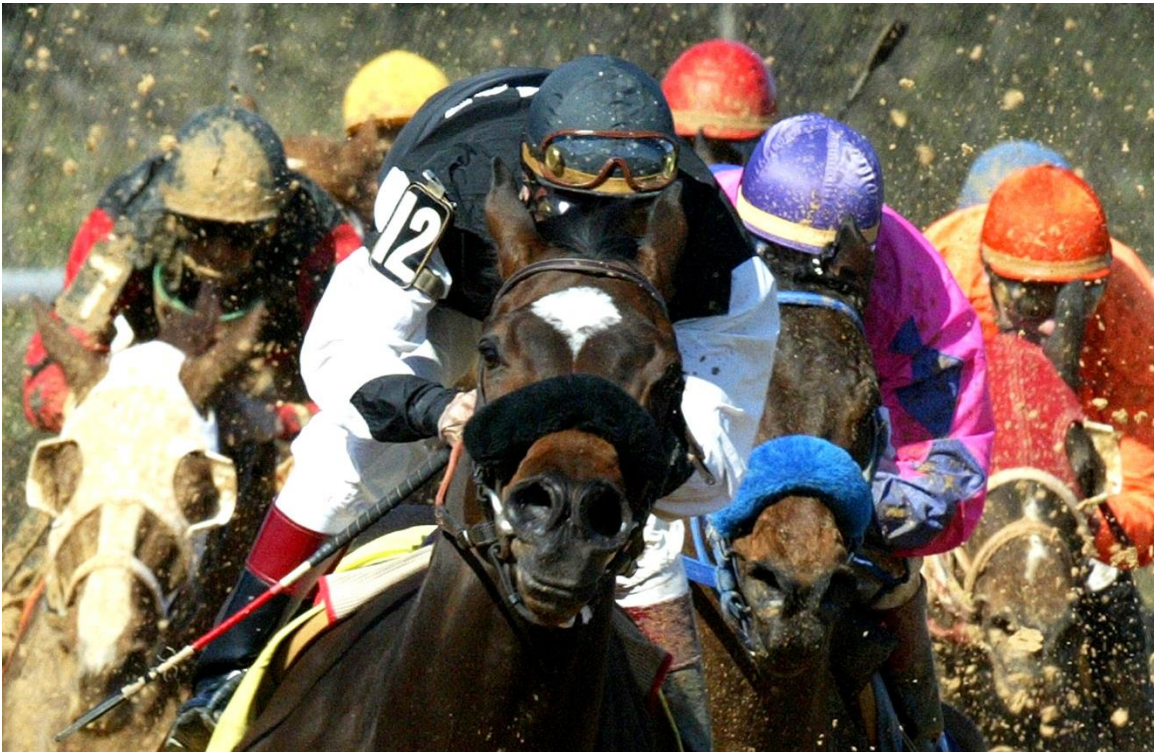


# The Potential Economic & Fiscal Impacts of Enhanced Purses for Texas' Horse Racing

prepared for  
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## Overview

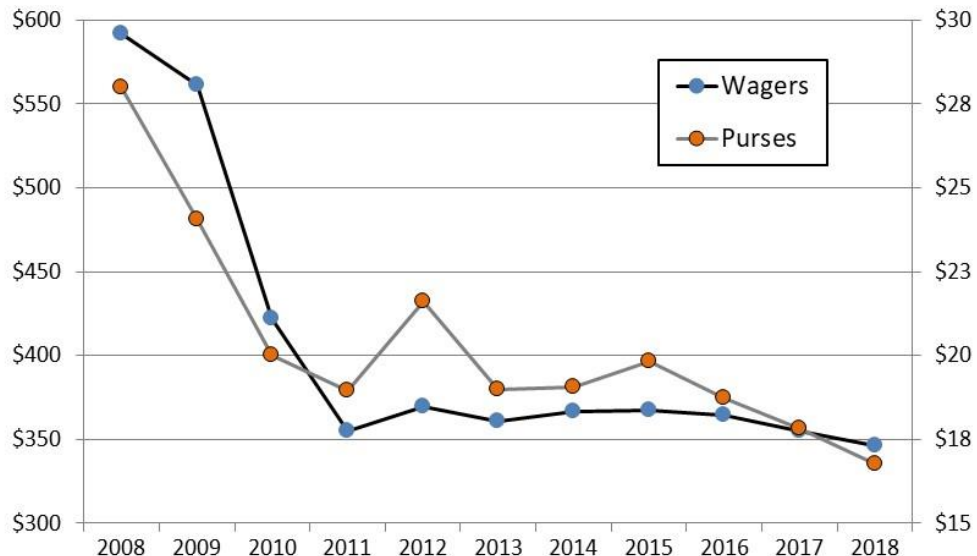
The Texas horse racing industry has a long and storied history that has seen many ups and downs. From the late 19th century through the first part of the 20th century, horse racing was a major draw in Texas at places like the State Fair of Dallas, Epsom Downs, Alamo Downs, and Arlington Downs. Arlington Downs was one of the most successful racetracks in the country for a few years in the 1930s before pari-mutuel wagering was outlawed in 1937. According to the Texas Horse Racing Hall of Fame website:

*Loyal Texas horsemen did their best to keep the Texas racing and horse breeding industry alive and strong while continually fighting to return pari-mutuel racing to Texas. It was a long, hard struggle, and finally, in 1987, the Texas legislature voted to legalize pari-mutuel wagering in Texas.*

Since that time, a number of racetracks have hosted horse racing in Texas, including Bandera Downs, the Gillespie County Fairgrounds, Lone Star Park at Grand Prairie, Manor Downs, Retama Park, Sam Houston Race Park, and Trinity Meadows Raceway. Bandera and Trinity Meadows have closed, but the other facilities continue to showcase Texas horse racing every year. 2004 likely was the high-water mark year for Texas horse racing, as exemplified by the fact that Lone Star Park at Grand Prairie was awarded the 21st renewal of the \$14-million Breeders' Cup World Thoroughbred Championships.

However, recent years have seen the industry struggle in Texas, as other states have found sources of revenue (typically from gaming) to supplement purses and in the process have taken market share from Texas. Figure One shows the close relationship between purses and wagering (handle).

**FIGURE 1: Horse Racing Wagers and Purses in Texas (\$Millions)**



Sources: Texas Racing Commission, TXP

## Proposed Legislative Response

H.B. 2463 establishes an economic incentive fund to be administered by the Officially Recognized Texas Horsemen's Organization and the Officially Recognized Texas Breed Registries, as designated by the Texas Racing Act. The intent of the program is to foster a strong Texas racing industry that would, in turn, allow the preservation of a historic Texas institution. The amount of the fund would be equal to the previous year's earned purses paid. These incentive funds would be paid to owners and breeders earning purses in Texas in a manner to strengthen the Texas racing industry and invigorate the Texas breeding industry. The Officially Recognized Texas Organization, as defined in the Texas Racing Act, would distribute these supplemental bonuses based on the purses paid.

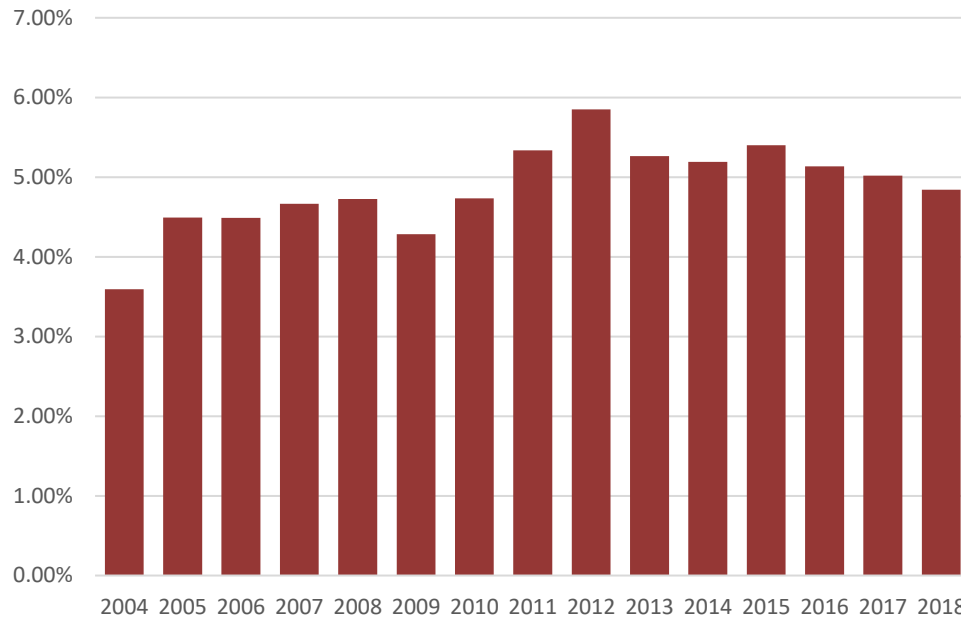
H.B. 2463 directs general revenue (GR) funds collected by the Texas comptroller of public accounts from the tax revenue generated from the sale of horse feed, horse supplements, and horse tack into a purse enhancement fund that will increase purses by \$25 million annually. The value of purses is a key factor to keep the state's horse and dog racing industry competitive with surrounding states. The money in purses flows directly to horse owners, trainers, and breeders. Each of the states neighboring Texas have elected to boost horse racing purses with money from additional forms of revenue. This has resulted in Texas purses falling significantly behind purses in neighboring states. Purses in Texas continue to fall each year, which has resulted in many horse owners and breeders moving their operations to other states. H.B. 2463 creates a purse enhancement fund to incentivize economic development in the horse and dog racing industries.

## The Potential Economic & Fiscal Impact of HB 2463

### Direct Fiscal Impact

The sharp decline in purses and wagering has had a negative economic impact in Texas in recent years. Approximately 79 percent of the amount wagered is returned to the bettors in the form of prizes; the remaining 21 percent (often referred to as the take-out) is split amongst the industry and the State of Texas, with the State receiving 1 percent in the form of fees, taxes, and other revenue. According to the Texas Racing Commission, fifteen years ago \$32.5 million in purses stimulated over \$900 million in wagering in Texas; by 2018, \$16.8 million in purses led to \$340.2 million in wagers. Figure Two shows purses as a share of total wagers over the past fifteen years.

**FIGURE 2: Horse Racing Purses as a Percentage of Wagers in Texas**



Sources: Texas Racing Commission, TXP

Since the proposed legislation will not be in full effect until 2020, trend analysis was used to estimate 2019 purses of \$16.5 million (compared to \$16.8 million for 2018), wagering of \$341.7 million (compared to \$346.2 million last year), yielding a purse to wager ratio of 4.83 percent. Per the legislation, \$25 million was then added to the 2019 figure, yielding a 2020 purse estimate of \$41.5 million. This figure was held constant for 2021 and 2022. Applying the purse to wager ratio would suggest 2020 wagers of \$859.5 million. However, there likely will be some “phasing-in” effect. To account for that, wagering estimates for 2020 were adjusted downward by 30 percent, 20 percent in 2021, and 10 percent in 2022. The net result is a wagering estimate, assuming implementation of HB 2463, of \$601.6 million in 2020, \$687.6 million in 2021, and \$773.5 million in 2022. While these are substantial increases from the current situation, purses would be more than doubled, and wagers are still estimated to be more than \$100 million less than the 2004 peak of \$905.8 million.

Based on current wagering, the State realized just under \$3.5 million in revenue during 2018. Using the figures above, the direct revenue to the State if HB 2463 becomes law and purses rise to over \$41 million would be \$6.1 million in 2020, \$6.9 million in 2021, and \$7.7 million in 2022.

The next section details the economic implications of this new activity, including estimating the number of new attributable jobs and other related economic growth, as well as the revenue to the State.

## Economic Impact

There also are economic impacts associated with increased purses and wagering. Direct expenditures by the race horse industry in the Texas economy are re-spent in successive rounds by those receiving this initial round of income. Economists use a number of statistics to describe regional economic activity. Four common measures are “Output,” which describes total economic activity and is generally equivalent to a firm’s gross sales or top-line; “Value Added,” which equals gross output of an industry or a sector less its intermediate inputs or purchases from other firms used in the production process; “Labor Income,” which corresponds to wages and benefits; and “Employment,” which refers to jobs that have been created in the local economy.

In an input-output analysis of new economic activity, it is useful to distinguish three types of expenditure effects: direct, indirect, and induced.

**Direct effects** are changes associated with the immediate effects or final demand changes. Spending by the industry for care and feeding of the horses is an example of a direct effect, as is purchases of concessions by those who attend the races.

**Indirect effects** are changes in backward-linked industries caused by the changing input needs of directly affected industries – typically, additional purchases to produce additional output. Satisfying the demand for concessions means that facilities must purchase food, supplies, and other services.

**Induced effects** are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects. The concession supplier experiences increased income from attendee spending, as does the feed store. Induced effects capture the way in which increased income is spent in the economy.

A multiplier reflects the interaction between different sectors of the economy. An output multiplier of 1.4, for example, means that for every \$1,000 injected into the economy, all other sectors produce an additional \$400 in output. Since the impact is statewide, TXP used the RIMS II input-output multipliers produced by the U.S. Bureau of Economic Analysis for Texas.

**FIGURE 3: The Flow of Economic Impacts**



## Economic Impact Results

### *Current (2018) Economic Impact of Texas Horse Racing*

In 2018, total take-out was estimated at \$72.7 million. After deducting the State's share, the net direct injection into the Texas economy last year was \$69.2 million. This translated into an estimated total economic output impact of approximately \$160.5 million, with \$108.5 million in value-added. This level of economic activity supported just under 1,500 total jobs with labor income of almost \$71.4 million. Meanwhile, the State of Texas realizes an estimated \$5.3 million in additional revenue attributable to this total economic activity. See Table 1 for more detail.

**TABLE 1: Current Economic Impact of Texas Horse Racing**

Industry Sector	Output	Value Added	Labor Income	Employment
Agriculture	\$713,087	\$290,773	\$159,233	8
Mining	\$1,052,323	\$720,010	\$186,926	2
Utilities	\$2,395,419	\$1,308,481	\$366,928	3
Construction	\$1,031,553	\$574,624	\$346,159	6
Durable Mfg.	\$2,111,569	\$775,396	\$436,160	8
Non-Durable Mfg.	\$6,812,407	\$1,980,029	\$1,128,478	19
Wholesale trade	\$4,112,367	\$2,790,040	\$1,315,404	18
Retail trade	\$7,421,646	\$4,936,225	\$2,693,116	91
Trans./Warehouse	\$3,634,668	\$1,800,026	\$1,163,094	27
Information	\$4,043,136	\$2,312,341	\$816,935	13
Finance/Insurance	\$9,969,375	\$5,102,382	\$2,616,961	51
Real Estate	\$14,517,903	\$10,149,378	\$2,298,495	82
Prof./Tech. Services	\$5,046,996	\$3,420,050	\$2,360,803	33
Mgmt. of Companies	\$1,336,173	\$803,089	\$560,777	7
Admin. Services	\$3,219,277	\$2,076,953	\$1,412,328	46
Educational Services	\$1,308,481	\$796,165	\$609,240	20
Health Care, etc.	\$8,827,051	\$5,296,231	\$4,084,675	83
Entertainment, etc.	\$75,185,707	\$59,047,780	\$45,997,591	859
Accommodation	\$775,396	\$491,546	\$221,542	7
Eating/Drinking	\$2,990,813	\$1,578,484	\$996,938	47
Other services	\$3,960,057	\$2,146,185	\$1,502,329	41
Households	NA	NA	\$103,848	9
<b>Total</b>	<b>\$160,465,406</b>	<b>\$108,500,036</b>	<b>\$71,377,959</b>	<b>1,481</b>

Source: TXP, Inc.



### *Projected (2022) Economic Impact of Texas Horse Racing*

By 2022, the net direct injection into the Texas economy will be \$154.6 million, more than double the current figure. This translates into an estimated total economic output impact of approximately \$358.5 million, with \$242.4 million in value-added. This level of economic activity would support over 3,300 total jobs with labor income of more than \$159.4 million. Meanwhile, the State of Texas will realize an estimated \$11.8 million in additional revenue attributable to this total economic activity. See Table 2 for more detail.

**TABLE 2: Potential (2022) Economic Impact of Enhanced Purses**

<b>Industry Sector</b>	<b>Output</b>	<b>Value Added</b>	<b>Labor Income</b>	<b>Employment</b>
Agriculture	\$1,592,940	\$649,548	\$355,705	18
Mining	\$2,350,746	\$1,608,405	\$417,567	4
Utilities	\$5,351,040	\$2,922,967	\$819,668	8
Construction	\$2,304,350	\$1,283,631	\$773,272	13
Durable Mfg.	\$4,716,958	\$1,732,129	\$974,322	18
Non-Durable Mfg.	\$15,217,988	\$4,423,114	\$2,520,866	43
Wholesale trade	\$9,186,468	\$6,232,570	\$2,938,433	40
Retail trade	\$16,578,946	\$11,026,855	\$6,016,054	204
Trans./Warehouse	\$8,119,353	\$4,021,013	\$2,598,193	59
Information	\$9,031,814	\$5,165,455	\$1,824,921	28
Finance/Insurance	\$22,270,226	\$11,398,026	\$5,845,934	115
Real Estate	\$32,431,017	\$22,672,328	\$5,134,524	184
Prof./Tech. Services	\$11,274,302	\$7,639,925	\$5,273,713	75
Mgmt. of Companies	\$2,984,829	\$1,793,990	\$1,252,700	15
Admin. Services	\$7,191,427	\$4,639,630	\$3,154,949	102
Educational Services	\$2,922,967	\$1,778,525	\$1,360,958	45
Health Care, etc.	\$19,718,430	\$11,831,058	\$9,124,607	185
Entertainment, etc.	\$167,954,624	\$131,904,695	\$102,752,350	1,920
Accommodation	\$1,732,129	\$1,098,046	\$494,894	15
Eating/Drinking	\$6,681,068	\$3,526,119	\$2,227,023	105
Other services	\$8,846,229	\$4,794,285	\$3,355,999	93
Households	NA	\$231,982	\$231,982	20
<b>Total</b>	<b>\$358,457,852</b>	<b>\$242,374,297</b>	<b>\$159,448,634</b>	<b>3,309</b>

Source: TXP, Inc.

*Incremental (2022) Economic Impact of Texas Horse Racing with Enhanced Purses*

The incremental gain in 2022 to the Texas economy with enhanced purses is projected to be \$85.4 million. This translated into an estimated total incremental economic output of approximately \$198.0 million, with \$133.9 million in value-added. This level of increased economic activity would support just over 1,800 total jobs with labor income of \$88.1 million. Meanwhile, the State of Texas will realize an estimated additional \$6.5 million in incremental revenue attributable to this increased economic activity. See Table 3 for more detail.

**TABLE 3: Potential (2022) Incremental Economic Impact of Enhanced Purses**

Industry Sector	Output	Value Added	Labor Income	Employment
Agriculture	\$879,853	\$358,775	\$196,472	10
Mining	\$1,298,423	\$888,395	\$230,641	2
Utilities	\$2,955,621	\$1,614,487	\$452,740	4
Construction	\$1,272,796	\$709,007	\$427,113	7
Durable Mfg.	\$2,605,389	\$956,733	\$538,162	10
Non-Durable Mfg.	\$8,405,581	\$2,443,086	\$1,392,388	24
Wholesale trade	\$5,074,101	\$3,442,530	\$1,623,029	22
Retail trade	\$9,157,300	\$6,090,630	\$3,322,938	113
Trans./Warehouse	\$4,484,685	\$2,220,987	\$1,435,099	33
Information	\$4,988,678	\$2,853,114	\$1,007,986	16
Finance/Insurance	\$12,300,851	\$6,295,644	\$3,228,973	63
Real Estate	\$17,913,114	\$12,522,950	\$2,836,030	102
Prof./Tech. Services	\$6,227,306	\$4,219,875	\$2,912,910	41
Mgmt. of Companies	\$1,648,656	\$990,902	\$691,923	8
Admin. Services	\$3,972,150	\$2,562,677	\$1,742,621	56
Educational Services	\$1,614,487	\$982,360	\$751,719	25
Health Care, etc.	\$10,891,378	\$6,534,827	\$5,039,932	102
Entertainment, etc.	\$92,768,917	\$72,856,915	\$56,754,759	1,060
Accommodation	\$956,733	\$606,500	\$273,352	8
Eating/Drinking	\$3,690,255	\$1,947,635	\$1,230,085	58
Other services	\$4,886,171	\$2,648,100	\$1,853,670	51
Households	NA	NA	\$128,134	11
<b>Total</b>	<b>\$197,992,446</b>	<b>\$133,874,260</b>	<b>\$88,070,675</b>	<b>1,828</b>

Source: TXP, Inc.





## Conclusions

While horses and horse racing are an integral element of Texas history and culture, the industry is faced with increasing headwinds. The main challenge has been supplemented purses in other states, which has served to shift market share considerably. The numbers over time are somewhat eye-opening. To pick one example, over the period from 2000-2017, total Texas purses declined by 53.5 percent. By contrast, in that same period, total aggregate purses in the ten states that offered slots at tracks grew 39.5 percent.

HB 2463 offers a path to address this imbalance without instituting gaming. If successful, it is expected to approximately double the level of economic activity and State tax revenue (both directly and indirectly) associated with horse racing, and to revitalize an industry that has been in a long, slow decline. As such, it deserves careful consideration.

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