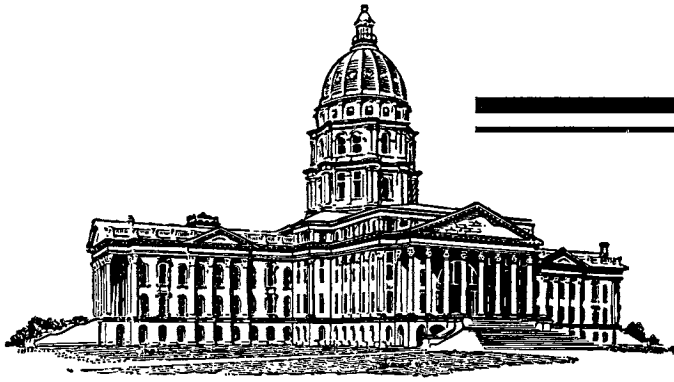




PERFORMANCE AUDIT REPORT

**Reviewing the Impact of
Parimutuel Racing In Kansas
On the Kansas Racehorse and
Greyhound Industries**

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
March 1996**

Legislative Post Audit Committee

Legislative Division of Post Audit

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March 11, 1996

To: Members, Legislative Post Audit Committee

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Senator Anthony Hensley
Senator Phil Martin
Senator Alicia Salisbury
Senator Don Steffes

Representative Jim Lowther, Vice Chair
Representative Tom Bradley
Representative Duane Goossen
Representative Sheila Hochhauser
Representative Ed McKechnie

This report contains the findings and conclusions from our completed performance audit, *Reviewing the Impact of Parimutuel Racing in Kansas on the Kansas Racehorse and Greyhound Industries*.

We would be happy to discuss our findings or any other items in the report with any legislative committees, individual legislators, or other State officials.

Barbara J. Hinton
Legislative Post Auditor

**Reviewing the Impact of Parimutuel Racing in Kansas
On the Kansas Racehorse and Greyhound Industries**

EXECUTIVE SUMMARY

LEGISLATIVE DIVISION OF POST AUDIT

**Question 1: What Impact Has Parimutuel Racing Had on the
Kansas Racehorse and Greyhound Breeding Industries?**

We estimated that, in 1995, Kansas breeders sold \$1.4 million worth of race animals as a result of having parimutuel racing in Kansas. We considered a race animal to be sold as a result of parimutuel if it was sold to race at one of the three racetracks (Woodlands Race Track, Wichita Greyhound Park, and Camptown Greyhound Park) that have come into existence since parimutuel wagering was legalized. We estimated that racehorse and greyhound breeders sold about \$3.2 million worth of race animals in 1995, and about \$1.4 million of those animals were sold to race in Kansas. page 6

Industry officials tell us the Kansas racehorse and greyhound breeding industries initially grew by about 30% as a result of parimutuel racing, but are much smaller now. About 38% of the racehorse breeders and 56% of the greyhound breeders responding to our surveys indicated they started their breeding operations as a result of parimutuel racing being allowed in Kansas. However in recent years, membership in organizations related to horsemen has declined, while membership in the Kansas Greyhound Association has remained fairly constant. The number of Kansas-bred greyhounds registered in Kansas since parimutuel increased until 1992, then stabilized. The number of Kansas-bred racehorses registered has continued to decline, from 802 horses in 1990 to 199 horses in 1995. page 7

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**Question 2: What Economic Impact Has Racing Had
On Kansas Agribusinesses Such As
Food Suppliers and Veterinarians?**

We estimate that the economic benefit to Kansas agribusinesses supplying goods and services to breeders and owners of race animals as a result of having parimutuel racing in Kansas was about \$15.2 million in 1995. The racing industry has an economic impact on the businesses that supply goods and services to owners and breeders of racing animals in three ways. page 12

- the money breeders spend while the racehorses or greyhounds are being raised and trained in Kansas—estimated at \$9.9 million in 1995
- the money racehorse and greyhound owners spend to keep their race animals in Kansas while they are racing at Kansas racetracks—estimated at \$4.5 million in 1995
- money spent for racehorses that remain in Kansas during the non-racing season—estimated at \$788,000 in 1995

Most of the money racehorse and greyhound owners, breeders, and kennel operators spent with Kansas agribusinesses in 1995 went for animal training and food. Together, racehorse and greyhound owners, breeders, and kennel operators spent about \$3.9 million for training and \$3.1 million to feed the race animals. These two categories accounted for nearly half the expenditures reported in 1995. page 13

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Question 3: How Much of the Prize Money Awarded At Kansas Tracks Ends Up Going to Kansas Residents Who Own Racing Animals?

In 1995, about \$4 million, or 47% of the total prize money paid out at Kansas racetracks, went to Kansas residents. During 1995, patrons at The Woodlands Race Track, Wichita Greyhound Park, and Camptown Greyhound Park wagered more than \$164 million on greyhound and horse races. About 5% of that money, or about \$8.6 million, went to pay purses for winning greyhounds and horses at those tracks. About \$6.8 million of the total purses were paid for winning greyhounds, and the remaining \$1.8 million was paid for winning horses. About 47% of the prize money was paid on behalf of winning animals owned by Kansas residents: \$3.2 million for greyhounds and \$800,000 for racehorses. page 17

Kansas owners and breeders also received about \$1 million from purse supplements and breed awards when Kansas-bred race animals won at the tracks. Another way winning race animals can generate money for Kansas residents is through programs established to encourage breeding of race animals in Kansas. In 1995, \$372,620 in purse supplements and \$621,410 in breed awards were provided for Kansas-bred race animals. page 18

Owners and breeders of Kansas race animals told us the demand for Kansas-bred race animals is declining, because the prize money paid in Kansas isn't as attractive as in other states. The prize money paid at Kansas racetracks is directly linked to attendance and the amount of money wagered at the tracks. As less money is wagered at the tracks, less money is available for purses, purse supplements, and breed awards. Officials told us that purse supplements encourage people to buy Kansas-bred race animals, while breed awards encourage people to enter into the breeding industry in Kansas. Officials also told us that some breeders in the State take their animals to be bred in other states. page 19

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This audit was conducted by Trish Pfannenstiel and Scott Brunner. If you need any additional information about the audit's findings, please contact Ms. Pfannenstiel at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call (913) 296-3792, or contact us via the Internet at: **LPA@PostAudit.ksleg.state.ks.us**

Reviewing the Impact of Parimutuel Racing In Kansas On the Kansas Racehorse and Greyhound Industries

During the 1995 legislative session, owners of Kansas race tracks asked for authorization to have slot machines at race tracks so that they could compete with Missouri river boats. Many legislators questioned whether the financial conditions at the race tracks were as bleak as the owners stated, and expressed concerns about financial arrangements between the track owners, the tracks, and some of the entities the tracks did business with.

To address these concerns, the 1995 Legislature enacted legislation requiring audits of entities regulated by the Kansas Racing Commission. The first audit completed under this legislation was an audit of the Woodlands Race Track. In response to that audit, the Track's owner/manager cited a number of major beneficiaries from track operations including, the State—from taxes it receives, charities—from race track contributions, and Kansas agribusiness.

The owner/manager's response to the audit raised questions about the impact of horse and greyhound racing on the State. Although information is readily available about the amount of taxes paid and contributions to charity, no quantifiable information is readily available about the impact of racing on agribusiness. Legislators have raised questions about how many Kansas-bred animals actually race in Kansas, how much money wagered in Kansas actually finds its way to horse and greyhound breeders or to other related businesses, and what the impact of racing has been on the horse and greyhound breeding industries in Kansas.

This audit addressed the following questions:

- 1. What impact has parimutuel racing had on the Kansas racehorse and greyhound breeding industries?**
- 2. What economic impact has racing had on Kansas agribusinesses such as food suppliers and veterinarians?**
- 3. How much of the prize money awarded at Kansas tracks ends up going to Kansas residents who own racing animals?**

To answer these questions, we reviewed the statutes and regulations regarding parimutuel wagering in Kansas. We surveyed racehorse and greyhound breeders as well as racehorse owners and kennel operators. Finally, we spoke with officials of the State's various horse and greyhound associations, the Kansas Racing Commission, the Institute of Public Policy and Business Research at the University of Kansas, and the racetracks in Kansas.

In this report, we did not include any impact from Eureka Downs and Anthony. Even though the fair tracks converted to parimutuel racing, their operations had little effect on the racehorse and greyhound breeding industries. These tracks had racing before parimutuel, and the race animals needed to run the races at these tracks

after parimutuel wouldn't have increased significantly. Also, expenses such as food, veterinary care, and other items associated with raising the race animals and housing them at the fair tracks during the racing season would have been incurred regardless of whether parimutuel had passed or not. In conducting this audit, we followed all applicable government auditing standards set forth by the U.S. General Accounting Office.

We found that the enactment of parimutuel racing in Kansas undoubtedly has increased the breeding and sale of race animals. We couldn't fully assess that impact because we weren't able to obtain good information about the size of the industry before parimutuel racing was allowed. We estimated that, in 1995, \$1.4 million worth of race animals were sold in the State as a result of having parimutuel racing in Kansas. Industry officials tell us the industry grew by about 30% as a result of parimutuel racing, but has declined in recent years because attendance and wagering at Kansas racetracks has fallen off.

Although parimutuel racing also has had a positive impact on ancillary businesses in Kansas—such as food suppliers, trainers, and veterinarians—it's difficult to know the magnitude of that impact because good information doesn't exist that would allow us to determine what was being spent with these businesses before parimutuel racing came into existence. Based on information supplied by racehorse and greyhound owners and breeders, and by kennel operators, we estimated they spent \$15.2 million with Kansas agribusinesses in 1995 for goods and services related to the raising, training, and racing of race animals.

We also found that about \$8.6 million was paid out in prize money for winning horses and greyhounds racing at Kansas racetracks in 1995. About \$4 million, or 47% of the total prize money, went to Kansas residents. In addition to prize money, Kansas owners and breeders receive money from purse supplements and breed awards from the Kansas Horse Breeding Development Fund and Kansas Greyhound Breeding Development Fund. During 1995, racehorse and greyhound owners and breeders received nearly \$1 million in additional prize money from these funds. These and additional prizes brought the total amount paid to Kansas residents to slightly more than \$5 million.

It should be noted that in assessing the economic impact of parimutuel racing on Kansas ancillary agribusinesses, we did not use economic multipliers. Before we started this audit, we consulted with officials from the Institute of Public Policy and Business Research at the University of Kansas. They concluded that the multiplier for the impact on the Kansas agribusinesses would be quite small—not much greater than one. They also concluded that no multiplier would be used to determine the economic impact to the State as a result of money won by Kansas owners of race animals since the benefits of the winners would be offset by the cost to the losers. (The letter from the officials at the Institute of Public Policy and Business Research at the University of Kansas explaining why no economic multiplier would be used in this audit can be found in Appendix F.)

These and related findings will be discussed in greater detail following a brief overview of the Kansas racehorse and greyhound breeding industries.

Overview of the Kansas Racehorse and Greyhound Breeding Industries

Before parimutuel wagering was legalized in Kansas, horse breeders sold their racehorses in surrounding states that allowed racing, such as Arkansas, Nebraska, Oklahoma, and Texas. Greyhound breeders sold or raced their dogs in states across the nation that had greyhound tracks, such as Florida and Colorado.

For more than 100 years, Kansans have raced their horses at county fairs in the State. No wagering was allowed before parimutuel was passed. Racehorse owners paid entrance fees that funded the prize money and helped pay the operating expenses at the tracks.

In 1986, Kansans voted to amend the State's Constitution to allow parimutuel wagering on horse and greyhound racing. A year later, the Legislature passed the Kansas Parimutuel Act outlining how parimutuel wagering would be conducted, and establishing the Kansas Racing Commission to regulate racing in Kansas. The Racing Commission comprises five commissioners who are appointed by the Governor and approved by the Senate.

Since the Parimutuel Racing Act Was Passed, Three Parimutuel Racetracks Have Opened in Kansas

The first was Wichita Greyhound Park, which opened September 7, 1989, just north of Wichita. One week later, Woodlands Race Track—located just outside Kansas City—opened for greyhound racing; it added horse racing in May 1990.

The last racetrack to open in Kansas was Camptown Greyhound Park, which is in Frontenac near Pittsburg. The first season for Camptown began on May 17, 1995, and was scheduled to run until December 31, 1995. As the racing season progressed, track attendance dropped to the point where the Camptown's Board of Directors decided the track was losing too much money, and couldn't continue to operate. The track received permission from the Racing Commission to shorten its racing season by nearly two months, closing its doors on November 5, 1995.

Greyhound races run about 300 days a year. Greyhounds can run once every three days. The tracks generally run seven performances a week between Wednesday and Sunday, with two racing performances on Wednesday and Saturday. Each racing performance is made up of between 13 to 15 races, with eight greyhounds per race.

Kennel operators contract with track officials for kennel space at the track. Greyhound owners who want to race their greyhounds at the tracks lease them to a kennel operator. Owners and kennel operators negotiate an agreement covering the greyhounds' expenses during the racing season. These agreements generally pay 65% of the greyhound's winnings to the kennel operator housing the greyhound. The owner receives the remaining 35%. Both kennel operators and owners are paid their winnings by the track on a weekly or monthly basis.

Horses have a much shorter racing season than greyhounds. The first horse racing season in Kansas ran from May 24 to September 3, with 76 live race

days. Since then, the number of live race days each year has been declining, and the racing season has been moved to later in the year, as shown in the table below.

**Woodlands Race Track Horse Racing Season
1990-1996**

<u>Year</u>	<u>Calendar Days</u>	<u>Live Race Days</u>
1990	May 24 to September 3	76
1991	May 25 to September 2	75
1992	August 14 to November 1	63
1993	August 13 to November 7	64
1994	August 10 to November 6	62
1995	August 11 to October 15	45
1996(a)	August 9 to November 3	60

(a) The 1996 racing schedule shown indicates the days approved by the Kansas Racing Commission.

The Woodlands generally runs five racedays a week between Wednesday and Sunday. Each raceday consists of 10 horse races, with an average of eight horses per race. Since the track doesn't have nighttime lighting, starting time for the horse races—referred to as “post time”—is between 1 p.m. and 3 p.m.

**Several Owner/Breeder Organizations Across the State
Have Helped Encourage the Breeding and Racing of Horses and Greyhounds**

Since parimutuel racing was allowed, several associations have been established whose members are owners and breeders of race animals in Kansas:

- **Kansas Horsemen's Association**, founded in 1987, is the official registering agency for the Kansas-Bred Horse Registry, and consists of racehorse owners and breeders. Its major goals are promoting the industry, disseminating information, and promoting cooperation between owners and breeders. Breeders and owners must pay fees to register their race animals in the Registry.
- **Kansas Quarter Horse Association**, made up of owners and breeders, was founded in 1962. It promotes the breeding, racing, and improvement of quarter horses in Kansas. The Association had 271 members in 1995, down from 769 in 1988. The Association is funded through a combination of membership dues, administrative fees, horse auctions, and donations.
- **Kansas Thoroughbred Association** was founded in 1986 to protect and expand thoroughbred breeding and racing. The Association had 175 members in 1995, down from a high of 240 in 1991. Funding comes from membership dues from the owners and breeders of thoroughbreds in the State.
- **Kansas Greyhound Association** was founded in 1985, but was reorganized in 1990 when it became the official registering agency for the Kansas-Bred Greyhound Registry. The Association promotes greyhound racing and the development of greyhound breeding. It had 345 members in 1991; however, membership dropped to 302 by 1995. Greyhound owners and breeders pay annual membership fees.
- **Kansas Greyhound Kennel Owners' Association** was founded in 1994. It tracks legislative and administrative issues affecting Kansas' greyhound racing industry. Members are the owners of greyhound kennels at the Kansas racetracks. Membership fees equal 1% of the gross purse kennel owners receive.

Two County Fair Racetracks Converted to Parimutuel Racing After the Parimutuel Racing Act Was Passed

Before parimutuel racing was legalized, Kansans could watch horse racing at county fair racetracks in the State. After it became legal, two of the county fair tracks in Kansas—Anthony located in Harper County in southcentral Kansas, and Eureka Downs located in Greenwood County in southeast Kansas—began running parimutuel races. Anthony converted to parimutuel racing in 1993 with a two-week racing season in July. The track in Anthony runs both horse and greyhound races.

Eureka Downs started parimutuel racing in 1988. The track in Eureka runs only horse races. More information about how parimutuel effected the operations at Eureka Downs can be found in the accompanying profile.

What Impact Has Parimutuel Racing Had on Eureka Downs?

Although Eureka Downs didn't create an additional economic impact on the horse breeding industry because of parimutuel racing, the advent of parimutuel racing did have an impact on Eureka Downs.

From 1867 to 1990, horseracing had been an annual event at Eureka Downs, located in Greenwood County. Before parimutuel wagering in Kansas, horses at Eureka Downs raced for purse awards funded through race entry fees, nomination fees, and sponsorships from local businesses. According to an official at Eureka Downs, a large majority of Greenwood County residents supported parimutuel wagering to create jobs at the racetrack and economic activity for local businesses.

In the first years of parimutuel racing at Eureka Downs, the racetrack was the largest single employer in Greenwood County, employing 75 to 80 seasonal employees. The following timeline highlights the major developments of parimutuel wagering and racing at Eureka Downs.

- 1988 From September to November, Eureka Downs held its first parimutuel race meet.
- 1990 In August, Eureka Downs declared bankruptcy. An official at Eureka Downs said the closure was the result of
 - debt from constructing a grandstand addition and a new clubhouse
 - a 50% reduction in daily handle because of competition from nearby Wichita Greyhound Park
- 1992 State laws and regulations were amended to allow simulcasting at all Kansas racetracks. The Horse Fair Racing Benefit Fund was created to supplement the operating expenses of horseraces run by fair associations or non-profit horsemen's associations.
- 1994 In May, Eureka Downs reopened with both live and simulcast horse racing, subsidized by a \$340,680 grant from the Horse Fair Racing Benefit Fund.
- 1995 The Eureka Downs race season ran from May 1 to July 4, with a \$335,000 grant from the Horse Fair Racing Benefit Fund.

An official estimated that 300-400 horses race at Eureka Downs during the 20-day race season. Half those horses are housed for the entire race season in stables at the racetrack, at an average cost of \$17-\$18 a day. The other horses are hauled in from Kansas farms or surrounding states for single races or for a couple of days. We estimate that housing horses at Eureka Downs generates about \$468,000 annually during the racing season.

In 1995, a total of \$538,816 was wagered during the Eureka racing season; \$435,762 was returned to bettors. An official estimated that about half the horses racing at Eureka Downs are Kansas-bred, and about 80% of those horses are eligible for Kansas breed awards. In addition, about two-thirds of the horses racing at Eureka are owned by Kansas residents. This means of the \$123,000 in purse money (statutory purse plus a subsidy of \$100,000 from the Horse Fair Racing Benefit Fund) awarded in 1995, about \$88,000 went to Kansas racehorse owners.

What Impact Has Parimutuel Racing Had On the Kansas Racehorse and Greyhound Breeding Industries?

The enactment of parimutuel racing in Kansas undoubtedly has increased the breeding and sale of race animals in the State. We couldn't fully assess that impact because we weren't able to obtain good information about the size of the industry before parimutuel racing was allowed. We estimated that, in 1995, \$1.4 million worth of race animals were sold as a result of having parimutuel racing in Kansas. Industry officials tell us the industry grew by about 30% as a result of parimutuel racing, but has declined in recent years because attendance and wagering at Kansas racetracks has fallen off. Other information we were able to review tends to support this notion. These and related findings are discussed in more detail in the sections that follow.

We Estimated That, in 1995, Kansas Breeders Sold \$1.4 Million Worth of Race Animals As a Result of Having Parimutuel Racing in Kansas

One thing we had hoped to do in this audit was determine how the size of the racehorse and greyhound breeding industries had changed—in terms of the number of breeders and dollar volume of racing animals sold—as a result of having parimutuel wagering in Kansas. However, no one keeps accurate records of the number of race animal breeders in Kansas, or the number of animals they sold over time. As a result, we couldn't accurately identify the size of these industries before parimutuel racing was allowed.

We were able to estimate the number of racehorse and greyhound breeders in 1995—and the number of animals they sold—by surveying current members of the Kansas Horsemen's Association and the Kansas members of the National Greyhound Association. Industry officials told us these two organizations probably would have the most complete membership lists from which to survey race animal breeders. Appendix A shows the survey results from racehorse breeders, and Appendix B shows the results from greyhound breeders.

The table on the next page shows our estimates of the total number of racehorses and greyhounds sold in 1995, and the number we estimate were sold as a result of having parimutuel racing in Kansas. We considered an animal to be sold as a result of parimutuel racing if it was sold to race at one of the three racetracks (Woodlands Race Track, Wichita Greyhound Park, or Camptown Greyhound Park) that have come into existence since parimutuel wagering was allowed. More complete information about our methodology can be found in Appendix E.

In reviewing the numbers in the table, the reader should keep the following in mind:

- We might have missed a few breeders because not all breeders will be members of the organizations we surveyed. However, industry officials tell us the vast majority of race animal breeders are members.
- Our survey response rate from racehorse breeders was only about 18%, and from greyhound breeders was only about 26%. The smaller the response rate, the less reliable the numbers are likely to be.

- We couldn't audit or otherwise verify that the information the breeders provided in their surveys was accurate.

For these reasons, the numbers shown in the table below should be viewed as an indication of the size of the industry in 1995, but should not be considered exact.

**Estimated Sales of Race Animals
By Kansas Racehorse and Greyhound Breeders
In 1995**

	<u>Number of Breeders</u>	<u>Estimated Total Race Animals Sold</u>	<u>Estimated Total Revenues</u>	<u>Estimated Race Animals Sold Because of Parimutuel (a)</u>	<u>Estimated Revenues Because of Parimutuel</u>
Racehorses	364	707	\$1,827,595	361	\$933,185
Greyhounds	<u>225</u>	<u>391</u>	<u>\$1,391,960</u>	<u>133</u>	<u>\$473,266</u>
Total	589	1,098	\$3,219,555	494	\$1,406,451

(a) Includes only race animals sold in Kansas to race at the Woodlands Race Track, Wichita Greyhound Park, or Camptown Greyhound Park.

Based on our estimates, racehorse and greyhound breeders sold about \$3.2 million worth of race animals in 1995. About \$1.4 million of that amount, or nearly 44% of the sales, was for animals sold to race at Kansas racetracks.

Having parimutuel racing in the State also may have increased the number of racehorses and greyhounds Kansas breeders sell to people who will race their animals at tracks outside Kansas. There was no reasonable way for us to assess this impact.

The number of greyhounds bred in Kansas after parimutuel racing was allowed has undoubtedly increased. Breeders tell us they sell fewer than 10% of the greyhounds they breed. They keep the remainder and race them at Kansas tracks and elsewhere. We don't report an impact here because no sales revenues are generated for breeders for these greyhounds. The economic impact from raising these greyhounds, and the money these greyhounds generate from prize winnings, are covered in questions two and three of this report.

**Industry Officials Tell Us the Kansas
Racehorse and Greyhound Breeding Industries
Initially Grew by About 30% as a Result of Parimutuel Racing,
But Are Much Smaller Now**

By looking only at the size of the industry in 1995, we were not able to see the growth in the breeding industry that occurred as a result of parimutuel racing. Of-

officials tell us that there has been a significant drop in the number of breeders and number of race animals sold from when parimutuel was at its peak in 1990 and 1991. They told us that the industry initially grew by about 30%, then began to decline.

As mentioned earlier, we had hoped to track the growth in the breeding industry, but the breeder organizations we surveyed couldn't provide us with information to estimate the number of breeders in Kansas before the Parimutuel Racing Act was passed in 1987. In conducting our review, however, we noted some things that tended to support the breeders' contentions that the breeding industries were once larger than they are today. It also appears that most of the decline may have been in the racehorse-breeding industry, rather than the greyhound-breeding industry. Some of the things we noted were:

- a significant number of racehorse and greyhound breeders indicated they had started their breeding operations as a result of parimutuel racing
- a decline in the membership of some owner/breeder organizations related to the horse industry
- a decline in the number of Kansas-bred racehorses registered with the Kansas-bred animal registry since 1990

About 38% of the racehorse breeders and 56% of the greyhound breeders responding to our surveys indicated they started their breeding operations as a result of parimutuel racing being allowed in Kansas. The information we received from survey respondents is shown below.

**Racehorse and Greyhound Breeder
Responses to Questions about the Impact of Parimutuel Racing
On Their Breeding Business**

	<u>Racehorse Breeders</u>	<u>Greyhound Breeders</u>
In business before parimutuel	58%	26%
Started business because of parimutuel	38%	56%
Didn't influence	4%	16%
No response		2%

What has happened to race animal sales since parimutuel?

Sales Increased	47%	21%
No Change in Sales	18%	11%
Sales Decreased	15%	11%
No response	20%	57%

The fact that a significant portion of the respondents indicated they started breeding race animals as a result of parimutuel racing tends to support the notion that there was some growth in the industry after the law was passed. However, about 15% of the racehorse breeders who responded and 11% of the greyhound breeders indicated that sales of racing animals actually declined as a result of parimutuel. It's difficult to know whether those breeders meant their business declined immediately after parimutuel was allowed, or whether they were referring to the general decline that appears to have taken place since attendance and wagering at the racetracks has declined.

Membership in organizations related to horsemen has declined, while membership in the Kansas Greyhound Association has remained relatively constant. Although people in the breeding industry told us the Kansas Horsemen's Association and the National Greyhound Association were the best sources for complete information about the number of race animal breeders in the State, there are other organizations to which breeders belong. For racehorse breeders, these are the Kansas Quarter Horse Association and the Kansas Thoroughbred Association. For greyhound breeders, it's the Kansas Greyhound Association.

We looked at membership information these groups were able to provide to see if it tended to support the notion that the breeding industries were once larger than they are now. That information is shown in the following table.

Membership in Breeder-Related Organizations 1988-1995			
<u>Year</u>	<u>Kansas Quarter Horse Association</u>	<u>Kansas Thoroughbred Association</u>	<u>Kansas Greyhound Association</u>
1988	769	-	-
1989	649	-	-
1990	739	-	298
1991	730	240	345
1992	479	-	327
1993	423	-	323
1994	344	216	293
1995	271	175	302

The table shows that membership in the Kansas Quarter Horse Association has declined by about 65%, from 769 members in 1988 to 271 members in 1995. Although incomplete, information for the Kansas Thoroughbred Association also seems to show a decline. Membership in the Kansas Greyhound Association has fluctuated around 300-350 members since 1990. The Kansas Greyhound Association only has been in existence since 1990. The other two organizations weren't able to provide enough historical information to show any specific growth in membership after parimutuel racing was allowed.

**Registering Kansas-Bred
Race Animals Means
Additional Winnings
For Owners and Breeders**

The Kansas-bred registries were created in 1987 by the Parimutuel Racing Act (K.S.A. 74-8801). The registry for racehorses is maintained by the Kansas Horsemen's Association; the Kansas Greyhound Association administers the registry for greyhounds. Officials in other states we talked to also had breed registry programs to support the breeding of race animals.

The registration fee for Kansas-bred horses is \$50 in the year they are born, \$250 for one-year-olds, and \$500 for two-year-olds or older horses. For greyhounds, there's a \$10 fee for members of the Kansas Greyhound Association (\$20 for non-members) to register a litter of greyhound puppies as Kansas-bred.

Breeders and owners of racehorses register their animals to be eligible for:

- purse supplements
- Kansas-bred races
- breed awards

Owners of registered Kansas-bred greyhounds also are eligible for purse supplements and breed awards when their animals win.

There are additional incentives for registering Kansas-bred race animals. For example, the Kansas Racing Commission regulations require the Woodlands to hold a race for only Kansas-bred horses every raceday. If seven Kansas-bred horses aren't available on a given day, the race is opened to other horses. There are no designated races for Kansas-bred greyhounds, but Commission regulations require 20% of the greyhounds housed at Kansas racetracks to be Kansas-bred.

Officials we interviewed said that not all owners and breeders of Kansas-bred race animals place their horses or greyhounds in the Kansas-bred registries. Based on our review of racing programs and registry records, about 88% of eligible horses and 99% of eligible greyhounds actually are registered in the Kansas-bred registries.

The number of racehorses registered as being bred in Kansas has declined, but the number of registered greyhounds has remained relatively stable. Both the Kansas Horsemen's Association and the Kansas Greyhound Association maintain registries of Kansas-bred race animals.

Owners pay a fee and register their animals with these organizations, in part so they'll be eligible for additional prize money. This prize money is supplemented by money from the Kansas breeding development funds, which will be discussed later in this report. The accompanying profile provides more detailed information about the Kansas Breed Programs.

We reviewed the number of new animals registered each year to see if there was a trend that might indicate an increase in breeding activity as a result of parimutuel racing. That information is shown in the table on the facing page.

The numbers indicate there was a significant increase in Kansas-bred greyhounds registered from 1990 to 1992, but then the numbers began to level off. The number of Kansas-bred horses registered has declined continuously, from 802 horses in 1990 to 199 horses in 1995.

If you assume the number of animals registered each year bears some relationship to the size of the breeding industry, it would appear the racehorse breeding industry has been larger than it was in 1995. On the other hand, using the same assumption, the greyhound industry appears to have grown and then stabilized.

**Number of Kansas-Bred Racehorses and Greyhounds
Registered with the Kansas-Bred Registries
1990-1995**

<u>Year</u>	<u>Kansas-Bred Racehorses Registered</u>	<u>Kansas-Bred Greyhounds Registered</u>
1990	802	1,354
1991	545	2,588
1992	357	2,812
1993	350	2,506
1994	341	2,788
1995	199	2,612

Conclusion

Currently, it appears that racehorse and greyhound breeders annually sell about \$1.4 million worth of race animals to race at Kansas racetracks established since the passage of the Parimutuel Racing Act. About \$933,000 of that amount is for racehorses, and about \$473,000 is for greyhounds. Breeders say both industries grew about 30% as a result of parimutuel racing, but have declined in recent years because of the drop in attendance and wagering at Kansas racetracks. It does appear that the industries were once somewhat larger, and that a number of people did start breeding businesses because of parimutuel racing. Of the two industries, it appears the racehorse breeding industry has been hardest hit by declines in attendance and wagering at Kansas racetracks.

What Economic Impact Has Racing Had on Kansas Agribusinesses Such as Food Suppliers and Veterinarians?

Although parimutuel racing undoubtedly has had a positive impact on ancillary agribusinesses in Kansas—such as food suppliers, trainers, and veterinarians—it's difficult to know the magnitude of that impact because good information doesn't exist that would allow us to determine what was being spent with these businesses before parimutuel racing came into existence. Based on information supplied by racehorse and greyhound owners and breeders and by kennel operators, we estimated they spent \$15.2 million with Kansas agribusinesses in 1995 for goods and services related to the raising, training, and racing of race animals. These and related findings will be discussed in more detail in the sections that follow.

We Estimate that the Economic Benefit to Kansas Agribusinesses Supplying Goods and Services to Breeders and Owners of Race Animals As a Result of Having Parimutuel Racing in Kansas Was About \$15.2 Million in 1995

The racing industry has an economic impact on the businesses that supply goods and services to owners and breeders of racing animals in three ways.

- first, the money breeders spend while the racehorses or greyhounds are being raised and trained in Kansas, regardless of whether they are later sold to somebody who takes them out-of-State to race
- second, the money racehorse and greyhound owners spend to keep their animals in Kansas while they are racing at Kansas racetracks, regardless of whether those animals were bred in Kansas or bred in some other state
- third, money spent for racehorses that remain in Kansas during the non-racing season

To capture information for the first point, we surveyed members of the Kansas Horsemen's Association and Kansas members of the National Greyhound Association. We asked how much they spent annually for veterinary services, food, animal training, animal transportation, and other goods and services associated with raising and training race animals in Kansas. We also asked what percent of those moneys were spent with Kansas-based suppliers. In this part of our analysis, we used only those racehorses sold that race in Kansas and all greyhounds raised to race in Kansas, including those that breeders kept as their own race animals.

To capture information for the second point, we surveyed the owners of racehorses that run at the Woodlands Race Track and kennel operators at each of the three racetracks in Kansas. We asked them to itemize costs associated with keeping a race animal at the racetrack. Again, we asked what percentage of the money spent went to Kansas-based suppliers. Appendix C shows the survey results from racehorse owners, and Appendix D shows the results from contracted kennel operators.

As shown in the table below, we then used that information to estimate the economic impact parimutuel racing has had on Kansas agribusinesses that supply goods and services to breeders and owners of race animals. More detailed information about our methodology can be found in Appendix E.

**Estimated 1995 Economic Impact on Kansas Agribusiness
As a Result of Having Parimutuel Racing in Kansas**

	<u>Impact From Breeding Race Animals</u>	<u>Impact From Racing the Animals</u>	<u>Total Economic Impact</u>	<u>Percent of Total</u>
Racehorses	\$4,602,143	\$1,839,630	\$6,441,773	45%
Greyhounds	<u>\$5,253,272</u>	<u>\$2,677,730</u>	<u>\$7,931,002</u>	<u>55%</u>
Total	\$9,855,415	\$4,517,360	\$14,372,775	100%

From the information we were able to gather, it appears the annual economic impact on associated Kansas agribusinesses was about \$14.4 million in 1995. About 55% of that amount comes from the greyhound industry, and about 45% from the racehorse industry.

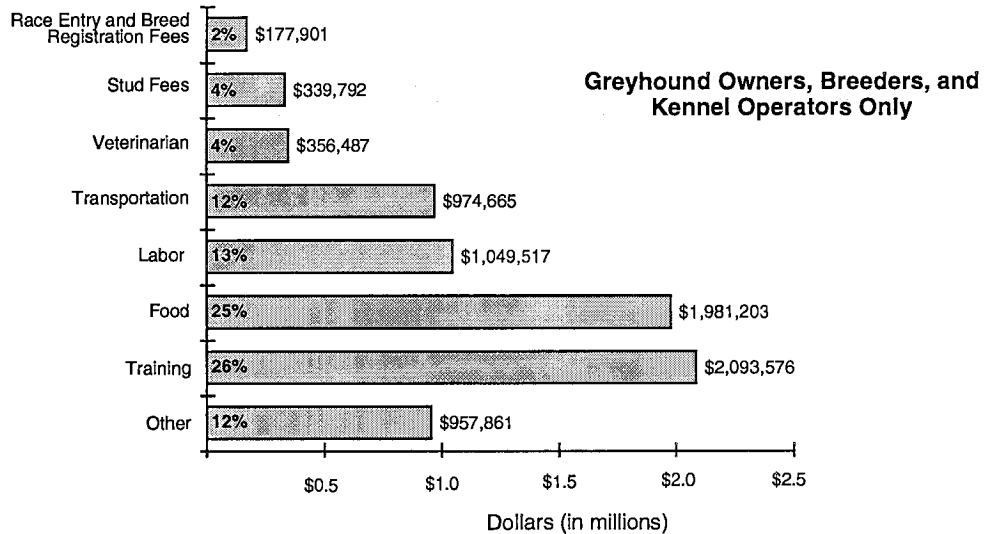
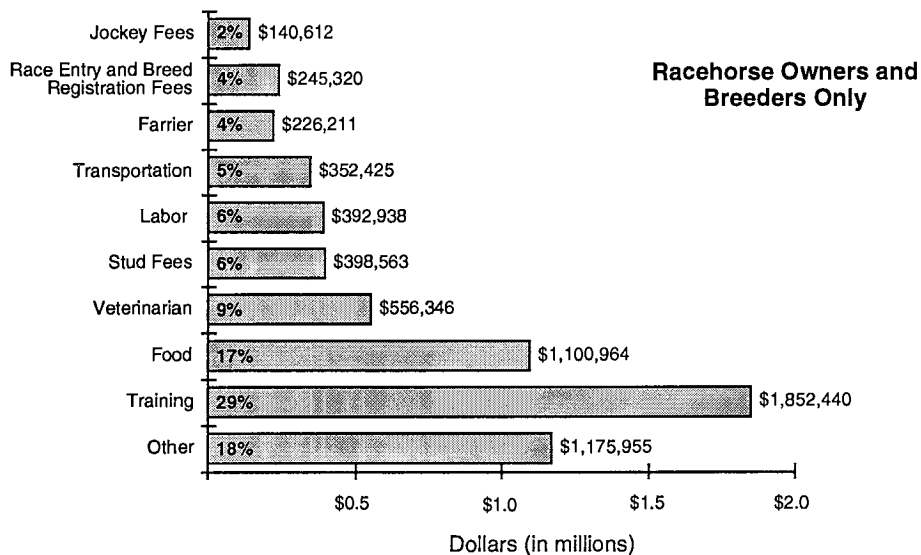
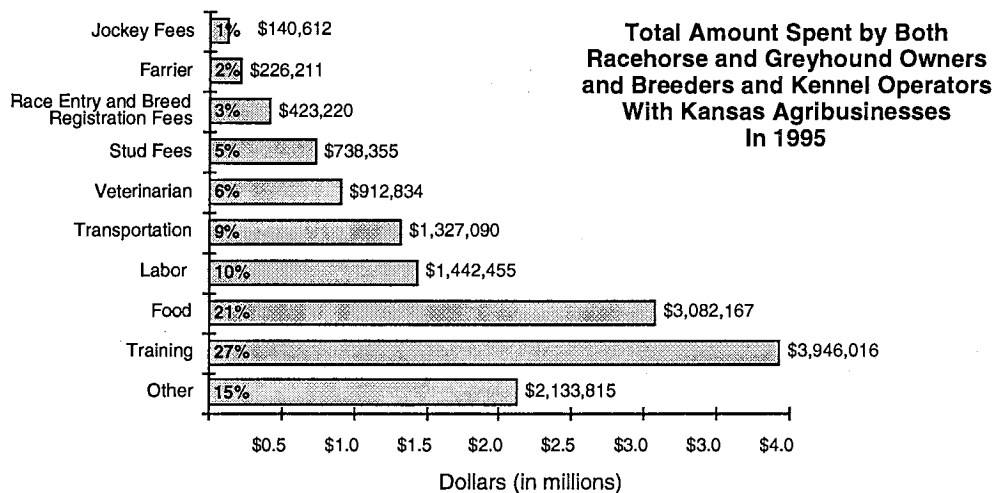
As mentioned earlier in this report, we weren't able to estimate the full impact for earlier years because of a lack of information about the size of the breeding industries. However, we were able to provide estimates of the economic impact on Kansas agribusiness in past years while the race animals were at the racetracks in Kansas. That information is shown in Appendix E.

The numbers shown in the table don't include the estimated economic impact from money spent for feed, veterinary supplies, and the like while a horse is "at rest" in Kansas between racing seasons. Racehorses usually race about nine months out of the year. Some race longer and some shorter, however, for the time they are not on the racing circuit they are "at rest." Generally for those racehorses with Kansas owners, the "at rest" time is spent in Kansas. Based on information provided by racehorse owners answering our survey, we estimated an additional \$788,000 was spent in Kansas for goods and services related to racehorses at rest.

Most of the Money Racehorse and Greyhound Owners, Breeders, and Kennel Operators Spent With Kansas Agribusinesses in 1995 Went for Animal Training and Food

In our survey, we asked racehorse and greyhound breeders, owners, and kennel operators to break their 1995 expenditures into a number of different categories. The figures on the following page show that information.

The figures show that the largest expenditure categories for both the racehorse and greyhound industries were animal training and food. Together they spent about \$3.9 million for training and \$3.1 million to feed the animals. These two cate-



gories accounted for nearly half of the total expenditures in 1995. Significant amounts also were spent for labor.

Kansas Racehorse and Greyhound Breeders We Surveyed Expressed Concerns About Breeding and Racing in Kansas

In 1995, there were an estimated 364 racehorse breeders in Kansas. About 18% of those breeders responded to our survey.

Based on our survey results, most of the State's racehorse breeders have fairly small operations. Almost 85% of breeders responding to our survey spent less than \$50,000 on their breeding businesses in 1995. About 10% reported spending between \$50,000 and \$100,000; fewer than 5% spent more than \$100,000. The average racehorse breeder who responded spent about \$31,000 in 1995 on his or her breeding business, and sold three racehorses.

Comments we received from racehorse breeders and owners dealt with concerns about the management of parimutuel racing in Kansas, moving their operations out of State, and support of gambling at the racetracks. The following are some examples of the comments we received:

- "There have not been enough opportunities to race because of the way the tracks are managed."
- "The predicament the Woodlands is in has caused the interest in potential racehorses to drop off almost completely. A Kansas stallion, no matter how good his bloodlines, isn't worth much for race breeding in this State."
- "The introduction of parimutuel racing has pretty much driven me out of racing. The 'on again-off again' status at Eureka and the lack of two-year-old races at the Woodlands has made it tough on quarter horse racing and breeding."
- "If Woodlands does not run horses, I will move my operation to Oklahoma."
- "I have been racing in Kansas for 30 years. If we do not have racing in Kansas, I will have to spend my money out of State."
- "We raced many more horses in 1993 and 1994 than we do now. Purses have declined to the point that we are forced to go to Kentucky, Oklahoma, and Texas to run for more money."
- "Install slot machines at Woodlands racetrack year round. This way you can compete with Missouri riverboats and still have an excellent agriculture base and racing program. Don't let the Legislature sit around and let the Kansas wind blow up their butts. They need to act now."

In 1995, there were an estimated 225 greyhound breeders in Kansas. About 26% of those breeders responded to our survey.

A mix of large and small greyhound breeders responded. More than 75% of them reported spending less than \$50,000 in 1995, 14% reported spending \$50,000-\$100,000, and about 11% said they spent more than \$100,000. The average greyhound breeder responding to the survey spent about \$46,000 in 1995, and sold an average of two greyhounds.

Comments we received from greyhound breeders dealt with the same types of concerns racehorse breeders and owners had raised. The following are some examples of the comments we received:

- "The economic plight has caused us to reduce the number of dogs we raise and this will continue unless there is an opportunity to again have this business be self-sustaining."
- "I will be moving to Florida without changes. The industry in Kansas needs help, it is dying at a fast rate. The tracks pay nothing."
- "We were running at the Woodlands. Purses went down so bad, we moved our racing operation to Colorado."
- "The Legislature in this State has stood by and watched our industry steadily decline since the riverboats in Missouri have opened. They are watching a \$200 billion plus horse and greyhound industry go down the drain."
- "Ninety-five percent of my race kennel expenses were kept in Kansas. With the steady decline in handles and the expense of operating a race kennel, unless we get some quick relief, I will have no choice but to move my kennel operation out of State."
- "I have found track management in Kansas to be sub-par compared to the other six states that I race in."
- "States such as Iowa and Texas have such large financial incentives for Iowa- and Texas-bred dogs, that a 'Kansas-bred' is at a distinct disadvantage not only financially, but kennel owners at those tracks see a Kansas-bred as virtually unattractive to race in their kennel, and sometimes Kansas-bred dogs are very hard to place with those out-of-State kennels."

Conclusion

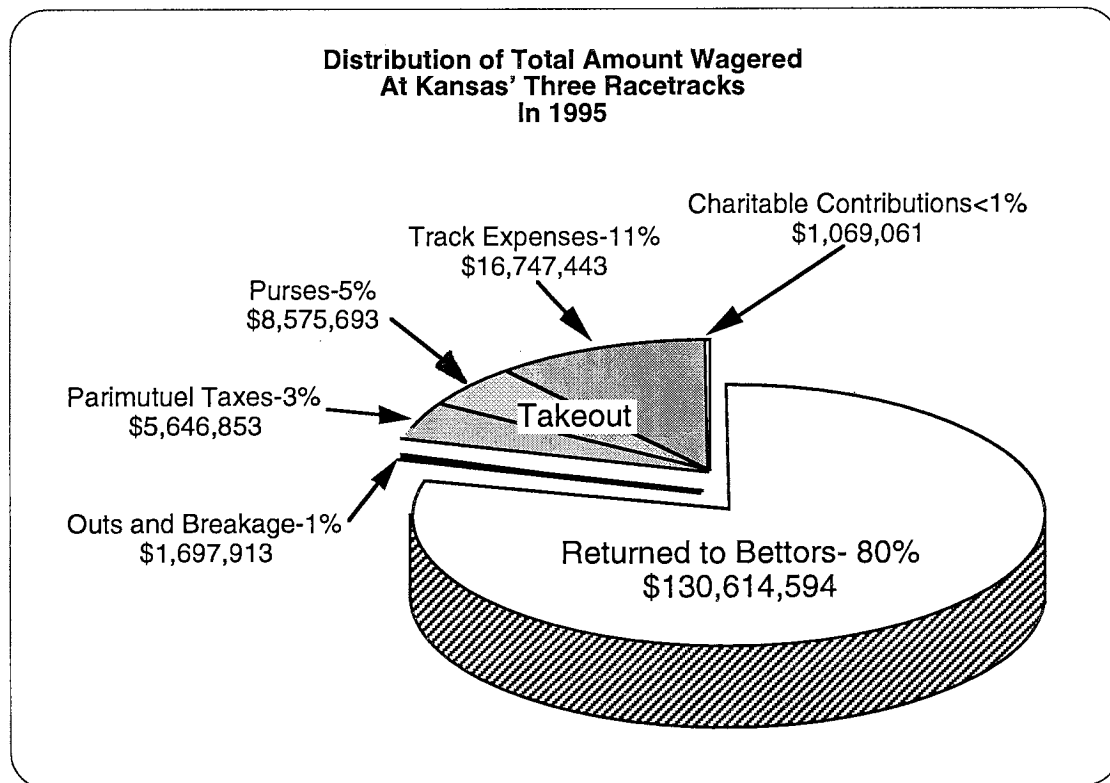
Currently, it appears that having parimutuel racing in Kansas creates about a \$14 million to \$15 million a year economic benefit for Kansas businesses that supply goods and services to breeders and owners of race animals. The largest economic beneficiaries appear to be animal trainers and food suppliers. If Kansas racetracks were to go out of business, these individuals would be among those who would likely suffer the greatest economic loss.

How Much Of the Prize Money Awarded at Kansas Tracks Ends Up Going to Kansas Residents Who Own Racing Animals?

About \$8.6 million was paid out in prizes for winning horses and greyhounds racing at Kansas racetracks. About \$4 million, or 47% of that prize money, was awarded for racehorses and greyhounds owned by Kansans. In addition to prize money, Kansas owners and breeders also receive money from purse supplements and breed awards from the Kansas Horse Breeding Development Fund, and from the Kansas Greyhound Breeding Development Fund. During 1995, racehorse and greyhound owners and breeders received nearly \$1 million in additional moneys from these funds. These additional prizes brought the total amount paid to Kansas residents to slightly more than \$5 million. These and related findings are discussed below.

In 1995, About \$4 Million, or 47% of the Total Prize Money Paid Out at Kansas Racetracks, Went To Kansas Residents

During 1995, patrons at the Woodlands Race Track, Wichita Greyhound Park, and Camptown Greyhound Park wagered more than \$164 million on greyhound and horse races. About 5% of that money, or about \$8.6 million, went to pay purses for winning greyhounds and horses at those tracks. The accompanying chart provides a breakdown of how moneys wagered at Kansas racetracks were used in 1995, and shows the amount going for prize money.



About \$6.8 million of the total purses were paid for winning greyhounds and the remaining \$1.8 million was paid for winning horses. Only a portion of that prize money was paid on behalf of winning animals owned by Kansas residents, as shown in the accompanying table.

**Kansas Residents Were Paid More Than \$4 Million
In Prize Money In 1995
(amounts shown in millions)**

	<u>Racehorses</u>	<u>Greyhounds</u>	<u>Total</u>
Total Purses Paid	\$1.8	\$6.8	\$8.6
Purses Paid to Kansas Residents	\$0.8	\$3.2	\$4.0
Percent of Total Purses	47.0%	47.0%	47.0%

(a) The totals shown in the table are for the Woodlands Race Track, Wichita Greyhound Park, and Camptown Greyhound Park only. Officials at Eureka Downs indicated they paid out about \$123,000 in prize money in 1995, and estimated that \$88,000 of that amount went to Kansas residents.

In reviewing these figures, the reader needs to be aware that the owners of these animals don't necessarily receive that full amount directly. For racehorses, each owner has an account maintained by the racetrack. Prize money is deposited into that account, and expenses associated with jockey fees, pictures, and membership fees related to an elected horsemen's group are paid from those owner accounts. At the end of the racing season, the owner receives the balance in the account after all the horse's expenses have been paid.

As mentioned earlier, most greyhounds running at Kansas racetracks are leased to contracted kennel operators at the racetracks. The greyhound owners and the kennel operators negotiate an agreement that covers the animals' expenses during the racing season. According to industry officials, most of these agreements call for about 65% of a greyhound's winnings to go to the kennel owner, and 35% to go to the owner. The track pays the kennel operators and the owners weekly or monthly, based on the agreements they have on file with the track.

**Kansas Owners and Breeders also Received About \$1 Million
From Purse Supplements and Breed Awards
When Kansas-Bred Race Animals Won at the Tracks**

Another way winning race animals can generate money for Kansas residents is through programs established to encourage breeding of race animals in Kansas. The Kansas Legislature established two funds for this purpose—the Kansas Horse Breeding Development Fund and the Kansas Greyhound Breeding Development Fund. By law, part of the money wagered at Kansas racetracks goes into these two funds.

Among other things, the moneys from these funds are used to provide purse supplements to Kansas animal owners and breed awards to Kansas breeders. Each time a Kansas-bred animal wins at the track, its owner and breeder receive points that count toward additional prize moneys in the form of purse supplements and breed awards that are paid out of the breeding development funds. For example, the owners and breeders of winning racehorses in 1995 were paid between \$4 and \$7 per point earned by their winning horses.

The accompanying table shows the amounts Kansas residents collected from purse supplements and breed awards in 1995.

**In 1995, Kansas-Bred Race Animals Earned about \$1 Million
From Purse Supplements and Breed Awards**

	<u>Amount Paid Out</u>
Purse Supplements	
Racehorse Owners	\$197,502
Greyhound Owners	<u>\$175,118</u>
Total	\$372,620
Breed Awards	
Racehorse Breeders	\$256,410
Greyhound Breeders	<u>\$365,000</u>
Total	\$621,410

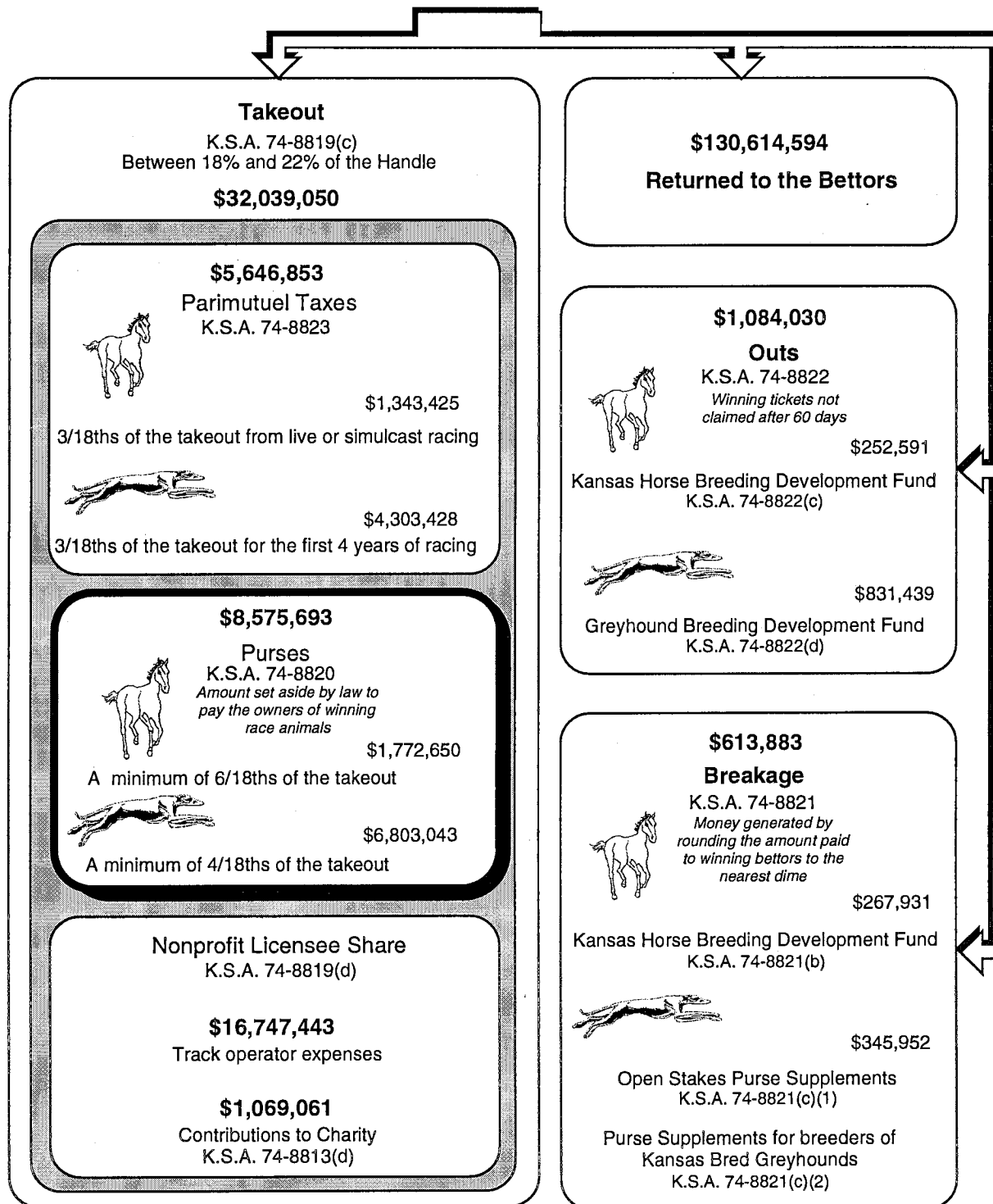
Officials from owner/breeder organizations told us the amount of money available for purse supplements and breed awards has declined along with the attendance and wagering at Kansas racetracks.

**Owners and Breeders of Kansas Race Animals Told Us the
Demand for Kansas-Bred Race Animals Is Declining, Because the
Prize Money Paid in Kansas Isn't as Attractive as in Other States**

The prize money paid at Kansas racetracks is directly linked to attendance and the amount of money wagered at the tracks. The chart on the following page shows how the money wagered at Kansas racetracks was distributed for various purposes—including prize moneys—in 1995.

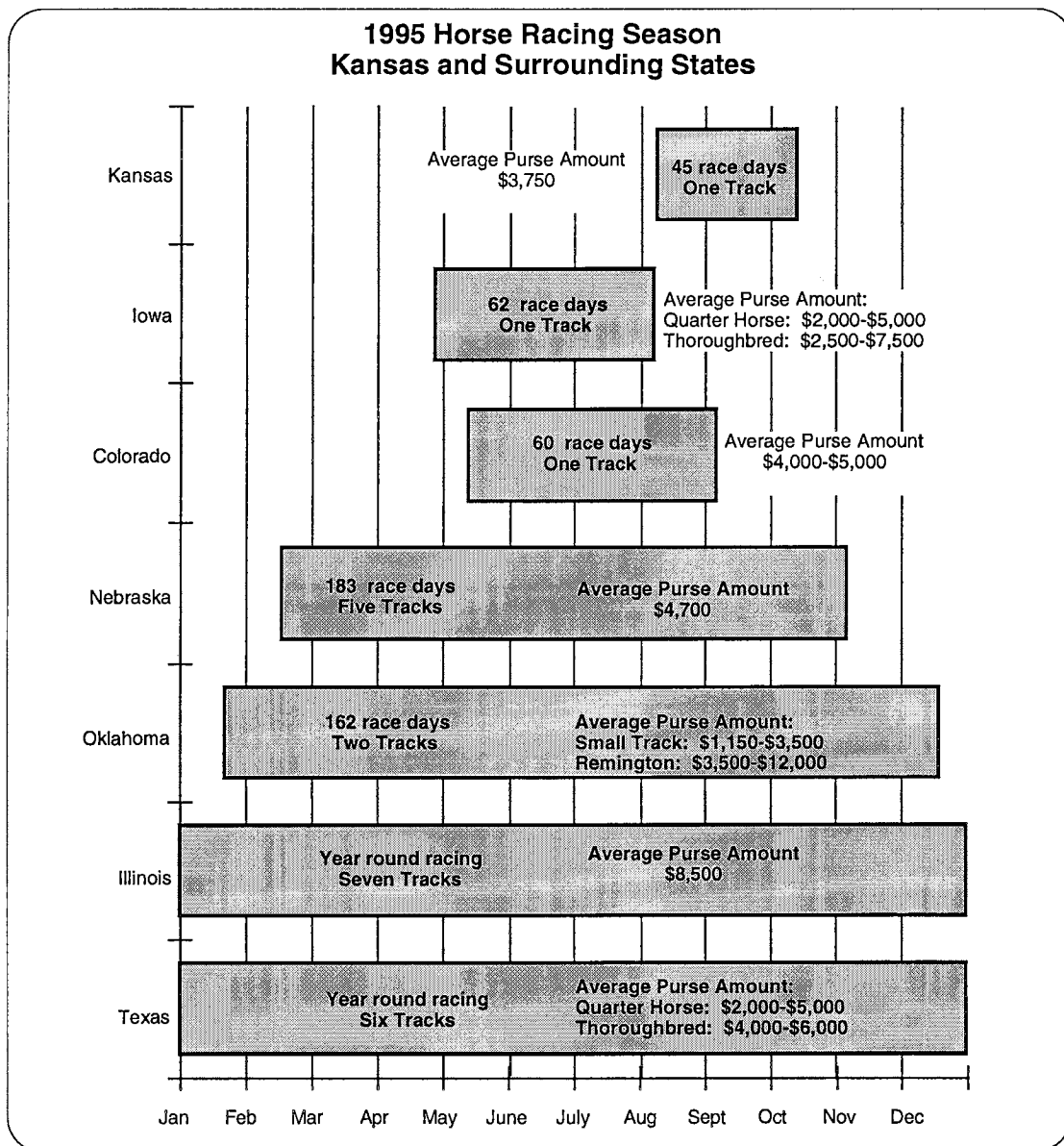
As less total money is wagered at Kansas tracks, less money is available for all the individual categories shown on the chart, including purses, purse supplements, and breed awards. Officials told us that purse supplements paid at Kansas racetracks encourage people to buy Kansas-bred animals to race at Kansas tracks. Breed awards encourage people to enter into the breeding industry. As the money available for these items has declined, they said, so has the incentive to breed animals in Kansas.

Total Amount Wagered in 1995 = \$164,351,557



Officials also told us that some breeders in Kansas take their animals to be bred in other states. Because other states are offering more attractive prize money and purse supplements, breeders are increasing the number of animals they breed in other states, while decreasing the number bred in Kansas.

Something Kansas has done to try to increase the size of the purses for horses is to shorten its horseracing season. The idea is that, by having fewer race days, crowds likely will be larger and more money will be wagered on any given day, thereby making more money available for purses. However, some people who race horses aren't happy with the shorter season. They told us Kansas already has a much shorter race season than nearby states, and that having such a short racing season does not make it worthwhile for them to race their horses in Kansas. The accompanying graphic compares horseracing seasons and average purse amounts in Kansas and nearby states.



Conclusion

Kansas residents received slightly more than \$5 million during 1995 as a result of animals they owned or bred winning races at Kansas tracks. They received about \$4 million of that money from purses at the track, and about \$1 million from purse supplements and breed awards made from the Kansas Horse Breeding Development Fund and the Kansas Greyhound Breeding Development Fund. As the amount wagered in Kansas declines, there will be a corresponding decline in the amount of money available for purses, purse supplements, and breed awards.

APPENDIX A

Summary of Survey Responses from Racehorse Breeders

On January 12, 1996, we mailed surveys to individuals with breeding horses registered with the Kansas Horsemen's Association. The survey was mailed to the entire registration list, excluding any duplicate names or addresses. In all, 383 surveys were mailed, but 26 of those were returned as undeliverable. Of the 357 surveys remaining, we had a response rate of 21.0% with 75 surveys returned for analysis. Of the 75 returned surveys, nine were unusable because the information provided was incomplete, and we were unable to contact the survey respondent. This appendix is a summary of the responses from the 66 surveys returned by racehorse breeders that we included in this audit.

Horse Breeders Survey

The Legislative Post Audit Committee of the Kansas Legislature has directed the Legislative Division of Post Audit to conduct a performance audit on the impact of parimutuel racing on the Kansas horse and dog industries. One of the main objectives of the audit is to determine the economic impact to the breeding industry as well as ancillary businesses as a direct result of parimutuel racing in Kansas. To help us meet this objective and determine the costs associated with the breeding of race animals, we are conducting a survey of race horse breeders in Kansas.

We would appreciate it if you would take the time to answer the following questions. The returned surveys will be included in the audit working papers which will become part of a public document once the audit is completed. Please return the completed survey in the enclosed, self-addressed, postage-paid envelope (or fax the completed survey to the attention of Trish Pfannenstiel at 913-296-4482) by **Friday, January 26, 1996**. If you have any questions related to the survey, please contact Trish Pfannenstiel or Scott Brunner at Legislative Post Audit, 8th and Jackson, Topeka, KS 66612 or phone (913) 296-3792.

1. Name: _____ Phone# _____

2. What were the **total costs in 1995** for your race horse breeding operations including stallion fees, breeding stock, veterinary services, food, training, and the like? Do not include any costs associated with horses that are not involved in the breeding of race animals.

\$2,041,637

3. Please break down the total costs in 1995 for your race horse breeding operation in Question 2 above for the various expenses listed:

\$152,955 Veterinary services

\$357,434 Food - including food products produced by you or purchased from someone other than a retailer, such as a neighboring farmer

\$548,956 Training of the animal -including training done by you at your facility or by someone or somewhere else

\$35,961 Breed registration fees

\$176,814 Stallion/stud fees

\$145,272 Other labor costs

\$58,557 Farrier

\$156,345 Transportation

\$409,343 Other (list) •Vehicle Expenses
 •Racing and Building Supplies
 •Purchasing Horses

4. About what percent of the dollars spent on the items listed in Question 3 above went to suppliers in Kansas? 80%

5. About how much does the total cost associated with your race horse breeding operation shown in Question 2 generally increase from year to year? **\$0-\$30,000**

6. For each of the following years, please provide numbers and price estimates that are as accurate as possible. If you weren't in operation during any year listed, place a zero (0) in the blank.

Year	Total Number of Horses You Sold	Total Number of <u>RACE</u> Horses You Sold	Average Selling Price per <u>RACE</u> Horse
1985	<u>334</u>	<u>160</u>	<u>\$4,718</u>
1987	<u>266</u>	<u>125</u>	<u>\$3,152</u>
1989	<u>281</u>	<u>123</u>	<u>\$2,730</u>
1991	<u>279</u>	<u>140</u>	<u>\$2,728</u>
1993	<u>273</u>	<u>162</u>	<u>\$2,211</u>
1995	<u>195</u>	<u>128</u>	<u>\$2,585</u>

7. Since 1989, about what percent of the race horses you sell annually race at the Woodlands? 51 %

8. Did you start your breeding operation as a result of parimutuel racing in Kansas?
(Check only one)

- ☒ **38** I had a breeding operation before Kansas adopted parimutuel racing in 1986.
- ☒ **25** Yes, I started my breeding operation because of parimutuel racing in Kansas.
- ☒ **3** No, parimutuel racing in Kansas did not influence my decision to start a breeding operation in Kansas.

9. How has the number of race horses you sell annually changed since parimutuel racing came to Kansas? (Check only one) **13 - no response**

- ☒ **31** The number of race horses I sell annually has **increased**.
- ☒ **12** There has been **no change** in the number of race horses I sell annually.
- ☒ **10** The number of race horses I sell annually has **decreased**.

The staff of Legislative Post Audit wishes to thank you in advance for your cooperation in this matter by completing this survey. If you wish to make any comments regarding the impact of parimutuel racing on the Kansas horse and dog industries, please attach additional pages. Please return the completed survey in the enclosed, self-addressed, postage-paid envelope or fax the completed survey to the attention of Trish Pfannenstiel at 913-296-4482.

APPENDIX B

Summary of Survey Responses from Greyhound Breeders

On January 12, 1996, we mailed surveys to the current Kansas members of the National Greyhound Association. In all, 382 surveys were mailed, but one of those was returned as undeliverable. We had a response rate of 27.6%, with 105 surveys being returned for analysis. Of the 105 returned surveys, 43 respondents indicated they were not greyhound breeders, and five of the surveys were unusable, incomplete, or we were unable to contact the survey respondent. This appendix is a summary of the responses from the 100 surveys returned by greyhound breeders that we included in this audit.

Greyhound Breeders Survey

The Legislative Post Audit Committee of the Kansas Legislature has directed the Legislative Division of Post Audit to conduct a performance audit on the impact of parimutuel racing on the Kansas horse and dog industries. One of the main objectives of the audit is to determine the economic impact to the breeding industry as well as ancillary businesses as a direct result of parimutuel racing in Kansas. To help us meet this objective and determine the costs associated with the breeding of race animals, we are conducting a survey of greyhound breeders in Kansas.

We would appreciate it if you would take the time to answer the following questions. The returned surveys will be included in the audit working papers which will become part of a public document once the audit is completed. Please return the completed survey in the enclosed, self-addressed, postage-paid envelope (or fax the completed survey to the attention of Trish Pfannenstiel at 913-296-4482) by **Friday, January 26, 1996**. If you have any questions related to the survey, please contact Trish Pfannenstiel or Scott Brunner at Legislative Post Audit, 8th and Jackson, Topeka, KS 66612 or phone (913) 296-3792.

1. Name: _____ Phone# _____

☐ If you do not breed greyhounds in Kansas, check this box and return the survey.

2. What were the **total costs in 1995** for your greyhound breeding operations including stud fees, breeding stock, veterinary services, food, training, and the like? Do not include any costs associated with greyhounds that are not involved in the breeding of race animals.

\$2,641,042

3. Please break down the total costs in 1995 for your greyhound breeding operation in Question 2 above for the various expenses listed:

\$140,621 Veterinary services

\$720,924 Food - including food products produced by you or purchased from someone other than a retailer, such as a neighboring farmer

\$435,052 Training of the animal -including training done by you at your facility or by someone or somewhere else

\$37,895 Breed registration fees

\$170,828 Stud fees

\$490,005 Other labor costs

\$117,125 Transportation

\$528,592 Other (list) •*Racing Supplies*

•*Utilities*

•*Maintenance and Construction*

4. About what percent of the dollars spent for the items listed in Question 3 above went to suppliers located in Kansas? **92%**

5. About how much does the total cost associated with your greyhound breeding operation listed in Question 2 generally increase from year to year? \$0 - \$32,000
6. For each of the following years, please provide numbers and price estimates that are as accurate as possible. If you weren't in operation during any year listed, place a zero (0) in the blank.

Year	Total Number of Greyhounds You Sold	Total Number of <u>RACING</u> Greyhounds You Sold	Average Selling Price per <u>RACING</u> Greyhound
1985	<u>40</u>	<u>38</u>	\$ <u>\$2,621</u>
1987	<u>41</u>	<u>39</u>	<u>\$2,769</u>
1989	<u>79</u>	<u>54</u>	<u>\$2,800</u>
1991	<u>81</u>	<u>57</u>	<u>\$1,954</u>
1993	<u>136</u>	<u>121</u>	<u>\$3,283</u>
1995	<u>113</u>	<u>99</u>	<u>\$3,560</u>

7. Since 1989, about what percent of the greyhounds you sell annually race at the Kansas racetracks? 34%

8. Did you start your breeding operation as a result of parimutuel racing in Kansas?
(Check only one) *no response - 1*

- ☒ 15 I had a breeding operation before Kansas adopted parimutuel racing in 1986.
- ☒ 32 Yes, I started my breeding operation because of parimutuel racing in Kansas.
- ☒ 9 No, parimutuel racing in Kansas did not influence my decision to start a breeding operation in Kansas.

9. How has the number of greyhounds you sell annually changed since parimutuel racing came to Kansas? (Check only one) *no response - 33*

- ☒ 12 The number of greyhounds I sell annually has **increased**.
- ☒ 6 There has been **no change** in the number of greyhounds I sell annually.
- ☒ 6 The number of greyhounds I sell annually has **decreased**.

The staff of Legislative Post Audit wishes to thank you in advance for your cooperation in this matter by completing this survey. If you wish to make any comments regarding the impact of parimutuel racing on the Kansas horse and dog industries, please attach additional pages. Please return the completed survey in the enclosed, self-addressed, postage-paid envelope or fax the completed survey to the attention of Trish Pfannenstiel at 913-296-4482.

APPENDIX C

Summary of Survey Responses from Racehorse Owners

On January 12, 1996, we mailed surveys to a sample of racehorse owners licensed by the Kansas Racing Commission. The survey was mailed to every third name on the mailing list provided by the Racing Commission. In all, 404 surveys were mailed, but eight surveys were returned as undeliverable. Of the 396 remaining surveys, we had a response rate of 14.4% with 57 surveys returned for analysis. Of the returned surveys, 10 were unusable because the information provided was incomplete, we were unable to contact the respondent, or they provided information for horses at Eureka Downs. This appendix is a summary of the responses from the 47 racehorse owner surveys included in this audit.

Race Horse Owner Survey

The Legislative Post Audit Committee of the Kansas Legislature has directed the Legislative Division of Post Audit to conduct a performance audit on the impact of parimutuel racing on the Kansas horse and dog industries. One of the main objectives of the audit is to determine the economic impact of dog and horse racing on ancillary industries such as feed suppliers, veterinarians, training, and the like. To help us meet this objective, we are conducting a survey of race horse owners in Kansas.

We would appreciate it if you would take the time to answer the following questions. The returned surveys will be included in the audit working papers which will become part of a public document once the audit is completed. Please return the completed survey in the enclosed, self-addressed, postage-paid envelope (or fax the completed survey to the attention of Trish Pfannenstiel at 913-296-4482) by **Friday, January 26, 1996**. If you have any questions related to the survey, please contact Trish Pfannenstiel or Scott Brunner at Legislative Post Audit, 8th and Jackson, Topeka, KS 66612 or phone (913) 296-3792.

1. Name: _____ Phone# _____

2. What were your **total costs** to house your race horses at the Woodlands during the **1995 racing season**? \$272,931

3. Please break down your total costs to house your race horses at the Woodlands in 1995 in Question 2 above for the various expenses listed:

\$31,388 Veterinary services

\$43,805 Food - including food products produced by you or purchased from someone other than a retailer, such as a neighboring farmer

\$91,245 Training of the animal - while the horse is at the track

\$24,370 Race Entrance Fees

\$20,861 Jockey Fees

\$13,978 Farrier services - while the horse is at the track

\$9,714 Other Labor Costs - including any maintenance charges

\$37,570 Other (list) •*Racing Supplies*
 •*Travel and Lodging*
 •*Exercise Riders*

4. About what percent of the dollars spent on the items listed in Question 3 above went to suppliers located in Kansas? 83%

5. About how much does the total cost associated with housing your race horses at the Woodlands (shown in Question 2 above) generally increase from year to year? \$0 - \$5,150

6. For each of the following years, please provide numbers that are as accurate as possible.

Year	Total Number of Race Horses You Housed at the Woodlands during the Racing Season	Number of Race Horses You Housed at the Woodlands that were Bred in Kansas
1989	<u>60</u>	<u>39</u>
1991	<u>79</u>	<u>48</u>
1993	<u>105</u>	<u>51</u>
1995	<u>149</u>	<u>70</u>

7. When your horses are resting "at rest" or grazing (laid up) between race seasons, about how much of that time is spent in Kansas?

average = 114 days

8. On average, what was the cost per day for your race horses "at rest" in Kansas (including those items listed in Question 3)?

<u>\$7</u>	1989	<u>\$7</u>	1990	<u>\$7</u>	1991	<u>\$7</u>	1992
<u>\$8</u>	1993	<u>\$9</u>	1994	<u>\$10</u>	1995		

COMMENTS:

The staff of Legislative Post Audit wishes to thank you in advance for your cooperation in this matter by completing this survey. If you wish to make any additional comments regarding the impact of parimutuel racing on the Kansas horse and dog industries, please attach additional pages. Please return the completed survey in the enclosed, self-addressed, postage-paid envelope or fax the completed survey to the attention of Trish Pfannenstiel at 913-296-4482q.

APPENDIX D

Summary of Survey Responses from Contracted Kennel Operators

On January 12, 1996, we mailed surveys to all contracted kennel operators at the Woodlands Race Track, Wichita Greyhound Park, and Camptown Greyhound Park in 1995. The Kansas Racing Commission provided the names and addresses of kennel operators licensed to operate at each race track. If an operator had a kennel at more than one track, we sent surveys for all of the kennels they operated. In all, 54 surveys were mailed to 43 kennel operators, but five surveys were returned as undeliverable. Of the 49 remaining surveys, 23 were returned for analysis, providing a response rate of 47.0%. This appendix is a summary of the responses from the returned surveys of the contracted kennel operators.

Kennel Operator Survey

The Legislative Post Audit Committee of the Kansas Legislature has directed the Legislative Division of Post Audit to conduct a performance audit on the impact of parimutuel racing on the Kansas horse and dog industries. One of the main objectives of the audit is to determine the economic impact of dog and horse racing on ancillary industries such as feed suppliers, veterinarians, training, and the like. To help us meet this objective, we are conducting a survey of all contracted kennels at Kansas race tracks.

We would appreciate it if you would take the time to answer the following questions. The returned surveys will be included in the audit working papers which will become part of a public document once the audit is completed. Please return the completed survey in the enclosed, self-addressed, postage-paid envelope (or fax the completed survey to the attention of Trish Pfannenstiel at 913-296-4482) by **Friday, January 26, 1996**. If you have any questions related to the survey, please contact Trish Pfannenstiel or Scott Brunner at Legislative Post Audit, 8th and Jackson, Topeka, KS 66612 or phone (913) 296-3792.

1. Name: _____ Phone# _____

Kennel: _____

2. What were your **total costs** to house greyhounds at the Kansas race track **during the 1995 racing season?** \$2,182,554

3. Please break down your total costs to house your greyhounds in 1995 in Question 2 above for the various expenses listed:

\$62,582 Veterinary services

\$446,026 Food - including food products produced by you or purchased from someone other than a retailer, such as a neighboring farmer

\$1,001,092 Training of the animal - while the dog is at the race track

\$83,566 Race Entrance Fees

\$61,010 Other Labor Costs - including any maintenance charges

\$528,278 Others (list)

- Utilities
- Travel and Lodging
- Transporting Dogs
- Commissions to Dog Owners
- Schooling Fees

3. About what percent of the dollars spent on the items listed in Question 3 above went to suppliers located in Kansas? 93%

4. About how much does the total cost associated with housing greyhounds at the Kansas race track generally increase from year to year? \$ 2,000 - \$27,210

5. For each of the following years, please provide numbers that are as accurate as possible.

Year	Total Number of Greyhounds You Housed during the Racing Season	Number of Greyhounds You Housed that were Bred in Kansas
1989	<u>424</u>	<u>205</u>
1991	<u>577</u>	<u>330</u>
1993	<u>776</u>	<u>438</u>
1995	<u>1961</u>	<u>1073</u>

COMMENTS:

The staff of Legislative Post Audit wishes to thank you in advance for your cooperation in this matter by completing this survey. If you wish to make any additional comments regarding the impact of parimutuel racing on the Kansas horse and dog industries, please attach additional pages. Please return the completed survey in the enclosed, self-addressed, postage-paid envelope or fax the completed survey to the attention of Trish Pfannenstiel at 913-296-4482.

APPENDIX E

Estimate Methodology

Throughout the audit, estimates were made about the impact parimutuel racing has had on Kansas racehorse and greyhound breeders and ancillary agri-businesses that supply goods and services for race animals in the State. This appendix explains how those estimates were generated based on information we received from surveys of racehorse and greyhound breeders, racehorse owners, and contracted kennel operators at the three race tracks in Kansas.

Page 7: Estimate of the number of Kansas-bred animals sold to race in Kansas and the revenues generated from those sales.

From information provided by the Kansas Horsemen's Association, we determined that there was a total of 364 racehorse breeders in the State in 1995. Officials from the Kansas Greyhound Association estimated that there was a total of 225 greyhound breeders in Kansas in that same year.

We asked racehorse and greyhound breeders to report the number of race animals they sold in 1995, the average selling price for a racehorse or greyhound, and what percent of the race animals they sold stayed and raced in the State.

With information provided by the breeders who answered our survey and information about the total population of breeders in the State provided by the Associations, we estimated the number of race animals sold that raced in Kansas in 1995 and the amount of money generated from the sale of those race animals.

The table below shows how this information was calculated.

	Average # of Animals Sold in KS from surveys	Total # of Breeders In the State from Assoc.	Estimated # of Race Animals Sold in KS	% of Animals Sold Racing in KS from surveys	Estimated # of Animals Sold That Race in Kansas	Average Selling Price per Animal from surveys	Total Revenues From the Sale of Race Animals That Race in Kansas
Racehorse Breeders	1.943	x 364	= 707	x 51%	= 361	x \$2,585	= \$933,185
Greyhound Breeders	1.737	x 225	= 391	x 34%	= 133	x \$3,560	= <u>\$473,480</u>
Total							\$1,406,665

Page 13: Estimate of the amount spent by racehorse and greyhound breeders with Kansas agri-businesses that supply goods and services for breeding operations.

We asked racehorse and greyhound breeders to report the total cost of their breeding operations, and to break those costs down into various categories related to agri-

businesses associated with the breeding of race animals. We also asked breeders to report the percent that was spent with Kansas suppliers of the goods and services needed for their breeding operations.

Because less than 10% of the greyhounds raised are sold, we asked the kennel operators at the three racetracks in Kansas to report how many of the greyhounds in their kennels were Kansas-bred. This represents the percent of greyhounds running at the Kansas tracks that were bred in Kansas and raced in Kansas.

With information provided by the breeders who answered our survey, information about the total population of breeders in the State provided by Associations, and the percent of greyhounds running at the tracks that were Kansas-bred from the kennel operators, we estimated the total dollars spent by breeders in Kansas with Kansas-based suppliers of goods and services for breeding operations in 1995 for those race animals that stayed and raced in Kansas.

The table below shows how this information was calculated.

	Average Cost for Breeding Operation in KS from surveys	Total # of Breeders In the State from Assoc.	Estimated Total Cost of Breeding Operations in KS (in millions)	% of Dollars Spent w/KS Suppliers from surveys	Estimated Total \$ Spent in 1995 in Kansas (in millions)	% of KS-bred Animals That Race in KS from surveys	Total Dollars Spent for KS-bred Animals That Race in Kansas
Racehorse Breeders	\$30,988	x 364	= \$11.3	x 80%	= \$9.0	x 51.0%	= \$4,602,143
Greyhound Breeders	\$46,395	x 225	= \$10.4	x 92%	= \$9.6	x 54.7%	= <u>\$5,253,272</u>
Total							\$9,855,415

Page 13: Estimate of the amount spent by racehorse owners with Kansas agribusinesses that supply goods and services while the horses are housed at the Woodlands Race Track.

According to officials at the Woodlands Race Track, the track can house a total of 1,210 racehorses during the racing season. We asked racehorse owners to report their total expenditures to house their racehorses at the Woodlands during the 1995 racing season. We also asked owners to report the percent they spent with Kansas suppliers of goods and services needed while their racehorses were housed at the racetrack.

With information provided by the Woodlands Race Track and racehorse owners, we estimated the total dollars spent by racehorse owners with Kansas suppliers to house their racehorses at the Woodlands during the 1995 racing season.

The table below shows how this information was calculated for the 1995 racing season.

	Average Cost for Housing A Racehorse at the Track from surveys	Total # of Stalls At the Track from Track	Estimated Total Cost for Housing Racehorses at the Track	% of Dollars Spent w/KS Suppliers from surveys	Estimated Total Dollars Spent in Kansas in 1995
Racehorse Owners	\$1,831.754	x 1,210	= \$2,216,422	x 83%	= \$1,839,630

To calculate the amount spent by racehorse owners to house their racehorses at the Woodlands for 1990 through 1994, we adjusted the total amount spent in the previous year by the corresponding Consumer Price Index (as shown in the table).

Because the 1995 racing season at the Woodlands was the shortest to date, we also adjusted the total cost from the previous year for the length of the racing season that year. (The adjustment factor for each racing season was calculated by dividing the number of calendar days in each season by the number of calendar days in the 1995 racing season as shown in the table).

The table below shows how this information was calculated for the 1990-1994 racing seasons at the Woodlands.

Year	Estimated Total Spent in Previous Year	CPI Adjustment	Race Season Adjustment	Estimated Total Spent in Each Year	% of \$ Spent w/KS Suppliers from survey	Estimated Total Dollars Spent in KS
1994	\$2,216,422	x .972 (1-.028)	x 1.35 (89/66)	= \$2,905,125	x 83%	= \$2,411,254
1993	\$2,905,125	x .974 (1-.026)	x 1.32 (87/66)	= \$2,766,005	x 83%	= \$2,295,784
1992	\$2,766,005	x .970 (1-.030)	x 1.21 (80/66)	= \$2,467,150	x 83%	= \$2,047,734
1991	\$2,467,150	x .969 (1-.031)	x 1.53 (101/66)	= \$3,018,218	x 83%	= \$2,505,121
1990	\$3,018,218	x .958 (1-.042)	x 1.55 (102/66)	= \$2,920,081	x 83%	= \$2,423,668

Page 13: Estimate of the amount spent by contracted kennel operators with Kansas agribusinesses that supply goods and services while the greyhounds are housed at the racetracks in Kansas.

Greyhounds are housed in kennels at the racetracks during the racing season. The table below shows the maximum number of greyhounds that were housed at the kennels during the 1995 racing season according to officials at the three racetracks in Kansas. Because Camptown Greyhound Park was operational for only part of the 1995 racing season, we adjusted the maximum number of greyhounds housed at Camptown accordingly.

Woodlands	18 kennels x 60 greyhounds =	1,080 greyhounds
Wichita	18 kennels x 60 greyhounds =	1,080 greyhounds
Camptown(a)	15 kennels x 60 greyhounds =	427 greyhounds
Total		2,587 greyhounds
(a) Camptown was open for 173 days of the 365 days possible or 47.4% of the racing season. A maximum of 900 greyhounds were housed at Camptown during the 1995 racing season, therefore 900 greyhounds x 47.4% = 427 dogs.		

We asked contracted kennel operators at the three racetracks in Kansas to report their total expenditures to house greyhounds at the racetracks during the 1995 racing season. We also asked them to report the percent they spent with Kansas suppliers of goods and services while the greyhounds were housed at the racetracks.

With information provided by the three racetracks and contracted kennel operators, we estimated the total dollars spent by kennel operators with Kansas suppliers to house greyhounds at the racetracks in Kansas during the 1995 racing season.

The table below shows how this information was calculated for the 1995 racing season.

	Average Cost for Housing A Greyhound at the Tracks from surveys	Total # of Greyhounds At the Tracks from Tracks	Estimated Total Cost for Housing Greyhounds at the Tracks	% of Dollars Spent w/KS Suppliers from surveys	Estimated Total Dollars Spent in Kansas in 1995
Kennel Operators	\$1,112.98	x 2,587	= \$2,879,279	x 93%	= \$2,677,730

To calculate the amount spent by kennel operators to house greyhounds at the racetracks for 1989 through 1994, we adjusted the total amount spent in the previous year by the corresponding Consumer Price Index (as shown in the table).

Because Camptown Greyhound Park was not operational until 1995, we adjusted the maximum number of greyhounds housed at the racetracks for the 1989 through 1994 racing seasons accordingly. We also adjusted the 1989 racing season because both Wichita Greyhound Park and Woodlands Race Track were open only part of the racing season that year.

The table below shows how this information was calculated for the 1989-1994 racing seasons at Wichita Greyhound Park and Woodlands Race Track.

Year	Estimated Total Spent in Previous Year	CPI Adjustment	Race Season Adjustment	Estimated Total Spent in Each Year	% of \$ Spent w/KS Suppliers from survey	Estimated Total Dollars Spent in KS
1994	\$2,404,037	x .972 (1-.028)		= \$2,336,724	x 93%	= \$2,173,153
1993	\$2,336,724	x .974 (1-.026)		= \$2,275,969	x 93%	= \$2,116,651
1992	\$2,275,969	x .970 (1-.030)		= \$2,207,690	x 93%	= \$2,053,152
1991	\$2,207,690	x .969 (1-.031)		= \$2,139,252	x 93%	= \$1,989,504
1990	\$2,139,252	x .958 (1-.042)		= \$2,049,403	x 93%	= \$1,905,945
1989	\$2,049,403	x .946 (1-.054)	x 30.7%(224/730)	= \$595,192	x 93%	= \$ 553,528

The table below shows the total amount spent with Kansas-based agribusinesses for both racehorse owners and contracted kennel operators for race animals housed at the three racetracks in Kansas from 1989 through 1995.

Estimated Total Expenditures			Estimated Total Spent in Kansas			
<u>Year</u>	<u>Racehorse Owners</u>	<u>Kennel Operators</u>	<u>Total</u>	<u>Racehorse Owners</u>	<u>Kennel Operators</u>	<u>Total</u>
1989		\$ 595,192	\$ 595,192		\$ 553,528	\$ 553,528
1990	\$2,920,081	\$2,049,403	\$4,969,484	\$2,423,668	\$1,905,945	\$4,329,613
1991	\$3,018,218	\$2,139,252	\$5,157,470	\$2,505,121	\$1,989,504	\$4,494,625
1992	\$2,467,150	\$2,207,690	\$4,674,840	\$2,047,734	\$2,053,152	\$4,100,886
1993	\$2,766,005	\$2,275,969	\$5,041,974	\$2,295,784	\$2,116,651	\$4,412,435
1994	\$2,905,125	\$2,336,724	\$5,241,849	\$2,411,254	\$2,173,153	\$4,584,407
1995	\$2,216,422	\$2,879,279	\$5,095,701	\$1,839,630	\$2,677,730	\$4,517,360

APPENDIX F

Use of Economic Multipliers

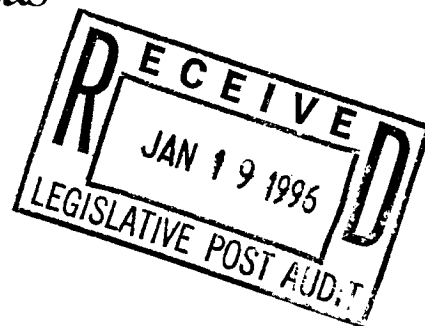
We met with officials from the Institute of Public Policy and Business Research at the University of Kansas to determine what economic multipliers should be used regarding the economic impact from parimutuel racing on:

- Kansas agribusinesses that supply goods and services for the raising, training, and racing of race animals in the State
- prize money paid to the owners of winning race animals at Kansas racetracks

This appendix contains the recommendation of the officials at the Institute of Public Policy and Business Research regarding the use of economic multipliers in this audit.

The University of Kansas

Institute for Public Policy
and Business Research



Memorandum

Date: January 16, 1996

To: Trish Pfannenstiel, Legislative Division of Post Audit

From: Norman Clifford, IPPBR *NC*

Subject: Impact of Pari-mutuel racing on the Kansas Horse and Dog Industry

I have shown your scope statement on the Impact of Pari-Mutuel Racing on the Kansas Horse and Dog Industry to Bob Glass and Pat Oslund, two researchers at IPPBR who have extensive experience in doing economic impact studies. Their general response was that you have a careful, well thought out research plan, and that you have taken account of the important issues concerning the identification and measurement of the direct effects of racing on the Kansas Horse and Dog breeding industry. One thing that occurred to them, which you are probably already aware of, is the possibility for double counting. For example, it would not be appropriate to add to the total revenues of breeders things like expenditures on feed or veterinarian services. Our only other specific remarks have to do with the issue of using multipliers to measure the indirect effects. Our thoughts on that subject are summarized in paragraphs 1-3, below.

1. It is important to keep in mind the focus of your study, which is the impact of racing in Kansas on the agri-business industry in Kansas. This will be especially important when thinking about the question of multipliers, below. The usual economic impact study, as you know, focuses on the impact of a particular activity or event on the economy of concern. Such an impact study of racing would then focus on the economic impacts of that activity on Kansas. Implicit in the idea of an impact is a comparison; the comparison is to the situation that would have occurred if the activity had not been undertaken. In most cases, the impacts are measured in aggregate, statewide terms. For example, one often asks, what effect did the activity have on total employment in Kansas, or what effect did the activity have on total personal income? It is possible to think of other types of impacts, however, that are not necessarily aggregated. For example, what was the impact of the activity on the distribution of income in the state, or what was the effect of the activity on the geographical distribution of employment within the state?

2. When considering the question of the usual economic impacts such as those described in the preceding paragraph, it is crucial to consider very closely the question of what would have happened if the activity or event had not occurred. This is especially clear when one is thinking about aggregate effects. For example, if the direct economic effects of an activity include the expenditure of funds, then one must determine if those funds

would have been spent in Kansas even if the activity had not occurred. If they would have, then there is essentially no direct (or indirect) aggregate economic impact from the activity on the economy. There could (and probably would), however, be impacts on the distribution of income in the state. Another way to think about this distinction is that, in this case, there would be winners and losers in the state as a result of the activity, but the benefits to the winners would be offset by the costs to the losers. Since the direct effects add up to zero, the indirect effects would also add up to zero, i.e., there would be no aggregate multiplier effect. (Technically, the multiplier effects from the benefits to the winners could be different than the multiplier effects from the costs to the losers, but these different effects are generally too subtle to be modeled, and the differences are undoubtedly too small to worry about.)

3. Lets turn now to the question of your study of the effects of racing on agribusiness. As you point out, your study is not a full-blown economic impact study of racing on the economy of the state. It is rather an attempt to discover the effect of racing on the agribusiness industry in the state. In the terminology used above, you are looking at the benefits to one of the (possibly many) groups of winners. Because of this, it doesn't really make sense to look at the multiplier effects of these benefits on the aggregate economy, unless you could argue that there are no losers, and no other winners. This is would require, for example, that none of the spending at racing facilities in Kansas was diverted from other types of expenditure in Kansas. Since you are looking at the effects on the agribusiness industry in Kansas, however, it might make sense to look at the indirect effects (on agribusiness) of the direct effects on agribusiness. In other words, you would need an agribusiness to agribusiness multiplier. Our sense is, however, that such a multiplier would be quite small (i.e., not much greater than 1), and so this effect is probably not really worth worrying about.

Thus, we feel that any multiplier analysis of indirect effects is not appropriate for your study. If you wish to discuss this or any other issues further, please feel free to call me at (913) 864-3701. I or my colleagues would be happy to talk to you.

APPENDIX G

Audit Responses

On February 28, 1996, we provided copies of the draft audit findings and conclusions to the Kansas Horsemen's Association, the Kansas Greyhound Association, the Kansas Thoroughbred Association, the Kansas Quarter Horse Racing Association, the Kansas Greyhound Kennel Owners' Association, and the Kansas Racing Commission. During the audit, we asked representatives of these organizations to review and comment on our surveys before we sent them to racehorse and greyhound breeders, racehorse owners, and kennel operators. We also shared our preliminary survey results with representatives from these groups so that they could help us determine if the responses seemed reasonable. The Kansas Thoroughbred Association, the Kansas Quarter Horse Racing Association, and the Kansas Greyhound Kennel Owners' Association provided responses to the audit which are included in this appendix.

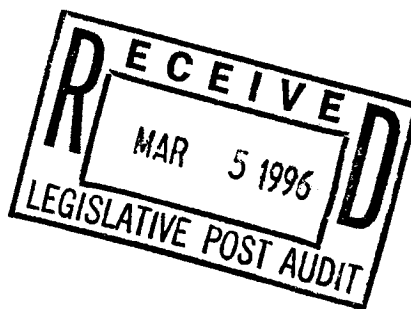
Their responses raised a number of questions and concerns. The major items are summarized briefly below, together with our responses or clarifications.

1. *The audit report doesn't include the full economic impact from the racetracks' operations.* In requesting this audit, the Special Committee on Gaming specifically asked us to look only at the economic impact parimutuel racing has had on the breeding industries and on associated agribusinesses such as veterinarians, food suppliers, trainers, and the like. That is the scope the Legislative Post Audit Committee approved.
2. *The report doesn't apply economic multipliers to money generated by the breeding industries and associated agribusinesses.* As mentioned on page 2 of the audit report, we consulted with experts from the Institute of Public Policy and Business Research at the University of Kansas about using economic multipliers to project economic impact for this report. They suggested that we not use multipliers because, in their opinion, the multiplier in this case wouldn't be significantly greater than one.
3. *The report understates the economic impact of parimutuel on breeders and associated agribusinesses because it only counts animals bred in Kansas to supply Kansas racetracks that came into existence after parimutuel racing was allowed.* We tried to capture only the incremental money generated from having parimutuel racetracks in Kansas. Counting sales of all racehorses and greyhounds bred in the State—including those sold to race in other states—would overstate the impact of parimutuel racing because racehorse and greyhound breeding existed in Kansas before parimutuel racing was contemplated or allowed. Animals bred in Kansas to race in other states could be sold regardless of whether parimutuel racing existed in Kansas. On page 7 of the report, we acknowledge that there may have been some increase in sales of animals to race at out-of-State tracks as a result of having parimutuel racing in Kansas, but there was no way for us to assess that impact.

It should be noted that when we estimated the impact of parimutuel racing in Kansas on other agribusinesses, we counted all racing animals housed in Kansas to race in Kansas, including those that were bred in other states.

4. *The report doesn't include expenses associated with race animals on days when they were not racing.* We did include those expenses. That discussion can be found on page 13 of the audit report.

March 5, 1996



To:
Barbara J. Hinton
Legislative Post Auditor
800 Southwest Jackson Street
Suite 1200
Topeka Kansas 66612-2212

From:
Richaleen Turpin, Kansas Thoroughbred Association
Jeff Rutland, Kansas Quarter Horse Racing Association

On behalf of the Kansas Thoroughbred Association and the Kansas Quarter Horse Racing Association and the hundreds of our members statewide, we would like to express our appreciation to this Committee for initiating this study of the impact of racing on the Kansas economy. We are delighted to note that even though the scope of this report is very narrow and only studies a small fraction of our industry, the information contained within this report supports prior studies on the industry and would indicate that perhaps the previously considered \$222 million impact is conservative.

Racing agribusiness accounts for an annual economic impact to the State of Kansas of nearly \$100 million dollars.

The Division of Post Audit reports that just 13% of Kansas horse and greyhound breeders, trainers and owners account for Kansas spending in excess of \$6.3 million dollars. When applied to the whole statistically, (and weighted by group type, etc...) this sum is nearly \$25 million in annual spending.

When the economic multiplier commonly used by the Kansas Department of Agriculture is applied (4 X output) the racing agribusiness impact to the state of Kansas easily becomes \$100 million.

This analysis closely parallels the Racing Resource Group's 1993 findings that attributed half of the \$222 million annual impact to the racing side of the industry and the other half to the economic impact of the tracks output. (Note the Post Audit report does not address the tracks economic impact.)

Parimutuel racing coming to Kansas has had an enormous impact on the states agribusiness economy with 38% of all horse breeding operations and 56% of the greyhound breeding operations beginning because of parimutuel.

pg. 2

In spite of these very supportive findings we do have some critical concerns regarding this study.

Of particular concern is the narrow scope the report's authors were given. First of all, it almost seems that any impact the horse industry has on the state's agribusiness is being minimized.

The \$20-plus million direct impact the report comes up with for the racing industry is just the tip of the proverbial iceberg. We certainly are not economists and not qualified to offer comprehensive opinions on methods and questions used and asked, but by utilizing a little "common sense" one has to come to the conclusion that parts of the report are flawed at best.

Some "common sense" issues:

The report uses no economic multipliers on the Kansas ancillary agribusiness, yet the Kansas Department of Agriculture, Department of Statistics uses an economic multiplier of four in calculating the economic impact of agribusiness on the state. So, when a horse breeder spends \$10,000 at his or her ranch, it is just that \$10,000 according to the Legislative Post Audit report! Yet when a cattle rancher spends \$10,000 on his or her ranch, it is an economic benefit of \$40,000 to the state according to the Kansas Department of Agriculture. Common sense tells us that is absurd.

The report shows that 56% of survey respondents that were greyhound breeders "started business because of parimutuel" and 38% of horse breeders also responded that they "started business because of parimutuel." Yet the report concludes that both industries grew "about 30% as a result of parimutuel". Common sense tells us that figure can't be right!

The report focuses only on expenditures for horses racing in the state and primarily only on those days when racing is taking place. Common sense tells us that our horses eat and require supplies and services when in the state whether they are raised to race in Kansas or Kentucky or Oklahoma or anywhere else. But not according to this report! And, common sense tells us that our horses eat and require care whether there is a race day going on or not.

The report (see appendix E) shows that an average of 707 race horses per year were sold in Kansas yet the report uses figures for only 51% of those since those are the ones that actually raced in Kansas. There are many reasons a horse might not ever race in Kansas: 1) races in another state; 2) is injured and never races at all; 3) simply is not fast enough or good enough to race, etc. The point is, they were raised and sold to race. Common sense tells us that money we received for a race horse that never raced is still money received in Kansas because of racing and is of economic benefit to the state.

The same aforementioned analogy works for expenditures on a breeding operation. The report concludes that the average horse breeding operation spends \$30,988 per year (a figure that seems exceedingly low to us as "average" breeders in the state) but those expenditures are immediately discounted to only 51% of their value because that is the estimated percentage of horses that actually raced in the state. Yet the other 49% of expenditures made in an attempt to raise race horses is simply tossed out the window as if it were of no value at all. Common sense tells us that the economic value from breeding is double the amount the report came up with.

The report says that "prize money" in the form of purses and breed awards are paid at the end of the horse season and that owners do not necessarily receive that full amount directly. It says that fees for housing horses are deducted from the amount. Purses can be paid to owners on a daily basis if the owner so desires. And, yes, some of the bills incurred by the owner as the economic churn of dollars for goods and services the owners use can be paid directly from an owners' account or billed to the owner individually for payment that way. Common sense tells us this is another way that the economic benefit of racing "multiplies" itself throughout the community and state economy.

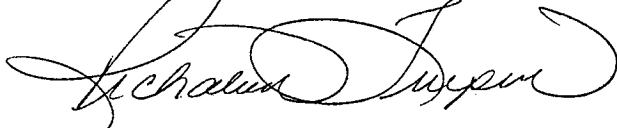
The report does not take into consideration any "import" dollars Kansas receives from racing. For instance, when an out-of-state owner ships his horse to Kansas to be bred, he or she incurs charges that are paid within the structure of the Kansas economy. No benefit whatsoever from these import dollars are calculated in the report of the breeding side. Common sense tells us these dollars churn in Kansas.

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Finally, the report shows no impact for the race tracks themselves as to jobs, taxes, etc. paid as part of racing. Common sense tells us that a complete economic picture of the racing industry is incomplete without these numbers.

There are many other things to which we could comment on behalf of the Kansas Thoroughbred Association and the Kansas Quarter Horse Racing Association membership, but we will not take any more of the Committee's time. Just know that although we are decidedly disappointed in the limited scope of this analysis, we still find it extremely encouraging that the report does substantiate prior independent studies proving that Kansas Racing means \$222 million to the Kansas economy.

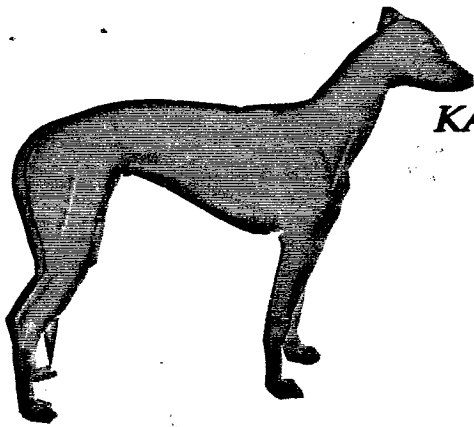
Sincerely,



Richaleen Turpin
President
KTA



Jeff Rutland
President
KQHRA

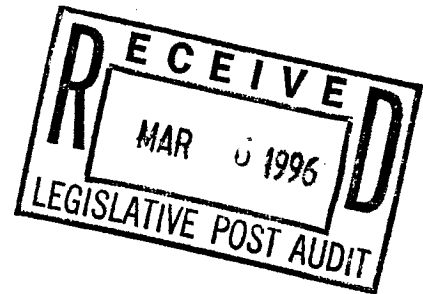


KANSAS GREYHOUND KENNEL OWNERS' ASSOCIATION

P.O. Box 487
Abilene, Kansas 67410
(913) 263-7272

Wayne Ward, President

March 5, 1996



Ms. Barbara J. Hinton
Legislative Post Audit
800 S.W. Jackson Street
Suite 1200
Topeka, Kansas 66612-2212

HAND-DELIVERED

Re: Response to Draft Report of
Parimutuel Impact on Kansas Animal
Industry

Dear Ms. Hinton:

I am writing in my capacity as President of the Kansas Greyhound Kennel Owners' Association. As you are probably aware, our membership consists of those contract kennel owners who operate licensed kennels at the Kansas greyhound tracks. The purpose of this correspondence is to respond to the solicitation for a response to the draft Post Audit Report. Although the Report reflects an abundance of valuable information concerning the racing animal segment of the Kansas agri-business industry, it is the opinion of our association that the financial impact of our industry is substantially understated in the report. The underestimated financial impact of the greyhound portion of the racing animal industry arises from the following:

1. **Failure to Apply Economic Multipliers.** The advice received by Legislative Post Audit from the Kansas Institute of Public Policy and Business Research at the University of Kansas that economic multipliers should not be applied to determine the impact of Kansas agri-businesses, is not consistent with other similar reports. We have reviewed a number of economic studies regarding various phases of Kansas agri-businesses and the advice followed by Legislative Post

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Audit is the only example we have reviewed where economic multipliers are not employed. As an example, the Kansas Department of Agriculture, Department of Statistics, applies an economic multiplier of four in calculating the economic impact of Kansas agri-business. There appears to be no rationale for treating our sector of the Kansas agri-business industry differently from other sectors of this same industry. We strongly suggest that a consistent approach be adopted with respect to the state's employment of economic multipliers for the agri-business industries.

Additionally, the conclusion by the Institute of Public Policy and Business Research at the University of Kansas that "no multiplier would be used to determine the economic impact to the State as a result of money won by Kansas owners of race animals since the benefits of winners would be offset by the cost to losers," reflects that there is not an adequate understanding of the way in which our industry is compensated. First, the top four finishers in each race receive prize money. The prize money which is then distributed to the greyhound owners and the kennel owners, is ultimately used for the payment of taxes, various business expenses, various personal expenses of the recipient of the funds, etc. The failure to apply an economic multiplier because "the benefits of the winners would be offset by the cost to the losers," is an analogous to the purchase price paid for a new automobile. In the case of automobile sales, with every auto sold by one dealer, another dealer somewhere would be denied the opportunity to sell a comparable automobile. If the economic multiplier would not apply in the case of prizes paid to racing animals, no economic multiplier should be applied in the analogous situation of the purchase price paid for automobiles.

2. The Survey Responses Do Not Accurately Represent the Cost of Raising and Maintaining Greyhounds. Based upon years of experience in the industry, the National Greyhound Association (NGA) has estimated that the cost of maintaining an adult greyhound at a racetrack is approximately \$5.00/day (\$1,800/year) and off-track is approximately \$3.00/day (about \$1,000/year). Additionally, the cost of raising a greyhound from birth to track age (16 months) is approximately \$2,500. These figures are commonly utilized in budgeting overhead. (In fact, my personal operating budget at the track exceeds the NGA figures.) An examination of the surveys provided to members of the greyhound industry reflects no entries for insurance and taxes. Additionally, the NGA is able to track through its registry that approximately 10,000 greyhounds are maintained in Kansas at any given time. Using the foregoing information, the following numbers can be derived:

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(1)	2,587 <u>x \$1,800/yr</u> \$4,656,600	Greyhounds on tracks (Exhibit E of Report)
(2)	10,000 <u>- 2,587</u> 7,413	Total greyhounds on-track greyhounds off-track greyhounds
(3)	3,706 <u>x \$1,000/yr</u> \$3,706,000	off-track <u>adult</u> greyhounds
(4)	3,706 <u>x \$1,875/yr</u> \$6,948,750	off-track pups in training
(5)	4,656,600 3,706,000 <u>+ 6,948,750</u> <u>\$15,311,350</u>	
		<u>Total Cost of Raising Greyhounds in Kansas</u>

In addition to the foregoing total costs of raising greyhounds in Kansas, the total economic impact should include entries for breeding revenues, prize revenues, animal sales revenues and the multiplier factor discussed above.

It is also apparent that the Draft Report underestimates the degree to which the industry grew as a result of parimutuel. In a number of places in the Post Audit Report, anecdotal information is relied upon to reflect that the industry grew approximately 30% as a result of parimutuel racing (pp. 6, 7, 8, 11, etc.). However, the empirical data collected reflects a substantially greater growth in the industry due to the implementation of parimutuel in Kansas:

- (1) 56% of greyhound breeders indicated that their businesses were started because of parimutuel (p. 8); and
- (2) the number of Kansas-bred greyhounds registered within Kansas increased by approximately 100% from 1990 to its peak in 1994 (p. 11).

Consequently, the empirical data collected even though not complete, reflects substantially greater greyhound industry growth due to parimutuel than the anecdotal figure of 30% quoted numerous times in the report.

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Our industry recognizes that it takes a substantial amount of time to become knowledgeable about the parimutuel industry. While Legislative Post Audit has done a good job to become educated in a short amount of time, there are still a number of references in the Report which reflect incorrect information or a less than full understanding of our industry:

(1) In a number of instances, the report derives its conclusions regarding the economic impact of the industry by using 1995 figures. The use of 1995 figures represents only a snapshot of the economic impact of the industry during a very depressed period. To obtain the "big picture" of the economic impact of the racing animal industry, numbers should be utilized from peak years, rather than depressed years. By using 1995 figures, rather than figures from years in which the industry flourished, a casual observer will conclude that the industry's impact is significantly less than that reflected in prime years.

(2) At the present time, greyhound races are not run 300 days a year as reported at p. 3 of the Report. At the present time, greyhound tracks in Kansas are "dark" on Mondays and Tuesdays. Additionally, the tracks are closed at the end of the year for approximately two weeks to account for track maintenance. Consequently, the accurate figures for annual race days are approximately 250. In prior years when parimutuel was flourishing in our state, our greyhound tracks were running 300 days each year as reported. The reduction in race days by approximately 16% is yet another indicator of the depressed condition of the industry.

(3) Contrary to the indication at p. 3 of the Report, kennel operators and owners are not paid their winnings by the track on a monthly basis. These payments are made on a weekly basis.

(4) In the table located at p. 7 of the Report, the differential between animals sold because of parimutuel and the total animals sold does not provide a true reflection of the total dollars derived by Kansans from said sales nor of the animals sold because of parimutuel. It should be remembered that with each and every sale of an animal sold, dollars are flowing into Kansas greyhound breeders. Additionally, it must be remembered that 56% of the greyhound breeders reflect that they began their businesses because of parimutuel (p. 8 of Report). Consequently, for those 56% of greyhound breeders, each and every animal they sell is because of parimutuel, even

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though some of their animals are sold to race outside of the state.

(5) At p. 7 of the Report, it is estimated that "race horse and greyhound breeders sold about \$3.3 million worth of race animals in 1995. About \$1.4 million of that amount, or nearly 44% of the sales, was for animals sold to race at Kansas racetracks." However, these figures are based upon inappropriately phrased questions in the Breeders Surveys. Question no. 7 of the two Breeders Surveys does not ask what percentage of animals were sold in 1995 to race at Kansas racetracks. Instead, the question reads "since 1989, about what percent of the [racing animals] you sell annually race at [Kansas racetracks]." Because survey question no. 7 requests an average since 1989, there is no way to determine the percentage of animal sales sold to race at Kansas racetracks in 1995.

(6) At p. 9 of the Report, a conclusion is drawn that ". . . 11% of the greyhound breeders indicated that sales of racing animals actually declined as a result of parimutuel. It's difficult to know whether those breeders meant their business declined immediately after parimutuel was allowed, or whether they were referring to the general decline that appears to have taken place since attendance and wagering at the racetracks as declined." This conclusion emanates from question no. 9 on the Breeders Survey. The question was not properly phrased in the survey. Instead of phrasing the question in such a way as to be able to determine whether greyhound sales increased with the advent of parimutuel, only to decline with the depression of the industry, question no. 9 only permits the respondents to indicate whether the greyhounds they are currently selling is greater or less than the beginning of Kansas parimutuel racing. It would appear that no conclusions whatsoever can be drawn regarding the impact of parimutuel racing on the sales of animals due to the way in which the question was phrased on the survey.

(7) At p. 17 of the Report, the following question is raised, "How much of the prize money awarded at Kansas tracks ends up going to Kansas residents who own racing animals." While our organization does not contest the figures that are found in response to this question, the question seems to lack a basic understanding of the benefits to Kansans when prize money goes to non-Kansans who own racing animals. When the purse structures are such that Kansas attracts racing animals owned by non-Kansans, our agri-business economy then benefits because

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these non-Kansas racing animals are then housed in Kansas at track and non-track locations. Consequently, the Kansans who own the farms and kennels are the beneficiaries of the out-of-state revenues paid for training, racing and maintaining these animals. It is important to understand that as the percentage of prize money awarded to Kansans increases, the out-of-state revenues paid to Kansans who own facilities who train, race and maintain animals decreases.

(8) Although our organization is not completely familiar with the amount of charitable contributions paid at our Kansas racetracks, the figures presented at p. 17, are inconsistent with those we have seen reported to the Kansas Racing Commission. The figure that is reported at p. 17, \$215,367, would appear to be close to the amount contributed at The Woodlands, alone.

I appreciate the opportunity to respond to the Draft Report which has been provided to me. I would be happy to respond further to any inquiries you may have regarding the substance of this correspondence or my views of the draft itself.

Sincerely,

Wayne R. Ward, President
Kansas Greyhound Kennel Owners'
Association

WRW:gaa