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**BUILD IT AND THEY WILL COME, OR WILL THEY?  
SHOULD A RACINO BE A RESORT?**

**Moderator:**

**Denis Finigan**, President, Urban Systems Associates

**Speakers:**

**Thomas Aro**, Chief Operating Officer, Empire Resorts

**Tom O'Connor**, Principal, SOSH Architect

**Steve Rittvo**, Chairman, The Innovation Group of Companies

**MS. WENDY DAVIS:** I told the panelists up here this is the most prompt panel session. The panelists are here; you're ready to go. This is terrific. A couple moments of housekeeping. We'd like to thank TVG for the refreshment break.

One other thing, if there's some panel sessions, concurrent sessions, that you were sitting in one and you were sorry you missed another we do have DVDs. They are wonderful quality this year, available for sale. You can see Betty up at registration. You can contact us once you get home. They are really nice if you want to see the quality. We have one running outside our registration area if you would like to see what they look like. So you don't have to miss anything from this year's Symposium on Racing.

We would also like to thank the panel sponsor for this panel. That's SOSH Architects. And we also have a representative on this panel from SOSH, Tom O'Connor. So thank you, Tom. We appreciate this. Without our sponsors we could not bring you all we can do.

So this panel, "Build It and They Will Come, or Will They?" Should a racino be a resort?

And I think initially we were going to continue with the title: "How Much Is Too Much, How Much Is Enough?" But that was too long for a title. But I think it's a really interesting concept. Our graphics person said, "No, we're not going to build space for that."

I think that's really the concept that's going to be talked about today.

And the emcee for today's discussion is Denis Finigan, president of Urban Systems Associates.

So I know we've got a lot of good things to talk about, I won't take any more of your time. Denis, I'll turn it over to you and thank you for leading this panel.

**MR. DENIS FINIGAN:** Good morning. We have three panelists today, an interesting presentation.

One panelist is Steven Rittvo; he is the president of The Innovation Group. Steve directed and participates in numerous major gaming studies for large companies, small companies, and Native American casinos. The Innovation Group provides professional services to government bodies, Wall Street, to investment bankers. Steve is going to talk about and compare the statistical profiles of racino and casino gamers.

Our second panelist is Tom Aro; he is chief operating officer of Empire Resorts. In this capacity he is responsible for the \$32 million renovation and rebuilding of the Monticello Raceway, which opened in June of 2004. He graduated from the University of Arizona, and it's a homecoming of sorts. And for the past 40 years he has worked in the gaming hospitality industry. Tom will speak from a developer's perspective about what's going on in New York and other jurisdictions related to this topic.

Our final speaker is Tom O'Connor, a principal of SOSH Architects. Tom is a graduate of Notre Dame, and completed graduate studies at Harvard School of Design. Tom has worked on a wide range of hospitality entertainment and casino projects; and his recent project, which is very on time for this discussion, is Harrah's Chester Downs in Philadelphia. Tom is going to talk about, in contrast, design issues relative to racinos racetracks and casinos, and highlighting the different between slot players and pari-mutuel players.

**MR. STEVE RITTVO:** I guess what Denis didn't say is that he and I have been partners 19 years in a transportation planning/urban planning engineering firm. And Denny's perspective will be interesting. He has done a tremendous amount of pre-planning and planning work for racetracks and racinos.

What I had really hoped to do was to touch on maybe some of the differences and getting an understanding of what racino patrons are looking for in their experience.

A number of years ago there were a significant difference between patrons of different types of gaming facilities. Folks that went to resorts in Atlantic City and Las Vegas had one set of experiences, riverboats were second sets, and racinos were the last entry in the market. At that point in time there was a real difference

amongst the players, what their expectations were, and how people were addressing the individual sort of market segmentations going through the facilities.

We do a lot of work across the industry. We work really for casinos, racinos, riverboats, international. We try to get a sense of what are folks looking for in the gaming experience now, particularly as the industry has evolved.

Two years ago in conjunction with two other firms we undertook a 2,500-person survey of gamers across the United States. That 2,500 is a fairly significant number. It allows us to parse the data and be able to compare and contrast geographic regions, different types of players based on the type of facility they go to, the dollar value they spend gaming, the geographic region gender, age, so we can look at market segments and get a sense of what they were looking for.

The survey was a great base for us and was done 21 months ago, and we have done a number of regional types of things. To update it, a number of quantitative studies and qualitative studies so we can keep the information current and keep a better sense of what's going on.

Big finding. To me it is significant because we've really watched this evolve over eight years. There's very little difference anymore between what we call a casino gambler that goes to a resort and somebody that goes to a racino. There used to be a large difference, now there's not.

People have similar lifestyles, similar expectations. There's no difference. A gaming experience is a gaming experience. Looking at gender, 55, 57 percent of gamers are women. It's across the board on whether they are going to resorts in Las Vegas or riverboat markets or racinos. Interestingly enough, racino patrons are slightly more affluent. We really found the demographic markets were the same. They were looking for the same sort of set of experiences, and this was, again, an interesting piece. It changed the stuff we found five years ago.

They are looking for quality gaming experience but are looking for a getaway experience as well. Even the guys going to racinos are starting to look for hotel resorts. Quality F&B and other elements to spend their leisure time. There were little differences in what folks wanted. What we really tried to compare on the basis of specific things. What did folks want?

When we define "resort" we are talking about folks going to Las Vegas, going to the Gulf Coast — those are resort-type facilities — versus people going to racinos. It's what their desires are, not necessarily what they are doing. That's an important piece. Because as we get into it, the racino patron often doesn't have the opportunity to do what they would like at the resort, but this is their desire; and all are looking for a high-quality hotel experience if they are staying overnight.

A reasonable percentage for shopping, for spa activities, nightlife and entertainment. It goes across both spectrums. Golf courses are a lower element, that's managing people's expectations. A lot of facilities don't have enough land to

provide the golf course, and the expectation is not there that it's going to happen. In general, both groups are looking for resort-type atmosphere.

What's happened in the industry is casinos have given the patron what they wanted. They have evolved over the last five to seven years, into becoming more resort, having more of a resort atmosphere. If you go to almost any land-based casino, any riverboat property, they have hotels, a modicum of retail, fairly significant entertainment facilities, and great food and beverage options.

Racinos have not. They have been, to a large degree — the majority are still to a large degree slots holes. They have limited food and beverage, limited entertainment, limited hotel facilities. If you look at racinos as a class, they have not evolved to the next generation of entertainment facilities compared to casinos.

There are guys that have done it and done did it really well. These are the four best examples of racino resorts, racinos that evolved into resorts.

Mountaineer Racetrack in West Virginia.

Dover Downs, one of the first ones that evolved to a resort facility. And we are seeing more attention paid in Canada, to racinos becoming resorts and more of an entertainment center. And Woodbine is the example of that. If you look at these facilities, they have evolved from really just putting slot machines in the grandstands into what I would classify as full resorts. And if you look at their revenues, they have grown and are able to withstand competition, rather than individual-type racinos where there's just slots in the grandstands.

We wanted to give you a sense of what folks were looking for. We ranked, as part of our survey work, what were the most important attributes gamers are looking for. The first five are not facilities related. The most important thing is how lucky a gamer feels. You can't control that. How safe do they feel in the facility? And how comfortable is the customer service? Those you can control.

Out of the top 15, the need for quality hotel room and hotel room rates are mainly generators you can use to grow your market and your stake.

We wanted to give you a sense of where and how people are looking at this by region. There's a significance here. The more competition there is the more people expect that you are going to give them a casino-like experience. So the places where these high-quality hotel rooms and the next slide is resort environment. They are very important to people. It's where there's other alternatives they can go to if you don't have it.

The one point in the South Atlantic in our definition is Maryland. You have access to Biloxi/Tunica, and you have access to Atlantic City. The mid-Atlantic definitely, you are competing with the Atlantic City areas. East South Central competes with the Gulf Coast. West South Central is Louisiana. Where there are competitive facilities folks are not differentiating and saying you are a racino and

we are willing to accept less to come to you. If the alternative is a riverboat versus a racino in Shreveport, folks expect the racino to have the same set of amenities and are looking for it.

This is another general concept of resort experiences you see the same geographic pattern. East North Central, West North Central, Nebraska, Kansas, North Dakota, South Dakota, there is less competition with real casinos as we define them and people's expectations are lower. Understanding who and what you are competing with will help you define the facility.

Beyond the classic sort of resort element, what people are looking for — obviously, everybody in a resort defines it as a hotel. Meeting space, we're going to have a spa, good restaurants. The question becomes, what else are gamers looking for, particularly people going to racinos? Again, some of these surprised me. A water park really surprised me looking at racino people, but it was consistent across the board. Amusement activities, it wasn't the big amusement park with roller coasters; it was a family entertainment center. Something that related to the local nature of what was going on. But their definition or patrons' definition of resorts are fairly significant and pretty broad beyond what we might have initially anticipated.

A little bit on food and beverage. Racino gamers eat out in general a little less than local casino gamers. When we actually probed that in focus groups, they ate out less when they gambled. There was less options available to them. It's not that they didn't want to eat out; they didn't have the options, things that would motivate them to come.

Again, in looking at what would motivate patrons to come from a racino perspective, 50 percent would be more likely to return if you gave them a good food and beverage offer. You know, discount the comp or something like that. It was almost identical to the same statistics we got for folks going to Atlantic City and Las Vegas casinos.

And we wanted to give you a sense of what were their most significant restaurants. Italian was the favorite by 47 percent, we see it across the gaming industry; Chinese, second; and by region it varied, Mexican-American or Japanese. They are looking for more than just the hotdog stand, buffet and steakhouse.

This is an interesting piece, on what people spent. These were the average spending for people going to resorts. When I say locals, it's a riverboat in Shreveport, Louisiana, or Indiana or something versus a racino.

First we looked and said, gee, racino guys are cheap they spend less money. In focus groups we found out, they spend less money because you guys don't give them enough alternatives to really do something with. They would like to have the range of services, best opportunities, and dining experience that exist in other places, but because you don't they are spending less, and we found they have a tendency to spend more off-site than on-site.

One of the pieces again, there was always a perception that racino patrons' income, because they are going to the track, was lower than casino players and lower than the national average. It was not the case. We found two-thirds had household incomes above 50K, \$50,000 a year, very comparable to the gaming industry in general. But there was a perception — and this is work we did with racino operators — they were dealing with a lower level patron. The reality wasn't. Maybe they were obtaining a lower level patron because they weren't designing and offering services that a more upscale patron would have.

We looked at some lifestyle trends, on where and what racino folks were doing. Again, more than the average person in the U.S. patrons at racinos do other things in their lives. Forty-seven percent, by their own definition. They dine out frequently; they are looking for a restaurant experience. They go shopping more than the national average.

I'm not suggesting you guys create retail malls around your racinos, but being cognizant of the fact that there's specialty retail persons makes sense to me.

They travel, the definition of frequent and very frequent, more than general patrons in the United States. They are spending money on recreational activities. To give you a sense of comparison, these are not a whole lot of health bugs. They are not spa visitors. That was the only element less than the national average.

Other questions and we'll wrap this. The question comes up: Do we have a different demographic, because racinos for the most part are slot machines only or electronic gaming. They don't have table games. It's the nature of how they come in.

One of the questions we have whether that was really differentiating the players and what they want to do. No. Even though you only have the slot option for them, again, no statistical difference. Twenty-six percent of the people that go to racinos would play table games if you had them. That would be the preference. That's no different than the folks going to casinos that have it.

You have people that are accommodating what you have to offer them, but in reality they are really the same cross-section of gamers that exist in general casinos. It may have impact as some states begin to consider whether they should begin to be putting slots at the tracks, or not. It may give you some sense of what your potential upsides from gaming revenues are. My take is, you might not have as much upside as you think, because those players are coming now and playing slots, and all you might do is shift them to tables, which are less profitable to you. I'm not sure tables are a dynamite alternative for you guys.

When we talk about this, what are the areas that really will benefit from moving forward in resorts, that East South Central, the stuff in Maryland, Delaware, pieces now starting to come to Florida, New England, where you are competing with the Foxwoods of the world. The South Atlantic, again, the Delaware. I'm missing a

state. Those are the ones that will benefit, we think, the most from transitioning more quickly to resort-type activities. You're competing with people that offer it and your players are not differentiating.

And talking about what they want, Tom will touch on the specifics of the amenities. Your players are looking for more resort amenities, they are looking for racinos to become more like casinos as we envision it.

I guess that's it. Thank you.

**(APPLAUSE)**

**MR. THOMAS ARO:** Good morning. Steve's firm, obviously, did an incredible job of surveying the landscape out there and asking these in-depth questions. And if you took notes, I think it would serve you well in evaluating when you might be thinking down the road.

There was one survey I think you missed. I was reading The New York Times on the way out here. The headline was, "Gamblers Report More Health Problems." And they say people that gamble are more likely to suffer from a variety of health problems, including heart and liver disease, a new study finds.

The researchers look at three kinds of gamblers, which they define as pathological, problem, or at risk, and found that all of them tended to report more medical concerns than the general population.

There were several explanations why gamblers might suffer more health problems. The researchers said people who gamble a lot are more likely to smoke, drink heavily, and have higher stress levels. What's the takeaway? Maybe we should find a new line of work? I thought that was pretty timely coming out on my flight out here the other day.

A validation of what Steve said in terms of what the customers are looking for. We certainly see it in Monticello. We're located 90 miles west of New York City. Our customer base is familiar with the Atlantic City products, familiar with the Native American casinos in Connecticut, and needless to say they offer phenomenal full-service destination resort amenities. We're not in a place to do that. They do demand it. We hear it from them all the time.

Build it and they will come. Or will they? The core question. It sounds pretty straightforward, but as I was giving Steve's questions some thought, images of former President Bill Clinton came to mind when he going through his performance with the Monica Lewinski debacle.

As you may recall, President Clinton was in a particularly grueling session, the prosecutors were grilling him, a whole array of attorneys asking him dicey and potentially incriminating questions. He paused and squirmed around, a few beads

of sweat formed; but Bubba, in classic fashion, gave the answer to the question, "Well, it depends on what the definition of 'is' is."

I think that comes back to Steve's basic question: Build it — what is "it" — and will they come. And "they" is the other operable word. For existing operations, the "it" word is an ever-evolving situation, driven by the marketplace conditions and regulatory scheme that we all operate under.

Some recent examples in our general neighborhood of the East Coast of people expanding the product. The Delaware area, Dover Downs started in 1995, 500 machines. Three enhancements later they are up to 2,500 machines, a four-diamond hotel and a cadre of first-class restaurants. So you can see the "it" is evolving towards full-service resorts. They recently announced a \$52 million expansion program, which will double the size of their hotel. I'm sure, again, add to f&b, facility and new legislation in Delaware allows them up to 4,000 machines.

Downstate Delaware at Harrington, a similar situation. They recently announced a \$35 million expansion program. They are going to be increasing the slot count by 1/3, up to 2,000 games. Also creating new f&b outlets and cleaning up what they have. There's no lodging component at this time, but you can see the evolution towards meeting the customer's expectations and demand.

In New York we operate under a 70 percent tax rate of gross revenue, and after everybody else takes their share it doesn't leave a whole lot for other good and fancy things. You've got to get the payroll paid and light bill, and what you have left you can think about other things.

That said, even in New York, Finger Lakes recently completed a \$4.3 million expansion, which increased the number of VGMs. Also created a new 10,000-square-foot buffet. They needed the additional feeding capacity and it's taken off greatly. Ron Sultemeier and Delaware North are looking at the landscape and other opportunities as the market conditions start to grow, and if there's room for expansion I'm sure they will do it.

VGM, in New York parlance, they are our slot machines by another name. We can't use the word "slot" in anything we say or do as far as New York goes. It's one of the George Carlin 10 words you can't say. VGMs in New York, slots by another name.

Saratoga, the most successful VGM operator, announced a \$15 million expansion. This is going to create 45,000 new square feet of amenities, including 400 new VGM machines, new buffet, and some new entertainment bar, lounge entertainment facilities, which fills out the overall entertainment offering at Saratoga.

Monticello, we converted an old VGM area into what we call a "multipurpose-room." And what we're using that particular area for, we hold entertainment, it's sufficient to put on new shows. We have a lounge where we do regular



entertainment, but this gives another venue for higher end entertainment. We've done VFM tournaments, etcetera, but it's given us an amenity to use that allows us to penetrate in pocket markets we didn't have when we opened.

We have a new buffet and food court. We built those in our initial development and they served us well. We do get quite a number of questions for additional food islands, but to date it just doesn't make sense budget-wise.

In West Virginia there's a similar story that's gone on there. Steve touched on it and he mentioned some of the key players that have added, expanded, and improved the programs as the regulatory scheme eased up and as the market program took roots. There's the best example of this evolutionary phenomenon going on out there in racinoland.

So if you go back to the core question, if you build it, I think the history of the industry documents for any new player, new folks who may have an opportunity to get involved in this crazy business, it will give a good road map to our collective performances and give you a good snapshot as to what to think about in your particular area.

The real takeaway is the maturing of the customer in their expectations and demands. The expectations are clearly there and they are getting more demanding. As time goes by this is going to be more the case and dealt with as the economic equation allows you, or if you are new, keep it in mind. No longer can you get by with throwing a few hundred slot machines in a warehouse with a new coat of paint. That ain't going to cut it anymore.

They are expecting a critical mass of amenities, expecting a slot complement that gives them the game types, the denomination, the mix of the games, the ease of getting around the floor, expecting f&b offerings that have some degree of wow factor to it, something they probably don't have in their own neighborhoods, so when they come in it's, wow! I think they are expecting and demanding some level of live entertainment. That goes hand in hand with the casino scene. We do it on a modest scale, you don't need headliners; but it does create excitement and creates a buzz in your place, and I think it's a tone that people are expecting. As far as lodging component, that varies greatly from venue to venue, as to what your real market is.

In Monticello we looked at a lodging component and hopefully are involved in a major Native American development. If that comes to pass it will have a huge impact on what we do on the racino side. If it doesn't, I think we will revisit the lodging component up there.

In New York we do not operate 24 hours a day. You have to close at two in the morning. Just when people are getting cranked up, you have to throw them out. So if you have a place to house them, I think that would make our marketing efforts that much more successful, particularly to the better players.

I think we are, as a society — not just the gaming end — as a society, a group of people craving entertainment. It's a real key word when you give thought to what you might be doing. It's an entertainment society out there and the more you can do to satiate the chafing the more successful you will be. The other key word was "they." Who are "they"? And I think that word can be looked at as a derivative and driver of the "it" word.

In Monticello, if you look at our core demographics, our core markets are Sullivan and Orange County, which is a footprint that we focus most of our efforts in. Within that group, 10 percent of the people are 18 to 35, and 65 percent are 55 or older. You can imagine where our efforts are. We obviously cater to where the bulk of the market is, the old adage, fish where the fish are.

Conversely, if you look at some of the other developments recently in the gaming world, Borgata in Atlantic City, and several of the new megaresorts in Las Vegas, are appealing to the younger, hipper crowd and they have been successful. It's another demographic you need to think about and study when you think about what you will be doing.

There you have it, the "it" and "they." They are symbiotic. Great thought must be given to how the interrelationship overlays into the marketplace. And back to Steve's question, will they come? I believe I can answer that with a resounding yes.

Thank you very much.

**(Applause)**

**MR. TOM O'CONNOR:** Good morning everybody. I'd like to spend these last few minutes reinforcing what you've already heard from the panelists so far. If you build it, will they come? What is "it"?

As a racino makes an effort to move forward to a resort, what are the elements that need to be considered? There are three core concepts of a successful resort, it's basically that your patrons should relax, spend all their money, and stay a long time. So in order for that to happen, what does your resort property need?

First you need a hotel room for the guests to stay in for several days. As you can see from a lot of the newer hotels that are getting built — people have mentioned already the Borgata, any of the newer hotel offers you are seeing in Atlantic City and Las Vegas — the whole concept of resort hotel room is different from a standard business hotel or standard casino hotel room. Room amenities are more important. The room size is more important. The audio/video toys in the room are important. All the elaborate bathrooms are key to a successful resort experience.

I'm going to cluster the next several elements under retail, dining, and entertainment. I'm going to start with the dining component.

As Tom mentioned earlier, the wow factor of restaurants is an important element. Star chefs are — you're seeing more and more named chefs at different properties across the country.

The bar scene. "Seen and Be Seen." Gamers are looking for different experience on your property, the bar scene, Red Square in Atlantic City, Swingers in Atlantic City. Nick's you find in Las Vegas and Atlantic City. The level of gamesmanship is very, very important. The bar is being raised, no pun intended, for that type of experience for your patron.

Entertainment. As racinos and racetracks move towards the resort, the element of entertainment that may be started out as a concert or fair on the infield of the track now has moved to the megaconcert on your property with the Rolling Stones, U2, Coldplay.

Retail. Retail has become the ultimate entertainment in America. Although as Steve mentioned, you may be limited in terms of what you consider a retail component. In Las Vegas they found they derive over 60 percent of the revenues from the retail entertainment components their property offers.

Here's an example of the corridor of the Tropicana in Atlantic City. Caesars opened it's Pier in Atlantic City. The element we talked about, the relaxation element of a resort. Depending on your marketplace, certain markets will bear anything from a fitness center to a more elaborate spa. And again, as your property does or does not allow, the name-designed golf courses. This has to do with where you are geographically and whether this type of amenity, you have room for it or have the climate to offer it.

Who are they that you are trying to have come to your resort? I think people mentioned again as you go through the evolution of racetrack to casino to resort, the people you see at live racing tend to be families; whereas gamers are boomers or up in age and predominately more female than male. Games as we come on board tend to attract couples and younger, more affluent players. As you move towards a resort, who is the person attracted to your gaming? Somebody with the time and disposable income to spend their money and time at your resort property.

I'm going to finish with a profile of two different racetracks we have been involved with. The first one, Harrah's Chester Downs, just outside Philadelphia. This was, the racetrack opened in September, casino in January. It was always intended to be a racino and locals destination; therefore, Harrah's made the decision early on that they would limit the offerings to basically short-term stay amenities, limited food outlets, event center, no hotel. They felt for the area they were in, this was the way they should take their programming.

As a comparison, Delaware Park, about 20 minutes further south. And Delaware Park was built in the '40s as a classic racetrack. I believe in the mid-'80s

they brought on slots to the property. The format it's laid out in, by all standards, should not work. Gaming on several levels, numbers are wildly successful.

They asked us to look at a master plan. We knew they wanted to expand the property, wanted to take the property towards a resort. We looked at several options for them. One was to add on to the existing gaming facility with a hotel.

Second option, build next to the existing facility to keep in the vicinity of the racetrack and keep the feel of the racetrack.

The third option, the area shaded, was it to basically build a separate operation that runs independently of the racetrack, a casino resort. They already had a golf course in place. And idea of this third location was to basically orient all the new construction towards the resort component rather than the racetrack.

We gave them these three options to consider. We made a matrix of positives and negatives of each option, and they on their own have decided to go with the third option of a complete independent resort. Substantial amount of dining and retail, spa and fitness that ties into the golf course.

So as I close my comments, three things to consider in terms of "Building It, Will They Come?" Number one, what's the customer base? Who do you expect to be attracting or whom can you attract? What's the competitive market? Are you competing with larger, more successful properties? Would you be the only offering? And, finally, as in Delaware Park, the racino and resort coexistence, do they complement? Conflict? Are they better off running together or separately?

Thank you very much.

(Applause)

**MR. FINIGAN:** We're doing well on the time schedule, so we have time for questions if anyone has a question of any of the panelists. And the seminar is trying to get everything on tape for the DVD. I'll carry the microphone around if you have questions.

**MR. DAVID STEVENSON:** David Stevenson, Stevenson & Associates. Just wondering if you considered standardbred operations as opposed to thoroughbred? How much of an impact that might have on the success of the complex? And day and night operations, the traffic in the day versus the night. Were there any successful day operations with respect to the racinos? Thank you.

**MR. STEVE RITTVO:** It may not be what you want to hear, there's virtually no crossover between the racing patron and the gaming patron. Everything we've seen made no difference. If there's a three percent or four percent crossover that's a lot.

So from a gaming patron, as long as the facility is open, it doesn't make a difference if there's daytime racing, nighttime racing. We haven't seen any

difference in standardbred versus thoroughbred. The biggest implication we've seen on track operations, it has not been as large I thought it would be, would be increased handle based on increased purses. Candidly, the relationship between the purse increase and the handle increase is below what I thought it would be given the improved quality of racing. They are two different markets to a very extreme degree.

**MR. ARO:** That's been the case at Monticello. There's very little crossover from the two populations of fans on the racing side or gamers on the VGM side. We have raced daytime up there. We do it for simulcasting reasons. It used to be a night offering, but it's more successful for us to do it in the daytime. It hasn't impacted at all the traffic to and from the track. They are distinct operations.

**MR. RITTVO:** If I can add one thing, where we are seeing crossover is in the food and beverage. The track patrons have been very receptive, the improved restaurant experience, and I think that may be driving more of the handle than the purses, to be honest. They are getting a better experience. Otherwise we don't see them in the entertainment facilities. With the exception of stake-race-type events, we don't see them in the hotel facilities. We do see them in the restaurants.

**A VOICE:** How have they managed to cope with the smoking bans in closed areas?

**MR. RITTVO:** I'm trying to think.

**MR. ARO:** In New York it's simple, there's no smoking anywhere at any time. It doesn't create an issue on a property. Where it does come into — we get gripes. In Pennsylvania, for example, Pocono Downs, that's a smoking facility. They have a smoking floor there, and you can smoke in the racing side.

Atlantic City, it's going through an evolution. I think it's going to be completely nonsmoking. But in the New York experience, you can't smoke, you can't smoke, doesn't matter where.

**MR. RITTVO:** For us it's been an interesting phenomena. I can only tell you how it relates to racino/casino, not racing where the ban is in effect. Two different things where there is a competitive facility that allows smoking proximate to the place that banned it, it's had an 18 percent decline in gaming handle. I have no sense of what it would do on racing.

Where it's been implemented but no competitive facilities nearby, a three or four percent decline comes in pretty big in the beginning. People get frustrated, they miss what they were doing, they come back to it.

Places that have done nice outdoor smoking patios that are permitted have less of a decline. Places that blow it off have more decline. The real question is, is there someplace within the same market area that your patron can go that has an alternative where he can smoke, and then we are losing 18 percent?

I have to say that's been consistent across jurisdictions. We've done it in Canada, the United States. We've watched those numbers.

**A VOICE:** Given these low numbers of crossover you mentioned between racing and gaming, is there anything that the racing industry is missing, and what the racing industry wants to do is gather some of those as new customers for the business? Is there something they are missing or is it simply not going to happen?

**MR. ARO:** That's really the \$64 question. Our perception is, looking across the society, seems that people are looking for more, new, exciting entertainment. How that may translate to something new and different in the racing component, I don't know. But it seems like that's the demand. More and higher expectations for the entertainment dollar. If racing can come up with some totally off-the-wall approaches you might be able to tap into that. It seems with the current model of racing, it's going to be difficult.

**MR. RITTVO:** I would embrace racinos to do something that keeps racing alive and keeping the purses going. I did not have a chance to see the session I came in late. There was a session on how casino operators would operate racing. I organized that. I spoke to some of the folks making the presentations. The conclusion, unfortunately, we live in a society of instant gratification. And the half hour between races is not fulfilling to gamers looking for quicker thrill experience, for lack of a better term. When we do generalized focus groups, we have not pulled racing apart, but it comes up in discussions, with casino patrons. Younger folks are less likely to come into racing. The video game generation will be a slot generation. They are starting to pay more attention to table games, more so not because of the table games, but because of the exotic bet. The bonus bet on table games. A motivator for gamers is the possibility of winning a life-altering amount. That's a jackpot on a slot machine; it is a straight flush on Caribbean Stud poker game. It's hard to do that with the exception of really very multirace exotics.

The feedback we get often, it's too much work to win 80 cents on a \$2 bet. The truth is, I love going to the track. Occasionally I get my son to come with me, but he would rather go with me to shoot craps. It's the nature of the experience, the thrill. My own perception, if there's a way to increase the frequency? If there's a way to create a broader range of thoughtless exotics, maybe there's the ability to capture and crossover. We've had folks look at machines that had slot machines with video screens in them transmitting, presenting the races. We thought that might be an opportunity. I'm not seeing it. Personally, it bothers me, because I like racing.

**A VOICE:** I have two questions, in the Phase 3 plan you showed for Delaware Park. You showed the casino on the upper right-hand corner of the resort area. What happens to the racing aspect? Does that go out on it's own?

**MR. O'CONNOR:** No. Actually, what they decided, they are going to run two separate casinos. It's unusual. Not necessarily the most practical approach, but

they wanted to keep the racing component. It has a lot of nostalgia in terms of the paddocks. So they will be running separately.

**A VOICE:** My second question, what's being done by the casino people to try to attract their players into horse racing?

**MR. RITTVO:** I don't think there's much. I'm not sure. There's a tremendous amount of motivation to do it. If you look at the margins that come in on the revenue and what the track retains on its handle versus what they are able to obtain and the volume of betting vis-à-vis machine or VGM, to the best of my knowledge I have not seen it. They use it as an attraction when there's a stakes race to bring more people. But I look and say, if I have two different facilities, one has a 20 percent margin and one has a 6 percent margin, where will I direct my people? I have not seen much crossover.

**MR. ARO:** Our experience is almost negligible. Not even measurable. Interestingly enough, in the New York model — goofy, but it is what it is — for on-track bets we retain about 80 cents; VGM, we retain just over a penny. If there was a way to encourage the crossover — we looked at it, but it doesn't seem to be in the cards. Again, no pun.

**A VOICE:** Conversely, do you see any changeover of the racing people going to the gaming floor?

**MR. ARO:** Not really. After the live meet is over for the day usually they are hanging around in the simulcast area betting on other races from other jurisdictions. We see very little of that. We have tried to incent them with frequent player program; our racing customers are eligible to earn points and cash back and so forth. It just hasn't gotten any traction.

**MR. RITTVO:** The three to four percent crossover, we see them in both directions, so it's very low. The good news is you are not losing racing patrons to slot machines. The bad news, you're not picking up racing patrons from slot machines.

**A VOICE:** What we've seen at Tioga Downs, if we see a spike on the gaming floor the race is over. And a spike during live racing with the f&b. I don't know if it's something we're doing differently. You have been to the facility before we are seeing those people from the racing product going on the gaming floor.

**MR. ARO:** I think in Monticello's case the number of people — again, our races are daytime; you don't have the working guy there to be playing - our crowd, for the live racing is very minimal. On a good day, we get 150 people. Even if they all went on the floor, it would not be sufficient to register a significant blip.

**MR. RITTVO:** How many machines do you have in Tioga now?

**A VOICE:** Seven hundred fifty.

**MR. RITTVO:** And what's your average race live attendance?

**A VOICE:** We were successful in the first year, average attendance of over 2,500 people.

**MR. RITTVO:** Let me give you the — maybe the spike is my number. If I had 2,000 people and a four percent crossover, 80 people — I'm not sure the numbers — I really think that's your spike. It's that same, it's not inconsequential. It's a short-term piece, they don't come back, and that four percent, when you look at the number of people in attendance, and the number of machines you would noticeably see it.

**A VOICE:** You made the statement about the younger generation looking for the side bets and big jackpots. Are you aware of any race where there's four or more betting interests? A super if he can is capable of being won, and on the slot machine the big jackpot is not capable of being won on every spin of the wheel.

**MR. RITTVO:** I'm not sure the odds are significantly different. I don't disagree. I think the problem is, to a certain degree, the marketing on the superexotics. The other piece — unless I'm missing it - most of the superexotics have been across the number of races. I have to sit and wait for my results for three hours, versus pulling the slot machine more. It's a combination of the frequency of opportunity and getting the psychological rush as well as what the dollar value is.

**A VOICE:** In my opinion, I don't care for slot machines, personally. I know it's not there for me to win.

**MR. RITTVO:** The only problem is you are atypical.

**A VOICE:** I'm director of marketing for a printing company that prints for a lot of racetracks, we have technology that the Borgata used, which I think has helped the success in targeted programs that they have used to pull those customers in. What I would like to know, how many marketing departments are going outside for their programs and for partners? And how many are doing it totally internally by themselves? And are they using any 1-1 direct targeted programs to figure out where their best customer is?

**MR. ARO:** If I understood the question, as far as programs we do not create them in-house, we go outside for that. What we do have on a broader view, Players Club activity. About 225,000 names in our Players Club. And itself capturing betting activity coming out of the slot machines. And recently we're about ready to implement it in the racing side. We do a lot of target mailing in the database, that's probably going on to a large degree at every track.

**A VOICE:** (Inaudible)

**MR. STEVE RITTVO:** I'm not sure I understand the question. If it deals with the racing patron, I don't know if I can speak to it. The casino patron — I will do a



plug. We are four different companies and one of our companies is Innovation Marketing. And it does a significant amount of data mining, direct mail coordination activity for the racino portion. There, a lot of it is really contracted out, probably even more, the in-house entities turn it over to guys like us and say, "Here, put it together."

On the racing side, I have no feel for that.

**MR. O'CONNOR:** One other thing you mentioned, Borgata, we sat in on a lot of the early sessions where they tried to think out of the box in terms of who they were attracting. Borgata fought the market and went after a market that did not exist in Atlantic City at that time. And they got it.

**MR. DENIS FINIGAN:** Thank you for your presentations.

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