Mergers in the US Gambling and Horse Racing Industries: What It Means for Local Economic Development and Taxation

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Abstract

Even before the Covid-19 pandemic, most sectors of the various gambling industries in the United States were showing signs of stagnation. Over the last few years, these industries have seen mergers between horse racing tracks, between horse racing tracks and casinos to form "racinos", and between casino companies. Many gambling facilities and racetracks have closed and have been sold to developers to be used for other purposes. An industry "shakeout" is occurring, and there appears to be a trend toward greater industry concentration as consumers are showing less and less interest in gambling in general. This has been partially fueled by stagnation of disposable personal income over the last 20 years or so. Consumer preferences and attitudes also seem to have changed regarding horse racing and gambling. Sports gambling and the expansion of online gambling do not appear to have offset negative trends. These current conditions are somewhat a reversal of past fortunes in that in the 1980s and 1990s the opening of a casino in a city often was considered a plus for local economic development. As more consolidation and establishment closures occur, the impact on various local communities and state governments must be examined regarding lost jobs, lost local and state tax revenues, and lost tourism. This paper is an attempt to assess these developments.

JEL Codes: R11, R38, R58
Keywords: casinos, local economic development, horse racing, gambling

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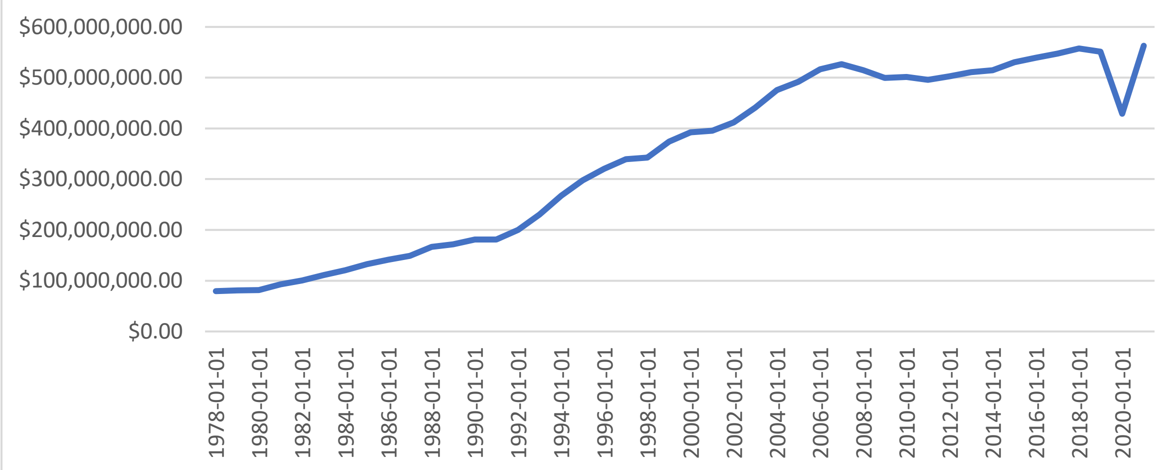
Introduction

During most of the last fifty years, state run lotteries and casinos outside of those run in Las Vegas, Nevada and Native American tribal nations have proliferated throughout the United States as prohibitions against gambling have been relaxed in many state and local jurisdictions (de Boer 1986, Mikesell and Zorn 1987, Guell 2010, Lambert, Srinivasan, Dufrene and Min 2010, Srinivasan and Lambert 2017). One of the reasons for relaxing prohibitions and changing (more favorable) attitudes toward gambling came from the needs of local and state governments to increase tax revenues and create more jobs for constituents. Gambling thus became part of an economic development strategy for many jurisdictions, although there has been mixed reviews regarding its efficacy for such purposes (Garrett 2003, Navin and Sullivan 2007, Walker 2007, Walker and Jackson 2007, Guell 2010, Wenz 2014). A few years ago, a federal law prohibiting gambling outside of Las Vegas on professional and college sports was struck down by the US Supreme Court (2018). Additionally, gambling on esports and online poker and other games have grown as the internet has opened virtual gambling venues for these games as well for horse racing, lotteries, and college and professional sports. For many decades prior to the lottery and casino growth, horse racing and charitable gaming were pretty much the only forms of legal gambling in the US outside of Las Vegas (Lambert 2023). Many other forms of gambling were often part of an underground economy.

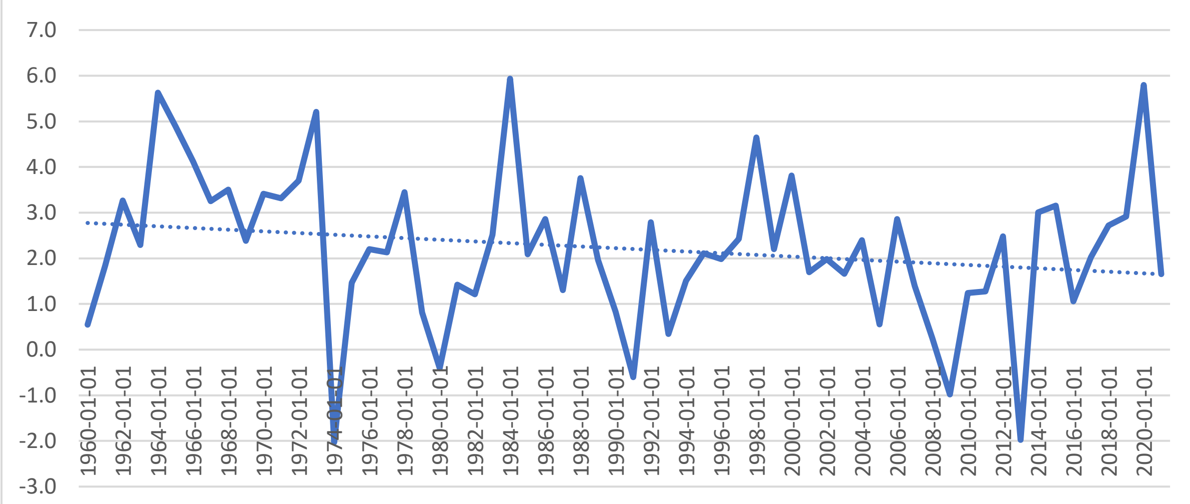
Despite more opportunities for legitimate gambling than ever before, overall gambling in the US appears to have reached a peak or even started to decline. Lambert (2023) notes that inflation adjusted revenues for lotteries have stopped growing whereas revenues for casinos and horse racing have declined. Since most sports gambling in the US is offered by casinos and/or their subsidiaries, even the growth in sports gambling in many US states over the last five years has not helped casino revenues (Lambert 2023). Figure 1 shows inflation adjusted personal consumptions expenditures on gambling (lotteries, casinos, sports gambling, parimutuel wagering) in the US from 1978 to 2021. After strong growth during the 1980s and the 1990s, gambling expenditures peak a year or two before the onset of the Great Recession of 2008-09 and have since struggled to grow again. Expenditures have rebounded since the worst part of the pandemic of 2020, but their growth rate still lags behind those of earlier years. In fact, the shape of Figure 1 is somewhat similar to that of the product life cycle curve which shows the progressions of a product’s or service’s sales over time in several stages (Levitt 1965). An introduction stage is when the product is first introduced and has a low amount of sales; a growth stage is where the product sees rapidly growing sales and market share not long after introduction; and then a maturity stage shows high, but steady and unchanging sales as time goes by. There is the possibility that sales of the product go into decline as the product or product genre becomes obsolete or unpopular (e.g., black and white TVs, cigarettes, etc.). Finally, according to Lambert (2023), since gambling is shown in his analysis and cited by most economists as a luxury good and driven by disposable personal income (DPI), lower growth rates over the last several decades in US real DPI is one reason for gambling stagnation. Since the 1960s, there has been a downward trend in the rate of DPI growth (see Figure 2).

Fig. 1: Inf Adj Personal Consumption Exp on Gambling, US Billions $



Source: U.S. Bureau of Economic Analysis, Real personal consumption expenditures: Services: Gambling [DGAMRX1A020NBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DGAMRX1A020NBEA, December 17, 2022.

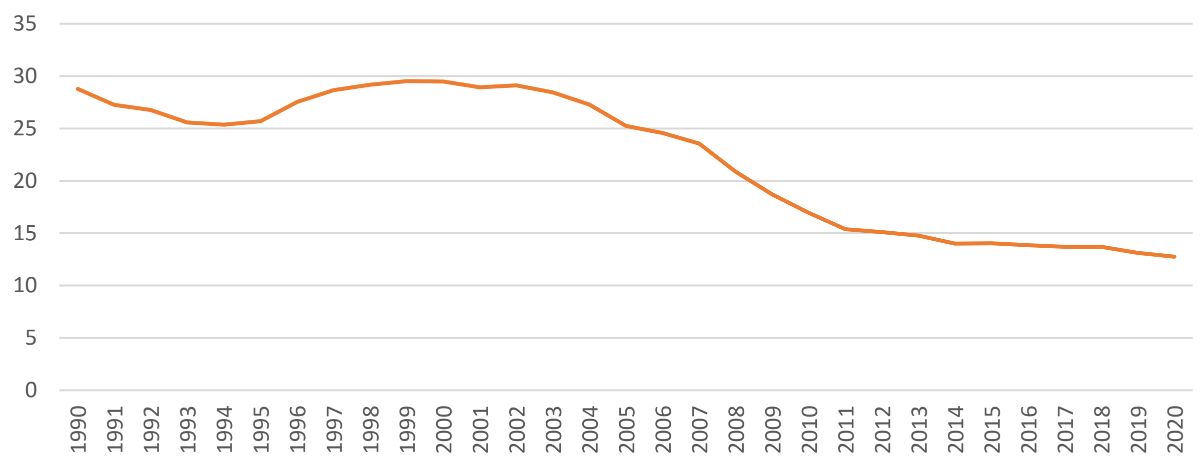
Fig. 2: Real DPI Per Capita, Percent Change from Previous Year



Source: U.S. Bureau of Economic Analysis, Real Disposable Personal Income: Per Capita [A229RX0A048NBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/A229RX0A048NBEA, December 17, 2022.

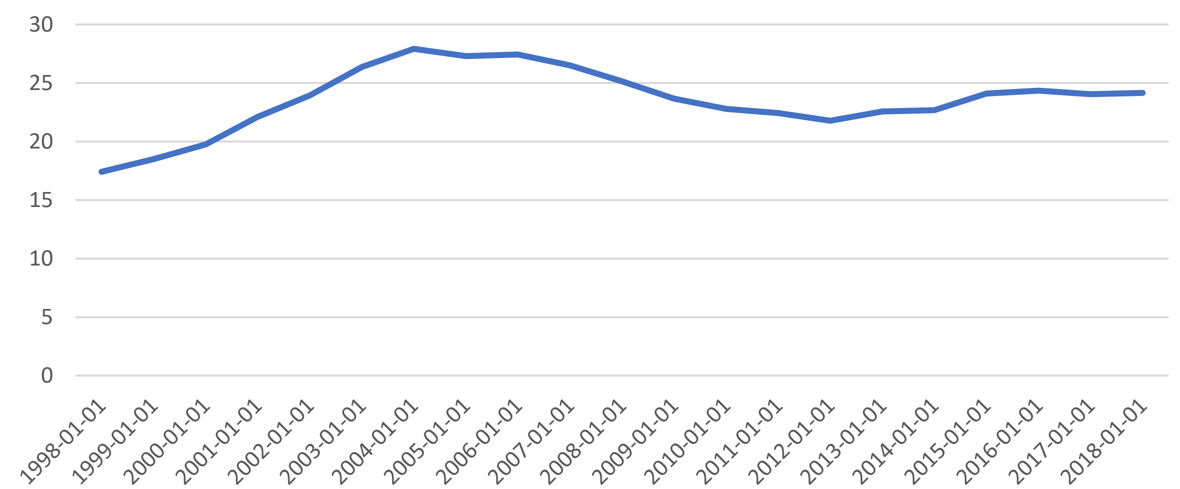
Around 60% of the US adult population claims to have gambled within the last year, and for most, this is a few dollars per month spent on lotteries according to most sources (National Council on Problem Gambling 2022). For US casino and horse racing revenues on an inflation adjusted and per capita basis, Lambert (2023) displays results shown in Figures 3 to 5. This has occurred as the number of racetracks, races, and commercial casinos have declined over the years and the total number of firms classified as members of the gambling industries has peaked (see Figures 6 to 9). Nonetheless, there is still a great degree of revenue per casino or even per race (see Figure 10) as firms have scaled back by closing facilities or limiting operating hours or the number of races per meet. At the same time, given that “brick and mortar” casinos and racetracks employ more people than lotteries, virtual machines, and sports gambling apps firms, the overall decline in revenues cannot be welcomed by either industry or for the jurisdictions which depend upon these industries for tax revenues or jobs.

Fig. 3: Per Capita Inflation Adj On and Off Track Betting. Horseracing, (1982-84 base)

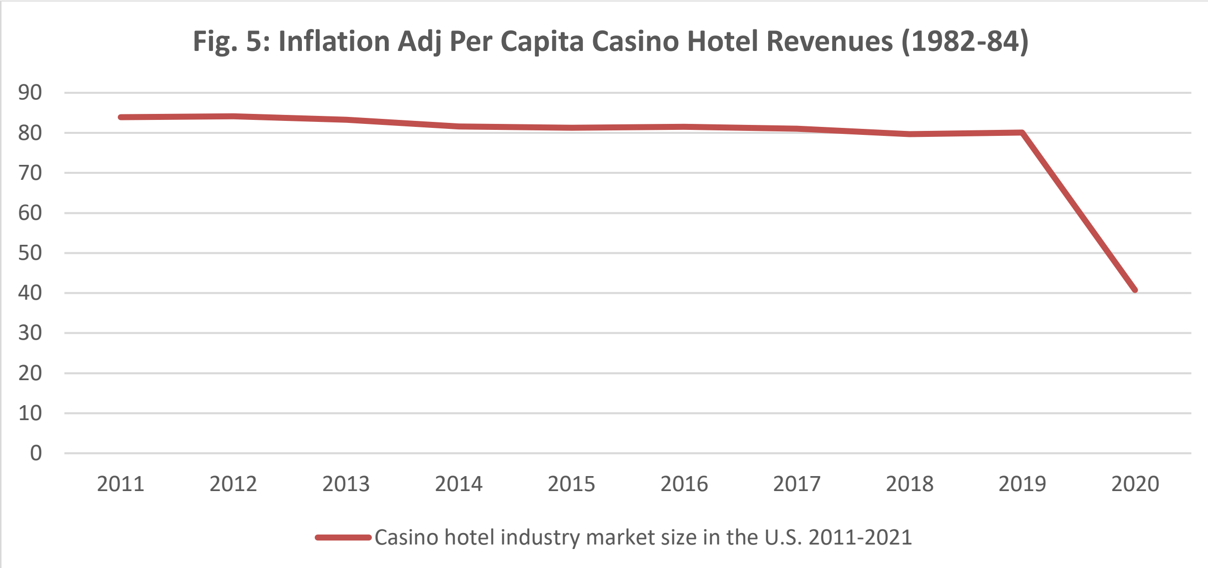


Source: US Jockey Club and Equibase Company LLC, CHRIMS (Comprehensive Horse Racing Information Management Systems), and Hipodromo Camarero, 1990-2020a. http://jockeyclub.com/default.asp?section=FB&area=8 . Accessed on June 22, 2021..

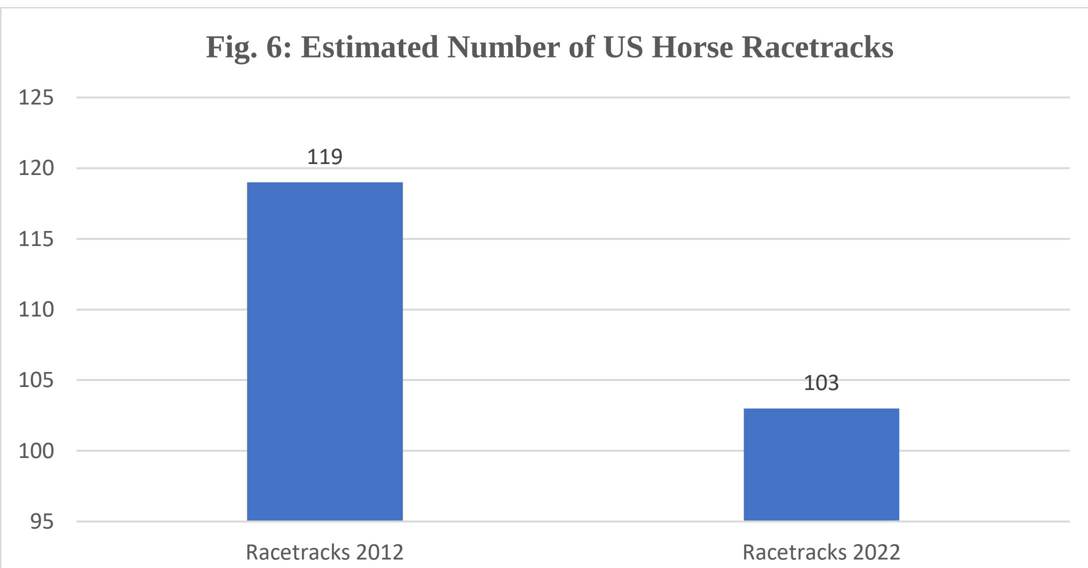
Fig. 4: Per Capita Inflation Adj Casino Revenues (1982-84 base)



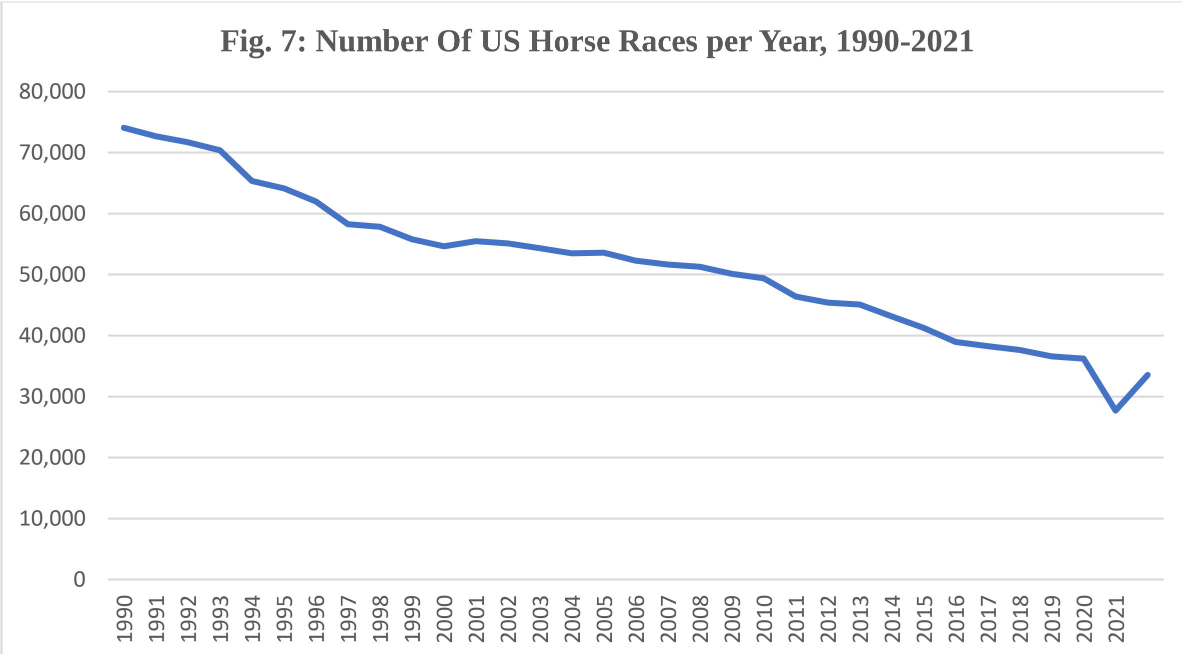
Source: U.S. Census Bureau, Total Revenue for Casinos Excluding Casino Hotels, Establishments Subject to Federal Income Tax, Employer Firms [REVEF71321TAXABL], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/REVEF71321TAXABL, June 22, 2021



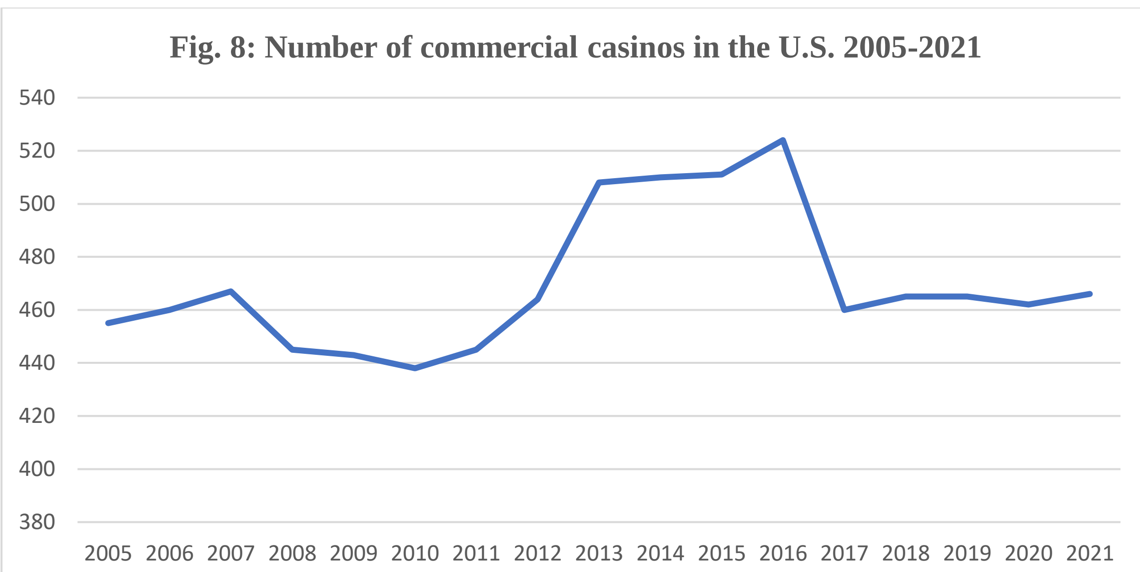
Source: IBISWorld. (December 22, 2020). Market size of the casino hotel sector in the United States from 2011 to 2020, with a forecast for 2021 (in billion U.S. dollars) [Graph]. In Statista. Retrieved June 22, 2021, from https://www-statista-com.echo.louisville.edu/statistics/1174152/casino-hotels-industry-market-size-us/



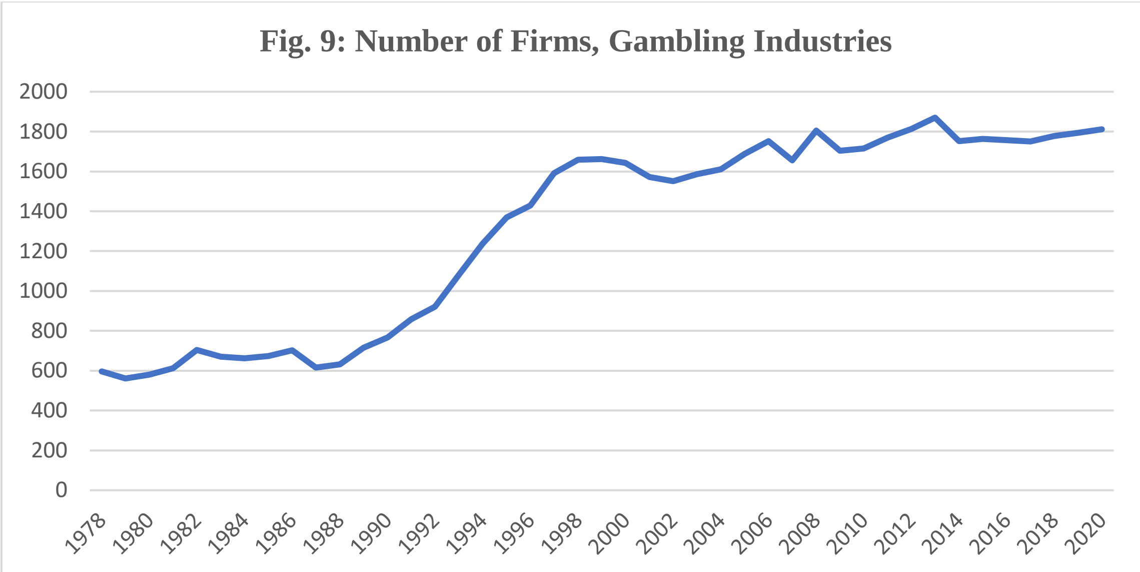
Source: 2012 Economic Census for NAICS Industry 7112123, Horse Racetrack Operation and estimates based on listing in Shuttered US Racetracks (Since 2000) in Patrick Batuello's (2022) *Horseracing Wrongs* (https://horseracingwrongs.org/shuttered-u-s-racetracks-since-2000/).



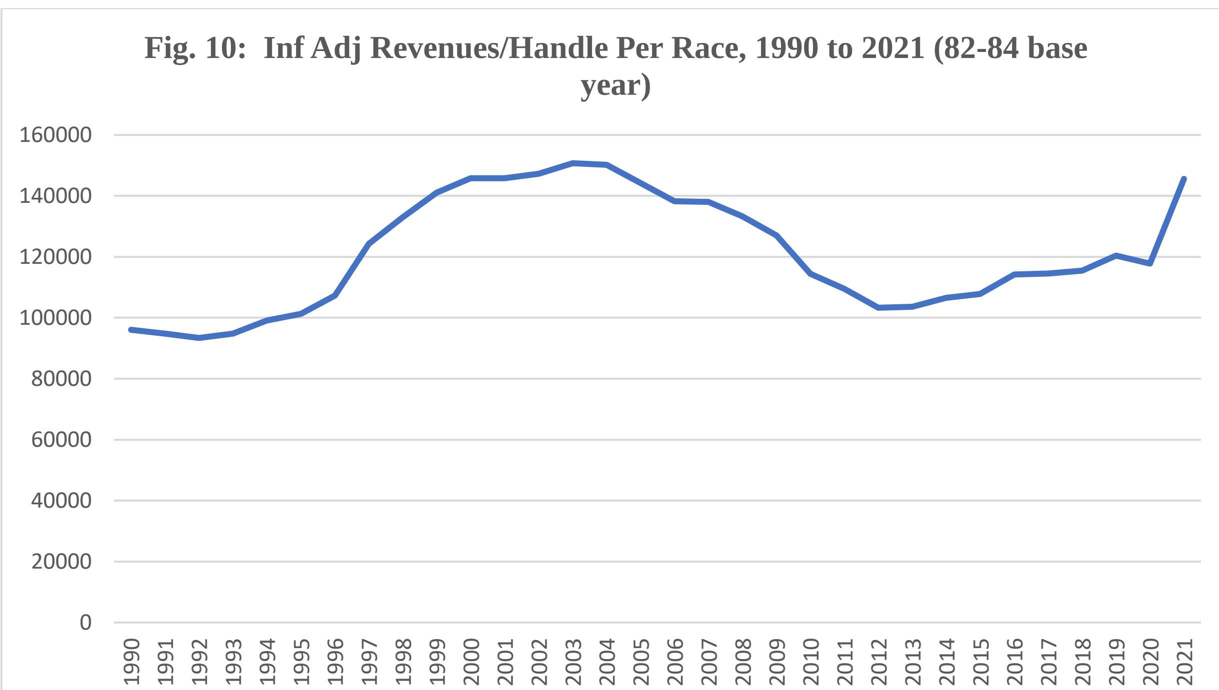
Source: US Jockey Club and Equibase Company LLC, CHRIMS (Comprehensive Horse Racing Information Management Systems), and Hipodromo Camarero, 1990-2020b. *North American Races*. https://jockeyclub.com/default.asp?section=FB&area=6 . Accessed on December 20, 2022.



Source: American Gaming Association (2022).



Source: US Census Bureau, Business Dynamics Statistics: Geography: 1978-2020, NAICS 7132, https://data.census.gov/table?q=naics+7132&tid=BDSTIMESERIES.BDSGEO .

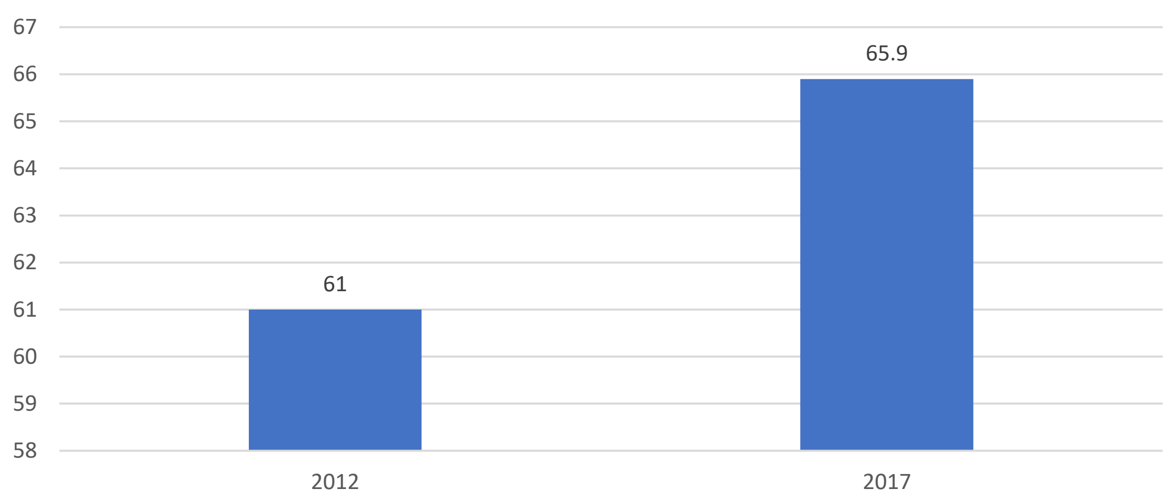


Source: US Jockey Club and Equibase Company LLC, CHRIMS (Comprehensive Horse Racing Information Management Systems), and Hipodromo Camarero, 1990-2020b. *North American Races*. https://jockeyclub.com/default.asp?section=FB&area=6 . Accessed on December 20, 2022.

Industry Stagnation, Retrenchment, and Mergers in Racing and Casinos

Because of aggregate gambling revenues stagnating and because of increasing and intense competition among the different forms of legal gambling where competitors mostly draw market share and sales away from each other but there is virtually no net aggregate gain (Lambert 2023), mergers and buyouts of competitors have become common in the gambling industry, especially among and between casinos and racetracks, over the last 10 years or so. The last 20 years or so have seen the dawn of what has become known as the "racino", a hybrid business which is a combination of racetrack and casino. Such venues can now offer patrons gambling year-round instead of just when there are horse racing meets. Finally, as Figure 11 displays, there is becoming greater concentration of sales (and probably profits) among the top firms in the gambling industries. In 2012, the top 50 out of roughly 1800 firms (the top 3%) in the gambling industries has around 61% of the total revenues whereas in 2017 it is close to 66%. Because of continued mergers and acquisitions, the 2022 US Economic Census will probably show greater concentration. In recent years, a premier US racetrack such as Churchill Downs has acquired several other racetracks, racinos, and casinos throughout the US including 2 in the state of its headquarters, Kentucky. In fact, only 25% of Churchill Downs Incorporated (CDI) revenues now come from operations at its track in Louisville, Kentucky. Such was not the case several decades ago (Barton 2017). Finally, the merger in 2020 between casino corporations Caesars Entertainment Corporation and Eldorado Resorts Inc. has gone down in history as one of the largest US corporate mergers in history at a value of $17.3 billion and resulted in the creation of the largest gaming corporation in the US (Hidalgo 2020).

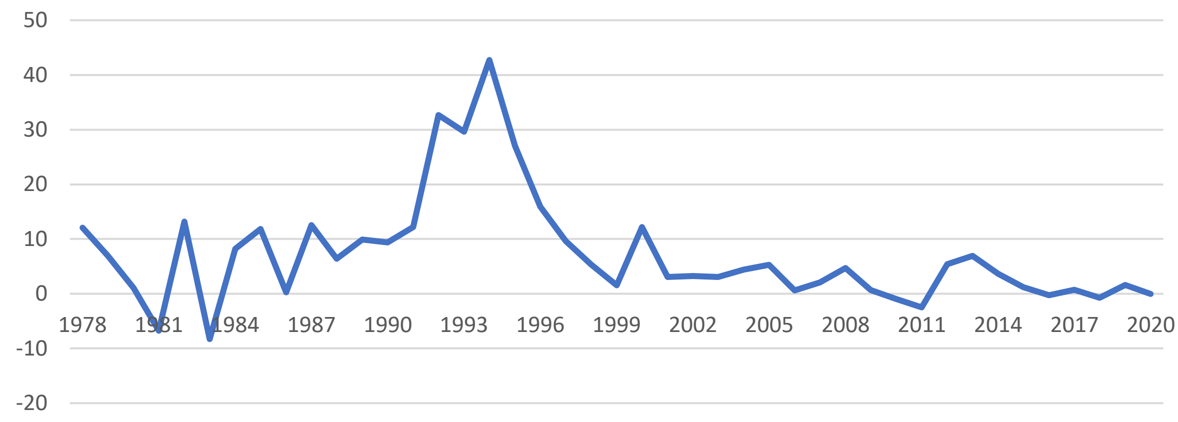
Fig. 11: Revenue of Top 3% of Firms of Total Industry Revenue (%)



Source: US Census Bureau, 2012 and 2017 Economic Census, NAICS 7132, Gambling Industries, ECN Core Statistics Economic Census: Establishment and Firm Size Statistics for the U.S.

Additionally, net job growth has virtually ground to a halt in the gambling industries thanks to market saturation. Figure 12 demonstrates this. During the 1980s and 1990s casinos were an important part of local economic development strategies partly because of their job creation potential. With industry stagnation, such is no longer the case. In fact, between 2012 and 2017, the total number of jobs in the gambling industry fell from 149,275 to 134,938 according to the US Census Bureau (2012 and 2017).

FIg. 12: Rate of net jobs created/destroyed from expanding/contracting and opening/closing establishments, last 12 months

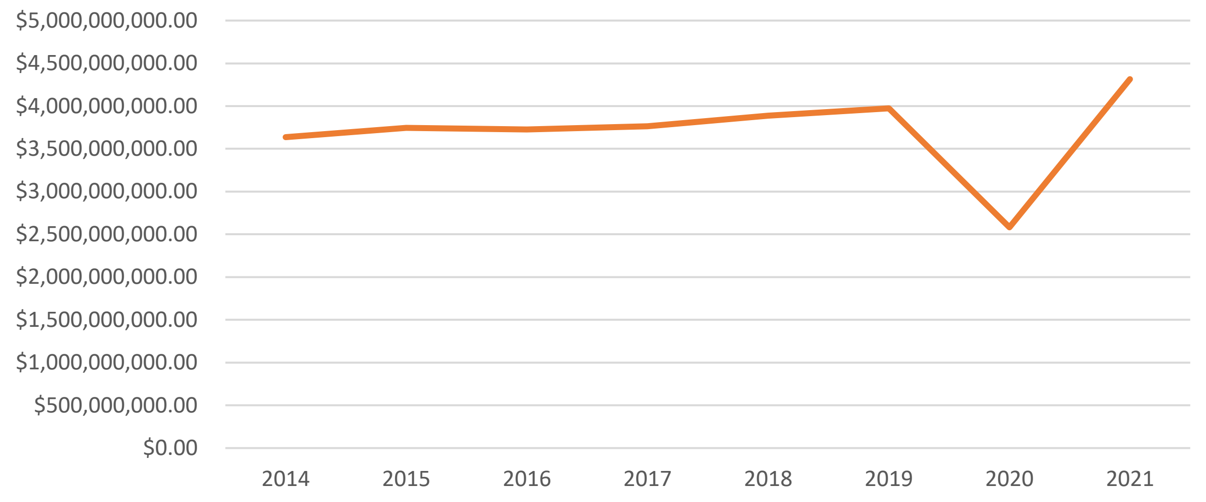


Source: US Census Bureau, Business Dynamics Statistics: Geography: 1978-2020, NAICS 7132, https://data.census.gov/table?q=naics+7132&tid=BDSTIMESERIES.BDSGEO

State and Local Economic Development and Fiscal Consequences

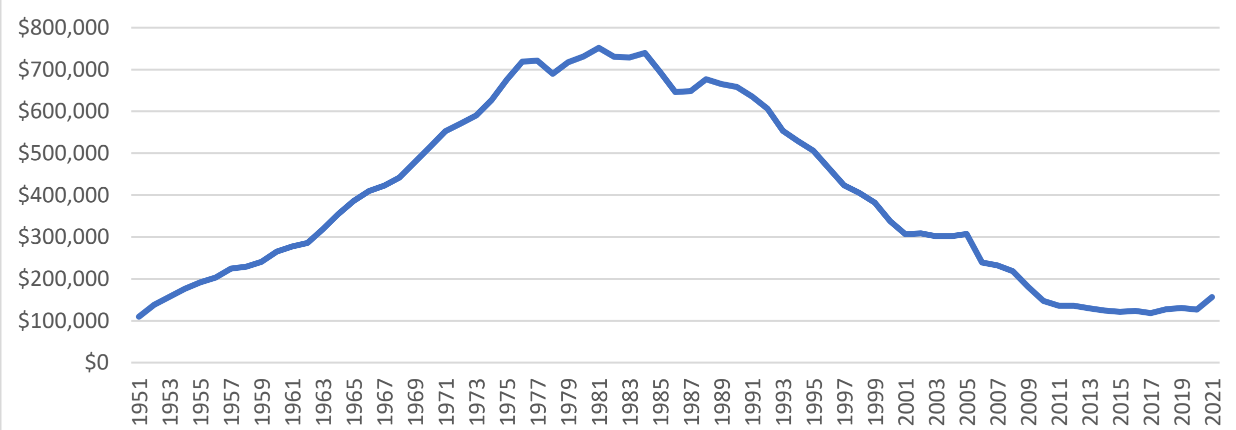
Despite the rhetoric over the benefits from gambling on state and local economic development and tax revenue enhancements, most students and observers of the gambling industry have pointed out that the job creation and tax benefits from expanded gaming have been exaggerated, that any additional revenues created are usually a small portion of overall federal, state, and/or local tax revenues, and that tax revenues have stopped growing when adjusted for inflation since before or after the Great Recession (Guell 2010, Dadayan 2016, Srinivasan and Lambert 2017). According to the AGA (2022, 2021, 2020, 2019, 2018, 2017, and 2016) gambling revenues among US states where any form of commercial gambling is legal have only been climbing slowly from 2014 to 2021 as Figure 13 demonstrates, and direct taxes on gambling/wagering consist anywhere from 22 to 23% of these revenues on average. These do not include property taxes or other income or sales taxes paid by gambling entities. Yet when looking at the taxes that they have reported as being paid over the years, these taxes make up slightly less than 1% of the tax collections of all 50 states and at the most 2% of the tax collections in states where commercial gaming is legal when looking at Census data for state tax collections (US Census Bureau 2014-2021). For horse racing, the tax contribution is even smaller as Figure 14 displays declining parimutuel wagering revenues for those states which permit this form of gambling. These figures underscore previous writings on how gambling tax revenues do not really contribute that much to state and local tax coffers and how these forms of tax revenues cannot be relied upon for future growth and stability.

Fig. 13: Inf Adj Commercial Gaming Revenues (82-84 base year)



Source: American Gaming association, 2016 to 2022.

Fig. 14: Parimutuel Tax (Horseracing taxes) Revenues to State Governments, Thousands, NOT inflation adjusted, 1951 to 2021



U.S. Census Bureau. (1951-2021). *Annual Survey of State Government Tax Collections Datasets.*

Conclusion

Unlike past decades, rapidly rising tax revenues from casino and racing gambling taxes will probably no longer exist. In fact, and at best, these revenue streams will probably either flatline or decline. This comes even as more and more states add sports gambling and other forms of gambling to their lists of legitimate forms of gambling because as Lambert (2023) points out, casino revenues already take in sports gambling revenues just as taxes from gaming include taxes on sports wagering and betting. According to Lambert, sports gambling revenues have offset declines in other forms of casino gambling so that in the aggregate there has not been much change. Therefore, it is unlikely that sports gambling will yield any “windfalls” in gambling tax revenues.

In the meantime, as venues either shutter or quit opening or expanding, employment will continue to decline in the gambling industry. In addition to stagnation in direct taxes on gambling and wagering, taxes from gambling employment (payroll taxes, sales taxes paid by employees when they shop, etc.) and income taxes on gambling profits will also continue to decline. In the 1980s and 1990s, gambling was seen as a boon to many states and localities as incentives were given to casino operators to locate in certain jurisdictions. The resulting revenues did help state revenue and employment problems, but those days are now long passed as gambling probably has reached the mature part of the product life cycle stage. It remains to be seen what state and local governments will try to do next regarding their attempts to boost tax revenues without raising traditional taxes in the areas of property, sales, or income taxation. The growth in gambling tax revenues, jobs, and the spinoff economic effects and benefits of the gambling industry (more tourism, more hotels, etc.) will now longer be what they have been in the past. New economic development strategies will have to be entertained as the gambling industry stagnates.

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