

# **The Economic Impact of Saratoga Gaming and Raceway**



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**Major Points in the Report**

- The economic impact of annual operations of Saratoga Gaming and Raceway on the Saratoga County economy for 2007 is estimated at **\$115.83 million**. The economic impact on the New York state economy is estimated to be **\$148.62 million**.
- Saratoga Gaming and Raceway directly employs 575 people, an increase of 475 jobs since gaming was introduced in 2004. In addition, economic activity at Saratoga Gaming and Raceway generates 420 additional jobs in the area, for a total employment impact of 995, about 1.6% of non-farm employment in the county.
- Recent construction and renovation at Saratoga Gaming and Raceway contributed **\$40.46 million** to the local economy and **\$52.40 million** to the New York economy.
- Saratoga Gaming and Raceway in 2006 paid approximately **\$62 million for education in New York State** through state taxes. In 2007, Saratoga Gaming and Raceway is projected to pay approximately **\$74 million for education in New York State**.
- Every \$1 injected into the racing industry has a final economic impact of \$2.04 on the Saratoga County economy – a larger impact than all other industries except insurance, printers, education, and arts.
- The economic activity associated with horse racing complements the industry mix in the region and state. Therefore, expenditures in the racing industry have higher multipliers and generate more economic “bang for the buck.”
- This study estimates the **baseline** economic impact created by Saratoga Gaming and Raceway. The baseline impact includes only the impact that can be directly traced to activities at Saratoga Gaming and Raceway. It excludes potential impacts such as tourism, regulatory expenses, spending for race horses that occur outside the track facility, aesthetic and recreational benefits for local residents, and the benefits of tax revenues to local governments. Therefore, the true economic impact is much larger.
- Investment in aggressive marketing, promotion, and capital expenditures on the application of new technologies in the industry are keys to continued and expanded economic activity at Saratoga Gaming and Raceway.

### **The Economic Impact of Saratoga Gaming and Raceway**

## Executive Summary

This report presents an analysis of the economic impact of Saratoga Gaming and Raceway on the local and state economy using data for 2007. While horse racing impacts the agricultural segments of the economy, its effects are not limited to those segments. Economic activity in the agricultural sector will have impacts on other industries in the region and many of the activities at Saratoga Gaming and Raceway directly affect industries other than agriculture. Saratoga Gaming and Raceway and its suppliers purchase food, electricity, computer equipment, office supplies, and a wide variety of other goods and services from the regional economy.

Saratoga Gaming and Raceway is a vital part of the Saratoga County economy. Racetrack activities, and its connections to agricultural industries, are consistent with the rural, agricultural activities in Saratoga County and the rest of the region. Industry multipliers for the county show that income generated by the racetrack has a larger economic impact in the region than income generated in other industries.

Saratoga Gaming and Raceway creates considerable economic activity in the region. Saratoga Gaming and Raceway employs 575 people (an increase of 475 jobs since gaming was introduced in 2004) and economic activity at Saratoga Gaming and Raceway generates approximately 420 additional jobs for a total of 995, which accounts for roughly 1.6% of total nonfarm employment in Saratoga County. Horse racing is highlighted on the home page of the Saratoga County Chamber of Commerce website. Agri-tourism and harness racing are included as popular tourist activities in the area. ([www.saratoga.org](http://www.saratoga.org))

Recent construction and renovation at Saratoga Gaming and Raceway had a significant one-time impact on the region. The new and improved facilities will lead to an even larger annual impact on the region by expanding the scope of operations and enhancing the quality of the recreational services offered.

This report provides an estimate of the **baseline** economic impact of annual operations at Saratoga Gaming and Raceway on the local and state economies. It also provides an estimate of the considerable one-time economic impact of recent construction and renovation at Saratoga Gaming and Raceway. The impact is estimated using the Track Impact Program (TIP) developed by Dr. Margaret Ray while on staff at the University of Arizona Racetrack Industry Program. TIP is patterned after the University of Maryland Institute for Governmental Service Economic Impact Study prepared for the Maryland House Ways and Means Committee and therefore is a conservative estimate that avoids bias that may be found in industry funded studies. The actual impact is higher because the TIP does not consider the impact of tourism, regulatory expenses, spending on horses stabled at locations outside the track, aesthetic and recreational benefits for local residents, or benefits of tax revenues to the local government.

The TIP calculates the annual economic impact of Saratoga Gaming and Raceway on Saratoga County at **\$115.83 million** annually. The annual economic impact New York state is estimated at **\$148.62 million**. Additionally, recent construction and renovation at Saratoga Gaming and Raceway had a **\$40.46 million** impact on the local economy and **\$52.40 million** impact on the New York economy.

A 2002 Bear, Stearns & Co. report highlights industry opportunities for the future. The report is optimistic that technological change and enhanced marketing and promotion have the potential to significantly increase the demand for horse racing. As legislative changes allow for successful application of new technology and increased marketing and promotion, the demand for racing and therefore its economic impacts are expected to increase. Without adjustments, the economic impact and tax revenues generated by Saratoga Gaming and Raceway could be diminished or lost.

## The Economic Impact of

## **Saratoga Gaming and Raceway on the Regional Economy**



This report presents an analysis of economic activity at Saratoga Gaming and Raceway projected for 2007 and its impact on the local and New York state economies. Saratoga Gaming and Raceway is located in Saratoga Springs, NY, which is in Saratoga County. Saratoga Gaming and Raceway operates a Standard bred racetrack and a Video Lottery gaming facility. Revenue is earned from racing pari-mutuel operations, vendor fees from the operation of Video Lottery Terminals (VLTs), food and beverage concessions, and rental income. Live harness racing operates year-round with approximately 170 live harness race days. Live harness races are held four to five days per week during the peak summer months and on average three days per week during the off season. The Video Lottery gaming facility operates year-round and is open sixteen hours per day, from 10AM until 2AM, seven days per week. The food and beverage operation services both the racing and video gaming operations.

The new construction is for an addition to the existing facility. The addition will provide space for approximately 400 new VLT machines, a 15,000 sq. ft. two-story lounge/nightclub area, and a 300 seat buffet. The expansion will also allow Saratoga Gaming and Raceway to provide indoor year-round entertainment. Saratoga Gaming and

Raceway plays a central role in the Saratoga County economy and has a significant economic impact on the New York state economy.

### Economic Activity in the New York Horse Industry

According to a 2005 study provided by the American Horse Council, 152,000 New Yorkers are involved in the horse industry as owners, service providers, employees or volunteers. This number does not include those involved in the industry as spectators. Nationally, racetracks created approximately 126,190 full-time equivalent jobs. The American Horse Council estimates that there are over 24,000 racing horses in New York. And for every horse involved in racing, on average there is slightly more than one horse involved in the racehorse breeding industry.

New York horses represented almost 6% of the Thoroughbred racehorse population in the United States and saw the largest percentage increase in the nation in 2005. Because of the geographic concentration of harness racing, Standardbred horses, those involved in harness racing, are even more disproportionately represented in the New York industry.

In New York State there are 4550 horse boarding and training operations, 2250 horse breeding operations, 7950 crop and livestock farms serving the equine industry, and over 3.5 million acres of land in equine-related use.<sup>1</sup> The New York Equine Inventory compiled by the National Agricultural Statistics Service reported a 9% increase in the number of Thoroughbred horses in New York between 2000 and 2005 (from 30,500 to 33,300). This is convincing evidence of the impact Thoroughbred racetracks have on the

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<sup>1</sup> Reported in the “Economic Impacts of Thoroughbred Racing in Saratoga County and Upstate New York.” Available at [www.co.saratoga.ny.us](http://www.co.saratoga.ny.us).

agriculture industry in the state. The Equine Inventory for New York, provided by the National Agricultural Statistics Service, reports a 47% increase in the population of Standardbred horses in New York between 2000 and 2005. This is evidence of the significant impact Harness Racing is having on the agriculture industry in the state.

The horse industry as a whole generates over 35,000 jobs in the state of New York and New York is one of the top 10 states in terms of the size of the horse industry. These numbers show that the horse industry is important to New York and New York is important to the horse industry. The fact that the horse industry in New York is a large and established industry makes economic impact analysis using multipliers derived from input-output models very reliable.

### Economic Activity at Saratoga Gaming and Raceway

Per capita money income in Saratoga County is approximately equal to per capita money income in the state of New York. The county had 4,673 private nonfarm establishments in 2004. Private nonfarm employment in 2004 was 60,697<sup>2</sup>. Saratoga Gaming and Raceway directly employs approximately 575 people. Using RIMS II multipliers, economic activity at the racetrack is estimated to generate an additional 420 jobs in the region for a total of 995 jobs, which represents about 1.6% of total nonfarm employment in the county. Saratoga Gaming and Raceway pays approximately \$16.43 million in wages and benefits annually.

Activities at Saratoga Gaming and Raceway include live harness racing year round, a full schedule of simulcast racing every day, a video lottery facility that will have

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<sup>2</sup> All data from the U.S. Census Bureau State and County QuickFacts.

(after expansion is complete) over 1700 video lottery terminals. The facility also has restaurants and a night club and hosts wide variety of special events throughout the year (e.g. concerts, sporting events). These activities combine to make Saratoga Gaming and Raceway a premier entertainment facility in the county and region.

In addition to being one of the region's most important entertainment destinations, Saratoga Gaming and Raceway has increasingly become an important part of the local community. Saratoga Gaming and Raceway pays approximately \$870,000 in local city, county, school, and sales taxes each year. But beyond tax payments, Saratoga Gaming and Raceway and its employees are involved in a variety of community efforts.

### Economic Impact Analysis

This report presents an analysis of the economic impact of live horse racing at Saratoga Gaming and Raceway on the local and New York economy. The impact can be broken down into three components: direct impacts, indirect impacts, and induced impacts. Direct impacts are the expenditures made by the racetrack in other industries. The purchase of office supplies by the racing office or of horse feed by trainers at the track barns are examples of direct expenditures. Indirect impacts are the effects of the direct expenditures on all business sectors of the economy. For example, the office supply store pays its workers and the feed mill supplying horse feed to the track purchases grain from farmers. Finally, the induced impacts result when wage payments are used to purchase consumer goods locally. For example, induced impacts occur when horse trainers or track employees use their income to purchase food, housing, entertainment, etc. The total economic impact on the region includes all three of these components.



The economic impact is calculated using a multiplier derived from an input-output model of the regional economy. The input-output model identifies the relationships between the various industries in the region (e.g. how much does each industry purchase from each of the other industries in the region?). The model is then used to estimate the effects of expenditures by one industry on the other industries in the region so that the total impact of a specific economic activity (such as the activities at a racetrack) can be determined.

While horse racing has a significant impact on livestock and agricultural segments of the New York and Saratoga County economies, its effects are not limited to those industries. Saratoga Gaming and Raceway purchases food, electricity, computer equipment, office supplies, and a wide variety of other goods and services from the local economy (this is the direct impact). Operating expenditures for Saratoga Gaming and Raceway are projected to be approximately \$40 million in 2007. The businesses that provide those goods and services to Saratoga Gaming and Raceway must also buy electricity, equipment, supplies, and other inputs (part of the indirect impact). And Saratoga Gaming and Raceway employees spend their wages on groceries, rent, entertainment, and other goods and services (part of the induced impact).

### Economic Impact Calculation Method

This report provides an estimate of the baseline economic impact of the annual operation of Saratoga Gaming and Raceway on the Saratoga County and New York state economies.

The **baseline** economic impact does **not** include estimates of economic activity that are speculative or that rely on difficult to evaluate assumptions. For example, the estimate does not include the potential economic impact of tourism generated by Saratoga Gaming and Raceway. For example, individuals who come to the area to visit the racetrack and stay additional days in the region spending money on food, lodging, entertainment, etc. generate an economic impact. The baseline impact is a minimum (i.e. short-run lower bound), or conservative estimate of the economic activity in the region that can be directly traced to the racetrack. Economic activity likely to exist in addition to the baseline impact are discussed, but not included in the baseline estimate calculation. The baseline estimate considers only the annual operation of Saratoga Gaming and Raceway. For example, it does not include capital expenditures. Capital expenditures are one-time expenditures to construct, improve, or expand facilities. These expenditures have a significant economic impact on the region at the time they occur. Saratoga Gaming and Raceway has made significant investments in facilities in recent years. The economic impact of facilities investment will be estimated separately from the annual economic impact of track operations.

The baseline economic impact estimate was calculated using the Track Impact Program (TIP) developed by Dr. Margaret Ray while on staff at the University of Arizona Racetrack Industry Program. The complete documentation for the program is attached as an appendix. Values used in the program have been updated to 2004 and, in addition to the economic impact of Saratoga Gaming and Raceway on the state of New York, the economic impact has been calculated at the county level.

### *Track Impact Program*

Research shows that racetracks have a significant economic impact on their local and state economies. The operation of racetracks creates income and employment in local communities and the region surrounding them. It is important to be aware of the economic role that racetracks play in their communities and surrounding region when making policy choices that affect the racing industry.

There is far from complete, reliable information regarding the local and regional economic impact of individual racetracks in the United States. Only very large tracks are willing and able to commission studies of their economic impact on their community. At the same time, the impact of a racetrack in a smaller community is often much more important to the local economy because it makes up a larger portion of total employment and income in the area. It is fortunate that the basic economic analysis provided in any economic impact study is the same, and applying the methods to any racetrack involves the same basic information. The TIP provides a standard model for estimating the economic impact of any individual racetrack on the local and state economy.

Economic impact studies have been conducted for decades and involve a fairly well established procedure for estimating economic impacts. However, differences in the application of estimation methods can lead to large differences in the results. The TIP avoids the use of suspect assumptions and calculations that can lead to overly optimistic impact estimates. For example, Robert Goodman evaluated economic impact studies of gambling enterprises (not specifically racetracks) that were provided to policy makers and found that, “In general ... claims of economic benefits were exaggerated. Most could not be considered objective descriptions of economic benefits and costs. The

reports were either unbalanced or mostly unbalanced.” (Goodman, 1995) Often differences in estimating the size of economic impacts is due to the level of certainty a researcher requires before including a potential impact in the calculations. Any economic impact study requires assumptions and estimates for how an enterprise will impact an economy. For example, how many of the patrons attending a day at a racetrack are from the area and how many have come from outside the region? For those from outside the region, how many would have come to the area if there was no racetrack and how many would have gone elsewhere? Assumptions and estimates regarding these types of questions are necessary to conduct an economic impact analysis. Large racetracks can commission very expensive studies that administer extensive surveys that attempt to provide this information. Studies like those referred to by Robert Goodman make extreme, unsubstantiated assumptions about these values.

The TIP is patterned after the University of Maryland Institute for Governmental Service Economic Impact Study prepared for the Maryland House Ways and Means Committee and therefore avoids potential bias. Since the estimated economic impact that results from the TIP represents a baseline impact, the actual impact is expected to be higher due to several additional (and difficult to estimate) effects of the racetrack on the regional economy. While not estimated by TIP, economic impacts not included in the calculation will be listed and discussed.

The University of Maryland study identifies the four components of the racing industry:

- 1) the wagering public
- 2) the racetrack
- 3) owners, breeders, trainers, drivers, grooms working at racing facilities
- 4) governmental regulatory agencies

The first component is not included in the University of Maryland study or in the TIP calculation. “The wagering public has leisure and entertainment expenses in conjunction with participating in events in the racetrack industry **that are not made at racetrack businesses**. These include transportation costs, lodging costs, meals and beverages, race memorabilia, and other entertainment expenses.” (University of Maryland, emphasis added). However, the study notes that these expenses are likely to be small, except in the case of major events like Triple Crown or Breeders’ Cup races. “Because of the limited number of events and the difficulty of accurate estimation of these expenditures, the impact of leisure and tourism expenditures was not considered...” (University of Maryland) Of course, tourism activities (e.g. eating in restaurants, purchasing souvenirs) when they take place at the racetrack, are included.

The impact from component four was also not included in the University of Maryland study or in the TIP. This category includes government expenditures on wages, office operation, travel, and other costs of administering programs associated with racing. However, “Compared with expenditures in other components, these are quite small, so they were not considered...” (University of Maryland)

Both the University of Maryland study and the TIP focus on estimating components 2 and 3. Component 2, which will be referred to as the racetrack industry,

includes expenses to administer the services racetracks provide to the public and the racing industry. These include all entertainment and leisure activities at the track (e.g. food and gaming) as well as services provided to the racehorse industry, like track and backstretch maintenance. Data for component 2 came from financial statements of Saratoga Gaming and Raceway.

Component 3, which will be referred to as the racehorse industry, includes expenditures for care, training and racing of horses at Saratoga Gaming and Raceway. In determining expenditures for this component, it is important to include only expenditures outside the industry and to exclude transfers made within the industry. For example, the expenditure to purchase a racehorse represents a transfer of income from the buyer to the seller within the industry and does not represent an increase in income in the economy. Only expenditures made outside the industry and the **net** income of participants are counted. “The focus is on labor, land, feed, and other expenditures in business sectors outside the horse industry.” (University of Maryland) The University of Maryland study found that the racehorse industry “has a negative cash flow.” That is, any income received by horse owners (including purses) is more than spent in the economy on expenses related to racing activities. This fact justifies the emphasis the TIP calculation places on owner expenditures (versus income) in this component.

Also remember that the estimate uses expenditures made only by those operating at Saratoga Gaming and Raceway affiliated racing facilities (i.e. the training and care of horses racing at Saratoga Gaming and Raceway). Other expenditures for breeding, caring for, and training racehorses are made at other locations and are a result of the opportunity to race at Saratoga Gaming and Raceway, but are not included in the baseline calculation.

For example, horses must be fed and trained before they are old enough to go to a racing facility. These expenses, and the expenses to breed racehorses, are not counted as part of the direct impact attributed to Saratoga Gaming and Raceway racing. They are attributable, in part, to Saratoga Gaming and Raceway and they do have a large impact on the agricultural industry in the region and state, but that impact is speculative and is not included in the TIP estimate of the direct impact of Saratoga Gaming and Raceway.

An additional impact not considered by the TIP is from expenditures for horses shipped in to the track to race. There are 200 – 250 horses that race at Saratoga Raceway but are not housed at the track (i.e. they are “shipped in” for their races). Expenditures for the care and training of these horses would add about \$5 million to the stable operations expenditures and over \$10.4 million to the total impact (i.e. when indirect and induced effects are included). These expenditures are not in the TIP estimate since they are for horses not affiliated with the Saratoga Gaming and Raceway facility and therefore the baseline impact reported is an underestimate of the true total impact of the racehorse component.

The University of Maryland study estimated the stable operation expenses using a detailed survey of members of the Maryland horse industry. The TIP estimates the level of stable expenditures using the trainer’s fees paid for racehorses (which cover expenditures for the care and maintenance of racehorses). This is consistent with the idea of a negative cash flow – all income to owners is more than covered by costs. In addition, TIP measures income from stable operations for non-owners using purse distributions.

The baseline economic impact of a racetrack is the sum of the direct, indirect and induced impacts of racetracks resulting from components two and three. The indirect and induced impacts of the racetrack are the sum of components two and three, multiplied by the economic impact multiplier for the region. The multipliers used are RIMSII multipliers for Saratoga County and the state of New York calculated by the United States Department of Commerce, Economics and Statistics Administration, Bureau of Economic Analysis (see Appendix A). The multipliers are presented in Table 1.

**Table 1**  
**RIMS II Economic Impact Multipliers**

	<u>Indirect effect</u>	<u>Induced effect</u>
<b>Saratoga County</b>		
Animal Production	1.7034	0.1991
Amusement, Gambling and Recreation	1.5556	0.4035
Construction	1.6463	3.3766
<b>New York</b>		
Animal Production	2.0357	0.2954
Amusement, Gambling, and Recreation	1.9553	0.6126
Construction	2.0076	0.6125

These multipliers use a model of the county/New York economy to determine how the inputs and outputs of each industry affect the inputs and outputs of every other industry. Multipliers reflect the chain of expenditures within the economy. When



expenditures are for local goods and services, the multiplier is higher because the expenditures remain in the regional economy rather than going outside the county/state.

The multipliers presented in Table 1 show that, because of the rural, agricultural focus of the Saratoga County economy, the multiplier for calculating the indirect effect of expenditures on stable operations at Saratoga Gaming and Raceway have a much larger impact than other spending. For comparison, the multiplier for calculating the indirect effects in retail trade in Saratoga County is 1.5854. Therefore, the economic impact of \$1 of spending in the retail trade industry leads to only a \$1.59 increase in output compared to the \$1.70 increase that would result if an additional \$1 were spent on stable operations at Saratoga Gaming and Raceway. Agricultural activities in Saratoga County result in more economic impact “bang for the buck.”

### Calculating the Baseline Economic Impact of Saratoga Gaming and Raceway

The baseline economic impact estimate uses the following data for live racing at Saratoga Gaming and Raceway for 2007.

Operating Budget - \$39,999,980  
Average number of occupied stalls – 823  
Number of stable days – 365  
Purses and incentives – \$16,697,745

The economic impact calculations are presented in Table 2.

**Table 2**  
**Saratoga Gaming and Raceway Economic Impact**

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	<u>Direct Effect</u>	<u>Indirect effect</u>	<u>Induced effect</u>	<u>Total</u>
<b>Saratoga County</b>				
Stable Operations	19,693,475	13,852,390	3,920,971	37,466,835
Racetrack Operations	39,999,980	22,223,988	16,139,991	78,363,959
TOTAL				<b>\$115,830,749</b>
<b>New York</b>				
Stable Operations	19,693,475	20,396,532	5,817,453	45,907,459
Racetrack Operations	39,999,980	38,211,980	24,503,987	102,715,947
TOTAL				<b>\$148,623,406</b>

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The TIP calculates a baseline economic impact of stable operations at Saratoga Gaming and Raceway on the local (Saratoga County) economy of \$37,466,835 million. The total economic impact of activities at Saratoga Gaming and Raceway on the Saratoga County economy equals **\$115,830,794**. The estimated baseline economic impact on the New York state economy is **\$148,623,406**.

In addition to the annual operations of Saratoga Gaming and Raceway, the local economy has also experienced economic development as a result of recent expansion and renovation at the racetrack.

## The Economic Impact of Construction, Renovation and Expansion Activities

Saratoga Gaming and Raceway is recently completing new construction. The new construction is for an addition to the existing facility. The addition will provide space for approximately 400 new VLT machines, a 15,000 square foot two-story lounge/nightclub area, and a 300 seat buffet. This expansion will also allow for indoor year-round entertainment. The large expenditures for construction /expansion have a significant one-time impact on the local economy. While these expenditures do not recur each year, they expand the future economic activity at the facility and the economy in which it is located. The economic impact of Saratoga Gaming and Raceway’s recent construction on the Saratoga County and New York economies is presented in Table 3.

**Table 3**  
**Saratoga Gaming and Raceway Economic Impact:**  
**Construction and Renovation**

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	<u>Direct Effect</u>	<u>Indirect effect</u>	<u>Induced effect</u>	<u>Total</u>
<b>Saratoga County</b>	20 million	12.926 m	7.532 m	\$40.458 m
<b>New York</b>	20 million	20.152m	12.25 m	\$52.402 m

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### Other Considerations Specific to Saratoga Gaming and Raceway

Saratoga Gaming and Raceway generates economic impacts that are not captured by the TIP calculations. Additional, potentially significant, issues and impacts are discussed below.

### *Tourism*

It is likely that many of the visitors to Saratoga Gaming and Raceway each week are from outside the county and some are from outside the state. It is also likely that visitors to Saratoga Gaming and Raceway spend money on goods and service outside the racetrack for food, lodging, transportation, etc. These expenditures are created as a result of Saratoga Gaming and Raceway. Saratoga Gaming and Raceway has approximately 2.2 million visitors each year. Approximately 5% of these visitors (110,000 people) come from farther than 75 miles. While traveling to and from Saratoga, these visitors spend money on food, lodging, fuel, etc. This constitutes a considerable economic impact on the area. Without Saratoga Gaming and Raceway, a number of the visitors would not come to the region or state. While these tourism expenditures are important and potentially large, it is difficult to estimate how many visitors are from outside the region/state, how many of them would not have come to the area if not for Saratoga Gaming and Raceway, and how much additional they spend outside the racetrack. As an example, if each of the 110,000 visitors to Saratoga Gaming and Raceway (who came from more than 75 miles away) spent \$200 on food and lodging during their trip, this would add approximately \$44 million to the economic impact of Saratoga Gaming and Raceway.

### *Community Involvement*

In addition to being one of the region's most important entertainment destinations, Saratoga Gaming and Raceway has increasingly become an important part of the local community. Saratoga Gaming and Raceway pays approximately \$870,000 in local taxes

each year. But beyond tax payments, Saratoga Gaming and Raceway and its employees are involved in a variety of community efforts. The property has hosted benefit galas and various recreational events. However, this impact is not shown in the baseline estimated reported by the TIP.

### *The Interaction between Gaming and Racing at Saratoga Gaming and Raceway*

Since Saratoga Gaming and Raceway offers simulcast wagering and video lottery terminals in addition to live horse racing, the effect of live racing on those activities must also be considered (and vice versa). Industry analysts have come to refer to combined product locations such as Saratoga Gaming and Raceway as “racinos” – locations that combine horse racing and video lottery terminals. The term racino indicates the interrelated nature of the different activities. Visitors to Saratoga Gaming and Raceway have the opportunity to bet on live races, simulcast races, or play video lottery terminals. There is a joint demand for the recreational and gambling services provided; live racing increases the demand for video gaming and vice versa. That is, people go to Saratoga Gaming and Raceway for the mix of activities. The demand for each activity depends in part on the existence of the others. If there were no racing, video gaming demand would decline (and vice versa). Data on attendance at racinos for live racing days versus non-racing days shows that live racing increases track attendance. Video gaming revenues, beverage and concession expenditures increase as a result of the increase in attendance due to racing.

The spectacle of live racing provides some recreational benefits to those in attendance even if they are not betting on the races. There are several studies that

document “fatigue” experienced by gamblers over time. That is, gamblers eventually become bored by any given video lottery terminal activity. Playing video lottery terminals eventually becomes boring for some gamblers. But variety provided by live and simulcast racing provides gambling and non-gambling recreational benefits that help prevent fatigue. Racing gives Saratoga Gaming and Raceway a benefit over the increasing number of gaming location alternatives.

A study by the University of Arizona Racetrack Industry Program looked at the effects on the racehorse industry when racinos opened in a state. The study found that the quantity and quality of both breeding and racing industries benefited when racinos opened in a state. The addition of gaming to a racetrack will significantly improve the quantity and quality of racing which, in turn, expands the breeding and racehorse industry in the state. The New York state economy will see expansion in its important agricultural sectors as a result of successful racinos in the state. (University of Arizona)

It is clear that the interaction between racing and gaming is important to the success of both activities. There are a number of alternatives for casino-only activities, including Indian gaming and casinos nearby. Having a mix of activities at Saratoga Gaming and Raceway helps to increase demand and keep the economic impact and tax revenues in the region and state.

### *The Agricultural Industry*

Live racing at Saratoga Gaming and Raceway is an important part of the agricultural industry in Saratoga County and New York State. The agricultural industry, and more specifically the livestock industry, is particularly important to the regional and

state economies. Research by the American Horse Council documents the importance of the horse industry to the New York economy. The recent increase in the Standardbred horse population in New York, reported by the National Agricultural Statistics Service is convincing evidence of the increasing impact harness racing is having on the state agriculture industry. The multipliers for the local economy and for the state of New York are large for agricultural industries and therefore any additional spending in agricultural industries have an even greater impact on economic development than additional spending in many other industries.

The baseline impact reported does not include horses raced, but not stabled, at Saratoga Raceway. There are 200 – 250 horses that race at the track but are not housed at the track (i.e. they are “shipped in” for their races). Expenditures for the care and training of these horses would add about \$5 million to the stable operations expenditures and over \$10.4 million to the total impact (i.e. when indirect and induced effects are included).

#### *Recreation and Non-Market Benefits*

Horse racing at Saratoga Gaming and Raceway provides recreation and other “non-market” benefits to the region. These benefits are considered “non-market” because no individual “purchases” them from the racetrack industry.

Live racing is a source of recreation for residents in the region. Residents in the region benefit from the existence of racing and the horse industry. Saratoga Gaming and Raceway is a prominent area attraction listed on the Saratoga County web site for guests. It is listed along with shopping, museums, theatres, and other attractions. Local residents

benefit from the concerts, festivals, and other events held at Saratoga Gaming and Raceway throughout the year.

Live racing provides non-market benefits in addition to recreation for local residents. Non-market benefits include the part of the motive for owning race horses and attending races that comes from personal enjoyment, rather than a profit motive. Also, those who live near horse farms benefit from agricultural land preservation. Horse farms provide greater benefits than other rural land use due to the desirable aesthetic landscape they provide. McGowen notes that racetracks, “ensure the preservation of the horse racing community with its open green pastures. This is a long-term economic impact economists find difficult to measure.” These benefits help to enhance the rural, farming environment promoted by Saratoga County.

#### *Competition from Other Gaming Establishments*

Saratoga Gaming and Raceway is not the only gaming establishment in the region or state. The gaming industry faces increased competition from neighboring regions and states. To keep the economic impact of Saratoga Gaming and Raceway in the region, and tax revenues from Saratoga Gaming and Raceway in the state, will require those involved in the market adapt to changes in the industry. A recent Washington Post article highlights industry changes and required responses in the context of Atlantic City, NJ gaming. The article notes, “The industry faces increased competition... If revenue goes down, it could have negative consequences for the industry, its customers and the state of New Jersey, which relies on casino taxes.” (Washington post, 2007) In the article, Joseph Weinert, vice president of Spectrum Gaming Group, a casino consulting firm,



cites the importance of marketing and promotion for addressing recent revenue declines (including losses to neighboring states).

Saratoga Gaming and Raceway pays approximately \$870,000 in local taxes each year. Additional taxes are paid to the state. Saratoga Gaming and Raceway is projected to pay approximately \$74 million for education in New York State through state taxes in 2007. The education tax is paid based on revenue generated from video lottery terminals. The revenue Saratoga Gaming and Raceway receives depends, in part, on its success relative to competitors in the region. In particular, Saratoga Gaming and Raceway faces competition from nearby racetracks and casinos (e.g. tracks in Pennsylvania) as well as competition from nearby Indian casinos. Saratoga Gaming and Raceway's continued economic impact on the region and state depend on its ability to compete successfully with other racing and gaming facilities.

### Considerations for the Future

Beyond calculating the economic impact of Saratoga Gaming and Raceway (or the economic loss if racing were to be eliminated), it is important to consider ways the impact may change in the future. The 2002 Bear, Stearns & Co. investment firm's "Gaming Industry Report" highlights industry challenges and opportunities for the future. The report focuses on marketing/promotion and technology as the factors most likely to affect the future of the horse racing industry.

The report also includes recent research that outlines additional strategies with the potential to increase demand for racing in the future. These strategies include aggressive marketing and promotion and application of new technologies in the industry. Therefore,

with the application of the suggested strategies, the impact of Saratoga Gaming and Raceway may be expected to increase in the future.

More recently, a Washington Post article highlighted industry changes and required responses. The article noted, “The industry faces increased competition... If revenue goes down, it could have negative consequences for the industry, its customers and the state, which relies on casino taxes.” (Washington post, 2007) In the article, Joseph Weinert, vice president of Spectrum Gaming Group, a casino consulting firm, cites the importance of marketing and promotion for addressing recent revenue declines (including losses to neighboring states). Saratoga Gaming and Raceway’ continued economic impact on the region and state depend on its ability to compete successfully with other racing and gaming facilities.

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# Reference Material

## Appendix A: RIMS II Multipliers

RIMS II multipliers are provided by the United States Department of Commerce, Bureau of Economic Analysis (BEA). The BEA description of RIMS II multipliers and their use for economic impact analysis is given below.

Effective planning for public- and private-sector projects and programs at the State and local levels requires a systematic analysis of the economic impacts of these projects and programs on affected regions. In turn, systematic analysis of economic impacts must account for the interindustry relationships within regions because these relationships largely determine how regional economies are likely to respond to project and program changes. Thus, regional input-output (I-O) multipliers, which account for interindustry relationships within regions, are useful tools for conducting regional economic impact analysis.

In the 1970's, the Bureau of Economic Analysis (BEA) developed a method for estimating regional I-O multipliers known as RIMS (Regional Industrial Multiplier System), which was based on the work of Garnick and Drake. In the 1980's, BEA completed an enhancement of RIMS, known as RIMS II (Regional Input-Output Modeling System).

RIMS II is based on an accounting framework called an I-O table. For each industry, an I-O table shows the industrial distribution of inputs purchased and outputs sold. A typical I-O table in RIMS II is derived mainly from two data sources: BEA's national I-O table, which shows the input and output structure of nearly 500 U.S. industries, and BEA's regional economic accounts, which are used to adjust the national I-O table to show a region's industrial structure and trading patterns.

Using RIMS II for impact analysis has several advantages. RIMS II multipliers can be estimated for any region composed of one or more counties and for any industry, or group of industries, in the national I-O table. The accessibility of the main data sources for RIMS II keeps the cost of estimating regional multipliers relatively low. Empirical tests show that estimates based on relatively expensive surveys and RIMS II-based estimates are similar in magnitude.

To effectively use the multipliers for impact analysis, users must provide geographically and industrially detailed information on the initial changes in output, earnings, or employment that are associated with the project or program under study. The multipliers can then be used to estimate the total impact of the project or program on regional output, earnings, and employment.

RIMS II is widely used in both the public and private sector. In the public sector, for example, the Department of Defense uses RIMS II to estimate the regional impacts of military base closings. State transportation departments use RIMS II to estimate the regional impacts of airport construction and expansion. In the private-sector, analysts and consultants use RIMS II to estimate the regional impacts of a variety of projects, such as the development of shopping malls and sports stadiums.

## **Appendix B: TIP Documentation**

### **A TIP (Track Impact Program) for Estimating the Baseline Economic Impact of a Racetrack**

When governments (local, state or federal) must make public policy decisions regarding economic activity in their jurisdiction, it is important that they have full and accurate information about the expected results of their decisions. Among the most important information they must have is an assessment of the effects of their decision on the economic well being of their constituency. Decisions that allow or lead to the creation or expansion of economic enterprises will have positive impacts on the economy and the community. Any decision that negatively impacts an existing economic enterprise will negatively impact the economy and community. It is important that policy makers have accurate information regarding the positive or negative economic impacts of their decisions

Racetracks have been found to have a significant economic impact on their local and state economies (Allen, Barents Group, McGowan, Seidman Research Institute, University of Maryland, Economic Research Associates, Weinstein and Clower). The operation of racetracks creates income and employment in local communities and the regions surrounding them. Government policy makers must be aware of the important economic role that racetracks play in the community and surrounding region when making policy choices that affect the racing industry. Robert Goodman, Director of the United States Gambling Study, reports. "We found a lack of economic impact studies either prior to or after gambling ventures were in place ... At the same time, we were able to find other situations in which such studies were available and could give us a much

better measure of how communities approach legalization" (Goodman, 1995). For example, the State of Maryland authorized a study of the economic impact of the horse racing industry on the state, "to provide background information that policy makers would find useful in considering changes in public policy on the industry" (University of Maryland, 1999). Information available from an economic impact study helps to ensure that governments make the best, most fully informed public policy decisions.

There are a number of economic impact studies of the horse industry in general (Barents Group, Gum) and several of racetracks in particular (Allen, McGowan, Weinstein and Clower). However, there is far from complete, reliable information regarding the local and regional economic impact of individual racetracks in the United States. Only very large tracks are willing and able to commission studies of their economic impact on their community. However, the basic analysis provided in any economic impact study is the same, and applying the methods to any racetrack involves the same basic information. The purpose of the TIP is to provide a model for estimating the economic impact of an individual greyhound or thoroughbred racetrack on the local and state economy.

### **The Basic Economic Impact Model**

The economic impact of an activity is typically broken down into three parts: direct, indirect and induced. The direct impact of a racetrack refers to the expenditures made by the racetracks in other industries. This includes track expenditures on concessions, advertising, office supplies, etc.

The indirect impact of a racetrack refers to the economic activity of direct expenditures on other business sectors in the economy. For example, when animal feed is purchased by owners or trainers, the businesses selling feed then purchase inputs such as corn, utilities, transportation, etc. These expenditures by the feed businesses are the indirect impact of the racetrack.

Finally, the economic activity of racetracks results in an induced impact on the economy. Induced impacts result when wages and income paid by racetracks are spent in the economy. Wages paid by racetracks are spent on food, clothing, and other consumer goods. The expenditures by consumers that result from payments made by racetracks are the induced impact. The total market impact of a racetrack is thus the sum of its direct, indirect, and induced impacts on the economy.

The direct impact of a racetrack is found using data from track financial statements and by estimating the expenditures generated from training and racing the animals at the track. The indirect and induced impacts are found using an economic impact multiplier. Multipliers are estimated using input-output tables. These tables are large matrices showing the relationships of the inputs of each industry to the output of other industries.

Any expenditure by an industry outside that industry becomes income for another industry. Part of the new income is then spent on inputs and becomes income for yet another industry, and so on. Thus any new expenditure has a multiple effect beyond its initial impact. The impact of a new expenditure is multiplied throughout the economy. For example, a racetrack spends for food and the expenditure becomes income for the

food industry. The food industry spends part of the income, say on office supplies, and the expenditure becomes income for the office supply industry. The office supply industry spends part of the new income and it becomes income for another industry, and so forth until there is no income left to spend.

To determine the indirect and induced impacts of a racetrack, the direct impact is multiplied by the appropriate multiplier, which estimates the number of times the initial amount will multiply through the economy. Various government and private research agencies collect detailed data and construct complex input-output models of the U.S. and state economies. These models are used to calculate accurate economic impact multipliers for defined industries.

A simple numerical example can be used to illustrate the determination of the indirect and induced impacts. Assume a racetrack spends a total of \$10 million in industries outside the racetrack industry. The direct impact of the racetrack is \$10 million. The indirect and induced impacts (which can be added to the direct impact to get the total impact) are determined using a multiplier. Assume the racetrack industry multiplier is 2.1. This means that each dollar spent in the racing industry increases total output in the region by \$2.10. The total impact of the racetrack is \$10 million multiplied by 2.1 or \$21 million.

## **Methodology**

Economic impact studies have been conducted for decades and involve a fairly well established procedure for estimating economic impacts. However, differences in the



application of estimation methods can lead to large differences in the results. Robert Goodman evaluated economic impact studies of gambling enterprises (not specifically racetracks) that were provided to policy makers and found that, "In general ... claims of economic benefits were exaggerated. Most could not be considered objective descriptions of economic benefits and costs. ... the reports were either unbalanced or mostly unbalanced" (Goodman, 1995). The accuracy and objectiveness of economic impact studies funded by members of the industry have been called into question. Often differences in estimating the size of economic impacts is due to the level of certainty a researcher requires before including a potential impact in the calculations. Any economic impact study requires assumptions and estimates for how an enterprise will impact an economy. For example, how many of the patrons attending a day at a racetrack are from the area and how many have come from outside the region? For those from outside the region, how many would have come to the area if there was no racetrack and how many would have gone elsewhere? Assumptions and estimates to answer these types of questions are necessary to conduct an economic impact analysis.

The TIP estimates the baseline economic impact of a racetrack on the local and state economy. It is "baseline" because it does not include uncertain impacts that can only be very roughly estimated using very tentative assumptions or difficult estimations. TIP is patterned after the University of Maryland Institute for Governmental Service Economic Impact Study prepared for the Maryland State Legislature House Ways and Means Committee. The study excludes impacts where accurate estimation is difficult.

The results of the TIP compared well to the results of existing individual thoroughbred track impact studies. The TIP estimate was an average of 8% below the estimate of other studies (using the values for operating expenditures provided in the studies), with a range from less than 1% to 14% below existing study estimates.

In addition, racetracks have non-market impacts on an area. These impacts can not be easily quantified, but should also be considered in making public policy decisions. This project also notes the major non-market impacts of racetracks.

### **Calculating the Economic Impact of a Racetrack**

Calculating the impact of a racetrack requires data for the racetrack operating budget and stable/kennel operations. Racetrack operations data can be found in the financial statements of the track. Stable/kennel operations are estimated using information on the number of animals kept on the track and the length and cost of their keep. All data should be for the same time period (e.g. a calendar year, a fiscal year, race meet). When results are to be provided to policy makers, calculating the impact of the track for a calendar year (January 1 to December 31) is recommended. The specific information required for horse tracks and greyhound tracks is outlined below.

#### Horse Tracks

The racetrack operating budget data is made up of expenditures for sport administration. (Remember that wagering expenditures i.e. the handle, represent transfers within the industry and are not included in the direct impact of a track.). Expenditures for sport administration include purchases from other industries for track administration and

non-wagering services (e.g. concessions). A sample table of items included in the data for horse racetrack operations is included as Appendix A.

The stable operations data is made up of expenditures for the care, training, and racing of horses. These values are estimated using the number of horses housed in the track's backstretch or a track affiliated training center and the number of days that horses racing at the track are housed on the backstretch or in the training center. Since fees paid for training cover expenditures on feed, bedding, wages, etc., total trainers' fees are used to estimate stable operations expenditures. The estimation also requires the total value of purses paid out during the year. The percent of purses paid to jockeys and trainers is used to estimate the net income paid for stable operations. The part of the purse that goes to owners pays for expenses (much of which is included in the stable operations expenditures) and is not a net income spent outside the industry. The University of Maryland study finds that the net income from owning racehorses is negative. That is, owners spend more than they make (on average) so that all of the purse income to owners is captured in other expenditures categories. The actual equation used to estimate the stable operations expenditures is provided and explained in Appendix B.

### **Using the Economic Impact Program**

Using the Track Impact Program to estimate the baseline economic impact of a track requires identifying whether the track is a flat track, a harness track, or a greyhound track and using the appropriate version of the program (from disk or on the University of Arizona RTIP web site). Once in the appropriate program, select the state in which the track is located, and type in the required values. When the values are entered into the TIP,

clicking on the "calculate" button provides the baseline economic impact (direct + indirect + induced impacts). **Changes** in these values can also be entered into the TIP to determine the **change** in a tracks economic impact on the region. For example, TIP can determine the effect of increasing or decreasing the number of race days or racetrack operating budget. The formula used to calculate the total economic impact is given in Appendix A for horse tracks and Appendix C for greyhound tracks.

### Horse Track Values

*Note: round all values to the nearest dollar.*

**Racetrack Operating Budget:** the total annual expenditures by the track as detailed in Appendix A.

**Number of Horses:** The total number of horses racing at the track housed in the track's backstretch or at a track affiliated training center at one time.

**Number of Days:** The total number of days in the year that horses racing at the track are housed in the track's backstretch or at an affiliated training center.

**Purse Total:** The total value of purses paid out during the year.

### **Interpreting the Results**

The baseline economic impact calculated by the TIP represents the total baseline dollar value of economic activity generated in the region as a result of operating the racetrack. It includes all expenditures made directly by the track (the direct impact) as

well as the expenditures created as a result of the multiple effect of injecting the expenditures into the economy (the indirect and induced impacts). **The results are rounded to the nearest thousand dollars.**

Because the TIP excludes economic impacts that are speculative or difficult to estimate, the actual total impact is expected to be even higher. In addition, tracks will have other impacts on the economy not captured by an economic impact study.

### Economic Impacts of Tracks Beyond the Baseline

#### *Additional Market Impacts*

The actual economic impact of a racetrack is expected to be above the baseline economic impact calculated by this program. Any of the following characteristics of a track will increase its impact above the baseline.

- Holding major events, such as Triple Crown or Breeder's Cup races, that draw tourists from outside the region who would otherwise not have come to visit attractions in the region.
- Generating expenditures for food, entertainment, overnight lodging, etc. by racetrack patrons at establishments outside the racetrack.
- Drawing consumers who would otherwise not have come to the region to spend at the racetrack. That is, bringing racing fans who would have gone to tracks in other regions to the region to go to the track.
- Generating expenditures on the industry by the government (e.g. regulation or promotion).

### *Non-market Impacts*

In addition to the market benefits included in the baseline economic impact value and discussed in the section on additional market impacts above, racetracks provide non-market benefits to a region. These benefits are considered "non-market" because no individual purchases them from the racetrack industry. For example, racetracks, "ensure the preservation of the horse racing community with its open green pastures. This is a long-term economic impact that economists find difficult to measure." (McGowan). Each of the following is an example of a non-market benefit of racetracks.

- That part of the motive for owning racing animals and attending races that comes from personal enjoyment and personal pleasure, rather than a profit motive. That is, many individuals participate in the industry in whole or in part for personal satisfaction.
- Owners and renters of property contiguous to racehorse farms benefit from agricultural land preservation. Horse farms provide greater benefits than other rural land use due to the desirable aesthetic landscape they provide.
- Racing often has important historical and cultural ties to communities and economies and therefore the existence of racetracks can provide important historical and cultural benefits to a region.

### **Conclusion**

There are many instances when understanding the economic impact of an industry on the region and its economy is important for policy makers. Racetracks clearly have an

important impact on their local and regional economy. The TIP allows individual racetracks to determine their baseline economic impact on their region. Providing policy makers with this important economic impact information will make certain that it is considered as part of the essential information necessary to make sound public policy decisions regarding the racing industry.

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## Calculation of Racetrack Operating Budget (Horse Tracks)

### *I. Wages, Salaries & Benefits*

Includes all wages, salaries, payroll taxes, worker's comp, employee benefits, and jockey insurance.

### *II. Operating Expenses*

Includes taxes/licenses, trophies, printing and postage, equipment purchase/lease/rental (e.g. totalisator, starting gate, timer, photo finish), simulcast transmission, state lab payments, transport of money, medical/ambulance, grounds/parking.

### *III. Advertising and Promotional Expenses*

### *IV. Maintenance (Occupancy) Expenses*

Includes cleaning, laundry, maintenance and repairs, utilities, vehicle maintenance, track surface maintenance.

### *V. Administrative Expenses*

Includes dues/subscriptions, contract services, attorney fees, accounting fees, consulting fees, telephone, computer, insurance, real estate.

### *VI. Catering Expenses*

Includes costs of sales (food, drink, tobacco, etc.) operating expenses, general and administrative expenses.

Total = sum of categories I - VI. Type in this total for racetrack operations expenditures.

\* note: items listed above are examples of items included in each categories and not exhaustive lists of expense items. Individual tracks may have additional expenses in a category or may divide their expenses differently. Include all expenses related to the item categories described!

## Formula Used to Estimate Stable Operations Expenditures

### *Harness Tracks*

Stable Operations = [Training fee \* (#days \* #horses)]+ .1 (purse)



Where;

**#horses:** The total number of horses racing at the track housed in the track's backstretch or a track affiliated training center at one time.

**#days:** The total number of days in the year that horses racing at the track are housed in the track's backstretch or a track affiliated training center.

**purse:** The total value of purses paid out during the year.

Note: The daily training fee for each racehorse (averaging about \$60) and the percent of the purses paid to each trainers and jockeys/drivers represent the total expenditures on maintaining the racehorse and the net income received for the care, training, and racing of the horse. The trainer's fee is summed over the number of days horses are maintained at the track each year for the total number of horses. The amount earned through purses is totaled for the entire year.

\* - Standard industry daily trainer's fee for each state, determined through a phone survey of racetracks.

### **Formula Used to Estimate Total Economic Impact**

Total Impact = (stable expenditures + operating budget) \* State RIMSII Multiplier