

Horse Racing in Michigan

An Economic Impact Study

December 2002

Prepared for
The State of Michigan
The Office of Racing Commissioner

Prepared by
Public Sector Consultants Inc.
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Executive Summary

The purpose of this report is to estimate the total economic impact of horse racing on Michigan's economy. Horse racing affects not only the cities and towns where racetracks are located but also the state as a whole through its impact on Michigan's farm sector. A vibrant horse racing industry is critical to the existence of Michigan's numerous racing breed farm operations. Currently, the horse racing industry finds itself in serious decline. Some competition stems from other forms of entertainment—including but not limited to the new Detroit casinos, Indian casinos, and the state lottery. At the same time, neighboring racing jurisdictions (Canada, Ohio, Indiana, and Illinois) offer alternative gaming options, such as off-track betting, account wagering, and slot machines. All these factors have contributed to decreased attendance and wagering at Michigan racetracks. The Horse Racing Law of 1995, as amended, which allowed year-round racing and simulcast wagering, provided only a momentary halt to the decline in wagering. Despite a dramatic increase in racing dates (when including simulcast broadcast races), the total amount wagered was lower in 2001 than it was in 1991.

Currently, the horse racing industry generates more than \$443 million in total economic activity for Michigan. This output creates and supports nearly 14,000 paid jobs and nearly \$142 million in total personal income. In addition, the industry is responsible for the generation of approximately \$23.5 million in state revenue through state racing taxes as well as taxes on economic activity attributable to racing. In 1995, Public Sector Consultants (PSC) utilized the Michigan Equine Monitoring System to estimate that the horse racing industry supported nearly \$700 million in capital facilities. PSC assumes that the amount of capital held by the industry declined at the same rate as expenditures, which fell approximately 19 percent over this time. Thus, PSC estimates that the horse racing industry supported nearly \$570 million in capital facilities in 2001. ***In total, horse racing accounts for nearly \$1.2 billion in economic output, income, and capital facilities. This represents a decline, in real dollars, of nearly 19 percent since 1993.***

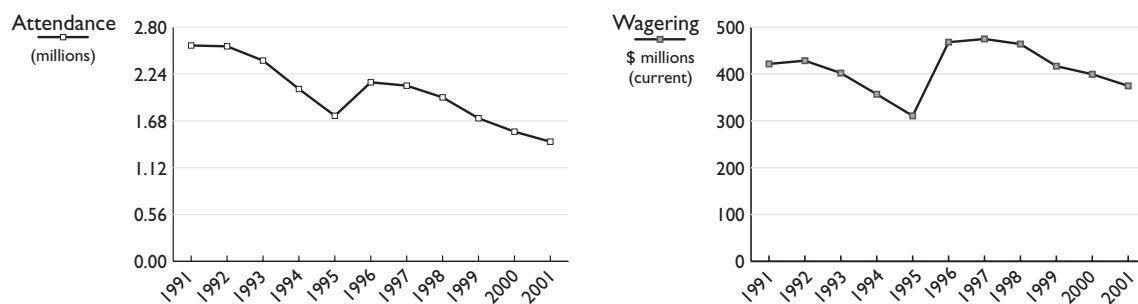
PSC's 1995 report estimated total Michigan employment related to horseracing (in 1993) to be 45,000. This estimate included approximately 15,000 family workers on horse farms. While the present study does not survey horse farms for family employment, PSC assumes that the number of family employees decreased at the same rate as farm expenditures. ***Therefore, PSC estimates that in 2001 there were more than 12,200 family farm workers on horse farms, for total employment in the industry of 26,200. This represents a decline of nearly 42 percent since 1993.***

Introduction

Regulated pari-mutuel horse racing has existed in the state of Michigan for nearly 70 years. In 1933—the industry’s first season—horse racing attracted over 101,000 attendees for 31 days of racing. These attendees wagered over \$3.5 million, resulting in \$123,783 in state revenue. Since that time, when racing occurred only at one site—the Michigan State Fairgrounds—Michigan’s horse racing industry has grown dramatically. Michigan currently has seven licensed tracks offering 2,205 days of live and simulcast pari-mutuel racing. These race dates attracted more than 1.4 million attendees in 2001, who wagered \$374.5 million, resulting in \$11.9 million in state revenue from race taxes.

While the horse racing industry in Michigan has grown considerably since its humble beginnings, the industry is currently in a dangerous state of decline. Hampered by competition from the state lottery, the newly opened Detroit casinos, casinos located on Indian reservations, and other forms of entertainment, horse racing has seen declines in attendance, amount wagered, revenues, and expenditures. Exhibit 1 shows the decline in horse racing wagering and attendance since 1991. The sharp increase in wagering and attendance from 1995–1996 is a result of a change in state law that allowed year-round racing and simulcast wagering.

EXHIBIT 1
Horse Racing Wagering and Attendance, 1991–2001



SOURCE: Public Sector Consultants Inc.

A complete collapse of the horse racing industry could cause serious damage to Michigan’s economy. In addition to the numerous jobs resulting from spending at racetracks, Michigan’s horse racing industry supports a large number of farms raising racing breed horses throughout the state.

For this study, Public Sector Consultants was asked to estimate the employment, income, and output of the industry’s track and farm operations. PSC found that in 2001, Michigan racetrack operations created and supported more than 1,300 jobs. This spending resulted in economic output of \$78.1 million and personal income of \$24.8 million. Racing-breed farm operations

generated a total economic impact of nearly \$365 million. This spending created and supported more than 12,000 jobs and \$117 million in total personal income.

The spending at racetracks and farms generates significant revenue for state government. In 2001, the largest component of this revenue resulted from pari-mutuel simulcast wagering taxes, which totaled \$11,826,409. In total, racetrack operations directly generated \$12,729,630 in revenue for the state.¹

In addition to state revenue, racetracks also provided over \$1.7 million in revenue for the jurisdictions they are located in through breakage.² These revenues are intended to offset the additional cost of fire and police services associated with racetrack operations. In 2001, cities and townships received \$1,739,164 in breakage and spent only \$589,459 on increased police and fire protection. This represents a windfall of nearly \$1.15 million for these localities.

Revenues from horse racing provide support to numerous county fairs throughout the state. In 2001, county fairs offering horse racing reported receiving more than \$3.3 million from race tax revenues earmarked for race purses, exhibitor prizes, harness racing expenditures, and physical improvements. These fees represented nearly 21 percent of the revenue taken in by these 29 fairs.

¹ This revenue results from pari-mutuel simulcast wagering taxes, occupational license fees, “outs” (uncashed pari-mutuel wagering tickets), racing fines, horse race licenses, fingerprint fees, and miscellaneous revenues.

² According to the Office of Racing Commissioner, “breakage is the amount that is subtracted from wage payout calculations when they are rounded down to the nearest dime (or nickel in a minus pool situation).”

Economic Impact of Racetracks

Michigan currently has seven fully licensed pari-mutuel racetracks. Five of these tracks feature harness racing, one features Thoroughbred racing, and one features mixed breed racing. The largest of these tracks, Hazel Park and Northville Downs, are located in the Detroit metropolitan area. The remaining five are dispersed around the southern portion of the Lower Peninsula. There are no licensed pari-mutuel racetracks in the northern Lower Peninsula or the Upper Peninsula.

To estimate the economic effects of these racetrack operations, PSC analyzed track financial statements and conducted interviews with each track regarding additional spending, contract services, and employment statistics. Exhibit 2 shows that racetracks spent more than \$68.8 million on operations, compensation, purses, state and local taxes, and breakage. In 2001, racetracks spent \$15.2 million on operations. This spending generated additional economic output of nearly \$9.8 million. In total, track operation spending generated \$25 million in economic output.

Racetrack operations spent more than \$11 million on compensation in 2001. PSC's survey of racetrack operations found 962 employees directly employed by the racetracks. The wages paid to these employees resulted in nearly \$4 million in increased personal income. A further 223 employees worked as contract workers at the racetracks. Racetrack spending supported the employment of 142 additional workers in the agriculture, retail, and service sectors.

Racetrack operations paid nearly \$16 million in state and local taxes. These organizations paid more than \$11.8 million in state racing taxes, more than \$1.7 million in breakage to local cities for police and fire protection at tracks, \$613,553 in property taxes, and over \$1.5 million in other taxes.

Total direct, indirect, and induced economic output attributable to track operations in 2001 was \$78.6 million dollars. These track expenditures resulted in personal income of \$24.8 million.

EXHIBIT 2**Combined Direct Expenditures and Multiplier Effects, Michigan Horse Tracks, 2001**

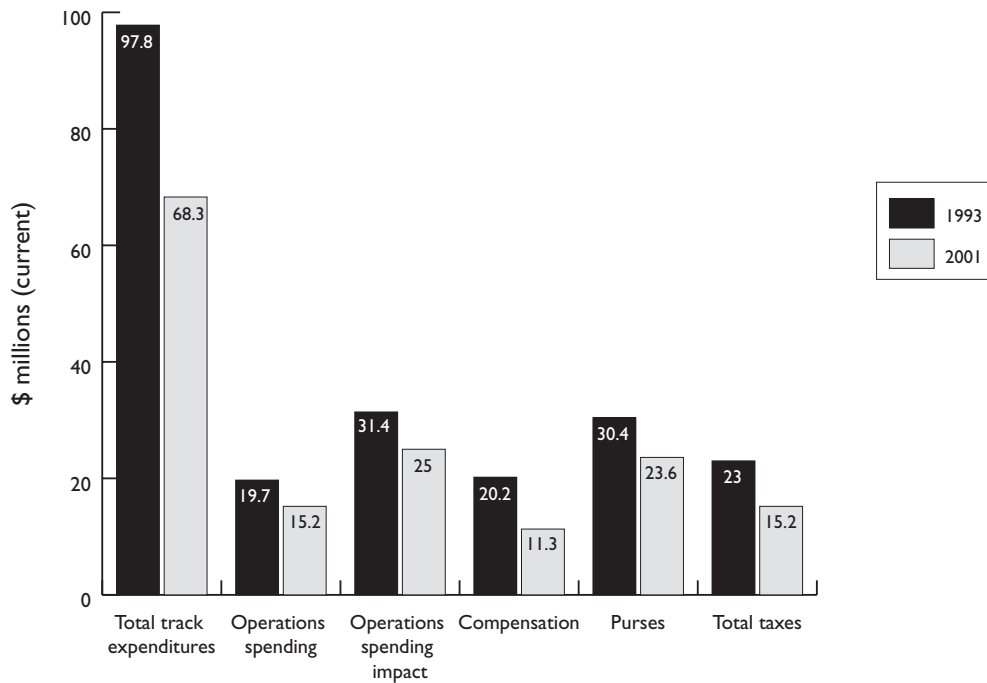
Category	Direct expenditures	Direct, indirect and induced output	Total personal income
Advertising and publicity	\$1,449,427	\$2,491,131	\$1,126,175
Entertainment and meals	349,614	567,822	207,263
Equipment	4,025,976	6,544,787	2,150,288
Finance, insurance, and real estate	1,029,665	1,702,759	894,690
Food and beverage supplies	385,927	626,799	228,790
Gas and oil	15,275	24,026	4,602
Medical services	13,858	23,678	10,096
Office supplies	195,790	318,284	104,572
Other business services	405,780	672,107	238,485
Postage	63,592	106,903	65,161
Professional fees	414,896	693,633	437,279
Professional services	820,806	1,363,796	791,144
Program publishing	702,918	1,121,108	299,901
Rent	2,046,758	3,327,292	1,093,181
Repairs and maintenance	1,756,925	2,896,993	1,501,129
Uniforms	14,000	22,759	7,477
Utilities	1,521,190	2,503,207	577,226
Operating subtotal	15,212,397	25,007,084	9,737,459
Employee salaries, wages and benefits	11,032,202		15,108,387
Purses	23,652,816		
Pensions, depreciations, simulcast	3,240,659		
State racing tax	11,826,499		
Breakage	1,739,164		
Single business tax	260,028	315,325	
Sales tax	55,297		
Property taxes	613,553		
Payroll taxes	1,202,428		
Charity	19,253		
Total track expenditures	\$68,854,296	\$78,648,983	\$24,845,846

SOURCE: Public Sector Consultants Inc.

CHANGE IN ECONOMIC ACTIVITY SINCE 1993

From 1993 to 2001, racetrack expenditures decreased in every major category. As seen in Exhibit 3, these organizations have seen decreases in spending, economic impact, and compensation. It is important to note that these decreases are expressed in *current* dollars, not inflation-adjusted or *real* dollars. If expressed in 1993 dollars, the difference would be even greater.

EXHIBIT 3
Economic Impact Over Time for Selected Criteria



SOURCE: Public Sector Consultants Inc.

Economic Impact of Racing-breed Farm Operations

It is difficult to obtain an accurate count of equine in Michigan. These difficulties arise from many of the same problems that plague the United States decennial census. The largest of these problems are potential undercounts resulting from equine living in unexpected or urban settings. Examples of possible overlooked locations are city zoos and city mounted police units. Nevertheless, the efforts taken by the United States Department of Agriculture and the Michigan Department of Agriculture, like the decennial census, represent the best available estimate of total equine.

In 1991 and 1996 the Michigan Department of Agriculture's Michigan Equine Monitoring System (MEMS) attempted to count all equine—by breed—in the state. They found that there were 130,000 equine residing in the state of Michigan.³ In 1999 the National Agricultural Statistical Service (NASS) completed a national equine census and also found that there were 130,000 equine in Michigan. Unfortunately, the 1999 NASS effort did not categorize equine by breed but rather by total head. The 1996 MEMS count was the last categorization by breed; it found that approximately 62 percent of all equine in the state (80,500) were racing breeds.⁴ PSC assumes that these numbers held constant for Michigan in 2001.

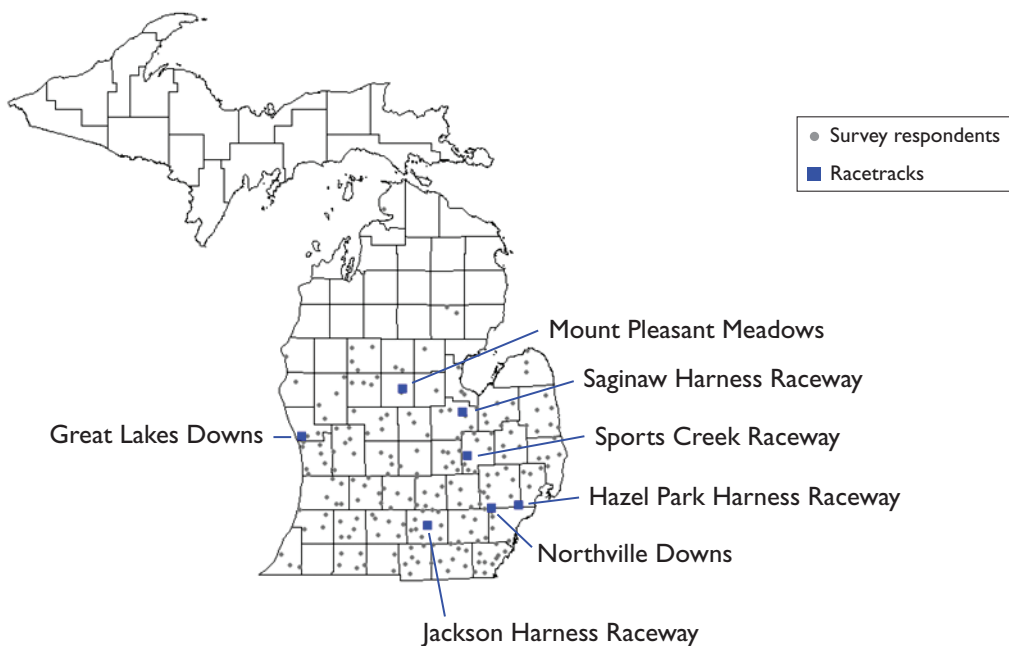
In order to estimate the economic impact of racing-breed farm operations—equine farms and boarding, breeding, and training facilities—PSC completed a mail survey of Michigan racing-breed horse farms. This survey was mailed to all United States Trotting Association (USTA) members in Michigan, all Michigan Thoroughbred Owners and Breeders Association (MTOBA) members, and all Thoroughbred owners licensed by the Michigan Office of Racing Commissioner (MORC). PSC mailed 3,335 surveys and received 658 responses, for a response rate of 20 percent. In order to determine per-equine farm expenditures, PSC used the subsample of respondents who own a farm. This subsample comprised 412 respondents.

Exhibit 4 shows the geographic distribution of survey respondents who reported owning a horse farm in Michigan. PSC received responses from horse farm owners from all across the southern Lower Peninsula. As the map shows, respondents to the survey are located in the same general area as Michigan's seven racetracks. Only one respondent was located in the northern Lower Peninsula and there were no respondents from the Upper Peninsula.

³ While the 1991 and 1996 estimates of total head are the same, the distribution among breeds has changed. Interestingly, the percentage of racing breed horses has trended slightly upwards. In 1991, there were 130,000 equine, with 61.6 percent racing breeds. In 1996, there were 130,000 equine, of which 61.9 percent were racing breeds. A 1984 Michigan Department of Agriculture count showed 160,000 equine, of which 60.1 percent were racing breeds.

⁴ For the purposes of this study, racing breed horses include Quarter horses, Arabians, Standardbreds, Thoroughbreds, and Appaloosas.

EXHIBIT 4
Geographic Distribution of Michigan Racetracks and
Survey Respondents Who Own a Farm



SOURCE: Public Sector Consultants Inc.

Utilizing survey responses to estimate per-equine spending, PSC found that expenditures vary greatly depending on the characteristics of the facility. Exhibit 5 shows the difference in both farm size and expenditures.

EXHIBIT 5
Total Expenses Per Equine, by Ownership Type, 2001

	All equine stabled on site N=206	Owner stables all equine elsewhere N=7	Owner stables both on and off site N=200	Owner stables own and others' equine N=143
Farms				
Mean operation size (acres)	14.29	10.00	21.54	14.47
Expense per equine				
Mean	\$3,910	\$7,184	\$4,262	\$7,028
Minimum	\$50	\$781	\$160	\$50
Maximum	\$18,167	\$16,700	\$33,333	\$54,850

SOURCE: Public Sector Consultants Inc.

In order to determine total farm expenditures for various categories of expenses, PSC used per-equine expenditure estimates from Michigan farm owners. This includes farms that have all horses on site; some horses off site and on site; and farms where the owners stable horses belonging to others. The results of these estimates are summarized in Exhibit 6. PSC estimates that racing-breed horse farmers in Michigan spent approximately \$4,075 per horse.

EXHIBIT 6
Average Per-equine Expenditures, by Category, 2001

Category	Average Per Equine Expense
Accountant	\$38.23
Bedding	96.47
Boarding	135.35
Building maintenance	170.69
Driver	141.47
Equine dentist	21.54
Equipment lease	17.42
Farrier/blacksmith	181.90
Feed	430.06
Gas/diesel	188.33
Health care supplies	70.30
Insurance	110.24
Land lease	18.73
Miscellaneous operations	388.29
Stud fees/breeding	196.30
Tack and equipment	188.66
Taxes	162.40
Trainer	720.89
Travel and lodging	94.03
Utilities	75.58
Vehicle and equipment maintenance	229.97
Veterinarian	397.99
Total	\$4,074.85

SOURCE: Public Sector Consultants Inc.

PSC applied its expenditure estimates to the total equine count derived from the NASS equine count. PSC adjusted the ratio of total expenses to total equine to account for the number of Quarter horses, Arabians, and Appaloosas throughout the state that are not involved in racing.

Applying these adjusted expense ratios to the Michigan horse population, PSC finds total racing-breed farm expenditures of more than \$231 million. As shown in Exhibit 7, these expenditures generated total economic output of almost \$365 million and total personal income topping \$117 million.

EXHIBIT 7

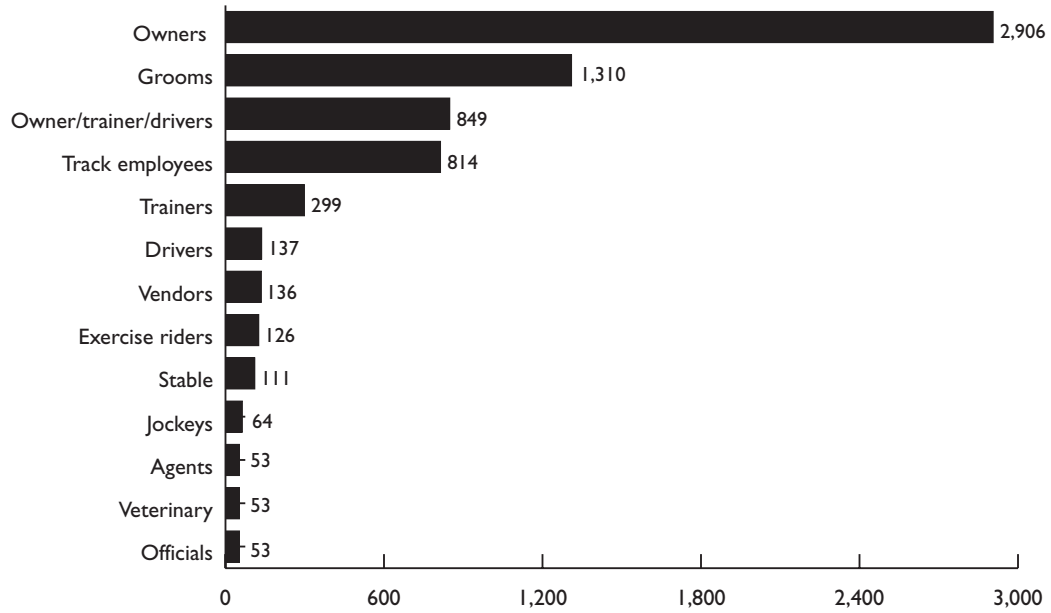
Estimated Expenses and Multiplier Effects for Racing-breed Farm Operations

Category	Per equine expense	Final demand	Direct, indirect, and induced output	Personal income	Total employees
Accountant	\$38.23	\$2,051,474	\$3,446,790	\$2,035,134	57
Bedding	96.47	7,765,705	12,479,923	2,998,629	74
Boarding	135.35	7,263,652	11,009,640	2,976,094	335
Building maintenance	170.69	13,740,727	22,657,090	11,740,177	283
Driver	141.47	2,581,437	4,196,487	1,378,755	18
Equine dentist	21.54	1,734,248	2,963,585	1,263,622	42
Equipment lease	17.42	467,550	791,863	288,595	7
Farrier/blacksmith	181.90	14,643,022	22,194,676	5,999,601	675
Feed	430.06	34,619,959	54,077,915	11,139,977	755
Gas/diesel	188.33	15,160,620	23,845,966	4,567,136	99
Health care supplies	70.30	3,772,615	6,112,870	1,996,412	29
Insurance	110.24	8,874,635	14,676,139	7,711,363	217
Land lease	18.73	502,609	717,913	145,637	6
Miscellaneous operations	388.29	20,838,194	31,584,802	8,537,914	961
Stud fees/breeding	196.30	5,267,280	7,983,706	2,158,132	243
Tack and equipment	188.66	10,124,968	14,704,196	6,827,101	211
Taxes	162.40	2,963,213	2,963,213		
Trainer	720.89	30,950,001	50,313,551	16,530,508	222
Travel and lodging	94.03	2,018,539	3,206,584	1,274,503	59
Utilities	75.58	6,083,835	10,011,334	2,308,555	49
Vehicle and equipment maintenance	229.97	18,512,651	28,184,089	9,809,035	296
Veterinarian	397.99	21,359,041	36,495,800	15,561,185	515
Total	\$4,074.85	\$231,295,974	\$364,618,132	\$117,248,065	5,153

SOURCE: Public Sector Consultants Inc.

Expenditures by racing-breed farm operations in Michigan directly support the employment of 4,078 persons. Additional economic activity resulting from racing-breed farm expenditures supports 1,079 jobs. In addition to this employment, as Exhibit 8 shows, the Michigan Office of Racing Commissioner granted licenses to 6,911 people for various categories of employment within the industry.

EXHIBIT 8
State of Michigan Licensed Industry Employees, 2001



SOURCE: Public Sector Consultants Inc.

County Fairs

Michigan county fairs generate both an economic and social benefit to Michigan residents. They provide a venue for farmers to display and sell livestock and crops, promote involvement in 4-H and other activities, as well as provide entertainment for families throughout Michigan. As shown in Exhibit 9, Michigan held 87 fairs in 2001, offering a total of 536 fair days throughout the state. Twenty-nine of these fairs featured horse racing, accounting for a total of 224 fair days and 116 race dates. These fairs reported receiving more than \$3.3 million from the pari-mutuel racing tax to support racing activities. This money was used for financing racing activities; physical improvements and maintenance; and prizes for horse breeders.

EXHIBIT 9
Michigan County Fairs, by Type, 2001

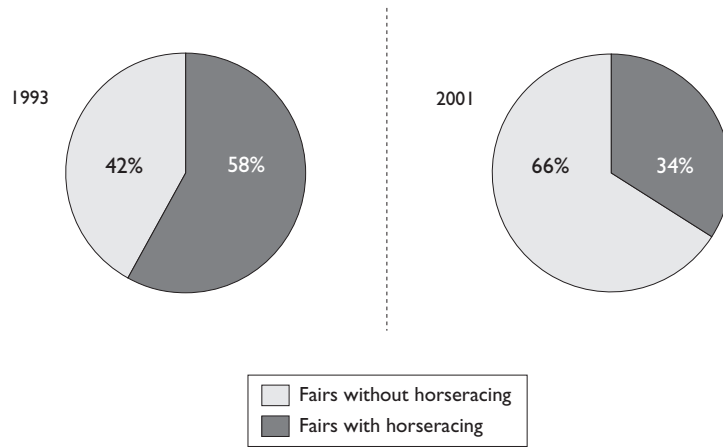
	Fairs with racing	Fairs without racing	All fairs
Number	29	58	87
Fair days	224	312	536
Race dates	116	0	116
Cash receipts	\$15,789,993	\$31,293,304	\$47,083,297
Total disbursements	\$15,138,969	\$29,393,568	\$44,532,537

SOURCE: Public Sector Consultants Inc.

In 2001, Michigan county fairs grossed more than \$47 million. The 29 fairs offering racing accounted for approximately 42 percent of fair days but their nearly \$16 million of revenue accounted for only 34 percent of total revenue. The fairs with racing received nearly 22 percent of their revenue from gate and grandstand admissions and nearly 21 percent from the state to support racing activities. These fairs paid out more than \$3.1 million, or nearly 22 percent of their expenditures in purses and other race expenditures.

The economic impact of horse racing on county fairs has declined since 1993. As seen in Exhibit 10, fairs with horse racing were responsible for 58 percent of total county fair revenue in 1993. By 2001, this proportion fell to 34 percent of total revenues. Furthermore, five fewer fairs offered live racing in 2001 than in 1993. Figures for 2002 show that county fairs will only offer 103 race dates. While it is clear that county fairs featuring horse racing receive significant economic support from the state simulcast wagering tax, it is also clear that this support is not as important to all fairs as it once was.

EXHIBIT 10
Distribution of County Fair Revenue, 1993 and 2001

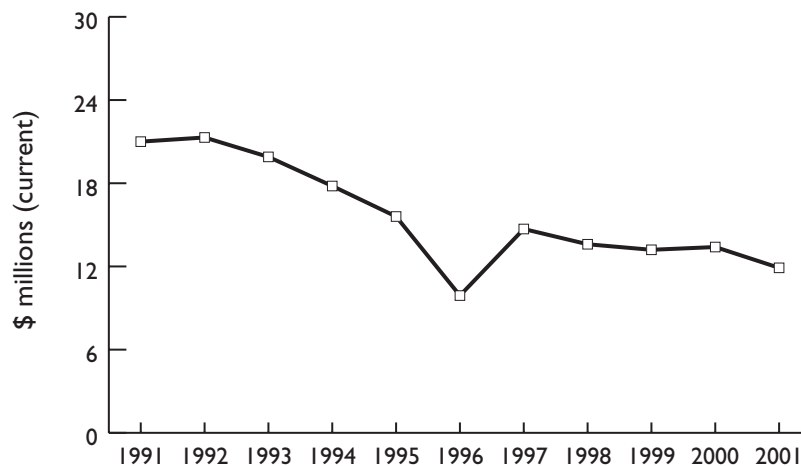


SOURCE: Public Sector Consultants Inc.

State Taxes

Exhibit 11 shows state revenues from racetrack operation collected since 1990.⁵ These revenues include the pari-mutuel wagering tax, license fees, “outs,” and fines. Race tax revenues have steadily decreased since the early 1990s, dropping more than 43 percent during this time period.

EXHIBIT 11
State Revenues from Horse Racing



SOURCE: Public Sector Consultants Inc.

It is important to note that in addition to the revenues represented in this exhibit, racetracks and racing-breed farms also pay sales tax, the single business tax, and property taxes. In 2001, racetracks paid \$315,325 in single business and sales tax in addition to \$613,553 in property taxes. PSC estimates that racing-breed farm operations paid nearly \$4.3 million in sales taxes on \$71.4 million of taxable purchases. PSC also estimates that personal income created by the horse racing industry generates more than \$3.8 million in personal income taxes for the state.⁶ In total, PSC estimates that horse racing contributes a minimum of \$23.5 million in revenue to the state.

⁵ Exhibit 11 only shows revenues directly attributed to horseracing and not those revenues estimated by PSC or single business and sales tax payments by racetracks.

⁶ This estimate was derived using an effective tax rate of 2.68 percent.

Conclusion

This study estimates that Michigan's horse racing industry generates more than \$443 million in total economic benefit to the state. In addition, the industry creates or supports employment resulting in nearly \$142 million in personal income. The industry also generates approximately \$23.5 million in total state revenues and supports capital facilities valued at nearly \$570 million. ***In total, horse racing accounts for nearly \$1.2 billion in economic output, income, and capital facilities. This represents a decline, in real dollars, of nearly 19 percent since 1993.***

This study also estimates that the horse racing industry supports nearly 14,000 paid employees. Family workers are not included among these paid employees. In its 1995 study, PSC estimated that there were more than 15,000 family workers on horse farms in Michigan (in 1993). Assuming that the number of family employees decreased at the same rate as farm expenditures, ***PSC estimates that in 2001 there were more than 12,200 family farm workers on horse farms, for total employment in the industry of more than 26,200. This represents a decline of nearly 42 percent since 1993.***

Technical Appendix

COMPARISON TO PREVIOUS STUDY

PSC previously completed an economic impact study of the horse racing industry in 1995. This study analyzed racetrack and farm employment, income, and expenditures for 1993. While it is tempting to use this previous study for comparison purposes, there are several reasons why this comparison can only occur for specific items in this report. Farm expenditure estimates in the present study are taken from a mail survey designed by PSC. The 1995 report was based on a 1994 survey completed by the Michigan Harness Horsemen's Association (MHHA). The differences between these two studies are as follows:

- Expenditure estimates for 1993 were based on a subsample of 115 surveys, whereas the current survey is based on a sample of 412. The current sample's higher response rate increases the accuracy of the estimates.
- The MHHA survey was mailed only to Standardbred horse owners, whereas the current survey was mailed to Standardbred and Thoroughbred owners.⁸
- The current study only reports employment information for paid employees. The 1993 study included family employees in its analysis.

Due to these factors there are only limited areas where the two studies can be reliably compared. These include:

- Estimates of track expenditures and related economic impact
- Employment information derived from Office of Racing Commissioner licensee files
- County fair expenditure and revenue data
- State tax revenue data
- Track attendance and wagering data
- Total economic impact and personal income data

Except for these limited circumstances, care must be taken to avoid comparing the two reports. Comparisons would provide an inaccurate representation of changes in the horse racing industry.

ACCURACY OF SURVEY RESULTS

While PSC received a response rate of 20 percent from its mail survey, the majority of estimates regarding horse farm expenditures are derived using a subsample comprising the 412 respondents who own farms in Michigan. This subsample included all farm owners who responded to the survey.

⁸ While the PSC survey was only mailed to owners of Standardbred and Thoroughbred horses, further analysis revealed that these owners also owned horses of other racing breeds, including but not limited to Appaloosas, Arabians, and Quarter horses.

The 1997 Census of Agriculture reports 9,090 horse and pony farms in Michigan. Assuming that the percentage of horses is spread evenly among these farms, and considering the fact that racing breeds make up approximately 62 percent of all equine in Michigan, one can assume that there are approximately 5,618 racing-breed horse farm operations in Michigan.

If we assume that the population targeted for the survey (all USTA and MTOBA members in Michigan) was representative of all racing-breed horse farms in Michigan, survey results for the subsample of 412 respondents would have a margin of error of ± 4.6 percent with 95 percent confidence. If the population the survey was mailed to is different from the universe in any way, the survey results could be biased.