

MEMORANDUM

Date: September 5, 2014

To: Commissioners McHugh, Cameron, Stebbins and Zuniga –
Massachusetts Gaming Commission

Cc: Rick Day, Catherine Blue and John Ziemba– Massachusetts Gaming Commission

From: Lyle Hall and Carla Giancola

Subject: Region A Category 1 Casino License: Thoroughbred Racing Considerations

We are pleased to provide a discussion of selected economic development implications of the pending Category 1 license decision in Region A with respect to thoroughbred racing.

1. CATEGORY 1 / REGION A APPLICATIONS AND POTENTIAL IMPACTS ON THOROUGHBRED RACING

Two entities are vying to be selected as the sole Category 1 licensee in Region A. Both applicants have selected sites in the greater Boston area, specifically:

- Mohegan Sun Massachusetts (“MSM”) is proposing to build on a portion of the Suffolk Downs thoroughbred racetrack property. Suffolk Downs’ property straddles the municipal boundaries of both Boston and Revere, although the portion used by MSM is located solely within Revere. MSM would be a tenant of Sterling Suffolk Racecourse LLC (“Sterling Suffolk”), the racetrack owner.
- Wynn is proposing to build on a waterfront site in Everett.

The broader economic development (as well as finance, site/building, mitigation and related factors) are the subject of detailed assessments by the Massachusetts Gaming Commission (“MGC”). However, although no specific assessment criteria have been established to address the impact of a Category 1 casino license on thoroughbred racing, both applicants have raised this issue in their application and/or at various community engagement sessions, specifically:

- MSM is committed to maintaining racing activity at Suffolk Downs:
 - Sterling Suffolk, in an agreement dated July 10, 2014 with the City of Boston, committed to maintaining racing operations at Suffolk Downs for fifteen years provided that MSM is selected as the Category 1 casino licensee in Region A (this term mirrors the initial term of the Category 1 casino license).

- The Recitals section of the Surrounding Community Agreement between MSM and the City of Boston notes, as a basis for the agreement, the continued operation or racing at Suffolk Downs, specifically: "Whereas, the City [Boston], upon analysis, reporting and advice, has determined that the Project as planned [MSM casino] keeps the race track at Suffolk Downs open and operational and therefore maintains jobs and a local industry, in addition to supporting related agriculture and the preservation of family farms and related open space in the Commonwealth."
- Wynn committed at the June 25, 2014 Host Community Hearing in Everett to provide preferential hiring and job training to all Suffolk Downs employees if Wynn is selected as the Region A licensee and if Sterling Suffolk elects to cease racing operations at the track. Wynn refers to the program as the "Suffolk Downs Employee Commitment." No further details have been provided. The MGC would likely want to document such a commitment as a license condition if Wynn is selected in Region A.

Neither the MSM nor Wynn application has any active operational role in thoroughbred racing. MSM's annual lease payments provide Sterling Suffolk with sufficient cash flow to maintain racing operations (although no definition of "operations" has been provided) while Wynn's commitment is focused on mitigating the direct employment impact if the racetrack closes. In both cases the primary focus appears to be racetrack employment, which is the focus of this memo. Beyond track employment, almost no thoroughbred racing or industry impact discussions have been provided by either applicant.

2. THOROUGHBRED RACING IN MASSACHUSETTS

In 2013, Suffolk Downs Racecourse LLC engaged Christiansen Capital Advisors LLC ("CCA") to undertake an economic impact study of the Massachusetts thoroughbred industry. (At the time the study was conducted, Sterling Suffolk was an Applicant for a Category 1 casino in Region A as opposed to simply being a landlord.) The study identified significant employment, labor income and related benefits across the Commonwealth.

Massachusetts Thoroughbred Racing Employment and Labor Income		
	Direct Employment	Labor Income
Breeding	356	\$5,512,000
Ownership	476	\$8,070,000
Racing	279	\$28,674,000
Attendees/Tourism	22	\$559,000
Total	1,133	\$42,815,000

Source: Christiansen Capital Advisors, LLC, Economic Impact of the Massachusetts Thoroughbred Equine Industry, prepared for Sterling Suffolk Racecourse LLC, October 2013.

While some of these estimates appear aggressive (e.g., average labor income per racing employee of \$102,000), the estimates represent the most recent documentation of

employment and related labor income. The “racing” employment total of 279 (racetrack employees as shown in the table above) is largely consistent with the 325 Suffolk Downs’ employees identified in a January 6, 2014 letter from Sterling Suffolk’s Chairman William Mulrow to the MGC. Additionally, this January 6th letter refers to hundreds of licensees (trainers, jockeys, veterinarians) that would form part of the “ownership” category, as all these licensees would be engaged by horse owners not the racetrack. These employment figures do not include 23 Massachusetts Gaming Commission employees (i.e., 20 seasonal staff, 2 full-time staff and one contractor).

The success, let alone existence, of the entire Massachusetts thoroughbred industry cannot be attributed solely to Suffolk Downs. If Suffolk Downs closed, some of the breeding and ownership jobs would be lost but others would likely remain. Retained jobs would be the result of thoroughbred racing activity at racetracks in nearby states (e.g., Delaware Park, Laurel Park, Pimlico, Saratoga, Parx, Penn National Race Course and Presque Isle Downs) as well as the potential for either a new owner/operator of Suffolk Downs, and/or the creation of a new racetrack(s) in Massachusetts.

3. COMPARISONS OF THE TWO APPLICATIONS

Section 18 includes nineteen objectives against which the Applications are to be evaluated. Six of these objectives could be informed by potential impacts of thoroughbred racing activities, four specific to the economic impact section and one each in finance and mitigation.

In our view only jobs and the associated payroll as well as the overall development costs are relevant to the discussion. Because neither Applicant is operating a racetrack as part of their proposed project, the ongoing operating considerations have not been addressed. Key characteristics of the two Applications are summarized below:

	Mohegan Sun/Revere	Wynn/Everett
Total Jobs (FT and PT)	3,172	4,382
Total FTEs	2,538	3,287
Total Payroll & Benefits	\$99,344,784	\$170,168,024
Average Payroll & Benefits/FTE	\$39,144	\$51,773
Development Cost*	\$526,988,181	\$1,047,194,847
<i>Source: MSM and Wynn Applications.</i>		
<i>*Net of license fee, land costs, financing, host community charges and other non-construction costs.</i>		

The Section 18 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"> • Neither Applicant has an existing labor force tied to racing however: <ul style="list-style-type: none"> ○ MSM lease payments to Sterling Suffolk are substantial and could be used to enable ongoing racing operations. No commitment has been made however regarding the extent of racing (e.g. race days). ○ Wynn has committed to preferential hiring of Suffolk Downs employees if the MGC's selection of Wynn causes Suffolk Downs to close. However, no detail is provided regarding how or when this transition might occur or the match of skill sets between racing and casino employees. • Projected employment in the Wynn proposal exceeds the combined MSM casino employment and the estimated Suffolk Downs employment regardless of which estimate of racetrack employment is used (i.e., 279 in the CCA report, 325 in the Sterling Suffolk Chairman's letter or the 800 figure referenced in the MSM application). Should Wynn be selected and Suffolk Downs closes, the timing of such closure might result in the loss of racetrack jobs well before opening of the Wynn casino. Some racetrack employees may choose other employment options or may be deemed unsuitable for a casino job for a variety of reasons. • Projected labor income in the Wynn proposal also exceeds the combined MSM/Suffolk Downs labor income.
(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"> • No direct connection (marketing, physical, operational) has been proposed between MSM and Suffolk Downs, although the track will be visible from the MSM facility • No impact/linkage between Wynn and Suffolk Downs.

(10) contracting with local business owners for the provision of goods and services	3.16 Local Business Owners	<ul style="list-style-type: none"> Continuation of racing operations at Suffolk Downs will produce positive impact on local business owners. These benefits are likely to be similar to current business activity, provided racing continues at the same level (e.g. race days) No direct impact from Wynn, although Wynn good and services purchases from local vendors is substantially higher than that proposed by MSM (prior to considering racing).
(14) mitigating potential impacts on host and surrounding communities	3.31 Other community enhancements	<ul style="list-style-type: none"> Continuation of racing at Suffolk Downs will mitigate any potential job loss and will maintain existing area purchases. City of Boston will continue to collect taxes on pari-mutuel revenues.

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"> Sterling Suffolk has agreed to complete a master plan for the racetrack within twelve months of the MGC awarding the casino license to MSM. No capital is allocated to the racetrack operation as part of the MSM application.
(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"> Substantial industry support has been shown for continuation of thoroughbred racing at Suffolk Downs.

4. HORSE RACING DEVELOPMENT FUND

When considering the implications of thoroughbred racing by each Applicant, several additional factors should be kept in mind. Of these, one of the most significant is the expected contributions to and creation of the Horse Race Development Fund.

Regardless of which Applicant is successful, the Act allocates portions of the initial license fee and annual State tax on revenue to the Horse Race Development Fund:

- 5% of the initial licensing fee (i.e., \$85 million for Category 1 facilities and \$25 million for Category 2 facilities);
- 2.5% of the State's 25% share of gross gaming revenue from Category 1 facilities; and
- 9% of gross gaming revenue from Category 2 facilities.

The table below illustrates an order-of-magnitude estimate of the Fund over five years.

Contributions to Horse Race Development Fund Depending on Region A Decision						
	Licenses Awarded			Category 1 Region A		
	Category 2 Plainville	Category 1 Reg. B/Springfield	Sub Total	MSM Revere	Wynn Everett	
<u>Licensing Fees</u>						
License Fee Paid	n/a	85	85.0	85	85	
5% of fee to Fund	n/a	4.3	4.3	4.3	4.3	
<u>Gross Gaming Revenue ("GGR")*</u>						
Year 1	241	412	653.4	858	804	
Year 2	266	485	750.6	884	824	
Year 3	207	500	706.8	910	845	
Year 4	126	512	638.4	929	867	
Year 5	129	525	654.3	947	889	
Total GGR Years 1 to 5	970	2,434	3,403.5	4,528	4,229	
<u>Share of GGR to Fund</u>						
2.5% of 25% from Category 1	-	15.2	15.2	28.3	26.4	
9% from Category 2	87.3	-	87.3			
Sub total			102.5			
Contributions to Fund from Category 1 (Region B)/Category 2 Licensees ONLY:			106.7			
Contributions to Fund from Region A +B/Category 2 Licensees:						
If MSM is successful in Region A				135.0		
If Wynn is successful in Region A					133.1	

Source: HLT Advisory calculation of Horse Race Development Fund contributions based on Applicant GGR projections.

* Gross Gaming Revenues ("GGR") as submitted in Applications.

Note: Years 1 through 5 reflect the initial five years shown by each Applicant. Due to start dates and construction timing these years will not line up (e.g., Year 1 for Penn/Plainville will not be the same calendar year as Year 1 for MGM/Springfield); the years have been shown for illustrative purposes only.

The table shows the potential Fund build up over a five-year period, using projections contained in the Region B/Category 1 and Category 2 applications as well as the

projections contained in both the MSM and Wynn applications.¹ Projections do not include revenue from a Category 1 licensee in Region C.

Amounts in the Fund are allocated between purses (80%), support for breeding programs (16%), and health and pension support for members of horsemen's associations (4%). The allocation of the fund between breeds was approved by the Commonwealth of Massachusetts Horse Racing Committee and reviewed by the MGC on Thursday September 4, 2014. It was determined that 75% of fund proceeds will be allocated to the thoroughbred industry and 25% will be allocated to the standardbred industry. Regardless of the quantum of purse support available for thoroughbred 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, ultimately may result in greater revenue for the owners of Suffolk Downs or a new thoroughbred track.

5. ADDITIONAL CONSIDERATIONS

Despite public comments by Sterling Suffolk Racecourse LLC and others that Suffolk Downs will close if MSM is not successful with their Category 1 Application, continuation of thoroughbred racing in Massachusetts will be dependent on a variety of factors, including consumer interest in the racing product, ongoing underwriting of any future losses by Sterling Suffolk or others, underlying land value/development potential of the racetrack and competitive influences. Some thoroughbred racing activity may continue at Suffolk Downs or at another new/renovated racetrack elsewhere in Massachusetts in the future as revenues are generated for the Horse Racing Development Fund.

The agreement between Sterling Suffolk and the City of Boston addresses continuation of racetrack operations at Suffolk Downs but does not specify if racing activity will be maintained at a level consistent with recent practice (e.g., historical number of race days).

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We would be pleased to provide additional information or address any questions.

¹ Note: Due to different construction periods and opening times the annual amounts will vary; shown for illustrative purposes only.