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**Testimony of F. Douglas Reed, Spectrum Gaming Group Senior Pari-Mutuels Associate,
Regarding Connecticut HB 7319**

Senator Fonfara, Senator Frantz, Representative Rojas, and distinguished members of the Finance, Revenue and Bonding Committee: My name is Doug Reed, the Senior Pari-Mutuel Associate for Spectrum Gaming Group, which is an independent research and consulting firm based in southern New Jersey.

I serve as Director Emeritus of the University of Arizona Race Track Industry Program and have extensive experience as a racing official, track executive, and racing and gaming industry consultant. I was affiliated with the University of Arizona Race Track Industry Program for more than 20 years, during which I also served as director of the RTIP's annual Global Symposium on Racing & Gaming, North America's largest pari-mutuel racing conference. Prior to joining the University of Arizona, I was vice president of Santa Fe Racing, which operated two pari-mutuel tracks in New Mexico. I also spent many years as a racing official, including serving as racing secretary at Arlington Park, Oaklawn Park and Rockingham Park.

Last month, Sportech Venues of New Haven, Connecticut, retained Spectrum to project the impacts of MGM Springfield casino and the proposed East Windsor casino on Sportech's four off-track betting venues ("OTBs") in the Hartford area. Namely, the Winners OTBs in Hartford, Manchester, New Britain and Windsor Locks. (The Executive Summary of Spectrum's report to Sportech is attached to this written testimony.)

Succinctly, the impacts to Sportech's OTBs would be severe. When both the MGM and East Windsor casinos are operating, Spectrum projects that ...

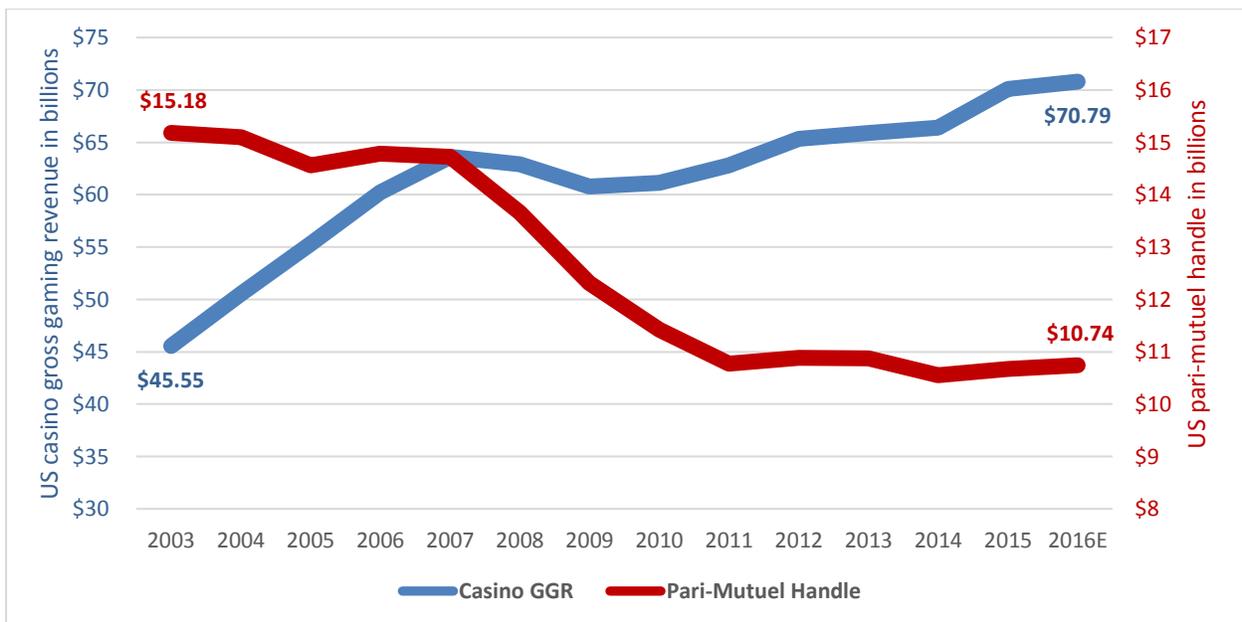
- Pari-mutuel handle by Year 3 of operation would decline by between 21 percent and 35 percent, depending on the OTB venue – with Windsor Locks at the high end of the negative impact.
- Food and beverage sales would decline by even higher percentages – down 43 percent at Windsor Locks.

It is important to note that the magnitude of impact decreases as the distance increases from the new casino to the OTB facility.

It is also important to note that our projections assume that neither MGM Springfield nor an East Windsor casino would offer OTB pari-mutuel wagering on site. If they did, the negative impacts would be even greater than we have projected.

In my long experience studying racing and gaming, and as abundantly supported in Spectrum's research for the Sportech study, the expansion of casino gaming causes declines in pari-mutuel wagering. Put simply, substantial numbers of gamblers switch their wagering activity from racetracks to casinos. This is borne out in the raw national numbers: Since 2003, casino gross gaming has increased 55%, to \$71 billion, while pari-mutuel handle has declined 29%, to less than \$11 billion.

US casino gross gaming revenue vs. US pari-mutuel handle, 2003-2016



Sources: National Indian Gaming Commission; University of Nevada Las Vegas, Center for Gaming Research; 2017 Jockey Club Fact Book; Spectrum Gaming Group. For 2016 handle data is actual, GGR is estimate.

In Connecticut, the pari-mutuel industry was devastated in the wake of the Foxwoods and Mohegan Sun openings, as jai alai frontons closed by 2001 and both dog racing tracks were closed by 2005.

Sportech filled an important void by taking control of Connecticut's OTB business in 2010. It refreshed and modernized the venues so that residents throughout Connecticut could continue to enjoy wagering on races throughout the country despite being no longer able to attend live races in state.

The viability of the company's Hartford-area venues will be hurt by the opening of MGM Springfield and imperiled if a second casino in the area – as is proposed in East Windsor – were to open on top of that.

Based on our research of similar casino-impact situations throughout the country, Spectrum recommends that the State of Connecticut authorize of the following action for the purpose of supporting OTB operations that would be negatively impacted by the new casino competition:

- Authorize the largest and most proximate Hartford-area OTB – Winners Windsor Locks – to operate a limited number of electronic gaming devices (i.e., slot machines or video lottery terminals), either alone or also at other impacted OTB locations. If that is not feasible, allow Sportech to enter into an agreement – similar to what Nassau OTB has done with Resorts World Casino New York City – to receive revenue from slot machines at the East Windsor casino; or, alternatively
- Establish a pari-mutuel stabilization fund. Since the Connecticut pari-mutuel industry is not as expansive as its counterparts in Maryland or New York, the percentage of revenue could be significantly lower. At 1 percent to 2 percent of casino gross gaming revenue, it would stabilize the pari-mutuel industry due to lost revenue, provide funding to continue investment in the business, and stipulate funding for an annual benchmark report to monitor the program and recommend change as necessary.

These recommendations are neither novel nor as risky as they may have seemed when the Connecticut gaming industry was examined in depth a quarter-century ago. If nothing changes, the very viability of the pari-mutuel industry is at stake. Both of these recommendations are in line with successful policy practices elsewhere.

I thank you for the opportunity to testify before the Committee and would be pleased to answer any questions you may have – now or at any time after today.



Spectrum Gaming Group

Experience. Integrity. Independence.

MARKET ANALYSIS AND RECOMMENDATIONS:

Impact of Expanded Casino Gaming on Hartford-Area Off-Track Betting Venues

Prepared for Sportech Venues Inc.
April 11, 2017



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Executive Summary

Sportech Venues, the New Haven-based unit of Sportech Plc, operates 15 OTB venues in Connecticut that collectively employ nearly 400 people. Sportech retained Spectrum Gaming Group (“Spectrum,” “we” or “our”) to independently analyze the impacts that an East Windsor casino would have on four of its OTBs within a 20-mile radius of East Windsor – the Winners facilities in Hartford, Manchester, New Britain and Windsor Locks (“the Hartford-area OTBs”)

Notably, Sportech, in an effort to compete in the current competitive environment, has spent \$20 million in the last six years, including almost \$6 million on the four Hartford-area OTBs.

Our primary findings are as follows:

- The negative impact of MGM Springfield (scheduled to open as early as summer 2018) on the individual Hartford-area OTBs will range from 13 percent to 21.7 percent of pari-mutuel handle.
- The combined, cumulative negative impact of MGM Springfield and an East Windsor casino (assumed to open in 2019) on the individual Hartford-area OTBs will range from 21 percent to 35 percent of pari-mutuel handle, with steeper declines in food and beverage (“F&B”) sales, as shown in the following table:

	Handle Year 1	Handle Year 2	Handle Year 3
Windsor Locks	-15%	-29.4%	-35.2%
Manchester	-13%	-24.9%	-29.8%
Hartford	-13%	-23.9%	-28.6%
New Britain	- 9%	-17.3%	-20.7%
	F&B Year 1	F&B Year 2	F&B Year 3
Windsor Locks	-16.7%	-35.1%	-42.9%

Source: Spectrum Gaming Group. Note: Hartford and New Britain do not offer food & beverage service beyond vending machines, and Manchester’s F&B operation is outsourced.

We note the following:

- The magnitude of impact decreases as the distance increases from the new casino to the OTB.
- The negative impact on food and beverage revenues would be greater, on a percentage basis, than on pari-mutuel handle.
- We assume that neither the MGM Springfield casino nor a new casino in East Windsor would offer operational OTB pari-mutuel wagering on site. If they did, the negative impacts would be even greater than projected in this report.

The pari-mutuel industry in Connecticut has faced serious threats over many years and is presently on the verge of extinction. This is part of a national trend that began in the early 1990s,

when the pari-mutuel industry began being negatively impacted by the expansion of casino gaming. Some of this impact was masked in the 1990s, when total national handle grew due to tremendous expansion of distribution channels (such as inter- and intra-track wagering, simulcasting, full-card simulcasting, OTB expansion, telephone and account wagering, and internet wagering) while casino growth occurred in smaller pari-mutuel markets such as Delaware, Iowa and West Virginia.

However, over the last 15 years total handle dropped significantly as casinos continued to have a negative impact on pari-mutuels and most pari-mutuel distribution growth had been exhausted. The casino growth over the last 15 years also was in closer proximity to major pari-mutuel markets such as those in the Northeast and West Coast, unlike the earlier casino expansion taking place in less sizable pari-mutuel markets.

Studies have found that net gains from new casinos come partly at the expense of existing pari-mutuel facilities. They show a negative impact to pari-mutuels ranging from 6 percent when distances from a casino to a pari-mutuel facility are farther apart to as high as 67 percent when they are closer together.

We note that:

- The most relevant studies to the current Connecticut market indicate negative impacts to pari-mutuels from 17 percent to 32 percent, depending on distance from the new casinos. OTB/simulcasting handle was negatively impacted at a slightly less rate of 24 percent to 26 percent.
- One study indicated that as the number of casino gaming machines increased, the negative pari-mutuel impact increased – up to 34.6 percent. Other studies examined show a 30 percent to 40 percent reduction in pari-mutuel handle with the opening of a proximate casino.
- A 1992 study done for the Connecticut Division of Special Revenue made recommendations that were either implemented or are still relevant to the current market dynamics. The pari-mutuel industry in Connecticut has already been greatly impacted by past casino expansion, and recommendations made in the past are still relevant to saving the state’s remaining pari-mutuel industry.
- Some states have established programs to compensate pari-mutuel operations for the negative impacts caused by casino competition. There are two primary approaches:
 - One is the establishment of stabilization funding, which has been implemented in New York and Maryland. In those cases, the percentage of casino gross gaming revenue allocated to the pari-mutuel industry ranged from 7 percent to 16 percent.

- The other is the racino¹ model. OTBs and/or racetracks are authorized to compete with casinos by offering slot machines or video lottery terminals. As a geographically close example, New York OTBs in Nassau and Suffolk counties are authorized to each operate up to 1,000 video lottery terminals.
- Based on our research and findings for this report, as well on our long experience studying the pari-mutuel and gaming industries, Spectrum recommends that the State of Connecticut authorize of the following action for the purpose of supporting OTB operations that would be negatively impacted by the new casino competition:
 - Authorize the largest and most proximate Hartford-area OTB – Winners Windsor Locks – to operate a limited number of electronic gaming devices (i.e., slot machines or video lottery terminals), either alone or also at other impacted OTB locations. If that is not feasible, allow Sportech to enter into an agreement – similar to what Nassau OTB has done with Resorts World Casino New York City – to receive revenue from slot machines at the East Windsor casino; or, alternatively
 - Establish a pari-mutuel stabilization fund. Since the Connecticut pari-mutuel industry is not as expansive as its counterparts in Maryland or New York, the percentage of revenue could be significantly lower. At 1 percent to 2 percent of casino gross gaming revenue, it would stabilize the pari-mutuel industry due to lost revenue, provide funding to continue investment in the business, and stipulate funding for an annual benchmark report to monitor the program and recommend change as necessary.

The two options are neither novel nor as risky as they may have seemed when the Connecticut gaming industry was extensively examined 25 years ago. If nothing changes, the viability of the pari-mutuel industry is at stake. The recommendations are in line with successful policy elsewhere.

¹ “Racino” is widely used portmanteau for racetrack casino.