

2018

Racetrack Casino BENCHMARK REPORT



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Pennsylvania Gaming Control Board



Pennsylvania Gaming Control Board

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The Pennsylvania Gaming Control Board (“PGCB”) is pleased to present this twelfth 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 primary resources provided to the horse racing industry are financial incentives offered through the Pennsylvania Race Horse Development Trust Fund. This is funded by an assessment paid by the twelve operating casinos each day. The daily assessment earmarked for the Pennsylvania Race Horse Development Trust Fund averages approximately 10% of revenue generated from slot machine gaming each day which totaled approximately \$242 million in 2018. This represents an increase of 1.3% when compared to the previous year. This funding continues to provide purses for horsemen, awards for breeders, and funding for health and pension benefits.

2018 proved to be a challenging year for the horse racing industry following an overall positive performance in 2017. The performance of the horse racing industry can be volatile due to uncertain weather conditions throughout the racing season. Pennsylvania received record rainfall in 2018, which negatively impacted overall performance indicators. Total dollars wagered on live races held in Pennsylvania, also known as live racing handle, amounted to \$669 million in 2018 representing a decrease of 5%. Taxable handle also declined by 3% due to a decrease in simulcast wagering.

Other indicators were also negatively impacted including overall decreases in racing days and live races due to cancellations, a decrease in attendance at the racetracks, and corresponding decreases in the number of horses competing and average field sizes. In addition, two off-track wagering locations closed in 2018 which negatively impacted total handle.

Despite these results, Pennsylvania’s horse racing industry is in a position to continue to remain viable due to new

and exciting entertainment options within the racetracks and off-track wagering facilities. As previously reported, Act 42 of 2017 authorized multiple new gaming options within Pennsylvania which includes the legalization of regulated sports wagering within the racetrack/casinos and off-track wagering facilities. The racetrack operators are embracing the synergies between horse racing and sports wagering and are now beginning to operate both within the same locations. The horse racing industry is also beginning to launch new marketing efforts due to dedicated funding provided through the Pennsylvania Race Horse Development Trust Fund. These initiatives are encouraging and provide renewed opportunities to introduce horse racing to new racing fans.

The PGCB looks forward to the next year as these new horse racing and sports wagering initiatives continue, 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 industry as a whole.



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, two smaller resort casinos, and two race and sportsbooks. These facilities collectively employ 17,000 people and annually generate approximately \$1.4 billion in tax revenue from slot machines,

table games and sports wagering. The largest portion of that money is used for property tax reduction to all Pennsylvania homeowners. Approximately 10% of revenue generated from slot machine gaming was earmarked for the horse racing industry in 2018.

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 2018 exceeded \$16 billion.

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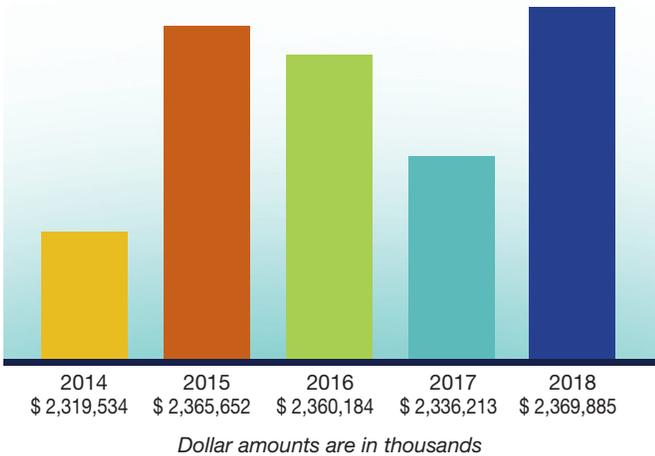
Gross Terminal Revenue (GTR) is the amount of slot machine revenue generated by a Pennsylvania casino that is taxable. GTR can be defined as wagers minus payouts and does not include the promotional play given out by the casinos.

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.

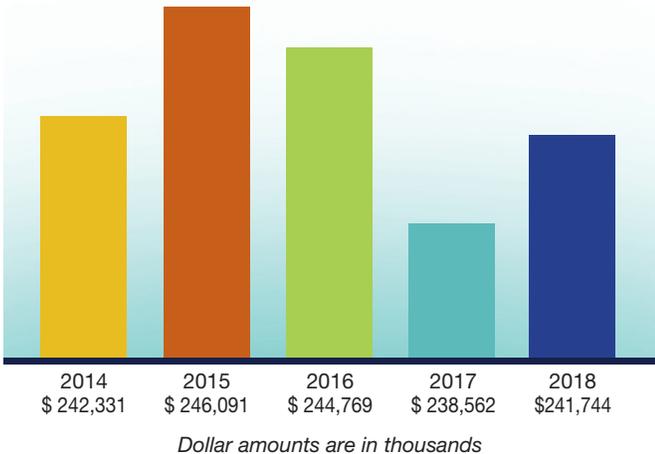
- State Tax which equals 34% of gross terminal revenue. This revenue is mainly used for property tax reduction.
- Local Share Tax which equals 2% of gross terminal revenue for the county in which the casino resides and an annual slot machine license operation fee on each Category 1 and Category 2 licensed gaming entity in an amount equal to 20% of the slot machine license fee which equals \$10 million per year. This revenue is distributed in the counties and municipalities that have casinos in their area in accordance with the requirements of the Act.
- Race Horse Development Trust Fund which equaled roughly 10% of gross terminal revenue in Calendar Year 2018. 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. 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 2018, \$242 million in slot machine tax revenue was generated for the Pennsylvania Race Horse Development Trust Fund. This represents an increase of 1.3% when compared to 2017 which can be attributed to an increase in GTR generated by the six racetrack casinos.

Gross Terminal Revenue



Pennsylvania Race Horse Development Trust Fund



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 on 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



2018 Horse Racing Distributions

Purses	\$152,614,187
PA Breeding Fund	\$16,688,942
PA Sire Stakes Fund	\$6,916,948
PA Standardbred Breeders Development Fund	\$6,916,948
Health & Pension Benefits	\$11,286,179
State Racing Fund	\$11,673,078
Restricted Receipts Account	\$31,272,000
Promotional Expense Refund	\$3,076,815
Total	\$240,445,097



BACKSTRETCH

Improvements

The racetrack casinos have invested more than \$73 million since 2006 to improve the infrastructure on the backside of racetracks.

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 casino include:

- The Downs at 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 employees. They also purchased a new starting gate, paved around the stable gate, enhanced the loose horse warning system, replaced fencing, and repaired drainage lines in the stable area.
- 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, painted and upgraded the audio/video system in the paddock, installed a new manure removal system, upgraded stall floors, 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 completed the construction of two 40 stall barns with added office space for horsemen, the installation of pavers in the paddock and the installation of a new infield video screen. Presque Isle also added large manure bins to the barn areas, improved the photo finish rail, and added a covered picnic table for use by the horsemen.
- Harrah's Philadelphia completed a racetrack resurfacing project and purchased a new dump truck in 2018.



BACKSTRETCH

Improvements



2018 Horse Racing Distributions (2006 - 2018)

Parx Casino	\$44,064,591
Hollywood Casino at Penn National Race Course	\$9,717,090
Mohegan Sun Pocono	\$6,526,992
The Meadows Casino	\$11,144,360
Presque Isle Downs and Casino	\$1,425,118
Harrah's Philadelphia	\$490,097
Total	\$73,368,248



THOROUGHBRED

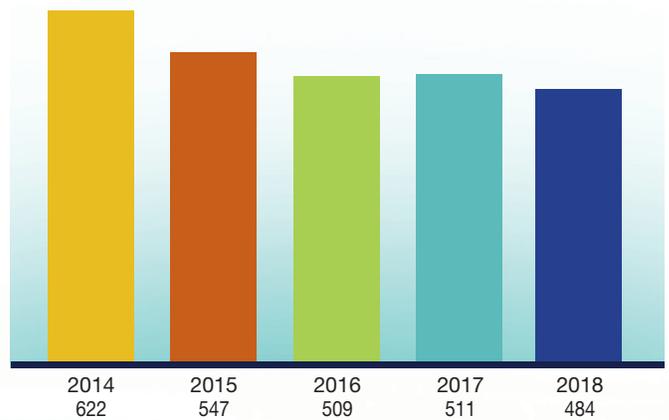
Breeding

484 individuals or businesses received awards from the Pennsylvania Breeding Fund in 2018 representing a decrease of 5% when compared to 2017.

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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Thoroughbred Breeders



Thoroughbred Foals



* Figure for 2017 is an estimate



STANDARD BRED

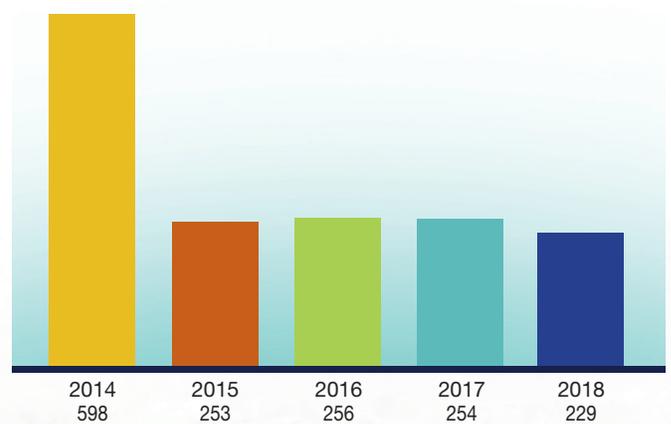
Breeding

229 individuals or businesses received awards from the Pennsylvania Standardbred Breeders Development Trust Fund in 2018 representing a decrease of 10% when compared to 2017.

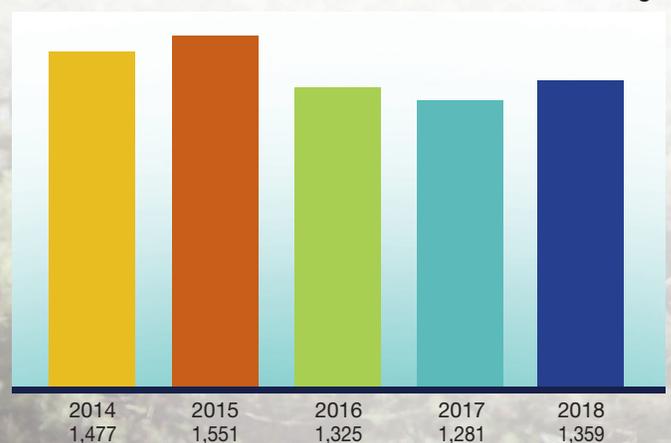
There were 1,359 standardbred yearlings whose nomination fee was paid to participate in the Pennsylvania Sire Stakes program in 2018 representing an increase of 6% when compared to 2017.

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.

Standardbred Breeders



Standardbred Yearlings



HORSES

Competing

More than 16,500 horses raced in Pennsylvania in 2018 making over 76,000 starts throughout the year.

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.

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 a 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

	2014	2015	2016	2017	2018
Parx Casino	7.24	7.94	7.96	8.10	7.85
Hollywood Casino	7.26	7.56	7.51	7.33	7.02
Mohegan Sun Pocono	8.24	8.25	8.38	8.24	8.07
The Meadows Casino	8.30	8.42	8.66	8.31	8.59
Presque Isle Downs and Casino	7.11	7.49	7.30	7.50	7.47
Harrah's Philadelphia	7.76	7.76	7.73	7.76	7.64

PURSES

Awarded

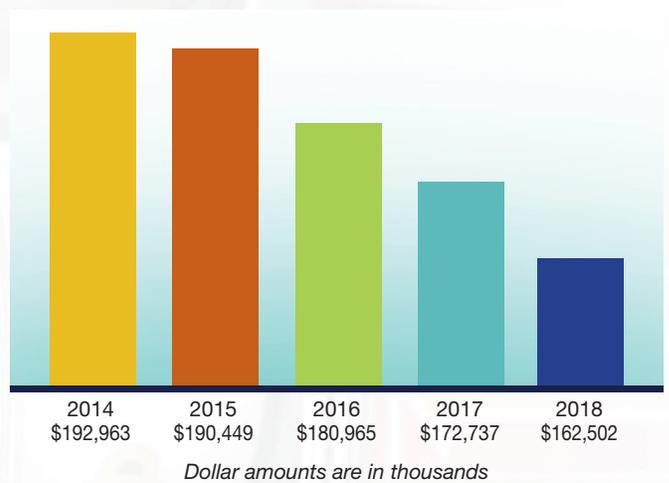
\$177 million was generated for purses to be paid to winning horses in 2018 which represents a 10% decrease when compared to 2017.

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 88% of all purses earned in 2018. The remainder was generated from a portion of total dollars wagered on horse racing. Purses earned decreased in 2018 when compared to the previous year due to the timing of transfers made to the Pennsylvania Race Horse Development Restricted Receipts Account.

Purses Earned



Purses Paid



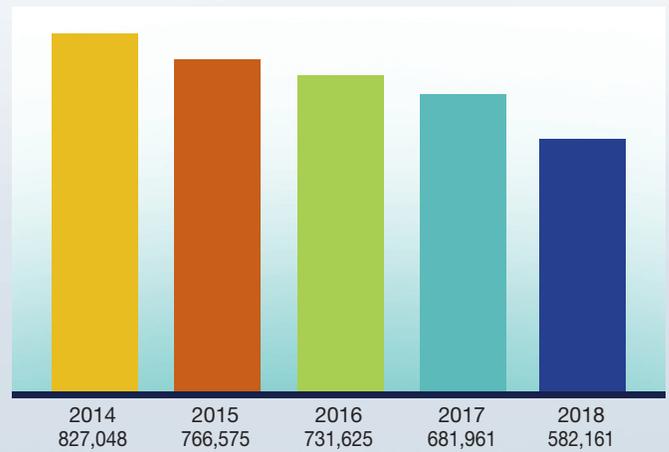
ATTENDANCE

at PA Tracks

More than 582,000 patrons attended live racing at the six racetrack casinos in 2018 representing a 15% decrease when compared to 2017.

There was an overall decline in attendance in 2018 at the racetracks. Increasing attendance can be a challenge for the industry due to alternative forms of entertainment that are available to the general public. Additionally, 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. Attendance may increase in the future due to the implementation of sports wagering within the racetrack/casinos and off-track wagering facilities. This new gaming option may attract a new fan base which can benefit the racing industry.

Attendance



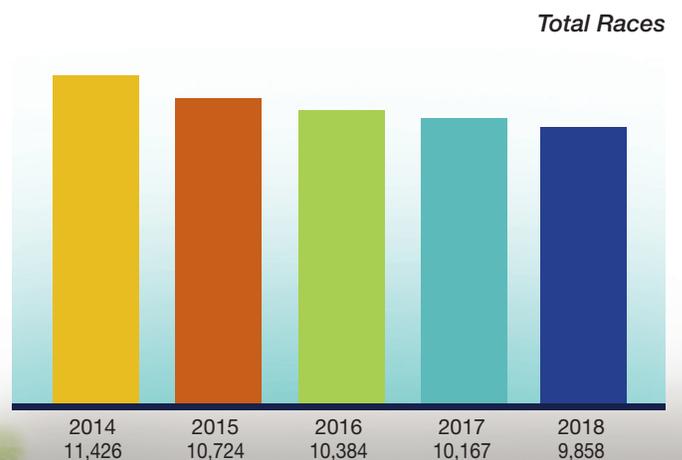
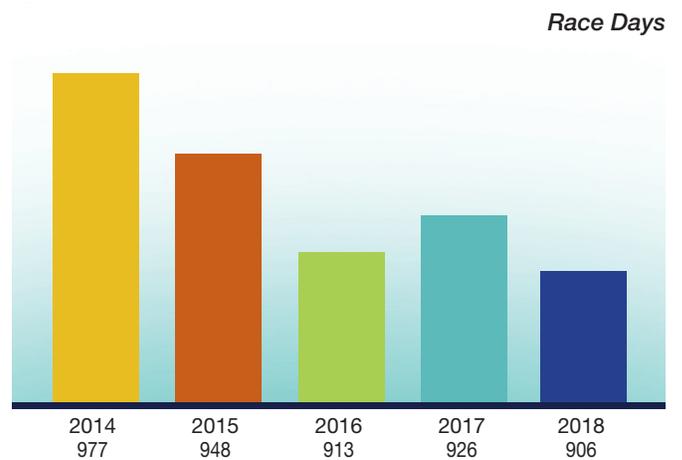
There were a combined 906 live racing days at the six racetracks in 2018 representing a decrease of 2% when compared to 2017.

9,858 races were held in Pennsylvania in 2018 representing a decrease of 3% when compared to 2017.

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 and live races decreased slightly in 2018 mainly due to inclement weather conditions. The number of race days and live races scheduled in the horse racing industry can be volatile due to uncertain weather conditions throughout the racing season.



LIVE

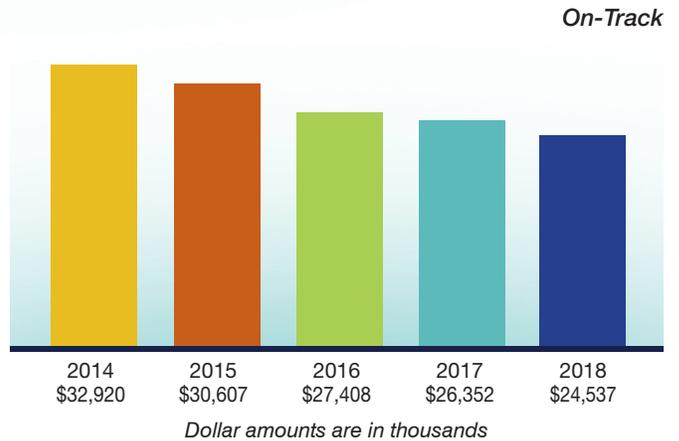
Racing Handle

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. \$669 million was wagered on Pennsylvania races in 2018 representing a 5% decrease when compared to 2017.

Live On-Track Handle

\$25 million was wagered on races held at the six racetracks in the Commonwealth in 2018 representing a 7% decrease when compared to 2017.

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 six 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.



Live Off-Track Handle

\$4.9 million was wagered on races held in Pennsylvania at the off-track wagering facilities located throughout the Commonwealth in 2018 representing a 15% decrease when compared to 2017.

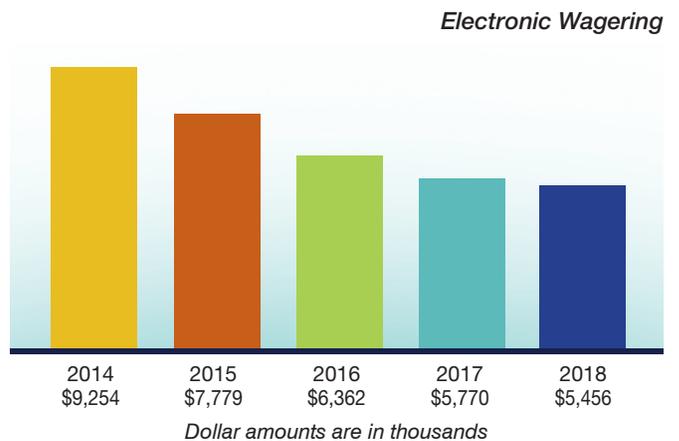
The off-track wagering facilities in Pennsylvania continue to struggle due to declining interest in simulcast wagering and newer options now available for wagering on horse racing such as electronic wagering. The number of off-track wagering facilities that are open steadily declined from 23 facilities to just 7 currently operating locations. Five off-track wagering facilities closed over the past four years which negatively impacted handle.



Electronic Wagering

\$5.5 million was wagered on races held in Pennsylvania through a phone or internet wagering service offered by a licensed racetrack in 2018 representing a 5% decrease when compared to 2017.

Patrons currently 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 four years.

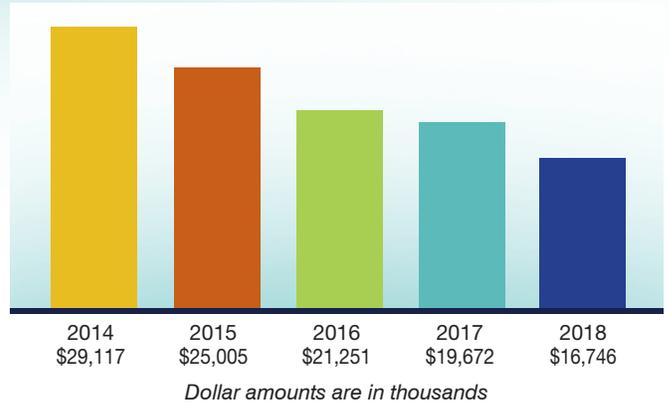


In-State Export

\$17 million was wagered on Pennsylvania races by patrons inside of the Commonwealth through simulcast wagering in 2018 representing a 15% decrease when compared to 2017.

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 or turn to alternative forms of entertainment.

In-State Export

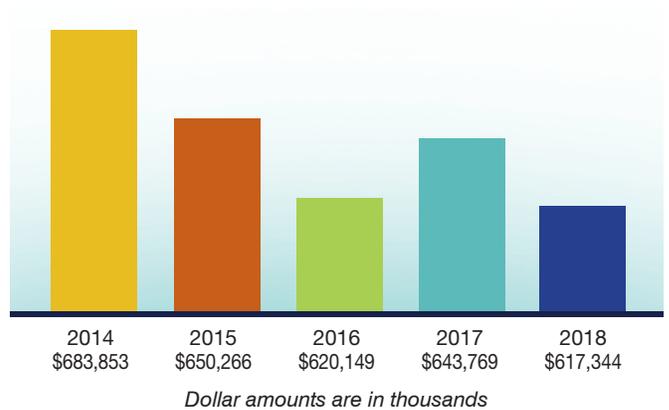


Out-of-State Export

\$617 million was wagered on Pennsylvania races by patrons outside of the Commonwealth through simulcast wagering in 2018 representing a 4% decrease when compared to 2017.

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 is not included within the tax base.

Out-of-State Export

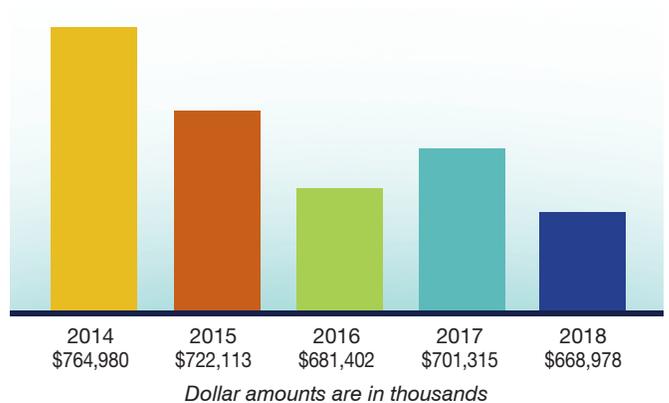


Total Live Racing Handle

In total, \$669 million was wagered on races held in Pennsylvania in 2018 representing a 5% decrease when compared to 2017.

Total dollars wagered on live races held in Pennsylvania, also known as live racing handle, was \$669 million in 2018 representing a decrease of 5% compared to the previous year. The performance of the horse racing industry can be volatile due to uncertain weather conditions throughout the racing season. Pennsylvania received record rainfall in 2018, which negatively impacted overall performance indicators. Total dollars wagered on Pennsylvania races at the six racetracks, seven off-track wagering facilities, and through electronic wagering offered by licensed racetracks all declined in 2018.

Total Live Racing Handle

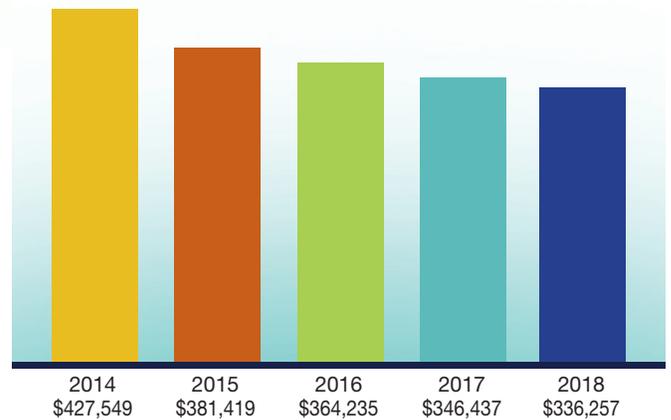


TAXABLE Handle

\$336 million in taxable handle was wagered in 2018 which represents a 3% decrease when compared to 2017.

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, the majority of Pennsylvania's off-track wagering facilities have closed due to a decrease in simulcast wagering, two of which closed in 2018. A portion of taxable handle is generated by wagers placed on races held outside of Pennsylvania via simulcast wagering, and the off-track wagering locations are a significant source of this revenue. Taxable handle may increase in the future due to the addition of sports wagering within the off-track wagering facilities. The addition of sports wagering within these locations may attract a new fan base for the horse racing industry.

Taxable Handle



Dollar amounts are in thousands





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Call 1-800-GAMBLER or 1-800-848-1880