

Testimony of Todd Mostoller
On behalf of the Pennsylvania Equine Coalition
June 17, 2015

Thank you Chairman Ward and members of the committee for providing the Pennsylvania Equine Coalition with the opportunities to share our views on Senate Bill 900. My name is Todd Mostoller and I am Executive Director of the Pennsylvania Horsemen's Benevolent and Protective Association, a non-profit organization that represents the interests of horsemen at both Penn National Race Track and Presque Isle Downs.

I am testifying today on behalf of our members, as well as the Pennsylvania Equine Coalition, a statewide organization that represents more than 10,000 owners, trainers, drivers, and breeders in Pennsylvania's horse racing and breeding industry. Our member organizations include the Pennsylvania Harness Horsemen's Association, the Pennsylvania Thoroughbred Horsemen's Association, the Standardbred Breeders Association of Pennsylvania, the Pennsylvania Horse Breeders Association, the Meadows Standardbred Owners Association, and the Pennsylvania Horsemen's Benevolent and Protective Association.

Background

Casino gambling was legalized in Pennsylvania under Act 71, officially known as the Pennsylvania Race Horse Development and Gaming Act. One of the major premises of the legislation was to help rejuvenate the Pennsylvania horse racing and breeding industry, which is why a portion of the revenues from slot machines was dedicated to the Pennsylvania Race Horse Development Fund (PRHDF). The PRHDF provides funding for racing purses at the Commonwealth's racetracks and breeding incentives.

There was risk to Pennsylvania's racing and breeding industry in bringing slots to the state's racetracks. As the Oxford University Handbook of the Economics of Gaming notes, numerous studies have shown that placing slot machines at racetracks results in a reduction of pari-mutuel wagering – betting on races – by 21 to 39 percent. Until Act 71 was adopted, pari-mutuel wagering formed the basis for the racing industry's purse structure in Pennsylvania. The allocation of a percentage of slots revenues to the racing industry was implemented to offset the reduction of horse betting that comes with the introduction of gambling at race tracks.

The decline in pari-mutuel wagering expected with the introduction of slots, resulted in Pennsylvania's racing purses and breeder incentives relying heavily on the revenues garnered by slot machine play at Category 1 Racetrack casinos.

An important distinction to note: The monies paid into the Race Horse Development Fund for slot play are based on the performance of slot machine play at Category 1 casinos only, not slot machine play statewide. Under current law, if slot machine play goes up statewide, but down at Category 1 casinos, the funds paid to the Race Horse Development Fund will decrease, not increase. If a new Category 2 casino is approved, it will not result in additional funds for the Race Horse Development Fund. In fact, if that casino is placed in Philadelphia, it will likely draw from the slots play at Harrah's Philadelphia and Parx Casinos, resulting in less money for the Race

Horse Development Fund. Furthermore, the resulting contributions by all casinos in the Commonwealth will decrease from the current 10.5 percent obligation.

Erosion of the Race Horse Development Fund

Over time we have seen the erosion of funding for horse racing purses and breeder incentives through the Race Horse Development Fund for two main reasons; the diversion of money from the RHDF by the legislature to the General Fund and decreased slots play at Category 1 Racetrack Licensees due to internal and external competition. The external competition includes new casinos in other states, competing with our Category 1 Casinos. The internal is a result of in state competition from additional Category 2 and Category 3 casinos coming online.

The approval of table games in 2010 has also contributed to the decline in slot revenues. During the legislative discussions prior to the passage of “Table Games Legislation” the racing and breeding industry warned that it represented very real competition to existing slots play. We asked for a portion of the revenue from table games play to be allocated to the Race Horse Development Fund to offset lost revenues. The casino operators argued that table games would increase slots play in Pennsylvania. Operators promoted studies to conclude table games would bring new bettors into facilities and therefore increase slot revenues.

Five years after table games legislation was first approved, the racing industry is still waiting for the increase in slots play promised by casino operators and the corresponding studies. Instead slot revenues have declined by 13% at the Category One Casinos, a percentage that mirrors the concerns and predictions of the Horsemen indicated in 2010 testimony.

S.B. 900

The Equine Coalition has strong concerns with provisions contained in S.B. 900. In particular provisions related to internet gaming and the expansion of slot machines to non-primary locations for Category 1 and Category 2 casinos. It is clear that the expansion to online gaming and non-primary locations will result in the cannibalization of slot machine play at existing Category 1 facilities. This viewpoint is not unique to the Equine Coalition as it was supported by multiple casino operators in their testimony before this committee last week.

Non-primary Locations

S.B. 900 provides for four non-primary locations for Category 1 facilities per racing license and two non-primary locations per Category 2 casino. As a result, we could see up to forty six non-primary slots facilities, each with up to 250 slot machines. The potential exists for an additional 11,500 slot machines in Pennsylvania.

It is the strong opinion of the Equine Coalition that the gaming market in Pennsylvania has reached maturity and is at the brink of saturation. Ninety Five percent of the Commonwealth’s population is within an hour drive of a casino. Instead of slots play occurring at existing facilities, the introduction of non-primary locations will merely disperse gambling wagers over at larger geographic area, decreasing the slots play at the Category 1 facilities, which is the main source of

funding for our racing purses and breeder incentives. In addition the resulting cannibalization will create very little or no incremental revenue to the state.

For the aforementioned reasons we would respectfully request the current disbursement of revenues in S.B. 900 be amended to match the current distribution allocations set forth in Act 71 for slot machine play at existing facilities. This amendment would offset the cannibalization issue of existing slots play. The Pennsylvania Equine Coalition supports the allocation of 12 percent of slots play at non-primary locations to the Race Horse Development Fund.

Maintaining current funding levels for the Race Horse Development Fund is a matter of survival for the racing industry within the Commonwealth. If Penn National were to hypothetically earn \$12 million in Gross Terminal Revenue at each of their eight non-primary facilities, with twenty five percent of that revenue “new” money, the result would be an erosion of \$72 million in gross terminal revenues at the race track. That’s about one-third of our existing purse structure. It would be devastating to our horsemen and breeders. The ancillary beneficiaries of the industry: farmers, vets, feed mills, blacksmith, jockeys, mushroom farms and others would suffer greatly.

The Equine Industry has experienced the phenomena of revenue dispersion previously in the 1980’s with the advent of OTB’s. The OTB’s were sold legislatively on the promise of a dramatic revenue increase more than compensating for a lower distribution to purses. The result thirty years later is a dramatic decrease in pari-mutuel purses earned and operators being forced to close operations due to an unsustainable business model. We need to learn from past mistakes – not repeat them.

Internet Gaming

The arguments for maintaining existing disbursement levels for slots revenue from non-primary facilities holds true for internet gaming. Operators are touting studies saying internet gaming will bring in new gamblers and not cannibalize the existing market. When testifying before the legislature in 2008 and 2009, operators claimed table games would increase tax revenues from slots play. Some claimed it would increase slots play as much as 16 percent.

The operator’s predictions have never materialized. As table games were introduced, slots play at Category 1 facilities has slowly eroded. In the past three years revenues from slot machines to the Race Horse Development Fund has fallen more than 13 percent and continues to decline.

The past performance of projections and studies commissioned by the casino operators greatly concerns the Equine Coalition and should be of great concern to the Legislature when authoring legislation to expand gaming within the Commonwealth that may be detrimental to a \$4 billion equine industry.

In addition, I would note that there are various other studies that do show internet gaming cannibalizes existing gaming at brick and mortar casinos. One study conducted for the Native Indian Gaming Association predicted tribal casinos could lose up to 25 percent of annual gross gaming revenues if internet gaming were legalized.

Another, more recent study published in the University of Nevada Las Vegas Gaming Research and Review Journal evaluated the impact of online gaming on brick and mortar casinos by using multiple models. These models all found that online gaming will cannibalize commercial casino revenues at a rate of between 27 to 30 cents on the dollar – a 27 to 30 percent decrease.

It is for these reasons that we believe the current 12 % slot revenue distribution set forth by Act 71 should be extended to internet gaming as well.

Proposed Reduction in Live Racing Days

It has come to our attention that members of the committee are re-evaluating language related to reduction of live racing days. The Coalition is of the opinion live racing days should be negotiated by track operators and their respective horsemen's organizations.

Reducing live racing days would take year round family sustaining jobs and hand them to journeymen who will come into the state for a few months and then move on, resulting in little lasting economic benefit. It would, in effect, create a transient racing population in Pennsylvania, with individuals coming to Pennsylvania then moving on to another state. A transient equine industry would have huge negative repercussions on the state's agriculture industry.

In addition, it would also result in the loss of tax revenues for the state. As the Pennsylvania Gaming Control Board notes in its Racetrack Casino Benchmark Report, "for the past five consecutive years average daily gross terminal revenue generated from slot machine gaming by the six casinos which host racing was higher on race days when compared to non-race days."

The Gaming Control Board goes on to note that "in 2014, average daily gross terminal revenue was 15% higher when there was live racing when compared to days when there was not live racing." Any reduction in live racing dates would result in lost revenues to the Commonwealth. It will also reduce pari-mutuel wagering, which will result in lost wagering tax revenue for the Commonwealth.

The Gaming Control Board report mirrors research from the Oxford University's Handbook of the Economics of Gambling, which found that nationally slot machine gambling increases by 13 to 18 percent on average on live race days.

For these reasons, the determination of the proper numbers of race days should be decided by both the operators and horsemen's associations at each race track, not legislated by the Pennsylvania General Assembly.

Conclusion

In closing, I would like to enter into the record copies of correspondence written by the Pennsylvania Equine Coalition to members of the Senate on both S.B. 900 and S.B. 352. These correspondences give additional details on the bills in question and other issues important to the Coalition. On behalf of the Pennsylvania Equine Coalition, I appreciate the opportunity to share our views. We hope to work with you to address these concerns so that we can ultimately support passage of this legislation.