

2014 State of the New Jersey Horse Racing Industry: Post-Report of the Governor's Advisory Commission on New Jersey Gaming, Sports and Entertainment



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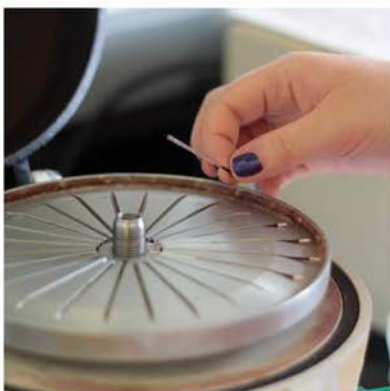
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Executive Summary

This white paper reviews the predictions made regarding the health of the New Jersey horse racing segment of the equine industry by Malinowski and Avenatti in 2009 and compares indicators of horse racing and breeding industry health to those in the neighboring states, New York and Pennsylvania, since the release of the Report of the Governor's Advisory Commission on New Jersey Gaming, Sports and Entertainment in July, 2010. Also occurring since 2010 has been the cessation of the purse enhancement awards previously provided from the casino industry, and the privatization of the Meadowlands and Monmouth Park Racetracks. This document also reviews the status of economic health of the casino industry in Atlantic City through year four of Governor Christie's five-year plan to revitalize Atlantic City.

The intent was not to conduct another equine industry economic impact study as seen in the precedent-setting study, "The New Jersey Equine Industry 2007: Economic Impact (Rutgers Equine Science Center, 2007), but to utilize indicators of industry health such as purse monies awarded, number of race days, races restricted to state-bred horses only, mares bred and foals registered, etc. in comparison to two neighboring states where alternative gaming revenue supports horse racing. Data were also collected to assess the number of horse farms entering the Farmland Preservation Program and the number of preserved horse farms sold during 2010-2014, the number of horse farms currently on the market, and any changes in hay, grain, or straw production by New Jersey animal feed producers. All these parameters serve as indicators of the confidence race horse owners and breeders have in the future of the industry as demonstrated by their willingness to invest in it.

Malinowski and Avenatti predicted in 2009 that the Garden State could lose its premier agribusiness which generated \$780 million of economic impact annually, 7,000 jobs, \$110 million in federal, state and local taxes and 57,000 acres of working agricultural landscape and open space if racing-related training and breeding farms left New Jersey. Only eight percent of acreage in the Farmland Preservation Program was used for horse-related activities and eleven percent of preserved farms were actually in the horse business (Malinowski and Avenatti, 2009). Acreage supported by equine-related interests made up 25 percent of the total farmland in New Jersey (Gottlieb, et al., 2009). This fact reinforced the argument that the state stood to lose this farmland to development if racing was no longer viable. It was also suggested that racing was not the only equine discipline in jeopardy if New Jersey racing was not sustained. Sport competition and recreational horse users also stood to suffer, as would traditional agricultural interests such as grain, hay, and straw farmers who continue to remain in business and maintain agriculturally productive open space due to the fact that their major customers are horse owners.

It is clear that Governor's five year plan to revitalize Atlantic City as a family destination resort has not been successful as yet. The once thriving casino mecca is now in year four of the revitalization plan and 2014 has been the worst year for the New Jersey casino industry in

regards to revenue generated, casinos closing and jobs lost since casino gambling was legalized in 1976. According to the American Gaming Association, the New Jersey casino industry revenue in Atlantic City has been hit hard due to both the national economic recession and to increased regional competition, as slot machine and full casino gaming opportunities continue to increase in neighboring New York and Pennsylvania (American Gaming Association, 2010-2013). Governor Christie's timeline of five years for Atlantic City to reinvent itself as a tourist attraction and not just a gambling mecca seems to be running out with little documented success. Since 2008 the New Jersey casino industry gaming revenue has fallen by 32.9% to an all-time low of \$3.05 billion in comparison to an all-time high of \$5.22 billion in 2006. This is in sharp contrast to what has been observed in neighboring states which have seen an increase of 76.5% and 95.5% in gaming revenue in New York and Pennsylvania, respectively. While the New Jersey casino industry ranked second, behind Las Vegas, for gaming revenue until recently, Pennsylvania passed New Jersey in 2012 with \$3.16 billion in gaming revenue compared to \$3.05 billion in New Jersey. In 2013, New Jersey approved online gaming for people who were physically located in the state. Revenue generated has not met predicted expectations and the convenience of gaming online will further erode the number of visitors to an actual casino.

While the horse racing industry and state government are to be commended for actions taken since 2010 to ensure sustainability of horse racing in New Jersey, indicators of the health and well-being of the horse racing industry suggest that the industry is struggling in spite of efforts of racetrack management and organizations representing horse owners and breeders. The New Jersey Sports and Exposition Authority no longer manages horse racing in the state, since giving up those duties to the private sector in the form of New Meadowlands Racing and Entertainment, LLC at the Meadowlands Racetrack in East Rutherford and the Thoroughbred Horsemen's Association and Darby, LLC at Monmouth Park Racetrack. Both entities have invested heavily in their respective venues.

Since 2010 it is evident that indicators of the health of the horse racing industry, such as, purses offered, number of racing days, number of stallions standing, mares bred, foals born and yearlings registered, demonstrate that New Jersey race horse owners, trainers and breeders have been hit hard by the cessation of the purse enhancement awards in 2010 and by competition from the purse and breeder incentive structures that exist in neighboring states where racing is supported by alternative gaming. Purse structure, number of race days, and number of live races offered at a state's racetracks are the backbone of a successful and sustainable horse racing industry. With a higher level of purses offered, higher quality horses compete for those dollars and the betting public's wagers increase, providing revenue to the racetracks. Trainers and owners follow the purse money and the only way racing in a state becomes sustainable is for the racing industry to offer a competitive purse structure and for a sufficient number of racing opportunities to make it worth-while to race in a particular state. A sustainable horse racing industry also provides adequate breeder incentive awards and races restricted for horses bred in-

state that then result in increased numbers of stallions standing, mares bred, foals born, and yearlings registered. This assurance results in increased willingness of horse and horse farm owners to invest in land, facilities, animals and other agriculturally-related products.

There is no way New Jersey race horse owners and breeders can remain competitive with New York and Pennsylvania based on the indicators of industry health further outlined in this white paper in the pages that follow and the incentive to remain and invest in the state will continue to diminish.

Equine operations represent a small and declining share of New Jersey's preserved farms, which means that their acres cannot be protected by deed restriction alone. In addition, race horse breeding operations in the state's preservation program are being sold at a disproportionately high rate. These operations are now transitioning to other uses, including sport competition and the recreation and pleasure horse segment of the equine industry. It is also clear that the current reduction in the New Jersey race horse population has not yet negatively impacted hay, straw, and grain producers who depend heavily on horse owners for business. A reduction in sales to racing-related customers may simply have changed to a non-racing related customer base.

There should exist in New Jersey a partnership between the casino and horse racing industries to enable both to remain sustainable, as competition for gambling dollars continues to escalate. This is no longer a discussion about competition between the horse racing and casino industries. It is about the competition between two similar, important New Jersey industries and the rest of the region. Casino gaming at New Jersey racetracks would be the least significant factor impacting Atlantic City casino revenue, in part because gamblers increasingly seek "one-stop shopping" gaming venues close to home, something that Atlantic City is currently unable to provide.

Slot machines and table games in New York and Pennsylvania are impacting Atlantic City casinos now, and will continue to do so with increasing force as more gaming is put into place until the regional market is saturated. The installation of casino gaming and sports betting at New Jersey racetracks would be a relatively quick and easy way to slow down these trends, to New Jersey's advantage. It has the potential to be a "win-win" situation for both the racing and casino industries, where revenues could be used to subsidize a failing casino industry in Atlantic City as it tries to reinvent itself as a tourist destination. Likewise, a portion of these revenues could be used to increase purse structure, number of race days, and breeder incentive awards, all drivers of a successful horse racing industry. Any increase in gambling revenue would enhance the state budget significantly (depending on state tax revenues) and provide capital for use by the casino and horse racing industries to keep them competitive. Casino gaming outside Atlantic City would also add jobs to the state, during construction and renovations of the racetracks as well as during operation.

Background and Overview

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As government policy continues to shape the future of horse racing nationwide, economic impact studies provide hard numbers to support the conclusion that horse racing is of socio-economic importance. The Equine Science Center found in 2007 that the New Jersey equine industry was valued at \$4 billion, generated \$1.1 billion annually in positive impact on the New Jersey economy, was responsible for 13,000 jobs (7,000 jobs generated by racetracks and horse racing breeding and training operations), and paid an estimated \$160 million annually in federal, state, and local taxes (\$85 million generated by equine operations and owners and \$75 million generated by New Jersey racetracks). Contributing to the total economic impact were New Jersey's four racing venues (The Meadowlands, Freehold Raceway, Monmouth Park Racetrack, and Atlantic City Race Course), valued at \$502 million annually.

Regarding acres, 176,000 total acres supported equine facilities, with 46,000 additional acres producing hay for horses on non-equine-related operations. This total of 222,000 acres represents more than one-quarter of the state's 790,000 acres remaining in agriculture in the most densely populated state in the nation.

Regarding animals and operations, 42,500 equine animals were housed in New Jersey at 7,200 facilities. Of the 42,500 equine animals, 12,500 (nearly 30 percent) were in racing-related activities. These included 8,200 Standardbreds and 4,300 Thoroughbreds that were either actively racing or were racing breeding stock.

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Status of the New Jersey Casino Industry

It is clear that the governor's five year plan to revitalize Atlantic City as a family resort destination has not been successful as yet. The once thriving casino mecca is now in year four of the revitalization plan and 2014 has been the worst year for the casino industry in regards to revenue generated, casinos closing and jobs lost since casino gambling was legalized in 1976. According to the American Gaming Association, the New Jersey casino industry revenue in Atlantic City has been hit hard due to both the national economic recession and to increased regional competition, as slot machine and full casino gaming opportunities continue to increase in neighboring New York and Pennsylvania (American Gaming Association, 2010-2013). Governor Christie's timeline of five years for Atlantic City to reinvent itself as a tourist attraction and not just a gambling mecca seems to be running out with little documented success. Since 2008, the New Jersey casino industry gaming revenue has fallen by 32.9% to an all-time low of \$3.05 billion in comparison to an all-time high of \$5.22 billion in 2006. This is in sharp contrast to what has been observed in neighboring states which have seen an increase of 76.5% and 95.5% in gaming revenue in New York and Pennsylvania, respectively. While the New Jersey casino industry ranked second, behind Las Vegas, for gaming revenue until recently, Pennsylvania passed New Jersey in 2012 with \$3.16 billion in gaming revenue compared to \$3.05 billion in New Jersey (Table 1). In 2013, New Jersey approved online gaming for people who were physically located in the state. Revenue generated has not met predicted expectations

and the convenience of gaming online will further erode the number of visitors to an actual casino.

In addition to the consistent drop in gaming revenue since 2006, four of Atlantic City's 12 casinos closed in 2014, including Revel, which was built in 2012 and was seen as the "savior" for the city. In the beginning of October in 2014, Revel, originally built for \$2.4 billion, was purchased for \$110 million by Brookfield US Holdings in a bankruptcy court auction. Recently it has been reported that Bally's and Caesars may be two other casinos to file for bankruptcy protection before the end of 2014.

Table 1. US Consumer Spending on Commercial Casinos Gaming (Billion \$)						
State	2008	2009	2010	2011	2012	Total % Change
New Jersey	4.545	3.943	3.57	3.32	3.05	-32.9
New York	N/A	1.02	1.09	1.26	1.80	+76.5
Pennsylvania	1.616	1.965	2.49	3.02	3.16	+95.5
Source: American Gaming Association, State of the States						

Horse Racing Efforts to Ensure Sustainability Since 2010

The horse racing industry and state government are to be commended for actions taken since 2010 in an attempt to ensure sustainability of horse racing in New Jersey. The New Jersey Sports and Exposition Authority no longer manages horse racing in the state, since giving up those duties to the private sector in the form of New Meadowlands Racing and Entertainment, LLC at the Meadowlands Racetrack in East Rutherford and the Thoroughbred Horsemen's Association and Darby, LLC at Monmouth Park Racetrack. Both entities have invested heavily in their respective venues.

Meadowlands Racing & Entertainment (MRE) opened an off-track wagering (OTW) facility in July 2012 and a state-of-the-art grandstand in November 2013. The OTW is located in Bayonne, NJ and cost approximately \$17 million. It is a great place to watch and wager on races taking place all over North America. The facility also includes McLoone's Restaurant & Bar. The new grandstand that was constructed in East Rutherford, NJ cost over \$102 million and spans over 180,000 square feet across three floors. Some noteworthy features of the grandstand include: Victory Sports Bar & Nightclub, an owner's club called 'Trotters', a tiered dining room called 'Pink', a rooftop bar called 'Victory Terrace', and an outdoor area with restaurants called 'The Backyard'. The racetrack itself was upgraded with improved banking and the start/finish line was flipped so that it now is on the same side as the new grandstand. Both of these facilities were constructed to bring in new, younger fans while still accommodating loyal patrons (personal communication, Meadowlands Racing and Entertainment, LLC, 2014).

At Monmouth Park, to date, Darby, LLC has acquired equipment and made improvements to the operation of the racetrack and OTW locations totaling \$7,500,000. The improvements include the addition of an OTW site in Hillsborough, New Jersey scheduled to open later this year, a thirty-six hole miniature golf course constructed in the south parking lot of the track, and the construction of the William Hill Race & Sports Book in the racetrack grandstand for patrons to place pari-mutuel wagers and participate in free play sports contests. Four jumbo video boards for viewing races have been added and there is now a computerized irrigation system for the turf course. As a result of damages from Super Storm Sandy, Darby spent an additional \$3,000,000 in repairs to stable area barns, dormitories, and the front side grandstand building.

In October 2014, Darby broke ground at the racetrack to begin construction of a 7,500 seat concert theater and restaurant with an estimated cost of \$15,000,000. Both venues, which are part of a site-wide schematic designed by Populous, are being constructed in what was once the picnic area parking lot. The amphitheatre will face the north end of the racetrack's grandstand with seating and a grass section for viewing (personal communication, Darby, LLC, 2014).

Annual revenue for account wagering and off track wagering facilities (OTWs) continues to increase (Table 2). In July 2014, another long-awaited off-track wagering parlor opened in Gloucester Township. 'Favorites at Gloucester Township Sports Bar and Off-Track Wagering' will operate under a license granted to Freehold Off-Track, LLC. It is managed by Penn National Gaming Inc. of Wyomissing, Pa, which is a co-owner of Freehold Raceway. A former restaurant was converted into the 15,000-square-foot 'Favorites', a facility that can accommodate more than 700 patrons. 'Favorites' is the state's fifth off-track wagering facility and is expected to generate \$15 to \$20 million in annual betting. While off-track and internet wagering have been successful in New Jersey, racing interests need to be cognizant of the impact these gambling outlets have on live handle at the racetracks which has seen a 35 percent decrease since 2010 (Table 2).

Table 2. Revenue – Account Wagering, OTW Facilities and Live Handle NJ (\$)				
	2010	2011	2012	2013
Internet	78,646,798	80,988,640	83,762,666	112,615,138
Phone	8,462,812	7,868,429	5,787,237	6,434,505
Mobile	N/A	N/A	29,211	11,939,733
OTW	142,847,306	141,827,972	140,453,808	156,097,279
Live Handle	95,928,361	82,733,261	60,794,800	62,208,189
Total Off Track	229,956,917	230,685,043	230,032,924	287,086,657
Total	325,885,278	313,418,304	290,827,724	349,294,846
Source: New Jersey Racing Commission Annual Report				

Both Meadowlands Racing and Entertainment and Monmouth Park have increased promotional efforts, provided the public with new ways to wager, and have provided more options for entertainment at the tracks instead of gambling.

Sports betting was approved by voters in 2011 and then allowed by law under the Sports Wagering Act, which was passed by the Legislature and signed by Governor Christie in 2012. But several professional sports organizations sued in federal court to block the law. Those organizations included the National Collegiate Athletic Association, Major League Baseball, National Football League, National Basketball Association, and the National Hockey League.

In February last year, a federal judge permanently banned the state from "sponsoring, operating, advertising, promoting, licensing, or authorizing," any type of sports wagering, finding it violated the Professional and Amateur Sports Protection Act (PASPA). In September 2014, the U.S. Court of Appeals for the Third Circuit upheld the decision and found the federal ban on sports betting constitutional, but said that nothing prevented the state from repealing its own prohibitions on sports betting.

Governor Christie recently vetoed a bill passed by the Legislature in response to the Third Circuit's decision that would have repealed old state laws barring sports betting in New Jersey and allowed private companies to open up wagering operations that would not require state regulation. The governor said in the veto that "ignoring federal law, rather than working to reform federal standards, is counter to our democratic traditions and inconsistent with the Constitutional values I have sworn to defend and protect."

But the governor left the door open by hinting in the veto message at ways other than the bill to legalize the betting that, in his opinion, would comply with federal law. New Jersey lawmakers responded by incorporating the governor's veto recommendations into another measure that began moving through the legislative process on October 2, 2014, to finally allow the state's casinos and racetracks to offer sports betting. On Friday, October 17, 2014 Governor Christie signed a revised sports betting bill that had passed both the Senate and Assembly earlier in the week. Monmouth Park officials planned on offering sports betting at the racetrack on Sunday, October 26 in a "soft launch" but a ruling late Friday, October 24 by U.S. District Court Judge Michael Shipp put in place a temporary restraining order that prevented the Oceanport racetrack from taking bets on the October 26 weekend's NFL games. The restraining order stops the betting operation from starting until the complaint gets a full hearing in the future (personal communication, The Advocacy Group, LLC, 2014).

Health of New Jersey Racing Industry Post-2010

Since 2010 it is evident that indicators of the health of the horse racing industry, such as, purses offered, number of racing days, number of stallions standing, mares bred, foals born and yearlings registered, demonstrate that New Jersey race horse owners, trainers and breeders have been hit hard by the cessation of the purse enhancement awards in 2010 and by competition from the purse and breeder incentive structures that exist in neighboring states where racing is supported by alternative gaming.

The national economic downturn certainly has had an impact on household discretionary income available for gambling interests regardless of the outlet and on the number of mares bred, foals born, and yearlings registered in North America. “Where Have All the Horse Gone?” was the theme of the 2014 American Horse Council Convention. While numbers of registered race horses have declined over the past ten years, states with healthy breeder development and/or Sire Stakes Programs have not seen as significant a decline as has New Jersey. The passage of Act 71 in 2004 in Pennsylvania and the approval by the state legislature for the installation of VLTs at New York Racetracks (racinos) in 2001 and at a stand-alone casino in Queens in 2011 served as an impetus to ensure the sustainability of the horse racing industry in those states.

Purse structure, number of race days, and number of live races offered at a state’s racetracks are the backbone of a successful and sustainable horse racing industry. With a higher level of purses offered, higher quality horses compete for those dollars and the betting public’s wagers increase, providing revenue to the racetracks. Trainers and owners follow the purse money and the only way racing in a state becomes sustainable is for the racing industry to offer a competitive purse structure and for a sufficient number of racing opportunities to make it worth-while to race in a particular state. A sustainable horse racing industry also provides adequate breeder incentive awards and races restricted for horses bred in-state that then result in increased numbers of stallions standing, mares bred, foals born, and yearlings registered. This assurance results in increased willingness of horse and horse farm owners to invest in land, facilities, animals and other agriculturally-related products.

Displayed in Tables 3 and 4 are the number of racing opportunities, purses paid, and pari-mutuel handle on Thoroughbred and Standardbred racing, respectively, in the states of New Jersey, New York, and Pennsylvania for the period 2010-2013. These numbers ultimately reflect the quality of racing in a particular state and can be used to predict the willingness of owners and trainers to invest in the state.

Regarding the number of Thoroughbred racing days, New Jersey offered an average of 78 racing days between its venues at Monmouth Park, Atlantic City Racecourse and the turf meet at the Meadowlands Racetrack for the period 2010-2013. Number of racing days for Thoroughbreds in New York and Pennsylvania averaged 403 and 498, respectively. In 2010 New Jersey offered an

average of \$624,966 in purse money per day and \$299,027 in 2013, reflecting a decrease of 52% for the four year period. In contrast, in New York, average purses offered per day rose from \$285,827 in 2010 to \$436,996 in 2013, an increase of 53%. Pennsylvania's purse structure for Thoroughbred racing remained consistent over the four year period ranging from \$224,890 in 2010 to a high of \$257,619 in 2012 before decreasing to \$217,464 in 2013.

Another barometer of the quality of racing is the amount wagered by bettors on races offered. Although the number of racing days offered was similar to that of Pennsylvania, the New York annual pari-mutuel handle for Thoroughbred racing in New York averaged \$2,270,468,148 while Pennsylvania averaged \$703,615,984 and New Jersey (with a smaller number of race days offered) \$348,655,620 for the period 2010-2013. When one looks at the average wagered on Thoroughbred racing per day, New Jersey recorded the highest average per day (\$6,324,390) of all three states in 2010 when Monmouth Park held the last of its "boutique" meets which drew some of the best horses in the country to the Garden State; compared to \$5,647,678 in New York and \$1,838,891 in Pennsylvania. For the period 2010-2013 the average wagered per day on Thoroughbred racing was \$4,466,724 in New Jersey, \$5,636,869 in New York, and \$1,412,780 in Pennsylvania (Table 3). It is clear that New Jersey's Thoroughbred racing remains popular with the betting public although the average wagered per day has decreased since 2010 and in 2013 was 60% lower than New York.

Regarding the number of harness racing days, New Jersey offered 298 race days at its two harness tracks (Freehold Raceway and the Meadowlands Racetrack) in 2010, reached a low of 166 days in 2012, before returning to 189 days of live harness racing in 2013. Between 2010 and 2013, the number of harness racing days in New Jersey declined by 36.5%. New York offered an average of 929 race days per year during the period 2010-2013 while Pennsylvania averaged 496 days for the same period. Both states remained consistent throughout the period in the number of race days offered. New Jersey offered an average of \$95,920 purse money per day for harness racing for the period 2010-2013, while New York and Pennsylvania averaged \$129,163 and \$216,267, respectively. Total wagered on the New Jersey harness racing product ranged from a high of \$360,992,777 in 2010, to a low of \$199,650,470 in 2012, with a rebound to \$265,665,767 in 2013 reflecting the positive impact on harness racing by the opening of the New Meadowlands Racetrack. Interestingly, total pari-mutuel handle in both New York and Pennsylvania decreased for the period 2010-2013, even though the four-year average remained higher than New Jersey, \$408,547,065 and \$321,777,912 for the two states, respectively. When one looks at the average wagered on harness racing per day for the four-year period in New Jersey, New York, and Pennsylvania, it is clear that the quality of the New Jersey harness racing product is a favorite with bettors, averaging \$1,228,969, compared to New York and Pennsylvania, \$439,728, and \$648,831, respectively. The Meadowlands Racetrack remains the "epicenter" of the pari-mutuel betting pool for harness racing in North America and it was for this reason it was paramount to ensure its continued existence when discussions occurred about

its possible closure in 2010. The closing of the Meadowlands Racetrack would have impacted harness racing tracks throughout North America, whose bettors favor wagering on harness races from the New Jersey racetrack.

Table 3. Racing Opportunities, Purses Paid, Pari-Mutuel Handle on Thoroughbred Races (\$)

		2010	2011	2012	2013
New Jersey	# Race Days	76	83	78	76
	Purses Paid	47,497,432	32,714,390	25,088,070	22,726,123
	Average/Day	624,966	394,149	321,641	299,027
	Total Wagered on TB Racing	480,653,696	343,029,112	304,514,282	266,425,390
	Average Wagered Per Day	6,324,390	4,132,880	3,904,029	3,505,597
New York	# Race Days	405	400	406	400
	Purses Paid	115,759,945	118,909,996	164,575,940	174,798,545
	Average/Day	285,827	297,274	405,359	436,996
	Total Wagered on TB Racing	2,287,309,636	2,113,207,819	2,344,191,384	2,337,163,753
	Average Wagered Per Day	5,647,678	5,283,019	5,773,870	5,842,909
Pennsylvania	# Race Days	496	497	495	506
	Purses Paid	111,545,784	122,960,000	127,521,888	110,037,249
	Average/Day	224,890	247,404	257,619	217,464
	Total Wagered on TB Racing	912,090,012	798,368,417	547,083,643	556,921,865
	Average Wagered Per Day	1,838,891	1,606,375	1,105,219	1,100,636

Source: New Jersey Racing Commission Annual Report, New York State Racing and Wagering Board Annual and Simulcast Report, Pennsylvania Horse and Harness Racing Commissions Annual Report

Table 4. Racing Opportunities, Purses Paid, Pari-Mutuel Handle on Harness Races (\$)

		2010	2011	2012	2013
New Jersey	# Race Days	298	192	166	189
	Purses Paid	30,715,690	17,535,900	15,644,868	17,961,025
	Average/Day	103,072	91,332	94,246	95,031
	Total Bet on Harness Racing	360,992,777	210,459,164	199,650,470	265,665,767
	Average Wagered Per Day	1,211,385	1,096,141	1,202,713	1,405,638
New York	# Race Days	930	928	931	927
	Purses Paid	118,574,338	122,416,122	117,934,567	121,034,902
	Average/Day	127,499	131,913	126,675	130,566
	Total Bet on Harness Racing	522,823,015	353,715,901	374,032,884	383,616,463
	Average Wagered Per Day	562,175	381,159	401,753	413,825
Pennsylvania	# Race Days	496	494	498	497
	Purses Paid	103,134,117	113,071,957	105,148,604	107,902,203
	Average/Day	207,931	228,890	211,141	217,107
	Total Bet on Harness Racing	413,197,297	394,189,876	229,862,732	249,861,743
	Average Wagered Per Day	833,059	797,955	461,571	502,739

Source: New Jersey Racing Commission Annual Report, New York State Racing and Wagering Board Annual and Simulcast Report, Pennsylvania Horse and Harness Racing Commissions Annual Report

Tables 5 - 8 display the impact of expanded gaming on the actual breeding segment of the horse racing industry in New Jersey, New York, and Pennsylvania, as measured by number of mares bred, stallions standing, foals born, yearlings registered, and monetary breeder incentive awards.

The number of Thoroughbred mares bred in New Jersey decreased (57%) from 159 in 2010 to 69 in 2013. Number of Thoroughbred stallions standing in New Jersey decreased (43%) from 23 in 2010 to 13 in 2013 and the number of foals registered in New Jersey decreased (44%) from 231 in 2010 to 130 in 2013. While these figures mirror the national downward trend for

Thoroughbreds, they certainly were not helped by the sharp decline in daily Thoroughbred purses reported above for New Jersey.

In contrast, even though the national trend is a reduction in number of mares bred, the number of Thoroughbred mares bred in New York increased (18%) from 1,352 in 2010 to 1,597 in 2013; the number of stallions standing remained consistent, averaging 66; as did the number of foals registered which averaged 1,317. The number of Thoroughbred mares bred in Pennsylvania followed the national trend and decreased (45%) from 1,650 in 2010 to 909 in 2013; the number of stallions standing decreased (50%) from 126 in 2010 to 63 in 2013; the number of foals registered decreased (59%) from 1,523 in 2010 to 623 in 2013.

Regarding Standardbreds, the number of mares bred in New Jersey decreased (77%) from 949 in 2010 to 218 in 2013. Stallions standing and yearlings nominated to the Sire Stakes program followed a similar pattern by decreasing (64%) from 11 in 2010 to 4 in 2013 and (54%) from 514 in 2010 to 236 in 2013, respectively. Besides a reduction in the number of mares bred and stallions standing in the Garden State, the harness racing industry, which once was home to the best Standardbred stallions in the world, recently lost quality horses like the trotters Muscle Hill and Chocolatier to Pennsylvania, and the pacing stallion Western Ideal to New York. Two outstanding Standardbred stallions Cantab Hall, the leading trotting sire in North America, and Somebeachsomewhere, the leading pacing sire are both standing in Pennsylvania. In November, 2014 it was reported that Trixton, the 2014 Hambletonian champion, has been retired and will stand stud at Deo Volente Farms in Flemington, NJ for the 2015 breeding season.

Table 5. Impact of Expanded Gaming on Breeding Segment of Thoroughbred Racing

		2010	2011	2012	2013
New Jersey	Mares Bred	159	148	111	69
	Stallions Standing	23	22	22	13
	Registered Foals	231	190	166	130
New York	Mares Bred	1,352	1,194	1,640	1,597
	Stallions Standing	65	64	67	70
	Registered Foals	1,378	1,178	1,395	1,534
Pennsylvania	Mares Bred	1,650	1,313	1,115	909
	Stallions Standing	126	95	94	63
	Registered Foals	1,523	1,186	929	623

Source: New Jersey Thoroughbred Breeders Association (personal communication), New York State Thoroughbred Breeding and Development Fund Corporation Annual Report, The American Jockey Club State Fact Book

Table 6. Impact of Expanded Gaming on Breeding Segment of Harness Racing

		2010	2011	2012	2013
New Jersey	Mares Bred	949	583	466	218
	Stallions Standing	11	6	6	4
	Yearlings Nominated to Sire Stakes Program	514	526	343	236
New York	Mares Bred	1,585	1,613	1,403	1,434
	Stallions Standing	69	66	64	60
	Yearlings Nominated to Sire Stakes Program	1,064	1,108	936	960
Pennsylvania	Mares Bred	2,929	2,563	2,504	2,612
	Stallions Standing	108	91	93	76
	Yearlings Nominated to Sire Stakes Program	1,693	1,775	1,634	1,515

Standardbred Breeders and Owners Association - NJ, Harness Horse Breeders of NY State, Pennsylvania Sire Stakes Program, Pennsylvania Department of Agriculture (personal communications)

Another incentive to breed horses in a given state is the health of the monetary breeder incentive awards program. Displayed in Tables 7 and 8 are data demonstrating the impact expanded gaming revenue (a portion of which is used to supplement horse racing in a given state) has had on breeder incentive awards for the period 2010-2013 for Thoroughbred and Standardbred race horses in New Jersey, New York and Pennsylvania. Breeder awards for New Jersey Thoroughbreds decreased (41%) from \$3,248,836 in 2010 to \$1,914,097 in 2013. The bonus to Jersey-bred horses racing in open competition increased (69%) from \$322,920 in 2010 to \$546,144 in 2013. Total purse money available in New Jersey-bred restricted races decreased by 56% for the period from \$10,544,500 in 2010 to \$4,673,500 in 2013. In contrast, breeder awards for Thoroughbreds in New York increased (69%) from \$6,646,168 in 2010 to \$11,263,094 in 2013; stallion owner awards increased (79%) from \$1,559,215 in 2010 to \$2,789,602 in 2013; purse bonus for New York bred horses racing in open competition increased (108%) from \$859,621 in 2010 to \$1,791,963 in 2013. Total purse money available in New York-bred restricted races increased (36%) from \$32,057,992 in 2010 to \$43,616,057 in 2013. In Pennsylvania, breeder awards increased (53%) from \$6,855,906 in 2010 to \$10,465,072 in 2013. Purse bonus to Pennsylvania bred horses racing in open competition increased (40%) from \$4,834,116 in 2010 to \$6,774,971 in 2013; while total purse money available for Pennsylvania-bred restricted races decreased (10%) from a high of \$12,325,000 in 2011 to \$11,123,000 in 2013. This reduction most likely reflects the fact that beginning January 1, 2010, 34% of the Pennsylvania Race Horse Development Fund was allocated away from the racing industry and transferred into the General Fund. This percentage fell to 17% in July, 2010 and continued through June 30, 2013 when the transfer expired (Pennsylvania Gaming Control Board, 2010).

Regarding Standardbreds, breeder awards in New Jersey decreased (30%) from \$97,983 in 2010 to \$68,284 in 2013. The New Jersey Sire Stakes Program purse money available for Jersey-bred horses decreased (54.5%) from \$4,944,600 in 2010 to \$2,249,500 in 2013. In contrast, New York Standardbred breeders vie for approximately \$1 million in breeder award money and race in the

Sire Stakes Program for \$18 million; and in Pennsylvania breeder awards averaged \$8,798,896 for the period 2010-2013 and the Sire Stakes Program race money available to Pennsylvania bred horses averaged \$10,906,567.

There is no way that New Jersey race horse owners and breeders can remain competitive with New York and Pennsylvania based on these numbers and the incentive to remain and invest in the state will continue to diminish.

Table 7. Impact of Expanded Gaming on Monetary Thoroughbred Breeders Incentives (\$)

		2010	2011	2012	2013
New Jersey	Breeder Awards	3,248,836	2,705,481	1,753,570	1,914,097
	Stallion Owner Awards	N/A	N/A	N/A	N/A
	Open Race Purse Bonus	322,920	905,016	533,194	546,144
	NJ Bred Purses – State Bred Restricted Races	10,544,500	6,796,000	4,411,000	4,673,500
New York	Breeder Awards	6,646,168	6,350,760	9,535,434	11,263,094
	Stallion Owner Awards	1,559,215	1,334,934	2,209,222	2,789,602
	Open Race Purse Bonus	859,621	993,323	1,205,956	1,791,963
	NY Bred Purses – State Bred Restricted Races	32,057,992	37,000,000	39,234,591	43,616,057
Pennsylvania	Breeder Awards	6,855,906	8,502,592	10,089,808	10,465,072
	Stallion Owner Awards	N/A	N/A	N/A	N/A
	Open Race Purse Bonus	4,834,116	5,149,231	6,832,727	6,774,971
	PA Bred Purses – State Bred Restricted Races	N/A	12,325,000	11,594,000	11,123,000

Source: New Jersey Thoroughbred Breeders Association (personal communication), New York State Thoroughbred Breeding and Development Fund Corporation Annual Report, The American Jockey Club State Fact Book

Table 8. Impact of Expanded Gaming on Monetary Standardbred Breeders' Incentives (\$)

		2010	2011	2012	2013
New Jersey	Breeders Awards	97,983	49,234	40,498	68,284
	Sire Stakes Program Purses	4,944,600	2,653,000	2,317,600	2,249,500
New York	Breeders Awards	1,200,000	1,200,000	1,000,000	1,000,000
	Sire Stakes Program Purses	17,500,000	18,800,000	18,000,000	18,000,000
Pennsylvania	Breeders Awards	9,799,745	7,875,771	8,893,452	8,626,616
	Sire Stakes Program Purses	11,724,978	9,652,735	11,547,055	10,701,503

Standardbred Breeders and Owners Association - NJ, Harness Horse Breeders of NY State, Pennsylvania Sire Stakes Program, Pennsylvania Department of Agriculture (personal communications)

Status of Horse Farms in the Farmland Preservation Program

Equine operations represent a small and declining share of New Jersey's preserved farms, which means that their acres cannot be protected by deed restriction alone. In addition, race horse breeding operations in the state's preservation program are being sold at a disproportionately high rate. These operations are now transitioning to other uses, including sport competition and the recreation and pleasure horse segment of the equine industry.

In 2009, the percentage of horse farms in the farmland preservation program was 11% and comprised 8% of the total acres preserved (Malinowski and Avenatti, 2009). Shown in Table 9 are the results of a survey of preserved farms for the period 2010-2014 by Honigfeld and Malinowski, 2014. During this period, in the eighteen New Jersey counties surveyed, 407 farms were preserved comprising 21,205 acres. Of these farms, 20 were horse farms (4.9%) comprised of 828 acres (3.9%); a smaller percentage of horse farms preserved farms than that reported in 2009. During the period, 96 preserved farms were sold, 19 of which were horse farms (19.7%); the very high rate of sales of preserved equine farms relative to *other* preserved farms suggests that these operations are transitioning away from equine at a higher rate than non-equine preserved farms are transitioning away from their commodities, although some have reported that the farm will remain as a horse farm that is of a non-racing related discipline. Forty-nine preserved farms are currently on the market of which 24.5% are horse farms, the majority of which are in Monmouth County (8 of 12), the hub of horse racing in New Jersey, consisting of 1,064 acres. The majority of the Monmouth County acreage is made up of the preserved land that was once Perretti Farms, the internationally recognized Standardbred breeding farm in Imlaystown. The rate of selling preserved horse farms versus preserving new horse farms for the period 2010-2014 is five times their proportional representation in the universe of all preserved farms (19/20 equine preserved farms versus 77/387 non-equine preserved farms). Horse farms continue to sell disproportionately and one can see that the trend of preserving equine-related properties in New Jersey is decreasing. The lower rate of equine operations in farmland preservation by 2014 makes policy intervention to help support the horse racing industry, by other means than pari-mutuel handle, that much more important if New Jersey truly values its tax-paying, agriculturally productive land.

Table 9. Status of New Jersey Preserved Farms and Farmland 2010-2014

County	# Farms Preserved 2010 - 2014	# Acres Preserved 2010 - 2014	# Equine Farms Preserved	# Equine Acres Preserved	# Preserved Farms Sold	# Preserved Horse Farms Sold	# Preserved Farms on Market Now	# Preserved Equine Farms on Market Now	Acreage of Preserved Equine Farms on Market
Atlantic	1	58	0	0	0	0	0	0	0
Bergen	0	0	0	0	1	0	0	0	0
Burlington	37	4,505	1	160	33 +/-	3	5	0	0
Camden	NA								
Cape May	4	211	0	0	4	0	0	0	0
Cumberland	NA								
Gloucester	64	3,356	0	0	9	0	8 +/-	0	0
Hunterdon	45	3,310	3	111	3	1	1	0	0
Mercer	5	174	0	0	4	0	1	0	0
Middlesex	6	341	0	0	2	0	2	0	0
Monmouth	31	2,023	2	89	19	14	16	8	834
Morris	15	715	2	40	8	2	6	0	0
Ocean	4	133	0	0	0	0	0	0	0
Passaic	4	75	3	63	0	0	0	0	0
Salem	NA								
Somerset	16	833	4	155	10	2	6	2	68
Sussex	38	2,946	3	101	3	1	4	2	162
Warren	38	2,525	2	109					
Total	407	21,205	20	828	96	19	49	12	1,064

Source: Survey conducted by Honigfeld and Malinowski, 2014

Status of New Jersey Hay, Straw, and Grain Producers

In 2009 it was predicted that a reduction in the race horse industry would impact the traditional agricultural commodities of hay, straw and grain production. Any reduction in this sector of agribusiness would further erode the amount of preserved farmland acreage in the state (Malinowski and Avenatti, 2009).

Table 10 displays the results of a recent survey of hay, straw, and grain producers in New Jersey, an indicator of the trickle-down effect a reduced number of race horses may have in the state (NJ Farm Bureau, 2014). Of the 60 farmers responding, 85% raised hay, straw, and grain in New Jersey for sale. Seventy-eight and one-half percent of these operators sold to horse owners or other equine businesses, reflecting the heavy reliance that this agricultural industry has on equine-related customers. When asked if a change in sales to equine operations since 2010 had occurred, 25% reported an increase in sales, 23% a decrease in sales and 52% reported no change in sales to equine operations for the time period. When asked if equine-related clientele had changed from racing-related customers to other equestrian disciplines, 33% reported yes and 67% reported no. When asked if farm acreage devoted to hay, straw and grain had changed, 17% reported that they had planted more acreage, 10% reported less acreage and 73% reported no change. Similarly, when asked if they would be raising more hay, straw, and grain in the next 5 years, 29% reported yes, 20% reported no and 51% reported no change. It is clear that the reduction in race horse population has not yet negatively impacted hay, straw, and grain producers who depend heavily on horse owners for business. A reduction in sales to racing-related customers may simply have changed to a non-racing related customer base.

Table 10. Hay Survey Data

	Yes	No	Increase	Decrease	No Change
Farms with Sales to Horse Owners/Businesses	44	12	-	-	-
Farms Noting Change in Sales Since 2010	-	-	13	12	27
Farms Noting Clientele Shift From Racing	16	32	-	-	-
Farms Changing Acreage Devoted to Straw and Grain	-	-	10	6	42
Farms Expecting Increase in Hay/Straw/Grain Harvest	-	-	18	12	31

Source: New Jersey Farm Bureau Survey 2014

Summary and Recommendations

The horse racing segment of New Jersey's equine industry and casino industry fight each other for a limited pool of gambling dollars, in a setting that appears to the state's political classes to be "zero-sum." It is not entirely, or even predominantly a zero-sum game, however, because the casino and racetrack industries benefit or lose *together* due to the state's overall competition for gambling dollars with other states. New Jersey gambling customers have been fleeing to New York and Pennsylvania venues closer to home, a fact documented by the Equine Science Center's license plate survey (Malinowski and Avenatti, 2009). Survival of the tracks by permitting sports betting, other forms of betting on horse races, and adding casino gaming to the racetrack gambling portfolio is the correct thing to do from the perspective of the entire state – *if* it helps stop the bleeding of NJ gambling consumers who have been supporting other venues out of state. This statewide benefit is especially likely to be realized for racetracks that are closer to the state boundary than Atlantic City, and are therefore better positioned to lure back boundary-crossers looking for the closest gambling venue.

Gambling is a government-granted monopoly that cannot take place where it is not authorized. The very sharp decline in New Jersey casino revenues in recent years has occurred in a competitive environment where the state's racetracks have done no better than in previous years, and on several measures, they have done much worse. It follows that the current troubles in Atlantic City are due almost entirely to decisions by the states of New York and Pennsylvania to extend their own monopoly gambling franchises to suburbs bordering New Jersey, and to greatly increase the variety and convenience of the gaming experience in those locations.

Similarly, New Jersey elected officials make decisions regarding both inter-state and intra-state competition in this industry that are at least as important as advertising and price competition are in other industries. There should exist in New Jersey a partnership between the casino and horse racing industries to enable both to remain sustainable, as competition for gambling dollars continues to escalate.

This is no longer a discussion about competition between the horse racing and casino industries. It is about the competition between two similar, important New Jersey industries and the rest of the region. Casino gaming at New Jersey racetracks would be the least significant factor impacting Atlantic City casino revenue, in part because gamblers increasingly seek "one-stop shopping" gaming venues close to home, something that Atlantic City is currently unable to provide.

Slot machines and table games in New York and Pennsylvania are impacting Atlantic City casinos now, and will continue to do so with increasing force as more gaming is put into place until the regional market is saturated. The installation of casino gaming and sports betting at

New Jersey racetracks would be a relatively quick and easy way to slow down these trends, to New Jersey's advantage. It has the potential to be a "win-win" situation for both the racing and casino industries, where revenues could be used to subsidize a failing casino industry in Atlantic City as it tries to reinvent itself as a tourist destination. Likewise, a portion of these revenues could be used to increase purse structure, number of race days and breeder incentive awards, all drivers of a successful horse racing industry. Any increase in gambling revenue would enhance the state budget significantly (depending on state tax revenues) and provide capital for use by the casino and horse racing industries to keep them competitive. Casino gaming outside Atlantic City would also add jobs to the state, during construction and renovations of the racetracks as well as during operation.

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