



New York Racinos: Casinos of Convenience

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Throughout the 1990s, New York’s racetracks, as with racetracks in other parts of the county, experienced declining wagering and revenues as a result of fading interest and the increase in alternative gaming venues. Due to the importance of the racing, breeding, and wagering industry to the state, and in order to generate additional funding for education, the New York legislature in October 2001 authorized operation of video lottery terminals (VLTs) at several New York racetracks.

In January 2004, Saratoga Gaming and Raceway became the first New York racetrack to incorporate VLT gaming operations. There are currently eight New York VLT, device-only racetracks, commonly referred to as racinos, in operation. In addition to Saratoga Gaming and Raceway, Finger Lakes

Gaming and Racetrack, Fairgrounds Gaming and Raceway, and Monticello Gaming and Raceway – Mighty M opened their VLT gaming operations in 2004, Batavia Downs Gaming opened in 2005, and Tioga Downs Gaming, Yonkers Raceway – Empire City, and Vernon Downs Gaming opened in 2006. The locations of the eight New York VLT racinos are set forth in the following map.

Due to the relatively brief history of casino-style gaming at New York racinos, these hybrid gaming products are in the early stages of development. This paper considers the performance and relative competitive positioning of the New York racinos, the initial impact the addition of VLT gaming has had upon host racetracks, and the implications for further study.

Map of New York Racing





Legislative Amendments

Pursuant to amendments to New York State legislation in 2005, participating racetracks retain a vendor's fee at the rate of 32% for the first \$50 million on an annual basis, 29% for the next \$100 million, and 26% thereafter. The remaining gross revenue from the operation of VLTs is given to the New York State Lottery, which retains 10% for operation, administration, and procurement purposes and distributes the remainder to the state treasury for public-school funding.

VLT revenues that were being generated by racinos initially were less than projected because of the because of the revenue sharing provisions in the original legislation. Due to the insufficiency of the vendor's fee to the racinos, racinos had did not have sufficient financial incentive to expand and add infrastructure necessary to support viable VLT gaming operations. Accordingly, the 2005 amendment provided for a marketing allowance at the rate of 8.0% for the first \$100 million annually of gross VLT revenue and 5.0% thereafter to be used by vendor tracks for marketing and promotion. The marketing allowance provides a strong incentive for the New York racinos to properly market their respective properties and utilize all proceeds that

are available for reimbursement. With the change, more on-site enhancements are anticipated.

The 2005 amendment also deleted the requirement that a portion of the VLT gaming revenues be used for purse enhancement and breeders due to potential constitutional challenges regarding the distribution of lottery proceeds.

Overview

The opening dates and weighted average number of VLT units for the eight New York VLT racinos currently in operation for 2004 through 2006 are set forth in table 1.

As of the end of 2006, Yonkers Raceway maintained the largest inventory of VLT gaming supply, at 2,365 units. Batavia Downs offered the least amount of VLT units at the end of 2006, at 591 units.

Research has indicated that the New York racinos derive a substantial portion of VLT gaming demand from patrons who live relatively close to the facility. For the most part, the New York racinos are not yet destinations and lack significant drawing power from distant populations. The racinos compete only modestly for patronage from consumers that are closer to other destination gaming venues, such as Native American casino-

Table 1 – New York Racino Opening Dates and Inventory

	Opening Date	2004	2005	2006
Saratoga Gaming and Raceway	January 28, 2004	1,324	1,324	1,331
Finger Lakes Gaming and Racetrack	February 18, 2004	1,010	1,010	1,200
Fairgrounds Gaming and Raceway	March 17, 2004	990	990	959
Monticello Gaming and Raceway - Mighty M	June 30, 2004	1,744	1,576	1,587
Batavia Downs Gaming	May 18, 2005	--	586	591
Tioga Downs Gaming	July 4, 2006	--	--	750
Yonkers Raceway - Empire City	October 11, 2006	--	--	2,365
Vernon Downs Gaming	October 26, 2006	--	--	777
Total Units at End of Period		5,068	5,486	9,560

Source: NY State Lottery, HVS International



resorts, that can offer table games, are more established, have more amenities, and oftentimes can offer better comps due to lower revenue sharing/tax requirements. Generally, customers of the racino facilities primarily choose to patronize a particular racino due to its relatively convenient location.

As a corollary, racinos that do not have to compete with other gaming venues in the immediate area surrounding the property operate as a monopoly within its uncontested market area. Uncontested market areas are in locations without neighboring gaming alternatives, such as Native American casinos and Canadian destination-resorts, which compete for gaming revenue and inhibit a property's ability to expand its target market.

Market-Wide VLT Revenue

Gross VLT revenue, or "win," is equal to the amount wagered less the amount paid out as winnings to patrons. Win can be quantified on a per-unit basis known as win per unit per day

(WPUPD). The performance of the New York racinos' VLT operations can be measured by both total gross VLT revenues and by the amount of WPUPD. Research indicates that WPUPD, or the price a market can bear for gaming activity, is highly correlated to the level of available market-wide gaming inventory. The actual WPUPD attained by a market provides an indication of the market-wide demand for gaming devices.

Total revenue from VLT units at racinos in New York in 2006 was approximately \$426.3 million. Table 2 and Chart 1 set forth the weighted average number of New York VLT units available, gaming revenues, and WPUPD for each month of 2006.

Overall, the weighted average number of VLT units increased from 5,486 in January 2006 to 9,785 in December 2006, an increase of 78.4%, resulting primarily from the opening of Tioga Downs Gaming in July and Yonkers Raceway - Empire City and Vernon Downs Gaming in October. Total monthly VLT revenue for New York racinos

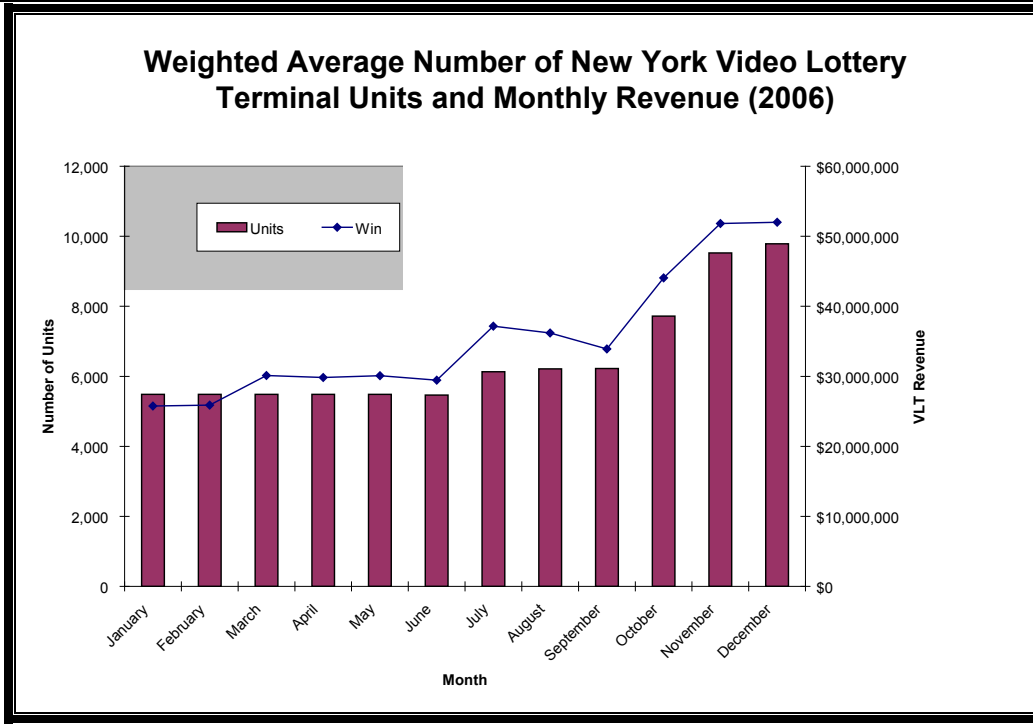
Table 2 – Weighted Average Number of VLT Units, Win, and WPUPD for NY Racinos by Month (2006)

	Weighted Average					
	No. of VLT Units	% Change	Win	% Change	WPUPD	% Change
January	5,486	--	\$25,755,800	--	\$ 151	--
February	5,486	0.0 %	25,878,529	0.5 %	168	11.2 %
March	5,486	0.0	30,118,553	16.4	177	5.1
April	5,486	0.0	29,842,474	(0.9)	181	2.4
May	5,486	0.0	30,089,647	0.8	177	(2.4)
June	5,467	(0.4)	29,455,358	(2.1)	180	1.5
July	6,132	12.2	37,164,216	26.2	195	8.8
August	6,214	1.3	36,199,474	(2.6)	188	(3.9)
September	6,222	0.1	33,909,379	(6.3)	182	(3.3)
October	7,721	24.1	44,052,752	29.9	184	1.3
November	9,524	23.4	51,830,181	17.7	181	(1.4)
December	9,785	2.7	52,009,077	0.3	171	(5.7)
Total	6,548		\$426,305,439		\$ 178	

Source: NY State Lottery, HVS International



Chart 1 – Weighted Average Number of VLT Units and Monthly Revenue for New York Racinos



was lowest in January at roundly \$25.8 million and at its peak in December at approximately \$52.0 million. Growth in VLT gaming revenue has corresponded directly with increases in additional venues and VLT units, indicating that the demand for VLT gaming at New York racino venues as a whole has potential for growth.

Our research suggests that for a deep gaming market, gaming revenue is typically supply driven—i.e., build it and they will come. The Las Vegas gaming market is a perfect example of a supply-driven market, where the significant continuous additions to supply over the past three decades have been readily absorbed. Forecasting gaming win based on the WPUPD and the growth in market-wide supply is a valid approach for markets that are supply-driven and do not experience significant dilution. Market development benefits from increases in amenities and other options besides gaming, such as in Las Vegas.

VLT Revenue by Property

Table 3 sets forth important operating statistics for the New York racinos by property, including annual revenues from VLT operations and annual WPUPD, from 2004 through 2006. The four properties that have been open since 2004 and operated for full years in 2005 and 2006—Saratoga, Finger Lakes, Fairgrounds, and Monticello—all experienced increases of over 10% in both annual VLT revenue and WPUPD in 2006 compared to 2005.

In 2006, Saratoga Gaming and Raceway had the highest amount of VLT revenues, at roundly \$119.3 million (an increase of 15.2% over 2005), and the second-highest WPUPD, at \$247 (an increase of 15.3% over 2005), behind Yonkers Raceway – Empire City. Chart 2 depicts total New York racino VLT monthly revenues by property since January of 2004. Because chart 2 reflects VLT revenue from the date of opening and most properties opened mid-month, there is generally



Table 3 – Weighted Average Number of VLT Units, Win, and WPUPD for NY Racinos by Property

Racino	2004			2005				2006							
	VLT Revenue (000s)	Weighted No. of Units	WPUPD	VLT Revenue (000s)	% Change	Weighted No. of Units	% Change	WPUPD	% Change	VLT Revenue (000s)	% Change	Weighted No. of Units	% Change	WPUPD	% Change
Saratoga Gaming and Raceway	\$ 77,269	1,324	\$ 172	\$ 103,570	34.0 %	1,324	0.0 %	\$ 214	24.5 %	\$ 119,319	15.2 %	1,326	0.2 %	\$ 247	15.3 %
Finger Lakes Gaming and Racetrack	55,398	1,010	172	71,031	28.2	1,010	0.0	193	11.7	86,613	21.9	1,048	3.8	226	17.5
Fairgrounds Gaming and Raceway	27,496	990	96	37,655	36.9	990	0.0	104	8.8	41,859	11.2	972	(1.8)	118	13.2
Monticello Gaming and Raceway - Mighty M	32,285	1,744	100	68,059	110.8	1,693	(2.9)	110	10.1	76,510	12.4	1,580	(6.6)	133	20.4
Batavia Downs Gaming	Property was not open			14,680	--	586	--	110	--	24,009	63.6	588	0.3	112	1.9
Tioga Downs Gaming	Property was not open			Property was not open				20,869	--	750	--	154	--		
Yonkers Raceway - Empire City	Property was not open			Property was not open				49,933	--	2,311	--	263	--		
Vernon Downs Gaming	Property was not open			Property was not open				7,193	--	777	--	138	--		

*NOTE: Saratoga was closed on February 17, 2006 due to a severe snowstorm.

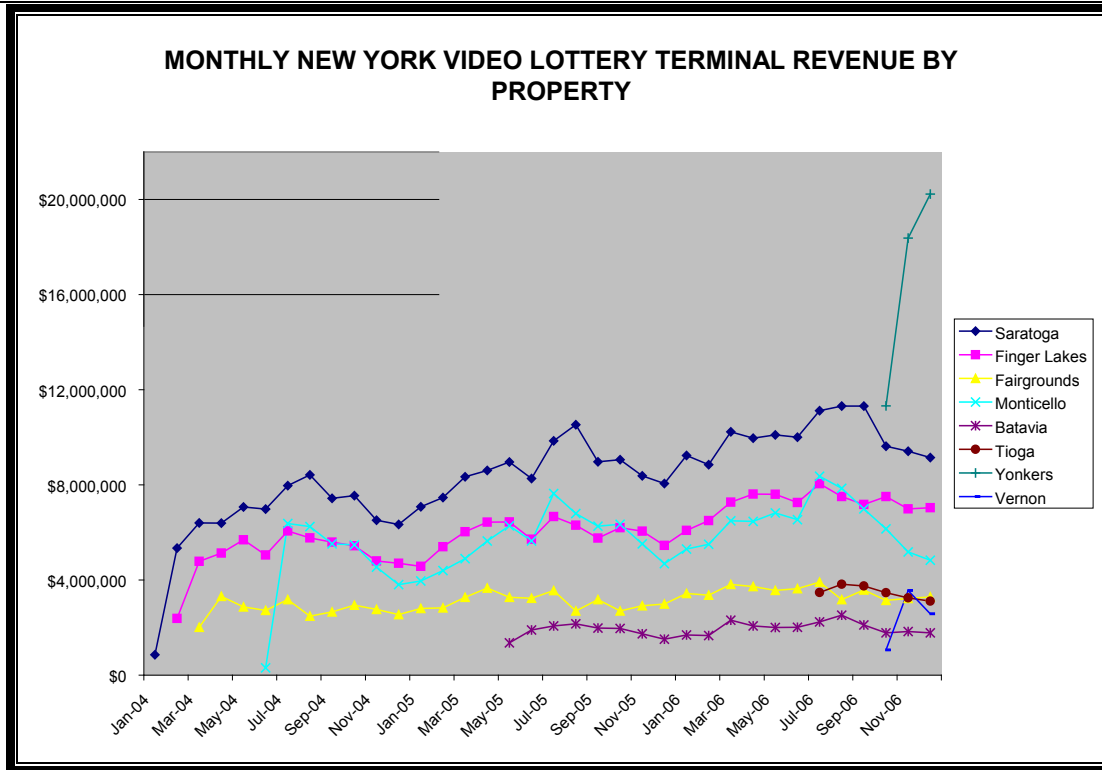
Source: NY State Lottery, HVS International

a significant increase in monthly revenues during the first full calendar month of operation for each property.

Prior to October 2006, Saratoga Gaming and Raceway achieved the highest VLT revenues each month since its opening. However, Yonkers Raceway

– Empire City has achieved higher monthly VLT earnings than Saratoga Gaming each month since opening in October 2006. Batavia Downs, which offered the least amount of VLT units as of the end of 2006 (591 units), has had the lowest VLT revenues each month since its opening in May

Chart 2 – Monthly New York VLT Revenue by Property





2005 with the exception of October 2006 (Vernon Downs, which was only open for a partial month in October 2006, had the lowest monthly earnings that month). Monthly WPUPD for each of the New York racinos is set forth in chart 3, below.

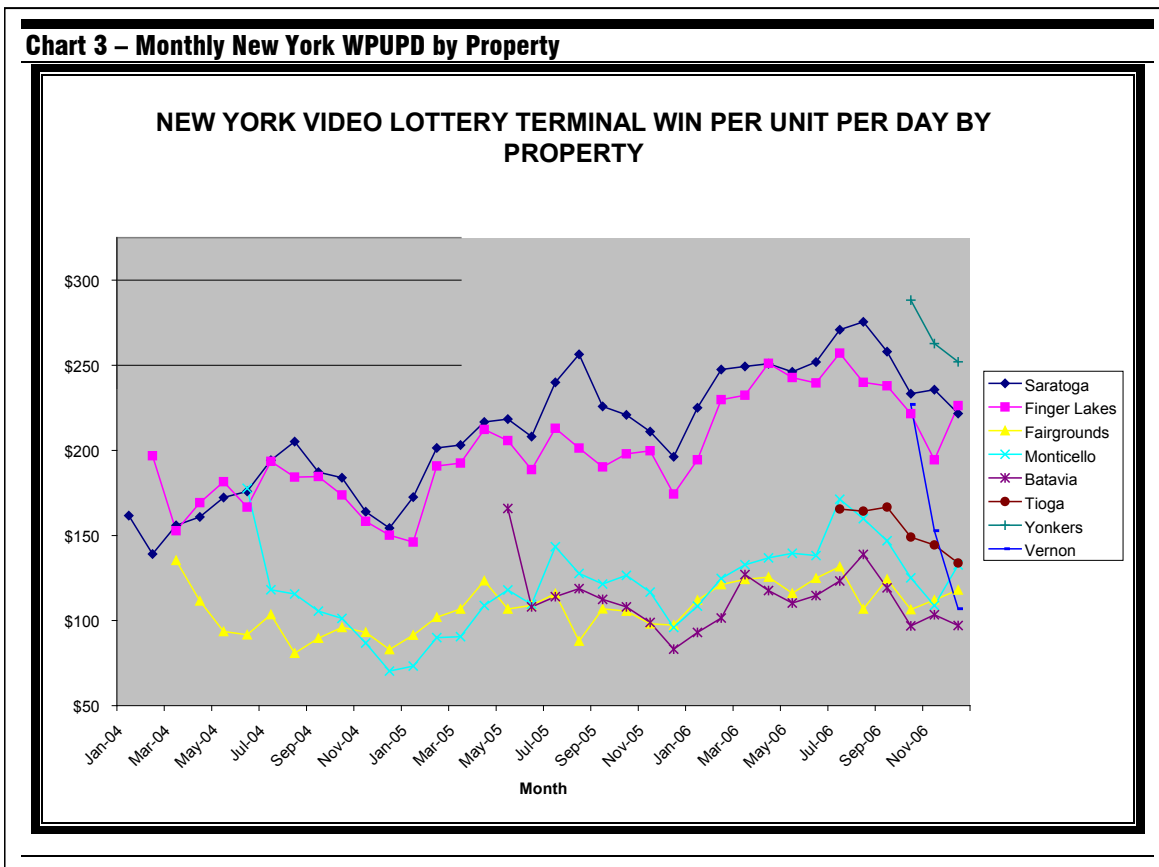
In early 2004, Finger Lakes achieved a higher WPUPD than that of Saratoga Gaming. However, from September 2004 up until the opening of the Yorkers Raceway – Empire City property in October 2006, WPUPD for Saratoga was the highest amongst the New York racinos. WPUPD for all properties dropped in the first full month following the month the particular property opened, a likely result of the novelty of the newly opened racino diminishing.

Despite the limited amount of historical data from the New York racinos, further analysis of VLT revenues by property reveals that the market generally experiences seasonal fluctuations, with

the high season primarily during the summer and the low season during the winter months, as measured by both total revenues and WPUPD. In each calendar year since opening, the New York racinos achieved the highest VLT revenues and WPUPD during the July/August period and the lowest VLT revenues and WPUPD in December/January.

Pari-mutuel Component

The eight racinos and four other racetracks (thoroughbred and harness) in New York, as well as other tracks throughout the region, compete for revenue from racing activities. The pari-mutuel wagering system totals the amounts wagered on a specific event and adjusts payout to reflect the relative amounts bet on different outcomes. Pari-mutuel revenue is derived through wagers placed on live races held at the track, wagers placed on a track that are exported to other gaming





venues, and simulcast races from other tracks that are shown on closed-circuit televisions. It consists of the total handle (amount wagered) less the amount paid out to bettors in the form of winnings. In addition, pari-mutuel revenue includes admissions and program sales.

According to the New York State Racing and Wagering Board's 2005 Annual Report, New York racetracks presented a combined 1,147 days of live racing in 2004 compared to 1,075 days in 2005, a decrease of approximately 6.3%. In 2005, over 2.5 million fans wagered approximately \$583 million on live (\$356 million) and simulcast (\$227 million) racing, which was approximately 30.0% less than that wagered at New York racetracks in 2002.

The following table 4 illustrates historical trends in total handle at New York racetracks, total off-track-betting (OTB) handle in New York on all tracks, and the total handle in the state of New York. Although increases in OTB handle have mitigated some of the handle decreases experienced at New York racetracks, total handle in New York sustained an annual average decrease of 0.1% in the period from 1997 to 2005.

Impact of VLT Operations on Pari-mutuel Operations

In order to examine the potential impact of VLT operations upon pari-mutuel operations,

we have examined the performance of the four New York racinos that began VLT operations in 2004; Saratoga, Finger Lakes, Fairgrounds, and Monticello – Mighty M.

Saratoga Gaming and Raceway initially opened for racing in 1941 and is located in the city of Saratoga Springs. The property offers live harness racing and simulcast wagering.

Finger Lakes Race Track is the only thoroughbred track operated by a for-profit corporation in New York State. The track opened in 1962 and is located in central New York near Rochester. The property offers live thoroughbred racing and simulcast wagering.

Fairgrounds Gaming is located at the Erie County Fairgrounds in Hamburg, New York along with the Buffalo Raceway. The Buffalo Raceway is located approximately 12 miles south of Buffalo. The property offers live harness racing and simulcast wagering.

The Monticello Raceway first opened for racing in 1958 and is located in Monticello, approximately 90 miles north of New York City. The property offers live harness racing and simulcast wagering.

Table 5 sets the number of race dates, attendance if available, and total facility handle at Saratoga

Table 4 – New York Pari-mutuel Handle (1997-2005)

Year	NYS Racetrack Handle	% Change	OTB Handle	% Change	Total Handle in NYS	% Change
1997	\$833,086,330	---	\$1,835,045,881	---	\$2,668,132,211	---
1998	809,920,465	(2.8) %	1,854,304,931	1.0 %	2,664,225,396	(0.1) %
1999	803,489,340	(0.8)	1,942,524,062	4.8	2,746,013,402	3.1
2000	763,922,471	(4.9)	1,975,061,754	1.7	2,738,984,225	(0.3)
2001	780,191,946	2.1	2,010,149,217	1.8	2,790,341,163	1.9
2002	784,703,683	0.6	2,042,723,579	1.6	2,827,427,262	1.3
2003	725,668,204	(7.5)	2,022,452,158	(1.0)	2,748,120,362	(2.8)
2004	672,532,334	(7.3)	2,045,633,235	1.1	2,718,165,569	(1.1)
2005	582,951,231	(13.3)	2,061,572,061	0.8	2,644,523,292	(2.7)
Avg. Ann. Comp. Growth, 1997-2005:		(4.4) %		1.5 %		(0.1) %

Sources: New York State Racing & Wagering Board



Gaming, Finger Lakes, Buffalo, and Monticello from 2001 through 2005, which can be used to draw initial conclusions about the impact of authorizing the operation of VLT units upon the racetracks.

Initially, review of the data reveals that the number of race dates for each of the properties was trending downward during the pre-VLT period (2001 to 2003). However, following the opening of VLT operations in 2004, each of the properties increased the number of race dates. Contributions from VLT revenues have allowed some racinos to increase the number of events per race day as well.

Attendance figures for Finger Lakes and Buffalo also increased significantly in 2004 compared to 2003: 24.1% for Finger Lakes and 38.4% for Buffalo.

Downward trends in facility handle were experienced also by the racetracks in the period from 2001 to 2003. In 2004, Saratoga's total facility handle increased 23.5%. Following a decrease in total handle in 2003 of 12.6%, Finger Lakes' total handle increased by 3.6% compared to 2004. Similarly, Buffalo experienced a 21.4% decrease in total handle in 2003 compared to 2002 but a 1.2% increase in 2004 compared to 2003. Although

Table 5 – Race Dates, Attendance, and Facility Handle for Selected New York Racinos (2001-2005)

Racino	Year	Race Dates	% Change	Attendance	% Change	Total Facility Handle	% Change
Saratoga Gaming	2001	134	---	95,623	---	\$29,033,039	---
	2002	122	(9.0) %	n/a	n/a	30,487,685	5.0 %
	2003	129	5.7	n/a	n/a	31,644,865	3.8
	2004	165	27.9	n/a	n/a	39,092,822	23.5
	2005	173	4.8	n/a	n/a	37,044,965	(5.2)
Finger Lakes	2001	165	---	207,681	---	\$33,921,386	---
	2002	161	(2.4) %	197,182	(5.1) %	33,368,325	(1.6) %
	2003	154	(4.3)	190,353	(3.5)	29,150,800	(12.6)
	2004	157	1.9	236,322	24.1	30,211,575	3.6
	2005	160	1.9	241,270	2.1	29,906,087	(1.0)
Buffalo Raceway (Fairgrounds)	2001	127	---	87,022	---	\$19,422,863	---
	2002	84	(33.9) %	54,185	(37.7) %	16,433,612	(15.4) %
	2003	66	(21.4)	41,832	(22.8)	12,920,173	(21.4)
	2004	87	31.8	57,907	38.4	13,081,519	1.2
	2005	84	(3.4)	53,898	(6.9)	12,473,830	(4.6)
Monticello - Mighty M	2001	209	---	60,134	---	\$18,933,894	---
	2002	221	5.7 %	62,941	4.7 %	19,575,363	3.4 %
	2003	204	(7.7)	54,267	(13.8)	16,052,175	(18.0)
	2004	230	12.7	n/a	n/a	14,872,537	(7.3)
	2005	235	2.2	n/a	n/a	16,296,276	9.6

Sources: New York State Racing & Wagering Board



Monticello opened in June of 2004, the year-over-year decrease in its racing handle was less in 2004 (7.3%) compared to 2003 (18.0%).

The facility handle results for 2005 compared to 2004 were not as optimistic since Saratoga, Finger Lakes, and Buffalo all experienced a decrease in total handle. It should be noted that Monticello did increase total handle 9.6% in 2005 and Saratoga's total gaming-handle decrease in 2005 of 5.2% was partially attributable to the closure of part of the facility during the first three months of 2005 for renovations.

Data thus far has revealed that VLT gaming has had a generally positive impact on pari-mutuel operations; however, because of the mixed results it is too early to tell what the long-term prognosis will be. As of the date of this report, data for 2006 have not been made available from the State of New York Racing and Wagering Board.

As previously noted, the initial New York VLT legislation required portions of VLT proceeds to be used to enhance purses at the respective racetrack and for the breeders' fund. However, the 2005 amendment of New York statutes deleted the requirement that a portion of the VLT gaming revenues be used for purse enhancement and breeders due to potential conflicts with New York's state constitution.

Although not statutorily required, purses can be voluntarily enhanced pursuant to agreement and

distributed to the track's breeding fund. There are significant benefits from this type of arrangement. Racing is a necessary aspect of the racino operation in New York, requiring cooperation from horsepersons. Enhancement of purses benefits a vendor property by attracting better competition for its races and increasing the number of race days and events. Moreover, better purses have increased the quality of the races, which leads to additional interest and further increases in pari-mutuel revenue. More patrons coming to the facility for horse races will increase VLT gaming play and revenues.

Demographic Analysis

The New York racinos are gaming establishments of convenience, primarily drawing from markets in its immediate vicinity. The racinos, except for seasonal periods associated with major racing events, cannot compete for gaming demand with larger destination-resorts, which can offer a larger variety of gaming activities and other amenities. Accordingly, it is anticipated that the higher WPUPD, and ultimately higher VLT gaming revenues for a particular property, are dependent upon both the number of potential patrons and levels of income in the area immediately surrounding the property.

Table 6 sets forth the 18 and over populations, 2006 per capita income, and annual WPUPD for the 25-mile and 50-mile radii for four of the New York racinos: Saratoga Gaming and Raceway, Monticello – Mighty M, Yonkers – Empire City,

Table 6 – 2006 18 and Over Population and Per Capita Income – 25-Mile and 50-Mile Radii

	Saratoga Gaming and Raceway		Monticello - Mighty M		Yonkers Raceway - Empire City		Vernon Downs Gaming	
	Within 25 Miles	Within 50 Miles	Within 25 Miles	Within 50 Miles	Within 25 Miles	Within 50 Miles	Within 25 Miles	Within 50 Miles
	Population over 18	524,185	979,930	173,563	1,172,115	10,000,748	14,316,284	275,509
Per Capita Income	\$25,951	\$25,282	\$22,718	\$26,906	\$28,345	\$29,958	\$22,664	\$22,063
WPUPD (2004)		\$172		\$100		n/a		n/a
WPUPD (2005)		\$214		\$110		n/a		n/a
WPUPD (2006)		\$247		\$133		\$263		\$138

Source: Claritas, HVS International



and Vernon Downs. As previously indicated, Saratoga and Monticello have been operating since 2004, while Yonkers and Vernon Downs both opened in 2006.

The correlation between property WPUPD and population and per capita income is evident in table 6. Yonkers – Empire City is in the most attractive market, with the highest population and per capita income in the surrounding 25- and 50-mile concentric circles. This correlates with the fact that the property achieved the highest WPUPD for 2006 and the highest monthly revenues for each of the three months it has been in operation.

Comparison of the population and per capita income for the concentric circles around Saratoga Gaming and the Monticello - Mighty M also implies that New York racinos are gaming facilities of convenience and the data suggest that the characteristics of the population 25 miles away from a property are a better indicator of a property's performance than the 50-mile concentric circle. The demographics in the respective 25-mile concentric circles for these two properties are more favorable for Saratoga, while the demographics in the 50-mile concentric circle appear to be more favorable for Mighty M. WPUPD in 2006 is higher for Saratoga than Mighty M, which would correlate with the more attractive demographic statistics in Saratoga's 25-mile concentric circle. It should be noted that, the Saratoga racino benefits from strong summers as a result of the annual summer racing season at the Saratoga Race Course, which attracts high net worth visitors to Saratoga Springs from across the nation.

Vernon Downs does face direct competition from the Oneida Indian Nation's Turning Stone Resort and Casino, which is located less than five miles away, thus affecting its ability to achieve higher WPUPD. However, the data in table 6 indicate that Vernon Downs did achieve a slightly higher WPUPD than that of Mighty M in 2006. This correlates with the larger population base in the 25-mile concentric circle around Vernon Downs, although this may be just a reflection of the novelty

of Vernon Downs having recently opened in October 2006.

Conclusion

The racino industry in New York is in its relative infancy. However, the creation of the hybrid gaming venue appears to have given new life to a declining industry. Early indications are that VLT gaming revenues that are used to enhance racing purses create a win-win situation for racinos' VLT and pari-mutuel operations.

Although the long-term impact of the VLT legislation on the race track industry in New York is not yet clear, and renewed interest in racing may be short-lived, it does appear that more patrons frequenting the facility because of the attraction of VLT gaming has driven increased racing patronage thus far.

The future outlook for the New York racino industry in the near term is extremely positive. The performances of the four racinos that opened in 2004 have reflected significant year-over-year gains in each year of operation. Racinos that make efforts to increase penetration of the market and grow gaming revenues by expanding food and beverage facilities, entertainment activities, and other leisure options in conjunction with increases in gaming inventory are anticipated to meet with the greatest success. Further analysis of the New York racino market as the industry proceeds through its growth stage should include evaluation of relevant demographic data, including population and per capita income levels.

About the Author:



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