

**Slots Licensing, Track Ownership,
and
Commitment to Thoroughbred Racing in Maryland**

**By Maryland Horse Council President Steuart Pittman
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To the breeders, owners, trainers, and backstretch workers who make their living in Maryland Thoroughbred racing, the dramatic events of the last few months have felt like a roller coaster. Those of us outside of racing who benefit from its presence in our state have watched events unfold with shock.

There is no consensus within the Maryland Horse Council about the best outcome for Maryland racing, but there is a strong feeling among our membership that the voice of the industry should not be the owners of racetracks but instead the thousands of people who breed, own, train, and care for the horses.

Background

Magna Entertainment acquired majority ownership of Maryland Jockey Club assets in 2002, and full ownership in 2007. In 2008 MI Development (MID) sold its ownership stake in Magna Entertainment to appease MID stockholders who complained that Chairman Frank Stronach was losing their money in horse racing. The idea was that MID would stick to real estate development while Magna Entertainment would manage racetracks and casinos. Both companies are based in Canada.

Magna Entertainment has lost money in recent years, not only in Maryland, but at tracks and casinos throughout North America. When slots legislation was approved by voters in November 2008, and a part of Anne Arundel County was designated as the site where the largest casino would be licensed, Maryland's horse industry assumed that Magna would seek that license for Laurel Park. When Magna failed to submit the required \$28.5 million application fee the saga began.

David Cordish, a Maryland-based developer of gaming and entertainment destinations, applied for the license in Anne Arundel County and paid the application fee. Cordish Companies developed Power Plant Live! in Baltimore, Indiana Live! at Indiana Downs, is developing Woodbine Live! at Woodbine Racetrack in Canada, and has some 25 other similar projects throughout North America. His plan was to build the casino at Arundel Mills Mall, which is within the geographic area described in the law, but not at the track. He made the case, with the help of a study by Price Waterhouse, that revenues to the state and to racing from a casino at Arundel Mills would be substantially higher than anywhere else because of the 14 million people who travel to the mall every year.

Many of us in the Maryland racing industry were dismayed at this turn of events. Yes, the revenues to racing are based on slots revenues regardless of where the casino is located, but

wouldn't it be better to have the slots at the track? The Maryland Horse Council, the Maryland Thoroughbred Horsemen's Association, the Maryland Horse Breeders Association, and The Maryland Jockey Club all felt that slots should go to Laurel. This past December and January we all worked hard to convince the Anne Arundel County Council to reject a zoning ordinance that would allow slots at Arundel Mills and to approve an alternative ordinance that would allow slots in a smaller geographic area around the track. Despite an alliance with residents near Arundel Mills who opposed slots in their neighborhood, we lost narrowly. Cordish already had his license approved by the state Video Lottery Facility Location Commission (VLFLC), and zoning was his last hurdle in securing the actual license.

Magna Bankruptcy & Possible Anne Arundel County Referendum

In the meantime Magna Entertainment had filed for bankruptcy. An auction of all Maryland Jockey Club assets (Laurel, Pimlico, Bowie Training Center, and the Preakness) was scheduled for just weeks after the county council's vote on zoning. Most horsemen saw this auction as a good thing. Magna was clearly not in a position to develop a casino or to provide the matching dollars needed to get racetrack renewal fund money from future slots revenue. A number of bidders had made themselves known who claimed to have the capital and the interest in racing, with or without slots at Laurel, to revitalize the sport in Maryland. One of those bidders for the Maryland tracks turned out to be David Cordish.

Cordish told the press that as a Marylander with a record of creating entertainment destinations he wanted to create a "renaissance in Maryland racing." People in racing had been pushing Cordish to do something like this for years, and with his slots license at Arundel Mills he believed that he could generate the revenue at the casino to match his investments in the tracks and create at Laurel and Pimlico the kind of racing and entertainment that would attract the public. A number of breeders and horsemen met with him and came away convinced that he cares about his legacy in his home state, and that he has the organization and the resources to make good on his promises.

Unfortunately for Cordish, however, he was seen by the Maryland Jockey Club and some horsemen as the guy who snatched away their slots license. Magna chairman Frank Stronach and David Cordish are as competitive as Army and Navy on the football field, and Magna decided to sink hundreds of thousands of dollars of resources that nobody thought they even had into a fight to block Cordish.

Anne Arundel County law allows residents to overturn laws passed by the county council through petition and referendum. Collecting 18,790 certifiable signatures from registered voters in the county requesting a referendum sounded like an impossible task to many of us. After hearing from both Cordish Companies and the MD Jockey Club at our January quarterly meeting, the Maryland Horse Council chose not to participate in the effort. The Maryland Jockey Club, however, did participate. With Magna's resources, MJC hired a company called Fieldworks to conduct a massive petition drive. The effort cost Magna over \$600,000. Fieldworks succeeded and unless Cordish is able to convince the courts that many of the petitions are invalid, there will be a referendum in Anne Arundel County this November.

The question on the ballot will be whether voters want to overturn the law that allowed zoning for slots in Anne Arundel County. If they vote yes, slots cannot go to Arundel Mills or to Laurel Racetrack without a new zoning law. If that law were restricted to the area

around Laurel Park it is likely that Jamie Benoit, that district's avowed anti-slots representative on the council, would ally himself with anti-slots residents and most likely prevent a majority of the council from passing it, leaving Anne Arundel County, the state, and the racing industry with no revenue from the area where 4,750 machines had been authorized.

If the county council were to surprise us and pass zoning for slots at Laurel Park, the VLFLC would have to rescind Cordish's license and reopen bidding for a new license. The timeline for all of this to take place would depend not only on the will of elected officials and the VLFLC, but also on the courts. Cordish has been very clear that he played by the rules to attain the license, and would do whatever it takes to keep it. Some people in the racing industry have suggested that the process could take as long as five years. Projections of revenue to racing (purse enhancements and racetrack renewal funds) from slots at Arundel Mills are \$60 million annually. Multiply that figure by the number of years Cordish and Stronach are at battle and that's what racing loses.

Nobody knows the likely outcome of a November referendum. There will be a massive campaign in support of slots at Arundel Mills. It will be driven by a coalition of those who benefit from the projected \$500 million per year that the project would generate, including taxpayers, government officials and their unions, and the school system and all its supporters. We can assume that the campaign to block slots will be funded primarily by Mr. Stronach's company and that it will mobilize residents around Arundel Mills as well as the anti-slots movement that is based primarily in certain churches. Slots passed 60% to 40% in the county when people assumed that the casino would be at Laurel Racetrack. Slots by a shopping mall may be a harder sell to the voters, however, so it could go either way.

MID Commitment to Maryland Racing

The January bankruptcy auction of MJC assets was postponed multiple times. Bidders included Joe and Karin DeFrancis, Jeff Seder of Pennsylvania's Blowhorn Equities, Penn National Gaming, Cordish Companies, and possibly others. The Blood Horse posted fascinating interviews with DeFrancis, Seder, and Cordish online at bloodhorse.com, where each argue why they are the best for Maryland racing. It's inspiring reading. Unfortunately, it all became fiction on March 23 when the auction was cancelled.

Magna Entertainment's parent company, MI Development, published a press release that day announcing plans to pay off MJC's creditors and take over MJC's assets. Here are some quotes from that release.

Dennis Mills, MID's Vice-Chairman and Chief Executive Officer, stated "We are excited about the development opportunities represented by the land owned by MJC. The land is comprised of 565 acres in three major properties well located in the greater Baltimore-Washington area."

Keep in mind that while MID is also chaired by Frank Stronach it is a publicly held Canadian real estate development company that has a history of losses in racing. The statement above could be to appease stockholders who oppose involvement in racing. Interpret it as you will.

The acquisition of MJC by MID will be subject to forbearance terms that will require that the MJC racing operations be brought to a break-even status within three years

and that accumulated budgeted losses during that period will not exceed US\$15 million without approval from the Special Committee of the Board.

MID doesn't explain what will happen if the tracks are not profitable within three years, but the comments about real estate give us a hint. A willingness to accumulate budgeted losses of no more than \$15 million during this time period is also not promising. If estimates are true that current losses are \$10 million per year then the \$15 million will only last 18 months. That does not include the \$28.5 million cost of applying for a slots license, or the matching funds required to receive racetrack renewal money once slots revenue is being generated somewhere. Compare this commitment to Maryland racing with what the bidders in the bankruptcy auction were willing to do.

MID's press release also addressed the question of how a real estate company could operate a gaming venture.

"...any future gaming operations at MJC will not be developed other than in combination with an experienced and financially secure gaming co-venturer on terms acceptable to the Special Committee."

The MD Jockey Club's argument in favor of slots being at Laurel was that the track needed the 33% of slots revenue that goes to the casino operator. If an outside "co-venturer" operates the casino it will most likely take that full 33%. It's among the lowest takes for operators in the country. If they do take the full 33% does it matter anymore to racing whether the casino is at Laurel or Arundel Mills?

On April 29 MID's Dennis Mills was quoted in the Maryland Daily Record saying that he intended to get the tracks to the break-even point within months, and "MID executives held back when asked by commission members about their plans for Laurel Park and Pimlico." Unless they have a way to increase revenues immediately, we can assume that there will be drastic cuts.

When Tom Chuckas of MJC, Joe Weinberg of Cordish Companies, Karin DeFrancis, and many others spoke at the Maryland Horse Council meeting in January, everyone agreed that Magna had failed and that new ownership would be good for Maryland racing.

What Can Be Done?

Washington Post racing columnist Andrew Beyer, the Baltimore Sun editorial board, and many other observers of racing have suggested that the Magna / MID strategy is now preventing the very resurgence of racing that Mr. Stronach had earnestly sought when he bought the tracks.

We at the Maryland Horse Council think that it's time for horse people to speak up, but we need to make sure that whatever we say is what you think. Please take the time to fill out the attached survey, place it in the enclosed envelope, and send it back to us right away.

In 2009 our Maryland General Assembly passed a law titled "**Condemnation of private thoroughbred racing-related property for public use.**" It allows the state to step in and auction the tracks in a case where the owner intends to demolish them. **This law, and our ability to work closely with a governor who has pledged to support Maryland racing, gives us the leverage we need to preserve our sport.**