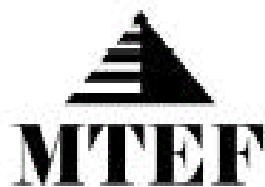


Horseracing and Casino-Style Gambling: Facts Behind the Myths

By Jeffrey C. Hooke



ABOUT THE AUTHOR

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The author wishes to thank the many individuals involved in the horseracing and gaming industries, who took time to talk with him about the issues involved in this study. He also wishes to thank Alex Hooke (PhD, Philosophy) and David Curry (M.A., Economics) for their insightful comments.

SUMMARY

This report examines myths that are repeated by horseracing participants in their support of horse tracks obtaining a free monopoly on slot machines in the State of Maryland. For the most part, the myths are not supported by the facts. As a result, the myths represent a poor foundation for public policies designed to advance the horse racing industry. There may be links between the growth of casino-style gambling and the stagnant performance of the horseracing industry; however, the myths cannot substitute for rigorous studies of causative factors.

The report's findings indicate that horse tracks coexist in close proximity to casino-style gambling. If the state authorizes the slots monopolies at "non-racing-affiliated, off-track" sites ("Third Party sites"), pari-mutual betting in Maryland (live, import, export and in-state simulcast) will decline by 0% to 10%, depending on whether the state dedicates a small percentage of the slots win (i.e., 2% to 3%) to higher purses. Longer-term, pari-mutual wagering will then remain relatively constant, indicating flat to negative growth in inflation-adjusted terms.

This flat-to-down wagering scenario can be reversed by dramatically increasing Maryland purses. I estimate a doubling or tripling of purses is needed to significantly impact (i.e., +25%, or more) overall wagering. The vast majority of this wagering increase will occur with "export wagering" as opposed to live wagering. A purse increase of this magnitude requires the state to allocate 3% to 5% of the slots win to purses, representing a \$55 million to \$95 million annual subsidy to the racing industry.

The horseracing industry in Maryland supports approximately 8,300 jobs on a direct and indirect basis. If slots are located at Third Party sites, an 800 job loss is likely without significant subsidies. To prevent this prospective job loss, and perhaps add new jobs, assume the state authorizes \$55 million per year in purse subsidies to supplement current purses of \$47 million. The subsidy per job ranges from \$34,375 to \$68,750.

Senate Bill 322 conveyed a slots monopoly to racetracks, with a yearly subsidy of \$300 million to \$500 million. Additional monies estimated at \$90 million annually were allocated to higher purses. Assume the arrangement (vs. no industry subsidies) saves 800 existing horseracing jobs and adds 1,600 new horseracing jobs. The subsidy per horseracing job is on the order of \$162,500 per year. Note that slots jobs are roughly equivalent under either the racetrack monopoly or the Third Party scenario.

Maryland track owners maintain that they need 40% to 50% of the slots win in order to make an acceptable profit from a slots monopoly. In New York State, track owners accepted 20% of the win in exchange for a free monopoly, and the construction of several track-based slots facilities is now under way there. This indicates that 20% of the win provides a satisfactory return on investment.

INTRODUCTION

The horse track industry in Maryland has a quality tradition, culminating each year in the Preakness Stakes, one of the jewels in horseracing's Triple Crown. The industry operates two major thoroughbred tracks and, on a limited basis, two smaller harness tracks. Abbreviated meets are held at Timonium Fairgrounds and Fair Hill. The owners of Delaware Park have a license to conduct a short meet at a new thoroughbred track planned for Western Maryland.

In March 2003, the owners of four state horse tracks were poised to receive a monopoly on casino-style gaming in the Baltimore-Washington market, the nation's fifth largest metropolitan area by population. A bill authorizing the installation of 10,500 slot machines at the tracks passed the State Senate and received support from the Governor. Ultimately, the bill died in Committee at the House of Delegates.

Studies developed by the Maryland Tax Education Foundation and the Maryland Public Policy Institute placed the upfront cash value of the monopoly at \$1.5 billion. The studies also determined that a competitive process – by opening the franchises to non-racetrack bidders – would bring the State \$300 million to \$500 million more per year than the racetrack-only bill approved by the Senate.

In part, supporters of the Senate bill argued that the huge windfall was justified because (1) horseracing in Maryland, particularly with respect to the tracks, is in a distressed condition; (2) only slot machine legalization, as opposed to other forms of financial aid, can bail out the industry; and (3) without slots, thousands upon thousands of Maryland jobs will be lost. Supporting these justifications were numerous racing myths, none of which have been demonstrated by the industry, nor critically examined by the state government.

The purpose of this report is to analyze the racing myths and to show which ones are truthful, false or misleading. Several state legislatures, including Maryland's legislature, place heavy weight on these myths in considering financial aid for their respective horseracing industries.

There is tension between how the legislature serves the perceived needs of the horseracing industry and how it serves the citizens of Maryland. By shedding light on the industry's actual conditions, this report should prove useful to state decision makers.

MYTHS AND FACTS

1. Myth: “The racing industry cannot compete with the high octane of casino gambling and survive. It just can’t do it.” William Rickman, owner of Ocean Downs, Washington Post, September 21, 2003.

Facts: *Untrue. Pari-mutual wagering stagnates in head-to-head competition, but tracks do not go out of business. In the four states examined, not one track went bankrupt or ceased operation.¹*

In **Indiana**, nine casinos opened in 1996 and 1997. In 1996, Indiana pari-mutual wagering rose over 20%. Since that year, the level of pari-mutual wagering in Indiana has remained constant². In **Illinois**, 10 casinos opened in 1991 and 1992. Despite that expansion of gambling, total pari-mutual wagering in Illinois stayed relatively constant, fluctuating between \$1.1 billion and \$1.2 billion annually over the last 12 years. **Kentucky** is surrounded on three sides by casinos. Over the four years, 1998-2001, total pari-mutual betting rose 2% annually.

Michigan showed a different result. In 1999, three casinos opened in downtown Detroit. Over the next four years, total pari-mutual wagering in Michigan dropped 21%. However, the 2001/2 period included an economic recession in the United States. In the 81/82 and 90/91 recessions, Michigan wagering declined 12% and 5%, respectively, for an average of 8%. Michigan wagering subsequently increased. Based on this experience, one might assign 8% of the 21% decline to the 2001/2 recession, suggesting casinos caused a 13% drop in pari-mutual wagering in Michigan (i.e., 21% minus 8%) over a four year period. This is a disturbing trend in Michigan, but it does not indicate a collapse of racetracks and simulcast facilities. 13% is not 100%.

The facts provide little support for Mr. Rickman’s statement. The following quote is instructive: “Slot machines and racetracks attract different kind of bettors,” explained an Illinois Racing Commission executive, “To win at racing you need to know how to handicap. Racetrack wagering is a more intellectual exercise than slot machines, which is the luck of the draw. That’s why there isn’t more crossover.”

2. Myth: **The Maryland horseracing industry employs the full-time equivalent (FTE) of 30,000 people on a direct and indirect basis.**

Facts: *The 30,000 estimate is highly inflated.*

In a 1999 study, commissioned by the Maryland Assembly, six academics affiliated with the University of Maryland attributed a total of 8,922 FTE jobs (direct and indirect) to the industry. According to the 2002 Maryland Equine Census, the population

¹ Arlington Park closed voluntarily in 1998 and 1999 in an attempt to extract more subsidies from the State of Illinois. It reopened in 2000. Michigan’s Detroit and Livonia tracks closed in 1998, before casinos.

² A small portion of the Indiana win supports horseracing. Illinois casinos provide no such support.

of horses involved in racing declined 7% since 1999. (If the number of jobs dropped correspondingly, there are now 8,310 such FTE jobs in Maryland.³)

The 1999 study was criticized by some horse racing industry participants, who suggested the job total was “too low.” To validate the estimate, this report reviewed similar Pennsylvania and Michigan studies. The methodologies and results of these studies were applied to Maryland’s statistics. The result was an estimated total of 7,176 to 9,427 jobs. Note that the majority of the industry’s jobs are non-union, and carry few health or pension benefits.

At an October 2003 legislative hearing, the industry circulated a “38,000 job” figure supposedly supported by the 2002 Maryland Equine census. Their numbers were wrong. According to the census, the 38,000 figure referred to individuals involved in owning, breeding or caring for all kinds of horses, rather than those who derived a full-time living just from horseracing. Obviously, someone who is “involved” in the equine industry because he (or she) “owns” a horse for recreational purposes, for example, cannot be deemed to have a job as a result.

3. Myth: Thousands of jobs in the state will be lost without racetracks having a free monopoly on slot machines.

Facts: There may be “zero” net job loss for the State. The job loss claims are unrealistic.

Assume Third Party “off track” slots are legalized and pari-mutual wagering declines by 10%. Does that mean 10% of the industry’s jobs be lost? Perhaps, but Maryland as a whole may not lose jobs. The horse racing industry’s argument ignores the “substitution effect” that is well known to economists. If certain people stop spending money at tracks because they are spending money at Third Party slots barns, the new jobs at the slots barns replace many of the jobs lost at the tracks, training farms and breeding facilities.

Furthermore, certain off-track sites have the potential to promote more ancillary economic development than racetrack sites can⁴. This factor mitigates job loss. Also, if Maryland slot machines draw significant out-of-state visitors (particularly from Virginia), there may be a net job gain.

The State might allocate a portion of the slot win to higher purses to stem the possible horseracing job loss.

³ There are no studies proving a linear correlation between horse population declines and employment declines. The statement is illustrative, as a connection seems likely.

⁴ Track owners are now considering off-track sites as long as the track owners hold the slots franchise (Baltimore Sun, 10/22/03).

4. Myth: The slot machine monopoly is not a subsidy to the tracks.

Facts: *It is a huge subsidy, worth hundreds of millions of dollars per year.*

An August 2003 report by MTEF and Maryland Public Policy Institute compared returns to Maryland taxpayers of (a) the racetrack-owned slots monopoly proposed by SB322 versus (b) a competitive bid alternative. The State makes \$300 million to \$500 million more per year under a competitive bid scenario, indicating an effective subsidy to the tracks of at least \$300 million annually.

5. Myth: Third party off-track slot facilities mean the loss of thousands of racing jobs.

Facts: *Depending on the level of State subsidy for higher purses, the horseracing-related job changes range from an 800 job loss to a 1,600 job gain.*

Based on data from four states with tracks and casinos operating independently, pari-mutual betting will decline by 0% to 10% if slots facilities are opened “off-track” and operated by non-racetrack firms (i.e., “Third Party”). The magnitude of the decline depends on whether the state dedicates a small portion of the slots win (i.e., 2% to 3%) to higher purses.

With no purse subsidies, a 10% decline in wagering is assumed to occur, leading to a 10% decline in direct and indirect horseracing jobs (i.e., 800 jobs)⁵.

A \$55 million per year purse subsidy in Maryland effectively doubles the tracks’ annual purses. If you assume the \$55 million saves 800 jobs by forestalling any decline in betting, the subsidy per job is \$68,750 per year. If you further assume the \$55 million results in a 10% increase in betting, and a corresponding increase in new jobs (for a total of 1,600 jobs), the subsidy per job is \$34,375 per year. Note that many horseracing jobs are non-union and carry few benefits, so the subsidy seems expensive.

6. Myth: A SB 322-mandated monopoly for the tracks is not a job subsidy.

Facts: *The annual subsidy amounts to \$162,500 per job per year.*

Assume that the huge increase in purses (estimated at \$90 million annually) required by Senate Bill 322 increases betting by 20%. As a result, 1,600 new horseracing jobs are created (20% x 8,300), to complement the 800 “saved” jobs. To the \$90 million purse subsidy is added the \$300 million track owner slot profit subsidy. The cost per horseracing job is \$162,500 per year⁶.

⁵ There are no definitive studies tying wagering declines to employment declines. This is an illustration, as a connection seems likely.

⁶ Note that slots jobs are assumed to be similar under either the racetrack-owned or Third Party slots scenarios, for the purpose of this specific analysis. In reality, locating the slots facilities in high traffic, commercial sites would likely create more slots jobs, relative to an “on-track” scenario, due to the greater potential for add-on development.

7. Myth: The Maryland racehorse breeding industry is collapsing because Maryland tracks do not have slot machines, like Delaware and West Virginia tracks.

Facts: *There is a moderate decline in foal production in Maryland*

The Maryland horseracing industry consistently rates in the top 10 states in annual number of foals. Over the last 10 years, total foal production declined 12%.

Consistent with most other states (excluding Kentucky and Florida), the absolute number of annual thoroughbred foals in Maryland is decreasing, falling 1,709 in 1991 to 1,078 in 2001, a 37% decline. Nationwide, the number of thoroughbred foals fell 14% over the same period.

In contrast, the number of Maryland standardbred foals (i.e., harness racing) more than doubled, increasing from 249 in 1993 to 639 in 2002.

Since thoroughbred foals tend to be worth more than standardbred foals, the economic decline is higher than 12%.

West Virginia foal production is rebounding from a small base. However, in Delaware there is no significant breeding program eight years after slots.

8. Myth: Betting activity is declining sharply at Maryland racetracks. Only a slot machine monopoly will reverse the trend.

Facts: *Overall betting is not declining in Maryland. It is relatively constant.*

Due to the increased acceptance of simulcast, the total volume of (i) betting at Maryland tracks and simulcast facilities; plus (ii) betting on Maryland races by out-of-state simulcast bettors increased over the last five years, from \$956 million to \$1.0 billion. This 5% gain occurred, despite increasing purses at West Virginia and Delaware tracks. See Appendix C.

The volume of betting on “live races” by individuals visiting the track physically at the time of the race is steadily declining. From 1998 to 2002, the live volume dropped from \$98 million to \$61 million in Maryland.

Maryland’s experience mirrors a national trend at nearly all racetracks, as simulcast activity represents most of pari-mutual wagering nationwide.

9. Myth: Larger purses at the Maryland tracks mean better horses, more live attendance, more local wagering and more export-simulcast-wagering on Maryland races.

Facts: *Not proven in Maryland's short-term experiment, probably because the purse increases were not large enough.*

In part due to State government subsidy, purses at Maryland racetracks from 1998-2000 rose 25% from 1997 levels. The purses subsequently declined in 2001 and 2002 without the subsidies.

Live wagering declined steadily from 1998 to 2000 despite higher purses. Out-of-state simulcast wagering on Maryland races increased. Total wagering on Maryland racing was flat over the 1998 to 2002 period. Higher purses had a negligible effect on wagering over that short time period.

10. Myth: Pari-mutual wagering and live attendance grew at West Virginia and Delaware tracks as the introduction of slot machines brought higher purses, leading to better horses that more people want to see and wager on.

Facts: *There was a positive impact in export wagering. Live activity was flat. The cost of these mixed results was staggering for both states.*

Purses at the two West Virginia thoroughbred tracks almost tripled from 1997 to 2002. During that time, live handle and live attendance was stagnant. In contrast, export pari-mutual wagering increased sharply, even after taking into account the relatively brief life of export simulcast in West Virginia. Over the last five years, the cost of the higher purses was over \$100 million.

Purses at Delaware tracks more than doubled from 1997 to 2002. Live handle declined and import wagering was flat over the last three years. Export wagering rose about 5% on a compound annual basis. The cost of the higher purses was likely in excess of \$100 million over the five-year period.

11. Myth: Larger purses bring better horses to racetracks, meaning more pari-mutual wagering.

Facts: *True, but the increases in purses have to be doubled or tripled to make an impact.*

Higher purses seem to attract a better class of horse; however, a definite demonstration of this assertion is hard to obtain, given the sport's complexities.

At Delta Downs in Louisiana, a tenfold increase in purses (caused by slot machines beginning in 2000) resulted in a doubling of export handle, although live handle was stagnant. At Mountaineer Park, there was a similar pattern with a tripling of purses.

The author concludes that a doubling or tripling of purses is necessary (i) to show a concrete difference in the quality of horse; and, thus, (ii) to motivate substantially more pari-mutual wagering. The size of race purses can only be expected to affect wagering levels indirectly by influencing the quality of racing competition and handicapping information.

The direct increase in jobs from the resultant upgrade in horseracing activity is not clear. Based on the assumptions used in this report, increasing purses is not a cost effective means of creating jobs.

12. Myth: If the state allows them massive profits from slots monopolies, racetracks will spend tens of millions on upgrading their horseracing facilities.

Facts: *Untrue in two other states.*

The SEC filings of MTR Gaming (Mountaineer), Penn National (Charlestown) and Dover Downs indicate that the vast majority of the reinvested profits (as opposed to the profits to the stockholders) are applied to slots facilities and related amenities, rather than racetracks. At Dover Downs, for example, the ratio of slots investment to horse track investment is about 20 to 1.

A physical inspection of Delaware Park's racing facilities brought the identical conclusion. (Delaware Park is a private firm and its financial statements are not available to the public.)

The respective statutes legalizing slot machines at Delaware and West Virginia tracks require a significant percentage of the "slots win" to be allocated to higher purses. There are no significant requirements for capital investment at the tracks⁷.

13. Myth: "Magna Entertainment pledges to rebuild Pimlico whether or not Maryland authorizes slots at racetracks," Frank Stronach, Magna CEO, September 2002.

Facts: "All bets are off if lawmakers do not approve more gambling at their properties, say McAlpine and DeFrancis," Washington Post, October 8, 2003.

Magna appears to be backing away from its promise to renovate Pimlico at a cost of tens of millions of dollars.

⁷ Note that the final version of SB 322 required minimum levels of racetrack maintenance expenditures.

14. Myth: Profits from slots will expand the number of racing days at the tracks.

Facts: *Not true in Delaware. 10% increase in West Virginia.*

Neither the Delaware tracks nor the West Virginia tracks have lobbied for substantially more racing days, despite their increases in operating profits with the legalization of slots. In West Virginia, the number of racing days has increased 10% since the introduction of slots.

The two West Virginia tracks run live races 230 and 254 days, respectively. They operate slot machines 365 days per year. Delaware Park runs live races 140 days per year. The two Delaware harness tracks run 140 days and 104 days of live racing, respectively. All three tracks operate slot machines 365 days per year.

15. Myth: Sharply higher purses create more horseracing jobs.

Facts: *Higher purses reverse employment stagnation; however, they don't appear to be a strong engine for job growth.*

More racing days may be the most direct contributor to job gains in the industry, followed closely by a sharp increase in foal production. However, neither development is evident in Delaware, despite purses that more than doubled in the last five years. West Virginia has 10% more racing days and 100 more foals per year on average.

16. Myth: Higher purses are an efficient way to produce more jobs.

Facts: *The cost per annual "saved" or "created" job is very high.*

As one example, West Virginia directs a certain amount of slot machines revenue to increasing purses. At Mountaineer Racetrack, this requirement boosted purses by \$31 million in 2002. Assume that the track's front-end and back-end FTE jobs total 600 and related breeding and indirect jobs add another 1,100 jobs, for a total of 1,700.

To be conservative, assume an extreme case (not in evidence) where the lack of purse subsidies costs horseracing 500 jobs. The annual cost to the taxpayers of West Virginia is \$62,000 per job. Most of the subsidy goes into horse owners' pockets, rather than to the track employees or breeding farm workers.

17. Myth: Racetracks receiving free slots monopolies need to retain at least 40% to 50% of the slots "win" in order to make a decent profit.

Facts: *New York State contradicts this assertion.*

In 2003, the State of New York provided free slots monopolies to racetracks. In return, the tracks retain only 20% of the win. The construction of new slots barns is underway at several New York tracks, including Vernon Raceway, Saratoga Raceway and Monticello Park. The facilities are designed to be aesthetically pleasing and

welcoming to slots customers. This fact suggests that 20% of the win provides a satisfactory profit⁸.

A previous study published by MTEF and entitled, “Are the License Fees too Low?” indicated that Maryland slots’ facilities would produce a satisfactory profit with a 25% win retention and \$100 million license fee per slots facility. The New York arrangement corroborates MTEF’s findings. The MTEF study was sent to 75 legislators, including members of the Senate Finance Committee and House Ways and Means Committee, and it was the subject of a *Baltimore Sun* Article on February 12, 2003, seven weeks before the passage of SB 322 allowing Maryland tracks a 39% share of the win.

18. Myth: Racetrack-operated slot machines in Maryland can not generate more than \$300 in win per day per machine.

Facts: Comparable urban locations produce wins ranging from \$350 to \$700 per day.

Comparable wins for gaming facilities in suburban Chicago and downtown Detroit are \$400 to \$700 per day and \$350 to \$400 per day, respectively. Furthermore, Maryland will have fewer machines per capita than these two localities, suggesting a better win per machine.

Maryland track owners have an incentive to “low ball” the profitability of their prospective slots franchises to avoid paying (i) upfront license fees; and (ii) appropriate tax rates.

CONCLUSION

Maryland horse racing has a quality tradition and provides jobs for approximately 8,300 people. Prominent participants maintain that the industry has a “special claim” on slot machines. They support this claim with a number of specious arguments, which have little basis in fact. Whether the result of deliberate fabrication or wishful thinking on the part of industry participants, these arguments spur legislative proposals offering huge subsidies to the industry. There’s little evident help for horseracing employment in these subsidies, leaving racehorse owners and horse track owners as the principal beneficiaries.

⁸ In Rhode Island, the tracks receive 27% of the win and they request more machines. This fact suggests that 27% provides substantial profits.

APPENDICES

- A. Information Sources
- B. Validating the Maryland Jobs Estimate
- C. Trends in Pari-Mutual Wagering in Maryland
- D. Foal Production Multiplier

APPENDIX A

Information Sources

This report is based on studying numerous information sources and interviewing horseracing regulatory personnel, executives and analysts. Those sources include the following:

Written Materials and Websites

Association of Racing Commissioners, International
Churchill Downs, Dover Downs Entertainment, MTR Gaming and Penn National SEC filings.
Delaware Racing Commission statistics
“Economic Impact of Horse Racing in Maryland” Center for Agricultural and Natural Resource Policy, University of Maryland (1999)
“Horse Racing in Michigan, An Economic Impact Study” by Public Sector Consultants, Inc. (December 2002)
Illinois Economic and Fiscal Commission, “Wagering in Illinois, 2003 Update.”
Illinois Racing Commission
Indiana Racing Commission
JockeyClub.com Fact Book
Kentucky Horse Racing Commission Biennial Report
Louisiana Horse Racing Commission
Maryland Equine Census (2002)
Maryland Horse Industry Board
Maryland Racing Commission Annual Reports
Michigan Racing Commission, 2002 Annual Report
“National Economic Impact Study,” American Horse Council (1995)
“Pennsylvania’s Equine Inventory, Basic Economic and Demographic Characteristics,” Pennsylvania State University, College of Agricultural Sciences (May 2003)
The American Racing Manual (2003)
Thoroughbred Times (back issues)
United States Trotting Association
West Virginia Racing Commission Annual Reports

Interviews

Churchill Downs executive
Illinois Racing Commission executive
Kentucky Racing Commission executive
Lead author of Pennsylvania economic impact report (2003)
Louisiana Horseman Benevolent and Protective Association executive
Louisiana Racing Commission executive
Maryland Horse Industry Board executive
Maryland Jockey Club former executive
Maryland Racing Commission executive
Maryland Standardbred Breeders Association executive
Michigan Racing Commission executives
Michigan State Department of Agriculture executive
Mountaineer Park racing executive
Pennsylvania Horse Racing Commissions' executives
Public Sector Consultant economists (authors of Michigan 2002 report)
Rhode Island Lottery Commission analyst
Two authors of Maryland economic impact report (1999)
United States Trotting Association analyst
Virginia Thoroughbred Association executive
West Virginia Racing Commission analysts

APPENDIX B

Validating the Maryland Jobs Estimate

Recent Economic Impact Study

In 1998, the Maryland General Assembly commissioned a study to evaluate the horse racing industry's economic contribution to the State of Maryland. Released in 1999, the report concluded that the industry was responsible for 8,922 jobs, including direct employment at tracks and breeding/training facilities, as well as indirect employment resulting from such activities.

Maryland General Assembly – 1999 Study Number of Full-Time Equivalent Jobs in Maryland Horseracing Industry

<u>Breeding/Training Facilities</u>	
Direct	4,224
Indirect	<u>1,812</u>
Subtotal	6,036
<u>Racetracks</u>	
Direct	1,774
Indirect	<u>1,112</u>
Subtotal	<u>2,886</u>
Total	<u>8,922</u>

The indirect multipliers were 0.43 for breeding/training jobs and 0.63 for racetrack jobs. These multipliers are consistent with two other state studies.

The number of Maryland horses involved in the racing industry was estimated at 14,665 in 1999. In 2002, the Maryland Equine Census recorded 13,660 racehorses, indicating a decline of 7%. If jobs declined in a similar amount, the 2002 job total was 8,310.

Six academic professionals affiliated with the University of Maryland authored the 1999 report, which utilized a methodology accepted by other states conducting similar studies. A survey was sent to horse racing industry participants. The results of the survey, along with a Maryland horse census, racetrack employment census and related industry data, were incorporated into a widely accepted economic model (INPLAN), which then estimated the amount of economic activity and jobs attributed to the industry.

Methodology of this Analysis

To validate these findings, this report considered the findings of studies completed by the State of Pennsylvania (May 2003) and the State of Michigan (December 2002) in evaluating the economic impacts of their own respective horse racing industries. The matrices of race horse population, number of jobs and economic multipliers used in those two studies were applied to Maryland's racehorse census of 2002.

Furthermore, as a means to confirm the reliability of racehorse census data, the report applied a "rule of thumb" to annual foal production, in order to estimate total racehorse population.

Pennsylvania

The racehorse industry study was a subset of a larger study covering the entire equine industry in Pennsylvania. Surveys were mailed to 2,867 addressees identified as specializing in the horse racing industry. Initial non-responders were sent two follow-up mailings. The response rate was 20%.

Based on survey responses, the study (conducted by the College of Agricultural Sciences of Pennsylvania State University) applied statistical techniques and computer modeling to provide industry estimates. The study concluded that Pennsylvania had 26,365 horses involved in the racehorse industry.

Pennsylvania had 879 thoroughbred foals in 2001. The number of standardbred foals was 1,051, for a total foal crop of 1,950. Multiplying this crop by 10 provides an estimate of 19,300 racehorses.

The number of full-time jobs equivalents provided by the industry was divided into two categories (1) "Back-End of the Track" employees at racing stables/barns (on and off-track facilities), breeding farms, training barns and boarding facilities; and (2) "Front-End of the Track" people employed at tracks but not working directly with horses, such as betting clerks, food service vendors, parking attendants, executives and marketing personnel. Back-End jobs include jockeys, trainers, hot walkers, blacksmiths, veterinarians and many others. The vast majority of the jobs are non-union. Most receive few health or pension benefits, if any.

The Penn State study estimated only Back-End jobs. To estimate Front-End jobs, the author contacted the Pennsylvania Racing Commission, among other sources. The estimates of Front-End, full-time employees approximated 300 per track (when the track had live racing) provided the track was open year round (three of Pennsylvania's four tracks are open year round; the fourth is open for seven months). A 0.36 multiplier for indirect jobs was used in the Penn State economic model.

Pennsylvania Study
Jobs Attributable to Horseracing

	<u>Direct Jobs</u>	<u>Indirect Jobs</u> (0.36 multiplier)	<u>Total Jobs</u>
Back End	4,740	1,690	6,430
Front End	<u>1,075</u>	<u>387</u>	<u>1,462</u>
	5,815	2,077	7,892

The study estimated one Back-End job for every 4.1 horses involved in racing. Note that a horse involved in racing may fall into one of several categories: (a) an actual racehorse that earns money in races; (b) a foal or yearling that may or may not become a racehorse; (c) a mare used for breeding a foal; or (d) a stallion. The total direct job to horse ratio was 4.5x. For all jobs – direct and indirect – the ratio was 3.3.

A study commissioned by the American Horse Council in 1996 corroborated the Pennsylvania findings in one respect. It found one direct job for every 5.3 horses involved in U.S. racing, which is reasonably close to the 4.5x Penn State multiplier. AHC used an indirect multiplier of 3.47 (vs. 1.36 in Pennsylvania and in 1.64 in Michigan). The 3.47 was considered unrealistically high by three agricultural economists interviewed for this study.

Michigan

In December 2002, the State of Michigan released a economic impact study on horse racing in Michigan. Similar to the Pennsylvania study, the Michigan analysis mailed a survey to horse owners (that were members of the U.S. Trotting Association, Michigan Thoroughbred Owners and Breeders Association and all thoroughbred owners registered with the Michigan Racing Commission). The response rate was 20 percent.

Michigan’s study applied statistical techniques and INPLAN economic models to the survey data, which focused on Back-End economic activity. The survey data was supplemented by the study’s calculations regarding “front-end” employment. Conclusions follow:

Michigan Economic Impact Study
Jobs Attributable to Horseracing

	<u>Direct Jobs</u>	<u>Indirect Jobs</u>	<u>Subtotal Jobs</u>	<u>Multiple</u>	<u>Total Jobs</u>
Back End	4,078	1,079	5,157	1.64x	8,457
Front End	<u>1,185</u>	<u>142</u>	<u>1,327</u>	1.64x	<u>2,176</u>
	5,263	1,221	6,484		10,633

The study applied a 0.64 multiplier to conclude that the total number of jobs could be as high as 10,633. Since the 6,484 job total already included 1,221 indirect jobs, there was double counting. Accordingly, a more accurate job total is 8,631 (i.e., 5,263 direct jobs x 1.64 multiplier).

Michigan has seven tracks. Two have six-month meets and three have meets of 120, 94, and 69 dates, respectively. The remainder run 37 dates or less. All have year round simulcast.

In a serious flaw, the study asked survey participants to count all horses by racing breed, without regard to whether the subject horse was actually involved in racing (as opposed to “showing” or “recreation”). This oversight greatly expanded the number of horses involved to the racing industry. In fact, the report determined that 80,500 horses were attributable to the horse racing industry.

The 80,500 horse estimate is contradicted by verifiable statistics of Michigan foal production, which totaled 1,118 in 2001 (290 thoroughbred and 828 standardbred). If one applies an industry “rule of thumb” that a state’s racehorse population is roughly 10x the number of foals, then Michigan’s census of horses involved in racing should be closer to 11,180, rather than 80,500.

Assuming the amount of horses involved in racing in Michigan is closer to 11,180 than 80,500, the number of jobs declines. By applying the relevant Penn State ratios for Back End jobs, the job total revised from 8,631 to 6,017.

Adjusting Job Totals in Michigan

<u>Michigan Study</u>	<u>Adjusted for Elimination of Doublecounting</u>	<u>Using 0.34 Multiplier Instead of 0.64</u>	<u>Adjusted for Rational Estimate of Racehorses</u>
8,457	6,688	5,465	4,074
<u>2,176</u>	<u>1,943</u>	<u>1,588</u>	<u>1,943</u>
10,633	8,631	7,053	6,017

Maryland

The 2002 Maryland Equine Census was conducted through the efforts of the Maryland Department of Agriculture, the Maryland Horse Industry Board and the Maryland Agricultural Statistic Service. 13,660 horses of racing breed lived at a racing or a racing-related facility (e.g., a racetrack, racehorse breeding farm or racehorse training facility). Another 21,140 horses of racing breed resided in the state at facilities not associated with professional racing.

The 13,660 number is within 28% of the number provided by multiplying the number of foals in 2001 (1,748) by ten, or 17,480.

Using the higher number, this study divides the 4.5 Penn State multiplier to calculate the number of Back End jobs (17,480 divided by 4.5), which is 3,884. A 1.50 indirect multiplier is then applied (average of the 1.34 Penn Sate and 1.64 Michigan multipliers) to produce a total of 5,826 Back End jobs.

Regarding Front End jobs, Pimilico and Laurel operate essentially six months each. Rosecroft has a longer meet, but it runs fewer days per week. This study assumes 900 direct Front End jobs (three tracks x 300 Front End employees per track) and 450 indirect jobs for a total of 1,350 jobs.

At 17,480 horses, the job total is 7,176 jobs.

Horse racing participants may argue that a large portion of racebred horses that don't reside in a race-related facility are, in fact, engaged in the industry. If 50% of those horses are included, the racing horse census jumps to 24,230, producing an additional 2,250 Back End jobs. The revised job total would be 9,427 jobs.

Conclusion

The report reviewed the 1999 jobs total and modified its results for the 2002 horse census. The job total for 2002 was 8,310. Secondly, it compared studies of Pennsylvania and Michigan and applied relevant ratios to the Maryland horse census. The resultant job totals ranged from 7,176 jobs to 9,427 jobs.

APPENDIX C

Trends in Pari-Mutual Wagering in Maryland (In millions)

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<u>(1) MD Bettors/MD Races</u>					
On the tracks' live races	\$ 61	\$ 69	\$ 83	\$ 95	\$ 98
On MD tracks' live races from MD simulcast facilities	<u>75</u>	<u>84</u>	<u>96</u>	<u>119</u>	<u>121</u>
MD bettors/MD races (Subtotal)	136	153	179	214	221
<u>(2) Out-of-State Bettors/MD Races</u>					
Export signal (Subtotal)	419	406	388	399	342
<u>(3) MD Bettors/Out-of-State Races</u>					
Import signal – MD tracks receiving	390	389	368	352	335
Import signal – MD OTB receiving	<u>57</u>	<u>55</u>	<u>45</u>	<u>52</u>	<u>58</u>
Subtotal (3)	<u>447</u>	<u>444</u>	<u>413</u>	<u>404</u>	<u>393</u>
Total (1 + 2 + 3)	<u>\$1,002</u>	<u>\$998</u>	<u>\$980</u>	<u>\$1,017</u>	<u>\$956</u>
Wagering on MD Races (1 + 2)	\$555	\$559	\$567	\$613	\$561
Total Purses at MD Races	47	54	57	58	64
MD Bettors Betting on both MD Races and <u>Out-of- State Races (1 + 3)</u>					
Total MD Bettor Activity	\$583	\$597	\$592	\$618	\$614

APPENDIX D

Foal Production Multiplier

To calculate the total state racehorse population, one anecdotal methodology is to multiply the foal production by ten.

The logic of the 10x multiplier is as follows: for every 1,000 foals, approximately 2,000 mares are bred. Add 1,000 yearlings for a total of 4,000 horses (stallions number a few hundred). Assume the 3, 4, 5, 6, 7, and 8 year-old generations that are still racing number 1,000 each. Thus, a 1,000 annual foal production suggests 10,000 horses directly involved in racing.

Obviously, the technique doesn't allow for the movement of horses between states, but it provides a reasonable "ballpark" estimate of racehorse population.

Published by
Maryland Tax Education Foundation
7504 Maple Avenue
Chevy Chase, Maryland 20815
(301) 762-3784
www.marylandtaxeducation.org

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