Respondent Hooke Associates, LLC, did not provide the transmittal letter per section 6.2.3 of the ITN.

PROPOSAL FOR TWO-PART GAMING STUDY—(ITN #859)

Response to Part One

HOOKE ASSOCIATES, LLC

MARCH 18, 2013

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SECTION 1

Executive Summary

Hooke Associates LLC

SECTION 1 EXECUTIVE SUMMARY

Jeff Hooke, the principal of Hooke Associates, has a long history of providing guidance to states regarding maximizing tax revenue from casino-style gambling by charging the gaming industry marketbased license fees and tax rates. His pioneering work in gaming has been conducted principally on either a pro bono, or a discounted fee basis, on behalf of taxpayer groups or nonprofits. Prior to his involvement in the early 2000s, state governments routinely undervalued casino licenses and set unnecessarily low tax rates, providing the gaming industry, connected insiders and Indian tribes with tens of billions of dollars in subsidies. Most states that have legalized, or expanded casino-style gaming, continue such subsidies, though at a slightly lesser rate than before.

Hooke Associates thus brings a fundamental difference in approach than several other respondents to this ITN. Other knowledgeable gaming consultants typically derive the bulk of their revenue from serving the gaming industry, as opposed to the average taxpayer. Their "conflict of interest" is therefore apparent, and they have a built-in bias toward recommending to state governments below-market upfront licensing fees, unnecessarily low gaming tax rates, and unneeded monopoly protection for the industry. It is not unusual for such consultants to say a "large, upfront license fee" or "a tax rate exceeding a certain percent" will bankrupt a new casino, despite no evidence supporting such claims. These canards, steeped in scientific jargon and technical statistics, are then repeated loudly and often by industry lobbyists, until legislators believe there is a ring of truth to such assertions. By way of example, two traditional consulting firms that recently examined the proposed Massachusetts gaming expansion both recommended low license fees and tax rates of 32 percent or less. See Table 1 for representative license fees.

Our preliminary assessment suggests that the Florida market can accommodate perhaps 15 additional casinos, providing the state with \$4.5 billion in upfront license fees and ongoing annual tax revenue of \$2.5 billion.

In sum, Hooke Associates' analytical approach will focus on presenting the State of Florida with comprehensive options that (i) maximize revenue, consistent with maintaining the state's existing economic status, (ii) allow the gaming industry a reasonable return on investment, (iii) limit social costs, and (iv) protect Florida from the expensive mistakes of predecessor states. Mr. Hooke and Mr. Vickery will focus principally on the Florida project during the next six months, and provide direct attention to the assignment.

Jeff Hooke and Charles Vickery have studied and reported on the gaming industry for many years and have rich backgrounds directly applicable to this research. They have not made a career of gaming studies, but they have made careers of sophisticated financial and scientific research that includes innovative gaming studies that were pioneering in nature and widely publicized.

Part I of ITN #859 requires highly sophisticated, unbiased scientific research by people extremely familiar with gaming, pari-mutuels and geodemographics –an attribute possessed by the authors.

Indicated <u>Competitors</u> State Market Value Offerer in Market F	Tav
Tante Tant	lax ate ⁽¹⁾
Illinois Chicago \$435 Trillian Gaming 9	45
Indiana Indianapolis 407 LHT Capital 1	35
Pennsylvania Philadelphia 442 Harrah's 2	45
Indiana Cincinnati 750 Argosy O	35

Table 1: Indicative Casino License Valuations

⁽¹⁾ Includes state and local taxes. \$2 - \$3 admission fees in IN and IL assumed to be absorbed by operator as extra 3% tax. MD's 44% tax includes blending of 56% tax on slots and 20% tax on table games, where table games are one-third of revenue. Pennsylvania is a blended 55% tax on slots and 16% tax on table games, with table games at 25% of revenue. Indiana and Illinois have variable tax rates and these data are averages.

SECTION 2

Organizational Background, Experience, and Capabilities

SECTION 2 ORGANIZATIONAL BACKGROUND, EXPERIENCE, AND CAPABILITIES

Hooke Associates, LLC has assembled a team of professionals to respond to the Florida Legislature's Invitation to Negotiate (ITN) #859 for a Two-Part Gaming Study, Part I. The team members, Jeffrey C. Hooke and Charles Vickery, have extensive analytical experience in the gaming and pari-mutuel industries.

Jeffrey C. Hooke is managing director of Hooke Associates, LLC and a managing director of Focus, LLC, an investment bank based in Washington, DC. Previously, Hooke was a director of Emerging Markets Partnership (a \$5 billion private equity partnership), a principal investment officer of the World Bank Group, and an investment banker with Lehman Brothers and Schroder Wertheim, respectively, two prominent securities firms based in New York. Hooke is the author of four books: *The Dinosaur Among Us: The World Bank and Its Path to Extinction* (2007), *The Emerging Markets* (2001), *Security Analysis on Wall Street* (1998), and *M&A: A Practical Guide to Doing the Deal* (1996).

Charles Vickery is an independent research consultant specializing in the areas of gaming, pari-mutuels and geodemographics. He has published scientific articles about racehorse biomechanics and cardiovascular systems. He played a major role in developing the statistical methodology used to ensure integrity in the national pari-mutuel wagering network. He has provided extensive geodemographic analysis requiring statistical research to diverse industries and he brings broad perspective to the gaming and pari-mutuel industries. He has worked with a broad range of gaming and pari-mutuel participants, including simulcast providers, racetrack owners, racehorse owners and trainers, regulators and legislatures. He has also served as a Federal expert witness regarding gaming and racing matters.

2.a Respondent Qualifications and Abilities to Perform the Services Described

Jeffrey C. Hooke

Investment Banker

INVESTMENT BANKING--PRIVATE EQUITY--CORPORATE VALUATION

Unique qualifications include domestic investment banking and international private equity and corporate valuation. Led teams, marketed services, negotiated deals and evaluated complex structures. Transactions include M&A, IPOs, secondary public offerings, private placements, project finance and debt restructuring. Significant transactional expertise and wide industry exposure in many countries, including gaming.

PROFESSIONAL EXPERIENCE

FOCUS, LLC., Washington, DC. Managing Director—Head of Valuation Practice (2009-present). Head of valuation practice for this national middle-market investment bank. Work on M&A.

Hooke Associates, LLC., McLean, VA. Managing Director (1999-2009). Launched corporate finance advisory firm that provided investment banking and valuation services to a broad range of clientele. Involvement in business valuation, client development, M&A, and gaming.

Hooke Associates LLC

Emerging Markets Partnership, Washington, DC. Director (1998-1999). Merchant banker for the world's largest private equity fund group (over \$5 billion) specializing in the emerging markets. Closed investments for the \$1.8 billion AIG-sponsored Asia II fund.

The World Bank Group, Washington, DC. Principal Investment Officer (1991-1998). Merchant banker with the Bank's \$20 billion private sector division (known as the International Finance Corporation), closing debt and equity financings with major Latin American companies.

Lehman Brothers, New York, NY. Vice President – Investment Banking (1987-1990). Marketed services and closed deals in a team targeting U.S. and international retailing companies.

Schroder Wertheim, New York, NY. Vice President – Investment Banking (1981-1987). Experience included M&A, public offerings, restructurings and business development.

Metropolitan Life Insurance, New York, NY. Senior Investment Officer (1977-1981). Engaged in credit analysis, negotiation and loan documentation for nation's premier private lender.

EDUCATION

THE WHARTON SCHOOL, UNIVERSITY OF PENNSYLVANIA, Philadelphia, PA Master of Business Administration: Major in Finance 1977 UNIVERSITY OF PENNSYLVANIA Philadelphia, PA Bachelor of Science in Economics 1976

ADDITIONAL INFORMATION

- Closed over 100 corporate finance transactions on a global basis, managing teams, negotiating terms and solving problems. Broad background provided a keen sense of financial strategy, corporate development and value creation through M&A transactions, financial alternatives and business analysis. Versatile skill set and unique experience provided many insights.
- Crossed American, Latin and Asian cultures to market services, to analyze business opportunities, and to facilitate transactions.
- Established a successful enterprise. Developed clients and provided services.
- Spanish Speaker.
- Series 7 and 79 licenses.
- Created a novel method for states to realize billions in extra revenues from gambling expansions. Wrote analyses that were intensely studied. Extensive media exposure.
- Author of three prominent books on M&A, business valuation and emerging markets investing
- Taught security analysis course at University of Maryland MBA program for seven years.
- Adjunct instructor at New York Institute of Finance and Johns Hopkins University.

Charles E. Vickery III

Researcher – Pari-Mutuel and Gaming Industries

PROFESSIONAL EXPERIENCE

Vickery Consulting, Oxford, PA. Research consultant (2003-Present). Provide research, economic and geodemographic consulting services primarily to the gaming and pari-mutuel industries.

Equine Biomechanics (EQB), West Grove, PA. Research manager (1987-2003). Managed research and scientific technologies to support investment decisions. Research led to patents. Performed research, technical writing, statistical analysis, econometric modeling, computer programming and data management.

National Assoc. of Thoroughbred Owners, Oxford, PA. Executive director (1994-1999). Executive Director and Treasurer of National Association of Thoroughbred Owners.

Chase Econometrics, Bala Cynwyd, PA. Research associate (1985-1987). Performed economic forecasting, analysis and writing for a world-renowned firm, involving extensive econometric modeling.

General Electric, Selkirk, NY. Research assistant (1983).

EDUCATION

CLARKSON UNIVERSITY, Potsdam, NY Bachelor of Science in Economics and Political Science 1984

PROFESSIONAL PUBLICATIONS

- Seder JA, Vickery CE. The Relationship of Subsequent Racing Performance to Foreleg Flight Patterns during Racing Speed Workouts of Unraced 2-Year-Old Thoroughbred Racehorses at Auctions. Journal of Equine Veterinary Science, 2005, vol. 25, no. 12: 505-522.
- Seder JA, Vickery CE, Miller PM. The Relationship of Selected Two-dimensional Echocardiographic Measurements to the Racing Performance of 5431 Yearlings and 2003 Twoyear-old Thoroughbred Racehorses. Journal of Equine Veterinary Science, 2003, vol. 23, no. 4: 149-167. Also published with appendices in Journal of Equine Veterinary Science, 2003, vol. 23, no. 5: S5-S72. [Peer reviewed research].
- Seder JA, Vickery CE. Double and Triple Fully Airborne Phases in the Gaits of Racing Speed Thoroughbreds. From proceedings of the Twelfth Meeting of the Association of Equine Sports Medicine, Fallbrook, CA, 13-16 March, 1993. Also published in Journal of Equine Veterinary Science, 2003, vol. 23, no. 5: S73-S81.
- Seder JA, Vickery CE. Temporal and Kinematic Gait Parameters of Thoroughbred Racehorses at or near Racing Speeds. Presented at 1993 Association of Equine Sports Medicine Proceedings, Fallbrook, CA, 14 March, 1993. Journal of Equine Veterinary Science, 2003, vol. 23, no. 5: S82-S112.

 Forbush DR, Vickery CE. The Changing Urbanized Configuration of the Northeast Seaboard.
Presented at 1984 Northeastern Business and Economics Association Conference, Boston, MA, 8-9 November, 1984. Abstract published.

SPEAKING ENGAGEMENTS

- Albany Law School's 2012 Saratoga Institute on Racing and Gaming Law re siting of casinos in New York and an overview of northeast gaming. 2012.
- League of Historic American Theatres re 2010 Census and geodemographics of theatre markets. 2011.
- NY Senate Committee on Investigations and Government Operations and NY Senate Committee on Racing, Gaming & Wagering re the racing industry in NY and Nationally. 2010.
- NY Senate Committee on Racing, Gaming & Wagering re MOU for state racing franchise and VLTs at Aqueduct. 2007.
- National Council of Legislators from Gaming States. 2005-2007.
- International Simulcast Conference. Thoroughbred Racing Associations, Harness Tracks of America, and American Quarter Horse Racing. 2004.

2.b Applicable Project Experience

Jeffrey C. Hooke

Jeffrey C. Hooke is managing director of Hooke Associates, LLC and a managing director of Focus, LLC, an investment bank based in Washington, DC. Previously, Hooke was a director of Emerging Markets Partnership (a \$5 billion private equity partnership), a principal investment officer of the World Bank Group, and an investment banker with Lehman Brothers and Schroder Wertheim, respectively, two prominent securities firms based in New York. Hooke is the author of four books: *The Dinosaur Among Us: The World Bank and Its Path to Extinction* (2007), *The Emerging Markets* (2001), *Security Analysis on Wall Street* (1998), and *M&A: A Practical Guide to Doing the Deal* (1996).

His studies on casino-style gaming have led to testimony on the value of gaming licenses and the prospective revenues from state-sanctioned gaming expansion before the legislatures of Indiana, Kentucky, Maryland, Massachusetts, Pennsylvania and Texas. His views on gaming expansion have been referenced in numerous publications, including the *New York Times, Forbes, Washington Post, Chicago Sun Times, Columbus Dispatch, Philadelphia Inquirer, Houston Chronicle, Baltimore Sun, Dallas Morning Post, Cleveland Plain Dealer, Boston Globe, Miami Herald, Fort Lauderdale Sun Sentinel, New York Post, Louisville Courier Journal, Indianapolis Star, Pittsburgh Post-Gazette, Kansas City Star, San Diego Tribune, Singapore Straits Times, Texas Observer, Gaming Observer, Bloodhorse and Thoroughbred Times.*

Hooke co-authored or authored the following: the August 2003 report "Legalizing Video Slot Gaming in Maryland: A Business Analysis" (published jointly by the Maryland Tax Education Foundation (MTEF) and the Maryland Public Policy Institute), the October 2004 report, "Expanding Slot Gaming in California: A Business Analysis" (published by the Reason Foundation), the April 2005 report, "The State Legislature May Leave \$4.5 Billion on the Table by Not Setting a Fair State Gaming Tax" (published by Florida Tax Watch), the February 2006 report "New York State's \$2 Billion Trifecta: NYRA, VLTs & OTB" (published by MTEF), the October 2008 report "Ohio Casino Giveaway: Ohio Taxpayers Could Lose \$1 Billion by Approving Issue 6" (published by Buckeye Institute for Public Policy Solutions), and the December 2012 report "\$500 Million License Fee for MGM/National Harbor Casino (published by the Maryland Public Policy Institute).

Hooke's reports, testimony and media work has led to taxpayers receiving over \$2 billion in additional revenue from casino operations, principally through the sale (instead of giveaway) of casino licenses and through higher tax rates (Pennsylvania- \$600 million, Indiana - \$500 million, New York - \$400 million, Maryland - \$600 million, and Illinois - \$325 million). His work influenced the Government of Singapore in its determining up-front payments for its \$4 billion casino project.

Hooke was the financial advisor to the Florida Breeders and Horsemen, with respect to their negotiations with Magna Entertainment Corp. He advised the Thoroughbred Horse Owners of California in their discussions with racetracks regarding electronic gaming. In April 2007, he advised Pinnacle Entertainment, Inc., a major casino firm, on the \$500 million value of two gaming licenses for the Indianapolis area. In 2009, he advised the State Senate President of Kentucky on gaming expansion alternatives. In 2010, he was retained to evaluate the proposals for slot machines at Aqueduct racetrack in New York City. In 2011, he was retained as an expert witness in a racino dispute and he testified in federal court in 2012.

Charles E. Vickery III

Charles Vickery is an independent research consultant specializing in the areas of gaming, pari-mutuels and geodemographics. He has published scientific articles about racehorse biomechanics and cardiovascular systems. He played a major role in developing the statistical methodology used to ensure integrity in the national pari-mutuel wagering network. He has provided extensive geodemographic analysis requiring statistical research to diverse industries and he brings broad perspective to the gaming and pari-mutuel industries. He has worked with a broad range of gaming and pari-mutuel participants, including simulcast providers, racetrack owners, racehorse owners and trainers, regulators and legislatures. He has also served as a Federal expert witness regarding gaming and racing matters.

Federal Court expert witness. Provided expert testimony regarding racing and gaming in Pennsylvania, involving extensive analysis of pari-mutuel and gaming historical data and trends (April 2012).

Thoroughbred Racing Protective Bureau (TRPB). The TRPB is the protective bureau for most major US Thoroughbred racetracks. Charles Vickery provides statistical support for the TRPB's wagering security operations used to monitor wagering activity and detect irregularities. This work requires expert knowledge of pari-mutuel statistical data and its use throughout the industry.

Hialeah, Inc. Charles Vickery provided consulting services to Hialeah in its 2011 bid for Monmouth Park.

New York State Off-Track Betting (OTB). Charles Vickery has conducted research and statistical analysis of industry issues, including existing and proposed pari-mutuel legislation for all six of New York's OTB corporations. He teamed with The Innovation Group to conduct a feasibility analysis of New York City Hooke Associates LLC

OTB's restructuring plans – a project that involved geodemographic analysis of OTB locations in New York and New Jersey.

Thoroughbred Racing Associations (TRA). Charles Vickery reported on the status of casino gaming at all major US Thoroughbred racetracks (approximately 80 locations), summarized purses at those tracks over an eight year longitudinal period, and projected casino contributions five years ahead. The TRA represents most major US Thoroughbred racetracks. Components of this study were incorporated in the Kentucky Governor's analysis of Kentucky's pari-mutuel industry.

Maryland Tax Education Foundation. Charles Vickery assessed gaming market geodemographics and matched Maryland purse earnings to racehorse owners' and trainers' mapped addresses.

Hooke Associates, LLC. Charles Vickery provided geodemographic analysis and research regarding projected Ohio casino revenues for a report titled, "Ohio Casino Giveaway: Ohio Taxpayers Could Lose \$1 Billion by Approving Issue 6," published by Buckeye Institute for Public Policy Solutions and authored by Jeffrey Hooke, an adjunct scholar for the Buckeye Institute.

Blow Horn Equity, LLC. Charles Vickery provided industry research and strategic planning services regarding Blow Horn Equity's interests in racing and gaming industry acquisitions.

Pennsylvania Harness Horsemen's Association. Charles Vickery teamed with The Innovation Group to study the impact of casino gaming on the horseracing industries of New York and Pennsylvania.

Chicagoland gaming interests. Charles Vickery teamed with The Innovation Group to conduct an assessment of Chicagoland's pari-mutuel industry.

New York State Senate Racing, Gaming and Wagering Committee. When Senator Larkin chaired the Senate Racing, Gaming and Wagering Committee, Charles Vickery assisted the committee with its annual publication of racing, gaming and wagering statistics. He provided the committee with a detailed, timely analysis of the September 2007 Memorandum of Understanding regarding the state racing franchise (granted to the New York Racing Association) and video lottery gaming facility at Aqueduct (now operated by Genting as Resorts World Casino New York City). Mr. Vickery also testified before the New York Senate Committee on Investigations and Government Operations and Senate Committee on Racing, Gaming & Wagering in January 2010 regarding the racing industry in New York and nationally.

Kentucky Legislative Interests. Charles Vickery, with Jeffrey C. Hooke, provided analysis of the advance deposit wagering industry to legislative interests in Kentucky.

Subcontracting. Charles Vickery works as a subcontractor with various gaming consulting firms. He also provides geodemographic and mapping services to a broad range of industries nationally.

2.c Sample Work-Product (see Appendix E)

2.d Client References (see Appendix D)

SECTION 3

Project Plan

Hooke Associates LLC

SECTION 3 PROJECT PLAN

3.a Scope of Services

As identified in the ITN, the ten gaming scenarios must undergo additional analysis for market feasibility and economic impact in order to determine the most marketable and economically beneficial uses. It is our understanding that the identified options have not yet been subjected to a thorough financial or economic impact analysis. However, such analyses are of utmost importance in understanding the viability of each use and in determining their feasibility in the local market.

From the outset, the respondent should point out that expanded gaming will attract a large amount of revenues from out-of-state visitors; however, the principal new revenue source for expanded gaming will be Floridians. Right now, many Floridians live too far away from a casino-style-gaming facility to make short "convenience-type" visits. If the state expands the number of gaming venues, more Floridians will live within a 30 - 40 minute drive of such a venue, thereby heightening the number of local gamblers.

Second, increasing the number of venues to increase local and out-of-state participants (and to heighten state tax revenue) will necessarily decrease the gaming revenue of (i) certain existing facilities, particularly those of the Seminoles, as well (ii) the state lottery. We will look at the related pari-mutuel impacts and the effect of modifying live dates requirements.

Thirdly, to optimize state tax revenue, the options most surely will involve the state authorizing legallymandated gaming oligopolies in designated population centers. By designing oligopolies, the state can better gage the future success of gaming licenses and the likely future of tax revenues. An oligopoly structure also reduces the industry's risk of investing in a property, since the industry knows competition will be limited, and thus can forecast revenues more accurately.

The respondent is prepared to meet this challenge through the preparation of a comprehensive analysis of the various options in Florida. The preparation of a market analysis, fiscal impact analysis, economic impact analysis, social effect analysis, and a gaming analysis will result in the creation of a clear set of recommendations to guide the state and focus efforts on attracting and retaining <u>feasible and</u> <u>economically sustainable uses</u> to complement the current gaming operations in Florida.

The respondent will then undertake an analysis to identify, quantify and compare the relative fiscal and economic impacts associated with multiple gaming options. To do this, the respondent will undertake two major tasks – an analysis of the fiscal conditions and projected impacts (including tax revenue generation and the potential for sales revenues and sales tax benefits), as well as an analysis of the economic conditions and forecasted impacts (including investment during construction and operations, job creation, earnings, the economic "ripple" effect, and social impact) that are projected to result from each of the various alternatives in Florida.

The respondent will then conduct a gaming analysis. This task will determine the effects of introducing casinos under certain options, using demographic data and comparable site experiences to determine the target audience, propensity for repeat visits, competitive location issues, etc. This analysis will also Hooke Associates LLC 14

examine the generation of new facilities and annual non-gaming revenues (such as food and beverage) and the state's annual gaming tax revenues, initial gaming license fee, sales taxes, horseracing and other pari-mutuel activity, the offset of decreased lottery tax revenues, surrounding area sales tax revenues, and lower tax revenues from existing venues, particularly Seminole locations. This will entail the team considering the optimal number of gaming outlets and related amenities for those options other than 1, 2, 4 and 5. These four options will not require new facility scenarios.

Lastly, the respondent will prepare a set of recommendations on how Florida should best proceed with developer solicitation. The respondent will assist Florida in producing a strategy based upon the findings of the market analysis, fiscal and economic impact analysis and gaming analysis. Such a strategy will ultimately recommend the highest and best uses for new facilities.

3.b Methodology

The methodologies we propose employ a multifaceted, targeted approach that our team is uniquely qualified to deliver.

Task I: Initial Client Meeting

The respondent will meet with Florida at the beginning of the assignment to gather input regarding the proposed project as well as to discuss the parameters of our assignment in more detail. Additionally, we will also discuss the locations and attributes of potential new gaming sites, and the sensitivity of existing gaming facilities from losing market share.

Task II: Florida Review and Economic Research

We will evaluate relevant economic conditions and general market conditions in the subject market areas as they relate to the various options and use these indicators of potential future economic activity in our assessment of future demand. Those that we would interview include, but are not limited to, appropriate representatives of the principal metro areas, the Chambers of Commerce, tourism industry and other key individuals who are knowledgeable about area commerce. We will further enhance this economic research with national databases and economic forecasting services of the area. We will also interview representatives from social groups, think tanks and taxpayer groups.

Task II (A) Interview Gaming Industry Leaders

The respondent will conduct interviews with policymakers, government regulators, and gaming executives. Some of these interviews will be on a "no name" basis to protect the interviewee from industry retaliation.

Task II (B) Information and Data Collection

There is a wealth of articles, academic literature, studies, testimony and research on the topics of the gaming industry in general, regulatory schemes, taxation, and direct and indirect costs to the state and the public. The respondent will survey this information, and focus on that which is objective and factual so that the information developed by the gaming industry, its consultants or its investment banks to further the gaming industry's goals, will be evaluated with the appropriate degree of skepticism. This information will be collected from regulatory agencies,

commercial sources and in-house data, complemented by a review of state bills and laws, published research, compacts and media articles.

The social, criminal and personal impacts of gambling are not well understood. Objective academic studies are frequently short of data, and the industry has been reluctant to release statistics on (i) problem betters, (ii) the percent of revenues accruing from a given percent of customers, and (iii) similar phenomena. Furthermore, the "substitution effect" whereby a casino replaces revenues that otherwise support local restaurants, bowling alleys and non-gaming entertainment options, has not been highly clarified. The respondent will provide a descriptive of these economic impacts as well as fiscal impacts.

Task II (C) Data analysis

The considerable amount of data collected in Task II (A-B) will be analyzed and presented using a variety of financial and statistical methods.

Task III: Market Research

Our study involves market research in the local market area as a way of understanding both the competitive supply of similar gaming and the current and projected levels for new facilities and games. We will interview key demand generators, inspect and evaluate competition, and conduct discussions with persons familiar with development patterns and the local economy. With respect to the competitive supply research, we will gather information such as ownership, management, size, age, market mix, demand segmentation, market share, estimated win, food and beverage facilities, meeting space utilization, and other special attributes of each competitive property.

Task III (A) Market Survey

The respondent will commission surveys to be completed by Centrac DC Marketing Research on tourism and gambling. These surveys would seek to determine how Floridians and visitors would alter spending behavior in response to expanded gaming.

Task III (B) Interview Area Businesses, Government and Community

Our primary market research will include, but not be limited to, the following:

- Owners and/or operators from the competitive gaming market;
- Select major employers and other demand generators;
- Area attractions/area amenities (i.e., tourist-related activities, attractions, educational institutions and cultural events);
- State, Town and County officials involved in economic development and others familiar with the local development activities;
- Chambers of Commerce; and
- Representatives from hotel companies, as applicable.

Task III (C) Market Analysis

The respondent will review and analyze the economic statistics related to the principal gaming subsectors such as:

Hooke Associates LLC

- 1. Lottery tickets
- 2. Pari-mutuel sports betting
- 3. Pari-mutual based slots and card games
- 4. Commercial casino gaming nationally
- 5. State initiatives regarding Internet gaming and sports betting
- 6. Indian casino-style gaming
- 7. Offshore gaming boats
- 8. Internet cafés
- 9. Illegal Internet gaming and sports betting

Subsectors 6 – 9 above may lack accurate statistical data, and the respondent's analysis will include "good faith" estimates. This information will be analyzed and presented in a variety of ways, using a variety of financial and statistical methods, including the use of mapping and geodemographics.

Task IV: Fiscal Impact Analysis

This task will provide an examination of the historical and existing fiscal conditions, and the anticipated impacts associated with each of the ten options. A fiscal impact analysis will be conducted to determine how each option would impact Florida's fiscal conditions, as well as the regional fiscal conditions of local government units, assuming some tax sharing.

Task IV (A) Analyze Fiscal Impact of Existing Gaming Environment

The respondent will review and analyze the economic statistics related to the principal gaming subsectors. Using IMPLAN software and data, we will consider the job creation and state income contributions of these subsectors, along with the direct, indirect and induced fiscal and economic impacts. A comprehensive analysis of Internet cafes will be undertaken, including an assessment of their impact on other legal forms of gaming and their net benefits to the State.

Task IV (B) Analyze Fiscal Impact of Alternative Gaming Scenarios

Based on the comprehensive analysis of viable non-Indian gaming scenarios, the ideal number and locations of gaming facilities will be presented along with clear reasoning that will include a discussion of how this scenario would maximize net new economic activity and avoid cannibalization of existing sectors. Fiscal analysis will show how the recommended scenario would perform under existing tax rates, national average tax rates and tax rates that would maximize state revenues, taking into account net impacts. This analysis will result in a clear recommendation of the ideal scenario addressing locations, number and types of machines, and tax rates.

The economics of leveraging equity and profits as sources for public funding will be analyzed.

The analysis shall include a listing of the principal assumptions used in the fiscal scenarios. The formulas tying one economic variable to another shall be described. IMPLAN software will assist. The respondent will make available to the state the computer models used in the analysis. The state can then modify or alter assumptions to devise new scenarios.

The respondent recognizes that increased exposure to gaming will raise the number of problem gamblers in Florida. The respondent will provide an estimate of social costs for each scenario, and balance such costs against increased economic activity and tax revenue, if any.

Task V: Gaming Analysis

This task will necessitate an assessment of gaming as it pertains to determining the effect of the ten options under consideration. In order to conduct such an analysis, the respondent will utilize a methodology referred to as a "Gravity Model" or "Top Down" analysis. The respondent will review historical racing and gaming trends in the Florida region and in the United States and then construct assumptions on revenue (or win) generation. The competitive landscape will be mapped and studied relative to revenues and demographics. This information will be used to project revenues and distributions under the various scenarios suggested. Per the study, the respondent will propose solutions that will maximize new jobs, tax revenue, and economic development in Florida, while complementing the existing gaming culture.

Task V (A) Recent Trends

Historical economic and financial data will be reviewed relative to gaming and pari-mutuel activity nationally and in the region.

An overview will be provided of Florida's pari-mutuel industry participants, interactions, revenues and distributions. An overview will be provided of Florida's racetrack casinos, market areas, revenues and distributions since inception, along with an analysis of the impact of VLTs and Indian casinos on purses and revenues within Florida's pari-mutuel industry. We would use geodemographics to look at adjusting restrictions on number and operation of slot machines at pari-mutuel facilities in Miami-Dade and Broward Counties. Historical economic and demographic data will include U.S. decennial censuses, American Community Surveys and Nielsen Claritas demographic estimates for 2013 and 2018. The data would be mapped to census block and higher geographies. Drive times, Voronoi market areas and radius market areas would be used to assess existing and potential market areas. Gravity models of retail trade would be used to model the flow of gaming revenue to Florida casinos.

The majority of this work will be completed using data from public and commercial sources, much of which is maintained in-house. However, a portion of it will require on-site visits and discussion with industry executives. This information will include published information from state regulatory agencies and a review of Indian gaming compacts, recent literature and news reports.

Task V (B) Competitive Landscape

The enhanced competitive environment of new scenarios deemed viable will be reviewed. Casinos within Florida's competitive region will be mapped through geodemographics and their market areas will be determined relative to the introduction of new venues in population centers. Statistical relationships between demographics and casino revenues within Florida's competitive region will be determined and the team will discuss possible development scenarios with industry participants in order to obtain market feedback. The data for the majority of this work will come from public and commercial sources, much of which is maintained in-house.

Task V (C) Recent Transactions and Developments

A number of states have expanded casino-style gaming in recent years. The respondent will survey the manner in which the developments were awarded by the states, the facilities that were constructed, and the manner in which the facilities were financed in the capital markets. This review is relevant since the prospective investors and lenders will look to the experience of other sites in gauging the likely success of Florida. Furthermore, Florida is interested in assessing the prospective funding sources for Florida casinos.

Task V (D) Projected Revenues and Distributions

Florida is not a "gaming" tourist destination like Las Vegas or Atlantic City; however, it has many other tourism destinations and a large population of "snow birds." Furthermore, Florida has a huge population base of its own from which to draw gaming customers.

The scope of work in this sub-task will include the application of geodemographic and statistical analysis to project gaming revenues under the various options and to forecast related impacts on Florida's gaming and pari-mutuel industries (e.g., the impact on horseracing, simulcast and jai alai handle), as well as the lottery and local sales taxes. We would examine geodemographics to determine casino/resort locations to maximize hot new economic activity and tax revenues.

Likely assumptions will include:

- Average loss per patron of \$75 per visit;
- Expenditure for food and drink of a minimum of \$8 per day per patron before retail or entertainment revenue;
- Upfront license fees of \$300-\$500 million per new casino;
- Casino construction cost of minimum \$75 million, before amenities such as hotels, major restaurants or entertainment venues;
- Over 75% of revenue from individuals residing within 40 miles of the facility;
- Gaming taxes in excess of 40% of net win; and
- Target win per day per slot machine of \$250 to \$350. Table game revenue equal to 30% of slots revenue.

The respondent will estimate the amount of revenue that the new facilities derive from local residents of Florida deciding to gamble. We will also estimate multipliers for enhanced economic activity and job growth in the surrounding areas, as well as negatives for non-gaming spending alternatives.

The respondent will run a number of combination scenarios, thus boosting the number of scenarios in excess of 10. This analysis will result in a recommendation of the ideal solution and practical alternatives, along with a full discussion of the factors related to these alternatives.

Scenarios regarding the Seminole Tribe, including continued exclusivity with added table games would be fully analyzed. The addition of table games would be considered relative to similar changes made in other states.

Limits regarding live pari-mutuel events will be assessed relative to historical and projected revenues. Similar considerations of changes in the number of required live pari-mutuel events in other states will be reviewed. This financial and geodemographic analysis of possible new non-Indian gaming configurations will be based on thorough analysis of gaming and related distributions in Florida and nationally. Each scenario will be presented with clearly stated methodology and assumptions.

3.c Relevant Background

Jeffrey Hooke and Charles Vickery bring an effective mix of highly specialized skills necessary to conduct this research and effectively communicate the results. In addition to their gaming and pari-mutuel experience, both team members have broad experience from other industries, which will bring greater perspective to this research than available from more limited firms. Section 2 (Organizational Background, Experience, and Capabilities) outlines the details of their experience and expertise.

Jeffrey Hooke's financial analysis experience, as described in detail in Section 2, is exceptional. He has worked on Wall Street and for the World Bank and major national firms. He has published several books about finance, meeting the highest communication and publication standards, which will help to convey the complex issues addressed in this project. He has studied the fiscal impact of the gaming industry extensively, focusing on its impacts on government and taxpayers.

Charles Vickery has 26 years of experience conducting research in the pari-mutuel and gaming industries, and has published peer reviewed scientific research. He provides geodemographic analysis to a broad range of industries, often serving clients attempting to solve complex problems involving statistical analysis of in-house geocoded data. He specializes in identifying and modeling patterns within large datasets using advanced statistical methods – a key aspect of this project.

3.d Schedule

Based on the proposed project plan, services will be provided for the outlined tasks as follows:

		Start	Complete
Task	Description	Task	Task
Task I	Initial client meeting	04/05/2013	07/01/2013
Task II	Florida revenue and economic research	04/05/2013	07/01/2013
Task II (A)	Interview gaming industry leaders	04/05/2013	07/01/2013
Task II (B)	Information and data collection	04/05/2013	07/01/2013
Task II (C)	Data analysis	04/05/2013	07/01/2013
Task III	Market research	04/05/2013	10/01/2013
Task III (A)	Market survey	04/05/2013	06/01/2013
Task III (B)	Interview area businesses, government & community	04/05/2013	07/01/2013
Task III (C)	Market analysis	04/05/2013	07/01/2013
Task IV	Fiscal impact analysis	04/05/2013	10/01/2013
Task IV (A)	Analyze fiscal impact of existing gaming environment	04/05/2013	07/01/2013
Task IV (B)	Analyze fiscal impact of alternative gaming scenarios	04/05/2013	10/01/2013
Task V	Gaming analysis	04/05/2013	10/01/2013
Task V (A)	Recent trends	04/05/2013	07/01/2013
Task V (B)	Competitive landscape	04/05/2013	07/01/2013
Task V (C)	Recent transactions and developments	04/05/2013	07/01/2013
Task V (D)	Projected revenues and distributions	04/05/2013	10/01/2013
Optional	Optional ongoing analytical support	TBD	TBD
Total	Total time for tasks I-V	04/05/2013	10/01/2013

Scope of Work for Part I of ITN #859

Appendix A

Attachment A: Disclosure Statement

ATTACHMENT "A"

THE FLORIDA LEGISLATURE

DISCLOSURE INFORMATION

PARTNERSHIP OR INDIVIDUAL

I hereby certify that I, if an individual, or each of us, if a partnership, doing business as

(Name of Individual or Partnership) is not now involved in nor have I ever engaged in any private business venture or enterprise, directly or indirectly, with the Florida Senate, the Florida House of Representatives, or any Member of employee of either the Florida Senate or the Florida House of Representatives.

I further certify that neither I, nor any partner, if a partnership, nor anyone acting in my or our behalf has requested that any of the above designated persons or any other employee of the Florida Legislature exert any influence to (Name of Individual or Partnership) secure the appointment of

If partnership, each partner must sign and execute.

Signature:	Title:
Signature:	Title:
Signature:	Title:

COMPANY OR CORPORATION

I hereby certify that neither I, nor any owner, officer, director, or shareholder of Hooke Associates, LLC are presently engaged in or have ever been engaged in any private business venture or enterprise, directly or indirectly, with the Florida Senate, the Florida House of Representatives, or any Member of employee of either the Florida Senate or the Florida House of Representatives.

I further certify that neither I, nor any owner, officer, director, or shareholder of this company/corporation, nor anyone acting on its behalf, has requested that any of the above designated persons or any other employee of the Florida Legislature exert any influence to secure the appointment of Hooke Associates, LLC under this proposed agreement.

Signature: ______ Horfe ______ Title: Manging Directn

Appendix B

Attachment B: Non-Collusion Statement

ATTACHMENT "B"

THE FLORIDA LEGISLATURE

NON-COLLUSION STATEMENT

I certify that this ITN Reply is made without prior understanding, agreement, or connection with any corporation, firm or person submitting a reply for the same ITN and is in all respects fair and without collusion or fraud. I agree to abide by all conditions of this ITN and certify that I am authorized to sign this ITN for the represented Vendor and that the Vendor is in compliance with all requirements of the Invitation to Negotiate including, but not limited to, certification requirements. In submitting a Reply to the Florida Legislature, the Vendor offers and agrees that, upon the ITN's acceptance, the Vendor is deemed to have sold, assigned, and transferred to the Florida Legislature all rights, title, and interest in and to all causes of action it may now or hereafter acquire under the antitrust laws of the United States and the State of Florida relating to the particular commodities or services purchased or acquired by the State of Florida or its political subdivisions.

Vendor Name: Hooke Associates, LLC

Certified by	y: Jeff Hooke					
Signature:		Hoda	Title:	Manazij	Directa	

Appendix C

Attachment C: Warranties

ATTACHMENT "C"

THE FLORIDA LEGISLATURE

WARRANTIES

The Respondent represents that it is professionally qualified and possesses the requisite skills, knowledge, qualifications and experience to provide the required services specified. The following are warranty certification requirements that must be certified in writing using Attachment C. If the Respondent cannot so certify to any of the following, the Respondent must submit with its Response a written explanation of why it cannot do so within the Administrative Documents Required.

- 1. The Respondent or any other organization associated with the ITN is not currently under suspension or debarment by the State or any other governmental authority.
- 2. To the best knowledge of the person signing the Response, the Respondent, its affiliates, subsidiaries, directors, officers, employees of any other organization associated with this ITN are not currently under investigation by any governmental authority and have not in the last ten years been convicted or found liable for any act prohibited by law in any jurisdiction involving conspiracy or collusion with respect to bidding on any public contract.
- 3. To the best knowledge of the person signing the Response, the Respondent, its affiliates, subsidiaries, directors, officers or any other organization associated with this ITN have no delinquent obligations to the State, including a claim by the State for liquidated damages under any other contract.
- 4. To the best knowledge of the person signing the Response, the Respondent, its affiliates, subsidiaries, directors, officers or any other organization associated with this ITN have not within the preceding three years been convicted of or had a civil judgment rendered against them or is presently under indictment for or otherwise criminally or civilly charged for commission of fraud or a criminal offense in connection with obtaining, attempting to obtain or performing a federal, state, or local government transaction or public contract; violation of federal or state antitrust statutes; or commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, or receiving stolen property.
- 5. To the best knowledge of the person signing the Response, the Respondent, its affiliates, subsidiaries, directors, officers or any other organization associated with this ITN have not within a three-year period preceding this certification had one or more federal, state, or local government public transactions terminated for cause or default.

Certified by: Jeff Hooke Signature: All Hooke Title: Managig Director

Appendix D

Attachment D: References Form

Hooke Associates LLC

ATTACHMENT "D"

THE FLORIDA LEGISLATURE

REFERENCES for <u>Hooke Associates, LLC</u>

(Name of Respondent)

Provide the following reference information for a minimum of three businesses where services of similar size and scope have been completed. Make additional copies as necessary to provide a maximum of five business references.

Business Name	Reason Foundation
Address	5737 Mesmer Avenue, Los Angeles, CA 90230
Contact Person	Adrian Moore
Phone Number	310-391-2245
Fax Number	310-391-4395
Email Address	adrian.moore@reason.org
Date and Description of Services	2004 study involving expanding commercial slot gaming in California, home to many Indian casinos

Business Name State Senate, President of Kentucky			
Address	Capitol, Frankfort, KY		
Contact Person	David Williams, now a circuit judge in Southern Kentucky (resigned in October 2012 from State Senate) Brad Metcalf, Deputy Clerk		
Phone Number	502-249-1247		
Fax Number			
Email Address	brad.metcalf@lrc.ky.gov		
Date and Description of Services	2009 State Senate President hired Hooke to perform various analyzes on expanded gaming		

Business Name	Commonwealth Foundation
Address	225 State Street, Harrisburg, PA 17101
Contact Person	Matthew Brouillette
Phone Number	717-671-1901
Fax Number	717-671-1905
Email Address	matthew.brouillette@commonwealthfoundation.org
Date and Description of Services	2004 studies on expanding PA gaming and appropriate tax rates and license fees

ATTACHMENT "D"

THE FLORIDA LEGISLATURE

REFERENCES for <u>Hooke Associates, LLC</u> (Name of Respondent)

Business Name	Maryland Public Policy Institute				
Address	Address PO Box 195, Gaithersburg, MD 20875				
Contact Person	Chris Summers				
Phone Number	240-686-3510				
Fax Number	240-686-3511				
Email Address	csummers@mdpolicy.org				
Date and Description of Services	Various assignments. Most recently – valuation of National Harbor Casino License, December 2012				

Business Name New York Senate Racing, Gaming and Wagering Committee				
Address	188 State Street, Room 502, Senate Capitol Building			
Contact Person	Senator William J. Larkin, Jr. (prior committee Chair)			
Phone Number	518-455-2770			
Fax Number	· · · · · · · · · · · · · · · · · · ·			
Email Address	larkin@senate.state.ny.us			
Date and Description of Services	Various presentations. September 2007 analysis of MOU regarding the State's racing franchise (awarded to New York Racing Association) and the operation of a casino at Aqueduct (now operated by Genting as Resorts World New York City). Helped to produce the committee's annual racing, gaming and wagering statistical summary. Most recently testified before the committee in 2010 regarding the New York and national pari-mutuel industry.			

Appendix E

Sample of Respondent's Work-Product on a Project Similar in Nature, Size, and Scope

POLICY BRIEF

Tuesday, October 14, 2008

Ohio Casino Giveaway

Ohio taxpayers would forfeit \$1 billion by approving Issue 6 By Jeffrey Hooke, Buckeye Institute Adjunct Scholar

Executive Summary

Billion Dollar Giveaway

The Issue 6 referendum is a \$1 billion "giveaway" to wealthy individuals and a small casino management firm. If the referendum passes, they become enriched overnight. This value is a "net value" for the license only, and it already incorporates the fact that \$600 million is needed to construct the casino and related infrastructure.

License Can Be Sold Immediately

Upon passing of the referendum, the license holder could sell the license for a profit immediately, much like two license holders sold Pennsylvania slots licenses after casino-style gambling was legalized there in 2004.

Casino License Auction by the State Government is Better for Taxpayers

The State of Ohio could auction an identical casino license for \$1 billion in cash. The proceeds may be used to finance government programs or to provide tax relief for Ohio families. Illinois and New York are presently auctioning gambling licenses. The federal government routinely auctions licenses for oil exploration, timber-cutting and communication spectrum.

Abuse of the Referendum Process

These individuals and the casino firm are abusing the referendum process in order to enrich themselves. They are spending a few million dollars in advertising in order to make a billion dollars.

Exaggerations

The backers' claims of casino income, and, therefore, job creation and tax revenue, are exaggerated. Many of the new jobs at the casino will simply cannibalize existing Ohio jobs, so the publicized net job gain is unrealistic. And, a portion of the casino income will cannibalize existing lottery revenues, so the increase in casino gambling taxes will be offset, to some degree, by a reduction in lottery taxes.



The Buckeye Institute for Public Policy Solutions 88 E. Broad Street, Suite 1120 Columbus, Ohio 43215 www.buckeyeinstitue.org



INTRODUCTION

Following national trends, voters in Ohio are considering an increase in the scope of legalized gambling through the authorization of a new casino, directly off Interstate 71 at State Route 73 in Clinton County.

Gambling expansion raises serious questions for state policymakers, not least of which involve not only the social consequences associated with an increase in gambling opportunities, but also the questions of how to maximize taxpayer benefits. For better or worse, the referendum to move in this direction is close to being decided. This report asks whether the proposed casino is a good deal for taxpayers.

The right to open a casino in Southwest Ohio would be worth \$1 billion if this right was offered at a public, competitive, open auction. In contrast, the referendum grants the right to operate for a modest \$15 million fee, which is refunded upon the casino's start-up, so the license is essentially free. A difference of \$1 billion in public revenues is not negligible, particularly as the state needs revenues to finance any number of initiatives.

Clearly, the State of Ohio would benefit from an in-state casino to the extent that Ohioans patronizing out-ofstate facilities, particularly the Argosy Casino in Lawrenceburg, Indiana, chose instead to gamble instate. Gambling tax revenues now diverted to Indiana would accrue to the Ohio state government, and a portion of the out-of-state jobs related to Ohio-casinopatrons would come back to Ohio.

Given its location, the new Ohio casino would have limited out-of-state patrons, and most of its revenue would be attributable to the "convenience gambler" located within an hour's drive. When these nearby Ohio residents increase their casino spending, Ohio entertainment dollars will be shifted from restaurants, bowling alleys and cinemas, for example, to the new casino. With casino gambling revenue taxed at 30.0%, instead of the 5.5% sales tax rate, the State of Ohio's tax revenues would increase as a result. However, as noted in other jurisdictions, the increase in gambling taxes will be offset, to some degree, by a decline in state lottery revenues, as casino patrons substitute slots for lottery purchases.

Expert presentations made to the Maryland, Massachusetts and New York legislatures show decreases in lottery revenue when new casinos open in a market. (As one example, see NY Lottery Ticket Sales presentation to New York Senate Committee on September 12, 2007 by Charles Vickery.) Lottery sales in Bronx and Westchester Counties dropped \$23 million or 3%, with the opening of the Yonkers racino.

Certainly, many voters want to keep gambling tax revenue in Ohio and many legislators want new revenue sources. However, the referendum does not accomplish these objectives in a way consistent with safeguarding the greater interests of taxpayers—i.e., insuring they receive a fair return on the issuance of a valuable casino license. An open dialog and a fair disposal of valuable public property is a necessity for both the public coffers—and the public trust.

CASINO BACKERS' PROPOSAL

So far, voters in 2008 have been presented with only a single version of Ohio casino gambling, that of the referendum backers themselves. It is a distinctly skewed version, offering the backers with:

- A state monopoly on casino gambling for the foreseeable future;
- An attractive location between three large metropolitan areas: Cincinnati, Dayton and Columbus;
- Modest \$15 million license fee that is refundable upon start;
- No minimum job creation requirement, minimum employee salary schedule or minimum union employment; and
- A low gambling tax rate, relative to many other gambling-monopoly-type jurisdictions.

The market value of the right to operate a casino at the Clinton County location is actually \$1 billion, not zero as dictated by the referendum. Essentially, the proposed constitutional amendment is a massive wealth transfer from millions of taxpayers to a few wealthy individuals.

AUCTION VALUE OF SLOTS LICENSES IN OHIO

The vast profit potential of a casino in Southwest Ohio area reflects the law of supply and demand. Laws limiting casino locations are a barrier to supply. Because demand is strong, a large producer surplus accrues for legal operators, a surplus generating tremendous potential profits for the casino that would hold near monopoly power over the Southwest Ohio gambling market.

Consumer protection or safety is usually given as the prime rationale for government regulation of a product or service that free markets could provide on an

Technique for Auctioning Major Government/Business-Type Assets

If the Ohio government went to public auction to sell a casino license and to maximize returns, it might approach the process as follows:

- Engage an experienced appraisal firm or investment bank to estimate the value of the government license. The State of Indiana legislature took testimony from Hooke Associates and read the firm's valuation report before setting a price of \$500 million for two Indianapolis slots (not casino) licenses.
- 2. If the value meets the government's expectations, the government retains a financial advisor (usually an investment bank, corporate finance advisory firm or the merger and acquisition department of a commercial bank) with knowledge of the valuation and the sale process. For example, in August 2008, the State of Illinois hired Credit Suisse to auction off its tenth casino license. The State of New York is auctioning off the slots license at Aqueduct Racetrack. In January 2005, the City of Chicago sold the Chicago Skyway tollroad for \$1.8 billion. In January 2006, the State of Indiana sold the Indiana Toll Road for \$3.8 billion. The financial advisor on the tollroad deals was Goldman Sachs.
- 3. The advisor augments the initial valuation work by completing its own due diligence. The advisor then prepares an information memorandum describing the business and works concurrently with the government to develop a list of potential buyers (prescreened for financial strength), as well as any special conditions attached to the sale for public policy reasons.
- 4. The advisor contacts between 20 and 30 potential buyers, including operating companies, private equity firms and hedge funds. Depending on the nature of the assets, the list may include domestic as well as foreign buyers.
- The advisor contacts potential buyers, informs them of the pending sale of the businesses and tells them of the government's price expectations. Perhaps one in three of those contacted will request an information memorandum.
- 6. After an additional exchange of information between the potential buyers and the government's advisor, perhaps, only one half of the remaining potential buyers remain. Thus, an auction beginning with 30 potential buyers will produce four or five real bidders. By way of illustration, the Indiana Toll Road attracted three real bidders.

otherwise unrestricted basis. But in the case of gambling, policymakers justify regulation principally as a way to maximize government revenues----without regard for the impact on consumers.

Under the proposed regime for gambling in Ohio, one goal is to limit the supply and limit competition among gambling venues. In exchange for those profitmaximizing limits, the casino operator offers special taxes to let the state capture some of the profits for the public benefit. Given that reality, we undertake this study to determine how Ohio could best manage the monopoly profits from the opening of a new casino in Southwest Ohio.

In this scenario, the state auctions a license that must be utilized on, or nearby, the proposed site.

METHODOLOGY

To carry out our analysis, we projected the annual gross revenue of the casino. We used data from current gambling operations in other well-populated metropolitan areas in the United States, and then adjusted those data in accordance with demographics and the proposed Clinton County location.

Using those numbers, we also assumed that the state casino license in question would have a term of 20 years, enabling the operator to deduct the license fee for income tax purposes, and we made other assumptions that are standard in a business analysis of this sort (as explained below). We then modeled the financial results of the hypothetical casino.

Our financial analysis uses projection techniques that are widely accepted by corporate appraisers, valuation experts, and financiers. The principal assumptions behind the revenues and operating expenses per slot machine, revenues and operating expenses for table games, and required capital investments are clearly identified in the narrative.

To carry out this analysis, we made the following assumptions about the gaming market:

• Number of machines. To enhance the value of the monopoly being sold, the state would permit 5,000 slot machines and unlimited table games, and the state would guarantee no further expansion of gaming in Southwest Ohio for five years. (By comparison, Indiana's casinos have from 1,200 to 2,500 slot machines each and 32 to 129 table games each.¹)



- Competition. The principal competitor is the Argosy Casino in Lawrenceburg, Indiana, which is located 16 miles southwest of Cincinnati. Secondary competitors are Indiana's Grand Victoria and Belterra Casinos, which attract metro Cincinnati residents as well, but are further away than Argosy.
- **Population.** The number of people living within 60 miles of the Clinton location is 3.9 million. About 1.5 million of this population would find the Indiana casinos more convenient for driving time, and we exclude this portion of the population from our Clinton market totals. Thus, the convenience market population is 2.4 million for the casino.²
- Revenue Base of Similar Markets. To determine the likely steady-state revenue of the casino (i.e., after the initial start-up period), we examined the casino gambling revenues of other convenience markets in the U.S. We then divided revenues by population to obtain per capita revenue statistics, and we focused on two Midwestern markets: St. Louis and Kansas City. They share certain demographic and competitive attributes with the Southwest Ohio market, such as the number of competing casinos, per capita income, and climate.

The per capita casino gambling revenue for metropolitan St. Louis and Kansas City were \$340 to \$400, respectively, in the year ending June 2008. The average is \$370.³

• Estimated Revenue for Ohio Casino. The Clinton County location requires more drive time for consumers than the multiple casinos available to St. Louis and Kansas City consumers. Accordingly, the Ohio convenience factor, and resulting revenues, are lower. We use \$260 annual revenue per capita (a 30% discount) for the convenience population of the Ohio facility, or \$625 million per year in total.⁴ A change in gasoline prices might affect this estimate. Note that the report prepared for MyOhioNow by Michigan Consultants indicates prospective gambling revenue of \$850 million.⁵ We consider this number overly-optimistic.

- Revenue Division by Slots and Table Games. Our analysis allocates 80% of gambling revenue to slots (\$500 million) and 20% to table games (\$125 million), consistent with industry experience.
- Win per day per machine. The \$500 million slots estimate provides gross profits after prize payouts (also known as the "win per day" or WPD) per machine of \$274. This number is consistent with the experience of casinos and track/gaming facilities (commonly called "racinos") in similar areas and in population base per installed machine. Win per day is a common statistic used in the gaming industry to measure the productivity of a slot machine. The statistic is widely available on state gaming commission websites, SEC filings of gaming companies and gaming analyst reports.

Time: We assume that it will take three years for the casino to reach full operational capacity. Hence, we assume that the location will generate only 70% of projected annual revenue in their first year of operation and only 85% in its second year.

Inflation: We assume inflation will average 3% annually; and thus the revenue increases 3% annually upon full capacity operation.

Casino Capital Expenditure: The cost of building a casino varies greatly, depending on building quality and amenities. To be conservative, we assumed a premium facility, requiring 30 square feet per slot machine, or 150,000 square feet, at a cost of \$500 per square foot, or \$75 million. We add table games (50,000 sq. feet) at a cost of \$40 million. The slot machines, chairs, support bases and IT systems cost \$65 million. The cost of the casino and its interior gambling components are therefore \$200 million.

Land requires \$25 million for 90 acres. Parking lot (4,000 spaces) and infrastructure cost \$60 million. Start-up costs are \$15 million. The initial casino investment, exclusive of a license fee, is therefore \$300 million, and we depreciate it (exclusive of land) over 5.5 years, or \$50 million per year.

Note that hotels, shopping arcades, restaurants and conference venues generate their own revenues; and thus, the related construction costs are excluded from

the casino total. We assume an operator spends \$300 million on these items in order to reach the \$600 million outlay specified in the referendum.

Cash Operating Costs for Slots: We assume each slot machine has a daily cash operating cost of \$88. The cost of slot machine ownership is borne by the operator.

Cash Operating Costs for Table Games: Including allocated overhead, a reasonable cash profit margin for table games is 9%, based on industry experience and the proposed tax rate.

State Gaming Tax: The state gambling tax for the facility is 30%. There is no admission (or head) tax at the location, unlike Indiana, which charges an admission tax in addition to a gambling tax.

Cash Operating Costs for Hotels, Shopping Arcades, Restaurants and Conference Venues: In this study, we assume the casino owner may lease out its concessions to professional operators. The lease payments cover the owner's capital investment costs and provide a profit margin on revenue. We show the casino's income from these leases as a one-line item.

Food and Beverage Income: We assume the facility has 8.3 million visitors per year, losing on average of \$75 per visit on gambling⁶ and spending \$9 per visit on food and beverage. We assume the casino will have a 10% profit margin on food and beverage revenue.

Hotel, Retail and Entertainment Income: We assume that hotel, retail and entertainment net lease revenue is 10% of gambling revenue or \$65 million. This incorporates free rooms and complimentary items provided to repeat customers. The pre-tax margin is 12%, or \$8 million. This assumption is consistent with relevant income from SEC filings of public casino firms.

Assumptions: The WPD assumptions are corroborated by verifiable data obtained from audited SEC filings, state gaming commission websites, racino proposals made to state governments, U.S. Census Bureau data, selected newspaper and magazine articles, and interviews and negotiations with industry participants.

Projected Earnings of Slots Operators

The projected revenues, earnings before interest, taxes, depreciation and amortization⁷ (EBITDA)⁸, and net income the casino is set forth in Table 1. Note that the operator receives only 70% of total gambling revenue. The remainder is allocated to gambling taxes.

Table 1: Projected Income of HypotheticalOhio Casino				
Revenue				
Slots (80%)	\$ 500			
Table Games (20%)	125			
Total Revenue (100%)	625			
State Gaming Tax (30%)	<u>(188)</u>			
Revenue Share to Casino	\$ 437			
Slots Cash Op. Costs	(160)			
Tables Games Cash Op. Costs	<u>(80)</u>			
Direct Gambling Op. Income	197			
Food & Beverage Op. Income	8			
Hotel, Retail & Other Income	8			
EBITDA	213			
Depreciation ⁹	50			
EBIT ¹⁰	\$ <u>_163</u>			

Proceeds from Cash Auction of Casino License

Under a cash auction, Ohio awards a casino operating license to the bidder offering the most upfront cash to the state as a "licensing fee." The license allows its holder to operate either a casino in Clinton County or a nearby location. The auction's terms stipulate that the operators receive 70 percent of the win (i.e., 100% - 30% = 70%), with the remainder going to state gaming taxes. Bidders are subject to a rigorous prequalification procedure to ensure that they have sufficient cash to finance their bids and have spotless reputations and legal histories.

To ensure professionalism, maximize proceeds, and minimize bid-rigging, the auction of the license is

Table 2: Gaming License Values Transactions and Offers					
Implied Value (Millions of Dollars)	Date	Metro Location	Buyer/Seller	Transactions/ Offers	
\$407	August	Indianapolis	LHT Capital (Paul Estridge)/Oliver Racing (Indiana Downs)	Transaction ¹²	
250	April 2007	Indianapolis	Indiana Downs/ State of Indiana, Hoosier Park/ State of Indiana	Two transactions at \$250 million each	
160	- December 2006	Pittsburgh	PITG Gaming (Don Barden)/City of Pittsburgh	Transaction ¹³	
220	November 2006	Pittsburgh	Millennium/Magna	Transaction ¹⁴	
140	June 2006	Dania Beach (Ft. Lauderdale)	Dania Jai Lai/ Boyd Gaming	Transaction ¹⁵	
340	April 2006	Pittsburgh	Isle of Capri City	Offer ¹⁶	
500	January 2005	Catskills	Seneca Ind./New York State	Offer	
310	October 2004	Poconos	Mohegan/Penn National	Transaction ¹⁷	
442	July 2004	Philadelphia	Harrah's/Inv. Group	Transaction ¹⁸	
518	March 2004	Chicago	Isle of Capri/State of Illinois	Offer	
750	January 2001	Cincinnati	Argosy/Inv. Group	Transaction ¹⁹	
663	November 2000	Detroit	Chippewa/Inv. Group	Transaction ²⁰	

conducted on the state's behalf by a nationally recognized investment bank.

Experiences Elsewhere

To project the winning bids, we looked at media accounts and securities filings of recent sales of, and offers for, oligopoly gambling licenses in locations elsewhere in the United States that have population density statistics comparable to Southwest Ohio. Sales prices are heavily based on the following factors:

- Market population;
- Number of competitors;
- Number of slot machines and table games permitted; and
- Gambling tax rate.

Those sales prices are indicative of what potential casino operators would bid in a cash auction. Numerous comparisons are listed below. Note that slot machines/ VLTs represent about 80% of a casino's profit, so the value of a casino license is similar to a slots/VLT license. <u>Comparable Sales</u>: Of particular interest are the most recent transactions in Indiana, where two horse racing tracks paid \$250 million each for the privilege to operate 2,000 slot machines near Indianapolis. One racetrack owner subsequently sold a portion of the license at a price effectively valuing the entire license at \$407 million. Thus, the two Indianapolis licenses have an effective value of \$814 million for 4,000 slots and no table games. Issue 6 allows the Ohio casino unlimited slots and table games, so the \$1 billion value is justifiable on the basis of comparable sales in Indiana.

<u>Comparable Income Multiples</u>: In addition to considering recent sales of gaming licenses, we estimated what buyers would

pay for the projected income of the casino monopoly. Racino and casino stocks trade publicly at six to 12 times EBITDA. Gaming firms tend to acquire other gaming properties at eight to 12 times EBITDA.

To be conservative, we assumed that potential buyers would value an Ohio casino at eight times EBITDA. We then deducted the relevant up-front capital and start-up costs; a 15 percent start-up discount for risks of the unknown, which is reasonable for such an analysis; and a 15 percent discount because full operation is not attained until the third year.

Given those numbers and assumptions, our modeling indicates the Ohio license has a total cash value of \$1 billion. That calculation is depicted in Table 3.

CONCLUSION

This report concludes that the likely cash auction value of the casino license is \$1 billion. The referendum provides for a modest \$15 million license fee, which is refunded upon the casino's start-up, so the license is essentially free. The benefit to the state treasury from an auction process is \$1 billion, the difference between zero and \$1 billion.

Subsequent to the auction, the state can expect to realize ongoing revenue from gaming taxes, income taxes and other taxes related to the successor operation.

About the Author

Jeffrey C. Hooke is an adjunct scholar at the Buckeye Institute. In 2006, he co-authored with David Hansen and Tom Firey the Buckeye Institute analysis on State Issue 3. The measure purposed allowing seven Ohio

Table 3: Estimated State Cash Pro of Dollars)	oceeds at Auction (In Millions
EBITDA	\$213
Bid Calculation:	
8x EBITDA	\$1,700
Less Up Front Investment	300
Pure License Value	1,400
Less 15% Unknown Discount	(200)
Less 15% Early Years Discount	(200)
Auction Value	<u>\$1,000</u>
	Source: Author's calculations.

horse tracks to install slot machines. He is managing director of Hooke Associates, LLC, a corporate finance consulting firm based in McLean, Va.

His studies on casino-style gaming have led to testimony on the value of gaming licenses and the prospective revenues from state-sanctioned gaming expansion before the legislatures of Indiana, Maryland, Massachusetts, Pennsylvania and Texas. His views on gaming expansion have been referenced in numerous publications, including the New York Times, Forbes, Washington Post, Chicago Sun Times, Columbus Dispatch, Philadelphia Inquirer, Houston Chronicle, Baltimore Sun, Dallas Morning Post, Cleveland Plain Dealer, Boston Globe, Miami Herald, Fort Lauderdale Sun Sentinel, Pittsburgh Post-Gazette, Singapore Straits Times, Gaming Observer, Bloodhorse and Thoroughbred Times.

Hooke co-authored the August 2003 report "Legalizing Video Slot Gaming in Maryland: A Business Analysis" (published jointly by the Maryland Tax Education Foundation (MTEF) and the Maryland Public Policy Institute), the October 2004 report, "Expanding Slot Gaming in California: A Business Analysis" (published by the Reason Foundation), the April 2005 report, "The State Legislature May Leave \$4.5 Billion on the Table by Not Setting a Fair State Gaming Tax" (published by Florida Tax Watch), and the February 2006 report "New York State's \$2 Billion Trifecta: NYRA, VLTs & OTB" (published by MTEF with assistance from the Empire Center for Public Policy).

Hooke was the financial advisor to the Florida Breeders and Horsemen, with respect to their negotiations with Magna Entertainment Corp. He also advised the Thoroughbred Horse Owners of California in their discussions with racetracks regarding electronic gaming, and Pinnacle Corporation in valuing Indiana gaming licenses.

About the Buckeye Institute

The Buckeye Institute for Public Policy Solutions is Ohio's only free market think tank and the leading independent source of research and commentary on education, economic growth and government transparency. Buckeye Institute provides agenda shaping analysis and research to legislative leaders, opinion leaders and the public.

Our scholars offer free market solutions to Ohio's most complicated public policy challenges. They advocate growing economic freedom by eliminating the income tax; returning freedom to the workplace by ending compulsory unionization; and, liberating our schools by adopting a universal k-12 voucher.

Regardless of the issue debate, the Buckeye Institute's operating philosophy is constant: Free markets enable free men and women to find prosperity.

End Notes

- 1. Indiana Gaming Commission.
- 2. U.S. Census; Drive time analysis by consultant Charles Vickery, Oxford, PA.
- 3. U.S. Census; Kansas, Missouri and Illinois Gaming Commissions.
- At \$625 million, the casino would still be one of the most productive in the U.S. The 30% discount is based on discussions with casino executives and observable revenue in locations with similar drive times.
- 5. MyOhioNow website has a copy of the Michigan Consultant's report.
- 6. Consistent with statistics from multiple state gaming commissions.
- The analysis excludes the potential amortization expense that a slots operator might realize by paying an upfront licensing fee. Such a fee is likely tax deductible over the life of the license.
- 8. EBITDA is a widely used statistic in corporate financial analysis and valuation.
- 9. Depreciation of tangible assets. License amortization is excluded.
- As one comparison, note that the smaller Argosy Casino in Lawrenceburg, Indiana generates approximately \$140 million in EBIT annually. The \$163 million estimate is higher than a projection issued by Morgan Joseph analyst Justin Sebastiano on September 26, 2008.

- 11. The value represents license value only. In several instances, the values of casino structure, horse racing track, jai lai track or relevant real estate were excluded from the transaction value in order to determine the license value. For Pennsylvania transactions/offers, the value includes the \$50 million license fee that is paid by the license holder.
- 12. Oliver Racing paid \$53.5 million for a 34% interest, plus a \$250 million license fee.
- PITG agreed to pay a \$7.5 million annual fee to City of Pittsburgh to subsidize a new hockey arena. Hooke Associates estimated the "present value" of the annuity at \$110 million, plus the \$50 million license fee.
- \$30 million value of racetrack subtracted from \$200 million price (i.e., \$170 million, net) and \$50 million license fee added, in order to provide a \$200 million license value.
- 15. \$13 million appraised value (tax records) of jai lai fronton excluded from \$153 million purchase price.
- 16. Isle of Capri offered to build a \$290 million hockey arena and to pay \$50 million for the license.
- Mohegan Tribe paid \$290 million (after post purchase adjustment) for the license plus the track worth \$30 million. We add \$50 million license fee for a value of \$310 million (i.e., \$290 minus \$30 plus \$50).
- In exchange for a 50% interest, Harrah's put up over \$400 million in cash to construct a casino and racetrack in Chester, PA.
- 19. Excludes "brick and mortar" cost of the casino, as set forth in the SEC filings.
- 20. Chippewa's buyout of a 40% interest, indicating a 100% interest at \$663 million.

Horseracing and Casino-Style Gambling: Facts Behind the Myths

By Jeffrey C. Hooke



ABOUT THE AUTHOR

Jeffrey C. Hooke is chairman of the Maryland Tax Education Foundation, and also is managing director of Hooke Associates, LLC, an investment bank based in Vienna, Virginia. He resides in Chevy Chase, Maryland.

Previously, he was a director of Emerging Markets Partnership, a \$4 billion private equity partnership; a principal investment officer of the World Bank Group; and an investment banker with Lehman Brothers and Schroder Wertheim, respectively, two prominent securities firms based in New York.

He is the author of three books: The Emerging Markets (2001), Security Analysis on Wall Street (1998), and M&A: A Practical Guide to Doing the Deal (1996), all published by John Wiley & Sons of New York.

The author wishes to thank the many individuals involved in the horseracing and gaming industries, who took time to talk with him about the issues involved in this study. He also wishes to thank Alex Hooke (PhD, Philosophy) and David Curry (M.A., Economics) for their insightful comments.

SUMMARY

This report examines myths that are repeated by horseracing participants in their support of horse tracks obtaining a free monopoly on slot machines in the State of Maryland. For the most part, the myths are not supported by the facts. As a result, the myths represent a poor foundation for public policies designed to advance the horse racing industry. There may be links between the growth of casino-style gambling and the stagnant performance of the horseracing industry; however, the myths cannot substitute for rigorous studies of causative factors.

The report's findings indicate that horse tracks coexist in close proximity to casino-style gambling. If the state authorizes the slots monopolies at "non-racing-affiliated, off-track" sites ("Third Party sites"), pari-mutual betting in Maryland (live, import, export and in-state simulcast) will decline by 0% to 10%, depending on whether the state dedicates a small percentage of the slots win (i.e., 2% to 3%) to higher purses. Longer-term, pari-mutual wagering will then remain relatively constant, indicating flat to negative growth in inflation-adjusted terms.

This flat-to-down wagering scenario can be reversed by dramatically increasing Maryland purses. I estimate a doubling or tripling of purses is needed to significantly impact (i.e., +25%, or more) overall wagering. The vast majority of this wagering increase will occur with "export wagering" as opposed to live wagering. A purse increase of this magnitude requires the state to allocate 3% to 5% of the slots win to purses, representing a \$55 million to \$95 million annual subsidy to the racing industry.

The horseracing industry in Maryland supports approximately 8,300 jobs on a direct and indirect basis. If slots are located at Third Party sites, an 800 job loss is likely without significant subsidies. To prevent this prospective job loss, and perhaps add new jobs, assume the state authorizes \$55 million per year in purse subsidies to supplement current purses of \$47 million. The subsidy per job ranges from \$34,375 to \$68,750.

Senate Bill 322 conveyed a slots monopoly to racetracks, with a yearly subsidy of \$300 million to \$500 million. Additional monies estimated at \$90 million annually were allocated to higher purses. Assume the arrangement (vs. no industry subsidies) saves 800 existing horseracing jobs and adds 1,600 new horseracing jobs. The subsidy per horseracing job is on the order of \$162,500 per year. Note that slots jobs are roughly equivalent under either the racetrack monopoly or the Third Party scenario.

Maryland track owners maintain that they need 40% to 50% of the slots win in order to make an acceptable profit from a slots monopoly. In New York State, track owners accepted 20% of the win in exchange for a free monopoly, and the construction of several track-based slots facilities is now under way there. This indicates that 20% of the win provides a satisfactory return on investment.

Horseracing and Casino-Style Gambling: Facts Behind the Myths

INTRODUCTION

The horse track industry in Maryland has a quality tradition, culminating each year in the Preakness Stakes, one of the jewels in horseracing's Triple Crown. The industry operates two major thoroughbred tracks and, on a limited basis, two smaller harness tracks. Abbreviated meets are held at Timonium Fairgrounds and Fair Hill. The owners of Delaware Park have a license to conduct a short meet at a new thoroughbred track planned for Western Maryland.

In March 2003, the owners of four state horse tracks were poised to receive a monopoly on casino-style gaming in the Baltimore-Washington market, the nation's fifth largest metropolitan area by population. A bill authorizing the installation of 10,500 slot machines at the tracks passed the State Senate and received support from the Governor. Ultimately, the bill died in Committee at the House of Delegates.

Studies developed by the Maryland Tax Education Foundation and the Maryland Public Policy Institute placed the upfront cash value of the monopoly at \$1.5 billion. The studies also determined that a competitive process – by opening the franchises to non-racetrack bidders – would bring the State \$300 million to \$500 million more per year than the racetrack-only bill approved by the Senate.

In part, supporters of the Senate bill argued that the huge windfall was justified because (1) horseracing in Maryland, particularly with respect to the tracks, is in a distressed condition; (2) only slot machine legalization, as opposed to other forms of financial aid, can bail out the industry; and (3) without slots, thousands upon thousands of Maryland jobs will be lost. Supporting these justifications were numerous racing myths, none of which have been demonstrated by the industry, nor critically examined by the state government.

The purpose of this report is to analyze the racing myths and to show which ones are truthful, false or misleading. Several state legislatures, including Maryland's legislature, place heavy weight on these myths in considering financial aid for their respective horseracing industries.

There is tension between how the legislature serves the perceived needs of the horseracing industry and how it serves the citizens of Maryland. By shedding light on the industry's actual conditions, this report should prove useful to state decision makers.

MYTHS AND FACTS

1. Myth: "The racing industry cannot compete with the high octane of casino gambling and survive. It just can't do it." William Rickman, owner of Ocean Downs, Washington Post, September 21, 2003.

Facts:

Untrue. Pari-mutual wagering stagnates in head-to-head competition, but tracks do not go out of business. In the four states examined, not one track went bankrupt or ceased operation.¹

In **Indiana**, nine casinos opened in 1996 and 1997. In 1996, Indiana pari-mutual wagering rose over 20%. Since that year, the level of pari-mutual wagering in Indiana has remained constant². In **Illinois**, 10 casinos opened in 1991 and 1992. Despite that expansion of gambling, total pari-mutual wagering in Illinois stayed relatively constant, fluctuating between \$1.1 billion and \$1.2 billion annually over the last 12 years. **Kentucky** is surrounded on three sides by casinos. Over the four years, 1998-2001, total pari-mutual betting rose 2% annually.

Michigan showed a different result. In 1999, three casinos opened in downtown Detroit. Over the next four years, total pari-mutual wagering in Michigan dropped 21%. However, the 2001/2 period included an economic recession in the United States. In the 81/82 and 90/91 recessions, Michigan wagering declined 12% and 5%, respectively, for an average of 8%. Michigan wagering subsequently increased. Based on this experience, one might assign 8% of the 21% decline to the 2001/2 recession, suggesting casinos caused a 13% drop in pari-mutual wagering in Michigan (i.e., 21% minus 8%) over a four year period. This is a disturbing trend in Michigan, but it does not indicate a collapse of racetracks and simulcast facilities. 13% is not 100%.

The facts provide little support for Mr. Rickman's statement. The following quote is instructive: "Slot machines and racetracks attract different kind of bettors," explained an Illinois Racing Commission executive, "To win at racing you need to know how to handicap. Racetrack wagering is a more intellectual exercise than slot machines, which is the luck of the draw. That's why there isn't more crossover."

2. Myth: The Maryland horseracing industry employs the full-time equivalent (FTE) of 30,000 people on a direct and indirect basis.

Facts: The 30,000 estimate is highly inflated.

In a 1999 study, commissioned by the Maryland Assembly, six academics affiliated with the University of Maryland attributed a total of 8,922 FTE jobs (direct and indirect) to the industry. According to the 2002 Maryland Equine Census, the population

¹ Arlington Park closed voluntarily in 1998 and 1999 in an attempt to extract more subsidies from the State of Illinois. It reopened in 2000. Michigan's Detroit and Livonia tracks closed in 1998, before casinos. ² A small portion of the Indiana win supports horseracing. Illinois casinos provide no such support.

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of horses involved in racing declined 7% since 1999. (If the number of jobs dropped correspondingly, there are now 8,310 such FTE jobs in Maryland.³)

The 1999 study was criticized by some horse racing industry participants, who suggested the job total was "too low." To validate the estimate, this report reviewed similar Pennsylvania and Michigan studies. The methodologies and results of these studies were applied to Maryland's statistics. The result was an estimated total of 7,176 to 9,427 jobs. Note that the majority of the industry's jobs are non-union, and carry few health or pension benefits.

At an October 2003 legislative hearing, the industry circulated a "38,000 job" figure supposedly supported by the 2002 Maryland Equine census. Their numbers were wrong. According to the census, the 38,000 figure referred to individuals involved in owning, breeding or caring for all kinds of horses, rather than those who derived a full-time living just from horseracing. Obviously, someone who is "involved" in the equine industry because he (or she) "owns" a horse for recreational purposes, for example, cannot be deemed to have a job as a result.

3. Myth: Thousands of jobs in the state will be lost without racetracks having a free monopoly on slot machines.

Facts: There may be "zero" net job loss for the State. The job loss claims are unrealistic.

Assume Third Party "off track" slots are legalized and pari-mutual wagering declines by 10%. Does that mean 10% of the industry's jobs be lost? Perhaps, but Maryland as a whole may not lose jobs. The horse racing industry's argument ignores the "substitution effect" that is well known to economists. If certain people stop spending money at tracks because they are spending money at Third Party slots barns, the new jobs at the slots barns replace many of the jobs lost at the tracks, training farms and breeding facilities.

Furthermore, certain off-track sites have the potential to promote more ancillary economic development than racetrack sites can⁴. This factor mitigates job loss. Also, if Maryland slot machines draw significant out-of-state visitors (particularly from Virginia), there may be a net job gain.

The State might allocate a portion of the slot win to higher purses to stem the possible horseracing job loss.

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³ There are no studies proving a linear correlation between horse population declines and employment declines. The statement is illustrative, as a connection seems likely.

 $^{^4}$ Track owners are now considering off-track sites as long as the track owners hold the slots franchise (Baltimore Sun, 10/22/03).

4. Myth: The slot machine monopoly is not a subsidy to the tracks.

Facts: It is a huge subsidy, worth hundreds of millions of dollars per year.

An August 2003 report by MTEF and Maryland Public Policy Institute compared returns to Maryland taxpayers of (a) the racetrack-owned slots monopoly proposed by SB322 versus (b) a competitive bid alternative. The State makes \$300 million to \$500 million more per year under a competitive bid scenario, indicating an effective subsidy to the tracks of at least \$300 million annually.

5. Myth: Third party off-track slot facilities mean the loss of thousands of racing jobs.

Facts:

Depending on the level of State subsidy for higher purses, the horseracing-related job changes range from an 800 job loss to a 1,600 job gain.

Based on data from four states with tracks and casinos operating independently, pari-mutual betting will decline by 0% to 10% if slots facilities are opened "off-track" and operated by non-racetrack firms (i.e., "Third Party"). The magnitude of the decline depends on whether the state dedicates a small portion of the slots win (i.e., 2% to 3%) to higher purses.

With no purse subsidies, a 10% decline in wagering is assumed to occur, leading to a 10% decline in direct and indirect horseracing jobs (i.e., $800 \text{ jobs})^5$.

A \$55 million per year purse subsidy in Maryland effectively doubles the tracks' annual purses. If you assume the \$55 million saves 800 jobs by forestalling any decline in betting, the subsidy per job is \$68,750 per year. If you further assume the \$55 million results in a 10% increase in betting, and a corresponding increase in new jobs (for a total of 1,600 jobs), the subsidy per job is \$34,375 per year. Note that many horseracing jobs are non-union and carry few benefits, so the subsidy seems expensive.

6. Myth: A SB 322-mandated monopoly for the tracks is not a job subsidy.

Facts: The annual subsidy amounts to \$162,500 per job per year.

Assume that the huge increase in purses (estimated at \$90 million annually) required by Senate Bill 322 increases betting by 20%. As a result, 1,600 new horseracing jobs are created ($20\% \times 8,300$), to complement the 800 "saved" jobs. To the \$90 million purse subsidy is added the \$300 million track owner slot profit subsidy. The cost per horseracing job is \$162,500 per year⁶.

⁵ There are no definitive studies tying wagering declines to employment declines. This is an illustration, as a connection seems likely.

⁶ Note that slots jobs are assumed to be similar under either the racetrack-owned or Third Party slots scenarios, for the purpose of this specific analysis. In reality, locating the slots facilities in high traffic, commercial sites would likely create more slots jobs, relative to an "on-track" scenario, due to the greater potential for add-on development.

7. Myth: The Maryland racehorse breeding industry is collapsing because Maryland tracks do not have slot machines, like Delaware and West Virginia tracks.

Facts: There is a moderate decline in foal production in Maryland

The Maryland horseracing industry consistently rates in the top 10 states in annual number of foals. Over the last 10 years, total foal production declined 12%.

Consistent with most other states (excluding Kentucky and Florida), the absolute number of annual thoroughbred foals in Maryland is decreasing, falling 1,709 in 1991 to 1,078 in 2001, a 37% decline. Nationwide, the number of thoroughbred foals fell 14% over the same period.

In contrast, the number of Maryland standardbred foals (i.e., harness racing) more than doubled, increasing from 249 in 1993 to 639 in 2002.

Since thoroughbred foals tend to be worth more than standardbred foals, the economic decline is higher than 12%.

West Virginia foal production is rebounding from a small base. However, in Delaware there is no significant breeding program eight years after slots.

8. Myth: Betting activity is declining sharply at Maryland racetracks. Only a slot machine monopoly will reverse the trend.

Facts: Overall betting is not declining in Maryland. It is relatively constant.

Due to the increased acceptance of simulcast, the total volume of (i) betting at Maryland tracks and simulcast facilities; plus (ii) betting on Maryland races by out-of-state simulcast bettors increased over the last five years, from \$956 million to \$1.0 billion. This 5% gain occurred, despite increasing purses at West Virginia and Delaware tracks. See Appendix C.

The volume of betting on "live races" by individuals visiting the track physically at the time of the race is steadily declining. From 1998 to 2002, the live volume dropped from \$98 million to \$61 million in Maryland.

Maryland's experience mirrors a national trend at nearly all racetracks, as simulcast activity represents most of pari-mutual wagering nationwide.

9. Myth: Larger purses at the Maryland tracks mean better horses, more live attendance, more local wagering and more export-simulcast-wagering on Maryland races.

Facts: Not proven in Maryland's short-term experiment, probably because the purse increases were not large enough.

In part due to State government subsidy, purses at Maryland racetracks from 1998-2000 rose 25% from 1997 levels. The purses subsequently declined in 2001 and 2002 without the subsidies.

Live wagering declined steadily from 1998 to 2000 despite higher purses. Out-ofstate simulcast wagering on Maryland races increased. Total wagering on Maryland racing was flat over the 1998 to 2002 period. Higher purses had a negligible effect on wagering over that short time period.

10. Myth: Pari-mutual wagering and live attendance grew at West Virginia and Delaware tracks as the introduction of slot machines brought higher purses, leading to better horses that more people want to see and wager on.

Facts: There was a positive impact in export wagering. Live activity was flat. The cost of these mixed results was staggering for both states.

Purses at the two West Virginia thoroughbred tracks almost tripled from 1997 to 2002. During that time, live handle and live attendance was stagnant. In contrast, export pari-mutual wagering increased sharply, even after taking into account the relatively brief life of export simulcast in West Virginia. Over the last five years, the cost of the higher purses was over \$100 million.

Purses at Delaware tracks more than doubled from 1997 to 2002. Live handle declined and import wagering was flat over the last three years. Export wagering rose about 5% on a compound annual basis. The cost of the higher purses was likely in excess of \$100 million over the five-year period.

11. Myth: Larger purses bring better horses to racetracks, meaning more parimutual wagering.

Facts: True, but the increases in purses have to be doubled or tripled to make an impact.

Higher purses seem to attract a better class of horse; however, a definite demonstration of this assertion is hard to obtain, given the sport's complexities.

At Delta Downs in Louisiana, a tenfold increase in purses (caused by slot machines beginning in 2000) resulted in a doubling of export handle, although live handle was stagnant. At Mountaineer Park, there was a similar pattern with a tripling of purses.

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The author concludes that a doubling or tripling of purses is necessary (i) to show a concrete difference in the quality of horse; and, thus, (ii) to motivate substantially more pari-mutual wagering. The size of race purses can only be expected to affect wagering levels indirectly by influencing the quality of racing competition and handicapping information.

The direct increase in jobs from the resultant upgrade in horseracing activity is not clear. Based on the assumptions used in this report, increasing purses is not a cost effective means of creating jobs.

12. Myth: If the state allows them massive profits from slots monopolies, racetracks will spend tens of millions on upgrading their horseracing facilities.

Facts: Untrue in two other states.

The SEC filings of MTR Gaming (Mountaineer), Penn National (Charlestown) and Dover Downs indicate that the vast majority of the reinvested profits (as opposed to the profits to the stockholders) are applied to slots facilities and related amenities, rather than racetracks. At Dover Downs, for example, the ratio of slots investment to horse track investment is about 20 to 1.

A physical inspection of Delaware Park's racing facilities brought the identical conclusion. (Delaware Park is a private firm and its financial statements are not available to the public.)

The respective statutes legalizing slot machines at Delaware and West Virginia tracks require a significant percentage of the "slots win" to be allocated to higher purses. There are no significant requirements for capital investment at the tracks⁷.

- 13. Myth: "Magna Entertainment pledges to rebuild Pimilco whether or not Maryland authorizes slots at racetracks," Frank Stronach, Magna CEO, September 2002.
- Facts: "All bets are off if lawmakers do not approve more gambling at their properties, say McAlpine and DeFrancis," Washington Post, October 8, 2003.

Magna appears to be backing away from its promise to renovate Pimilco at a cost of tens of millions of dollars.

⁷ Note that the final version of SB 322 required minimum levels of racetrack maintenance expenditures.

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14. Myth: Profits from slots will expand the number of racing days at the tracks.

Facts: Not true in Delaware. 10% increase in West Virginia.

Neither the Delaware tracks nor the West Virginia tracks have lobbied for substantially more racing days, despite their increases in operating profits with the legalization of slots. In West Virginia, the number of racing days has increased 10% since the introduction of slots.

The two West Virginia tracks run live races 230 and 254 days, respectively. They operate slot machines 365 days per year. Delaware Park runs live races 140 days per year. The two Delaware harness tracks run 140 days and 104 days of live racing, respectively. All three tracks operate slot machines 365 days per year.

15. Myth: Sharply higher purses create more horseracing jobs.

Facts: Higher purses reverse employment stagnation; however, they don't appear to be a strong engine for job growth.

More racing days may be the most direct contributor to job gains in the industry, followed closely by a sharp increase in foal production. However, neither development is evident in Delaware, despite purses that more than doubled in the last five years. West Virginia has 10% more racing days and 100 more foals per year on average.

16. Myth: Higher purses are an efficient way to produce more jobs.

Facts: The cost per annual "saved" or "created" job is very high.

As one example, West Virginia directs a certain amount of slot machines revenue to increasing purses. At Mountaineer Racetrack, this requirement boosted purses by \$31 million in 2002. Assume that the track's front-end and back-end FTE jobs total 600 and related breeding and indirect jobs add another 1,100 jobs, for a total of 1,700.

To be conservative, assume an extreme case (not in evidence) where the lack of purse subsidies costs horseracing 500 jobs. The annual cost to the taxpayers of West Virginia is \$62,000 per job. Most of the subsidy goes into horse owners' pockets, rather than to the track employees or breeding farm workers.

17. Myth: Racetracks receiving free slots monopolies need to retain at least 40% to 50% of the slots "win" in order to make a decent profit.

Facts: New York State contradicts this assertion.

In 2003, the State of New York provided free slots monopolies to racetracks. In return, the tracks retain only 20% of the win. The construction of new slots barns is underway at several New York tracks, including Vernon Raceway, Saratoga Raceway and Monticello Park. The facilities are designed to be aesthetically pleasing and

welcoming to slots customers. This fact suggests that 20% of the win provides a satisfactory profit⁸.

A previous study published by MTEF and entitled, "Are the License Fees too Low?" indicated that Maryland slots' facilities would produce a satisfactory profit with a 25% win retention and \$100 million license fee per slots facility. The New York arrangement corroborates MTEF's findings. The MTEF study was sent to 75 legislators, including members of the Senate Finance Committee and House Ways and Means Committee, and it was the subject of a *Baltimore Sun* Article on February 12, 2003, seven weeks before the passage of SB 322 allowing Maryland tracks a 39% share of the win.

18. Myth: Racetrack-operated slot machines in Maryland can not generate more than \$300 in win per day per machine.

Facts:

Comparable urban locations produce wins ranging from \$350 to \$700 per day.

Comparable wins for gaming facilities in suburban Chicago and downtown Detroit are \$400 to \$700 per day and \$350 to \$400 per day, respectively. Furthermore, Maryland will have fewer machines per capita than these two localities, suggesting a better win per machine.

Maryland track owners have an incentive to "low ball" the profitability of their prospective slots franchises to avoid paying (i) upfront license fees; and (ii) appropriate tax rates.

CONCLUSION

Maryland horse racing has a quality tradition and provides jobs for approximately 8,300 people. Prominent participants maintain that the industry has a "special claim" on slot machines. They support this claim with a number of specious arguments, which have little basis in fact. Whether the result of deliberate fabrication or wishful thinking on the part of industry participants, these arguments spur legislative proposals offering huge subsidies to the industry. There's little evident help for horseracing employment in these subsidies, leaving racehorse owners and horse track owners as the principal beneficiaries.

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⁸ In Rhode Island, the tracks receive 27% of the win and they request more machines. This fact suggests that 27% provides substantial profits.

APPENDICES

A. Information Sources

B. Validating the Maryland Jobs Estimate

C. Trends in Pari-Mutual Wagering in Maryland

D. Foal Production Multiplier

APPENDIX A

Information Sources

12

This report is based on studying numerous information sources and interviewing horseracing regulatory personnel, executives and analysts. Those sources include the following:

Written Materials and Websites

Association of Racing Commissioners, International Churchill Dows, Dover Downs Entertainment, MTR Gaming and Penn National SEC filings. **Delaware Racing Commission statistics** "Economic Impact of Horse Racing in Maryland" Center for Agricultural and Natural Resource Policy, University of Maryland (1999) "Horse Racing in Michigan, An Economic Impact Study" by Public Sector Consultants, Inc. (December 2002) Illinois Economic and Fiscal Commission, "Wagering in Illinois, 2003 Update." Illinois Racing Commission Indiana Racing Commission JockeyClub.com Fact Book Kentucky Horse Racing Commission Biennial Report Louisiana Horse Racing Commission Maryland Equine Census (2002) Maryland Horse Industry Board Maryland Racing Commission Annual Reports Michigan Racing Commission, 2002 Annual Report "National Economic Impact Study," American Horse Council (1995) "Pennsylvania's Equine Inventory, Basic Economic and Demographic Characteristics," Pennsylvania State University, College of Agricultural Sciences (May 2003) The American Racing Manual (2003) Thoroughbred Times (back issues) United States Trotting Association West Virginia Racing Commission Annual Reports

Interviews

Churchill Downs executive Illinois Racing Commission executive Kentucky Racing Commission executive Lead author of Pennsylvania economic impact report (2003) Louisiana Horseman Benevolent and Protective Association executive Louisiana Racing Commission executive Maryland Horse Industry Board executive Maryland Jockey Club former executive Maryland Racing Commission executive Maryland Standardbred Breeders Association executive Michigan Racing Commission executives Michigan State Department of Agriculture executive Mountaineer Park racing executive Pennsylvania Horse Racing Commissions' executives Public Sector Consultant economists (authors of Michigan 2002 report) Rhode Island Lottery Commission analyst Two authors of Maryland economic impact report (1999) United States Trotting Association analyst Virginia Thoroughbred Association executive West Virginia Racing Commission analysts

APPENDIX B

Validating the Maryland Jobs Estimate

Recent Economic Impact Study

In 1998, the Maryland General Assembly commissioned a study to evaluate the horse racing industry's economic contribution to the State of Maryland. Released in 1999, the report concluded that the industry was responsible for 8,922 jobs, including direct employment at tracks and breeding/training facilities, as well as indirect employment resulting from such activities.

<u>Maryland General Assembly – 1999 Study</u> <u>Number of Full-Time Equivalent Jobs in</u> <u>Maryland Horseracing Industry</u>

Breeding/Training Facilities	
Direct	4,224
Indirect	<u>1.812</u>
Subtotal	6,036
<u>Racetracks</u> Direct Indirect Subtotal	1,774 <u>1,112</u> <u>2,886</u>
Total	8,922

The indirect multipliers were 0.43 for breeding/training jobs and 0.63 for racetrack jobs. These multipliers are consistent with two other state studies.

The number of Maryland horses involved in the racing industry was estimated at 14,665 in 1999. In 2002, the Maryland Equine Census recorded 13,660 racehorses, indicating a decline of 7%. If jobs declined in a similar amount, the 2002 job total was 8,310.

Six academic professionals affiliated with the University of Maryland authored the 1999 report, which utilized a methodology accepted by other states conducting similar studies. A survey was sent to horse racing industry participants. The results of the survey, along with a Maryland horse census, racetrack employment census and related industry data, were incorporated into a widely accepted economic model (INPLAN), which then estimated the amount of economic activity and jobs attributed to the industry.

Methodology of this Analysis

To validate these findings, this report considered the findings of studies completed by the State of Pennsylvania (May 2003) and the State of Michigan (December 2002) in evaluating the economic impacts of their own respective horse racing industries. The matrices of race horse population, number of jobs and economic multipliers used in those two studies were applied to Maryland's racehorse census of 2002.

Furthermore, as a means to confirm the reliability of racehorse census data, the report applied a "rule of thumb" to annual foal production, in order to estimate total racehorse population.

<u>Pennsylvania</u>

The racehorse industry study was a subset of a larger study covering the entire equine industry in Pennsylvania. Surveys were mailed to 2,867 addressees identified as specializing in the horse racing industry. Initial non-responders were sent two follow-up mailings. The response rate was 20%.

Based on survey responses, the study (conducted by the College of Agricultural Sciences of Pennsylvania State University) applied statistical techniques and computer modeling to provide industry estimates. The study concluded that Pennsylvania had 26,365 horses involved in the racehorse industry.

Pennsylvania had 879 thoroughbred foals in 2001. The number of standardbred foals was 1,051, for a total foal crop of 1,950. Multiplying this crop by 10 provides an estimate of 19,300 racehorses.

The number of full-time jobs equivalents provided by the industry was divided into two categories (1) "Back-End of the Track" employees at racing stables/barns (on and off-track facilities), breeding farms, training barns and boarding facilities; and (2) "Front-End of the Track" people employed at tracks but not working directly with horses, such as betting clerks, food service vendors, parking attendants, executives and marketing personnel. Back-End jobs include jockeys, trainers, hot walkers, blacksmiths, veterinarians and many others. The vast majority of the jobs are non-union. Most receive few health or pension benefits, if any.

The Penn State study estimated only Back-End jobs. To estimate Front-End jobs, the author contacted the Pennsylvania Racing Commission, among other sources. The estimates of Front-End, full-time employees approximated 300 per track (when the track had live racing) <u>provided</u> the track was open year round (three of Pennsylvania's four tracks are open year round; the fourth is open for seven months). A 0.36 multiplier for indirect jobs was used in the Penn State economic model.

<u>Pennsvlvania Studv</u> Jobs Attributable to Horseracing

	Direct Jobs	Indirect Jobs (0.36 multiplier)	<u>Total Jobs</u>	
Back End	4,740	1,690	6,430	
Front End	<u>1.075</u> 5,815	<u>387</u> 2,077	<u>1,462</u> 7,892	

The study estimated one Back-End job for every 4.1 horses involved in racing. Note that a horse involved in racing may fall into one of several categories: (a) an actual racehorse that earns money in races; (b) a foal or yearling that may or may not become a racehorse; (c) a mare used for breeding a foal; or (d) a stallion. The total direct job to horse ratio was 4.5x. For all jobs – direct and indirect – the ratio was 3.3.

A study commissioned by the American Horse Council in 1996 corroborated the Pennsylvania findings in one respect. It found one direct job for every 5.3 horses involved in U.S. racing, which is reasonably close to the 4.5x Penn State multiplier. AHC used an indirect multiplier of 3.47 (vs. 1.36 in Pennsylvania and in 1.64 in Michigan). The 3.47 was considered unrealistically high by three agricultural economists interviewed for this study.

<u>Michigan</u>

In December 2002, the State of Michigan released a economic impact study on horse racing in Michigan. Similar to the Pennsylvania study, the Michigan analysis mailed a survey to horse owners (that were members of the U.S. Trotting Association, Michigan Thoroughbred Owners and Breeders Association and all thoroughbred owners registered with the Michigan Racing Commission). The response rate was 20 percent.

Michigan's study applied statistical techniques and INPLAN economic models to the survey data, which focused on Back-End economic activity. The survey data was supplemented by the study's calculations regarding "front-end" employment. Conclusions follow:

<u>Michigan Economic Impact Study</u> <u>Jobs Attributable to Horseracing</u>				<u>v</u>	
	Direct Jobs	Indirect Jobs	Subtotal Jobs	Multiple	<u>Total Jobs</u>
Back End	4,078	1,079	5,157	1.64x	8,457
Front End	<u>1.185</u>	142	<u>1,327</u>	1.64x	2,176
	5,263	1,221	6,484		10,633

The study applied a 0.64 multiplier to conclude that the total number of jobs could be as high as 10,633. Since the 6,484 job total already included 1,221 indirect jobs, there was double counting. Accordingly, a more accurate job total is 8,631 (i.e., 5,263 direct jobs x 1.64 multiplier).

Michigan has seven tracks. Two have six-month meets and three have meets of 120, 94, and 69 dates, respectively. The remainder run 37 dates or less. All have year round simulcast.

In a serious flaw, the study asked survey participants to count all horses by racing breed, without regard to whether the subject horse was actually involved in racing (as opposed to "showing" or "recreation"). This oversight greatly expanded the number of horses involved to the racing industry. In fact, the report determined that 80,500 horses were attributable to the horse racing industry.

The 80,500 horse estimate is contradicted by verifiable statistics of Michigan foal production, which totaled 1,118 in 2001 (290 thoroughbred and 828 standardbred). If one applies an industry "rule of thumb" that a state's racehorse population is roughly 10x the number of foals, then Michigan's census of horses involved in racing should be closer to 11,180, rather than 80,500.

Assuming the amount of horses involved in racing in Michigan is closer to 11,180 than 80,500, the number of jobs declines. By applying the relevant Penn State ratios for Back End jobs, the job total revised from 8,631 to 6,017.

Adjusting Job Totals in Michigan

<u>Michigan Study</u>	Adjusted for Elimination of Doublecounting	Using 0.34 Multiplier Instead of 0.64	Adjusted for Rational Estimate of Racehorses	
8,457	6,688	5,465	4,074	
2,176	<u>1,943</u>	1.588	<u>1,943</u>	
10,633	8,631	7,053	6,017	

<u>Maryland</u>

The 2002 Maryland Equine Census was conducted through the efforts of the Maryland Department of Agriculture, the Maryland Horse Industry Board and the Maryland Agricultural Statistic Service. 13,660 horses of racing breed lived at a racing or a racing-related facility (e.g., a racetrack, racehorse breeding farm or racehorse training facility). Another 21,140 horses of racing breed resided in the state at facilities not associated with professional racing.

The 13,660 number is within 28% of the number provided by multiplying the number of foals in 2001 (1,748) by ten, or 17,480.

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Using the higher number, this study divides the 4.5 Penn State multiplier to calculate the number of Back End jobs (17,480 divided by 4.5), which is 3,884. A 1.50 indirect multiplier is then applied (average of the 1.34 Penn Sate and 1.64 Michigan multipliers) to produce a total of 5,826 Back End jobs.

Regarding Front End jobs, Pimilico and Laurel operate essentially six months each. Rosecroft has a longer meet, but it runs fewer days per week. This study assumes 900 direct Front End jobs (three tracks x 300 Front End employees per track) and 450 indirect jobs for a total of 1,350 jobs.

At 17,480 horses, the job total is 7,176 jobs.

Horse racing participants may argue that a large portion of racebreed horses that don't reside in a race-related facility are, in fact, engaged in the industry. If 50% of those horses are included, the racing horse census jumps to 24,230, producing an additional 2,250 Back End jobs. The revised job total would be 9,427 jobs.

Conclusion

The report reviewed the 1999 jobs total and modified its results for the 2002 horse census. The job total for 2002 was 8,310. Secondly, it compared studies of Pennsylvania and Michigan and applied relevant ratios to the Maryland horse census. The resultant job totals ranged from 7,176 jobs to 9,427 jobs.

APPENDIX C

<u>Trends in Pari-Mutual Wagering in Marvland</u> (In millions)

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
(1) MD Bettors/MD Races					
On the tracks' live races	\$ 61	\$ 69	\$83	\$ 95	\$98
On MD tracks' live races from MD simulcast facilities	<u>75</u>	<u>84</u>	<u>96</u>	<u>119</u>	<u>121</u>
MD bettors/MD races (Subtotal)	136	153	179	214	221
(2) Out-of-State Bettors/MD Races					
Export signal (Subtotal)	419	406	388	399	342
(3) MD Bettors/Out-of-State Races					
Import signal – MD tracks receiving	390	389	368	352	335
Import signal – MD OTB receiving	<u>57</u>	<u>55</u>	<u>45</u>	<u>52</u>	<u>58</u>
Subtotal (3)	<u>447</u>	<u>444</u>	413	<u>404</u>	<u>393</u>
Total $(1 + 2 + 3)$	<u>\$1,002</u>	<u>\$998</u>	<u>\$980</u>	<u>\$1,017</u>	<u>\$956</u>
Wagering on MD Races (1 + 2)	\$555	\$559	\$567	\$613	\$561
Total Purses at MD Races	. 47	54	57	58	64
MD Bettors Betting on both MD Races and					
$\frac{\text{Out-of-State Races (1+3)}}{Control of Control o$	<i><i>C C O</i> <i>C</i> O <i>C</i> O <i>C</i> O <i>C</i> O <i>C</i> O <i>C</i> O <i>C</i> O C C O C C O C C O C C O C C O C C C O C C O C C O C C C C D C C C C D C C C C C C C C C C</i>	#607	# 2 0 2	0(10	0(1)
I otal MD Bettor Activity	\$583	\$597	-\$592	\$618	\$614

APPENDIX D

Foal Production Multiplier

To calculate the total state racehorse population, one anecdotal methodology is to multiply the foal production by ten.

The logic of the 10x multiplier is as follows: for every 1,000 foals, approximately 2,000 mares are bred. Add 1,000 yearlings for a total of 4,000 horses (stallions number a few hundred). Assume the 3, 4, 5, 6, 7, and 8 year-old generations that are still racing number 1,000 each. Thus, a 1,000 annual foal production suggests 10,000 horses directly involved in racing.

Obviously, the technique doesn't allow for the movement of horses between states, but it provides a reasonable "ballpark" estimate of racehorse population.

Horseracing and Casino-Style Gambling: Facts Behind the Myths

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Nothing written here is to be construed as an attempt to aid or hinder the passage of any bill before the Maryland General Assembly.