

# AT THE RACES

**Simon Liddle** finds out why the US racino market is one of the fastest-growing sectors in gaming

**THERE are 12 states in the US with racetrack casinos, forming a rapidly growing segment of the overall American gaming industry.**

The first racetrack to explore the possibility of offering electronic casino games was Twin River in Lincoln, Rhode Island, which introduced electronic gaming machines in 1992. Since then, 12 states have chosen to allow their horse and dog tracks to introduce other forms of casino gaming, most often video lottery terminals, and, as budget deficits begin to weigh heavily on state governments, the suggestion is that this trend is likely to continue. After all, fewer enterprises create new tax revenue streams as lucrative as gaming.

The most recent figures from the American Gaming Association show that in 2008, racetrack casinos contributed \$2.59bn to state and local governments where they operated, representing a 16.6 per cent increase over 2007. Racinos also employed 29,051 people in 2008, with the opening of new properties in Indiana and Pennsylvania driving a 6.6 per cent increase on the previous year.

Kirsten Clark of US-based Shuffle Master, which supplies its fully-electronic

table game platforms Table Master and Vegas Star to racinos, believes that during periods of economic difficulty gaming is once again placed high on state government agendas.

"As economic pressures continue, the introduction or expansion of gaming soon comes up in any political environment," she told *InterGaming*. "During 'good' times, the pressures of anti-gaming typically prevail but in downward turns the needs of revenue soon bubble to the surface.

"We anticipate the racino market to be one of the growth factors contributing to the success of our electronic table systems products."

Bally Technologies supplies class III reel-spinning slot machines, video slots and wide-area progressives and central determination games to racinos. Gavin Isaacs, chief operating officer at Bally, agrees that the future of this particular market sector looks bright.

"We expect racinos to continue to be an area of growth moving forward as the potential tax revenue from racinos looks very promising to some states right now," he told *InterGaming*. "Indeed, with state budgets suffering due to the downturn in the US economy, a number of states are

looking to expand gaming into racetracks to generate additional revenue."

Illinois, Maryland, Minnesota, Massachusetts, Texas, Nebraska and New Jersey are among the states deliberating such a move, he added.

Another state in which this debate is expected to take place this year is Kentucky – unsurprising considering that the state is synonymous with horse racing. A pre-bill filed by Senator Damon Thayer in 2009 proposed a constitutional amendment to permit video lottery terminals in counties that have existing horseracing tracks upon voter approval.

Ian Ramsey of Stites and Harbison told *InterGaming* that the Kentucky legislature is expected to hold a "vigorous debate" on the issue in 2010.

"I view the primary obstacle to arise from competing interpretations of Kentucky law among legislators," he explained. "One interpretation is that a constitutional amendment is required to expand gambling to allow for gaming machines, in the current instance, video lottery terminals, to be installed. The other side is that current Kentucky law already allows for video lottery terminals to be installed at horse racing tracks."





**TOP 10 US RACETRACK CASINO MARKETS, 2008**

Yonkers, NY	\$486.46m
Charles Town, W.Va.	\$454.01m
Providence, RI	\$407.50m
Bensalem, Pa.	\$345.50m
Dover/Harrington, Del.	\$335.63m
Chester, Pa.	\$328.44m
Delaware Park/Wilmington, Del.	\$253.29m
Chester, W.Va	\$251.21m
Meadow Lands, Pa.	\$244.04m
Broward County, Fla.	\$230.21m

Source: The Innovation Group

Installing gaming machines may help to revitalise racetracks by offering visitors a more comprehensive entertainment experience. This move towards greater diversification is already in evidence in Kentucky.

“My view is that racing organisations are in favour of offering different opportunities to their customers, not just in the form of gaming that occurs, but also in how someone views the horseracing tracks as an entertainment destination,” Ramsey said.

Churchill Downs racetrack has hosted a number of high profile music events in the past few years, as well as a series of night racing events. A three-day summer music festival is also planned for this year.

“The success of these steps tell me that not only are the racetracks in favour of more opportunities, but that the customers are requiring to be given more opportunities to enhance their experience at the racetrack,” Ramsey remarked.

Gaming seems a logical addition to a racetrack’s offering and one that Bally’s Isaacs believes will provide a welcome boost for the horse racing and betting industry, which has been experiencing its own difficulties in recent years.

“The pari-mutuel racing industry has been struggling for the past decade with the proliferation of casinos and other forms of entertainment,” he explained. “Legalising gaming machines at racetracks would preserve the tradition of racing for generations to come, and provide a much-needed financial boost to struggling tracks. Adding gaming machines at racetracks also provides significant economic benefits to struggling state budgets and provides new jobs across all sectors of the economy in a

very tough nationwide employment environment.”

In Ohio, the process of introducing slots at the state’s racetracks looked to be on course until an organisation known as LetOhioVote.org petitioned the Secretary of State to hold a referendum on the proposals. Having collected the required number of signatures, LetOhioVote.Org ought to successfully place the issue on a November 2, 2010 ballot. Meanwhile, a referendum passed in November last year has paved the way for four casinos to be built in the state, a factor that may further complicate state Governor Ted Strickland’s plans to permit VLTs at the tracks.

Mike Zatezalo, managing director and chair of the gaming law practice at Kegler, Brown, Hill & Ritter, told *InterGaming* that as a consequence, public opinion may prove to be the largest barrier to the introduction of racinos in Ohio.

“The main obstacle to allowing racetracks to install gaming machines has been the voters of Ohio who, until this year, have voted down any proposed ballot initiatives which would have amended the Ohio constitution to allow casino gaming or slot machines at racetracks,” he remarked. “A number of elected officials have been anti-gaming in the past and together with a religious based anti-gaming group, the Ohio Policy Roundtable, have mounted strong opposition to any attempts to expand gaming in Ohio.

“Since Issue 3 this November, which amended the Ohio constitution to allow casinos to be built in four Ohio cities, it would take another ballot initiative to further amend the constitution to allow gaming at the racetracks.”

Governor Strickland, he explained, is no

longer in a position to issue a directive to authorise the installation of VLTs at tracks and so a referendum would now seem the most likely course of action. How residents will vote and, having just approved full casino gaming elsewhere in the state, whether permitting slots at racetracks is still profitable remains to be seen.

“The racetracks have wanted to have slot machines or VLTs to be licensed at the tracks for years,” Zatezalo continued. “However, they have always wanted to be the only locations where such machines could be operated. This caused a number of Ohio voters to vote against these initiatives in the past since they felt the tracks were trying to create a monopoly for their own benefit.

“I believe the Ohio voters, having approved casinos, would likely approve the referendum allowing VLTs at the tracks, but now that casino gaming is legal in four cities it will not be as lucrative for the tracks. Also, the tracks do not have the financial resources to run a strong campaign.”

The prospect of operating a casino in tandem with racing is ensuring that tracks are becoming increasingly sought after by established casino operators sensing an opportunity to tap into an entirely new set of customers outside Las Vegas and Atlantic City. For tribal operators, racinos may provide a means of growing beyond their own lands.

Five tribes currently operate racinos in America, and, according to Dennis J Whittlesey, a specialist in Indian gaming law

## Racinos



at Washington, DC-based Dickinson Wright, the success of Indian casino gaming in Oklahoma is illustrated by the fact that two of the state's four racetracks are now operated by tribes.

And their ambition does not end there. The Chickasha Tribe of Oklahoma is the leader in the racino business, he said, by virtue of its ownership of Remington Park in Oklahoma City, which features slots, as well as other gaming permitted under state law. Chickasha also recently bid \$80m to acquire the bankrupt Lone Star Park in Grand Prairie, Texas, and hopes to win gaming authority there within the next 18 months. In Pennsylvania, meanwhile, the Pocono Downs racino is owned and operated by the Mohegan Tribe of Connecticut – the same tribe that owns Mohegan Sun Casino. The Little River Band of Ottawa of Michigan operates the Great Lakes Downs in Muskegon, Michigan, and the Muckleshoot Tribe of Washington runs Emerald Downs near Seattle, Washington.

"None of the tribally-owned and operated tracks are on tribal lands," Whittlesey said. "They operate at this time under state law and are regulated as non-Indian commercial tracks. The most likely place for this to change is Oklahoma, where the tribes can seek to have the land taken into trust status by the Secretary of the Interior for the purpose of conducting gaming operations."

Like the big operators, tribes have the financial muscle to purchase and develop tracks following the success of their own gaming operations. The Seminole Tribe of Florida, for example, have been tipped to utilise the strength of their Hard Rock brand and purchase one of the state's tracks.

Whittlesey continued: "The central feature

which seems to have evolved is that the tribes have purchased tracks because their casino revenues are providing the financial backing for the acquisition and operation of these facilities. It is no accident that several of the tribal racino tracks have been acquired out of bankruptcy.

"The most prominent example of a casino-rich tribe moving into racinos is the Mohegan acquisition of Pocono Downs as part of its bid for one of the few gaming licences available in Pennsylvania for the right to operate slot machines. With an application fee of some \$50m and very high state taxation on revenues, many potential operators found the price a bit too rich. However, the Mohegans had the financial ability to pursue the opportunity and are now operating what is generally viewed as a very successful racino."

How racinos are set up obviously depends on the requirements set out by state legislators, with some stipulating that the machines are controlled by the state itself. Manufacturers must therefore be wary of every facet of each state's laws when designing equipment for racetracks.

"The requirements for a racino differ from those of a typical casino," Shuffle Master's Clark said. "There are usually legal arguments which must be made prior to the introduction of products.

"Typically, the subtleties of game definition must be massaged to encompass the newer ETS format. Once the legal issues have been put to rest, the precise requirements of technology are reviewed. The games have been designed for and have evolved in racino jurisdictions, with unique elements such as remote state control built in."

Although this poses challenges for

manufacturers, designing machines for the racino market is no different to dealing with traditional casinos across a variety of jurisdictions.

Bally's Isaacs commented: "There really is no difference in the way we do business with racinos in comparison to traditional casinos. At some racinos, gaming machines are operated by the state lottery and at those properties, we offer video lottery terminals and systems. Those racinos can often require specialised technology and can have different rules and regulations. Often, the reporting requirements are specific to each market, usually requiring one centralised system for an entire market. In many cases, the manufacturer's customer is also the regulator, which is different than most traditional non-tribal casinos."

Whatever their peculiarities, racinos are quickly becoming viable options for states seeking to generate more tax revenues and racetracks aiming to revive their fortunes. In many states, they are also the best means for established operators to move into new territories and reach a wider customer-base. According to the AGA, racetrack casinos are the primary method of gaming expansion and in 2008 consumer spending at racetracks increased by 17.2 per cent to \$6.19bn. And, as Clark states, rather than taking custom away from the US' major gaming destinations, racinos are helping to pull in local players and deliver further growth.

"Although the number of casinos and racinos continues to rise, Las Vegas and other destination locations continue to grow as well," she said. "The overall awareness of gaming is increasing, driving ever more money into the market."