

Indiana Racing and Breeding Industry Survey

-- Executive Summary --

For Immediate Release
November 10, 2010

For more information:
Contact Michael Brown
317-903-4382
brownpreston@indy.rr.com

Background

In 1988, 62 percent of Hoosiers voted to remove the constitutional ban on all forms of gaming in Indiana. In September, 1994, the first pari-mutuel racetrack opened in the state. From the beginning of pari-mutuel horse racing in Indiana, our legislators displayed the foresight to give this fledgling industry a good head start and a solid foundation as we competed with older, more established state racing programs.

In 2007, the Indiana General Assembly passed, and the governor signed into law, a bill that would permit electronic gaming at the state's two pari-mutuel racetracks. The slots legislation was the product of unprecedented cooperation and more than ten years of effort put forth by representatives of Indiana standardbred, thoroughbred and quarterhorse racing and breeding associations and the state's two pari-mutuel race tracks in building public understanding of the industry and legislative support for this concept.

With the passage of the slots law, our state representatives and senators again demonstrated great judgment and vision in keeping Indiana dollars in Indiana by promoting the state's homegrown horse racing and breeding industry. The new law reinforced the framework for a growing, productive industry that would generate future agribusiness economic activity, revenue and jobs throughout Indiana.

In the campaign for passage of gaming at the tracks, tracks and horsemen relied on the results of a 2005 study by the American Horse Council, based on 2003 conditions, which reported a direct economic impact of \$181 million and a total economic impact of \$294 million for the Indiana racing and breeding industry.

Since then, legislators have asked for quantification of the effects of the 2007 slots law and an accurate representation of the current condition of the industry in the state. Accordingly, all four racing and breeding associations came together and commissioned a survey and business analysis of the racing and breeding industry and its economic impact on Indiana.

Economic Impact Survey -- Methodology

The survey was conducted and analyzed by Susan E. Conners, Ph.D., and Jonathan M. Furdek, Ph.D., of Purdue University Calumet; Laurent Couetil, DVM, Ph.D., of Purdue University; and

Mr. Greg Preston, of the US Department of Agriculture, using 2009 data, which is the most recent full year of data.

The economic impacts of horseracing and breeding related activities were estimated using 2008 IMPLAN multipliers for the State of Indiana. The IMPLAN modeling system has been in use since 1979 and is currently used by more than 500 private consulting firms, university research centers, and government agencies. The IMPLAN modeling system combines the [U.S. Bureau of Economic Analysis' Input-Output Benchmarks](#) with other data to construct quantitative models. Further analysis and interpretation of the data will be required for a complete snapshot of the industry and its economic impact. What is reported are the first applications of the IMPLAN model to the survey data.

The data collection portion of the research involved two surveys that were conducted simultaneously. One survey obtained economic data from the Indiana racetracks for the calendar year 2009 and both Indiana horse racing tracks responded with their data. The second part of the study involved a survey of over 7,000 members of the race horseracing and breeding community requesting their economic data for 2009. The breeder survey resulted in 1,000 responses.

Economic Impact Survey -- Conclusions

The 2005 American Horse Council study reported a direct economic impact of \$181 million and a total economic impact of \$294 million for Indiana racing and breeding industry. The findings of this study five years later indicate a \$733 million direct effect, with more than \$1 billion in total impact for the racing industry. The 2005 study reports \$5 million paid in state and local taxes, with the current study reporting \$69 million in state and local tax revenue. The industry generates direct and related employment of 9,865 jobs.

Regarding the industry, there are several important aspects that need to be explored. A significant share of racetrack revenues comes from off track and pari-mutuel sources. A significant investment in the breeding segment of the equine industry is from out-of-state interests. These elements indicate that the equine industry is a significant export industry, generating in-state revenues from out-of-state sources. A second factor is the amount and nature of investment spending as real investments have long-lasting impacts on the economy. A third factor is the impact of a relatively infant industry. Although the race tracks have been in operation for several years, the supporting components of the industry are growing and the IMPLAN multipliers tend to be backward-looking and may not properly assess this significant growth element.

The two racetracks in Indiana, Hoosier Park and Indiana Downs, generated a cumulative income of \$319,136,342 in 2009, paid out purses of \$49,043,165, paid State and local taxes of \$5,106,261, and have an investment of \$155,781,213 in land, facilities, and equipment, of which \$3,042,146 is new real investments. The industry employed 161 full time employees, 765 part time employees, and 596 seasonal employees in 2009, which computes to a full time equivalent of 1,240 employees. These totals are included in the overall industry totals.

When viewed from a nation-wide perspective, a racetrack is either expanding or declining, but not standing still. When a racetrack is successful, it can afford to offer larger purses and attract

better horses and athletes, drawing in larger incomes from pari-mutuel and off-track wagering, which then affords an opportunity to offer even more attractive purses. When a racetrack is less successful, purses decline and the cycle reverses.

This is an industry that is especially important to the two communities, Anderson and Shelbyville, and the surrounding areas, but the impact is statewide, because of the broad statewide involvement of the breeding services, and other equine/agribusiness activity.

It should also be noted that 2009 was a difficult year, economically, for the economy in general, the State economy, and also the equine industry. These results – though reflective of phenomenal growth – have taken place in an economic landscape in turmoil. The industry likely would be growing at a faster clip in a more stable economic environment. Concomitantly, in a stable environment, with its existing structure and funding mechanisms, the economic impact of the racing and breeding industry would be even higher throughout the state.

One inescapable conclusion emerges from the data and analysis of the report: the State of Indiana is generating extraordinary economic activity from its far-sighted design of and ongoing investment in the state horse racing and breeding industry.

Economic Impact of the Indiana Horse Racing and Breeding Industry

October 25, 2010

Susan E. Conners, Ph.D.
Jonathan M. Furdek, Ph.D.
Purdue University Calumet
Laurent Couetil, DVM, Ph.D.
Purdue University
Mr. Greg Preston
US Department of Agriculture

This report involves the findings from the survey data obtained from the research that were recently conducted regarding the 2009 economic activity of the racing segment of the equine industry. The preliminary results focus on four issues: (1) the direct and indirect economic impact from the horse racing and race horse breeding segment of the equine industry; (2) the direct and indirect impact this industry segment has on employment; (3) the direct and indirect impact this industry segment has on Indiana taxes; and (4) the proportion of expenditures by this industry segment directly in Indiana.

Introduction to the Study

The latest survey of the Indiana Horse Racing Industry was conducted in 2005 by the American Horse Council and results indicated that the equine racing industry generated over \$294 million dollars per year in total economic impact in the state. What has happened in the last five years in the Indiana Horse Racing industry? The main change occurred **after June 2007, when the Indiana General Assembly passed legislation enabling alternative gaming at Indiana's two racetracks**, Hoosier Park and Indiana Downs. Since then, an allocation from slot machine wagering has been provided yearly to each racing breed to promote breeding and stimulate the agri-business sector of the state economy. It is expected that this new source of revenue resulted in growth of Indiana's equine industry; however, the impact of this new activity on the state's economy was unknown. The purpose **of the first phase of the research was to** determine the economic impact of the horse racing and racehorse breeding segment of the equine industry in Indiana. The second phase of the research will determine the economic impact of the entire equine industry in Indiana. This report conveys the results of the first phase research.

The year 2009 was a difficult year for the U.S. economy and the Indiana economy. The equine industry has been drastically affected as well and the impact of the economic downturn is likely to be reflected in the survey data.



Methodology

The data collection portion of the research involved two surveys that were conducted simultaneously. One survey obtained economic data from the Indiana racetracks for the calendar year 2009 and all Indiana horse racing tracks responded with their data. The second part of the study involved a survey of over 7,000 members of the race horse breeding community requesting their economic data for 2009. The breeder survey resulted in 1,000 responses.

Estimation of economic impact utilizes state specific IMPLAN multipliers to estimate the overall economic impact of the industry on the state GDP and on employment. The IMPLAN modeling system has been in use since 1979 and is currently used by over 500 private consulting firms, university research centers, and government agencies. The IMPLAN modeling system combines the U.S. Bureau of Economic Analysis' Input-Output Benchmarks with other data to construct quantitative models. From this data, one can examine the effects of a change in one or several economic activities to predict its effect on a specific state, regional, or local economy (impact analysis).

The economic impacts of horseracing and breeding related activities were estimated using 2008 IMPLAN multipliers for the State of Indiana.

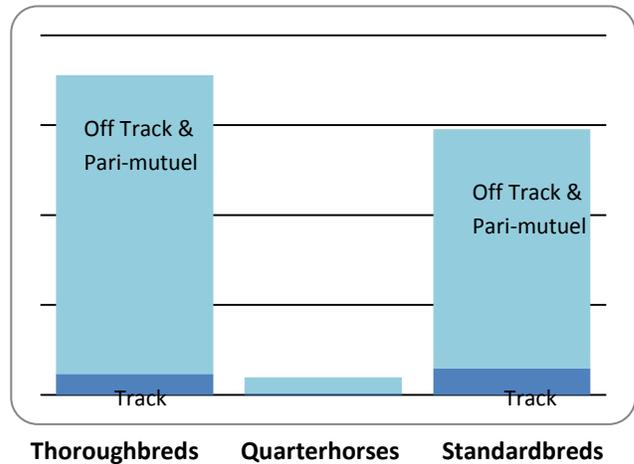
Results of the Horse Racing Industry Survey

The two racetracks in Indiana, Hoosier Park and Indiana Downs, generated a **cumulative income of \$319,136,342 in 2009**, paid out purses of \$49,043,165, paid State and local taxes of \$5,106,261, and have **an investment of \$155,781,213** in land, facilities, and equipment, of which \$3,042,146 is new real investments. The industry employed 161 full time employees, 765 part time employees, and 596 seasonal employees in 2009, which computes to a **full time equivalent of 1,240 employees**.

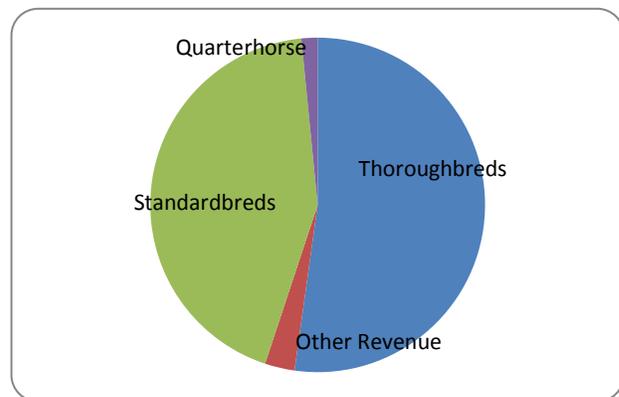
Racetrack Revenues:

The preponderance of racetrack revenue in 2009 came from wagering and most racetrack wagering revenue in 2009 came from off track and pari-mutuel sources. In 2009, 98% of racetrack revenue came from wagering and 2% came from other sources such as admission fees, concessions, and sale of programs. Of the wagering revenue, only 6% was generated at the track while 94% came from off-track and pari-mutuel wagering.

Wagering Revenues – Millions \$\$



The racetracks engaged in Thoroughbred, Standardbred, and Quarterhorse racing in 2009 with Thoroughbred racing generating 53% of the wagering revenues, Standardbred racing accounting for 44% and Quarterhorse racing the remaining 3%.



Wagering Revenues

An examination of daily wagering revenues by breed provided some interesting factors. Although thoroughbred racing seems to be the big attraction and generates the most revenue as well as the most revenue per day, the Indiana racetracks engage in more days of standardbred racing. These findings are summarized in Table A. below:

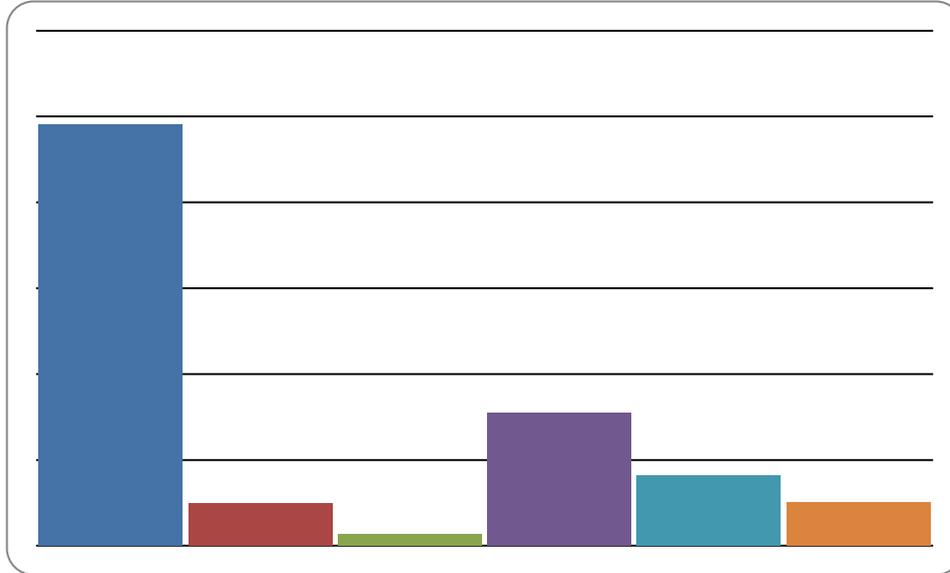
Table A. Racetrack Wagering Revenues by Breed

	Wagering Revenue	Number of Racing Days	Revenue per Day
Thoroughbreds	\$166,163,798	125	\$1,329,310
Standardbreds	\$127,928,734	160	\$ 799,555
Quarterhorses	\$ 8,722,966	56	\$ 155,767

These findings tend to indicate the significance of off-track and specifically, pari-mutuel wagering. What is not known, is the amounts that are paid out as expenses from pari-mutuel wagering.

Racetrack Expenditures:

Racetrack Expenses – Millions \$\$



The major expenditure for the racetracks in 2009 was for purses which accounted for 58.2% of reported expenditures. Wages accounted for 18.4% and other categories of expenditures were commission, 6%; veterinary services, 0.5%; maintenance, 1.7%; general business expenses (insurance, utilities, advertising, equipment purchases, and office supplies), 9.1%. Taxes, state and local, accounted for 6.1% of total expenditures.

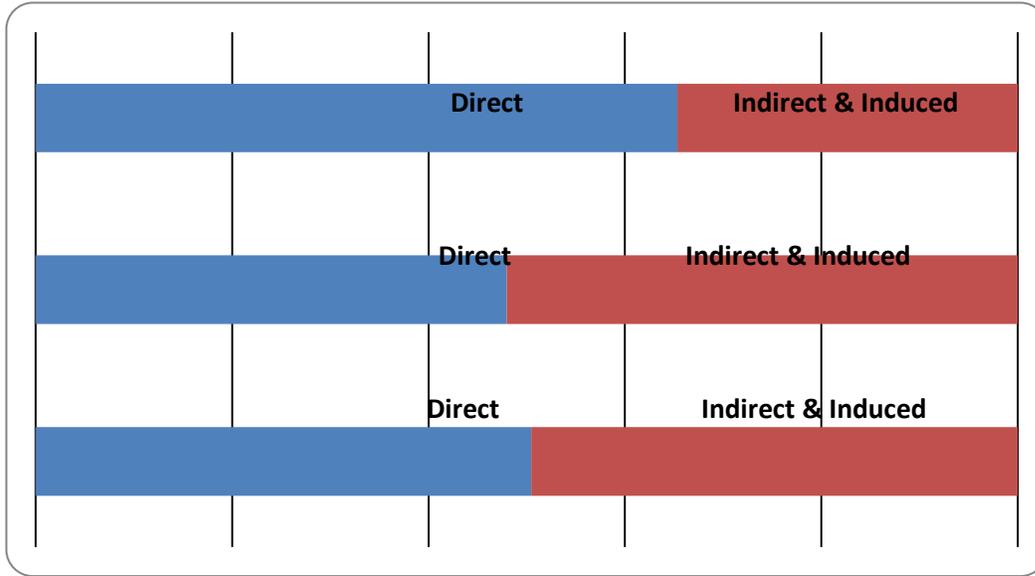
Economic Impact of the Horse Racing on the Indiana Economy.

The economic impact of the industry is summarized in Table B. below. These estimates are generated using IMPLAN 2010:

Table B. Economic Impact of Racing 2009

	Direct Effect	Indirect and Induced Effect	Total Effect
Employment	1,434	1,409	2,843
Labor Income	\$52,404,584	\$56,848,808	\$109,253,392
Contribution to State GDP	\$319,135,352	\$169,221,320	\$488,356,672

The horse racing industry in Indiana generates by direct payment as well as from indirect and induced economic activity a total of **\$73 million in tax revenues** of which \$29 million is in various forms of federal taxes and \$45 million returns in State and local taxes.



Impact of the Horseracing Industry on Tax Revenues

Using the IMPLAN model with 2008 data, the projected direct and indirect tax revenue consequences from the economic activity of the racetrack is substantial. State and local tax revenues attributed to the racetrack industry exceed \$45 million while federal tax revenues attributed to the racetrack industry of nearly \$28 million. The resulting **tax impact exceeds \$73 million**. These findings are summarized in the table below:

Table C. Direct and Indirect Taxes Derived From the Racetrack Industry

State and Local Taxes	
Employee Compensation	\$ 128,540
Proprietor Income	
Indirect Business Tax	\$39,632,260
Households	\$ 2,592,002
Corporations	\$ 2,780,520
Total State and Local	\$45,136,322

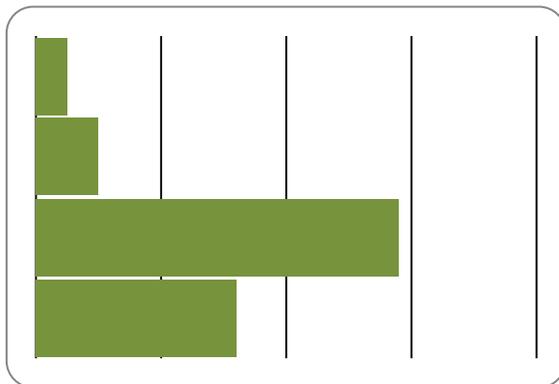
Federal Taxes	
Employee Compensation	\$10,841,430
Proprietor Income	\$ 985,260
Indirect Business Tax	\$ 4,946,544
Households	\$ 5,935,596
Corporations	\$ 5,249,740
Total State and Local	\$27,958,570

Results of the Race Horse Breeding Survey.

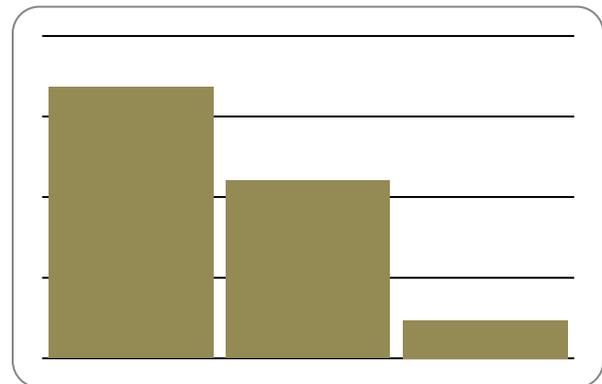
A survey of over 7,000 breeders and related operations in the State of Indiana resulted in 1,000 surveys completed and returned. These were the findings:

- 80 counties were represented in the survey with the most responses from Lagrange County (29), Elkhart County (20), and Allen County (16).
- The principal residence of more than 10% of the breeders in the survey was out of state. Thirty-four states were represented in the survey with the most responses indicating Ohio (179), Kentucky (136), and Illinois (113) as the principal residence.
- When asked about organizational affiliations, 32% were affiliated with Thoroughbred organizations, 58% with Standardbred organizations, and 10% with Quarterhorse organizations.

Breeder Organizational Affiliations



Performance of Horses



- When asked about investments in horses, property and equipment since the slots in 2007, 19% indicated the number of horses had increased, while 69% indicated the number of

horses had decreases, with 12% indicating no change. The amount of property owned increased for 1% of the breeders, while 68% had decreased property holdings, and 31% had no change in property holdings. The investment in equipment reportedly increased for 2% of the respondents, decreased for 32%, and was unchanged for 66%.

- The number of horses owned in the 1,000 responses, was reported to be 3,365 while 65% of those horses raced in 2009 and 215 of the horses that raced, or 21% had won in 2009.
- Most of these horses were kept on the owner’s property (68%) while 7% were kept at training facilities and 25% reported other types of facilities held their horses.
- The other type of facilities included race tracks (38.4%), other farms (20.5%), fairgrounds (11%), breeding farms (8%), and out of state (15.5%).

Changes in Investments Since 2007

	Increased	Unchanged	Decreased
Number of Horses	19%	12%	69%
Amount of Property	1%	31%	68%
Equipment Investment	2%	66%	32%



Breeder Revenues:

Significant sources of revenue are the purses and breed awards received by the breeders. Of the 1,000 responding in the sample, 586 breeders indicate **\$15,400,083 in purses** for an average of \$26,280 per winning breeder. Breeders also reported **breed awards totaling \$1,569,299** for an average of \$8,622 per breeder reporting these awards.

Breeders reported a **total income of \$31,682,037** in Indiana which represented a significant part of their total income, since many breeders operate in multiple states. These findings are summarized in Table C. below.

Table C. Revenues Reported by Breeders 2009

Category	Revenues	Percent in Indiana
Sale of horses	\$11,626,161	15%
Stud fees	\$2,687,799	17%
Leasing of horses	\$43,583	66%
Boarding horses	\$8,342,291	8%
Training horses	\$6,588,345	37%
Sale of property	\$109,450	17%
Sale of equipment	\$480,410	2%
Rental land	\$76,380	56%
Rental equipment	\$21,700	2%
Insurance Income	\$118,214	21%
Interest Income	\$93,195	23%
Other Sources	\$1,494,559	15%

Caution is necessary when interpreting the percent from Indiana as the interpretation of the breeder isn't clear. For example, the 2% of equipment sales associated with Indiana could be interpreted as 2% of the sales were made in Indiana, 2% of the firm's total sales occurred in Indiana, or 2% of the Indiana sales were to other firms in Indiana.

Breeder Expenses:

The total expenditures reported by the 1,000 breeders responding to the survey total \$58,193,160 for 2009. These expenditures were detailed in 32 categories as described in Table D. below.

Table D. Breeder Expenses 2009

Expenses Item	Amount	Percent in Indiana
Feeds & Supplements	\$ 5,020,624	42
Bedding	\$ 1,079,918	33
Stable Supplies	\$ 841,983	39
Medical Supplies	\$ 982,795	35
Fuel Expenses	\$ 1,537,126	40
Utilities	\$ 438,857	32
Breeding Fees & Expenses	\$ 3,251,634	22
Leasing Fees	\$ 71,258	88
Boarding Fees	\$ 2,736,207	22
Equipment Rentals	\$ 88,475	9
Shipping & Travel	\$ 933,532	32
Accounting & Tax Services	\$ 349,646	24
Legal Fees	\$ 74,584	26
Insurance	\$ 818,374	22
Marketing & Advertising	\$ 311,084	28
Veterinarian Fees	\$ 4,094,506	33
Horses Purchased	\$ 7,242,991	26
Mortgage Expenses	\$ 2,791,510	30
Equipment Payments	\$ 584,329	28
Interest Payments	\$ 250,617	21
Depreciation	\$ 2,615,443	11
Maintenance & Repairs	\$ 1,008,305	35
Office Equipment	\$ 165,240	25
Property Taxes	\$ 860,939	41
Organizational Fees	\$ 367,525	26
Sales Taxes	\$ 197,103	33
Wages & Salaries	\$ 4,724,999	33
Contract Labor	\$ 2,031,056	48
Benefits	306,239	4
Farrier Fees	\$ 1,564,636	46
Training Fees	\$10,657,658	34
In Kind Expenses	\$ 119,914	59

In the breeding survey, 648 breeders indicated that their principal residence was in another state. Thirty-four States were represented in the sample. Of the \$58,193,160 in total expenses reported in the survey, \$38,233,324, or 66% is reported by breeders indicating their residence is outside of Indiana, indicating that the breeding industry is also a significant export market for the State of Indiana. These expenditures by out-of-state residents in the breeding industry are detailed in Table E. below.

Table E. Out-of-State Breeder Expenses 2009

Expenses Item	Amount	Percent in Indiana
Feeds & Supplements	\$2,733,061	14
Bedding	\$ 708,425	12
Stable Supplies	\$ 436,563	17
Medical Supplies	\$ 657,484	19
Fuel Expenses	\$ 810,255	18
Utilities	\$ 252,743	3
Breeding Fees & Expenses	\$2,431,338	11
Leasing Fees	\$ 63,463	96
Boarding Fees	\$2,058,544	13
Equipment Rentals	\$ 76,550	7
Shipping & Travel	\$ 662,403	20
Accounting & Tax Services	\$ 248,905	4
Legal Fees	\$ 45,336	11
Insurance	\$ 545,295	2
Marketing & Advertising	\$ 235,888	25
Veterinarian Fees	\$2,587,136	14
Horses Purchased	\$5,060,997	14
Mortgage Expenses	\$1,538,995	0
Equipment Payments	\$ 299,402	2
Interest Payments	\$ 166,615	2
Depreciation	\$2,265,714	2
Maintenance & Repairs	\$ 590,389	5
Office Equipment	\$ 109,958	4
Property Taxes	\$ 373,496	7
Organizational Fees	\$ 157,564	15
Sales Taxes	\$ 134,290	20
Wages & Salaries	\$3,285,873	16
Contract Labor	\$ 958,519	17
Benefits	\$ 283,099	2
Farrier Fees	\$1,049,635	30
Training Fees	\$7,737,727	24
In Kind Expenses	\$ 50,740	11

Out-of-State breeders indicate that they earn a substantial portion of the revenue generated by the breeding industry . Of the \$31,682,037 of revenues reported in the survey, \$24,775,875 are reported by out-of-State residents operating in Indiana. The details of these revenues are summarized in the table below:

Table F. Revenues Reported by Out-of-State Breeders 2009

Category	Revenues	Percent in Indiana
Sale of horses	\$8,594,060	6
Stud fees	\$2,181,025	8
Leasing of horses	\$ 41,982	68
Boarding horses	\$7,333,011	5
Training horses	\$4,457,715	22
Sale of property	\$ 85,850	100
Sale of equipment	\$ 465,660	1
Rental land	\$ 39,200	41
Rental equipment	\$ 21,700	2
Insurance Income	\$ 73,430	1
Interest Income	\$ 61,441	16
Other Sources	\$1,200,080	4

Again, great care must be taken when interpreting the percentages reportedly from Indiana as these are likely to be percentages of the total operations of an out-of-State enterprise. As an example, the revenue derived from Indiana breeding enterprises for rental land is reported as 41% of that revenue generated in Indiana, suggesting that these enterprises, owned by out-of-State concerns earn a significant part of their revenues out-of-State, which likely means from other facilities.

Economic Impact of the Race Horse Breeding Industry on the Indiana Economy.

The survey results were tabulated and the total industry parameters estimated by projecting the sample results proportionately to the population. The sample operations indicate a total expenditure of \$58,193,160 for the year 2009 which projects to a total expenditure of \$414,352,120 by the industry in 2009. In a similar fashion, the economic impact of the breeding industry was determined using the IMPLAN 2010 model. The results are summarized in Table G. below:

Table G. Economic Impact of Race Horse Breeding

	Direct Effect	Indirect and Induced Effect	Total Effect
Employment	5,821	1,201	7,022
Labor Income	\$42,305,192	\$40,173,864	\$82,479,056
Output	\$414,352,128	\$174,282,496	\$588,634,624

The race horse breeding industry generates a total of \$49 million in tax revenue of which \$24.4 million is in State and local tax revenue. This is the total direct and indirect tax effect.

Impact of the Race Horse Breeding Industry on Tax Revenues

Using the IMPLAN model with 2008 data, the projected direct and indirect tax revenue consequences from the economic activity of the racetrack is substantial. State and local tax revenues attributed to the horse breeding industry exceed \$24 million while federal tax revenues attributed to the horse breeding industry also exceed \$24 million. The resulting **tax impact exceeds \$49 million**. These findings are summarized in the table below:

Table I. Direct and Indirect Taxes Derived From the Breeding Industry

State and Local Taxes	
Employee Compensation	\$ 103,778
Proprietor Income	
Indirect Business Tax	\$17,592,150
Households	\$1,940,696
Corporations	\$4,762,785
Total State and Local	\$24,399,409
Federal Taxes	
Employee Compensation	\$8,752,907
Proprietor Income	\$ 372,527
Indirect Business Tax	\$2,195,695
Households	\$4,444,127
Corporations	\$8,992,343
Total State and Local	\$24,757,599

Conclusions

The 2005 American Horse Council study reported a direct economic impact of \$181 million and a total economic impact of \$294 million for Indiana racing industry. The findings of this study five years later indicate \$733 million direct effect with over \$1 billion total impact for the racing industry. The 2005 study reports \$5 million paid in state and local taxes with the current study reporting \$69 million state and local tax revenue. The industry generates direct and related employment of 9,865 jobs.

Regarding **the industry**, there are several important aspects that need to be explored. **A significant share of racetrack revenues comes from off track and pari-mutuel sources.** A significant investment in the **breeding** segment of the equine industry is from out-of-state interests. These elements indicate that **the equine industry is a significant export industry**, generating in-state revenues from out-of-state sources. A second factor is the amount and nature of investment spending as real investments have long-lasting impacts on the economy. A third factor is the impact of a relatively infant industry. Although the race tracks have been in operation for several years, the supporting components of the industry are growing and the IMPLAN multipliers tend to be backward-looking and may not properly assess this significant growth element.

When viewed from a nation-wide perspective, a racetrack is either expanding or declining, but not standing still. When a racetrack is successful, it can afford to offer larger purses and attract better horses and athletes, drawing in larger incomes from pari-mutuel and off-track wagering, which then affords an opportunity to offer even more attractive purses. When a racetrack is less successful, purses decline and the cycle reverses.

This is an industry that is especially important to the two communities, Andersonville and Shelbyville, and the surrounding areas, but the impact is statewide because of the broad statewide involvement of the breeding services, and likely other equine industry activity.

2009 was a difficult year economically for the economy in general, the State economy, and also the equine industry. The situation in a more stable economic environment may be significantly more positive.

APPENDICES:

APPENDIX 1. SURVEY FORM DISTRIBUTED TO 7,000 BREEDERS IN INDIANA

APPENDIX 2. SURVEY FORM DISTRIBUTED TO 2 RACETRACKS IN INDIANA

APPENDIX 3. SURVEY FORM DISTRIBUTED TO 2 RACETRACKS IN INDIANA

To request a copy of the appendix information please contact Dr. Susan Connors at connors@purduecal.edu