



R A C E T R A C K | C A S I N O

# BENCHMARK REPORT



2012



Pennsylvania Gaming Control Board





## Pennsylvania Gaming Control Board

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*The Pennsylvania Gaming Control Board (“PGCB”) is pleased to present this sixth annual Benchmark Report which provides an update on the impact that slot machine revenues are having on the horse racing industry and pari-mutuel wagering throughout the Commonwealth. This report examines wagering trends in horse and harness racing and other indicators which measure the health of the industry over the past five years. All information has been updated to include slot machine gaming revenue, tax assessments, and horse racing statistics through the end of 2012.*



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.

Approximately 12% of revenue generated from slot machine gaming is earmarked for the horse racing industry in order to accomplish the intent of the Act. In 2012, more than \$272 million in slot machine tax revenue was generated for the Pennsylvania Race Horse Development Fund. Of this amount, approximately \$224 million was earmarked for the horse racing

industry to enhance purses, assist breeding operations, provide health and pension benefits for horsemen, and provide a positive impact on the agricultural industry in Pennsylvania.

Overall gross terminal revenue generated from slot machine gaming at the eleven casinos increased for the sixth consecutive year in Pennsylvania. However, the amount of tax revenue generated for the Pennsylvania Race Horse Development Fund decreased slightly in 2012 by approximately 1% compared to 2011. This is due to a slight decrease in gross terminal revenue generated by the casinos which host horse or harness racing.

At the same time, significantly enhanced purses, breeding incentives, and health and pension benefits continue to be offered as a result of legalized gaming. This is attracting better quality horses to Pennsylvania tracks, creating more competitive and exciting races, and spurring investment in Pennsylvania racing along with equine related products and services.

Racetrack casino operators also invested over \$7 million in 2012 and approximately \$46 million since the casinos opened in 2006 to improve the stable and backside areas of their racetracks, which has resulted in much needed improvements to barns and related structures. In fact, these casino operators have invested more than the minimum amount required by law, indicating their commitment to improving racing facilities to enhance the living and working conditions for horsemen and their employees.

Finally, total dollars wagered on Pennsylvania races, or live racing handle, was 12% higher in 2012 compared to the same time period in 2011. This can be attributed to an increase in wagering at the tracks and a general increase in dollars wagered on Pennsylvania races by patrons outside of the Commonwealth.

At the same time, while the racing industry is realizing positive benefits since gaming commenced, it continues to face significant challenges in order to remain successful. Although live racing handle increased in 2012, handle generated through simulcast wagering within Pennsylvania continues to decline. This decrease in wagering creates significant challenges for the racing industry and is evidence of a decrease in demand for wagering on races held outside of Pennsylvania.




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.

### Pennsylvania Race Horse Development and Gaming Act

The success of legalized gaming has enabled Pennsylvania to create a significant new tax base from slot machine play that is generating millions of dollars a day to lower school property taxes, help the horse/harness racing and agricultural industries, fund economic development throughout the state, and provide financial help to local communities that host these facilities. Just as important, this new industry has created over 16,000 new living-wage jobs.

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

### Casinos in Pennsylvania

-  Stand Alone Casinos
-  Harness Racinos
-  Horse Racinos



### Distribution of Slot Machine Gross Terminal Revenue

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

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

\*In fiscal year 2012/2013, \$5 million was scheduled to be transferred from Pennsylvania Race Horse Development Fund to the Farm Products Show Fund



## Gaming Tax Revenue

### What is Gaming Tax Revenue?

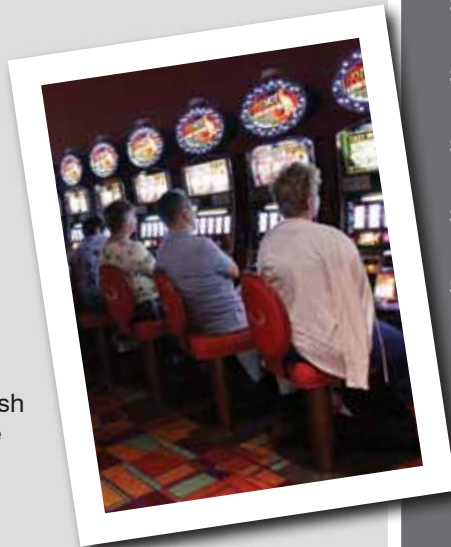
Gaming Tax Revenue for this report is the amount of tax money generated by the play of slot machines and does not include additional revenue generated from table games. It can be broken down into four broad categories that equal roughly a 55% tax on slots gaming revenue.

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

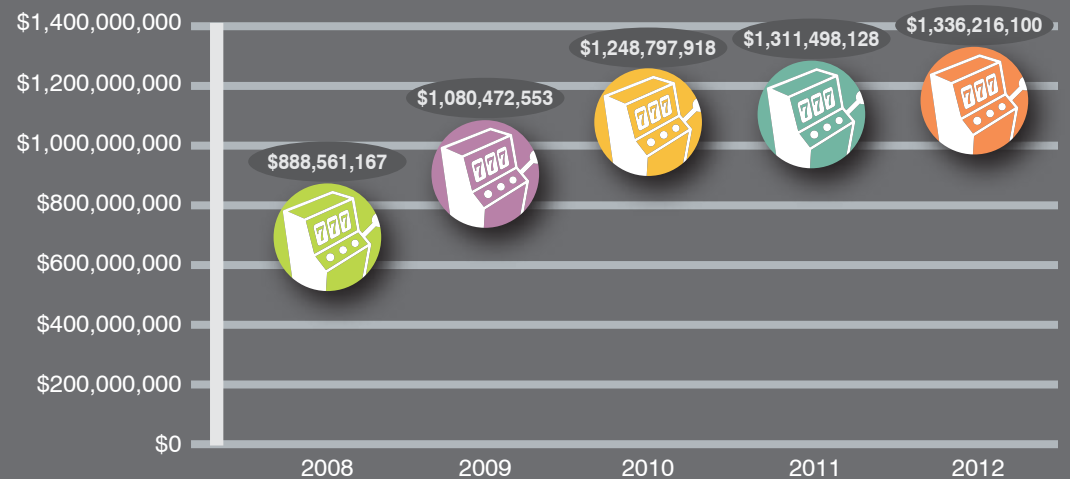
This report focuses mainly on the PA Race Horse Development Fund and its effects on the horse racing industry in Pennsylvania.

### Why is this important?

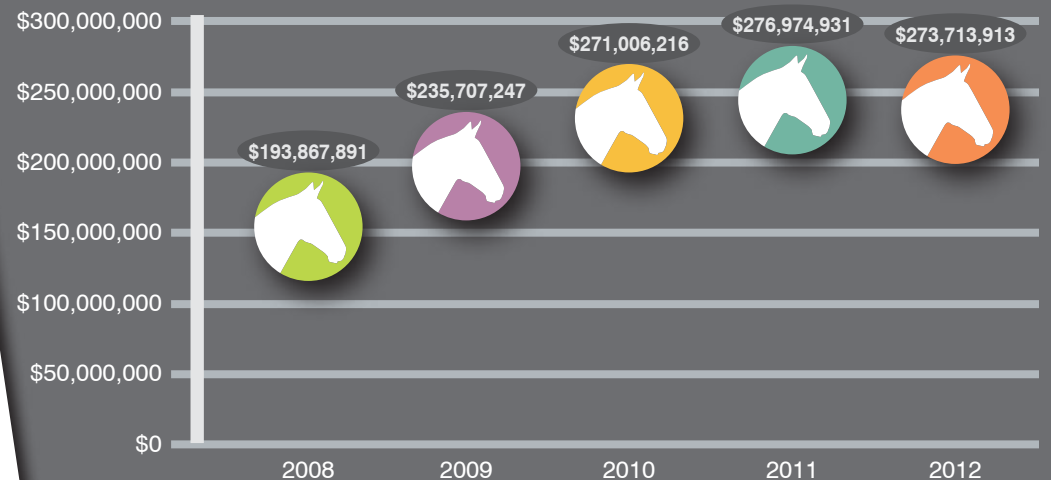
Pennsylvania's gaming industry generates more tax revenue on an annual basis than any other state in the country. Total tax revenue since the opening of the first casino in November 2006 through December 2012 reached \$7.6 billion dollars. This new tax base continues to provide the resources necessary to accomplish the intent of the 2004 Race Horse Development and Gaming Act.




*Pennsylvania Slots Tax Revenue*




*Pennsylvania Race Horse Development Fund*



## The Pennsylvania Race Horse Development Fund



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



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

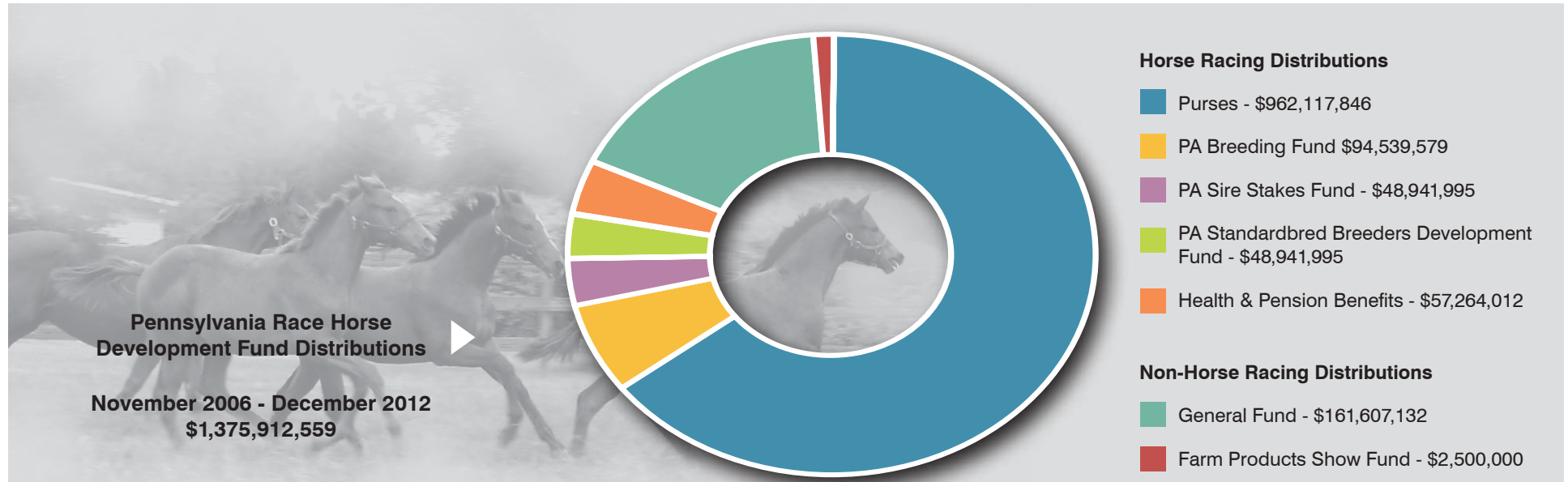
- Approximately 66% is distributed to each active racetrack operator conducting live racing. The racetrack operator, in turn, deposits this money into an account established by and for the benefit of the horsemen to fund purses, or prize money, for live races. These funds are combined with revenues from existing purse agreements to fund purses for live races consistent with agreements with the horsemen.
- Approximately 4% is distributed to each active racetrack operator conducting live racing. The racetrack operator, in turn, deposits this money into an account established by and for the benefit of the horsemen to fund health insurance and pension benefits for the members of the horsemen's organizations representing the owners and trainers at the racetrack at which the licensed racing entity operates for

the benefit of the organization's members, their families, employees and others in accordance with the rules and eligibility requirements of the organization.

- Approximately 7% is distributed to the Pennsylvania Breeding Fund established by the Race Horse Industry Reform Act. The Pennsylvania Breeding Fund is designed to enhance the breeding industry of Pennsylvania thoroughbreds, offering monetary awards to breeders, stallion owners and owners of Pennsylvania bred horses.
- Approximately 3% is distributed to the Pennsylvania Sire Stakes Fund as defined by the Race Horse Industry Reform Act. The Pennsylvania Sire Stakes Program is designed to promote Pennsylvania agriculture by providing funding for a series of races that feature the top horses sired by a registered Pennsylvania stallion. The series has four preliminary legs per racing division, with the top divisional horses competing in a championship race at season's end. There are also a set of Sire Stakes conducted at twenty stops along the Pennsylvania fair circuit.
- Approximately 3% is distributed into a restricted account in the State Racing Fund known as the Pennsylvania Standardbred Breeders Development Fund. This fund is intended to benefit the breeders of trotters and pacers racing in the Commonwealth. The program provides incentives to the owners of stallions and broodmares residing in Pennsylvania.
- Beginning January 1, 2010, 34% of the Pennsylvania Race Horse Development Fund was allocated away from the racing industry and transferred into the General Fund. This percentage fell to 17% effective July 1, 2010 and will continue at that rate through June 30, 2013 when the transfer is currently scheduled to expire.
- In fiscal year 2012/2013, \$5 million was scheduled to be transferred from the Pennsylvania Race Horse Development Fund to the Farm Products Show Fund. From the money transferred to the Farm Products Show Fund, \$2 million is subsequently distributed to county fairs. Transfers to the Farm Products Show Fund are made on a quarterly basis.



## The Pennsylvania Race Horse Development Fund - Distributions



|   | 2008           | 2009           | 2010           | 2011           | 2012           |
|---|----------------|----------------|----------------|----------------|----------------|
| Purses                                    | \$ 155,094,313 | \$ 188,565,798 | \$ 157,089,030 | \$ 181,321,256 | \$ 177,269,965 |
| PA Breeding Fund                          | \$ 14,681,313  | \$ 18,235,972  | \$ 16,213,108  | \$ 18,634,739  | \$ 18,184,986  |
| PA Sire Stakes Fund                       | \$ 8,168,775   | \$ 9,738,594   | \$ 7,602,349   | \$ 8,814,756   | \$ 8,634,503   |
| PA Standardbred Breeders Development Fund | \$ 8,168,775   | \$ 9,738,594   | \$ 7,602,349   | \$ 8,814,756   | \$ 8,634,503   |
| Health & Pension Benefits                 | \$ 7,754,716   | \$ 9,428,290   | \$ 12,173,561  | \$ 11,368,571  | \$ 11,400,000  |
| General Fund                              | \$ 0           | \$ 0           | \$ 68,808,016  | \$ 46,894,209  | \$ 45,904,907  |
| Farm Products Show Fund                   | \$ 0           | \$ 0           | \$ 0           | \$ 0           | \$ 2,500,000   |

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

## Thoroughbred Breeding

### What is Thoroughbred Breeding?

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

### Why is this important?

Over 600 individuals or businesses received awards from the Pennsylvania Breeding Fund in 2012. Awards are paid to the breeder, the stallion owner and the owner of registered Pennsylvania bred horses. Awards are paid to registered Pennsylvania breeds finishing first, second and third on every race run in the Commonwealth. The awards are an incentive to breed horses in the Commonwealth and drive demand for Pennsylvania horses. Additionally, the Pennsylvania Breeding Fund supports stakes races, restricted races and owner bonuses for registered Pennsylvania bred horses.

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

### Trends

2012 Thoroughbred Breeders - 608

- The number of thoroughbred breeders who have received awards from the Pennsylvania Breeding Fund increased by over 8% in 2012 compared to the same period in 2011.

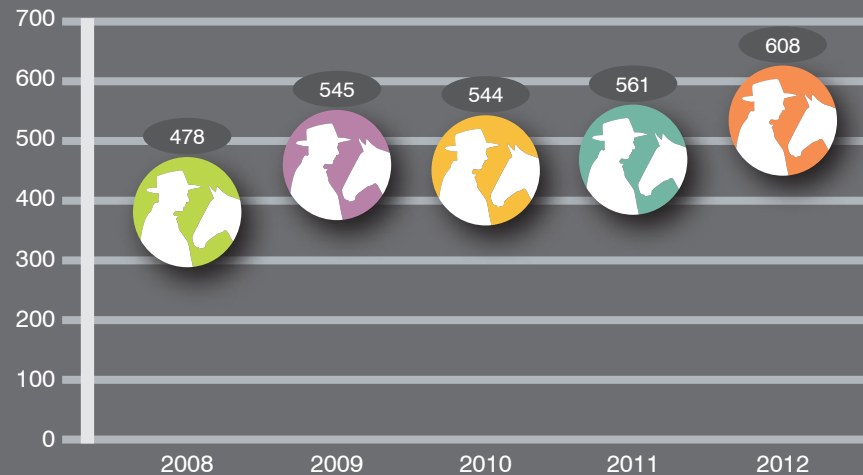
2011 Thoroughbred Foals - 977

- The number of thoroughbred foals registered with the Pennsylvania Horse Breeders Association decreased by approximately 25% in 2011 compared to the same period in 2010.

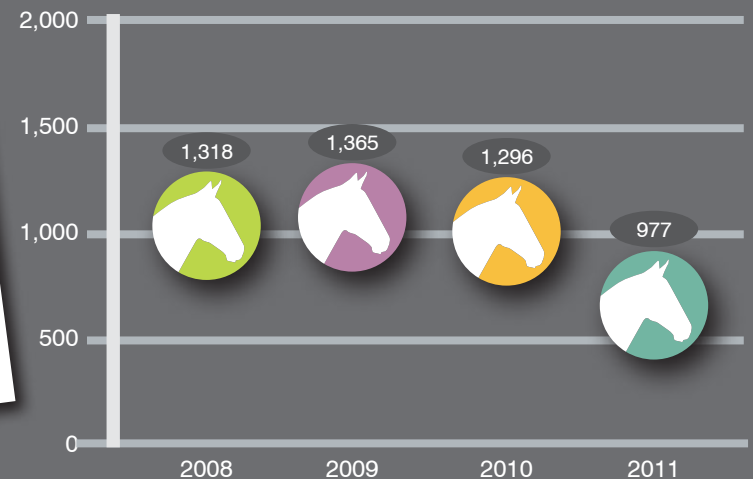


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### Thoroughbred Breeders



### Thoroughbred Foals





### What is Standardbred Breeding?

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

### Why is this important?

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

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

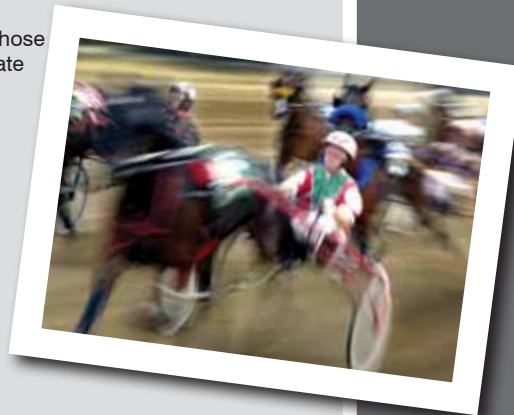
### Trends

2012 Standardbred Breeders - 560

- The number of standardbred breeders who have received awards from the Pennsylvania Standardbred Breeders Development Fund decreased by approximately 7% in 2012 compared to the same period in 2011.

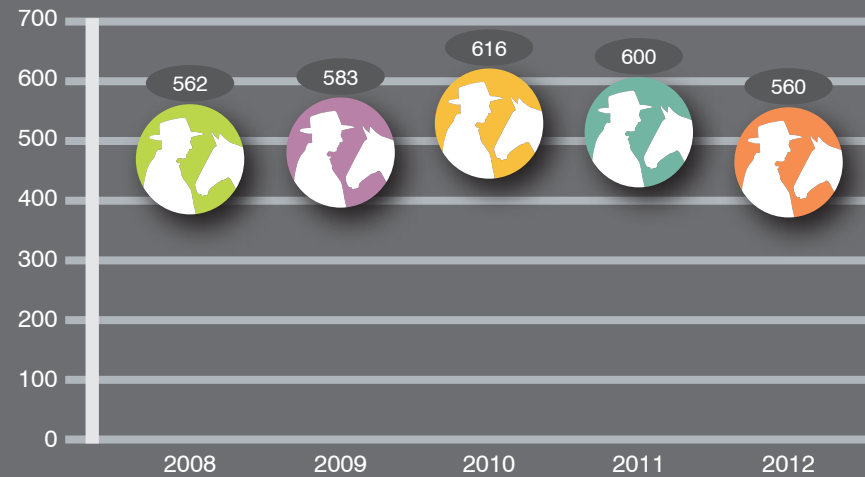
2012 Standardbred Yearlings - 1,730

- The number of standardbred yearlings whose nomination fee has been paid to participate in the Pennsylvania Sire Stakes program decreased by approximately 4% in 2012 compared to the same period in 2011.

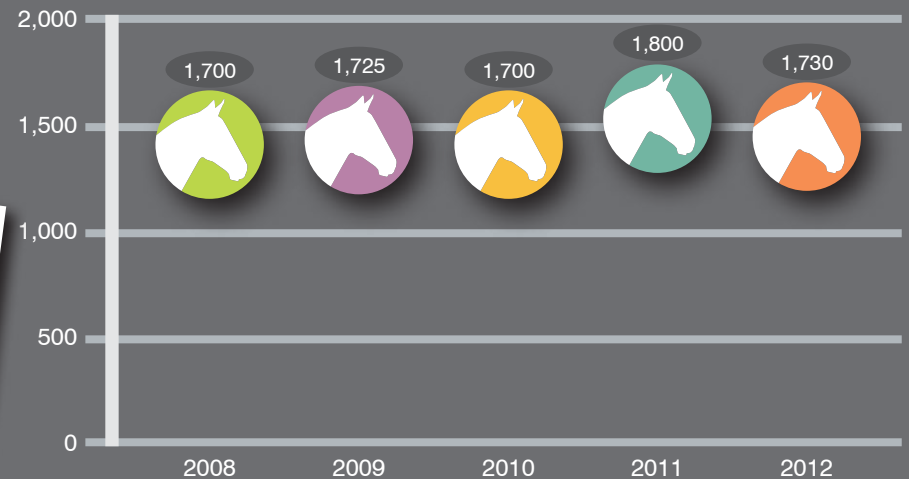


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Standardbred Breeders



Standardbred Yearlings



## Purses

### What are purses?

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

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

### Why is this important?

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

### Trends

2012 Purses Earned from Slots - \$175,469,169

2012 Purses Earned from Handle - \$33,572,062

- Total purses earned decreased by approximately 2% in 2012 compared to the same period in 2011.

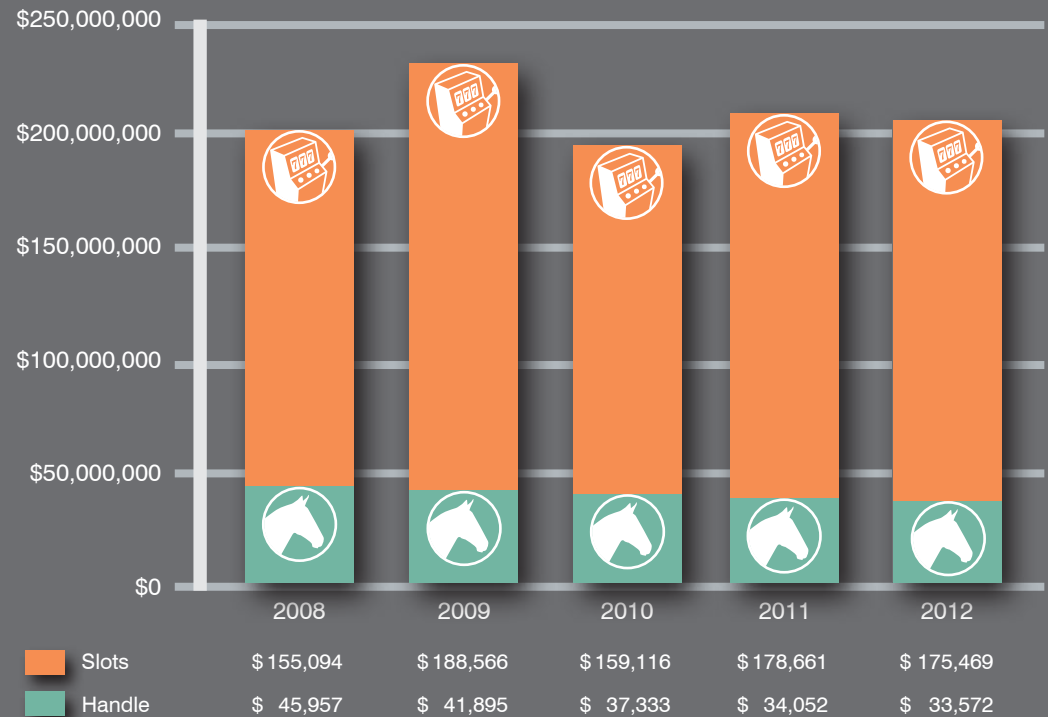
2012 Total Purses Paid - \$218,698,621

- Purses paid increased by approximately 1% in 2012 compared to the same period in 2011.



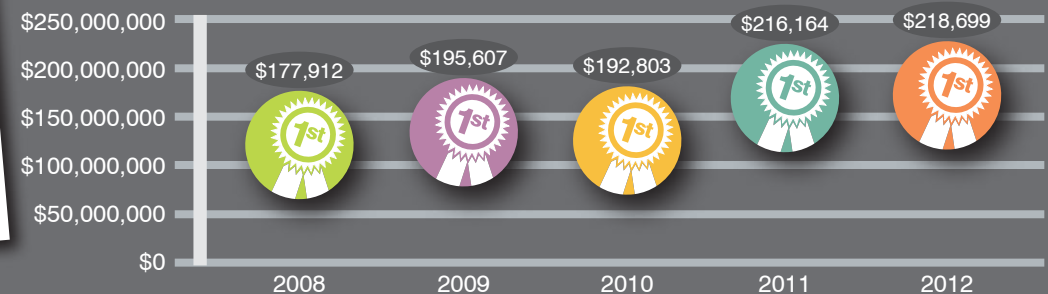
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### Purses Earned



Dollar amounts are in the thousands

### Purses Paid



Dollar amounts are in the thousands

## Races

### What are race days and live races?

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

### Why is this important?

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

### Trends

#### Race Days 2012 - 993

- The total number of race days increased by less than 1% in 2012 compared to the same period in 2011.

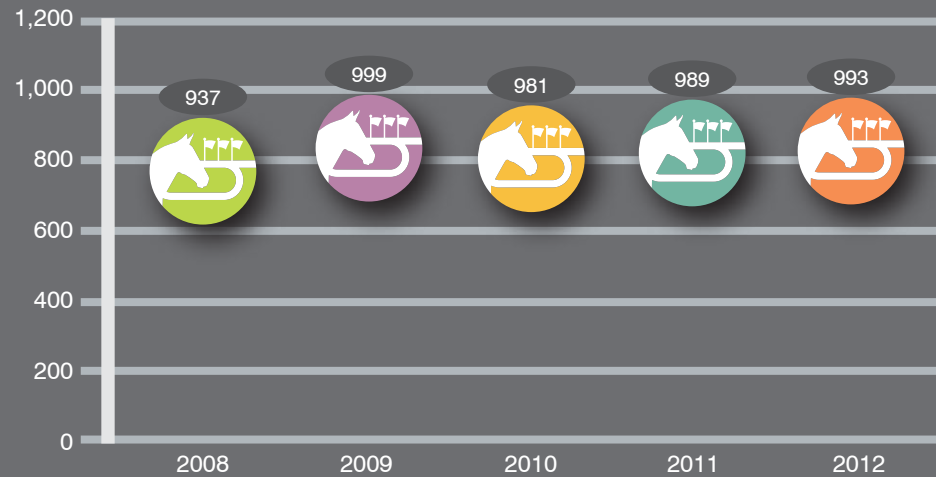
#### Total Races 2012 - 11,699

- The total number of live races increased by approximately 1% in 2012 compared to the same period in 2011.

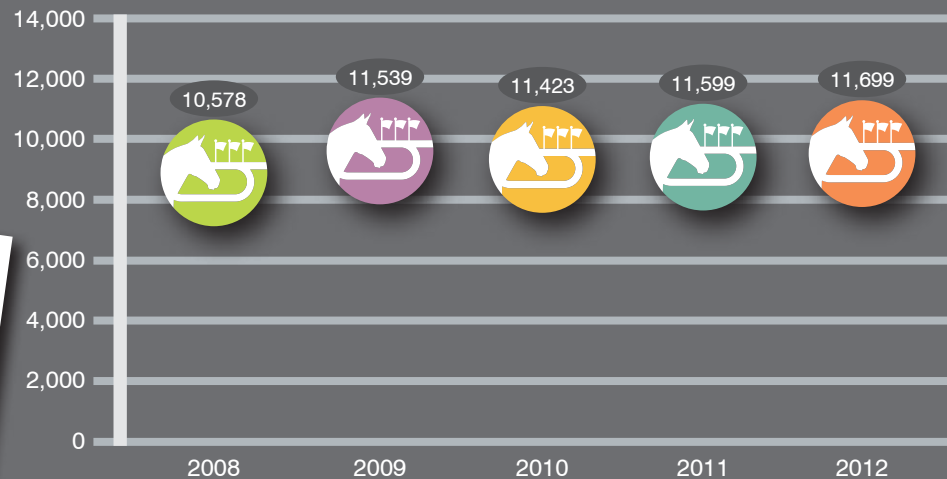


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### Race Days



### Total Races



## Live Handle

### What is live handle?

Live handle is broken down into several subcategories:

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

### Why is this important?

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

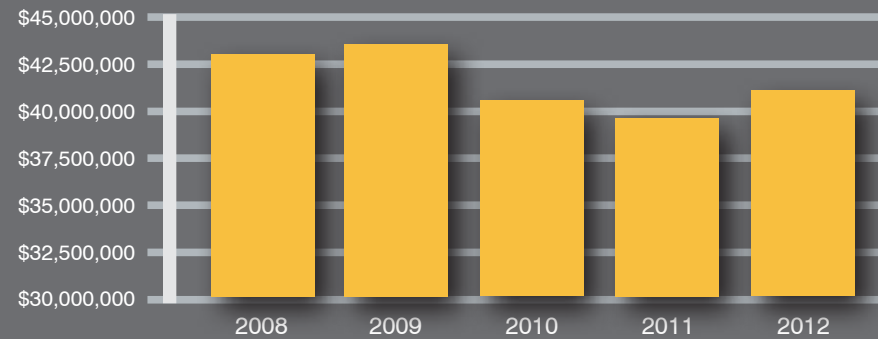
### Trends

2012 Total Live Race Handle - \$776,945,404

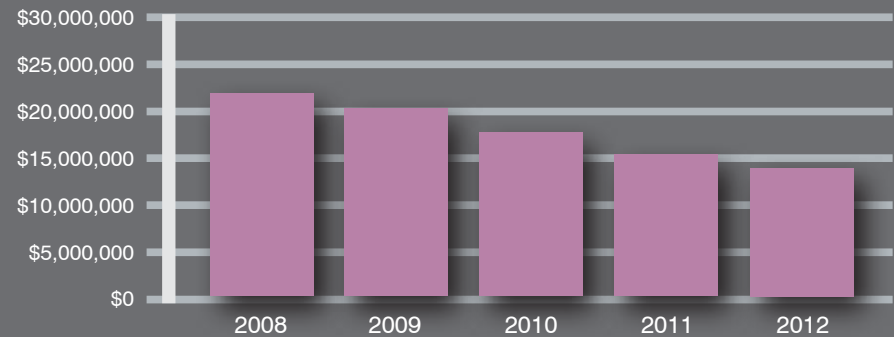
- Total live racing handle increased by approximately 12% in 2012 compared the same period in 2011.

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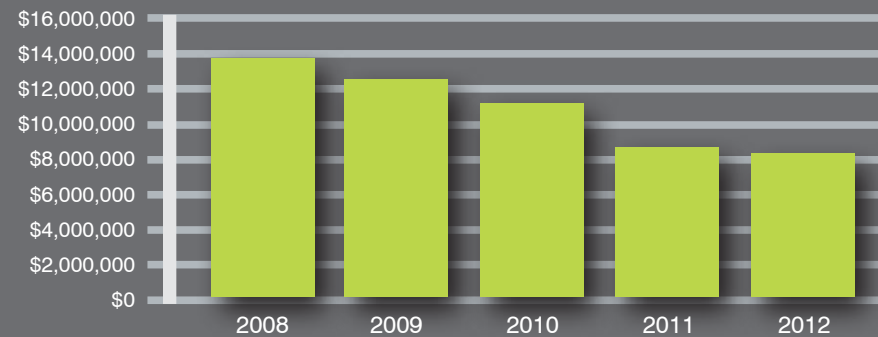
### On Track



### Off Track

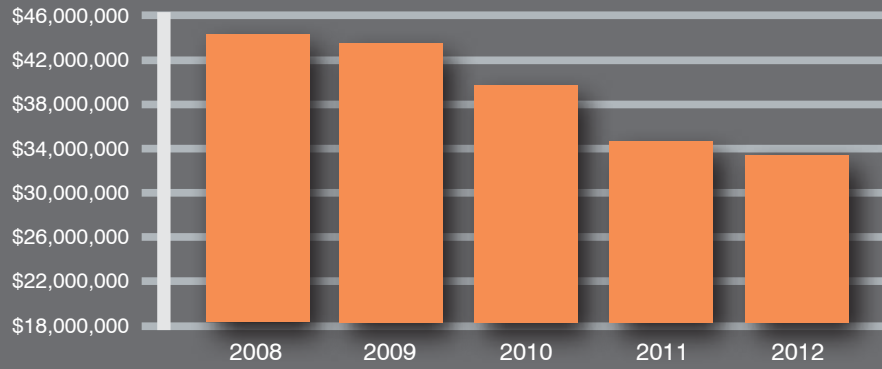


### Phone Wagering

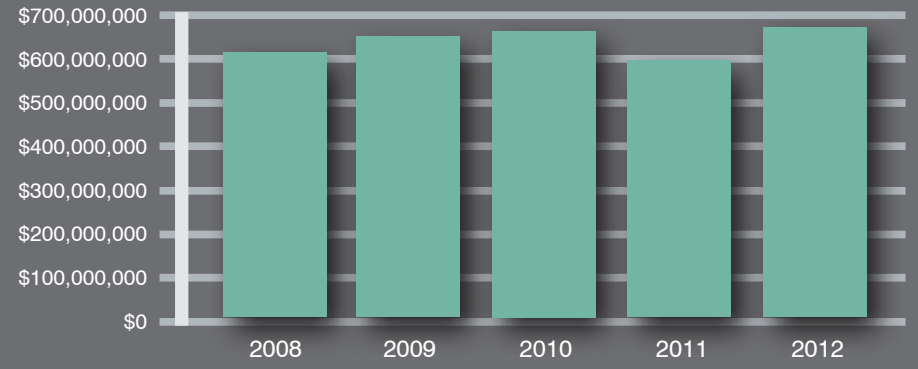


# Live Handle

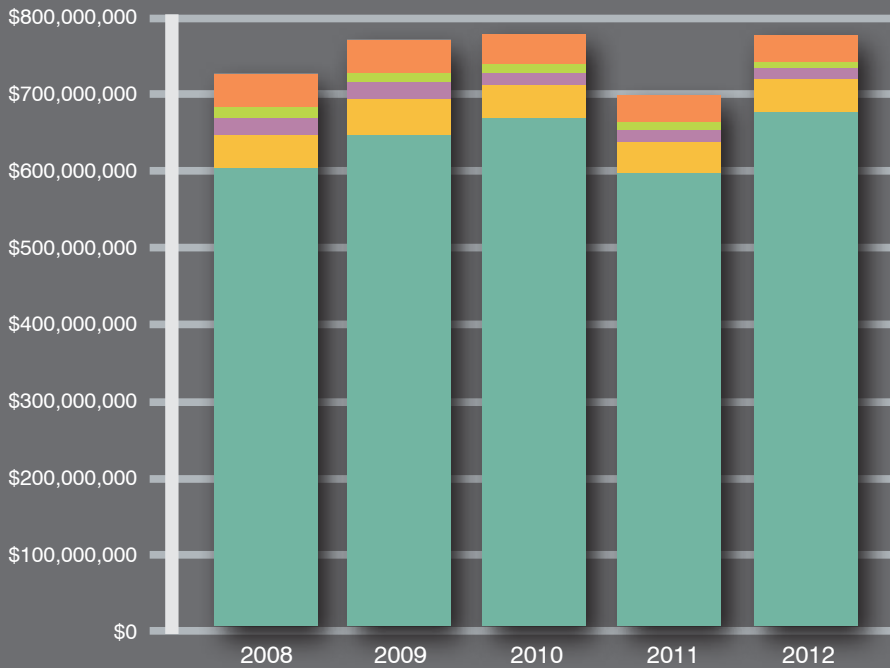
### In-State Export



### Out-of-State Export



### Total Live Racing Handle



|                     | 2008                  | 2009                  | 2010                  |
|---------------------|-----------------------|-----------------------|-----------------------|
| On Track            | \$ 43,635,577         | \$ 44,660,194         | \$ 40,529,217         |
| Off Track           | \$ 22,017,296         | \$ 20,145,365         | \$ 17,562,522         |
| Phone Wagering      | \$ 13,895,303         | \$ 12,724,755         | \$ 11,304,569         |
| In-State Export     | \$ 44,246,175         | \$ 43,341,550         | \$ 39,541,392         |
| Out-of-State Export | \$ 605,509,275        | \$ 644,087,594        | \$ 660,679,070        |
| <b>Total</b>        | <b>\$ 729,303,626</b> | <b>\$ 764,959,458</b> | <b>\$ 769,616,771</b> |

|                     | 2011                  | 2012                  |
|---------------------|-----------------------|-----------------------|
| On Track            | \$ 38,293,104         | \$ 40,705,204         |
| Off Track           | \$ 15,012,194         | \$ 14,503,790         |
| Phone Wagering      | \$ 8,522,728          | \$ 8,110,898          |
| In-State Export     | \$ 34,309,112         | \$ 33,943,318         |
| Out-of-State Export | \$ 594,186,605        | \$ 679,682,194        |
| <b>Total</b>        | <b>\$ 690,323,743</b> | <b>\$ 776,945,404</b> |

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

## Backstretch Improvements

### What are Backstretch Improvements?

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

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

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

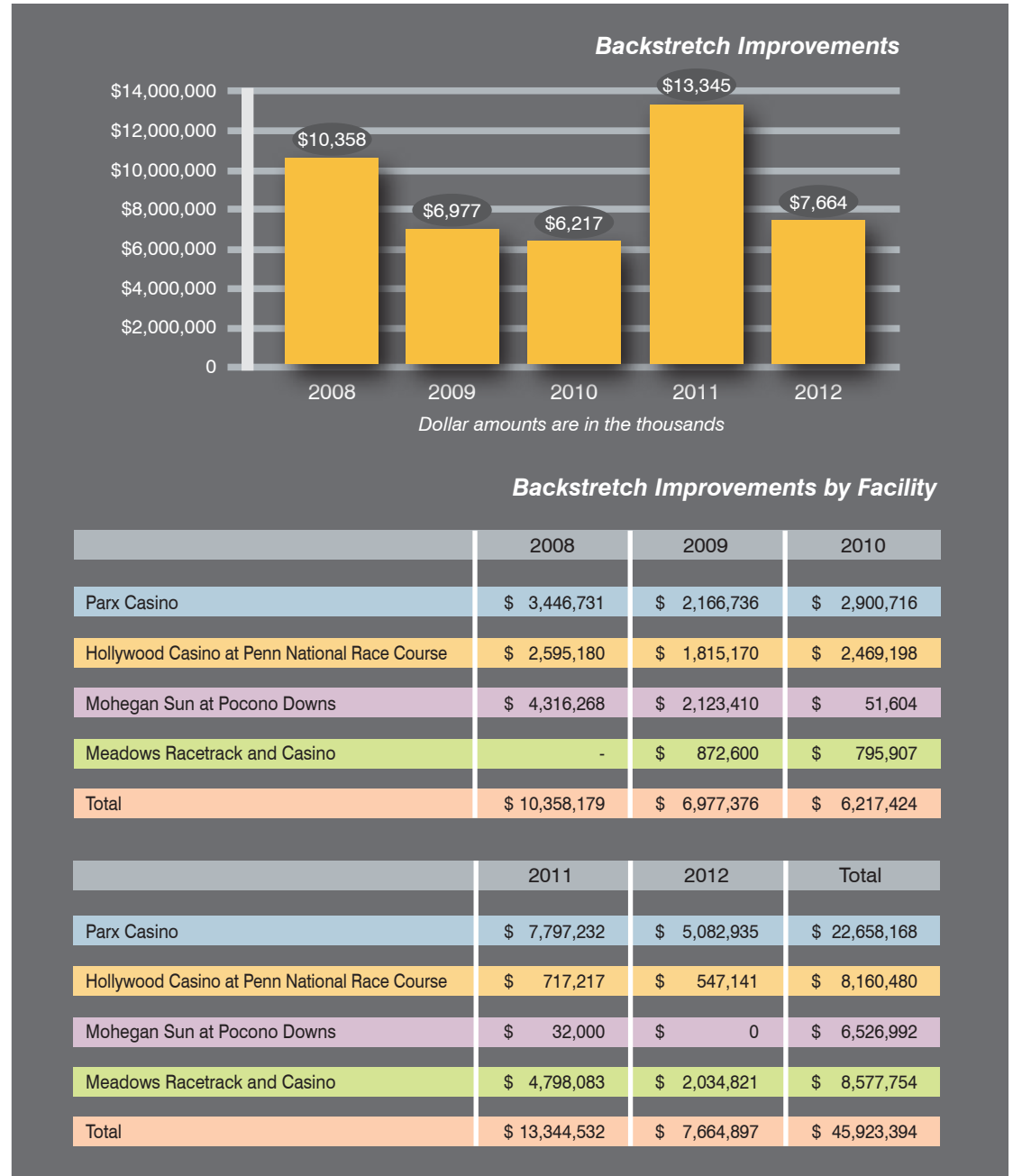
### Why is this important?

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

### Trends

- The casinos offering live racing have invested approximately \$46 million on backstretch improvements through the end of 2012.

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## Conclusion

The success of Pennsylvania's gaming industry continues to provide a significant source of support for horse and harness racing in the Commonwealth. Tax revenue generated through slot machine gaming continues to sustain the industry and has created an attractive venue for horse racing to succeed by providing resources such as increased purses for horsemen, awards for breeders, and funding for health and pension benefits. This has led to increased participation throughout the industry and improvement of the agricultural industry within Pennsylvania.



The Pennsylvania Gaming Control Board is encouraged by the advancements made in the racing industry due to the successful implementation of slot machine gaming. The PGCB will continue to monitor the horse and harness racing industry's efforts to enhance the health and development of racing, and looks forward to seeing future improvement throughout the Commonwealth.





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