



2016 RACETRACK CASINO BENCHMARK REPORT



PENNSYLVANIA
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CONTROL**
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EXECUTIVE SUMMARY

The Pennsylvania Gaming Control Board ("PGCB") is pleased to present this tenth annual Benchmark Report which provides a comprehensive overview of the benefit slot machine gaming revenue provides for the horse racing industry in Pennsylvania. This report also details key indicators within horse racing which outline the current health of the industry.



The Pennsylvania Race Horse Development and Gaming Act ("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.

The avenue utilized by statute to assist the horse racing industry was the creation of the Pennsylvania Race Horse Development Fund, which is funded by a portion of gross revenue generated from slot machine gaming by the twelve operating casinos. Casino gaming has now been operational and has benefited the horse racing industry in Pennsylvania for ten years. In 2016, approximately 10% of revenue generated from slot machine gaming was earmarked for the Pennsylvania Race Horse Development Fund which amounted to \$245 million. This represents a decrease of less than 1% when compared to the previous year and can be attributed to a slight decrease in gross terminal revenue generated by the casinos which host horse or harness racing. This revenue continues to provide increased purses for horsemen, awards for breeders, and funding for health and pension benefits.

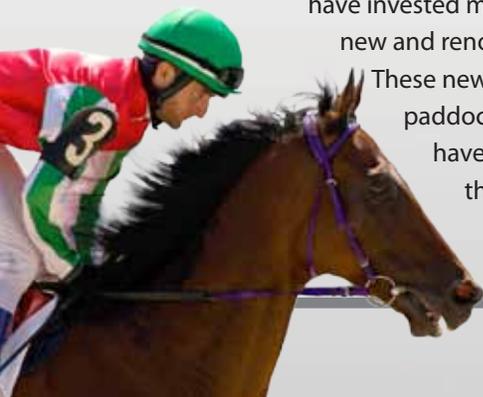
In addition to the Pennsylvania Race Horse Development Fund, the racetrack casinos have invested more than \$70 million in new and renovated racing facilities.

These new facilities such as barns, paddocks, and dormitories have significantly improved the living and working conditions for horsemen

and their employees who work at the racetracks.

As a result, individuals and businesses are continuing to participate in live racing in Pennsylvania. More than 18,000 horses raced in Pennsylvania in 2016 making more than 83,000 starts throughout the year. This enhances the agricultural economy as horsemen do business within the Commonwealth by purchasing goods and services to support their operation. Horse owners also maintain a staff and hire individuals such as trainers, grooms, veterinarians, blacksmiths, farm hands, exercise walkers, hot walkers, and drivers who all work in Pennsylvania.

Despite these resources, Pennsylvania horse and harness racing continues to face challenges to remain a viable entertainment option. Live racing handle has increased by 17% in Pennsylvania since slot machine gaming commenced in 2006 mainly due to the opening of two new racetrack casino properties and increased wagering on Pennsylvania races by patrons nationwide. Although this increase has been beneficial for the industry, this past year marked the third year since gaming commenced that live racing handle declined year-over-year. \$681 million was wagered on races held in Pennsylvania in 2016 representing a 6% decrease when compared to the previous year. It has been recognized that the biggest challenge facing horse and harness racing in Pennsylvania is creating a new fan base and increasing popularity of an improved racing product. As the information within this report suggests, however, revenue generated from slot machine gaming continues to provide an overall positive impact on Pennsylvania racing and continues to benefit the agricultural community.



BENEFITS for Pennsylvania

The Pennsylvania Gaming Control Board (PGCB) was established in 2004 and is tasked to oversee all aspects of the state's casino industry. The PGCB, guided by the Pennsylvania Race Horse Development and Gaming Act and supported by a dedicated professional staff, protects the interest of the public by ensuring the integrity of legalized gaming through the strict enforcement of the law and regulations, the licensing of qualified individuals and entities, and fulfilling the objectives of limited gaming in the Commonwealth to deliver a significant source of revenue, assist the horse racing industry, provide broad economic opportunities and enhance tourism.

There are ten stand-alone and racetrack casinos in operation, along with the two resort casinos. These facilities collectively employ 18,000 people and generate approximately \$1.4 billion annually in tax revenue from slot machine and table games play. The largest portion of that money is used for property tax reduction to all Pennsylvania homeowners with additional tax revenue earmarked to the horse racing industry, economic development projects, fire companies, county fairs, water and sewer projects, and the Commonwealth's General Fund.

Additional information about both the PGCB's regulatory efforts and Pennsylvania's casino gaming industry can be found at www.gamingcontrolboard.pa.gov.



GROSS

Terminal Revenue

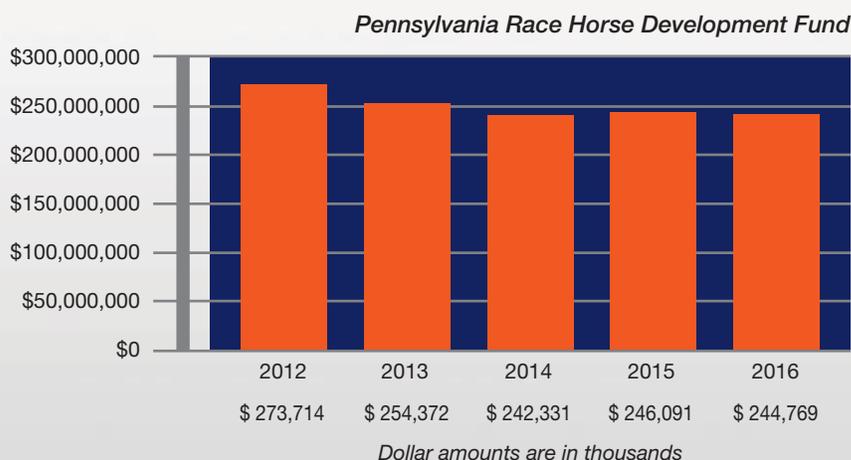
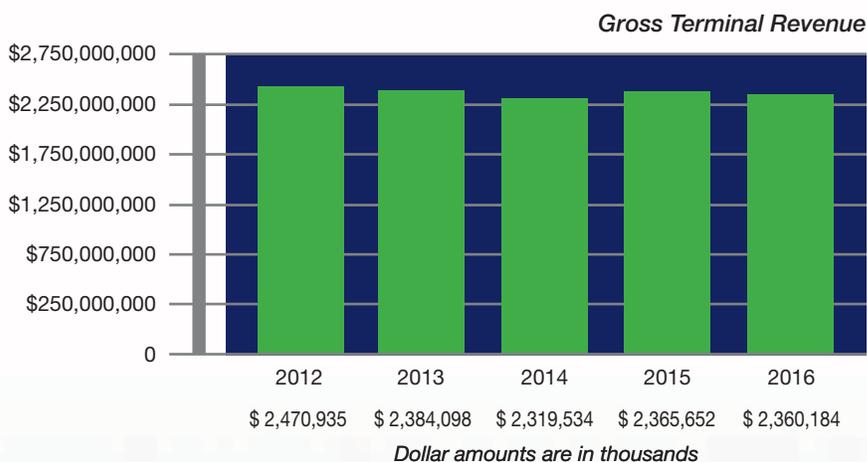
Gross Terminal Revenue (GTR) is the amount of slot machine revenue generated by a Pennsylvania casino that is taxable. GTR can be defined as wagers minus payouts and does not include the promotional play given out by the casinos. In 2016, GTR was taxed at approximately 53% or approximately 53 cents of every taxable dollar.

Slot tax revenue for this report is the amount of tax money generated by the play of slot machines and does not include revenue generated from table games. It can be broken down into four broad categories that equaled roughly a 53% tax on slots gaming revenue in 2016.

1. State Tax which equaled 34% of gross terminal revenue. This revenue is mainly used for property tax reduction.
2. In 2016, Local Share Tax which equaled 4% of gross terminal revenue. This revenue was distributed in counties and municipalities that have casinos in their area.
3. Race Horse Development Fund which equaled roughly 10% of gross terminal revenue in 2016. This revenue is used for assisting the horse racing industry. The Pennsylvania Race Horse Development Fund tax assessment is variable and capped at 12%.
4. Economic Development Fund which equaled 5% of gross terminal revenue. This revenue is used for economic development projects across Pennsylvania.

This report focuses mainly on the Pennsylvania Race Horse Development Fund and its benefits for the racing industry in Pennsylvania. In 2016, \$245 million in slot machine tax revenue was generated for the Pennsylvania Race Horse Development Fund. This represents a decrease of less than 1% when compared to 2015 which can be attributed to a decrease in GTR generated by the six racetrack casinos.

Pennsylvania's commercial gaming industry generates more tax revenue on an annual basis than any other state in the country. Total tax revenue since the opening of the first casino in November 2006 through December 2016 reached \$13.3 billion. This tax base continues to provide the resources necessary to accomplish the intent of the 2004 Race Horse Development and Gaming Act.



SLOTS

Race Days vs Non-Race Days

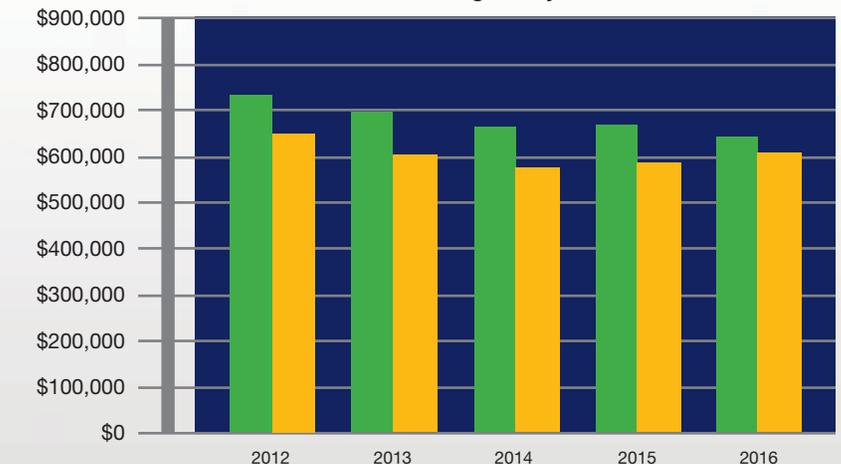


Coady Photography

In 2016, average daily gross terminal revenue was 7.6% higher when there was live racing when compared to days when there was not live racing.

It is important to note that live horse racing and other amenities offered at each of the racetracks complement casino gaming in Pennsylvania. Additional amenities such as sporting events, shopping outlets, hotel accommodations, concerts, and spas attract a wide array of patrons to the casinos who would not otherwise visit just to enjoy slot machines or table games. While it is important to note that live racing tends to take place during peak business times, average daily gross terminal revenue generated from slot machines is consistently higher when there is live racing when compared to days when there is not racing. This demonstrates that while the racing industry benefits significantly from slot machine gaming, the casino industry also benefits from live horse racing.

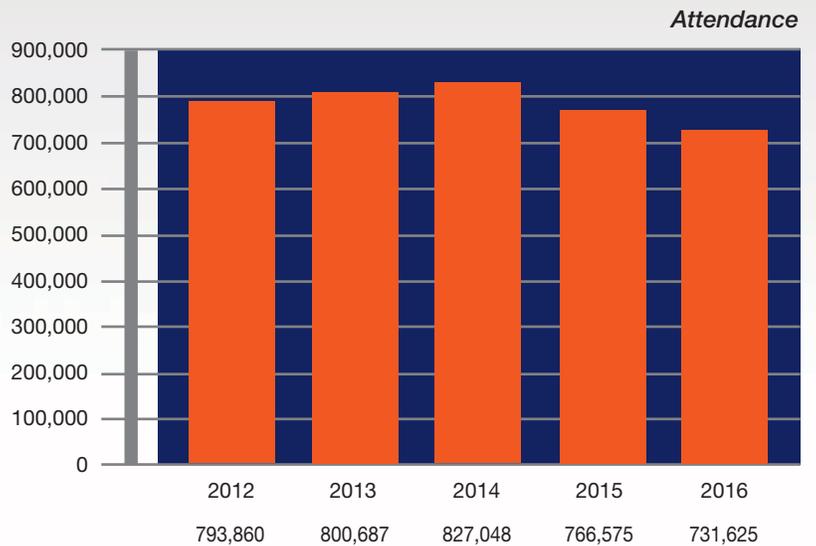
Average Daily Gross Terminal Revenue



Race Days	\$ 736,259	\$ 699,579	\$ 663,021	\$ 668,318	\$ 645,927
Non Race Days	\$ 655,601	\$ 600,329	\$ 575,993	\$ 590,665	\$ 600,089

ATTENDANCE at PA Tracks

Attendance at racetracks has fluctuated over the past several years in Pennsylvania. Racetrack casino operators and horsemen's organizations have been actively organizing more "big events" in recent years in an effort to attract a new fan base and enhance the overall entertainment experience at the properties. These big events attract some of the best horses, trainers, jockeys, and drivers in the country which draws more patrons to the track. At the same time, increasing attendance can be a challenge for the industry due to alternative forms of entertainment that are available to the general public. In addition, the only option for patrons to place a wager in the past was if they physically made a visit to the racetracks. This evolved with the opening of off-track wagering facilities and then the subsequent improvement in technology allowing patrons to wager from their personal computer or mobile device. These new services available to place a wager make it easier and more convenient for patrons to enjoy horse and harness racing without attending the races at the tracks.



More than 731,000 patrons attended live racing at the six racetrack casinos in 2016 representing a 5% decrease when compared to 2015.

BACKSTRETCH

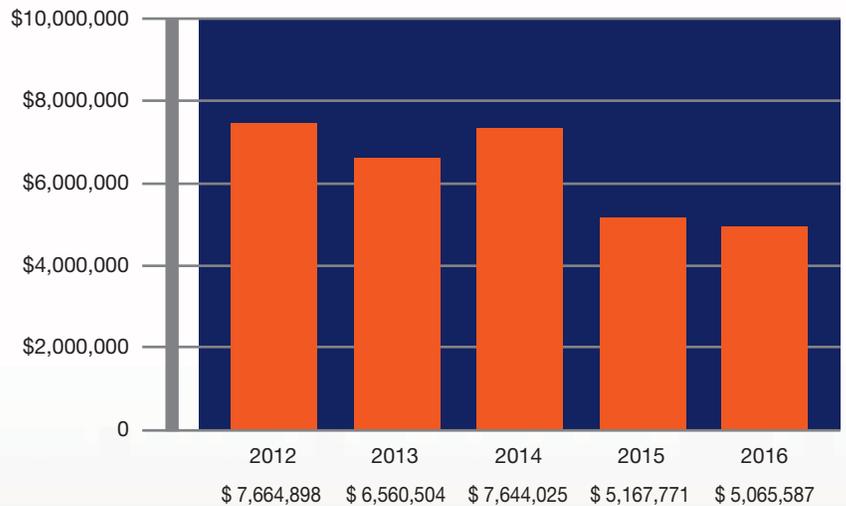
Improvements



Significant improvement to the infrastructure of the racetracks has taken place since casino gaming became operational ten years ago which has led to improved working conditions for horsemen. The Pennsylvania Race Horse Development and Gaming Act requires each casino offering live racing to invest at least \$5 million over the initial five-year period following the issuance of a slot machine license and at least \$250,000 per year for five years thereafter on the improvement and maintenance of the backside area and related buildings and structures at the racetrack. As of 2016, this provision applied to five of the six racetrack casinos. Harrah's Philadelphia is not required to invest in backside improvements until the tenth year after the completion of the initial construction of the racetrack. Major projects completed at the racetrack casinos include:



Statewide - Backstretch Improvements



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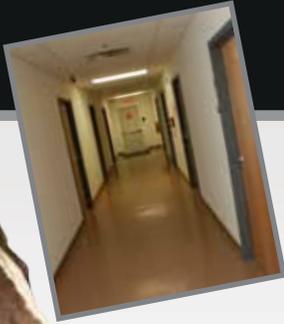
- The Downs at Mohegan Sun Pocono built a state-of-the-art racing paddock with stall space to accommodate enough horses to hold 14 races with nine horses in each race.



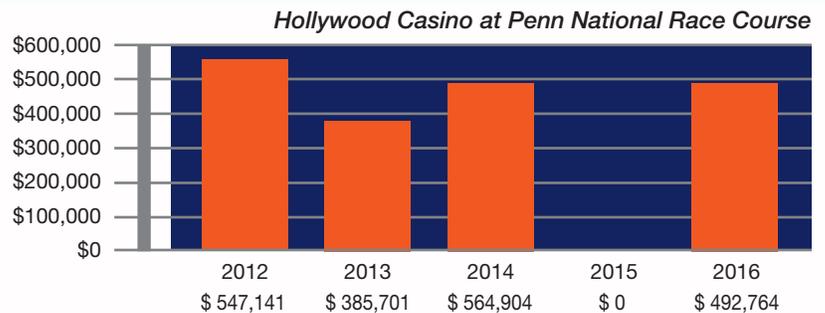
The racetrack casinos have invested more than \$70 million since 2006 to improve the infrastructure on the backside of racetracks.



BACKSTRETCH Improvements



- Hollywood Casino at Penn National Race Course has constructed 14 new barns with 48 stalls each, a manure storage facility, and a dormitory for backstretch employees which has enhanced the living and working conditions on property.
- The Meadows has completed construction of a new paddock with stall space to accommodate enough horses to hold 10 races and six new barns with 41 to 65 stalls each. They also renovated eight additional barns, installed new windows and stall gates, installed a new fire alarm system, installed a video system, upgraded barn sprinkler systems, and paved roads throughout the backside.
- Parx Casino has completed construction of 33 new barns with 42 stalls each and a new manure storage facility. Multiple other enhancements have also been made such as the installation of a new safety rail, the planting of trees, the paving of the backstretch, and the installation of pavers in the paddock, walking ring, and winner's circle.
- Presque Isle recently completed the construction of a 40 stall barn with added office space for horsemen, the installation of pavers in the paddock, and the installation of an infield video screen.



* Mohegan Sun Pocono constructed a \$6.5 million paddock which opened in 2009

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Race Horse Development Fund

The Pennsylvania Race Horse Development Fund is an economic driver of pari-mutuel wagering and derived from slot machine 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.

Funds within the Pennsylvania Race Horse Development Fund are appropriated to the Department of Revenue and distributed on a weekly basis as follows:

- 80% is distributed to each active racetrack operator conducting live racing. The racetrack operator, in turn, deposits this money into a restricted 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.
- 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 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.
- For thoroughbred tracks, 16% is distributed to the Pennsylvania Breeding Fund established by the Race Horse Industry Reform Act. The Pennsylvania Breeding Fund is designed to enhance the Pennsylvania thoroughbred breeding industry, offering monetary awards to breeders, stallion owners and owners of Pennsylvania bred horses.
- For standardbred tracks, 8% is distributed to the Pennsylvania Sire Stakes Fund as defined by the Race Horse Industry Reform Act. The Pennsylvania Sire Stakes Fund provides funding for a series of races that feature horses sired by a registered Pennsylvania stallion. The series has eight 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 along the Pennsylvania fair circuit.
- For standardbred tracks, 8% is distributed into a restricted account in the State Racing Fund known as the Pennsylvania Standardbred Breeders Development Fund. The Pennsylvania Standardbred Breeders Development Fund is intended to benefit the breeders of trotters and pacers racing in the Commonwealth. The program provides monetary incentives to owners of stallions and broodmares registering and residing in Pennsylvania.
- Beginning January 1, 2010, 34% of the Pennsylvania Race Horse Development Fund was allocated away from the racing industry and transferred into the General Fund. This percentage fell to 17% effective July 1, 2010 and continued at that rate through June 30, 2013 when the transfer expired.
- In fiscal year 2014/2015, \$4.2 million was transferred from the Pennsylvania Race Horse Development Fund directly to the Pennsylvania State Racing Fund. The Pennsylvania State Racing Fund is primarily utilized to support the cost of regulatory oversight of the horse and harness racing industry.
- In fiscal years 2013/2014 through 2016/2017, a portion of the Pennsylvania Race Horse Development Fund was appropriated to an account called the Pennsylvania Race Horse Development Restricted Receipts Account. This account was created within the Pennsylvania Race Horse Development Fund and is utilized to provide funding for the Animal Health Commission, the Pennsylvania Veterinary Laboratory System, the State Farm Products Show Fund, the Pennsylvania Racing Fund, and for payments to Pennsylvania fairs.
- A partial refund of gaming taxes paid by the 12 operating casinos was remitted by the Department of Revenue to the casinos as a result of a Pennsylvania Supreme Court decision that concluded certain promotional expenses incurred by casino licensees may be deducted from gross terminal revenue. As a result, there has been an approximate \$11.5 million distribution from the Pennsylvania Race Horse Development Fund since 2015.

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Race Horse Development Fund - Distributions

2016 Horse Racing Distributions

Distributions	
Purses	\$ 141,384,211
PA Breeding Fund	\$ 14,849,226
PA Sire Stakes Fund	\$ 6,713,808
PA Standardbred Breeders Development Fund	\$ 6,713,808
Health & Pension Benefits	\$ 11,008,885
State Racing Fund	\$ 6,683,411
Restricted Receipts Account	\$ 45,418,000
Promotional Expense Refund	\$ 10,397,813
Total	\$ 243,169,162



THOROUGHBRED

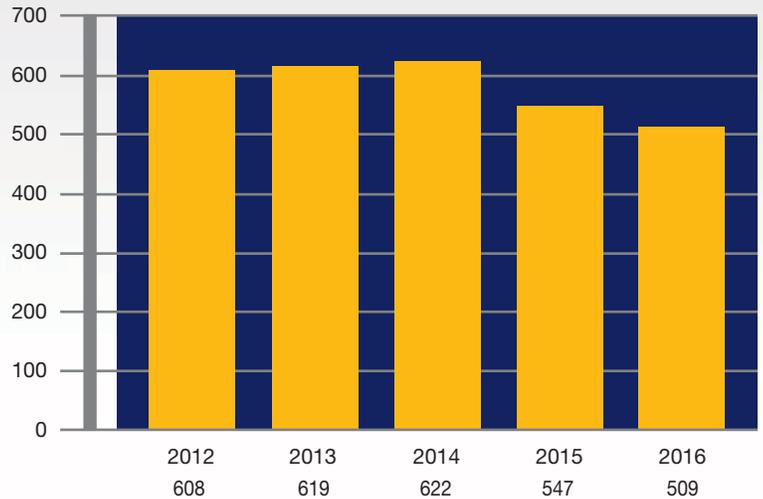
Breeding

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. A portion of revenue generated from slot machine gaming is earmarked by statute to provide monetary incentives to breed horses in the Commonwealth through the Pennsylvania Breeding Fund. The Pennsylvania Breeding Fund is designed to enhance the thoroughbred breeding industry, offering awards to breeders, stallion owners and owners of Pennsylvania bred horses. Awards are paid to registered Pennsylvania bred horses finishing first, second, or third in every race run in the Commonwealth. Additionally, the Pennsylvania Breeding Fund supports stakes races, restricted races, and owner bonuses for registered Pennsylvania bred horses.

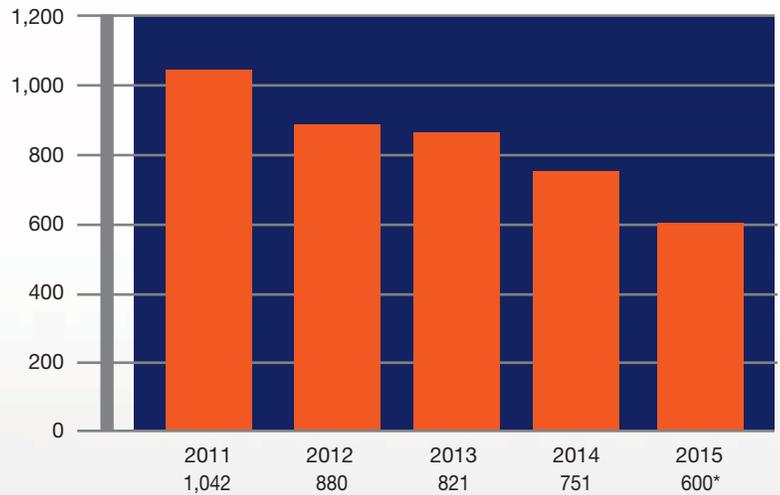
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509 individuals or businesses that breed horses received awards from the Pennsylvania Breeding Fund in 2016 representing a 7% decrease when compared to 2015.

Thoroughbred Breeders



Thoroughbred Foals



*Figure for 2015 is an estimate



STANDARD BRED

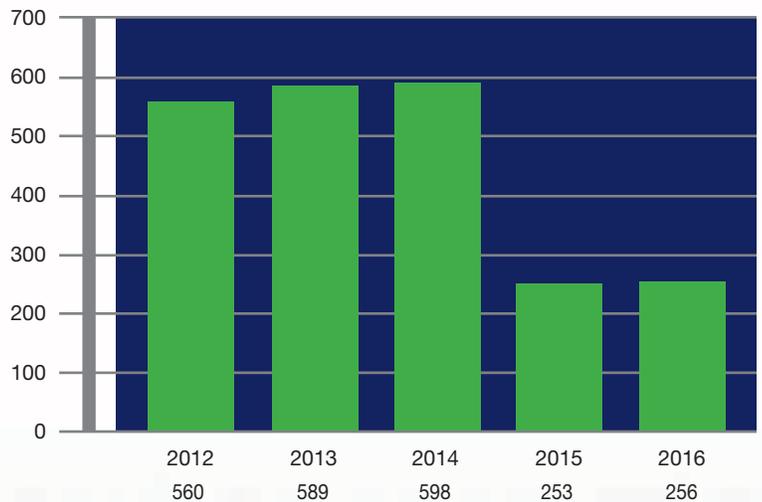
Breeding

256 individuals or businesses that breed horses received awards from the Pennsylvania Standardbred Breeders Development Fund in 2016 representing a 1% increase when compared to 2015.

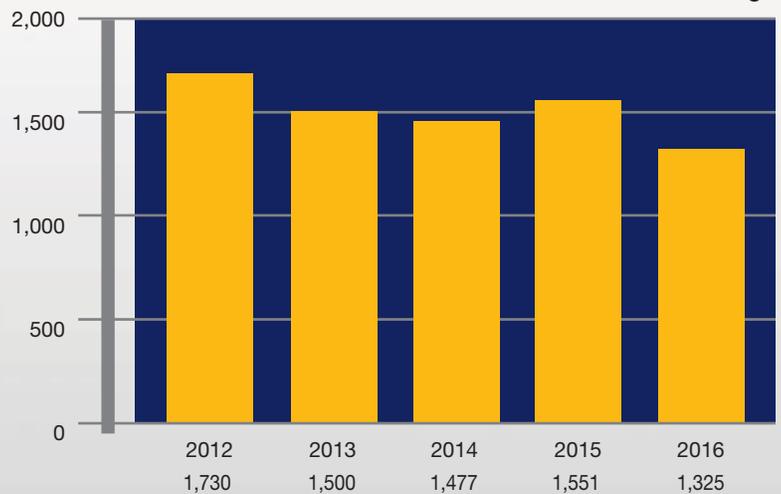


The standardbred breeding industry also receives a portion of revenue generated from slot machine gaming by statute through the Pennsylvania Standardbred Breeders Development Fund and the Pennsylvania Sire Stakes Fund. The Pennsylvania Standardbred Breeders Development Fund is intended to benefit the breeders of trotters and pacers racing in the Commonwealth. The program provides monetary incentives to owners of stallions and broodmares registering and residing in Pennsylvania. There was a decrease in the number of breeders that received awards beginning in 2015 due to a change in residency requirements. Mares are now required to be stabled in Pennsylvania for 180 continuous days including foaling in order for the breeder to be eligible for awards. The Pennsylvania Sire Stakes Fund provides funding for a series of races that feature horses sired by a registered Pennsylvania stallion. The series has eight 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 along the Pennsylvania fair circuit. Similar programs have been implemented in neighboring harness racing jurisdictions which may have attributed to decreases in 2016.

Standardbred Breeders



Standardbred Yearlings

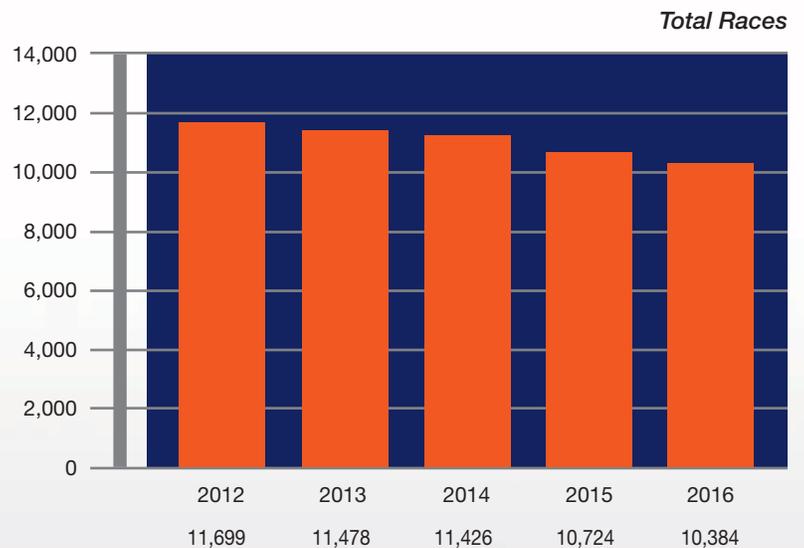
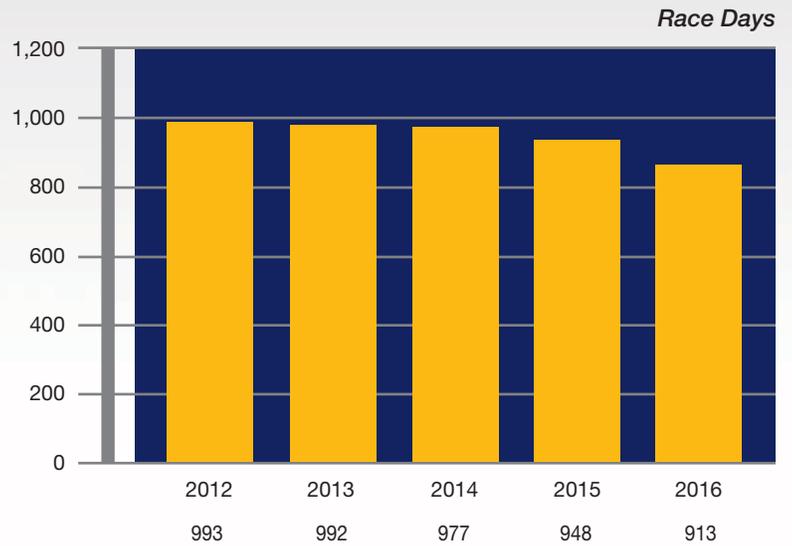


LIVE Races



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The total number of racing days and live races in Pennsylvania has declined each year for the past four years. There has been a decline in live racing handle and the racing industry continues to adjust in order to improve the racing product and fill fields with quality horses. At the same time, each racetrack casino is required by statute to schedule a minimum number of race days and live races per year. This provides stability for horsemen by providing assurance that a sufficient number of races are scheduled by the racetrack casino. Although there have been decreases in recent years, the number of live races in 2016 was 30% higher when compared to 2006 when casino gaming was introduced mainly due to the opening of two new racetracks in the Commonwealth.



10,384 races were held in Pennsylvania in 2016 representing a decrease of 3% when compared to 2015.

HORSES

Competing

The racing industry in Pennsylvania is significant in size and continues to be supported by the success of legalized gaming. Horsemen continue to be attracted to Pennsylvania due to enhanced purses, breeding incentives, and improved living and working conditions offered as a result of casino gaming. This enhances the agricultural economy as horsemen do business within the Commonwealth by purchasing goods and services to support their operation. Horse owners also maintain a staff and hire individuals such as trainers, grooms, veterinarians, blacksmiths, farm hands, exercise walkers, hot walkers, and drivers who all work in Pennsylvania. In addition, racetrack casino operators who accept wagers on live horse racing employ individuals such as pari-mutuel tellers, security officers, accountants, marketing staff, food and beverage staff, announcers, and maintenance workers to care for the racetrack and associated grounds.

More than 18,000 horses raced in Pennsylvania in 2016 making 83,000 starts throughout the year.

Average Field Size

The average number of horses competing in each race is measured in order to gauge competitiveness of the races. It is beneficial for racetrack operators to hold races with full fields so they are more exciting for the wagering public. It can be difficult to fill races with quality horses due to decline in horse breeding throughout the country. However, the racing industry has been successful in making adjustments to the number of racing days and racing conditions to ensure appropriate field sizes.

Total Horses



Total Starts



Average Field Size

	2012	2013	2014	2015	2016
Parx Casino	7.73	7.47	7.24	7.94	7.96
Hollywood Casino	8.09	7.69	7.26	7.56	7.51
Mohegan Sun Pocono	8.30	8.38	8.24	8.25	8.38
The Meadows Casino	8.35	8.33	8.30	8.42	8.66
Presque Isle Downs and Casino	8.04	7.67	7.11	7.49	7.30
Harrah's Philadelphia	7.66	7.72	7.76	7.76	7.73

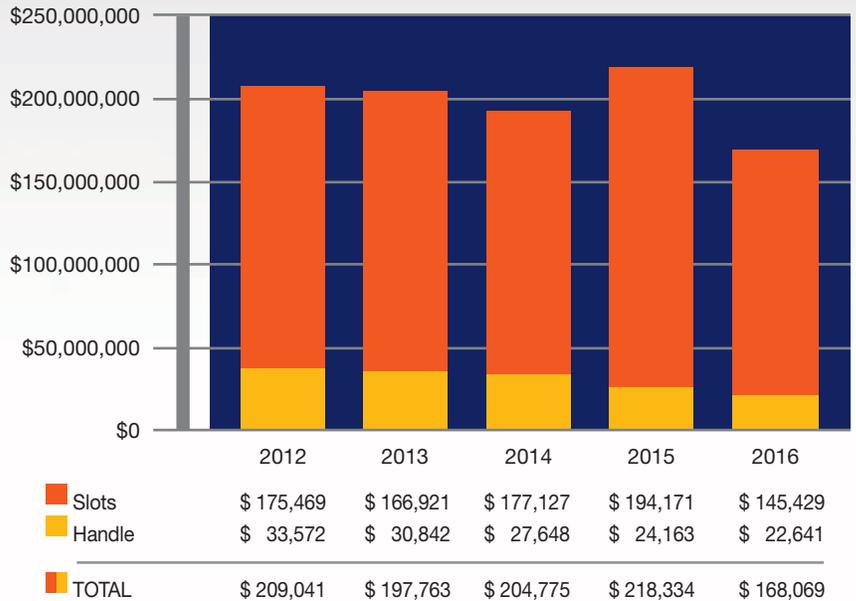
PURSES

Awarded

The Pennsylvania Race Horse Development and Gaming Act provided for increased purses in order to encourage participation in horse and harness racing and attract better quality horses to the Commonwealth. Revenue generated from slot machine gaming accounted for 87% of all purses earned in 2016. The remainder was generated from a portion of total dollars wagered on horse racing. Horsemen enter races with a high amount of risk without a guarantee of a return on their investment by winning races. These purses spur investment within the agricultural industry in the Commonwealth as horse owners utilize purses in order to pay all expenses and employ staff to train and care for their horses. Purses earned declined in 2016 when compared to the previous year due to transfers made to the Pennsylvania Race Horse Development Restricted Receipts Account.

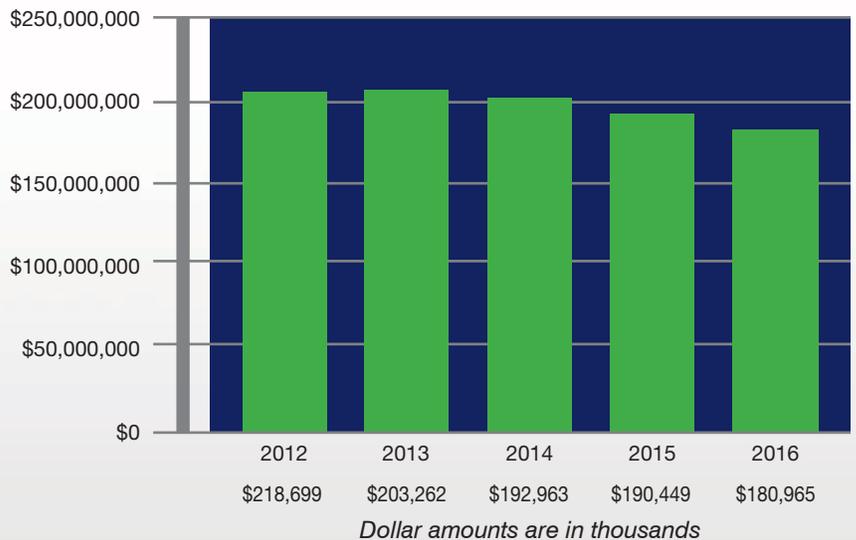


Purses Earned



Dollar amounts are in thousands

Purses Paid

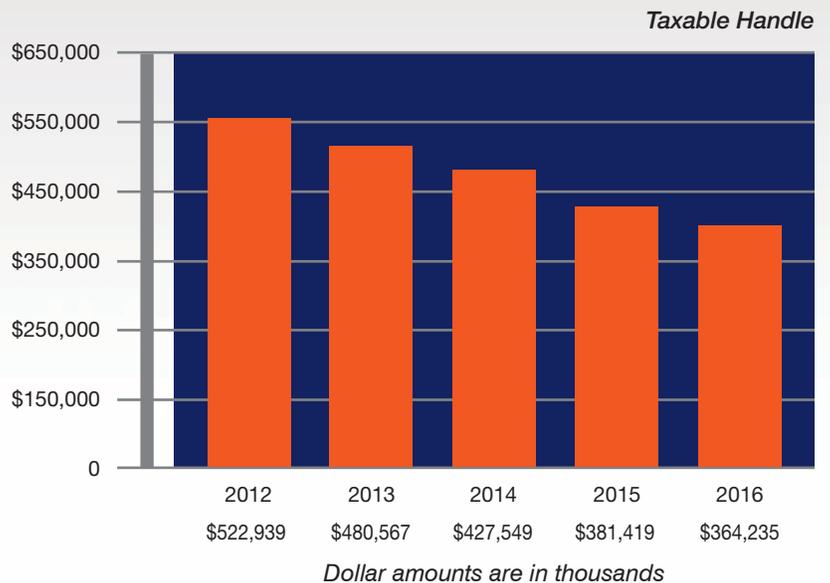


Dollar amounts are in thousands

\$168 million was generated for purses to be paid to winning horses in 2016 which represents a 23% decrease when compared to 2015.

TAXABLE Handle

Taxable dollars wagered on any race held throughout the country continues to decline due to a decrease in demand for wagering on out-of-state races by Pennsylvania residents. A significant portion of taxable handle is generated by wagers placed on races held outside of Pennsylvania via simulcast wagering. In addition, almost half of the off-track wagering facilities have closed in recent years due to a decrease in simulcast wagering. However, Pennsylvania's racing industry continues to evolve with increased emphasis on the live races taking place within the Commonwealth. Wagering on Pennsylvania races by non-residents has increased since slot machine gaming commenced in 2006; however, these wagers are not included in the tax base.



\$364 million in taxable handle was wagered in 2016 which represents a 5% decrease when compared to 2015.





LIVE Racing Handle

Live Racing Handle

Live racing handle is total dollars wagered on races which take place within Pennsylvania and can be broken down into several categories. These figures do not include total dollars wagered on races held outside the Commonwealth, as revenue generated from slot machine gaming for the Pennsylvania Race Horse Development Fund only impacts demand for wagering on Pennsylvania races.

Live On-Track Handle

Live racing held at the racetracks adds value to the overall entertainment experience at the racetrack casinos. There has been a decline in wagering on live races at the racetracks in recent years, and the racetrack casino operators and the horsemen's organizations are hopeful this trend will reverse with enhanced marketing initiatives leading to a more exciting experience for patrons.

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\$27 million was wagered on races held at the six racetracks in the Commonwealth in 2016 representing a 10% decrease when compared to 2015.

Live Off-Track Handle

The off-track wagering facilities in Pennsylvania continue to struggle year-over-year due to declining interest in simulcast wagering. The number of off-track wagering facilities open steadily declined from 23 facilities to just 10 currently operating locations. Two off-track wagering facilities closed over the past two years which negatively impacted handle.

\$6.2 million was wagered on races held in Pennsylvania at the off-track wagering facilities located throughout the Commonwealth in 2016 representing a 26% decrease when compared to 2015.

Phone and Internet Wagering

Patrons can now take advantage of services which allow customers to view live racing and wager from their personal computers and mobile devices. Live racing handle generated through these services has declined over the past two years.

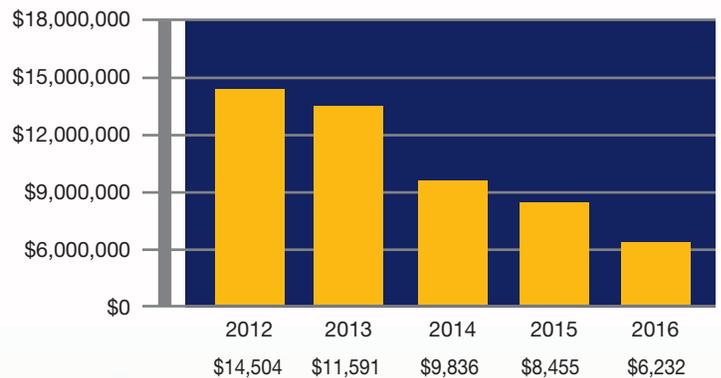
\$6.4 million was wagered on races held in Pennsylvania through a phone or internet wagering service in 2016 representing an 18% decrease when compared to 2015.

On-Track



Dollar amounts are in thousands

Off-Track



Dollar amounts are in thousands

Phone and Internet Wagering



Dollar amounts are in thousands

LIVE Racing Handle

In-State Export

Racetrack casinos export their live racing signal to other properties within Pennsylvania and retain a portion of the amount wagered. Simulcast wagering continues to slowly decline as patrons choose to enjoy live racing at the track and alternative forms of entertainment.

\$21 million was wagered on Pennsylvania races by patrons inside of the Commonwealth through simulcast wagering in 2016 representing a 15% decrease when compared to 2015.

Out-of-State Export

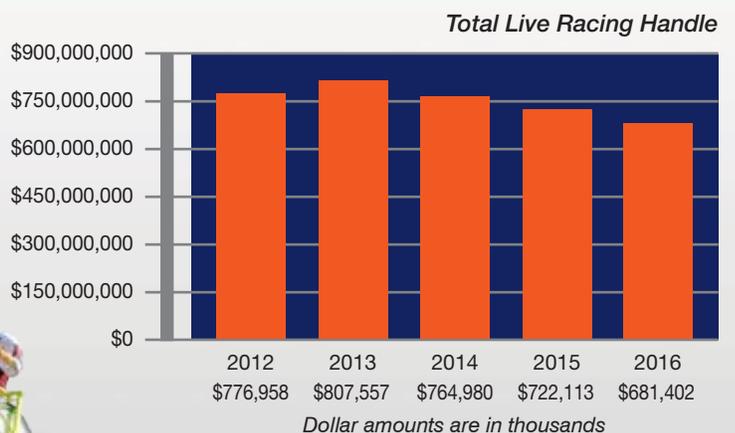
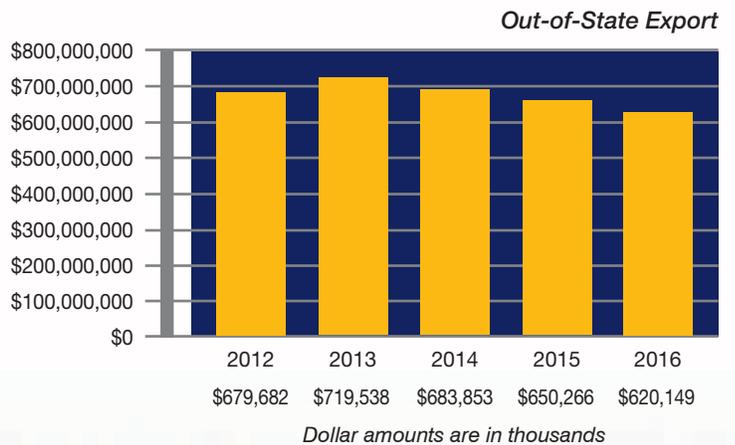
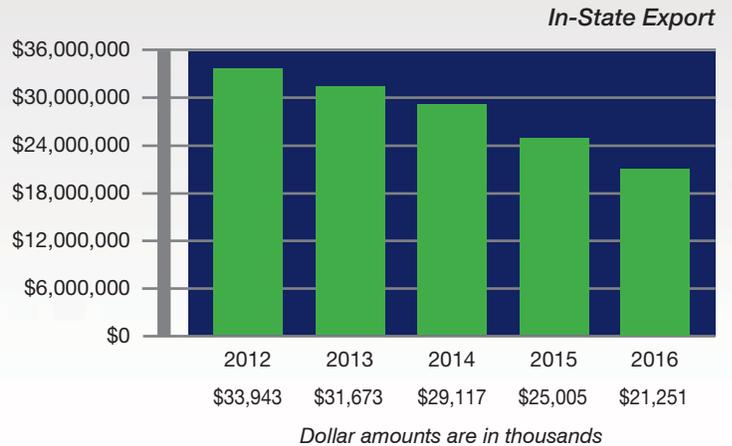
Racetrack casinos also export their live racing signal to other properties outside of the Commonwealth and retain a portion of the amount wagered. Out-of-state export has declined for three straight years; however, there has been a significant increase since 2006. This demonstrates that interest in wagering on Pennsylvania races by patrons nationwide has improved when compared to the same time period before gaming commenced in 2006. Out-of-state export is not included within the tax base.

\$620 million was wagered on Pennsylvania races by patrons outside of the Commonwealth through simulcast wagering in 2016 representing a 5% decrease when compared to 2015.

Total Live Racing Handle

Pennsylvania horse and harness racing continues to face challenges to remain a viable entertainment option. Live racing handle has increased in Pennsylvania since slot machine gaming commenced in 2006 mainly due to the opening of two new racetrack casino properties and increased wagering on Pennsylvania races by patrons nationwide. Although this increase has been beneficial of the industry, this past year marked the third year since gaming commenced that live racing handle declined year-over-year.

In total, \$681 million was wagered on races held in Pennsylvania in 2016 representing a 6% decrease when compared to 2015.





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