

**INTERIM REPORT OF THE
VIRGINIA DEPARTMENT OF AGRICULTURE
AND CONSUMER SERVICES**

The Study of Virginia's Equine Industry

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



SENATE DOCUMENT NO. 18

**COMMONWEALTH OF VIRGINIA
RICHMOND
2004**



J. Carlton Courter, III
Commissioner

COMMONWEALTH of VIRGINIA

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December 1, 2004

TO: The Honorable Mark R. Warner
Governor of Virginia

The Members of the Virginia General Assembly

It is my privilege to present this interim report from the Virginia Department of Agriculture and Consumer Services (VDACS) in response to SJ 57 which was passed during the 2004 Session of the General Assembly.

SJ 57 directed that the Department of Agriculture and Consumer Services "study ways to enhance the economic development of Virginia's horse industry." The Department was further requested to "examine incentives to generate growth in the industry and evaluate obstacles that may hinder the economic development of the industry."

In carrying out the directives of this resolution, VDACS sought the input of the Virginia Horse Council, the Virginia Horse Industry Board, the Virginia Harness Horse Association, Oak Ridge Racing Associates, the Virginia Thoroughbred Association, the Virginia Horse Shows Association, the Virginia Quarter Horse Association, Southern States Cooperatives, Colonial Downs, and other interested members of the horse industry.


J. Carlton Courter, III
Commissioner

Attachment

cc: The Honorable Michael J. Schewel
Secretary of Commerce and Trade

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PREFACE

In response to Senate Joint Resolution 57 passed during the 2004 Session of the Virginia General Assembly, the Commissioner of Agriculture and Consumer Services appointed an Equine Study Task Force to participate in a study of the equine industry to identify economic incentives and disincentives to the growth of the equine industry in the Commonwealth.

The task force met four times during 2004 before this report was issued and contributed greatly to the identification and assessment of the main issues presented in this interim report. The following persons were invited to participate on the Equine Study Task Force:

Dr. Marty Adams, Southern States Cooperative
Connie Collier, Accounting by PC
Dr. R.C. Dunavant, Virginia Harness Horse Association
Sandy Gerald, Virginia Horse Shows Association
Heather Goodwin, Oak Ridge Racing Associates
Beryl Herzog, Virginia Horse Council
Gene Hansen, Tidewater Horse Council
Darlene Jacobson, Virginia Horse Industry Board
Donna Johnson, Virginia Agribusiness Council
Spencer Neale, Virginia Farm Bureau
Glenn Petty, Virginia Thoroughbred Association
Ian Stewart, Colonial Downs
Ken Wolfrey, Virginia Quarter Horse Association

Virginia Department of Agriculture and Consumer Services Staff

J. Carlton Courter, III, Commissioner
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Andrea Heid
Perida Giles
Roy Seward

EXECUTIVE SUMMARY

Senate Joint Resolution 57 passed by the 2004 Virginia General Assembly calls for the Virginia Department of Agriculture and Consumer Services to study ways to enhance the economic development of Virginia's equine industry. The Commissioner of Agriculture and Consumer Services was directed to create a task force to assist the Department in defining the scope of the study, conducting the study, and formulating findings and recommendations. The Department was also directed to examine incentives to generate growth in the industry and evaluate obstacles that may hinder the economic development of the industry.

The Department was further directed to submit an interim report on the progress of the study to the Governor and the 2005 Session of the General Assembly. The Department is to complete the meetings of the task force by November 30, 2005, and submit to the Governor and the General Assembly a final report of its findings and recommendations by that time.

The purpose of this interim report is to communicate the issues identified thus far by the Equine Study Task Force and to briefly explain their importance to the economic development of the equine industry in Virginia.

To date, the Equine Study Task Force has met four times, has reviewed the nine areas referenced in SJ 57, and has identified key issues that should be further examined and addressed by recommendations.

This interim report provides eight recommendations which may be initiated during the 2005 General Assembly Session. The recommendations are as follows:

1. The task force recommends that the General Assembly support legislation to permit the establishment of an equine feed checkoff through a referendum that allows horse owners to vote on this self-assessment.
2. The task force recommends that the funding of the .05% allocation of pari-mutuel monies for the Virginia Equine Center Foundation, .05% for the Virginia Horse Industry Board, and .15% to the Virginia-Maryland College of Veterinary Medicine be restored and not be subject to a total allocation cap.
3. In consideration of the major contributions of the Virginia Horse Center to the state's equine industry and to the state's economic growth, and due to the fact that the Center faces significant competition from state-supported horse centers in surrounding states, the Equine Study Task Force is recommending funding for the Virginia Horse Center be restored by the General Assembly to \$890,000 per fiscal year for the original debt service.
4. Because of the economic stimulus it creates and the increased marketing opportunities the program generates for small horse breeders, the task force recommends that the funding for the Virginia Horse Breeder Incentive Program be restored by the General Assembly to the levels at the inception of the program-- \$125,000 in general funds per fiscal year.

5. The task force recommends removing from Chapter 29, Section 59.1-391- "Local referendum required" from the Code of Virginia. This would allow the Virginia Racing Commission and local jurisdictions to control the approval of new sites. It is estimated that satellite wagering facilities seven through ten would be in operation within 12 to 18 months of the passage of such legislation pending Virginia Racing Commission and local approvals.
6. The task force has worked on numerous recommendations stressing promotion and education as the best and most efficient way to further develop horse trails in Virginia. Cross promotion to the general public will need to be coordinated with Virginia Tourism as well. The final report of this study will enumerate more specific recommendations while highlighting other complementary issues.
7. The task force recognizes the need for additional study regarding promotion of all segments of the industry. The task force supports future surveys of the equine industry by VASS.
8. Due to the issue being considered by the U.S. Congress, the task force recommends that the slaughter of horses for human food and the exportation of horsemeat as human food need not be addressed any further by this equine industry group.

BACKGROUND AND AUTHORITY

There are 170,000 horses, ponies, and mules in the state, making Virginia the 5th largest equine state in the United States, with an inventory value of \$1.46 billion, as determined by the Virginia Agricultural Statistics Service (VASS) in its 2001 equine survey. The VASS Survey also states that:

- With a reported sales value of \$99.4 million alone in 2001, horses rank as the 7th largest agricultural commodity in the state.
- In 2001 \$505 million was spent caring for horses—with an average expenditure of \$2,969 per equine.

According to the 2001-2002 Economic Impact Study conducted by the Wessex Group for the Virginia Equine Educational Foundation and funded by the Virginia Horse Industry Board, each year:

- Some 700 equine events are held in Virginia.
- Eight hundred thousand (800,000) participants and spectators take part in these events.
- Participants spend over \$167 million at the events.
- The industry provides 22,000 jobs with wages of \$352 million.
- The industry also creates more than \$802 million in business sales for Virginia.

It should also be noted that since horse racing began in 1997, pari-mutuel wagering has generated \$16 million in tax revenue for the Commonwealth.

Despite the size and economic importance of Virginia's equine industry, Virginia faces substantial competition from other states in the region to continue to develop and succeed. In addition, many issues are developing on local, regional, and national levels that could adversely affect the growth of the equine industry in the Commonwealth.

Senate Joint Resolution 57 passed by the 2004 Virginia General Assembly calls for the Virginia Department of Agriculture and Consumer Services to study ways to enhance the economic development of Virginia's equine industry. The Commissioner of Agriculture and Consumer Services established a task force to assist the Department in defining the scope of the study, conducting the study, and formulating findings and recommendations. The Department was also directed to examine incentives to generate growth in the industry and evaluate obstacles that may hinder the economic development of the industry.

The Department was further directed to submit an interim report on the progress of the study to the Governor and the 2005 Session of the General Assembly. The Department is to complete the meetings of the task force by November 30, 2005, and submit to the Governor and the General Assembly a final report of its findings and recommendations by that time.

The purpose of this interim report is to communicate the issues identified thus far by the Equine Study Task Force and to briefly explain their importance to the economic

development of the equine industry in Virginia. This interim report also provides eight recommendations which may be initiated during the 2005 General Assembly Session.

STUDY METHODS

The Commissioner appointed members of the Equine Study Task Force as directed by SJ 57 in April 2004 and invited other interested parties to participate and to contribute. Members include, among others, representatives of the Virginia Horse Council, the Virginia Horse Industry Board, the Virginia Thoroughbred Association, the Virginia Harness Horse Association, the Virginia Horse Shows Association, the Virginia Quarter Horse Association, Southern States Cooperative, Colonial Downs, and Oak Ridge Racing Associates.

SJ 57 identified nine areas of possible study:

- 1) use tax--examine the use tax, which deters many horse owners from Virginia and other states from bringing show and racehorses into the state
- 2) personal property tax-- survey localities to determine which counties impose a personal property taxes on horses, which are defined as agricultural animals by the state
- 3) sales tax exemption-- examine the application of sales tax on horses sold within the Commonwealth to determine whether the breeding animal exemption should be expanded
- 4) zoning issues-- evaluate zoning issues to determine if local zoning ordinances curtail the development of equine businesses in certain areas
- 5) development of horse racing industry-- investigate how funds from the horse racing industry can be redirected back into the equine industry to enhance the development of the industry
- 6) land use/conservation practices-- examine land conservation practices, the preservation of green space, and other environmental issues as they relate to the growth of the equine industry
- 7) exportation of horsemeat-- determine the extent to which horses or horsemeat are exported to foreign markets for purpose of human consumption and what laws or regulations govern such a practice
- 8) state funding-- explore the impact of the loss of state funding on such important industry-related initiatives as the Virginia Horse Center and the Virginia Horse Breeder Incentive Program and
- 9) state natural disaster response plan for horse owners-- investigate the need for establishing a state natural disaster plan, and education and training to help horse owners prepare for disasters.

To date, the Equine Study Task Force has met four times, has reviewed the nine areas referenced in SJ 57, and has identified key issues that should be further examined and addressed by recommendations.

TASK FORCE DISCUSSIONS AND PRESENTATIONS

At the first meeting, task force members reviewed the main issues cited in SJ 57. The group identified several key focus areas: legal, tax, zoning and land use, equine industry statistical information, and funding. At the suggestion of task force members, presenters were invited to subsequent meetings to discuss these issues in depth. A summary of these presentations follows.

Connie Collier of Accounting by PC examined the issue of taxes that affect the equine industry. Ms. Collier highlighted the types of taxation: real estate, personal property taxes, merchants capital tax, business license taxes, sales taxes, and consumer use taxes. The consumer use tax has a major impact on the racing and showing aspects of the industry. The sales tax exemption on feed is not consistently applied as compared with other breeding species. It was discussed that the task force might make recommendations to the Tax Commissioner considering changing the enforcement of the sales and use tax. These recommendations could relate to the ag production aspects of the equine industry and emphasize the potential growth of the industry, taxing the “end product,” e.g., an increase in entertainment and other taxes paid.

Larry Land, Director of Policy Development, Virginia Association of Counties, detailed zoning and environmental issues that have a bearing on the industry. Mr. Land cited that all counties in Virginia, with the exception of Arlington County, have horse farms. He also said that the main environmental concerns affecting the industry are erosion and animal waste. Mr. Land cited major environmental benefits of horse farms as the preservation of open space and the aesthetic value of land in horse use. Many environmental concerns will continue to develop over the next 10 years that will impact the agriculture industry. He also briefly discussed zoning and said that the basic regulatory laws governing zoning are the Virginia Right to Farm Law and county ordinances. Generally, horse farms are permitted “by rights use” in agricultural areas. He also cited a website for specific information on local zoning ordinances, www.municode.com/resources/code_list.asp?stateID=46

Kevin Barnes, State Statistician, Virginia Agricultural Statistics Service, clarified the methodology of the 2001 VASS Equine Survey which provides the most recent statistical report devoted solely to describing the state’s equine industry. Mr. Barnes commented that this was the first time VASS had undertaken an equine survey. He explained the mechanics of the study. Efforts to secure accurate information on the industry were conducted by mail questionnaires, follow up phone calls, and several one-on-one interviews through land area based sampling. The relative error of 15% indicates that confidence can be assigned to the survey results.

Dr. George Rimler, Commissioner, Virginia Racing Commission (VRC), highlighted the work of the VRC. Dr. Rimler emphasized that to grow the racing industry it is necessary to increase the amount of purses at the racetrack and increase the number of racing days. He also said it is necessary to have more off-track betting facilities to generate

money to pay for the races. Dr. Rimler added that the VRC is committed to marketing and is putting together a Marketing Advisory Committee to present ways to promote the racetrack to Colonial Downs. He also contrasted the racetrack and the Lottery, Virginia's two gaming activities, noting that the Lottery does not need local referenda in order to expand its programs.

Don Blankenship, Deputy Commissioner, Virginia Department of Agriculture and Consumer Services, highlighted 2004-2006 general and non-general state support of horse programs.

- *Total state support* for equine industry programs for Fiscal Year 2005 and 2006 equals:

	<i>FY 2005</i>	<i>FY 2006</i>
<i>General Fund</i>	\$968,000	\$249,651
<i>Non-General Fund</i>	\$2,424,000	\$2,804,000

- These *general fund* monies included appropriations for the debt service of the original building of the Virginia Horse Center in Lexington -- \$890,000 for Fiscal Year 2005 and \$169,651 for FY 2006.

Virginia Racing Commission monies (*non-general fund*) are being used in several areas:

- The Virginia Horse Industry Board and the Virginia Equine Center Foundation will each receive up to \$40,000 each per fiscal year. In addition, the VRC is supporting Virginia Tech's Virginia-Maryland Regional College of Veterinary Medicine in the amount of \$204,000 for each fiscal year.
- The VRC is also supporting the breeding aspect of the racing industry for \$1.79 million in FY 2005 and \$1.92 million for 2006.
- For promoting and marketing of the Virginia equine industry, the VRC will have up to \$250,000 for 2005 and \$500,000 for FY 2006.

State support for the horse industry programs for FY 2005 amounts to \$3.39 million and \$3.05 million for FY 2006.

Beryl Herzog, past president of the Virginia Horse Council, presented a summary of the VHC's plans to introduce legislation for a proposed equine feed checkoff. Mrs. Herzog commented that the feed checkoff could assist in the long-term growth of the Virginia equine industry by raising as much as \$200,000. This would come from an assessment of \$3 per ton, or 7.5 cents per bag of commercial feed labeled for equine use. The monies would be used to provide research, educational and promotional support for expansion of the industry through the Virginia Horse Industry Board.

Stephanie Turner, Division of State Parks, Virginia Department of Conservation and Recreation, presented an overview of State Parks and the many issues dealt with in managing the parks, particularly as they relate to horses. She cited that there are 34

state parks and over 450 miles of trails. She also said that there has been a decrease of dedicated trails over the past several years—and that more are “multi-use” (hikers/bikers/equestrian).

Ms. Turner also cited the following impacts of horses in state parks:

- significant increase in trail maintenance needs
- obvious structural impacts (parking areas, signage, water supply)
- management of horses and riders—Coggins checks, rider safety, manure and that it is a management challenge to minimize conflicts with other users.

The Division of State Parks is “re-visiting” the standards for planning equestrian trails. The number one concern of state park staff is the impact of horses and maintenance of the trails. Shortage of manpower is also a major issue – a “stumbling block” for the expansion of trails. Concerns of staff with equestrian trails were also cited:

- Need for separating parking and access areas from other day users
- Safety issues—keep horses off the main roads; rider safety (equipment)
- Multiple use trails—problem if one user grows
- Educate staff and public as to the nature of the horse.
- Cleaning up after horses/impact of tethering to trees, etc.
- Trail impacts and increased maintenance.

She mentioned that education of the public is needed as to the nature of horses and relating to trails issues.

Ms. Turner added that to increase opportunities for equestrian use of parks ... funding and education are needed:

- Funding for trail maintenance and development of property designed trails
- Funding for support structures (parking lots, access separate from other users)
- Education of equestrians of additional impacts to parks and
- Education of all users on overall trail etiquette and resource conservation.

INTERIM FINDINGS AND RECOMMENDATIONS

Of the many issues relating to the growth and development of the equine industry, the task force recognized that two issues, land use and establishment of additional horse trails, will require further research and study. These two will be dealt with in the final report. Members also identified two issues needing more immediate action and which will be addressed in meetings following the issuance of the interim report: 1) a use tax meeting with the Commissioner of Taxation and 2) canvassing other states regarding their disaster plans for horses, both natural and disease related. . These issues will be covered in the final report.

As stated earlier, the task force in its meetings in 2004 considered the issues referenced in SJ 57 as well as other matters identified in group discussions and covered in presentations. During that process the task force members offered the following as a list of priority issues deserving the attention of the Governor and the General Assembly with suggested actions to be considered:

1. STATE FUNDING {SJ 57 Identified Study Area #8}

a. Equine Feed Checkoff. The task force found that the current level of revenue generated to support equine industry initiatives through the Virginia Horse Industry Board is insufficient to meet the industry's ever-increasing growth and related needs. The General Assembly will be given an opportunity to support legislation being spearheaded by the Virginia Horse Council, to institute a 7.5 cents assessment per bag of commercial equine feed. This self-assessment could raise as much as \$200,000 for support of the state's equine industry and assist in its long-term growth.

The monies would be used to establish a Virginia Equine Feed checkoff and would provide research, educational and promotional support for expansion of the industry.

Legislation will be introduced in the 2005 Session of the General Assembly asking for authorization of a referendum of equine owners to vote on the checkoff. The Virginia Department of Agriculture and Consumer Services would establish referendum guidelines and would be responsible for overseeing the referendum process. All feed manufacturers who produce equine feed that is sold or imported for sale in Virginia would be responsible for collecting the assessment and remitting it to the Virginia Department of Agriculture and Consumer Services on an annual basis. The Virginia Horse Industry Board would be charged with administering programs and projects funded by an equine feed checkoff.

Recommendation: The task force recommends that the General Assembly support legislation to permit the establishment of an equine feed checkoff through a referendum that allows horse owners to vote on this self-assessment.

b. Virginia Racing Commission monies for Virginia-Maryland Regional College of Veterinary Medicine, Virginia Equine Center Foundation and Virginia Horse Industry Board. Through enabling legislation passed in 1998, funding was authorized for the Virginia Horse Industry Board, the Virginia Equine Center Foundation, and the Virginia-Maryland Regional College of Veterinary Medicine (VMRCVM) from a small percentage of the pari-mutuel monies wagered. This funding was cut in response to the state's budget crisis over the past few years. Funding was also eliminated for future years. The equine industry feels these monies which were used for grants by the Virginia Horse Industry Board, to assist the Virginia Equine Center Foundation, and by the VMRCVM should be fully restored as these funds help to develop and grow the state's equine industry.

Recommendation: The task force recommends that the funding of the .05% allocation of pari-mutuel monies for the Virginia Equine Center Foundation, .05% for the Virginia Horse Industry Board, and .15% to VMRCVM be restored and not be subject to a total allocation cap.

c. Funding for Virginia Horse Center. The task forces notes that the Virginia Horse Center in Lexington is the premiere equestrian facility in the Commonwealth and quite possibly in the U.S. but is subject to significant competition from state-supported horse centers in surrounding states. Based on a 2001 study, Horse Center activities accounted for \$3.4 million in state and local tax revenues, of which \$1.9 million went to the state government and \$1.5 million went to local governments. Since the 2001 study, operations at the Horse Center have increased 28% and a revised economic impact study is being prepared. Direct expenditures in Virginia by horse show participants, participants of other events, and the Virginia Horse Center in the twelve months ending in May 2001 totaled \$30.2 million, of which \$28.3 million were made in the Lexington area.

The task force also notes that the Horse Center was responsible for \$25.9 million of indirect revenue generated at the state level and \$17.9 million in the Lexington area. The Horse Center's contributions of labor income was \$15.9 million statewide and \$10.9 million in the Lexington area. In addition, 54.3 percent of individuals who come to the Horse Center are from out of state. * Without the Horse Center, funds and taxes generated by these participants would be diverted to other states.

{* "The Virginia Horse Center's Economic Impact," John Knapp and Catherine Barchers, the Weldon Cooper Center for Public Service, University of Virginia, July 2001.}

Recommendation: In consideration of the major contributions of the Virginia Horse Center to the state's equine industry and to the state's economic growth, and due to the fact that the Center faces significant competition from state-supported Horse Centers in surrounding states, the Equine Study Task Force is recommending funding for the Virginia Horse Center be restored by the General Assembly to \$890,000 per fiscal year for the original debt service.

d. Funding for Virginia Horse Breeder Incentive Program. The Virginia Horse Breeder Incentive Program (VHBIP) was established in 1982 by the General Assembly to encourage the breeding of quality horses in the Commonwealth by stimulating private sector investment in the industry. The VHBIP specifically assists the small business person—the small horse breeder who is not involved in horse racing. The program is a major marketing tool in selling and breeding horses, both in state and out of state.

Originally operated on a matching private/public dollar-for-dollar basis, the program has continually undergone severe financial cutbacks. In 1989-90 program funds of \$61,000 were reduced to \$51,000. In 1992-93, funds were further reduced to \$32,000 and then

reduced to \$25,000 for fiscal year 1993-94. They remained at that level until the funds were eliminated completely in 2002-2003.

As public monies decreased, so have private monies, dropping from \$133,371 in 1990-91 to \$32,398 in 2001-02. As funding for the program decreased, the number of associations participating in the program dropped, as did the number of breeders.

Between 1991 and 2001, more than 1,500 horse breeders in the Commonwealth participated in the VHBIP. In addition, combining private monies and public monies during this timeframe, more than \$1 million was generated back into the Virginia equine industry, spurring the growth of the industry and ancillary businesses and services.

The VHBIP has generated private industry investment in the Virginia equine industry. Without this program, possibly millions of dollars have flowed out of Virginia while a number of breeders have relocated to other states.

The task force notes that the Virginia Horse Breeder Incentive Program is an excellent program for the small horse owner who wishes to breed high quality horses representing various non-racing breeds. While many of the checks the individual breeders received were not in the triple digits, the marketability of horses as “Virginia bred” was enhanced, as was the reputation of Virginia bred. The program was a motivator for many people to enter the horse business—to breed horses and to participate in the program.

The task force notes that the program is a public/private partnership and that is also a key selling point. It is a program which stimulates private investment in the equine industry and ultimately expands the industry in the Commonwealth.

Recommendation: Because of the economic stimulus it creates and the increased marketing opportunities the program generates for small horse breeders, the task force recommends that the funding for the Virginia Horse Breeder Incentive Program be restored by the General Assembly to the levels at the inception of the program-- \$125,000 in general funds per fiscal year.

2. GROWING HORSE RACING IN VIRGINIA {*SJ Identified Study Area #5*}

According to the enabling legislation, pari-mutuel wagering on horse racing is intended to “promote, sustain and grow the native industry” of race horse breeding. The horse racing and breeding industries have a major impact on the entire equine industry and on the related sectors of agriculture that support the industry. The horse racing industry also makes a direct financial contribution through pari-mutuel taxes to the state of Virginia, the Counties of New Kent and Henrico, the cities of Richmond, Chesapeake, Hampton, Alberta (and in the near future Vinton), the Virginia/Maryland Regional College of Veterinary Medicine, the Virginia Horse Industry Board and the Virginia Horse Center.

Deterrents to Growth of the Industry

The task force found that the biggest single deterrent to the growth of both the Thoroughbred and Standardbred racing and breeding industry in the Commonwealth is the “local referendum” requirement for Satellite Wagering Facilities (SWF). Currently, the unlimited racetrack license holder (Colonial Downs) is required by the enabling legislation to pass a local referendum prior to seeking final approval from the Virginia Racing Commission and the local land use authorities. This process is resource intensive and, in larger municipalities, logistically difficult due to the process required.

Removing the local referendum requirement would allow Colonial Downs or any other unlimited licensee to actively and promptly pursue additional SWF locations. The limit for SWFs was increased to ten by the 2004 General Assembly, and Colonial Downs currently has five SWFs open and a sixth under construction in Vinton. If the language requiring a local enabling referendum were removed, the additional SWF sites could be built out in approximately 12 months. This would dramatically increase the amounts of monies wagered which would: 1) increase purses that, in turn, generate additional live racing days; 2) increase funds to the Virginia Breeders Fund which creates additional incentives to breed race horses in Virginia and/or own race horses bred in Virginia; 3) increase direct revenues to the Commonwealth of Virginia and the other host municipalities and 4) increase the direct revenues designated for Virginia/Maryland Regional College of Veterinary Medicine, the Virginia Horse Industry Board and the Virginia Equine Center Foundation.

In addition, the growth of pari-mutuel handle and the increases listed before will stimulate overall growth in the Thoroughbred and Standardbred industries. This will generate an immediate increase in receipts throughout the various agricultural sectors that service the Thoroughbred and Standardbred industries.

The Lottery v. Pari-mutuel Comparison

The placement of wagering outlets without local enabling referenda has an existing precedent in the Virginia Lottery. In 1987, Virginia voters passed a state-wide referendum to create a lottery by a vote of 791,518 to 607,884, or a margin of 56.6% to 43.4%. In 1988, the voters of Virginia passed a state-wide referendum to allow pari-mutuel wagering on horse racing by a vote of 1,086,996 to 858,850, or a margin of 55.9% to 44.1%. Both margins of victory would be considered a landslide or mandate in any other type of election.

Following the passage of the referendums the Commonwealth of Virginia formed the Virginia Lottery Commission (VLC) and the Virginia Racing Commission (VRC). This is where the similarities in the two gaming industries ends.

The Lottery which benefits the Commonwealth was allowed to place outlets throughout the state with only the VLC’s approval. Subsequently, there are now approximately

5,000 outlets throughout the state, and this virtually unlimited distribution system generates \$1 billion a year in wagers. Through mid-2003, the Lottery had generated \$1.79 billion in tax revenue for the Commonwealth since horse racing began in 1997. During the same time period, pari-mutuel wagering with its severely limited distribution system has generated \$16 million in tax revenue.

The difference between the two distribution systems creates an illogical contradiction. Pari-mutuel wagering is designed to “promote, sustain and grow” the native equine industry. With a more efficient distribution system similar to the Virginia Lottery’s, the pari-mutuel wagering industry will: 1) generate additional receipts in various agriculture sectors which service the equine industry; 2) generate additional activity in other economic sectors utilized by the industry such as automobiles, tractors, lawn equipment, hospitality, hardware and many others 3) create direct employment in the equine industry and the horse racing and pari-mutuel wagering industries; and 4) preserve agricultural traditions and preserve open space.

The Virginia Lottery does not promote, sustain or grow any industry. It rewards a small sector of participants that win while taxing the citizens of the Commonwealth. Subsequently, it is poor policy to burden a private gaming industry that generates economic growth with a cumbersome local enabling referendum requirement while the state controlled gaming industry has no such burdensome requirement.

Good policy would dictate that the Commonwealth of Virginia and the private industries of horse racing and breeding and pari-mutuel wagering be allowed to compete on “level ground.” Good policy would also dictate that private industry which is designed to stimulate a large economic sector would not be subject to burdens not placed on a state controlled competitor.

Recommendation: The task force recommends removing from Chapter 29, § 59.1-391 – “Local referendum required” from the Code of Virginia. This would allow the Virginia Racing Commission and local jurisdictions to control the approval of new sites. It is estimated that satellite wagering facilities seven through ten would be in operation within 12 to 18 months of the passage of such legislation pending Virginia Racing Commission and local approvals.

3. HORSE TRAILS IN VIRGINIA {SJ Identified Study Area #6}

Summary: While the number of multi-purpose and equine trails in Virginia continues to increase, thanks to a strong and growing demand, numerous issues constrain a more rapid expansion. Many of the problems which face the equine enthusiast can be solved through better education and a stronger promotional effort at the national, state, and especially the local level (where zoning issues directly impact the trail rider).

Demand: Trail riding dominates the uses of the 170,000 plus horses and riders within the Commonwealth, and this number does not include visitors from outside Virginia.

The numbers and demand increase yearly. Land use studies by several municipalities (Loudoun County, Virginia Beach, et al.) within the past few years also reveal an enhanced perception of the equine industry and the desire by land planners to incorporate more “open space” and “green space” provided by horse farms. Today, every county but one (Arlington County) hosts horse farms, and zoning issues relative to horses seem to be abating or earlier laws prohibiting riding tend to go unenforced.

The 2000 Virginia Outdoors Survey reported that 97% of the respondents asked for more trails in the state park system, and even though only 6.2% actually participated in horseback riding, 23.3% said it was “very important” for the state parks to provide more horse trails.

Current Status: From The Virginia Horse Council’s study, Public Horse Trails, every region of Virginia contains areas of public access to trails, with approximately 70 public facilities available to the rider. Problems do exist at many of these locations, especially with lack of services; i.e., water, parking, waste management, unkempt trails, and needless restrictive covenants on horse access. The Commonwealth’s park system has approximately 500 total miles of trails, but slightly less than 200 of those miles are open to the equestrian.

During the Reagan administration, federal parks were asked to open up more acreage to individuals seeking recreational activities, including the horseback rider, but declining park budgets and the failure to enact appropriate user fees have hindered trail expansion to the extent originally foreseen. In Virginia, the “battlefield” parks have shown great cooperation with the equine industry, but federal wildlife preserves, like the Back Bay Wildlife Refuge (Virginia Beach) stubbornly have refused a right of way along the ocean, even to access the False Cape State Park just to its south.

While it is extremely difficult to measure, given the lack of statistics collected to date, it is thought that equine access to federal and state public lands is minimal, and with few exceptions, access to municipal public areas is miniscule. Cited later in this report, the primary reasons for denial to such public areas could well rest with the lack of education provided to public authorities, besides being a low priority in the budgetary process.

Issues That Affect Trails Development

Promotion and Education go hand-in-hand and should be coordinated with the abundant horse organizations throughout the state. Few **private** landowners understand or even have heard of the Equine Liability Act, which legislatively recognizes the risks of horseback riding and exonerates the landowner from liability resulting from casual riding across his land. Even some employees of the Commonwealth’s Department of Conservation and Recreation (refer to the presentation by Ms. Stephanie Turner) fear that 1) horses do not necessarily “mix” with hikers and mountain bikers, and 2) that horse manure might create health hazards. Both of these issues seem to be without merit, but it reveals that the education of city/county administrators and councils and federal and state legislators becomes imperative if

more public lands are to become available to the horse enthusiast. The process should be ongoing, especially given the inherent advantages to a community from the presence of horses.

From a promotional perspective, it appears that the Outdoors Survey, the Equine Considerations & Land Use Policies of the Virginia Association of Counties, the Virginia Department of Conservation & Recreation, the Governor's Task Force on Tourism, and the Governor's Outdoor Resources Tourism Advisory Board, among many other recreational and equine organizations, support a strong, educationally oriented, promotional effort to ensure that citizens understand well the recreational, historical, and land use benefits accrued from the equine industry.

Facilities Planning and Funding Requirements lack tremendously, even with recent publicly endorsed bond issues to enhance state parks. State and federal parks remain in a budgetary quagmire, even though in late September, Congress's lower house passed legislation opening all federal parks and preserves to horses. The legislation has moved to the Senate, but additional funding did not accompany the legislation. Suffice it to say that, with the support and assistance of many volunteers and equine organizations, much of the primary facilities work might be accomplished. With such an effort, the private sector could be expected to invest in further infrastructure when it realizes the economic benefits that would accrue. This Task Force does not have firm recommendations at this time regarding further funding for equestrian trail activities, but the Task Force would hope to develop more creative approaches by the Final Report.

Other Issues which enter the trails equation include land use planning, shared uses of public land (with hunters and motorized vehicles), and lobbying of local and state leaders to lift restrictive laws to horseback riding.

Recommendation: The task force has worked on numerous recommendations stressing promotion and education as the best and most efficient way to further develop horse trails in Virginia. Cross promotion to the general public will need to be coordinated with Virginia Tourism as well. The Final Report of this study will enumerate more specific recommendations while highlighting other complementary issues.

4. EDUCATION

The task force found that the equine industry needs to develop a major effort to educate the general public about horses and, for example, issues surrounding horse usage on trails. The benefits to communities and to the state need to be emphasized.

The task force supports future economic impact studies of the industry funded by entities such as the Virginia Horse Industry Board and other associations and recognizes that all sectors of the industry benefit from the studies. In addition, future studies should be linked with the Virginia Agricultural Statistics Service survey conducted in 2001.

Recommendation: The task force recognizes the need for additional study regarding promotion of all segments of the industry. The task force supports future surveys of the equine industry by VASS.

5. EXPORTATION OF HORSEMEAT *{SJ 57 Identified Study Area #7}.*

The task force, during its issues review, acknowledged that the slaughter of horses for human food and the exportation of horsemeat as human food have generated a wide range of opinions, concern, and controversy among horse clubs and organizations. The task force notes that Virginia currently does not have any plants that are slaughtering horses to produce horsemeat for export markets. The task force believes this is a national issue which concerned individuals and organizations may wish to pursue with the help of their Congressional representatives. {HR857 calling for the national elimination of horse slaughter in the U.S. is under consideration before Congress.}

Recommendation. Due to the issue being considered by the U.S. Congress, the task force recommends that the slaughter of horses for human food and the exportation of horsemeat as human food need not be addressed any further by this Equine Study Task Force.

(Appendix A)

SENATE JOINT RESOLUTION NO. 57

Requesting the Department of Agriculture and Consumer Services to study ways to enhance the economic development of Virginia's horse industry. Report.

Agreed to by the Senate, February 17, 2004
Agreed to by the House of Delegates, March 9, 2004

WHEREAS, the 170,000 horses in Virginia represent a \$1.46 billion industry, which places Virginia as the fifth largest equine state in the nation; and

WHEREAS, horses rank as the seventh largest agricultural commodity in Virginia, with a sales value of \$99.4 million based on cash receipts; and

WHEREAS, nearly \$505 million is spent caring for horses in Virginia and horse owners spend an average of \$2,969 per horse on 29,000 equine operations throughout Virginia; and

WHEREAS, approximately 800,000 spectators and participants attend more than 700 equine events annually; and

WHEREAS, Virginia's horse industry creates more than \$800 million in business sales and nearly 20,000 jobs across all industries in Virginia, with wages and salaries totaling \$352.2 million; and

WHEREAS, current state financial and tax policies have affected the economic vitality of the industry; and

WHEREAS, the loss of funding for the Virginia Horse Breeder Incentive Program, and the Virginia Horse Center, which accounts for \$3.4 million annually in state and local tax revenues, will have a significant impact on the industry; and

WHEREAS, state government, by providing financial incentives and removing obstacles to economic development, can play a crucial role in unlocking the economic potential of the horse industry, thereby improving the economic health of the Commonwealth; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That the Department of Agriculture and Consumer Services be requested to study ways to enhance the economic development of Virginia's horse industry. The Commissioner of Agriculture and Consumer Services shall create a task force to assist the Department in defining the scope of the study, conducting the study, and formulating its findings and recommendations. The task force shall include, but not be limited to, representatives of the following organizations: the Virginia Horse Council, the Virginia Horse Industry Board, the Virginia Harness Horse Association, Oak Ridge Racing Associates, the Virginia Thoroughbred Association, the Virginia Horse Shows Association, the Virginia Quarter Horse Association, Southern States Cooperative, and Colonial Downs.

In conducting its study, the Department shall examine incentives to generate growth in the industry and evaluate obstacles that may hinder the economic development of the industry. The study may (i) examine the use tax, which deters many horse owners from Virginia and other states from bringing show and racehorses into the state; (ii) survey localities to determine which counties impose personal property taxes on horses, which are defined as agricultural animals by the state; (iii) examine the application of sales tax on horses sold within the Commonwealth to determine whether the breeding animal exemption should be expanded; (iv) evaluate zoning issues to determine if local zoning ordinances curtail the development of equine businesses in certain areas; (v) investigate how funds from the horseracing industry can be redirected back into the horse industry to enhance the development of the industry; (vi) examine land conservation practices, the preservation of green space, and other environmental issues as they relate to the growth of the horse industry; (vii) determine the extent to which horses or horsemeat are exported to foreign markets for purposes of human consumption and what laws or regulations govern such a practice; (viii) explore the impact of the loss of state funding on such important industry-related initiatives as the Virginia Horse Center and the Virginia Horse Breeder Incentive Program; and (ix) investigate the need for establishing a state natural disaster plan, and education and training to help horse owners prepare for disasters.

Technical assistance shall be provided to the Department of Agriculture and Consumer Services by Virginia Polytechnic Institute and State University. All agencies of the Commonwealth shall provide assistance to the Department of Agriculture and Consumer Services for this study, upon request.

The Department of Agriculture and Consumer Services shall submit an executive summary and interim report on the progress of the study to the Governor and the 2005 Session of the General Assembly for publication as a document. The Department shall complete its meetings by November 30, 2005, and shall submit to the Governor and the General Assembly an executive summary and final report of its findings and recommendations for publication as a document. Each executive summary and report shall be submitted as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents and reports no later than the first day of the Regular Session of the General Assembly and shall be posted on the General Assembly's website.