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 Two

HOOKE ASSOCIATES, LLC

MARCH 18, 2013

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SECTION 1

Executive Summary

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 market-based 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 II 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.

Table 1: Indicative Casino License Valuations

State	Market	Indicated Value	Offerer	Number of Competitors in Market	Tax Rate[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	0	35

[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.

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 Two-year-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

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

SECTION 3 PROJECT PLAN

3.a Scope of Services

As identified in the ITN, the statistical relationships between gaming and economic variables of communities will be determined based on an analysis of counties nationwide where new gaming facilities have been opened and operated. These areas will be compared to counties that are not near gaming.

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 way new or expanded gaming has impacted pre-existing gaming and pari-mutuel facilities in affected counties.

Thirdly, the historical impact of gaming on government revenue, local economies and businesses will be modeled and used to forecast impacts in Florida related to various expanded gaming scenarios.

Finally, a detailed analysis of geospatial data from government sources and the National Establishment Time-Series Database (NETS) data base will be used to analyze changes in NAICS level economic data to study the impact of gaming on local business structures.

The respondent is prepared to meet this challenge through the preparation of a comprehensive analysis of gaming impacts on counties nationwide. The preparation of a statistical analysis of the relationship between gaming and community economics, and a geospatial study of the impact of gaming on local business structures will result in the creation of a clear set of recommendations to guide the state and focus efforts on attracting and retaining feasible and economically sustainable uses to complement the current gaming operations in Florida.

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: Interview Industry and Market Leaders

Interviews would be conducted with industry and market area leaders, including businesses, regulators, government and community leaders.

Task III. Statistical analysis of relationships among economic outcomes with the unit of observation being counties nationwide where new gaming facilities have opened and operated.

Task III will fully address the scope of services outlined in Part II, Section 1 of ITN #859.

Task III will answer the questions:

- As casinos opened nationally, what levels of revenue, distributions and employment were generated within surrounding communities relative to the number and types of games offered, population, incomes, home values, education and other factors?
- How did these relationships change as gaming expanded?
- How did changes in communities near gaming compare with similar communities that were not near gaming?

Task III will develop models informed by historical observations to estimate the future impact of various gaming policy scenarios in Florida.

Task III (A) Collect and map data

Task III (A) involves geocoding casinos and recording related statistics including number and type of games, opening dates, revenue, distributions and pari-mutuel components. This information will come from in-house, private and government sources.

Historical economic and demographic data will include U.S. decennial censuses, American Community Surveys and Nielsen Claritas demographic estimates for 2013 and 2018. Canadian quinquennial census data is also maintained for the purposes of quantifying markets in northern states. This data from government and commercial sources, along with corresponding map boundaries within the US, is maintained in-house and its sources adhere to rigorous methodological collection and estimation standards.

Counties will be subdivided into areas that were directly impacted by casinos and those that were not directly impacted, relative to casino opening dates, and based on drive-time, radius and Voronoi areas.

Task III (B) Analyze economics and demographics relative to gaming

Task III (B) would statistically analyze data collected and mapped in Task III (A). Demographic and economic variables would be compared for impacted and non-impacted areas.

Panel datasets would be created based on areas directly impacted and not directly impacted by gaming. Peer groups would be created of similar demographic, economic and business characteristics to compare similar areas with and without gaming. Data would be analyzed for single and multi-year periods, statically and longitudinally.

A broad range of statistical methods would be applied during this exploratory stage to develop the most accurate models in terms of explaining the historical economic impacts of gaming and predicting impacts among blind-test groups drawn from historical data. Blind tests require withholding some historical data while creating models and then assessing the models' accuracy when applied to previously unseen historical data.

Statistical procedures would include descriptive statistics including means and standard deviations; tests of the statistical significance of differences between groups, including t-tests and chi square tests; regression analysis; stepwise analysis to test each variable's potential contribution to a model's predictive accuracy (e.g., should gaming revenue models use per capita income, median income, median home value, none these three variables or all?); discriminant analysis to estimate the probability of alternative outcomes (e.g., among counties with casinos, which ones had the least or most favorable changes in unemployment?).

The end result of Task III (B) will be a greater understanding of each available variable's relationship to gaming impacts. This information will be documented. These variables and insights would be used in Task III (C) to develop models.

Task III (C) Model historical economic impacts of gaming

The statistical analysis conducted in Task III (B) would be used to design economic models. Casino revenue and distributions will be analyzed relative to gaming markets to assess economic impacts on communities, including personal incomes, home values, employment and tax revenue. Poverty, education and other economic measures will be described and the impact of casinos on these measures will be assessed.

Statistical models will be created to describe historical impacts. Models would be documented and used in Task III (D) to estimate the future impact of gaming scenarios in Florida.

Task III (D) Estimate future economic impact of various gaming scenarios

Based on the economic models developed in Task III (C), the future impact of various gaming scenarios for Florida will be estimated and will include total revenue, distributions, and jobs added above the levels expected based on control groups without gaming. As a part of this analysis, Florida counties would be categorized into potential gaming expansion candidates and unlikely candidates. Among likely county candidates, existing pari-mutuel facilities and other locations with the highest likelihood of maximizing benefits would be identified.

Task IV. Geospatial statistical analysis of changes in local business structure associated with the opening and operation of gaming facilities.

Task IV will fully address Part II, Section 2 of ITN #859.

Task IV will be limited to Florida and Pennsylvania due to data costs, and will study changes in business structure, including the cessation, creation and relocation of businesses and jobs, associated with the introduction and expansion of gaming facilities.

The key longitudinal economic data for this study will be the National Establishment Time-Series Database (NETS), which is based on annual Dun & Bradstreet data reported by North American Industry Classification System (NAICS) codes, and costs about $15,000 per state, which is why only two states would be analyzed. Advantages of NETS compared to other government data include quick availability, excellent quality control, incorporation of government statistics, inclusion of survey information not available from government and inclusion of self-employment statistics, often lacking from other sources.

Pennsylvania was chosen as the second state to analyze for several reasons including:

- High amount of gaming revenue (ranked second to Nevada)
- Mix of pari-mutuel, resort and stand-alone facilities that opened over several years
- Use of slots and tables as opposed to video lottery terminals (VLTs) and other limitations
- Large geographic size and mix of urban and rural areas
- Large population (Pennsylvania is ranked 6th and Florida is ranked 4th among U.S. states)

Task IV will also incorporate the extensive Florida and Pennsylvania gaming, economic and geodemographic data and analysis produced in Subtasks III (A) and III (B).

Task IV answers the questions: As gaming has debuted and expanded, what related changes occurred in the numbers and types of businesses and jobs, beyond changes experienced in control areas without gaming? In what proportion were these business changes due to contraction (downsizing and closures), expansion (openings and expansion) and relocation (in- or out-of-state)?

Task IV will model these relationships and apply the models to various Florida gaming scenarios.

Task IV (A) Collect and map data

NETS data would be acquired for Florida and Pennsylvania and geocoded and linked to economic and demographic data gathered in Task II (A) and Task II (B).

The key longitudinal economic data for this study will be the National Establishment Time-Series Database (NETS), which is based on annual Dun & Bradstreet data and reported by North American Industry Classification System (NAICS) codes.

Nielsen Claritas Business Facts, nationwide data describing business statistics by NAICS codes for the current year (longitudinal Business Facts are not available), would be employed to assess differences between the business compositions of areas with and without gaming. This data would be available at the same census block group and larger areas corresponding with economic and demographic data. Nielsen Claritas Business Facts would be used to determine if areas with established gaming have different business compositions than areas with similar demographics but without gaming. This data would also help to determine if there are relationships between casino revenue and business composition.

Task IV (B) Analyze business composition relative to gaming

Task IV (B) would work with data collected and mapped in Tasks III (A), III (B) and IV (A) to conduct preliminary statistical analysis. Task IV (B) would also use panel datasets created in Task III (B) to designate areas directly impacted and not directly impacted by gaming.

A broad range of statistical methods would be used during this exploratory stage to develop the most accurate models in terms of explaining the historical economic impacts of gaming and predicting impacts among blind-test groups drawn from historical data. These statistical analyses would be similar to those defined in Task III (B), to include descriptive statistics, t-tests, chi square tests, regression analysis, stepwise analysis and discriminant analysis.

The end result of Task IV (B) will be a greater understanding of each available variable's relationship to gaming impacts. These findings would be documented. These variables, understanding and insights would be used in Task IV (C) to develop the final models.

Task IV (C) Model historical economic impacts of gaming on business composition
Once business composition data has been described in terms of geographic proximity to casinos and relative to opening and operating dates, statistical relationships between casinos and business composition will be identified.

Models would be documented and used in Task IV (D) to estimate future impacts of various gaming scenarios in Florida.

Task IV (D) Estimate future business composition impact of gaming scenarios
Statistical models created in Task IV (C) will be used to estimate the business composition impact of various gaming scenarios in Florida.

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:

Scope of Work for Part II of ITN #859

Task	*Description*	*Start Task*	*Complete Task*
Task I	**Initial client meeting**	**04/05/2013**	**07/01/2013**
Task II	**Interview industry and market area leaders**	**04/05/2013**	**07/01/2013**
Task III	**Statistical analysis of relationships among economic outcomes with the unit of observation being counties nationwide where new gaming facilities have opened and operated**	**04/05/2013**	**07/01/2013**
Task III (A)	Collect and map data	04/05/2013	07/01/2013
Task III (B)	Analyze economics and demographics relative to gaming	04/05/2013	07/01/2013
Task III (C)	Model historical economic impacts of gaming	04/05/2013	07/01/2013
Task III (D)	Estimate future economic impacts of various gaming scenarios	04/05/2013	07/01/2013
Task IV	**Geospatial statistical analysis of changes in local business structure associated with the opening and operation of gaming facilities**	**04/05/2013**	**10/01/2013**
Task IV (A)	Collect and map data	04/05/2013	10/01/2013
Task IV (B)	Analyze business composition relative to gaming	04/05/2013	10/01/2013
Task IV (C)	Model historical economic impacts of gaming on business composition	04/05/2013	10/01/2013
Task IV (D)	Estimate future business composition impact of gaming scenarios	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**

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 secure the appointment of _____ under this proposed agreement.
(Name of Individual or Partnership)

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: Jeff Hooke Title: Managing Director

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: Jeff Hooke

Signature: Jeff Hooke Title: Managing Director

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: _____ Title: Manager Director

Appendix D

Attachment D: References Form

ATTACHMENT "D"

THE FLORIDA LEGISLATURE

REFERENCES for Hooke Associates, LLC
(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 Hooke Associates, LLC
(Name of Respondent)

Business Name	Maryland Public Policy Institute
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

The Buckeye Institute FOR PUBLIC POLICY SOLUTIONS

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-of-state facilities, particularly the Argosy Casino in Lawrenceburg, Indiana, chose instead to gamble in-state. 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-casino-patrons 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:

1. 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.
5. 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 profit-maximizing 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])

- **Relevant market.** The principal market for the location is the "convenience market," i.e., those potential customers living within a one-hour drive. MyOhioNow's and the Ohio Department of Taxation's revenue forecasts begin with an identical methodology, and this is based on observable activity in similar markets. Tourists and conventioneers represent a small portion of the customer base. Based on U.S. Census estimates, the population of the target area is 3.9 million and the adult portion of the population in the target market is 2.9 million.

- **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, and the related table games investment is $20 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 gambling[6] 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 amortization[7] (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 Hypothetical Ohio Casino

Revenue	
Slots (80%)	$ 500
Table Games (20%)	125
Total Revenue (100%)	625
State Gaming Tax (30%)	(188)
Revenue Share to Casino	$ 437
Slots Cash Op. Costs	(160)
Tables Games Cash Op. Costs	(80)
Direct Gambling Op. Income	197
Food & Beverage Op. Income	8
Hotel, Retail & Other Income	8
EBITDA	213
Depreciation[9]	50
EBIT[10]	$ 163

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 pre-qualification 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.

Comparable Sales: 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.

Table 3: Estimated State Cash Proceeds at Auction (In Millions of Dollars)

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	$1,000

Source: Author's calculations.

Comparable Income Multiples: 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 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.
4. 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.
7. 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.
10. 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.
13. 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.
14. $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.
17. 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).
18. 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

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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.

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 constant[2]. 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

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[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.

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 can[4]. 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 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% x 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 year [6].

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[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-of-state 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 pari-mutual 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.

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 tracks[7].

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.

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 profit[8].

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.

[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

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.

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

Breeding/Training Facilities	
Direct	4,224
Indirect	1,812
Subtotal	6,036
Racetracks	
Direct	1,774
Indirect	1,112
Subtotal	2,886
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.

Pennsylvania

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) provided 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.

Pennsylvania Study
Jobs Attributable to Horseracing

	Direct Jobs	Indirect Jobs (0.36 multiplier)	Total Jobs
Back End	4,740	1,690	6,430
Front End	1.075	387	1.462
	5,815	2,077	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.

Michigan

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:

Michigan Economic Impact Study
Jobs Attributable to Horseracing

	Direct Jobs	Indirect Jobs	Subtotal Jobs	Multiple	Total Jobs
Back End	4,078	1,079	5,157	1.64x	8,457
Front End	1,185	142	1.327	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

Michigan Study	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	1,943	1,588	1,943
10,633	8,631	7,053	6,017

Maryland

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.

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

Trends in Pari-Mutual Wagering in Maryland
(In millions)

	2002	2001	2000	1999	1998
(1) MD Bettors/MD Races					
On the tracks' live races	$ 61	$ 69	$ 83	$ 95	$ 98
On MD tracks' live races from MD simulcast facilities	75	84	96	119	121
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	57	55	45	52	58
Subtotal (3)	447	444	413	404	393
Total (1 + 2 + 3)	$1,002	$998	$980	$1,017	$956
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 Out-of- State Races (1 + 3)					
Total 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.

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Nothing written here is to be construed as an attempt to aid
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