

## Senate Budget and Appropriations Committee

State of New Jersey

March 24, 2009

Madam Chair,

By way of introduction, my name is Michael J. Gulotta. I am the CEO of Deo Volente Farms located at 487 Quakertown Road, Flemington, New Jersey 08822. Our telephone number at the farm is 908-782-4848 and our e-mail address is [mike@deovolentefarms.com](mailto:mike@deovolentefarms.com).

Deo Volente is a state of the art standardbred racehorse breeding facility. The farm and its horses are owned by a small group of investors who have owned standardbred racehorses for more than twenty years. All but one of the owners are New Jersey residents.

Additionally, I am a former officer of AT&T Corporation and was the Chief Actuary for AT&T for approximately 15 years. In that capacity, I was responsible for the actuarial allocation of the \$54 Billion in pension fund assets between and among AT&T and the Regional Bell Operating Companies as part of the breakup of the Bell System in 1984.

I am the founder and served as the CEO of Actuarial Sciences Associates, first a wholly owned subsidiary of AT&T and then an independent firm which became the 10<sup>th</sup> largest employee benefits consulting firm in the United States. That company was acquired by Aon Corporation, headquartered in Chicago, in 2000. I served as Chairman of Aon Consulting until 2007.

During the Clinton administration, I was appointed by the President to the Department of Labor's Advisory Council and subsequently was appointed Chairman of that Council.

### **A Simple Way to Increase Tax Revenues**

We are facing extremely difficult challenges. The current economic environment is certainly the most stressful witnessed in decades. But challenging times require innovative solutions. We are being tested as we have never been and we must be resourceful and creative. Positive energy, perseverance, patience and enthusiasm are all required to develop productive solutions and to lift us from an abyss of despair.

Cutting costs is certainly necessary, but raising revenue - the hallmark of truly successful corporations - should be the primary focus of a successfully run state government.

The reason for my appearance today before this august group is to strongly recommend that you seriously consider the establishment of racinos in New Jersey. Such a move would increase tax revenues, create jobs, diversify sources of revenue for our very important casino industry in New Jersey, strengthen the horse racing industry in New Jersey and reinforce a commitment to open space.

In my opinion, based on conservative assumptions, we have an opportunity to raise in **excess of \$1 Billion Dollars annually in tax revenue** by transforming our racetracks to racinos - adding video lottery terminals to our racetracks. Among other states, our neighbors in New York, Pennsylvania and Delaware have done so. These states are not only creating new tax revenue streams but they are also simultaneously revitalizing the horse racing and breeding industry in their states.

Recognizing that the casino industry is a very important part of our state's economy, it should be noted that tax revenues will be raised while simultaneously strengthening the casino industry in New Jersey. Specifically, if the casinos were to operate the racinos in New Jersey, it would give the state's casino

industry exposure to a very densely populated area (especially in the case of the Meadowlands) with excellent demographics. This exposure together with the ability to recapture revenues being lost especially to New York and Connecticut should result in a sizable increase in our casino industry's profitability.

### **The Canadian Experience**

Perhaps the most striking example of the success of introducing "slot machines" at racetracks comes from our north of the border neighbors in Ontario. Slots were introduced at racetracks in Ontario early in this decade.

Five years later, econometric studies were performed to determine the economic impact that this change had on the racing and breeding industries and on tax revenues in Ontario. In effect, this study was a "before and after" analysis of the impact of slot machines which was completed for the benefit of the Ontario Ministry of Public Infrastructure Renewal.

The most salient findings of this econometric study are as follows:

1. Inclusive of slot machine profits at the racetracks in Ontario, all three levels of government realized substantial revenue increases on horse racing and breeding industry expenditures. Specifically, annual tax revenues increased nearly **fourfold** from \$576 million (before slot machines were installed) in 2000 to \$1.9 Billion in 2004.
2. A total of \$1.6 Billion in salaries and wages were paid in the horse racing and Breeding industry in Ontario in 2004 compared to just over \$1 Billion in 2000, a **60%** increase.
3. Over 40,000 Ontarians owed their permanent jobs to the horse racing and Breeding industry in the province in 2004. Just over 30,000 were employed in the industry in 2000. Thus, there was an increase of approximately **10,000 jobs** over a 4 year period. A total of over 65,000 people are employed when part-time and casual labor is included.
4. Today, the Ontario horse industry is high tech and is a vibrant partner in the Entertainment business and has been labeled a key node in the "New Economy".
5. Ontarians spent \$2.1 Billion in the horse racing and breeding industry in 2004 compared to \$1.2 Billion spent in the year 2000, **an increase of \$800 Million annually**, or a **67%** increase over the 4 year period.
6. Horse racing and breeding, besides being an agricultural based industry has also contributed to the diversification of the economic base of many rural communities and has expanded the tourism, entertainment and export economic base of Ontario.
7. The links of the racing and breeding industry to the rural economy are substantive and complex. A significant horse breeding industry is needed to produce the horses for the racing phase. Thousands of acres of agricultural land and many workers are needed to care, train and groom the animals and maintain the farms where they reside.

Certainly, the experience of our Canadian neighbors includes some very compelling and significant advantages of having introduced “slots” at the racetracks. A fourfold increase in tax revenues, a 60% increase in salaries and wages, 10,000 new jobs, a near doubling of racing and breeding expenditures in the province and a revitalization of an agriculturally based industry – all of these benefits were realized in a four year period.

When one considers the fact that Toronto is the fourth largest metropolitan area in North America and that the New York metropolitan area is by far the largest and most densely populated metropolitan area, it is reasonable to assume that the net economic gain from adding a racino particularly at the Meadowlands would dwarf the results achieved in Ontario.

Additionally, there are numerous additional relative advantages in New Jersey. Most significantly, the addition of mass transportation from New York City along with the fact that nearly 80,000 people visit the Meadowlands each weekend during pro football season would also increase the profitability of a Meadowlands racino.

### **We Need to be Competitive**

Neighboring states including New York, Pennsylvania and Delaware have introduced racinos. (In fact, up to 60,000 slot machines are approved for installation in Pennsylvania.) These states have also introduced slot funded breeding award programs. These programs incent the breeding and residency of horses in their states by offering cash bonuses to breeders if their horses are bred in these racino states.

Rational economic behavior will cause the continued migration of stallions and broodmares to these neighboring states with the result being a significant reduction in revenue to New Jersey breeding operations, significant numbers of job relocation out of New Jersey, significant adverse impacts on suppliers to New Jersey farms and a significant reduction in tax revenue to New Jersey.

We have already witnessed a tremendous decline in the number of New Jersey stallions and broodmares. Just a few short years ago, the breeding of standardbreds in New Jersey was the envy of breeding programs across the United States and Canada. Racing at the Meadowlands was the gold standard and, indeed, the Meadowlands has been the host of the sport’s most prestigious race, the Hambletonian.

Just a decade and a half ago, farms in New Jersey stood 62 stallions and bred 2,800 mares. We employed thousands of people and were a major contributor to open space and farmland. In 2009, there are less than 10 stallions in New Jersey, a percentage decline similar to the cataclysmic declines of financial stocks over the last year. At the same time, the number of mares bred in New Jersey in 2008 who are having their foals in 2009 numbered 1360, a drop of more than 50%, or a reduction similar to the drop in the Dow Jones Industrial average or the S&P 500 over the last year. Is this a history we in New Jersey should be proud of?

One of the key attractions to buying a yearling racehorse is the prospect of that horse racing in what are called “sire stakes” races. These are races only for horses that are bred in a particular state. So, for example, if a horse is bred in New Jersey, that horse would be eligible to race in New Jersey Sire stakes races, but not eligible to race in any other state’s Sire Stakes races.

States which have racinos have allocated a meaningful portion of racino profits to increase purses in their sire stake programs. While New Jersey Sire Stakes purses were \$2.1 Million in 2008, the comparable figures in Pennsylvania for 2009 is \$12 Million while New York and Ontario are each expected to host sire stakes races totaling approximately \$18 Million.

Potential purchasers of yearlings know these statistics and are lured to purchase horses bred in slots enriched sire stakes programs. New Jersey bred horses are at a clear disadvantage at the yearling sales and so too are New Jersey breeders. Lesser sales of New Jersey bred horses will lead to fewer breeding farms, fewer jobs in the state, less tax revenue and a diminished financial capacity to maintain open space.

We need to take back our position of leadership in this important segment of our agricultural industry and we also need to take back the tax revenues flowing out of New Jersey to our neighboring states by keeping New Jersey residents from being lured by signs posted on the New Jersey Turnpike which advertise racinos at Yonkers and casinos in Connecticut. Moreover, we need to compete for the gaming dollars of the residents of these other states which currently have their hands in our tax pockets.

### **The Rutgers Study**

Rutgers University completed an economic impact study entitled "The New Jersey Equine Industry 2007." That study concluded that the economic impact of the equine industry totaled \$1.1 Billion annually. Additionally, it concluded that the equine industry in New Jersey is credited with generating 13,000 jobs, \$160 Million in tax revenues and maintains 176,000 total acres to support equine operations.

If we continue in New Jersey to be stagnant while our neighbors in New York, Delaware and Pennsylvania move forward, we will not only forego the opportunity to increase much needed tax revenue, to create new jobs, to increase payrolls and to preserve open space, but we will also lose much of the current economic benefit we currently derive from the equine industry in New Jersey.

We need to act immediately. Delay will cost us dearly.

### **Multiple Wins**

Rarely in life are there opportunities for so many parties to enjoy simultaneous victories.

The introduction of racinos in New Jersey will enhance tax revenues significantly – a win for our financial condition.

The introduction of racinos will add thousands of jobs in the state – a win for the people of New Jersey.

The introduction of racinos run by the operators of Atlantic City casinos will provide those entities with the opportunity to diversify their sources of revenue.

The introduction of racinos will help restore New Jersey to its position of preeminence in the racing and breeding industry.

And the introduction of racinos will clearly help preserve open space in this very densely populated Garden State.