with other horses). The daily charge also factors in the horse's stall, feed and bedding, as well as the costs of the trainer's stable assistants and exercise riders.

The day rate serves the purpose of covering the costs to keep a horse in training, but the trainer's real income is made based on the percentage of purse money that is won. In this regard, some trainers only bill for horses that come in first, while others also bill for second and third. All of the basic training costs are included as a budgeted item in the overall participation price for a partnership or racing group.

### Veterinary Care

Perhaps the expenses that new owners misunderstand and are unprepared for the most are the monthly costs related to veterinary care. Vet care can be one of the largest expenses owners pay based on the health and soundness of their horse(s). While Thoroughbreds are powerful animals, they are equally fragile. As such, to be better prepared for the cost of vet care, new owners must appreciate the nature of a Thoroughbred's physique.

Through centuries of breeding practices, the physical stature of

a Thoroughbred has been honed toward being a tall, efficient, balanced and very fast animal. A Thoroughbred weighs around 1,000 pounds and, on average, can run up to 40 miles per hour. To maximize its speed over flat surfaces, its legs are long and lean, and its hips and shoulders are very muscular.

At a gallop, a horse's front and back legs work in concert by first stretching out as far as possible and then coming together by digging



Denis Blake

into the ground to lift the horse and catapult its large body forward (a "jump"). The distance between jumps is typically 20 feet, and based on a horse's size and weight, a jump produces thousands of pounds per square inch of landing pressure on each hoof in every stride.

To give such a large animal the ability to move rapidly, the bones in a horse's legs are typically aligned at 45 degree angles and connected by taut tendons that are attached to sculpted muscles. The muscles and bones work together to quickly generate the power needed to launch the horse off the ground and reach its top speed in a couple of jumps. In addition to delivering the maximum lift, the angle of the bones in the legs also provide the ideal compression distribution to absorb the shock when the horse's hooves strike the ground.

A horse's ability to breathe correctly is as equally important as its leg conformation. A horse's nasal cavity, throat and lungs are designed to rapidly ingest and convert large quantities of air into oxygen that the blood carries to the muscles of its legs. If a Thoroughbred's airway or lungs aren't functioning properly, the horse may experience fatigue faster.

Because of the Thoroughbred's size and weight, its intricate musculoskeletal physique and its desire to run fast, any misalignment, breathing condition or any amount of severe fatigue can make a horse prone to soreness, respiratory ailments or debilitating injury. Sometimes a horse's condition can be treated with rest and mild

medications. Other times, the condition requires professional treatment or surgery to restore the horse's physique to proper form.

For a healthy racehorse, the average cost for vet care should be between \$150 and \$250 a month. For a horse needing regular treatments or surgery, the cost could average \$500 to \$1,000 a month during treatment and recovery. Many partnerships and racing groups budget for and include standard vet care expenses in their participation price, but they will also include a clause that allows them to charge an additional amount should vet costs exceed the budgeted limit.

### Administrative Expenses

New owners may be surprised by other administrative costs that can add up if they're not prepared to handle them. If you're thinking about joining a partnership or a racing group, the types of administrative expenses (included and not included) should be identified in the agreement or terms and conditions for the racing entity. These additional administrative expenses can include the following:

- **Insurance:** Depending on a particular horse's value, owners may consider insuring the animal against death or major ailments that require an extensive amount of money (e.g., colic or arthroscopic surgeries). The premiums for this type of insurance are based on the value of the horse and the type of surgical treatment the owner wishes to be covered.

- **Transportation:** Transporting a racehorse is typically provided by companies that specialize in Thoroughbred shipping, especially if a horse is traveling long distances. Most of these companies offer ground transportation; however, some are experts at transporting horses by air, too. The costs associated with transportation vary based on distance, method and whether the horse is being shipped alone or with other horses.

- **Licensing, Registration, Professional Dues:** Various professional expenses that an owner is responsible for paying include registering the horse's name with The Jockey Club; becoming licensed and registering one's racing stable with the state racing commission; and joining professional organizations (such as state and national owners associations) that are dedicated to supporting and promoting the sport locally and across the United States.

- **Silks:** The colors that the jockeys wear (called "silks" because of

the traditional silk materials used to make them) are created and paid for by the owners. Each set of silks represents the owner's or entity's name, personality, business or farm. A good set of silks will cost between \$250 and \$350 depending on the intricacy of the owner's design. If the owner has more than one horse racing at different tracks, then more than one set of silks is required.

- **Website, Mobile and Record Keeping Technology:** Today, almost all transactions, record keeping and communications are conducted online or via a mobile device. In this regard, managing a racing entity requires the use of computers, mobile devices, external hard drives (to store and back up data) and the Internet (including a business website and social media pages). Thus, there are direct costs associated with maintaining the proper computer equipment and services needed to conduct the respective racing and business activities.

- **Advertising and Promotional Materials:** Many partnerships and racing groups also promote the services they offer and use advertising (both traditional and social media) to reach target audiences. The costs of advertising and promotional materials (per owner) are included in the overall administrative expenses for the racing entity.

- **Entertainment:** Owners like to host parties to celebrate their horses and racing achievements. Many owners will have a party at the racetrack on the day their horse is racing. Depending on the owner's or the group's budget, the parties may include food, beverages and other types of accommodations. Sometimes there is a set price that is separate from the costs of ownership, while larger entities may offer all inclusive entertainment packages as part of the services provided to the owners of the racing group.

- **Accounting and Tax Prep:** Owning a racehorse is considered a hobby unless it is conducted as a business. As such, if carried out as a business, all types of horse racing activities need to be properly managed in terms of the respective state and federal banking, accounting and tax laws. To do this, hiring a knowledgeable accountant, CPA, or tax expert to ensure proper bookkeeping and tax filing is a necessary cost that all owners should be prepared to pay. In this regard, all owners should be aware of the racing entity's bookkeeping practices and how the owners will be charged for these respective costs.

Next issue we will examine the training process along with the types of races and how a horse is entered to race. ★

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