

Fact Sheet: Governor's Slots Legalization Proposal
by Maryland Tax Education Foundation

1. Innovative and Taxpayer Friendly

- Highest tax rate in US (70%) is suitable for populated MD locations
- Possible competitive bidding for two or more locations
- Reduced possibility of significant operator enrichment

2. Annual Recurring Revenue

Location(Machines)	WPD (\$)	Per Year (\$MM)
Laurel (4250)	\$350	\$542
Baltimore (3500)	350	447
Cecil (2500)	250	228
Ocean City (3250)	150	177
Rocky Gap (1500)	200	110
		\$1,504

3. Allocation of Annual Recurring Revenue

Operators	30.0%	\$451
Purses to Horse Owners	6.0	90
Racetrack Capital Acct.	2.5	38
Localities	5.5	83
State Machine Rental & Administrative Costs.	5.0	75
Education	51.0	767
		\$1,504

- Referendum, start up time, regulatory set up and operator selection process may postpone significant revenues until June 2010.
- Slots will reduce state lottery tax revenues by \$25 million annually
- Virginia and DC bettors could represent 60% of Laurel revenue

4. Estimate of Upfront Licensing Fees

- Five x \$10 million, or \$50 million, payable in 2009
- Additional fee income unlikely due to high tax rate and limited competition for licenses at narrowly specified sites

5. Horseracing Industry Annual Subsidy (8.5% of slots revenue)

- \$128 million per year in direct subsidy
- Most (\$90 million for purses) goes to in-state and out-of-state horse owners who are wealthier than average residents. Annual purses will rise by 150%.
- In other states with slots driven increases in purses, there have been no appreciable gains in on-track attendance, on-track betting, racing days or field size (number of horses in a race). There have been gains in off track betting and in-state breeding.
- Remainder (\$38 million) goes to track owners for capital improvements, matched on a \$ for \$ basis by them.
- Total subsidies amount to \$25,000 per year per perceived “lost job” (i.e., assume 5,000 out of 10,000 total industry jobs lost without subsidies); However, no US horse track has ever closed due to casino competition and few, if any, tracks have closed over the last 15 years for any reason..
- Some subsidy justifiable in light of subsidies to baseball and football teams

6. Annual Payout to Former Jockey Club shareholders

- Assume \$40 million annual Laurel pre tax profit from slots, excluding ancillary income from food and beverage, shopping, etc.
- For the first five years, shareholders receive 65% of pre tax slots profits, which percentage then declines over time
- Joe DeFrancis’ initial share is \$ 4.7 million per year (11.7% of \$40 million), with other shareholders receiving \$21.3 million (53.3%)
- These allocations reduce Magna’s return on investment and ability to finance track improvements, rather than the State of Maryland’s share of slots money

Contact: Jeff Hooke, Chairman, Maryland Tax Education Foundation, office 703-761-4591, or jhooke@hookeassociates.com or hookej@aol.com .

Attached: Hooke gaming qualifications.

Jeffrey C. Hooke, a Chevy Chase, MD resident and Baltimore native, is managing director of Hooke Associates, LLC, a corporate finance consulting firm based in McLean, Va. Previously, Hooke was a director of Emerging Markets Partnership (a \$5 billion private equity partnership), a principal investment officer of the World Bank Group, and an investment banker with Lehman Brothers and Schroder Wertheim, respectively, two prominent securities firms based in New York. Hooke is the author of four books: *The Dinosaur Among Us: The World Bank and Its Path to Extinction* (2007), *The Emerging Markets* (2001), *Security Analysis on Wall Street* (1998), and *M&A: A Practical Guide to Doing the Deal* (1996).

His studies on casino-style gaming have led to testimony on the value of gaming licenses and the prospective revenues from state-sanctioned gaming expansion before the legislatures of Indiana, Maryland, Massachusetts, Pennsylvania and Texas. His views on gaming expansion have been referenced in numerous publications, including the *New York Times*, *Forbes*, *Washington Post*, *Chicago Sun Times*, *Columbus Dispatch*, *Philadelphia Inquirer*, *Houston Chronicle*, *Baltimore Sun*, *Dallas Morning Post*, *Cleveland Plain Dealer*, *Boston Globe*, *Miami Herald*, *Fort Lauderdale Sun Sentinel*, *Louisville Courier Journal*, *Indianapolis Star*, *Pittsburgh Post-Gazette*, *Kansas City Star*, *Singapore Straits Times*, *Gaming Observer*, *Bloodhorse* and *Thoroughbred Times*.

Hooke co-authored the August 2003 report “Legalizing Video Slot Gaming in Maryland: A Business Analysis” (published jointly by the Maryland Tax Education Foundation (MTEF) and the Maryland Public Policy Institute), the October 2004 report, “Expanding Slot Gaming in California: A Business Analysis” (published by the Reason Foundation), the April 2005 report, “The State Legislature May Leave \$4.5 Billion on the Table by Not Setting a Fair State Gaming Tax” (published by Florida Tax Watch), and the February 2006 report “New York State’s \$2 Billion Trifecta: NYRA, VLTs & OTB” (published by MTEF).

Mr. Hooke is the unpaid volunteer Chairman of the Maryland Tax Education Foundation, a non profit group that studies budget and tax issues in Maryland.

www.marylandtaxeducation.org.