

Impact of Slot Machines/Video Lottery Terminals (VLTs) on the Economy, Horse Racing and Breeding Industry, Agriculture and Open Space in States/Provinces where they Exist: Why is this Important for New Jersey?



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Better Horse Care Through
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Impact of Slot Machines/Video Lottery Terminals Executive Summary

The New Jersey equine industry is valued at \$4 billion and generates \$1.1 billion annually in positive impact on the New Jersey economy, is responsible for 13,000 jobs (7,000 jobs generated by racetracks and horse racing breeding and training operations), and pays 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 are 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 support equine facilities; 96,000 of these acres are directly related to equine activities, 78,000 are devoted to pasture and hay production, with 46,000 additional acres producing hay for horses on non-equine-related operations. Equine-related acres represent more than one-fifth of the state's 790,000 acres in agriculture.

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

The installation of slot machines or video lottery terminals (VLTs) has proven to be a successful way to boost horse racing, specifically with enhanced purses and breeders awards in states/provinces where they are in place. Examples of these are: 1) the Delaware Certified Thoroughbred Horse Program whose intent is to contribute to the long-term economic prosperity of Delaware agriculture and encourage the preservation of Delaware farmland; 2) the establishment of the Pennsylvania Race Horse Development fund, within the state treasury, with the intent to further stimulate the viability and quality of racing; and 3) more than \$2.74 billion has been shared between racetrack owners and horsemen in the Ontario Lottery and Gaming Program. Over the eight year period between 1992 (pre-slots) and 2000 (post-slots) purses increased by 254% for standardbred horses and by 115% for thoroughbred horses in Ontario.

- In 2008, forty-four racetrack casinos in the United States generated \$6.19 billion in gross gaming revenues. Gross purses totaled \$135.3 million the year before slots were implemented at seventeen tracks in North America. In 2007, the same tracks had gross purses of \$295.2 million, a 118 percent increase.

- In states where slots exist:

- Average daily gross slot terminal revenue at horse racing facilities is higher on racing days versus non-racing days; total number of race days, live racing handles on-track, total export or simulcast handles, and total purses increased. Also, state treasuries are receiving additional income from slot revenue to be used for a variety of programs, e.g. property tax relief and education.

- The past two Purse Enhancement Agreements from New Jersey casinos have attempted to maintain the purse structure at the Meadowlands Racetrack. In 2006, New Jersey led the nation in total purses paid for harness racing. However, in 2008, New Jersey ranked third behind New York and Pennsylvania for total purses paid.
- Off-track and internet wagering have been successful in New Jersey. However, only three of the 15 authorized off-track wagering centers have opened since first authorized in 2001. Racing interests should take advantage of the 2001 legislation and proceed with the strategic opening of additional wagering outlets while at the same time being cognizant of the impact these gambling outlets will have on live handle at the racetracks.
- The Garden State stands to lose its premier agribusiness which generates \$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 activities leave New Jersey. These figures do not include the non-racing segment of the horse industry.
- The current business model which exists is no longer viable, with 2009 projections by the New Jersey Sports and Exposition Authority of losses of \$10 million and \$10.8 million for The Meadowlands and Monmouth Park racetracks, respectively.
- It is estimated that the combined impacts of existing and scheduled future machines in Pennsylvania and the New York City metropolitan area racetracks will reduce Atlantic City gross gaming revenue by as much as 12.3 percent. It was also projected that installation of video lottery terminals at three New Jersey racetracks would reduce Atlantic City gross gaming revenue by 1.8 percent.

The national economic downturn certainly has had an impact on household discretionary income available for gambling interests regardless of the outlet. Pari-mutuel wagering can no longer ensure racing's sustainability; nor can it fund the ever increasing costs of improving an aging plant infrastructure or with the promotion and marketing that needs to be conducted to introduce racing to a "new" generation of fans. These additional funds might be supplied by state funds as a direct subsidy, through continued Purse Enhancement Agreements from the Atlantic City casinos; or by increasing revenue by adding slot machines or video lottery terminals to New Jersey racetracks and providing a portion of that revenue for the horse racing and breeding industry.

The installation of video lottery terminals at New Jersey racetracks has the potential to be a "win-win" situation for both the racing and casino industries. The revenue would enhance the state budget significantly and provide capital for use by the horse racing industry to keep it competitive. Racinos would add jobs to the state, during construction and renovations of the racetracks as well as during operation. Video lottery terminals run by the operators of Atlantic City casinos would help these interests diversify sources of revenue.

Irrespective of the source of much needed revenue to ensure the future of racing in the Garden State, the racing industry needs to invest a portion of those dollars in things besides purses to ensure continued viability. These include: marketing of live racing and creation of a racing brand, creating innovative wagers, reductions in costs of regulating racing and the role of the New Jersey Racing Commission, investment in capital improvements and maintaining the integrity of racing, including research to benefit the equine athlete.

It was the intent of this paper to provide an overview of what slot machines or video lottery terminals have done for the economy, horse racing and breeding industry, and agriculture in states and provinces where they exist to assist policy decision makers in the state as they deliberate racing's future. It is the belief of these authors that the horse racing and breeding industry are commodities worth saving in New Jersey. The issue at hand is not an emotional one driven by the fact that the state animal is the horse which has a long and prominent history in New Jersey's agricultural and sports businesses. Horse racing is the economic driving engine of the entire horse industry in the state and is extremely valuable to the quality of life in the form of agricultural working landscape which benefits all residents of New Jersey.

Background

In 2006, at the request of the Hall Institute of Public Policy, the director of the Rutgers Equine Science Center was invited to address the future of horse racing in New Jersey and economic development for the equine industry in a white paper. The review stated that while the horse industry in New Jersey was an important agricultural commodity in the state, it was not without its challenges. At that time the New Jersey horse racing industry was facing extreme pressures that challenged its sustainability. The Equine Science Center in fulfilling its mission to ensure the well-being of horses and the equine industry, took the lead to address the future of horse racing in New Jersey.

This initiative began in July of 2003, when the Center hosted a blue-ribbon panel of horse racing industry leaders, legislators and government officials interested in the preservation of the entire horse industry, including the horse racing sector in New Jersey. The roundtable discussion primarily focused on three essential areas: 1) policy and regulation of racing, 2) marketing and growth of racing, and 3) operations and management of racing (Malinowski, 2006).

In July of 2006 the Center undertook the challenge of conducting a true economic impact assessment of the entire New Jersey equine industry. The purpose of the study was to assess the economic and land use impact of horses to the state, begin regular benchmarking of the equine industry, profile all components of the state's equine industry (including pleasure and sport/recreation), and to go beyond a simple enumeration of the industry. A related motivation was to provide insight into the number of dollars, jobs, and agricultural acres that would be put at risk if the state's four racing venues were to disappear. This exercise was useful to be able to trace out and communicate economic relationships and multiplier effects that might otherwise be ignored in state level policy discussions (Gottlieb, et al., 2009).

The study found that the New Jersey equine industry was valued at more than \$4 billion and 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 other racing-related segments such as breeding and training of racehorses), 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).

Regarding the acres to support equine facilities, 176,000 total acres were reported by equine operations; 96,000 of these acres were directly related to equine activities, 78,000 were devoted to pasture and hay production, with 46,000 additional acres producing hay for horses on non-equine-related operations. Equine-related acres represented more than one-fifth of the state's 790,000 acres in agriculture. A remarkable number of today's horse farms previously were other types of agricultural operations. For example, 24 percent used to be cattle, dairy, poultry or other livestock facilities; 13 percent were in field crops, fruits or vegetables; and 18 percent were used for other traditional agricultural activities.

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. The equine-related assets were valued at \$4 billion, which was broken down into \$582 million in equine animals, \$2.9 billion in land and buildings (not including racetracks), and \$476 million in racetrack assets (land and buildings).

In addition, the economic impact of New Jersey's racing venues (The Meadowlands, Freehold Raceway, Monmouth Park Racetrack and Atlantic City Race Course), which were surveyed separately, contributed an additional \$502 million annually (Gottlieb, et al., 2007).

Far from an industry that some outsiders felt was dying, the study found that the equine industry was very much alive and well. However, it also suggested two very important points: 1) the racing subset is an economic driver for the entire equine industry and; 2) since it is no secret racing is facing tough competition from neighboring states that have added gaming operations to their racing venues – any further erosion of racing in New Jersey could have disastrous consequences for the state's economy and the rest of the equine industry.

It was also suggested that revenue from slot machines or video lottery terminals (VLTs) would provide direct benefits to the economy, racetracks, horse owners, breeders and trainers, and track attendees. The state/province would have a revenue source for resident tax relief, growth of agribusiness, travel and tourism, and would experience a ripple effect to consumer economy. Tracks would be able to make capital improvements that were long overdue and would have the opportunity to partner with established gaming companies which are highly successful at marketing their product. Horsemen and women would earn more dollars from enhanced purse structures, and owners and breeders would benefit from an enhanced Sire Stakes Program and Breeders Funds (Malinowski, 2006).

It was the objective of this paper to review what is now known about the impact that slot machines and video lottery terminals have had on the economy, horse racing and breeding activities, and agriculture and open space in states and provinces where they exist. It was also the authors' purpose to assess the current status of New Jersey's gaming industries and to project the impact that will be felt on the aforementioned parameters in the "Garden State" if horse racing were to cease to exist in New Jersey.

What are slots doing for horse racing in other states/provinces?

The status of horse racing in New Jersey is not unique in its decline and questionable sustainability. In North America the trend of on-track handle and attendance and parameters which measure the quality of the racing product (such as field size, number of live races, driver and jockey profiles, etc.) mirrors what is happening in New Jersey (Figure 1). The installation of slot machines or VLTs has proven to be a

Figure 1: Trends in On-Track Handle at U.S. Thoroughbred and Standardbred Tracks



Source: Jockey Club Online Factbook, Harness Tracks of America Quarterly Report

successful way to boost horse racing, specifically with enhanced purses and breeders awards, in states/provinces where they are in place. A recent report on the impact of 17 North American racinos (racetracks with slot machines) on purse money available stated that gross purses totaled \$135.3 million the year before slots were implemented at the respective tracks. In 2007, the same tracks had gross purses of \$295.2 million, a 118 percent increase (Kyle, 2008).

In 2008, forty-four racetrack casinos in the United States generated \$6.19 billion in gross gaming revenues (a 17.2 percent increase over 2007); \$2.59 billion in direct gaming taxes to state and local governments, and employed over 29,000 people. The racetrack casino market experienced growth, as a whole, even in view of a tough economic climate. The bulk of industry growth between 2007 and 2008 was due to the opening of new properties in Pennsylvania and Indiana. Pennsylvania experienced the largest percentage increase in gross gaming revenue for the period of 50.3 percent. New York experienced an increase of gross gaming revenue from 2007 to 2008 of 14.4 percent and Empire City at Yonkers Raceway in New York was the top racetrack casino market in the United States, grossing \$486.46 million in gaming revenue in 2008. Six of the top ten racetrack casino markets in the nation are located in the northeast region in close proximity to New Jersey; in New York, Pennsylvania, and Delaware (Table 1; American Gaming Association, 2009).

Table 1: 2008 Top Ten Racino Markets

Gross Gaming Revenue in Millions	
1. Yonkers, NY	\$ 486.46
2. Charles Town, WV	\$ 454.01
3. Providence, RI	\$ 407.50
4. Bensalem, PA	\$ 345.50
5. Dover/Harrington, DE	\$ 335.63
6. Chester, PA	\$ 328.44
7. Delaware Park/ Wilmington, DE	\$ 253.29
8. Chester, WV	\$ 251.21
9. Meadow Lands, PA	\$ 244.05
10. Broward County, FL	\$ 230.21

Source: American Gaming Association, 2009

Delaware

Delaware was the first to introduce slot machines at race tracks in 1994, in an effort to salvage horse racing. Total gross purses in Delaware were around \$650,000 before slot machines and now are more than \$35 million annually. Delaware law allocates revenue from slot machines as follows: 35 percent to the state, 48 percent to the racetracks, 11 percent to purses and 6 percent to slot machine vendors (Ellis, 2003). As an example, at Delaware Park (a thoroughbred/arabian) track, slot machines have become

a hit any business would consider to be phenomenal, generating \$300 per day per machine with 715 machines. This equates to \$200,000 daily or \$73 million annually.

At Delaware’s harness track, Dover Downs, slots have been the savior of the small track by raising purses from \$10,000 per day to \$150,000 per day. This jump has allowed Dover to become competitive with other tracks in its ability to draw horsemen and women and quality horses. Handle and purses paid at Dover Downs and Harrington Raceway in 2008 are shown in Table 2. Eighty and one-half percent of the handle was on the export of the tracks’ races to other outlets; 16.7 percent was on-track handle of imported simulcast races; and 2.8 percent was handle on-track on live races, suggesting the majority of dollars wagered were in other states at outlets wagering on the Delaware product. Total harness purses paid in 2008 were \$46.3 million (Delaware Harness Racing Commission, 2008).

Table 2: 2008 Handle and Purses - Dover Downs and Harrington Raceway

Handle on Track (Live Races)	\$ 5,463,368.00	2.80%
Handle on Track (Simulcast Races)	\$ 32,531,224.00	16.70%
Total on Track Handle (Live + Simulcast)	\$ 37,994,592.00	19.50%
Export Handle on Live Races	\$ 156,824,045.00	80.50%
Total Handle	\$ 194,818,637.00	-
Total Purses Paid	\$ 46,363,406.00	-

Source: Delaware Harness Racing Commission, 2008

For thoroughbred and arabian racing, the Delaware Racing Association saw a tremendous upward trend in purses paid, rising from \$7.9 million in 1994 before the installation of slots, to a high of \$42.5 million in 2002 and totaling \$34.8 million in 2008. Average purses paid per day followed a similar trend, beginning pre-slots in 1994 at \$58,642 per day, to the high of \$301,342 per day in 2002 and averaging \$256,098 in 2008 (Table 3). This “leveling off” of purses paid can be expected, and has been seen in other states where the purse structure is tied to slot revenue, as competition for the gambling dollar increases in surrounding states resulting in reduced income to individual slot machines.

While wagering trends reflect the national decline of live on-track wagering, they also reflect the impact that the installation of slot machines had on the quality of Delaware horses (Table 4). In 1994, 51 percent of wagering at Delaware Park was on the imported or foreign product via simulcast signals from other tracks; 30.5 percent was on live handle on track; and 18 percent was on the exported product via simulcast out to other tracks. In 2008, one sees a different picture reflecting the increased quality of the Delaware exported product. Seventy percent of money wagered in 2008 was on the exported signal from Delaware Park to other simulcast outlets; 25 percent was on the imported product from other tracks; and 5 percent was wagered live on-track (Delaware Thoroughbred Racing Commission, 2008).

Table 3: Delaware Purse Distribution Trends - Thoroughbreds and Arabians

1994 - 2008							
Delaware Racing Association - Purses Paid							
Year	Live Race Days	Thoroughbred	Arabian	Total Purses	Average Thoroughbred/Day	Average Arabian/Day	Average Purse/Day
<i>1994</i>	<i>135</i>	\$ 7,639,238	\$ 277,503	\$ 7,916,741	\$ 56,587	\$ 2,056	\$ 58,643
1995	129	\$ 10,041,651	\$ 350,500	\$ 10,392,151	\$ 77,842	\$ 2,717	\$ 80,559
1996	139	\$ 20,922,178	\$ 810,300	\$ 21,732,478	\$ 150,519	\$ 5,829	\$ 156,349
1997	149	\$ 26,115,489	\$ 1,347,659	\$ 27,463,148	\$ 175,272	\$ 9,045	\$ 184,316
1998	143	\$ 27,377,338	\$ 1,344,467	\$ 28,721,805	\$ 191,450	\$ 9,402	\$ 200,852
1999	143	\$ 33,129,264	\$ 1,911,785	\$ 35,041,049	\$ 231,673	\$ 13,369	\$ 245,042
2000	149	\$ 36,478,964	\$ 1,529,950	\$ 38,008,914	\$ 244,825	\$ 10,268	\$ 255,093
2001	139	\$ 35,283,541	\$ 1,602,350	\$ 36,885,891	\$ 253,838	\$ 11,528	\$ 265,366
<i>2002</i>	<i>141</i>	\$ 40,846,211	\$ 1,643,050	\$ 42,489,261	\$ 289,689	\$ 11,653	\$ 301,342
2003	141	\$ 32,879,917	\$ 1,996,310	\$ 34,876,227	\$ 233,191	\$ 14,158	\$ 247,349
2004	134	\$ 33,909,303	\$ 1,948,800	\$ 35,858,103	\$ 253,055	\$ 14,543	\$ 267,598
2005	139	\$ 37,689,765	\$ 1,919,550	\$ 39,609,315	\$ 271,149	\$ 13,810	\$ 284,959
2006	136	\$ 34,015,629	\$ 1,855,690	\$ 35,871,319	\$ 250,115	\$ 13,645	\$ 263,760
2007	135	\$ 36,316,497	\$ 1,843,663	\$ 38,160,160	\$ 269,011	\$ 13,657	\$ 282,668
<i>2008</i>	<i>136</i>	\$ 33,029,292	\$ 1,800,163	\$ 34,829,455	\$ 242,862	\$ 13,236	\$ 256,098

Source: Delaware Thoroughbred Racing Commission, 2008

Table 4: Delaware Wagering Trends

Delaware Racing Association Handle Information 1993 - 2008							
Year	Live Handle on Track	% of Total	Simulcast De. Pk out	% of Total	Simulcast In (Other Tracks)	% of Total	Total
1993	\$ 46,305,350	50.03%	\$ -	0.00%	\$ 46,244,189	49.97%	\$ 92,549,539
1994	\$ 35,610,116	30.53%	\$ 21,422,110	18.37%	\$ 59,612,946	51.11%	\$ 116,646,172
1995	\$ 27,251,269	15.15%	\$ 64,589,960	35.91%	\$ 88,014,756	48.94%	\$ 179,855,985
1996	\$ 28,442,006	12.21%	\$ 107,368,067	46.08%	\$ 97,200,658	41.72%	\$ 233,010,731
1997	\$ 30,379,849	10.10%	\$ 177,445,871	59.00%	\$ 92,931,297	30.90%	\$ 300,757,017
1998	\$ 25,012,926	7.82%	\$ 205,023,148	64.14%	\$ 89,635,910	28.04%	\$ 319,671,984
1999	\$ 26,313,188	7.06%	\$ 254,768,856	68.33%	\$ 91,778,412	24.61%	\$ 372,860,465
2000	\$ 25,455,446	6.63%	\$ 264,338,726	68.80%	\$ 94,421,101	24.58%	\$ 384,215,273
2001	\$ 22,965,700	6.09%	\$ 259,539,722	68.84%	\$ 94,534,804	25.07%	\$ 377,040,226
2002	\$ 22,228,588	5.98%	\$ 260,456,580	70.09%	\$ 88,889,344	23.92%	\$ 371,584,512
2003	\$ 19,671,990	5.61%	\$ 252,378,766	71.94%	\$ 78,743,432	22.45%	\$ 350,794,188
2004	\$ 18,233,483	5.68%	\$ 230,272,674	71.77%	\$ 72,348,635	22.55%	\$ 320,854,792
2005	\$ 18,569,775	6.08%	\$ 216,709,900	70.90%	\$ 70,388,340	23.03%	\$ 305,668,015
2006	\$ 17,167,868	5.77%	\$ 211,195,699	71.01%	\$ 69,059,698	23.22%	\$ 297,423,265
2007	\$ 14,419,478	5.25%	\$ 198,360,276	72.16%	\$ 62,116,689	22.60%	\$ 274,896,443
2008	\$ 11,915,673	5.39%	\$ 153,917,895	69.64%	\$ 55,184,297	24.97%	\$ 221,017,865

Source: Delaware Thoroughbred Racing Commission, 2008

Delaware also has established an enhancement awards program for certified thoroughbred horses. The Delaware Thoroughbred Horsemen's Association contributes \$500,000 per year to the program from the horsemen's purse fund which is matched by \$500,000 from the state of Delaware. The intent is to contribute to the long-term economic prosperity of Delaware agriculture and encourage the preservation of Delaware farmland (Delaware Thoroughbred Horsemen's Association, 2009). The program is not aimed directly at breeders of thoroughbred horses in Delaware, therefore the numbers of stallions standing, mares bred and foals born have not increased. However, the program certainly attracts owners of horses stabled in the state.

In 2009 Delaware approved sports betting at its racetracks in an attempt to remain competitive with neighboring states for the gaming dollar.

Ontario

The picture of the Ontario horse racing industry before slot machines was not very bright, with little hope for permanent stability. Purses were not rising sufficiently to enable the industry to be competitive for the Ontario gaming or entertainment dollar. Measurements of the quality of the horse racing product such as field size, number of live races, individual horses and number of starters all were declining (Econometric Research Limited, 2005).

Prior to the introduction of slots revenue, both racetracks and horsemen were experiencing financial hardship. A racing simulcast system was proposed, concentrating on the big tracks such as Woodbine and Mohawk, in Toronto, at the expense of the smaller tracks. The estimation of industry size was that harness racing would have been only 35-65 percent of its present size if slot revenue had not been implemented (Brinkman and Weersink, 2004).

The introduction of slots in 1999 immediately reversed the decline of horse racing with an improvement of horse racing indicators such as increased purses and later increased wagering. Slot revenues certainly gave horse racing in the province a shot in the arm, but one must question the sustainability of these changes. New trends emerging include the decline of wagering on live races, the repatriation of Ontario horses that left the province when purses were low, the extensive use of foreign products, the inordinate dependence of purse structure at small tracks on slot revenues, and the increased participation by higher quality horses from outside the region; many of which are owned by a small number of owners, some of which are from outside Ontario (Econometric Research Limited, 2005).

In 2000, the Ontario Casino Corporation and Ontario Lottery Corporation merged to form the Ontario Lottery and Gaming Corporation (OLG). Since the beginning of the OLG program in 1998 more than \$2.74 billion has been shared between racetrack owners and horsemen. Tracks and horsemen share 20 percent of gross slot machine revenue, split equally between the two groups (OLG, 2009). In the elegant study by Econometric Research Limited, 2005, a number of emerging trends in the horse racing industry were

outlined after the introduction of slot machines at racetracks in Ontario in 1999. The research group admitted that it was difficult to disentangle the effects of technological change from those of slot revenue and that the market area of any racetrack was a thing of the past.

The primary objective of the Econometric Research study was to explore the impact of the implementation of slot machines at racetracks and the resulting slot revenues on individual segments of the racing industry and beyond to the agricultural sector as well.

Shown in Table 5 is an overview of industry benchmarks outlining changes in racing variables pre- and post- introduction of slots at racetracks in Ontario. The number of racing days, number of races, and number of individual horses, for both standardbreds and thoroughbreds, increased after 1999. The mainstay of the horse racing industry is the purse structure. Owners, trainers and hence, horses follow the higher purses which represent the potential for increased purse earnings by the owners. Over the eight year period between 1992 (pre-slots) and 2000 (post-slots) purses increased by 254 percent for standardbred horses and by 115 percent for thoroughbred horses in Ontario. In 2003 purse growth for both breeds began to decline. Reasons included: no new tracks introduced slot machines, existing slot earnings per machine leveled off and the possible cannibalization of pari-mutuel wagering by slots.

In Ontario wagering remained unchanged for the pre-slot period of 1992-1998 for standardbred horses and increased slightly for thoroughbreds. Post-slot implementation, total wagering on standardbred and thoroughbred horses declined. The disconnect between wagering and purses widened in 2003 because of cannibalization by slots and loss of churn. In 2004, wagering on standardbred races increased by 2.5 percent; while wagering on thoroughbred horses decreased 8.4 percent. This decline was partly explained by the widespread use of illegal wagering outlets outside the pari-mutuel system through off-shore accounts.

Average field size per track is a critical indicator of the attractiveness of a race. In Ontario this remained unchanged from 1992-1998 but increased substantially thereafter; ranging from 7.72 in 1992 to 8.17 in 2004 for standardbred horses. Average field size for thoroughbred horses actually declined during the period 1992-1998, and declined further in 2000, but rebounded in 2001, and experienced continuous increases during the period 2002-2004.

Wagering on live races for both standardbred and thoroughbred horses has declined while wagering at remote places and over the internet and telephone has increased. These trends have been seen all over North America as technology and innovation continues to impact live handle at racetracks.

The province of Ontario has been challenged by the infusion of foreign products. This is reflected in the fact that slot revenue enhanced purses have attracted foreign horses and that simulcast signals from foreign tracks are invading the total wagering

Table 5: Ontario Racing Industry Benchmarks

<i>Racedays, Live Races, Starters, and Individual Horses</i>										
Year	Racedays		Number of Races		Starters		Individual Horses		Purses (thousands)	
	<i>Standardbred</i>	<i>Thoroughbred</i>	<i>Standardbred</i>	<i>Thoroughbred</i>	<i>Standardbred</i>	<i>Thoroughbred</i>	<i>Standardbred</i>	<i>Thoroughbred</i>	<i>Standardbred</i>	<i>Thoroughbred</i>
1992	1,151	235	12,020	2,310	94,337	20,444	8,647	3,097	\$ 39,851	\$ 41,545
1993	1,085	237	11,275	2,352	88,513	20,647	8,266	3,117	\$ 36,648	\$ 38,538
1994	1,206	279	12,321	2,611	98,278	20,551	7,564	2,767	\$ 55,541	\$ 40,809
1995	1,169	291	12,195	2,700	98,463	20,718	7,396	2,770	\$ 69,862	\$ 50,339
1996	1,182	296	12,103	2,699	99,307	21,138	7,417	2,917	\$ 69,306	\$ 59,975
1997	1,108	278	11,558	2,549	94,237	20,087	7,178	2,739	\$ 67,195	\$ 44,474
1998	1,192	246	12,258	2,240	98,373	17,327	7,371	2,621	\$ 71,355	\$ 47,092
1999	1,237	272	13,066	2,470	105,137	18,599	7,907	2,817	\$ 89,880	\$ 61,284
2000	1,306	267	14,665	2,514	121,844	20,024	9,180	3,176	\$ 141,425	\$ 89,387
2001	1,364	281	15,672	2,729	130,559	22,475	9,908	3,619	\$ 169,076	\$ 101,364
2002	1,396	282	16,435	2,722	136,999	22,580	10,300	3,786	\$ 189,042	\$ 115,688
2003	1,378	276	16,615	2,667	139,114	22,167	10,649	3,930	\$ 184,859	\$ 115,443
2004	1,424	248	16,881	2,328	140,766	19,936	11,027	3,728	\$ 171,293	\$ 98,721

Source: Econometric Research Limited, 2005

market share. Both suggest that foreign products are augmenting local products, but one must realize the impact that the stabling of foreign horses in Ontario had on the local agricultural links of the province.

An expected outcome of a slot revenue enhanced purse structure is the wider spread and disconnect between live wagering and purses. The share of purses as a portion of total wager increased sharply in 1999 and thereafter as slot revenues accumulated at tracks, and as part of these revenues were allocated for purses (Figure 2). The diversion trend between purses and wagering is expected to become more pronounced as purses (especially at smaller tracks) become more dependent on slot machines than on live handle. One must be aware that the negative correlation between live wagering and purse structure will challenge the sustainability of horse racing as live racing is increasingly overtaken by alternative gaming and betting outlets.

Stallion and yearling prices ultimately gauge the demand for the primary products of the racing industry. The breeding segment of the industry also represents a major portion of the agricultural component of the horse racing industry. There is no mistake that the introduction of slots in Ontario has invigorated the racehorse breeding industry for the period 1999-2004. It is also clear the upward trends in yearling and stallions sales are slowing down (Econometric Research Limited, 2005).

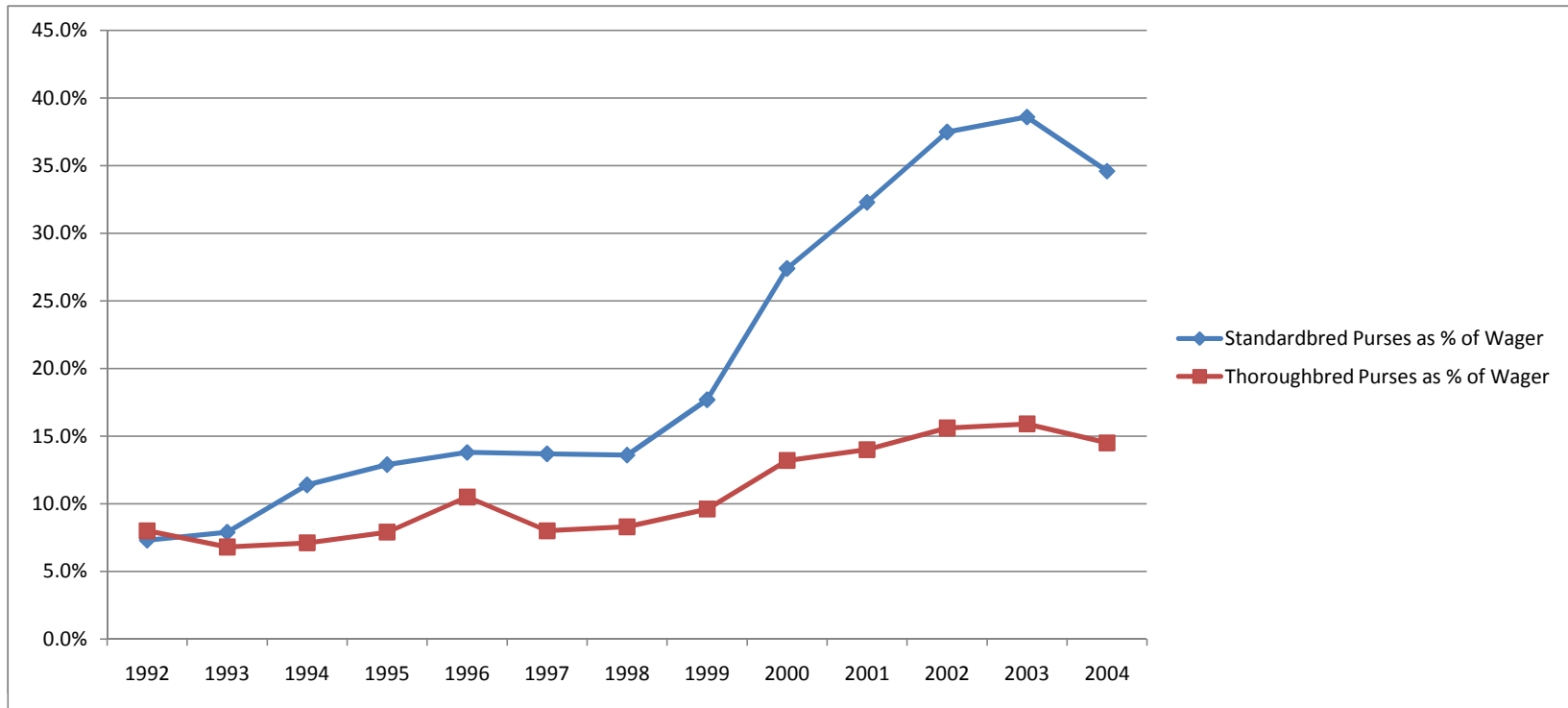
Pennsylvania

The Pennsylvania Gaming Control Board recently released its second Pari-Mutuel Wagering Benchmark Report which details the impact of slot machine revenue (2006-2008) on the state economy and horse racing industry in Pennsylvania. The positive impact is staggering. The report compares the status of pari-mutuel wagering for the years 2006, 2007, and 2008. It focuses on the impact of slot revenue on the various indicators of horse racing health such as number of race days, purse amounts, racing handle, and the export value of live racing from Pennsylvania tracks to other venues inside and outside of the state (Reuters, 2009).

As an example, of the impact of slot machines in Pennsylvania, purses at Philadelphia Park have increased 100 percent in five years. Purses pre-slots averaged \$120,000 per day and now are \$240,000 per day. Horse racing receives 12 percent of the gross slot revenue; the state gets 34 percent, the local municipality four percent, the Economic Development and Tourism Fund five percent and the track 45 percent (Jerardi, 2009).

The installation of slot machines resulted in the establishment of the Pennsylvania Race Horse Development fund within the state treasury, with the intent to further stimulate the viability and quality of racing. Each active and operating licensed gaming entity pays a daily assessment into this fund based on a percentage of each entity's gross terminal revenue.

Figure 2: Share of Purses as a Portion of Total Wager in Ontario



Source: Econometric Research Limited, 2005

Pursuant to Pennsylvania law, the distributions to licensed racing entities from the fund are allocated as follows:

- Eighty percent is deposited weekly into a separate, interest bearing purse account to benefit horsemen. These funds are combined with funds from existing purse agreements to fund purses for live races in agreement with what had been negotiated with horsemen.
- Sixteen percent is deposited monthly into the Pennsylvania Breeding Fund of the Race Horse Industry Reform Act for thoroughbred tracks.
- Eight percent is deposited monthly into the Pennsylvania Sire Stakes Fund and eight percent into the Pennsylvania Standardbred Breeders Development Fund; as defined in the Race Horse Industry Reform Act.
- Four percent is used to fund health and pension benefits for members of horsemen's organizations (Pennsylvania Gaming Control Board, 2009).

Highlights of the Gaming Control Board report include:

- In 2008, average daily gross slot terminal revenue at horse racing facilities was 11.1 percent higher on racing days versus non-racing days;
- In 2008 there were seven slots facilities in operation which collectively contributed \$193 million to the Race Horse Development Fund, a \$69.2 million increase over 2007;
- Total number of race days increased by 11.8 percent from 838 race days in 2007 to 937 race days in 2008;
- Total live racing handle on-track increased by 5.7 percent from \$41.3 million in 2006 to \$43.6 million in 2008;
- Total export or simulcast handle increased by 19.1 percent from \$545.5 million in 2007 to \$649.8 million in 2008;
- Total purses increased by 39.3 percent from \$144.3 million in 2007 to \$201.1 million in 2008.

These highlights reflect an increased quality of racing in Pennsylvania as evidenced by the increased number of race days, purse structure and most notably the increase in on-track live handle (Table 6).

Table 6: Pennsylvania Racing Summary

Year	Race Days	Total Live Races	Purses Paid	Live Racing Handle
2006	756	7958	\$ 62,266,829	\$ 580,253,722
2007	838	9153	\$ 117,212,127	\$ 625,302,661
2008	937	10578	\$ 177,911,864	\$ 729,303,626

Source: Pennsylvania Gaming Control Board, 2009

Gary Sojka (a Gaming Control Board member and agriculturalist) stated, "The improvement of our racing industry, spurred by the tremendous success of legalized slots

gaming, has a direct impact on farmland preservation and a beneficial trickle-down on the entire agricultural community in the Commonwealth,” (Reuters, 2009).

A recent report by Thalheimer, in agreement with that seen in Pennsylvania, displayed the symbiotic relationship between race tracks and casinos. Casino revenue was highest when live racing was scheduled, than during simulcast races, and lowest when racing was closed. This report suggests that the attraction of racing lures more patrons to play slot machines (Thalheimer, 2008).

New York

The picture of horse racing for the period 2003-2008, in New York, is shown in Table 7. On-track handle continued to decline while off-track wagering remained relatively steady. On-track wagering made up 26 percent of the total handle, when compared to OTB handle, in 2003, and made up 25 percent of the total handle in 2008. What could be interpreted as an increase in quality in horses racing at New York tracks after the introduction of video gaming machines (VGMs), is demonstrated by the fact that the percentage of total pari-mutuel handle at New York thoroughbred and harness tracks from live handle increased over the period, being 56 percent in 2003 and 2004, 61 percent in 2005 and 2006, and 57 percent in 2007 and 2008.

Purses increased for both thoroughbred and harness horses during the period, with harness purses reflective of the addition of VGM revenue. Purses for harness horses increased by 49 percent between 2003 and 2006 and displayed another significant jump (79 percent) between 2006 and 2008 which is most likely influenced by the influx of slot revenue due to the re-opening of Yonkers Raceway in the fall of 2006 (Table 8; New York State Racing and Wagering Board, 2008).

A very descriptive look at the New York picture is reflected in the figures from Yonkers Raceway for the first 22 weeks of 2009. Total dollars available for the purse account from racing was \$4,052,136; that available due to VGM revenue was \$18,562,226 (Wittstruck, 2009). The introduction of video gaming machines at Yonkers Raceway has enabled the track to be competitive with the Meadowlands Racetrack in New Jersey and Mohawk and Woodbine in Ontario! MGM Mirage has partnered with the New York Racing Association to build and operate a \$100 million racino at Aqueduct Racetrack in Queens; another gaming venue in close proximity to New Jersey.

Total purses for the New York Sire Stakes for 2009 will be \$16 million; \$1 million higher than previously expected due to increased revenues from video gaming machines at New York State harness tracks (USTA, 2009).

Table 7: New York Parimutuel Handle

Total Parimutuel Handle: Racetracks and Off-Track Betting					
Year	NYS Tracks' Live Handle	NYS Tracks' Simulcast Import Handle	Total at NYS Racetracks	Total OTB Handle	Total Handle in NYS
2003	\$ 401,072,456	\$ 324,595,748	\$ 725,668,204	\$ 2,022,452,158	\$ 2,748,120,362
2004	\$ 378,536,148	\$ 293,996,186	\$ 672,532,334	\$ 2,045,633,235	\$ 2,718,165,569
2005	\$ 355,664,040	\$ 227,287,191	\$ 582,951,231	\$ 2,061,572,061	\$ 2,644,523,292
2006	\$ 330,035,765	\$ 209,593,854	\$ 539,629,619	\$ 2,057,021,055	\$ 2,596,650,674
2007	\$ 353,012,828	\$ 269,281,021	\$ 622,293,849	\$ 1,984,962,520	\$ 2,607,256,369
2008	\$ 339,761,784	\$ 264,143,226	\$ 603,905,010	\$ 1,847,166,684	\$ 2,451,071,694

Source: New York State Racing and Wagering Board, 2008

Table 8: New York Purse Structure

Year	Standardbred	Thoroughbred	Total
2003	\$ 35,157,037	\$ 125,640,552	\$ 160,797,589
2004	\$ 36,644,971	\$ 131,564,811	\$ 168,209,782
2005	\$ 35,745,764	\$ 132,634,673	\$ 168,380,437
2006	\$ 52,586,361	\$ 126,821,578	\$ 179,407,939
2007	\$ 94,301,593	\$ 135,386,278	\$ 229,687,871
2008	\$ 94,179,537	\$ 138,485,636	\$ 232,665,173

Source: New York State Racing and Wagering Board, 2008

Maine

In Maine, purses more than doubled at both race tracks, race dates have increased and the quality of horses has improved since a racino opened in the fall of 2005 at Bangor Raceway. Through 2008, Hollywood Slots, owned by Penn National Gaming has filtered \$21.2 million into harness racing and \$56.9 million in gaming taxes to the state. Fifty-one percent of every dollar wagered at the racino goes to the state in gaming taxes. From that revenue, a portion gets filtered back into harness racing; 10 percent purses; 4 percent to encourage racing at commercial tracks; 3 percent to Sire Stakes purses; 3 percent to support agricultural fairs; and 2 percent to support off-track wagering facilities.

The Standardbred breeding business has benefited from slot revenue as well. In 2002, 222 mares were bred in Maine. Number of mares bred increased to 299 in 2004 and reached 402 in 2007 (Menendez, 2009).

The impact of slot revenue on the breeding and agricultural segments of the horse racing industry is shown in Table 9. In all states with enhanced purse structures, the increase in number of stallions standing and mares bred is evident.

Status of New Jersey Gaming Industries

The New Jersey race horse industry has been severely impacted since the introduction of the state lotteries in 1970 and casino gaming in Atlantic City in 1977. As surrounding states continue to provide alternative gaming opportunities for residents of New Jersey, the State's racing industry continues to erode. Since their inception in Atlantic City, New Jersey's casinos have operated virtually with no competition for the casino gaming dollar, being the only gaming destination on the East Coast. Thirty years later the picture has changed where Delaware, New York, Pennsylvania, West Virginia and now Maryland have approved the placement of video lottery terminals or slot machines at their respective racetracks (Cryan, 2009).

In 2006, when three states in close proximity to New Jersey were moving forward with slot machines, we asked the question; what effect would Pennsylvania's installation of slot machines have on the quality of racing, the number of horses bred, and the number of acres devoted to breeding race horses? We predicted at that time that there would be a negative impact of these slots on the Atlantic City casino industry (Malinowski, 2006).

Atlantic City casinos are being hurt by regional competition with a decrease of revenues of 5.7 percent in 2007 and 7.6 percent in 2008 and a 17 percent decrease for the first part of 2009 when compared with the same period last year. These reductions ironically, coincide with the introduction of video lottery terminals in Pennsylvania. The Atlantic City casino industry has lost 31 percent of the regional casino gaming market share; a number that continues to grow. Atlantic City's gross gaming win, hit a high point of \$5.2 billion in 2006 and is now declining with a projection of \$3 billion in 2011. This will result in a loss of 5,000 jobs for the region and more than \$150 million in

Table 9 A: Impact of Expanded Gaming on Breeding Segments

Thoroughbred Breeding Segment

State		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
New York	Active Stallions	154	130	133	139	136	134	136	156	159	156	134	124	113	100
	Mares Bred	1,770	1,638	1,741	1,886	1,947	2,135	2,274	2,533	2,749	2,646	2,477	2,308	2,007	1,879
Pennsylvania	Active Stallions	143	137	135	120	124	123	117	109	121	120	129	122	105	110
	Mares Bred	831	805	851	895	992	1,016	976	1,026	1,027	1,027	1,210	1,158	1,172	1,374
New Jersey	Active Stallions	68	59	53	51	44	56	51	42	38	30	28	34	28	26
	Mares Bred	433	378	363	338	316	301	278	456	329	268	318	452	389	271
Delaware	Active Stallions	1	3	3	1	1	0	0	1	1	1	0	1	1	1
	Mares Bred	2	9	27	5	4	0	0	5	1	2	0	2	1	7
Ontario	Active Stallions	124	115	131	125	108	104	112	111	112	131	120	109	109	101
	Mares Bred	1,150	1,103	1,056	1,187	1,107	1,114	1,320	1,448	1,493	1,619	1,686	1,537	1,523	1,461

Source: The Jockey Club, Canadian Thoroughbred Horse Society

Table 9 B: Impact of Expanded Gaming on Breeding Segments

Standardbred Breeding Segment

State		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
New York	Active Stallions	115	110	94	86	100	93	94	94	105	105	96	82	79	63
	Mares Bred	1,539	1,516	1,337	1,137	1,211	1,179	1,573	2,628	2,098	2,373	1,715	1,703	2,220	1,854
Pennsylvania	Active Stallions	77	83	83	82	75	76	66	70	72	79	83	78	76	79
	Mares Bred	1,761	1,845	2,012	1,836	1,927	1,742	2,268	2,431	2,002	2,311	2,879	2,781	2,968	2,990
New Jersey	Active Stallions	35	32	33	32	31	29	21	22	20	18	18	15	14	16
	Mares Bred	2,450	2,126	1,916	2,174	2,437	2,523	2,374	2,898	2,054	1,607	1,848	1,554	1,329	1,377
Delaware	Active Stallions	14	16	18	22	20	19	29	27	25	28	26	25	26	26
	Mares Bred	32	49	108	133	151	168	628	666	405	537	562	427	370	381
Ontario	Active Stallions	196	197	179	170	174	163	175	185	177	174	164	179	157	149
	Mares Bred	3,146	3,225	3,349	3,457	3,922	4,252	5,279	5,338	5,087	5,233	4,867	4,329	3,867	3,525

Source: USTA, Standardbred Canada, NJ Sire Stakes

annual casino revenue for the state. The total economic loss to New Jersey over the next decade could be more than \$2 billion (Kennedy, 2009).

Casinos are not alone in “feeling the pain” of increased gaming opportunities in close proximity to New Jersey. Competition for the gaming dollar affects horse racing and lottery interests as well. The entire state is suffering. Gaming dollars are tied to tourism, transportation and retail spending, providing the double benefit of boosting state economy with much needed tax revenue (Cryan, 2009).

A recent survey of license plates of cars in parking facilities by Malinowski and co-workers found that at the gaming venues close to New Jersey borders, a significant percentage of patrons were from New Jersey (Table 10).

Table 10: Survey of License Plates of Parked Cars at Gaming Facilities

Venue	Date	% In-State Cars	% NJ Cars	% Other
Harrah' Chester	12-Jul-09	73.7%	13.8%	12.4%
Philadelphia Park	18-Jul-09	65.0%	31.0%	4.0%
Sands Bethlehem	25-Jul-09	38.1%	59.4%	2.5%
Empire City Gaming	25-Jul-09	82.5%	10.0%	7.5%

Pari-mutuel wagering can no longer ensure racing’s sustainability; nor can it fund the ever increasing costs of improving an aging plant infrastructure or with the promotion and marketing that needs to be conducted to introduce racing to a “new” generation of fans. These additional funds might be supplied by state funds as a direct subsidy, through continued Purse Enhancement Agreements from Atlantic City casinos, or by increasing revenue by adding slot machines or video lottery terminals to New Jersey racetracks with a portion of that revenue dedicated to the horse racing and breeding industry (Christian Capital Advisors, 2007).

Features from editorials to columns by Sid Dorfman and Ray Brienza (2007) in The Star Ledger have been touting the impact of slots at neighboring venues for years. Dorfman suggested that the purse enhancement subsidy from the casino industry was inadequate and whose motive was suspect, suggesting that the casinos ante up this money as a way of keeping VLTs from being installed in North Jersey. The initial \$86 million subsidy did not stop the competitive onslaught now being felt by the New Jersey horse racing industry from New York and Pennsylvania. It was noted that nothing but slots would change that situation and that ironically these same casinos were investing in surrounding states (Dorfman, 2007).

The past two Purse Enhancement Agreements from the casinos have attempted to maintain the purse structure at the Meadowlands Racetrack. In 2006, New Jersey led the nation in total purses paid for harness racing. However, in 2009 New Jersey ranked third behind New York and Pennsylvania for total purses paid. While New Jersey still leads the way in average purse per race, it will only be a matter of time before that number drops as well if the Meadowlands becomes unable to compete for big money events like

the Hambletonian, Meadowlands Pace, and Sire Stakes events (Tables 11 and 12; New York State Racing and Wagering Board, 2008). Even in view of a competitive purse structure at the Meadowlands Racetrack, owners and breeders of racehorses in New Jersey have been hesitant to invest in the industry without a long-term vision for industry sustainability.

Off-track and internet wagering have been successful in New Jersey (Table 13). However, only three of the 15 authorized off-track wagering centers have opened since first authorized in 2001. Racing interests should take advantage of the 2001 legislation and proceed with the strategic opening of additional wagering outlets while at the same time being cognizant of the impact these gambling outlets will have on live handle at the racetracks (New Jersey Racing Commission, 2008).

Table 13: New Jersey Account Wagering

	2007		2008	
<i>Internet</i>	\$	64,319,015	\$	79,090,735
<i>Phone</i>	\$	12,287,207	\$	9,985,987
<i>OTW</i>	\$	30,892,422	\$	140,787,044
Total	\$	107,498,644	\$	229,863,766

Source: NJ Racing Commission, 2008. Annual Report

The New Jersey racing scene is currently feeling the “pinch” of competition from New York and Pennsylvania especially. Reeling from the loss of harness horses at the Meadowlands and Freehold, the Meadowlands shortened its race week by dropping Wednesday’s beginning in March of 2007. Freehold Raceway, which did not take advantage of the current Purse Enhancement Agreement from the casino industry, reduced overnight purses by 25 percent effective January 2, 2009 and amended its live racing schedule. Freehold Raceway also announced that it has canceled the James B. Dancer Memorial Stake No. 34 and the Helen Dancer (Filly Division) for 3-year-old pacers for 2009, and terminated their ownership rights to the Freehold Stake No. 28 (Battle of Freehold for two-year-old pacers and the Molly Pitcher for 2-year-old pacing fillies), in an effort to maintain its purse structure. Race secretaries at both harness tracks were running with short fields and for reduced purses in the spring of 2009.

What is the effect of slots on state/province economy?

The horse racing and breeding industry are not the only entity reaping the benefits of slot/video lottery terminal revenues.

Pennsylvania’s gaming industry has generated \$1.9 billion in new revenues from seven of the 14 licensed venues located throughout the state. This resulted in a \$200 per household savings in property taxes and a wage tax cut for people living and working in Philadelphia. In addition, the construction of these new facilities resulted in 17,000 new

Table 11 A, B, C: Three Year Comparison of Nationwide Standardbred Purses

Table 11 A

Nationwide Comparison of Purses Paid in 2006: <i>Standardbred</i>			
State	Gross Purses	Number of Races	Average Purse/Race
New Jersey	\$ 69,085,399	4,235	\$ 16,313
New York	\$ 56,071,653	8,165	\$ 6,867
Delaware	\$ 42,871,200	3,618	\$ 11,849
Illinois	\$ 31,771,019	4,007	\$ 7,929
Pennsylvania	\$ 30,786,461	4,642	\$ 6,632
Ohio	\$ 23,618,219	6,122	\$ 3,858
Michigan	\$ 15,741,692	3,935	\$ 4,000
Indiana	\$ 14,246,208	1,888	\$ 7,546
Kentucky	\$ 11,420,990	840	\$ 13,596
California	\$ 11,073,583	2,424	\$ 4,568
Florida	\$ 10,261,300	1,950	\$ 5,262
Maine	\$ 4,857,257	1,768	\$ 2,747
Massachusetts	\$ 3,437,882	930	\$ 3,697
New Hampshire	\$ 3,037,644	582	\$ 5,219
Virginia	\$ 2,118,748	362	\$ 5,853

Source: NYS 2006 Annual Report

Table 11 B

Nationwide Comparison of Purses Paid in 2007: <i>Standardbred</i>			
State	Gross Purses	Number of Races	Average Purse/Race
New York	\$ 97,690,587	11,051	\$ 8,840
New Jersey	\$ 68,845,118	3,972	\$ 17,333
Pennsylvania	\$ 58,962,521	5,448	\$ 10,823
Delaware	\$ 45,022,950	3,607	\$ 12,482
Illinois	\$ 31,368,196	3,948	\$ 7,945
Ohio	\$ 21,319,553	5,807	\$ 3,671
Michigan	\$ 14,993,991	3,618	\$ 4,144
Indiana	\$ 14,909,988	1,855	\$ 8,038
Florida	\$ 12,890,434	1,946	\$ 6,624
Kentucky	\$ 12,229,870	626	\$ 19,537
California	\$ 9,704,630	2,343	\$ 4,142
Maryland	\$ 7,012,293	1,629	\$ 4,305
Maine	\$ 5,643,137	1,767	\$ 3,194
Massachusetts	\$ 3,276,661	951	\$ 3,445
New Hampshire	\$ 2,955,593	580	\$ 5,096

Source: NYS 2007 Annual Report

Table 11 A, B, C: Three Year Comparison of Nationwide Standardbred Purses

Table 11 C

Nationwide Comparison of Purses Paid in 2008: <i>Standardbred</i>			
State	Gross Purses	Number of Races	Average Purse/Race
New York	\$ 93,109,611	10,663	\$ 8,732
Pennsylvania	\$ 93,087,590	6,332	\$ 14,701
New Jersey	\$ 68,393,194	3,794	\$ 18,027
Delaware	\$ 46,472,734	3,714	\$ 12,513
Illinois	\$ 29,246,481	3,753	\$ 7,793
Ohio	\$ 18,839,088	5,429	\$ 3,470
Indiana	\$ 16,462,395	1,919	\$ 8,579
Kentucky	\$ 13,899,756	695	\$ 20,000
Michigan	\$ 12,752,193	3,332	\$ 3,827
Florida	\$ 11,673,833	1,783	\$ 6,547
California	\$ 6,853,684	1,782	\$ 3,846
Maine	\$ 5,959,088	1,801	\$ 3,309
Maryland	\$ 3,280,499	968	\$ 3,389
Massachusetts	\$ 2,931,098	965	\$ 3,037
New Hampshire	\$ 2,820,023	550	\$ 5,127

Source: NYS 2008 Annual Report

Table 12 A, B, C: Three Year Comparison of Nationwide Thoroughbred Purses

Table 12 A

Nationwide Comparison of Purses Paid in 2006: <i>Thoroughbred</i>			
State	Gross Purses	Number of Races	Average Purse/Race
California	\$ 177,135,184	5,094	\$ 34,773
New York	\$ 132,618,831	3,707	\$ 35,775
Kentucky	\$ 103,550,913	2,660	\$ 38,929
Florida	\$ 85,409,600	3,733	\$ 22,880
West Virginia	\$ 81,888,629	4,434	\$ 18,468
Louisiana	\$ 75,115,145	3,083	\$ 24,364
Illinois	\$ 69,856,840	2,856	\$ 24,460
Maryland	\$ 46,425,300	1,835	\$ 25,300
New Jersey	\$ 44,381,833	1,173	\$ 37,836
Pennsylvania	\$ 42,903,619	3,374	\$ 12,716
Delaware	\$ 34,168,810	1,182	\$ 28,908
New Mexico	\$ 29,282,717	1,556	\$ 18,819
Texas	\$ 25,932,670	1,820	\$ 14,249
Ohio	\$ 25,198,383	2,980	\$ 8,456
Oklahoma	\$ 18,070,550	1,199	\$ 15,071

Source: NYS 2006 Annual Report

Table 12 B

Nationwide Comparison of Purses Paid in 2007: <i>Thoroughbred</i>			
State	Gross Purses	Number of Races	Average Purse/Race
California	\$ 179,231,621	5,055	\$ 35,456
New York	\$ 142,120,921	3,664	\$ 28,788
Louisiana	\$ 95,328,892	3,547	\$ 26,876
Florida	\$ 90,215,130	3,660	\$ 24,649
Kentucky	\$ 81,693,968	2,658	\$ 30,735
Pennsylvania	\$ 76,280,710	3,748	\$ 20,352
West Virginia	\$ 73,309,674	4,357	\$ 16,826
New Jersey	\$ 67,775,266	1,167	\$ 58,076
Illinois	\$ 65,564,874	2,699	\$ 24,292
Maryland	\$ 43,828,800	1,774	\$ 24,706
Delaware	\$ 35,299,668	1,116	\$ 31,631
New Mexico	\$ 30,946,970	1,572	\$ 19,686
Texas	\$ 25,641,230	1,713	\$ 14,969
Ohio	\$ 22,498,200	2,805	\$ 8,021
Oklahoma	\$ 21,077,405	1,238	\$ 17,025

Source: NYS 2007 Annual Report

Table 12 A, B, C: Three Year Comparison of Nationwide Thoroughbred Purses

Table 12 C

Nationwide Comparison of Purses Paid in 2008: <i>Thoroughbred</i>			
State	Gross Purses	Number of Races	Average Purse/Race
California	\$ 198,311,069	5,076	\$ 39,068
New York	\$ 145,473,050	3,724	\$ 39,064
Pennsylvania	\$ 110,225,334	4,427	\$ 24,898
Louisiana	\$ 86,306,399	3,404	\$ 25,354
Florida	\$ 78,404,970	3,443	\$ 22,772
Kentucky	\$ 76,112,194	2,603	\$ 29,240
West Virginia	\$ 70,369,850	4,101	\$ 17,159
Illinois	\$ 61,227,246	2,409	\$ 25,416
New Jersey	\$ 46,921,346	1,327	\$ 35,359
Maryland	\$ 34,994,500	1,578	\$ 22,176
Delaware	\$ 32,912,635	1,084	\$ 30,362
New Mexico	\$ 31,867,919	1,678	\$ 18,992
Oklahoma	\$ 24,059,492	1,263	\$ 19,049
Texas	\$ 23,072,690	1,580	\$ 14,603
Ohio	\$ 18,235,820	2,537	\$ 7,188

Source: NYS 2008 Annual Report

construction jobs and 9,000 new jobs tied to the gaming industry itself, either directly or indirectly (Cryan, 2009).

By 2012, table games could increase Pennsylvania's yearly casino-gambling revenue by 30 percent to \$976 million, while at the same time spurring the economy by \$1 billion and creating more than 16,000 jobs. This is currently being considered by lawmakers in Pennsylvania who are faced with a \$3.2 billion budget gap. With games similar to those found in Atlantic City and Las Vegas, Pennsylvania would become a gambling titan in its own right generating \$4.2 billion annually and 10,000 casino jobs. Revenue findings were based on 12 of the 14 planned casinos being in operation and on a blended tax rate of 46.1 percent; a combination of 55 percent tax on slots and 12 percent tax on table games revenue. The 46.1 percent tax rate would be the second highest in the country among states that offer both slots and table games. Casino operators have warned that the tax rate on table games must be lower to enable Pennsylvania operators to compete with table game revenues in New Jersey which has the lowest tax rate in the region of 9.25 percent and one of the lowest in the nation (Parmley, 2009).

New York's funding for education has certainly benefited from the installation of video gaming machines in the Empire State. For fiscal year 2008-09, which ended March 31, the "net win" at 8 casinos was up 10.3 percent to \$965.1 million, even though profit was down 9 percent to \$457.9 million. All profits in the state of New York go to fund education. The decline in profit for the state during the described period was due to a change in the legislated net win splits for facility operators which occurred in February, 2008.

Within the video gaming machine business, net win was up substantially at all venues except Monticello Casino and Raceway, which was down 8.5 percent due to competition from Pennsylvania. Empire City at Yonkers, the newest, largest and fastest growing casino, saw its net win increase 15.5 percent to \$486.5 million. Batavia Downs, Tioga Downs and Fairgrounds Gaming and Raceway were all up double digit percentages while Vernon Downs and Finger Lakes Gaming and Racetrack were up 9.5 percent and 7.7 percent respectively. Saratoga Gaming and Raceway, the oldest of the state's casinos, was up 2 percent, but it remained the second largest of the state's casinos with \$135.3 million in sales. Empire City generates more net win and more profit than the other seven casinos combined, due to its size and proximity to the New York City metro area (New York Lottery, 2009).

In April 2009, the Ontario Lottery and Gaming Corporation issued more than \$17.8 million in fourth-quarter non-tax gaming revenue payments to the 23 municipalities that host OLG casinos and slots at racetrack facilities. To date, \$615.3 million has been distributed by the OLG to host municipalities. Hosting municipalities receive five percent of gross slot machine revenue from the first 450 slot machines and two percent from any additional machines over that number (OLG, 2009).

What does New Jersey stand to lose if there is no horse racing in the state?

The Garden State stands to lose its premier agribusiness which generates \$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 leave New Jersey. An analysis by Goundrey and Malinowski in 2007 of preserved farmland in the state showed that a small portion of preserved farmland is in equine-related activity (Table 14). Only eight percent of acreage in the Farmland Preservation Program is used for horse related activities and 11 percent of preserved farms are in the horse business. Currently, acreage supported by equine interests makes up more than 20 percent of the total farmland in New Jersey (Gottlieb, 2007). This reinforces the argument that the state stands to lose this farmland to development if racing is no longer viable.

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 (part of the New Jersey Department of Agriculture) annual budget to support the Horse Park of New Jersey and the sport and recreation segments of the horse industry, predominantly, including 4-H Youth Development programs, is correlated to a percentage of the pari-mutuel handle from racing. The EAB annual budget which was \$498,000 in 1990 declined to a new low of \$290,400 in 2009. This budget would disappear if racing ceased to exist in New Jersey.

The “top shelf” level of services New Jersey horse enthusiasts have come to expect such as equine veterinary clinics and feed and supply stores are at risk, because, while they are frequented and supported by sport horse competition and recreational users, a predominant economic flow to these entities is from the racing industry. There already exists a shortage of large animal veterinarians in the state. If racing clients ceased to exist in New Jersey this demand would be even greater.

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 at that time 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 tax-paying open space unless it develops a mechanism(s) for assuring sustainability 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

Table 14: 2007 NJ Horse Farms Under Farmland Preservation

County	NJ Farms in Farmland Preservation		NJ Horse Farms in Farmland Preservation ³		% of acreage in Farmland Preservation
	# Farms	Acreage	# Farms	Acreage	
Atlantic	29	3,592	NA	NA	NA
Bergen	7	318	1	16	5.00%
Burlington	177	21,835	15	1,137	5.00%
Camden	7	467	3	154	33.00%
Cape May	38	2,515	3	39	2.00%
Cumberland	102	12,617	3	135	1.00%
Essex	0	0	NA	NA	NA
Gloucester	100	8,777	6	191	2.00%
Hudson	0	0	NA	NA	NA
Hunterdon	256	22,678	22	1,607	7.00%
Mercer	88	6,699	6	192	3.00%
Middlesex	43	4,508	1	10	0.20%
Monmouth	133	10,585	61	4,886	46.00%
Morris	96	6,305	21	1,476	23.00%
Ocean	39	2,675	11	477	18.00%
Passaic	0	0	NA	NA	NA
Salem	185	23,232	6	1,009	4.00%
Somerset	78	6,601	9	454	7.00%
Sussex	86	10,872	6	857	8.00%
Union	0	0	NA	NA	NA
Warren	150	14,862	7	195	1.00%
Total	1,614	159,138	181	12,835	8.00%

Source: Rutgers Equine Science Center

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. Again, without a long-term vision for horse racing's sustainability in New Jersey in place, owners, trainers and breeders are hesitant to invest in racing's infrastructure in the Garden State.

Recommendations for moving forward toward sustainability of horse racing in New Jersey

The horse racing, breeding and training industry, which is a critical component of open space preservation and the state's economy, needs an infusion of capital and a stable source of revenue to guarantee its sustainability. The current business model which exists is no longer viable, with 2009 projections by the New Jersey Sports and Exposition Authority of losses of \$10 million and \$10.8 million for The Meadowlands and Monmouth Park racetracks, respectively. A new model might mirror that seen in Ontario where a central governing body oversees gaming interests.

Solutions for New Jersey can come in numerous forms and venues, as noted from successful programs in other states. Pennsylvania permits 61,000 slot machines at racetracks and has in place a long-time off-track wagering and phone betting system. Florida offers both slot machines and poker rooms at its racetracks. Delaware and New York both have video lottery terminals at their racetracks and Delaware has passed legislation to permit sports betting and table games at its racetracks to enable them to remain competitive within the region.

There should exist in New Jersey a partnership between the casino and horse racing industries to enable both to remain sustainable as competition for the gaming dollar 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 important New Jersey industries and the rest of the region. Video lottery terminals at New Jersey racetracks would be the least significant factor impacting Atlantic City casino revenue. Slot machines in New York and Pennsylvania are impacting Atlantic City casinos now and will continue along this trend with increasing force as more machines are put into operation and more neighboring states like Maryland implement this form of wagering.

It is estimated that the combined impacts of existing and scheduled future machines in Pennsylvania and the New York City metropolitan area racetracks will reduce Atlantic City gross gaming revenue by as much as 12.3 percent. It was also projected that installation of video lottery terminals at three New Jersey racetracks would reduce Atlantic City gross gaming revenue by 1.8 percent. Video lottery terminals at the Meadowlands would serve a demand for gaming entertainment in North Jersey by generating over \$300 million in additional Lottery revenues while drawing from metropolitan area residents who do not desire to drive to Atlantic City. It is estimated

that only 19 percent of potential gaming “spend” in the Northern New Jersey market travels to Atlantic City casinos (Christian Capital Advisors, 2007).

We agree that the investment in Atlantic City’s gaming industry be preserved. The best way to do that is to ensure the preservation of its low rate of gaming privilege tax which is 9.25 percent in comparison to neighboring states which have tax rates as high as 55 percent.

What may have been the tipping point for putting video lottery terminals at the Meadowlands racetrack was reported in an editorial in 2007 when January revenues for Atlantic City were reported. Overall take dropped 2.9 percent and slot revenue dropped 7.2 percent at that time. Financial forecasters were concerned about the downward trend then and certainly their fear was warranted. Revenues in Atlantic City continue to decline along with discretionary income for consumers and competition for gambling dollars continues to escalate in surrounding areas in close proximity to New Jersey and Atlantic City, specifically (Star Ledger, 2007).

For years Atlantic City casino owners have resisted the idea of installing video lottery terminals at New Jersey racetracks and off-track wagering facilities. The study commissioned in 2007 by the governor’s office predicted that the installation of 2,100 video lottery terminals at the Meadowlands Racetrack, Scenario A, would generate approximately \$268.3 million annually in gross revenue with a payout of approximately \$114 million to the state. Video lottery terminals at the Meadowlands would also draw clientele from Northern New Jersey and New York residents who do not want to make the drive to Atlantic City. In Scenario B, it was estimated that an additional 2,100 video lottery terminals at Monmouth Park, for a total of 4,200, would generate \$411.3 million; and in Scenario C adding an additional 2,100 machines at Freehold Raceway for a total of 6,300 would generate \$433.5 million in the first year of operation. The projected revenue generating ability of these scenarios is conservative in view of the fact that at Yonkers Raceway, 5,500 machines generated \$208.60 per day per unit for a potential of \$418.764 million per year (Christiansen Capital Advisors, 2007). In 2008, Empire City Gaming led the nation in gross gaming revenue with over \$486 million generated (American Gaming Association, 2009).

By keeping gaming dollars in the state instead of losing patrons to neighboring venues, income would be made available for this financially troubled state and would provide revenue to keep the New Jersey racing industry viable, vital and sustainable.

The installation of video lottery terminals at New Jersey racetracks has the potential to be a “win-win” situation for both the racing and casino industries. The revenue would enhance the state budget significantly and provide capital for use by the horse racing industry to keep it competitive. Racinos would add jobs to the state, during construction and renovations of the racetracks as well as during operation. Video lottery terminals run by the operators of Atlantic City casinos would help these interests diversify sources of revenue.

Racing interests should take advantage of the 2001 legislation and proceed with the strategic opening of additional wagering outlets while at the same time being cognizant of the impact these gambling outlets will have on live handle at the racetracks.

Irrespective of the source of much needed revenue to ensure the future of racing in the Garden State, the racing industry needs to invest a portion of those dollars in things besides purses to ensure continued viability. These include: marketing of live racing and creation of a racing brand, creating innovative wagers, reductions in costs of regulating racing and the role of the New Jersey Racing Commission, investment in capital improvements, maintaining the integrity of racing, including research to benefit the equine athlete.

The industry needs to define itself: Is it sports? Is it gaming? Is it entertainment? The racing industry also needs to recognize that it is two-sided: side one, the horsemen and women who produce the product and side two, the racetracks which put on the show. Racing must define what its common purpose is and answer the question of who is in charge if it is to be successful in branding and marketing the betting product.

When discussing the future business model for racing and or gaming in the state, one must recognize the advantage of a centralized power. There then exists the ability to mobilize resources needed for product development, branding, marketing and sales, and capital improvements. Nationally there should be one body to enforce rules and regulations; a nation-wide network and schedule to maximize the value of the product and to aggregate the rights to the intellectual property of the sport, including television rights and sponsorships.

Racing needs to define who are its future fans? Propriety research is needed to enhance racing's competitiveness for the gaming dollar. It also needs to treat customers well, provide lessons on how to bet, and to introduce new wagers and forms of wagering.

It was the intent of this paper to provide an overview of what slot machines or video lottery terminals have done for the economy, horse racing and breeding industry, and agriculture in states and provinces where they exist to assist policy decision makers in the state as they deliberate racing's future. It is the belief of these authors that the horse racing and breeding industry are commodities worth saving in New Jersey. The issue at hand is not an emotional one driven by the fact that the state animal is the horse which has a long and prominent history in New Jersey's agricultural and sports businesses. Horse racing is the economic driving engine of the entire horse industry in the state and is extremely valuable to the quality of life in the form of agricultural working landscape which benefits all residents of New Jersey.

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