

Testimony of Kim Hankins
On behalf of the Pennsylvania Equine Coalition
June 3, 2014

Impact of Internet Gaming on the Equine Racing Industry

Good morning. My name is Kim Hankins, and I am Executive Director of the Meadows Standardbred Owners Association, a non-profit, trade association of owners, trainers, and drivers of Standardbred horses racing at The Meadows Racetrack, near Washington, Pennsylvania.

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, 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.

We understand the growing interest to authorize and regulate internet gaming so as to provide greater consumer protections for those engaging in such activity and to help generate additional revenue for the state. We also recognize that currently anyone with internet access can find some form of internet gaming in which to participate, whether it is a site with governmental oversight or one that operates off-shore with little to no oversight.

In anticipation that internet gaming authorization may advance this month we wanted to share with you our perspective on how internet gaming would impact the state's equine racing industry, which employees over 23,000 individuals, preserves thousands of acres of open space, sustains many farms through feed purchases, and has attracted millions in investment in thoroughbred and standardbred breeding facilities and operations.

It is safe to say that Act 71, The ***Racehorse Development*** and Gaming Act has been a success in helping to offset the negative impact that everyone knew slots play would have on para-mutual wagering. Act 71 has positioned Pennsylvania as one of the few states that can sustain year round racing and employment, providing health care and pension benefits for those making a living through our sport. In contrast, horse racing in New Jersey is on life support.

We read with interest the LBFC study on internet gaming and its speculation that internet gaming will not cannibalize on site wagering. We also note that this supposition is based on limited empirical data being available.

It is important to note that the Equine Coalition is not opposed to the concept of internet gaming, however we believe it must be properly structured. A failure to put in place a properly structured framework will likely have an adverse effect on the racing industry, \$2.3 billion economic impact it has in Pennsylvania each year, and create an unforeseen ripple effect on other aspects of the state's economy.

So while we are not opposed to the concept, we do have serious concerns with the authorization of internet gaming. First and foremost, internet gaming legislation should not create a favorable tax structure that would incentivize casinos to encourage players to play on-line as opposed to on-site. For example, HB 1235 would establish a tax of 28 percent on daily Internet gaming gross revenue compared to the current rate of 55 percent on gross terminal revenue from slots.

This creates a clear incentive to licensed gaming facilities to move players from in-front of slot machines to sitting in front of their computer screens. This will result in loss of revenue to the state, as well as adversely impact the state's racing industry. Meanwhile operators will see a tremendous benefit – seeing their share of gaming dollars increase from 45 percent under slot machines to 72 percent under internet gaming.

The disparity resulting from different assessment rates is already evident in Pennsylvania. Following the introduction of table games in Pennsylvania, we have seen Table Games revenues increase and Slot revenues decrease. We believe the tax structure provides an incentive for operators to promote table games over slots because of the significant difference in assessment rates -- 12 percent compared to roughly 54 percent.

Under HB 1235, assessments on gross internet gaming revenues – totaling 28 percent -- would be distributed as follows:

- 55% would go to the State Lottery Fund for tax relief (effective rate of 15.4 percent of internet gaming revenue)
- 30% would go to the State Lottery Fund for transit services (effective rate of 8.4 percent of internet gaming revenue)
- 15% would go to the Race Horse Development Fund to support the racing and breeding industry (an effective rate of 4.2 percent of internet gaming revenue)

In comparison, assessments of gross terminal revenue from slot machines – totaling roughly 54 percent - are distributed as follows:

- State taxes (34% of gross terminal slots revenue)
- Local Share Assessment (4% of gross terminal slots revenue)
- Economic Development and Tourism Fund (5% of gross terminal slots revenue)
- Pennsylvania Race Horse Development Fund (18% of gross terminal slots revenues at Category 1 Casinos which is then allocated proportionately among all casinos, resulting in an assessment of less than 11 percent of gross terminal slots revenue for each Casino)

Further, it is hard to imagine how internet gaming will not adversely impact on-site gaming activity. Just look at how retail shopping has been impacted by internet shopping. Who here hasn't purchased items on-line as opposed to traveling to a retail center, fighting traffic, finding parking, and then walking to multiple stores looking for a specific item? It is hard for us to conceive that internet gaming will not have a similar impact on our host facility revenues. With limited discretionary dollars available for gaming activity, the inherently more convenient, online gaming outlet is highly likely to draw a significant portion of the limited discretionary dollars away from on-site casinos. This will not just impact our

industry, but the many small businesses, bars, and restaurants that have grown in recent years around brick and mortar casinos.

We have seen our slots revenues decline for two successive years as adjoining states have ramped up their gaming options and table games were offered at Pennsylvania casinos. We believe additional declines will occur as a result of internet gaming if an imbalanced tax structure is put in place.

We hope we are wrong. But you cannot expect investors to risk their investments in the Pennsylvania equine racing and breeding industry without some level of assurance that purses, which sustain the industry, will remain stable. Therefore we propose the following solution:

- Apply identical assessment rates to internet gaming as apply to on-site, thereby removing any incentive to encourage players to move from the slot machine to their computer screen.
- Evaluate the need to redefine table games and slot machines, with online gaming more closely mirroring the definition of slot machines.

This approach would assure that an inadvertent consequence of authorizing internet gaming would not harm state revenues, property tax relief, the Race Horse Development Fund and para-mutual wagering.

Our goal is simple. We want individuals and small businesses to continue to invest in the state's racing industry. That requires some reasonable expectation for horsemen and breeders that with good business acumen, and a little luck, they can realize a return on their investment.

Thank you very much for this opportunity to present comments on behalf of the Equine Coalition. I will be happy to respond to any questions you may have.