

EMBARGOED UNTIL Wednesday, August 18 at 12:01 AM
(Can appear in Wednesday morning papers)

Released by Maryland Tax Education Foundation

Media Advisory

Maryland Racetracks under-report current income, while asking for huge slots subsidies

Summary: The **Maryland Jockey Club** appears to have failed to disclose to the **Maryland Racing Commission** millions in concession income from the Pimlico and Laurel racetracks, both operated by **Magna Entertainment**, according to an analysis released today by the **Maryland Tax Education Foundation** (MTEF).

The two tracks had 1.6 million visitors in 2003, yet showed concession income from food, drinks and hospitality events of only \$167,000 — barely more than 10 cents per person. **Either the tracks are foregoing opportunities to reap large, easy profits from concessions, or they are not reporting all of their income to the Commission.**

“The horseplayers can’t all be brown-bagging it,” said **Dee Hodges, president** of the **Maryland Taxpayers Association**, after learning of MTEF’s findings.

Two national firms that manage concessions at other tracks (Levy Restaurant and Aramark) indicate typical concession receipts of \$5-10 per day per attendee, with variations for corporate hospitality events such as parties and receptions. This suggests that the two Maryland tracks should have realized a *minimum* of \$9 million in concession revenue in 2003.

Profit margins on concessions are quite high. For example, a 12-oz. draft beer, costing the tracks about \$0.50, typically retails for \$3.25. Given those high profit margins, MTEF estimates pre-tax profits at \$5 million from concessions and hospitality.

This strongly suggests the tracks routinely under-reported concessions, including during the late 1990s when the tracks received \$20 million in purse subsidies from the state.

Call for Independent Investigation: **Because of this discrepancy, MTEF has asked the Racing Commission to authorize an independent review of the financial submissions from Laurel and Pimlico.** “We hope the **Maryland Racing Commission** joins us in this call to action,” said **Jeff Hooke**, the volunteer **chairman** of MTEF, “We first informed the Commission of our findings in a letter dated May 24, 2004.”

Other topics for the review include (a) examining the tracks’ reporting about parking lot revenue and advertising revenue, which seem low; and (b) the appropriate accounting for Magna’s \$2.2 million management fee, which seems inexplicably high.

Based on MTEF's analysis, pro forma adjustments increase the tracks' reported profits by up to \$8 million annually. A possible income statement for 2003 appears below:

Using conservative \$5 per day assumption (Millions)

| | |
|--|-------------|
| 2003 combined pre-tax loss reported to | |
| Maryland Racing Commission | \$(3.3) |
| Add: Unreported concession profits | +5.0 |
| Unreported parking income | +1.0 |
| Magna management fee | <u>+2.2</u> |
| 2003 Pro forma profit | \$4.9 |

Related-Party Accounting: The apparently missing concession income likely resides in a corporate affiliate of The Jockey Club or Magna Entertainment. The web site for Magna indicates that track concessions are handled through its subsidiary, Aurora Hospitality. "The proper accounting of related party transactions was an issue with **Enron Corporation**," pointed out **Peter Gavian**, a Certified Financial Analyst (CFA) and a **vice president** of MTEF, "The Jockey Club's auditors may want to reexamine their treatment of concessions for reporting purposes."

Need for Education: **The need for public scrutiny seems especially appropriate at this time when the tracks are asking the state to make them the sole Maryland provider of extremely lucrative large-scale slot machine gaming and when the tracks continue to lobby for state subsidies.**

"If the tracks want financial help from Maryland taxpayers, then the tracks need to make public their complete financial picture," said **Thomas Firey, senior fellow of the Maryland Public Policy Institute**, after learning of MTEF's findings. "This study suggests a full and independent review of the Jockey Club's finances is needed before the legislature can make an informed decision on slots," indicated **James Browning, executive director of Common Cause of Maryland**.

Legislators need to educate themselves fully about the racing industry's financial situation, MTEF argues. "The tracks have been crying poverty ever since Delaware and West Virginia allowed slots," said Jeff Hooke, an investment banker. "The reality may be far different."

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