



Race Track Industry Program

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**Looking Back — and Forward —
At Racinos**

Moderator/Speaker:

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Speakers:

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Robert M. Scarpelli, Managing Director, HLT Advisory Inc.

Mr. Doug Reed: Good morning, and welcome to the 36th annual Symposium on Racing & Gaming. We're glad to have Mr. Will Cummings here again. He's helped us out whenever we've needed it, and he certainly has assembled a good panel here. Thank our sponsor, Harrington Raceway, for sponsoring this panel, and also thank Plusmic Corporation for the beverage break sponsor.

I'm going to get it started right away. Will's been coming here a long time. He's consulted for many groups in both gaming and racing. I think he's been in the racing industry longer than I have, so I think most of you know Will. Will, thank you again for helping us out and we appreciate you being here. Please welcome Will Cummings.

Mr. Will Cummings: Thank you, Doug, and it's always an honor and almost always a pleasure with your weather here. It certainly turned nice after a poor start to the week but we're definitely enjoying it. Good morning all. We have what I think is an outstanding panel for you to talk about the past, present and future of racinos; the good, bad and the ugly as some of the promotional material tells it. At my far left, your right is Rob Scarpelli, Managing Director of HLT Advisory, Inc., a consulting firm based in Toronto, Canada. They specialize in hospitality and leisure industries. A significant portion of their work focuses on gaming and gaming-related businesses.

Rob and his partner, Lyle Hall, have been working in this field for more than 15 years and have completed over 200 projects in the gaming area. Rob has

completed assignments in both the public sector and private sector in every province of Canada, as well as in a number of states and foreign jurisdictions. The gaming sector; horse racing, casinos, VLTs, lotteries, and in terms of horse racing in particular, Rob's done work in every region of Canada. He will focus, in his remarks today, on the Canadian experience.

We're also very fortunate to have with us Steve May, currently finishing up his graduate studies here at the University of Arizona Race Track Industry Program. He will be the fourth student to obtain a master's here through the program. He's taken a long route to Tucson having worked in the medical field in Texas, Ohio, and Pennsylvania. He's been involved in several legislative efforts on a grass roots basis. He got his bachelor's from The Ohio State University and relocated to Tucson after learning about the RTIP a few years ago. He's been picked up by Stan Bergstein at Harness Tracks of America. He's currently employed as the executive assistant while he gets his degree. He'll have a very interesting presentation for us battling cleanup today in our presentations.

As Doug introduced me, I'm Will Cummings. I have been to maybe 24 to 26 of these symposia. There's a few words about me in case Doug hadn't buttered me up enough. I have roughly 34 years experience in consulting. A lot of other things as well as the racing and gaming industries, but I have worked in almost every state, province in Canada and a number of other jurisdictions. The overview of my remarks this morning is really going to be a kind of survey course on the issue of racinos, other types of gaming attracts. We just had what I would consider the advanced course in the previous session. I think this is more of a survey course and will cover a lot wider ground, though unfortunately with a little less depth than we might have heard earlier, but we'll try to fill you in on as many nooks and crannies of the business as we can.

I'm going to talk a little history, a little economics, a little politics, a little finance, and then give you some prognostications as to where I see the industry is at and where it's going to be going. One limitation of my remarks is that I'm going to be speaking almost entirely about slots at tracks. There are many other types of gaming going on at racinos these days. The initial experiments were with lottery type games, and I'll have a few words about that. There are games of skill. Arkansas, for example, is limited exclusively to "games of skill". Poker, Florida has live poker card rooms. Arkansas and most other states that have the gaming devices have video poker.

In Arkansas they have instant racing, which is sort of a game of skill, and they have games of skill which are tailored to look like slot machines, things called "Lock and Roll" which looks and clacks very much like a slot machine. There are bingo games, games based on bingo. For those of you familiar with the US system, Class 2 gaming devices at Indian reservations which do not need a compact with the state, are really bingo machines so again, they

walk and clack like a slot machine. Some of our race tracks have those. There are 6,400 such devices at Victory Land near Montgomery, Alabama.

Then some facilities are fortunate enough to have the full spectrum of table games and be really full-scale casinos. Iowa was the pioneer with that. West Virginia has them now. Delaware, they've been authorized. They will be up and running shortly there. Even New Hampshire has small stakes table games operated by charities housed in their racing facilities. Then again, those states that have gaming devices authorize video table games which are an increasing share of the total.

I'm going to be talking about slots, and why, because slots are where the money is. If you look at the gross annual wager, the amount spent across the US on slots and slot-like VLTs in 2007 were \$53 billion, dwarfing traditional lotteries at 21 table games, the old fashioned actually labor-intensive person-dealt table games, and of course, by far larger than pari-mutuel wagering. Another way of looking at this in my analyses, I look, try to assess how people in an area spend their money. People who live within close proximity to a slot facility, the average spent per person is on the order of \$600 to \$700 per year. With table games it's a lot less, traditionally lotteries even less, and good racing facilities attract between \$20 and \$60 per person in spending, not handled, but spending; the take out times the handle at their facilities.

Looking at slots at tracks, actually I'm going to give a little history here. The pioneers were West Virginia, Louisiana and Rhode Island. The gaming device was first introduced to a race track in 1990 at Mountaineer Park in West Virginia, recently renamed from Waterford Park as it had been known originally. In conjunction with the West Virginia lottery they initiated an experiment in which they had a box which offered very rudimentary types of games, nothing like a slot machine today or even video poker but more like a scratch-off ticket, in essence. First it was limited to Mountaineer Park. In '94 it was extended to other tracks.

Louisiana leap-frogged them a little bit in 1991, authorized video poker on a wide-spread basis at all bars and taverns, but those were limited in number of bars and taverns and truck stops. Race tracks and racing facilities, including off-track betting facilities were allowed unlimited numbers, and for a brief period this was a very profitable exercise. The first real machine floor in the states was set up by Louisiana Downs in 1992. In 1993 the total win there was nearly \$12 million, far larger than West Virginia was getting at the time. In 1994 the state authorized full-scale casinos. The first of those opened, and with their vastly broader diversity of games they crushed the video poker revenues down to much smaller levels.

Rhode Island was next in 1992, authorized video lottery, a wider variety of games. At first they didn't offer a slot type of game but they offered a wider variety of games than the first two jurisdictions. By '94 they had 1,200

machines at Lincoln Park, a smaller number at the Newport Jai Alai operation, but were winning \$27 million a year. These numbers are very small though compared to, again as I showed you, the real slots where the money is, and those started in Iowa.

The background of that is in 1990 Iowa was the first state to authorize riverboat casinos. The legislators pondered the fact that we hardly get any tourists here in little old Iowa, what can we do to make us a tourist destination; ah, how about allowing gambling on riverboats like the old days. Well that was briefly a smash, but the initial legislation, as is often the case with the pioneers; they had some constraints on their operation. You had to cruise, there were loss limits, and there were betting limits. Their neighbor, Illinois in particular and other states further away like Mississippi, leap-frogged them rapidly in terms of what they would allow their "riverboat" casinos to do. The bloom came off the rose in Iowa very quickly and by '93, '94 their riverboats were sailing on down the river to greener pastures. This provided an opportunity for the racing industry and the gaming industry to work together. A kind of compromise was reached, and on April 1st of 1994 legislation was passed which lifted some of the constraints on the riverboat business, and at the same time authorized slot machines at the race tracks.

July 16th of that year Delaware did something similar. Their legislation authorized again video lottery terminals but less restrictively than the other states that had done so, so they foresaw slots coming to Delaware as well. Before either of these could get into operation, Rhode Island finally got its full spectrum of devices. The first real video, real slot machine to open at a race track was in December of '94 at Lincoln Park in Rhode Island. Followed closely in early 1995 by the facilities in Iowa; Bluffs Run on March 17th, Prairie Meadows I think on April 1st, Dubuque Greyhound Park later in the year, followed by Delaware facilities; Delaware Park, Dover Downs and Harrington Raceway who's kind enough to sponsor this session.

Again, real slots are where the money is. You certainly can't read the small print on this graph, but the bar on the far right is the amount of money generated by real slot machines in Iowa in '95 or '96. The smaller bars are the amounts of money that were generated by the machines in the other pioneer states. Slots are far more productive. This opened people's eyes. A number of other states followed; New Mexico, New York, Oklahoma, etcetera, etcetera. As these followers came on, they introduced a variety of innovations, diversified the product in a large number of facilities. This slide indicates the status as of July 1st of this year. I've got some stars up in Canada too but I won't be talking about that. I'll leave that to Rob, so a wide diversity of experience.

Along the way we've had expansion to non-track facilities on a limited basis; bars and taverns or fraternal organizations in New Mexico and West Virginia, slot palaces in Pennsylvania and Maryland, higher tax rates, higher and lower shares to purses. Some states have been quite generous to the horsemen.

Oklahoma and New Mexico allocate large shares to the horsemen. Other states allocate a pittance. We've had experiments with central determination machines in New York, and there are a whole host of issues with those; high up-front license fees and in general, almost everywhere, more and more competition, so the competitive environment has been intensifying.

The pioneer states have continued to do well in general, though again their challenges are increasing as are those most everywhere else. These five states; West Virginia, Delaware, Rhode Island, Iowa and Louisiana, now account for nearly — still account for nearly half of the gaming win generated by slots, again including VLTs, slot-like VLTs at tracks. All told there are now 12 states with active operations of this type; 46 facilities, including Flagler, which just opened in Miami, Florida a couple of months ago. A total of 76,000 machines, total wins \$6 billion, \$2.5 billion going to government, about \$700-\$800 million going to horsemen and breeders funds, employment at the game facilities of around \$25,000. That does not include the horse racing side. This is strictly at the gaming facilities.

I'm going to move into politics here now. The pioneers were generally small states, small in terms of population. You can see Delaware, Rhode Island, as we all know, are among the smallest, so are West Virginia, Iowa, even Louisiana is right on the bubble, right in the middle in terms of state populations. There also were ones in which the racing industry loomed relatively large economically; Rhode Island, West Virginia, Louisiana and Delaware in particular because they served much larger populations than neighboring states. They had race tracks which were built on the premise of attracting players from other states, and their gaming facilities followed likewise. We had small states where the racing industry was in trouble but loomed rather large in the state of the economy. The exception was Iowa, but that's another story. They were generally able to go into the alternative gaming at race tracks on a basis that was pretty favorable to the industry. New Mexico was a similar state, the first of the followers.

New York was different though. I've also got Oklahoma and Maine up there. They were a little later but I see the same type of situation there, smaller states, so where racing was relatively important. New York, racing is relatively important but it is a huge state, not number one anymore, but one of the biggest and it had some rather unique circumstances. The VLTs were authorized in October of 2001 in the crisis that New York in particular suffered after 9/11. The tax rate was initially outrageous, 70 percent. They were limited to these central determination machines, and there have been ever since endless series of struggles to develop and improve the parameters under which the machines there were operated. That would be worth a whole panel of its own, and we probably have had several such panels discussing the New York experience. I'll gloss over it quickly.

Then we're followed by a number of other large states; Pennsylvania, Florida, Indiana, Kansas not so large but following the same model, and most

recently Maryland. Many of these have had troubles. It's been very difficult in New York and a number of the others. The financial returns to these facilities have been challenging. I've got Pennsylvania in green there because it is the only one in my opinion that has really hit the sweet spot in terms of developing slots at tracks in a large state. The reason, its tax rate, and I've got tax rate with an asterisk there because this includes not only the share going to government but also whatever is spent for machines because that varies in different states, so I wanted to put thing on an apples to apples basis. Its initial tax rate, New York was 70 percent. Pennsylvania was much lower at 49. Florida, Kansas, Maryland were all close to the 60 percent range. Indiana is lower. It's essentially the same taxes as applied to its casinos, but I've got an asterisk here because Indiana instituted a \$250 million license fee, which has had a similarly challenging impact on the performance of its facilities there in the roughly 18 months since they've been open.

One thing I found very interesting is in my analyses I use a measure or have developed a measure that I call the power rating of a facility. Again, I don't expect you to see the details of this slide, but basically I examine the performance of a facility in comparison to the surrounding population. If it's average, I give it a rating of 100. If it's ten percent below average, it gets a 90, ten percent above, 110. I've looked at a wide variety of facilities using this type of metric, and an interesting correlation comes out. When I look at last year's performance in particular, at this selection of states with these facilities, there's clearly a correlation between the effective tax rate and the power rating or the performance of their facilities.

Delaware, the average tax rate historically was just over 40 percent. It has risen as you might have heard in the last session. Just last year the legislature raised the effective tax rate which has had adverse impacts on Harrington in particular, but they've got the highest power rating of these facilities, around 90, which is below the overall gaming average but still very respectable. Pennsylvania at 49 percent tax, power rating of 83, and so on down. Higher taxes in West Virginia, upstate New York, down to Rhode Island with again a very high tax rate of 72 percent, very low power rating. While Lincoln, for example, has been generating \$400 million in total revenues, due to this high tax rate and some over leveraging they did when the new owners bought the place, went bankrupt. It was generating \$400 million a year and still can't make a profit.

Why has this happened? Why are these larger states authorizing these machines with such high tax rates and things are just not working out as we would like them to? Well I harken back to a study that some acquaintances of mine did back in 1988 or '89. John Dombrick and Bill Thompson, who are known in the gaming field, did a study not about slots or tracks but about gaming referenda and legislative efforts and looked at how many such efforts had failed following New Jersey's authorization of casinos in Atlantic City in 1976. They came to a conclusion, which as you might tell from the title of

their book, was that Atlantic City was a very unique experience and would likely be the last of the authorizations of casinos. Well they were very wrong. The ink was hardly dry on their book before states such as South Dakota and Iowa started authorizing casinos and gaming devices. I think their model and their explanation for why this was the case is a very good one and explains a lot about the political process for slots at tracks as well as other gaming activities.

In contrast to many other types of issues which rise or fall in the political process based on what could be called a gravity model, the weight of the arguments; and you've got the pros, you've got the cons and whichever's the weightiest wins, in gaming they identified something they called the veto model. In the veto model there are a whole host of factors that can affect passage or not of a piece of legislation; what the stance of particular elected officials is, their character, their campaign, the economy, etcetera, etcetera. For gaming to pass basically all the planets, all these planets had to be aligned just right, so that was a very rare occurrence. It didn't happen at all between '76 and '89, which is why they call the title of their book *The Last Resort*.

It's happened more frequently since then. Gaming has become a less challenging political task to accomplish but it is still very challenging. I think this model still applies. All of the planets have to align just right. They've aligned well enough to get things passed in these states but not well enough to get them passed with reasonable tax rates or other favorable economic parameters. I think this has not only been a function of the political process, and my former representative, Tip O'Neil, used to say "all politics are local", so there's a lot of local issues involved in all of these. In general I think the racing industry's need and/or greed for this type of revenue shot in the arm has contributed to this process. We have accepted, because we have needed it and would have died without it, some deals that are really not very good for the industry.

Now more recently we've got what I would consider a piling on of the challenges facing us, and that is due to the financial crisis of recent years which affected gaming, at least as much as anyone else not only because of the general financial crisis of last year but also in particular because the two largest gaming companies, Harrah's and MGM, had just basically done high-leveraged buyouts or transformations of their companies. While they haven't gone broke and they haven't gone Chapter 11, they have been so close to it, this has severely crimped financing for any type of gaming activity. In 2008 things were totally frozen. 2009, some financial institutions are talking finance with potential gaming opportunities again, but on terms that are very, very different from what they used to be and what was really a bubble in the middle 00s; very high interest rates, coverage ratios. They demand a high hurdle rate. You have to pay off your investment very rapidly. There aren't many opportunities of that sort. A number of current race tracks and other gaming operators that I do business with have got some very good

looking projects that are stalled because they can't get reasonable financing for them.

I see right now it hasn't been too active. I've been surprised at how little action there has been on the political front during the recent economic crises because more gaming generally does get passed when states need the money. I see in the next year more states will take this up seriously and there will be a collision between the political logic, which is that it works in Pennsylvania at 48 percent and it works in New York at what is now down from 70 but still 50 something, 60 percent. Maryland passed it at 60, Kansas passed it at 60 so why can't we pass it at 60, but the financing just won't be there at that type of tax rate.

I think the best way to sum that up before I get to my final conclusions is today it really doesn't matter what the industry wants in terms of framework for slots at tracks. It doesn't much matter what the states might want or the people who are interested in maximizing money for the state. I think they have little real impact on things that would reasonably happen in the next couple of years. The people who matter, the only people who matter, are the financial institutions who have the money and might or might not release it depending on their view of the financial parameters that they get passed.

In conclusion, I think the Golden Age is over, the Golden Age being the time, again, the sweet happy time when the pioneers, the first five or six states had in many cases exclusives on gaming within their state; a little competition nearby, low tax rates, horse racing, and to some extent a couple of dog racing facilities, made a lot of money for the industry in those circumstances. Those days are over. States wised up, depending on how you see it. They see there's a lot of money. They're greedy too. There is this coming collision between the economic and political logics. Not that there won't be many more facilities. I think a number of other states, I can't handicap individual states; Kentucky and Texas and Massachusetts are almost always in the news. Again, I can't tell you what's going to happen in those specific states but I think a number of them will ultimately authorize gaming devices at race tracks.

We will ultimately work out this dialect between the financial people and the state people, the industry people and make a significant amount of additional revenues for the industry, but it will be challenging. Taxes will be high. Financing will be difficult. The competition from a full spectrum gaming facility both in neighboring states and in your own state if you're fortunate enough to get these will be difficult. I would close by recalling the old saw that if you need it bad, you often get it bad. What we've got to do is need it good. That will be much better for us. That's my remarks. I will turn it over now to Rob Scarpelli who will discuss his perspective on things in Canada.

Mr. Rob Scarpelli: Thanks Will. Will asked me to come down and speak at this. I thought this is going to be an easy presentation. He said speak on

racinos. We don't have any in Canada, so it's a very simple discussion. What we have in Canada is a variety of facilities located at horse race tracks. In Ontario they're called slots at race tracks, racetrack casinos in BC, racing entertainment centers in Alberta and Prince Edward Island, VLT programs in Manitoba, also Quebec. We have ludoplexes which are being transferred to gaming halls in Quebec.

In order to look at pari-mutuel gaming and electronic gaming at race tracks, you really have to start to understand what's available in Canada and how to view this. Essentially, if you look at Canada and you compare this to most of the states in the United States and other foreign jurisdictions, we offer or we allow all forms of gaming in Canada, whether it be bingo or casinos. We divvy up the slot machines and the VLTs under EGDs, electronic gaming devices, because you really can't tell the difference between a VLT and a slot machine. Under the electronic gaming devices, we have traditional VLT programs which really are a few machines in a hospitality environment, in a bar or a restaurant.

Then we have what's emerged over the last five years is what we call an EGD other facilities. That's when you start grouping a whole bunch of electronic machines in one place. That would be the slot at race track program in Ontario that would be included in there. Then we have lotteries and pari-mutuel. If you look at, if you think of it in this perspective, the approach taken to gaming in Canada is there's a buffet, and everyone allows it. If you look at this chart, there's only a few jurisdictions that don't allow all forms of gaming. If you look down at the casino side, we're left with Prince Edward Island and Newfoundland, our two smallest provinces, that don't have casino gaming right now. New Brunswick, another small province, is actually in the process of developing their first casino.

You go across to the VLTs; all the provinces except Ontario and British Columbia have VLT programs. Then you go to the EGD other. As I explained earlier, our racino category really falls into this but also included is slots at bingo halls in British Columbia. Lotteries, Canada is one of the first countries to really adopt and push lotteries. Every province in Canada, either by themselves or through a partnership of multiple provinces, have well-established lottery companies and pari-mutuel, the oldest form of gaming in Canada. If you look at the industry and where everyone's place is, what you have here is this chart that shows the gaming win in Canada.

Right now the Canadian gaming industry is about \$15.4 billion in size, and that's only from gaming win. Once you add in the ancillary revenues you're probably upwards somewhere around \$15.6, \$15.7, and it's been growing. If you look at the area lines in there, the bottom green line, that's pari-mutuel stated in terms of win as opposed to wagering. Above that we see bingo, and above that we see lotteries. If you look at the industry in Canada, that's really the base of our industry. They're the three oldest gaming sectors. They're developed. They're stable. On top of that in the early 90's

we added the VLT programs. That's that reddish color just above the lotteries. Then on top of that we have the casinos. The casino sector is really what's been driving the Canadian gaming industry for the past 10 to 15 years. Then on top of that we have this EGD other or if what we want for this audience is really the racino business in Canada, and that's really the introduction of electronic gaming devices at facilities across the country.

I would preface a couple of the comments I'm going to make later on in this in terms of — the majority of our clients are provincial government gaming entities or provincial governments themselves. A number of the comments I'll make here relate back to how pari-mutuel gaming and the various racino models in Canada are viewed more from a government perspective. Another way to look at the area chart is what sectors are driving what. One thing about Canada is the primary beneficiary of gaming, similar to the states but is never really looked at in the same regards, is government. Government views gaming dollars as really public dollars, and the public dollars are controlled by the provinces. Canada follows the British Criminal Code system. Essentially our criminal code states all gaming is illegal except, and the exceptions are really it has to be conducted and managed by a provincial entity if it's electronic. You can have — charities and religious organizations and fairs and exhibitions can do certain forms of gaming. The fairs and exhibitions are interesting because most of the horse racing in Canada started from fairs and exhibitions.

One sector is not controlled by the provinces though, which are pari-mutuel. Pari-mutuel in Canada is controlled by the federal government under the Canadian Pari-mutuel Agency from that perspective. What you have is you have provinces controlling all forms of gaming in their jurisdiction except for pari-mutuel. None of the provinces really want to wrestle away that federal responsibility for a pari-mutuel into a provincial because what it does is it opens up the whole debate about gaming. You definitely don't want to open up the criminal code with regard to gaming during economic recession times because what you're really opening up is you're opening up how to split the money between the various parties. What we have in Canada is the federal government gave the rights to gaming to the provinces in exchange for a really small amount of money. No province wants to really open it up because then the feds will want more money from that perspective. It poses some issues with pari-mutuel because who really controls it. Do the provinces control it or does the federal government control it?

From this chart here what you really see is the dominance of casino gaming. Casino gaming was implemented in Canada since the early 1990s but has really taken off. The growth in that sector or whatever really, especially the growth in the last three or four years, is really coming from the introduction of new facilities and new electronic gaming supply in Western Canada. That would be Manitoba, Saskatchewan, especially Alberta and British Columbia. What you also see there is you see the VLT program which is the blue line. That's really been in decline for the past number of years, really caused by

the provinces that have VLT programs, and that's everyone except for BC and Alberta, have started to rethink their programs.

There's a general movement towards we have a lot of machines out there, let's reduce accessibility to VLT gaming's. Let's make sure first they're only in age-controlled liquor licensed establishments. Number two; let's make fewer sites but more machines in the sites from that. That's where you get the birth of or the starting of that EGD other category, which really most of the racinos in Canada fall under that category which was more or less well, what we need money on the one hand. On the other hand we have to be responsible. We don't want as many opportunities or we don't want multiple facilities to attract people to come gamble. We want fewer bigger ones because we can control them better. We can make sure they're more secured from that perspective. That's how you see the growth in that red line or sort of reddish pink line, the third from the bottom, is that VLT/EGD other sector. When you look at the bottom, pari-mutuel and bingo, it's been stable in the smaller sectors.

Now flipping over just to horse racing because a lot of time when people talk about the racinos they forget about the horse racing side of it. If we look at the horse racing side of it, it's how to view horse racing. Again, this is where I preface most of our clients are governments not race track owners or horse people from that perspective. The issue comes down to what this chart shows you is the blue bars is wagering trends across the country, and the yellow bars within the blue bars is the win or the take. Let's get rid of the taxes paid to the provincial governments, which are minor now. There's a small tax paid to the federal to cover the regulatory side of it. The yellow line on the bottom is really the take for the race tracks.

A couple of ways to view this; we hear a lot of talk about the industry is in decline, it's going to die or whatever. When you start looking at the actual wagering trends, I mean, we don't see it dying. We don't see it growing either. We categorize it as really developed but depressed. It's a big industry. It's there. It goes up and down on an annual basis but it's still there. It's what to do with it. What can happen; should the industry shrink or can it grow from that perspective. We look more on the, or I should say if you focus more on the win lines on the bottom, you really get the stability in the business. It's just there. It's a number that no matter what happens it just keeps going on and on. The challenge really is, from a horse racing perspective, is what do we do with this?

The whole intent of most of the slots at race track programs or racino programs were to provide an injection of money into this gaming sector to see if it can grow or to stabilize it.

If we look at the state of horse racing in terms of where all these dollars are being generated at, what this chart shows you is the top ten race tracks in

Canada and the amount or total wagering that takes place at those race track facilities, including their OTBs. The size of the industry in '08 was about \$1.7 billion.

The majority of that money is generated in the province of Ontario. We'll show you a little later on, I'm sure everyone's aware of it, Ontario is a major horse racing jurisdiction in North America. It's either third or fourth depending on what year data you look at in terms of total wagering. We look at across the country in terms of the race tracks from here, and really the top ten tracks in the country account for by far the majority of wagering, pari-mutuel wagering in Canada. We have Woodbine on the top which is Toronto. Hastings Park which is Vancouver is next. You have Northlands which is Edmonton. Montreal, Fraser Downs which is also Vancouver, Stampede which is Calgary, Fort Erie, Assiniboia Downs in Winnipeg. Sorry, I missed Flamboro there outside of Hamilton and Rideau Carleton in Ottawa on the bottom.

I will make a couple of points about this. When you look at Woodbine and Montreal, those are two race track facilities located in markets that really are underserved by all of the forms of gaming. Probably the two biggest underserved markets in Canada, which happens to be our first and third largest cities in the country, are really underserved by gaming. You would expect based on population and history within horse racing that Montreal and Stampede, which is Calgary, should be a lot higher in the rank in this chart right here.

Moving over to what is the racino model in Canada. What I hope to touch upon in some of these slides is really why were the programs implemented, how were they set up, sort of the structure of the program in the economic models used. In terms of why were the programs implemented, I mean, a lot of the programs started in the late 90s, early 2000s. Really there was a combination of helping the horseman, not the tracks, but helping the horseman. There was a recognition by politicians about the jobs in the horse racing industry and about competition.

Most of the gaming activity in Canada was set up under separate programs. In other words, a province would go in, and I'll take Ontario for example. We want to start commercial casinos. They study, they define what a commercial casino is and they implement casinos. Then they said we want to — they already had a lottery program. They already had bingo, which is really run by charities. Then when they went over to the race tracks, the race tracks weren't the first choice.

The government at the time wanted to get rid of what they had, roving Monte Carlo events which were table games that would operate from one to three days in hotel ballrooms and stuff like that, and the government wanted to get rid of those really because they couldn't regulate them properly. They wanted to take that program and put it into 44 mini charity casinos across

the province. The concept of the 44 was you have a lot of electoral districts in Ontario, and because the roving events happened all over the place, sort of every electoral district got one type of thing. They tried to implement that program, ran an RFP process, picked a bunch of operators and then cancelled the program. At the same time they were debating we should allow VLTs in Ontario. Every other province in Canada has these VLTs. We're going to put 20,000 VLTs in hospitality establishments across the province.

At this time we had a conservative government in power, and they were trying to balance the books of the provinces and they needed revenue. Both those two initiatives and one was advanced a bit farther, the charity casinos, at the end of the day they couldn't get it implemented. They scrapped those and the beneficiary of really that scrapping of those two programs was they decided they'd take 10,000 slot machines and throw them at the race tracks. Really that was the, you know, there was agreements, memorandums of understanding to say what they're for and the whole bit, but in political terms, that's really what happened. There was a recognition by the provinces to say there's a lot of jobs in horse racing, unfair competition because we control the other forms of gaming, we'll give them something. In reality, they wanted the cash from that perspective so the race tracks got all these machines.

Now how the programs were set up, it's really there's the recognition of all the programs in Canada that conduct and manage responsibility lies with the provinces. What that means is there is not a racino in Canada that the race track owner buys the machines. All the machines are owned by the individual provinces. Some jurisdictions a private sector operator is allowed to operate the facility on behalf of the province. In other cases — and British Columbia would be an example of that. Alberta would be an example of that. In other cases it's the province that actually operates the machines and they get the majority of the revenue from it.

Economic models, I mean, Will talked about the tax rate. In Canada we really don't have a tax rate. You really have to look at where the revenue is going, whether you look at the top line or bottom line. I'll give an example. In Ontario 25 percent of the stock revenue in the race track goes to horsemen, race tracks and municipalities. The province retains 50 percent, but from their 50 percent they've got to cover all the costs. I'm sorry, 75 percent. They've got to cover all the costs and the costs of the machines. In reality if I'm a race track, that ten percent that I get that's allocated to me is looking pretty good because I really don't have a lot of costs associated with that ten percent.

We look across the country. We have multiple race track facilities. All the red dots are just race tracks. All the blue dots are racinos or slots at race tracks is what we'll call them because of Ontario. We also have a couple of proposed new facilities. One going into Ontario at Belleville and there has been talk about the building of a gaming facility in the province of New

Brunswick centered around racing. We look specifically at Ontario, and I'll draw the examples from Ontario because it is the largest jurisdiction in North America in terms of number of race track facilities, number of live race states and probably amount of purse money that gets spent in horse racing on an annual basis.

We have lots of facilities in Ontario. They cover the whole province. Ontario also has many other forms of gaming, so this chart shows you all the race tracks, all the slots at race tracks, all of the charity casinos, all the commercial casinos, including the border competition in New York State, in Buffalo and in Detroit. It also includes proposed new facilities, one at Belleville. I will make the point though that a number of these slots at racetrack facilities are also expanding. There's been some expansion announced. Woodbine is getting more machines. Ajax Downs is getting more machines; Georgian Downs is also getting some more machines. Interesting to point here though is if we look at the largest concentration of population in the province, it's really centered around Toronto. If I had a better map that showed you, zoomed out or zoomed in a bit more, the Toronto market is really served by a whole bunch of facilities located outside sort of the open court, on the edges from that perspective.

In terms of historic horse racing issues, I touched upon it a bit earlier. The two biggest historic issues with regard to the horse racing sector communicating with a province is really unfair gaming competition. We were here first. You allowed all these other forms to come in. The second one is economic benefits and jobs. Well in reality what's going on now is those arguments are becoming less and less important to government from that perspective. The first one is I'll show you in a minute some issues about unfair competition. The second one is in economic recessions some of the numbers quoted for the size of the industry in terms of jobs just don't materialize or aren't believable. I'll give you an example for Ontario.

There's many different reports written on the economic benefits of the horse racing sector over the past 10 years, and those numbers quote anywhere from 40 to 80,000 jobs. In reality when you look at it, you start digging deeper into it, and it's probably closer to 25 to 40,000 jobs. Well you compare that to something like the auto industry, which really represents 60 percent of the Ontario economy, and you have governments going I've got an auto industry that represents 60 percent of our economy and horse racing. Who am I going to help, from that perspective?

The first point about unfair gaming competition. Here's a chart that we show, and the horse racing industry and the horse people really don't like to see this, but governments look at it and they appreciate this because it's some of their thoughts about what to do with the business. What this shows you is the top dotted line is the growth in lottery ticket sales. The red line is pari-mutuel wagering, and all those notes are when all the new facilities opened up in Ontario. Another way to look at this is from a win perspective,

so that's lottery win on the dotted and that's pari-mutuel take on the bottom line. It's hard to make the argument that the opening of all competitive facilities really had a disastrous effect on horse racing. The bottom line is horse racing in Canada has a narrow demographic appeal, similar to bingo. Without changing that narrow demographic appeal, you're never going to have growth. Once you offer all forms of activity and give a choice to people, they're going to gravitate to those forms of gaming that they want to partake in. It's not new. The biggest challenge to horse racing is how we change that demographic appeal from that perspective. I think the point to the horse racing sector is if you're looking for government concessions, that's one argument. You have to think of a new argument, that you can't rely on some of these historic arguments to make because it's harder to justify.

On a future issue basis, and I'll end on these ones, a couple of points that we'll make is there should be a discussion, or we believe there should be discussion on should we get back to the base economics of horse racing. The last point is governments need for additional revenue. Most gaming in North America has been implemented during recessionary times and governments in need of revenue. Well once you have all forms of gaming when a recession happens again, and this is really the first recession that we've had probably in about 15 years, governments need more revenue now also, so what to do.

In terms of the base economics is really the horse racing sector, compared to other forms of gaming, is quite complex; not difficult, but it is complex. You have many different stakeholders involved and there's an event that happens between the stakeholders that ties everyone together. Historically, I would say most of the discussion in horse racing is really centered on the facility, the activity or the racing and the farm. A lot of people in the business have forgotten about the key driver here, I'd make the argument it's really the gaming customer from that perspective.

I would say, and I'll end on this note too. We have a lot of slot programs at race tracks in Canada, and they've all been set up a little bit differently. They've all been set up based on the experiences of individual provinces. The concept of most of the programs is this extra form of revenue we want to inject in the business, and it's going to inject that revenue to get the maximum benefit. There's still hope out there that if you add money into the sector, the sector itself is going to grow. I don't think you have a provincial government in Canada that is saying we want to throw away horse racing, but something has to be done in terms of how to inject that money into those programs that get the maximum benefits. That's really what it boils down to, is where do you put the slot revenue? Thank you.

Mr. Cummings: Thank you Rob. Again, batting cleanup for us we are fortunate to have Steve May, for those of you who weren't at the luncheon yesterday, is the recipient this year of the most outstanding student award here at the Race Track Industry Program. He has developed what I think is a

very interesting and useful tool for looking at legislative issues related to this subject. Steve May.

Mr. Steve May: Thank you very much. As Mr. Cummings said, I am a graduate student here. I want to say thank you to everybody for being here too. Not only do you — it's a big meeting for you, but it also helps to support education like mine and everybody else. I think I have a little typo. I'm actually going to be the fourth of six grad students graduating. I have a couple of other classmates who will be graduating in May, so it's been a very good program at the University of Arizona.

The University of Arizona has teamed with Harness Tracks of America for numerous projects over the years. For those of you who don't know, Harness Tracks of America is a trade organization based here in Tucson that represents race tracks nowhere near Arizona. The executive vice president, Stan Bergstein, moved the organization to Tucson many years ago. We have 32 member associations across the United States and Canada. Among Stan Bergstein, also Paul Estok as general counsel. We provide a lot of different services for the race tracks that are represented. I say we, because as you'll see in a minute my role has changed significantly with HTA. They've had a very good dedication to helping the education of the students at the Race Track Industry Program, not only in doing research but also being published. It's been a very good balance between the HTA and the Race Track Industry Program.

My background, I am a student here. I graduate in May. I started in 2008. Earlier this year, I guess, I was invited to work on a project with the executive assistant, Brody Johnson, for Harness Tracks of America. He proposed doing a pretty big revision of a couple of different projects that have been done in the past. This project was done by several different students at the program. The reports have been very dated. We wanted to really develop a working tool for the entire industry to be able to use.

The previous projects that have been done, again, these were in 2004. A very, very good study by two students, Mark Mulier & Joseph J. Pulli had done on this. This was again updated by Jordan Brand and Jason Egan. Jordan was actually here. She was in the audience earlier. Again, we wanted to develop a new pathway for this. All the projects that have been done in the past are actually housed on the University of Arizona Race Track Industry Program website, and I invite everybody to take a look at these at one point or another. This is the main page for the Race Track Industry Program. If you go to that, there is a student research section on there. The previous reports that I'm working on, as well as a lot of other reports are on this. It's a really good tool for everybody that has not looked at this.

Again, Brody Johnson asked me to work on this. Brody Johnson unfortunately passed away in October. He was a very good friend and a very good person to work with on this. Everything did change for me because I

was actually named his replacement for HTA. I'm having to carry on this project now as well as do everything else for the HTA and the Race Track Industry Program. The project we were working on was basically an update of the racino legislation project. We released version 1.0 as we called it in September. What this consisted of was the majority of the HTA member states; you can see on there — there was Delaware, all the major I guess kind of big players for HTA member states. We're going to be adding the next version of this later on this month.

What the project consisted of was this is what we just call the results matrix. We weren't trying to get a report that showed the impact of racinos or how much purses went up or down. Those projects have been done. Mr. Cummings has done some excellent reports on that. The American Gaming Association publishes an amazing report every year. We knew we couldn't match that anyway but we wanted to do a different look at this. What we have, as you can see, this is — and you probably can't — I know you can't read this but this kind of shows each state. It shows the enabling legislation, when that was published. It shows the authority agency involved in this, whether it's the lottery commission, whether it's the gaming commission. Those are also hyperlinked in there. If you were to click on Delaware, you would actually pull up a PDF copy of the current state statute as a reference tool. If you click on the enabling legislation, it will pull up a PDF copy of the enabling legislation on this. If you click on the authority agency, it will pull up — it will go to their actual website.

We just tried to get a very good overview of this: the number of machines that are allowed in those different states; some of the very basic tax rate that really comes in the heart of the paper; the number of race states that are needed in those different states; just kind of an overview as a reference tool for any of these sites you're looking at. Again, the text of each state is really where the heart of all this information is. It does feature a pretty in-depth analysis of the enabling legislation. Then it goes into all the amending legislation. Again, everything we tried to get a full reference as a PDF. These are all housed on the HTA website, and once you know the link, you can go to this and it's open to everybody.

The format that we tried to — we tried to get a basic format. We have a brief history of the bill. A lot of this will have like the vote records, the margins that these bills passed by or didn't pass by. It has the stated goals of the legislation. If it was actually stated within the legislation that this bill is being passed to help the racing industry or anything like that, we tried to get that in there. A lot of states don't have that. A lot of states do. We tried to get the definitions as far as what they're calling it; is it a slot machine, is it a video lottery terminal, is it a gaming machine. That varies between each state. We tried to have an easy reference on that. We tried to add the fees and other requirements. As it was discussed, Iowa has a \$250 million license fee. We tried to get all the different requirements that these states had for the different racinos to get these. I would try to have the

number of authorized machines in enabling legislation. Then of course there are changes in all the amending legislation for most states. The race states mandated.

We tried to really focus on the important things that everybody looks at in the racino legislation. The days and hours of operation, that's actually being phased out in most states because most are going 24/7 operation of these racinos. Then of course the revenue distribution, really the heart of what everybody's looking for. We tried to keep all the primary sources within reach for everybody. Again, the vote records or election records, we tried to get a PDF copy of the actual certification from different counties. The fun part of this was actually trying to call little small counties in West Virginia and talking to their election officials trying to get a PDF copy of all this. A lot of this was very difficult to obtain. The goal was let me do the work I guess basically. If you do need this as a reference, you can have this.

We again do have the full text of the legislation in all this and any other documentation that we could find that we thought would be useful. This is where we're kind of asking for help from everybody else. If you have information that you would like to see in this, we'd like to get just a big database of all this. This is kind of how the paper is formatted. You can see at the bottom there is a hyperlink on there. I know you can't read it but that's what is — everything is in a footnote basically. If you click on that, you would actually pull up the text of that. I'm trying to just make this an easy tool for everybody.

The future versions of this, and again, we started with the HTA member states. I tried to get all those. A lot of this was a matter of getting information out there to some of the different officials in the states, having them review it, point out mistakes that we had in there, trying to keep this updated and corrected. The next version again is going to go out hopefully at the end of the month. It's going to have the rest of what we call the racing states. At least states that do have horse racing, dog racing, anything like that — Arkansas, Florida; a lot of the states that don't have HTA tracks in there, but are obviously the very important ones.

Kind of the next step is going to be the other racino states, if you call it. Minnesota, for instance, doesn't have slot machines but they have card rooms. We'd like to get that information in here eventually. Oregon is one that had the instant racing. It got pulled out. Well I think that's still very important so we want to try to get that in there. Then we have states like New Jersey and Illinois who don't have machines but they're getting the subsidies from the casinos in the state. Eventually we'd like to get all this information in there. We would like to get Canada and any other international places. I know there's been talk about Uruguay and different places. I think it would be nice to have so we're trying to get some more of this information in there.

Right now feel free to contact me if you'd like to have a copy of this. It eventually will be on the U of A website, so that information is there. My email address, my new email address is steve@harnesstracks.com, so feel free to contact me there or contact me here at the symposium. I'd love to meet with people and try to get this information passed on. The HTA website is up there also, info@harnesstracks.com. Again, this all will be on the U of A website and I invite everybody to take a look at the University of Arizona Race Track Industry Program website. It's got a lot of information on there under the student research section. Feel free to look at that, a lot of good tools. Thank you.

Mr. Cummings: Thank you Steve and thank you Rob. We have about eight or ten minutes for questions. I'll throw it open to the floor. Please come to the microphone if you have any questions about our views on the state and future of slots at tracks or other types of gaming at race tracks. Seeing no questions, I'd like to give our panel one more hand and you're free to go to lunch.



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