



**Implications of the Proposed
Expansion of Casino San Pablo
On Horseracing in California**

Executive Summary

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The conclusions and opinions expressed in this study are those of the authors and do not necessarily reflect the opinions of LECG, Inc.

Executive Summary

A. Overview

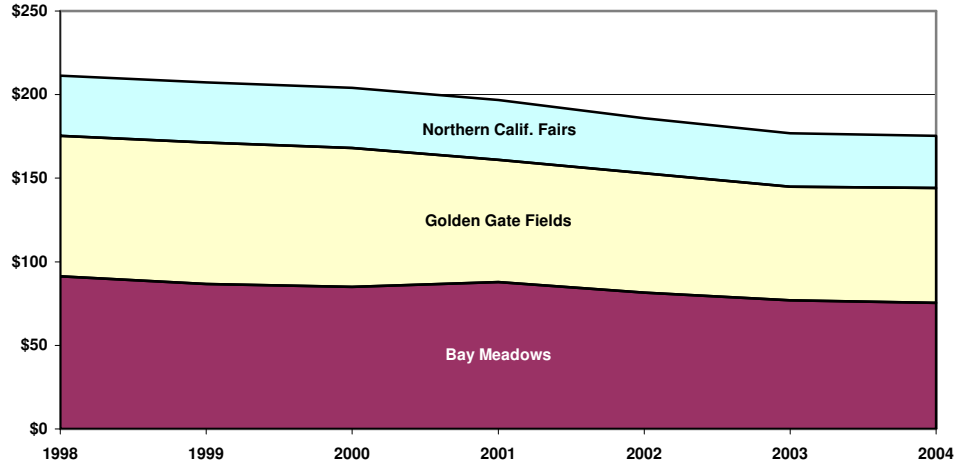
In August 2004, California's Governor Schwarzenegger signed a compact with the Lytton Band of Pomo Indians allowing Casino San Pablo to expand and add 2,500 slot machines. Should California's Legislature approve this compact in 2005, the stage would be set for development of a major casino in the heart of the San Francisco Bay Area.

Our analysis indicates that the proposed expansion of Casino San Pablo would trigger a chain of events ultimately resulting in the end of major thoroughbred racing in Northern California, and adversely affecting the Southern California racing circuit. Experience in other states suggests that development of off-track casinos in close proximity to horseracing creates a powerful substitution effect that shifts patronage from the tracks to the casinos. Even relatively mild reductions in horseracing wagering have the potential to push the major racing venues – and horse owners – out of the business, and cause conversion of tracks to other commercial uses.

B. A downward spiral striking a weak market

There is a direct relationship between attendance, the "handle" (*i.e.*, amounts wagered), and the size of purses at the racetracks. In recent years, the Northern California horseracing circuit has experienced declining attendance and wagering. Exhibit 1 shows the downward trend in the racetrack wagering handle.

**Exhibit 1 – Total On-Track Handle for
Northern California Horseracing (\$MM) 1998-2004**



SOURCE: CHRIMS database

The trend of declining wagering handle has been driven since the 1990's by the introduction and expansion of other gaming products, such as the California Lottery and Indian Gaming. With the San Pablo Casino expansion, an economic shock to the horseracing tracks is expected to occur, as horseracing wagering is challenged by the substitution effects of casino gaming available on a large scale within close proximity of the racetracks.

A reduction in wagering handle at the horseracing tracks will exacerbate the existing trends of declining attendance and wagering. Reduced attendance reduces the wagering handle, which reduces the purses. Reduced purses are disincentives for good horses so they race elsewhere. Reduced racing quality further reduces the attendance – a vicious circle.

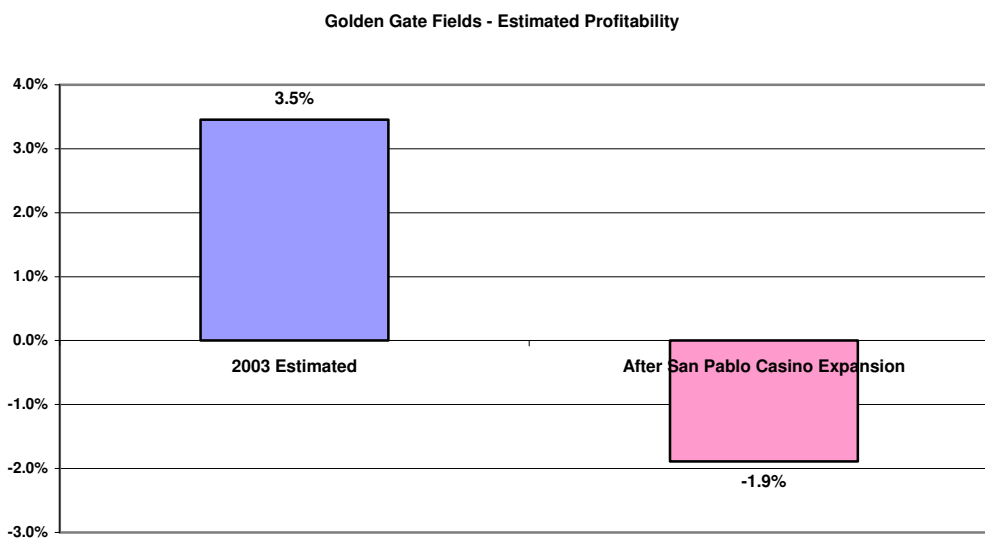
Even with introduction of simulcast racing, overall handle declined slightly, which combined with dramatic increases in the value of California real estate and additional incursions of tribal gaming, all put pressure on operators to improve their financial performance and return on investment.

C. Horseracing financials will turn negative for the tracks

The two major Northern California racetracks have faced weakening economic conditions in recent years. Growing competition from other gaming sources – first from the State Lottery and second from the proliferation of Indian Casinos – have resulted in little revenue growth, even with the introduction of off-track betting. Furthermore, the opportunity cost of the land has risen dramatically in both Bay Area locations as real estate prices have escalated sharply.

Financial information on the two tracks is proprietary and not available. However, As shown in Exhibit 1, based on our analysis and assumptions, we estimate that expansion of Casino San Pablo would likely turn Golden Gate Field’s profitability negative – with little prospect of a turn-around – and lead to its closure.

Exhibit 2 – Estimated Golden Gate Fields Profitability: Before and After San Pablo Casino Expansion

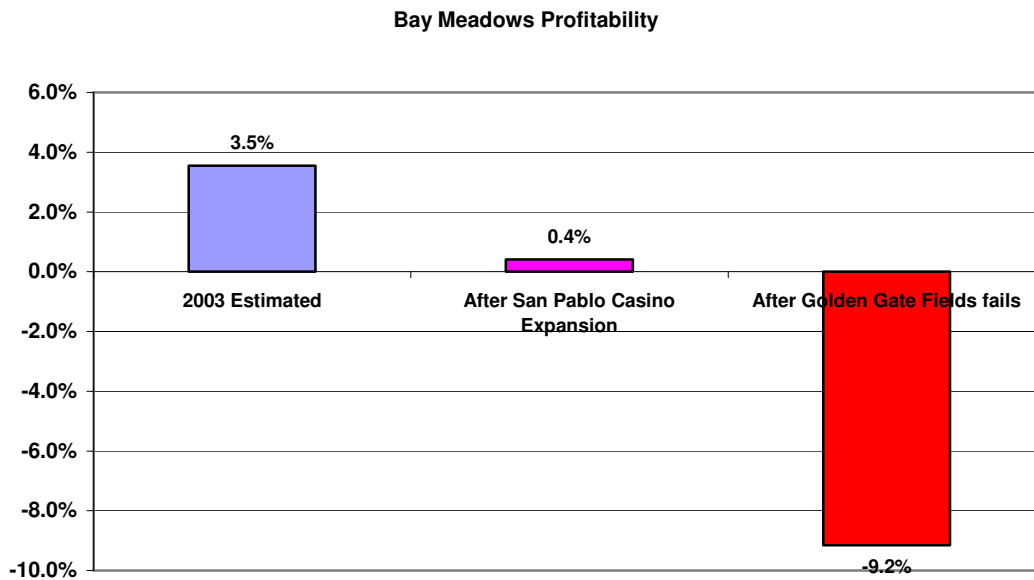


It is probable that following closure of the Golden Gate Fields racetrack, Bay Meadows’ handle and purses would decline significantly, resulting in losses for those operations. The elimination of approximately 40% of the racing days in the Northern California

circuit currently taking place at Golden Gate Fields, and the availability of stables for the required number of horses for Bay Meadows and/or fair circuit races would then put additional pressure on the Bay Meadows operational profitability.

Consequently, should Golden Gate Field close its doors, Bay Meadow’s profitability (as shown in Exhibit 3) would turn negative. The closure of Bay Meadows would then likely follow, as developers would seek to increase the return on their real estate investment for that property.

**Exhibit 3 – Estimated Bay Meadows Profitability:
Before and After San Pablo Casino Expansion**



Finally, the fair circuit, which has been subsidized by the operations of the two racetracks, would either see a dramatic reduction in their annual subsidy, resulting in the reduction or elimination of horseracing from the circuit, or would become a burden on the California taxpayers in the amount of approximately \$40 million per year in subsidies.

This “domino theory” of economic impact of the San Pablo Casino on the Northern Zone racing circuit already has been seen in other geographies within the U.S. horseracing market. In several states (notably Minnesota and Washington) the introduction of casinos

in proximity to race tracks caused a significant loss of business to the tracks as patrons chose alternative forms of wagering, and resulted either in the closure of tracks, or the necessity of the tracks adopting other wagering alternatives (slot machines, card rooms, etc.) to supplement the declining horseracing handle and keep their operations profitable.

Thus, it is our assessment that the increased competition from Casino San Pablo’s expansion would result in a chain of events leading to closure of both primary racetracks in Northern California. Moreover, loss of those two venues would eliminate most quality thoroughbred racing at California’s state and county fairs.

D. Impact of Losing Horseracing in Northern California

The full economic impact of lost horseracing in Northern California is summarized in Exhibit 4.¹

Exhibit 4 – Summary of Economic and Employment Impacts of San Pablo Casino expansion

<u>Summary of Economic Impacts</u>	Low	High
Northern Zone Takeout (\$MM)	\$262	\$262
Substitution Effect (\$MM)	(\$104.8)	(\$52.4)
Lost Non-wagering revenues (\$MM)	\$18.2	\$18.2
Direct Output Effect (\$MM)	\$175	\$228
Indirect Output Effect	\$281	\$364
Estimated Total Economic Output Losses (\$MM)	\$456	\$592
Estimated Lost Employment (FTE)	9,987	12,971
Total Lost Handle (\$MM)	\$786	\$1,048
Estimated Lost Revenue to State (\$MM)	\$7.9	\$10.6

¹ This impact measures the economic magnitude of horse racing on Northern California. It is not a measure of the full economic impact of expansion of Casino San Pablo.

Based on available data, it is our estimate that loss of thoroughbred racing in Northern California will result in:

- Direct output losses of between \$175 million and \$228 million from the tracks and wagering generated by those tracks;
- Total output losses in California between \$456 million and \$592 million;
- Employment losses of between 9,987 and 12,971 FTE jobs; and
- Lost revenue to the state of between \$7.9 and \$10.6 million.

In addition to these quantifiable losses, the region will experience non-quantifiable, but still important losses. If thoroughbred racing disappears from the region, the region's citizens lose a form of entertainment not easily replaced. Moreover, financial damage to the fairs could seriously degrade the attractiveness of attendance at those venues.