

**Slot Machines and the Racing Industry:  
A Review of Existing Data in Maryland and  
Neighboring States**

**A Report to Governor Martin O'Malley**

**From Thomas E. Perez, Secretary of the  
Department of Labor, Licensing and  
Regulation**

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# **Slot Machines and the Racing Industry: A Review of Existing Data in Maryland and Neighboring States**

## **EXECUTIVE SUMMARY**

Maryland has a long and robust history in horse breeding and racing. Thoroughbreds have been bred and raced here for more than 250 years, and the second jewel of the famed Triple Crown, the Preakness, calls Baltimore's Pimlico Race Course home on the third Saturday in May each year. The horse racing and breeding industry in Maryland accounts for over 9,000 jobs, and has an economic impact of more than \$600 million.

In addition to the economic benefit, the horse industry also serves a critical environmental purpose. Horse farms occupy over 685,000 acres of land, roughly 10 percent of Maryland's open space. Horse racing and horse breeding go hand in hand. Preserving a viable horse racing industry helps maintain horse farms and protect open space.

A decade ago Maryland led its neighbors in handles and purses -- the amount bet on races and the prize money awarded to winners -- and the number of horses being bred. These statistics are the lifeblood of the racing industry. But the introduction of slot machines in Delaware and West Virginia has resuscitated and revitalized the previously moribund horse racing and breeding industries in those states. As a result, Maryland's horse racing and horse breeding industries have been placed at a distinct competitive disadvantage. Specifically, the introduction of slot machines at race tracks in neighboring states has resulted in the following:

- Charles Town, a racetrack and slots venue in West Virginia, which opened ten years ago and has 5,000 slot machines, generated \$448 million in gross revenue in 2006, more than any other racetrack slots venue in the country.
- Maryland is Charles Town's most lucrative market, and Charles Town's most lucrative geographic market within Maryland is Montgomery County. At Charles Town and other West Virginia slots venues, Marylanders accounted for roughly \$150 million to \$200 million of the gross revenue in 2006.
- West Virginia's various racetrack slots venues paid \$445 million to state and local governments in 2006.
- Delaware's racetrack slots venues (Delaware Park, Harrington Raceway, and Dover Downs) generated gross revenues of more than \$651 million in 2006. Marylanders accounted for roughly 30 percent of the total revenues from slots, or approximately \$200 million.
- Delaware's racetrack slots venues contributed \$232 million to state and local governments in 2006.
- Charles Town's number one status could be in jeopardy, because although Pennsylvania has had slots for less than a year, so far in 2007 more than \$5 billion

- has been wagered on slots in Pennsylvania, bringing in more than \$455 million in revenue. The state's cut of that revenue totals more than \$250 million.
- Marylanders playing slots in West Virginia and Delaware contributed approximately \$150 million to the tax coffers of these states in 2006, and it is not yet clear how much more has gone to Pennsylvania in 2007.
  - In 1995 Maryland led both Delaware and West Virginia in handles and purses, but those states have since surpassed us or become fierce competitors. For instance, the average nightly purse at Ocean Downs in Worcester County is approximately \$22,000. The average nightly purse at Harrington Raceway in Delaware, which was comparable to Ocean Downs before slots, now exceeds \$200,000. Slots revenue is being used to subsidize purses significantly at all tracks in Delaware, West Virginia and Pennsylvania.
  - Average daily purses for harness races at Delaware's Dover Downs climbed from 55<sup>th</sup> in the nation in 1996 to 8<sup>th</sup> in 2005. In that same time period, Maryland's Ocean Downs climbed eight spots from 65<sup>th</sup> to 57<sup>th</sup>.
  - Both West Virginia and Delaware have expanded bonus programs to encourage horse owners to breed in those states and move their horses to those states for a period of time to become eligible for additional purse money.
  - West Virginia has seen a boom in breeding that is largely attributable to slots. West Virginia produced 192 foals in 1995. By 2005, that number had increased 212 percent to 599.

The economic impact of slots on the horse racing industries in surrounding states is undeniable. Slots have generated thousands of jobs in these areas, and are subsidizing other priorities, such as education and transportation. In fact, Marylanders playing slots in Delaware and West Virginia are subsidizing education and other priorities in these states to the tune of approximately \$150 million per year. As surrounding states have reaped the benefits of slots, Maryland's horse racing industry has suffered significantly. The number of racing days in Maryland has declined from 306 days 15 years ago to 185 days this year, and possibly dropping to 140 in 2008. Charles Town, by contrast, is racing more than 200 days per year, and the number is rising.

What sustains the Maryland industry at the moment is the Preakness. The Preakness generates enough revenue to subsidize the losses incurred for the remainder of the year. If the Preakness were not held at Pimlico each year, the viability of the racetracks and the racing industry in Maryland would be in further jeopardy. Given existing market forces in surrounding states, a key question presented is how long can Maryland's current business model be sustained? The horse racing industry in Maryland needs a significant infusion of capital, and a stable source of revenue, or it will falter further and be unable to compete with neighboring states.

The importance of reviving horse racing and breeding in Maryland extends beyond merely supporting the industry. Every breeder that can't sustain his or her business because of a declining industry means one more farm that might succumb to development pressures. Growth in Maryland will continue, and without a vibrant horse breeding sector those open spaces could become prime real estate for developers.

Slots have generated significant, passionate debate in Maryland for a number of years, and did so in West Virginia, Delaware and Pennsylvania as well prior to enactment. Proponents argue that slots will boost state revenues, save the horse industry, and allow investment in other critical priorities such as education. Opponents decry slots as a particularly pernicious form of gambling, a tax on the poor, and believe that the social costs outweigh the economic benefits.

This debate will continue as political leaders wrestle with the state's \$1.5 billion structural deficit. The following report is the culmination of my fact finding tour of racetracks in Delaware, West Virginia and Pennsylvania. The purpose of this report is to provide current context that will inform the ongoing dialogue on slots. Slots have been in place for ten years in Delaware and West Virginia. It is important to understand the track record of slots in surrounding states. More broadly, as policymakers debate strategies for saving the horse racing industry, it is important to have a clear understanding of market forces in surrounding states that have a profound impact on Maryland.

## **I. Introduction**

This report presents an overview of the impact of slot machines on the racing industries in Pennsylvania, West Virginia and Delaware. During the past month, I visited slots venues at racetracks in those states. My staff and I have spoken with officials at these facilities, toured the racetracks, the slots venues, and trolled parking lots examining license tags in an unscientific effort to validate the information we received regarding who was frequenting these facilities.

Based on this recent fact-finding tour and related research, it is clear that Maryland's once vibrant horse racing and breeding industries face stiff competition from their counterparts next door, now thriving on subsidies from slot machine gambling. The conclusion is simple: Slots have simultaneously benefited the racing industries in these states and jeopardized the long term viability of Maryland's horse racing and horse breeding industry. The sections that follow outline the economics of horse racing, and the economic relationship between slots and racing in Pennsylvania, West Virginia and Delaware, and what that means for Maryland.

As explained in more detail below, at this moment in 2007, Maryland's racing industry is as vulnerable as it is vital to our State.

## **II. Maryland's Horse Racing and Breeding Industry**

### **A. Overview**

Maryland's horse racing industry historically has been an economic powerhouse. A study by the University of Maryland in 1999 estimated the total economic impact of our racing industry to be near \$600 million involving about 9,000 full time jobs.<sup>1</sup>

Maryland boasts five racetracks: Pimlico in Baltimore City, Laurel Park in Anne Arundel County, Rosecroft Raceway in Prince George's County, Timonium Race Track in Baltimore County and Ocean Downs in Worcester County. These tracks combined employ about 1,100 people. Many of these are union jobs with UNITE-HERE and UFCW as the predominant bargaining agents. By contract, union pension funds are tied to racing revenue through an allocation of the amount bet on races.

Maryland's horse racing industry has two sectors: standardbred or harness racing, and thoroughbred racing. While each has its own unique identity, for the purposes of characterizing economic impact they can be considered as one, as each consists of the same three components: Racetracks, Horsemen and Breeders.

"Horsemen" are those men and women whose work deals directly with horses racing at the tracks, including owners, trainers, veterinarians and farriers (blacksmiths). It also includes those who transport, equip, and feed the horses as well those who grow feed and bedding. There are nearly 35,000 racehorses in the state.<sup>2</sup> According to one estimate, a

typical horse owner will spend about \$10,000 per horse to bring it to the gate on race day.<sup>3</sup>

“Breeders” raise and sell horses that will compete in races. In Maryland, horse farms occupy over 685,000 acres of land, roughly 10 percent of Maryland’s open space. There are about 38,000 horse owners occupying this land.<sup>4</sup> In the course of raising horses, breeders expend dollars on a variety of things: labor to keep their operations up and running, veterinarians, stud fees to other breeders, contracts with equine transport services, the purchase of feed and bedding, and sometimes seed and fertilizer to grow their own feed.

Horse-racing is an important part of Maryland’s vibrant economy, and protects a significant portion of our state’s open space. Farms involved in equine activity in Maryland account for 685,000 acres of land. The value of that land totals nearly \$4 billion.<sup>5</sup>

Unfortunately, the state does not regularly analyze how agricultural land is used (the 2002 Equine Census was made possible through special funds). However, a look at the total number of farms and the amount of farmland in Maryland shows a significant downward trend. In 1970, Maryland had more than three million acres of farmland. That number steadily declined to about two million in 2005, a 33 percent drop. The number of farms in that time period fell from 18,000 to 12,100.<sup>6</sup>

Retaining Maryland’s agricultural land is critical to the environment, and particularly the health of the Chesapeake Bay. Environmentalists in the state have recognized the inherent alliance they have with farmers, and have begun pursuing policies to help farmers stay on their land, such as increased funding for cover crops and other financial incentives for adopting environmentally sound farming practices.

The key to keeping farmers on their land is ensuring their operations remain economically viable. As the total acreage of Maryland’s farm land has declined, the value of that land has risen. In 1993 the average value of an agricultural acre was \$2,911. By 2006, the value had spiked to \$8,900.<sup>7</sup> Without a vibrant racing industry, horse farmers might see greater value in selling their land than keeping it agricultural.

As Maryland’s population grows and development pressures force farmers out, protecting the state’s horse industry becomes more and more critical to sustaining the legacy of rural Maryland and maintaining a healthy environment.

## **B. The Business Model**

Purses are the economic engine that drives the racing industry. A purse is the money paid a horse owner when his or her horse wins or places in the top five of a race. The greater the purse, the better the quality of the horses chasing it, and the greater the number of horses willing to compete for it. If purses are high, then horse owners can pay their suppliers of goods, labor and services. Purses are the economic backbone of the

horse racing industry because the greater the reward, the more horse owners are willing to spend in pursuit of it. Bruce Garland, onetime manager of The Meadowlands, explained it this way when addressing a Maryland commission convened by Governor Glendening to study the financial viability of the horse racing industry: “[J]ust as the real estate industry believes success is ‘location, location, location,’ in horse racing prosperity is based on ‘purses, purses, purses.’”<sup>8</sup>

Large purses make for more interesting races, which draw larger “handles,” the amount wagered on a horse race. About 80 percent of a typical wager is paid back to winners, and what is left goes to various stakeholders. While distribution varies for different kinds of wagers, in Maryland about 20 percent of each wager is allocated between the tracks, purses, horses breeders and the state.

The basic economic equation of the racing industry is this: handles fund purses, and purses drive the business. The fatter the purse, the better the quality and quantity of horses that run, making for more interesting races. More interesting races attract more bettors and larger handles. If purses shrink, so does the quality and quantity of the field, further handicapping the ability to attract interested bettors.

### **C. Recent History**

In 1982, to bet on a horse race, you had to visit the track where the race was being run. If you lived in a locale with a history of racing and solid infrastructure, such as New York, Maryland or Kentucky, betting on races where “the stakes were high” was an easy indulgence. Likewise, it was in the economic interests of track owners, horsemen and breeders to locate near tracks with a strong tradition and the accompanying large purses.

Nevertheless, even in those states with a long history of horse racing, the overall amount of the handle has declined over the past three decades. While the total North American handle has risen steadily over the last four decades (from just over \$3 billion in 1960 to just under \$16 billion in 2004), it has lost 48 percent of its value relative to inflation since its peak in 1977. Its inflation adjusted value is estimated to be just over \$8 billion in today’s dollars.<sup>9</sup>

This decline can be traced to increasingly stiff competition for our nation’s gambling dollars from state sponsored lotteries, slot machines and other forms of gaming. A 1995 statistical analysis of racetracks in New Jersey showed that gaming took approximately 31 to 32 percent out of the horse race handle.<sup>10</sup> Further analysis done in the late 1990s revealed that state sponsored lotteries removed 17 percent, 18 percent and 27 percent from the racing handles in New Jersey<sup>11</sup>, Kentucky<sup>12</sup> and Ohio<sup>13</sup> respectively. An older study shows that the lottery’s effect on only the U.S. thoroughbred industry is more dramatic, reducing its handle 36 percent.<sup>14</sup> In short, states’ efforts to legalize gambling through state-sponsored lotteries took a toll on the racing industry, cutting into handles and, by extension, the foundation of its business model, its purses. While it has been argued that the racing industry made some strategic blunders -- failing to adapt to the televised nature of modern sport and ignoring the need to market itself and upgrade its

facilities – there is no denying that with the advent of state lotteries and gaming the industry suffered a direct hit to its business fundamentals.

It is important to note that proponents of slots as a way to improve the horse racing industry realize that the introduction of gaming, as well as state lotteries, have cut into racing revenues. Their position is not that slots at tracks will help the live racing handle, thus saving the sport. Rather, the argument is that slots revenue will supplement purses, keeping Maryland's industry competitive.

### **III. Slots in Neighboring States**

#### **A. Delaware**

Slot machine gambling came to Delaware in 1995 at Delaware Park and Dover Downs, followed in 1996 by Harrington Raceway. Delaware now has 7,291 slot machines at its three racetracks.<sup>15</sup> An industry survey found Delaware's racetrack gaming venues take in \$652 million in gross gaming revenues, and employ 2,924 people.<sup>16</sup>

While it has changed over time, the revenue from slots is distributed as follows: 48 percent to licensees, 36 percent to Delaware's general fund, 11 percent to supplement racing purses, and 5 percent to servicing and monitoring the games.<sup>17</sup> In 2006, \$232 million went to Delaware's general fund, and purses were fattened by about \$70 million.

To put the \$70 million purse supplement into context, in an attempt to keep up racing purses, the Maryland General Assembly has in the recent past allocated supplements of its own using state funds. In the years 1999-2003 Maryland's supplement ranged from \$7 million to \$10 million. Delaware's contribution to purses in those years averaged near \$53 million, which was roughly 14 percent of the total purses in that state for those years.<sup>18</sup>

#### **B. West Virginia**

Slot machine gambling was first legalized in West Virginia in 1990 at bars, taverns and veterans clubs. Machines in these locations are called the "limited video lottery." In 1994 slots were authorized at four racetracks. Charles Town Races and Slots is the nearest slots venue to Maryland. In 2006 the slots venues at racetracks in West Virginia generated \$976 million in gross sales, and employed 4,187 people.<sup>19</sup>

There are differences between racetrack slots venues and limited video lottery machines regarding how the handles from the machines are split, with the main difference being that there is no cut for horse racing in the limited video lottery. Since the opening of the racetrack slots venues, the cuts have fluctuated. Currently, after the state subtracts the cost of running the operation, about 34 percent goes to government, two percent goes to the county or municipality hosting the track, and 46 percent is reserved for the licensee. The remaining money subsidizes the racing industry, with 14 percent going to purses, one



percent to a pension fund, 1.5 percent is dispersed to breeders and one percent to West Virginia's Racing Commission.<sup>20</sup>

In 2006, West Virginia saw almost \$445 million from slot machines, disbursed primarily to education, senior citizens and tourism.<sup>21</sup> Again, racing industry subsidies are only derived from the machines at racetracks in West Virginia. In 2000, the racing industry purse supplement was \$35 million and rose steadily to \$63 million in 2003,<sup>22</sup> and in 2006 was nearly \$84 million.<sup>23</sup>

### **C. Pennsylvania**

Because slots came to Pennsylvania only in November of 2006, it is not yet possible to discern a track record for slots there. The legislation allows slots at 14 sites, and 11 sites have thus far been authorized with 5,000 machines at each. There are currently five slots venues up and running. Based on the legislation, Pennsylvania could eventually have 61,000 slot machines.<sup>24</sup>

While it is not yet clear what the lasting, annual impact of slots will be in Pennsylvania, the numbers from the first seven months of this year are staggering. More than \$5 billion has been wagered at Pennsylvania's slot machines, bringing in \$455 million in total revenue.

When the dust settles in Pennsylvania, slots will exist at up to 14 locations, including seven race tracks, five slots parlors and two resorts. Of the funds they collect after payouts, 42 percent will go to government (34 percent to state property tax relief, four percent to local government and five percent to economic development) and 12 percent to subsidize racing's economics.<sup>25</sup> Already this year the state has raked in more than \$250 million to pay for budget priorities. It is reasonable to conclude that the money coming into Pennsylvania's state government, and to its racing industry, will be significant. Clearly their intent is ambitious and aggressive.

### **D. The Impact on Maryland**

#### **1. Purses and Handles**

Slots have been subsidizing the racing industries of Delaware and West Virginia long enough to measure the indicators of race industry health – handles, purses and breeding. To gauge the effect of slots on our horse industry, we will look at only Delaware and West Virginia.

In short, the trends are all moving in the wrong direction for Maryland. Figures 1 and 2 below tracks purses, and Figure 3 tracks handles:

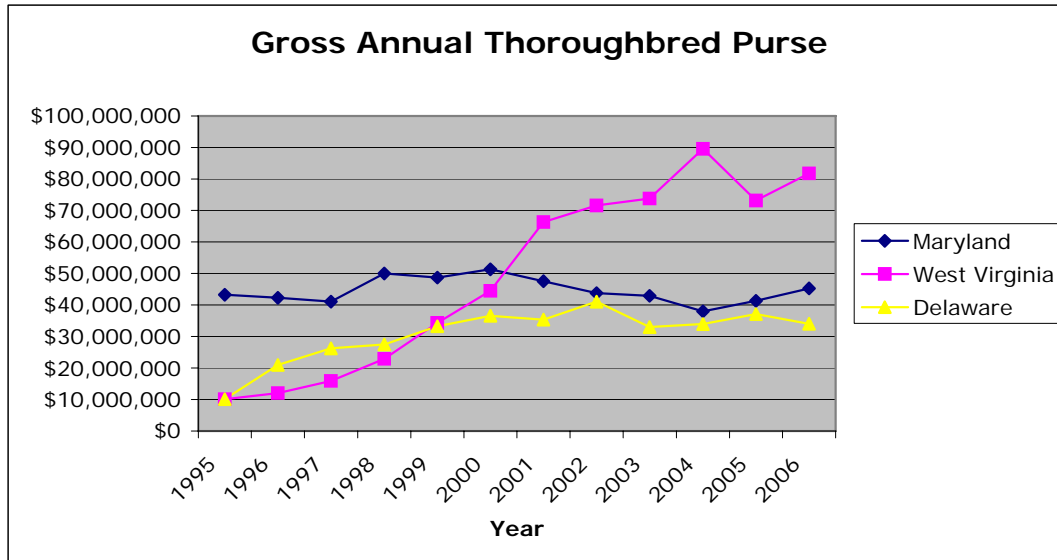


Figure 1<sup>26</sup>

Figure one shows that in 1995, the first full year of slots in Delaware, the total amount available for thoroughbred purses in both Delaware and West Virginia was well below the amount available in Maryland. Over the next decade, while Maryland's gross purse amount stayed relatively flat, reaching its high water mark in 2000, Delaware's increased by more than 200 percent.

Slots were introduced in Charles Town in 1999, dramatically impacting West Virginia's gross purse, causing it to quickly surpass Maryland. Last year, the amount available for purses in West Virginia was nearly double the amount available in Maryland. Meanwhile, the Maryland Jockey Club, which operates Pimlico and Laurel Park, announced recently it would cut \$3 million from its budget this year by slashing purses and eliminating stakes races.<sup>27</sup>

But the gross annual purse does not tell the entire story. While, overall, Delaware paid less than Maryland in total purses last year, it did so with thoroughbreds racing at only one track (Delaware Park), while West Virginia has two and Maryland has three. Also, Delaware's gross purse amount is spread throughout fewer racing days. Figure 2 illustrates the average daily purses for each state, giving a better illustration of how the purses for individual races in each state stack up to those in neighboring states.

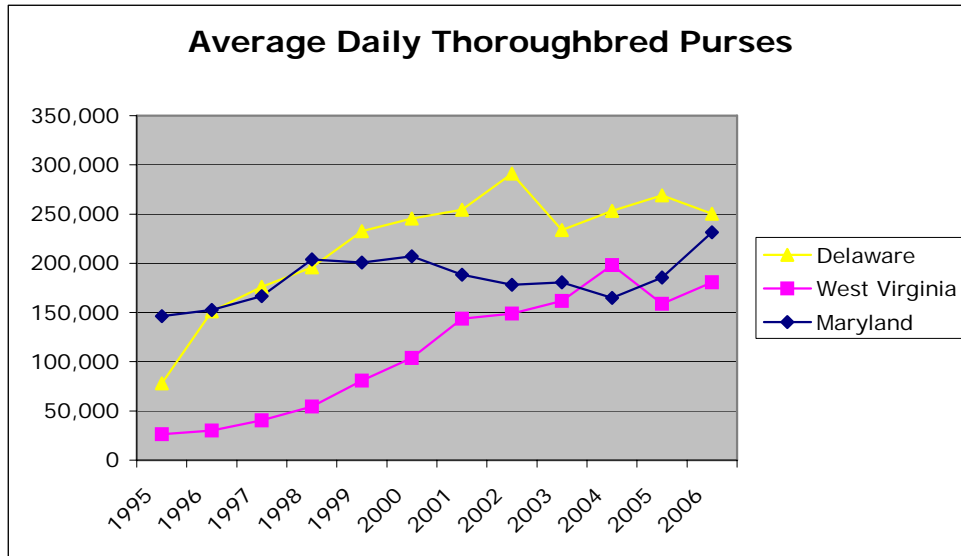


Figure 2<sup>28</sup>

The average daily purse is more relevant to horsemen, because it illustrates the prize they stand to win, on average, for a race in each state. Clearly, where Maryland once had a strong lead, we now face stiff competition from neighboring states.

The important point to take away from these figures is that they clearly show two industries that, before slots, were not competitive with Maryland. Then, over the course of eleven years with slots subsidies, they have been able to create competitive, or better, purse structures. Even if slots were approved today, it would take some period of time to implement the program and begin to see revenue.

Figure three illustrates a similar trend for handles. In 1995, both Delaware and West Virginia were far behind Maryland. In a steady rise, Delaware gained on Maryland, running virtually neck and neck until 2006. West Virginia, however, took off after the 1999 slots infusion at Charles Town, and has a handle that far exceeds Maryland by 2005.<sup>29</sup> Similar to purses, Maryland was significantly ahead in 1995, but is now well behind West Virginia in thoroughbred handles.

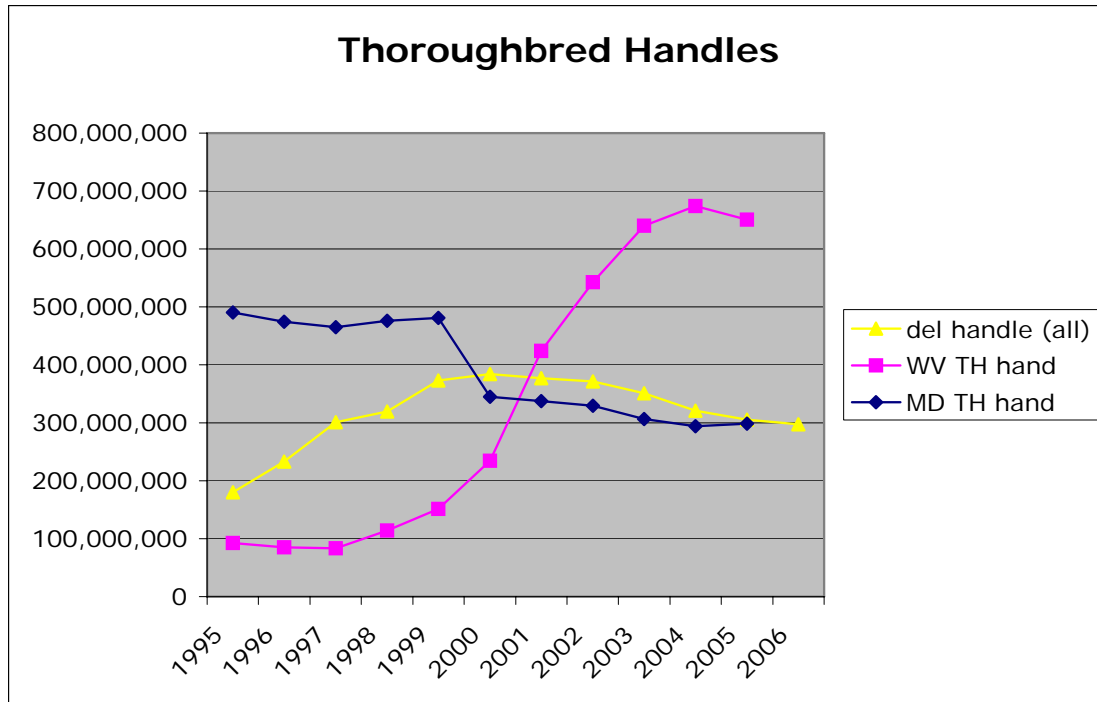


Figure 3<sup>30</sup>

Here's what we can safely take away: before slots subsidized the industries in Delaware and West Virginia, Maryland was beating both states on the key economic indicators of purses and thoroughbred handles. In 11 years, that situation has changed dramatically, and Maryland can no longer claim the lead.

How did Maryland fall behind? All three states suffered from the dwindling betting dollar through competition with a state-sponsored lottery. But Maryland does not have slot machines supplementing its purses, and thus spurring its handles. The obvious causal link: slot machine gambling in Delaware and West Virginia is bolstering their racing industries and hindering ours.

For the sake of drawing a comprehensive picture of what slots has meant for our neighboring states, the focus has been on thoroughbred racing. Lest one be lulled into thinking there is a different story with harness racing, a quick look betrays that Maryland is in even worse shape in the standardbred or harness competition.

Delaware is ground zero for comparing the effect of slots on harness racing, because West Virginia does not have it, and Pennsylvania's slots industry, while it may soon surpass the others, is still in its infancy.

The headline is that Delaware's harness tracks have passed Maryland's. In 1995, of all the harness tracks in North America, Maryland's Rosecroft ranked 27<sup>th</sup> in average daily purse, and Ocean Downs was 55<sup>th</sup>. By comparison, during that same year Delaware's Harrington Raceway and Dover Downs ranked 77<sup>th</sup> and 78<sup>th</sup> respectively. By 2005, after roughly a decade of slots, the situation had changed to our detriment, with Rosecroft

slipping to 47<sup>th</sup>, and Ocean Downs nosing up to 57<sup>th</sup>. But in Delaware, Harrington purses had become the 11<sup>th</sup> highest in the nation, while Dover Downs was in an even more impressive 8<sup>th</sup> position. This is significant progress by any measure.<sup>31</sup>

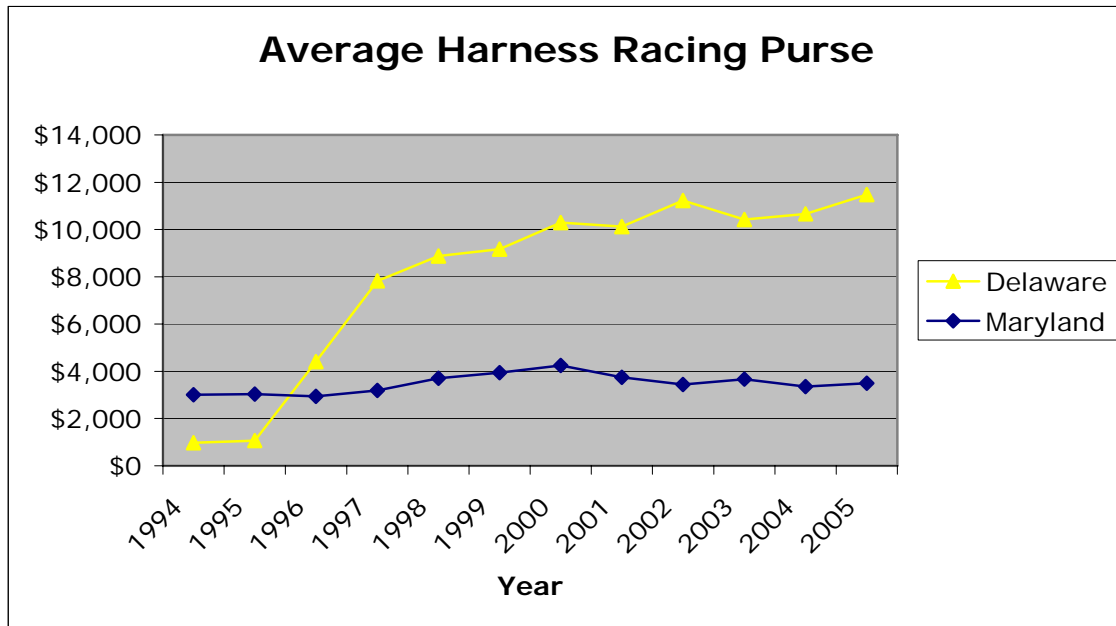


Figure 4<sup>32</sup>

The fallout from this explosion in Delaware’s purse structure is not hard to picture. Given a choice between a \$2,352 purse at Ocean Downs, and a \$13,393 purse in Dover, most rational owners and drivers will choose the latter.<sup>33</sup> Unfortunately for us, the same economic fundamentals that work to our disadvantage with thoroughbreds also apply with even greater force in harness racing.

## 2. Breeding

The increase in purses also has an effect on breeding, because race horses chase higher purses. Because of our long tradition, Maryland’s breeding sector is still strong. But an analysis of the supply side of the breeding industry (how many foals a state’s industry produces) warned that it would take between 10 and 15 years for higher purses to increase foal numbers.<sup>34</sup> Therefore, we would not yet expect to see the full effect of slots-fueled higher purses on breeding.

Nonetheless, cracks are beginning to show. In 1995, West Virginia produced 192 thoroughbred foals, and by 2005, the latest year for which this data is available, they had 599. This is a 212 percent increase. Delaware’s lagging breeding industry produced no foals in 1995, but in 2005 had six, that state’s record. We produced 1,147 foals in 1995. By 2005 we saw only 834 foals on our farms, a 27.3 percent drop.<sup>35</sup> The trend lines are moving in the wrong direction already.

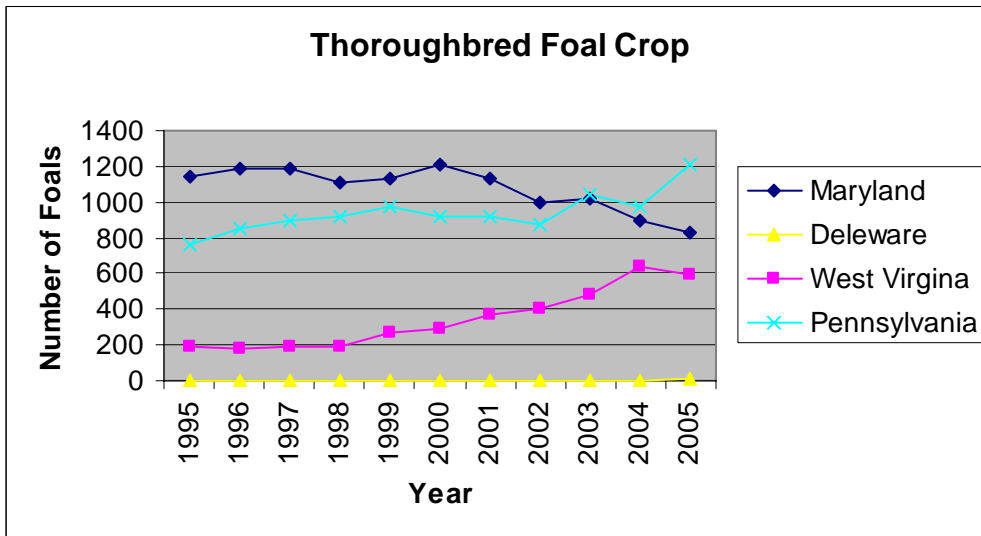


Figure 5<sup>36</sup>

An analysis of standardbred breeding shows an even starker picture. A look at the number of standardbred stallions registered in Maryland and Delaware shows a dramatic drop in the number in Maryland, coinciding with rapid growth in Delaware. Of particular concern is that less than a decade ago, Delaware had no standardbred stallions for breeding at all.

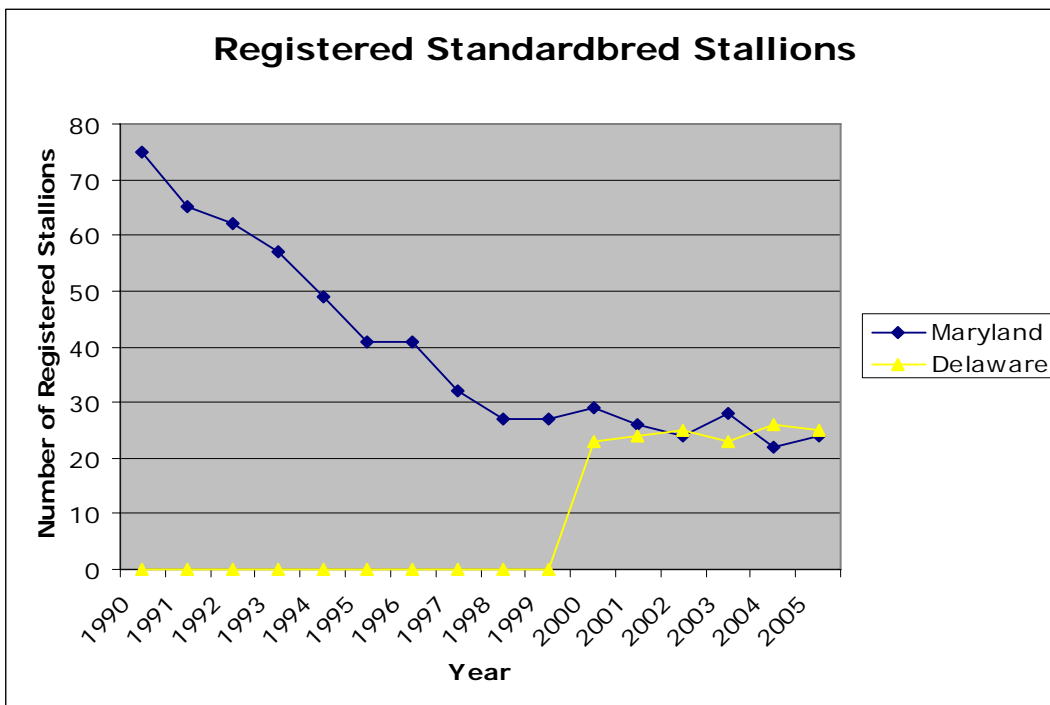


Figure 6<sup>37</sup>

### E. Maryland Dollars Going to Neighboring States

As the slots debate continues, it is important to understand the amount of money spent on slots in other states that originates in Maryland. Delaware’s lottery commission last researched the impact of people traveling from out of state to play the slots about five years ago. At that time, approximately 30 percent of all of Delaware’s slots revenue was spent by Marylanders. West Virginia does not keep statewide numbers on out of state slots players, but Charles Town officials said Maryland is their single biggest customer, accounting for 30 to 35 percent of revenue and easily outpacing even the amount spent by West Virginians. Montgomery County is the most lucrative Maryland market for Charles Town. An analysis by the Maryland Department of Legislative Services estimated that about 25 percent of the revenue collected by all of the slots venues in Delaware and West Virginia came from Maryland.<sup>38</sup> (See Figure 6)

With or without slots in Maryland, it is indisputable that many Marylanders enjoy gambling, whether it is spending \$1.6 billion on the lottery in Maryland,<sup>39</sup> playing slots in West Virginia and Delaware to the tune of roughly \$350 million to \$400 million in 2006, betting nearly \$108 million on “tip jars” in Washington<sup>40</sup> and Frederick<sup>41</sup> Counties, or playing bingo at a local firehouse.

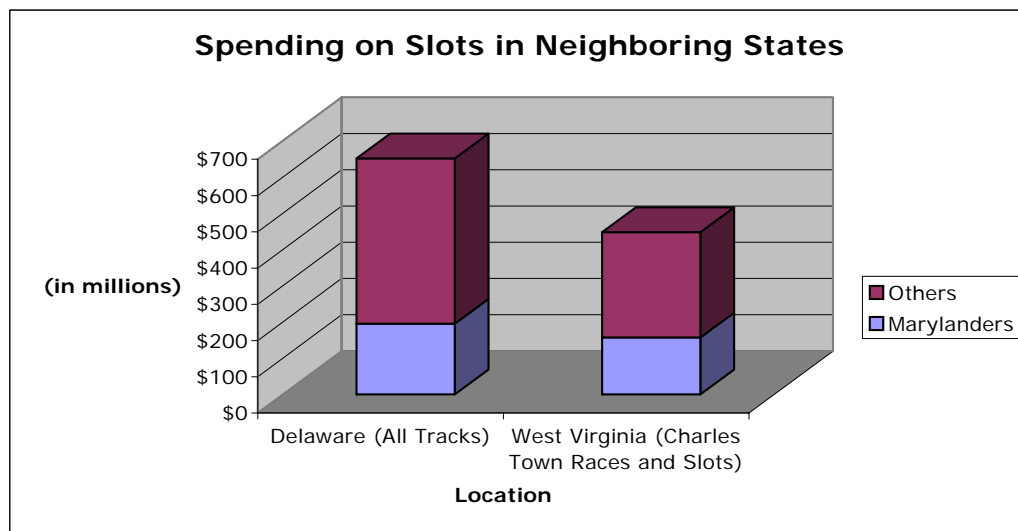


Figure 6

While officials in Maryland grapple with a \$1.5 billion budget challenge, Marylanders playing slots in West Virginia and Delaware are contributing roughly \$150 million annually to the tax coffers of these states, subsidizing the horse racing industries, education and other priorities.<sup>42</sup> That’s not to mention the money that is traveling over our northern border into Pennsylvania’s slot machines and state bank account.

## **E. Demographic Profile of Slots Players**

In my trips to the various slots venues, I observed the same demographic profile of patrons; that is, patrons tended to be over 55, and were primarily, but by no means exclusively, non-minority. I traveled during the daytime, and a number of officials indicated that the universe of patrons tends to be younger at night. In all likelihood, this reflects the fact that the nighttime patrons were working during the daytime, whereas daytime patrons were disproportionately retirees.

## **IV. The Social Costs of Gaming**

A discussion about legalizing slot machines would not be complete without a look at the social costs associated with them. Gambling can become a serious addiction, and the consequences of such addictions can put stress on individuals, families and communities.

It is difficult to determine the direct consequences of slots parlors on neighborhoods and communities. However, slots in neighboring jurisdictions do not appear to have instigated an increase in crime in Delaware and West Virginia. Further analysis of crime data remains ongoing.

The crime rate in Jefferson County, West Virginia, home of Charles Town Races and Slots, in 1994 was 26.4, meaning there were 26.4 offenses per 1,000 residents. In 1997, the rate went down to 20, and continued to fall even after the introduction of slots in 1999. In 2000 the county's crime rate was 16.2, falling to 12 crimes per 1,000 people by 2004.<sup>43</sup>

The statistics found for Dover County, Delaware, home to Dover Downs, were calculated differently. The violent crime rate for the county in 1994, the year before slots came to town, was 915 per 100,000 residents. In 1996, the year following the introduction of slots, the rate was 847, falling to 650 in 2000 and 765 in 2004.<sup>44</sup>

While many factors contribute to rising and falling crime rates, it appears that the legalization of slot machines in jurisdictions close to Maryland have not led to a spike. I continue to examine the crime issue, as well as the issue of addiction.

In the three states surrounding Maryland that have slot machines, state officials have attempted to anticipate social costs in a number of ways. In Delaware, slots are limited to locations where wagering is already permitted and where controls are in place.<sup>45</sup> The state applies \$1 million or one percent of the state's allocation of the proceeds from gaming to the Division of Substance Abuse and Mental Health (for compulsive gambling treatment).<sup>46</sup>

West Virginia limits the cost of a single game ("pull") to \$5.<sup>47</sup> Minors or anyone visibly intoxicated are prohibited from playing slots, and there are no ATM machines or credit/debit cards allowed.<sup>48</sup>



Pennsylvania prohibits anyone under 21 from entering gaming facilities<sup>49</sup> and limits the number of centers allowed in a city.<sup>50</sup> Also, gaming in Pennsylvania hotels is limited to overnight visitors only.<sup>51</sup>

That gambling is a drain on the finances of those who enjoy it should be of serious concern to all. However, Maryland can dictate through legislation the payout for slot machines. According to statute, the slots machines in Delaware, West Virginia and Pennsylvania must pay out in a range from 80 percent to 95 percent.<sup>52</sup> The comparable pay out for the Maryland State Lottery is roughly 58 percent. As Maryland officials consider allowing slots in the state, thought should be given to the best way to regulate gambling to minimize its negative impacts.

## V. Conclusion

The slots debate evokes strong passions among Marylanders. The findings in this report will not alter this fact. The major goal of this report is to lend current context to the ongoing debate on slots. It is important for legislators to have a full appreciation for the market forces in neighboring states that affect the long term viability of the horse racing and horse breeding industries. The business model for growing and sustaining the horse racing and horse breeding industries in West Virginia, Delaware and Pennsylvania is clear. Slots revenue is being used to subsidize the industries and encourage breeding, as well as to fund other priorities. This business model is working quite well in Delaware and West Virginia, and there is no reason to doubt it will work equally well in Pennsylvania. The most lucrative racetrack slots venue in the nation is Charles Town, but Pennsylvania is poised to become highly competitive.

The business model in use in West Virginia, Delaware and Pennsylvania does not dictate that slot machines *must* be located at tracks. In fact, there are a number of slots venues in Pennsylvania and West Virginia outside of tracks. There is an understandable logic to co-locating slots venues with racetracks, but it is not imperative to do so. What is an imperative component of the business model in neighboring states is that slots revenues must subsidize the racing industry.

It is important to acknowledge that in a very real sense, the slots horse is already out of the barn in Maryland. Tens of thousands of Marylanders are voting with their feet, and traveling to West Virginia and Delaware to play slots. By not having slots, Maryland has already left hundreds of millions of dollars in potential general fund revenue on the table, and the tables are located in West Virginia and Delaware. The demand for slot machines clearly exists in Maryland. The \$150 million in taxes paid by Maryland slot players to West Virginia and Delaware in 2006 represents 10 percent of Maryland's structural deficit.

Having studied the horse racing and horse breeding industry carefully, I have concluded that these are industries in serious economic distress, and industries well worth saving. My conclusions are based not on some sense of nostalgia, but rather on economic and

environmental considerations. The industry is an important economic engine for Maryland, and provides an important buffer against sprawl development.

Neighboring states have stepped up to support their horse racing and horse breeding industries in a big way. Maryland must also do so to remain competitive. The two principal options for saving the industry are to use current general funds to provide subsidies, or to enact slots legislation that will earmark some of the proceeds for the industry. If we fail to identify a stable funding source, the industry will wither away in my judgment, and the economic consequences will be significant.

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<sup>1</sup> Maryland House Way and Means Committee, “Study of Video Lottery Terminals,” Library and Information Services, Department of Legislative Services, Annapolis, MD, 2004, p.28.

<sup>2</sup> USDA. Maryland Equine Census; 2002.

<sup>3</sup> Deloitte & Touche USA LLP. “The Economic Impact of the Maryland Horse Racing Industry” for Maryland Horse Breeders Association, Maryland Horse Industry Board, Maryland Thoroughbred Racing Association and the Maryland Horse Council. 2005 p. 8

<sup>4</sup> USDA. Maryland Equine Census, 2002. <http://www.marylandhorseindustry.org/census2.htm>

<sup>5</sup> Ibid.

<sup>6</sup> USDA. Maryland Annual Statistics Bulletin.

[http://www.nass.usda.gov/Statistics\\_by\\_State/Maryland/Publications/Annual\\_Statistical\\_Bulletin/2005/pg49.pdf](http://www.nass.usda.gov/Statistics_by_State/Maryland/Publications/Annual_Statistical_Bulletin/2005/pg49.pdf)

<sup>7</sup> Ibid.

<sup>8</sup> Report of The Commission to Study Ways to Improve the Financial Viability of the Horse Racing Industry. Annapolis, MD, 1999.

<sup>9</sup> Dr. Richard Thalheimer, University of Louisville, Department of Equine Business and Thalheimer Research Associates, Presentation to Illinois Racing Board, July, 24, 2006.

<sup>10</sup> Thalheimer and Ali, *Applied Economics*, v 27 (1995) and Ali and Thalheimer, *Applied Economics*, v 29. (1997).

<sup>11</sup> Thalheimer and Ali, *U of Louisville Industry Program Publication*, 1992.

<sup>12</sup> Thalheimer and Ali, *Journal of Economics and Business*, v. 47, 1995.

<sup>13</sup> Thalheimer and Ali, *Management Science*, v. 41. 1995.

<sup>14</sup> Simmons and Sharp, *Journal of Policy Analysis and Management*, v. 6, 1987.

<sup>15</sup> Delaware Lottery, Video Lottery, “And they’re off! Video Lottery at Delaware,”

<http://delottery.com/videolottery.asp>

<sup>16</sup> The American Gaming Association, “2007 State of the States: The AGA Survey of Casino Entertainment,” p.17.

<sup>17</sup> Delaware Lottery, Video Lottery, “And they’re off! Video Lottery at Delaware,”

<http://delottery.com/videolottery.asp>

<sup>18</sup> Business Regulation, State Assistance and Actions Regarding Maryland Racing, Maryland Department of Legislative Services, 2005, <http://mlis.state.md.us/Other/IssuePapers/2005/11.pdf>

<sup>19</sup> The American Gaming Association, “2007 State of the States: The AGA Survey of Casino Entertainment,” p. 21.

<sup>20</sup> Bruce Spizler, Senior Assistant Maryland Attorney General. “Memorandum to Secretary Tom Perez: Synopsis of legislation in contiguous state, which authorize the placement and operation of slot machines.” June 27, 2007.

<sup>21</sup> The American Gaming Association, “2007 State of the States: The AGA Survey of Casino Entertainment,” monetary figures: from West Virginia Lottery Annual Report, spending earmarks: American Gaming Association, Washington DC, 2007.

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<sup>22</sup> West Virginia, West Virginia Lottery, Annual Report, 2006, <http://207.97.205.154/pdf/WVL2006AR.pdf>

<sup>23</sup> West Virginia Lottery, Racetrack Video Lottery Summary, Fiscal Year 2006; [www.state.wv.us/lottery/vidsum.htm](http://www.state.wv.us/lottery/vidsum.htm)

<sup>24</sup> Business Regulation, State Assistance and Actions Regarding Maryland Racing, Maryland Department of Legislative Services, 2005, <http://mlis.state.md.us/Other/IssuePapers/2005/11.pdf>

<sup>25</sup> Bruce Spizler, Senior Assistant Maryland Attorney General. "Memorandum to Secretary Tom Perez: Synopsis of legislation in contiguous state, which authorize the placement and operation of slot machines." June 27, 2007.

<sup>26</sup> All purse data was taken from an annual series in *Bloodhorse* Magazine: Ron Mitchell, "Narrowing the Gap," "Good News, Bad News," "Perception Is Reality," Feb, 1996-1999 Eric Mitchell, "Accounting for Purses," "Purses," "Slots and Purse Growth," Feb, 2000-2002, Ben Hickman, "Best Game In Town," Feb, 2003, Evan Hammonds, "Leaky Boat," "Back in Black," "Flatlining" Feb, 2004-2006, and "Higher Elevation," Feb, 2007 *Bloodhorse*, 1994-2006.

<sup>27</sup> The Maryland Jockey Club,

<http://www.pimlico.com/NewsEvents/FeatureStories/Details/Baltimore061207.htm>

<sup>28</sup> All purse data was taken from an annual series in *Bloodhorse* Magazine: Ron Mitchell, "Narrowing the Gap," "Good News, Bad News," "Perception Is Reality," Feb, 1996-1999 Eric Mitchell, "Accounting for Purses," "Purses," "Slots and Purse Growth," Feb, 2000-2002, Ben Hickman, "Best Game In Town," Feb, 2003, Evan Hammonds, "Leaky Boat," "Back in Black," "Flatlining" Feb, 2004-2006, and "Higher Elevation," Feb, 2007 *Bloodhorse*, 1994-2006.

<sup>29</sup> The 2006 annual racing commission reports for Maryland and West Virginia have not yet been published.

<sup>30</sup> All handles figures were gathered from the Racing Commission reports of Delaware, West Virginia and Maryland: 1995-2005.

<sup>31</sup> All numbers come from: US Trotters Association.

<sup>32</sup> Ibid.

<sup>33</sup> All numbers come from: US Trotters Association.

<sup>34</sup> Neibergs, J. S., and R. Thalheimer. (1997, December). "Price expectations and supply response in the thoroughbred yearling market." *Journal of Agricultural and Applied Economics* 29(2), 419S435.

<sup>35</sup> All foal statistics come from the Jockey Club: <http://www.jockeyclub.com/factbook.asp?section=4>

<sup>36</sup> Ibid.

<sup>37</sup> Data is from the Maryland Standardbred Advisory Committee

<sup>38</sup> Maryland Department of Legislative Services, Fiscal Note SB 950, 2007.

[http://mlis.state.md.us/2007RS/fnotes/bil\\_0000/sb0950.pdf](http://mlis.state.md.us/2007RS/fnotes/bil_0000/sb0950.pdf)

<sup>39</sup> Maryland State Lottery Agency FY 2008 Budget Presentation.

[http://dbm.maryland.gov/dbm\\_publishing/public\\_content/dbm\\_search/budget/tocfy2008budgettestimony/e75d\\_lottery.pdf](http://dbm.maryland.gov/dbm_publishing/public_content/dbm_search/budget/tocfy2008budgettestimony/e75d_lottery.pdf)

<sup>40</sup> Washington County Gaming Office. [http://www.washco-md.net/gaming/fy06\\_gaming\\_rept.pdf](http://www.washco-md.net/gaming/fy06_gaming_rept.pdf)

<sup>41</sup> Frederick County tip jar information from the Frederick County Department of Permitting and Development Review, Office of Permits and Inspections

<sup>42</sup> Maryland Department of Legislative Services, Fiscal Note SB 950, 2007.

[http://mlis.state.md.us/2007RS/fnotes/bil\\_0000/sb0950.pdf](http://mlis.state.md.us/2007RS/fnotes/bil_0000/sb0950.pdf)

<sup>43</sup> West Virginia State Police, <http://www.wvstatepolice.com/ucr/ucr.htm>

<sup>44</sup> U.S. Dept. of Justice Bureau of Justice Statistics

<sup>45</sup> Bruce Spizler, Senior Assistant Maryland Attorney General. "Memorandum to Secretary Tom Perez: Synopsis of legislation in contiguous state, which authorize the placement and operation of slot machines." June 27, 2007

<sup>46</sup> Ibid.

<sup>47</sup> Ibid.

<sup>48</sup> Ibid.

<sup>49</sup> Ibid.

<sup>50</sup> Ibid.

<sup>51</sup> Ibid.

<sup>52</sup> Ibid.