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RACETRACK CASINO BENCHMARK REPORT





Pennsylvania Gaming Control Board

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EXECUTIVE Summary

The Pennsylvania Gaming Control Board ("PGCB") is pleased to present this eleventh annual Benchmark Report which provides an update to detailed statistics outlining 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 health of the industry over the past five years.

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 Pennsylvania Race Horse Development Trust Fund was created to provide financial resources to assist the horse racing industry, which is funded by an assessment paid by the twelve operating casinos each day. In 2017, approximately 10% of revenue generated from slot machine gaming was earmarked for the Pennsylvania Race Horse Development Trust Fund which amounted to \$239 million. This represents a decrease of 2.5% when compared to the previous year. This revenue continues to provide significantly increased purses for horsemen, awards for breeders, and funding for health and pension benefits.

Total dollars wagered on live races held in Pennsylvania, also known as live racing handle, exceeded \$700 million in 2017 representing an increase of 3% compared to the previous year. This is

the first year-over-year increase in live racing handle in Pennsylvania since 2013. This increase can be attributed solely to an increase in total dollars wagered on Pennsylvania races by patrons outside of the Commonwealth. Total dollars wagered on Pennsylvania races at the six racetracks, nine off-track wagering facilities, and through electronic wagering offered by licensed racetracks all declined in 2017. In addition, taxable handle continues to decline due to a decrease in simulcast wagering.

There are currently initiatives taking place to ensure Pennsylvania horse and harness racing continues to be viable and remain an exciting entertainment option. The General Assembly has indicated that people of this Commonwealth have a vital economic interest in the continued success of the gaming industry. Due to this economic interest, enhancements to current gaming activities have been authorized to ensure the ongoing competitiveness, viability and stability of the gaming industry in the Commonwealth.

As such, Act 42 of 2017 authorized several new gaming options including up to ten new Category 4 casinos, interactive gaming, airport gaming, and the installation of video gaming

terminals at truck stops. In addition, the legislative intent includes giving licensed gaming entities the authority to conduct casino simulcasting in order to expand horse racing opportunities through simulcasting and, thereby, enhance the viability of the Commonwealth's race horse and commercial gaming industry. The casinos in Pennsylvania without racetracks now have the option to offer pari-mutuel wagering on live horse racing. In addition, a portion of the funding within the Pennsylvania Race Horse Development Trust Fund is now earmarked for marketing horse racing under the direction of the State Horse Racing Commission.

The PGCB is encouraged by these new horse racing initiatives, and as the information within this report suggests, revenue generated from slot machine gaming continues to provide an overall positive impact on Pennsylvania racing and the agricultural community.



BENEFITS

For Pennsylvania

The Pennsylvania Gaming Control Board is responsible for overseeing all aspects of the state's casino industry, including the new gaming initiatives authorized by Act 42 of 2017.

The Commonwealth's casino industry currently consists of 10 stand-alone and racetrack casinos in operation, along with two smaller resort casinos. These facilities collectively employ 18,000 people and annually generate approximately \$1.4 billion in tax revenue from slot machine and table games play. The largest portion of that money is used for property tax reduction to Pennsylvania homeowners. Approximately 10% of revenue generated from slot machine gaming was earmarked for horse racing in 2017.

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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

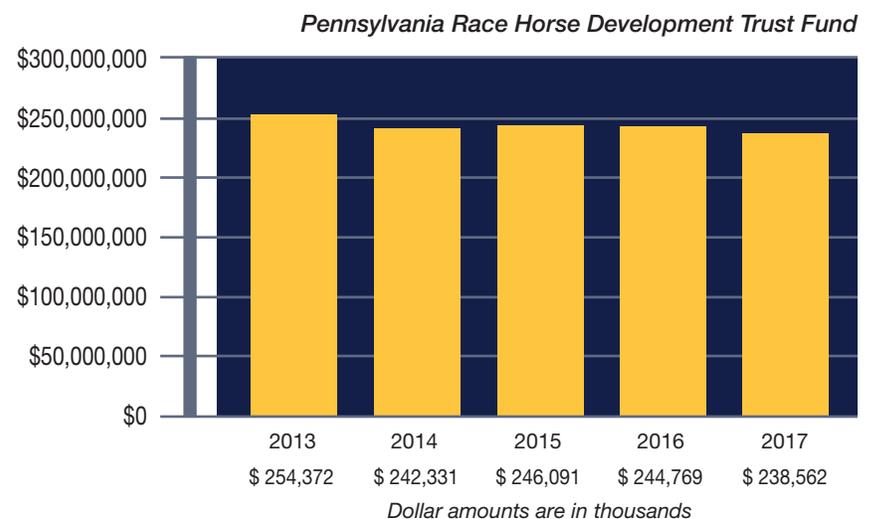
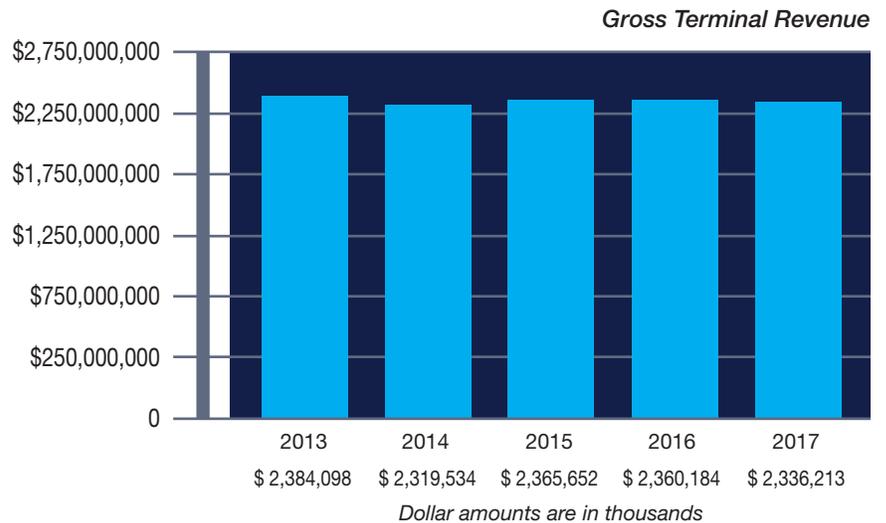
Pennsylvania's commercial gaming industry generates more tax revenue on an annual basis than any other state in the country. Total tax revenue since the opening of the first casino in November 2006 through December 2017 reached \$14.6 billion.

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.

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 equals roughly a 53% tax on slot machine gaming revenue.

- State Tax which equals 34% of gross terminal revenue. This revenue is mainly used for property tax reduction.
- Local Share Tax which equals 4% of gross terminal revenue in Calendar Year 2017. This revenue is distributed in the counties and municipalities that have casinos in their area.
- Race Horse Development Trust Fund which equaled roughly 10% of gross terminal revenue in Calendar Year 2017. This revenue is used for assisting the horse racing industry. The Pennsylvania Race Horse Development Trust Fund assessment is variable and capped at 12%.
- Economic Development Fund which equals 5% of gross terminal revenue in Calendar Year 2017. This revenue is used for economic development projects across Pennsylvania.

This report focuses mainly on the Pennsylvania Race Horse Development Trust Fund and its benefits for the racing industry in Pennsylvania. In 2017, \$239 million in slot machine tax revenue was generated for the Pennsylvania Race Horse Development Trust Fund. This represents a decrease of 2.5% when compared to 2016 which can be attributed to a decrease in GTR generated by the six racetrack casinos.



THE PENNSYLVANIA

Race Horse Development Trust Fund

The Pennsylvania Race Horse Development Trust 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 Trust Fund are appropriated to the Department of Revenue and distributed as follows:

- 80% is deposited weekly into a separate, interest-bearing purse account to be established by and for the benefit of the horsemen. The earned interest on the account is credited to the purse account. Licensees combine these funds with revenues from existing purse agreements to fund purses for live races consistent with those agreements with the advice and consent of the horsemen.
- 4% is used to fund health 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.
- For licensees that operate thoroughbred tracks, 16% is deposited into the Pennsylvania Breeding Fund. 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 licensees that operate standardbred tracks, 8% is deposited into the Pennsylvania Sire Stakes Fund. 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 licensees that operate standardbred tracks, 8% is deposited into a restricted account in the State Racing Fund known as the Pennsylvania Standardbred Breeders Development Trust Fund. The Pennsylvania Standardbred Breeders Development Trust 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.
- A portion of the Pennsylvania Race Horse Development Trust Fund is transferred 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 including costs of enforcement of medication rules and regulations. 1% of the previous fiscal year's deposits into the Pennsylvania Race Horse Development Trust Fund are also transferred to the State Racing Fund to provide for the promotion of horse racing under the direction of the State Horse Racing Commission.
- A portion of the Pennsylvania Race Horse Development Trust Fund is transferred into an account called the Pennsylvania Race Horse Development Restricted Receipts Account. This account is utilized to provide funding for the Animal Health Commission, the Pennsylvania Veterinary Laboratory System, the State Farm Products Show Fund, and for payments to Pennsylvania fairs.
- A partial refund of gaming taxes paid by the 12 operating casinos is 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.

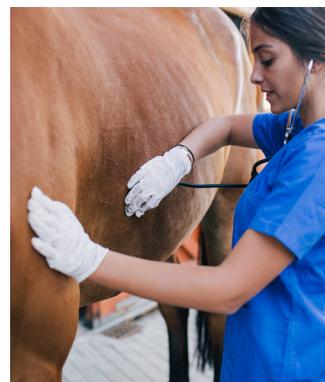
THE PENNSYLVANIA

Race Horse Development Trust Fund Distributions



2017 Horse Racing Distributions

Purses	\$170,156,502
PA Breeding Fund	\$18,178,389
PA Sire Stakes Fund	\$7,926,456
PA Standardbred Breeders Development Fund	\$7,926,456
Health & Pension Benefits	\$11,264,351
State Racing Fund	\$10,875,474
Restricted Receipts Account	\$8,046,000
Promotional Expense Refund	\$3,829,486
Total	\$238,203,113



BACKSTRETCH

Improvements

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. This provision now applies to all racetrack casinos. Harrah's Philadelphia and Presque Isle Downs were not required to invest in backside improvements until the tenth year after the completion of the initial construction of their respective racetracks. Major projects completed at the racetrack casinos include:

- Mohegan Sun Pocono has completed their backstretch improvement obligation by building a state-of-the-art racing paddock with stall space to accommodate enough horses to hold 14 races with nine horses in each race.
- 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

The racetrack casinos have invested more than \$72 million since 2006 to improve the infrastructure on the backside of racetracks.

employees. They also paved around the stable gate, enhanced the loose horse warning system, replaced fencing, and repaired drainage lines in the stable area.

- The Meadows Casino 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, painted and upgraded the audio/video system in the paddock, installed a new manure removal system, 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, the renovation of an administrative building, and the installation of pavers in the paddock, walking ring, and winner's circle.
- Presque Isle Downs and Casino 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 a new infield video screen. An additional barn is currently under construction which is anticipated to become available for horsemen for the 2018 live racing season.
- Harrah's Philadelphia is in the beginning stages of implementing a plan for improving the racetrack. These improvements are scheduled to be complete in 2018.



BACKSTRETCH

Improvements



Backstretch Improvements (2006 - 2017)

Parx Casino	\$43,576,697
Hollywood Casino at Penn National Race Course	\$9,690,334
Mohegan Sun Pocono	\$6,526,992
The Meadows Casino	\$11,098,684
Presque Isle Downs and Casino	\$1,348,576
Harrah's Philadelphia	\$63,017
Total	\$72,304,300

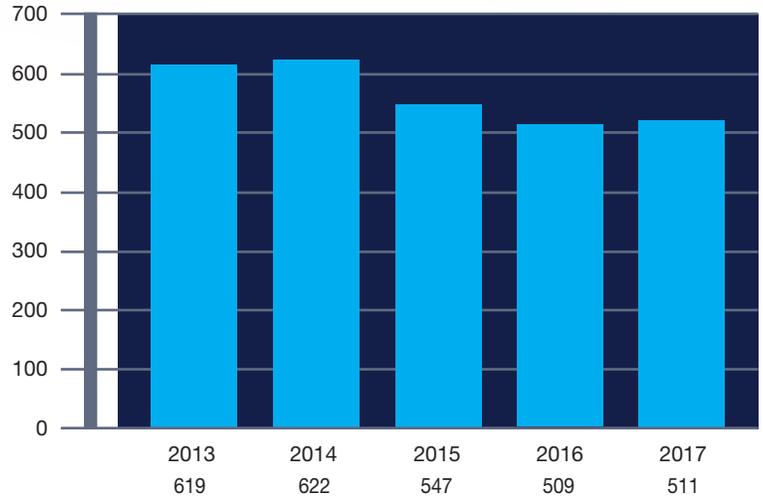


THOROUGHBRED Breeding

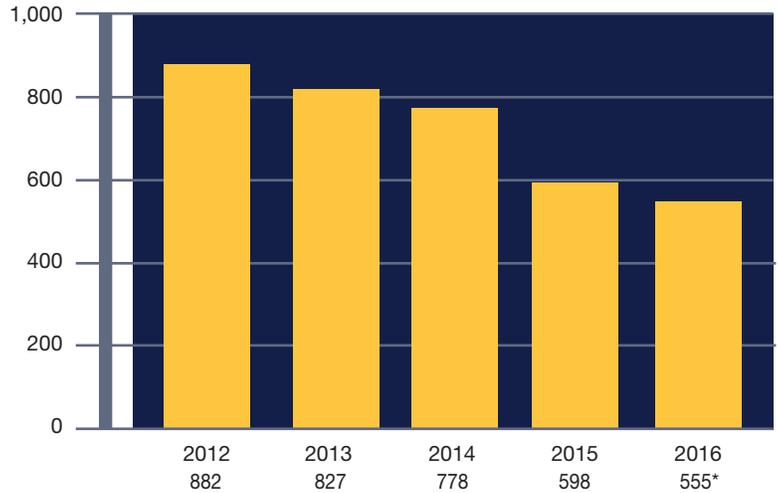


The breeding industry is a direct contributor to the agricultural economy and provides a steady stream of income to farmers and vendors who support the preservation of farmland. A portion of revenue generated from slot machine gaming is earmarked by statute to provide monetary incentives to breed horses 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 breeds 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.

Thoroughbred Breeders



Thoroughbred Foals



*Figure for 2016 is an estimate

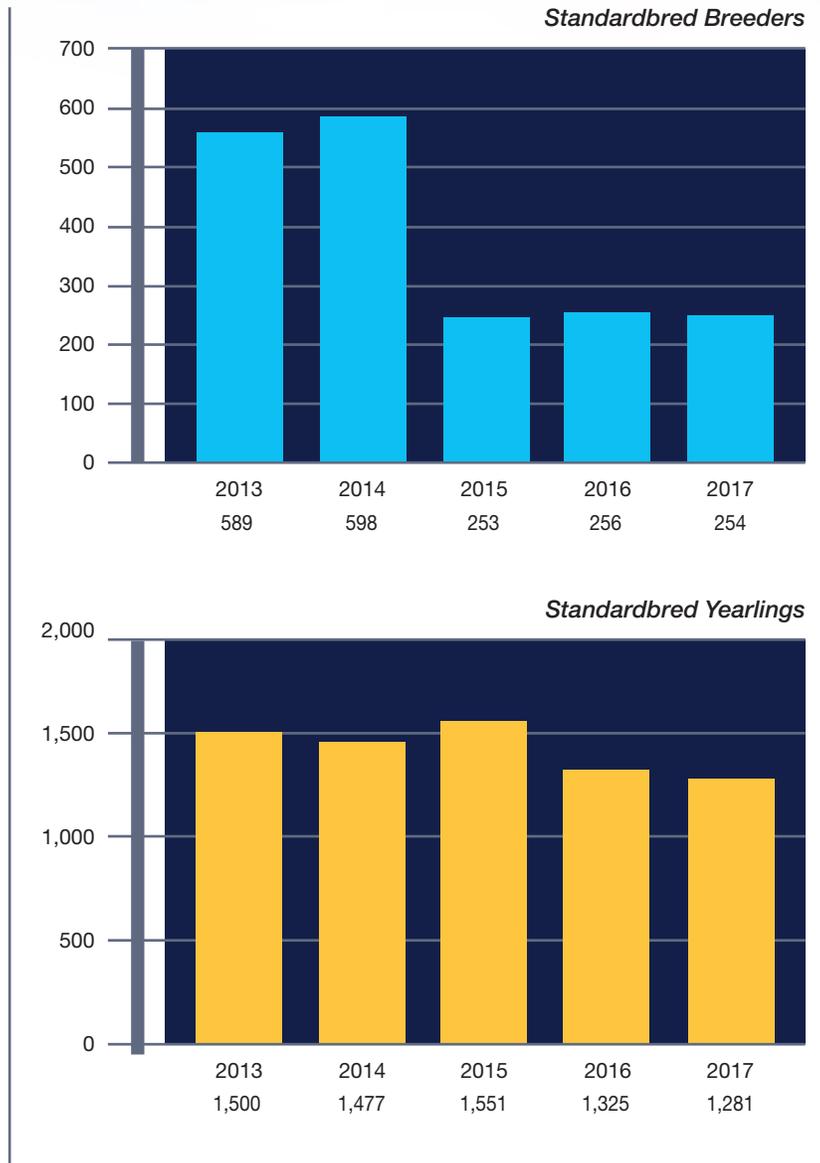
511 individuals or businesses received awards from the Pennsylvania Breeding Fund in 2017 representing an increase of less than 1% when compared to 2016.

STANDBRED

Breeding



The standardbred breeding industry also receives a portion of revenue generated from slot machine gaming by statute through the Pennsylvania Standardbred Breeders Development Trust Fund and the Pennsylvania Sire Stakes Fund. The Pennsylvania Standardbred Breeders Development Trust 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 sharp 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.



254 individuals or businesses received awards from the Pennsylvania Standardbred Breeders Development Trust Fund in 2017 representing a decrease of less than 1% when compared to 2016.

There were 1,281 standardbred yearlings whose nomination fee was been paid to participate in the Pennsylvania Sire Stakes program in 2017 representing a decrease of 3% when compared to 2016.

HORSES

Competing

Horses

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 17,000 horses raced in Pennsylvania in 2017 making 80,000 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

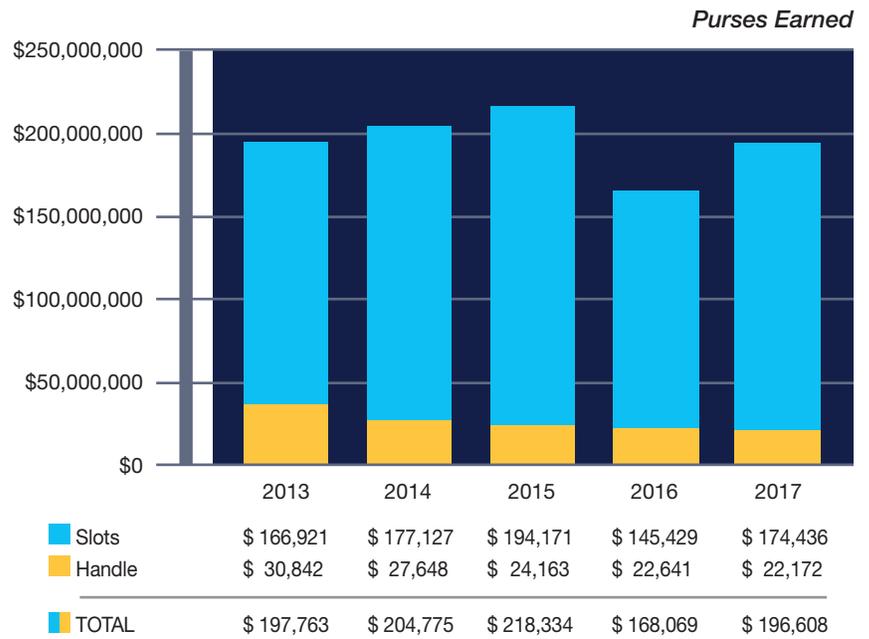
	2013	2014	2015	2016	2017
Parx Casino	7.47	7.24	7.94	7.96	8.10
Hollywood Casino	7.69	7.26	7.56	7.51	7.33
Mohegan Sun Pocono	8.38	8.24	8.25	8.38	8.24
The Meadows Casino	8.33	8.30	8.42	8.66	8.31
Presque Isle Downs and Casino	7.67	7.11	7.49	7.30	7.50
Harrah's Philadelphia	7.72	7.76	7.76	7.73	7.76

PURSES Awarded

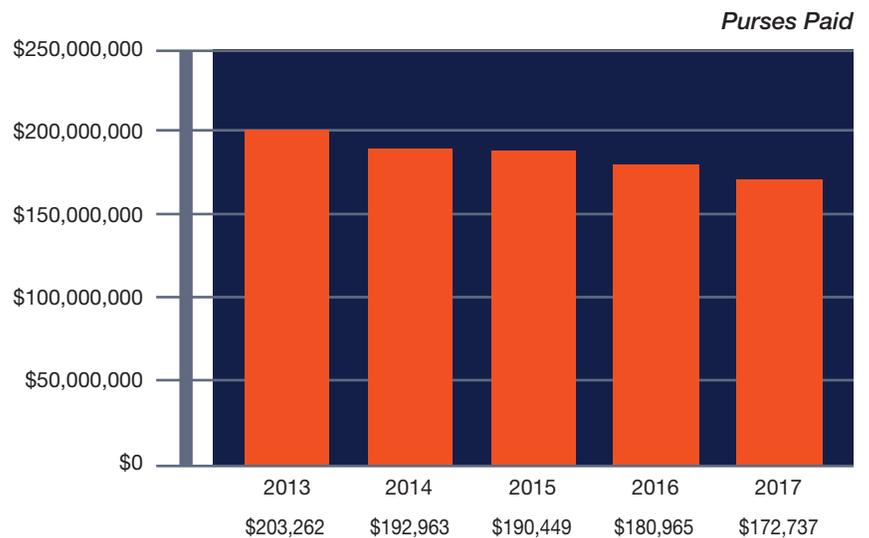
\$173 million was generated for purses to be paid to winning horses in 2017 which represents a 5% decrease when compared to 2016.



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. 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. Revenue generated from slot machine gaming accounted for 89% of all purses earned in 2017. The remainder was generated from a portion of total dollars wagered on horse racing. Purses earned increased in 2017 when compared to the previous year due to the timing of transfers made to the Pennsylvania Race Horse Development Restricted Receipts Account.



Dollar amounts are in thousands

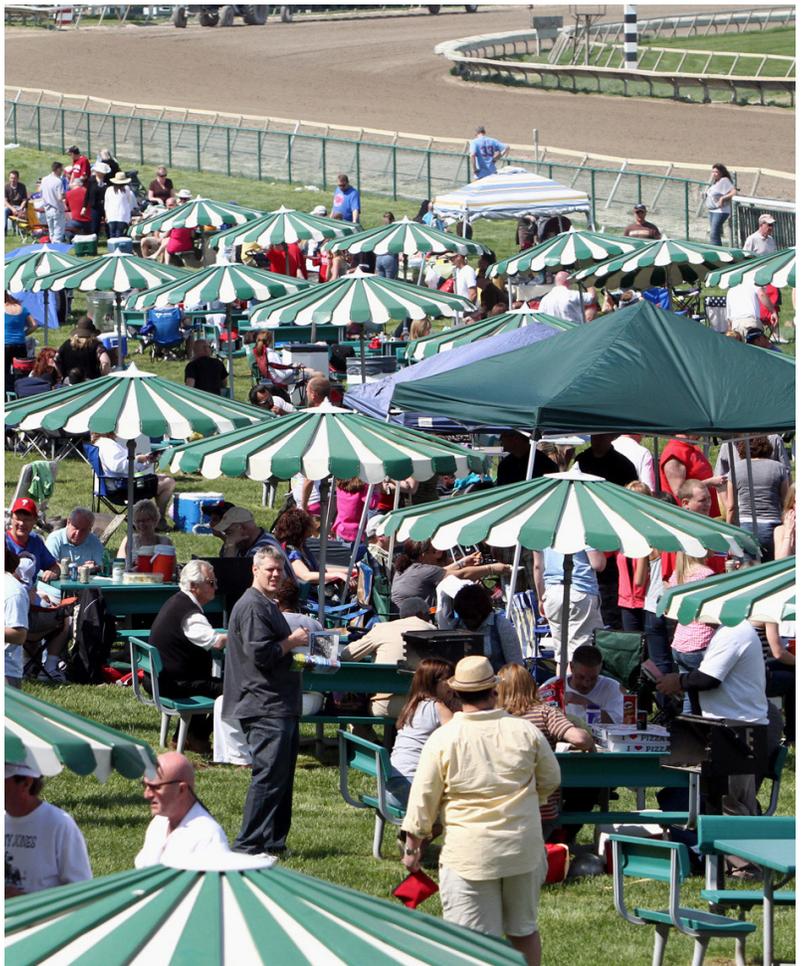
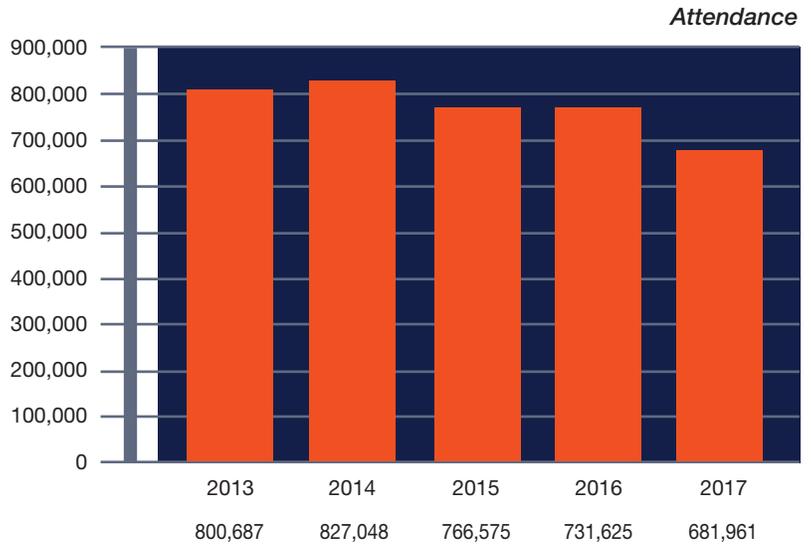


Dollar amounts are in thousands

ATTENDANCE at PA Tracks

All six racetracks in Pennsylvania saw a general decline in attendance in 2017. 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. 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 made it easier and more convenient for patrons to enjoy horse and harness racing without attending the races at the tracks.

More than 681,000 patrons attended live racing at the six racetrack casinos in 2017 representing a 7% decrease when compared to 2016.



LIVE Races



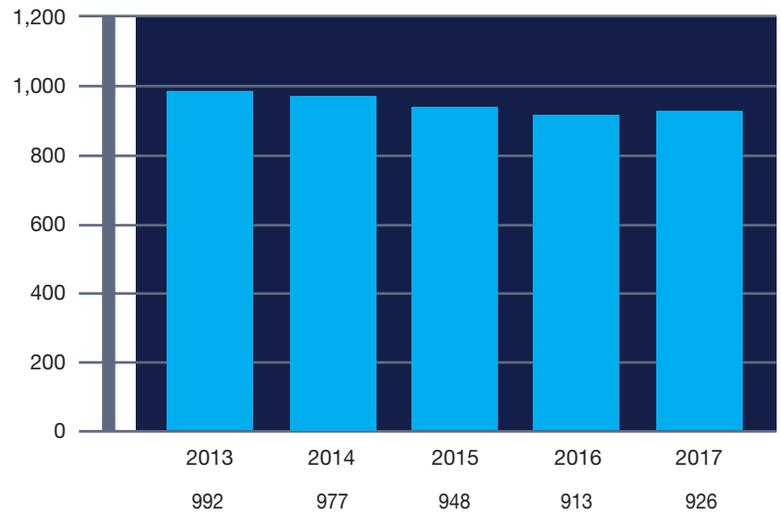
Each racetrack casino is required by statute to schedule a minimum number of race days and live races per year. This provides stability for horsemen by providing assurance that a sufficient number of races are scheduled by the racetrack casino.

The total number of racing days increased year-over-year for the first time since 2012. At the same time, the total number of live races in Pennsylvania declined over the past year. Revisions to the live racing schedules at some of the racetracks led to increased field sizes in 2017. This led to more competitive races and an improved racing product, which had a positive impact on live racing handle.

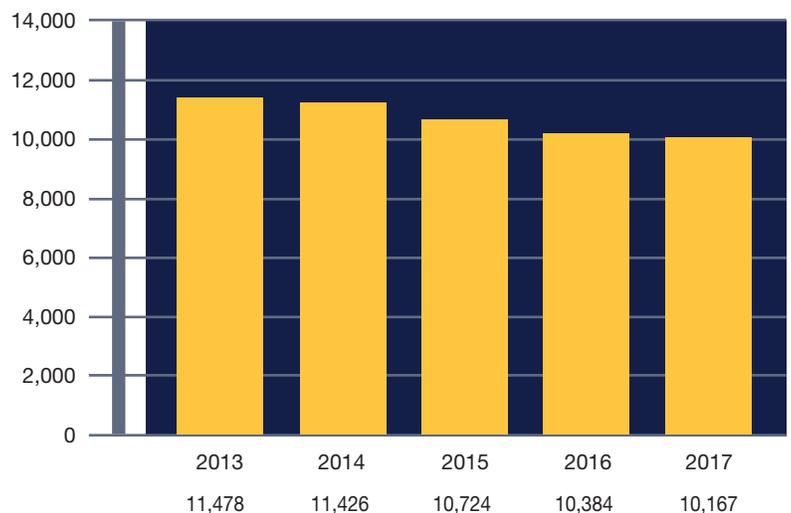
There were a combined 926 live racing days at the six racetracks in 2017 representing an increase of more than 1% when compared to 2016.

10,167 races were held in Pennsylvania in 2017 representing a decrease of 2% when compared to 2016.

Race Days



Total Races



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 Trust 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. Big racing events are proven to attract large crowds and complement casino gaming by adding an additional entertainment option. There has been a year-over-year decline in wagering on live races at the racetracks for the past five years. 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.

\$26 million was wagered on races held at the six racetracks in the Commonwealth in 2017 representing a 4% decrease when compared to in 2016.

Live Off-Track Handle

The off-track wagering facilities in Pennsylvania continue to struggle due to declining interest in simulcast wagering and newer options now available for wagering on horse racing such as electronic wagering. The number of off-track wagering facilities open steadily declined from 23 facilities to just 9 currently operating locations. Three off-track wagering facilities closed over the past three years which negatively impacted handle.

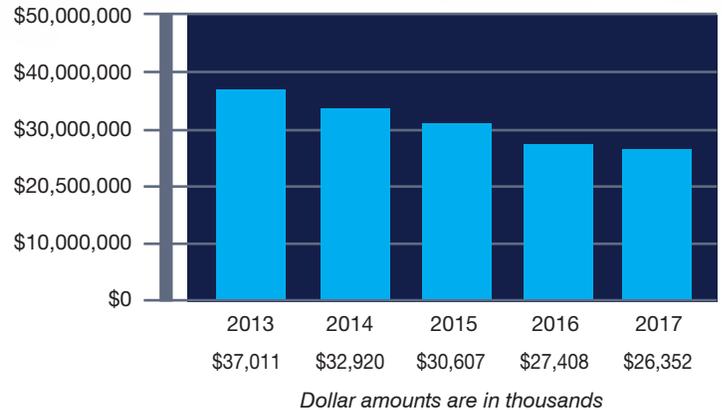
\$5.8 million was wagered on races held in Pennsylvania at the off-track wagering facilities located throughout the Commonwealth in 2017 representing an 8% decrease when compared to 2016.

Electronic Wagering

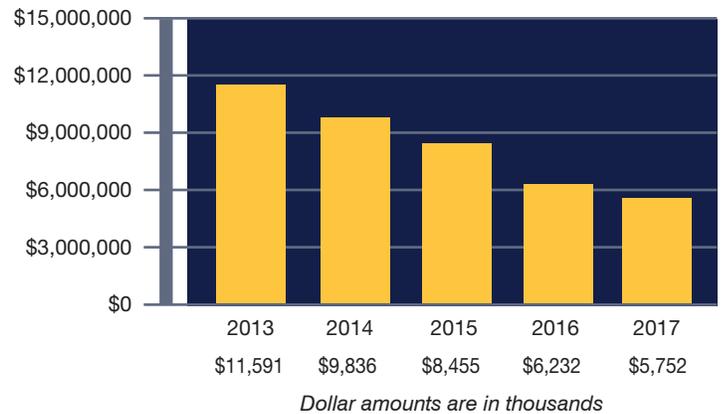
Patrons can now take advantage of services which allow customers to view live racing and wager from their personal computers and mobile devices. Live racing handle generated through these services offered by licensed racetracks has declined over the past three years.

\$5.8 million was wagered on races held in Pennsylvania through a phone or internet wagering service offered by a licensed racetrack in 2017 representing a 9% decrease when compared to 2016.

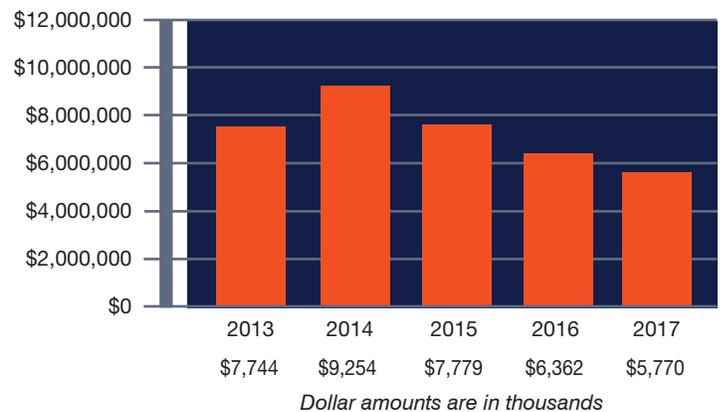
On-Track



Off-Track



Electronic Wagering



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.

\$20 million was wagered on Pennsylvania races by patrons inside of the Commonwealth through simulcast wagering in 2017 representing a 7% decrease when compared to 2016.

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 increased year-over-year for the first time since 2013. Out-of-state export is not included within the tax base.

\$644 million was wagered on Pennsylvania races by patrons outside of the Commonwealth through simulcast wagering in 2017 representing a 4% increase when compared to 2016.

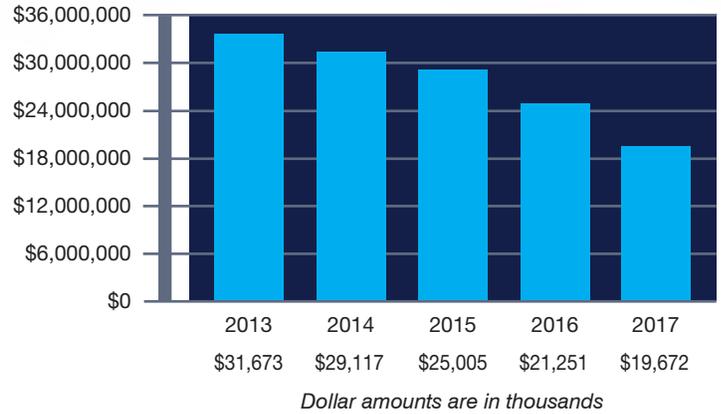
Total Live Racing Handle

Total dollars wagered on live races held in Pennsylvania, also known as live racing handle, was more than \$700 million in 2017 representing an increase of 3% compared to the previous year. This is the first year-over-year increase in live racing handle in Pennsylvania since 2013. This increase in wagering can be attributed solely to an increase in total dollars wagered on Pennsylvania races by patrons outside of the Commonwealth. Total dollars wagered on Pennsylvania races at the six racetracks, nine off-track wagering facilities, and through electronic wagering offered by licensed racetracks all declined in 2017.

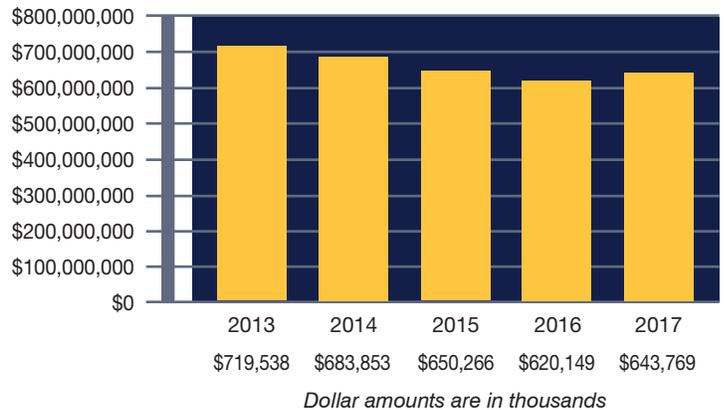
In total, \$701 million was wagered on races held in Pennsylvania in 2017 representing a 3% increase when compared to 2016.



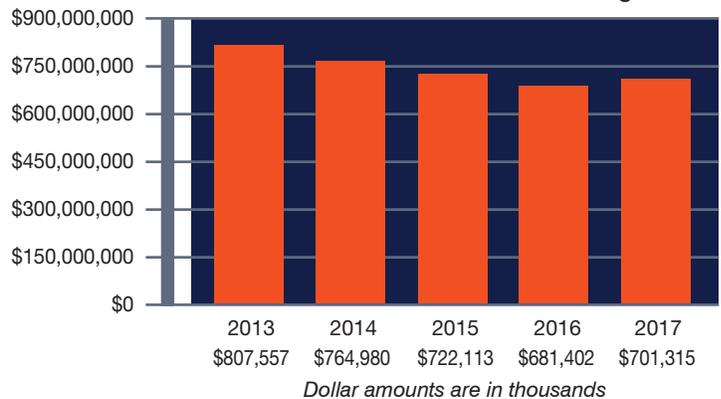
In-State Export



Out-of-State Export



Total Live Racing Handle



TAXABLE Handle

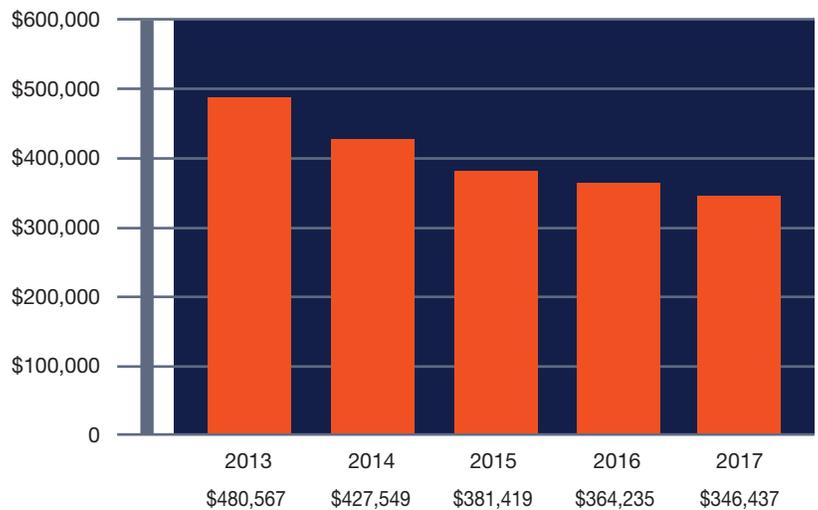


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Taxable dollars wagered on any race held throughout the country continues to decline due to a decrease in demand for wagering on out-of-state races by Pennsylvania residents. This is a national trend and is not unique to Pennsylvania racing. In addition, more than half of Pennsylvania's off-track wagering facilities have closed due to a decrease in simulcast wagering. Act 42 of 2017 authorized pari-mutuel wagering at the casinos which do not have live horse racing. Taxable handle may increase in the future if these casinos choose to offer simulcast wagering. A significant portion of taxable handle is generated by wagers placed on races held outside of Pennsylvania via simulcast wagering.



Taxable Handle



Dollar amounts are in thousands

\$346 million in taxable handle was wagered in 2017 which represents a 5% decrease when compared to 2016.



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