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HOUSE OF REPRESENTATIVES
COMMONWEALTH OF PENNSYLVANIA

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House Bill 2308

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Judiciary Committee

University of Pittsburgh
William Pitt Union
3959 Fifth Avenue
Pittsburgh, PA

Wednesday, May 29, 1996 - 9:30 a.m.

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BEFORE:

Honorable Thomas P. Gannon, Chairman
Honorable Peter Daley
Honorable Frank Dermody
Honorable Greg Fajt
Honorable David Mayernik
Honorable Frank Dermody

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ALSO PRESENT:

David Krantz
Democratic Executive Director

Brian Preski
Chief Counsel for Committee

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1 CHAIRMAN GANNON: Okay. I would like
2 to call to order the House Judiciary Committee
3 for public hearings on House Bill 2308.

4 Our first witness is Rod L. Piatt, the
5 Department of Agriculture, the State Racing
6 Commission.

7 But before I begin, I am going to ask
8 each person at the table to introduce
9 themselves, starting to my right.

10 REP. MAYERNIK: I am Representative
11 David Mayernik from the North Hill of Ross
12 Township, West Union North Borough here in
13 Allegheny County.

14 REP. READSHAW: My name is
15 Representative Harry Readshaw and I am from the
16 36th Legislative District which is the City
17 South and Borough South.

18 REP. DERMODY: My name is Frank
19 Dermody. I am the state representative in
20 Allegheny Valley, in Allegheny County.

21 REP. FAJT: I am Greg Fajt. I
22 represent the Mt. Lebanon, Scott Township, Green
23 Tree, Heidelberg and Baldwin Township areas.

24 CHAIRMAN GANNON: I am Representative
25 Tom Gannon, Chairman of the Judiciary Committee.

1 I am from Delaware County, Pennsylvania.

2 REP. DALEY: I am Representative Pete
3 Daley and I represent the Washington and Fayette
4 Counties.

5 CHAIRMAN GANNON: And we have a staff
6 member.

7 MR. KRANTZ: I am David Krantz,
8 Democratic Executive Director for the House
9 Judiciary Committee.

10 CHAIRMAN GANNON: Thank you very much.
11 Mr. Piatt.

12 MR. PIATT: Good morning, Mr.
13 Chairman, and to the Members of the House
14 Judiciary Committee. My name is Rod Piatt and I
15 am here this morning as chairman and
16 representing the Pennsylvania Harness Racing
17 Commission of which I have served as a member
18 for over nine years under the Casey and Ridge
19 Administration.

20 With me this morning is Richard
21 Sharbaugh, who is the Executive Director of the
22 Pennsylvania Harness Racing Commission, and I
23 have asked him to sit with me when we get in to
24 questions and answers.

25 If I can just take a moment and give

1 you a little personal background about myself.

2 I am a graduate from the University of Tampa and
3 have a B.S. Degree in Accounting and have been
4 previously licensed in the Commonwealth of
5 Pennsylvania as a Certified Public Accountant.

6 Currently, my efforts are in my family
7 businesses here in western Pennsylvania which
8 are in the steel, coal, education, banking and
9 real estate development activities, and
10 currently doing a large public/private
11 partnership with Washington County to develop
12 the Southpointe Project which is a commercial,
13 residential hotel conference center development
14 in this area.

15 As you know, the Pennsylvania Harness
16 Racing Commission is a three-member body that is
17 appointed by the Governor. And the function of
18 the Commission is to supervise and regulate the
19 statutes of the Commonwealth as they relate to
20 harness racing and wagering in the State of
21 Pennsylvania.

22 Currently, the harness racing, with
23 parimutuel wagering occurs at two facilities in
24 the state. Ladbroke at The Meadows operates a
25 race track in Meadow Lands, Pennsylvania, and

1 our other licensed corporation is Pocono Downs
2 which operates a facility in Wilkes-Barre,
3 Pennsylvania. And the Harness Racing Commission
4 also oversees all of the harness racing
5 activities that are conducted at the 16 fairs
6 around the state as well as five special one-day
7 events. As you also know, there are two
8 licensed thoroughbred race tracks that operate
9 in the Commonwealth and those are overseen by
10 the Pennsylvania Horse Racing Commission, which
11 is an independent commission under the
12 Agriculture Department.

13 The Commission employs racing
14 officials at the parimutuel tracks and we also
15 maintain offices at the two licensed race tracks
16 and that is where we enforce the rules and
17 regulations of the Commission, we judge the
18 racing that goes on at those track facilities
19 and we also do random drug testing to make sure
20 that racing in Pennsylvania is carried out with
21 the greatest deal of integrity.

22 The Commissions' headquarters are
23 located in the Agricultural Department Building
24 in Harrisburg and at that location is where we
25 carry out our administrative duties which our

1 Executive Director carries out, along with his
2 staff, and we also conduct all of the
3 administration functions of the off-track
4 wagering facilities that have been built over
5 the last five or six years. And we also carry
6 out all the licensing of all the participants
7 that are operating in the harness racing
8 business in Pennsylvania, including owners and
9 trainers and drivers and the actual corporations
10 that operate the track facilities.

11 Of course, the primary responsibility
12 of the Commission is to carry out the orders,
13 issue penalties to violators and to operate the
14 Pennsylvania Sire Stakes program which is a
15 special program that is offered to horses that
16 are bred in the State of Pennsylvania and this
17 particular fund has been very successful as the
18 race tracks have carried out their successful
19 businesses.

20 And I guess to summarize, in general,
21 the Commission is really responsible for the
22 well being of harness racing in the state.

23 As you know, over the past six or seven
24 years, the Pennsylvania lawmakers have put into
25 effect some of the most innovative legislation

1 in the country that relates to horse racing and
2 wagering. And this legislation has really given
3 the race track, the operators, a great
4 opportunity to become a viable business which,
5 not too long ago, they really weren't a very
6 viable business. And these tracks have taken
7 the opportunity given to them and have been very
8 successful in operating their business and they
9 prosper to a point where they are looked at as
10 the leaders in the horse racing industry in the
11 United States.

12 With the state-of-the-art legislation,
13 the early 1990s saw the development of off-track
14 wagering facilities around the state. These
15 facilities, as many of you have seen personally,
16 fulfill all of their requirements that were
17 established by the Act and they have also set
18 forth in the rules and regulations and have
19 really not become sites to just gamble, but, in
20 fact, they have really become a destination for
21 sports entertainment.

22 Of the 23 permitted off-track wagering
23 facilities that are required to be built in the
24 state, there have been 13 of these facilities
25 that have been built to date and there are two

1 more that are under construction.

2 With the recent legislative changes
3 occurring in Harrisburg, and that's the full
4 card simulcasting, the race track operators have
5 now had an opportunity to simulcast races
6 throughout North America and to also expand
7 their telephone wagering across the country.

8 The effects of this major legislation
9 have not only enhanced the race track
10 operations, but have truly revitalized the
11 agricultural business in the state as a whole.
12 Because the race track industry in Pennsylvania
13 is a key element of our agricultural business.
14 And, by stating that, as you know that they
15 employ nearly 4,000 people and the agriculture
16 industry carries a great deal of the support
17 needed by these race track operators.

18 I think one of the things that is very
19 important to the Committee is that we cannot
20 lose sight that the agriculture industry is made
21 up of the farmers that grow the grain and the
22 horsemen that breed horses and the grassroots
23 people that work at the race track that puts
24 this performance on on a nightly basis that
25 Pennsylvania operators have a chance to show

1 around the country.

2 The agriculture industry, as we know
3 it today, is over a billion dollar a year
4 business and it has really been given a great
5 shot in the arm by the renaissance of the horse
6 racing industry in recent years.

7 Today's hearings obviously evolve
8 around potential expansion of the gaming
9 activities in Pennsylvania. And I think it is
10 really important that we evaluate what effects
11 it will have on the existing form of parimutuel
12 wagering at the four race tracks in
13 Pennsylvania.

14 As we know, parimutuel wagering on
15 racing in Pennsylvania, has existed for over 30
16 years and with the development of off-track
17 wagering facilities, the current operators of
18 these tracks have made capital investments in
19 the state in excess of a hundred and forty-five
20 million dollars. And so, because of that, I
21 think they have demonstrated to us that they
22 have a strong commitment to be a viable business
23 in the state.

24 If there is going to be an expansion
25 in the gaming, one of the things that we must be

1 certain to do is to not jeopardize the thriving
2 horse industry that we have in Pennsylvania, an
3 industry that has experienced a tremendous
4 growth rate in the country and it is also an
5 industry that is the product of the innovative
6 legislation that the Pennsylvania lawmakers have
7 put into effect.

8 If we do expand gaming in
9 Pennsylvania, in whatever form that may be, we
10 must be careful to craft the same legislation
11 that maps out all of the appropriate long-term
12 strategies that would call for land-based
13 development, creating resorts and hotels so that
14 we can expand our convention centers, we can
15 increase tourism for our state and that we also
16 create a strong place of destination so that we
17 can attract people to Pennsylvania for other
18 reasons other than gambling and wagering. And
19 we also must create a solid long-term base of
20 employment for the citizens of our community.

21 As we move down the road and develop
22 the final landscape with regard to legislative
23 changes in gaming activities, I would personally
24 request that we give a great deal of
25 consideration to a couple items.

1 1) One is, please keep in mind that if
2 we increase gaming, we will no doubt adversely
3 effect a thriving horse industry in the State of
4 Pennsylvania, one that employs over 35,000
5 people and that contributes over \$60 million
6 annually in taxes. If we do expand gaming in
7 the state, I believe that the current operators
8 should be given a significant opportunity to
9 participate in the future gaming activities
10 because they have proven to be excellent
11 business partners with the Commonwealth. And I
12 think by doing that, we can all achieve a
13 win/win situation.

14 2) Secondly, I think if there is
15 legislation affecting the expansion of gaming,
16 it must carry a strong fiscal policy with the
17 anticipated collected taxes that we all hope
18 would happen from this. And I think if we carry
19 out a sound fiscal policy, it will lead to
20 strong public support of a topic that I think we
21 all know is very controversial in the state.

22 3) And as with any form of gaming, I
23 think it is incumbent upon all of us to put
24 together a very knowledgeable, nonpolitical
25 commission that will see all the gaming

1 activities and to ensure that all the rules and
2 regulations that may affect these gaming
3 activities are carried out with the greatest
4 degree of integrity and will be a positive
5 influence in our community.

6 With that said, I guess I would like
7 to summarize the position of the Harness Racing
8 Commission. And I suppose if it was a perfect
9 world, we probably wouldn't want to be in favor
10 of any expansion of gambling. Pennsylvania is
11 unlike many states, in that our horse racing
12 industry is thriving, while some other states,
13 it may be on the decline or it may be on an even
14 keel. But we have done great things in
15 Pennsylvania over the last five years. We have
16 experienced great things. We have become an
17 innovator in the horse racing industry in the
18 way we carry out our gaming activities in
19 Pennsylvania.

20 So I would hope that we give a great
21 deal of consideration to any expansion of
22 gaming. I think we are on the horizon here and
23 it is such an important decision as we go
24 forward. And I think sometimes while money
25 drives some of the issues that we face, we

1 sometimes need to look past that. And I hope
2 that your Committee will make the right decision
3 for Pennsylvania.

4 I would like to thank you for giving
5 me the opportunity to present my testimony to
6 you and I think you are to be commended for
7 having these sessions around the state and
8 giving the citizens of Pennsylvania an
9 opportunity to voice their opinion on this very
10 difficult decision. Thank you.

11 CHAIRMAN GANNON: Thank you, Mr.
12 Piatt, for that wonderful testimony.

13 And then, are there any questions from
14 the Members of the Committee?

15 Representative Mayernik.

16 REP. MAYERNIK: Not at this time.

17 Thank you.

18 CHAIRMAN GANNON: Representative
19 Readshaw.

20 REP. READSHAW: No.

21 CHAIRMAN GANNON: And Representative
22 Dermody.

23 REP. DERMODY: I think, Mr. Chairman,
24 just one question.

25 You mentioned earlier that you felt

1 that if we see what the additional gaming
2 activities in the state that the tracks should
3 be given significant consideration, what do you
4 mean by that?

5 MR. PIATT: Well, when you go back and
6 look at racing five years ago or six years ago
7 in Pennsylvania, we were like some of the other
8 states are today: we were in a great decline and
9 we really had bombed out as an industry and it
10 looked very bleak. And I think the legislation
11 that was passed in Pennsylvania gave our two
12 corporations that operate harness tracks an
13 opportunity to display their abilities.

14 And if you look at the state of the
15 industry in 1990 and you compare it today, I
16 think the two corporations have put together
17 tremendous staff, have put together the
18 financial wherewithal and have really made
19 Pennsylvania a leading state in harness racing
20 and wagering.

21 And I think they have the capabilities
22 of moving forward in any expansion of gaming.

23 And I think that the horse industry,
24 the horse industry is so vitally important to us
25 right now that those corporations need to have

1 some opportunity to participate so that we can
2 be certain that our industry, as it is today,
3 does not end up where it was in 1990.

4 REP. DERMODY: So you may think that
5 the legislation as it is now with guarantee of
6 license, that types of things, is that what you
7 are talking about?

8 MR. PIATT: Well, I guess there is a
9 lot of different scenarios as to how they might
10 participate in any increase in gaming. And I
11 guess my comments would be that I would hope
12 that, if gaming activities are increased in
13 Pennsylvania, that it is not at the expense of
14 the current racing industry.

15 REP. DERMODY: Thank you, Mr.
16 Chairman.

17 CHAIRMAN GANNON: Thank you,
18 Representative.

19 Representative Fajt.

20 REP. FAJT: Just a quick question,
21 Rod. I think I heard you say this and I want to
22 be clear about it. The official position of the
23 racing industry, if you had your druthers, would
24 be that there would be no expansion of river
25 boat gambling in Pennsylvania, is that correct?

1 MR. PIATT: That's correct.

2 REP. FAJT: Thank you.

3 CHAIRMAN GANNON: Thank you,
4 Representative Fajt.

5 Representative Daley.

6 REP. DALEY: Yes, to follow up on the
7 question of Representative Dermody. I don't
8 quite understand what you mean by letting the
9 existing racing industry have participation in
10 future gaming activities. Are you saying that
11 if there is river boat gambling in Pennsylvania
12 in, let's just say the Monongahela River, that
13 we anticipate if there is going to be slot
14 machines that possibly those types of gaming
15 activities may be offered also at the various
16 race tracks in Pennsylvania?

17 MR. PIATT: Yes, I think if you look
18 at some of the national studies that have been
19 performed where expansion of gaming
20 opportunities, whether it be river boat or full
21 casino gambling or slot machines have come into
22 play, it has typically been at the expense of
23 the horse racing industry. And I guess what I
24 am saying is if Pennsylvania decided to expand
25 its gaming activities into any one of those

1 areas, I think it would be very important that
2 the current race track operators have an
3 opportunity to participate with other people
4 that may come in and operate those facilities so
5 that our horse industry doesn't deteriorate.

6 REP. DALEY: You say there have been
7 studies in other parts of the country where
8 there has been an expansion of gaming
9 activities, that the expansion also went out to
10 the various racing types of facilities, horse
11 racing, harness and flat racing. Do you have
12 any of that information and could you provide it
13 to the Chairman of the Committee?

14 MR. PIATT: I don't have that with me
15 today, but we could make those available, yes.

16 REP. DALEY: Thank you, Mr. Chairman.

17 CHAIRMAN GANNON: Thank you,
18 Representative Daley.

19 Mr. Krantz.

20 MR. KRANTZ: No.

21 CHAIRMAN GANNON: Brian.

22 MR. PRESKI: No questions.

23 CHAIRMAN GANNON: We have had a recent
24 phenomenon down in my part of the state,
25 southeastern Pennsylvania. The State of

1 Delaware has authorized the race tracks to
2 install slot machines. And its economic impact,
3 as far as the revenues, apparently, are a lot
4 greater than people were anticipating. And I
5 understand from some conversation at dinner last
6 night that there is states nearby here also have
7 permitted slot machines or gaming equipment at
8 their race tracks and how is that affecting
9 Pennsylvania's race horses, if at all, for up in
10 this part of the state?

11 MR. PIATT: Well, you are right.
12 There are two facilities in West Virginia that
13 have expanded gaming beyond the, beyond the
14 parimutuel wagering and that is at Wheeling and
15 at Mountaineer Park. And there is no question
16 that it has had an affect on Ladbroke
17 facilities. I am not sure if the management of
18 Ladbroke has quantified what those impacts are.

19 But I do believe that if Ladbroke had
20 an opportunity to have the same ammunition, if
21 you will, I think that the wagering activities
22 and handle with the race tracks would grow
23 significantly as they have experienced in
24 Delaware.

25 CHAIRMAN GANNON: One of the things

1 that struck me: in Delaware, they, the
2 Legislature, requires that a certain percentage
3 of the revenues that are obtained from the
4 gaming activities, other than wagering on
5 horses, has to be put into the purses for the
6 horses that is racing. And that seems to me
7 that I guess the result is they are getting
8 higher stakes, in terms of the quality of the
9 horses that the owners would want to race their
10 horses down there. Because have you seen any
11 effect --

12 Philadelphia track is a race track
13 that is closest to where I live. Actually, I am
14 closer to the Delaware track. I live closer to.
15 The closest Pennsylvania track is Philadelphia.
16 Has that had any impact on the ability, from
17 your information, from the ability of
18 Philadelphia to get good horses to race at that,
19 that?

20 MR. PIATT: Well, the only thing I can
21 tell you is, from being in the business for over
22 20 years in the standardbred business, the
23 purses really drive a multitude of activities at
24 the race track. If you have higher purses, you
25 are going to have better quality horses racing

1 at your track, which are going to spur people to
2 handle or to wager a greater amount of money.
3 And people are going to want to race in the
4 state where those purses are high. And that, in
5 turn, relates into higher breeding fees and
6 people buying more Pennsylvania-bred horses. So
7 it really goes full circle and it starts with
8 the purses.

9 So I think as you look at the last
10 five years. And that the Pennsylvania harness
11 tracks, unlike any other state, we have been
12 able to double the amount of purses in the last
13 five years. And that is money that is paid out
14 to the horse operators. And that's unheard of
15 in this industry.

16 CHAIRMAN GANNON: Maybe my question
17 was a little unfair to you because I think
18 Philadelphia, that's not a harness racing track,
19 is it?

20 MR. PIATT: That's correct.

21 CHAIRMAN GANNON: Okay. So obviously
22 I will ask that question for the other people
23 that deal with the flats. But it just seems to
24 me that, just what you are saying, the higher
25 purses are going to attract better quality

1 horses and maybe a better jockey. And the
2 owners, they are probably going to go to that
3 track. And that's what you are saying.

4 MR. PIATT: There is no question, you
5 see a great deal of influx of new horses, higher
6 quality stables, when you operate a track that
7 offers high purses.

8 CHAIRMAN GANNON: Are you
9 suggesting -- and you don't have to answer this,
10 I put you on the spot -- if this type of law was
11 enacted in Pennsylvania to protect, in other
12 words whenever you need to protect the horse
13 racing industry, was to provide some mechanism
14 that revenues would be used to increase purses?

15 MR. PIATT: I think that would be very
16 important.

17 CHAIRMAN GANNON: Another question. I
18 am showing my lack of knowledge of this
19 industry.

20 The county fairs. There are 16 county
21 fairs and then there are five special one-day
22 events?

23 MR. PIATT: Yes, that's correct.

24 CHAIRMAN GANNON: And you supervise
25 them. Is there wagering at those events?

1 MR. PIATT: No wagering, no wagering
2 at the county fairs.

3 CHAIRMAN GANNON: They are just for
4 show?

5 MR. PIATT: Right. Yeah. And they
6 race for purses.

7 CHAIRMAN GANNON: You have to explain
8 that to me. Now the wagering, the wagering is
9 something --

10 MR. PIATT: In other words, in other
11 words when a race is conducted at the fair,
12 there is a purse, or an amount of money that the
13 horse owners would race for, just like at a
14 parimutuel track, but there is no customer
15 wagering at the fairgrounds.

16 CHAIRMAN GANNON: Now, how is that
17 purse, how is that generated?

18 MR. PIATT: That purse is funded
19 through the Pennsylvania Sire Stakes Fund
20 program.

21 CHAIRMAN GANNON: Now, how do they get
22 their -- How does that program work?

23 MR. PIATT: That program is funded
24 from a percentage of the wagering that occurs at
25 the parimutuel track.

1 CHAIRMAN GANNON: Okay. So a certain
2 percentage of the wagering at the track, at all
3 tracks, whether they are flats or harness?

4 MR. PIATT: No. This is, the
5 Pennsylvania Sire Stakes Fund, is funded through
6 a percentage of the wagering on the harness
7 tracks only.

8 CHAIRMAN GANNON: Okay. Just harness
9 racing?

10 MR. PIATT: Yes. And that pool of
11 monies is distributed between the fair circuit
12 and the Sire Stakes races that are held at
13 Pocono and at Ladbroke.

14 CHAIRMAN GANNON: Now, within the past
15 couple of years, have those purses increased
16 because of the changes that have been made in
17 Pennsylvania's harness racing?

18 MR. PIATT: Yes. Yes. That program
19 relates to Pennsylvania-bred horses so the only
20 horses that can race in those high-caliber stake
21 races are horses that are bred in Pennsylvania.
22 And obviously that kind of program is a real
23 plus for the breeders of horses in Pennsylvania.
24 And that Stakes program has had significant
25 growth as a result of the increase in wagering

1 to the point where we not only have a series of
2 races for two-year-olds and three-year-olds, but
3 we have also had enough money in the funding
4 mechanism to have \$100,000 finals, which is just
5 tremendous in the business.

6 CHAIRMAN GANNON: To your knowledge,
7 other than with Delaware, the percentage of the
8 revenues going into the purses, is there any
9 other state that has wagering other than, other
10 than -- I mean gaming? Have they done that
11 also, do you know?

12 MR. PIATT: I understand that Prairie
13 Meadows in Iowa has done that similar type of
14 situation.

15 CHAIRMAN GANNON: Iowa? Did you say
16 Iowa?

17 MR. PIATT: Yes.

18 CHAIRMAN GANNON: And the reason I
19 asked that question is because at our prior
20 hearings, one of the presenters, they had an
21 interest in the track and they had to close the
22 track because of gaming activity, expansion of
23 gaming in that state, and they felt that that
24 was a direct impact.

25 MR. PIATT: Mr. Sharbaugh just

1 informed me that, in Delaware, the only place
2 that they do have the slot machines is at the
3 race track so there are no other sites available
4 at this time.

5 CHAIRMAN GANNON: Thank you very much
6 ...

7 MR. PIATT: Okay. Thank you very
8 much.

9 CHAIRMAN GANNON: ... for your time
10 and the information that you shared with us
11 today.

12 Our next witness is Mr. Paul Spears,
13 the Live Horse Racing Council. He is here on
14 behalf of Pennsylvania's Horsemen.

15 We also have some other witnesses who
16 will be with him and I am going to ask them to
17 identify themselves before they sit down.

18 I am going to ask that the witnesses
19 identify themselves for the record.

20 MR. SCHWENINGER: Mr. Chairman, I am
21 Elmer Schweninger from The Meadows Standardbred
22 Owners Association.

23 MR. BALLEZZI: Mr. Chairman, Members
24 of the Board, I am Michael P. Ballezzi, I am
25 Executive Director of the Pennsylvania

1 Thoroughbred Horsemen's Association.

2 CHAIRMAN GANNON: Thank you. Okay.
3 Mr. Spears.

4 MR. SPEARS: Thank you, Chairman
5 Gannon. The Pennsylvania Live Horse Racing
6 Council is grateful for the opportunity to
7 appear before the Members of the House Judiciary
8 Committee to repeat our serious concerns about
9 the possible introduction of new forms of gaming
10 in Pennsylvania.

11 I am Paul Spears. I am Chairman of
12 the Council. And my organization is made up of
13 individuals known collectively as horsemen.
14 Horsemen include horse owners, breeders,
15 trainers, jockeys, grooms, blacksmiths,
16 veterinarians, and stable workers. And,
17 essentially, horsemen provide the four-legged
18 talent that performs at Pennsylvania's two
19 thoroughbred and two standardbred tracks.

20 I am also president of Hanover Shoe
21 Farms that is located in Hanover, Pennsylvania.
22 And that is the world's largest standardbred
23 horse breeding farm. I am proud to point out
24 that since the 1930s, when records had been
25 kept, Hanover horses have led the list of money

1 winners every year. And the impact of Hanover
2 bloodlines is felt at race tracks around the
3 world.

4 Pennsylvania Live Horse Racing Council
5 consists of the Horsemen's Benevolent and
6 Protective Association, or HBPA, at Penn
7 National Race Course, Pennsylvania Thoroughbred
8 Horsemen's Association in Philadelphia Park Race
9 Track, the Meadows Standardbred Owners
10 Association at Ladbroke at the Meadows, the
11 Pennsylvania Harness Horsemen's Association of
12 Pocono Downs and the Pennsylvania Standardbred
13 Breeders Association and the Pennsylvania Horse
14 Breeders Association, which represents the
15 thoroughbred breeders.

16 It is critically important to
17 distinguish these horsemen from the owners and
18 the operators of the track. We have different
19 views, rather like labor and management.

20 And I think that there may be some
21 misunderstanding on the part of some people in
22 that they feel that we are one big happy family.
23 In the best of worlds, that's the way it should
24 be, but it isn't.

25 And we are dependent upon, as horsemen,

1 we are dependent upon the racing association to
2 share with the horsemen in the money that they
3 take in. It's called the handle or the betting
4 of the track for the purses that we race for
5 with our horses.

6 And you can have three different
7 parties here. You can have the owners of the
8 race track, you can have the racing licensed
9 corporation which has the license to race the
10 track, or conduct the meets, and then you have
11 got the horsemen who provide the racing talent,
12 the horses, the grooms, the drivers, the jockeys
13 and so on. So you have got really three
14 different parties and their interests are
15 different. And that should be understood by
16 everybody and I think sometimes it isn't.

17 And I understand that part of the
18 legislative intent that is stated in House Bill
19 2308 is to mitigate the economic losses incurred
20 by licensed corporations under the Act of
21 December 17, 1981, known as the Race Horse
22 Industry Reform Act. Licensed corporations are
23 the tracks, the management. They are not the
24 horsemen.

25 Our counsel was formed several years

1 ago, when off-track betting establishments were
2 created by the Legislature, in Pennsylvania, and
3 full-card simulcasting of races began. And
4 because the horsemen provide the players in the
5 races, part of what is bet at these locations
6 goes into the purses that pay the horsemen.
7 Horsemen acknowledge that gambling is the fuel
8 that drives the horse racing industry. And,
9 obviously, we are not anti-gambling. But we
10 also realize that if this fuel is diverted to
11 other vehicles, horsemen are out of business.

12 Our goal is to make sure that horsemen
13 are involved in discussions about any expansion
14 of gambling in Pennsylvania. We want to avoid
15 the consequences of unanticipated results if
16 Pennsylvania's commercial horse industry is
17 damaged. These might include mushroom growers
18 in the Kennett Square area and elsewhere in
19 Pennsylvania who will have no ready sources of
20 manure on which their crops depend. It could
21 also include the state's only school of
22 veterinary medicine at the University of
23 Pennsylvania, particularly the New Bolton Center
24 for equine medicine.

25 Our Counsel commissioned a study of

1 the contributions of the commercial horse
2 industry in Pennsylvania and it proves how vital
3 it is to agriculture, which is our state's
4 number one industry, and to other sectors of the
5 economy. One out of five Pennsylvanians relies
6 on agriculture in some form or other for their
7 job. Specifically, our data shows that,
8 overall, the commercial horse sector now
9 contributes more than \$1.1 billion of economic
10 activity and supports more than 22,000 jobs in
11 Pennsylvania.

12 I believe that copies of this report
13 have been submitted to most of the Members of
14 the Committee, but if you don't have one, we
15 will be happy to supply it. John Urbanchuk, who
16 is one of the researchers, is here with me today
17 and he will be here to answer any questions on
18 that and also to provide other testimony.

19 Horse racing generates more jobs per
20 dollar wagered than any other type of gaming.
21 Those dollars are siphoned off, jobs in the
22 horse industry today could easily go with them.
23 I am not talking about high-tech jobs. I am
24 talking about real, here-and-now jobs, sometimes
25 the only ones that are available in parts of

1 rural Pennsylvania.

2 Jobs in Pennsylvania's commercial
3 horse industry date back to the founding of the
4 Commonwealth. Nevertheless, they could be
5 vulnerable if Pennsylvania lawmakers fail to
6 include their interest in any discussion about
7 bringing new types of gambling into our state.

8 Pennsylvania horse breeders keep our
9 state green in other ways. We use an average of
10 three acres of land per horse. Racing horse
11 breeders are keeping more than 22,000 acres of
12 Pennsylvania acres green. Quarter horse
13 breeders use another 75,000 acres in the same
14 way.

15 Most of these dwindling green acres
16 preserved by the horse industry are in the
17 southeastern, southwestern and south central
18 areas of Pennsylvania, where the growth of
19 exurbia has taken farmlands out of production.

20 Penn State researchers estimate that
21 all equine owners in Pennsylvania use 520,000
22 acres of land for their equine businesses and
23 have 2.85 million acres in their total
24 operations.

25 To contrast this, the Pennsylvania

1 Department of Agriculture estimates that the
2 number of usable acres of farmland fell by
3 800,000 between 1985 and 1993. That's more than
4 nine percent of the total agricultural land in
5 eight years. And this adds up to a staggering
6 1,250 square miles. To put that into
7 perspective, the City of Pittsburgh has about
8 45,000 acres, or a little more than 70 square
9 miles, so that's the equivalent loss of a
10 Pittsburgh every six months.

11 As ordinary citizens of Pennsylvania,
12 we would miss the rolling meadows and
13 well-tended horse farms that add to the
14 attractiveness of our environment.

15 And if new forms of gaming are
16 introduced in Pennsylvania, Members of the
17 General Assembly must be aware of the potential
18 impact they could have on the established horse
19 industry. Our goal is to spotlight what exists
20 now so we will be fairly considered.

21 No bill introduced to date has had any
22 input from Pennsylvania horsemen. Therefore, as
23 a matter of policy, we oppose it.

24 We have many serious concerns about
25 House Bill 2308, which is the subject of these

1 hearings today. It has provisions to allow race
2 tracks to get casino licenses, but provides no
3 protection whatsoever for the horse racing
4 operations.

5 The distribution of licenses described
6 in the bill could permit as many as 18 casinos
7 to operate in the state. And to call them all
8 river boats is ridiculous, since there is also a
9 provision that says they don't even need
10 operating engines if they stay tied to the dock.

11 This bill would also create special
12 liquor licenses for casinos to allow them to
13 serve liquor during operating hours, although it
14 is apparently silent on the number of hours of
15 operation that's permitted. Most casinos I know
16 of never close.

17 As another part of our research, we
18 prepared a forward-looking analysis about
19 potential effects of river boat gaming on the
20 Pennsylvania horse racing industry and the
21 Pennsylvania economy.

22 And its most important message appears
23 on its first page and states:

24 The establishment of river boat
25 casinos would significantly increase competition

1 for the wagering dollar in Pennsylvania and
2 would seriously erode the profitability of
3 nearby race tracks to the point that they would
4 become economically nonviable. The closure of
5 these tracks would result in lower demand for
6 supplier industries, lost jobs, and reduced
7 income for all Pennsylvanians. The situation
8 would all but eliminate the commercial horse
9 breeding industry and significantly weaken the
10 agricultural sector of Pennsylvania.

11 Now, that is a dire prediction, but
12 not an unrealistic one. Our research documents
13 what has and is happening to the horse racing
14 industry in New Jersey, Illinois, Iowa, Kentucky
15 and Ohio, where the horse industry was not
16 adequately considered as new gaming was
17 introduced.

18 The econometric studies done in 1994
19 at the University of Louisville, known as the
20 Lawrence and Thalheimer study after its authors,
21 suggested that the introduction of casino gaming
22 into existing horse racing markets would reduce
23 parimutuel wagering on horses 31 to 39 percent.

24 A loss of this magnitude was expected
25 to force all Kentucky tracks to close, with the

1 loss of nearly 7,000 direct jobs in the horse
2 industry, and a total loss of more than twice
3 that number.

4 One interesting possibility raised by
5 the Lawrence and Thalheimer study was locating
6 land-based casino gaming at the race tracks and
7 supplementing the amounts in purses paid to
8 winning horses from the win revenues of the
9 casinos. This possibility was proposed because
10 of an expected 39 percent drop-off in wagering
11 on horse races at the tracks compared with
12 pre-casino competition levels.

13 By raising the amounts paid to
14 winning horses and increasing the quality of the
15 horses that race -- with an accompanying
16 increase in interest and wagering -- these
17 researchers felt a small number of new jobs
18 could be created.

19 Even this purse supplement
20 arrangement, however, depends on increasing the
21 number of races, and upgrading of physical
22 facilities at the track. The Pennsylvania Live
23 Horse Racing Council represents horsemen, not
24 track owners. We do not know how this idea
25 might be accepted by them.

1 We do know that without adequate
2 protection for the horsemen, there is a strong
3 possibility that race tracks might simply become
4 casinos with large unused dirt ovals and empty
5 stables around them.

6 The Pennsylvania Live Horse Racing
7 Council feels that it is absolutely essential
8 that the protection for horsemen be clearly and
9 specifically spelled out in legislation.

10 Nothing should be left open to later
11 interpretation and negotiation. And we stand
12 ready to help any legislator in that regard.

13 The horse industry that I represent is
14 large, but our resources pale to what
15 out-of-state casinos interests appear to be
16 spending to stampede public opinion in their
17 favor. If Pennsylvania's horse industry loses
18 out, we will not have the luxury of steaming off
19 in floating casinos to greener pastures or
20 greener markets. We will simply and literally
21 be out to pasture.

22 We hope that Members of the Judiciary
23 Committee will agree with the position that we
24 have taken and give us consideration when and if
25 legislation is drafted to permit additional

1 forms of gaming to come into the State of
2 Pennsylvania.

3 And I thank Chairman Gannon and the
4 rest of the Committee for giving us an
5 opportunity to appear here and to present our
6 viewpoints. Thank you.

7 CHAIRMAN GANNON: Thank you very much,
8 Mr. Spears. You have had very thoughtful and
9 insightful testimony, also enlightening.

10 Now, questions from the Committee.
11 Representative Mayernik.

12 REP. MAYERNIK: Yes, sir.

13 Several years ago, we passed the OTB,
14 off-track betting. Is your association in favor
15 of that?

16 MR. SPEARS: Yes.

17 REP. MAYERNIK: And the purpose of
18 that was to help supplement the purses?

19 MR. SPEARS: Yes.

20 REP. MAYERNIK: And as you discussed
21 today about the possibility of other
22 supplements, of other ways to supplementing the
23 purses, you would be in favor of that also?

24 MR. SPEARS: We are in favor of
25 whatever will benefit the horsemen and we are

1 here today to try to focus the attention of the
2 Judiciary Committee on the fact that we need to
3 be considered in any legislation that is passed
4 that affects the horse racing industry and we
5 need to be a part of that and we need to share
6 in it. Any legislation that we have seen to
7 date has given no consideration to the horsemen.

8 REP. MAYERNIK: Would you be in favor
9 of some type of merger with the river boat if
10 there was some OTB involved with it?

11 MR. SPEARS: I am sorry, would I be in
12 favor?

13 REP. MAYERNIK: Would you be in favor
14 with some type of merger that was an off-track
15 betting to go in with the river boat as they
16 waited for it? That would help supplement your
17 purses?

18 MR. SPEARS: In the, in the real world
19 that I would like to see, I think that we have a
20 good situation as it stands now; but, in the
21 event that it becomes inevitable that it is
22 going to happen, then we want to be considered
23 and we want to be legislated into whatever
24 benefits that there are to be obtained from
25 additional forms of gambling. We need to have a

1 part of that so that we can continue to be a
2 viable business.

3 REP. MAYERNIK: So it is not the
4 ability you oppose the river boat, it is just
5 that you want to be included in whatever plans
6 we put forward?

7 MR. SPEARS: We want to be included in
8 any new plans for any additional forms of
9 gaming. We need to be considered.

10 REP. MAYERNIK: Because I remember
11 back when we were proposing the off-track
12 betting and the Legislature overrode Governor
13 Casey's veto that there was an appeal from your
14 people that we needed the off-track betting, and
15 there were other people opposed to it at the
16 time saying it would be detrimental to them, so
17 I voted in favor of the off-track betting to try
18 to move it forward in an attempt to help you.

19 MR. SPEARS: We supported that and it
20 has proven to be very helpful, both for the
21 tracks, for the racing associations, for the
22 race track owners and for the horsemen.

23 REP. MAYERNIK: I understand. That's
24 why I supported it. It involved Pennsylvanians
25 also.

1 MR. SPEARS: Yes.

2 REP. MAYERNIK: One issue that you
3 raised, sir, and I would like to address. That
4 you raised the concern regarding the hours of
5 operation of any potential river boat gaming and
6 hours of operation in regards to serving
7 alcoholic beverages. I was the author of the
8 law that said that all bars and taverns have to
9 be vacated a half hour after legal serving time
10 and that you could only serve up to 2:00. And I
11 will, if this bill moves forward, when it moves
12 forward, I intend to amend it to have the hours
13 the same as the existing liquor licenses or
14 establishments in the Commonwealth. So that
15 issue will be addressed as we move forward.

16 That's all the comments I have at this
17 time, Mr. Chairman.

18 CHAIRMAN GANNON: Thank you,
19 Representative Mayernik.

20 Representative Readshaw.

21 REP. READSHAW: Yes, one brief
22 question.

23 Thank you for your testimony, Mr.
24 Spears. And forgive me if I have overlooked the
25 answer to the question I am about to ask. But,

1 collectively, the individuals who make up the
2 horsemen, are you prepared to tell us what that
3 membership is numberwise, do you have a graph of
4 that?

5 MR. SPEARS: Probably somewhere in the
6 neighborhood of 10,000 to 15,000 people.

7 REP. READSHAW: Thank you very much.
8 That's all the questions I have.

9 CHAIRMAN GANNON: Representative
10 Dermody.

11 REP. DERMODY: No questions, Mr.
12 Chairman.

13 CHAIRMAN GANNON: Representative Fajt.

14 REP. FAJT: No questions. Thank you.

15 CHAIRMAN GANNON: Representative
16 Daley.

17 REP. DALEY: Yes, to follow up on
18 Representative Mayernik's question. You are
19 stating that you want to be part of a
20 consideration and somehow that is rather obscure
21 for me to understand. Could you be more
22 specific when you mean, will this bill move
23 forward, you want to be part of the
24 consideration, consideration like Mr. Mayernik
25 is saying, that parimutuel betting at the

1 casinos, like the Ladbroke where they have slot
2 machines or video poker? Or I really don't
3 understand what you mean.

4 MR. SPEARS: What I am saying is that
5 if this comes to pass, we need to have some
6 share in the monies that are made from
7 additional forms of gambling. We need money to
8 be added to the purse structure so that the
9 horsemen will benefit. We don't want the live
10 horse racing to disappear because if you have
11 other forms of gambling which then take away
12 from the live racing, part of the business, we
13 could end up disappearing.

14 A while ago, you talked about the
15 additional, the slot machines that are over in
16 Delaware. And what they have found over there
17 is that you have two groups of people. You have
18 one group of people who bet on the slot
19 machines. You have got the other group of
20 people who come to the races that bet on the
21 horses. They have found that the horse racing
22 part, their handle didn't pick up (that is the
23 betting at the windows); the attendance didn't
24 pick up. In fact, it has dropped off. So that
25 the horse racing side didn't pick up any

1 additional people attending the races from the
2 people who came there to bet on the slot
3 machines. Those people did not come there to
4 see the horse races. They came to play the slot
5 machines. And they don't come out and see the
6 races. So what has happened is, the horse
7 racing people have lost some of their patrons
8 over to the slot machines, but we didn't gain
9 any of the slot machine patrons to come out and
10 watch the horse races.

11 So if you take that to extreme, then
12 eventually you have fewer and fewer people
13 coming to the track to watch the live, the live
14 horse racing; and, at some point down the road
15 then, that could become the decision of track
16 management that they don't need the live horse
17 races and discontinue them and just keep the
18 slot machines. That's our concern.

19 REP. DALEY: Mr. Chairman, one further
20 question.

21 You had stated in page eight of your
22 testimony that the econometric study that was
23 done by Lawrence and Thalheimer ...

24 MR. SPEARS: Yes.

25 REP. DALEY: ... and that was done at

1 the University of Louisville.

2 MR. SPEARS: Louisville, yes.

3 REP. DALEY: It is my understanding,
4 correct me if I am wrong, that there is river
5 boat gambling in Ohio, in Cincinnati?

6 MR. SPEARS: Yes.

7 REP. DALEY: And this has gone on for
8 a while now -- for a couple of years -- and that
9 is fairly close to the proximity of Louisville,
10 am I correct?

11 MR. SPEARS: Yes, yes. And they were
12 considering bringing them into Kentucky, also.

13 REP. DALEY: Does anyone or do you
14 have any available documentation as to the
15 existing river boat gambling in the close
16 proximity of Kentucky, be it Illinois, I think
17 there is some in Evansville and also I think it
18 is in Indiana and also in Cincinnati, how it
19 impacted upon the -- directly impacted upon the
20 racing in both Ohio and Kentucky?

21 MR. SPEARS: I do not, but perhaps
22 John Urbanchuk, who is here, they have some
23 information on that.

24 Do you? Because I don't have
25 anything.

1 MR. URBANCHUK: No.

2 MR. SPEARS: Would you like to
3 respond?

4 MR. BALLEZZI: Yes, I would just like
5 to follow up on the Representative's question.
6 Regarding how the horsemen would share in any
7 additional gambling, we should follow a pattern
8 similar to Delaware and Maryland.

9 Perhaps you are familiar that Maryland
10 has new legislation that is not passed yet, but
11 it involves slot machines in the current race
12 tracks. The legislation was a combination of
13 DeFrancis (phonetic) -- Mr. DeFrancis, who is
14 the basic chairman and owners that operates the
15 race tracks in Maryland, and the horsemen,
16 contractually agreed to a fixed percentage of
17 the win from the slots. And that was
18 statutorily provided, that will be in the
19 legislation, it is tied to live racing, which
20 means that a certain number of, a minimum number
21 of days the horsemen must be allowed to race,
22 and they receive a guaranteed percentage from
23 the win.
24 That is what we are looking for in
25 Pennsylvania.

1 Delaware has a similar policy. It is
2 statutory, it is in the legislation, it is
3 between 10 and 15 percent of the win goes
4 directly to the horsemen in the form of purses.

5 Right now, Philadelphia Park, with the
6 particularly the horsemen's group that I
7 represent, we are running for about \$96,000 a
8 day. Delaware, on the other hand, is running in
9 excess of a hundred and seventy thousand a day;
10 and, yet a year ago, Delaware Park was nearly
11 out of business and it is a direct result of the
12 slot revenues.

13 So gaming can benefit horsemen in
14 many, many sectors if it is protected
15 statutorily. And that is what we are seeking
16 today, that any legislation that increases or in
17 any way affects gambling in Pennsylvania, be it
18 casino gambling, river boat gambling or slot
19 machine gambling and especially if operators of
20 race tracks are included in that legislation to
21 receive a license to operate, as this
22 legislation would allow, and if the owners of
23 Philadelphia Park or the Meadows or Pocono Downs
24 were to receive a license to operate, then the
25 horsemen who operate in those race tracks must

1 benefit from that license.

2 And that is what we are seeking. And
3 it must be statutorily protected. Thank you.

4 REP. DALEY: Thank you, Mr. Chairman.

5 CHAIRMAN GANNON: Mr. Krantz.

6 MR. KRANTZ: Let me just ask about
7 that study. They did not, in Kentucky, enact
8 slot machines with horse racing so, therefore,
9 the statement that we would lose nearly 7,000
10 jobs never happened? On page eight.

11 MR. SPEARS: That was talking about
12 the river boats, not --

13 MR. KRANTZ: Okay. Thank you.

14 Thank you, Mr. Chairman.

15 CHAIRMAN GANNON: Thank you.

16 Mr. Preski.

17 MR. PRESKI: Yes, I have some
18 questions.

19 Now, walk me through this. The purse
20 is basically the amount of money that these
21 diversified interest that you represent as horsemen
22 is divided up where you work at the tracks, is
23 that correct?

24 MR. SPEARS: The purses are money that
25 the horses race for.

1 MR. PRESKI: And that money is split
2 among the various horsemen, the owners,
3 breeders, traders and track owners?

4 MR. SPEARS: The way the purse is
5 divided normally in the standardbred industry,
6 for example, if you raced for a hundred thousand
7 dollar purse, which is a big purse for us, the
8 winner of the purse gets 50 percent of that; the
9 horse that wins gets 50 percent, or 50,000; the
10 horse that comes in second would get 25 percent;
11 the horse that comes in third gets 12; the horse
12 that comes in fourth gets eight percent; and the
13 horse owner for the horse that finishes fifth
14 gets five percent. That is the way the purse
15 gets divided up.

16 And that is the incentive for people
17 to buy horses, to buy yearlings that are sold by
18 the breeders, to buy horses that are claimers to
19 race for, to buy horses that are doing well or
20 somebody thinks they can do well with it. That
21 is their incentive, that is what they race for,
22 the purses.

23 MR. PRESKI: How is a particular purse
24 determined at a track for a given race?

25 MR. SPEARS: Well, you have stake

1 races, you have got Pennsylvania Sire Stake
2 races that are provided for horses to race and
3 that are sired by stallion standings in that
4 stake and it has been legislated that one and a
5 halfers, for example --

6 MR. PRESKI: Let me rephrase the
7 question for a minute. Who determined that race
8 number one at Ladbroke is a hundred thousand
9 dollar purse race? How is that number, that
10 \$100,000, assuming that's what it is or whatever
11 other number, how do you get to that number?

12 MR. SPEARS: Well, there are certain
13 stake races that are provided. like in our
14 industry, the standardbred industry, Hamiltonian
15 Society, for example, owns a number of big stake
16 races and they set the purses, they draw up the
17 terms and conditions under which you race, they
18 set the purse. Then the horse owners have to
19 pay in money to keep their horse or make their
20 horse eligible. So they pay a nominating fee to
21 make it eligible, they pay a sustaining fee to
22 keep it eligible as time goes by and then when
23 they are ready to race, they pay a starting fee.
24 All of that money goes into making up that
25 purse.

1 Now, in some cases, the track may add
2 money to that out of the handle that they have.
3 So you have regular stake races that make up a
4 season of races for horses that are two years
5 old. By sex, they race the fillies' race
6 against the fillies, colts race against the
7 colts, normally when they are two and three.
8 After that, then they have to race in open. But
9 normally, then, the race secretary at a track
10 will determine which races will be put on by
11 that track. And they can be stake races, they
12 can be Sire Stake races, they can be what they
13 call overnight purses or they could be claiming
14 races. And they all have different purse
15 amounts. And the race secretary will determine
16 which races he will put on and what they will
17 pay.

18 MR. PRESKI: Who does the race
19 secretary work for, the individual track owner?

20 MR. SPEARS: He works for the track.

21 MR. BALLEZZI: Let me make one point
22 of clarification so you understand. The
23 overwhelming amount of money paid the horseman
24 comes from what's called overnights, not in
25 stakes. Very few horses run for stakes money.

1 The overnight money is that percentage
2 of the handle. That is the contractual
3 relationship between the horsemen and ownership.
4 And they contract to receive a percentage which
5 you legislators have, in fact, in certain cases
6 in Pennsylvania, it is legislatively enacted.
7 In other circumstances, it is by a contract
8 between horsemen and ownership.

9 That overnight, for example, under the
10 thoroughbred scheme in Philadelphia Park which I
11 represent, that is \$96,000 a day. That comes
12 from a guaranteed purse. Management pays us
13 that every day based on a contract that we have.
14 Of that \$96,000, that money is generated to us
15 from management but management receives it from
16 the handle, from the wager, from the betting.
17 That is why there is such an important
18 connection between slot machines in Delaware and
19 Maryland and their purses. Because as the
20 handle goes up, purses go up. But if you are
21 tied into slot handle, not racing handle but
22 slot handle, that is why Delaware's purses now
23 have gone through the ceiling because they have
24 included in their purses a percentage of the
25 slot handle, the slot win.

1 MR. PRESKI: Okay. Now, assuming that
2 what you have asked for is percentage of the
3 slot handle to go to the purses ...

4 MR. BALLEZZI: Right.

5 MR. PRESKI: ... is there a point then
6 where given the numbers that -- the testimony
7 prior to the Committee has basically said that
8 the amount of money that we are talking about on
9 the win for the river boat and gaming interest
10 would be substantial. Is there a point then
11 where a percentage of that win for the casino
12 from their slots or other games basically not
13 ensures but lessens your concern that one day we
14 may have slots and no horses? Because if we
15 mandate, in legislation, that a percentage of
16 the casinos' win must go to the purses, it seems
17 that, you know, you are not going to have tracks
18 with enormous purses but nobody runs.

19 MR. BALLEZZI: That is right.

20 MR. PRESKI: My question is, is that
21 true or not? Is there some point where, as
22 horsemen, you are almost not guaranteed but
23 ensured from the money coming in from the
24 casinos that your livelihood remains?

25 MR. BALLEZZI: That's right.

1 MR. SPEARS: We want to protect live
2 racing. And to do that, we need to share in
3 that. And if there is some kind of guaranteed
4 legislated protection for us, that would ensure
5 us of being able to continue with our live horse
6 races.

7 MR. BALLEZZI: Absolutely. Delaware
8 has done that. If you look at Delaware,
9 Delaware race track was out of business, they
10 were going to close down. And the one and only
11 reason why you have Delaware racing today -- and
12 it is a high-caliber racing, there are better
13 horses showing up, better outfits -- is because
14 the purses have increased. Give away the money
15 and you will have an industry that thrives. A
16 race track will thrive, the horsemen will
17 thrive. If the purses are there, horsemen will
18 come and run races.

19 And Delaware now is on the brink of
20 blossoming into one of the premiere race tracks
21 in the country. When a year ago, they were
22 ready to go out of business. And it is one
23 reason and one reason only: the revenue derived
24 from additional slots.

25 MR. PRESKI: Okay. Then one of my

1 final questions will be: you say that with that
2 increase not only will horse racing thrive but
3 you are going to generate better or bigger
4 output, I think you said, from out-of-state?

5 MR. BALLEZZI: (Nods head
6 affirmatively.)

7 MR. PRESKI: Do those bigger outfits
8 that come in then put your people at risk?

9 MR. SPEARS: I don't understand what
10 you mean by --

11 MR. PRESKI: If you have the bigger
12 farms or if you have other horses that come in,
13 will you then come back and tell this Committee
14 or other committees that before the purses have
15 become so big, because the horse farms that are
16 coming in are, what I assume to be, national or
17 well-known, whatever, like Hanover Farms, do the
18 smaller horsemen, owners, and then the smaller
19 horse farms in Pennsylvania that suffer? Or is
20 this just one -- Educate me here.

21 MR. BALLEZZI: Under our thoroughbred
22 scheme, under the thoroughbreds, we have a
23 breeders program that allows for 50-percent
24 bonus for any Pennsylvania-bred that wins one of
25 our races. So if you increase the purses from

1 10,000 for a race to 50,000, that 50 percent of
2 50,000 is an additional bonus. So what you are
3 really doing is not only guaranteeing additional
4 monies to horsemen who race but you are also
5 helping the Pennsylvania breeder who gets that
6 bonus make more money. If you are getting 50
7 percent of 10,000 or 50 percent of 50,000 with
8 the additional purses, the 50 percent of 50,000
9 obviously is an incentive for a Pennsylvania
10 breeder to continue to breed horses. So
11 everyone, it is a win/win situation. Everyone
12 wins.

13 MR. PRESKI: Thank you.

14 CHAIRMAN GANNON: Thank you.

15 A quick question. I guess what I am
16 hearing is that the horsemen compete among each
17 other for those purses?

18 MR. BALLEZZI: That's correct.

19 CHAIRMAN GANNON: So that conceivably
20 as the purses go up, you will have more and more
21 horses competing for a larger purse and the
22 quality, from what you are saying, the quality
23 of the races and the horses and the people
24 participating tends to go up?

25 MR. BALLEZZI: Right. Under the

1 thoroughbred scheme, if you have, let's say you
2 are racing for a \$20,000 purse in that one race,
3 that one race is giving away 20,000. The way it
4 works in the thoroughbred industry is that the
5 winner of that race gets 60 percent of that
6 20,000 (gets 12,000). The second place horse
7 gets 20 percent of that 20,000. The third place
8 horse gets 11 percent. The fourth place horse
9 gets 6 percent. And the fifth place horse gets
10 3 percent. That is the competition among
11 horsemen. But the money has to be there to
12 start with. And if you put the money up, you
13 will get the better horses to race for that
14 money. Obviously a horseman would rather run
15 for a \$20,000 purse than a \$3,000 purse.

16 CHAIRMAN GANNON: Since you are from
17 Philadelphia Park, have you seen any effect on
18 the horsemen who have opted out or they are not
19 racing at Philadelphia, they are opting to go do
20 to Delaware? Or have you seen a decline?

21 Let me ask you this: what effect, if
22 any, has the increasing purses in Delaware have
23 on Philadelphia?

24 MR. BALLEZZI: I think it has had a
25 beneficial effect on everyone. Because it

1 allows the horsemen at the Philadelphia Park to
2 look to Delaware, race there. Or at
3 Philadelphia Park, wherever a race can fill.

4 See, there are problems, there are
5 technical things in the industry. You may have
6 a horse that you have to run for a certain price
7 and if the race is not at Philadelphia Park, for
8 whatever reason they don't present that race,
9 you then have an option to go to Delaware Park.

10 So in those terms, obviously you would
11 rather run for more money. But by Delaware
12 running for more money, you are bringing better
13 horsemen into the area, you are generating more
14 interest in the horse business, people are
15 buying more horses so you help the breeders. It
16 just helps everyone. And it also allows
17 Philadelphia Park to also have some review of
18 what is going on down there. So when we come
19 before the Legislature, we say, okay, here is an
20 experiment that is working, here's what is
21 happening, read the statute there, look at
22 Maryland's plan. And I think they then help us
23 to advance to the next stage where we have to
24 go.

25 CHAIRMAN GANNON: Well, let me put it

1 this way: would increased purses in Philadelphia
2 Park have any effect on the operations in
3 Philadelphia Park?

4 MR. BALLEZZI: Well, it increased
5 purses. Absolutely. You would get better
6 horses, more horses. I think the handle would
7 help. It would generate more interest. It is a
8 win/win situation.

9 CHAIRMAN GANNON: Well, how about the
10 Delaware tracks, with the Delaware tracks now
11 having the higher purses because of the
12 increased winnings --

13 Has the increased purses at the
14 Delaware track have any impact so far on racing
15 in Philadelphia Park?

16 MR. BALLEZZI: I was speaking to our
17 racing associate, Jim Beem. And initially some
18 horses opted to race to go to Delaware. But
19 like everything else, the horses that have left,
20 that is stabilized. The horses that we lost
21 from Philadelphia Park are now there at
22 Delaware. Our horse population now is
23 increasing and we're bringing in more horses to
24 the area and I think it is all stabilized right
25 now.

1 But to answer your question, initially
2 we did lose some horses to Delaware because of
3 the increased purses. No question about that.
4 There is also the fear that if we don't get some
5 type of additional slots in Philadelphia Park
6 and in Pennsylvania that it would hurt our
7 industry, that horses would go to Delaware and
8 Maryland, if Maryland develops a plan. And that
9 is yet to be seen. That is a consideration.

10 CHAIRMAN GANNON: It seems from your
11 testimony, Mr. Spears, you have been looking at
12 this as a zero sum situation and that is a
13 dollar wagered someplace else is a dollar that
14 is not wagered on horse racing. And it would
15 seem to me on that theory that increased
16 expansion of gaming in other states, surrounding
17 states, for example, Ohio and West Virginia,
18 Delaware and New Jersey, would have had an
19 impact on the racing industry in Pennsylvania
20 because those dollars that have been wagered on
21 horse racing in Pennsylvania are now wagered
22 out-of-state on other gaming activities. Is
23 that a fair statement?

24 MR. SPEARS: Well, I think any time
25 that you introduce additional forms of gaming,

1 you are just dividing up the pie more and there
2 are more opportunities for people who want to
3 gamble, to gamble on things other than betting
4 on horses.

5 CHAIRMAN GANNON: Does that mean that
6 they have previously wagered on horses and they
7 are now no longer going to wager on horses, but
8 they're going to wager on other forms of
9 gambling?

10 MR. SPEARS: Yes, if you go back a
11 number of years ago, we were the only game in
12 town. That was before we had the state
13 lotteries, before we had the gambling casinos in
14 New Jersey and the betting on sports and
15 different things. All of the additional forms
16 of gambling, of gaming that have come into play
17 have just divided the pie. At one time, we
18 owned the whole pie. But we no longer own the
19 whole pie. We have just got a small part of it
20 now.

21 CHAIRMAN GANNON: Well, I am going to
22 make, maybe this is somewhat of a challenge, but
23 the information that I am getting back is
24 Pennsylvania horse racing is probably doing as
25 well now as it has ever done in its history, in

1 terms of quality of the races and the purses and
2 whatever, the way the situation is now. We have
3 had some expansions of gaming in Pennsylvania.

4 MR. SPEARS: We have improved the
5 horse situation tremendously in Pennsylvania
6 because of the enactment of the legislation
7 which permitted off-track betting. That's what
8 has helped the horse industry in Pennsylvania.

9 MR. BALLEZZI: I would agree with
10 that, Mr. Chairman. As long as the horsemen are
11 protected legislatively, we benefit. It's when
12 we're not included legislatively that we're hurt
13 and the industry is hurt. So that's why it so
14 important that anything you do regarding
15 additional gambling or gaming in Pennsylvania,
16 horsemen be protected statutorily and then it
17 becomes truly, as I indicated to you, everyone
18 then benefits, a win/win situation.

19 CHAIRMAN GANNON: Thank you very much
20 Mr. Spears.

21 REP. DERMODY: Mr. Chairman.

22 CHAIRMAN GANNON: I am sorry about
23 that, Representative Dermody.

24 REP. DERMODY: Philadelphia Park, I
25 just want to clarify it in my mind and follow up

1 with the Chairman's question. What you are
2 saying is after Delaware has introduced the slot
3 at their track, that really hasn't hurt
4 Philadelphia Park and in many ways you say may
5 benefit, is that correct?

6 MR. BALLEZZI: To a certain extent. I
7 think eventually it may hurt us if we don't have
8 some comparable type of introduction of slots.
9 I mean, Maryland is going to have them.
10 Delaware has them. Maryland will have them, I
11 am sure, by next legislative session. And
12 eventually, you know we're going to be hurt by
13 it.

14 REP. DERMODY: I just want to get
15 someone to clarify it. Because when we got
16 through with this, if you are not hurt or as a
17 matter of fact you're gaining benefit from what
18 is going on over there, why should we change it?

19 MR. BALLEZZI: No, I am not talking
20 about purse-wise. I was talking about in terms
21 of horses. I think the Chairman was asking
22 about losing horses and things like that. But
23 in terms of financially, absolutely we are going
24 to lose because we are way behind. And 96,000 a
25 day, which is what we were running for now, that

1 is half of what Delaware is running for, in the
2 area of 170 and 180. And Maryland the same way.
3 So purse-wise to the horsemen, absolutely we're
4 being hurt right now. I want to make that
5 clear.

6 REP. DERMODY: Thank you, Mr.
7 Chairman.

8 CHAIRMAN GANNON: Representative
9 Mayernik.

10 REP. MAYERNIK: Yes, two more
11 questions and then a comment if I could, Mr.
12 Chairman.

13 Mr. Spears, if I can understand your
14 testimony correctly, you are not against
15 gambling and you are not against river boat
16 gambling per se as long you are included
17 somewhere in the mix of things, is that correct?

18 MR. SPEARS: If additional forms of
19 gambling is going to be legislated, then our
20 position is that we need to be included as part
21 of that and we need to be considered as part of
22 whatever legislation is enacted.

23 REP. MAYERNIK: I am not a gambler. I
24 played the lottery whenever my baby was born
25 with the room numbers and that and that is about

1 the extent. And then at a track one night for
2 charity thing. A purse, is that what's paid out
3 to the winner?

4 MR. SPEARS: Certainly, the purse is
5 the money for which you race and that gets paid
6 and divided among the first -- normally the
7 first five finishers of the race.

8 REP. MAYERNIK: So it appears that
9 your interest is keeping the purse up so your
10 people can get more money when you win?

11 MR. SPEARS: We're interested in
12 keeping purses up and we're also interested in
13 protecting live racing so that we can continue
14 to enjoy the same numbers of races that we now
15 have. We don't want to have that infringed upon
16 and lose the number of races that we have.
17 Because eventually then you get down to the
18 point where there is no longer any demand for
19 your horses which then puts the breeder out of
20 business which then puts all the rest of the
21 horsemen, the drivers, the trainers, the
22 jockeys, the grooms and everybody.

23 REP. MAYERNIK: During the gentleman's
24 comments, I believe I heard the term you wanted
25 guaranteed legislative protection, someone used

1 that terminology?

2 MR. SPEARS: Yes.

3 REP. MAYERNIK: Do they have it in
4 other states, guaranteed legislative protection?

5 MR. BALLEZZI: Yes, the percentage of
6 the win from the revenue generated by gambling,
7 that percentage that goes to the horseman is
8 guaranteed statutorily. It's written in the
9 statute.

10 REP. MAYERNIK: I would like to make a
11 comment at this time, if I could, Mr. Chairman

12 CHAIRMAN GANNON: That's fine.

13 REP. MAYERNIK: Thank you. I am just
14 concerned of what I hear here today. It seems
15 that the position of the guaranteed legislative
16 protection is contrary to what we hear our
17 constituents saying as we go through elections
18 and deregulation and let the market determine
19 what happens. And what I hear you saying is you
20 want us to take a position of guaranteed
21 protection, protectionism, instead of letting
22 our constituents, the bettors, the gamblers
23 decide where they want to go, whether it be
24 horse racing or video poker or OTB or whatever.
25 And this concern as we go through this hearing,

1 not only in this subject matter but any subject
2 matter regarding protectionism being statutorily
3 guaranteed anybody any position, I think that I
4 am more inclined to open up the market to
5 deregulation and to let the individual make
6 their own decision whether they want to go to
7 gaming instead of horse racing, to any certain
8 position.

9 MR. BALLEZZI: I get your point.

10 REP. MAYERNIK: I think we should be
11 concerned of those protectionism and guarantees
12 as we go forward.

13 Thank you for permitting me to make
14 the comments, Mr. Chairman.

15 MR. SPEARS: I don't think that's what
16 we're talking about at all. We're not talking
17 about legislating who comes in or who gets
18 licenses or anything else. What we're talking
19 about is, if it comes to pass that you legislate
20 that it is all right to have river boat gambling
21 come into the state, then we're saying that's
22 going to affect the horsemen in this state and
23 we need to be protected so that the river boats
24 do not then end up replacing horse racing, live
25 horse racing.

1 We don't want to go out of business.
2 We have been here, we have been established, we
3 provide jobs, we provide economic activity in
4 the state and we see additional form of gaming
5 as a negative factor as far as live horse racing
6 is concerned unless we are protected. And the
7 only way that we see that we're going to be
8 protected to the extent that we need to be
9 protected is by having you legislate it so that
10 it can't be changed or it can't be taken away
11 from us.

12 REP. MAYERNIK: Thank you.

13 CHAIRMAN GANNON: Any other questions?

14 (No response.)

15 CHAIRMAN GANNON: Thank you very much,
16 Mr. Spears, for your testimony today and we
17 appreciate your time on sharing that information
18 with the Committee. Thank you.

19 MR. BALLEZZI: Thank you, Mr.

20 Chairman.

21 MR. SPEARS: Thank you.

22 CHAIRMAN GANNON: Our next witness is
23 Peter D. Hart. Peter D. Hart, Research
24 Associates. Welcome, Mr. Hart.

25 MR. HART: Thank you. Nice to see

1 you. I am delighted to be with you and I thank
2 you very much for the opportunity to be able to
3 share the results of a survey that we have
4 conducted along with the organization of RSM
5 which is headed up by Vince Braleo (phonetic).
6 And let me just briefly tell you a little bit
7 about the survey, how it was conducted and the
8 result and what is there.

9 To begin with, this a statewide survey
10 in the State of Pennsylvania. It was conducted
11 by telephone. It was conducted with a cross
12 section of 800 adults during the end of March.
13 The sampling methodology which we used in this
14 survey is exactly the same as we do with
15 conducting the NBC Wall Street Journal's survey.
16 It was stratified, it was a random probability
17 sample and indeed every household in the State
18 of Pennsylvania had an equal opportunity with
19 every other household of being interviewed.
20 Even within the household, when we selected the
21 respondent, they were given an equal chance with
22 every other respondent. It was not just the
23 person who answered the phone. So the
24 methodology and the way in which we came to this
25 survey is as stringent as anything that we

1 conduct for the NBC Wall Street Journal poll.

2 Let me tell you that this survey is
3 intensive and in depth and I would like to take
4 you through some of the highlights. And I know
5 that you gentlemen all have a copy of, of some
6 of the tables. And let me start with the first
7 table, if I might. And that is, understand the
8 people of Pennsylvania. One of the things that
9 I would tell you is Pennsylvania is very
10 different from other states in which we have
11 done surveys when it comes to the assorted
12 profile of gambling in terms of your resident.

13 Seventy-eight percent of the people in
14 Pennsylvania have played the lottery.
15 Sixty-seven percent of the people in
16 Pennsylvania have been to a casino. Fifty-eight
17 percent of the people have been to an Atlantic
18 City casino and indeed 54 percent have been to a
19 race track. So unlike other states where casino
20 gambling is sort of seen as something distant,
21 something remote, something that they don't
22 really understand or is an image that comes
23 through television or the movies, these people
24 who have actually been there, they have a
25 firsthand experience, they have a sense of

1 exactly what it is. And that makes a tremendous
2 difference. Because the data that I am going to
3 share with you does not come from something that
4 they don't understand. It is indeed their
5 impressions and in many cases firsthand
6 impressions. And I would tell you it is indeed
7 a very wide segment of the population that have,
8 that have been to casinos and have been to race
9 tracks. That's one element about what makes
10 Pennsylvania different.

11 If you turn to the second chart,
12 another element which makes Pennsylvania
13 different -- and I should state that we have
14 done surveys in all 50 states and on the issues
15 of public opinion and I have a fairly good sense
16 of what's out there.

17 But one of the questions that we like
18 to find out about the public is how they feel
19 about the issue of taxes. And when we ask
20 people to tell us about taxes, in general you
21 can see that fully 50 percent of the people in
22 Pennsylvania say that taxes are either far too
23 high or somewhat too high. Only one percent of
24 your population will tell us that taxes are too
25 low and about 44 percent say they are about

1 right. The significance of this is really just
2 one thing. And that is, you have a very
3 tax-sensitive electorate. Among the most tax
4 sensitive people are women, blue-color workers.
5 And I would tell you people who are in favor or
6 who are opposed to casinos gambling, there is
7 very little difference. So the sensitivity of
8 what is out there and the importance of taxes is
9 extremely important.

10 On the next chart, if you will go to
11 that, we ask people how they would feel about --
12 and let me just read the question, if I might.
13 Now let me read to you a few proposals that
14 people have suggested for developing industry
15 and raising revenues for state government. For
16 each one, please tell me if this is something
17 you would strongly favor, somewhat favor,
18 somewhat oppose or strongly oppose. And then we
19 talked about such things as increasing property
20 taxes, expanding the state lottery, increasing
21 state sales tax, etc. And as you can see, the
22 people of Pennsylvania, indeed, have one mind
23 when it comes to increasing the basic taxes that
24 they currently pay. When it comes to increasing
25 the state sales tax by a margin of 80 to 17,

1 they tell us that they are, indeed, opposed to
2 it. And as you can see, they are, indeed,
3 strongly opposed to it.

4 When it comes to the question of
5 increasing income taxes, the people of
6 Pennsylvania, by an 85 to 11 margin say, I am
7 opposed to that. And finally, when it comes to
8 increasing property taxes, it's overwhelming 93
9 percent to five percent say I am opposed. Only
10 two areas would be -- would the Pennsylvania
11 public support some kind of increased revenue
12 alternatives.

13 One is to expand the lottery by a
14 margin of two to one, 60 to 30. They say, yes,
15 I could be in favor of this. And the other is
16 in terms of river boat gambling by a margin of
17 56 to 40 percent. And I should note that
18 practically all areas of the state are in
19 support of this. In fact, of morality in all
20 parts. So taxes, you have a public that is,
21 indeed, very sensitive and cares very much.

22 Let me turn to the next page which
23 really says, how do you decide an issue? And
24 what we have noted over the years is that on
25 various issues, the public looks quite

1 differently on how you decide issues. In some
2 instances, they say we want our voice because we
3 think it's a central issue. On others, they say
4 we would turn to our elected officials because
5 it's something that is too arcane or it's too
6 small for us. When it comes to the question of
7 river boat gambling in the State of
8 Pennsylvania, by a margin of 89 percent to nine
9 percent, the people of Pennsylvania say, oh, let
10 us decide. Eighty-nine percent say it's the
11 voters' decision. Nine percent say let's leave
12 it to the Legislature. And the point is, even
13 those people who are definitely opposed to
14 having casino gambling in Pennsylvania say let
15 us decide. It is not for the Legislature. And
16 indeed, that becomes a central point.

17 Let me turn to the next page, if I can,
18 which is just the simple question of how would
19 you vote on the issue of river boat gambling if
20 it were, indeed, on the ballot today? And as
21 you can see, by a margin of 59 percent to 38
22 percent, the people in Pennsylvania say that
23 they would vote in favor of this. And this
24 support is not generated by a single region or a
25 single group. We find that it is supported in

1 Philadelphia, in the other west part of the
2 state, indeed in Allegheny area and in central
3 Pennsylvania. So in practically in every area
4 of the state, it is supported. It is supported
5 by men and women. It is supported by all age
6 groups from 18 to 64. And voters over the age
7 of 65 opposed. All occupation groups are,
8 indeed, in favor of it. And in partisan terms,
9 democrats, independents and republicans all
10 favor it. So the support is broad and, indeed,
11 comes from all constituencies.

12 One of the things that we did on this
13 survey, and you can see it on the next page, is
14 we gave them additional information so it wasn't
15 just a question of having some sort of general
16 broad feeling about how you felt about river
17 boat casino gambling. We actually told them
18 about some of the provisions that are being
19 discussed. And so you, as a respondent, knew
20 that there would be either a casino in your area
21 or there would not be a casino in your area.
22 And so this is what we call an informed vote
23 versus a general vote. And when we gave them
24 more information, the margin turns out to be 66
25 to 32 percent in favor.

1 Indeed, one of the things that I found
2 interesting, which is probably exactly the
3 opposite of what you see in so many areas, and
4 that is the public who say that a casino is
5 going to be in their area, they are told it is
6 going to be in your county or the potentiality
7 of being in your county tend to be more
8 supportive than those people who say that they
9 wouldn't have a casino. So it's the opposite of
10 NIMBY. Where you say, sure, it's fine but not
11 in my backyard. Surprisingly and interestingly
12 enough the public says, yes, I am, indeed, in
13 support of that.

14 If you can turn to the next chart,
15 when we asked the public to tell us how should
16 the revenues be used -- and as you can see and
17 what we have seen in other states and I should
18 say that we have probably done polling on the
19 issue of casino gambling in 15 to 20 states over
20 the course of the last 20 years -- when you ask
21 people is it something that is going to create a
22 problem or solve a problem, that seems to be a
23 central delineating factor on how people will
24 vote. And one of the things that is important
25 about Pennsylvania is that these people, I

1 believe, see it as something that is going to
2 solve the problem or deal with something that
3 they care about. Because we asked them, where
4 should the river boat gambling revenue go? By a
5 margin of 76 to 12, they tell us it should go to
6 specific services or programs versus, versus the
7 General Fund.

8 And the next page tells you something
9 that I know you know all too well and that is
10 what is important in Pennsylvania. And when we
11 asked which areas should get the revenues or how
12 they would support it, 54 percent of the people
13 in Pennsylvania say it should go to education.
14 After that, it comes to the area of creating
15 jobs and economic development and 37 percent
16 fighting crime and 30 percent property tax
17 relief and 23 percent talk about highway
18 construction and maintenance and only 18 percent
19 select programs for the senior citizens.

20 So it is an interesting point that
21 these people care about, care about the revenues
22 and how they're spent, but more importantly than
23 that is they see it as something that will help
24 a central problem facing the State of
25 Pennsylvania which is education.

1 And that brings me to my final chart.
2 And the final chart and that was after we asked
3 people to tell us, well, you talked about the
4 issue and get a real sense of where they were
5 coming from. We said, how would you vote? And
6 one of the things that we often see on
7 referendum of this type is that the initial
8 support will be very high, the later support
9 tends to dwindle away.

10 In this instance, we actually find
11 that 63 percent tell us in the final vote they
12 would vote yes. Only 34 percent would vote no.
13 And again, the support tends to be very
14 widespread and fairly large.

15 So what I would tell you is, we have
16 learned from the people of Pennsylvania how they
17 feel about this issue. We have not tried to
18 learn everything about all of the issues you're
19 discussing today. But the support seems to be
20 strong and it seems to be deep and it seems to
21 be based as much as anything on an issue where
22 people say you can help the state rather than
23 hurt the state. So, Mr. Chairman, that's what
24 we found.

25 CHAIRMAN GANNON: Thank you very much.

1 Mr. Hart.

2 Representative Mayernik.

3 REP. MAYERNIK: No questions at this
4 time, Mr. Chairman.

5 CHAIRMAN GANNON: Representative
6 Readshaw.

7 REP. READSHAW: I would just like to
8 ask in those 800 adults the survey was taken
9 from, what was the average age of the 800
10 adults, do you happen to know?

11 MR. HART: Indeed, what you would find
12 is, it is a, quote, statistical cross section of
13 the state. I can tell you exactly that 12
14 percent of the people we interviewed were 18 to
15 24. Nine percent were between the ages of 25
16 and 29. Ten percent were between the ages of 30
17 and 34. Thirteen percent were between the ages
18 of 35 and 39. Ten percent between the ages of
19 40 to 44. Eight percent between the ages of 45
20 to 49. Six percent between the ages of 50 and
21 54. Six percent between the ages of 55 and 59.
22 Six percent were between 60 and 64 and 18
23 percent were over the age of 65. Two percent
24 refused to give us their age. And if you went
25 to the statistical abstract for Pennsylvania,

1 you would see that, indeed, it would be a cross
2 section.

3 REP. READSHAW: I just have a side
4 comment. I just find that interesting. If by
5 the percentages that you gave, why seniors in
6 the final graph there were only 18 percent as
7 opposed to where the money should go to. Do you
8 have an explanation on that?

9 MR. HART: This is going to be an
10 analysis of what I think the data is saying.
11 But one of the interesting things is we assume
12 that seniors are just simply self-motivated.
13 And one of the things that is fascinating about
14 this survey is that a large share of seniors
15 talked about education as being important. So
16 there is something to be said that, indeed, they
17 look towards the next generation. And the other
18 element, as I understand, is that you have a
19 lottery funding, which goes heavily to seniors,
20 which might also suggest that these people feel
21 as though the programs that help seniors are
22 already there.

23 But let me just tell you that among
24 seniors, interestingly enough, here are their
25 answers. Number one answer was property tax

1 relief at 41 percent. Followed very, very
2 closely at 38 percent with improving education.
3 So it's their grandchildren and, indeed, they
4 are looking probably in that direction. Only 29
5 percent of seniors selected programs for senior
6 citizens so that falls way down the list for
7 them in comparison. And so a way of saying it
8 is that seniors are not just simply
9 self-motivated or selfish.

10 REP. READSHAW: Thank you.

11 MR. HART: Thank you.

12 CHAIRMAN GANNON: Representative
13 Dermody.

14 REP. DERMODY: Thank you, Mr.
15 Chairman. I just have one or two questions.
16 These are all registered voters?

17 MR. HART: No, they are not. These
18 are adults in the State of Pennsylvania.
19 Indeed, we looked at the results by registered
20 voters as well as by all adults. And I would
21 tell you the differences are just slightly
22 different. I mean, by a point or two. So you
23 are looking at something that is two different
24 samples. And I believe that approximately --
25 you know, I could tell you exactly -- but I

1 think in the neighborhood of about 600 of the
2 800 respondents were registered.

3 REP. DERMODY: Six hundred of the 800
4 were registered?

5 MR. HART: Right. Which would again
6 be reflective of registrations for the
7 population.

8 REP. DERMODY: Did you, of the 600
9 voters, did you make -- have any questions like
10 that or make any distinctions based not whether
11 they are likely voters or --

12 MR. HART: Can I --

13 REP. DERMODY: -- from any questions
14 like this?

15 MR. HART: Yeah. Right. If I can
16 just revise my statement? It was 624 registered
17 voters in that 78 percent.

18 No, this survey was not simply aimed
19 as work that we also do in the field to
20 understand politically the likely voters and
21 likely turn out. What we wanted to understand
22 is where was public opinion on this issue, both
23 registered and non-registered to make sure that
24 it is, indeed, a fair representation of
25 Pennsylvania. And we did not want to do

1 something that suggested it was partisan or
2 political by trying to do are you going to,
3 likely to, turn out, etc.

4 REP. DERMODY: So there were no
5 questions of whether they would go to vote or
6 would they likely vote on a referendum on this
7 issue?

8 MR. HART: No. Let me just state,
9 it's a question that we traditionally ask when
10 we do the NBC Wall Street Journal poll. And I
11 will tell you among registered voters,
12 approximately 85 to 90 percent tend to go to the
13 polls. So in terms of stating likelihood to
14 vote and so my guess is that you would see
15 something similar in this case. Thank you very
16 much.

17 REP. DERMODY: Thank you.

18 Thank you, Mr. Chairman.

19 CHAIRMAN GANNON: Thank you,
20 Representative Dermody.

21 Mr. Krantz.

22 MR. KRANTZ: No.

23 CHAIRMAN GANNON: Representative Fajt.

24 REPRESENTATIVE FAJT: No.

25 CHAIRMAN GANNON: Two questions. I

1 read an article in the paper -- and this, you
2 can tell me whether or not this is true -- that
3 this survey was funded by the gaming industry,
4 is that true?

5 MR. HART: That is true.

6 CHAIRMAN GANNON: Was there any
7 indication or suggestion on the part of the
8 gaming industry to conduct this survey in any
9 way which would foretell the outcome?

10 MR. HART: I am really appreciative of
11 your asking that question because there is a
12 group that do something that is called advocacy
13 polling. And it gives, I think, the survey
14 research field a bad name. And advocacy polling
15 is something where people either by wording of
16 questions or by selection of sample can come out
17 with a result that may look like it is accurate.

18 This was done both by RSM and our
19 organization combined together. And I can tell
20 you both in terms of the way in which we did
21 this sample, we were extremely careful to be
22 able to get a perfect cross section of the, of
23 the public in Pennsylvania.

24 And secondly, one of the things that I
25 insist on is that any time the data is released

1 that people can see the questions and understand
2 exactly what's been asked. And if you will note
3 in the material that I have provided this
4 morning, we have questionnaires -- question
5 numbers because I think that sometimes you can
6 have a bias by putting a question in a certain
7 order that can change public opinion. So each
8 of these things, we care tremendously about.
9 And our reputation, obviously, is very much in
10 public view. And any time that you do a survey
11 of this nature, where there is a party that is
12 interested, the thing I tell them is you take
13 the data as it lays. And if it turned out very
14 badly, that's too bad for the client.

15 But one thing that they know is that
16 they are going to get an accurate survey. And
17 more importantly than that, I can come in front
18 of you and feel totally competent that what I
19 tell you is, indeed, a good representation of
20 where people in Pennsylvania are at this stage.

21 CHAIRMAN GANNON: Were you referring
22 to the type of surveys called, I think it's
23 called a push poll, is that what you were
24 referring to?

25 MR. HART: Yes, there is, indeed,

1 something called the push poll. And that's a
2 little different, that is something that one
3 might do as it would relate more to political
4 surveys. But what I was really referring to is
5 advocacy polling where you are hired in order to
6 be able to produce a result. And therefore
7 either the sampling methodology or the
8 questionnaire is flawed in order to be able to
9 present a set of result.

10 Push polling is actually a little
11 different because that is the way in which you,
12 quote, try and understand how an electorate
13 would move if they learned certain pieces of
14 information. Sometimes it can be positive and
15 sometimes it can be negative. And that also has
16 been abused by our industry in a different way.
17 But it is not the same as advocacy polling and
18 wouldn't relate to this survey.

19 CHAIRMAN GANNON: Could any of the
20 questions in this survey be characterized as
21 push polling?

22 MR. HART: I don't think push polling
23 would be the right terminology. Push polling,
24 just so you could understand it, I might say to
25 you here are four things that you might not know

1 about Representative Gannon and that among the
2 things he has been a leader in such and such,
3 that he comes from a family that's long been
4 involved, that such and such and such and such.
5 And then after I have given them that
6 information, I simply say, does this make you
7 feel much more favorably towards him, somewhat
8 more favorably, no difference or less favorably.
9 And then I follow that question with the
10 following question, which says, now if you had
11 to vote, would you vote for Representative
12 Gannon or candidate blank? Well, I have just
13 given them a whole bunch of good information
14 about you and all of a sudden it boosts your
15 standing.

16 Well, internally, that may be very
17 helpful because you can say, ah ha, if I can get
18 that information across to the electorate, it
19 helps me with this group and that group.

20 But if I released it publicly, what
21 happen is something that is quite different. It
22 suggests that this a fair question. The
23 question may look fair, but, in reality, the
24 push that has been there, changes the dynamic.
25 The reverse, your opponent could say here are

1 four things that I want to tell you about
2 Representative Gannon and blah, blah, blah. Now
3 does that make you feel much more unfavorable?
4 And then they put the pairing right after that.
5 And if they release it, it would look as though,
6 boy, you are in real trouble. Yeah, you are in
7 real trouble if every voter is given that kind
8 of information. That's what is called push
9 polling. And the type of questions that we ask
10 would not be considered push polling.

11 CHAIRMAN GANNON: Okay. Now, that
12 leads to my tough question.

13 MR. HART: Okay. I hope I have
14 informed you of what you guys are up against in
15 the election.

16 CHAIRMAN GANNON: Well, you indicate
17 at the beginning of your survey was a 59 percent
18 probability of yes?

19 MR. HART: Right.

20 CHAIRMAN GANNON: And at the end of
21 the survey, it was a 63 percent probability of
22 yes?

23 MR. HART: Right.

24 CHAIRMAN GANNON: To what do you
25 attribute that shift of a more positive yes at

1 the very end of this?

2 MR. HART: Okay. In two quick points.
3 You used the word probability. Probability
4 would be the wrong word. It's 59 percent said
5 they would vote yes and 38 percent said they
6 would vote no. Not a probability. It just says
7 that's where I am at. And 63 percent at the
8 end.

9 Simply put, I think the shift is
10 people may have an understanding of gambling,
11 but they don't understand the issue. And if I
12 remember in this data, I did two things. One,
13 we gave them more information about the issue.
14 So we said so many casinos and so many locations
15 and it would mean thus and such. All of that
16 was in there.

17 The other thing is they have this
18 opportunity to sort of step back. Because the
19 question that we asked at the beginning was
20 early-on, question 6a. We had asked only
21 general question. The other question was
22 question 15 later in the survey. So it allows
23 people to sort of step back and they say, boy,
24 when I think about it, this would be an issue
25 that really bothers me. No, mark me down as no.

1 Or, I feel more comfortable as I think about it,
2 mark me down yes. And the significance that I
3 am trying to make to you is not that the vote
4 went up and somehow that this is a statistically
5 significant difference, but to make the point
6 which is so central is that on so many issues
7 that you do of this type the vote collapses and
8 because Pennsylvania seems to be different the
9 vote not only did not collapse but it went up
10 slightly. So that's really the point and it is
11 not push polling.

12 CHAIRMAN GANNON: Thank you very much,
13 Mr. Hart. Any other questions? Thank you for
14 sharing that information with us today and
15 taking the time to be here. We appreciate it
16 very much.

17 MR. HART: Thank you.

18 CHAIRMAN GANNON: Our next witness is
19 Mr. Urbanchuk, Executive Vice President of AUS
20 Consultants. Welcome, Mr. Urbanchuk. Okay, you
21 can begin.

22 MR. URBANCHUK: Good morning, Mr.
23 Chairman. My name is John Urbanchuk. I am
24 Executive Vice President for Industry Analysis
25 at AUS Consultants, an economic consulting firm

1 located in the Philadelphia Metropolitan area.

2 I am pleased to testify this morning on
3 potential economic impact of the expansion of
4 gambling on the horse racing and commercial
5 horse industries and the Commonwealth of
6 Pennsylvania.

7 The race horse industry is an
8 important contributor to the economy of the
9 Commonwealth. The two Thoroughbred and two
10 Standardbred professional race tracks in
11 Pennsylvania are a vital element of the state's
12 hotel, lodging and amusement industries. The
13 direct benefit -- or direct spending I should
14 say of goods and services and wages paid to
15 employees of the race tracks has multiplied
16 several fold throughout the state economy.
17 These expenditures or the expenditure of the
18 horse people and owners of the horses that race
19 at the tracks add to this contribution. The
20 purses paid to the horses owners are an
21 important source of income for the owners and
22 the Pennsylvania tax payers benefit from taxes
23 paid by the race tracks on their handle.

24 Finally, and this has been talked about
25 earlier this morning, the four race tracks

1 support a vibrant commercial breeding industry
2 which is a major element of the Pennsylvania
3 agricultural economy.

4 As we all know, there has been
5 increased interest in attracting other forms of
6 gambling. Legalized gaming, I should say, to
7 Pennsylvania. Largely as a way of generating
8 additional tax revenues for municipalities,
9 cities and the Commonwealth. And a lot of the
10 attention has been focused on river boat
11 casinos. The establishment of river boat
12 casinos would significantly increase competition
13 for the wagering dollar in Pennsylvania and
14 would seriously erode the profitability of
15 nearby race tracks to the point where they would
16 become economically non-viable. The closure of
17 these race tracks would result in lower demand
18 for supplier industries, lost jobs and reduced
19 income for all of Pennsylvanians. The situation
20 would all but eliminate the commercial horse
21 breeding industry and significantly weaken the
22 agricultural sector of Pennsylvania.

23 As Mr. Spears pointed out this
24 morning, horse racing has a long and
25 distinguished history in Pennsylvania. As

1 recently as a decade ago, there were six
2 professional race tracks in Pennsylvania, today
3 there are four. According to the Pennsylvania
4 State Horse Racing Commission, 3.3 million
5 people visited these four race tracks and
6 wagered over \$800 million in 1994. The vast
7 majority of this handle was returned to the
8 public in the form of winnings. The remainder
9 was divided among horse owners in the form of
10 purses, the state in the form of wagering taxes,
11 and the race tracks as gross revenue. Now this
12 gross revenue is used to pay all operating
13 expenses, salaries and taxes and what is left
14 over provides a return to the track owners.

15 And we talked about the breeding
16 industry. A 1993 survey conducted by
17 Pennsylvania State University indicated that
18 there were over 31,000 standardbred and
19 thoroughbred horses in Pennsylvania. This herd
20 consisted of 8,500 horses used for racing,
21 nearly 7,000 mares, 600 stallions used for
22 breeding purposes and over 3200 foals. The
23 remaining horses were used for a variety of
24 purposes. Importantly, the value of the
25 standardbred and thoroughbred horses in

1 Pennsylvania exceeds \$370 million.

2 The four Pennsylvania race tracks
3 spend almost \$60 million annually on goods and
4 services while the owners and horse people who
5 maintain, train and race the horses at each
6 track spend about a \$120 million. The race
7 tracks employ an estimated 3100 people, with an
8 annual payroll of \$36 million. And the owners
9 and the horse people at the tracks number over
10 3,750 people with an annual payroll, and this
11 includes purses, since the owners are included
12 in this, of over a \$130 million.

13 Now, when these direct expenditures,
14 jobs and earnings are multiplied throughout the
15 Pennsylvania economy, the four race tracks and
16 the owners and the horse people who maintain and
17 run the horses account for about \$530 million of
18 final demand or gross sales annually in the
19 state. The breeders of thoroughbred and
20 standardbred horses generate an additional \$180
21 million of final demand. When you add that up,
22 it is over \$710 million of economic activity
23 that is directly and indirectly generated by the
24 race tracks, the horse people and the breeders
25 all associated with that industry.

1 Each of the people employed at the
2 four tracks are the horse people, the owners,
3 and the people employed by the breeders,
4 supports the job of over two Pennsylvanians and
5 the rest of the economy for a total impact of
6 about 16,000 jobs throughout the entire
7 Pennsylvania economy. And it is precisely this
8 economic contribution that is at risk from the
9 introduction of river boat casinos or other
10 forms of legalized gaming.

11 Now, how large is the risk to this
12 important segment of Pennsylvania economy that
13 is posed by an expansion of other forms of
14 gaming? Well, casinos, whether they are
15 land-based or river boat, provide competition
16 for the gaming dollar. The introduction of this
17 form of gaming into an existing market
18 consisting of parimutuel wagering at race tracks
19 can be expected to result in reduced wagering at
20 existing race tracks as consumers substitute
21 some share of the new products (casinos) for
22 existing products (race tracks).

23 Gambling can be considered another
24 form of consumer good. The demand theory tells
25 us that consumers make purchase decisions so as

1 to maximize their utility, or satisfaction, if
2 you will, subject to budgetary constraints.
3 That is, consumers purchase various forms of
4 entertainment (in this case wagering) according
5 to the amount of money that they have to spend
6 and the relative price of the entertainment.
7 Just as you do almost any other good.

8 In 1992, two economists (Thalheimer
9 and Ali) looked at the impact of casino gambling
10 in the state lottery on parimutuel horse race
11 wagering in the State of New Jersey. They
12 estimated through going through this that the
13 price of casino gaming is lower than that of the
14 price of parimutuel wagering to the average
15 person. The implication of this, or what we're
16 looking at here, is that given a fixed budget,
17 consumers should prefer the purchase of casinos
18 gaming over parimutuel horse race wagering.

19 On the basis of experience of casinos
20 in New Jersey and the introduction of river
21 boats and land-based casinos in Iowa and
22 Illinois, we can conclude that the introduction
23 of alternative forms of gaming, such as river
24 boat casinos, into an existing market of live
25 horse racing, such as in Pennsylvania, will

1 result in a decline from 30 percent to 40
2 percent in the average handles of the affected
3 race tracks.

4 The next question then comes about is,
5 can any of Pennsylvania's existing race tracks
6 withstand an average 35 percent decline in their
7 handle? Well, discussions with race track
8 owners and industry participants suggest that
9 declines in revenues of this magnitude, along
10 with the consequence of decline in purses,
11 likely would be unsustainable and would force
12 closure of the race tracks facing the new
13 competition. Thus, the introduction of
14 alternative gaming in the form of river boat
15 casinos would lead directly to the elimination
16 of live horse racing in Pennsylvania.

17 Now, under the most extreme case, this
18 would involve closure of each of the four race
19 tracks, significant losses for horse owners and
20 horse people and eventual closure of breeding
21 farms and associated enterprises in Pennsylvania
22 as their market disappears.

23 Now, while each track would likely
24 continue to generate income after the
25 introduction of river boat casinos, the reduced

1 level of income would provide a return on
2 invested capital below that available from
3 alternative investments. As a result, these
4 tracks would likely cease operations at least as
5 a provider of live racing.

6 Now the timing of the outcome is
7 unlikely to be simultaneous and would depend on
8 where and when the river boat casinos would be
9 located. The eventuality of the outcome,
10 however, is virtually certain. The closure of
11 each of Pennsylvania's four horse racing tracks
12 would remove over \$200 million of direct
13 spending from the Pennsylvania economy, would
14 result in the direct loss of the jobs held by
15 the race track employees and horse people at
16 each track, and the cessation of live racing
17 would immediately depreciate the value of the
18 standardbred and thoroughbred horses used in
19 racing. Owners and breeders of these horses
20 would be forced to write down the value of the
21 assets on their balance sheets and take a
22 significant accounting loss which would affect
23 their financial viability.

24 The commercial equine sector that
25 provides the horses that race at each track

1 would be decimated by the closure of the
2 Pennsylvania race tracks. The loss of revenue
3 for the standardbred and thoroughbred breeders
4 along with the devaluation of their prime
5 assets, consequent with the disappearance of the
6 major market, would literally force them out of
7 business.

8 When these job losses and the reduced
9 annual expenditures that we talked about are
10 multiplied throughout the Pennsylvania economy,
11 the introduction of river boat casinos would
12 have several major economic implications. The
13 first is:

14 * To reduce Pennsylvania gross state
15 product, the level of final demand in the
16 economy by about \$710 million annually;

17 * Would result in the loss of almost
18 16,000 jobs in all sectors of the Pennsylvania
19 economy;

20 * Would reduce real household earnings
21 for all Pennsylvanians by \$360 million;

22 * And would cost the State Treasury
23 \$36 million in lost tax revenue annually.

24 Now, we feel these results are likely
25 understated since we have not factored in the

1 impact of the elimination of the commercial
2 breeding sector on other components of the
3 commercial horse industry. For example, without
4 a viable commercial breeding and racing
5 industry, the remaining elements of a horse
6 economy may not be able to support the number
7 and quality of support services that are vital
8 to their continued viability. These include
9 veterinary and animal health providers, the only
10 veterinarian school in the Commonwealth that Mr.
11 Spears talked about this morning, the University
12 of Pennsylvania, farriers, boarding and training
13 expertise that currently benefit the rest of the
14 commercial, the non-racing components of the
15 commercial horse industry in this state.

16 Other major direct impacts on the
17 state include the abandonment of pasture and
18 crop land currently devoted to equine uses as
19 breeding operations fail or relocate out of the
20 state. In the most congested regions of the
21 state, such as the southeastern quadrant of the
22 state where I live, this likely means a loss of
23 open space and additional residential
24 development with its consequent increase demand
25 for services and infrastructure, all of which

1 have costs associated with them as well.

2 The Pennsylvania farmers would lose a
3 major market for feed and hay output and the
4 mushroom industry would lose their major source
5 of a key input. Now, this could be expected to
6 increase their costs of production and erode the
7 comparative advantage of the Pennsylvania
8 mushroom industry to the advantage of foreign
9 suppliers. And by this, I mean suppliers that
10 are foreign to Pennsylvania. They may be other
11 states as well as other countries.

12 To conclude and in summary, increased
13 competition for the gaming dollar represented by
14 the introduction of river boat casinos or other
15 forms of gaming, would lead to the virtual
16 elimination of live horse racing in Pennsylvania
17 unless some accommodation is made to assure
18 their competitive viability. This would have a
19 significant negative impact on the commercial
20 horse industry and Pennsylvania farmers and all
21 Pennsylvania residents, businesses, and tax
22 payers would suffer loss of jobs and lower
23 income.

24 The full measure of these potential
25 losses must be balanced against the benefits

1 touted by the proponents and supporters of river
2 boat casinos and other forms of gaming.

3 What I am talking about here is the
4 potential loss to the economy if some conscious
5 decision is made that works to the detriment of
6 it. Everybody talks about the benefits that are
7 likely to come about from river boat casinos,
8 people aren't focusing on what the other side of
9 that part is. What I am suggesting to you is
10 there are costs associated with this and they
11 really have to be counter balanced against one
12 another in order to get a full sense of what is
13 likely to be one loss.

14 With your permission, I would like to
15 provide a copy of our full report for the
16 record. And as Mr. Spears indicated, I would be
17 delighted to provide you copies with the studies
18 that provided the basis for this testimony.

19 And with that, I thank you very much
20 and would be delighted to answer any questions
21 you may have.

22 CHAIRMAN GANNON: Thank you very much,
23 Mr. Urbanchuk.

24 Representative Dermody.

25 REP. DERMODY: Thank you, Mr.

1 Chairman. You did your study and your work for
2 the Horsemen Association, is that right?

3 MR. URBANCHUK: The Pennsylvania Live
4 Horse Race Council financially supported the
5 study, that's right.

6 REP. DERMODY: You would agree with
7 the previous witnesses that testified that if
8 they were given some protection legislatively,
9 their difference in guarantee like in Delaware,
10 the part of the revenues generated from the
11 other types of gaming would be used for larger
12 purses and that would help protect your
13 industry?

14 MR. URBANCHUK: I have not focused on
15 the form of remedy or compensation that could do
16 it. What I would suggest and what I agree with
17 is that I believe it is possible for other forms
18 of gaming to co-exist with the live race horse
19 industry, in the commercial horse sector, many
20 of the remedies that we have talked about, and
21 there are a number of different alternatives
22 that could provide that remedy.

23 What I am suggesting to you is the
24 evidence that we have seen in other states and
25 what we know about consumer behaviors suggests

1 that the unrestricted introduction of river boat
2 casinos or other forms of legalized gaming would
3 have a significant and direct negative impact on
4 this vital sector of the Pennsylvania economy
5 and that should not be overlooked.

6 REP. DERMODY: You mentioned in your
7 testimony about the available wagering dollar.
8 I imagine you are talking about the
9 Pennsylvanians that are spending money wagering
10 today on the racing, is that correct.

11 MR. URBANCHUK: And the state lottery
12 and other forms of gaming.

13 REP. DERMODY: Gaming.

14 MR. URBANCHUK: You put it all
15 together.

16 REP. DERMODY: I mean based on your
17 studies and what you know based in your work for
18 the Association, do you feel that any additional
19 gaming and river boat type gaming would increase
20 Pennsylvania's destination as bringing people's
21 wagering dollars from out-of-state here?

22 MR. URBANCHUK: I can't answer that.
23 I haven't looked at it in that context, as to
24 whether it would be a draw. I don't know. I
25 don't know that it would be any more of a draw

1 than the existing facilities that we have got
2 now. It may very well be. But I don't know.

3 REP. DERMODY: You took a look at what
4 went on in the state that had horse racing and
5 river boat gaming, is that right?

6 MR. URBANCHUK: Right, we looked at --
7 what we did was we reviewed the available
8 literature, people that had done studies looking
9 at the impact of the introduction of river boat
10 casinos, land-based casinos because in some
11 instances such as Iowa there was a combination
12 of river boats that were really located on the
13 Iowa/Illinois border and a native-American
14 land-base casinos. And one of the two of the
15 studies also looked at the impact of state
16 lotteries on parimutuel horse race wagering,
17 yes.

18 REP. DERMODY: Thank you.

19 Thank you, Mr. Chairman.

20 CHAIRMAN GANNON: Thank you,
21 Representative Dermody.

22 Mr. Krantz, any questions?

23 MR. KRANTZ: No, no questions.

24 CHAIRMAN GANNON: Brian.

25 MR. PRESKI: Mr. Urbanchuk, I have one

1 question. Did you just focus specifically on
2 the loss, if any, to the southeastern
3 Pennsylvania (I mean Philadelphia Park) when
4 Delaware opened up their slot machines?

5 MR. URBANCHUK: No. That relatively
6 recent development, we have not looked at the
7 impact of that, no.

8 MR. PRESKI: Thank you.

9 CHAIRMAN GANNON: Would you like to
10 estimate -- I want to say guesstimate -- that
11 the outcome of your study would be different if,
12 in fact, the purses for the races were
13 supplemented by the winnings from other forms of
14 gaming?

15 MR. URBANCHUK: Empirically it is
16 difficult to make a conclusive statement with
17 regard to that Because we don't have enough
18 direct observable --

19 CHAIRMAN GANNON: Well, I said a
20 guesstimate.

21 MR. URBANCHUK: Yeah. Thank you. My
22 supposition and my feeling from looking at this,
23 from reading the material and studying the
24 experiences in other states is that, yes, I
25 believe that the potential losses that we look

1 at here or that are possible could be avoided in
2 large part, if not entirely, by some action that
3 encourages the retention of live horse racing in
4 the Commonwealth. Everything is sort of tied
5 together. If you get into a situation where
6 there is no incentive for a race track to
7 provide live racing, then everything falls from
8 that. Then essentially what you are doing is
9 you are putting out horse owners, horse people
10 who maintain the horses, the devaluing the
11 asset, you're having an impact on the breeding
12 industry. And you can take that all the way
13 through the economy in the way that we looked at
14 it.

15 I mean clearly you could get into a
16 situation where a facility maintained its
17 presence but didn't offer any live horse racing,
18 then what you would lose is the equine sector of
19 that which is not inconsiderable. I mean, we
20 did take a look at the economic value of the
21 entire commercial horse industry, which includes
22 things other than horse racing, to the
23 Commonwealth and it is very, very large and
24 very, very considerable.

25 You know racing plays a major role in

1 that because it is a primary venue, it is a
2 primary outlet for the output of that particular
3 industry. And without that outlet, there is no
4 reason for that industry to exist. That means
5 it will either go out of business or it will
6 move someplace else. And then all of the
7 supplier industries and all of the purchases of
8 the other output will suffer as the result of
9 that.

10 CHAIRMAN GANNON: Where you found the
11 new expansion of gaming in direct competition
12 with the horse racing, was there a corresponding
13 increase in jobs in the new industry to offset
14 the job loss in the horse racing industry where
15 there was a decline?

16 MR. URBANCHUK: Again, there is not
17 real good hard data on that but I do not believe
18 that would be the case. Again, what you are
19 looking at is you are looking at an industry, if
20 you will permit the analogy, with a relatively
21 shorter tail than the horse industry has in the
22 equine industry. We're talking about an
23 industry that really straddles a number of
24 segments of the economy. Not only does it
25 provide for, as we said lodging, amusements,

1 meals and that sort of thing in that part of the
2 service economy, if you will, but it stretches
3 through into the agricultural sector as well.
4 And it has got a much longer tail, if you will,
5 so that it -- I would be hard pressed to imagine
6 that the establishment of any fixed facility
7 such as a casino would have the same kind of
8 employment impact.

9 And I take it, when I separate this
10 out, there are two impacts. One is a short-term
11 temporary impact that is associated with
12 building a facility. And that goes away after
13 the facility is built. So what you want to look
14 at is the long-term job generating and
15 supporting capacity of the facility. I don't
16 think that you would find that with a fixed
17 facility in the same context and the same size
18 as you see in the equine industry because of its
19 length, if you will.

20 CHAIRMAN GANNON: Okay. Thank you
21 very much, Mr. Urbanchuk. I appreciate your
22 coming here today and sharing that information
23 and giving us your time.

24 MR. URBANCHUK: Thank you very much.

25 (Brief recess taken.)

1 CHAIRMAN GANNON: All right. We're
2 ready to reconvene.

3 Our next witnesses are John Swiatek,
4 Peter Carlino, Herb Grayek and Robert Green.
5 Mr. Swiatek is with Ladbroke Racing
6 Pennsylvania. Mr. Carlino is with Penn National
7 Race Course. Mr. Grayek is with Pocono Downs.
8 Mr. Green is from Philadelphia Park. And they
9 want more representatives here. I know these
10 are familiar faces and I read their names --

11 MR. KNOFF: Mr. Chairman, Mr. Green
12 from Philadelphia Park was unable to attend. I
13 am Gene Knopf. I am here as his representative.

14 CHAIRMAN GANNON: Fine, you may
15 proceed. If you could give us your name.

16 MR. CARLINO: And I will, indeed. And
17 I think I have to start off with some good news,
18 Mr. Chairman. That is to say that half of the
19 group that you mentioned, didn't show.

20 (Laughter.)

21 MR. CARLINO: As far as the action
22 goes, I think I am the only official presenter.
23 Officially, I will say good afternoon and I am
24 Peter Carlino, Chairman and Chief Executive
25 Officer of Penn National Race Course. And I

1 appreciate the opportunity to speak with you
2 this afternoon about the possible effects of the
3 expansion of casino style gaming upon the horse
4 racing industry in Pennsylvania. My comments, I
5 want to emphasize, express my personal point of
6 view and that of our company and should largely
7 be expressed the feeling for the other tracks in
8 the state, but I am not here this afternoon to
9 speak for them, but rather for Penn National.

10 Let me open with a clear conclusion
11 from my point of view and see if I can support
12 it with some other thinking. We believe that
13 the panel members and the public can quickly
14 understand that expanding gaming, which does not
15 in some way include Pennsylvania's parimutuel
16 industry, would have a devastating effect upon
17 the four parimutuel tracks in the state. So
18 that's the official position that we will take.

19 But before I talk about the negative
20 aspects of that issue, let me first emphasize
21 several very positive points. First is that the
22 Pennsylvania Legislature has supported the
23 parimutuel industry in Pennsylvania since its
24 inception in the early 1960s. And through those
25 many years our Legislature has worked with our

1 industry to provide ever-changing opportunity as
2 the competitive forces working against us have
3 changed. This incremental improvement in
4 parimutuel legislation culminated in 1988 with
5 off-track wagering and full card simulcasting in
6 1993.

7 Pennsylvania now enjoys what is
8 probably the finest parimutuel legislation in
9 the country. Innovations begun here are being
10 copied widely elsewhere and the result of this
11 improved climate for racing in Pennsylvania is
12 the industry, which was in severe trouble by the
13 late 1980s, is now revived and growing at an
14 unprecedented rate here in Pennsylvania.

15 In the next few years, Pennsylvania
16 racing should grow to a level that would place
17 it near the pinnacle of racing in America. And
18 that is a tremendous accomplishment. Our
19 Legislature has given us the opportunity to
20 compete in the electronic age and Pennsylvania
21 race tracks have done an outstanding job of
22 developing the finest facilities and programs in
23 the country.

24 Statistics are boring, so I won't give
25 you a whole lot, but let me just take a few from

1 a study prepared by the horse racing industry in
2 Pennsylvania to outline the positive
3 contribution to the Pennsylvania economy.

4 Through 1994 -- and we will shortly
5 update this with some more current numbers --
6 our industry is responsible for supporting more
7 than 35,000 jobs in the state, generating \$576
8 million in personal income and producing a total
9 economic output of \$752 million including
10 related commercial activities. The industry
11 supports capital facilities worth an estimated
12 \$1.2 billion plus another \$1 billion in equine
13 related commercial facilities. The industry
14 further contributes to the preservation of open
15 space and agricultural land statewide with
16 520,000 acres devoted to breeding, grazing and
17 training horses. And in Pennsylvania, that
18 picture is rapidly growing. It's a very, very
19 happy time for us.

20 By contrast, lets look at Louisiana,
21 which since 1991 has experienced casino gaming.
22 That event has contributed to a 40 percent
23 decline in horse race wagering in that state.
24 In New Jersey, the competition from casino
25 gaming, according to some recent studies, have

1 indicated that horse race wagering has been
2 reduced by 33 percent. And it's not a mystery
3 that New Jersey tracks are not doing well. In
4 Illinois, real wagering on horses declined 5.8
5 percent in 1994 alone, while gross receipts from
6 river boat gaming increased 57 percent. One
7 race track closed in 1994. Arlington
8 International, certainly one of the show place
9 race horses of this country, is severely
10 threatened.

11 Just a couple of small numbers. In
12 1995, I believe Penn National in Harrisburg,
13 Pennsylvania, and its employees alone
14 contributed almost \$6.5 million in direct taxes
15 to the Commonwealth of Pennsylvania. And that
16 number, from our company alone, is expected to
17 double by 1999. By every economic measure,
18 gross revenue, net profit, growth in purses to
19 our horsemen, total attendance at our
20 facilities, employment, any statistical
21 measurement that you could find, the racing
22 industry in Pennsylvania is booming.

23 So I am pleased to tell the Committee
24 that the present condition of Pennsylvania
25 racing is very strong. But lets take a look at

1 the possible effects of other forms of gaming
2 upon our industry if casino gaming were
3 permitted in Pennsylvania or the states
4 adjoining Pennsylvania permit gaming in markets
5 close to Pennsylvania's existing facilities.

6 First, I think that we need to
7 recognize that the gambling dollar is limited.
8 Gambling, in our view, is just another form of
9 entertainment for which most people have well
10 defined spending limits. Throughout the United
11 States, casino gaming has been exacting a heavy
12 toll on horse racing and the horse racing
13 industry. By 1989, the once dominant horse
14 racing industry accounted for just 11.2 percent
15 of total wagering in the country. And by 1994,
16 racing had further slipped to just 6.7 percent
17 of total wagering, nation-wide.

18 It is worth noting that horse racing
19 is at a distinct disadvantage when competing
20 with casino gambling. The pace of casino
21 gambling is much faster and provides much faster
22 action for the player. In addition, I think we
23 all recognize that casino gaming is a great deal
24 more profitable. This dramatically different
25 level of profitability allows casinos to market

1 much more effectively for the limited gaming
2 dollar.

3 In a separate report that our industry
4 will shortly provide to this Committee, we will
5 outline state-by-state experiences where casino
6 style gaming has had a direct negative impact on
7 horse or greyhound racing. Those states include
8 Illinois, Michigan, Minnesota, Louisiana, Iowa
9 Wisconsin, New Mexico, South Dakota, and the
10 State of Washington. In each of these states,
11 the parimutuel industry has been devastated by
12 the introduction of casino gaming. So
13 understandably, the Pennsylvania racing industry
14 is quite concerned about the possible
15 introduction of casino style gaming in
16 Pennsylvania or in the states that surround us.
17 It is just now, after many years of hard work,
18 that we have managed to bring our industry to an
19 acceptable level of growth and profitability.
20 We cannot, therefore, support legislation on the
21 expansion of gaming, rather, that does not
22 adequately provide for the well-being of the
23 existing Pennsylvania parimutuel industry.

24 I will see that this Committee and
25 other members of the Legislature receive a copy

1 of our industry's soon-to-be-released study
2 which outlines the positive contributions of the
3 Pennsylvania racing industry upon the
4 Pennsylvania economy. This document will cover
5 in a great deal more detail what I think, even
6 the most casual observer knows very well, casino
7 gambling is very damaging to the horse racing
8 business.

9 That impact will affect our industry,
10 whether casino competition comes from in-state
11 casinos or from out-of-state competition, where
12 out-of-state markets may be just minutes away
13 from the domestic facilities.

14 An illustration that you might
15 consider is the beautiful new Woodlands Race
16 Track. Its a thoroughbred race track and dog
17 track facility in Kansas City, Kansas. They
18 filed a Chapter 11 bankruptcy last week. The
19 reason is simple, just 10 minutes away, three
20 river boats, soon to be a fourth, opened in
21 Kansas City, Missouri. A different state but
22 the same market.

23 Hopefully, I have adequately
24 summarized the obvious. Parimutuel racing
25 facilities cannot compete against casino style

1 gambling facilities unless given some of the
2 same opportunities.

3 In conclusion, I want to emphasize
4 that the Pennsylvania racing industry is very
5 appreciative of the support that we have
6 received from the Pennsylvania Legislature over
7 the last 33 years. Your continued support has
8 allowed us to remain strong and a strong
9 economic partner in the Pennsylvania economy.
10 As an industry, we want to support what our
11 Legislature feels is good for Pennsylvania. We
12 hope that the Pennsylvania Legislature will keep
13 our industry in mind as it considers the
14 introduction of casino gaming in Pennsylvania.

15 That concludes my formal parts, but I
16 would say briefly, to reemphasize, that we are
17 not opposed to expansion of gaming in
18 Pennsylvania. We are, of course, concerned that
19 it would happen in a way that would take our
20 industry into account. And so long as the
21 dollars generated, however we answer that
22 question, build and support the entire industry
23 which is really part of the success of
24 Pennsylvania Legislation, our off-track
25 facilities, our full card simulcast, every

1 innovation has built the basic support for our
2 horsemen, our horse community. And it has been
3 more than a rising tide. All boats have floated
4 well. It's a very happy situation that we face
5 today thanks to the foresighted legislation from
6 Harrisburg. So we're very thankful for that, we
7 would like to be part of any future, but I think
8 you can appreciate that we have been concerns
9 just how that future unrolls. Thank you.

10 CHAIRMAN GANNON: I thank you, Mr.
11 Carlino.

12 Any questions, Representative Dermody?

13 REP. DERMODY: I have no questions,
14 Mr. Chairman.

15 CHAIRMAN GANNON: I am sorry, Mr.
16 Krantz.

17 MR. KRANTZ: I have no questions.
18 Thank you.

19 CHAIRMAN GANNON: Mr. Preski.

20 MR. PRESKI: I do. Most of the
21 testimony we have heard today came from the
22 horsemen, the people working in conjunction with
23 you. Their biggest concern was the purse. Now,
24 I assume that your concern is not the purse --
25 if I get this right -- but the handle, which is

1 the amount of money bet on the races conducted
2 at your specific parks.

3 One of the things that we talked about
4 was, other states where they have increased the
5 purse by a percentage of the win from the
6 casinos. How do you think that increase in
7 purse affects your handle?

8 MR. CARLINO: Let me take a whack at
9 that first and then I'll let the other gentlemen
10 do likewise.

11 So long as we look at our -- and this
12 is speaking for -- our company, for our
13 enterprise as cohesive and supporting the same
14 goal; that is, to build an industry, a
15 profitable industry here in Pennsylvania, which
16 I suspect is your state's goal as well, there is
17 not a problem. If you want to look quickly. I
18 don't have all the stats here, but look at Penn
19 National. Just three years ago, Penn National's
20 daily purses were less than \$39,000 a day.
21 Today, we're writing race books in the range of
22 \$65,000 a day. We project to just carry on with
23 the plans that we have now, in place, the
24 existing legislation, will carry that number in
25 purses to 90,000 or better a day.

1 This a fabulous success. Our horsemen
2 are excited about that. My suspicion -- I can't
3 speak for them -- is that they would still be
4 excited about some new program if, if, they
5 recognize that new revenues generated, in some
6 proportion, in some measure, are put into the
7 pot so the net direction is up -- and it's not
8 real complicated -- clearly to gain their
9 support and to keep the kind of cohesiveness
10 that made this industry successful. We need to
11 do that. That's certainly our objective.

12 MR. PRESKI: So is it fair to say that
13 the purse drives the handle?

14 MR. CARLINO: It is not fair to say
15 that the purse drives the handle. But I can
16 tell you this, as purses rise, the quality of
17 racing improves. Clearly it is, it is not an
18 instant effect, but it doesn't take a lot of
19 thinking to recognize that when the purses go
20 up, more and more people are going to compete
21 for those, better and better horses make their
22 way to the track with some lap time. And we do
23 know from many, many years of experience in this
24 business, persons that are involved with this
25 company since 1972, it was started in

1 Harrisburg, that better racing, I'll make this
2 very clear, better racing attracts more and
3 better wagering. Of course, performance is more
4 predictable, the public is happier with the
5 quality and you can always make the assumption
6 that improved quality is good for the industry.
7 And that will follow in the purses.

8 So it's a ratcheting-up cycle. This
9 is ratchets down when things are going poorly,
10 when quality of racing falls and wagering falls.
11 We can point all around the country where that
12 has occurred. Pennsylvania is a perfect
13 illustration of what happens when good
14 legislation gives the industry the ability to
15 grow. We can innovate with wonderful statistics
16 in every category that demonstrate dramatic
17 purse growth. I am picking it up a lot today.
18 Hopefully I have answered your question.

19 MR. PRESKI: Did any of you gentlemen
20 want to answer the question?

21 MR. GRAYEK: Speaking for Labroke --
22 and obviously I testified at the last hearing,
23 so I think you have our views -- but related to
24 that I think what has happened in Pennsylvania
25 is that we have been able to invest more in

1 facilities, get more distribution. So I think
2 in our case, it has been investment has driven
3 handle and handle has driven purses. And what
4 the legislation does provide for is a number of
5 protections for live racing.

6 In our instance, the legislation says
7 you have to race X amount of X percent of races
8 for a certain year. Our number, that means that
9 we have to race 200 live days every year. It
10 also says in order to do full card simulcasting,
11 off-track betting, you need a live racing
12 agreement. So we have to come to a contractual
13 arrangement with the horsemen.

14 So what is nice about that is each of
15 our markets are different. Philadelphia is
16 different from western Pennsylvania which is
17 different from central Pennsylvania. So we can
18 devise an agreement that works for that specific
19 market as opposed to trying to, you know, create
20 a cookie cutter approach to something that has
21 to work for all of us. So that's been a key to
22 growing the businesses in Pennsylvania.

23 For the Meadows, for Ladbroke, since
24 1991, we have increased our purses from 9
25 million to almost 17 million in 1995. We're

1 growing again in 1996. And that's been through
2 considerable capital investment in facilities.

3 So I think the answer in Pennsylvania
4 is we have been able to invest, get more
5 distribution and get more handle which drives
6 purses. Our particular purse agreement, we went
7 and we just signed another five-year agreement
8 so we have a long-term commitment or
9 relationship. We said we want to make
10 everything consistent so you get a piece of
11 every single dollar that is being bet. So we're
12 really partners. So our goal is to grow
13 business, grow attendance. And so it is really
14 for you. It is relatively neutral.

15 So that has been the scenario that has
16 worked for us and it has benefited our horsemen,
17 our purses, you know, the breeding industry and
18 everybody else where it's may be a little bit
19 different in Philadelphia and a little bit
20 different in Penn National. But you have given
21 us a framework in which we can tweak it a little
22 bit because of our individual market conditions

23 MR. PRESKI: One of the other things
24 that concerned the horsemen was the protection
25 to themselves. To paraphrase it. One of the

1 things that they raised was that there would be
2 a minimum number of days or a minimum number of
3 races. As the track owners, does that present a
4 problem to you?

5 MR. CARLINO: We have that now.

6 MR. SWIATEK: It's already in there.
7 That's what I said. I mean, we have to do 200
8 days. When we got into a lot of these new
9 innovations, bringing in outside races, that was
10 actually one of their concerns at that point.
11 We're doing 232 race programs and that is really
12 based on the number of horses we have and the
13 quality of racing. But we're racing more than
14 we really -- our minimums have to be, both in
15 contractual arrangements and with the
16 legislation.

17 So that's been a fabric of what we
18 have done. And with each thing along the way,
19 whether it was phone wagered or a full card or
20 OTB, you know, those things have been there. We
21 have been able to reach, you know, agreement. I
22 think, you know, that is certainly the key to
23 the future.

24 MR. CARLINO: I will take one more
25 whack at that, too. I don't mean to cut you

1 off.

2 We're in a unique situation at the
3 Penn National. In fact, we're running the
4 minimum number of days that we're required by
5 law to run. We would run more days if we could
6 find the horses to run them.

7 A funny discovery has been this: that
8 now with the tools and significant capital
9 investment John points out to build these
10 off-track facilities, we have for the first time
11 the ability to take our product, our service out
12 to the public where they are, where it is
13 convenient. It is not a two-hour drive, let's
14 say, from Williamsport down to Penn National
15 Race Course. In their community, the people who
16 follow and enjoy our industry who go there. The
17 revenue games have been apparent and it all, of
18 course, it builds the pie.

19 What we found is kind of interesting
20 is that while we like the simulcast business, we
21 do better on days when Penn National runs live.
22 It's a very intriguing. I can't speak for the
23 other tracks. But when Penn National had a lot
24 of signal, we do better in all racing through
25 all programs. As a matter of fact, we probably

1 have days where we can find a practical way to
2 do that. So it's a wonderfully building --

3 So the legislation has woven these
4 different elements together -- that's the beauty
5 of what's happened here in Pennsylvania -- in
6 such a way that it has raised all the numbers.
7 All the numbers. And one aspect supports the
8 other.

9 So again at risk of beating a dead
10 horse, to use that pun, we would only make a
11 case for something in the future that would
12 support our industry. That is a categorical
13 statement, period. That's what we're out to do.
14 We're committed as a company. If you read our
15 annual statement. I wrote it last year. I'll
16 state for Penn National, we intend to build one
17 of the great racing programs in the country.
18 That is for our company. I can't speak for the
19 other folks. But to do that, we need to
20 exploit, take advantage of all the tools that we
21 have been given under this legislation in
22 Pennsylvania and to constantly work at
23 developing and building our industry. That is
24 our commitment. That is our goal.

25 MR. KNOPF: Mr. Chairman, speaking

1 from Philadelphia Park's perspective, I can give
2 you a concrete example that indicates that the
3 horsemen are not powerless in this process. Far
4 from it. As Mr. Carlino points out, in terms of
5 the contractual requirements. The day before
6 the Preakness, the Commonwealth Court issued an
7 injunction against Philadelphia Park. This was
8 a consequence of a fairly longstanding contract
9 dispute between the track and its horsemen. And
10 the Commonwealth Court rendered an opinion the
11 day before the Preakness, which as you know is
12 one the biggest races of the year, ordering the
13 race track to cease and desist from operating
14 its simulcasting at its OTBs because of the
15 actions of a contract with the horsemen.

16 We were able to overcome that initial
17 hurdle and get through the Preakness weekend.
18 So there was not a loss business to the track
19 and loss of revenue, frankly, to the
20 Commonwealth from tax revenue. And the
21 following week, a settlement was reached between
22 the owners of the track and the horsemen.

23 But that is indicative of the kind of
24 power they can bring to all of this because of
25 the way the Legislature has written the basic

1 laws under which the tracks operate as well the
2 OTB statute and the full card simulcasting
3 statute. So they're not in a position of being
4 powerless.

5 If I may, I would also like to respond
6 to, if you'll permit me, to a question that you
7 posed to Mr. Piatt concerning the impact of
8 Delaware Park on the race track and specifically
9 Philadelphia Park as you mentioned.

10 Mr. Piatt who comes out of the harness
11 racing industry was not as familiar with that
12 and therefore was not able to give you a
13 complete answer. There was nothing wrong with
14 what he said but he just was not able to
15 elaborate. I am because of the Philadelphia
16 Park's direct competitive problem with Delaware
17 Park. And it relates to your question about the
18 purse structure as well.

19 Philadelphia Park currently has a
20 daily purse structure of about \$96,000. I
21 believe that is correct. And I believe Mr.
22 Ballezzi testified to that, too, on behalf of
23 the horsemen.

24 Delaware Park, which was a track that
25 was close to being out of business because of

1 the slot machine provisions in Delaware has
2 increased its purse structure phenomenally and
3 it has continued to increase it. I believe
4 there is somewhere -- this is not an exact
5 figure, but its close to being the exact
6 figure -- somewhere around \$160,000 a day in
7 purses. And we understand that by the fall,
8 because of the phenomenal growth of slot
9 machines down there, they will be offering
10 purses of \$200,000 a day. And that makes it
11 very difficult for my track to compete for the
12 quality of horses that Mr. Carlino was talking
13 about that are so important to the industry.

14 We have seen a loss of over 200 horses
15 who have left --which have left Philadelphia
16 Park to go down to Delaware Park because of the
17 more attractive purses to compete for down
18 there. And we expect that that will continue
19 unless we're able to, somewhere along the line,
20 remain competitive.

21 I also understand that there are plans
22 underway down there to build additional stables
23 for as many as 300 more horses. Those are all
24 signs of what this kind of purse structure and
25 they can be the racing attractive can do in a

1 competitive market, in a market in which we are
2 not able to compete on equal terms.

3 CHAIRMAN GANNON: Mr. Preski.

4 MR. PRESKI: No further questions.

5 CHAIRMAN GANNON: That brings up an
6 interesting point. There was an article in the
7 Philadelphia Inquirer that seemed to indicate
8 the opposite of what you are saying, as far as
9 increased interest in racing. That the folks
10 that were going to the Delaware Park were going
11 down to play the slot machines and didn't care
12 one way or the other about the horse racing.
13 That was the gist of the article. Is that the
14 actual interest in horse racing itself seemed to
15 be either staying level or wasn't, wasn't
16 gaining any favor?

17 MR. KNOFF: Well, I can't dispute
18 that. But what I can respond to that -- and
19 these gentlemen can respond as well -- the slot
20 revenue in Delaware, because of the way the law
21 is written, a percentage of that was shifted
22 over to the horsemen for purses and that's the
23 way in which they're able to provide more
24 attractive purse structure.

25 I could tell you that at Delaware --

1 at the Philadelphia Race Track, in the first
2 quarter of this year compared to the first
3 quarter of last year, our handle is down over \$7
4 million. And that is not the case at the other
5 three tracks in Pennsylvania where their handle
6 has increased fairly substantially.

7 CHAIRMAN GANNON: Are you suggesting
8 that maybe some of the people that would wager
9 in Philadelphia are now going down to Delaware
10 to wager on the racing, the horse racing?

11 MR. KNOFF: Yes.

12 MR. CARLINO: Let me take the mike.
13 Mr. Chairman, I think we're certainly all, in
14 the industry, familiar with that article. It
15 was dramatically misleading.

16 CHAIRMAN GANNON: The Philadelphia
17 Inquirer is misleading.

18 MR. CARLINO: Surprise. The truth of
19 what has happened in Delaware is Bill Bork, our
20 President who is behind me, went with me down to
21 Delaware yesterday to talk to those folks and
22 try to get to the bottom of that. And said, how
23 can that be so if purses are rising? Is it the
24 case that, in fact, wagering on horse racing is
25 down? The answer is no. Not at all. The

1 comment was about the live racing at the track
2 as compared with total program-wide racing. For
3 example, we're asked all the time about live
4 wagering at Penn National, what has happened to
5 live racing. We, in a sense say, you know, we
6 don't care about live racing. Yes, racing live.
7 Or, as I said, the number of live patrons that
8 show up at Penn National each day and normally
9 stay the line. Quite understandably so and very
10 happily so, I would say, because they are now
11 coming maybe twice a week. Before they came
12 perhaps once a week for the race track facility.
13 They are over in York, they are over at Reading,
14 they are down in Chambersburg. They don't have
15 facilities, so systemwide wagering distribution,
16 total attendance is up dramatically,
17 dramatically. And since all of that revenue are
18 handled, wagered wherever it occurs, is shared,
19 comes up to the same place. It makes little
20 difference to us where that occurs. We're just
21 glad to have those folks out.

22 So distribution has changed. The same
23 applies to Delaware Park. Total wagering is up,
24 distribution is down, purses are rising. So it
25 is very misleading, just to look at the live

1 handle today because we're in more than just the
2 live business.

3 CHAIRMAN GANNON: Thank you for that
4 clarification. The article was confusing.

5 MR. SWIATEK: We thought so too.

6 CHAIRMAN GANNON: And left the reader
7 with the impression that Delaware horse racing
8 was suffering.

9 MR. CARLINO: Not at all.

10 MR. SWIATEK: And it's really back to
11 measures and measures change as industries
12 change and I guess that's -- so that is, you
13 know, that is what Peter was discussing. You
14 can't really ask how it is handled. There is so
15 many different sources of handle because people
16 like variety and they like it in their backyard.
17 So, you know, the measures need to change. It
18 is not necessarily strictly live handle at the
19 race track. That is only a piece of it.

20 We also distribute our signals to other
21 states. That is also important to us because
22 we're trying to grow the importance of our
23 racing. It all comes back to benefit, you know,
24 the horses, the purses, and the company that
25 operates it. So it's really complex unless you

1 dig into it and truly understand it. It's
2 different. So the measures need to change, in
3 reality. I mean, there is thousands of people
4 at home every evening watching and betting on
5 racing who aren't counted in any attendance
6 figure. You know, so that measures change.

7 MR. KNOFF: Just to clarify. The
8 number I gave you from Philadelphia Park
9 reflects handle from all sources. It's not just
10 handle at the track. It's handle from the OTBs,
11 phone bidding, the complete handle.

12 CHAIRMAN GANNON: Okay. Thank you
13 very much.

14 Are there any questions?

15 (No response.)

16 CHAIRMAN GANNON: Thank you very much
17 for being with us today and sharing that
18 information and taking your time to be here.

19 The next witness is Mr. Mark McDermott
20 and he's with the Pennsylvania Horsebreeders
21 Association. Thank you, Mr. McDermott. You may
22 proceed.

23 MR. McDERMOTT: Thank you, Chairman
24 Gannon, for the opportunity to address you and
25 your Committee on a subject of such importance.

1 I am Mark McDermott, the Executive
2 Secretary of the Pennsylvania Horsebreeders
3 Association. The position which I have occupied
4 since January of 1976. I am a 1967 graduate of
5 the United States Coast Guard Academy in New
6 London, Connecticut. Following four years of
7 active duty, I resigned my commission to join
8 Triangle Publications to assist in Daily Racing
9 Form's transition to modern technology prior to
10 my move here.

11 Pennsylvania Horsebreeders Association
12 is a non-profit organization and was
13 incorporated in 1948 to bring together those
14 with common interest of breeding, showing and
15 racing their horses. When Thoroughbred
16 parimutuel racing was licensed in Pennsylvania
17 in 1969, the role of the Breeders Association
18 took on was the task of establishing a
19 respectable identity for breeders as a group in
20 identifying their importance in the overall
21 picture of Pennsylvania Thoroughbred industry.
22 In 1974, following several years of PHBA'S
23 efforts in the General Assembly, Governor Milton
24 Shapp signed a law creating the Pennsylvania
25 Thoroughbred Breeding Fund program. The Fund,

1 as it is popularly known, was designed as a
2 solution to the acute problem facing
3 Pennsylvania race tracks at the time with fewer
4 and fewer horses to support their live racing
5 programs. The Fund, by providing economic
6 incentives to Pennsylvania breeders and to
7 owners of Pennsylvania-Breds racing in the state
8 assures a fresh steady supply of competitive
9 horses for racing at Philadelphia Park and Penn
10 National. At the same time, breeders and
11 stallion owners can expect to be remunerated for
12 the successes their homebreds achieve while
13 supporting the live racing programs at these
14 tracks.

15 Pennsylvania Horsebreeders Association
16 continues today with nearly 500 dues paying
17 members, all of whom are involved in the
18 breeding of Thoroughbred race horses. We are
19 the responsible agency under the Pennsylvania
20 State Horse Racing Commission for the
21 administration, development and promotion of the
22 State Breeding Fund program, as well as the
23 legislatively designated registrar of
24 Pennsylvania-Breds.

25 The success of the Fund during it's

1 initial 20 years of operation has been nothing
2 short of phenomenal. During that time, the
3 contribution of Pennsylvania-Breds has risen to
4 the point whereby they now constitute over 22
5 percent of all starts made at the tracks in the
6 state. PA-Bred successes include wins in just
7 about all the important races here, including a
8 victory in the 1994 Pennsylvania Governor's Cup,
9 Penn National's showcase event.

10 Outside the state, Pennsylvania-Breds
11 have been just as impressive even though they
12 make up just over two percent of North America's
13 entire annual foal crop. Beginning with
14 Iroquois' win over a 120 years ago, in the
15 historic Darby at Epsom in England, to the 1992
16 Kentucky Derby win of Lil E. Tee, Pennsylvania's
17 Thoroughbreds have distinguished themselves and
18 their breeders far beyond the expectations
19 dictated by their small percentage of the whole
20 population of race horses competing.

21 Pennsylvania-Breds have earned a total
22 of nine Eclipse Awards, racing's equivalent of
23 Hollywood's Oscar, as well as several European
24 championships and reported two victories in
25 prestigious Breeders Cup races all in the past

1 15 years. The Breeding Fund is financed by
2 seven-tenths of a percent of the state's total
3 Thoroughbred parimutuel handle. Additionally,
4 one-third of a percent of each of the
5 Thoroughbred track's daily handle is designated
6 for Pennsylvania-Bred owner bonuses. This total
7 of approximately \$6 million annually is
8 self-contained within Pennsylvania's
9 Thoroughbred industry, without any drain on the
10 state's financial coffers generated from
11 unrelated tax revenue producers.

12 The Committee has already heard of the
13 horse industry's significant financial impact on
14 the overall Pennsylvania economy. As an
15 integral part of that contribution, the breeding
16 industry additionally must be recognized for its
17 membership in the Pennsylvania agricultural
18 community. Thoroughbred horse farms are an
19 aesthetic advantage to the rural countryside, an
20 attraction to visitors, an important part of the
21 preservation of farmland across the state, and a
22 source of jobs for many who would not otherwise
23 be able to find employment in today's market.

24 Two years ago, the Board of Directors
25 of Pennsylvania Horsebreeders Association,

1 unanimously passed a resolution opposing any and
2 all attempts to legislatively expand types of
3 gambling beyond those already allowed within the
4 Commonwealth. But times have changed.

5 Historically, horse racing provided
6 Pennsylvanians with a legal opportunity for
7 gaming, combining the player's handicapping
8 skills with a parimutuel pool in which to
9 compete.

10 For those not interested in the mental
11 exercises of handicapping, the Pennsylvania
12 lottery was introduced and then followed several
13 years later with traditional small games of
14 chance and bingo.

15 In recent years, the General Assembly
16 in its wisdom, has seen fit to allow racing to
17 compete with tracks in surrounding states,
18 first with inter-track wagering, then with
19 off-track wagering and most recently with full
20 card simulcasting. As a result, Philadelphia
21 Park and Penn National are now finally enjoying
22 a degree of success well removed from the
23 economic hardships they endured through their
24 first 20 years of operation. Good management,
25 attractive facilities, and a popular product are

1 all important considerations to this success.

2 And as the success of the state's race
3 track go, so goes the success of the breeding
4 industry. With no available outlet for our
5 product, there is no need to produce race
6 horses. It's that simple. A healthy racing
7 industry is an absolute necessity.

8 The original purpose of these
9 hearings, when they were announced months ago,
10 was to investigate the potential impact of river
11 boat casino gambling in certain locations in
12 Pennsylvania. But times have changed.

13 Since the initial legislative push for
14 river boats began two years ago, the gaming
15 landscape in surrounding states has changed
16 dramatically, with the impact of these changes
17 being felt primarily by the racing industry.

18 Delaware has legalized slot machines
19 at its race tracks, and the turnaround in
20 business trackside is the talk of the industry.
21 Maryland lawmakers are now moving quickly
22 considering their own slot machine legislation
23 which would allow tracks there to reestablish
24 themselves in the Mid-Atlantic Region. West
25 Virginia voters will deal with a referendum this

1 November to authorize their own version of slot
2 machine legislation for more of its race tracks,
3 and all predictions are that it will pass
4 overwhelmingly. New Jersey, already with
5 land-based casinos in Atlantic City, is also
6 considering legislation to allow for slots at
7 its race tracks. Local Indian tribes in New
8 York have begun work on casino projects that
9 have state official worried as to their impacts,
10 but powerless to regulate under current laws.

11 Without a doubt, the scenery on the
12 gaming landscape has changed and how it should
13 be dealt with is a heavy responsibility for this
14 Committee, the General Assembly and Governor
15 Ridge.

16 Pennsylvania Horsebreeders Association
17 believes that the horse racing industry is
18 important. The industry has established itself
19 over its 25 years and has given rise to many
20 other ancillary businesses. Opportunities must
21 be provided to ensure its continued success
22 should any changes be made in our gaming laws.

23 We believe that the General Assembly,
24 as a result of its legislative authority over
25 parimutuel racing, has a responsibility to

1 assure the industry that it will be able to
2 continue to compete in today's fast changing
3 markets.

4 We believe the General Assembly must
5 recognize what is happening today and what can
6 and what must be done to sustain the position of
7 prominence racing has achieved here since its
8 legalization a quarter century ago.

9 We believe that the General Assembly
10 must recognize that any change to Pennsylvania's
11 gaming landscape must include the parimutuel
12 racing industry in these changes and at least
13 protect what has already been built. There is
14 too much of an investment, too much of an
15 existing industry to do otherwise.

16 CHAIRMAN GANNON: Thank you, Mr.
17 McDermott.

18 Brian, do you have anything?

19 MR. PRESKI: No. No questions.

20 CHAIRMAN GANNON: Just for the
21 record -- and maybe this is an unfair question
22 and perhaps you could give an answer -- for the
23 record, give us the differences between
24 simulcasting and inter-track or intra-track
25 wagering and off-track betting?

1 MR. McDERMOTT: The first change it
2 was allowed was the inter-track wagering. That
3 is, would allow patrons at Penn National, Pocono
4 Downs or the Meadows to place wagers upon a race
5 being conducted at Philadelphia Park or the same
6 at Penn National with the other three tracks so
7 that patrons could bet from one track to another
8 in Pennsylvania.

9 The next change came with the
10 off-track wagering. That allowed the race
11 tracks to extend their facilities, so to speak,
12 outside of their particular enclosure, to an
13 off-track location. The same privileges were
14 allowed there as relative to the inter-track
15 wagering and wagering on that facility's own
16 races.

17 And then it was followed, three or
18 four years ago, with the full card simulcasting
19 which allowed all of the existing facilities to
20 conduct wagering on races taking place at
21 facilities outside of Pennsylvania. But all of
22 the local agreements, taxation agreements, would
23 be in place on those wagers.

24 CHAIRMAN GANNON: Do you know whether
25 or not Delaware has that type of setup, do they

1 have off-track betting and simulcasting?

2 MR. McDERMOTT: They have full card
3 simulcasting. I am not sure whether they --
4 they only have one Thoroughbred track in
5 Delaware and whether or not they have the
6 inter-track wagering, cross breed, I am not sure
7 of. They do not have off-track betting.

8 MR. PRESKI: I do have a question.
9 Testimony has been presented this morning that
10 horsemen received protection on the industry as
11 much as you have spoken here. One of these
12 things that has been discussed is that some type
13 of situation where a part of the win for the
14 casinos would be placed into the purses at the
15 tracks. On behalf of the breeders, do you agree
16 that that would offer them adequate protection?

17 MR. McDERMOTT: I am not sure I agree
18 with the word protection. I think consideration
19 is a little more accurate. One of the
20 confinements of the parimutuel industry is that
21 everything we want to do, we're under the eye of
22 the Legislature which is permitted legislatively
23 and which is permitted by the State Horse Racing
24 Commission. So it's a very highly regulated
25 business that precludes the industry's ability

1 to go out and do whatever they want to do, what
2 they may think would increase their own
3 business. Because there are so many
4 confinements to how business can be conducted
5 and we then look to the people who are confining
6 us, the legislator, for consideration in any
7 expansion that they may be able to make in the
8 gaming market, that would normally be in the
9 protected area that we are confined to.

10 So I think that that's the major
11 worry of the industry. That if something else
12 comes in, what is going to happen to what has
13 already been developed and what is already
14 existing.

15 MR. PRESKI: Okay. One of the other
16 aspects of that testimony was that the increase
17 in the purses would necessarily mean that better
18 horses, to paraphrase, would be brought into the
19 state to run in these tracks. On behalf of the
20 Horsebreeders then in Pennsylvania, do you see
21 that as a problem?

22 MR. McDERMOTT: Well, I'll take that
23 over into the next. Not as race horses but as
24 horses that are being bred to race, because
25 that's the industry that I represent. As our

1 Breeding Fund program has become more and more
2 lucrative over the years, the horses that are
3 being produced as a result of that Fund are
4 better and better and better. Witness the nine
5 Eclipse Awards that have been won by
6 Pennsylvania-Breds and Breeders Cups races in
7 all the major stake's races. So, yes, I agree
8 with that. The money talks.

9 MR. PRESKI: Thank you.

10 CHAIRMAN GANNON: Thank you very much,
11 Mr. McDermott.

12 MR. McDERMOTT: Thank you very much.

13 CHAIRMAN GANNON: Thank you for being
14 with us today and taking the time to testify and
15 share your information with us. I appreciate
16 it.

17 I believe that is our last witness and
18 these hearings are concluded. Thank you very
19 much, ladies and gentlemen.

20 (Whereupon, the hearing was concluded at
21 1:05 p.m.)

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C E R T I F I C A T E

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2
3 I, Roxy Cressler, Reporter, Notary
4 Public, duly commissioned and qualified in and
5 for the County of York, Commonwealth of
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