

Racetrack Casino Benchmark Report



2011



Pennsylvania Gaming Control Board



Pennsylvania Gaming Control Board

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The Pennsylvania Gaming Control Board (“PGCB”) is pleased to present this fifth annual Benchmark Report which provides an update on the impact that slot machine revenues are having on the horse racing industry and pari-mutuel wagering throughout the Commonwealth. This report examines trends in horse and harness racing before and after slot machine gaming commenced in 2006. Along with updated statistics through the end of 2011, this year’s report also provides new information regarding infrastructure improvements at Pennsylvania’s six racetracks and an overview of how the horse breeding industry has benefited from slot machine gaming.



The Pennsylvania Race Horse Development and Gaming Act states that the authorization of limited gaming is intended to positively assist the Commonwealth’s horse racing industry, support programs intended to foster and promote horse breeding and improve the living and working conditions of personnel who work and reside in and around the stable and backside areas of racetracks.

Approximately 12% of revenue generated from slot machine gaming is earmarked for the horse racing industry in order to accomplish the intent of the Act as it relates to horse racing. In 2011, more than \$228 million in slot machine tax revenue was generated to enhance purses, assist breeding operations, provide health and pension benefits for horsemen, and improve the agricultural industry in Pennsylvania.

As a result, enhanced purses are being offered which are intended to attract better quality horses to Pennsylvania tracks, create more competitive and exciting races, and spur investment in Pennsylvania racing and equine related products and services. These purses are utilized by horse owners to pay expenses and employ all individuals necessary to maintain a successful business operation.

The horse breeding industry is also realizing positive results within the Commonwealth. The number of individuals and businesses who have received breeding awards has steadily increased, indicating improved participation from breeders who invest directly into Pennsylvania’s agricultural industry and support the preservation of farmland.

In addition to these benefits, racetrack casino operators have invested more than \$38 million since 2006 to improve the stable and backside areas of their racetracks, which has resulted in much needed improvements to barns and related structures. These operators have invested more than the minimum amount required by law, indicating their commitment to improving racing facilities to enhance the living and working conditions for horsemen and their employees.

Finally, total dollars wagered on Pennsylvania races, or live racing handle, was 19% higher in 2011 compared to the same time period before gaming commenced in 2006. This can again be attributed to an increase in the supply of races and a general increase in dollars wagered on Pennsylvania races by patrons outside of the Commonwealth.

At the same time, while the racing industry is realizing positive benefits since gaming commenced, it continues to face significant challenges in order to remain successful. Although live racing handle in 2011 was 19% higher when compared to the same time period before gaming commenced in 2006, it did decrease by approximately 10% when compared to the same period in 2010. This decrease in wagering creates significant challenges for the racing industry and is evidence of a decrease in demand for wagering on races held in Pennsylvania. As the information within this report suggests, however, revenue generated from slot machine gaming has provided an overall positive impact on Pennsylvania racing and the agricultural industry.

Benefits for Pennsylvanians

Pennsylvania Race Horse Development and Gaming Act

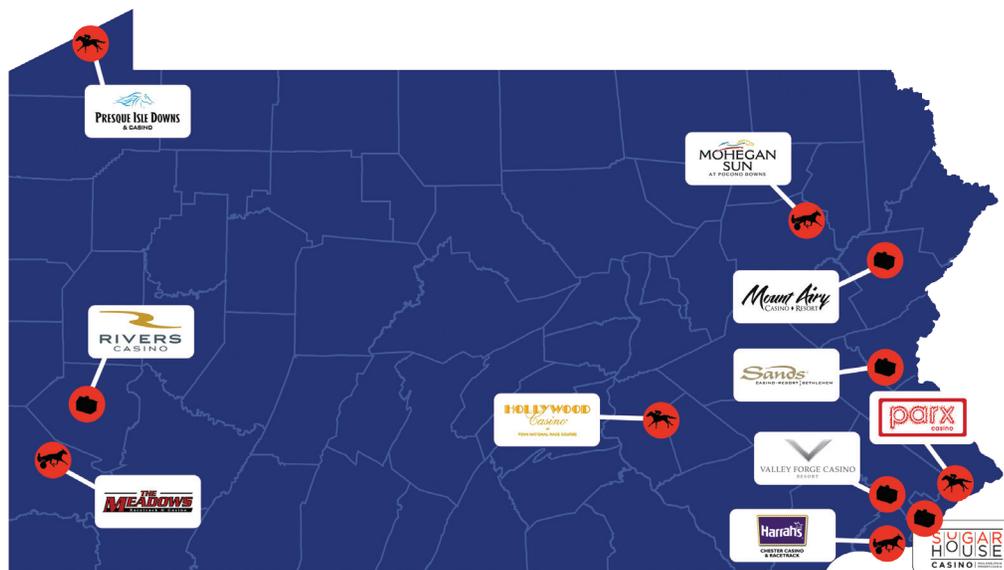
The success of legalized gaming has enabled Pennsylvania to create a significant new tax base from slot machine play* that is generating millions of dollars a day to lower school property taxes, help the horse/harness racing and agricultural industries, fund economic development throughout the state, and provide financial help to local communities that host these facilities. Just as important, this new industry has created over 15,000 new living-wage jobs.

While overseeing this growth, the PGCB must also watch casino operations closely to protect the interests of all Pennsylvanians. That is the job of dedicated professionals who create and carry out a strong but fair regulatory framework to ensure that the gaming industry in the Commonwealth is held to the highest standards.

**Table games tax revenue goes primarily to the Commonwealth's General Fund with a small portion to local governments that host casinos.*

Casinos in Pennsylvania

-  Stand Alone Casinos
-  Harness Racinos
-  Horse Racinos



Distribution of Slot Machine Gross Terminal Revenue



Pennsylvania law mandates the following split of revenue from each dollar generated by slot machine gaming:

-  Licensee Retained Earnings - 45¢
-  Gaming Fund Property Tax Reduction - 34¢
-  Race Horse Development Fund - 12¢
 - 66% - Purses
 - 4% - Health Insurance & Pension Benefits
 - 7% - PA Breeders Fund
 - 3% - PA Sire Stakes Fund
 - 3% - PA Standardbred Breeders Development Fund
 - 17% - General Fund
-  Economic Development & Tourism Fund - 5¢
-  Local Government Share - 4¢

Gaming Tax Revenue

What is Gaming Tax Revenue?

Gaming Tax Revenue for this report is the amount of tax money generated by the play of slot machines and does not include additional revenue generated from table games. It can be broken down into four broad categories that equal roughly a 55% tax on slots gaming revenue.

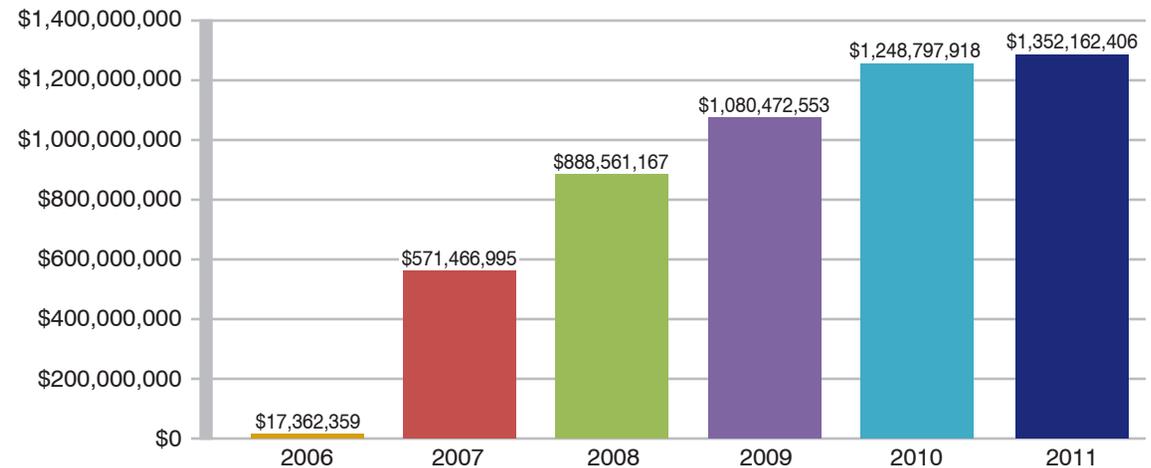
1. State Tax which equals 34% of gross terminal revenue. This revenue is mainly used for property tax reduction.
2. Local Share Tax which equals 4% of gross terminal revenue. This revenue is distributed in the counties and municipalities that have casinos in their area.
3. Race Horse Development Fund which equals roughly 12% of gross terminal revenue. This revenue is used for race horse development with a portion going to the general fund.
4. Economic Development Fund which equals 5% of gross terminal revenue. This revenue is used for economic development projects across Pennsylvania.

This report focuses mainly on the PA Race Horse Development Fund and its effects on the horse racing industry in Pennsylvania.

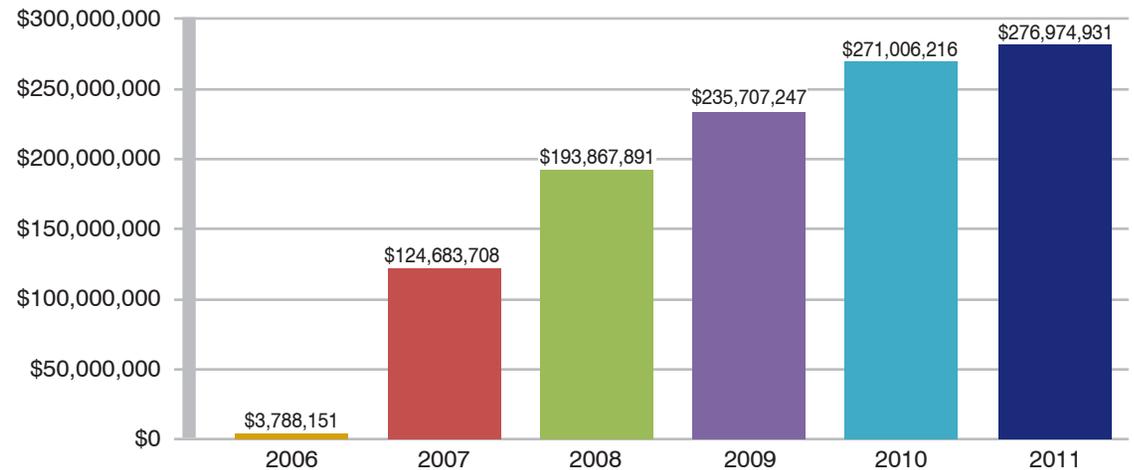
Why is this important?

The success of legalized gaming has enabled Pennsylvania to create a significant new tax base that is generating millions of dollars a day to lower school property taxes, help the horse/harness racing and agricultural industries, fund economic development throughout the state, and provide financial help to local communities that host gaming facilities.

Pennsylvania Slots Tax Revenue



Pennsylvania Race Horse Development Fund



The Pennsylvania Race Horse Development Fund



The Pennsylvania Race Horse Development Fund is an economic driver of pari-mutuel wagering and derived from gaming revenue. The purpose of the Fund is to further stimulate the viability and quality of racing in Pennsylvania which enhances the equine industry and agriculture on a broad based economic level.



Pursuant to 4 Pa.C.S. § 1406(a), funds in the Pennsylvania Race Horse Development Fund are appropriated to the Department of Revenue and distributed on a weekly basis as follows:

- Approximately 66% is distributed to each active racetrack operator conducting live racing. The racetrack operator, in turn, deposits this money into an account established by and for the benefit of the horsemen to fund purses, or prize money, for live races. These funds are combined with revenues from existing purse agreements to fund purses for live races consistent with agreements with the horsemen.
- Approximately 4% is distributed to each active racetrack operator conducting live racing. The racetrack operator, in turn, deposits

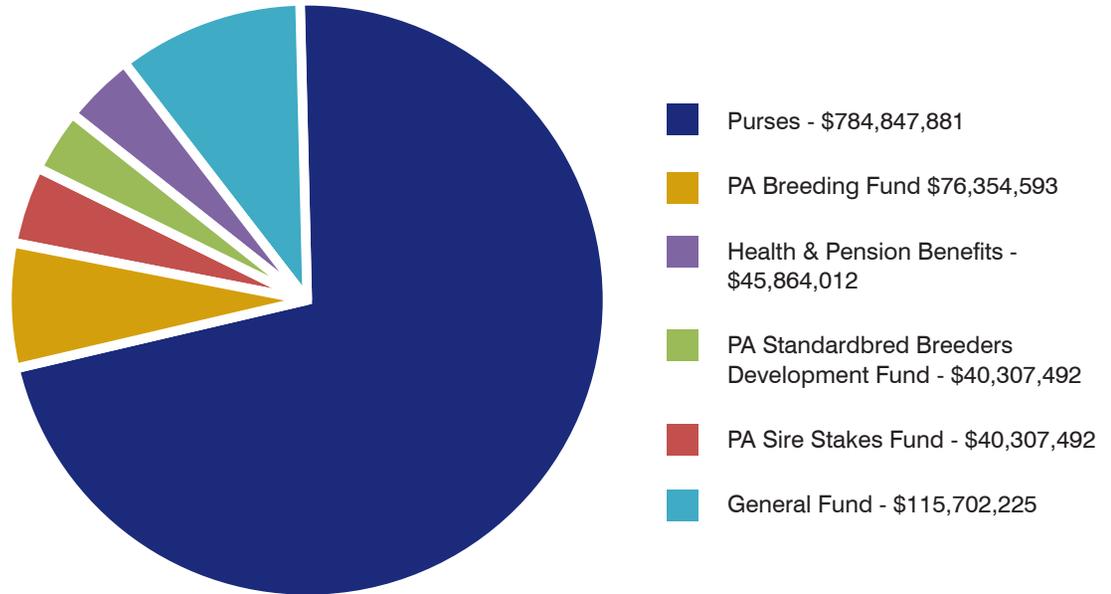
this money into an account established by and for the benefit of the horsemen to fund health insurance and pension benefits for the members of the horsemen's organizations representing the owners and trainers at the racetrack at which the licensed racing entity operates for the benefit of the organization's members, their families, employees and others in accordance with the rules and eligibility requirements of the organization.

- Approximately 7% is distributed to the Pennsylvania Breeding Fund established by the Race Horse Industry Reform Act. The Pennsylvania Breeding fund is designed to enhance the breeding industry of Pennsylvania thoroughbreds, offering monetary awards to breeders, stallion owners and owners of Pennsylvania bred horses.
- Approximately 3% is distributed to the Pennsylvania Sire Stakes Fund as defined by the Race Horse Industry Reform Act. The Pennsylvania Sire Stakes Program is designed to promote Pennsylvania agriculture by providing funding for a series of races that feature the top horses sired by a registered Pennsylvania stallion. The series has four preliminary legs per racing division, with the top divisional horses competing in a championship race at season's end. There are also a set of Sire Stakes conducted at twenty stops along the Pennsylvania fair circuit.
- Approximately 3% is distributed into a restricted account in the State Racing Fund known as the Pennsylvania Standardbred Breeders Development Fund. This fund is intended to benefit the breeders of trotters and pacers racing in the Commonwealth. The program provides incentives to the owners of stallions and broodmares residing in Pennsylvania.
- Beginning January 1, 2010, 34% of the Pennsylvania Race Horse Development was allocated away from the racing industry and transferred into the General Fund. This percentage fell to 17% effective July 1, 2010 and will continue at that rate through June 30, 2013 when the transfer is scheduled to expire.

The Pennsylvania Race Horse Development Fund - Distributions

Pennsylvania Race Horse Development Fund Distributions

November 2006 - December 2011



| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|--------------|---------------|----------------|----------------|----------------|----------------|
| PURSES | \$ 3,030,521 | \$ 99,746,964 | \$ 155,094,313 | \$ 188,565,798 | \$ 157,089,030 | \$ 181,321,256 |
| PA BREEDING FUND | \$ 190,328 | \$ 8,399,133 | \$ 14,681,313 | \$ 18,235,972 | \$ 16,213,108 | \$ 18,634,739 |
| HEALTH & PENSION BENEFITS | \$ 151,526 | \$ 4,987,348 | \$ 7,754,716 | \$ 9,428,290 | \$ 12,173,561 | \$ 11,368,571 |
| PA STANDARDBRED BREEDERS DEVELOPMENT FUND | \$ 207,888 | \$ 5,775,130 | \$ 8,168,775 | \$ 9,738,594 | \$ 7,602,349 | \$ 8,814,756 |
| PA SIRE STAKES FUND | \$ 207,888 | \$ 5,775,130 | \$ 8,168,775 | \$ 9,738,594 | \$ 7,602,349 | \$ 8,814,756 |
| GENERAL FUND | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 68,808,016 | \$ 46,894,209 |

All statistics have been provided from various sources and have not been audited by the Pennsylvania Gaming Control Board

Thoroughbred Breeding

What is Thoroughbred Breeding?

1. "Thoroughbred Breeders" are the number of thoroughbred horse breeders who have received awards from the Pennsylvania Breeding Fund.
2. "Thoroughbred Foals" are the number of Pennsylvania bred foals registered each year with the Pennsylvania Horse Breeders Association.

Why is this important?

Over 560 individuals or businesses received awards from the Pennsylvania Breeding Fund in 2011. Awards are paid to the breeder, the stallion owner and the owner of registered Pennsylvania bred horses. Awards are paid to registered Pennsylvania bred horses finishing first, second and third on every race run in the Commonwealth. The awards are an incentive to breed horses in the Commonwealth and drive demand for Pennsylvania horses. Additionally, the Pennsylvania Breeding Fund supports stakes races, restricted races and owner bonuses for registered Pennsylvania bred horses.

The breeding industry is a direct contributor to the agricultural economy and provides a steady stream of income to farmers and vendors who support the preservation of farmland.

Trends

2003-2011

- The number of thoroughbred breeders who have received awards from the Pennsylvania Breeding Fund has increased over 25% since 2003.

2003-2010

- The number of thoroughbred foals registered each year with the Pennsylvania Horse Breeders Association has increased over 29% since 2003.

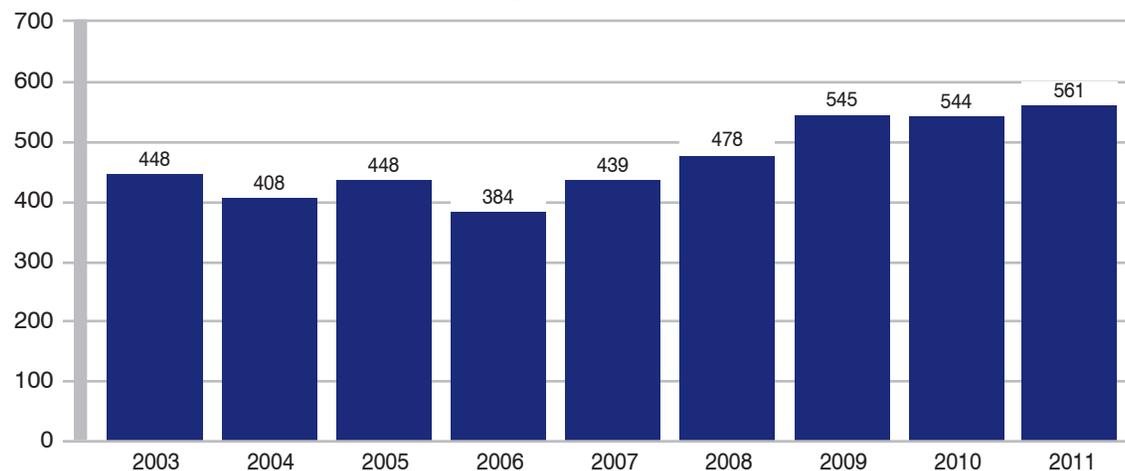
2009-2010

- The number of thoroughbred foals registered with the Pennsylvania Horse Breeders Association in 2010 decreased by approximately 5% compared to the same period in 2009.

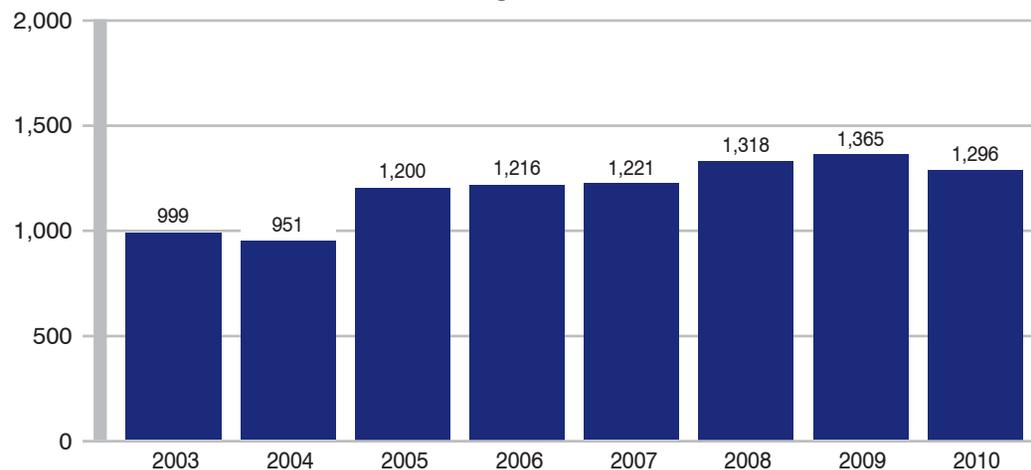
2010-2011

- The number of thoroughbred breeders who have received awards from the Pennsylvania Breeding Fund in 2011 increased by approximately 3% compared to the same period in 2010.

Thoroughbred Breeders



Thoroughbred Foals



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Standardbred Breeding

What is Standardbred Breeding?

1. "Standardbred Breeders" are the number of standardbred horse breeders who have received awards from the Pennsylvania Standardbred Breeders Development Fund.
2. "Standardbred Yearlings" are the number of standardbred yearlings whose nominating fee has been paid to participate in the Pennsylvania Sire Stakes program.

Why is this important?

The Pennsylvania Standardbred Breeders Development Fund is intended to benefit the breeders of trotters and pacers racing in the Commonwealth. The program provides incentives to the owners of stallions and broodmares residing in Pennsylvania. A change in the number of standardbred breeders indicates an increase or decrease of individuals or businesses who invest in standardbred horse breeding.

The Pennsylvania Sire Stakes Program is designed to promote Pennsylvania agriculture by providing funding for a series of races that feature the top horses sired by a registered Pennsylvania stallion. The series has four preliminary legs per racing division, with the top divisional horses competing in a championship race at season's end. There is also a set of Sire Stakes conducted at twenty stops along the Pennsylvania fair circuit.

Trends

2003-2011

- The number of standardbred yearlings whose nominating fee has been paid to participate in the Pennsylvania Sire Stakes program has increased by 50% since 2003.

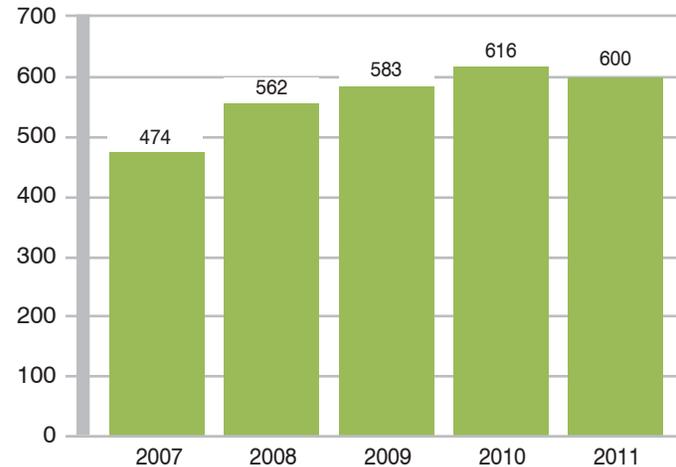
2007-2011

- The number of standardbred breeders who have received awards from the Pennsylvania Standardbred Breeders Development Fund has increased by over 26% since 2007.

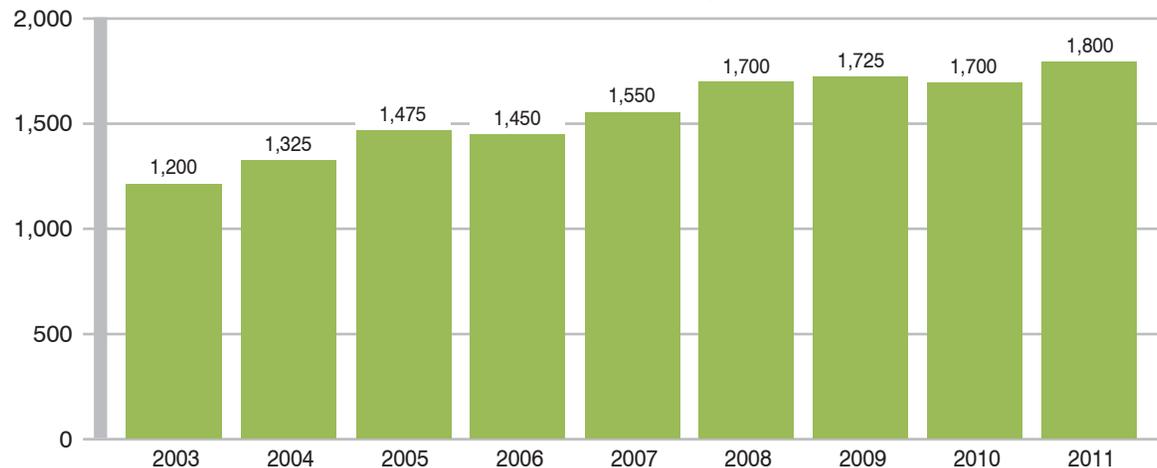
2010-2011

- The number of standardbred breeders who have received awards from the Pennsylvania Standardbred Breeders Development Fund decreased by approximately 2% compared to the same period in 2010.
- The number of standardbred yearlings whose nominating fee has been paid to participate in the Pennsylvania Sire Stakes program increased by over 5% compared to the same period in 2010.

Standardbred Breeders



Standardbred Yearlings



All statistics have been provided from various sources and have not been audited by the Pennsylvania Gaming Control Board

Purses

What are purses?

1. "Purses Earned" is the total amount of prize money available to be paid to winning horses before a race takes place.
2. "Purses Paid" is the subsequent distribution of prize money actually paid to winning horses after a race takes place.

Purses are funded mainly from slot machine revenue allocated to the Pennsylvania Race Horse Development Fund and a portion of total dollars wagered on horse racing, also known as "handle".

Why is this important?

An increase in purses is intended to attract better quality horses to Pennsylvania, creating more competitive and exciting races. Purses also spur investment in Pennsylvania racing and equine related products and services, which benefits the agricultural industry in the Commonwealth. Horse owners rely on these purses in order to pay all expenses and employ trainers, veterinarians, grooms, exercise riders, hot walkers, blacksmiths, and jockeys.

Trends

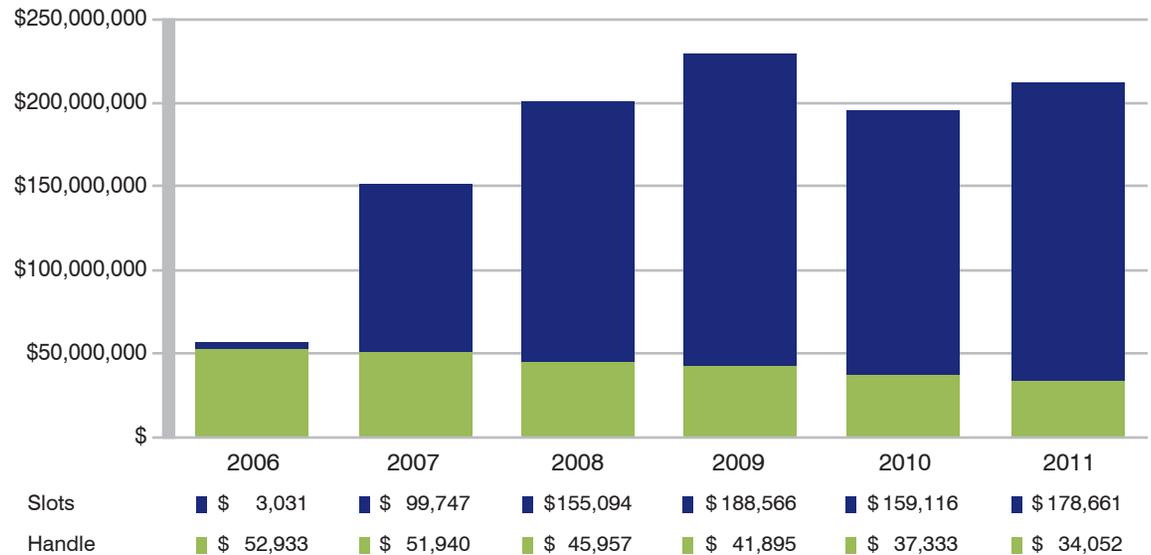
2006-2011

- Purses earned have increased 280% since slot machine gaming commenced in 2006.
- Purses paid have increased 247% since slot machine gaming commenced in 2006.

2010-2011

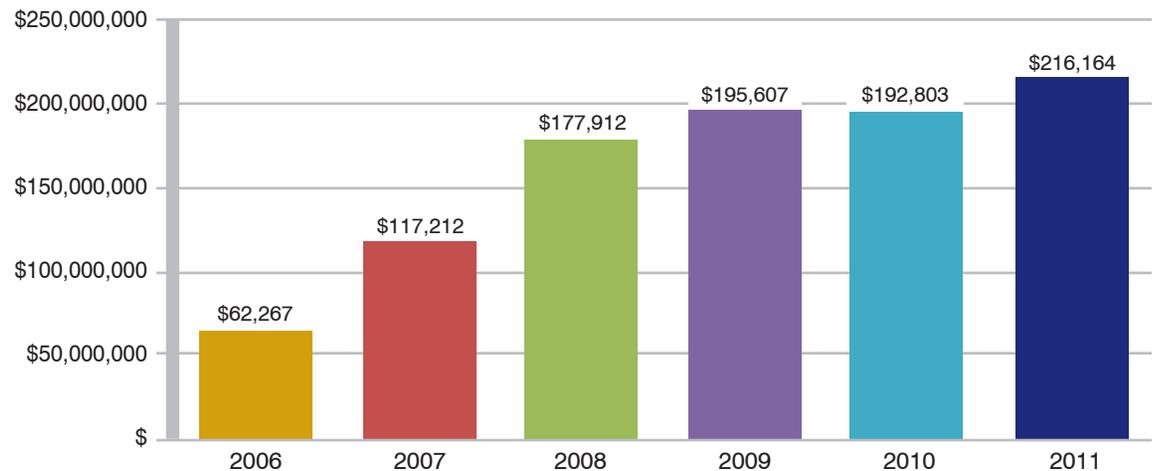
- Purses earned increased in 2011 by approximately 8% compared to the same period in 2010.
- Purses paid increased in 2011 by approximately 12% compared to the same period in 2010.

Purses Earned



Dollar amounts are in the thousands

Purses Paid



Dollar amounts are in the thousands

All statistics have been provided from various sources and have not been audited by the Pennsylvania Gaming Control Board

What are race days and live races?

1. "Race days" are the total number of days that live racing takes place at Pennsylvania tracks.
2. "Live races" are the total number of races that take place at Pennsylvania tracks.

Why is this important?

The number of race days and live races are a strong indicator of total activity at tracks in Pennsylvania. Each racetrack operator must schedule a minimum number of race days and live races per year. In many respects, more race days and live races can be attributed to an increase in funding for purses which is derived from slot machine revenue. This leads to increased participation from horsemen and breeders, who invest directly into Pennsylvania's racing industry and agriculture.

Trends

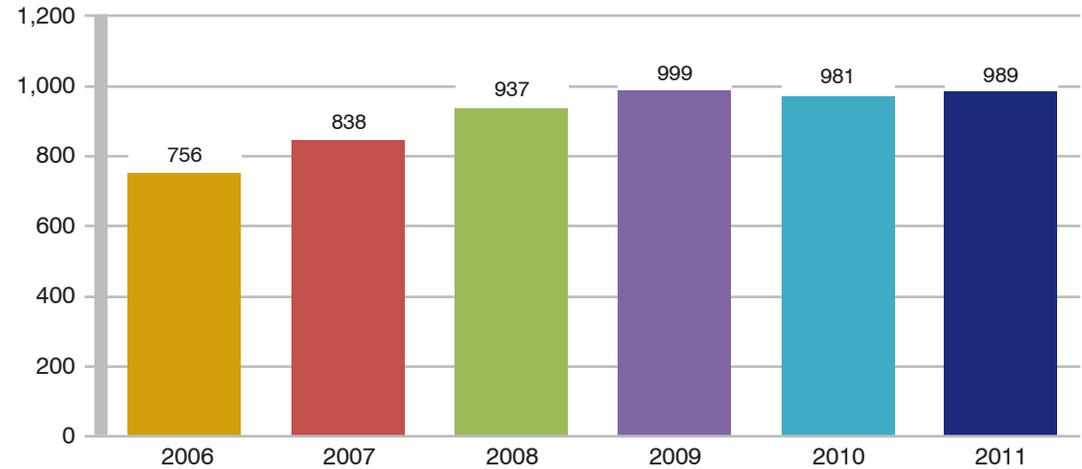
2006-2011

- The total number of race days has increased by approximately 30% since slot machine gaming commenced in 2006.
- The total number of live races has increased by approximately 45% since slot machine gaming commenced in 2006.

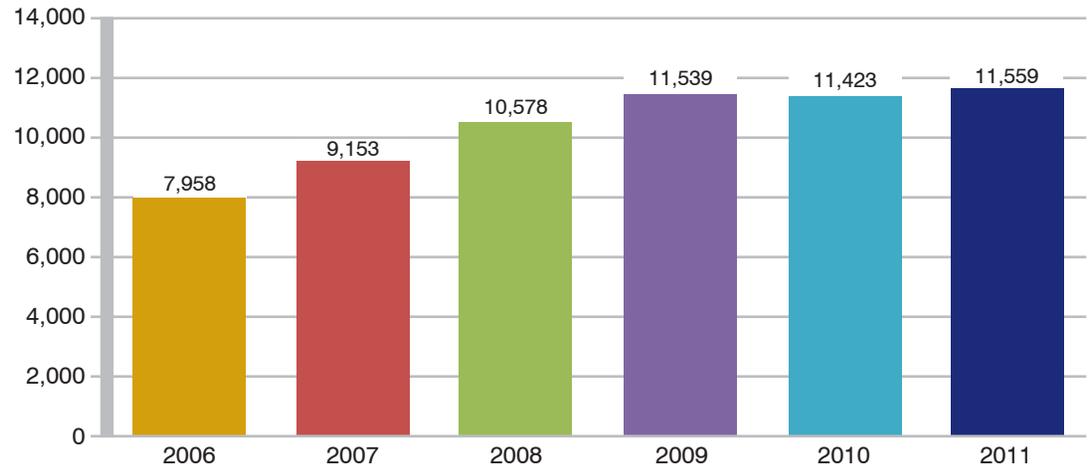
2010-2011

- The total number of race days increased in 2011 by less than 1% compared to the same period in 2010.
- The total number of live races increased in 2011 by approximately 1% compared to the same period in 2010.

Race Days



Total Races



All statistics have been provided from various sources and have not been audited by the Pennsylvania Gaming Control Board

What is live handle?

Live handle is broken down into several subcategories:

1. "On Track" – Total dollars wagered on Pennsylvania races at the six racetracks in the Commonwealth.
2. "Off Track" – Total dollars wagered on Pennsylvania races at the off track wagering facilities in the Commonwealth.
3. "Phone Wagering" – Total dollars wagered on Pennsylvania races through a phone or internet wagering service.
4. "In-State Export" – Total dollars wagered through simulcast wagering on live races held at other facilities within Pennsylvania. A Pennsylvania racetrack exports their live racing signal to other properties within Pennsylvania.
5. "Out-of-State Export" – Total dollars wagered on Pennsylvania races by patrons outside of the Commonwealth through simulcast wagering. A Pennsylvania racetrack exports their live racing signal to other properties outside of the Commonwealth.

Why is this important?

Live handle, or total dollars wagered on Pennsylvania races, is imperative to the long-term success of the live racing industry in the Commonwealth. An increase or decrease in live handle indicates the impact on demand for wagering on Pennsylvania horse racing and is a strong indicator of the performance of the racetrack casinos who offer pari-mutuel wagering to the general public.

Trends

2006-2011

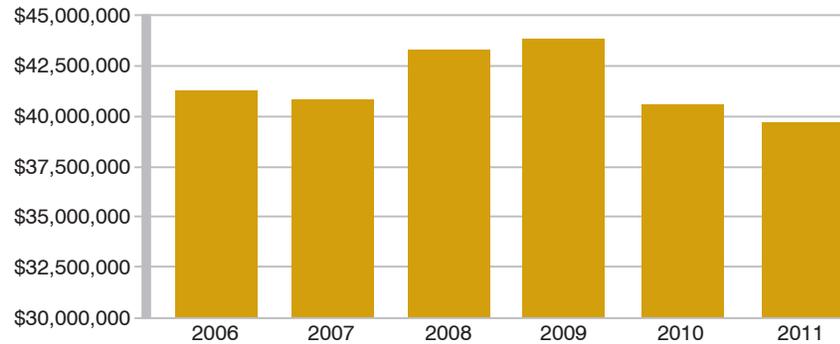
- Total live racing handle has increased by approximately 19% since slot machine gaming commenced in 2006.

2010-2011

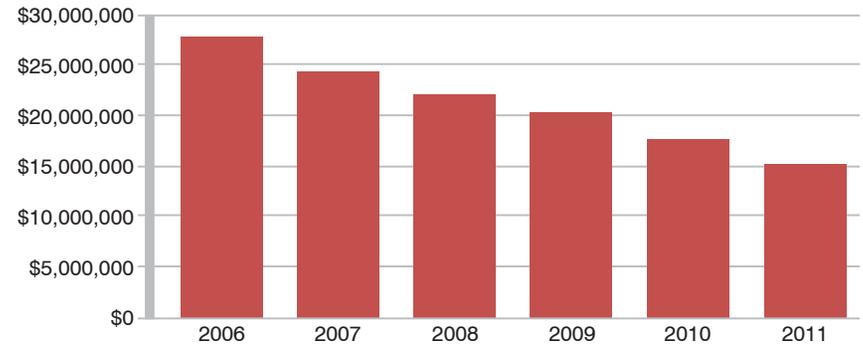
- Total live racing handle decreased in 2011 by approximately 10% compared to the same period in 2010.

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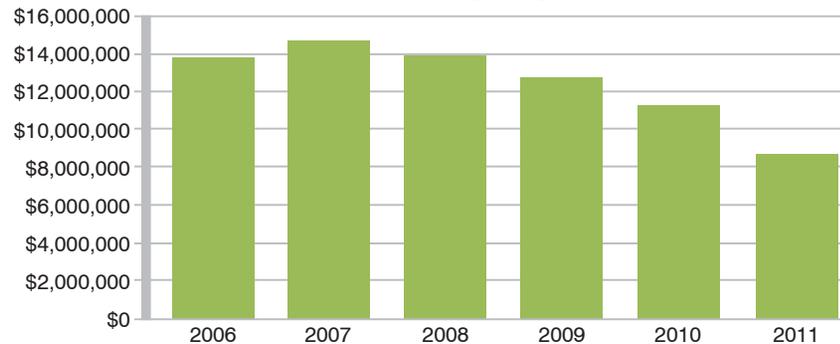
On Track



Off Track

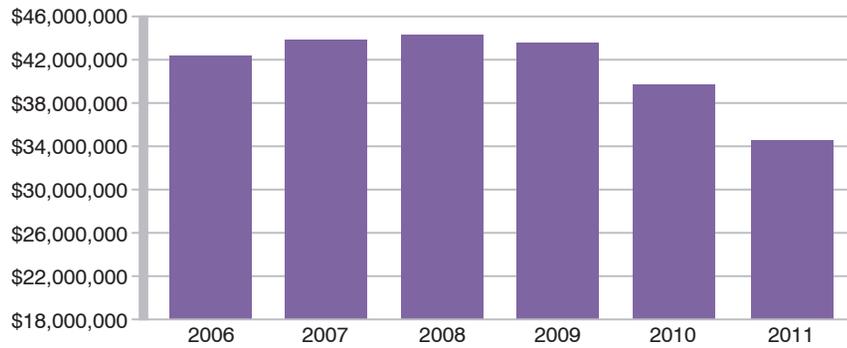


Phone Wagering

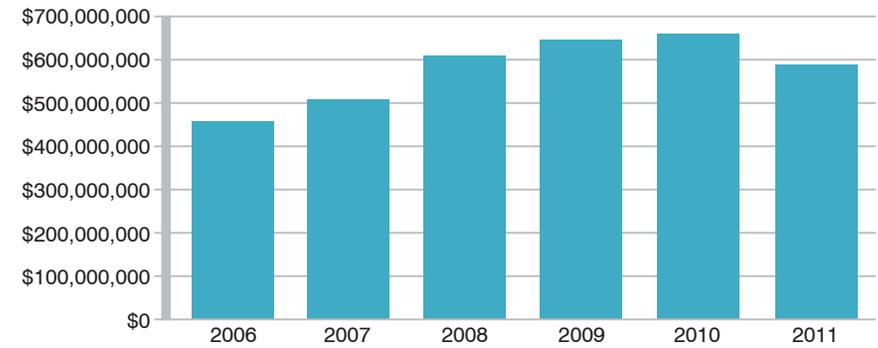


Live Handle

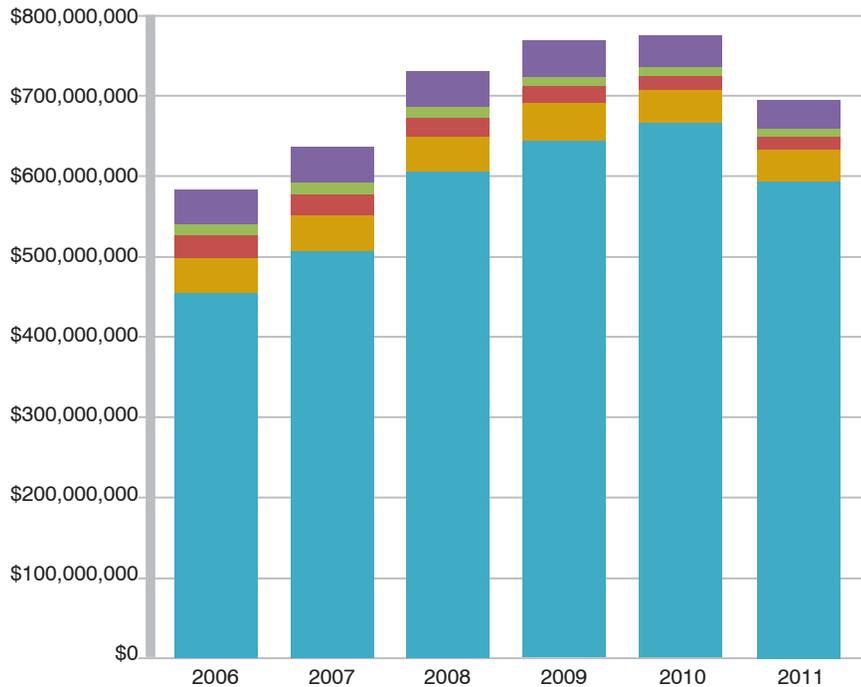
In-State Export



Out-of-State Export



Total Live Racing Handle



| | 2006 | 2007 | 2008 |
|---------------------|----------------|----------------|----------------|
| Out-of-State Export | \$ 455,536,076 | \$ 503,113,349 | \$ 605,509,275 |
| On Track | \$ 41,265,236 | \$ 40,888,648 | \$ 43,635,577 |
| Off Track | \$ 27,549,197 | \$ 24,203,057 | \$ 22,017,296 |
| Phone Wagering | \$ 13,811,745 | \$ 14,719,343 | \$ 13,895,303 |
| In-State Export | \$ 42,091,468 | \$ 42,378,264 | \$ 44,246,175 |

| | 2009 | 2010 | 2011 |
|---------------------|----------------|----------------|----------------|
| Out-of-State Export | \$ 644,087,594 | \$ 660,679,070 | \$ 594,186,605 |
| On Track | \$ 44,660,194 | \$ 40,529,217 | \$ 38,293,104 |
| Off Track | \$ 20,145,365 | \$ 17,562,522 | \$ 15,012,194 |
| Phone Wagering | \$ 12,724,755 | \$ 11,304,569 | \$ 8,522,728 |
| In-State Export | \$ 43,341,550 | \$ 39,541,392 | \$ 34,309,112 |

All statistics have been provided from various sources and have not been audited by the Pennsylvania Gaming Control Board

Backstretch Improvements

What are Backstretch Improvements?

“Backstretch Improvements” are the total amount invested by casinos offering live racing to improve the living and working conditions of personnel who work and reside in and around the stable and backside areas of racetracks.

The Pennsylvania Race Horse Development and Gaming Act requires each casino offering live racing to invest an amount not less than \$5 million over the initial five-year period following the issuance of a Category 1 slot machine license and an amount not less than \$250,000 per year for five years thereafter on the improvement and maintenance of the backside area and related building and structures at the racetrack at which the licensee operates.

This provision currently applies to four of the six operating racetracks within the Commonwealth. Two of the racetrack casinos in Pennsylvania are new facilities and backstretch improvements are not required until the tenth year after the completion of the initial construction of the racetrack.

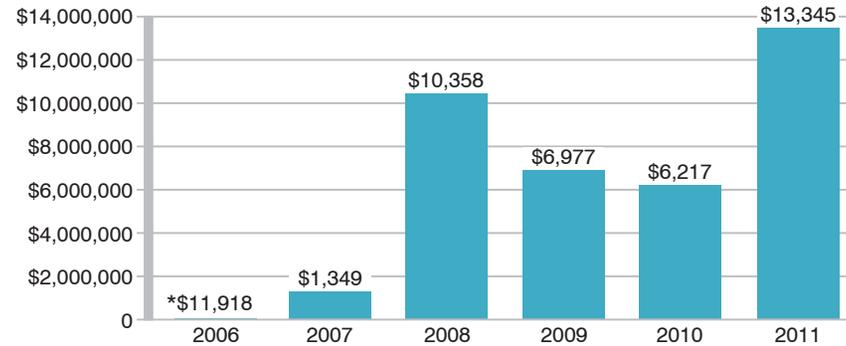
Why is this important?

These investments have significantly enhanced the infrastructure at Pennsylvania racetracks which has resulted in much needed improvements to barns and related structures. These facilities are exceeding the minimum amount which must be spent, indicating commitment to improving their racing facilities to enhance the living and working conditions for horsemen and their employees.

Trends

- The casinos offering live racing have invested over \$38 million on backstretch improvements through the end of 2011.

Backstretch Improvements



*Dollar amounts are in the thousands except for 2006

Backstretch Improvements by Facility

| | 2006 | 2007 | 2008 | 2009 |
|---|------------------|---------------------|----------------------|---------------------|
| Parx Casino | \$ 11,918 | \$ 1,251,900 | \$ 3,446,731 | \$ 2,166,736 |
| Hollywood Casino at Penn National Race Course | - | \$ 16,574 | \$ 2,595,180 | \$ 1,815,170 |
| Mohegan Sun at Pocono Downs | - | \$ 3,710 | \$ 4,316,268 | \$ 2,123,410 |
| Meadows Racetrack and Casino | - | \$ 76,883 | - | \$ 872,600 |
| Total | \$ 11,918 | \$ 1,349,067 | \$ 10,358,179 | \$ 6,977,376 |

| | 2010 | 2011 | Total |
|---|---------------------|----------------------|----------------------|
| Parx Casino | \$ 2,900,716 | \$ 7,797,232 | \$ 17,575,233 |
| Hollywood Casino at Penn National Race Course | \$ 2,469,198 | \$ 717,217 | \$ 7,613,339 |
| Mohegan Sun at Pocono Downs | \$ 51,604 | \$ 32,000 | \$ 6,526,992 |
| Meadows Racetrack and Casino | \$ 795,907 | \$ 4,798,083 | \$ 6,542,933 |
| Total | \$ 6,217,424 | \$ 13,344,532 | \$ 38,258,496 |

All statistics have been provided from various sources and have not been audited by the Pennsylvania Gaming Control Board

Conclusion

The success of Pennsylvania's gaming industry has provided a much needed source of support for horse and harness racing in the Commonwealth. Slot machine gaming has created an attractive venue for horse racing to succeed by providing resources such as increased purses for horsemen, awards for breeders, and funding for health and pension benefits.



This has led to increased participation throughout the industry as evidenced by the increase in race days and total races. The PGCB will continue to monitor the horse and harness racing industry's efforts to enhance the health and development of racing, and looks forward to seeing future improvement throughout the Commonwealth.



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