

## **Testimony before the House Agriculture and Rural Affairs Committee**

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Good morning Chairman and Members of the Committee. Thank you for providing Pennsylvania's horse racing and horse breeding industry with the opportunity to comment on House Bill 1983, legislation introduced by Chairman Marty Causer. As you know, I serve as the Executive Secretary of the Pennsylvania Horse Breeders Association, an organization made up of the Commonwealth's thoroughbred horse breeders. I would like to add, however, that the views I will provide in my testimony today on House Bill 1983 are shared by the six horsemen and breeders organizations that make up the Pennsylvania Equine Coalition.

Members of the leadership of two of those organizations are with me here today. Russell Williams of the Standardbred Breeders Association of Pennsylvania will also be providing testimony. In addition, Todd Mostoller of the Pennsylvania Horsemen's Benevolent and Protective Association, which represents the horsemen at Penn National Racetrack and Presque Isle Downs is here to answer any questions the committee may have. Other members of the coalition include the Pennsylvania Thoroughbred Horsemen's Association, the Pennsylvania Harness Horsemen's Association, and the Meadows Standardbred Owners Association.

H.B. 1983 addresses the upcoming sunset of language related to how the Commonwealth's Pennsylvania Race Horse Testing Program is funded through the Race Horse Development Trust Fund. The first thing I want to make very clear is that every stakeholder organization in our industry supports a robust testing program. It is important to our owners and trainers that we maintain the integrity of our sport, ensure that our equine athletes are being treated properly, and that we have a level playing field, where everyone is abiding by the same rules. It is also important to individuals who wager on horseracing, as those individuals want assurances that the outcomes of races are fair and not influenced by other factors.

The industry appreciates the forward thinking of Chairman Causer in preparing legislation that addresses this sunset and would like to request that the committee consider amending the legislation. I will provide more detail on that later in my testimony.

As members of the Agriculture Committee may recall, this funding mechanism was established as part of Act 114 of 2016, the Race Horse Industry Reform Act. It followed a crisis in the industry when the Wolf Administration threatened to shutdown racing in the fall of 2015 due to funding shortfalls for the operation of the state's horse racing commissions. Pennsylvania's horsemen and breeder organizations stepped up and agreed to fund the state's testing program – and to do so out of the Race Horse Development Fund. This decision was not without impact to our industry as the money that now goes to cover the costs of testing by the State Horse Racing Commission comes out of money that would have gone to fund our racing purses. As a result, every dollar that goes to fund testing results in a dollar less that is available for purses.

By way of background, prior to the legalization of slot machines in the mid-2000s, track operators contributed to racing purses with a percentage of the money that was gambled on horse racing. This came from a portion of the takeout. Similarly, a portion of that takeout rate was provided to the state, where it was used to fund the state thoroughbred and harness racing commissions, as well as provide breeder incentives.

For those who may not understand how our industry works, the purses and breeder incentives that are funded through the Race Horse Development Trust Fund are the lifeblood of our industry. Purses are paid out to the top finishers in a given race. That money is then used to pay for the services and goods that are necessary to get a horse in the condition necessary to compete in a race – from birth until they first step foot on a track two, three, or even four years later. The money is used to pay trainers, grooms, jockeys, drivers, hot walkers, exercise riders, blacksmiths, veterinarians, equine dentists, and more. It goes to pay for the cost of transportation and boarding, as well as purchasing farming equipment, new barns, and fencing. It covers the cost of feeding the horse, including purchasing hay and alfalfa, as well as grain. It covers the cost of purchasing straw for bedding. And it helps to cover the upfront cost of purchasing a horse from a breeder.

Similarly, breeder incentives are important because they provide extra incentive for individuals, when purchasing a horse, to buy a horse that is bred in Pennsylvania. It helps to increase the demand for Pennsylvania horses and ensure there is a market for the hundreds of thoroughbred and standardbred breeders in the Commonwealth. It enables them to make improvements to their farms, purchase equipment and supplies from Pennsylvania based small businesses. It enables them to support their family and keep their family operated farm up and running.

Together, the purses and breeder incentives help to fuel our entire industry, which in turn benefits the Commonwealth's larger agriculture sector and the entire Pennsylvania economy. In total, our industry is responsible for more than 20,000 jobs in the state and provides an economic impact of \$1.6 billion. In addition, horsemen and breeders are directly responsible for the preservation of more than 100,000 acres of open space.

As I alluded to earlier, the process of preparing a new born horse or foal to reach its racing form is a long-multi-year process that requires a significant upfront financial investment. So when an individual is looking to purchase a horse, they look at the overall health of a given state's racing and breeding industry. They conduct a cost-benefit analysis like any other smart investor would do. They take into consideration the amount of purses and breeder incentives that are available in a given state. They look at the long-term stability of the funding source. Then they decide whether to purchase a horse bred in Pennsylvania, Kentucky, Florida, Ohio, California, or any number of other states.

When the discussions were occurring about legalizing slot machines, track operators, horsemen, and legislators knew that adding a new form of competition for gambling dollars would result in less betting on horse races. As a result, the track operators agreed to continue to supplement the racing purses, but with a portion of the revenue the tracks earned from slot machines. This also provided an added benefit, ensuring that the economic benefits of expanded gaming would not be limited to a 10 miles radius around casinos, but would be spread to rural communities throughout Pennsylvania that rely on our agricultural industry. And it worked.

From 2004 through 2009, Pennsylvania saw a tremendous increase in the number of horse breeders in our state and the demand for Pennsylvania-bred and Pennsylvania-sired thoroughbreds and standardbreds was at record levels. Then, in 2009, amid the economic crisis, Governor Ed Rendell approved the transfer of approximately \$45 million per year for four years from the Race Horse Development Fund – money intended for purses and breeder incentives – to help fill funding gaps in the state’s General Fund. This had an immediate chilling effect on our industry as it called into question the long-term stability of Pennsylvania’s purses structure and incentives for breeders. Demand for Pennsylvania bred and sired horses dropped dramatically. We also saw a severe drop in the number of new breeding farms that were opening in Pennsylvania.

Beginning in 2009, Pennsylvania’s horse racing and breeding industry was dogged annually during the state budget process with threats of drastic cuts to the Race Horse Development Fund. The repeated threat of fund diversions during the annual budget process caused businesses and investors to question the long-term viability of the state’s breeding and racing industries. This had a chilling effect, as businesses and investors that conducted cost-benefit analysis of the long-term health of the industry were unwilling to relocate to the state or invest in Pennsylvania-bred horses because of the perceived instability of purses and breeders incentives that are the lifeblood of the industry.

In total, more than \$380 million has been transferred out of the Race Horse Development Fund in the past ten years to fund various budget shortfalls and government programs. And for each of the past five years, more than \$19.6 million has been transferred out of the Race Horse Development Fund to fill holes in the Department of Agriculture’s budget.

To address national concerns about the stability of Pennsylvania’s racing and breeding industry, the members of the Pennsylvania Equine Coalition worked with the legislature to include language in Act 42 of 2017 to convert the Race Horse Development Fund into a trust. The legislative intent of the trust fund language was to provide some measure of fiscal certainty in order to entice new businesses and individuals to invest in Pennsylvania’s racing and breeding industries.

This trust fund language built on legislation approved in 2016 that made modifications to the state’s breeding program. Those legislative changes allocated more funding to enhance Pennsylvania sired horses through improved incentives. We worked closely with Chairman Causer and the committee on this important language and appreciate your support.

The trust fund language and changes to our PA Sired Program had an immediate positive impact, resulting in significant increases in Standardbred and Thoroughbred breeding. This occurred at a time when national breeding trends have been on a downturn. The certainty and security created by the trust fund language spurred new business investment in the state’s economy, such as the \$5 million invested by two business partners to open Silver Springs Ranch, a new 76-acre harness training facility in Wyoming County.

For thoroughbred breeding, Pennsylvania is the only state with an increase in mares bred for each of the last three years. Most states, including Kentucky, are down significantly during that same time frame. Pennsylvania mares bred are up 47 percent while the national average is down 15.8 percent according to the Jockey Club. Since the Race Horse Development Trust Fund language was established in 2017, more than fifteen quality breeding stallions have entered the state, bringing hundreds of mares and millions of dollars in additional investment to Pennsylvania.

For Standardbred breeding, the 2019 Standardbred Horse Sale at the Pennsylvania Farm Show Complex saw the highest average total sale in history for the Standardbred industry, the highest total investments by international buyers in decades, and the highest Syndication of a Standardbred stallion in history (\$14.7 million, largely by international investors). This stallion will domicile in Pennsylvania and the mares bred to the stallion will also domicile in Pennsylvania, bringing additional economic impact.

I provide this background because I think it is important to understand where we have been and where we are today. It also provides important insight into how Pennsylvania's horsemen and breeders approach and evaluate legislation and state budgets that impact our industry. We are constantly evaluating issues through the eyes of those who we want to invest in horse racing and breeding in Pennsylvania. We are taking into account how those investors will perceive the long-term stability and viability of our industry. So it is through that prism that our industry stakeholders looked at House Bill 1983.

Let me begin by saying that we believe it is entirely appropriate for our industry to pay for the costs for testing. We believe it is an important undertaking and necessary to maintain the integrity of the sport and the public trust. So in that respect, we fully support the continued funding for testing out of the Race Horse Development Trust Fund.

One issue we would ask that the committee consider is a change to the language of this extension. Rather than make the funding extension permanent, the Pennsylvania Equine Coalition would ask that you consider extending the sunset provision another three years. We also ask that you consider adding a provision that requires an annual audit or accounting of how this money is spent. We ask that you do this for several reasons.

First and most importantly, extending the sunset provision by a certain number of years and requiring an audit will help to ensure that the House and Senate Agriculture Committees, as well as the legislature as a whole, preserve their full oversight authority. As it stands now, the amount of money that is transferred from the Race Horse Development Trust Fund to pay for testing has no cap. Currently, the State Horse Racing Commission can request any amount that it deems necessary based on input it may receive from the New Bolton Center.

So we believe this suggested language related to an extension and annual audits is important to maintain proper oversight and ensure the money is being spent as intended. It will also help to ensure that the Department of Agriculture is held accountable in terms of its spending. We believe this oversight is necessary to ensure that the programs or capital investments that may be funded with this money are related the horse racing industry.

We believe this is important given some of the recent history within the Department of Agriculture in terms of how the department has utilized money intended for the operation of the State Horse Racing Commission. More specifically, in June 2014, Auditor General Eugene DePasquale released a report that highlighted the ongoing diversion of racing funds by the Department of Agriculture to plug holes in the department's budget. According to the Auditor General, the Department of Agriculture overbilled the State Racing Fund by \$873,206 for three years to cover budget shortfalls and directly billed another \$5.2 million over four years for personnel costs it could not appropriately document.

Given that backdrop, the Pennsylvania Equine Coalition believes it is important to maintain a “trust but verify” approach in terms of how the Department of Agriculture utilizes the money it receives from the State Racing Fund, as well as the Race Horse Development Trust Fund.

There is a second but equally important reason that we ask the committee to extend the sunset date for the funding of testing as opposed to making it permanent. And this reason goes back to some of the issues I raised earlier related to the need to maintain stability in order to ensure there continues to be long-term investment in Pennsylvania breeding and racing, which benefits the Commonwealth’s larger agriculture sector.

As I mentioned, those individuals who are considering investing in Pennsylvania’s racing and breeding industry are constantly evaluating the strength of our state’s purse structure. That purse structure is dependent on the money that goes into the Race Horse Development Trust Fund from casinos’ slot machine terminal revenues. As the Commonwealth has expanded legalized gaming options, we have seen a decrease in the amount of money that goes into the Race Horse Development Trust Fund.

This year, for example, the Governor’s budget projects that the Race Horse Development Trust Fund will take in \$234 million in receipts. This is down significantly from 2011, prior to the introduction of table games, when the fund took in \$280 million. At this point, there remains great uncertainty about how much money the trust fund will continue to take in for future years. There will be impacts from the opening of new Category 4 casinos, which will have slot machines that do not contribute a portion of their revenues to the Race Horse Development Trust Fund. In addition, we are still waiting to see how the impacts of online gaming will impact slot machine revenues. And the continued growth of games of skill also pose a continued threat to slot machine revenues.

With the future revenues to the Race Horse Development Trust Fund uncertain because of alternative sources of gaming, we have concerns about the amount of money that will be available for purses and the impact that will have on our industry as a whole. This is another reason we believe it is important to extend the sunset provision rather than make it permanent. It will provide the industry and the legislature with the opportunity to review the impact of expanded gaming on slots machine revenues and, by extension, our purse structure. If these impacts are severe and the legislature believes that the declines in the money available for purses is having a negative impact on the state’s larger agriculture industry, the legislature may want to evaluate alternative funding sources for the testing program.

For these reasons, the Pennsylvania Equine Coalition requests that you consider amending House Bill 1983 to provide for an extension of the funding mechanism for a period of three years, as well as include language that provides for increased oversight of how this money is utilized to ensure it is being used for its stated purpose and that there is an adequate return on that investment.

Thank you again for the opportunity to share the views of the Pennsylvania Equine Coalition with the committee today. I have some additional remarks related specifically to investments made by the Pennsylvania Horse Breeders Association into some cutting edge research at New Bolton related to biomarkers, but I will reserve those comments for the question and answer period.