

Racetrack Casinos in New York State:

Current Economic Impact – Part One

January 2012

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Executive Summary

Since it was authorized by the legislature in 2001, racetrack gaming has emerged as a significant and growing element of New York's recreation and entertainment sector – a source of jobs and economic growth, and a significant and growing contributor to state and local government revenues.

The impact of current operations

As of late 2011, New York's nine racetrack casinos directly employed 5,431 people, 97 percent of whom are New York state residents.

The impact of the nine casinos' current operations includes:

- The nine casinos' spending on payroll, purchasing and construction;
- The Lottery Division's contracts with companies that maintain and operate the Division's network of video lottery terminals that have been installed at the nine casinos;
- The financial support that the casinos provide for horse racing and breeding; and
- Off-site spending by out-of-state visitors to the casinos.

Including all of these elements, we estimate that, as of the end of 2011, New York's racetrack casinos directly and indirectly accounted for:

- *More than \$1.96 billion in state-wide economic output;*
- *More than 17,400 jobs; and*
- *About \$863 million in earnings (salaries and wages).*

As of the end of 2011, we estimate that the operations of the nine racetrack casinos and related enterprises directly and indirectly generated:

- *More than \$1.06 billion in annual State government revenues; and*
- *More than \$73 million in annual revenues paid to local governments in New York State.*

The casinos' contribution to education funding – \$830.5 million – is by far their largest contribution to state and local finance in New York State. To put this amount in perspective, a contribution of \$830.5 million is equivalent to paying the salaries of more than 11,900 elementary and secondary school teachers throughout New York State.

	<i>Jobs</i>	<i>Output (\$000's)</i>
Casino operations		
Direct employment	5,431	\$141,305
Purchasing and construction	2,182	\$664,736
Indirect and induced effects	4,038	\$642,510
<i>Subtotal</i>	<i>11,651</i>	<i>\$1,448,551</i>
State lottery		
Direct impact	110	\$34,965
Indirect and induced effects	132	\$20,239
<i>Subtotal</i>	<i>242</i>	<i>\$55,204</i>
Support for racing and breeding		
Direct impact	3,368	\$179,800
Indirect and induced effects	1,356	\$189,116
<i>Subtotal</i>	<i>4,724</i>	<i>\$368,916</i>
Out-of-state visitor spending		
Direct impact	590	\$62,694
Indirect and induced effects	196	\$31,024
<i>Subtotal</i>	<i>786</i>	<i>\$93,718</i>
<i>Total</i>	<i>17,403</i>	<i>\$1,966,389</i>

Introduction

In just ten years, racetrack gaming has emerged as a significant and growing element of New York's recreation and entertainment sector – a source of jobs and economic growth, and a significant and growing contributor to state and local government revenues.

Racetrack gaming in New York State traces its origins to 2001, when the Legislature enacted and Governor George Pataki approved legislation authorizing video lottery terminals (VLT's) at harness and thoroughbred tracks throughout the state. (The legislation also authorized establishment of three Seneca Indian casinos and up to three freestanding casinos to be located in the Catskill region.)

Saratoga Casino and Raceway became the first facility to take advantage of the new legislation when it opened the state's first "racino" in January 2004, with Finger Lakes Casino & Racetrack, Hamburg Casino at the Fairgrounds and Empire Resorts at Monticello Casino and Raceway opening later that year. Batavia Downs Casino opened in 2005, and Tioga Downs Casino, Vernon Downs Casino and Hotel, and Empire City Casino at Yonkers Raceway in 2006. Resorts World New York became the most recent addition to the state's racetrack casino network when it began operating in Queens in October 2011.

Since 2004, total gaming activity and the net revenues they generate have grown rapidly. In fiscal year 2004-2005, VLT credits played at four racetrack casinos totaled \$2.19 billion. In 2010-2011 (before the opening of Resorts World New York) VLT credits played at eight racetrack casinos totaled \$13.34 billion – a cumulative increase of 509 percent over seven years, which translates into a compound annual growth rate of 29.5 percent.

Of the \$13.34 billion in credits played in 2010-2011, \$12.21 billion (91.6 percent of the total played) was returned to players in winnings. The "net win" shared by the State for education funding, facility operators, purse awards for racing, breeding funds, and lottery operations totaled about \$1.11 billion (8.3 percent of the total played), of which more than \$521 million was spent on State aid to education.

The New York Gaming Association (NYGA), established in 2011, is an organization that represents New York's nine racetrack casinos. The Association has proposed that New York State's constitution be amended to expand the range of gaming activities that its members are permitted to offer, to include the full range of table games.

In 2011 NYGA asked Appleseed – a New York City-based economic development consulting firm – to assess the economic impact of permitting enhanced gaming at New York's nine racetrack casinos. This report presents the results of Appleseed's analysis.

Part One of the report provides an overview of the operations of the nine racetrack casinos, their current impact on New York State's economy, and their contribution to state and local government revenues.

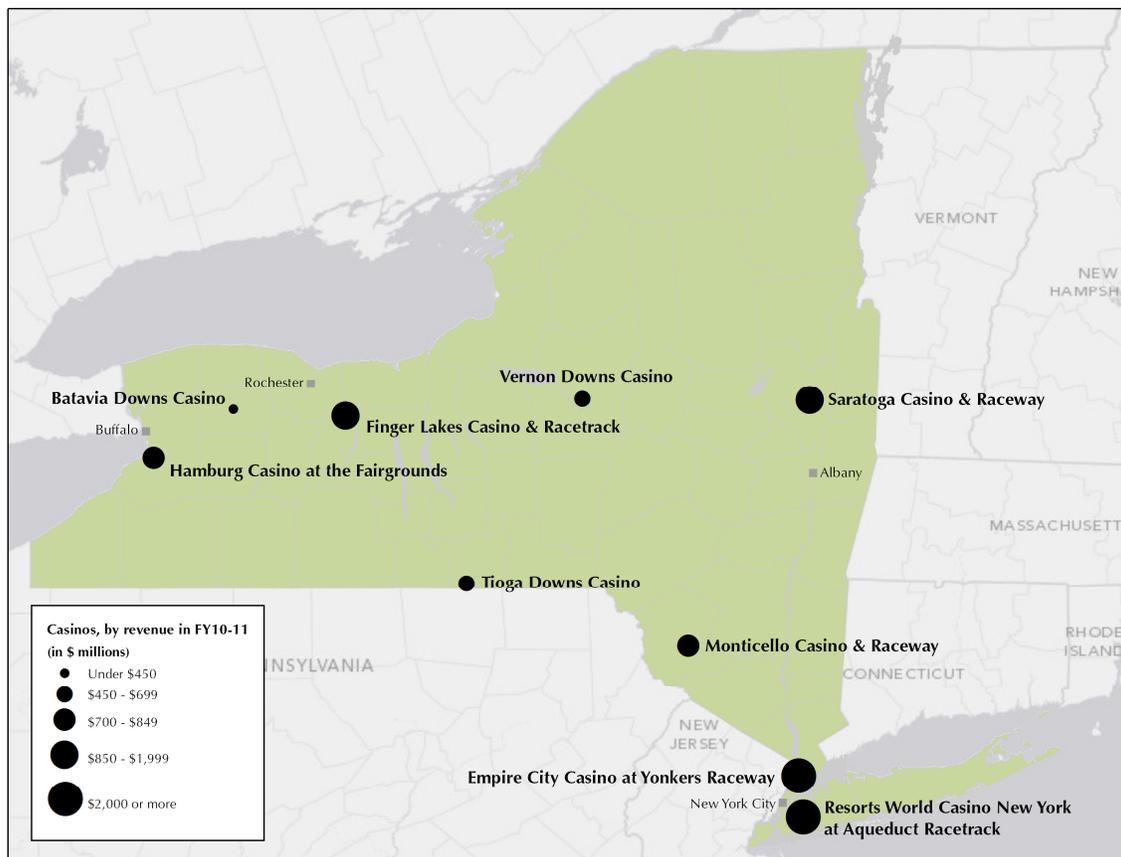
Part One: New York’s Racetrack Gaming Industry – Current Economic Impact

As noted in the introduction, New York’s racetrack gaming industry now includes nine racetrack casinos:

- Saratoga Casino & Raceway, Saratoga Springs (opened in 2004);
- Finger Lakes Casino & Racetrack, Farmington (2004);
- Hamburg Casino at the Fairgrounds, Hamburg (2004);
- Monticello Casino & Raceway, Monticello (2004);
- Batavia Downs Casino, Batavia (2005);
- Tioga Downs Casino, Nichols (2006);
- Vernon Downs Casino & Hotel, Vernon (2006);
- Empire City Casino at Yonkers Raceway, Yonkers (2006); and
- Resorts World New York, Queens (2011).

Figure 1 shows the location of the nine racetrack casinos.

Figure 1: Map of racetrack casinos in New York State



In the twelve months through November 30, 2011, credits played at the eight racetrack casinos that were open throughout that period totaled \$14.68 billion, of which \$13.464 billion (91.69 percent) was returned to players in winnings.¹

Because Resorts World New York opened in October 2011, a full year's data on credits played and won are not yet available. Annualized estimates of total credits played, credits won and net win for Resorts World New York were therefore based on results reported by the New York State Lottery Division for the five weeks ending on January 28, 2012 – that is, the five weeks following the opening of the second phase of Resorts World's development in Queens, which brought the number of VLT's in operation at the casino to its current total of 5,000. Average weekly results during the five week period were then multiplied by 52 to produced annualized estimates of gaming activity at Resorts World. (This approach probably understates what Resorts World's results would be on a full-year basis, in that it does not take into account seasonal variations that are typical in the industry, with January often being a slow month.) These annualized estimates were then added to the twelve-month actual results reported for the eight other racetrack casinos. We thus estimate that as of the end of 2011, the nine racetrack casinos were on an annualized basis producing:

- \$25.13 billion in credits played;
- \$23.30 billion returned to players in credits won (92.7 percent of credits played); and
- \$1.767 billion in “net win,” shared between the state and the operators of the nine casinos (7 percent of total credits played).²

The allocation of net win is defined by State law. Of an annualized total of \$1.767 billion:

- About \$830.5 million (47 percent of the total net win) goes to New York State, to be spent on education;
- \$176.7 million (10 percent) is allocated to the State for administration and operation of the VLT network and other electronic gaming;
- Another \$179.8 million (10.2 percent) is used to support New York's horse racing and breeding industries;
- \$423 million (24 percent) is retained by the racetrack casinos to cover operating costs;
- An additional \$141 million (8 percent of the total) was allocated by lottery for marketing of the facilities; and

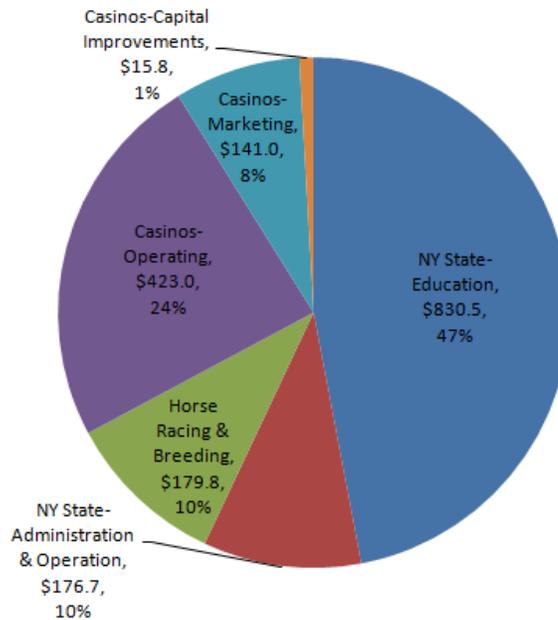
¹ The remaining 0.25 percent of the gross – about \$57 million – is used to provide “free play” credits to players.

² The use of an annualized estimate for Resorts World New York means that these estimates exceed actual results for calendar year 2011. For the calendar year, net win for the nine racetrack casinos totaled \$1,259,248,845 and the education contribution totaled \$593,399,615.

- \$15.8 million (0.9 percent) was retained by Lottery and made available for capital improvements.

Figure 2 shows the allocation of net win.

Figure 2: Breakdown of net win



The racetrack gaming industry contributes in several ways to the economy of New York State, and to the communities in which the nine racetrack casinos operate. Collectively, these enterprises are major employers, buyers of goods and services from New York firms, sponsors of construction projects, sources of state and local government revenues, and magnets for visitors from outside the communities in which they are located.

Racetrack casinos as employers

As of November 2011, New York’s nine racetrack casinos collectively employed a total of 5,431 people, of whom about 71 percent worked full-time and 29 percent part-time. Employees included a mix of management and other professionals, administrative and clerical staff, customer service personnel, restaurant and other food and beverage workers; facility operations and maintenance workers; and security personnel (Figure 3).

Table 1 shows employment at each of the state’s racetrack gaming establishments.

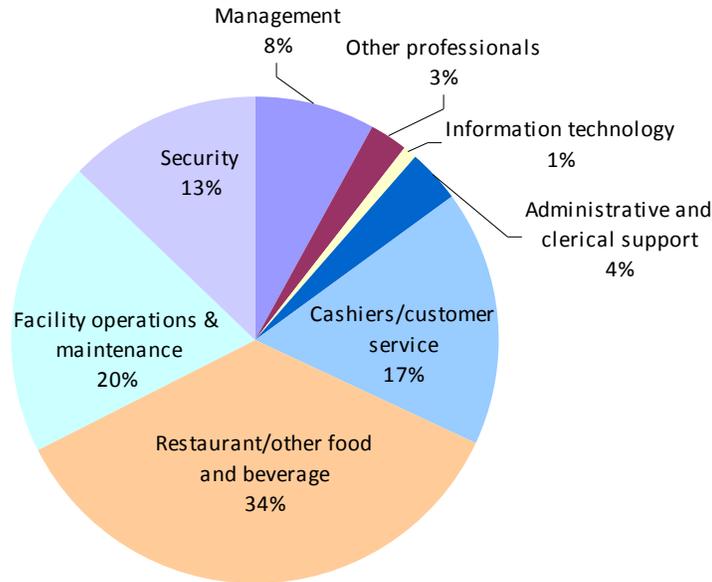
Table 1: Racetrack gaming employment in New York State, by location, 2011

	Full-time	Part-time	Total
Saratoga	397	225	622
Finger Lakes	318	196	514
Hamburg	141	168	309
Monticello	287	23	310
Batavia Downs	85	228	313
Tioga Downs	176	73	249
Vernon Downs	201	105	306
Empire City	868	241	1,109
Resorts World	1,401	298	1,699
Total	3,874	1,557	5,431

Racetrack casino employees are overwhelmingly New York State residents. Nearly 97 percent of those employed in the racetrack gaming industry live in New York.

As of November 2011, New York’s racetrack gaming enterprises paid a total of \$141.3 million in annual wages and salaries.

Figure 3: Employment by occupational category, 2011



The impact of purchasing and construction

In addition to those they employ directly, racetrack casinos support employment in New York State through their purchases of goods and services from New York companies, and through investments in their facilities.

In 2011, the nine racetrack gaming establishments spent \$209.2 million on purchases of goods and services from New York companies. Major areas of in-state purchasing included:

- Food and beverage;
- Advertising and marketing;
- Employee health insurance;
- Merchandise;
- Equipment; and
- Utilities.

Using the IMPLAN input-output modeling system (an economic modeling tool commonly used in conducting economic impact analyses), we estimate that in 2011, the nine racetrack casinos' purchases of goods and services directly supported 793 full-time-equivalent jobs (FTE).

In 2011, the nine racetrack casinos invested a total of \$463.5 million in construction, expansion and upgrading of their facilities (including \$436.3 million spent on construction of the Resorts World New York casino in Queens). We estimate that these investments directly supported 1,389 FTE jobs with New York State contractors.

Indirect and induced effects

In addition to the direct economic impact of their spending on payroll, purchases and construction, racetrack casinos also have an indirect impact on New York State's economy. New York businesses from which casinos purchase goods and services (including construction) use part of the money they receive from these enterprises to pay *their* in-state suppliers, who in turn use part of that money to buy goods and services from still another group of New York companies.

Similarly, racetrack casinos' employees – and employees of the casinos' local suppliers – spend part of their earnings on purchases of goods and services – such as housing, food, utilities, child care, personal items, and transportation – from businesses in New York State. The employees of *those* businesses then do the same.

Using IMPLAN, we can calculate these indirect and induced (or “multiplier”) effects of racetrack casinos' direct spending on payroll, purchasing and construction. We estimate that in 2011, the

racetrack gaming industry indirectly generated \$642.5 million in economic output and 4,037 FTE jobs in New York State, with \$223.9 million in employee earnings.

Combining these indirect and induced effects with the direct impacts described above, we estimate that all nine racetrack casinos’ annual spending on payroll, purchasing and construction directly and indirectly accounts for:

- Nearly \$1.449 billion in economic output in New York State;
- 11,651 jobs; and
- About \$495 million in employee earnings.

Table 2 summarizes the direct, indirect and induced impact of racetrack casinos’ current operations on New York State’s economy.

Table 2: Summary of the direct, indirect and induced impact of the racetrack casinos' current operations on New York State's economy, 2011

New York State	Direct spending		Indirect and induced impact of spending by employees, vendors, and contractors		Total impact
	Payroll	Purchasing and Construction	Payroll	Purchasing and Construction	
Spending (\$000's)	\$141,305	\$664,736	\$129,253	\$513,257	\$1,448,551
Jobs	5,431 jobs	2,182 jobs	850 jobs	3,188 jobs	11,651 jobs

Electronic gaming operations

As noted above, 10 percent of the net win generated by New York’s racetrack casinos (currently about \$166.0 annually is allocated to the State Lottery Division to cover the cost of operating and maintaining the state’s network of video lottery terminals. Based on the Lottery Division’s spending in 2010-2011, nearly three-quarters of this allocation is paid to vendors and contractors, including:

- Companies that provide and maintain the video lottery terminals that are used at each casino and other equipment used in electronic gaming, including Bally International, International Gaming Technology, SDG and Spielo USA Inc. All of these companies have employees based in New York (either at the casinos or on-call) to support and maintain the equipment they provide.
- Multimedia Games, Inc. (MGAM), a company that manages the VLT network on behalf of the Lottery Division. From a location in Schenectady, MGAM operates a computer system that centrally determines the outcome and/or monitors the results of every play on all of the VLT’s now in operation at the nine racetrack casinos. The company also provides back-office services that support the operations and administration of the racetrack gaming system.

Using IMPLAN, we estimate that the Lottery Division’s contracts with companies that supply and maintain VLT equipment and operate the VLT system directly support approximately 110 FTE jobs in New York State, with \$11.83 million in earnings. Like the operations of the casinos themselves, VLT vendors’ operations within the state also generate jobs and economic activity indirectly. Using IMPLAN, we estimate (as shown below in Table 3) that the Lottery Division’s contracts with VLT vendors indirectly supported about \$20.24 million in additional economic output in New York State, and 132 FTE jobs with approximately \$7.85 dollars in earnings.

Combining direct with indirect and induced effects, we estimate that in 2011 VLT vendors’ operations in New York State directly and indirectly accounted for about \$55.2 million in economic output and 242 FTE jobs in New York State, with earnings of about \$19.7 million.

Table 3: Impact of the Lottery Division’s payments to VLT vendors

	Employment (FTE)	Earnings (\$000’s)	Output (\$000’s)
Direct	110	\$11,828	\$34,965
Indirect	42	\$2,777	\$6,666
Induced	90	\$5,073	\$13,573
Total	242	\$19,678	\$55,204

Support for New York’s racing and breeding industries

In addition to its impact as an industry in its own right, VLT gaming generates revenue for two other New York industries – horse racing and breeding. Under the terms of their charter from the State, racetrack casinos are required to use a portion of their share of the casinos’ “net win” to provide financial support for racing and breeding. This support takes several forms. The eight casinos not including Resorts World New York typically provide:

- Subsidies to the state’s horse racing industry equal to 8.75 percent of net win; and
- Subsidies for horse breeders equal to 1.25 percent of net win.

The provisions governing Resorts World New York are somewhat different. In its first year³ the new casino in Queens is providing:

- Financial contributions to the New York Racing Association’s thoroughbred purses equaling 6.5 percent of net win;
- Subsidies for capital expenditures equal to 4 percent of net win;
- Subsidies to NYRA racing operations equaling 3 percent of net win; and
- Subsidies for breeders equal to 1 percent of net win.

³ The legislation governing Resorts World New York specifies percentage distributions to racing and breeding during the first year of operation, to be followed by increases in the second and third years. Distributions in subsequent years would follow the third-year formula.

On an annualized basis, we estimate that as of the end of 2011 the nine racetrack casinos provided a total of \$179.8 million in support, including nearly \$158 million for the state’s racing industry and about \$22 million for New York’s horse breeders.

The casinos’ support for the racing industry generally takes the form of contributions to the purses for which New York horses are eligible. (As noted above, Resorts World New York also provides direct support for NYRA’s operations; and some support is provided for capital improvements as well.) Over time, funding from racetrack casinos has come to represent a significant and growing share of the income of New York horsemen.

Support for breeding is channeled through two funds – the New York State Horse Breeding Development Fund (for standardbreds) and the New York State Thoroughbred Breeding and Development Fund. These funds support the breeding and development of racehorses in the state by providing incentive payments to breeders and stallion-owners based on purses won by New York-bred horses.

As with casino operations and the operations of VLT vendors, we can use IMPLAN to estimate the impact of the subsidies that casino gaming provides to horsemen and breeders in New York State. As Table 4 shows, we estimate that \$179.8 million in financial assistance provided by the state’s racetrack casinos directly supports approximately 3,368 FTE jobs in harness and thoroughbred racing and in the breeding and development of horses, with \$95.4 million in earnings.

Combining this direct impact with the indirect and induced effects of the casinos’ spending on subsidies for horsemen and breeders, we estimate that these subsidies directly and indirectly support 4,724 FTE jobs with \$170.4 million in earnings, and \$368.9 million in statewide economic output.

Table 4: Direct, indirect, and induced impacts of racetrack casinos’ payments to racing and breeding industries in, New York State, 2010-2011

	Employment (FTE)	Earnings (\$000’s)	Output (\$000’s)
Direct	3,368	\$95,482	\$179,800
Indirect	601	\$31,409	\$72,501
Induced	755	\$43,579	\$116,615
Total	4,724	\$170,470	\$368,916

It is important to note that the preceding analysis of the impact of the casinos’ support for racing and breeding deals only with the support provided through the statutory allocation of a portion of the casinos’ net win to purses and breeders’ incentives. It does not take into account the additional support that several casinos provide by covering the day-to-day operating deficits of the tracks with which they are affiliated. Nor does it reflect the reality that without the support provided by racetrack gaming, several of New York’s tracks would be facing serious financial problems. With these factors taken into account, the number of racing-related jobs that are

dependent on the support of gaming revenues probably exceeds by several thousand the total of 4,724 FTE jobs cited in Table 4.

Impact of off-site spending by visitors to New York

The great majority (about 92 percent) of those who visit the nine racetrack casinos are New York State residents. Nevertheless, the casinos still attract a substantial number of gamers from outside the state: as of the end of 2011, an annualized total of more than 1.8 million.

Some of these out-of-state players are people who are visiting New York State primarily for some other reason, and who take the opportunity during their trip to stop in at a casino. But for others, the casino is a primary destination. This group could, for example, include Pennsylvania residents who frequent Tioga Downs, or residents of western Massachusetts who come to Saratoga. There are some for whom racetrack gaming may not be the primary reason for coming to New York, but for whom it is attractive enough to induce them to spend more money (and perhaps more time) in the state.

In addition to what they spend at a casino, some of these “incremental visitors” also spend money off-site. An out-of-state resident who comes to Saratoga for a day of racing might, for example, decide to spend the evening at the casino, and then stay overnight in a local hotel.

While data on off-site spending by casino visitors is not currently available, we can provide a rough order-of-magnitude estimate of the impact of local spending by out-of-state visitors. For purposes of this analysis, we assume that:

- Off-site spending by out-of-state visitors to the eight racetrack casinos outside New York City averages \$30 per person per trip, and out-of-state visitors to Resorts World New York averages \$40, for an annualized total of \$62.69 million in 2011; and
- This \$62.69 million in off-site spending is evenly divided among lodging, food, shopping and local transportation.

Based on these assumptions, we estimate that off-site spending by out-of-state visitors directly supported about 590 FTE jobs in hotels, restaurants, retailing and local transportation, with earnings totaling almost \$10.4 million. Combining this direct impact with indirect and induced effects, we estimate that spending by out-of-state visitors to the state’s nine racetrack casinos (as shown in Table 5) directly and indirectly generated nearly \$94 million in economic output and 786 FTE jobs in New York State.

Table 5: Impact of out-of-state visitor spending, New York State

	Employment (FTE)	Earnings (\$000's)	Output (\$000's)
Direct	590	\$17,762	\$62,694
Indirect	62	\$4,377	\$10,875
Induced	134	\$7,530	\$20,148
Total	786	\$29,669	\$93,718

Impact on state and local government revenues

The impact of racetrack casinos on state and local government revenues is not limited to the share of their “net win” that goes to New York State. The casinos generate revenues in several other ways as well, including:

- Taxes and other direct payments to the state and local governments;
- Taxes generated indirectly through the “multiplier effect” of the casinos’ spending on payroll, purchasing and construction; and
- Taxes generated indirectly from payments to the racing and breeding industries, Lottery Division vendor contracts, and spending by out-of-state visitors.

Table 6 summarizes the annualized impact of racetrack casino operations in 2011 on state and local revenues. As the Table shows, racetrack gaming currently generates more than \$1.06 billion in revenues to New York State, and \$73 million in local government revenues.

Table 6: Impact of racetrack casinos on state and local revenues, 2011 annualized (\$000's)

	Direct	Indirect	Total
State			
Contribution to education	\$830,490.0		\$830,490.0
Contribution to Lottery administration	\$176,668.5		\$176,668.5
State income tax	\$6,604.3	\$31,517.8	\$38,122.1
State sales tax	\$3,937.5	\$10,667.3	
State corporate tax	\$1,245.6	\$6,649.4	\$7,822.0
<i>Total</i>	<i>\$1,018,945.9</i>	<i>\$48,834.5</i>	<i>\$1,067,780.4</i>
Local			
Aid to municipalities	\$25,778.1		\$25,778.1
Local income tax	\$1,068.2	\$12,926.0	\$13,994.2
Local sales tax	\$3,775.5	\$10,454.0	\$14,229.5
Real property tax	\$9,203.7		\$9,203.7
Local corporate tax	\$150.0	\$4,103.9	\$4,253.9
Other	\$5,750.0		\$5,750.0
<i>Total</i>	<i>\$45,725.5</i>	<i>\$27,483.9</i>	<i>\$73,209.4</i>

Supporting education spending in New York State = 11,900 teachers

The racetrack casinos' contribution to education funding – \$830.5 million – is by far their largest contribution to state and local finance in New York State. To put this amount in perspective: State Department of Labor data indicate that the average salary for elementary and secondary school teachers in New York State is \$69,729. A contribution of \$830.5 million is thus equivalent to paying the salaries of more than 11,900 elementary and secondary school teachers throughout New York State.

Supporting local communities

In addition to the support they provide to state and local governments, New York's racetrack casinos support their local communities through charitable giving and through other community initiatives. The racetrack casinos' contributions to local community organizations in 2011 totaled more than \$1.12 million. The total included, for example, \$209,000 contributed by Saratoga Gaming and Raceway to local organizations.

Several of the casinos also work closely with local agencies and community organizations to provide job opportunities to local residents. For example:

- Tioga Downs Casino works with the New York State Department of Labor's Working Solutions center to recruit and hire local residents, and also recruits through local colleges, schools and community organizations.
- Vernon Downs Casino & Hotel works with the Oneida-Lewis ARC to recruit and hire people with disabilities, and with the Mohawk Valley Refugee Center to provide jobs for people who have legally immigrated to the United States seeking refuge from persecution due to race, religion etc.
- Empire Resorts at Monticello Casino & Raceway similarly works with the Orange/Sullivan Employment Alliance Network to hire people with disabilities.
- Empire City Casino at Yonkers Raceway works with local colleges and community organizations such as WESTCOP, WESTHAB, and Westchester ARC, as well as the New York State Department of Labor's office in White Plains, to connect local residents with jobs at Empire City.

- Resorts World New York has worked with New York City's Workforce One center in Jamaica and with the Council on Airport Opportunity to place Queens residents in jobs at its new casino.

Putting it all together

Combining the impacts of the racetrack gaming industry's current operations, subsidies provided to the state's racing and breeding industries, the Lottery Division's vendor contracts and off-site spending by out-of-state visitors, we estimate that in 2011 New York's racetrack gaming industry directly and indirectly accounted for approximately:

- \$1.966 billion in economic output;
- 17,403 jobs; and
- \$863 million in earnings.

The industry is also a major contributor to state and local government finance. Directly and indirectly, racetrack casinos currently generate;

- More than \$1.067 billion in state revenues, including \$830.5 million allocated from the casinos' net win to support state funding for education; and
- More than \$73 million in local government revenues.