How New York bankrolls horse racing with billions

All but three of New York’s horse racing tracks would likely close without subsidies provided by the state, a recent study found

By EMILIE MUNSON | Feb. 18, 2022 06:00 a.m.

On summer days, thoroughbreds worth tens of thousands of dollars thunder around the track at Saratoga Race Course, competing for jackpot winnings and the triumph of victory.

In the white-and-green grandstands, women in wide-brimmed hats and men in suits cast bets and toss back cocktails. Out on the lawn, veteran enthusiasts beat a path
between the tellers and their beach chairs, smacking programs and assessing their odds. At this track, there’s lots of money to be won — and lost.

While nearly every horse racing venue across the country shows visible signs of the sport’s overall financial decline, Saratoga appears to be running as smoothly as ever. That’s because, in New York, there is one key player bankrolling the sport at unprecedented levels: state government.

Horse racing in New York has been propped up by more than $2.9 billion in state taxpayer dollars and government-directed benefits since 2008, a Times Union investigation has uncovered.

That’s more than twice the money New York budgeted for the state Department of Agriculture in the same time period, and 13 times what it spent on veterans’ services.

The payout is also more than eight times what state and local governments have given during the same period to IBM, the technology juggernaut headquartered in New York, according to Good Jobs First, a nonprofit that tracks corporate subsidies.

New York has provided horse racing numerous ongoing subsidies, including tax breaks, arguably favorable leases, debt forgiveness and redistribution of revenues from video lottery terminals (VLTs), commonly referred to as video slots. In return, the state takes a loss, regaining tax revenues at a fraction of what it distributes.

Economists view this as a unique arrangement in the world of corporate and sports incentives.

Racetracks — including the state’s crown jewel, Saratoga — are dependent on the benefits. A state-commissioned gaming market study released a year ago found that without subsidies, eight tracks would likely shutter, leaving just the three tracks operated by the New York Racing Association. But NYRA’s racing would be significantly diminished and race horse breeding would be “devastated,” the study concluded.

The Times Union obtained recent annual financial statements for the nonprofit corporation, which operates Saratoga as well as Aqueduct Racetrack and Belmont Park — the state’s premier thoroughbred tracks. The statements indicate NYRA
would be posting multi-million-dollar deficits annually without its supplemental funds.

Recently, there’s been a push among some state lawmakers to cut financial support for the industry and steer those funds to health care, human services or education.

Those proposals have triggered fierce pushback from New York racing executives and their allies who are banding together to defend their subsidies and the jobs they support.

“All of racing could be hurt irreparably if we don’t fight this,” Joe Faraldo, president of the Standardbred Owners Association of New York, told industry stakeholders at a conference at the Saratoga track in August.

The most well-known way New York funnels money to horse racing is by directing a portion of video slot revenues to tracks and race horse breeders. The justification: Some of the VLTs are stationed in racinos adjacent to horse tracks. Tracks depend on those funds to operate, with some of that money flowing to breeders, health insurance for jockeys and, soon, for trainers, too.

But the Times Union found New York’s support for horse racing goes far beyond the video slot supplements. The state has paid for debts accrued by NYRA ... and spent millions annually to cover property taxes on the three tracks that NYRA leases from the state for $1 per year.

NYRA was also exempted from state and New York City income taxes ... and New York waives sales taxes on the training and maintenance of race horses.

The sale of race horses — which sometimes go for hundreds of thousands of dollars or more — is also exempt from sales taxes. Despite this, the state does not verify that the horses ever race, and state agencies have no idea how much revenue New York is passing up through that exemption, the Times Union found.

Over the last 13 years, New York race tracks have paid about $184 million in pari-mutuel taxes and regulatory fees, state Gaming Commission records show.

Off-track betting venues have contributed $130 million in pari-mutuel taxes and fees, the records show.

Together, that’s less than a 15 percent direct return on the funding the state has directed to the industry.

“It’s right down there with film credits. That’s bad,” said Greg LeRoy, executive director of Good Jobs First. “There’s been numerous independent studies and state audits that have been done on taxpayer return on film production tax credits, and they’re invariably in the teens.”
But the picture is more complex. New York horse breeders and others who derive their livelihood from the industry pay corporate and personal income taxes, too, while the state collects sales taxes on things like concessions that are sold at the tracks. Some tracks — Saratoga in particular — provide a boost to tourism in the surrounding community.

New York’s horse racing subsidies versus state revenues collected from the industry 2008-2021

VLT support payments to horse racing: $2,314,725,679

The state allocate a portion of the net win from video lottery terminals at racinos to horse racing causes.

[THE TIMES UNION CHART SHOWING THE FLOWS TO AND FROM RACING IS INTERACTIVE ON THE SITE AND THUS IS NOT SHOWN IN THIS EMAIL. IT CAN BE SEEN AT: https://www.timesunion.com/projects/2022/new-york-horse-racing-subsidies/?IPID=Times-Union-HP-CP-spotlight#_gatsby]

Note: Times Union was unable to obtain data on payments for a handful of select years.

Sources: New York State Gaming Commission, Hempstead Office of the Receiver of Taxes, Nassau County Government, Saratoga Springs Office of Finance, Saratoga County Treasurer's Office, New York Department of Taxation and Finance, Office of the State Comptroller, Saratoga Springs School District, New York City Department of Finance

The Saratoga County Industrial Development Agency published a report in 2014 indicating the state’s investment of VLT revenues in the thoroughbred racing industry “has had significant and far-reaching economic impacts.” The report said the revenues “revitalized the industry” and “provided a significant boost to the state’s agriculture industry.” The agency has not conducted a more recent study.

**NYRA’s financials**

NYRA’s recent financial statements reveal the organization’s dependency on state government.

Radha Radhakrishna, an adjunct professor at Columbia University Business School and founder of a portfolio analysis and forensic accounting firm, reviewed those financial statements — from 2018, 2019 and 2020 — at the Time Union's request.
“If I look at it as a company that I would want to invest in, obviously they are not doing well,” Radhakrishna said. “They badly need that money they are getting from video lottery terminals. … That deal keeps them afloat.”

The financial statements show the organization posted a $55 million operating loss in 2020, before accounting for its video slots supplement, tax breaks and other means of support, according to Generally Accepted Accounting Principles (GAAP), which are widely used accounting standards.

The nonprofit’s operating losses, before subsidies, were even larger before the COVID-19 pandemic: Under the accounting standards, NYRA produced operating losses of between $76 million and $81 million each year from 2016 to 2019, the financial statements indicate.

**A look inside NYRA’s books**

The bulk of NYRA’s operating revenues come from wagering on its races and simulcasting of its races. Its operating expenses include employee compensation, purses, facility operations and other categories. Its operating loss is its operating expenses minus its operating revenues. In addition to operating revenues, NYRA receives VLT support payments for operations, purses and capital expenses allocated to it by the state. The data below reflects Generally Accepted Accounting Principals. NYRA had other non-operating revenues and expenses not shown on this chart. Under a non-GAAP measure that NYRA also uses, NYRA had an operating loss of $3.1 million in 2020 and operating income of $4.3 million in 2019 and $3.6 million in 2018.

![Graph showing NYRA's operating revenues and expenses](image)

Source: NYRA's 2020 financial statement

Patrick McKenna, NYRA’s spokesman, said the organization uses non-GAAP accounting standards to assess its operating income, while excluding video slots money and some expenses. By that measure, NYRA had an operating loss of just $3.1 million in 2020.
million in 2020, with an operating income of $4.3 million in 2019 and $3.6 million in 2018, financial statements show.

“NYRA’s racing operations have been profitable every year since 2014 apart from 2020, when NYRA faced an unprecedented business interruption due to the COVID-19 pandemic,” McKenna said. “It should be noted that (the prominent accounting firm) KPMG has issued ‘clean’ and unqualified audit opinions in each of those years.”

Still, New York’s comptroller reported in audits in 2016 and 2018 that the organization continued to produce multimillion-dollar annual deficits. In both years, the comptroller also recommended that the nonprofit not use its alternative accounting method to calculate publicly shared operating profits or losses; the comptroller said NYRA had done that on a few occasions.

“Reporting such numbers to the general public and to the NYRA board in this way is not a fair presentation of the profitability of NYRA’s racing operations, and can leave decision-makers with the false impression that no actions are required,” Comptroller Thomas DiNapoli wrote.

In 2016, the comptroller recommended that NYRA develop a detailed plan to eliminate its annual deficits from racing operations, before accounting for video slots subsidies. In 2018, the comptroller reported that NYRA had not done so.

NYRA’s then-general counsel, Joe Lambert, wrote in response to the comptroller in 2018 that “there are no deficits” and said the organization uses its video slots payments “precisely as required by statute and contract.”

NYRA’s recent financial statements show its racing expenses consistently exceed the revenues it collects from wagering. The organization’s biggest expenses are stakes and purses — the financial winnings of race horse owners. Purses comprised at least a quarter of its operating expenses each of the past five years.

“Prior to 2017, they had an issue with employee pension funds and other post-employment benefits, but they have since recognized (it),” Radhakrishna said. “They have a deficit of about $70 million in there, and they have to make it up sometime.”

But from its video slots supplements, NYRA raked in about $85 million annually before the pandemic to cover its operating costs and roughly $33 million annually to pay for its capital expenses, its financial statements show. Having the video slots funds enabled NYRA to offset their operating losses each year.
“VLT funds are directed to important capital improvement projects at all three tracks to enhance the quality and safety of racing operations, improve the fan experience and modernize residential housing for the NYRA backstretch community,” McKenna said. “These are investments in the future of Saratoga Race Course, Belmont Park and Aqueduct Racetrack that will benefit New York racing for decades to come and increase the value of these New York state-owned assets.”

McKenna noted that NYRA has spent $93 million on capital improvements at Saratoga since 2016.

Joe Appelbaum, president of the state Thoroughbred Horsemen’s Association, pointed to the new 1863 Club at Saratoga, the site of private boxes and fine dining, as evidence of what elevates New York racing above what he called “zombie tracks” around the country.

“How does this building get built?” he asked. “That’s through our supplement.”

New York’s one other thoroughbred track, Finger Lakes Gaming and Racetrack, and seven standardbred tracks also receive video slots supplements to help pay for their purses, but they collect less than NYRA does, Gaming Commission reports show.
John Matarazzo, director of racing operations at the Saratoga harness track at Saratoga Casino Hotel, said roughly 88 percent of the purses at his track are paid for by the video slots funds.

“Prior to the VLTs, our purses for the year were roughly $3 million,” Matarazzo said. “Now, they’re over $15 million, so it is significant.”

It wasn’t always this way, said professor Raymond Sauer of Clemson University, a sports economist with a passion for horse racing.

“When states started licensing horse tracks … they did it to collect the tax off wagering revenue,” Sauer said. “That was the motivation in the 1930s, when the states were all broke, to bring back horse racing.”

Now, the roles have reversed, and horse racing is on “corporate welfare,” Sauer said.

“They’ve got their hands out,” Sauer said. “They need it to stop the slide in some sense because race tracks are going out of business.”

New York’s horse racing industry has benefited from nearly $3 billion in financial support that the state has directed to it over the last 13 years, more than New York City’s subsidization of Yankee Stadium.

(Horse racing vs. the Yankees)

Few sports receive state subsidies as wide-ranging as horse racing’s take in New York, according to Andrew Zimbalist, a Smith College economics professor who...
studies the sports industry. Some cities have kicked in similar amounts to boost their teams, though.

Zimbalist compared the subsidies for the New York tracks to those received by the New York Yankees. The baseball team usually gets about 3.3 million attendees for their 81 home games, compared to roughly 1.5 million attendees for 1,186 days of racing at 11 New York tracks.

In 2009, the Yankees opened a new stadium. The team funded about $670 million of its roughly $2.3 billion construction cost; public financing and tax breaks kicked in the rest. The city’s subsidization of Yankee Stadium adds up to just over half the benefit horse racing has received over the past 13 years.

“The Yankees have to pay corporate income taxes,” Zimbalist said. “There is no rule that says when you buy a hot dog at Yankee Stadium, you don’t have to pay any taxes, or when the Yankees buy baseball bats from Louisville that they don’t have to pay any sales taxes.”

Assemblyman Gary Pretlow, D-Mount Vernon and chair of the chamber's Racing and Wagering Committee, said the way New York invests in horse racing isn’t that different from its support of other industries.

“We prop up nursing homes; we prop up developers that are building in various communities,” Pretlow said. “There are a lot of industries that do benefit from the state giving them a helping hand.”

Marc Dunbar, a Florida horse racing lobbyist and attorney who used to own a track, said New York’s support for NYRA is unique.

“It is a legacy level of sponsorship that can’t really be justified by any public policy or any basis in studied, reasoned economic incentives,” Dunbar said. “It just is tradition.”
Decoupling

New York and multiple other state legislatures have recently contemplated so-called “decoupling” — dividing horse racing from public payouts.

Florida lawmakers decided last year that video slots didn’t have to be tied to harness racing, a move that is likely to lead to the closure of the last harness track in that state. Pennsylvania has debated slashing its support payments and reallocating those dollars for education scholarships.

In March, several groups, including People for the Ethical Treatment of Animals and New York Communities for Change, launched a six-figure advertising campaign urging lawmakers to reallocate horse racing subsidies to other causes, such as health care or education.
State Sen. Zellnor Myrie, D-Brooklyn, and Assemblywoman Linda Rosenthal, D-Manhattan, have a pending bill backed by those groups to redirect the approximately $230 million in video slots revenues that flow to horse racing each year to schools and human services.

In 2020, state Sen. Jessica Ramos, D-Queens, introduced a similar bill to shift those revenues to the Metropolitan Transportation Authority. The bill never passed.

NYRA is promised revenues from video slots located at Aqueduct through a 2008 agreement with the state. Other tracks and race horse breeders also receive a portion of revenues from video slots at casinos located at their tracks or at off-track betting locations through separate legislation.

About half of the net win from video slots, after prizes are paid out, flows into state education funding, while the remaining money is divvied between the racinos, horse
racing causes and the Lottery. Appelbaum, the leader of the Horsemen’s Association, said the state has at times struggled to site casinos due to local opposition, and may have lacked this revenue stream without the cooperation of race tracks.

Sen. Joseph Addabo, D-Queens, who chairs that chamber’s Racing, Gaming and Wagering Committee, staunchly backs the billions directed to horse racing through video slots subsidies and other means.

“In gaming, there are a lot of subsidies going on, but also jobs,” Addabo said. “What you don’t want are thousands of people out of work and not paying their taxes to the state and not buying things.”

Pretlow said the idea of taking video slots money away from horse racing “would kill the industry. The purpose of the legislation was to save the tracks and save the industry.”

New York’s horse racing insiders have been gearing up to protect their funding, if needed. In September, NYRA and thoroughbred and standardbred racing groups launched a coalition called We Are NY Horse Racing, pulling in support from organizations like the Saratoga Chamber of Commerce and the Building and Trades Council of Nassau and Suffolk counties. They point to the jobs created by the industry and its economic impact as reasons why state money should continue flowing to horse racing tracks and breeders.

**More than casino revenue**

Eleven other states fund horse racing through casino or video slots revenues, according to the American Gaming Association. But New York finances horse racing with more than VLT dollars.
In 2008, New York bailed NYRA out of bankruptcy, using $159 million to wipe away NYRA’s debts, according to the state comptroller’s office.

The state also signed a franchise agreement that gave NYRA the exclusive right to operate racing at Saratoga, Aqueduct and Belmont for the next 25 years.

“NYRA has successfully enhanced the quality of thoroughbred racing in New York by funding a robust purse account while completing important capital improvement projects to enhance the fan experience, modernize facilities and grow the sport,” McKenna said. “This was the intent of the franchise agreement reached between NYRA and New York state guaranteeing these funds through 2033.”

The franchise agreement also transferred ownership of Saratoga, Aqueduct and Belmont from NYRA to the state, which agreed to pay the local real estate taxes for the properties.

Since 2008, the state has paid more than $404 million in taxes for the three tracks, according to data from local and county taxing jurisdictions.
New York paid the property taxes for Belmont Park owed to Nassau County with this check in 2012. Source: Nassau County Treasurer’s Office

In contrast to NYRA’s $1 per year track leases, the state charges New York Arena Partners $2.24 million annually to lease part of the Belmont Park property, where a new arena for the New York Islanders and retail shops operate. The arena partnership makes “payments in lieu of taxes” to municipal agencies, according to a spokeswoman for the Empire State Development Corp.

NYRA is also exempt from paying state and New York City income taxes, but pays payroll and federal income taxes.

The 2008 agreement with NYRA said the nonprofit would pay the state an annual franchise fee equal to the lesser of either its adjusted net income or operating cash. NYRA has never paid a franchise fee to the state since the agreement was signed, according to the state.

The state also forgoes millions in tax dollars from sales tax exemptions for the training and maintenance of race horses and the sales of race horses. The Department of Taxation and Finance estimates that the state passes up $5 million annually by exempting the training and maintenance of race horses; it has no estimate for the exemption on the sales of race horses.

LeRoy, who studies government incentives, said most industries that receive multiple subsidies get temporary benefits to kick-start their economic development as they are getting off the ground. But horse racing is an old enterprise, and NYRA was in the red when its subsidy deals were set up.
“When you look at the deep subsidization of multiple forms of taxation (for horse racing), it says propping up,” LeRoy said. “It says deep entrenched corporate interests.”

**Economic impact**

Over time, the number of horses bred in the state, the number of races held, attendance at horse racing tracks and in-person wagering at the tracks and at off-track betting parlors have all declined in New York. The bright spot is mobile wagering, which skyrocketed in recent years, a phenomenon NYRA is tapping through its own mobile horse racing betting platform, NYRA Bets. On a national level, the 2021 New York Gaming Market Study found that mobile wagering has helped keep the total amount of money wagered from declining.

Ed Martin, president of the Association of Racing Commissioners International and former executive director of the New York Racing and Wagering Board, said subsidies for racing are a public policy decision, “just as the state subsidizes rural roads where there is not a lot of activity.”

The investments help keep farms operating and preserve green space, others added.

“What about those grooms? What about the guy that sells the food on Plainfield Avenue outside of Belmont Park? He’s probably putting three kids through college,” Faraldo, the standardbred association leader, said. “What do you want to do, take that money away from these hard-working people, move it over to some social program, which is popular today, become a socialist society in essence by picking on this industry?”

Despite its large investments in racing, the state has not conducted a study of the jobs produced by horse racing or its economic impact, a spokesman for the Gaming Commission said.

We Are NY Horse Racing claims a $3 billion economic impact and 19,000 jobs created across the state, ranging from trainers and veterinarians to track security officers and clerks. Those numbers come from a 2018 study from the American Horse Council, a national lobbying group for the equine industry.

Good Jobs First identified several major deficiencies with the study.

“Those numbers are baloney — simply wrong,” Zimbalist, the sports economist, said. “Let’s say Saratoga, Aqueduct and Belmont all disappeared. People who normally would have gone to the race track are now going to do some other entertainment. ...
Those entertainment venues will now have to hire more people to service the additional people going to their events.”

Zimbalist said the only net positive economic impact from New York racing is if it draws attendance from other states. A 2014 survey conducted by NYRA found 39 percent of attendees at Saratoga Race Course came from out of state.

A more rigorous study of the economic impact of horse racing, which focused on just the Saratoga Race Course, the most successful track in the state, found in 2014 the operation generated a regional economic impact of 2,590 jobs, $101 million in wages and earnings, and $237 million in sales (economic output). It also contributed $6.8 million in local government revenue and $7.4 million in revenue for state government.

Bennett Liebman, a former New York deputy racing and gaming secretary, wrote an analysis on why jobs numbers boasted by the New York horse racing industry — in the past, claiming 35,000 and 40,000 jobs at various times — are inflated.
“We may not know how many jobs (the industry) has produced, but it is certainly nowhere near the levels that the surveys authored on behalf of the industry have indicated,” he wrote.

Roughly 2,000 full-time, seasonal and part-time employees worked at Saratoga Race Course in 2021, McKenna said, and many employees shift between NYRA tracks.

The New York Thoroughbred Horsemen’s Association counts up to 2,500 trainers and grooms working the backstretch and not employed by the tracks, Appelbaum said.

“These are the sorts of jobs that are disappearing downstate and provide a real opportunity for immigrants and local residents alike to work without having earned an advanced degree,” Appelbaum said.

JMS Advisors, a firm hired by the Empire State Harness Horse Alliance, found in 2020 that the entire standardbred racing industry in New York, including seven tracks, produced 3,949 jobs in 2018 — direct and indirect — and produced a $462 million economic impact.

Still, Sauer, the economist, said racing may have to start thinking about its “post-subsidy plan,” as various interests compete for state support.

“This is a political tug of war which will continue.”