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New Territories on the Racino Frontier

Moderator:

Allison McCoy, Vice President of Business Development, Spectrum Gaming Group

Speakers:

Stephen Martino, Executive Director, Kansas Racing & Gaming Commission

Mike Smith, President and CEO, Casino Association of Indiana

Melinda Tucker, Director, Racetrack Gaming, Pennsylvania Gaming Control Board

MR. STEVE BARHAM: If you see our sponsors or also the exhibitors, please thank them for their sponsorship and their support of the RTIP. Really, without them a lot of this wouldn't be possible.

The moderator for this panel is Allison McCoy. Her bio is in the back of the program, you can read that. Allison is involved in some other conferences and the story I heard was that she gave Doug Reed a call, our director, and was talking about our conference and these other conferences and how we could get some synergy. Doug is an old racing secretary, getting people to do a lot of things that maybe they didn't want to do but by the time he got done with them they really said that this was a good idea and I want to do it, so she gets to be the moderator. Anytime you call Doug, understand that he is a really good delegator and he'll get you doing a lot of things. With that, Allison?

MS. ALLISON MCCOY: Good morning everybody. Thank you for that introduction, and it is true.

My background, just to give you a little piece, is generally running the conferences and planning the conferences, so being on this side of the podium is a little new to me.

I work with Spectrum Gaming Group in business development and marketing. I've been with them for about two years. Spectrum is an independent

research and professional services firm. We're based out of Atlantic City and have offices around the world.

Today we're going to be talking about new territories on the racino frontier. We're going to hear from some of the experts from jurisdictions that have recently implemented racino legislation. They've walked the walk and are here to provide us with some insight as to their experiences, lessons they've learned and things they might have done differently.

So first we've got Stephen Martino, who is the executive director of the Kansas Racing and Gaming Commission. He serves as the chief executive officer of the state's regulatory and criminal justice agency for pari-mutuel racetracks and state-owned casinos. And he also founded the Kansas Responsible Gaming Alliance and is active in promoting responsible gaming programs and problem gambling treatment in Kansas.

Next we will have Mike Smith, president and CEO of the Casino Association of Indiana. He is responsible for the regulatory affairs, public relations and education, responsible gaming and directing legislative initiatives for the casino industry. And though he is not directly involved now, he does have 25 years experience in the harness racing business as a breeder, driver and trainer.

And then finally, from my neck of the woods, we'll hear from Melinda Tucker who is the director of racetrack gaming for the Pennsylvania gaming control board. She is the liaison to the Pennsylvania Horse and Harness Racing Commissions and pari-mutuel horse racing industry. And she works with the office of gaming operations on regulatory matters involving the day-to-day operations of slot machine casinos.

So we'll leave some time at the end of the presentations for questions from the audience, but for now let's get started.

MR. STEPHEN MARTINO: Well, good morning to each of you. I apologize for getting this presentation off on such a depressing note. When you talk about Kansas unfortunately I think that if you reduced this presentation to some kind of take on Dickens', Christmas Carol, I would be the ghost of racinos that never were. We have not been successful in moving forward and I want to touch briefly on why that might be.

The Kansas Expanded Lottery Act was really 15 years in the making; 1992 Missouri passes its constitutional amendment for riverboat casinos, there are now four riverboats in the Kansas City area, which is on the east side of Kansas. In 1994, the Kansas Supreme Court clears the way for tribal casinos in the State of Kansas and there are now four tribal casinos in northeast Kansas. Approximately 2003 or so the growth of the Oklahoma tribal facilities on our southern border becomes very intense. What were kind of glorified Class Two bingo parlors had really increased in their size and scope and transitioning to compacted games and Class Three. So in 2007, after literally about 15 years of discussion, the Kansas

legislature passed the Expanded Lottery Act, it passed 21 to 19 in the state senate, obviously by the one vote that it needed, 64 to 59 in the state house, it needed 63 votes. So the margin was very close and after really an unprecedented 14-hour filibuster in the state senate, and Kansas really doesn't have these kinds of games, but it did pass.

The key aspects to the Expanded Lottery Act for racetracks were that the Kansas Lottery is the owner of the gaming. If you have followed what has happened in Kansas there is this concept of state-owned operations which the law has been upheld by our supreme court. The lottery is the owner of the gaming and then hires and contracts with managers. There was an allocation of 2,200 slot machines between the three year-round racetracks that we have, one in Kansas City, one in Wichita and one in the southeast corner of the state, not very far from Oklahoma. No dealer-operated table games were allowed and the lottery was given the authority as to how to distribute the 2,200 slot machines and did that by sending 800 to the Woodlands in Kansas City, 800 to the Wichita facility and then 600 to the southeastern Kansas facility. I would point out that the Woodlands is the only track, we have year-round greyhound racing in Kansas, I would like to say that Kansas is to greyhound breeding and racing what Kentucky is to thoroughbreds, more greyhounds are whelped in the State of Kansas than in any other state in the country.

And then finally there was a requirement for a \$2,500 one-time fee per slot machine that was to be paid by the track, the state calls that a privilege fee, the tracks called it extortion, but that was a requirement to get some upfront money to the state.

There were really only three requirements in the law. Because the tracks were already there, there was not a bidding or an application process to be the managers. There was a no-bid for the existing racetracks, so all that was required under the law was to pass a county vote, the county where the racetrack was situated, to negotiate a contract with the Kansas lottery, and really the lottery was not striking a hard bargain. In fact, the required terms of the contract were in the legislation, so the racetracks knew what they were going to have to sign. Finally, to have that contract approved and reviewed by the racing and gaming commission.

So one would think going forward that that was a relatively easy set of requirements. Unfortunately, the first hurdle was insurmountable for at least one of the tracks. The county votes which are up here, were fairly overwhelming in two of the jurisdictions, Crawford County, southeast Kansas, 61-39, and Wyandotte County, which is Kansas City area, 82-18. Unfortunately, the vote in Sedgwick County, which is where Wichita is located and also obviously the Wichita Greyhound Park, that was tripped up, it failed by about 200 votes out of 101,000 cast. Failure to pass that local vote then served as a bar for them moving forward, and while I will touch on it later, the day after the vote the owner of Wichita Greyhound Park announced that he was closing the track and it did close about six weeks later.

This is the gaming revenue distribution under the law for the slot revenue at the racetracks. Forty percent to the state, 25 percent to the manager off the top, an additional 15 percent to the manager for lottery-approved expenses, and this was anticipated under the legislation to really cover the cost of the central computer system and machines. Towards the end of the contract negotiations the lottery had essentially told the racetracks that they could have all of that 15 percent regardless of where the expenses were and they were quite generous in defining what would be a gaming expense. Fifteen years in the making, you can probably imagine that this is a collaborative effort in getting the legislation passed. Obviously the breed groups were involved, and we have active horse groups, both quarter horses and thoroughbreds, and greyhounds. So they were instrumental in making sure that their position and interests were represented. So seven percent to horse purse supplements and an additional seven percent to greyhounds; three percent to the local unit of government, cities and counties; two percent to the state's problem gambling fund, which is administered by our social services agency; and then one percent to the Fair Racing Supplement Fund. Those of you who know anything about Kansas, we have two small fair meets that have met annually, one at Eureka Downs in Greenwood County and another at Anthony Downs. As a part of the negotiations they had wanted slot machines, putting slot machines in these small Kansas communities was just really a barrier to getting the legislation passed. So in an effort to get something passed and also get them a taste of the revenue that was going to be coming in they were given one percent of the slot machine revenue at the pari-mutuel facilities. I would say, and this will be important for moving forward, that the racetracks signed off on this revenue distribution. And in fact, this revenue distribution had been around in various forms for six or seven years, a little on the margins different, but fundamentally this had been agreed to by the racetracks, they said that they could make this work, the breed groups said that this work for them. So there was really no dispute as the legislation was working its way through the legislature as to whether these numbers were going to be changed.

The problems start and the reason that we have so many problems in Kansas, I believe, are based largely on what the track owners believed that they could get from slot gaming. Although — quick slide that I put in from the AGA survey on casino entertainment, this gives you where other states are as far as revenue retained by track operators in other states. So Kansas is certainly on the side of giving the operator less, although there are some other states that are worse or certainly comparative.

The Kansas lottery in 2004 commissioned a market study from Christensen Capital Advisors to determine potential revenue for racetrack operations in the State of Kansas. The very first study that Christensen produced was in March of 2004, and they gave some very broad ranges as to what racetracks could generate with slot machines. I wouldn't get too hung up on this because this really just gives you a sense of where the discussion started and where I think a lot of the tracks decided to sign off on certain revenue numbers; so \$270 million potential gross gaming revenue for the Woodlands in Kansas City, \$210 million for Wichita Greyhound Park. But this was very conceptual, didn't know where casinos might

be, and as part of our Expanded Lottery Act, Kansas also passed authorization for four land-based casinos in different areas of the state, roughly where the tracks are, Kansas City, Wichita are, southeast Kansas and then one in Dodge City which has no racetrack corollary.

By February of 2006, those numbers had been updated again by Christensen, and this assumed casino competition in all of these zones, that the racetracks would be operating with slot machines and there would be casinos. Obviously — not to make anyone sick here, but going back and forth a little bit, the numbers had dwindled significantly. But still in 2007, these numbers were sufficient for the racetracks to sign off on the revenue distribution. These numbers were updated yet again in March based on some very specific legislation, and in fact they increased for Wichita and Kansas City, went down again in Camptown.

March of 2008, the law passed in March of 2007, lottery commissioned its final Christensen study for prospective gaming revenue in Kansas, and this is what Christensen comes up with for Camptown and Woodlands. Wichita votes have already happened, Wichita Greyhound Park is out of the mix, we believe that there is going to be a casino, Penn National had filed an application in southeast Kansas, there were at the time five applications in Kansas City. And they come up with, prior to the casino opening in Camptown, \$156 million a year in gross gaming revenue; mind you, that is with 600 machines, the allocation that the lottery had provided which would be a per day, per machine take of \$712. After the casino opened that had reduced down to \$33.3 million or \$152 a day per machine.

The Woodlands was even more aggressive on a per machine, per day basis with \$740, \$216 million a year in gross gaming revenue. After the casino opened, which would be somewhere in the general area within two or three miles of the Woodlands, that obviously had gone down to 64.6. I would only point out that of the four riverboats in Kansas City, the market leader is Ameristar and they are at \$200 plus per day in slot machine revenue. One might say that the Woodland projections were quite aggressive, but things were going okay until the Kansas Racing and Gaming Commission as part of its casino selection process commissioned two independent studies on potential revenue. One was done by Richard Wells of Wells Gaming Research out of Reno. This assumes casino competition and these numbers are after the casino was opening, he did not provide before casino opening numbers. Far more modest numbers than anything that had been produced before and actually a very small range, \$18 million for Camptown, somewhere between \$25 and \$32 for the Woodlands in Kansas City. So compared to what had been projected before, when the racetracks saw these they started swallowing a little bit harder.

Our second revenue projection was done by our other consultant, Will Cummings, Cummings Associates. Will is here today, both he and Richard gave very good service to the Racing and Gaming Commission. Will came up with these projections this past summer, prior to the casino opening, \$31 million at Camptown and \$24 million after, and then 42 and 28.5 in Kansas City. This is where Will Cummings was and this is where the lottery's revenue projection was prior to or nine months ago.

At this point in time the racetrack, which had never commissioned, to my knowledge, their own separate study, decided that they wanted to go out and get some independent verification. At least in the case of Woodlands, Howard Grace, who owns the Woodlands, commissioned the Innovation Group to do their own study, and I think that I've seen the numbers; I can't recall them off the top of my head. They are roughly similar to the numbers produced by the Well's and Cummings' reports and not by what was produced by Christensen. At this point in time both of the tracks decide that the potential revenue is simply not adequate for them to go forward. Camptown had already started construction — Camptown is owned by Phil Ruffin who kind of lives part time in Wichita and part time in Nevada, owned the Frontier Casino in Las Vegas. He had already put \$10 million into renovating the Camptown facility, that stopped. The Woodlands had already demolished the first floor of their greyhound grandstand to put in their casino and their 800 slot machines, that was stopped.

So where are we at now in Kansas? Camptown never reopened; it has been closed since 2000. The Woodlands closed in August of 2008, about one month before they were supposed to have their horse meet, a mixed meet for thoroughbreds and quarter horses, after failing to negotiate a contract with the Kansas lottery. Wichita Greyhound Park, of course, as I mentioned before, closed in October of 2007 after the county vote failed.

Finally, after all of this had come to pass and there was time to reflect and the breed groups had their opportunity to weigh in, the racing and gaming commission held an administrative hearing on the potential to revoke the licenses of all of the racetrack operators, that was in November. This Monday they issued their opinion, at the request of the operators they have given them until 30 days after the end of this current, upcoming legislative session to restart racing or at least apply for race dates. The racetracks have sought to go back before the legislature and change the revenue numbers and the racing and gaming commission generally operating under the belief that there are no buyers for the tracks in Kansas, under the current revenue distribution, agreed to give them that time. So they will have their licenses, they will remain closed until hopefully sometime in the spring where maybe the legislature will change the law or they will revoke the licenses.

Thank you very much. I think we'll hit questions later. I appreciate it.

(Applause)

MR. MIKE SMITH: Good morning. It is good to be here today and share some of the experiences that we had in Indiana. The evolution of racing and casinos in Indiana, everyone looks at Indiana as a pretty parochial state, kind of laid back, not willing to change very fast, very often and especially to a lot of people's thoughts, to embrace gaming of any nature.

In 1988, the Hoosiers voted by 62 percent to approve the lottery in the State of Indiana, which actually took a constitutional amendment. In 1989 the lottery and pari-mutuel wagering was authorized in May. The first lottery ticket was then sold in October. In 1990, charity gaming was legalized, including the legalization of pull tabs. The connotation of pull tabs here, throughout the discussion of legalizing gaming at the racetracks, pull tabs were often used as a form of gaming that was proposed time and time again to get around actually calling them slot machines. In 1992 there was the authorization of up to four off-track wagering facilities per track. In 1993 riverboats were authorized. It's kind of interesting, too, I'm kind of here as a fluke, 1993 was the year that I went into the Indiana house of representatives and my predecessor had passed away. So my first vote happened to be during a special session on the budget which actually contained the legalization of riverboat gaming. I voted against that bill and it's one of those things a politician is always kind of afraid of, especially when you first get there. I had no idea, my campaign lasted about 13 days, so I get there and everyone is saying, Just vote no, just vote no, it's a lot easier to go home and explain a no vote on a budget, especially one that contains gaming.

So anyway, I voted no and Governor Bayh vetoed the bill and it was overridden, again, without the need of my vote. I was prepared, however, to vote for it.

In 1993 we also, when those five boats on Lake Michigan and the Ohio River were approved, I could be off on the date on this, but eventually there was a 65-cent per admission subsidy that was going to go to the racetracks. I think this is one of things that if you look at going forward, if you're going to plan on trying to move gaming into another jurisdiction, in putting together the coalitions to try to figure out how you are going to make this happen and making sure that everyone has some kind of a buy-in interest, because you're going to need it as you get closer to the point that you actually have to pass the legislation.

In 1994 Hoosier Park opened in Anderson, which is about 40 miles northeast of Indianapolis. Two of our first riverboats opened, one of Trump and Majestic Star in Gary, Indiana, the only city to actually have two casinos on Lake Michigan.

In 1995 we placed a restriction on the number of boats the gaming commission could put in one county on the Ohio River. Thoroughbreds started at Hoosier Park as a condition to getting an OTB in Lake County. Originally, Hoosier Park was designed for standardbreds. Hoosier Park opened OTBs in Indianapolis, Merrillville, Fort Wayne and December 1st, their first Indiana riverboat, because casino Aztar opened in Evansville.

One of the things in 1995 that you'll notice there, we passed the one boat per county, that's what we called it, and the legislature — as a little insight as to what goes on in the legislative process, we had a member that had been elected recently to a house seat that had been held by the other party for some time, and we wanted to help her obtain a riverboat for economic development, in fact, all of these properties, all the casinos were placed in economically depressed locations.

So Lawrenceburg, Indiana, next to Cincinnati, was supposed to have two casinos there. We passed a law requiring one per county, it gave her the opportunity, and now I think that riverboat employs something like 70 percent of the available workforce of that county. So this was a very successful thing at the time. Time will also tell how that plays out with Argosy opening a new facility in Lawrenceburg.

In 1996, political contributions were banned for anybody who had any ownership interest of a track or a casino. It was kind of interesting, Lincoln National Life, at the time, owned some bonds of a company that owned playing cards, and they actually were afraid, and there was some tweaking done to the law later, that they were in violation of the law that Lincoln National or Lincoln Financial Corporation could not give political contributions because it owned one percent of the bonds of a company that made playing cards.

Moving along, in 1997 we had two more riverboats open in east Chicago and Michigan City. So all of this timeline is as everything was trying to get through the system.

In 1998, the successful passage of a Marion County referendum on a question of allowing a horse track where pari-mutuel wagering was to take place. And what this was about was there was talk at one point in time at the Indiana State Fair Grounds to allow pari-mutuel betting there, and obviously that being a government-owned facility, that didn't fly.

In 2000, the riverboat subsidy to horse racing commission was capped by the commission. The riverboat in Vevay, which was the one additional county that benefited by the one boat per county.

Riverboats in 2002 were allowed to go dockside. This is a real interesting play, there was a talk about a three-legged stool where the riverboats would be able to go dockside and the racetracks would be able to get casino gaming or at least slots at the tracks. Ultimately, the riverboats got the dockside gaming and the racetracks were once again left out. In 2002, also, Indiana Downs in Shelbyville opened.

In 2003, it was kind of interesting, back in the 1993 legislation there was a provision of five boats on the lake, five on the river and one at French Lick on Patoka Lake, which happens to be a body of water that is controlled by the Army of Corps of Engineers, and there was speculation at the time that leadership knew that there was no way that the Army Corps was ever going to put a riverboat on that lake but were using it to obtain a couple more votes for the budget. I don't know if that is true or not, in politics anything is possible, I guess, at least it appears that way in Illinois the last couple of days. And I will say this, there was absolutely no ethical or question about integrity of which gaming in Indiana took place all through the line of how long it took for this whole thing to evolve. The Orange County license, these people from the community lobbied for 10 years to get that license moved and ultimately they got it moved. It became what would really be the first

land-based casino in Indiana, and you'll see here in just a second that it opened in 2006.

In 2007 the legislation passed authorizing the electronic gaming devices, they finally got rid of the connotation or using pull tabs and went straight for the slots. Each got an initial allotment of 2,000 slots at each track. The language is basically unlimited number of slots, they can do whatever the market wants if they can go back now and from the racing commission get permission to install an additional number of slot machines. One of the important parts of this too is that you'll notice that in the slide it talks about a \$250 million licensing fee for each track, and as the Kansas survey showed, a lot of estimates were out there on a daily win per machine of in the \$320 or \$340 per machine, which was pretty optimistic in good times. So they had to pay \$125 million up front and then another \$125 million this year, by November, prior to ever getting opened. So you had all the cost of that borrowed money or the use of that capital for all of that time with literally no benefit at all.

In an addition to the split of the revenue, the tracks, because French Lick just got started and this is an area which back in the old days was the place to go for entertainment and gambling, just getting started, the legislature was worried that it would suffer some real significant harm by adding these two new products to the market at the time that they were just trying to get started. So they got a one percent subsidy from the tracks. So it's kind of interesting, we've gone from 65-cent subsidy per admission to the racetracks and now you've got the racetracks giving a one percent subsidy to a casino in southern Indiana.

In 2008, Hoosier Park opened a permanent integrated facility in Anderson and Indiana Downs opened a temporary casino. I think that they're completing, it's either a 225,000 or 250,000 square foot final facility that will be integrated with the racing facility.

This is kind of a breakdown of the slot revenue, and I would like to thank Joe Gorajec and his staff at the Indiana Horse Racing Commission for providing me with this information on how the breakdown is going to go. It's interesting, too, here, part of the whole deal through the legislative process, there were a very limited number of quarter horses, I think, in Indiana, I'm not sure there are very many of them. There were a few important people that had them and therefore we have a few quarter horse racing dates in Indiana, but very few. In the allocation you can see how the revenue is going to be shared minus an integrity fee of \$250,000 each track, and I think the horse racing commission was telling me that now they will have about \$1 million a year to allocate toward drug testing, research and those types of things to maintain the integrity of the racing industry. In addition, as Steve was talking about Kansas, they have to pay \$500,000 to the Family and Social Services Administration for problem gambling. Currently the casinos pay 10 cents on every dollar; it was capped at \$5 million per year that goes towards problem gambling. Both the tracks and all of the casinos participate in the Indiana Counsel and Problem Gambling.

A couple of slides that I put in here from Steve Szapor, we did a program in G2E which had the daily win per unit in the racino states which was kind of interesting. You'll notice that the Pennsylvania — and you'll see a lot of that in a little bit — Indiana, we're at \$263 compared to the roughly \$340 per machine that was expected.

Effective tax rates. One of the things that as you look through this and going forward, for those of you who want to expand into new jurisdictions, these tax rates, while there will be a lot of people that will make the claim that a casino operator or someone who is operating a racetrack with slot machines can make money at a 60 or 70 percent tax rate, I think in today's climate with the cost of capital, it's almost impossible. I think that you'll find that in Indiana we're going through this process right now where it's kind of at a critical point, we've all walked into the perfect storm, if you will, of high cost of capital, economic downturn in trying to develop and open these new facilities.

Thoroughbred gross purses by state, California leading the way there. Average purses, New Jersey leading the way there. So it's kind of interesting, it doesn't appear that there is a lot of correlation between the amount of tax rate and the amount of money that is being allocated to the states or to the purses.

So I think a couple of things that you want to keep in mind going forward is that one of the things that is going to be critical is for the horse racing industry, and my background in the industry, I've always thought that we could have done things better in the form of attracting more and more fans. In the '70s and '80s we raced in Chicago on the weekend and at Sportsman's Park you couldn't walk through the grandstands, so full, obviously, a lot of casual bettors, casual participants. And as we further got down the road and started isolating the racing industry from the fan base, no one allowed on the backstretch — and what really brought that home, three or four years ago I was walking through the Indiana State Fairgrounds and I was going to go down to the horse barns and talk to some of the guys I hadn't seen for a long time and I couldn't get in, all of the barns are roped off, absolutely no interaction. When people look at, you've got a horse out there and being someone who has been in the business for a long time, we went to the under-slung bikes and suddenly you had drivers laying back on the horses and people are saying, why are they holding them back, why won't they let them win? Don't they want to win? I think we have the perception in the racing industry at least, we have tried to isolate. We've gone after the absolute bettor of the simulcast, the gimmick wagering, and today you don't see the family participation that used to be in the racehorse business. Obviously, from a monetary standpoint, you need to have that bettor that is there and willing to bet and have the simulcast and those additional revenues. But I think from a fan base and going forward, that fan base is going to be critical to protecting the revenues at these facilities that have slot machines that the government is so heavily dependent on. In Indiana we provide about \$1 billion a year from the handful of casinos and now the two tracks from these slot machines. They have an insatiable appetite for money and I think as long as, in our case, where we have 15 percent of the revenue going to the horsemen, it is capped at \$65 or \$85 million, I think you have someday, someone

is going to look at these and say, Why are we supporting this industry? Why are we doing this? Those \$65 to \$80 million per year could be used for some other service.

And I think that you have to keep that in mind as this industry transforms and goes to that next level of we're pretty much doing things in the racehorse business the way that it's been done for many, many years. And I know that my kids don't know how to read a Racing Form. In fact, it was interesting, a gentleman from New York was talking about having races and betting on the color of the silks, something that didn't take so much study that could be done for an entertainment purpose.

I think those are some of the areas that you really have to look at and try and protect the partnership between the casino industry or the casino part of the racino. I think that in Indiana one of real exciting things is how they are integrating the facilities to try, Hoosier Park has got theirs done, they have windows on the straight-a-way, so on racing season they can open the blinds of those and you can be on the casino floor and you can watch the home stretch drive and also bet on horses there. I think it's critical to the industry to try to increase that fan base.

With that, I would be happy to answer any questions when we're finished. Thank you.

(Applause)

MS. MELINDA TUCKER: Good morning. I see a lot familiar faces out there, friends.

This PowerPoint presentation is intended to give you an overview of what's happened in Pennsylvania, and when I practiced it this morning I didn't realize how long it was so I'm going to talk really fast because I don't think you want to miss one slide. So if I talk too fast, you can ask me questions at the end.

For those of you who don't know me, I'm Melinda Tucker, I'm the director of racetrack gaming for the Pennsylvania Gaming Control Board and this is a brief overview of what has happened in Pennsylvania, what's worked, and some suggestions that I have on things that you might want to do if you're considering racetrack gaming legislation in your state.

Act 71 was passed in 2004, it was passed primarily to provide property tax relief and to reinvigorate the Pennsylvania horse racing industry. Probably one of the things that I like the best about Act 71 is its name, the Pennsylvania Race Horse Development and Gaming Act, because I am an unapologetic supporter of the racing industry. It was brought to Pennsylvania in order to ensure that racing isn't forgotten in gaming legislation, so I thought that was a really good start that at least we had an act that mentioned a horse.

The Act provided for 14 gaming venues, seven of which were to be at racetrack facilities. It created the Gaming Fund and the Pennsylvania Race Horse Development Fund which distributes the money to the various entities that are entitled to receive gaming revenues. And it required backside improvements which I think might have been unique to some of the other gaming legislation or racetrack casino legislation which was written in the country. I'll talk a little bit more about that later.

The backside improvement provision in the statute was for the existing racing facilities, and at that time the four existing racing facilities were Pocono Downs, Philadelphia Park, the Meadows and Penn National. Now, I can tell you that despite the fact that there is a \$5 to \$10 million cap on those backside improvements, all four of those facilities have in fact committed to a substantially larger amount of money to make backside improvements.

For instance — I'll just go down the list — Pocono Downs recently demolished their old paddock and is building a state-of-the-art paddock for \$6 million. Philadelphia Park has committed \$25 million to backside improvements. They are currently renovating their fourth barn. They've renovated 72 of 144 groom's quarters and made other substantial improvements to the backside.

The Meadows has built a state-of-the-art paddock for its standardbred horses. Penn National is currently building its fourth brand new barn and has made other significant backside improvements. So that has been a very good thing for Pennsylvania racing.

The Act also authorized three additional racetrack gaming venues, two of which are up and running, Harrah's Chester, which is south of Philadelphia, and Presque Isle Downs, which is in Erie. Valley View Downs, which is a standardbred facility, is to be built in Lawrence County, which is on the Ohio border near Youngstown. That project is in development.

I thought this was a pretty good little map of where the racetracks are located in Pennsylvania. The ones in blue are the standardbred tracks and the ones in red are the thoroughbred tracks. You can see that the Valley View Downs project over there in the far west, in the middle, is sort of right near Youngstown.

The gaming control board just recently issued a brand new mission statement. I was really very happy to see that the gaming control board included horse racing in their mission statement. I'm not sure that any other gaming control boards who also have racing in their states are as interested in the horse racing industry as the Pennsylvania gaming control board is, even to the point where sometimes it is sort of an aggravation. For instance, I just got an e-mail from a commissioner this morning that was concerned about how 2-year-old races for standardbreds are being written in Pennsylvania. I'm not really sure that that is a gaming control board issue, but there is a tremendous amount of interest in the horse racing industry by the board members and I think that that has had a significant impact on how well and how successful this marriage between gaming and racing has been in Pennsylvania.

One of the things that the gaming control board did which I believe is unique to other jurisdictions is that they created an office of racetrack gaming. I am the director of the office of racetrack gaming. The purpose of is the coordination of racing and gaming regulation. I also provide for the board oversight on the statutory requirements for backside improvements for distributions of funds to the horsemen's organizations for purses and for health and pension benefits. I provide compliance and liaison services as well.

As a liaison what I do is I coordinate mutual areas of gaming and racing regulation. I attend all the horse and harness racing commission meetings. I have a very strong working relationship with the horse and harness racing commission and commissioners. The gaming control board has also written several memorandums of understanding with the horse and harness racing commission in order to coordinate licensing and enforcement matters.

Last January the gaming control board had a racetrack gaming expo, it was held in the Rotunda of the state capitol at the bottom of the escalators where all the legislators and staffers have to go down to eat lunch, so they couldn't miss us. We had the gaming control board, the horse racing commission, the harness racing commission; we had representatives from all of the racetracks, all of the horsemen's organizations, including the breeders. The purpose of it was to educate legislators and their staffers about how gaming is benefiting the horse racing industry in Pennsylvania. I believe that it was very well received and very successful. I think part of the problem sometimes in states that try to marry racing and gaming is that people don't understand what the issues are because nobody really explains what the issues are. So that is what the gaming control board has tried to do. So far I think it has been pretty successful.

This year rather than holding the legislature captive we're going to set up a booth at the farm show. I don't know if any of you realize, I didn't realize when I moved to Pennsylvania from Louisiana, although I was raised in a farm state, Ohio, I didn't realize what an agricultural state Pennsylvania is. The farm show is a real big deal, very well attended by all sorts of folks in Pennsylvania, and the gaming control board is going to set up a booth there in order to try to educate the public about what gaming is providing to the horse racing industry.

These are some things that we established that I think are unique to the gaming, the racino industry. The gaming control board has permitted the officers and directors of the horsemen's organizations. That was quite a learning curve for a lot of horsemen who are not used to that kind of background investigation. The purpose of which was to ensure that the revenue stream that goes to them from the gaming revenue is properly handled and that no one has had a history of not handling money properly for their representatives, so it was a fiduciary issue.

The gaming control board statutorily is required to approve the health and pension benefits plans that are being put in place by the horsemen's organizations and being provided for by gaming revenues. And of course we create regulations

and guidelines and we require financial reporting from the horsemen's organizations as well as the operators.

Where does the money go? Forty five percent to the licensee, 34 percent to the state, four percent to the local community, five percent for economic development and 12 percent to the Pennsylvania Race Horse Development Fund. Out of that 12 percent, 80 percent goes to purses, 16 percent to breeders and sires stakes award in the case of standardbred horses and four percent to health and pension benefits.

What have we made? As of November the 30th, from November the 14th of 2006 when Mohegan Sun opened its doors as the first racetrack casino in Pennsylvania, we have collected \$307.8 million into the Pennsylvania Race Horse Development Fund. Out of that amount, \$246.3 has gone to purses, \$22.2 million to breeders awards for thoroughbred races, \$27 million for breeders in sire stakes awards in the case of standardbred racing and \$12.3 million for health and pension benefits.

This is an interesting — I included this slide because I thought that some of you might be interested in what the slot win per day in Pennsylvania is, and particularly after I saw those staggering figures from Kansas, I thought that this might be something of interest to you. We have never, even in the Philadelphia market, which of course has that tremendous population to attend the casinos, we have never seen anything close to \$700 per day, we have seen \$400 a day. These were the projections in the far left, and then you can see what the monthly revenues are.

What is the cloud in this great story that I'm telling you? Unfortunately, at the time that the legislation was written, nothing was provided for the horse and harness racing commissions for regulations. Their revenues derive strictly from pari-mutuel handle, and of course we all know pari-mutuel handle has been declining, so that has been a problem. The horse and harness racing commission are making an effort to try to address that issue. They have consolidated their staffs but their work has increased 50 to 100 percent. As you can see, these are racing handle statistics, provided to me by the horse and harness racing commission and where they are headed.

So, what the horse and harness racing commission is trying to do right now is to work with the operators to convince them that marketing racing is an important thing for them to do, and the horse and harness racing commission are themselves instituting their own marketing program. That should be for standardbred and thoroughbred racing. I'm not exactly sure when they are going to bring that out but I have seen some of the posters that they plan on using and it's a clever little program that should probably be online sometime within the next six months.

The collateral impact of Act 71 has been, there has been a tremendous amount of farmland preservation, many breeders moving into Pennsylvania and

buying up farms that were slated for development. As a result of that there has also been a tremendous increase in the need for farm services for the horse racing industry.

What should have been written into the legislation? These are the things that if you are looking at writing legislation should not be forgotten. Over the three years that I have been having this relationship with the horse and harness racing commission, talking to the horsemen, talking to the operators, these are some of the things, as well as the vets, these are some of the things that they suggest should have been in the legislation. Revenue streams for the racing commission, revenue stream for equine drug testing, clearly when you have more racetracks, you have more races, you have more drug testing, and we're still operating in Pennsylvania with the same amount of revenue. Equine health research, certainly since the Kentucky Derby and not only the Kentucky Derby but Barbaro, George Washington, all of those issues, equine health has become a major issue, the public is very concerned about what is happening to these horses. We have a wonderful equine center in Pennsylvania in the New Bolton Center with truly committed veterinarians that could use a little help in the research department. So a revenue stream for equine health would be a wonderful thing to do in legislation. Of course, retired racehorse programs, I guess we all saw or know about the Bryant Gumble show about horse slaughter, and it was discussed yesterday. That is a serious PR issue with the industry right now as well, so a revenue stream for retired racehorses is something to consider. And of course a marketing fund for the racing commissions to market the state racing.

The backside improvements and track surface upgrades issues were addresses in our legislation but it was addressed as a fixed amount of money. Clearly, we know that racetracks that have been declining in attendance and capital improvements have not been made are not going to be able to get very far with a \$5 million to \$10 million investment on the backside. So probably legislation should be written that fixes the amount as a percentage of gaming revenues. And of course there are some issues with that, I can answer questions about that later.

A requirement of the gaming operators to market racing. I have been to some racetracks, racetrack-casinos where when you drive in you don't even know there is racing there because there is no sign that even directs you to the racing side of the facility.

These are some things that have worked well for us in Pennsylvania. There has been a requirement of an integrated facility. With an integrated facility what you get is an underage patron issue, clearly most of us remember going to the racetrack when we were young with our uncle or father and learning racing at their knee. When you have gaming coming in an integrated facility there is a concern about 21 and under being on the gaming floor, sneaking from the racing side to the gaming side, so that always becomes an issue that needs to be addressed; you need to be aware of. Some of the gaming companies would then prefer not to have anyone under the age of 21, which means that trainers can't bring their children to

come see the horses race, so that is an issues that probably would need to be addressed.

One of the most successful things that has happened in Pennsylvania has been to educate the gaming regulators about racing. I was contacted in July of 2005, I was in Louisiana, in New Orleans, to come to Pennsylvania because they wanted someone who knew horse racing. I have a 16-year racing and gaming regulatory background and they wanted someone who knew horse racing to come to Pennsylvania to work with the gaming control board and educate them about horse racing and be the liaison to the horse racing industry so that the legislation that was written and named after the horse racing industry did what it was intended and that was address racing issues. As a result the gaming control board members are very actively involved in learning more and more about the horse racing industry. They have an excellent working relationship with the horse racing and the harness racing commissions, they meet on a regular basis, they keep one another informed about issues that are involved in both sides of this endeavor. I think that that dialogue alone has created a tremendous amount of interest that you would not otherwise have by a gaming regulator and I think that it has been very beneficial for the horse racing industry.

These are some suggestions on things that we do that I think help keep on top of issues involved with racing.

I hear the bell ringing.

What's happening in 2009? The Meadows is opening its permanent facility in April. We have several stand-alone casinos that are going to be opening in June and August; they are all looking to move those dates up. Philadelphia Park's permanent facility is supposed to open in December, will probably open in October. Renovation of the grandstand at Philadelphia Park back to its pari-mutuel use will begin shortly after the opening of the Philadelphia Park casino. And of course we don't know where handle or gaming revenue is going to go in the current economy.

I will be happy to answer any questions, thank you.

I forgot one thing that you need write in the legislation, fair racing.

(Applause)

MS. MCCOY: Thank you to all of our speakers. I see that there is a microphone so if there are any questions from the audience that they would like to address to the panel?

Thank you very much and thank you for attending. Enjoy the rest of the conference.