

The Possible Economic Benefits from Instituting Pari-Mutuel Wagering on Horse Races in Georgia

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The Public Performance and Management Group

The Public Performance and Management Group was asked to examine the possible economic benefits of legalizing pari-mutuel wagering in Georgia, drawing from existing information. In pursuit of this goal, we have examined information from a wide range of sources addressing the benefits gained from pari-mutuel wagering in other states. Undoubtedly, though, the Georgia experience would differ from these past efforts, for better or worse. Our attempt here is to sketch out the possibilities, based on the best available information.

Overview

The pari-mutuel concept originated in France in 1862—winnings depending on odds reflecting the popularity of different horses. The next milestone in progress occurred in 1927 when England adopted pari-mutuel wagering as the legal betting system at all tracks in 1927. Further adoptions followed the invention of “totalisator” machines to calculate the winnings fairly and accurately.

The first legal pari-mutuel horse races using a totalisator began in Florida at the Hialeah track in 1933, and pari-mutuel wagering was legalized in Michigan, New Hampshire, Ohio, Oregon, Washington and West Virginia that same year. Georgia itself came close to legalizing pari-mutuel wagering for horses and dogs in 1935 when a bill passed the House on March 13 by a vote of 103 to 70. Proponents argued that, “Florida, California, Kentucky, and numerous other states had paid for roads, schools and other improvements with no ill effects.”¹



Pari-mutuel wagering is now legal in 43 states as of 2010 and banned in Alaska, Georgia, Hawaii, Mississippi, North Carolina, South Carolina, and Utah, and 36 states operate both live horse racing and pari-mutuel wagering.²

The Horse-Racing Industry

Georgia already has an established equine industry. A study by Deloitte in 2005 found Georgia to have nearly 180,000 horses in the state,³ which is more than pari-mutuel states such as Louisiana, Maryland, and New Jersey. Horseracing also exists now in Georgia, and Hawkinsville lays claim to one of the largest harness racing facilities in the country and celebrates that fact with a yearly Harness Horse Festival.⁴ Thus, by allowing pari-mutuel wagering, Georgia would be growing an industry that is already well established.

¹ Georgia house okays pari-mutuel racing by vote of 103-70. (1935). *The Atlanta Constitution* (1881-1945), pp. 10. (See, <http://ge.tt/8M1I2qD>)

² R. Miller and K. Washington (2011). “Thoroughbred & Harness Racing” (pp. 191-204), in *Casinos, Gaming & Wagering*, Richard K. Miller & Associates (eds.).

³ Deloitte Touche, *The Economic Impact of the Horse Industry for Selected States*, 2005. (See, <http://ge.tt/9eOvRLD>).

⁴ See, <http://hawkinsville.georgia.gov/05/home/0,2230,8969499,00.html;jsessionid=84164618C33DE86AF236112A8F7F991A>

Pari-Mutuel Economic Impacts

The national study conducted in 2005 by Deloitte was the first of many such economic impact studies in recent years, though mostly focused on individual states: Virginia,⁵ North Carolina,⁶ Indiana,⁷ to note just a few. To put it bluntly, we do not need another study to know that the equine industry is important to Georgia. The remaining questions concern the magnitude of the expansion that might flow from allowing pari-mutuel wagering. What is the additional spark that pari-mutuel wagering could provide?

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. No comprehensive studies exist, but industry observers have argued that wagering improves the health of the equine industry,⁸ and that the size of purses also brings benefits.⁹ The introduction of pari-mutuel wagering could also raise the sale price of horses.¹⁰ 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.

The 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.¹¹ 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.

⁵ Terrance Rephann, *The Economic Impact of the Horse Industry in Virginia*, (2011). Weldon Cooper Center for Public Service, University of Virginia. (See, <http://www.vhib.org/documents/Va-Horse-Industry-Board-Equine-Economic-Impact%20Study.pdf>)

⁶ Equine Executive Committee, *North Carolina's Equine Industry 2009*. Agricultural Advancement Consortium. (See, <http://www.ncagr.gov/markets/livestock/horse/documents/equinestudy050809.pdf>).

⁷ Conners, et al., *Indiana Equine Industry Economic Impact and Health Study* (2011). (See, <http://ge.tt/9Fpznd>).

⁸ The Rural Center, *North Carolina Equine Industry: Recommendations and Findings*. See, <http://www.ncagr.gov/markets/livestock/horse/documents/equinestudy050809.pdf>.

⁹ Martinez, A. (2008, Feb 04). With so many horses, Pennsylvania makes more hay: Just as new jersey grows less, rising equine population is pushing up demand. *McClatchy - Tribune Business News*.

¹⁰ Kentucky equine industry thriving. (2006, Sep 25). *US Fed News Service, Including US State News*.

¹¹ Dink, NeSmith, *Horse Racing in Georgia Is a Winning Proposition*. (2011). *The Sylvania Telephone*. (See, <http://www.sylvaniatelephone.com/opinion/horse-racing-georgia-winning-proposition>)

The Metro Advantage

Much like Georgia—the top horse states pair striking rural settings with dense urban areas that would support horse parks and other types of amusement areas that incorporate pari-mutuel wagering. Florida, Texas, and California also offer these types of benefits, and they have the highest horse densities in the nation. As with successful malls, concert venues, and sports arenas, horse parks are more likely to thrive when placed in close proximity to population centers.

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 last year for the Kentucky Tourism, Arts and Heritage Cabinet.¹² This was a unique event in some respects, because this was the first time the World Equestrian Games were held outside Europe, but traveling to different locations for special events is common in the horse industry. The report concluded that visitors to this event contributed \$201.5 million to the Kentucky economy, and over 3/5 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.

Lexington itself, sometimes called "Thoroughbred City," is the second-largest city in Kentucky, and it sits in a metro area of less than half a million people. The Blue Grass Airport offers regional service. Tours of local horse farms is one of the interesting tourist activities. Given their success, there is reason to think that pari-mutuel wagering on horseracing would be a major attraction for Atlanta, which had 37 million visitors in 2010 according to a study conducted for the Atlanta Convention and Visitors Bureau.¹³ Visitors spent \$10.9 billion. Professor Debbie Cannon from Georgia State University attributed the increase from the previous year to visitors staying an extra day. The editorial board of *Creative Loafing* provided another perspective on this study by detailing the current "let down" of Atlanta tourism.¹⁴ Opinions will certainly differ

¹² Certec, Inc., Economic Impact of the World Equestrian Games in Kentucky, 2010. (See, <http://www.kentuckytourism.com/userfiles/Industry/research/WEG%20Economic%20Impact%20Report.pdf>).

¹³ Leon Stafford, Visitation Is Back: Tourism up in Metro Atlanta. (2011). *The Atlanta Journal and Constitution* (See, <http://www.ajc.com/business/visitation-is-back-tourism-1134839.html>).

¹⁴ Editorial Board, The Letdown of Atlanta Tourism: How Can We Make Our City a to Destination? (2011). *Creative Loafing* (See, <http://m.clatl.com/atlanta/the-letdown-of-atlanta-tourism/Content?oid=3919924>).

on what makes a great tourist destination, but most will probably agree that Atlanta lacks the dynamism of the top USA destinations, and this is something that pari-mutuel wagering could help to change.

Pari-Mutuel Tax Revenues

While Georgia already has an equine industry, it totally lacks the tax revenues that pari-mutuel wagering could produce. Such revenues would likely be significant, but not on the scale of the state lottery. Figure 1 displays the total 2005 tax equine revenues for a set of comparison states without casino gambling. Kentucky leads the pack at \$66 million in state tax revenues. A cautious assessment of the ultimate Georgia potential would be the \$50 million Kentucky/Louisiana average, once the industry is operating on multiple track locations.¹⁵

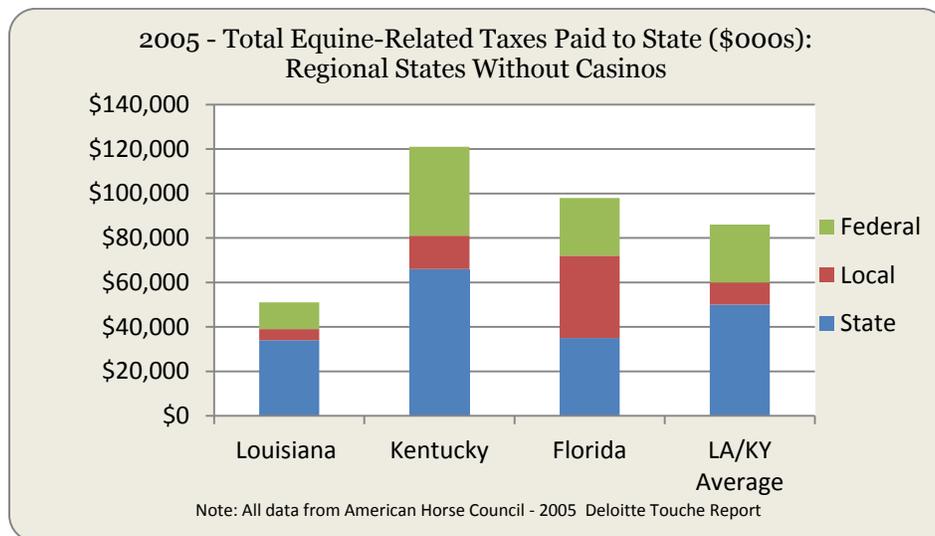


Figure 1: Pari-Mutuel Tax Benefits for Comparison States

Georgia has multiple advantages that could produce a successful entry into pari-mutuel wagering, but our late entrance may attenuate the level of success.¹⁶ Many options exist today for enjoying horseracing and games of chance--such as lotteries.¹⁷ *Overall, we find compelling evidence supporting arguments that legalizing pari-mutuel wagering would produce a broad range of economic benefits. Growing the state equine industry and increasing state revenues would be the two most likely possibilities. Broader impacts are also possible that would contribute to enhancing Georgia as a destination state and possibly creating a more positive synergy between urban and rural areas of the state.*

¹⁵ This figure is the projected total equine contribution for Georgia with pari-mutuel wagering. The current contribution is unknown, and a study is currently under way.

¹⁶ Anonymous, Lengthening odds: New betting options imperil horseracing's future. (July 8). *The Economist*. (See, <http://www.economist.com/node/16507659>).

¹⁷ Gulley, O. D., & Scott, Frank A., Jr. (1989). Lottery effects on pari-mutuel tax revenues. *National Tax Journal* (1986-1998), 42(1), 89-89.

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The Research Team

The Public Performance and Management Group (PPM) is affiliated with the Department of Public Management and Policy in the Andrew Young School of Policy Studies, and we seek opportunities to contribute objective and balanced information that can improve the quality of public decisions. In this case, we were engaged to investigate the status of pari-mutuel wagering in the states.

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