POTENTIAL IMPACT OF VIDEO LOTTERY TERMINALS AT RACE TRACKS

COMMITTEE ON THE CURRENT STATE OF HORSE AND GREYHOUND RACING IN TEXAS
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Situation Overview

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The racing industry is facing competition from the surrounding states which all have the benefit of some form of gaming. Significant purse contribution is made by a portion of the proceeds of gaming.

Experience in other Jurisdictions

- Racetrack VLTs have been authorized in 15 states
- The racing industry in every jurisdiction that has authorized VLTs with a reasonable regulatory framework has been significantly enhanced
- Facilities can be constructed quickly

Significant Revenue Potential

- A combination of temporary and permanent facilities can be implemented
- Racetrack VLTs could provide **$600 million or more** in gaming tax over the next biennium
- Texas racetrack gaming could generate **77,500 jobs, $8.5 billion in economic activity** and **$3.1 billion** in annual gaming revenue at full implementation

Framework Already in Place

- Racetracks are already licensed and regulated by the State (**TRC, DPS)**
- Racetracks have already received local authorization and approval
- Facilities are in place in the major markets

Situation Overview

Existing Locations and Facilities Review

Large land parcels and existing facilities provide a path to generating money quickly for the State.

Large Facilities Already in Place

Lone Star Park (DFW):	220 acres	360,000 SF
Sam Houston Race Park (Houston):	320 acres	240,000 SF
Retama (San Antonio):	218 acres	280,000 SF
Manor Downs (Austin):	165 acres	18,000 SF
Gillespie County Fair (Fredericksburg):	120 acres	14,000 SF
Gulf Greyhound (La Marque):	110 acres	315,000 SF
Valley Race Park (Harlingen):	80 acres	91,000 SF
Gulf Coast Racing (Corpus Christi):	63 acres	88,000 SF

In Place Development Pipeline - To-be-built licenses provide an **authorized** and **significant** pipeline for growth

Longhorn Downs (Austin area):	150 acres
Laredo Race Park (Laredo):	200 acres
Laredo Downs (Laredo):	125 acres
Saddle Brook Park (Amarillo):	286 acres
Valle de Los Tesoros (McAllen):	200 acres

Importance of a Proper Environment

Proper Environment

A review of other jurisdictions has identified the following items as necessary components to rapid implementation.

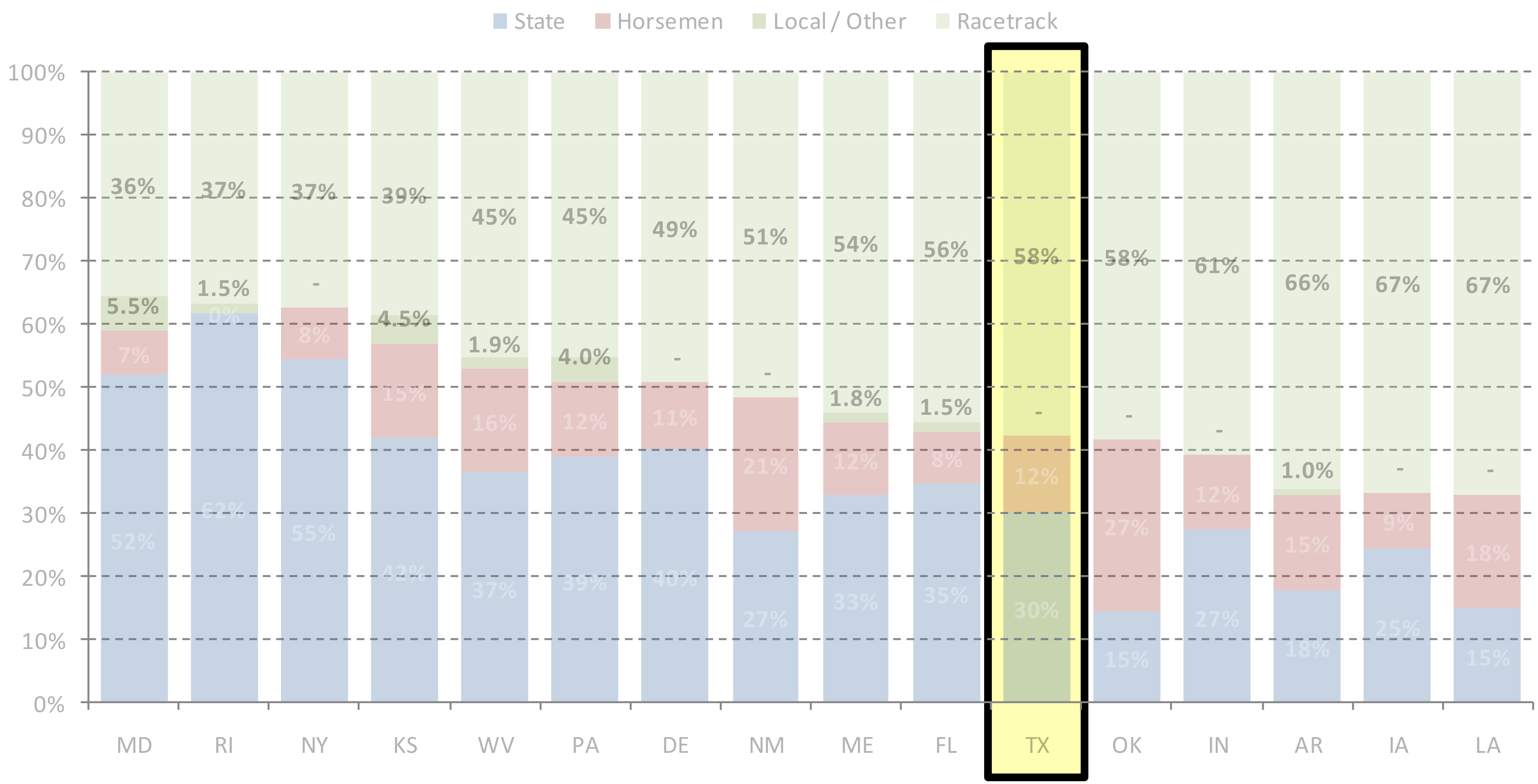
Regionally Competitive Tax Rate Structure, Statutory Deductions & License Fees

Temporary Facilities as an Option

- Temporary facilities allow operators to invest in more attractive and more capital intensive projects, which can sustain and enhance gaming and ancillary offerings

Review of Tax Rates in other Jurisdictions

State	MD	RI	NY	KS	WV	PA	DE	**NM**	ME	FL	**TX [(2)]**	**OK**	IN	AR	IA	**LA**
State	52.0%	61.8%	54.7%	42.0%	36.6%	39.0%	40.3%	**27.4%**	32.9%	35.0%	**30.0%**	**14.6%**	27.4%	18.0%	24.5%	**15.2%**
Horsemen	7.0%	-	8.0%	15.0%	16.3%	12.0%	10.5%	**21.1%**	11.5%	8.0%	**12.0%**	**27.2%**	12.0%	15.0%	8.9%	**18.0%**
Local / Other	5.5%	1.5%	-	4.5%	1.9%	4.0%	-	**-**	1.8%	1.5%	**-**	**-**	-	1.0%	-	**-**
Total Takeout	64.5%	63.3%	62.7%	61.5%	54.8%	55.0%	50.9%	**48.5%**	46.2%	44.5%	**42.0%**	**41.8%**	39.4%	34.0%	33.4%	**33.2%**
Racetrack	35.5%	36.7%	37.3%	38.5%	45.2%	45.0%	49.1%	**51.5%**	53.8%	55.5%	**58.0%**	**58.2%**	60.6%	66.0%	66.6%	**66.8%**



Notes:

1) **This slide reflects effective tax rates**

2) **Proposed**

Regional Competition

Texas is surrounded by states with the lowest tax rates in the nation. None of these states were assessed initial license fees.

OK: Lowest racetrack gaming tax rate in nation

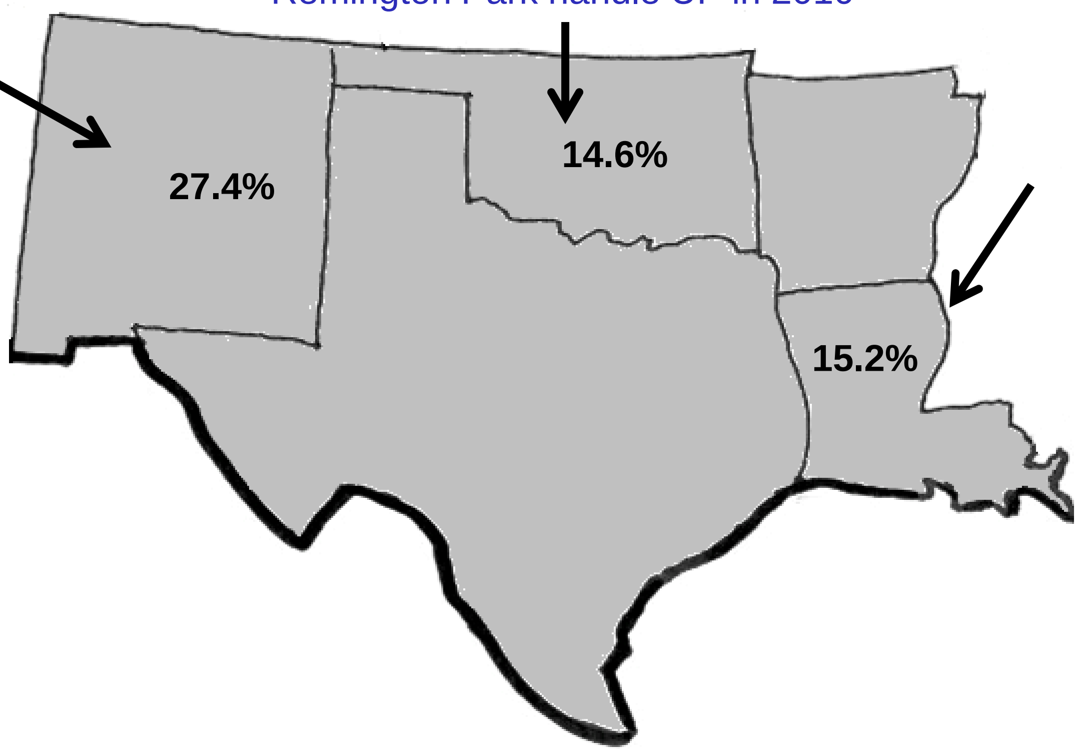
Remington Park handle UP in 2010

NM: Low tax rate

Racing quality has improved greatly

Sunland Derby now graded

Handle up 2010 YTD



LA: Lowest combined state & horsemen takeout in nation

Racetrack purses more than DOUBLE Texas average

More and more money set aside for Louisiana breds

Issues Faced by Other Jurisdictions

VLT implementation is full of examples where burdensome fees and tax rates either delayed or halted implementation entirely.

New York (Aqueduct)

- $350 MM up-front fee & **one of highest tax rates in country (almost 70%)**
- License auctioned since state owns the tracks
- Allegations of corruption and multiple re-bids
- No gaming at Aqueduct more than 10 years after authorization
- An example of **what not to do**

Indiana

- $250 MM up-front fee
- Horsemen lower legislated distribution for multiple years to help tracks (June 2009)
- Hoosier Park files bankruptcy in March 2010.
- **No healthy tracks**.

Kansas

- High tax rate coupled with upfront fee
- Racetracks did not apply; have closed since authorization

Maryland

- High tax rate in a very competitive region
- No projects underway

Initial Facility Types

There are typically three (3) types of temporary facilities employed by racetracks to expedite gaming operations. These facilities typically house 1,000-2,500 VLT machines and vary by market size and level of competition in the region.

Grandstand Retrofit

- Racetrack grandstand is altered minimally to accommodate space and services for gaming in a cost efficient manner

Grandstand Renovation / New Facility

- Racetrack grandstand is renovated significantly and often augmented to accommodate space and services for gaming while maintaining racing purposes

Pre-Engineered Structure

- A pre-engineered structure, such as a large tent like structure, is erected on the racetrack grounds, often adjacent to grandstand

Stand-alone Casinos often have lengthy road to implementation

- Sands in Pennsylvania opened May 2009 – 28 months after first PA racetrack
- SugarHouse in Pennsylvania opened September 2010– nearly 4 years after first PA racetrack

Examples of Racetrack Gaming Facilities

Hollywood Casino at Charles Town Races (Charles Town, West Virginia)

Racetrack Gaming Facilities

Hollywood Casino at Penn National Racecourse (Bensalem, Pennsylvania)

CASE STUDY – PENNSYLVANIA

Pennsylvania Highlights

Pennsylvania provides recent examples of effective policies as well as some stumbling blocks that may be encountered during implementation.

Racetracks were generally quick to market

- Mohegan Downs was the first license to start gaming in November 2006
- Parx (Philadelphia Park) opened four (4) months after license approval by retrofitting grandstand
- Three (3) pre-existing racetracks averaged only eight (8) months of construction for temporary facilities
    - Temporary facilities allowed racetracks to achieve over 75% of stabilized revenues [(1)]

Stand-alone Casinos in many cases faced delays

- Stand-alone casinos were among the last to open
- First stand-alone casino opened in October 2007, one year after first racetrack
- Five (5) racetracks had started gaming operations by the time the first stand-alone casino opened
- Sands opened two and half years after the first racetrack

1) Stabilized revenue based on annual revenue produced in permanent facilities

Pennsylvania Highlights

New Racetracks – Two new racetracks were developed as part of gaming implementation

- Presque Isle Downs and Harrah's Chester Downs were the second and third licenses to start gaming

Track	Approval	Opened	Duration
Presque Isle Downs	Oct-2006	Feb-2007	4 months
Harrah's Chester Downs	Sep-2006	Jan-2007	4 months

Existing Racetracks

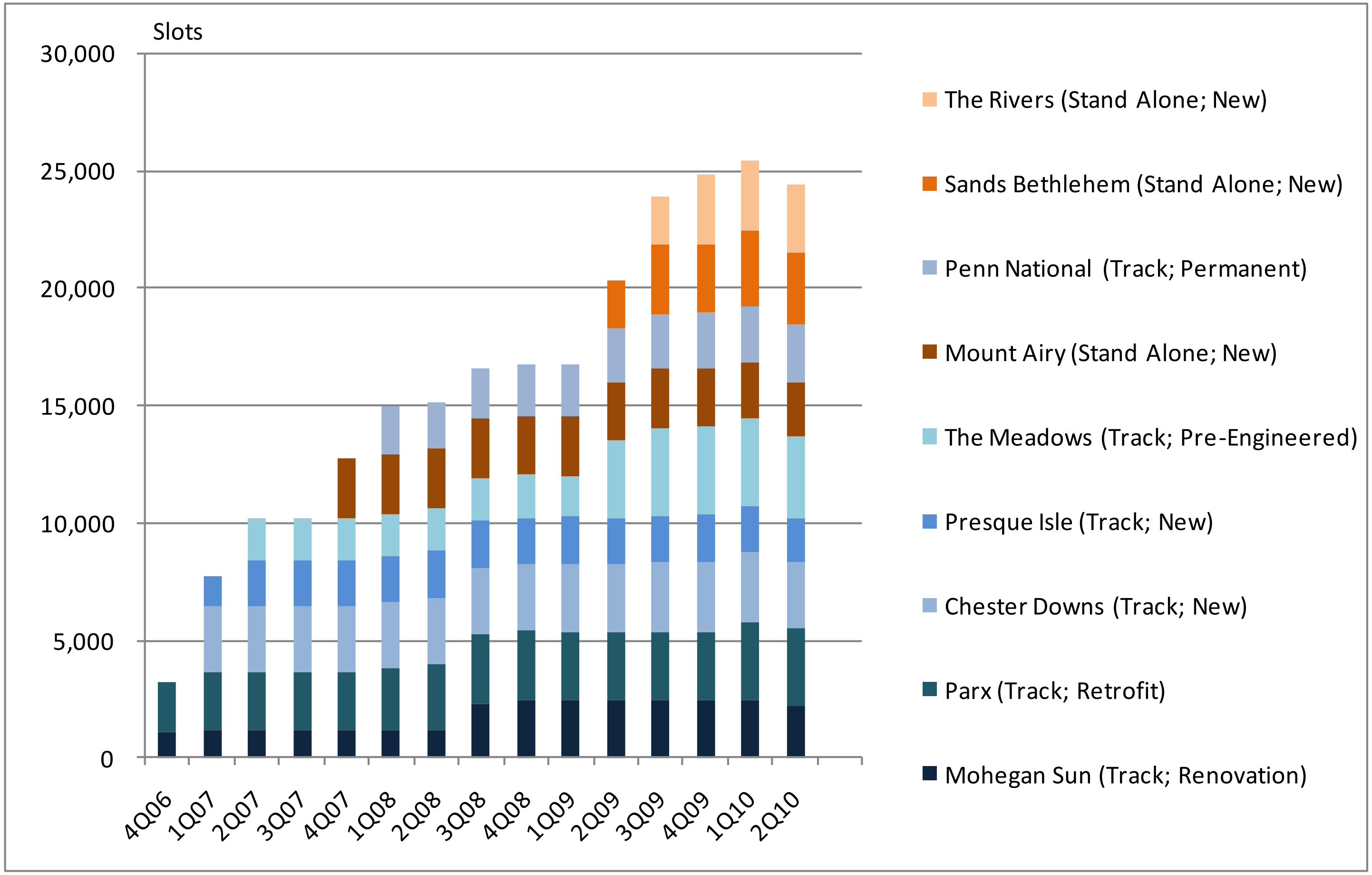
- Mohegan Sun, Parx and The Meadows utilized temporary facilities to fast-track gaming operations

Track	Approval	Opened	Duration
Mohegan Sun	Sep-2006	Nov-2006	2 months
Parx	Sep-2006	Dec-2006	3 months
The Meadows	Sep-2006	Jun-2007	9 months
Penn National	Sep-2006	Feb-2008	17 months

VLTs in Pennsylvania

Racetracks & Limited # of Standalone Licensees authorized

- Full implementation for racetracks achieved in **30 months** from first facility opening to last permanent facility opening



Note: SugarHouse opened 9/23/10 and is not yet included in reporting

Other Comparables

Racetracks have delivered gaming expeditiously by constructing temporary facilities or new permanent facilities.

Track	Type	VLTs	Size (SF)	Construction
Mohegan Sun (PA)	Renovation	1,000	90,000 SF	13 months
Parx (PA)	Retrofit	2,100	70,000 SF	4 months
The Meadows (PA)	Pre-Engineered	1,700	82,000 SF	7 months
Penn National (PA)	Permanent	2,000	150,000 SF	13 months
Indiana Downs (IN)	Pre-Engineered	1,900	70,000 SF	11 months
Hoosier Park (IN)	Permanent	2,000	92,000 SF	8 months
Calder (FL)	Pre-Engineered	1,200	104,000 SF	12 months

Potential Revenue

Analysis of VLTs/Population in other States

States by VLTs per 10,000 people

1.	**Oklahoma**	**14.89 VLTs per 10,000 people**	**54,987 VLTs**
2.	West Virginia	10.14 VLTs per 10,000 people	18,497 VLTs
3.	**Louisiana**	**9.55 VLTs per 10,000 people**	**42,910 VLTs**
4.	**New Mexico**	**9.53 VLTs per 10,000 people**	**19,150 VLTs**
5.	Delaware	8.55 VLTs per 10,000 people	7,523 VLTs
6.	Rhode Island	5.77 VLTs per 10,000 people	6,075 VLTs
7.	Indiana	3.63 VLTs per 10,000 people	23,341 VLTs
8.	Pennsylvania	1.96 VLTs per 10,000 people	24,754 VLTs
9.	New York	1.25 VLTs per 10,000 people	24,448 VLTs
10.	**Texas (projected)**	**1.26 VLTs per 10,000 people**	**32,400 VLTs**

Source: American Gaming Association, US Census, The Innovation Group and SHRP Research

Revenue Projections

Texas racetracks could produce over $600 million in gaming tax revenue in the next biennium.

		Ramp-Up	Slots	WPD at $259.81	Gaming Revenue	Gaming Taxes at 30%
1	Oct-11	0%	-	-	-	-
2	Nov-11	0%	-	-	-	-
3	Dec-11	0%	-	-	-	-
4	Jan-12	0%	-	-	-	-
5	Feb-12	0%	-	-	-	-
6	Mar-12	0%	-	-	-	-
7	Apr-12	0%	-	-	-	-
8	May-12	0%	-	-	-	-
9	Jun-12	7%	2,191	$259.81	$ 17,074,878	$ 5,122,463
10	Jul-12	20%	6,329	$259.81	50,973,456	15,292,037
11	Aug-12	40%	12,799	$259.81	103,086,791	30,926,037
12	Sep-12	52%	16,786	$259.81	130,834,891	39,250,467
13	Oct-12	52%	16,786	$259.81	135,196,054	40,558,816
14	Nov-12	52%	16,786	$259.81	130,834,891	39,250,467
15	Dec-12	52%	16,786	$259.81	135,196,054	40,558,816
16	Jan-13	63%	20,406	$259.81	164,351,266	49,305,380
17	Feb-13	63%	20,406	$259.81	148,446,305	44,533,891
18	Mar-13	63%	20,406	$259.81	164,351,266	49,305,380
19	Apr-13	63%	20,406	$259.81	159,049,612	47,714,884
20	May-13	63%	20,406	$259.81	164,351,266	49,305,380
21	Jun-13	63%	20,406	$259.81	159,049,612	47,714,884
22	Jul-13	63%	20,406	$259.81	164,351,266	49,305,380
23	Aug-13	63%	20,406	$259.81	164,351,266	49,305,380
24	Sep-13	77%	24,935	$259.81	194,349,086	58,304,726
Total					$ 2,185,847,961	$ 655,754,388

- Based on *The Innovation Group* study that projected **32,400 VLTs** at stabilization & a win per day per machine (WPD) of **$259.81**
- Applied Pennsylvania VLT count ramp-up to Texas projection
- Statewide referendum assumed to be November 2011
- First facility assumed to open 8 months after referendum
- No WPD premium is assumed despite Pennsylvania experiencing a 30% premium in the first twelve months of operations
- Revenue for horsemen, breeders, greyhound purses, greyhound breeders and other agricultural interests could approach $240 million in the next biennium

Revenue Projections

Well in excess of $3 billion in revenue per year over the next five years with full implementation by the beginning of the 2014-2015 biennium is projected.

Annualized Revenue at New Racetracks

- 32,400 VLTs projected for 13 racetracks in Texas
- $3.1 billion in annual gaming revenue [1]
- $922 MM in annual direct gaming tax revenue
- $360 MM in additional purse, breeder, etc. revenue

Added Economic Impact

Annual direct gaming tax revenue	$921.7 MM
Indirect revenue from recaptured out-of-state non-gaming spending	130.9 MM
Less: Lost Lottery sales	(16.3 MM)
Less: Lost sales tax	(68.7 MM)
Net Total	$967.6 MM

1) Stabilized revenue based on *Innovation Group* study, July 2010