

## **The Commonwealth Foundation's Bad Data + Bad Analysis = Bad Policy**

### ***Clearing up Misinformation on the Race Horse Development Fund and Pennsylvania's Equine Industry***

Rather than provide any foundation for legislators to make rational policy decisions, the Commonwealth Foundation's figures and data related to the state's horse racing industry are erroneous, misleading, and complete fabrications. The information they espouse related to the Race Horse Development Fund and the state's racing and breeding industry is severely flawed and designed to persuade legislators using inaccurate information and lies.

Here is a breakdown of some of the Commonwealth Foundation's lies:

#### **Not Tax Dollars**

No matter how many times the Commonwealth Foundation repeats a lie, or its fake news, it is still a lie. The RHDF is NOT funded with state tax dollars and we challenge the Commonwealth Foundation to identify any statutory language that proves otherwise. The Commonwealth Foundation's claim is patently false and there are no references to taxes in the section of Act 71 which creates the RHDF.

Rather, the creation of the RHDF was a commitment made by track operators to the horse racing and breeding industry to earn legislative and industry for Act 71, which legalized slot machine gaming in Pennsylvania. It was clearly understood that the introduction of slots gaming at racetracks would reduce gambling on horseracing at the tracks. This negative impact on the handle, or betting on horseraces, would mean decreased purses and breeder incentives which would negatively impact the state's agricultural industry. As a result, track operators – in order to win passage of legalized gaming -- struck a bargain with legislators representing rural and agricultural districts, as well as the horse racing and breeding industry.

The track operators and casino operators agreed to support the Pennsylvania racing industry with assessments based on their slots machine revenues to offset the negative impact of their expanded gaming operations. Act 71 specifically refers to these contributions from operators to the RHDF as "obligations," which is a recognition of the quasi-contractual nature of the assessments. From 1959 to 2004, when Act 71 was approved, racetrack operators paid money for purses and breeder incentives out of the wagers they collected on pari-mutuel racing. With the passage of Act 71, they agreed to support the industry with a proportion of their revenues from slots as well.

The Pennsylvania Equine Coalition supported the passage of Act 71 based on this commitment, as did legislators who represented districts that were dependent on the agricultural industry. These agricultural legislators did so because the assessments would result in benefits to their rural constituents who were involved in the thoroughbred and standardbred horse breeding industry; to the farmers and small businesses who supply feed, hay, and other products; and to the farmers who provided stables and horse training services. It ensured that the economic benefits of legalized gaming were not confined to specific geographic areas of the state where the casinos were situated.

#### **Pennsylvania is NOT Losing Money from the RHDF to Other States**

Contrary to the claims of the Commonwealth Foundation, the Independent Fiscal Office does NOT state that 30 percent of the purses and breeder incentives supported by the Race Horse Development Fund are

spent out of state. What the IFO actually found is that a portion of the money from the RHDF (18 percent) flows out of state, but the IFO then notes that amount is almost entirely offset for by the flow of money into Pennsylvania from out-of-state sources, including money from purses that Pennsylvania residents/horse owners earn by competing at tracks in other states, from live handle, and other items such as food, beverage, and lodging.

In addition, the IFO did not take into account the economic benefits of out-of-state residents purchasing Pennsylvania-bred horses as a result of a strong breeding program that was made possible by the RHDF. One example would be the 2016 Standardbred Horse Sale, which is hosted each fall at the Farm Show Complex. According a study by Penn State University, the event attracted 15,000 attendees from around the world, with 99 percent of the attendees being “non-local.” Looking at the event purely from a hospitality perspective, the Hershey Harrisburg Regional Visitors Bureau estimated the event delivers a \$4.5 million economic impact to the region’s hospitality industry. A total of 1,544 standardbred horses sold for \$53.4 million dollars to horsemen from all over the world. Events like this – and their impressive economic impact -- would not be possible without the RHDF.

We would also note that members of the Pennsylvania Horse Racing Commission – individuals appointed by the Governor and legislature -- challenged a number of the assumptions made by the IFO as being too low. They noted that whether a horse owner resides out of state does not matter – what matters is whether the horse is located and stabled in Pennsylvania. If it is, that owner will spend the bulk of his or her purse money on caring for the horse here in Pennsylvania.

### **Commonwealth Foundation Doesn’t Check Its Data**

The Commonwealth Foundation has made numerous other repeated and erroneous claims about the racing industry and the Race Horse Development Fund. \$250 million is NOT spent from the RHDF each year to support the horseracing industry. In fact, according to the Joint State Government Commission and IFO, only about \$233 million went into the fund in 2016. Of that amount, approximately \$200 million of the assessment/obligations from the casino operators was actually spent on purses and breeder incentives. Approximately \$32 million from the RHDF was diverted for other purposes during the budget process last year.

In fact, since 2010, the legislature has diverted approximately \$300 million from the RHDF to fund other budget items – a diversion that is in direct contradiction to the bargain that was struck between legislators, casino operators, and the racing industry to secure passage of Act 71. These transfers have caused great uncertainty within the industry and has prompted a number of breeders to shutdown their operations in Pennsylvania.

The Commonwealth Foundation also falsely claims in its policy blog that the “bulk” of purses awards went to out of state owners. This false claim is dispelled by the IFO’s analysis which clearly states that is not the case. It also fails to account for the fact that what really matters – in terms of economic impact – is where a horse is stabled. Although an owner may live in another state, if its horse is stabled here in Pennsylvania, the owner is going to spend their money here in our Pennsylvania to care for and train the horse.

## **Out of State Stakes Winners**

The Commonwealth Foundation is also fond of highlighting the fact that a Middle Eastern sheikh competed and won the Pennsylvania Derby back in 2015. Presumably, the Commonwealth Foundation would like to ban all non-Pennsylvanians from competing in horse racing, which makes about as much sense as the Kentucky Derby only allowing horses from Kentucky to race. Without the international competition and top talent from around the world competing, it's just another race.

In fact, it would hurt our industry, particularly considering PA-Bred thoroughbred horses have won more than \$2.5 million in stakes races in other states in the first 6 months of the year. Pa-Bred Standardbreds have enjoyed similar successes.

In addition, the very point of a major stakes races is to showcase our state's racing industry and attract new investment in Pennsylvania. They also generate far more interest from the public. On the day of the Pennsylvania Derby, the track handle at Parx Racetrack was over \$5 million, more than five times the normal handle. In 2014, when Kentucky Derby and Preakness winner California Chrome ran in the Pennsylvania Derby, the track handle was more than \$10 million.

After the race, many of the owners and trainers made their way over to Parx Casino, where they gambled and injected more tax dollars into the state's coffers. This phenomenon isn't limited to just stakes races. The Pennsylvania Gaming Control Board reports that casino revenues are higher on race days than non-race days, bringing in additional tax dollars and more gaming revenues for track operators.

## **Summary of the benefits of Pennsylvania's Horseracing and Breeding Industry**

In February 2017, the Pennsylvania legislature's Joint State Government Commission issued a report that highlighted some of the benefits of horseracing in Pennsylvania.

According to the Joint State Government Commission study:

- The most recent statewide equine survey found that 105,458 acres of open space are attributable solely to the horseracing and breeding industry in the state. An estimated 31,262 horses in Pennsylvania were involved in the state's horseracing industry.
- The industry is responsible for creating and maintaining 20,000 jobs related in the breeding, raising, training, racing, riding, and care of racehorses. The industry provides economic benefit to the state's general agricultural industry which supplies tack, hay, feed, and other products.
- More than 36 different types of jobs that are created and supported by the racing and breeding industry, including trainers, grooms, veterinarians, equine dentists, racing drivers and jockeys, equine nutrition specialists, transportation specialists, and more.

In addition, Pennsylvania's Secretary of Agriculture Russell Redding has offered testimony before the Pennsylvania Gaming Control Board that placed the value of the state's racing industry at \$1.6 billion.