



Rutgers Equine Science Center

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Research and Education

**A Delicate Balance:
The Future of Horse Racing
and the Preservation
of the Equine Industry,
Agriculture and Open Space
in the Garden State**

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Karyn Malinowski, Ph.D.



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A Delicate Balance: The Future of Horse Racing and the Preservation of the Equine Industry, Agriculture and Open Space in the Garden State¹

Karyn Malinowski, Ph.D.

**Dean of Outreach and Extension Programs, Rutgers Cooperative Research and Extension
Director of the Equine Science Center, New Jersey Agricultural Experiment Station**

Forward

One of the largest industries in the United States revolves around horses, which make a daily impact on the lives of one in every 60 American citizens. The “Force of the Horse” as stated by the American Horse Council (1996) means more than the economic importance and the \$102 billion value of the United States horse industry (American Horse Council Foundation, 2005). Horses and the industries that surround the animal are an integral part of the history and development of human kind, and millions of people world-wide actively participate in equine-related activities through occupations, recreation and sport. Horses have a vast societal impact and are responsible for improving the quality of life for millions of Americans by preserving open space, providing outdoor sport and recreation, building a solid foundation for youth development, and providing mental and physical therapy to adjudicated youth and handicapped persons (Malinowski, 1999). Today the horse’s role in American society is different than it was in the 18th, 19th and early 20th centuries. Because of the American horse owners dedicated commitment to their animals, horses today enjoy a higher standard of living, increased longevity, productivity, and quality of life.

More than 4.6 million Americans are involved in the horse industry. The industry is vast and highly diverse, combining the rural activities of breeding, training, and housing horses with more urban activities such as racing, horse shows and competition stadiums and grounds, and public stables. The United States horse industry is a \$39.2 billion business associated with 9.2 million horses. The horse industry’s contribution to the U.S. gross domestic product (GDP) is \$102 billion, and it generates over 1.4 million full-time equivalent (FTE) jobs across the country (AHCF, 2005). More recently, economic impact studies of the horse industry in New Jersey, New York, and Pennsylvania have demonstrated the importance of the equine industry in one of the smallest and most densely populated and two of the most diverse states in the country; (New Jersey, New York, and Pennsylvania, respectively; NJDA, 1996; NYASS, 2001; Penn State University, 2003).

In New Jersey, where the horse is the state animal, the equine industry is invaluable as a major factor in retaining agricultural acreage as open space. Although horse owners do not market their product by the bushel, pound, or cubic foot, horses are bred, raised, bought and sold in the Garden State like any other agricultural commodity. The horse industry in New Jersey is represented on the State Board of Agriculture, where policymaking decisions affecting agriculture are made.

¹ Correspondence: 88 Lipman Drive, New Brunswick, NJ 08901-8525 (phone: 732-932-5000 x581, fax: 732-932-6633, email: malinowski@rcrc.rutgers.edu)

The New Jersey equine industry, valued at \$3.2 billion (B), produces a direct economic impact of approximately \$698 million (M) comprised of the \$407M spent by New Jersey equine owners and operators of equine facilities, \$224 M from racetracks, and \$67M by out-of-state equine owners and operators. The industry employs approximately 6,000 persons directly with the largest percentage of them affiliated with racing (NJDA, 1996). Equine is the third largest agricultural product in New Jersey (behind nursery and vegetable production) and the number one livestock commodity. Horses are found on 7,600 facilities in every county statewide (NJDA, 1996). Besides the economic importance of the industry, these 7,600 horse facilities maintain open space of 81,000 acres, which in turn provides an enhanced quality of life for New Jersey residents. Horse operations tend to be more sustainable than other types of agricultural businesses, making the horse industry critical to the growth and land-use strategy of the state.

The horse industry in New Jersey is not without its challenges, however. The Rutgers University Equine Science Center (ESC) helped identify those challenges and topics of importance to industry leaders in March of 2003 when it hosted its Horse Industry Summit, the first of its kind at a land-grant, state university.

Challenges identified were:

- health and wellness of the equine athlete
- integrity of equestrian sport
- land use and zoning
- environmental concerns
- future of horse racing and industry economic development

The Equine Science Center and its faculty and staff are charged with addressing these five most pressing concerns and have developed programs aimed at solving problems in these areas and delivering the solutions to the public.

At the request of the Hall Institute of Public Policy, the author was invited to address the future of horse racing in New Jersey and economic development for the equine industry in this white paper.

The State of New Jersey Racing

The New Jersey race horse industry has been severely impacted by the state lotteries and casino gaming. Thalheimer and Ali (1992) estimated that following the introduction of casino gaming in Atlantic City, there was a 34% decline in pari-mutuel wagering at racetracks in New Jersey. In addition to the casino gaming industry and state lotteries there is now the introduction of video lottery terminals (VLTs or slots) in three neighboring states at racetracks in direct competition with New Jersey's three racetracks.

Regarding the issue of the future of horse racing in New Jersey, on July 24, 2003, the Equine Science Center hosted a blue-ribbon panel of horse racing industry leaders, legislators and government officials interested in the preservation of the horse industry and horse-racing industry in New Jersey. The meeting was chaired by Assemblymen Jeff Van Drew and Ronald Dancer, Jack Gallagher (representing the New Jersey Department of Agriculture; NJDA) and ESC Director Karyn Malinowski.

Participants included representatives from the New Jersey Racing Commission, the New Jersey Sports and Exposition Authority, the Thoroughbred Breeders' Association, the Thoroughbred Horsemen's Association, the Standardbred Breeders and Owners Association, the New Jersey Sire Stakes, Pennwood Racing Corporation, Harness Tracks of America, the New Jersey State Board of Agriculture, the Rutgers University Board for Equine Advancement, and Cook College's Department of Animal Sciences.

The 2003 roundtable discussion focused its discussion on three essential areas:

- policy and regulation of racing
- marketing and growth of racing
- operations and management of racing

Once the group identified issues of concern in each of the three areas, it pinpointed the ten most critical issues needed to be addressed if racing in the Garden State is to survive. Discussion resulted in a series of strategies developed as part of a three-pronged approach designed to simultaneously stabilize and reinvigorate New Jersey's horse racing industry through methods that will augment purse values, increase racetrack attendance, and improve the infrastructure that supports the equine industry. No one strategy alone will make a lasting difference. Just as the industry is a network of relationships, so must be the strategies that support and encourage it. Details of these are found in Appendix I.

The racing industry can be broken down to three tiers of production: racetrack operation and OTB facilities; training and maintaining competitive and potentially competitive horses; breeding of such horses to support the industry (AHCF, 2005). The breeding of horses plays a significant role in both the racing and showing aspects of the horse industry and certainly is an aspect of the industry which utilizes larger parcels of land for its operation which helps preserve agriculture and open space.

Racetracks and OTB facilities, surveyed by Deloitte for the American Horse Council Foundation (2005) provided information on their revenue items which included wagering revenue, total handle, revenue from admissions, concessions, parking and programs and other revenue including electronic gaming, electronic wagering and internet wagering. Of the seven race tracks offering electronic gaming machines (including a track in Delaware in close proximity to New Jersey), average revenues derived from electronic gaming machines approximated 58% of total revenues. Four tracks indicated that they received 70% or more of total revenue from this form of wagering (AHCF, 2005). Since 2003, when the Deloitte survey was conducted, two other states contiguous to New Jersey have or are planning electronic gaming in their states.

Value of Racing

New Jersey cannot afford to lose its horse racing industry. Too many jobs and precious farmland and open space acres, which enhance the quality of life for New Jersey residents, depend upon the breeding, raising and training of thoroughbreds and standardbreds. The downward trend racetracks have experienced in recent years must be halted and reversed. For the five-year period of 2000-2004 the parameters of a successful racetrack gaming operation have declined, e.g. on-track attendance, on-track handle and simulcast handle due to the impact of alternative gaming as depicted in Figures 1-5 (New Jersey Racing Commission, 2004).

Pennsylvania has just authorized the installation of slot machines at seven racetracks, five casinos and two resorts which will be overseen by the Pennsylvania Gaming Board. It is anticipated that when fully operational the revenue generated annually by slots will be \$30B. The net portion from this revenue is estimated at \$3B annually. These monies will be divided as follows: 48% to the facility operators; 34% to the state of Pennsylvania; 5% towards economic development; 4% to local communities; and 9% for race purses. Of the estimated \$270M allocated for horse-related interests, half will be distributed each to thoroughbreds and standardbreds. For harness racing alone, the \$135M will be distributed as follows: \$108M for overnight purses at 4 tracks; \$10.8M for Sire Stakes Programs; \$10.8M for a new Breeders Fund and \$5.4M for Horsemen's Welfare Fund (personal communication, Jerry Connors, 2005).

A study conducted by the Institute of State and Regional Affairs, Penn State Harrisburg (2001) estimated that the installation of slot machines at Pennsylvania's four racetracks (1,500/track) would result in an increase of 17,700 jobs (24,500 total); a contribution to the value of goods and services of \$3.2B (an increase of \$2.5B); a contribution to income by racetracks of \$1.3B (increase of \$1B); a generation of \$416M in government revenues (an increase of \$332M). The revenue from slot machines to Pennsylvania's economy will provide direct benefits to the state, the racetracks, horse owners, breeders and trainers, and track attendees. The state will have a revenue source for property tax relief, will achieve growth of agribusiness and travel and tourism, and will experience a ripple effect to consumer economy. The tracks will be able to make capital improvements that are long overdue and will have the opportunity to partner with established gaming companies which are highly successful at marketing their product. Horsemen and women will earn more dollars from enhanced purse structures, and owners and breeders will benefit from an enhanced Sire Stakes Program and new Breeders Fund.

One can only imagine the effect that Pennsylvania's installation of slot machines will have on the quality of racing, the increase in horses bred and the number of acres devoted to breeding race horses. Not to mention the impact that these slots will have on the Atlantic City casino industry which will feel tremendous competition for the gaming dollar from neighboring venues!

In 2004, a study commissioned by the Ontario Harness Horse Association and conducted by the Department of Agricultural Economics and Business at the University of Guelph measured the impact of slot machine revenue on the harness horse industry and on Ontario agriculture. Slot machines in 2002 contributed over \$100M of the total of \$190M in harness racing purses. The Guelph study found that the enhanced purse revenue was utilized to create:

\$58-62M in new employment income; 7,300-8,100 new jobs; an increase of between \$375 and 400M in direct purchases; and an increase of between \$859-\$942M in direct and indirect impact on the economy. The racing industry itself grew: racing related revenue increased 143%, the number of harness horses increased by 30% with an increased value of 203%. Horse purchases and operating costs increased by 106%.

Harness racing is also thriving in New York where Saratoga Gaming and Raceway, in the first year that Video Lottery Terminals were introduced, saw a 160% increase in purses, 50% increase in total wagering and an increase of 27 racing days. According to John Manzi (2005) harness racing at Monticello Gaming and Raceway has seen a banner year unlike any other in its 48-year history since the addition of VLTs in 2004. Local horse owners, breeders and trainers, and management have all benefited with an increase in number of racing days, a new state-of-the-art paddock facility and a purse structure which increased in 2005 by 111.6%. As always, larger purses attracted horses of higher quality and fuller racing fields which resulted in a 26% increase in total betting handle at the Mighty M.

Effect on Recreational and Non-Racing Horse Industry

Racing is not the only equine discipline that will lose if New Jersey racing does not receive the “shot in the arm” it so desperately needs. Sport competition and recreational horse users stand to suffer, as will traditional agricultural interests such as grain, hay, and straw farmers who continue to survive and maintain open space due to the fact that their major customers are horse owners. The New Jersey Equine Advisory Board’s (EAB) annual budget to support the Horse Park of New Jersey and the sport and recreation segments of the horse industry, predominantly, is correlated to a percentage of the pari-mutuel handle from racing. Displayed in Figure 6 is the result of the continued erosion of racing revenue generation on the EAB annual budget. The EAB annual budget which was \$498,000 in 1990 declined to a new low of \$350,000 in 2005. While equine veterinary clinics and feed and supply stores are frequented and supported by sport horse competition and recreational users, a predominant economic flow to these entities is from the racing industry.

The future of the New Jersey racing industry and the work of the Rutgers University Equine Science Center go hand in hand. The Center’s work is critical in the economic development, integrity, quality control and sustainability of the racing industry in New Jersey. The ESC believes that the state of New Jersey, where there are more horses per square mile than in any other state, has minimized the importance of the equine industry and that now is the time to correct the oversight. Economic development processes exist for casinos, tourism, agriculture and food industries, and health care, but not for equine. That needs to change. Other states are devoting substantial portions of racing revenues in the support of research and outreach for their equine industries. This is true in California, New York and Michigan to name a few. Presently there exists an unprecedented agreement between the Atlantic City hotel-casino and horse-racing industries that committed casinos to an annual subsidy of approximately \$20-25 million to supplement purses at racetracks in the Garden State. While this initially has helped insure that the best equine athletes would continue to compete at New Jersey tracks, it does not address the major concerns regarding the fragile infrastructure of the industry itself. In addition to purse supplementation and breeding incentives, the New Jersey horse-racing industry needs to direct

funding to such activities as propriety research to enhance the economic competitiveness of New Jersey racing in relation to other states and to other leisure pursuits.

The reality is that the equine “industry” is not perceived to be an industry at all. Because of its diversity, the horse industry has many factions which do little to communicate and unify their voices. Hence, key agency leaders and the New Jersey legislature find it hard to respond to an industry which sends so many mixed messages. The biggest challenge faced by the entire horse industry is to support all aspects of this diverse industry in one common, unified voice. Of critical importance to the future of the horse industry in New Jersey, identified at the 2003 ESC Summit, is the issue of farmland preservation. New Jersey is now at a stage in its need to preserve open space and the quality of life for its residents. The horse racing, breeding and training industry, which is a critical component of open space preservation, needs assistance from the state of New Jersey in order to survive and flourish. Between 1983 and 1996, New Jersey lost 40,000 acres of open space, primarily because of the demise of racehorse breeding farms (NJDA, 1996). Underlying causes for the loss of breeding farms were changes in federal tax laws and reduction in the racing purse structure due to the competition for gaming dollars resulting from the arrival of casinos.

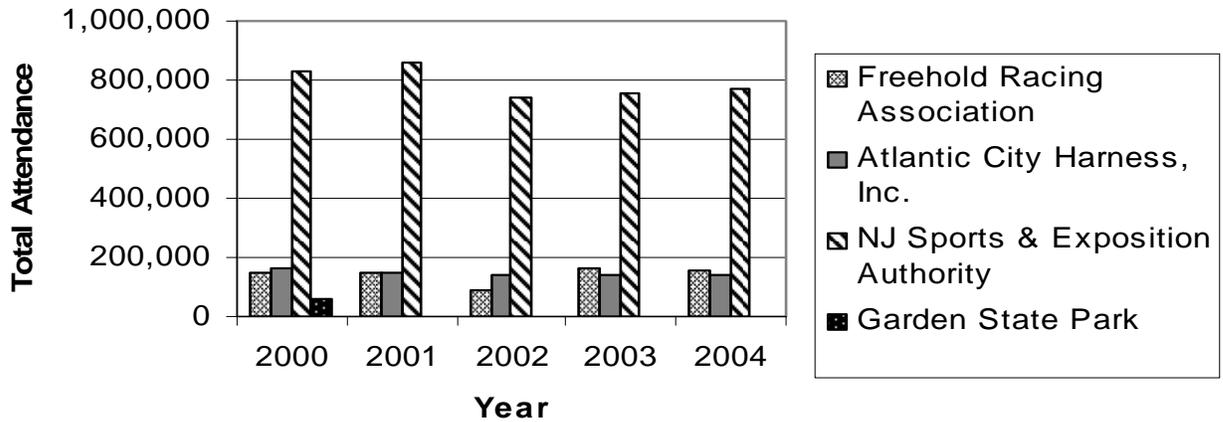
New Jersey stands to lose a similar amount of open space unless it develops mechanism(s) for increasing purse structures and finding dollars for marketing and promotion for both thoroughbred and standardbred racing. The New Jersey Farmland Preservation Program is extremely proud of the number of acres of preserved farmland (equine-related and otherwise). However it is not enough to just preserve farms (including horse farms) in the state. If industries utilizing the preserved farmland are not viable, they will seek locations elsewhere, taking with them their financial contributions and leaving in their wake joblessness and a scenic vista of preserved but unproductive land, a fiscal burden to the community that helped preserve it.

In 2006, the Equine Science Center will be leading the effort for an economic impact analysis of the horse industry in New Jersey, in partnership with other state agencies and industry breed groups. More than producing just a census, the ESC team will conduct analyses which will determine the impact of the racing segment on the overall horse industry and collectively the impact of the entire horse industry on traditional agriculture and open space. This is what makes the New Jersey horse industry so important to keeping the Garden State green. The number of dollars and jobs generated by an industry are critical to a state’s economy, but equally important to the most densely populated state in the nation is the preservation of open space and quality of life that the equine industry provides to New Jersey residents. It is time for the entire industry to rally around once and for all to let the public and the legislature know that a horse industry in New Jersey does really exist. Racing and non-racing interests working together and speaking in one voice are the only way that horse enthusiasts can garner the respect from the state of New Jersey that the equine industry deserves.

Acknowledgements

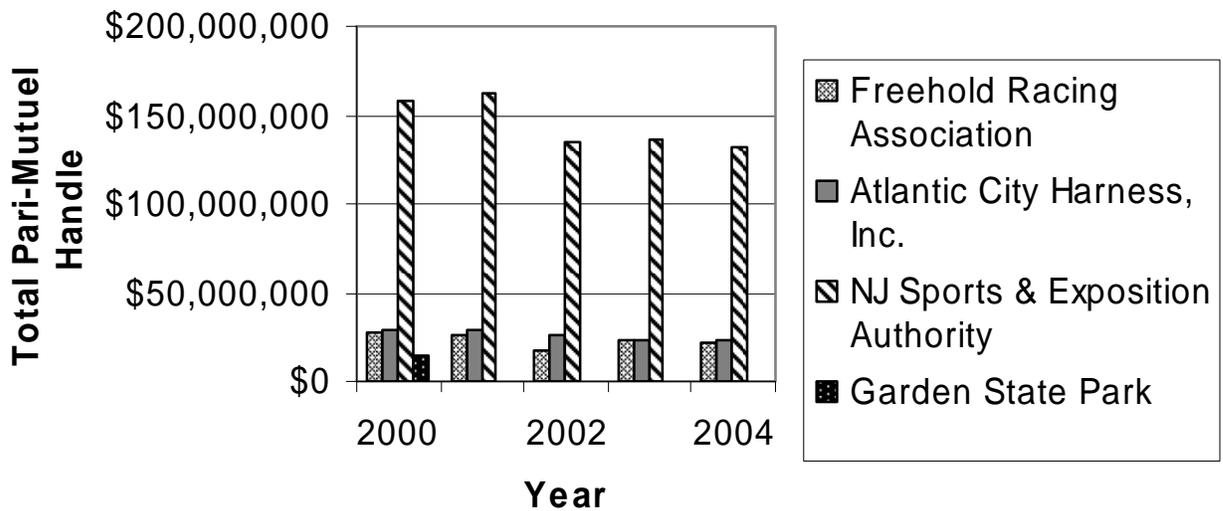
The author would like to recognize and thank Diana Orban Brown, Tom Mannos, Sarah Kozak, Anastasia Miklojcik and BethAnn Parise for their assistance in the preparation of this manuscript.

Figure 1. Five Year Comparison at New Jersey Harness Tracks for the Period of 2000 to 2004¹



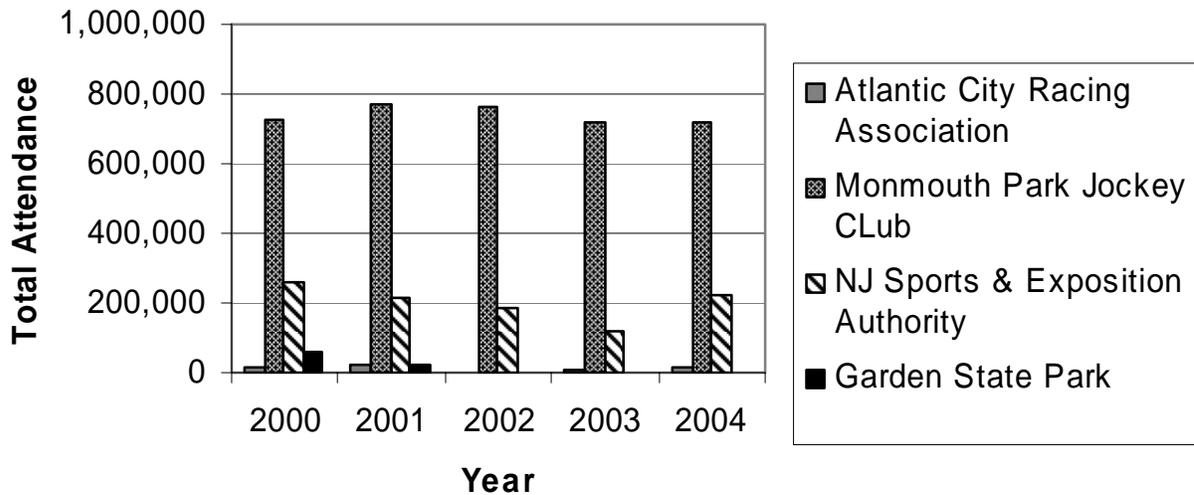
¹The last year of harness racing at Garden State Park was 2000.

Figure 2. Five Year Comparison at New Jersey Harness Tracks for the Period of 2000 to 2004¹



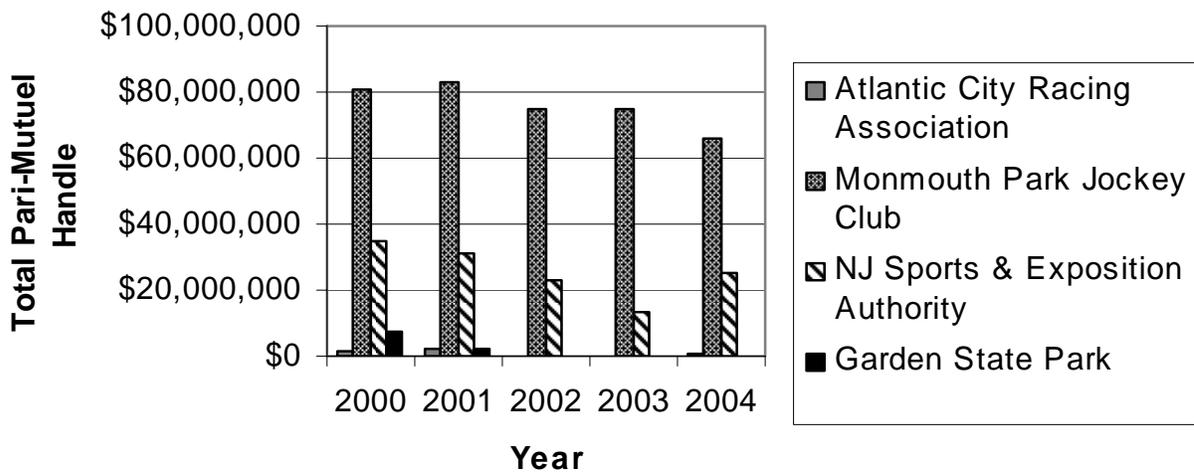
¹The last year of harness racing at Garden State Park was 2000.

Figure 3. Five Year Comparison at New Jersey Thoroughbred Tracks for the Period 2000 to 2004¹



¹The last year of thoroughbred racing at Garden State Park was 2001.

Figure 4. Five Year Comparison at New Jersey Thoroughbred Tracks for the Period 2000 to 2004¹



¹The last year of thoroughbred racing at Garden State Park was 2001.

**Figure 5. Five Year Comparison
of Intrastate and Interstate Simulcasting Handle
for the Period of 2000 to 2004**

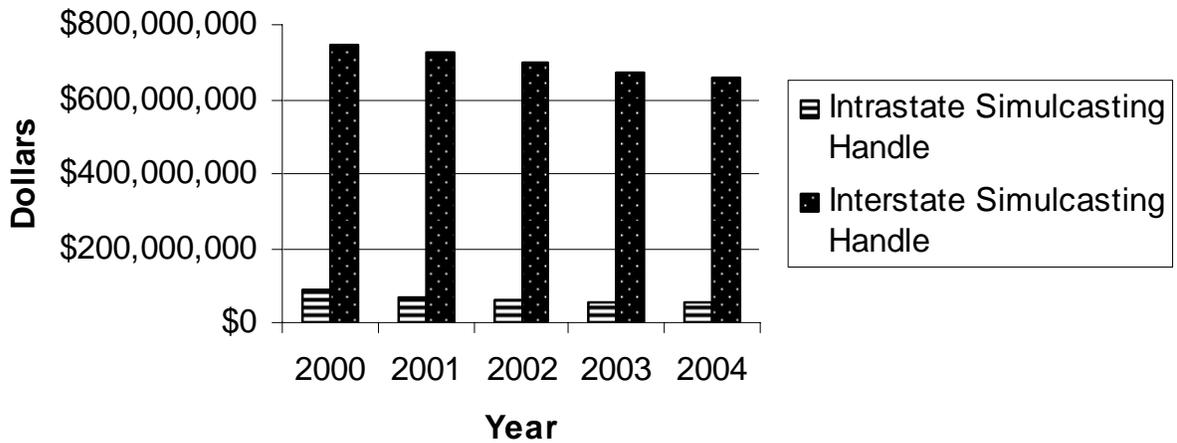
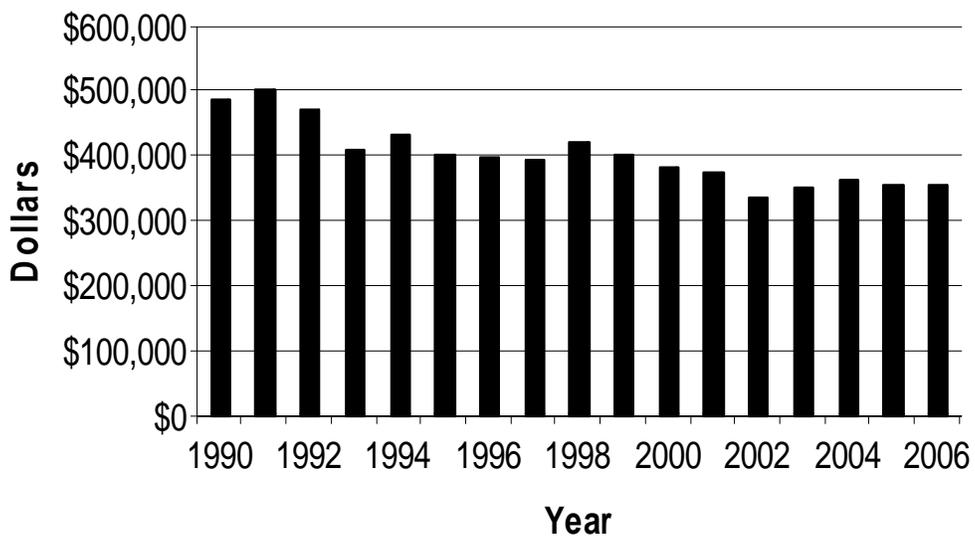


Figure 6. New Jersey Equine Advisory Board Budget



APPENDIX I

Following are the key issues identified and prioritized at the July 24, 2003 Roundtable hosted by the Rutgers University Equine Science Center, as well as points addressed in the three focus areas of discussion.

Key Issues Affecting the Future of Racing in New Jersey

- 1) Identify additional funding sources for racing programs and promotion. Suggestions were:
 - a. Progressive slot machine program at Atlantic City casinos
 - b. Tapping into parking fees
 - c. Allocating a portion of the Internet sales tax, if such a tax becomes law
- 2) Promote cooperation and reduce competition between the racing industry and the Atlantic City casinos and the New Jersey lottery. Recognize that the real competition is the gaming industry of New Jersey vs. those of surrounding states.
- 3) Move to implement the legislation that would allow off-track wagering at racetracks, in view of the reduction in racing days
- 4) Increase the fan base through marketing programs (i.e., increased marketing funding) and tourism promotion devoted to racing
- 5) Dedicate funding to increased purses and breeding incentives
- 6) Examine the cost to the industry (track managements, owner, breeders and trainers) of state-mandated regulations
- 7) Emphasize the strong connection between land preservation and a viable racing industry; address Right To Farm and environmental issues
- 8) Find funding for a state-supported training center for the horse industry workforce
- 9) Examine the means of ensuring the integrity of the product
- 10) Educate legislators and the public regarding the value of a healthy racing industry

I. Issues Regarding Policy and Regulation of Racing

Major impediments:

- Shortage of funding for tracks
- The industry is highly regulated, and cost of regulation is high
- Limited understanding that racing is an agribusiness in addition to being a sport
- State allows cross-competition in gaming: casinos and lottery games
- State has resisted policy changes (e.g., horse industry representatives on Racing Commission; additional funding to tracks; regulations affecting horse ownership)
- Policing of racing industry has had a negative effect on public perception
- State has not drawn the connection between racing and land preservation
- Conflicts with municipalities on Right To Farm issues discourages horse operations

Needs and challenges:

- Identify additional funding sources; make sure additional funds are directed to horse industry
- Legislature should fund breeders' awards to encourage breeding
- Rules regarding breeding should be eased: allow stallions from other states; reduce the amount of time mares must spend in NJ
- State needs to evaluate competition from other states; NJ is surrounded by competition from NY, PA, MD and DE
- Install off-track wagering facilities
- Install video lottery terminals (dedicated slots), which the casinos could operate
- Tie casino industry to racing industry -- both are gaming enterprises

Horse industry solutions:

- Educate legislators to understand the needs of the industry
- Emphasize to the public and legislators the "added value" of racing; its broad and significant economic impact beyond the track
 - Tax revenues generated and what they're used for
 - Generation of jobs
 - Support of supplier businesses
 - Open space preservation
 - Recreational opportunities
- Work with the Department of Agriculture to address breeding issues
- Increase funding for Sire Stakes program
- Support the Rutgers Equine Science Center

II. Issues Regarding Marketing and Growth of Racing**Major impediments:**

- Shortage of funding
- Inadequate, unappealing facilities, and not enough money to upgrade them
- Waning consumer interest in racing/product
- Racing is a fan-driven business rather than a dollar-driven business

Needs and challenges:

- Identify additional funding sources
- Increase total racing revenues
- Revive consumer interest in racing
- Make sure track-goers have a clean, pleasant experience with good food
- Use publicity to tap into younger, more female market
- Expand the promotion of "Month of the Horse"

Horse industry solutions:

- Educate legislators to understand the needs of the industry
- Emphasize to the public and legislators the “added value” of racing; its broad and significant economic impact beyond the track
 - Tax revenues generated and what they’re used for
 - Generation of jobs
 - Open space preservation
 - Recreational opportunities

III. Issues Regarding Operations and Management of Racing**Major impediments:**

- Shortage of funding for breeding programs
- Shortage of funding for purses; can’t finish racing days. URGENT action needed.
- Funds for breeders are decreasing each year
- Number of stallions standing in NJ is decreasing – down to 22
- Illegal medications are a major problem, particularly the perception that they are widely used
- Tracks cannot operate year-round
- Lack of cooperation between thoroughbred and standardbred segments

Needs and challenges:

- Identify additional funding sources
- Increase total racing revenues; do not divert purse money (which attracts horses) to subsidize breeding programs
- Develop account wagering program
- Install off-track wagering facilities
- Install video lottery terminals, which the casinos could operate
- Create a year-round use for tracks – perhaps training center
- Sustain the Meadowlands – it’s one of the finest racetrack facilities in the country; retain NJSEA as operator

Horse industry solutions:

- Educate legislators to understand the needs of the industry
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 - Tax revenues generated and what they’re used for
 - Generation of jobs
 - Support of supplier businesses
 - Open space preservation
 - Recreational opportunities
- Work with the Department of Agriculture to address breeding issues

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