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The Economic Impact of Pari-Mutuel Horse Racing in Georgia

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Executive Summary

Georgia is one of the few states in the U.S. that do not have pari-mutuel, racetrack, or casino gaming. The state legislature considered several proposals during the recent legislative sessions and is expected to continue its evaluation of legalized gaming when it reconvenes in 2019.

The purpose of this report is to determine the economic impact on the State of Georgia of a specific proposal to develop horse racing in the state. A second, equally important, goal is to analyze the status and potential of the horse industry in Georgia.

The proposal calls for the development of three race tracks located in suburban Atlanta, Augusta and Savannah (Race Tracks). Each location would include both live and historical horse racing and offers a tremendous opportunity to generate substantial and ongoing general economic benefit, increased tax revenues, new good paying construction and permanent jobs and enhanced tourism. Importantly, this project would materially benefit Georgia's horse industry, one of the top ten agricultural commodities in the state.

This project represents a very significant financial investment and will create thousands of jobs and regional expenditures:

Project Description

The operation includes three Race Tracks featuring live, simulcasts and historical horse racing, a race horse track and an array of dining and lounge venues. Each facility will be a beautifully designed state of the art entertainment center that will serve as an asset to its host community.

Project Investment and Construction

- ❖ Total Project Investment: \$700 million
- ❖ Direct Construction Employment: 5,070
- ❖ Direct Construction Labor Income: \$294.3 million
- ❖ Direct Construction Taxes: \$41 million
- ❖ Total Construction Employment (including direct, indirect and induced labor): 8,417
- ❖ Total Construction Labor Income: \$468 million
- ❖ Total Construction Contribution to State GDP: \$698 million
- ❖ Total Construction Economic Output: \$1.24 billion

These three racing venues, when completed, will directly create more than 3,775 jobs and over \$665 million in labor income in the first five years of operation. Including indirect and induced employment, the project will create over 9,384 jobs and \$2.3 billion in labor income in the first five years of operation:

Employment and Operations Contributions to State and Local Economy

- ❖ Direct Employment: 3,775 (and growing as business grows)
- ❖ Direct Labor Income: \$132.3 million year one and \$665 million over first 5 years
- ❖ Total Operations Employment (direct, indirect and induced labor): 9,384
- ❖ Total Operations Labor Income: \$468.6 million year one and \$2.3 billion over first 5 years

- ❖ Total Operations Contribution to State GDP: \$898 million year one and \$4.49 billion over first 5 years
- ❖ Total Operations Economic Output: \$1.8 billion year one of operations and \$9 billion over first 5 years

Increased tax payments to the State of Georgia and the local community are considerable and will total over \$1.4 billion in the first five years of facility operation.

Contributions to Tax Base

- ❖ Direct Historical Horse Taxes (@ 20%): \$183 million year one and \$915 million over first 5 years
- ❖ Total Taxes from Operations: \$284 million year one and \$1.4 billion over first five years

In 2012, the Center for Agribusiness and Economic Development at the University of Georgia completed an economic analysis of the horse industry for the Georgia Agricultural Commodity Commission. The study determined that the horse industry's contribution to the State of Georgia's GDP was \$355.7 million and its total economic impact was \$868.7 million.

The best ongoing source of economic data on the horse industry in Georgia is the annual Farm Gate report. This report shows that 91% of the industry's agri-business impacts are in rural communities and affect 85% of Georgia counties. The three Race Tracks make substantial contributions to the horse industry:

Horse Racing Economic Impacts to State Economy (Through Allocation to Purses and Breed Development and Horsemen's Contribution Only)

- ❖ Allocation to Purses and Breed Development and Horsemen's Contribution: \$81.7 million year one of operations and \$408.5 million over first 5 years
- ❖ New Horse Industry-Related Employment (direct, indirect, induced): 1,767
- ❖ Labor Income (direct, indirect, induced): \$79 million year one of operations and \$395 million over first 5 years
- ❖ Contribution to State GDP: \$101 million year one of operations and \$505 million over first 5 years
- ❖ Total Economic Output: \$143 million year one of operations and \$715 million over first 5 years

The economic benefits of this project are far reaching and substantive to the State of Georgia, the host community, region and the horse industry statewide. The full report provides detail for all points discussed in the executive summary.

Background and Overview of the Findings

Georgia is one of only five states that do not have pari-mutuel, racetrack, or commercial or tribal gaming.¹ The state legislature considered several proposals during the last legislative session and is expected to continue its evaluation of legalized gaming when it reconvenes in the New Year.

The purpose of this report is to determine the economic impact of the Race Tracks on the state. A Race Track is a venue where live, simulcast and historic horse racing is available. A second goal is to analyze the status and potential of the horse industry in Georgia.

This analysis found that the three Race Tracks, meeting our plausible assumptions, have the potential to produce a substantial economic impact within the state. The Race Tracks would contribute \$898 Million per year to state GDP and roughly \$1.8 Billion to economic output. In addition, the allocation of 5% to 10% of gaming revenues to purses and breeding and the horsemen's expected share of live, import and export revenues would yield more than \$143 Million per year in economic output, a boost the horse industry needs. The existing horse industry ranks among the top ten agricultural commodities in Georgia. The horse industry is an important contributor to the state's economy but it is not growing and in need of stimulus.

Where this Race Track concept has been legalized, it appears to have successfully altered the behavioral and economic dynamics of the horse industry. The Race Track concept envisioned here has produced improved and sustained growth across *all segments* of the equine industry.^{2, 3} Assuming the current level of economic activity and that the Race Tracks' investment in purses and breeding is the sole source of growth in the horse industry, we estimate that the Race Tracks could boost the horse industry's contribution to state GDP from \$261 Million to almost \$417 Million in five years. The combined contribution to state GDP from the Race Tracks and the horse industry in year one exceeds \$1.16 Billion. A very conservative estimate of the combined total contribution to Georgia's GDP from the Race Tracks and horse industry could exceed \$5.8 Billion over five years.

Significantly, the economic effects are felt largely outside of urban areas because the horse industry is almost entirely a rural endeavor. Indeed, 91% of the economic output of the existing horse industry in Georgia occurs in rural counties. These impacts are spread widely across the state as 85% of all counties participate in the horse industry.

The Race Tracks also support 19,568 jobs in year one and 11,151 jobs thereafter, not counting increases directly related to other segments of the horse industry. Furthermore, the Race Tracks will benefit many other industries that supply the horse industry and Race Tracks such as Real Estate, Legal Services,

¹ 2018 State of the States, American Gaming Association, <https://www.americangaming.org/research/reports/2016-state-states>

² Malinowski, Karyn, Ph.D. and Ryan Avenatti, M.S. 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?, (2009), Rutgers Equine Science Center.

³ Sage Policy Group. Maryland's Horse Industry Turns a Corner, (October 2016), submitted to the Maryland Horse Industry Partners.

Financial Services, Restaurants, Lodging, Advertising, Veterinary Services, Insurance, Feed and Bedding Dealers, Track and Trailer Dealers, and so on.

Finally, the Race Tracks also contribute to state and local taxes in excess of \$284 Million, an amount that will increase in relation to revenue growth.

The Economic Analysis of the Race Track Concept

Economic analysis requires a specific scenario, and ours is the construction of three Race Tracks in suburban Atlanta, Augusta and Savannah. For our purposes, we modeled the economic impact on the state. The operation includes live, simulcasts and historical horse racing, a race horse track and an array of dining and lounge venues. Each facility will be a beautifully designed state of the art entertainment center that will serve as an asset to its host community.

Each facility includes a race horse track. Race meet will be limited to 60 race days per year. The suburban Atlanta location will feature live thoroughbred and quarter horse racing. Breeds racing at the Augusta and Savannah tracks have not been established.

A minimum of 9.7% track take-out on live race wagering is assumed. Additional assumptions of 20.5% on live racing, 16.5% on simulcast import racing (20.5% less import purchase fee of 4%) and 4% (export signal sale fee) have been used in this analysis. Various allocations (by % of racing handle) have been designated for ancillary purposes by proposed legislation. Their value has not been established in the analysis.

Horsemen's contracts relating to horsemen's share of live, simulcast (import and export), and Historical Horse Racing (HHR) revenues are expected to be negotiated by track owners and horsemen's associations and only a range of HHR proceeds to horsemen has been evaluated here.

Inputs include the cost to build and operate the facilities. Estimated construction costs do not include land acquisition which would be a substantial additional investment. The scenario under review assumes that the facilities pay a 20% tax on HHR revenues to the state. We make the additional assumption that a portion of gaming revenues are set aside to stimulate the growth of the horse industry. Specifically, it is expected that a portion of Historical Horse Racing revenues will be provided to horsemen for purses and breed development. The precise amount will be negotiated by owners and horsemen but is expected to fall between 5 to 10 percent of gross HHR revenues. We used the midpoint here. Finally, the model does not explicitly take into account revenue growth. Most likely, revenues will increase as awareness of and interest in the Race Track as an entertainment option grows. Table 1 shows the inputs for our analysis.

Table 1: Inputs to the Economic Model

Input	Amount
Construction Costs (minimum)	\$700,000,000
Atlanta	\$400,000,000
Augusta	\$150,000,000
Savannah	\$150,000,000
Total Annual Revenues	\$977,340,271
Historical Horse Racing Revenues ¹	\$915,000,000
Live, Import and Export ²	\$13,889,711
Food	\$28,775,000

Beverage	\$9,700,000
Retail	\$905,500
Other	\$9,070,000
Employees	3,775
Compensation	\$132,300,000
Annual Allocation of HHR Revenues to Horse Racing Purses and Breeding ³	\$40,000,000 to \$80,000
Horsemen's share of handle for live, import simulcast racing and export signal sales ⁴	\$6,600,000

¹The state will impose a 20% tax on HHR Revenues. This amount is not an input to the IMPLAN model but is an additional fiscal impact.

² Currently a pari-mutuel tax of .625% on all export signal sales, not to exceed \$1 million annually, has been proposed. Based on expected combined track export signal sales, the maximum \$1 million will be reached within the first five years of live racing. This amount is not an input to the IMPLAN model but is an additional fiscal impact.

³It is expected that a portion of Historical Horse Racing revenues will be provided to horsemen for purses and breed development purposes. The precise amount will be negotiated by owners and horsemen but is expected to fall between 5 to 10 percent of gross HHR revenues. We used the midpoint here.

⁴Normally, live, import and export revenues are shared between the track operator and the horsemen after deducting various expenses including tote expenses, decoder expenses, etc. Typically, these revenues are split equally between the operator and the horsemen after taking 5% off the top to cover the aforementioned expenses.

The Method

Input-output analysis is a standard tool in regional economics developed by Wassily Leontief, a Nobel Prize winner in economics.⁴ The analyses were performed using IMPLAN software. IMPLAN is a 440 sector input-output model used to measure the effects of direct, indirect, and induced impacts. The economic data for IMPLAN comes from the system of national accounts for the United States based on data collected by the US Department of Commerce, the US Bureau of Labor Statistics, and other federal and state government agencies.

An input-output model can represent the total impact of new spending as consisting of three parts, a "direct effect," "an indirect effect," and an "induced effect".

The "direct effect" consists of the injection of economic activity or expenditure into the region. In this case, the cost of construction, all sources of revenues and the allocation of gaming taxes revenues to purses and breeding are all direct expenditures. However, only the portion of the expenditure made in the state or local economy is counted as a direct expenditure. This direct expenditure then causes a "ripple effect" on the regional economy when money is re-spent.

Other businesses provide supplies and services to the industry. These businesses spend a portion of their sales revenues on their supplies and services from other local and state firms who, in turn, purchase a

⁴ Landefeld, J. Steven and Stephanie H. McCulla. Wassily Leontief and His Contributions to Economic Accounting. Survey of Current Business (March 1999): 9-11.

portion of their supplies and services from other local and state firms. This cascading sequence of spending continues until the subsequent rounds of spending dissipate due to leakages in the form of taxes, savings, and spending outside the state or region. The cumulative effect of these cascading rounds of inter-industry purchases is referred to as the “indirect effect.”

The final component of the total is that portion attributable to the spending of households. That is to say, businesses pay households for their labor services. These households then purchase goods and services from local and state firms who in turn purchase a portion of their labor and material inputs from other local and state firms, and so forth. Again, leakages occur at each round due to taxes, savings, and purchases of goods and services. These household expenditures are “induced effects”.

These subsequent rounds of indirect and induced spending magnify or multiply the direct expenditures. These “multiplier effects” vary by industry and across time and place but they are relatively stable. Knowing what the multipliers are for a particular industry helps economists estimate the economic impact of future direct spending.

The “multiplier effect” summarizes the total impact expected from a change in each economic activity. For example, a new breeding facility represents an economic change which can spur ripple effects or spinoff activities, such as veterinary services and transportation activities. Multipliers measure the economic impact of these new products or services, including the resulting spinoff activities. A multiplier includes the effect of direct spending, indirect spending or businesses buying and selling to each other, and household spending based on the income earned from the direct and indirect effects. Essentially, these latter induced effects represent employee spending on goods and services.

We performed three analyses. Construction is a one-time only event and must be evaluated separately from ongoing Race Track operations. Additionally, the economic impact of allocating a portion of gaming revenue to purses and breeding requires a separate analysis.

A Summary of the Economic Impacts

Table 2: Summary of the Economic Impact of the Race Track Model

Summary of the Economic Impact of the Race Track Model				
Impact Type¹	Employment	Labor Income	Contribution to State GDP	Output
Race Track Construction²	8,417	\$467,597,788	\$697,856,150	\$1,236,380,024
Race Track Operations	9,384	\$403,233,661	\$897,767,168	\$1,830,626,759
Purses and Breeding³	1,767	\$78,972,885	\$101,048,422	\$143,138,893
Total	19,568	\$949,804,334	\$1,696,671,740	\$3,210,145,676

¹ Each entry is the total direct, indirect and induced impacts. For example, 3,775 of the 9,384 employees associated with Race Track Operations are direct employees; the remainder is associated with the suppliers of goods and services to the Race Track (indirect) or the result of household purchases made by employees of the Race Track and its suppliers (induced).

² The economic impacts associated with Construction only occur in year one; all other economic impacts are annual.

³ These are the economic impacts derived from the allocation of a percentage of HHR revenues to Purses and Breeding; these impacts would be additive to the economic impacts of the equine industry in the state of Georgia.

The Study Area for these analyses is the state of Georgia. By choosing Georgia as our Study Area, we exclude consideration of economic impacts that occur beyond the state. All economic impacts described herein occur in Georgia. Additional economic impacts beyond the state represent “leakage” and are not included in the analysis. The purchase of goods and services from out of state suppliers would be an example.

Table 2 summarizes the economic impacts for the three analyses. Overall output derived from the construction and operation of the three Race Tracks in the state is more than \$3.2 Billion the first year. This includes \$1.24 Billion associated with the construction of the Race Tracks, a one-time effect. The Race Tracks produce an economic output of nearly \$1.8 Billion per year. The allocation of a portion of Historical Horse Racing revenue to Purses and Breeding produces nearly \$143 Million in economic output annually. Of course as the Race Tracks grow, all of these economic impacts will increase.

The total contribution to state GDP (Gross Domestic Product) in year one is nearly \$1.7 Billion. This includes nearly \$700 Million from construction. The Race Tracks make an annual contribution to state GDP of nearly \$900 Million. Additionally, the revenue allocated to Purses and Breeding contributes more than \$101 Million to state GDP annually.

Although the model assumes that the Race Tracks employ 3,775 workers, the total contribution to the jobs base from all sources is 19,568 in year one. Total labor income approaches \$950 Million in year one. Construction supports 8,417 jobs and contributes \$468 Million in labor income. The Race Tracks account for 9,384 jobs and more than \$403 Million in labor income. Historical Horse Racing revenue allocated to Purses and Breeding contributes 1,767 jobs and almost \$79 Million in labor income.

Fiscal Impacts

Economic impacts translate into fiscal impacts. The IMPLAN model shows a total impact on state and local taxes from all sources of more than \$142.4 Million. Construction accounts for \$41 Million, a nonrecurring effect. The model estimates taxes paid by the Race Tracks at \$95 Million. The investment of Historical Horse Racing revenue in Purses and Breeding shows a fiscal impact of \$6.7 Million. Except for taxes related to Construction, all taxes are annual.

Table 3: Impact on State and Local Tax Revenues

Impact on State and Local Tax Revenues ¹					
Source	Employee Compensation	Tax on Production and Imports	Households	Corporations	Total
Race Track Construction²	\$132,658	\$28,838,748	\$11,197,166	\$982,624	\$41,151,195
Race Track Operations	\$153,218	\$80,237,894	\$12,191,598	\$2,023,096	\$94,605,806
Purses and Breeding³	\$23,094	\$4,671,937	\$1,903,495	\$84,795	\$6,683,321
Total	\$308,970	\$113,748,579	\$25,292,258	\$3,090,516	\$142,440,322

¹ Does not include gaming taxes paid by the Race Tracks. HHR Taxes= \$183,000,000 based on assumed rate of 20%.

² The tax effects associated with Construction only occur in year one; all other tax effects are annual

³ These are the tax effects of allocating a percentage of HHR revenues to Purses and Breeding

Historic Horse Racing Taxes Add More Than \$183 Million per Year

Significantly, the IMPLAN analysis does not include HHR taxes paid by the Race Tracks. At the assumed state tax rate on Historic Horse Racing revenue of 20%, gaming taxes directly contribute \$183 Million annually. Including HHR taxes, the total contribution to state and local taxes in year one from all sources exceeds \$325 Million. The ongoing contribution to state and local taxes will exceed \$284 Million.

Construction of the Race Tracks

Table 4 shows the detailed economic impacts for Construction. Construction produces a total economic impact of \$1.24 Billion. The total contribution to state GDP is nearly \$700 Million. Construction also supports a total of 8,417 jobs of which 5,070 are directly attributed to the construction of the Race Tracks. The total labor income produced is nearly \$468 Million. Almost two thirds of this amount, \$294 Million, is directly related to construction of the three Race Tracks.

Table 4: Construction of the Race Tracks

Construction of the Race Tracks				
Impact Type	Employment	Labor Income	Contribution to State GDP	Output
Direct Effect	5,070	\$294,289,461	\$393,374,056	\$700,000,000
Indirect	1,084	\$72,214,693	\$117,415,071	\$217,129,364
Induced Effect	2,263	\$101,093,633	\$187,067,023	\$319,250,660
Total	8,417	\$467,597,788	\$697,856,150	\$1,236,380,024

Race Track Operations

Table 5 shows the detailed annual economic impacts for Race Track Operations. The three Race Tracks produce a total economic impact of \$1.8 Billion; \$991 Million in direct effects and \$839 Million in indirect and induced effects. The total contribution to state GDP is \$898 Million. Of this, \$379 Million is a direct effect and \$519 Million is indirect or induced effects. The Race Tracks support 9,384 jobs of which 3,775 are directly attributable to Race Track operations. Total labor income produced is more than \$403 Million. Nearly \$132 Million of this amount is directly related to operations and \$271 Million is indirect and induced effects.

Table 5: Race Track Operations

Race Track Operations				
Impact Type	Employment	Labor Income	Contribution to State GDP	Output
Direct Effect	3,775	\$132,300,000	\$379,319,966	\$990,783,631
Indirect	3,644	\$183,117,701	\$355,959,001	\$562,493,788
Induced Effect	1,965	\$87,815,960	\$162,488,201	\$277,349,341
Total	9,384	\$403,233,661	\$897,767,168	\$1,830,626,759

Export Potential

Importantly, the Race Tracks offers significant export potential from the simulcast of races and from providing facilities and services to industry participants outside of Georgia. Table 6 shows that 80% of the monies wagered come from export or simulcast handles. Many racehorse owners, trainers, breeders and other racing participants operate in multiple states. Thus, it is likely that Georgia's experience will parallel other similar states where a number of out of state players participate in horse racing in Georgia.

Table 6: Horseracing Handle and Revenue Sources

Horseracing Handle and Revenue Sources		
	Handle	Revenue
Live	7%	22%
Import	13%	31%
Export	80%	47%
Total	100%	100%

Allocation of Historical Horse Racing Revenues to Purses and Breeding

A portion of Historical Horse Racing revenues will be provided to horsemen for purses and breed development. The precise amount will be negotiated by owners and horsemen but is expected to fall between 5 to 10 percent of gross HHR revenues. We used the midpoint in our analysis. Table 7 shows the detailed annual economic impacts for the allocation of HHR revenues to Purses and Breeding. These impacts would be additive to the economic impacts of the existing equine industry in Georgia.

The allocation of a percentage of HHR revenues to Purses and Breeding produces a total annual economic contribution of nearly \$143 Million to the horse industry. The total impact on state GDP is more than \$101 Million. Nearly 1,800 jobs are added with 1,279 direct to the horse industry. This produces an overall impact on labor income of nearly \$79 Million, of which more than \$56 Million is direct to the horse industry. The impact can be put into perspective with the following facts:

- ❖ It is approximately 22% of the existing horse industry's contribution to state GDP
- ❖ Economic benefits will be widespread throughout Georgia
- ❖ Most economic impacts will be felt in rural counties

Table 7: Allocation of Historical Horse Racing Revenues to Purses and Breeding

Impact of Allocating a Percentage of Historical Horse Racing Revenues to Purses and Breeding ¹				
Impact Type	Employment	Labor Income	Contribution to State GDP	Output
Direct Effect	1,279	\$56,429,933	\$61,324,445	\$75,100,000
Indirect	101	\$5,290,059	\$7,799,284	\$13,552,788
Induced Effect	386	\$17,252,893	\$31,924,693	\$54,486,104
Total	1,767	\$78,972,885	\$101,048,422	\$143,138,893

¹ These impacts would be additive to the economic impact of the existing equine industry.

The Georgia Horse Industry Today

We often speak of two Georgia's one urban and one rural. On the streets of Atlanta, most do not know that Georgia is the second most productive blueberry state in the nation. Broiler chickens are less surprising as a product, but who would guess that Georgia produces 4.4 billion dollars' worth. The value of the equine industry is also unexpected. Many never see a horse in Georgia, yet they are an important part of our agricultural success story. In this section, we will examine the existing industry and consider future prospects, especially given the addition of three Race Tracks in Georgia.

Horse racing may occur in an urban or a rural setting, but breeding and raising horses is largely a rural endeavor. The horse industry is an agricultural industry requiring large open spaces. Horses need acres of farm land for grazing, for stables to board the horses and facilities for training them. A 2012 survey of participants in the Georgia horse industry found that the average respondent owned nearly 20 acres of land.⁵

The best source of economic data on the horse industry in Georgia is the annual Farm Gate report⁶ which provides a county by county account of all agricultural commodities and livestock, including the horse industry. This report includes two subcategories for the horse industry, **Horses Raised** and **Boarding, Training and Breeding** of horses.

According to the latest report (2017), horses have ranked among Georgia's top ten commodities since at least 2006. However, despite a small uptick in value in 2017, the industry has fallen from 5th to 10th during this period.

Even so, the horse industry is a vital part of Georgia's economy, contributing over \$261 Million in 2017. Table 8 shows that about 75% of this amount is associated with boarding, training and breeding. The data clearly demonstrates that the horse industry is truly a rural undertaking. While 84% of all counties participate in the horse industry, 91% of the industry's economic value is contributed by rural counties.

Table 8: 2017 Economic Value of the Horse Industry in Metro versus Rural Counties

	Horses Raised	Boarding, Training and Breeding
Statewide Total	\$70,106,100	\$191,023,200
Metro ¹	\$7,670,000	\$17,335,000
Rural	\$64,029,000	\$173,952,700
Metro	9%	9%
Rural	91%	91%

¹ Clayton, Cobb, Coweta, DeKalb, Douglas, Fayette, Fulton, Gwinnett, Henry

⁵ 2012 Economic Importance of Georgia's Equine Industry, Georgia's Agricultural Commodity Commission for Equine, UGA Center for Agribusiness and Economic Development

⁶ Annual Farm Gate Report, UGA Center for Agribusiness and Economic Development

Figure one shows the top ten counties for **Horses Raised** from the latest report (2017). These counties account for 34% of **Horses Raised** which suggests that this activity is widely decentralized.

Figure 1: Top Ten Counties by Value for Horses Raised

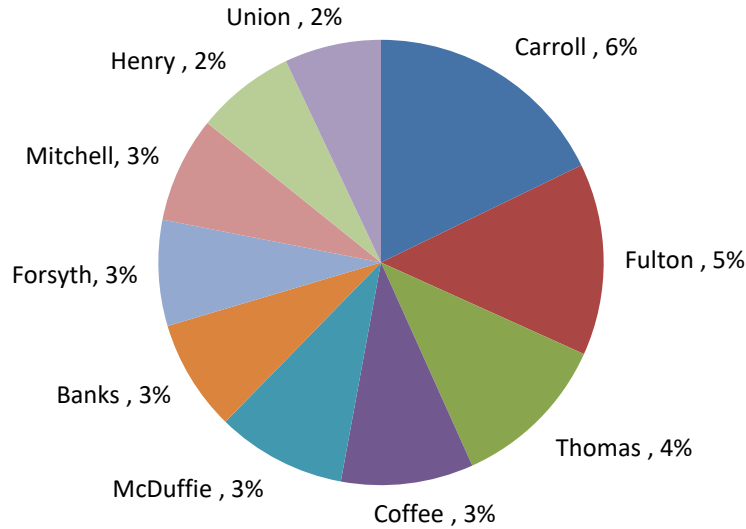
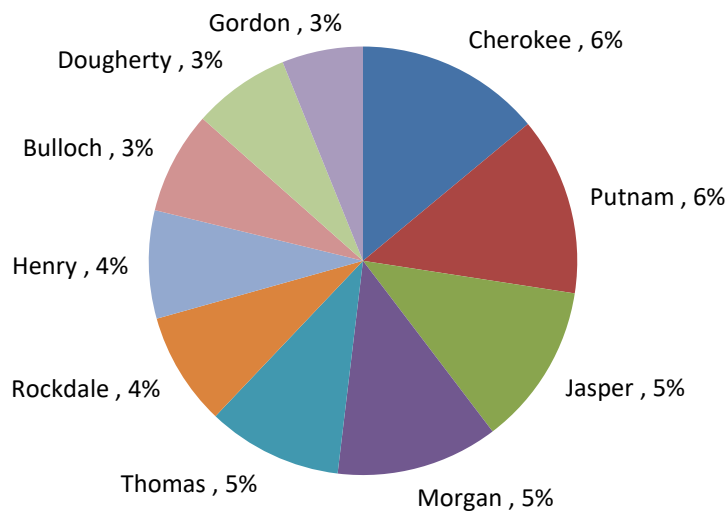


Figure 2 shows the top ten counties for the **Boarding, Training and Breeding** of horses. These counties account for 45% of the category. This is down from 58% in 2015 which indicates that breeding is becoming more decentralized throughout the state.

Figure 2: Top Ten Counties by Value Boarding, Training and Breeding of Horses



Since 2006 the UGA Center for Agribusiness and Economic Development has produced a companion report, called the AgSnapshots. This publication uses data from the annual Farm Gate report. It includes an economic impact analysis by agricultural commodity group. The latest report is based on 2017 data and shows that horse related activities account for 18.3% of the Livestock and Aquaculture commodity group. In 2017, the Livestock and Aquaculture commodity group made an economic contribution to the state of \$8.1 Billion and 35,400 jobs.

The UGA (University of Georgia) Center for Agribusiness and Economic Development’s 2012 economic analysis of the horse industry was sponsored by the Georgia Agricultural Commodity Commission for Equine. This is the most recent economic impact analysis of the equine industry available. Table 9 presents the study’s results. Estimates of the industry’s economic impacts are derived from an IMPLAN analysis.

Table 9: 2012 Horse-related Activities

Horse-related Activities¹				
Impact Type	Employment	Labor Income	Contribution to State GDP	Output
Direct Effect	4633	\$136,767,770	\$195,768,864	\$592,632,280
Indirect	866	\$43,302,375	\$73,270,546	\$139,219,990
Induced Effect	1092	\$45,525,758	\$86,640,982	\$136,887,080
Total	6591	\$225,595,903	\$355,680,392	\$868,739,350

¹2012 Economic Importance of Georgia's Equine Industry, Georgia's Agricultural Commodity Commission for Equine, UGA Center for Agribusiness and Economic Development

This 2012 survey study also provided information about the nature of the horse industry. Trail riding was the most commonly reported use. Georgia horse owners were mostly enthusiasts who did not see themselves as business people even when they owned small equine business operations. Some often-cited findings from this 2012 study include the following:

- Approximately 173, 234 Georgians own at least one horse;
- On average, owners gained about \$7,000 a year from their horse activities--mostly from horse sales and boarding and training. Reportedly, a smaller number of owners lost money on their horse activities, as in paying for boarding and training.
- Horse owners spend a considerable amount on their horses in addition to boarding and operating a stable, on items like feed and forage, competition fees, barn supplies and equipment, veterinary care and much more.
- The median horse owner could spend as much as \$15,346 per owner.
- Some survey respondents reported net gains from their investments; the most important sources were boarding and training, horse sales, and purses and prizes.

How Race Tracks May Change the Horse Industry in Georgia

While the Race Track proposal evaluated in this study is not a Racino, it does incorporate some similar features. Thus, it is instructive to view the experience of other states that have adopted the Racino concept and the positive effects on their respective horse industries.



A Brief History of Racinos

The initial concept of a 'Race Track Casino' and the shortened term 'Racino,' was coined in the beginning of 1994. The Racino concept and the allocation of a percentage of the gaming revenues to purses and breeding have completely altered the behavioral and economic dynamics of the horse racing and breeding industry.

The following historical narrative from the website, www.racinos.com, provides a description of how it all began:

“In 1994, Iowa voters authorized reel spinning slot machines at Iowa horse and greyhound race tracks. Prairie Meadows, the first Racino opened for business on April 1, 1995. After 12 months, the Racino’s increased revenues enabled Polk County to pay off the \$27 million bond issue that paid for the conversion and retire the track’s initial \$38.8 million bond issue 17 years early.

With Prairie Meadows, the Racino concept came of age. The rapid transformation of a struggling Iowa horse track into a highly profitable Racino was the defining moment in the marriage of pari-mutuel betting and machine gaming. And it produced substantial benefits for the state’s horse industry.

From 1995 to 1997, Iowa became America's fastest-growing thoroughbred breeding state, jumping from 28th to 12th nationally in total foals bred. The annual spending for the care and

maintenance of horses increased from \$41 million in 1995 to \$97 million in 1999 according to Iowa State University.⁷“

Changes to the Horse Industry Experienced in Other States

How did the legalization of the Racino concept affect the horse industry in other states? A review of published accounts suggests that most of these states experienced these impacts:

- ❖ Growth across all segments of the horse industry
- ❖ Consolidation of small players into larger organizations
- ❖ Increased investments in land, equipment, and supplies
- ❖ A shift in mindset and purpose – some existing participants shifted from a recreational to a more profit oriented purpose and subsequently adopted a more sophisticated, business like approach
- ❖ Increased availability and quality of race horses which improved the attractiveness of the races and led to an increase in export handle
- ❖ Increased involvement in the industry from out of state participants

Potential Changes to the Horse Industry in Georgia

Structure, Size and Purpose

The concept of a Race Track with Historical Horse Racing games, as currently employed in the State of Kentucky as an example, differs significantly from a Racino. A Race Track with HHR games will generate considerably higher economic benefits - to host communities and the State of Georgia, as well as Georgia's equine industry - than standard Race Tracks. The structure of the horse industry will change by definition as a horse racing segment is added that has built in synergies with other segments of the industry. Georgia is likely to see a shift in purpose among industry participants. As industry participants become more business minded they will likely exhibit increased sophistication leading to more consolidation and increased involvement from existing out of state players. These types of changes were described in a 2010 study of the equine industry in Indiana⁸:

“Many operations do not perceive that they are businesses and are likely small scale operations, but collectively, the small equine operations contribute significantly to the tapestry of the Indiana economy. It appears that the equine industry is changing from an industry focused on work and recreation to an industry that more prominently engages in recreation and competition.”

With a stronger horse racing segment and an annual allocation of gaming revenues for purses and breeding the industry will grow. As observed in a study of the horse industry in Maryland⁹:

⁷ <http://www.racinos.com/>

⁸ Susan E. Conners, Ph.D., Couetil, Laurent, DVM, Ph.D., Furdek, Jonathan, Ph.D., and Mark A. Russell, Ph.D., Purdue University. Indiana Equine Industry Economic Impact and Health Study (September 2011).

⁹ Sage Policy Group. Maryland’s Horse Industry Turns A Corner, (October 2016), submitted to the Maryland Horse Industry Partners.

“It is important for policy makers to understand that the introduction of the Racino concept stimulated the growth of all segments of the horse industry not just the segment related to thoroughbred racing.”

And several studies suggest that the industry has strong export potential. For example, a 2014 study in Indiana¹⁰ reported:

“There is some evidence that some segments of the industry, namely racing, breeding, and also boarding and training have significant export potential, providing facilities and services to those outside of the State, generating business activity and revenues in the State.”

Economic Impacts

As a commodity in Georgia, the Farm Gate data shows a large but somewhat stagnant industry. Horses contributed 4 percent of Farm Gate value in 2006 and dropped to 2 percent in 2017. Still, throughout this period, the horse industry consistently ranked among the top ten commodities in the state although their ranking fell from 5th to 10th. The 2006 data present a Farm Gate value for horses of \$417 Million. The 2017 Farm Gate value is \$261 Million.

Establishing three Race Tracks in Georgia will most certainly enhance the future economic prospects of the horse industry. Even if the allocation of HHR revenue to purses and breeding and the horsemen’s share of live, import and export revenue are the only direct investment, the horse industry will experience substantial growth. The estimated annual stimulus from these sources will be roughly \$75 Million.¹¹ This is a direct investment of approximately 29% of the industry’s 2015 economic value as reported in the 2017 Georgia Farm Gate report.

Employment Impacts

The 2012 study of the industry shows total employment at 6,591. It is difficult to estimate with any precision just how many new employees will be added. However, logically, with an annual stimulus of roughly \$75 Million one has to assume that the industry will grow and that an increase in employment will result.

The horse industry requires a complex network of resources such as land, boarding facilities, bedding, feed, veterinary services, and training. The industry also requires a wide range of supplies such as saddles, bridles, liniments, hygiene, and medication. Horse racing depends on all of these resources and more.

¹⁰ Susan E. Conners, Ph.D., Furdek, Jonathan, Ph.D. Pari-Mutuel Horse Racing Industry Economic Impact Study, (2014) Purdue University Calumet.

¹¹ Assumes that \$68.5 Million (midpoint of expected range) is contributed to purses and breeding (the precise amount will be negotiated by owners and horsemen but is expected to fall between 5 to 10 percent of gross HHR revenues) plus the horsemen’s \$6.6 Million share of live, import and export revenue

As depicted in figure 3, the number and type of services and suppliers involved in horse racing is large and diverse. Most people have a general understanding that horse racing involves an owner, a jockey, a trainer and a racetrack. But the employment dynamics are more far reaching and complex. In addition to those four players, the industry is comprised of auction houses, bloodstock agents, breeders, barn and track managers, hot walkers, groomers, exercise riders, jockey agents, valets, feed and bedding suppliers, tack and equipment dealers, blacksmiths, and veterinarians. Of course other participants include truck and trailer dealers, bankers, hotels and motels, restaurants, gas stations, insurance firms and so on.

Figure 3: One Racehorse Employs a Large and Diverse Number of People



Source: Georgia Horse Racing Coalition

Fiscal Impacts

If the horse industry’s economic impact grows then the related fiscal impacts will also increase. We have no credible base from which to model the horse industry’s impact on state and local taxes as the 2012 study did not include a detailed analysis of these impacts.

However, we have estimated the total impact of the Race Tracks (including construction) on state and local taxes in year one at \$143 Million. This figure declines in year two and beyond to \$102 Million if construction is completed in year one. With a 20% tax on HHR revenues, the total contribution to state and local taxes is more than \$325 Million in year one and \$284 Million per year after that. The remaining segments of the equine industry would make an additive contribution to this figure.

Other Considerations

In 2012 The Public Performance and Management Group at Georgia State University completed an assessment of the possible economic benefits of legalizing pari-mutuel wagering on horses in Georgia, drawing from existing information. The authors concluded that the economic impact on the equine industry in Georgia would be favorable:

We find substantial support for arguments that pari-mutuel wagering would advance the equine industry in Georgia. The 15 states with the largest horse populations all permit pari-mutuel wagering. The human population of Kentucky is less than Georgia's is, but they rank fifth in the number of horses, with roughly 320,000. Florida has just over 500,000 horses and ranks third in the nation...though their population is essentially twice the size of Georgia... industry observers have argued that wagering improves the health of the equine industry, and that the size of purses also brings benefits. The introduction of pari-mutuel wagering could also raise the sale price of horses. There is no perfect state-to-state comparison, but the synergy between our existing equine industry, entertainment, and our regional and metro advantages certainly create some interesting possibilities.

They also concluded that Georgia enjoys a significant regional advantage:

From a regional perspective, Georgia is located within the largest cluster of non-pari-mutuel states in the nation, though we are close enough to major pari-mutuel racing states such as Kentucky, Maryland, New York, and Florida to grab a share of existing race activity. One estimate claimed that 170,000 horses travel through Georgia on their way to race in Florida. A visit to the Facebook page of Paladin Equine Transit in Woodstock, Georgia reveals the constant activity of horses moving around our region, broadly defined. Paladin makes regular runs along what they call the MD, NY, CT, VT corridor. Businesses such as this one are the backbone of a horse industry that thrives at Georgia's very doorstep.

The authors also foresaw a metro advantage for Atlanta:

Many areas of Georgia could benefit from a horse track featuring pari-mutuel wagering, but the Atlanta metropolitan area stands out as an ideal location for generating the desired economic benefits. According to a Bureau of Labor Statistics survey conducted in 2009, Atlanta ranks in the top 10 for average expenditures on restaurants and entertainment, which certainly suggests potential for a new and unique entertainment experience featuring horses and pari-mutuel wagering.

Another element of the Metro advantage is the possibility of increasing the level of national and international interest in visiting Atlanta. Visitors bring new money into the economy, rather than just shifting it around. A consulting firm prepared a report on the economic impact of the World Equestrian Games held in Lexington, Kentucky in 2010 for the Kentucky Tourism, Arts and Heritage Cabinet. The report concluded that visitors to this event contributed \$201.5 million to the Kentucky economy, and over 60% of this impact was direct spending. A total of \$35 million was spent on lodging by those arriving from outside Kentucky, for example, and another \$47 million was spent at the Kentucky Horse Park itself by outside visitors to the event. Outside

visitors spent additional millions on food and beverages, souvenirs, transportation, and visits to other attractions.

Atlanta's Hartfield-Jackson International Airport is the Busiest in the World

Atlanta's Hartfield-Jackson International airport is now the busiest in the world serving over 107 million passengers a year.¹² Atlanta is the 9th largest metropolitan area in the United States.¹³ It is also the sixth most visited city in the United States with more than 53 million visitors per year.¹⁴ Visitors to the city spend \$15 Billion each year. Once established, the Race Tracks are likely to make a significant contribution to tourism.

The Benefits of Hosting Prestigious Races

The Race Tracks bring the possibility of hosting lucrative horse races such as the Breeders' Cup. Typically, the host city and surrounding area enjoy a substantial economic inflow. For example, Los Angeles enjoyed a nearly \$65 Million boost from the 2013 Breeders' Cup¹⁵ and Del Mar, host of the 2017 Breeders' Cup experienced an economic impact of nearly \$100 Million.¹⁶

Conclusions

Given the set of assumptions modelled here, the horse racing industry is likely to make a large and lasting economic impact on the state. Based on the experience of other states, it will grow a variety of existing industries. Gaming may contribute significantly to employment in these industries and materially boost tourism. If Georgia's experience is similar to other states, it will attract new visitors, new residents and many out of state participants.

Many industry participants run multistate operations that may be headquartered elsewhere but they participate in races across several states. Currently, many horseracing participants travel through Georgia on their way to and from races in nearby states. Adding Georgia to their schedule offers an opportunity to increase their revenues and expand their footprint at marginal cost. And of course this brings new money into the state.

One of the biggest beneficiaries would be the equine industry. The horse industry is now a large contributor to the state's economy but it is not growing. The participants are overwhelmingly enthusiasts, passionate about horses but not necessarily business minded. The Race Tracks, especially given the allocation of a portion of HHR taxes to Purses and Breeding, has the potential to stimulate the growth of the equine industry. This would bring major changes to the industry. As seen in other states following the legalization of horse racing, commercial enterprises will take notice, and some of those already in the

¹² www.atl.com

¹³ U.S. Census Bureau

¹⁴ Atlanta Convention & Visitors Bureau, 2015

¹⁵ www.breederscup.com

¹⁶ The San Diego Union-Tribune, November 4, 2016.

business here may capitalize on new opportunities while others are attracted to the state. Importantly, we would expect *all segments* of the equine industry to benefit as they have in other states.

As noted earlier, horse racing can take place anywhere – in an urban or a rural environment. But breeding and training horses is not an urban endeavor. A look at any state shows that the horse industry is almost entirely located in rural settings. Consequently, the economic impacts associated with the Race Tracks would be felt widely across the state, benefiting many rural locales. Although not quantified in this study, the horse industry preserves wide open spaces throughout the state and that has more than just economic value.

Finally, the Race Tracks promise to contribute substantially to state and local taxing authorities. In other states these funds have benefited a variety of causes such as education and health care.

The Lead Researcher

M. Christine Lewis, PhD is a top rated sales and marketing trainer, researcher, consultant and owner of The Lewis Group, a sales and marketing consultancy. She is also the former Director of Customer and Employee Research at the Public and Performance Management Group, Andrew Young School of Policy Studies, Georgia State University. Dr. Lewis is an expert in analysis of the behavioral and economic dynamics of all types of markets. Her research helps organizations make a variety of market related decisions, including whether to enter a market, expand an existing operation, how to adopt a customer focused approach to product/service design, product/service improvement, and recovery from product/service failures. Both employee and customer surveys help achieve these goals. Dr. Lewis held positions in market, sales and product management for AT&T and Ameritech where she implemented several innovative marketing practices, coauthored the business strategy for the business market after divesture and earned the distinction of being the number one business sales manager in the company. Dr. Lewis has successfully completed consulting engagements for a wide variety of firms such as AT&T, Crain Communication, Coors, FedEx, Kmart, KPMG, Lincoln Electric, Lucent Technologies, Taco Bell and Verizon. She has also worked with many public sector and nonprofit clients. She is a former Marketing professor at Wayne State University in Detroit, MI.