

MAGNA'S MD OPERATIONS ARE PROFITABLE!

Maryland Tax Education Foundation: October 4, 2005

Analysis of Magna Entertainment MD Racing Operations

MTEF's research suggests the following adjustments may be appropriate to reflect the economic return on Magna's Maryland racing operations:

Pro Forma Income Results
Year Ended December 31, 2004
(In millions)

	<u>Amount</u>
Reported combined net loss for Pimlico and Laurel	\$ (3.6)
Add back:	
Magna management fee ¹	2.3
Income from food and beverage concessions ²	2.7
Parking income ³	0.3
Slots lobbying expenses ⁴	2.0
Excess interest expense ⁵	<u>1.6</u>
Pro forma income	\$ 5.3

1 It is unclear what management services, if any, Magna provides to Pimlico and Laurel. \$2.3 million indicates a contribution of 10-15 full-time executives, which seems unlikely.

2 In 2004, 1,443,000 people attended the two tracks according to MD Racing Commission. A reasonable revenue estimate is \$6-\$10 per attendee (i.e., \$9-14 million) per officials at Meadowlands Racetrack, Hartford Civic Center and National Association of Concessionaries. Profit should be 30% to 35% of concession revenue. Magna reports only \$300,000 in income, which seems unduly low. The tracks' financial statements are filed with the MD Racing Commission.

3 Parking fees run from \$75 to \$150 per car on Preakness Day. Lower fees are charged on other premium days, according to Pimlico and Laurel parking employees. There are no parking fees on normal days. Magna reports only \$300,000 for the entire year, which seems unduly low.

4 It is unclear why slots lobbying expenses should be deducted from "racing income," because slots are unrelated to horseracing economic returns.

5 This calculation assumes a normal debt to equity ratio for the Maryland racing operations as opposed to the highly leveraged situation now in place.