

MEMO

DRAFT FOR DISCUSSION PURPOSES ONLY

Date: January 16, 2014

To: Commissioner Bruce Stebbins, Massachusetts Gaming Commission

Cc:

From: Carla Giancola, Rob Scarpelli

Subject: Economic Development Components of Category 2 Applications not Tied to Slot Machine Operations

Further to your request, we present below a discussion of the economic development components of Category 2 Applications not tied to slot machine operations at the proposed gaming locations.

1. THE ISSUE

Among the objectives to be advanced in granting of a Category 1 or 2 licence, as set out in Section 18, are several objectives focused on the economic development aspects of each Application.

Each of the three Category 2 Applications includes a component that, while having economic development benefits as well as various degrees of potential operating synergy with the proposed gaming floor (i.e., slot machines operations), constitutes a separate investment decision by the Applicant. Two Applications incorporate a live horse racing component, specifically:

- Penn National/Plainville proposes to maintain live standardbred racing at the Plainridge Racecourse for 100 race days/year.
- PR/Raynham proposes to initiate standardbred racing (40 race days in 2014) at Brockton Fairgrounds if selected as the Category 2 licensee and if racing is discontinued at Plainridge Racecourse.

The third Application, PPE/Leominster, incorporates a business incubation scheme (i.e., "M3D3") that builds on an existing successful program (i.e., "M2D2") operated by the University of Massachusetts Lowell and University of Massachusetts Worcester. This program is focused on creating employment opportunities in the medical device field by providing funding support to start-up companies.

The Commission is faced with evaluating the potential economic benefits from these non-essential (i.e., not required for the success of the slot operation) components. This memo provides a framework for comparison and evaluation.

2. DESCRIPTION OF THE INVESTMENT

The three Applicants have proposed fundamentally different investments. The Penn National/Plainville proposal incorporates an ongoing annual operating cost for a horse racing business operated by the Applicant. The PR/Raynham proposal incorporates a one-time capital investment to a related party (Brockton Racing LLC) to enable the hosting of live racing in 2014. The PPE/Leominster Application is an ongoing annual contribution to a third party who, in turn (and with input from the Applicant), is meant to leverage the annual investment to deliver employment and related benefits in the Leominster area.

The investments are summarized in the following table:

	Penn National/Plainville	PR/Raynham	PPE/Leominster
Annual Investment	<p>Purse Allocation - \$2.3m (Year 1), \$2.1m (Year 5)</p> <p>Ongoing Operations - \$10.97m(Year 1), \$10.4m(Year 5)</p>	<p>A related party (Brockton Racing LLC) seeks to host 40 days of racing in 2014. Amount of funding for purses is not specified.</p> <p>No ongoing operations beyond 2014 in Application. No racetrack operation expenses provided in application related to Brockton Fairgrounds.</p>	<p>\$1m - \$1.5m (minimum of \$1m, depending on success of operations, could increase to \$1.5m at PPE's discretion).</p>
Portion of Capital Expenditure Related to Activity	<p>Penn will renovate the existing facility which will house the slots as well as the racing activity. While no amount of capital expenditure has been allocated or defined in the application as directly applicable to the racing activity, it can be assumed that a portion of the capital expenditure (\$225m) would be attributed to racing.</p>	<p>PR/Raynham will maintain the simulcast racing product at the gaming facility in Raynham. It can be assumed that a portion of the capital expenditure (\$227m) would be attributed to racing.</p> <p>If selected and racing ceases at Plainridge, PR/Raynham commits to loaning \$6m to a related party (Brockton Racing LLC) for "capital improvements and to establish the operation of a harness racing meet at the Brockton Fairgrounds for 2014".</p>	<p>None</p>

Appendices A-1, A-2 and A-3 compare the non slot-related investment components of the Applications based on a standardized set of characteristics, as follows:

- How the investment is made: What is the form of investment and how is the investment allocated?
- What the investment is used for: What is the end purpose of the investment?
- How the investment is distributed: Who receives the investment?
- Direct recipients of the investment: Who receives the investment?
- Indirect recipients of the investment: Who else benefits from the direct investment?
- The quantum of investment proposed (one-time and ongoing annual amounts): What amounts are proposed in the Application?

- Timing of the investment: How long before benefits are generated from the investment?
- What conditions have been included within the Application (including any unknowns)?
- What restrictions might be placed on the licence to ensure the investment occurs?

Additional considerations, including state-wide implications and factors out of the control of the Applicants are discussed later in this memo.

3. IMPLICATIONS FOR SECTION 18 OBJECTIVES

Section 18 includes nineteen objectives against which the Applications are to be evaluated. Six of these objectives are applicable when evaluating the additional investment proposals by the Applicants; four specific to the economic impact section and one each in finance and mitigation. The objective and relevant Application form questions are summarized below together with comments specific to each Applicant.

Economic Development Considerations		
Section 18 Objective	Relevant Application Question #	Comments
(4) implementing a workforce development plan that utilizes the existing labor force	3.2 Employment 3.5 Unemployed/Underemployed	<ul style="list-style-type: none"> • Penn National/Plainville is the only Applicant with an existing non-slot workforce (i.e., 77 FTE racing staff at Plainridge Racecourse). Employment activities are also created for horsemen as a result of current racing. • PR/Raynham has committed to about 40% of the racing activity currently operating at Plainridge. PR/Raynham proposes to rehire former racing staff of Brockton Fairgrounds. • No existing labour force is associated with M3D3.
(5) building a gaming establishment of high caliber with a variety of quality amenities to be included as part of the gaming establishment	3.28 Other amenities	<ul style="list-style-type: none"> • Only the Penn National/Plainville Application incorporates live racing as an amenity within the gaming establishment. The PR/Raynham Application proposes live racing at a distant location; no operational/customer-focused synergies are apparent.
(10) contracting with local business owners for the provision of goods and services	3.16 Local Business Owners	<ul style="list-style-type: none"> • Penn National/Plainville, by virtue of the magnitude of operating expenditures required for 100 race days, will have the greatest impact on local business owners. Penn National intends to ascribe to a "Buy Local/Hire Local" philosophy. • PR/Raynham's operating expenditures will be proportionately smaller than Penn National. • The quantum and type of purchases required to support M3D3 will depend on businesses funded; cannot predict.
(14) mitigating potential impacts on host and surrounding communities	3.31 Other community enhancements	<ul style="list-style-type: none"> • Maintenance of the Plainridge Racecourse operations will mitigate any potential job loss and will maintain existing purchases in Plainville. • Brockton Fairgrounds (PR/Raynham) is not located in a host or surrounding community. • PPE/Leominster's M3D3 proposal, focused primarily on the surrounding geographic area, will mitigate prior job losses by creating new employment opportunities in the region.

Other Considerations		
Section 18 Objective	Question #	Comments
(3) realizing maximum capital investment exclusive of land acquisition and infrastructure improvements	2.27 Capital Investment (Finance)	<ul style="list-style-type: none"> Neither Penn National/Plainville nor PPE/Leominster identifies meaningful capital expenditures associated with horseracing activity or the M3D3 program, respectively. PR/Raynham proposes to spend \$6 million to upgrade racetrack infrastructure at Brockton Fairgrounds.
(19) gaining public support in the host and surrounding communities which may be demonstrated through public comment received by the Commission or gaming applicant	5.12 Public Support (Mitigation)	<ul style="list-style-type: none"> Penn National/Plainville included six letters of endorsement relating to maintaining the racing operations at Plainridge (i.e., feed supplier, tack supplier, and standardbred horsemen's associations). Brockton Fairgrounds (PR/Raynham) is not located in a host or surrounding community. PPE/Leominster did not include any letters of endorsement relating to the M3D3 program.

4. ADDITIONAL CONSIDERATIONS

When considering the implications of the additional investments contained within each Application, several additional factors should be kept in mind, including:

- Regardless of which Applicant is successful, 9% of total slot revenue realized at the Category 2 licensee will be directed to the Horseracing Development Fund; 80% of this amount will be available for purse support.
 - Therefore, the greatest direct financial benefit to the horseracing industry will come from the Applicant generating the greatest gross gaming revenue from the Category 2 venue.
 - The decision about how to allocate purse support between standardbred and thoroughbred has yet to be finalized.
 - Regardless of the quantum of purse support available for standardbred racing, none of these funds are available to support racetrack operations (i.e., purse support funds may only be used for purses, the recipients of which are horsemen not racetrack owners). Larger purses may equate to a higher-quality racing product which, in turn, may lead to greater racetrack attendance and betting which, finally, may result in greater racetrack revenue.
- Despite assurances by the current owner of Plainridge Racecourse that the racetrack will close if Penn National/Plainville is not successful with their Category 2 Application, continuation of standardbred racing in Massachusetts will be dependent on a variety of factors. Some standardbred racing activity may continue at Plainridge or at another new/renovated racetrack elsewhere in Massachusetts.
- Analyses of the existing standardbred horseracing industry in Massachusetts and the M2D2 program (predecessor to M3D3) exist and illustrate employment benefits of the respective sectors:
 - The "Standardbred Report to the Horse Racing Committee" prepared by the Harness Horsemen's Association of New England and the Standardbred Owners of Massachusetts, Inc. indicates the standardbred industry directly employs 446 individuals in the State.
 - A 2013 presentation entitled "Medical Device Innovation in Massachusetts, M2D2: Massachusetts Medical Device Development Center" produced by UMass Lowell shows direct funding to 40 start-up companies with 152 employees and 37 interns.

Investment Characteristics	Appendix 1A: Penn National/Plainville	
	"Activity" - Horsemen	"Facility" - Racetrack
How Investment is Made	Operating expense of the racing business directed to purses.	Operating expense of the racing business directed to racetrack operations.
What Investment is Used For	To encourage horsemen to race their horses at the racetrack - thereby generating wagering dollars on racing activity from consumers. Note: If purse amounts are increased through the Horseracing Development Fund (via 9% slot tax), 100% of this increased amount will flow to horsemen through purses; none is retained by racetrack/Applicant.	To provide and maintain the physical structure where the racing activity takes place as well as encourage patrons to visit the racetrack.
How Investment is Distributed	Racetrack sets aside money for purses. The amount is based on an agreement between the racetrack and the horsemen. Purse money is paid out to the first 5 horses crossing the finish line.	Expenses include racing-related wages and salaries, mutuels (buying simulcast signal from other tracks), tote fees and equipment rental, satellite fees, security, communications, promotions and administration
Recipients of Direct Investment	The direct recipients of purse money are: - Horse Owners - Trainers - Drivers	The direct recipients of racetrack expenses are: - employee wages and salaries - providers of goods and services to the racetrack
Recipients of Indirect Investment	Inputs into the production of goods and services including: • Grooms • Blacksmiths • Veterinarians • Breeders • Farmers (Hay, grain) • Farm/Stable employees • Tack Suppliers • Feed and Bedding Suppliers • Farm equipment suppliers/manufacturers	Inputs into the production of goods and services for suppliers to the racetrack
Amount of Investment (one-time)	n/a	Penn will renovate the existing facility that will house the slots as well as the racing activity. While no amount of capital expenditure has been allocated or defined in the application as directly applicable to the racing activity, it can be assumed that a portion of the capital expenditure (\$215m) would be attributed to racing.
Amount of Investment (annual)	Based on P&L projections submitted: Year 1 = \$2.313m allocated to "Purses & Horsemen Incentives". This declines to \$2.133m in Year 5.	Based on projections submitted: Year 1 = \$10.97m allocated to racing related expenses (excluding purses) at the racetrack, declining to \$10.38m in Year 5.
Timing Considerations	Assuming continuation of Plainridge Racecourse operations, purse money and racetrack operating expenditures remain largely as is. Funds continue to flow to horsemen and suppliers. Penn National/Plainville projects 100 race days in Application though no formal commitment to this number of days has been made.	
Conditions in Application/ Unknowns	Penn National has an option to acquire Plainridge Racecourse, if the Category 2 Application is successful. If the Application is not successful, the future of racing at Plainridge can be speculated but is not known.	
Potential Restrictions on Licence	MGC could require "X" number of race days and races/day as condition of licence.	
Additional Considerations	There is no guarantee that the purse money will remain in the State. Owners, trainers and drivers may choose to purchase goods and services (i.e., tack, hay, grain, equipment) from out of State suppliers. The indirect recipients are not solely reliant on Purse Money to support their business (breeders may sell foals out of State, blacksmiths and veterinarians may also service recreational/hobby horses, etc.)	

Note: n/a = not applicable.



Investment Characteristics	Appendix 1B: PR/Raynham	
	"Activity" - Horsemen	"Facility" - Racetrack
How Investment is Made	Operating expense of the racing business directed to purses.	Operating expense of the racing business directed to racetrack operations.
What Investment is Used For	To encourage horsemen to race their horses at the racetrack - thereby generating wagering dollars on racing activity from consumers. Note: If purse amounts are increased through the Horseracing Development Fund (via 9% slot tax), 100% of this increased amount will flow to horsemen through purses; none is retained by racetrack/Applicant.	To provide and maintain the physical structure where the racing activity takes place as well as encourage patrons to visit the racetrack.
How Investment is Distributed	Racetrack sets aside money for purses. The amount is based on an agreement between the racetrack and the horsemen. Purse money is paid out to the first 5 horses crossing the finish line.	Expenses include racing-related wages and salaries, mutuels (buying simulcast signal from other tracks), tote fees and equipment rental, satellite fees, security, communications, promotions and administration
Recipients of Direct Investment	The direct recipients of purse money are: - Horse Owners - Trainers - Drivers	The direct recipients of racetrack expenses are: - employee wages and salaries - providers of goods and services to the racetrack
Recipients of Indirect Investment	Inputs into the production of goods and services including: • Grooms • Blacksmiths • Veterinarians • Breeders • Farmers (Hay, grain) • Farm/Stable employees • Tack Suppliers • Feed and Bedding Suppliers • Farm equipment suppliers/manufacturers	Inputs into the production of goods and services for suppliers to the racetrack
Amount of Investment (one-time)	n/a	If selected and racing ceases at Plainridge, PR/Raynham commits to loaning \$6m to a related party (Brockton Racing LLC) for "capital improvements and to establish the operation of a harness racing meet at the Brockton Fairgrounds for 2014".
Amount of Investment (annual)	Purse money not provided in the Application. However, Applicant seeks 40 days of racing in 2014 (August - Oct).	Raynham investment in live racing in the Application does not extend beyond 2014. Operating cost projections were not provided in Application.
Timing Considerations	Assuming racing operations at Brockton Fairgrounds commence with closure of Plainridge (PR/Raynham commits to racing in 2014 only if Plainridge closes), purse money and racetrack expenditures continue but on a reduced scale given reduction in race days. No commitment to racing beyond 2014.	
Conditions in Application/ Unknowns	PR/Raynham proposal commits to 40 race days at Brockton Fairgrounds ONLY IF racing ceases at Plainridge. If PR/Raynham is selected and racing continues at Plainridge, PR/Raynham's commitment to fund \$6 million for capital improvements, together with 2014 purse and operating costs, will not materialize.	
Potential Restrictions on Licence	MGC could demand \$6 million in capital and a pre-agreed payment (for 2014 and beyond) as compensation if Plainridge remains open (payment could be used to support Plainridge operations).	
Additional Considerations	There is no guarantee that the purse money will remain in the State. Owners, trainers and drivers may choose to purchase goods and services (i.e., tack, hay, grain, equipment) from out of State suppliers. The indirect recipients are not solely reliant on Purse Money to support their business (breeders may sell foals out of State, blacksmiths and veterinarians may also service recreational/hobby horses, etc.)	

Note: n/a = not applicable.

Appendix 1C: PPE/Leominster "Activity" - Services for Start-Up Companies	
Investment Characteristics	
How Investment is Made	An annual grant.
What Investment is Used For	The M3D3 will be created to assist start-up companies in the Massachusetts medical device sector. The intent of the program is to close the gap in funding between early stage and later stage start-up companies by providing approved companies access to various services (provided by UMass Worcester and UMass Lowell) at the intermediate stage.
How Investment is Distributed	<p>The Application suggests that the M3D3 program will provide approved companies with research and related services at no cost.</p> <p>We understand that UMass receives the annual funding from PPE and the funds will be used by UMass to provide services for up to 10 companies annually (valued at \$100,000 each company), with a recommended matching of funds from Angel and VCs. UMass will provide services in three areas - product development, business development and medical development.</p> <p>Services for approved companies include access to: start-up expertise, research assistants in medical, business and R&D, equipment/labs, UMass faculty expertise, clinical and other trials/approvals.</p> <p>It is unknown if any of the \$1m annual allocation to M3D3 will be used to administer the fund.</p>
Recipients of Direct Investment	<p>The direct recipients of funding are UMass Lowell and UMass Worcester.</p> <p>The M3D3 fund is controlled by an Executive Board (comprised of medical device experts from Lowell and Worcester UMass campuses) and informed by Advisory Board (comprised of Massachusetts based VC and Angel investors, and medical device company executives). PPE will have a seat on the Executive Board.</p>
Recipients of Indirect Investment	<p>Initially services are provided to start-up companies who will, in turn (and if successful) purchase services and goods from:</p> <ul style="list-style-type: none"> • Investors • Manufacturers • Local Suppliers (goods and services)
Amount of Investment (one-time)	None
Amount of Investment (annual)	\$1 million (committed). May increase to \$1.5m depending on success of slot facility (determined by Cordish). At the Leominster Host Community Meeting in Dec, 2013 - Cordish "committed to help with angel financing" for those companies that "want to go another step" - however, no definition or expansion of "help" has been provided.
Timing Considerations	Grants are paid to UMass at end of operating year. Funding decisions in control of Committee.
Conditions in Application/ Unknowns	Incremental annual grant (beyond \$1 million to \$1.5 million) is at Applicant's discretion.
Potential Restrictions on Licence	<p>Probably not related to performance but reporting/communication of how investment is used could be required.</p> <p>Is the onus to report on Applicant or UMass?</p>
Additional Considerations	<p>M3D3 program expects to result in 10 companies/year creating 5,000 high paying jobs and 15,000 indirect jobs over the next 20 years.</p> <p>There are many funding requirements to get from an idea to the sale of a product (including: New Venture Competition, Massachusetts Life Sciences Center, VCs, Angel Financing). The M3D3 program provides one of the funding components. The projected realization of jobs from M3D3 is based on all funding components on the continuum coming together.</p> <p>It is not known what portion of the 5,000 jobs and 15,000 indirect jobs can be directly attributed to the M3D3 program (\$1m annual investment).</p>