

ORIGINAL
ECONOMIC IMPACT ANALYSIS
ERIE RACETRACK
Erie, Pennsylvania

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Erie Racetrack Economic Impact

Introduction

Mountaineer Racing Corporation is proposing the construction and operation of the new Presque Isle thoroughbred racetrack, to be located near the intersection of Interstates 90 and 79 in the northwestern Pennsylvania city of Erie. The racetrack is expected to offer a live racing schedule beginning in the first year of operation with 50 days of live racing, and increasing to 120 race days by the fifth year of operation. The facility will offer live entertainment and several dining options in addition to the live and simulcast racing. Construction on the facility and grounds is scheduled for completion over a time frame of approximately one year, at a cost of \$26.1 million, not including furnishings and fixtures.

A racetrack is capable of generating significant economic impacts to its local community or region, as a wide variety of industries are supported by the day-to-day operations. In addition to the wholesale purchase of goods to be sold to the public, ranging from food in the restaurants to paper in the Autototes, the agriculture industries supply a variety of goods and services to the track and horsemen. This can also generate demand for farm/barn construction and operation in the area, as well as veterinary services. As these are all labor-intensive industries, a significant amount of labor demand can be expected. As a result, the racetrack development should be a significant addition to the Erie economy.

This economic impact assessment will evaluate the benefits to the local, regional and State economies as a result of the racetrack construction and development, including the incremental spending, employment, earnings and taxes that will be generated. The impacts can be expected to occur in two phases. The first wave of economic benefits will occur during the construction phase. These benefits are temporal in that their impact will only be felt during the course of construction, and slightly beyond due to secondary spending attributable to the initial expenditures, but would not recur annually during the operational years of the track. The second phase of economic benefits will result from the ongoing operations of the racetrack facility and ancillary operations. As it is expected that there will be a ramp-up in scale of operations in terms of the length of the live racing calendar, the impact will be demonstrated for the first and fifth years of operation, with the assumption that from the fifth year onward the impact would be comparable to the fifth year in real terms.

During the past eight years the country experienced the longest sustained period of economic prosperity in modern history. Unemployment rates fell sharply and production increased steadily. For most of the country the strengthening of the economy was obvious. However, in the Erie economy, the decline in unemployment rate from the early 1990's was not as substantial as it was in the rest of the state or the rest of the country. During the recession in the early 1990's, the unemployment rate in the Erie Metropolitan Statistical Area (MSA) was within 1/4 of a percent of the state average, with a slightly

greater differential versus the national average. However, the gap widened during the mid to late 1990's, as the discrepancy between the Erie and statewide unemployment rate averages grew to between .5 and .7%, and nearly a full percentage above the national average. With a slowing economy in 2001 and into 2002, the gap has narrowed again, back to the previous recession's differential levels. The development of the Presque Isle racetrack in Erie could therefore bring the unemployment rate in the area to the statewide average, or potentially below. The following table presents the comparative historical unemployment rates.

	Historical Unemployment Rates				Diff. ERIE MSA - U.S.
	ERIE MSA	PA STATE	U.S.	Diff. ERIE MSA - PA	
1990	5.81%	5.44%	5.62%	0.37%	0.19%
1991	7.22%	6.99%	6.85%	0.23%	0.37%
1992	7.73%	7.59%	7.49%	0.14%	0.24%
1993	7.08%	7.12%	6.91%	-0.04%	0.17%
1994	6.68%	6.18%	6.10%	0.50%	0.58%
1995	6.39%	5.88%	5.59%	0.51%	0.80%
1996	5.80%	5.31%	5.41%	0.49%	0.39%
1997	5.86%	5.18%	4.95%	0.68%	0.91%
1998	5.22%	4.63%	4.51%	0.59%	0.71%
1999	5.02%	4.40%	4.23%	0.62%	0.79%
2000	4.82%	4.18%	4.01%	0.64%	0.81%
Current	5.10%	4.60%	4.90%	0.50%	0.20%

Source: Bureau of Labor Statistics

The construction of the racetrack will provide an immediate stimulus to the local economy. The construction will require the employment of many city and regional workers, ranging from the construction industry to architecture firms and food and beverage establishments. The construction phase of the project will create a large number of short-term employment positions, as well as provide supplementary income and employment to those already with jobs. When operating, the racetrack will provide steady employment to workers from the city and throughout the state, not only within its walls, but also externally via the customer and agricultural service industries. With the current rate of unemployment at approximately 5%, and an economic slowdown in process, the supply of jobs in the market, both skilled and unskilled, could accommodate the vast majority of the area residents capable of and seeking employment. These jobs would include not only those inside the racetrack facility, but also those that will be created throughout the community as attributable to the Presque Isle development. Therefore, a broad array of skilled and unskilled jobs will be created.

Economic Impact Analysis Introduction

An economic impact analysis of the racing industry was performed by Public Sector Consultants, Inc. for the Commonwealth of Pennsylvania in 1994. It was determined that at the time the tracks generated an annual economic impact of \$253 million. These

operations contributed to an increase of earnings statewide totaling nearly \$230 million annually, supporting over 10,800 jobs both directly and indirectly.

Spending in the equine industry was seen as occurring throughout the statewide economy, not simply just at the tracks. Nearly a half billion dollars was spent in 1994 on equine-related goods and services, with the greatest expense being feed – over \$87 million in total, or an average of \$514 per horse. Nearly one-third of these expenditures are on race-horse breeds. A broad variety of services are also utilized in the equine industry, ranging from trainers to veterinarians to farriers (blacksmiths). Farms also require a broad array of equipment in order to operate, ranging from bedding to grooming supplies to capital improvements on the facilities. Transportation is also a considerable expense, both for humans and horses. In 1994 transportation costs ran nearly \$15 million. One of the indirect benefits pointed out in the study was the preservation of agricultural green-space. According to a citation in the Public Sector Consultants study, 520,000 acres of land were devoted to equine use in 1990.

A substantial amount of these benefits accrued in the southeastern Pennsylvania area, near Philadelphia, the opposite side of the state, such that the Erie area attained a minimal, if any, benefit. The construction and operation of this racetrack would therefore result in a significant expansion of the equine and equine-related industries in the Erie area, as well as stimulate the construction and landscaping industries during development. Additionally, fiscal benefits would result from taxation on racing operations, spending and incremental incomes.

The construction and site development budget for the racetrack facility is \$26.2 million, not including the furnishings, fixtures and equipment, which are projected to amount to an additional \$2.5 million. The breakdown of expenditures is expected to be as follows:

Projected Presque Isle Development Costs

	Budgeted Cost
Site Work*	\$5,818,680
Track Area	\$4,703,270
Club House Building	\$6,191,429
Paddock Building	\$579,540
Out Buildings**	\$8,863,420
Total Construction Cost	\$26,156,339

*Water, sewer, parking area, landscaping.

**Barns, dormitories, entrance security, etc.

Source: Mountaineer Racing

During the first year of facility operations, it is projected that the revenues of the track will be nearly \$13 million, but should increase to nearly \$33 million by the fifth year due to an annual extension of the live racing season. The track is expected to spend locally \$10.8 million in the first year of operations, including \$4 million in purses, increasing to

over \$25 million in the fifth year, of which \$9.6 million would be purses. An additional \$790 thousand to \$2.3 million is expected to be paid out by the track each year in taxes on admissions, wagering and sales.

The physical construction of the complex will stimulate the local economy by necessitating the employment of many local laborers and craftsmen creating a large number of short-term employment positions within the construction industry. When operating, the racetrack will continue to provide steady employment for town, county and state residents.

Job creation, both temporary and permanent, translates to earnings for area residents. This directly increases spending in the local economy on goods and services, which indirectly results in increased expenditures by merchants to their suppliers. As a result, jobs are created throughout the economy and earnings rise as the new spending is introduced. Similarly, the government benefits as tax revenues rise as a result of increases in spending and incomes.

This assessment will consider benefits that should accrue based on the proposed configuration and scheduling of the racetrack facilities and operations. These benefits are those that could be expected to exist as long as the racetrack is in operation, and represent the quantifiable economic impact to the community.

Economic Impact Methodology

The economic impact analysis is an assessment of the economic benefit that will accrue to the area due to the construction and operation of the proposed racetrack development. The benefits that are typically examined in an economic impact analysis include the total spending that is introduced to the area, the increase in earnings to area residents, the number of new jobs created, and the fiscal benefits that subsequently accrue to state and local governments. A qualitative assessment is included which will show the incremental benefits that could be expected with respect to changes in the unemployment rate in the region, and changes in the tax base and tax revenues.

This economic impact assessment will evaluate the benefits that could be expected during the construction phase as well as the ongoing operational stage of the racetrack and its facilities. The economic impact analysis examines the spending that can be anticipated to take place in the economy, and the resulting employment and earnings that the new revenues allow. The construction phase of the project will be considered as a *one-time benefit* to the area. This refers to the fact that these dollars will be introduced into the economy only during the construction phase of the project, and cannot be expected to continue to provide permanent jobs or revenues beyond the completion of development. This differs from the economic benefits that accrue from the annual operations of the racetrack once it has opened for business. These are termed *ongoing benefits*, as they are revenues, jobs, earnings, and tax dollars that can be expected to accrue annually as a result of operations and the attraction of racing fans.

Construction Impact

The development budget for the racetrack is projected to be approximately \$26.16 million, as outlined above. The 54,717 square foot clubhouse will consist of two 23,396-square foot levels, including a club and grandstand level. A kitchen level, apron, press box seating and bleachers will comprise the balance of the facility. An additional \$2.47 million is anticipated to be spent on furnishings and equipment in the clubhouse and the out-buildings. In total, the startup cost is projected to be \$28.6 million. It is expected that most of the equipment and furnishings will be available for purchase at the local or regional level.

The initial economic impact of the property will result from the expenditures for the development, as evaluated below. The total economic impact of racetrack development and construction can be divided between a direct impact and an indirect impact.

Direct Impact

The direct impact of construction is the total of the local expenditures made on the project during the construction process. It is anticipated that the total cost of development for the complex will be approximately \$28.6 million, including land development costs and furnishing. Development is expected to take approximately 12 months.

It is estimated that 30% of the construction project's \$26.2 million in local expenditures will be the payment of salaries to construction workers, project administrators, and designers, with the remaining 70% being spent on construction materials. Assuming that the project is completed in 12 month, it could be expected that construction salaries would be approximately \$7.85 million. This would directly support the employment of approximately 165 persons. Employment totals and tasks could be expected to vary over the course of development, ranging from designers to construction workers.

Expenditures locally on construction materials and capital goods are therefore projected to total approximately \$18.3 million, with an additional \$2.5 million spent on FF&E.

Indirect Impact

The indirect impact of construction is the additional spending that will take place in the area that is made possible by the initial expenditures at the construction site. Local firms that provide goods and services to the site are the recipients of new dollars in the economy. These new dollars enhance their ability to spend, and therefore the incremental spending attributable to this income is considered an indirect impact. These additional expenditures and revenues continue to take place throughout the economy, during the construction period, in a rippling effect. Economic impact analyses use industry multipliers that have been developed based on U.S. Census data to determine the indirect impacts that occur from the direct expenditures. Based on the construction costs as provided above, it could be expected that indirect expenditures would be approximately

\$20 million during the course of development. If construction costs exceed projections, indirect impacts would rise accordingly, and would naturally lag if there were delays. The indirect spending will provide for approximately \$5.4 million in earnings to the area during the course of development, supporting the equivalent of 132 new full-time jobs based on the above estimated expenditures.

Total Construction Impact

In total, the temporary economic impact to the area that could be expected to occur during construction is estimated to be \$48.1 million. Earnings to regional employees are expected to rise by over \$13 million during construction. As a result of the expenditures attributable to the racetrack construction, these earnings would cover the equivalent of nearly 300 full-time jobs. Unlike the ongoing economic impact, which will be discussed in the following section, these are the total benefits that could be expected during construction, and are not ongoing averages. It is expected that the construction period would be approximately a 12-month process, after which the direct benefits would cease to exist, and subsequent phases of the multiplier process will trickle down.

One - Time Economic Impact

	Direct	Indirect	Total
Total Spending	\$28,012,000	\$20,084,000	\$48,096,000
Total Earnings	\$7,847,000	\$5,423,000	\$13,270,000
Average Annual Employment	165	132	297

Fiscal Benefit

The construction of the racetrack will also provide a fiscal benefit to the area. The purchases made by construction workers and material suppliers indirectly in the community will provide sales tax revenues to the County and Commonwealth. Purchases for construction could also be expected to be subject to sales taxes.

The sales tax rate in Pennsylvania is 6%. Based on purchases of \$48 million in the local economy, it is estimated that the fiscal impact of construction should be \$2.9 million. Additionally, a state income tax is imposed at a rate of 2.8% on earnings. This would generate an additional \$371 thousand in State tax revenues.

Ongoing Economic Impact

Unlike the construction phase, economic benefits resulting from the ongoing operation of the racetrack complex can be expected to occur annually, resulting in a constant stimulus to the economy. Expenditures by patrons on site, as well as by the racetrack and horse owners are considered to be *direct* expenditures. Expenditures by racing fans and horse owners elsewhere in the local economy that would otherwise not have occurred are referred to as *induced* expenditures. These expenditures are important because their existence allows for a revitalization of the region *aside from* the proposed racetrack.

Merchants and restaurateurs will be needed to provide goods and services to visitors to the racetrack, both patrons and those that are party to the competition. These expenditures will create the need for new jobs, and will be filled by residents of the area.

Direct Spending

Expenditures that emanate within the racetrack complex constitute the direct spending in the economy. These expenditures are traced to the activities of the patrons, horsemen, and the racetrack operation. The spending category sums the expected revenues of the food and beverage sectors of the complex, as well as revenues received from the export of the simulcast signal, along with expenditures of the horsemen and the racetrack and its administration on salaries, wages, goods, and services required. Wagering expenditures by patrons are not considered as 'direct expenditures', though it could be argued that they would fall into a gray area of 'entertainment service expenditures'. As such, though the betting win by the racetrack is not reflected in this economic impact analysis, the disbursement of purses is tracked, as are the spending by the racetrack and horsemen in the community and on employees as a direct result of the betting revenues. This is considered to be the starting point of the racetrack impact analysis, and thus the wagering expenditures are the catalyst for the economic impact of the racetrack. Direct earnings and employment figures are the expected totals for the complex during the ongoing operating phase, as projected in the market assessment and operational pro forma.

The direct economic impacts are tracked from four areas --spending by patrons on racing forms and the food and beverage facilities, spending by the racetrack on goods, services, purses and labor, spending on-site by horsemen on goods and services to support their operations, and revenues from the exported simulcast signal. It is noted that not all of the expenditures by the track or the horsemen will be consummated within the local economy, such as the imported simulcast signals and the transportation costs for the horses. This will be considered in our calculations.

The scale of the operation of the track is expected to change dramatically during the first several years of operation, such that the length of the live racing schedule will be extended on an annual basis until stabilization in the fifth year of operation. This economic impact analysis will provide an estimate of the impact in the first and fifth years, such that a ramp-up could be expected during the interim years, and a stabilized annual impact could be expected from the fifth year onward.

Based on the market assessment calculations, it is projected that the racetrack will attract 73,100 live racing patrons in the first year of operation and 120,516 patrons for the simulcast wagering. By the fifth year of operation the live racing attendance is projected to increase to nearly 150 thousand live racing patrons in the fifth year, with 132,495 annual simulcast patrons. These patrons could be expected to generate a commission of \$6.9 million in live and simulcast wagering in the first year of operation, increasing to \$9.6 million by the fifth year. An additional \$2.6 million in revenues for the track are expected in the first year to come from the export of the simulcast signal, as well as phone betting. This subtotal is expected to increase to over \$11 million by the fifth year.

Breakage, resulting from the downward rounding of odds at the track, should provide the facility with an additional \$22 to \$50 thousand in revenues per year.

Patrons can be expected to spend on a variety of goods and services at the track as well, ranging from parking to racing forms to F&B to other forms of live entertainment. The following table presents the expected expenditures during the first and fifth years by racetrack patrons on these ancillary goods and amenities, as well as the racetrack's commissions on live and simulcast wagering.

Projected Patron Expenditures and Wagering Commissions

	Year 1	Year 5
Admissions	\$193,616	\$563,310
Parking	\$154,893	\$225,324
Programs	\$116,170	\$332,343
F&B	\$2,247,062	\$3,856,476
Special Events	\$500,000	\$1,200,000
Live Commissions	\$1,189,331	\$2,643,674
Simulcast Commissions	\$5,745,839	\$6,984,103
Phone Wagering Commissions	\$1,590,000	\$7,420,000
Signal Export	\$1,007,355	\$3,600,000
Breakage	\$22,440	\$49,881

The track is expected to pay out in purses in the first year of operation \$4 million, increasing to \$9.6 million by the fifth year. These purses can be considered as income to horsemen, supporting the expenditures as may be consummated on-site in the dormitories and stables.

Salaries and benefits for employees at the track are projected to be \$3.0 million, increasing to \$6.3 million by the fifth year. Therefore it could be estimated that the total direct earnings at the track will be \$7 million in the first year of operation, and will increase to nearly \$16 million by the fifth year.

A share of the expenditures that will be made by the racetrack will not be consummated within the local market, such as the host-track simulcast expense, reflecting 15% of the simulcast commissions, and the Tote rental, which would likely be from a national provider. Special events, which are expected to be once or twice a month, may be either regional or national in scope, but could conservatively be assumed to be non-local purchases. The following table presents a breakdown of the projected expenditures of Presque Isle racetrack during the first and fifth years of operation.

Projected Racetrack Operating Expenses

	Year 1	Year 5
Phone Wagering	\$795,000	\$3,710,000
Salaries	\$1,685,929	\$4,019,727
Benefits	\$252,889	\$602,959
Racing Op. Expense	\$1,790,716	\$4,080,194
Host Track - Simulcast	\$861,876	\$1,047,615
Purses	\$4,000,000	\$9,600,000
Food & Beverage Costs	\$674,119	\$1,156,943
Food & Beverage Operating Expense	\$898,825	\$1,542,590
Tote Rental	\$468,100	\$513,600
G&A Expenses	\$360,000	\$360,000
Housekeeping	\$120,000	\$144,000
Marketing	\$365,000	\$315,000
Special Events	\$500,000	\$1,200,000
Taxes	\$790,181	\$2,275,677
Total Expenses	\$13,562,634	\$30,568,305

The income from purses will support the horsemen's ability to conduct business at the track, including providing feed and veterinary care to the horses, and pay for jockeys and trainers. Based on historical maintenance costs for horses at other tracks, it is estimated that the average maintenance expenditure per horse stabled on site will be \$1,767 per month. This includes \$40 per day in trainer fees, \$300 per month in feed fees, and \$250 per month for services such as trainers, jockeys and veterinarians for each horse.

It is projected that in the first year of operations there will be 1,000 horses stabled at the track for a period of two months. This would result in \$3.5 million in local expenditures by horsemen in the first year. By the fifth year the season is expected to last for four months, and it is assumed that an average of 1,100 horses will be stabled. This will result in expenditures of \$7.8 million by horsemen, in current dollars. Naturally there may be a large number of horses that will race at Presque Isle that may be stabled elsewhere. To the extent that these horses are brought into the state as a result of the addition of Presque Isle to the competitive mix, an economic benefit would be induced. The exclusion here therefore makes this estimate conservative.

The following tables outline the direct benefits as discussed above for the first and fifth years of operation of the facilities. The direct benefits are broken down by expenditures made by patrons, horsemen, the track, and other operators. In the section below regarding indirect impacts, only the expenditures made by the horsemen and the track (net of the purses) will be subject to the methodology of the economic multiplier, as the expenditures made by the horsemen and the track would have been made possible by the initial expenditures of its racing patrons and simulcast importers.

Direct Spending	Year 1	Year 5
Patron Spending	\$3,211,740	\$6,177,453
Signal Export	\$1,007,355	\$3,600,000
Racetrack Spending	\$10,759,977	\$25,373,913
Horsemen Spending	\$3,533,333	\$7,773,333
Total Spending	\$18,512,406	\$42,924,699

The estimation of direct employment at the track in terms of full-time equivalents is difficult to depict due to the seasonal nature of the business. During the live racing season it could be expected that there would be a considerably larger workforce, both for the racetrack and in the stables, than during the simulcast-only months.

The racetrack is projected to spend \$3 million in the first year of operations on salaries and benefits. Based on a 50 day live racing season, is projected that in the first year of operation that there will be 450 employees during the live racing season, of which 100 would work year-round. In the fifth year of operation it is assumed that the racing season will be extended to 120 days. It is projected that employment would increase to 575 persons during the live racing season by the fifth year, with 115 of these employees working year-round.

Additionally, based on the horsemen expenses that would be paid with the purses won, it is estimated that the horsemen would provide employment for 150 people during the live racing season in the first year, with a slightly greater number in the fifth year to take into consideration a greater number of days taken off. This total does not include the 'employment' of horse owners, though they may also be considered as new residents of the local community, and contribute to the tax base as such.

It is projected that the direct spending that will be generated in the first year of operation of the racetrack will be \$18.5 million, supporting the employment of 600 persons with earnings of \$6.4 million for the year. By the fifth year of operations the direct spending is projected to increase to \$42.9 million annually, with direct employment of 740 persons on-site attaining \$14.6 million in earnings. It is noted above that these earnings and jobs do not reflect all full-year jobs, thus a clear average wage cannot be determined from these tables.

The following tables aggregate the expected direct benefits that would accrue to the community as a result of the operation of Presque Isle Racetrack in the first and fifth years of operation.

Direct Economic Impacts of Operations, Year 1				
	Facility Impact	Patron Impact	Horsemen Impact	Total Impact
Direct Spending	\$11,767,332	\$3,211,740	\$3,533,333	\$18,512,405
Direct Earnings	\$3,424,267	-	\$2,933,333	\$6,357,600
Direct Employment	450	-	150	600

Direct Economic Impacts of Operations, Year 5

	Facility Impact	Patron Impact	Horsemen Impact	Total Impact
Direct Spending	\$28,973,913	\$6,177,453	\$7,773,333	\$42,924,699
Direct Earnings	\$8,842,633		\$6,453,333	\$14,589,300
Direct Employment	575	-	165	740

Induced Spending

Local merchants and hoteliers will benefit from the introduction of the racing facility to the area as well. Patrons can be expected to spend some money elsewhere in the area during their visit, ranging from convenience stores and gas stations to area restaurants, hotels, and entertainment venues, such as the Erie Zoo. These expenditures are deemed to be induced by the presence of the Presque Isle racetrack, meaning that these merchants would not be able to expect these revenues were it not for the presence of the proposed facility. This would apply primarily to patrons coming from outside of the local market area, as it would otherwise not be considered as being a new expenditure in the economy. While local patron spending is not included in this analysis due to the substitution effect, it should be noted that this is a conservative approach. Without a racetrack in Erie, local market race fans would need to go to tracks in West Virginia, New York, or elsewhere in the state. As a result, the presence of a track in Erie brings back in expenditures that would have gone elsewhere. Nevertheless, since the quantity of racetrack visits for local patrons would likely increase if one were to be located in the local market area, it is likely that a sizable substitution effect would occur.

The racetrack market analysis divided the market potential into six distinct market areas, along with the existing tourist base. Four of the defined market areas were generated from population bases beyond 50 miles, such that it could be assumed that a share of the patronage would be from outside of the Erie area. In the first year of operation it is projected that nearly 14,500 live racing patrons would be from outside of the local market. By the fifth year of operation it is projected that over 35,000 local market live racing patrons would come from outside the immediate area.

As racing would occur on consecutive days, it may be assumed that many of the patrons that stay overnight would come to the track for more than one session. It is estimated that 20% of local market patrons coming from beyond 50 miles would stay overnight, with the average patron making 1.5 trips to the track. This would reflect nearly 2,900 track visits in the first year, or 1,932 patrons. By the fifth year of operation it is estimated that 4,728 overnight visitors will make nearly 7,100 trips to the track.

Many of these patrons will be coming with their families or friends, and may be expected to stay for extended periods. In Erie the average length of stay for visitors is approximately 5.2 days. It is assumed that the average race fan will have a slightly shorter stay. Assuming an average length of stay of 3 nights and 1.8 race fans per room, a total of 3,220 room nights would be demanded in the first year, and 7,880 room nights by the fifth year.

Erie has numerous minimum and moderate service hotels, including Holiday Inn, Fairfield Inn, Hampton Inn, Days Inn, Best Western, Ramada Inn, Quality Inn, Courtyard and Residence Inn. There are numerous budget hotels in the area as well. The Residence Inn has the highest room rates in the market at \$160 to \$200 per night, while most of the other chain hotels have room rates in the \$60 to \$100 range. Based on an average expenditure of \$80 per room night, it is estimated that the racetrack would induce \$258 thousand in room revenues in the first year of operations, increasing to \$630 thousand by the fifth year.

The average Erie tourist also spends \$40 per day on entertainment, retail and food and beverages according to the D.K. Shifflet report cited in the market assessment. Assuming an average party size of 2.5 persons, overnight visitors induced by the track could be expected to spend \$322 thousand in the local economy in the first year, and nearly \$800 thousand by the fifth year. These revenues would support the employment of local residents, as well as support the local tax base through hotel occupancy taxes and sales taxes.

Total Induced Expenditures

It is projected that the induced expenditures attributable to the racetrack will total \$580 thousand in the first year of operation, and increase to \$1.4 million by the fifth year. This takes into consideration local product substitution, as local gamers and existing tourists are not figured into these calculations.

Projected Induced Expenditures		
	Year 1	Year 5
Hotel	\$257,636	\$630,436
Restaurant	\$112,716	\$275,816
Entertainment	\$128,818	\$315,218
Retail	\$80,511	\$197,011
Total	\$579,680	\$1,418,480

Total Induced Employment and Earnings

Wages for hotel workers are factored to amount to approximately 30% of room revenues. Assuming that the average hotel worker earns \$30,000 per year, this would support the equivalent of between 3 and 6 full time jobs, with a total of between \$77 and \$189 thousand in earnings in the first five years of operation. Restaurant expenditures could be expected to include gratuity, with some earnings coming in the form of salary as well, particularly for management. It is estimated that 3 induced jobs would be created in the first year in the food and beverage, entertainment and retail industries, based on \$140 thousand in earnings in the first year of racetrack operations. By the fifth year it is estimated that approximately 6 full-time jobs will be induced in the local economy, based on new earnings of approximately \$170 thousand.

The following table shows the spending by patrons, and the earnings and employment that should be induced by the presence of the racetrack complex. Expenditures on goods and services by these establishments will be introduced as indirect impacts.

Induced Economic Impact of the Presque Isle Racetrack

	Year 1	Year 5
Spending	\$579,680	\$1,418,480
Earnings	\$147,335	\$360,530
Employment	5.1	12.4

Indirect Spending

Indirect spending is the result of the multiplier effect in the economy. A ripple of increased revenues and incomes is created that begins with purchases made by the recipients of the direct expenditures, as described in the construction phase. The following calculations assess the indirect expenditures that would accrue from the direct expenditures of the track and horsemen.

Indirect expenditures from racetrack operations will originate with the expenditures of the racetrack vendors and employees. Indirect expenditures emanating from horsemen operations include the expenditures of the veterinarians' and trainers' households, as well as the feed suppliers and others who provide services locally to the horse owners.

In total, it is projected that \$11 million in indirect expenditures will result in this market as a result of the presence of the Presque Isle Racetrack facility in the first year of operations. Earnings to area residents could be expected to increase by \$4.3 million, covering the equivalent of approximately 200 full time jobs. These totals could be expected to increase to over \$25 million in spending by the fifth year of operation, yielding \$9.8 million in earnings, covering approximately 445 jobs. These figures are summed in the following tables.

Projected Indirect Expenditures, Year 1

	Indirect Spending	Indirect Earnings	Indirect Employment
Spending By Households	\$4,938,669	\$1,476,370	62
Spending by Presque Isle	\$3,816,985	\$1,774,892	89
Spending by Horsemen	\$1,640,427	\$791,447	39
Spending From Induced Business	\$617,353	\$264,579	12
Total Indirect	\$11,013,433	\$4,307,288	201

Projected Indirect Expenditures, Year 5

	Indirect Spending	Indirect Earnings	Indirect Employment
Spending By Households	\$11,394,196	\$3,406,191	135
Spending by Presque Isle	\$8,892,577	\$4,147,620	208
Spending by Horsemen	\$3,383,266	\$1,627,652	76
Spending From Induced Business	\$1,510,666	\$647,427	27
Total Indirect	\$25,180,705	\$9,828,891	446

It should be noted that the spending by the racetrack has already been included in the direct expenditure calculations, therefore the first round of indirect expenditures from that segment would include payment of salaries for vendor companies and suppliers. Therefore, the fact that the earnings are a larger percentage of the spending totals in this segment relative to those in the other segments for which the expenditures are indirect should be duly noted. Additionally, the jobs that are created indirectly are based on annual earnings and expenditures, and therefore may have some variance due to seasonal fluctuations. The indirect jobs, however, may be expected to have less of a variance as the direct employment, as the new money will continue to circulate through the local economy well after the live racing season is completed.

Ongoing Economic Impact of Presque Isle Racetrack

Combining the indirect impacts with the direct and induced impacts of racetrack operations, the impact on spending, employment, and earnings of Erie area residents can be determined.

An economic impact of \$30 million will accrue to the Erie area as a result of initial expenditures at the proposed property and by patrons coming to the area in the first year of operations alone. As the number of live race days increases and the operations stabilize, the economic impact could be expected to approach \$70 million. As a result of operations, it is estimated that approximately 800 jobs will be created in the community in order to serve the patrons and the horses at the track in the first year of operations, as well as incrementally through induced and indirect spending in the local economy. It is estimated that 600 of these jobs will be at the track, with many of these jobs being seasonal. By the fifth year of operations it is projected that the total employment that will be generated will be nearly 1,200 persons, of which 740 will be at the racetrack property. The seasonal variation should decline as the live racing season will be more extended than in the first year of operation, thus the community as a whole will reap significant benefits for a longer period. The impact of the facility will also mean the creation of new earnings for area residents in the range of \$10.8 to \$24.8 million during each of the first five years of operation.

The following tables outline the economic impact as calculated above for both the first year of operation and the fifth year of operation, which is expected to correspond to the first year of stabilized operation at a full live racing schedule.

Economic Impact Estimate of Presque Isle Racetrack, Year 1

	Direct	Induced	Indirect	Total
Spending	\$18,512,406	\$579,680	\$11,013,433	\$30,105,519
Earnings	\$6,357,600	\$147,335	\$4,307,288	\$10,812,223
Employment	600	5	201	806

Economic Impact Estimate of Presque Isle Racetrack, Year 5

	Direct	Induced	Indirect	Total
Spending	\$42,924,699	\$1,418,480	\$25,180,705	\$69,523,884
Earnings	\$14,589,300	\$360,530	\$9,828,891	\$24,778,721
Employment	740	12	446	1,198

Incremental Economic Impact of Racetrack Operations on Erie County

As projected above, it is estimated that the presence of the Presque Isle racetrack in Erie County would help to create approximately 806 new jobs in the first year, and nearly 1,200 jobs by the fifth year of operations. Currently there are 7,667 unemployed persons in Erie County, reflecting an unemployment rate of 5.3%. The unemployment level reached a decade-low of 6,180 persons in December 1999, after being above 10,000 during the early 1990's. The level of unemployment level in 2001 has remained approximately 1,200 to 1,400 persons above the monthly averages for 2000. As a result, it could be concluded that the unemployment rate could be cut by 0.55% to 0.8% with the operation of the racetrack. It should also be duly noted that the seasonal nature of live racing will mean that there may be fluctuations in the employment needs during the course of the year, such that the annual averages computed through the economic multipliers for indirect impacts, as well as employment as estimated through annual wages, may be distorted, or not meaningfully additive. This helps to explain the discrepancy between the direct employment totals and the indirect totals, which generally have more of a one-to-one relationship.

Fiscal Benefit

The local economy benefits from the presence of the Presque Isle racing facilities by expansion of the state tax base and an increase in overall economic activity. The State will benefit by an increase in a variety of tax revenues, including sales taxes on the direct, induced and indirect purchases, as well as wagering and admission taxes.

Spending by the racetrack patrons on food and beverage purchases at the track should generate between \$135 thousand and \$231 thousand in sales tax revenues during each of the first five years of operation. An additional \$11 to \$28 thousand in sales tax revenues should be induced by retail and food and beverage purchases by patrons elsewhere in the local community. As hotel occupancy rates increase, the hotel room occupancy tax revenues should rise. A 6% State tax on hotel revenues will translate to between \$15 and \$38 thousand in induced State hotel taxes, while a 5% local tax would induce \$13 to \$32 thousand per year in taxes.

The racetrack will pay the State a 5% tax on admissions revenues, which is projected to range from nearly \$10 thousand to over \$28 thousand per year. Additionally, wagering taxes should generate between \$645 thousand and \$2.0 million in each of the first five years of operation. Horsemen will also pay between \$36 thousand and \$80 thousand per year in taxes for feed. This does not include feed for horses stabled during the off-season.

In total, it is projected that in the first year of operation the State tax revenues from direct and induced purchases will total \$853 thousand. By the fifth year, these totals should reach \$2.4 million.

Direct And Induced Tax Generation Projections

	Year 1	Year 5
F&B on site	\$134,824	\$231,389
F&B and Retail - Induced	\$11,594	\$28,370
Admissions	\$9,681	\$28,166
Wagering	\$645,676	\$2,016,123
Feed	\$36,000	\$79,200
Hotel (State)	\$15,458	\$37,826
Total	\$853,232	\$2,421,073
<u>Hotel (Local)</u>	<u>\$12,882</u>	<u>\$31,522</u>

Earnings of residents are also taxed at the State level at an effective rate of 2.8%. Based on a total earnings projection ranging from \$10.8 to \$24.8 million per year during each of the first five years, the personal income taxes that should accrue will annually be in the range of \$300 to \$700 thousand. As a result, the total fiscal impact, not including indirect sales taxes, will be over \$1.15 million in the first year of racetrack operation, and should increase to well over \$3.1 million by the fifth year.

Conclusion

Mountaineer Racing is proposing the development of the Presque Isle racetrack in the city of Erie, Pennsylvania. It is expected that the track would operate a 50-day live racing season in the first year of operation, but increase the live racing schedule annually such that by the fifth year a season of 120 days would be scheduled. To support the racing operations, stables will be built to accommodate 1,000 horses. In this economic impact analysis the benefits to the local community were calculated, both in terms of the initial impact that would be generated during the construction phase, as well as annual impacts that may be expected during the operating phase.

It is anticipated that the cost of development will be approximately \$26 million. It is projected that development would take approximately one year to complete. During the course of construction it is projected that spending in the local area would increase by approximately \$48 million, which would result in an increase in resident earnings of \$13 million, covering the creation of approximately 297 jobs. These jobs would exist as long as the construction was occurring, but would phase out once the property starts operating.

During the operating phase it is projected that the total economic impact of operations would be over \$30 million in the first year of operation, increasing to nearly \$70 million by the fifth year. Earnings to area residents should increase by \$10 to \$25 million per

year, supporting the creation of between 800 and 1,200 jobs, increasing as the length of the live racing season increases. Unemployment in the region can be expected to decline by over 0.5% as a result of these new employment opportunities.

It is also projected that the fiscal welfare of the State would be impacted by these developments. Tax revenues of \$1.15 to \$3.1 million should be generated as a result of the increased purchases and earnings.

Disclaimer

To the extent possible, we have attempted to verify and confirm estimates and assumptions used in this analysis. However, some assumptions inevitably will not materialize and unanticipated events and circumstances may occur, therefore actual results achieved during the period covered by our analysis will vary from our estimates and the variations may be material. As such The Innovation Group accepts no liability in relation to the estimates provided herein.