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Gaming in Georgia: The Economic Impact of a Racino

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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 last legislative session and is expected to continue its evaluation of legalized gaming when it reconvenes in 2018.

A race track casino (Racino) located in suburban Atlanta would offer a tremendous opportunity to generate substantial and ongoing general economic benefit, increase tax revenues, provide new good paying construction and permanent jobs and enhance tourism. Importantly, this project would materially benefit Georgia's horse industry, one of the top ten agricultural commodities in the state.

The purpose of this report is to determine the economic impact of a race track casino (or Racino) on the State of Georgia. A second, equally important, goal is to analyze the status and potential of the horse industry in Georgia.

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

Project Description

The Racino features a 300-room hotel, race horse track, live table games and slot machines, and an array of dining and lounge venues, 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: \$525 million
- ❖ Direct Construction Employment: 4,069
- ❖ Direct Construction Labor Income: \$203 million
- ❖ Direct Construction Taxes: \$31 million
- ❖ Total Construction Employment (including direct, indirect and induced labor): 6,755
- ❖ Total Construction Labor Income: \$338 million
- ❖ Total Construction Contribution to State GDP: \$500 million
- ❖ Total Construction Economic Output: \$951 million

The Racino, when completed, will directly create more than 2,275 jobs and over \$409 million in labor income in the first five years of operation. Including indirect and induced employment, the project will be responsible for creating over 6,200 jobs and \$1.3 billion in labor income in the first five years of operation:

Racino Employment and Operations Contributions to State and Local Economy

- ❖ Direct Employment: 2,275 (and growing as business grows)
- ❖ Direct Labor Income: \$82 million year one and \$409 million over first 5 years
- ❖ Total Operations Employment (direct, indirect and induced labor): 6,220
- ❖ Total Operations Labor Income: \$266 million year one and \$1.3 billion over first 5 years
- ❖ Total Operations Contribution to State GDP: \$670 million year one and \$3.4 billion over first 5 years

- ❖ Total Operations Economic Output: \$1.2 billion year one of operations and \$6 billion over first 5 years

Increased tax payments to the State of Georgia and the local community are considerable and will total over \$1.1 billion in the first five years of facility operation.

Racino Contributions to Tax Base

- ❖ Direct Gaming Taxes (@ 25%): \$146.3 million year one and \$731 million over first 5 years
- ❖ Other Related Taxes: \$64 million year one and \$319 million over first five years
- ❖ Total Taxes from Operations: \$210 million year one and \$1.1 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 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. With the addition of a Racino and its contributions to the horse industry, the revised respective statewide contributions would be:

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

- ❖ Allocation to Purses and Breed Development: \$63.9 million (year one of Racino operations) and \$319.5 million over first 5 years
- ❖ New Horse Industry-Related Employment (direct, indirect, induced): 1,229
- ❖ Annual Labor Income (direct, indirect, induced): \$53 million
- ❖ Annual Contribution to State GDP: \$78 million
- ❖ Annual Total Economic Output: \$116 million

Horse Industry Contribution to State GDP (Including Allocation to Purses and Breed Development)

- ❖ 2012 Contribution to State GDP: \$356 million
- ❖ Contribution to State GDP (year one of Racino operations) \$472 million
- ❖ Contribution to State GDP (year 5 of Racino operations): \$497 million

Horse Industry Total Economic Output (Including Allocation to Purses and Breed Development)

- ❖ 2012 Total Economic Output: \$869 million
- ❖ Total Economic Output (year one of Racino operations): \$1.15 billion
- ❖ Total Economic Output (year 5 of Racino operations): \$1.2 billion

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 six 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 a Racino on the state. A Racino is a racetrack where other forms of gambling, such as slot machines, are available. A second goal is to analyze the status and potential of the horse industry in Georgia.

This analysis found that the Racino meeting our plausible assumptions has the potential to produce a substantial economic impact within the state. The Racino would contribute \$670 Million per year to state GDP and roughly \$1.25 Billion to economic output. In addition, the Racino's allocation of 10% of gaming revenues to purses and breeding would yield more than \$116 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 the Racino concept has been legalized, it appears to have successfully altered the behavioral and economic dynamics of the horse industry. The Racino concept 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 Racino's investment in purses and breeding is the sole source of growth in the horse industry, we estimate that a Racino could boost the horse industry's contribution to state GDP from \$472 Million to almost \$497 Million in five years. The combined contribution to state GDP from the Racino and the horse industry in year one exceeds \$1.14 Billion. A very conservative estimate of the combined total contribution to Georgia's GDP from the Racino and horse industry could exceed \$1.3 Billion after 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 Racino also supports 14,204 jobs in year one and nearly 7,500 jobs thereafter not counting increases directly related to other segments of the horse industry. Furthermore, the Racino will benefit many other industries that supply the horse industry and Racino such as Real Estate, Legal Services, Financial Services, Restaurants, Lodging, Advertising, Veterinary Services, Insurance, Feed and Bedding Dealers, Track and Trailer Dealers, and so on.

¹ 2016 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.

Finally, the Racino also contributes to state and local taxes in excess of \$210 Million, an amount that will increase in relation to revenue growth.

The Economic Analysis of the Racino

Economic analysis requires a specific scenario, and ours is the construction of a Racino in suburban Atlanta. The location of the Racino is not a factor for determining the economic impacts on the state except that it determines the gross revenue estimates. If we were modeling the economic impacts on a particular area within the state, the location would matter. For our purposes, we modeled the economic impact on the state. The Racino does include a 300 room hotel and a race horse track. Race meet will be limited to 120 race days per year. The Racino also includes live table games. It will include 2,500 gaming positions with multi-player live table games counted as single units. The Racino will include a fine dining venue, buffet, casino snack bar, casino lounge, racetrack dining, racetrack bar and retail/gift shop. Table 1 shows the inputs for our analysis.

Inputs include the cost to build and operate the Racino. Estimated construction costs do not include land acquisition which would be a substantial additional investment. The scenario under review assumes that the Racino pays 25% of gross revenues to the state as a gaming tax. We make the additional assumption that a portion of gaming revenues are set aside to stimulate the growth of the horse industry. Specifically, we assume that ten percent of gaming revenues are allocated to horse racing purses and breed development. Finally, the model does not explicitly take into account revenue growth. Most likely, revenues will increase as awareness of and interest in the Racino as an entertainment option grows.

Table 1: Inputs to the Economic Model

Input	Amount
Construction Costs	\$525,000,000
Annual Racino Revenues	\$662,745,000
Gaming	\$585,000,000
Hotel	\$17,250,000
Horse Racing	\$16,000,000
Food	\$26,750,000
Beverage	\$9,000,000
Retail	\$845,000
Other	\$7,900,000
Employees	2,275
Compensation	\$81,900,000
Annual Allocation of Gaming Revenues to Horse Racing Purses and Breeding	\$58,500,000
Horsemen receive 5% of handle for live and import simulcast racing	\$2,025,000
Horsemen receive 50% of export signal sales	\$3,420,000

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 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.

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

We performed three analyses. Construction is a one-time only event and must be evaluated separately from ongoing Racino 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

It is important to note that the Study Area for these analyses is the state of Georgia. So, all economic impacts described herein occur in Georgia. Additional economic impacts that represent “leakage” beyond the state would be associated with the Racino and other businesses relevant to the model. The purchase of goods and services from out of state suppliers would be an example. However, our interest was in determining the economic impacts within the state. So, by choosing Georgia as our Study Area, we exclude consideration of economic impacts that occur beyond the state.

Table 2 summarizes the economic impacts for the three analyses. Overall output derived from the construction and operation of a Racino in the state is more than \$2.3 Billion the first year. This includes \$951 Million associated with the construction of the Racino, a one-time effect. The Racino produces an economic output of nearly a \$1.25 Billion per year. The allocation of a portion of gaming revenue to Purses and Breeding produces nearly \$116 Million in economic output annually. Of course as the Racino grows, all of these economic impacts will increase.

Table 2: Summary of the Economic Impact of the Racino Model

Summary of the Economic Impact of the Racino Model				
Impact Type¹	Employment	Labor Income	Contribution to State GDP	Output
Racino Construction²	6755	\$337,955,757	\$499,908,166	\$951,221,185
Racino Operations	6220	\$266,444,587	\$669,720,730	\$1,243,870,880
Purses and Breeding³	1229	\$52,812,502	\$78,171,381	\$115,909,023
Total	14204	\$657,212,846	\$1,247,800,277	\$2,311,001,088

¹ Each entry is the total direct, indirect and induced impacts. For example, 2275 of the 6220 employees associated with Racino Operations are direct employees; the remainder is associated with the suppliers of goods and services to the Racino (indirect) or the result of household purchases made by employees of the Racino 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 10% of gaming revenues to Purses and Breeding; not representative of the entire equine industry in the state of Georgia.

The total contribution to state GDP (Gross Domestic Product) in year one is nearly \$1.250 Billion. This includes \$500 Million from construction. The Racino makes an annual contribution to state GDP of nearly \$670 Million. Additionally, the revenue allocated to Purses and Breeding contributes more than \$78 Million to state GDP annually.

Although the model assumes that the Racino employs 2,275 workers, the total contribution to the jobs base from all sources is 14,204 in year one. Total labor income approaches \$658 Million. Construction supports 6,755 jobs and contributes \$338 Million in labor income. The Racino and gaming revenue allocated to Purses and Breeding account for 7,449 jobs and more than \$319 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 \$95 Million. Construction accounts for nearly \$31 Million, which is a nonrecurring effect. The model estimates taxes paid by the Racino at more than \$59 Million. The investment of gaming revenue in Purses and Breeding shows an impact of almost \$5 Million. Except for taxes related to Construction, all taxes are annual and we expect the amounts to rise as the Racino revenues increase.

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
Racino Construction²	\$348,733	\$21,063,007	\$8,866,553	\$909,918	\$31,188,211
Racino Operations	\$285,935	\$50,107,168	\$6,970,691	\$1,696,351	\$59,060,145
Purses and Breeding³	\$51,567	\$3,198,931	\$1,390,831	\$143,233	\$4,784,562
Total	\$686,235	\$74,369,106	\$17,228,075	\$2,749,502	\$95,032,918

¹ Does not include gaming taxes paid by the Racino. Gaming taxes = \$146,250,000 based on assumed rate of 25%.

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 10% of gaming revenues to Purses and Breeding

Gaming Taxes Add More Than \$146 Million per Year

Significantly, the IMPLAN analysis does not include gaming taxes paid by the Racino. At the assumed state tax rate on gaming revenue of 25%, gaming taxes directly contribute \$146.25 Million annually. Including gaming taxes, the total contribution to state and local taxes in year one from all sources exceeds \$241 Million. The ongoing contribution to state and local taxes will exceed \$210 Million.

Construction of the Racino

Table 4 shows the detailed economic impacts for the Construction of the Racino. Construction produces a total economic impact of \$951 Million. The total contribution to state GDP is \$500 Million. Construction also supports a total of 6,755 jobs of which 4,069 are directly attributed to the construction of the Racino. Total labor income produced is nearly \$338 Million. Slightly more than \$203 Million of this amount is directly related to the construction.

Table 4: Racino Construction

Racino Construction				
Impact Type	Employment	Labor Income	Contribution to State GDP	Output
Direct Effect	4069	\$203,297,855	\$265,203,793	\$525,000,000
Indirect	912	\$57,434,312	\$92,921,871	\$179,664,745
Induced Effect	1774	\$77,223,590	\$141,782,502	\$246,546,440
Total	6755	\$337,955,757	\$499,908,166	\$951,221,185

Racino Operations

Table 5 shows the detailed annual economic impacts for Racino Operations. The Racino produces a total economic impact of \$1.244 Billion; \$665 Million in direct effect and \$579 in indirect and induced effects. The total contribution to state GDP is \$667 Million. Of this, \$317 Million is a direct effect of Racino operations and \$352 Million is an indirect or induced effect. The Racino supports 6,220 jobs of which 2,275 are directly attributed to Racino operations. Total labor income produced is more than \$266 Million. Nearly \$82 Million of this amount is directly related to operations.

Table 5: Racino Operations

Racino Operations				
Impact Type	Employment	Labor Income	Contribution to State GDP	Output
Direct Effect	2275	\$81,900,000	\$317,403,190	\$664,745,000
Indirect	2545	\$123,580,569	\$236,666,519	\$384,484,574
Induced Effect	1400	\$60,694,018	\$111,921,361	\$194,641,306
Total	6220	\$266,444,587	\$669,720,730	\$1,243,870,880

Export Potential

Importantly, the Racino offers significant export potential from the simulcast of races and from providing facilities and services to industry participants from outside of Georgia. Table 6 shows that 82% of the monies wagered come from export or simulcast handles. Additionally, many racehorse owners, trainers, breeders and other racing participants operate in multiple states. Thus, it is likely that Georgia's experience will parallel that of other similar states where a substantial 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	6%	18%
Import	13%	33%
Export	82%	49%
Total	100%	100%

Allocation of Gaming Revenues to Purses and Breeding

Table 7 shows the detailed annual economic impacts for the allocation of Gaming Revenues to Purses and Breeding. The allocation of 10% of gaming revenues to purses and breeding produces a total annual economic contribution of nearly \$116 million to the horse industry. The total impact on state GDP is more than \$78 million. Well over 1,200 jobs are added with 864 direct to the horse industry. This produces an overall impact on labor income of nearly \$53 Million, of which more than \$36 Million is direct to the horse industry. The impact can be put into perspective with the following facts:

- ❖ This is roughly 15% of the existing economic output of the horse industry
- ❖ It is approximately 22% of the existing horse industry contribution to state GDP
- ❖ The jobs increase is about 20% of existing horse industry employment
- ❖ Economic benefits will be widespread throughout Georgia
- ❖ Most economic impact will be felt in rural counties

Table 7: Allocation of Gaming Revenues to Purses and Breeding

Impact of Allocating 10% of Gaming Revenues to Purses and Breeding ¹				
Impact Type	Employment	Labor Income	Contribution to State GDP	Output
Direct Effect	864	\$36,030,746	\$49,080,510	\$64,552,500
Indirect	88	\$4,736,037	\$6,972,641	\$12,900,492
Induced Effect	277	\$12,045,720	\$22,118,230	\$38,456,031
Total	1229	\$52,812,502	\$78,171,381	\$115,909,023

¹ Impact of allocating 10% of gaming revenues to Purses and Breeding; not representative of the entire equine industry in the state of Georgia

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 4.6 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 a Racino 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

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

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 Farm Gate Report, horses have ranked among Georgia’s top ten commodities since at least 2006. However, the industry has fallen from 5th to 10th during this period.

The data show that the horse industry is truly a rural undertaking and it is spread widely across the state:

- ❖ 91% of the economic value from the horse industry is generated in Rural counties, and,
- ❖ 85% of all counties participate in the horse industry

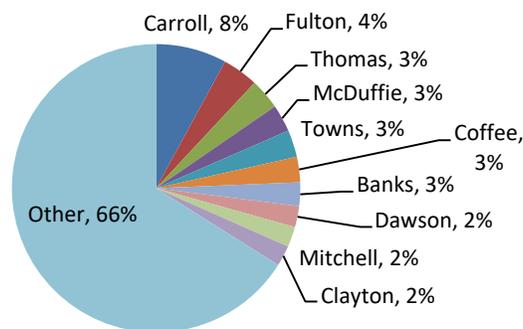
Table 8: 2015 Economic Value of the Horse Industry in Metro versus Rural Counties

	Horses Raised	Boarding, Training and Breeding
Statewide Total	\$83,259,400	\$197,107,000
Metro¹	\$7,670,000	\$17,335,000
Rural	\$75,589,400	\$179,772,000
Metro	9%	9%
Rural	91%	91%

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

Figure one shows the top ten counties for **Horses Raised** from the latest report (2015). These counties account for 34% of **Horses Raised** which suggests that this activity is widely decentralized.

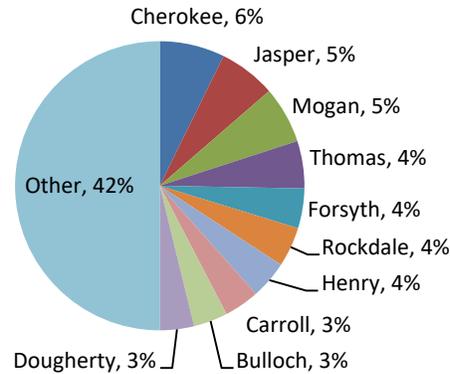
Figure 1: Top Ten Counties by Value for Horses Raised



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

Figure 2 shows the top ten counties for **Boarding, Training and Breeding** of horses. These counties account for 58% of the category.

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 2015 data and shows that horse related activities account for 14.8% of the Livestock and Aquaculture commodity group. In 2015, the Livestock and Aquaculture commodity group made an economic contribution to the state of \$7.1 Billion and 41,300 jobs.

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 for Equine. Table 9 presents these results. The 2012 estimates are derived from an IMPLAN analysis.

Table 9: 2012 Horse-related Activities

Horse-related Activities ¹				
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 are mostly enthusiasts who do not see themselves as business people even when they own small equine business operations. Some often-cited findings from this 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 the Racino Changes the Horse Industry in Georgia

A discussion of the impact of a Racino on the horse industry in Georgia will prove more meaningful if we first provide some context by discussing the history of the Racino concept and the experiences of other states where it has been implemented.



A Brief History of Racinos

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 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

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).

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:

“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 2015. 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 2015 Farm Gate value is \$280 Million.

We developed a very conservative estimate of the future economic impact by assuming that the Racino’s investment in purses and breeding is the only source of growth for the horse industry. We further assumed a 5% per year growth rate in this investment. We use the economic analysis in the 2012 study of the horse industry in Georgia as our base. The results are shown in table 10.

Table 10: Economic Impact of the Georgia Horse Industry over Five Years¹

Year	Total Contribution to State GDP	Total Economic Output
1	\$471,858,124	\$1,151,134,334
2	\$477,581,165	\$1,165,298,043
3	\$483,676,204	\$1,180,169,938
4	\$490,075,995	\$1,195,785,427
5	\$496,795,775	\$1,212,181,690

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

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

¹10% of gaming revenues are allocated to purses and breeding each year plus the allocation to Horsemen from live and import simulcast racing and export signal sales. We assume a 5% annual growth rate in this amount. The initial investment is \$63,945,000.

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 at least \$63.9 Million one has to assume that some 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.

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 Racino (including construction) on state and local taxes in year one at \$95 Million. This figure declines in year two and beyond to \$63.9 Million because construction is completed in year one. With a 25% tax on gaming revenues, the total contribution to state and local taxes is more than \$241 Million in year one and \$210 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 last year 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 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.

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 104 million passengers a year.¹¹ Atlanta is the 9th largest metropolitan area in the United States.¹² It is also the seventh most visited city in the United States with more than 51 million visitors per year.¹³ Visitors to the city spend \$15 Billion each year. Once established, the Racino is likely to make a significant contribution to tourism.

The Benefits of Hosting Prestigious Races

The Racino brings 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' Cup¹⁴ and Del Mar, host of the 2017 Breeders' Cup expects an economic impact of \$100 Million.¹⁵

Conclusions

Given the set of assumptions modelled here, a Racino 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. The Racino 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

¹¹ www.atl.com

¹² U.S. Census Bureau

¹³ Atlanta Convention & Visitors Bureau, 2015

¹⁴ www.breederscup.com

¹⁵ The San Diego Union-Tribune, November 4, 2016.

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 Racino, especially given the allocation of a portion of gaming 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 the Racino concept, commercial enterprises will take notice, and some of those already in the 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 in the union shows that the horse industry is almost entirely located in rural settings. Consequently, the economic impacts associated with the Racino 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 Racino promises 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.