

TESTIMONY OF:

**JOHN M. URBANCHUK
EXECUTIVE VICE PRESIDENT
AUS CONSULTANTS
155 GAITHER DRIVE
MOORESTOWN, NEW JERSEY 08057-1050
(609) 234-9200 - TELEPHONE
(609) 234-0733 - FAX MACHINE**

**BEFORE THE
COMMONWEALTH OF PENNSYLVANIA
JUDICIARY COMMITTEE OF THE HOUSE OF REPRESENTATIVES**

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TESTIMONY OF JOHN M. URBANCHUK

Good morning. My name is John Urbanchuk. I am Executive Vice President for Industry Analysis at AUS Consultants, an economic consulting firm located in the Philadelphia metropolitan area. I am pleased to testify this morning on the potential economic impact of the expansion of gambling on the horse racing and commercial horse industries and the Commonwealth of Pennsylvania.

The race horse industry is an important contributor to the economy of the Commonwealth of Pennsylvania. The two Thoroughbred and two Standardbred professional race tracks in Pennsylvania are a vital element of the state's hotel, lodging, and amusements industries. The direct spending on goods and services and wages paid to employees of the race tracks is multiplied several fold throughout the state economy. The expenditures of the horse people and owners of the horses that race at each track add to this contribution. The purses paid to horse owners are an important source of income for the owners and Pennsylvania taxpayers benefit from the taxes paid by the race tracks on their handle. Finally, the four racetracks support a vibrant commercial breeding industry which is a major element of Pennsylvania's agricultural economy.

There is increased interest in attracting other forms of legalized gaming to Pennsylvania, largely as a way of generating additional tax revenue for municipalities, cities, and the Commonwealth. Most of the attention has been focused on river boat casino gaming potentially located on the Delaware River in Philadelphia, the Susquehanna River in

Harrisburg, the Monongahela, Allegheny or Ohio Rivers in Pittsburgh, and on Lake Erie. The establishment of river boat casinos would significantly increase competition for the wagering dollar in Pennsylvania and would seriously erode the profitability of nearby racetracks to the point that they would become economically non-viable. The closure of these tracks would result in lower demand for supplier industries, lost jobs, and reduced income for all Pennsylvanians. This situation would all but eliminate the commercial horse breeding industry and significantly weaken the agricultural sector of Pennsylvania.

Horse racing has a long and distinguished history in Pennsylvania. As recently as a decade ago, there were six professional race tracks in Pennsylvania; today there are four: Thoroughbred racing takes place at Philadelphia Park in the Philadelphia metropolitan area and Penn National Race Track near Harrisburg. Standardbred racing in Pennsylvania occurs at Pocono Downs in Wilkes-Barre and at Ladbrooke at the Meadows near Pittsburgh.

According to the Pennsylvania State Horse Racing Commissions 3.3 million people visited these four race tracks and wagered over \$800 million in 1994. The vast majority of this handle (over 75 percent) was returned to the public in the form of winnings. The remainder was divided among horse owners in the form of purses; the state in wagering taxes, and the race tracks as gross revenue. This gross revenue is used to pay all operating expenses, salaries, and taxes. What is left after expenses provides a return to the track owners.

A 1993 survey conducted by Penn State University indicated that there were 31,100 Standardbred and Thoroughbred horses in Pennsylvania. This herd consisted of 8,500 horses used for racing, nearly 7,000 mares and 600 stallions used for breeding purposes, and 3,250 foals. The remaining horses were used for a variety of purposes. The value of the Standardbred and Thoroughbred horses in Pennsylvania is estimated at nearly \$370 million (1996 dollars).

The four Pennsylvania race tracks spend almost \$60 million (1996 dollars) annually on goods and services while the owners and horse people who maintain, train, and race the horses at each track spend about \$120 million (1996 dollars) annually. The expenditures of the owners and horse people are concentrated on feed, bedding, farrier, veterinary services, and boarding while the race track expenditures are spread over a wide range of industries. The race tracks employ an estimated 3,150 (full-time equivalent) people with an annual payroll of \$36 million (1996 dollars). The owners and horse people at the tracks number over 3,750 people with an annual payroll (including purses) of over \$130 million (1996 dollars).

When these direct expenditures, jobs, and earnings are multiplied throughout the Pennsylvania economy, the four race tracks and the owners and horse people who maintain and run the horses at the tracks account for \$530 million (1996 dollars) of final demand (or gross sales) annually in Pennsylvania. The breeders of Thoroughbred and Standardbred horses generate an additional \$180 million (1996 dollars) of final demand. Each of the 4,500 people employed at the four tracks (including horse people and owners)

and 600 people employed by the breeders supports the jobs of two other Pennsylvanians for a total impact of 15,895 jobs.

It is this economic contribution that is at risk from the introduction of river boat casinos or other forms of legalized gaming.

How large is the risk to this important segment of the Pennsylvania posed by an expansion of other forms of gaming? A study conducted by the Department of Equine Administration at the University of Louisville in 1994 examined the effects of alternative forms of gambling on horse race wagering and the experience of the race horse industries of states that have introduced land-based or river boat casinos and lotteries.

Casinos, whether land-based or river boat, provide competition for the gaming dollar. The introduction of this form of gaming into an existing market consisting of parimutuel wagering at race tracks can be expected to result in reduced wagering at existing race tracks as consumers substitute some share of the new product (casinos) for the existing product (horse racing).

Gambling can be viewed as another consumer good. Demand theory tells us that consumers make purchase decisions so as to maximize their utility (satisfaction) subject to budgetary constraints. That is, consumers will purchase various forms of entertainment (in this case wagering) according to the amount of money that they have to spend and the relative price of the entertainment.

In a 1992 study of the impact casino gambling and the state lottery on parimutuel horse race wagering in New Jersey two university economists (Thalheimer and Ali) estimated that the price of casino gaming is lower than that of parimutuel wagering. The implication of this is that given a fixed budget, consumers should prefer (the purchase of) casino gaming over parimutuel race horse wagering.

These researchers found that the introduction of casino gambling in Atlantic City in 1978 had a significant negative impact on parimutuel horse race wagering in New Jersey and estimated that horse track wagering in 1988 declined by 34 percent as a result of the competition provided by casinos. It is important to note that location plays a major factor in the impact of introducing alternative forms of gaming. The New Jersey casinos are located in Atlantic City which is geographically separated from the state's race tracks. River boat casinos in Pennsylvania literally would be on the door step of at least three of the state's race tracks.

Prior to the introduction of casino gambling in Atlantic City, the Philadelphia metropolitan area, which is roughly a one-hour drive from Atlantic City, was served by four race tracks: Keystone Race Track (Thoroughbred) and Liberty Bell Park (Standardbred) in Philadelphia and Garden State Race Track (Thoroughbred then, Standardbred and Thoroughbred now) in Camden County, New Jersey, and Brandywine Raceway near Wilmington, Delaware. Today, only two tracks serve this metropolitan area: Philadelphia Park (the successor to Keystone) and Garden State. This realignment represented a fifty percent reduction in the number of race tracks in the Philadelphia metropolitan area.

The experience of other states reinforces these findings. For example, River boat gaming was introduced in Alton, Illinois (on the Mississippi River north of St. Louis) in September 1991. There were two racetracks near enough the river boat casino to be in direct competition: Fairmount Park, near St. Louis, and Quad City Downs, north of St. Louis in the Quad Cities area. Fairmount Park conducted both Thoroughbred and Standardbred racing prior to the establishment of the river boat casino, while Quad City Downs was a Standardbred track. Between 1990 and 1992 the average daily live handle for Thoroughbred wagering at Fairmount Park declined by 31 percent and the handle for Standardbred racing fell 34 percent. The Quad City Downs Standardbred track faced competition from river boat casinos in both Illinois and Iowa. The real average daily live handle at Quad City Downs fell 37 percent between 1990 and 1991, the first full year of competition from river boat casinos. This track subsequently closed.

In Iowa, the Prairie Meadows racetrack is located just outside of Des Moines. The race track opened in 1989 and conducted Standardbred and Thoroughbred/Quarter horse racing. Standardbred racing was discontinued in 1991, the track closed in 1992 due to financial problems, and reopened in 1993. While Prairie Meadows is about 150 miles from the nearest river boat casino, the race track competes with three greyhound racetracks and a land-based casino operated by Native Americans which opened in 1993. Also, Iowa permits year-round simulcast of interstate horse racing and intra-state greyhound racing. The average daily handle for Prairie Meadows fell 35 percent between 1991 and 1993, the last year a live meet was conducted prior to the introduction of casinos.

On the basis of the available literature, we can conclude that the introduction of alternative forms of gaming, such as river boat casinos, into an existing market of live horse racing will result in a decline of between 30 percent and 40 percent in the average handle of the affected race tracks. Accepting this as a reasonable potential impact, the primary question becomes can any of Pennsylvania's existing racetracks withstand a 35 percent decline in their handle? Discussions with race track owners and industry participants suggest that declines in revenues of this magnitude along with the consequent declines in purses likely would be unsustainable and would force the closure of the track facing the new competition.

Thus, introduction of alternative gaming in the form of river boat casinos would lead directly to the elimination of live horse racing in Pennsylvania. Under the most extreme case this will involve closure of each of the four race tracks, significant losses for horse owners and horse people, and eventual closure of breeding farms and associated enterprises in Pennsylvania as their market disappears.

It is important to remember that live horse racing is responsible for the total racing handle in Pennsylvania. However, due to the importance of off-track betting and simulcasting, the adverse impact of competition from other forms of gaming on the handle at any one race track would be magnified by corollary impacts at the other tracks in the state.

According to the Pennsylvania State Horse Racing Commissions, only about 25 percent of the handle of the four tracks is derived from on-site races. Another quarter of the total

handle is provided by off-track betting and Telebet, and one third is provided by races conducted by the other tracks in Pennsylvania. Finally, the remaining share of the total handle (about 17 percent) is generated by out-of state simulcasting.

While each track would likely continue to generate income after the introduction of river boat casinos, the reduced level of income would provide a return on invested capital below that available from alternative investments. As a result, these tracks would cease operations at least as a provider of live racing. The timing of this outcome is unlikely to be simultaneous and would depend on where and when river boat casinos would be located. The eventuality of the outcome, however, is virtually certain.

The closure of each of Pennsylvania's four horse racing tracks would remove \$202 million (1996 dollars) of direct spending from the Pennsylvania economy and would result in the direct loss of 4,500 jobs among race track employees and horse people at each track. The cessation of live racing would immediately depreciate the value of the Standardbred and Thoroughbred horses used in racing. Owners and breeders of these horses would be forced to write down the value of the assets on their balance sheets, and take a significant accounting loss (a total of \$370 million) which would affect their financial viability.

The commercial equine sector that provides the horses that race at each track would be decimated by the closure of the Pennsylvania race tracks. The loss of revenues for the Standardbred and Thoroughbred breeders, along with the devaluation of a prime asset, consequent with the disappearance of their major market would literally force them out of

business. Based on the information provided by the Penn State survey and surveys of breeders, the cessation of live horse racing in Pennsylvania would lead to a reduction of almost \$60 million in direct spending by breeders and the direct loss of 600 jobs.

When these job losses and reduced annual expenditures are multiplied throughout the Pennsylvania economy, the introduction of river boat casinos would:

- Reduce Pennsylvania Gross State Output by almost \$710 million (1996 dollars);
- Result in the loss of 15,895 jobs throughout the entire economy;
- Reduce real household earnings for all Pennsylvanians by \$360 million (1996 dollars); and
- Cost the State Treasury \$36 million (1996 dollars) in lost tax revenue annually.

These results very likely are underestimated since we have not factored in the impact of elimination of the commercial breeding sector on the other components of the commercial horse industry. For example without a viable commercial breeding and racing industry, the remaining elements of the horse economy may not be able to support the number and quality of support services vital to their continued viability. These include veterinary and animal health providers, farriers, boarding, and training expertise.

Other potential major indirect impacts on the state include the abandonment of pasture and crop land currently devoted to equine uses as breeding operations fail or relocate out of state. In the most congested regions of the state such as the southeast counties, this is

likely to mean loss of open space and additional residential development with its consequent demand for services and infrastructure.

Pennsylvania farmers also will lose a major market for feed and hay output and the mushroom industry would lose their major source of a key input. This can be expected to increase their costs of production and erode the comparative advantage of the Pennsylvania mushroom industry to the advantage of foreign suppliers.

In Summary, increased competition for the gaming dollar represented by the introduction of river boat casinos or other forms of gaming would lead to the virtual elimination of live horse racing in Pennsylvania unless some form of compensation or other accommodation is made to assure their competitive viability. This would have a significant negative impact on the commercial horse industry and Pennsylvania farmers, and all Pennsylvania residents, businesses, and taxpayers would suffer lost jobs and lower income. The full measure of these potential losses must be balanced against the benefits touted by proponents and supporters of river boat casinos and other forms of gaming.

With your permission, I would like to provide a copy of our full report for the record.

Thank you.