

THE IMPACT OF INDIANA HORSE RACING ON THE INDIANA ECONOMY, A PRELIMINARY STUDY

Susan E. Conners, Purdue University Calumet
Jonathan M. Furdek, Purdue University Calumet
Laurent Couetil, Purdue University
Gregory Preston, US Department of Agriculture

ABSTRACT

This paper reports some of the findings obtained from the survey that was recently conducted regarding the 2009 economic activity of the racing segment of the equine industry. The preliminary results focus on four issues: (1) the direct and indirect economic impact from the horse racing and race horse breeding segment of the equine industry; (2) the direct and indirect impact this industry segment has on employment; (3) the direct and indirect impact this industry segment has on Indiana taxes; and (4) the proportion of expenditures by this industry segment directly in Indiana.

INTRODUCTION

In 1988, the constitutional ban on all forms of gaming in Indiana was removed with a sixty-two percent majority of Indiana voters. In September, 1994, the first pari-mutuel racetrack opened in the state. The racetrack was a combined facility with a casino. From the beginning of pari-mutuel horse racing in Indiana, legislators displayed the foresight to give this fledgling industry a good head start and a solid foundation as it competed with older, more established state racing programs in other states, by providing a share of casino taxes to subsidize purses for the racetracks. A second racetrack and casino was opened and currently the two racetracks, one in Shelbyville, Indiana and the other in Anderson, Indiana continue to function.

In 2007, the Indiana General Assembly passed, and the governor signed into law, a bill that would permit electronic gaming at the state's two pari-mutuel racetracks. This "slots" legislation was the product of unprecedented cooperation and more than ten years of effort put forth by representatives of Indiana standardbred, thoroughbred and quarterhorse racing and breeding associations and the state's two pari-mutuel race tracks in building public understanding of the industry and legislative support for this concept.

With the passage of the slots law, state representatives and senators demonstrated judgment and vision in keeping Indiana dollars in Indiana by promoting the state's homegrown horse racing and breeding industry. The new law reinforced the framework for a growing,

productive industry with the intent that it would generate future agribusiness economic activity, revenue and jobs throughout Indiana.

In the campaign for passage of gaming at the tracks, both horsemen and race tracks relied on the results of a 2005 study by the American Horse Council (American Horse Council, 2005) which was based on 2003 data. This study reported a direct economic impact of \$181 million and a total economic impact of \$294 million for the Indiana racing and breeding industry.

For the purpose of quantifying the effects of the 2007 slots law and an accurate representation of the current condition of the industry in the state, all four racing and breeding associations came together and commissioned a survey and business analysis of the racing and breeding industry and its economic impact on Indiana.

METHODOLOGY

The data collection portion of the research involved two surveys that were conducted simultaneously. One survey obtained economic data from the Indiana racetracks for the calendar year 2009 and both Indiana horse racing tracks responded with their data. The second part of the study involved a survey of over 7,000 members of the race horse breeding community requesting their economic data for 2009. The breeder survey resulted in 1,000 responses.

Estimation of economic impact utilizes state specific IMPLAN multipliers to estimate the overall economic impact of the industry on the state GDP and on employment. This platform was selected for several reasons. The IMPLAN modeling system is an input-output model that describes commodity flows from producers to intermediate and final consumers (Hodges 2007). Total industry expenditures, employment compensation, and tax implications can be extracted using this modeling system. It has been in use since 1979 and is currently used by over 500 private consulting firms, university research centers, and government agencies (UNFCCC, 2010). The IMPLAN modeling system combines the U.S. Bureau of Economic Analysis' Input-Output Benchmarks with other data to construct quantitative models. From this data, one can examine the effects of a change in one or several economic activities to estimate its effect on a specific state, regional, or local economy (MIG 2010). The economic impacts of horseracing and breeding related activities were estimated using 2008 IMPLAN multipliers for the State of Indiana. In this study, only the aggregate impact on the State economy was considered. The impact on specific counties or on specific industries was not within the scope of the study.

RESULTS OF THE HORSE RACING INDUSTRY SURVEY

The two racetracks in Indiana, Hoosier Park and Indiana Downs, generated a cumulative income of \$319,136,342 in 2009, paid out purses of \$49,043,165, paid State and local taxes of \$5,106,261, and have an investment of \$155,781,213 in land, facilities, and equipment, of which \$3,042,146 is new real investments. The industry employed 161 full time employees, 765 part

time employees, and 596 seasonal employees in 2009, which computes to a full time equivalent of 1,240 employees.

The preponderance of racetrack revenue in 2009 came from wagering and most racetrack wagering revenue in 2009 came from off track and pari-mutuel sources. In 2009, 98% of racetrack revenue came from wagering and 2% came from other sources such as admission fees, concessions, and sale of programs. Of the wagering revenue, only 6% was generated at the track while 94% came from off-track and pari-mutuel wagering. The racetracks engaged in Thoroughbred, Standardbred, and Quarterhorse racing in 2009 with Thoroughbred racing generating 53% of the wagering revenues, Standardbred racing accounting for 44% and Quarterhorse racing the remaining 3%.

An examination of daily wagering revenues by breed provided some interesting facts. Although thoroughbred racing seems to be the big attraction and generates the most revenue as well as the most revenue per day, the Indiana racetracks engage in more days of Standardbred racing. The Thoroughbreds wagering revenue was \$166,163,798, racing 125 days with \$1,329,310 in revenue per day. Standardbreds wagering revenue was \$127,928,734, racing 160 days and \$799,555 revenue per day. Quarterhorse racing generated \$8,722,966 in wagering revenue, racing 56 days with \$155,767 in revenue per day. These findings tend to indicate the significance of off-track and specifically, pari-mutuel wagering. What is not known, is the amounts that are paid out as expenses from pari-mutuel wagering.

The major expenditure for the racetracks in 2009 was for purses which accounted for 58.2% of reported expenditures. Wages accounted for 18.4% and other categories of expenditures were commission, 6%; veterinary services, 0.5%; maintenance, 1.7%; general business expenses (insurance, utilities, advertising, equipment purchases, and office supplies), 9.1%. Taxes, state and local, accounted for 6.1% of total expenditures.

ECONOMIC IMPACT OF THE HORSE RACING ON THE INDIANA ECONOMY

The economic impact of the industry is measured in several ways. The direct effects come from the reported level of economic activity, expenditures and employment, generated by the industry. The indirect effects are the changes in the State economy generated by the direct effect. The induced effect is the change in employee household consumption expenditures related to the direct and indirect effects. The total economic impact of the industry, as determined by the IMPLAN model is 2,843 employees, \$109,253,392 in labor income, and \$488,356,672 in contribution to state GDP. These estimates are generated using IMPLAN 2010. The horse racing industry in Indiana generates by direct payment as well as from indirect and induced economic activity a total of \$73 million in tax revenues of which \$29 million is in various forms of federal taxes and \$45 million returns in State and local taxes.

Using the IMPLAN model with 2008 data, the projected direct and indirect tax revenue consequences from the economic activity of the racetrack is substantial. State and local tax

revenues attributed to the racetrack industry exceed \$45 million while federal tax revenues attributed to the racetrack industry of nearly \$28 million. The resulting tax impact exceeds \$73 million.

RESULTS OF THE RACE HORSE BREEDING SURVEY

A survey of over 7,000 breeders and related operations in the State of Indiana resulted in 1,000 surveys completed and returned. These were the findings:

- 80 counties were represented in the survey with the most responses from Lagrange County (29), Elkhart County (20), and Allen County (16).
- The principal residence of more than 10% of the breeders in the survey was out of state. Thirty-four states were represented in the survey with the most responses indicating Ohio (179), Kentucky (136), and Illinois (113) as the principal residence.
- When asked about organizational affiliations, 32% were affiliated with Thoroughbred organizations, 58% with Standardbred organizations, and 10% with Quarterhorse organizations.
- When asked about investments in horses, property and equipment since the slots in 2007, 19% indicated the number of horses had increased, while 69% indicated the number of horses had decreases, with 12% indicating no change. The amount of property owned increased for 1% of the breeders, while 68% had decreased property holdings, and 31% had no change in property holdings. The investment in equipment reportedly increased for 2% of the respondents, decreased for 32%, and was unchanged for 66%.
- The number of horses owned in the 1,000 responses, was reported to be 3,365 while 65% of those horses raced in 2009 and 215 of the horses that raced, or 21% had won in 2009.
- Most of these horses were kept on the owner's property (68%) while 7% were kept at training facilities and 25% reported other types of facilities held their horses.
- The other type of facilities included race tracks (38.4%), other farms (20.5%), fairgrounds (11%), breeding farms (8%), and out of state (15.5%).

The most significant sources of revenue were the purses and breed awards received by the breeders. Of the 1,000 responding in the sample, 586 breeders indicate \$15,400,083 in purses for an average of \$26,280 per winning breeder. Breeders also reported breed awards totaling \$1,569,299 for an average of \$8,622 per breeder reporting these awards. Breeders reported a total income of \$31,682,037 in Indiana which represented a significant part of their total income, since many breeders operate in multiple states.

The total expenditures reported by the 1,000 breeders responding to the survey total \$58,193,160 for 2009. Nearly two thirds of the breeders reside outside of Indiana. Of the 1,000 survey responses received, 353 indicated in-state residence and 647 were out-of-state breeders operating in Indiana. The 353 in-state breeders were from 80 counties. Out of the 353 in-state breeders, 82 did not report expenses. The 271 that did report expenses report a total expenditure of \$19,344,954 which is an average of \$71,384 per breeder. Since the sample represents approximately one seventh of the breeders in the State, total expenditures per county were projected based on the number of responding breeders per county. The projections provide a geographical as well as financial picture of the horse breeding industry.

In the breeder survey, 648 responses came from breeders licensed in Indiana but residing in another state. Thirty-four States were represented in the sample. Of the \$58,193,160 in total

expenses reported in the survey, \$38,233,324, or 66% is reported by breeders indicating their residence is outside of Indiana, indicating that the breeding industry is also a significant export market for the State of Indiana.

Out-of-State breeders indicate that they earn a substantial portion of the revenue generated by the breeding industry. Of the \$31,682,037 of revenues reported in the survey, \$24,775,875 were reported by out-of-State residents operating in Indiana.

ECONOMIC IMPACT OF THE RACE HORSE BREEDING INDUSTRY ON THE INDIANA ECONOMY

The survey results were tabulated and the total industry parameters estimated by projecting the sample results proportionately to the population. The sample operations indicate a total expenditure of \$58,193,160 for the year 2009 which projects to a total expenditure of \$414,352,120 by the industry in 2009. In a similar fashion, the economic impact of the breeding industry was determined using the IMPLAN 2010 model. The race horse breeding industry generates a total of \$49 million in tax revenue of which \$24.4 million is in State and local tax revenue. This is the total direct and indirect tax effect.

Using the IMPLAN model with 2008 data, the projected direct and indirect tax revenue consequences from the economic activity of the racetrack is substantial. State and local tax revenues attributed to the horse breeding industry exceed \$24 million while federal tax revenues attributed to the horse breeding industry also exceed \$24 million. The resulting tax impact exceeds \$49 million.

CONCLUSIONS

The year 2009 was a difficult year economically for the economy in general, the state economy, and also the equine industry. The situation in a more stable economic environment may be significantly more positive. One inescapable conclusion emerges from the data and analysis of the report: the State of Indiana is generating extraordinary economic activity from its design of and ongoing investment in the state horse racing and breeding industry.

When viewed from a nation-wide perspective, a racetrack is either expanding or declining, but not standing still. When a racetrack is successful, it can afford to offer larger purses and attract better horses and athletes, drawing in larger incomes from pari-mutuel and off-track wagering, which then affords an opportunity to offer even more attractive purses. When a racetrack is less successful, purses decline and the cycle reverses.

The 2005 American Horse Council study reported a direct economic impact of \$181 million and a total economic impact of \$294 million for Indiana racing industry. The findings of this study five years later indicate \$733 million direct effect with over \$1 billion total impact for the racing industry. The 2005 study reports \$5 million paid in state and local taxes with the

current study reporting \$69 million state and local tax revenue. The industry currently generates direct and related employment of 9,865 jobs.

PROSPECTS FOR FUTURE RESEARCH

There are important refinements that need to be made in the study. The preliminary results are a simple extrapolation from the sample. The large proportion of responses from out of state breeders suggests that a closer look at the proportions of inquiries may lead to a more accurate estimate of the impacts. There is also an opportunity to examine more closely the proportion of expenditures by breeders that occur in Indiana and the proportion of off track and pari-mutuel racetrack revenues are from Indiana and from outside Indiana. An additional opportunity is to explore the impacts on specific industries as well as specific counties where these activities occur.

There are several important aspects of the industry that need to be explored. A significant share of racetrack revenues comes from off track and pari-mutuel sources. A significant investment in the breeding segment of the equine industry is from out-of-state interests. These elements indicate that the equine industry is a significant export industry, generating in-state revenues from out-of-state sources. A second factor is the amount and nature of investment spending as real investments have long-lasting impacts on the economy. A third factor is the impact of a relatively infant industry. Although the race tracks have been in operation for several years, the supporting components of the industry are growing and the IMPLAN multipliers tend to be backward-looking and may not properly assess this significant growth element.

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